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CHINA

Hong Kong: Hit by the trade war

Hong Kong 4Q18 GDP growth was weaker than expected. This was mainly a result of the trade war, which dampened exports, related jobs and therefore consumption and asset investment - especially investment in the residential property market. We expect economic weakness will continue in 1Q19 but will improve if trade tensions moderate.



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Hong Kong GDP growth was weak due to the trade war

Hong Kong GDP growth was weaker than expected at 3.0% for the whole of 2018 and 1.3%YoY in 4Q18.

This was mainly a result of the trade war, which dampened export activities and related jobs in Hong Kong and on the Mainland, with negative feedback into consumption in Hong Kong.

Due to the negative sentiment on job security, mortgagors have been reluctant to increase their investment in the residential property market. And this has a negative impact on the jobs of real estate agents.

Investment only grew by 2.2% in 2018, which was lower than the first three quarters' average of 4.5%YoY. We believe that this is also a result of the trade war, causing businesses to defer their investment decisions.

1.3%YoY **Hong Kong GDP growth in 4Q18**

Worse than expected

Economic condition in 2019 depends on the trade war

We expect the overall economic condition will not change in 1Q19. If there is any trade pact it should be finalized by end of March. GDP growth is expected at 1.8%YoY in 1Q19.

We believe that the trade talks are progressing positively. We forecast GDP growth of 2.5% for full-year 2019. Consequently, we project faster growth in 2H19 than 1H19. But there are still many uncertainties in agreeing on a trade pact, especially on some difficult topics like the yuan path and "forced" transfer of technology. These difficult topics may yet lead us to revise downward our GDP forecast for 2019.

Long-term growth depends on integration with Mainland China

It is difficult for Hong Kong's economic activity to grow independently from Mainland China. In the long-run, Hong Kong's economic growth will partly depend on how it integrates with Mainland China.

[The Finance Secretary stated in the 2019 budget that "the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area \(Development Plan\), promulgated last week, is a milestone, setting out the development directions for the Greater Bay Area up to 2035."](#)

What we see is that it is not the Greater Bay Area design that would change the structure of the Hong Kong economy. We see this as a long term plan that could increase the degree of integration with Mainland China, and to tap the opportunities offered by Mainland China.

But before that is accomplished, Hong Kong's economic growth will be easily swayed by external economic and financial conditions.

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

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