

Hong Kong: Deep recession

GDP shrank 8.9% year-on-year in 1Q20. This may not be the end of the economic contraction. Even though Covid-19 cases appear to be subsiding in Hong Kong, pro-democracy protesters are returning to the streets and trade tensions are heating up again. A longer recession is expected



Source: Shutterstock

GDP fell 8.9% YoY in 1Q20

Consumption contracted 10.3% YoY as opportunities for shopping and travel were severely curtailed during the Covid-19 outbreak. Investment contracted even more, by 13.9% YoY, as construction projects were delayed because outdoor work was prohibited.

Even though the government spent money and imports dropped in 1Q20, this has not stopped the economy from contracting for three quarters in a row.

More challenges ahead - Protests

Unlike other economies which may return to normal after Covid-19 subsides, Hong Kong has more challenges ahead. Pro-democracy protesters have returned to the streets and will affect shopping and catering businesses, as they did in the second half of 2019. It is expected that protests will become more violent and will increasingly hurt the retail sector. Unemployment has already gone up in retail and catering, and the protests mean that it will take longer for the unemployed to find

another job in the same industry. This will lengthen the job search time and will therefore increase the unemployment rate.

More challenges ahead - trade war and technology war

Another risk is the trade and technology war from the US. If tariffs are going to be imposed by the US, China is expected to retaliate, which will hurt the export-related industries in Hong Kong, including merchandising, shipping and port services.

GDP forecasts

We expect a full-year GDP contraction of 4.1% for 2020.