These Hong Kong growth numbers should be the best we'll get this year

Hong Kong GDP is still falling. However, although the Hong Kong economy was still in contraction year-on-year, that contraction slowed in the third quarter. But this is in the past and there are far more challenges than opportunities ahead

Shoppers in Hong Kong

GDP fell by 3.4%YoY in 3Q

At 3.4% Year-on-Year, growth in Hong Kong shrank less in the third quarter of this year compared to a contraction of 9.0%YoY in 2Q, and a lot less than our estimate of 10%. What was missing in our forecasts was a positive net export growth, which also saw a dismal import situation give weak domestic demand.

Consumption contracted 7.7%YoY in 3Q after shrinking 14.2%YoY in 2Q. This was partially the result of a period of relaxed social distancing measures, which was later tightened due to an increase in Covid-19 cases. Another reason is that there was a wage subsidy scheme in the third quarter, which delayed redundancies.

Investments in Hong Kong continued to shrink at 11.2%YoY in 3Q after a 21.4%YoY contraction in the second quarter. This could be due to an increase in inventory rather than improvements in Hong Kong's investment environment.

Brace yourself for 4th Quarter figures

We do not expect the Hong Kong economy to improve in the fourth quarter. Technically it could be due to a negative base effect from the contraction of GDP in 4Q19. But looking at the substance, the wage subsidy scheme is going to end in November, which means there could be a wave of redundancies from November. And the coronavirus crisis in Europe and the US means the external sector is not going to get better anytime soon.

The Hong Kong government plans to create a travel bubble with some Asian economies. That could only help Hong Kong's tourism and hospitality sector if Hong Kong has no Covid cases for a certain period of time. This is difficult to gauge because a relaxation of social distancing measures could lead to changes in the infection situation. And even if there is a travel bubble, one can't expect that to be permanent for everyone should coronavirus cases increase in one of the locations. However, it's better than no bubble at all.

Forecast

We keep our GDP forecast for 4Q20 at -5.0%YoY and the full year at -6.6%.