



# GDP Observatory

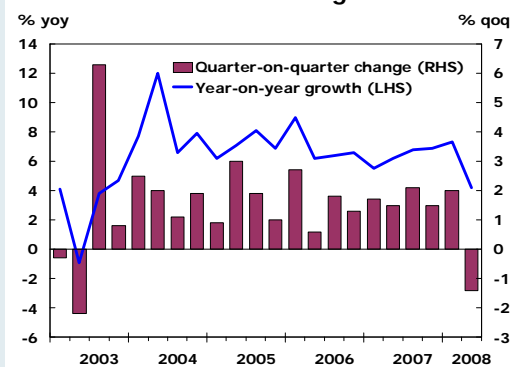
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Li-Gang Liu  
[lliu@bbva.com.hk](mailto:lliu@bbva.com.hk)Andrew Tsang  
[Andrew.tsang@bbva.com.hk](mailto:Andrew.tsang@bbva.com.hk)

## Hong Kong's real GDP growth moderated to 4.2% yoy in Q2 on slowing external demand

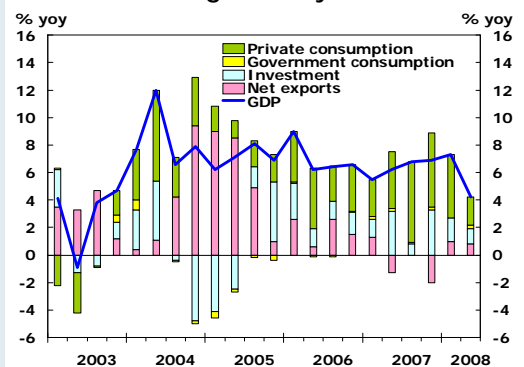
- Real GDP grew by 4.2% yoy in Q2, following a strong 7.3% growth in Q1 (Chart 1). The Q2 figure is far below the market consensus of 5.9%, suggesting the economy was slowing faster than expected.
- On a seasonally adjusted qoq basis, real GDP contracted by 1.4%, thus ending a consecutive 19-quarter expansion that started in 2003 Q3 (Chart 1).
- On real GDP by expenditure, private consumption expenditure (PCE) slowed to 3.1% yoy in Q2, compared with 7.9% yoy in Q1. The negative wealth effect and rising prices have contributed to the slow PCE growth, although the labour market remains solid, as unemployment rate remains relatively low at 3.3%. Government consumption grew sharply to 3.5% in Q2 from 0.3% in Q1 due to increased spending on subsidies and other relief measures to alleviate the negative impact of high inflation on the poor and the middle class. Meanwhile, investment growth held up well at 4.3% yoy, despite a high base effect in 2007 Q2.
- While both exports of goods and services slowed considerably to 4.4% and 7.1%, respectively (due to lower growth in re-exports passing through Hong Kong), imports of both goods and services fell even more sharply to 4.9% and 2.6%. As a result, net exports of goods and services still contributed positively to real GDP growth (Chart 2).
- Relative to Singapore's growth of 2.1% in Q2, Hong Kong's economic slowdown was still moderate, possibly benefiting from the still robust, albeit slowing, export growth on Mainland China (Chart 3).
- Looking forward, we expect growth in Hong Kong to continue to moderate because of a more significant slowdown in G-3 economies. We forecast the Hong Kong economy to grow by 4.9% in 2008 and 4.0% in 2008 H2.

Chart 1: Real GDP growth



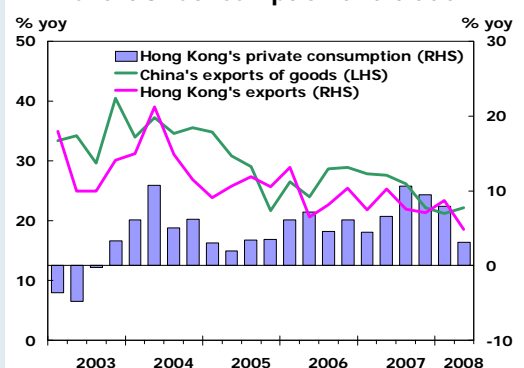
Source: Census and Statistics Department, HKSAR.

Chart 2: GDP growth by contribution



Source: Census and Statistics Department, HKSAR.

Chart 3: Consumption and trade



Sources: Census and Statistics Department, HKSAR &amp; CEIC.