

Hong Kong

Hong Kong sees buoyant start to 2017 as GDP growth hits five-year high

- **GDP grows at 4.3% annual rate in Q1**
- **PMI rises further in April to signal strong start to Q2**

Hong Kong's economy enjoyed a strong start to 2017, with official data confirming the earlier survey signs of faster growth.

The economics ministry reported that gross domestic product rose 0.7% in the first three months of the year, taking the annual growth rate up to 4.3%, its fastest since the second quarter of 2011. This time last year, the pace of growth had waned to just 1.0%.

The improvement in the economy had been flagged in advance by the [Nikkei PMI](#), the latest reading of which also bodes well for strong growth to be sustained into the second quarter.

The headline PMI correlates closely with annual growth of GDP, exhibiting an 83% fit historically when advanced two months against GDP, therefore acting as a reliable early indicator of official data.

The PMI survey's output and new orders indices have been on steady upward trajectories over the past year, pushing the headline PMI (a composite index derived from various sub-indices) to a 38-month high in April.

The good start to the year adds to expectations that Hong Kong's economy will grow in 2017 at a slightly faster rate than the 1.9% expansion seen in 2016. IHS Markit is expecting a 2.0% increase in GDP in 2017, but for growth to gradually slow to an annualized rate of 1.4% by the end of the year.

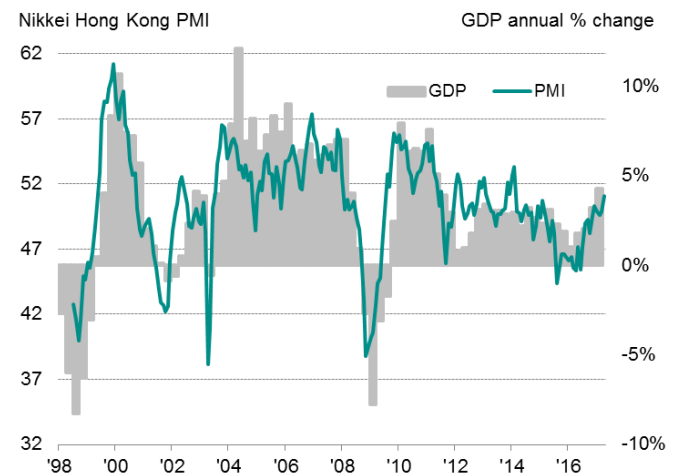
There are certainly signs of concern to be found in the April PMI survey. Although overall order books rose, orders from mainland China for Hong Kong products and services continued to wane, highlighting subdued demand from Hong Kong's main export market.

Business confidence meanwhile remained downbeat, with the number of pessimists exceeding optimists for the twenty-sixth successive month.

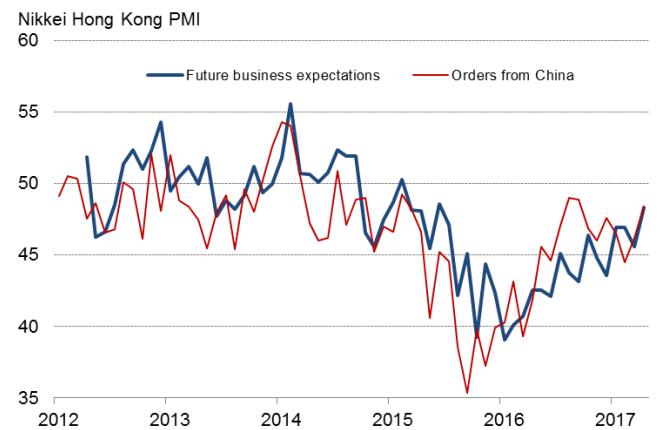
However, both export business from mainland China and business confidence are deteriorating at considerably reduced rates compared to prior months. Staff costs meanwhile showed one of the largest rises in the past three years (which should support consumer spending) and backlogs of work showed the

smallest fall for almost two years, all of which suggest there may be some upside risk to the forecast of GDP rising by just 2.0% in 2017 if further improvements are seen in coming months.

Hong Kong economic growth



Key indicators



Sources: IHS Markit, Nikkei, Datastream.

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