

Hong Kong

Economy at risk of recession as GDP falls in first quarter

- **GDP falls 0.4% in first quarter**
- **PMI points to recession risk**
- **Exports suffer from weak demand in mainland China**

Hong Kong's economy contracted in the first quarter of 2016, and weak PMI survey data point to a heightened risk of a further decline in the second quarter, which would mean the economy has slipped back into a technical recession.

Official data showed gross domestic product fell 0.4% in the first three months of the year, having slowed to just 0.2% in the final quarter of last year. The decline was the first since the second quarter of 2014.

In year-on-year terms, the economy was just 0.8% larger than a year ago, matching the post-recession low seen in the first quarter of 2012.

The downturn was much worse than economists had expected (the consensus was for 0.1% quarterly growth), but the official data have in fact followed the business survey numbers downwards in recent months. Worryingly, the Nikkei PMI also points to ongoing contraction at the start of the second quarter.

The PMI fell to 45.3 in April, down to an eight-month low and below the first quarter average of 46.0, thereby pointing to an increased rate of decline at the start of the second quarter.

With a recession commonly defined as two consecutive quarterly declines in GDP, the weakness of the PMI is flashing a clear warning light of the Hong Kong economy falling back into recession.

Pain from mainland China

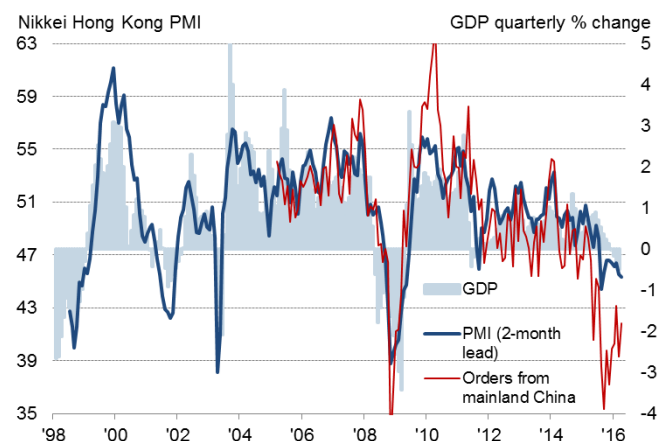
Private consumption has now already fallen for a second quarter running, a 0.4% decline in the first quarter following a 0.1% drop at the end of last year. However, it's the downturn in exports of goods that is causing the real harm, plunging 3.9% in the opening quarter.

The PMI data have been highlighting how weak demand from mainland China in particular has been hurting Hong Kong's exporters for some time. Exports

to the mainland have been dropping at a rate not seen since the height of the financial crisis over the past year, continuing to decline at a worrying pace in April, albeit to a lesser extent than seen in some prior months.

The headline PMI has in fact now been below the 50 'no change' level for some 14 months, with new orders from mainland China having fallen for 21 straight months.

Hong Kong PMI and economic growth



Sources: Markit, Nikkei, Thomson Reuters Datastream.

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