恒生銀行 HANG SENG BANK

Finding inner strength

Economic Monitor
HONG KONG

Q3 2026

- **We raise our 2026 GDP growth forecast for the second consecutive quarter, to 4.4%. AI-driven exports continue to underpin strong growth momentum, although spillover into the domestic economy remains limited for now.**
- **To broaden its nascent domestic recovery, Hong Kong needs to attract more visitors, expand its labour force and crowd-in private investment—all among the many priorities highlighted in the new five-year plan.**
- **Residential property market recovery may be hitting a speed bump. Nevertheless, attractive rental yields and a reduced inventory overhang should continue to provide support.**
- **The impact of higher US interest rates on Hong Kong's economy should remain modest, provided our base case holds: we expect just one further "insurance" rate hike from the Fed, in December. HIBOR, however, is likely to remain sticky in the near term.**

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Hong Kong Gross Domestic Product, by components, year on year %

	2025 Q4	2026 Q1	2026 Q2
GDP	4.0%	5.9%	4.3%
Consumption	2.5%	4.9%	2.8%
Investment	11.7%	18.3%	4.4%
Government spending	1.5%	2.8%	0.0%
Exports of goods	15.4%	23.8%	28.9%
Imports of goods	18.2%	29.9%	29.3%
Exports of services	4.7%	3.3%	3.4%
Imports of services	3.7%	3.8%	3.0%

Source: Census & Statistics Department, Hang Seng Bank

A cautious upgrade

For the second consecutive quarter, we're raising our GDP growth forecast. We now expect full-year growth of 4.4% in 2026, up from 4.0% previously. The upgrade partly reflects stronger-than-expected growth in H1 (5.1% y/y) and we expect the Hong Kong economy to build on this momentum in H2 and beyond, supported by further AI-driven trade expansion.

Exports rose 51.8% y/y in July-August, surpassing the already impressive 39.1% increase recorded in H1. Tech led the way, as electrical machinery and parts (+54.0% in July) and office machines and data-processing equipment (+106.5%) accounted for c.70% of outbound shipments.

Even so, our revised forecasts still imply a slowdown: we expect growth to moderate to 3.8% y/y in H2 2026, before easing to 2.8% in 2027. This partly reflects a less favourable base effect as the year progresses. We also see limited evidence, for now, that the export boom is giving a meaningful boost to domestic activity. Instead, structural challenges continue to weigh on what remains a nascent domestic recovery, in our view.

Upping the volume game

Private consumption expenditure (PCE) grew 4.9% y/y in Q1 2026 and 2.8% in Q2—the fastest quarterly pace in almost three years. There are signs of cooling since, with retail sales growth moderated to 4.5% y/y in July from 7.1% in Q2, while maintaining a 15-month expansion streak. The biggest bright spot has been "jewellery, watches and clocks", which has traditionally served as a proxy for tourism-related spending.

Visitor arrivals reached a post-pandemic monthly high of 5.46mn in August, with the Tourism Board attributing the increase to international conferences and major events. We believe Hong Kong will need to continue prioritising visitor volumes, as per-capita inbound spending is likely to remain subdued amid cautious onshore sentiment, even with the boost to purchasing power from a stronger Renminbi. Setting a target of a 40-50% cumulative increase in value added of the tourism industry by 2030 under the government's new five-year-plan is a promising first step, in our view.

But for the time being, the YTD increase in visitor arrivals has not narrowed the gap with outbound travel by local residents (Exhibit 1). Any positive wealth effect—for example, from rising stocks and residential property prices—may therefore do little to lift the local economy if much of the additional spending continues to "leak" into other markets.

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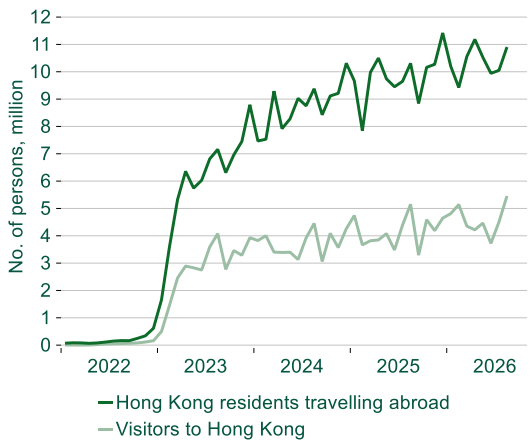
Another area that Hong Kong needs to up its volume game is the labour market. The good news is that both total employment and the labour force have recorded a rare three-month rise as of August. The bad news, however, is that they remain 230k and 186k below their respective peaks eight years ago (Exhibit 2). Structural headwinds, including an ageing population and emigration, are likely contributing to this shortfall. Once again, the new five-year plan and the 2026 Policy Address devoted considerable attention to tackling these challenges over time, including through cash, tax and housing concessions to encourage childbirth. They also emphasise education and innovation as new growth pillars to develop and attract talent, while creating new job opportunities.

Structural considerations aside, hiring appetite has continued to lag the recent uptick in the labour force, with unemployment rising faster than employment in Jul-Aug. Headline jobless rate edged up to 3.8% for Jun–Aug, following five consecutive readings at 3.7%. The increase was broad-based across sectors, with construction recording the highest rate at 6.1%. Retail, accommodation and food services followed at 5.6% while posting the largest m/m increase, rising by 0.4ppts. These developments support our view of some economic moderation after a strong H1.

Crowding-in private investment

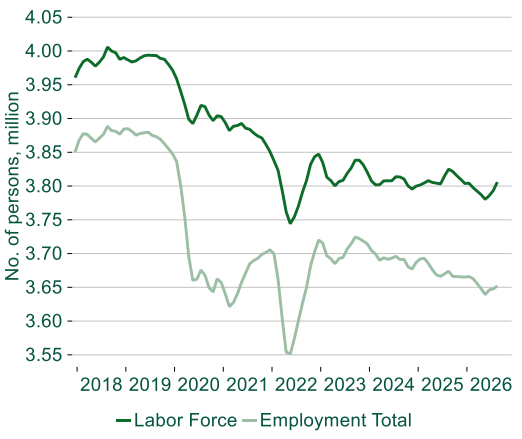
Compared with PCE, investment may provide stronger support for GDP growth over the coming quarters. Although investment growth slowed to 4.4% y/y in Q2, this followed a robust 18.3% increase in Q1. Private-sector investment actually rose 19.4%, reflecting AI-driven upgrades and, for the

Exhibit 1: Inbound vs. outbound travellers



Note: data up to Aug 2026
Source: Macrobond, Hang Seng Bank

Exhibit 2: Labour force and total employment



Note: data up to Aug 2026
Source: Macrobond, Hang Seng Bank

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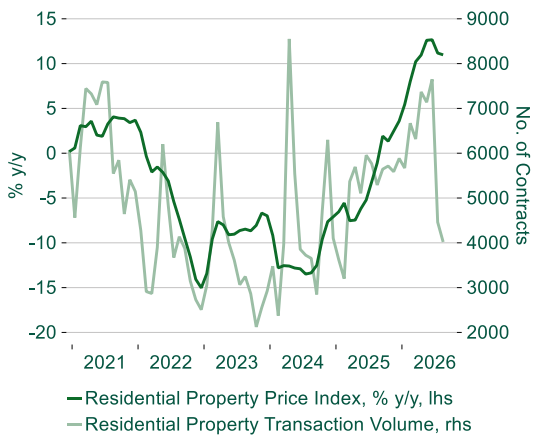
first time in eight quarters, an expansion in building and construction. And then there was the 22.9% y/y contraction in public-sector investment in Q2, which to us looks to be an anomaly rather than the new norm, given that the government's multi-year (if not decade) push to make the Northern Metropolis the main base for its innovation drive, starting with the provision of land and infrastructure for these new tech companies and research institutes, but also more broadly for housing and universities.

Hong Kong has every reason to try keeping this investment engine running hot by encouraging greater public–private participation in Northern Metropolis projects, probably through tax and other incentives. Beyond the crowding-in benefits, the government will likely want to ease its borrowing burden while continuing to support these long-term developments, particularly after committing substantial public seed funding.

Is the property market cooling?

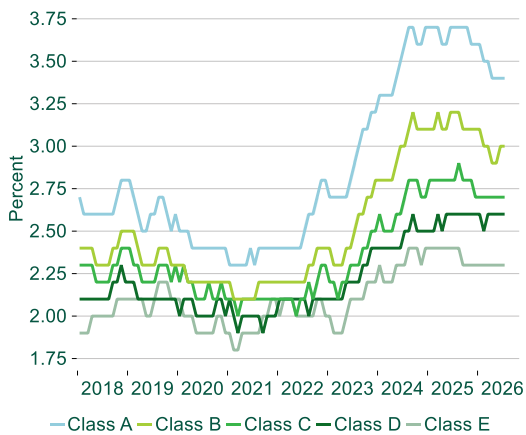
A setback to the residential property recovery story YTD could pose one of the bigger downside risks to our growth forecast. Total transactions (primary and secondary) fell to 4,462 and 4,019 in July and August, respectively, from an average 7,385 in Q2, fuelling worries that prices could start to follow lower soon (Exhibit 3). We believe some form of slowdown after a strong H1 rally is understandable, as most good deals worth bottom-fishing should be gone by now, and buyers might be less eager to chase after those remaining supplies with above-market pricings.

Exhibit 3: Property price and transaction



Note: data up to Jul/Aug 2026
Source: Macrobond, Hang Seng Bank

Exhibit 4: Residential property market yields, %



Note: data up to Jul 2026
Source: Macrobond, Hang Seng Bank

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There have also been concerns that mainland China's recent crackdown on capital outflows could start weighing on investor sentiment. Bulk buyers—defined as purchasers of two or more units in the primary market and therefore a reasonable proxy for investor demand—accounted for c.14% of all primary-home transactions in H1, according to media reports. While certainly not immaterial, we nevertheless believe rental yields will remain attractive, especially if demand from mainland students and imported workers stays strong enough to sustain interest from these bulk buyers (Exhibit 4). The rental price index has continued to reach new highs YTD, while property prices are recovering from a much lower base.

Finally, supply remains an important consideration. The five-year plan sets a binding target of having 900 hectares of land—up from the existing 120 hectares—ready for construction in the Northern Metropolis within five years. It also aims to deliver 70,000 residential units, compared with 11,000 currently, over the same period. Much therefore depends on the wider Northern Metropolis package generating sufficient industrial and employment growth to absorb a potential increase in supply of this scale. For now, however, of greater certainty is that strong H1 turnover has helped reduce the existing inventory overhang. The total number of unsold flats, either completed or under construction, fell for seven straight quarters, from a peak of 98,000 in Q3 2024 to just over 80,000 in Q2 2026. This should, in turn, provide a firm floor for residential property prices.

A hawkish Fed means a sticky HIBOR

The impact of higher interest rates on the housing market and broader economy should be relatively limited under our base case, which assumes only one further "insurance hike" by the Fed in December, followed by no rate changes throughout 2027. However, we expect HIBOR to remain relatively sticky. Rather than the typical post-quarter-end decline, we expect HIBOR to remain supported around current levels for much of Q4, so long as the Fed keeps the door open to further rate hikes.

Some market participants argue that the risk of USD-HKD reaching 7.85 has increased following the Fed's recent rate hike. Our view, as set out in our July report, remains unchanged: we assign a low probability to this outcome, in part given the likely absence of a prolonged Fed hiking cycle. Even if 7.85 were reached—which would more likely be driven by outflows than by carry—we would expect any resulting interventions to be smaller and less frequent than in previous episodes. In this scenario, however, HIBOR would still spike as the Aggregate Balance shrinks.

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Hong Kong Economic Statistics

	GDP		Retail sales		Foreign trade					Unemployment rate (s.a.)	Inflation
					Exports		Imports		Trade balance		
	Nominal	Real	Value	Volume							
	HKD bn	yoy (%)	yoy (%)	yoy (%)	HKD bn	yoy (%)	HKD bn	yoy (%)	HKD bn	(%)	yoy (%)
2021	2,868	6.5	8.1	6.5	4,968	26.3	5,311	24.3	-343.1	5.4	1.6
2022	2,809	-3.7	-0.8	-3.3	4,540	-8.6	4,930	-7.2	-389.9	4.3	1.9
2023	2,981	3.2	16.2	13.8	4,184	-7.8	4,649	-5.7	-464.6	3.0	2.1
2024	3,187	2.6	-7.3	-9.0	4,550	8.7	4,928	6.0	-378.2	3.0	1.7
2025	3,330	3.6	1.0	-0.4	5,248	15.3	5,691	15.5	-443.3	3.6	1.4
Q4 2024	839	2.6	-6.6	-8.3	1,194	3.6	1,303	2.9	-108.9	3.1	1.4
Q1 2025	801	3.2	-6.5	-8.3	1,173	10.9	1,252	9.8	-79.6	3.2	1.6
Q2 2025	788	3.4	0.3	-0.5	1,286	14.0	1,389	15.1	-102.3	3.5	1.8
Q3 2025	856	3.9	3.9	3.1	1,345	15.0	1,455	13.8	-109.7	3.8	1.1
Q4 2025	885	4.0	6.6	4.9	1,443	20.9	1,595	22.4	-151.7	3.8	1.3
Q1 2026	885	4.0	6.6	4.9	1,443	20.9	1,595	22.4	-151.7	3.8	1.3
Q2 2026	885	4.0	6.6	4.9	1,443	20.9	1,595	22.4	-151.7	3.8	1.3
Apr 2026	NA	NA	8.7	6.6	621	42.9	650	44.4	-29.5	3.7	1.8
May 2026	NA	NA	7.9	4.8	611	40.8	655	42.0	-44.2	3.7	2.0
Jun 2026	NA	NA	4.6	2.2	641	53.4	693	45.4	-52.0	3.7	1.9
Jul 2026	NA	NA	4.5	2.4	673	50.7	677	41.0	-4.9	3.7	1.7
Aug 2026	NA	NA	0.0	0.0	668	53.0	739	60.0	-71.2	3.8	1.7
YTD	NA	NA	9.1	6.7	4,761	41.9	5,130	42.7	-369.1	3.8	1.7

	Total deposits		RMB deposits		Total loans		Money supply (M3)	Residential property price index		Tourist arrivals	
	HKD bn	yoy (%)	RMB bn	yoy (%)	HKD bn	yoy (%)	yoy (%)	Index	yoy (%)	'000	yoy (%)
2021	15,186	4.6	927	28.4	10,893	3.8	4.3	393.9	3.7	91	-97.4
2022	15,440	1.7	836	-9.8	10,571	-3.0	1.6	334.7	-15.0	605	561.5
2023	16,222	5.1	939	12.4	10,191	-3.6	4.0	311.3	-7.0	34,000	5,523.8
2024	17,373	7.1	927	-1.3	9,908	-2.8	7.4	289.2	-7.1	44,503	30.9
2025	19,431	11.8	960	3.6	10,136	2.3	11.6	299.6	3.6	49,895	12.1
Q4 2024	17,373	7.1	927	-1.3	9,908	-2.8	7.4	289.2	-7.1	11,914	11.6
Q1 2025	17,977	11.0	960	1.6	9,971	-1.2	10.8	284.9	-7.5	12,228	8.9
Q2 2025	18,698	11.7	882	-16.9	10,158	1.6	11.5	286.7	-5.2	11,408	15.0
Q3 2025	19,144	11.5	1,002	-1.4	10,069	0.9	11.1	293.4	1.9	12,836	12.2
Q4 2025	19,431	11.8	960	3.6	10,136	2.3	11.6	299.6	3.6	13,423	12.7
Q1 2026	19,617	9.1	1,035	7.9	10,440	4.7	9.3	314.0	10.2	14,308	17.0
Q2 2026	19,617	9.1	1,035	7.9	10,440	4.7	9.3	314.0	10.2	14,308	17.0
Apr 2026	19,906	10.1	1,077	4.5	10,497	5.4	10.0	317.9	11.0	4,217	9.6
May 2026	20,369	9.9	1,135	16.3	10,646	6.0	9.8	322.6	12.6	4,465	9.5
Jun 2026	20,381	9.0	1,094	24.0	10,788	6.2	9.2	323.0	12.7	3,723	6.9
Jul 2026	20,562	9.8	1,125	19.9	10,810	7.7	10.2	320.3	11.2	4,504	2.6
Aug 2026	0	0.0	0	0.0	0	0.0	0.0	320.5	11.0	5,456	5.9
YTD	0	0.0	0	0.0	0	0.0	0.0	320.5	11.0	36,673	11.3

NA: not available; yoy= year-on-year; ytd= year-to-date

Source: Macrobond, Hang Seng Bank

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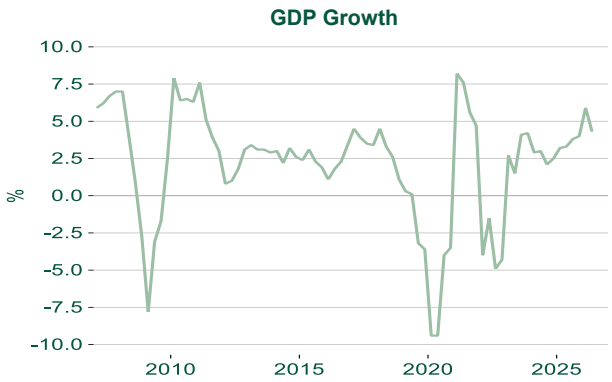

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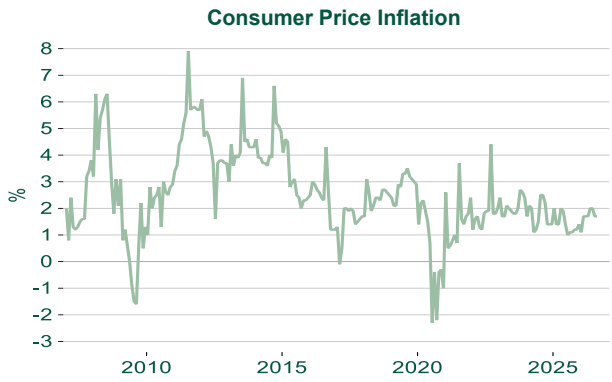

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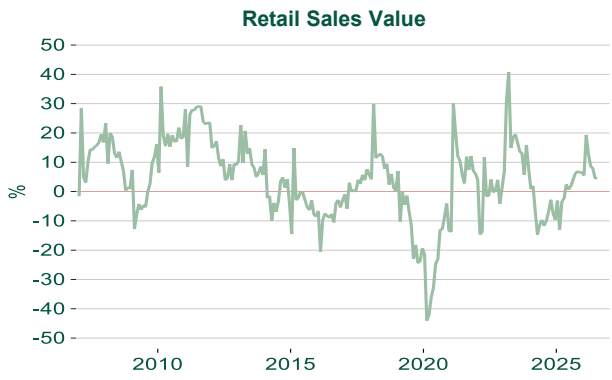

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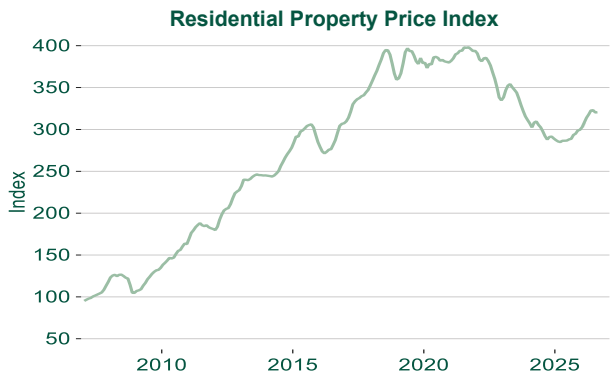

Source: Macrobond, Hang Seng Bank

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Hong Kong Economic Data Forecasts

	2026	2027
GDP	4.4%	2.8%
Inflation	1.8%	1.7%
Unemployment rate	3.8%	3.8%
Retail sales value	6.5%	5.0%
Retail sales volume	4.6%	3.2%
Exports	42.0%	10.0%
Imports	44.0%	8.0%

Mainland China Economic Data Forecasts

	2026	2027
GDP	4.6%	4.4%
Inflation	1.0%	2.0%
Industrial output	5.5%	5.3%
Fixed asset investment	-4.5%	3.5%
Retail sales	2.0%	4.3%
Exports	17.0%	5.0%
Imports	25.0%	6.0%

Source: Hang Seng Bank
Note 1: All figures are annual change, except unemployment rate
Note 2: forecasts by Global Markets, Hang Seng Bank

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Central Bank Policy Rates Forecasts

(end period)	Aug 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027
North America					
US	3.50 – 3.75%	3.75 – 4.00%	4.00 – 4.25%	4.00 – 4.25%	4.00 – 4.25%
Canada	2.25%	2.50%	2.75%	3.00%	3.00%
Europe					
Eurozone	2.25%	2.50%	2.75%	3.00%	3.00%
UK	3.75%	3.75%	4.00%	4.25%	4.50%
Asia Pacific					
China	1.40%	1.40%	1.30%	1.30%	1.30%
Japan	1.00%	1.25%	1.50%	1.50%	1.75%
Australia	4.35%	4.60%	4.60%	4.85%	4.85%
New Zealand	2.75%	2.75%	3.00%	3.25%	3.50%

Exchange Rates Forecasts

(end period)	Aug 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027
North America					
USD / CAD	1.39	1.41	1.39	1.38	1.37
Europe					
EUR / USD	1.16	1.14	1.16	1.17	1.18
GBP / USD	1.35	1.33	1.35	1.36	1.37
Asia Pacific					
USD / CNY	6.72	6.70	6.68	6.62	6.55
USD / JPY	159.74	157.00	154.00	152.00	150.00
AUD / USD	0.72	0.71	0.71	0.72	0.72
NZD / USD	0.59	0.57	0.59	0.60	0.61

Source: Macrobond, Bloomberg, Hang Seng Bank
Note 1: China's policy rate refers to 7-day reverse repo rate
Note 2: forecasts by Global Markets, Hang Seng Bank

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