

Economic performance in first quarter of 2025 and latest GDP and price forecasts for 2025

The Government released today (May 16) the First Quarter Economic Report 2025, together with the revised figures on Gross Domestic Product (GDP) for the first quarter of 2025.

The Acting Government Economist, Dr Cecilia Lam, gave an account of the economic performance in the first quarter of 2025 and the latest GDP and price forecasts for 2025.

Main points

¶ The Hong Kong economy expanded solidly in the first quarter of 2025, mainly supported by visible increases in exports of goods and services, as well as the resumption of moderate growth in overall investment expenditure. Yet, private consumption expenditure continued to register a modest decline. Real GDP expanded by 3.1% year-on-year in the first quarter, picking up from the 2.5% growth in the preceding quarter. On a seasonally adjusted quarter-to-quarter basis, real GDP grew visibly by 1.9%.

¶ The global economy maintained steady growth in the first quarter. With broadly sustained external demand, as well as some front-loading of shipments in anticipation of tariff hikes by the United States in early April, Hong Kong's total exports of goods saw visibly accelerated growth, up 8.4% year-on-year in real terms. Meanwhile, thanks to the further increase in visitor arrivals, growth in cross boundary traffic, and notable increase in cross-boundary financial and fund raising activities, total exports of services continued to expand visibly in the first quarter, by 6.6% year-on-year in real terms.

¶ Domestically, overall investment expenditure resumed moderate growth, rising by 2.8% year-on-year in real terms, underpinned by a visible increase in expenditure on acquisitions of machinery, equipment, and intellectual property products, as well as a sharp rise in costs of ownership transfer due to a markedly higher number of property transactions compared to the same period last year. Yet, private consumption expenditure continued to register a small decline of 1.1%, reflecting the lingering impact of changes in residents' consumption patterns.

¶ The labour market remained tight in the first quarter. The seasonally adjusted unemployment rate stayed low at 3.2%, slightly higher than the 3.1% in the preceding quarter. The underemployment rate remained at a low level of 1.1%. Employment earnings continued to record solid growth.

¶ The local stock market once rallied in the first quarter, driven by the Mainland's breakthrough development in artificial intelligence (AI) and the

Central Government's measures to stimulate the domestic economy as unveiled at the "two sessions". However, the market cooled down towards the end of the quarter amid concerns over the United States' trade policy outlook. The residential property prices remained soft.

¶ Consumer price inflation stayed modest in the first quarter. The underlying Composite Consumer Price Index (Composite CPI) increased by 1.2% over a year earlier, same as the increase in the preceding quarter. Price pressures on various major components stayed largely contained. Including the effects of the Government's one-off relief measures, the headline Composite CPI increased by 1.6% over a year earlier, higher than the 1.4% increase in the preceding quarter.

¶ As international trade tensions have eased somewhat of late, the headwinds and uncertainties in the external environment have lessened to some extent. This may relieve part of the downward pressure on the global economic outlook. Moreover, the sustained steady growth of the Mainland economy amid more proactive fiscal policies and the moderately accommodative monetary policies should bode well for the performance of merchandise exports in Asia including Hong Kong. Sustained international trade flows, coupled with improving inbound tourism, are also expected to benefit Hong Kong's exports of services. However, uncertainties in the trade policies of the United States persist, and its monetary policy trajectory going forward is still complicated. These may affect global financial conditions and investment sentiment. Apart from this, the change in consumption patterns of residents and visitors would still pose constraints on driving consumption in the domestic market, though sustained increase in employment earnings and the SAR Government's various policies to promote mega events and tourism would help boost consumption sentiment.

¶ Taking into account the actual outturn in the first quarter and the latest developments of the global and local situation, the real GDP growth forecast for 2025 as a whole is maintained at 2%-3%, the same as that announced in the Budget. The Government will continue to closely monitor the situation.

¶ On the inflation outlook, overall inflation should remain modest in the near term as pressures from domestic costs and external prices should stay broadly in check. Considering that the inflation situation in the first quarter was broadly in line with earlier expectations, the forecasts for the underlying and headline consumer price inflation rates for 2025 are maintained at 1.5% and 1.8% respectively, the same as those announced in the Budget.

Details

GDP

According to the revised figures released today by the Census and Statistics Department, real GDP grew by 3.1% year-on-year in the first quarter of 2025 (same as the advance estimate), having increased by 2.5% in the preceding quarter. On a seasonally adjusted quarter-to-quarter

comparison, real GDP rose by 1.9% in the first quarter (revised from the advance estimate of 2.0%), after a 0.9% increase in the preceding quarter (Chart).

The latest figures on GDP and its major expenditure components up to the first quarter of 2025 are presented in Table 1. Developments in different segments of the economy in the first quarter are described below.

External trade

Supported by broadly sustained external demand as well as some front loading of shipments in anticipation of tariff hikes by the United States in early April, total exports of goods posted accelerated year-on-year growth of 8.4% in real terms in the first quarter, following a 1.3% increase in the preceding quarter. Analysed by major market and by reference to external merchandise trade statistics, exports to the Mainland grew strongly in the first quarter over a year earlier. Exports to the United States rose back, while those to the European Union fell further. Exports to ASEAN markets soared, while those to high-income Asian economies showed mixed performance. On a seasonally adjusted quarter-to-quarter basis, total exports of goods increased notably by 10.2% in real terms in the first quarter.

Exports of services continued to expand visibly by 6.6% in real terms in the first quarter over a year earlier, after growing by 6.5% in the preceding quarter. Exports of all major service groups rose further. Specifically, exports of travel and transport services continued to expand, supported by the further increase in visitor arrivals and growth in cross-boundary traffic. Exports of financial services rose sharply, thanks to the notable increase in cross-boundary financial and fund raising activities. On a seasonally adjusted quarter-to-quarter basis, exports of services were virtually unchanged in real terms in the first quarter.

Domestic sector

Private consumption continued to be subject to the lingering impact of changes in residents' consumption patterns in the first quarter. Private consumption expenditure declined modestly by 1.1% in real terms from a year ago, after a marginal decline of 0.2% in the preceding quarter. On a seasonally adjusted quarter to quarter basis, private consumption expenditure decreased by 1.6% in real terms. Meanwhile, government consumption expenditure increased by 1.2% in real terms in the first quarter over a year earlier, after rising by 2.1% in the preceding quarter. On a seasonally adjusted quarter to quarter basis, government consumption expenditure increased by 0.5% in real terms.

Overall investment expenditure in terms of gross domestic fixed capital formation resumed moderate growth in the first quarter, rising by 2.8% year-on-year in real terms, after a modest decline of 0.7% in the preceding quarter. Within the total, expenditure on machinery, equipment, and intellectual property products increased visibly. The costs of ownership transfer rose sharply due to a markedly higher number of property

transactions compared to the same period last year. Yet, expenditure on building and construction declined moderately.

The labour sector

The labour market remained tight in the first quarter of 2025. The seasonally adjusted unemployment rate stayed low at 3.2%, slightly higher than the 3.1% in the preceding quarter. The underemployment rate remained at a low level of 1.1%. The median monthly employment earnings of full-time employees in nominal terms increased by 6.4% year-on-year in the first quarter.

The asset markets

After staying largely range-bound in January 2025, the local stock market rallied after the Chinese New Year holidays through mid-March, as market sentiment was fuelled by the Mainland's breakthrough development in AI and the Central Government's measures to stimulate the domestic economy as unveiled at the "two sessions". However, the market cooled down towards the end of the quarter amid concerns over the United States' trade policy outlook. The Hang Seng Index (HSI) hit a three-year high of 24 771 on March 19, before retreating somewhat to close the first quarter at 23 120, up 15.3% from end-2024. In early April, trade tensions escalated abruptly due to the significant increase in import tariffs by the United States, and the global financial markets were volatile at that time. The HSI also fell in tandem, but it has recently resumed its uptrend.

The residential property prices remained soft in the first quarter. Market sentiment turned more cautious towards the end of March amid growing external uncertainties from the United States' trading and monetary policies. Overall flat prices fell by 2% in the first quarter. The index of home purchase affordability improved slightly further to around 59% in the first quarter alongside easing flat prices during the quarter, but remained above the long-term average of 56% over 2005-2024. The number of transactions, in terms of the total number of sale and purchase agreements for residential property received by the Land Registry, retreated by 19% from the preceding quarter to 12 193 in the first quarter, but was 24% higher than the level a year ago. On the other hand, overall flat rentals continued to show resilience, edging up by 0.4% during the first quarter. As to the non-residential property market, it remained generally weak in the first quarter, with trading activities across major market segments showing mixed performance, as well as prices and rentals declining further.

Prices

Consumer price inflation stayed modest in the first quarter of 2025. The underlying Composite CPI increased by 1.2% over a year earlier in the first quarter, same as the increase in the preceding quarter. Within this, food prices as a whole increased mildly. Private housing rentals saw a slightly accelerated increase. Price pressures on other major components stayed largely contained. Including the effects of the Government's one-off relief

measures, the headline Composite CPI increased by 1.6% over a year earlier, higher than the 1.4% increase in the preceding quarter. The headline inflation rate was higher than its underlying counterpart in the first quarter, as the electricity charges subsidy provided by the Government was smaller compared with the same period last year.

Latest GDP and price forecasts for 2025

As international trade tensions have eased somewhat of late, the headwinds and uncertainties in the external environment have lessened to some extent. This may relieve part of the downward pressure on the global economic outlook. Moreover, the sustained steady growth of the Mainland economy amid more proactive fiscal policies and the moderately accommodative monetary policies should bode well for the performance of merchandise exports in Asia including Hong Kong. Sustained international trade flows, coupled with improving inbound tourism, are also expected to benefit Hong Kong's exports of services. However, uncertainties in the trade policies of the United States persist, and its monetary policy trajectory going forward is still complicated. These may affect global financial conditions and investment sentiment. Apart from this, the change in consumption patterns of residents and visitors would still pose constraints on driving consumption in the domestic market, though sustained increase in employment earnings and the SAR Government's various policies to promote mega events and tourism would help boost consumption sentiment.

Taking into account the actual outturn in the first quarter and the latest developments of the global and local situation, the real GDP growth forecast for 2025 as a whole is maintained at 2%-3%, the same as that announced in the Budget (Table 2). The Government will continue to closely monitor the situation. For reference, the latest growth forecasts by private sector analysts range between 1.0% to 2.5%.

On the inflation outlook, overall inflation should remain modest in the near term as pressures from domestic costs and external prices should stay broadly in check. Considering that the inflation situation in the first quarter was broadly in line with earlier expectations, the forecasts for the underlying and headline consumer price inflation rates for 2025 are maintained at 1.5% and 1.8% respectively, the same as those announced in the Budget (Table 2).

The First Quarter Economic Report 2025 is now available for online download, free of charge at www.hkeconomy.gov.hk/en/situation/index.htm. The Report of the Gross Domestic Product by Expenditure Component, which contains the GDP figures up to the first quarter of 2025, is also available for browse and download, free of charge on the homepage of the Census and Statistics Department, www.censtatd.gov.hk.

