BEA東亞銀行

Economic Research

March 2021

Market Monitor – Hong Kong

Stuttering Recovery in 2021

Hong Kong's economy contracted a record 6.1% annually in 2020 as the city was battered by the COVID-19 pandemic. The main drag was from private consumption, which declined by 10.1% year-on-year in 2020, while investment dropped 11.5%. Hong Kong's Q4 2020 GDP contracted by 3% year-on-year.

- **2020 GDP contracted a record 6.1% as the city was battered by the COVID-19 pandemic. We expect a cloudy short-term outlook, but an economic recovery in the second half of 2021.**
- **Hong Kong's export to continue to benefit from the recovery of Mainland China and the US.**
- **Supported by a supply shortage and low interest rates, residential property market remained resilient.**

Cloudy short-term outlook

Total retail sales fell by 24.3% year-on-year in 2020, the largest drop on record. The total value of retail sales has returned to the level of 10 years ago. The biggest declines by category include jewellery, watches, clocks, and valuable gifts – which plunged 54.0% year-on-year; medicines and cosmetics – which lost half of sales, and apparel – which fell 41.3%.

Supermarket goods recorded the largest increase by category, with sales rising 9.7% year-on-year. However, with gathering restrictions in place during Chinese New Year, festive gatherings were fewer and there was less gift giving. Supermarkets have likely seen business drop accordingly. As retail sales in Q1 2020 fell by more than half year-on-year, we expect to see single-digit growth in the first quarter of this year, but no real recovery until the second half of the year.

Meanwhile, the domestic economy is still underperforming. Hong Kong's unemployment rate rose to 7% in a 3-month average between November and January, up from 6.6% in the prior 3-month period and the highest level in almost 17 years. Compared with the same period last year, the unemployment rate has risen most notably in the retail, accommodation, and catering service industries, where it rose by 6.1 percentage points. This represents a rise of 0.7 percentage points from the previous month, reflecting the heavy blow border restrictions and social distancing measures have had on impacted companies. The next highest rate was in the construction and transport industry.

The Financial Secretary announced a new budget. He said that the fiscal deficit was HK$257.6 billion in 2020-21, and expected to be HK$101.6 billion this coming fiscal year. It will continue to be in fiscal deficit for 5 consecutive years. He emphasized that the government will find it difficult to increase the scale of relief measures.

More upbeat external data

In contrast, exports showed a clear improvement in Q4, mainly due to the accelerated growth of exports to the mainland Chinese market. Moreover, Hong Kong exports to the US turned positive in Q4, at a mild growth of 0.1% year-on-year, but up from a 10.7% decline in Q3.

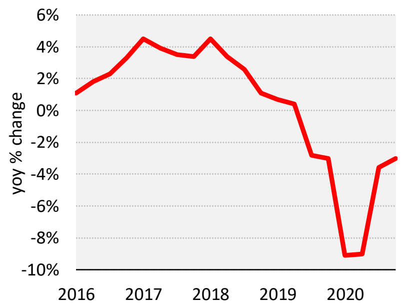
Looking ahead, Hong Kong's exports will continue to benefit from the recovery of Mainland China and the US. Mainland China's economy is growing steadily. At the same time, the Mainland government is committed to promoting internal circulation and reforming the economy to drive internal consumption, which will increase the demand for imports. With the backing of the US$1.9 trillion stimulus package and good progress in vaccination, the US is expected to see a faster recovery this year. This will add to its demand for Hong Kong exports. On the other hand, the repeated global epidemic and tensions in US-China relations will bring downside risks. Overall speaking, growth in Mainland China, with optimism fueled by domestic vaccination progress this year, will shore up investment and consumer sentiment, and economic growth in the second half of this year.

Equity market rallies was restrained by recent surge in US treasury yields

Investor optimism was boosted by vaccination programmes accelerating in countries such as the US and UK, and by the US$1.9 trillion US stimulus package, all of which has fuelled hopes of a global economic recovery.

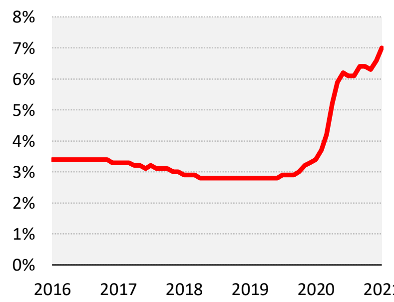
In addition, Mainland capital flowing into Hong Kong's stock market so far this year has already exceeded CNY481 billion in net purchases by 18th February. Mainland investors particularly favoured high-tech stocks such as Tencent and the newly listed Kuaishou Technology.

Hong Kong Economic Growth



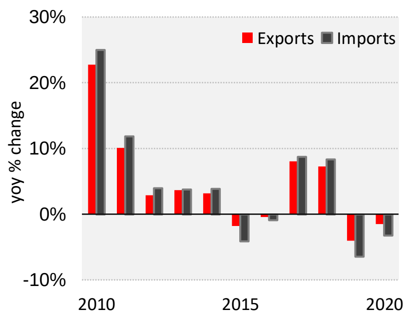
Source: Hong Kong Census and Statistics epartment, data as of 25/2/2021

Hong Kong Unemployment rate



Source: Hong Kong Census and Statistics Department, data as of 25/2/2021

Hong Kong Exports and Imports

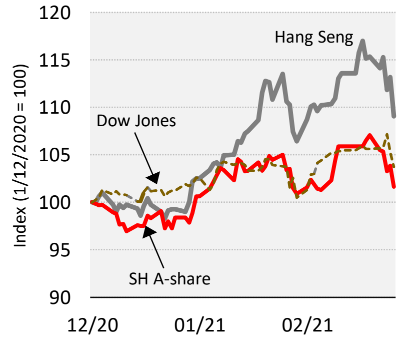


Source: Hong Kong Census and Statistics Department, data as of 15/2/2021

The average daily turnover in 2020 is HK$129.5 billion, an increase of 49% from 2019's HK$87.2 billion. The turnover further rose to HK$245.7 billion in January this year, representing an increase of 136% from the same period last year. After seeing the amount raised from initial public offerings (IPOs) reach a 10-year high, the Hong Kong stock market is now expecting ongoing listings from biotechnology and technology companies. But the recent surge in US treasury yields, as well as Hong Kong Budget's proposal of increasing the stamp duty on stock trading to 0.13% from 0.1%, led to a drag to equity prices.

The Hang Seng Index closed at 28,980.2 points on 26th February, 2021, representing a rise of 2.5% from the end of January. In comparison, the Shanghai A-share index rose by 0.7% over the same period.

Stock Market Indices



Source: Bloomberg, data as of 26/2/2021

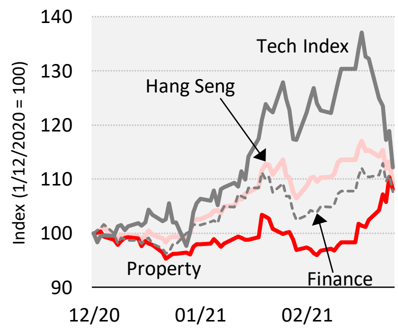
Higher earners helps lift housing market

Residential property prices have been resilient, supported by a supply shortage and low interest rates despite the bleak economic performance. As of 21st February, prices were up 0.9% from the previous month, and were up 0.2% from the end of last year. The upswing was mainly led by smaller apartments, which registered a 1.2% monthly rise in prices.

Property transactions were still strong entering 2021, with transaction values rising 60% year-on-year during January to HK$39.7 billion. This increase was led by the secondary market, which saw an annual growth of 87.6%.

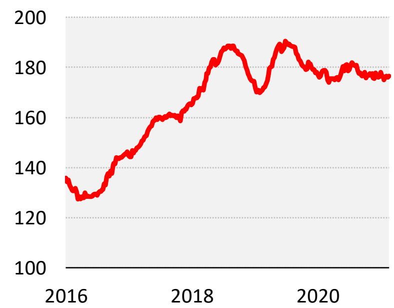
Property developers have seen sales slowdown last year amid the pandemic and social distancing measures. Apartment sales are expected to speed up in Q1, with sentiment now upbeat due to the recent stock market boom. Though the economy suffers from a cloudy short-term outlook coupled with high unemployment, the higher earners – including those working in finance and business – have been less affected by the pandemic and can absorb the market supply, adds to the upside of the property market.

Stock Market Indices



Source: Bloomberg, data as of 26/2/2021

Centaline Housing Price Index



Source: Centaline Property Agency Ltd., data as of 27/2/2021

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