

Market Monitor – Hong Kong

Economy Starts Gradual Recovery



Economy starts to bounce back from pandemic slump

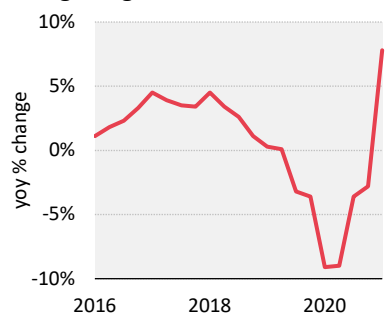
Hong Kong’s economy has started to climb out from a pandemic-induced slump, growing at 7.8% year-on-year in Q1 this year (from 2020’s exceptionally low base of comparison). Exports has been supporting the rapid growth of the economy. On the other hand, private consumption contracted 4.8% annually from the same period in 2019, while business investment dropped 5.8%.

Recent economic figures show continual, albeit modest, improvements. Markit’s Hong Kong Purchasing Managers’ Index (PMI) stayed in expansionary territory at 50.5 in March, although it rose marginally by 0.2 points from February. Retail sales rose by 20.1% annually in March, mainly due to a low base of comparison. They only grew by 7.5% annually in the first three months of 2021, barely recovering from a 35% drop in the same period last year. Yet the modest recovery was relatively broad-based, coming from consumer durables, apparel, and footwear, as well as department stores, jewellery, and other luxury items.

Meanwhile, the unemployment rate dropped to 6.8% in the January–March period, down from 7.2% in the December–February period. Following the relaxation of social distancing measures, including the reopening of gyms, cinemas, and beauty salons, and the extension of dine-in hours for restaurants, unemployment in retail, accommodation, and catering services dropped 0.4 percentage points from the previous three-month average. The services sector saw a further boost during the five-day Easter break. Yet there were still 260,000 people unemployed, more than double the average of 118,300 in 2019.

- ❖ Hong Kong’s economy starting to recover from the pandemic-induced slump.
- ❖ March figures show continued but still modest improvements.
- ❖ Due to a supply shortage and low interest rates, there will be a modest rise in residential property prices, while the rental market lags behind.

Hong Kong Economic Growth



Source: Hong Kong Census and Statistics Department, data as of 3/5/2021

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As a move toward reopening the border, from mid-May the government will exempt mainlanders visiting Hong Kong from quarantine who test negative for Covid-19. Hong Kong's vaccination programme has expanded to cover all residents above 16 years old, or about 88% of the city's population. By 30th April, about 12.2% of population had received at least one vaccine dose. Though this was higher than the 4.3% for Asia as a whole, it was much lower than Europe's 21.4%. Concerns about various side-effects are a major impediment to faster vaccination.

Economic recovery boosted by external environment

Meanwhile, exports continues to be a bright spot for the economy, underpinned by the strong economic recovery in mainland China and the US. Mainland China's economy expanded by a record 18.3% annual growth in Q1. For the US, last month, the Federal Reserve has revised up its economic forecast this year to 6.5% annual growth. As such, exports experienced 26.4% year-on-year surge in March.

A full recovery from the pandemic has yet attained for the time being, while vaccination is slow. That being said, ongoing progress will continue to shore up investment, consumer sentiment, and economic growth in the second half of the year.

Recent clampdown on internet companies weighs on equity market

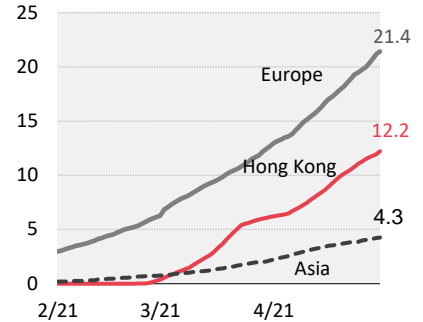
Record growth in China's Q1 GDP shows that the country's economic recovery is on track, which should have a positive impact on investment sentiment. However, it also implied that the government might wind down its monetary stimulus as the economic outlook improves. Moreover, Alibaba's record fine for breaching an antitrust law has caused market concern about heightened government regulation of internet companies, driving down the prices of technology stocks.

The Hang Seng Index closed at 28,724.9 points on 30th April, 2021, representing a rise of 1.2% from the end of March. In comparison, the Shanghai A-share index rose by 0.1% over the same period, while the Dow Jones Industrial Average rose by 2.7%.

Continual rise in property prices

Residential property prices have been resilient, supported by a supply shortage and low interest rates despite the pandemic crisis. The low interest rates are encouraging mortgage lending, with investors seeking better returns than equity and other assets. As of end-March, property prices released by the Rating and Valuation Department were up 2.2% from end-2020. The upswing was mainly led by larger apartments, which registered a 6.8% rise from end-2020 in prices for flats of 160 sqm or above.

Share of people receiving Covid-19 Vaccine (%)



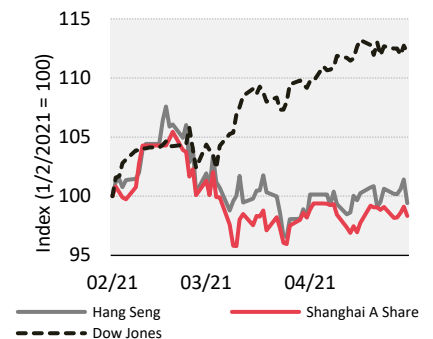
Source: Our World in Data, data as at 3/5/2021

Hong Kong Exports and Imports



Source: Hong Kong Census and Statistics Department, data as of 27/4/2021

Stock Market Indices



Source: Bloomberg, data as of 3/5/2021

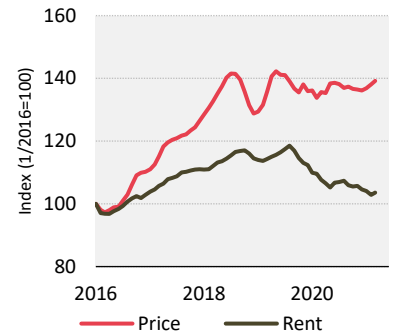
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Property transactions were still strong entering 2021, with transaction values rising 91% year-on-year during the first quarter to HKD 166 billion. This increase was led by the secondary market, which saw an annual growth of 95.5%.

On the other hand, property rentals painted a different story. These declined by 1% year-to-date in March, where poor economic conditions and a closed border has stifled demand, with Hong Kong's emigration wave further exacerbating the slide. Bloomberg forecasts that as many as 5.4% of units could be vacant, up from 4.3% at end-2020, sending rents into a slide this year.

Housing Price and Rent Indices



Source: Rating and Valuation Department, data as of 29/4/2021

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