

Market Monitor – Hong Kong

Labour Market Still Facing Headwinds



Exports continue to be key economic driver

Goods exports were the main driver of Hong Kong’s economic rebound in the first half of this year, rising by a rapid 29.4% annually in the first 5 months. This was due to higher demand driven by a global economic revival and the reopening of Western economies, as well as by increased orders at mainland Chinese factories from other Asian markets suffering renewed epidemic lockdowns.

Markit’s Hong Kong Purchasing Managers’ Index (PMI) stayed in expansionary territory for 5 consecutive months, though falling to 51.4 in June from a 7-year high of 52.5 in May. New orders expanded with the improving external environment and Hong Kong’s receding Covid-19 outbreak.

Meanwhile, Hong Kong’s unemployment rate in the March-May period was 6%, down from 6.4% in the previous 3 months. The stabilising epidemic situation is supporting a recovery in the labour market. The unemployment rate of workers in the retail, accommodation, and catering services industries fell to 9.4%, down 1.2 percentage points from the same period last year – which is the largest drop among all sectors. This was followed by manufacturing, where unemployment was at 6.4%, and construction, where it was 10.3%. Despite these improvements, unemployment is still far higher than pre-crisis levels.

Moreover, there is concern about the PMI sub-indices, where the private sector registered lower staffing levels on average, the second consecutive fall. Rising purchasing costs, due to shortages of materials and shipping delays, might pose headwinds to corporate profitability and cause reluctance to increase headcounts. Moreover, the tourism-dependent retail sector will take a much longer time to return to pre-crisis levels while Hong Kong’s borders remain closed.

Hong Kong’s export sector continues to be the main driver of the broader economy.

Business operating environment continues to improve, but this may not translate into more hiring.

Strong new home sales are driving up residential property prices.

Hong Kong Exports and Imports



Source: Hong Kong Census and Statistics Department, data as of 30/6/2021

Economic Research

July 2021

One positive note is the financial services sector is the upcoming launch of the Greater Bay Area Wealth Management Connect. Many international financial institutions are increasing their headcounts in Hong Kong to capture the opportunity of serving the growing affluent class of Mainland China. The Securities and Futures Commission has issued 1.7% more licenses in asset management, securities, and other financial activities compared with nine months earlier.

Barely any recovery in retail sales

With the border closed and almost no international visitors, the retail market is set to remain weak. Retail sales in May were HK\$29.6 billion, an increase of 10.5% year-on-year, compared with 12.1% growth in April. There has thus been hardly any recovery from the 32.9% fall during the same period in 2020. The government has rolled out a “vaccine bubble” scheme to relax restrictions for restaurants and other retail businesses based on the vaccination rate of staff and patrons. In addition, the e-voucher scheme, which is offering HK\$5,000 for every adult Hong Kong resident from August, will also be positive for the retail sector. Nevertheless, these policies can only help towards a partial recovery of the retail sector.

By 30th June, about 2.25 million people had received at least one dose of vaccine, or about 30% of the population, up from 18.4% at end-May. Of those, about 1.48 million people were fully vaccinated. Many organisations in the private sector have been offering lucky draws and/or various discounts as incentives to boost the local vaccination rate. Yet reluctance to get inoculated is still quite high in Hong Kong.

In general, with an improving epidemic situation in Hong Kong, social distancing measures are expected to be gradually relaxed, and in the meantime exports will continue to perform well. These factors point to a gradual economic recovery, with full-year economic growth estimated to be 5.8%, as opposed to a 6.1% contraction in 2020.

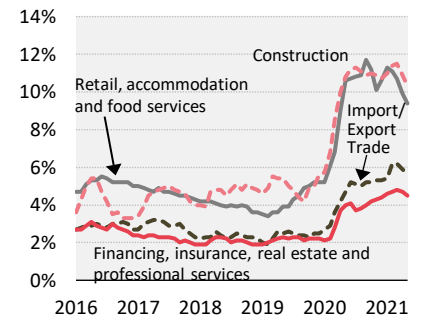
Robust IPO activity

Hong Kong’s technology stocks fell 0.6% from end-May to end-June, while it fell 3.2% from the beginning of this year, as the market was still concerned about China’s tightening grip on the sector. The Property Index, on the other hand, is at 8.5% year-to-date, outperforming the broader Hang Seng Index.

The Hang Seng Index closed at 28,827.9 points on 30th June, 2021, representing a drop of 1.1% from the end of May. In comparison, the Shanghai A-share index fell by 0.7% over the same period, while the Dow Jones Industrial Average fell by 0.1%.

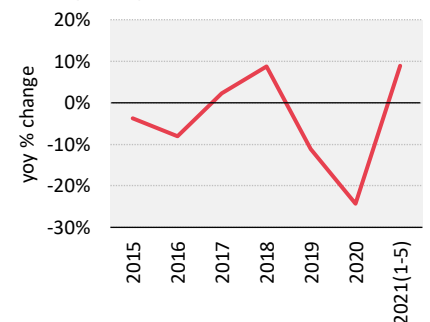
After a flurry of 33 initial public offerings (IPOs) in Q1, Hong Kong only saw 7 listings in Q2, leading to staggering over-subscription of several stocks. Angelalign Technology led the pack, with retail orders over-subscribed by roughly 2,000 times, and delivered a 132% jump in stock price in its first-day bonanza. EY estimated US\$210.8 billion IPO funds were raised in the first half of this year, which represents a 10-year high and a 126% rise year-on-year.

Hong Kong Unemployment Rate



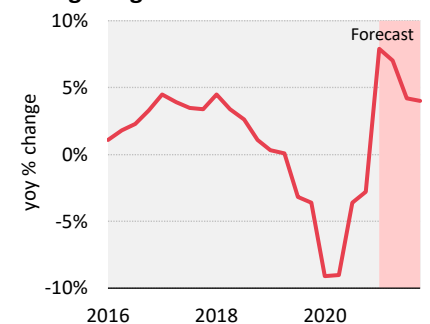
Source: Hong Kong Census & Statistics Department, data as at 16/6/2021

Hong Kong Retail sales



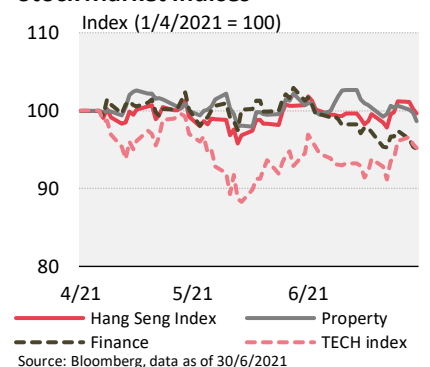
Source: Hong Kong Census and Statistics Department, data as of 30/6/2021

Hong Kong GDP Growth



Sources: Hong Kong Census and Statistics Department; BEA Economic Research Department, data as of 18/5/2021

Stock Market Indices



Source: Bloomberg, data as of 30/6/2021

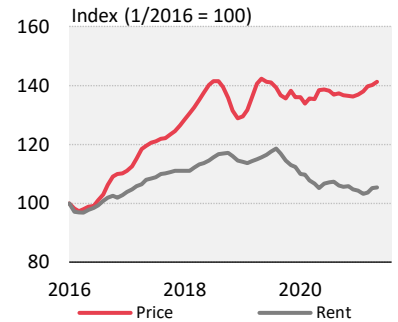
Recent home buying frenzy

There has been a notable rise in property prices and sales since the start of this year. As of end-May, the property price index released by the Rating and Valuation Department (RVD) was up 3.6% from end-2020, just 0.8% below the peak level seen in May 2019. Meanwhile, residential rents have also seen an uptick since April, rising by 0.3% month-on-month in May – an increase of 0.7% from end-2020.

At present, Hong Kong’s market is flooded with ample liquidity, keeping the Hong Kong interbank rates at low levels. The 1-month HIBOR (which is related to the mortgage rate) was 0.099% as of 30th June, while the 3-month HIBOR hit 0.1704%. As the US Federal Reserve has downplayed the surge of inflationary pressure as transitory, general market expectation is that the central bank would be hesitant to tighten its monetary policy. Low interest rates will prevail in the short term, which will support the property market. Furthermore, high inflation around the world could lower purchasing power, potentially leading to further rises in asset prices.

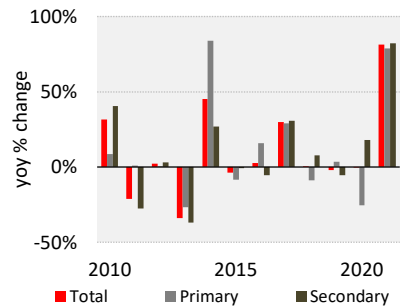
Meanwhile, housing supply is still tight. Response to new residential projects has been strong, with new home sales rising at the fastest pace in 2 years. The number of transactions in the primary market has risen 50.2% year-on-year during the first 5 months of 2021, while the transaction amount rose even higher to 78.8%. The home buying frenzy has been in the news recently. For example, the Pavilia Farm project above the Tai Wai MTR station was nearly 80 times oversubscribed, the highest number of registrations since 1997.

Housing Price and Rent Indices



Source: Rating and Valuation Department, data as of 29/6/2021

Hong Kong Residential Property Transaction Value



Source: Hong Kong Rating and Valuation Department, data as of 14/6/2021

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