

Market Monitor – Hong Kong

Hong Kong Maintains Growth Momentum



Hong Kong maintains growth momentum

Hong Kong slightly revised up its Q2 economic growth to 7.6% year-on-year, and the economy grew at 7.8% in the first half of 2021. Goods exports were the main driver of Hong Kong's economic rebound in the first half of this year.

But the economy has not yet recovered from the 9% plunge seen in Q2 2020, and what recovery there is has been very uneven. In particular, private consumption rose 6.8% year-on-year, which is a 4.1% decline annually when compared with the same period in 2019.

The global economic recovery will continue to support the exports market. Exports grew at 26.9% year-on-year in July, after rising 30% in the first half of 2021. However, the supply shortage, rising input costs, and the more infectious Delta variant will add to the downsides and drag on export growth. This shall put pressure on corporate profitability.

Consumption vouchers positive for retail sales

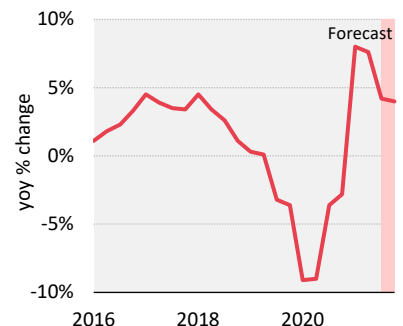
Retail sales in July were HK\$27.2 billion, an increase of 2.9% year-on-year, nearly half of the 5.8% growth rate recorded in June. Some retailers said people delayed spending as they awaited the receipts of consumption vouchers in August. The strong response to government's e-voucher scheme, offering HK\$2,000 to every adult Hong Kong resident in August, will boost retail sales as well as overall economic growth. Added to the positive atmosphere brought by the Olympic Games, it is estimated that the scheme could boost economic growth by 0.5% to 0.8%.

Hong Kong's economic growth momentum continues. GDP grows at 7.8% annually in 1H 2021, but downside risk emerges.

Retail and catering sectors, as well as their employment markets, benefit from relaxation of social distancing measures and the e-voucher scheme.

Residential property prices continue to soar, with interbank rates trending downward.

Hong Kong GDP Growth



Sources: Hong Kong Census and Statistics Department; BEA Economic Research Department, data as of 30/8/2021

Economic Research

September 2021

Meanwhile, Hong Kong's unemployment rate dropped sharply to 5% in the May-July period, down from 5.5% in the April-June period, aided by allowing more people in places of public entertainment and sports activities, after an easing of restrictions for a number of business sectors including restaurants, bars, entertainment venues and fitness centres in June, as well as a shrinking labour force. Unemployment stood at about 198,400 people. As the economy continues to recover, domestic consumption will gradually improve. The consumption vouchers are also positive for retail, catering, and logistics, which will help to improve employment in those sectors and further lower Hong Kong's unemployment rate.

Consumer prices rose 3.7% year-on-year in July, much faster than the 0.7% increase in June, as the rental freeze for public housing in July 2020 created a low base of comparison. Discounting the government's one-off relief measures, the inflation rate remained modest at 1%.

Meanwhile, Hong Kong's vaccination rate continued to see progress. By 30th August, about 4.11 million people had received at least one dose of vaccine, or about 55% of the population, up from 43% at end-July. Of these, about 3.4 million people were fully vaccinated. Yet it shows signs of slowing in vaccination progress. Moreover, the rate for the elderly is lagging far behind. Only about 24% of those aged 70 or above are vaccinated with at least one dose of vaccine.

Market remains cautious about China's regulatory moves

Hong Kong's stock market underperformed due to market concerns about Mainland China's economic recovery, as a resurgence in Covid-19 cases due to the Delta variant prompted several provinces to implement stringent lockdown measures and travel curbs. This resulted in slower-than-expected China's economic data in July. Hong Kong's stock market moved lower.

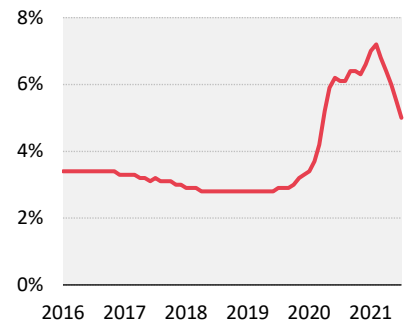
Meanwhile, investors were watchful regarding the Chinese authorities' next regulatory moves. After state media criticised the online gaming sector for misrepresenting history and called for stricter oversight, Hong Kong tech stocks plunged in price. Some Chinese tech firms like NetEase Cloud were said to be delaying listing due to the low valuations.

The Hang Seng Index closed at 25,879 points on end-August, 2021, representing a decline of 0.3% from the end of July, where the TECH Index dropped 2.6%. In comparison, the Shanghai A-share index rose by 4.3% over the same period, while the Dow Jones Industrial Average rose by 0.8%.

Property prices continue to soar

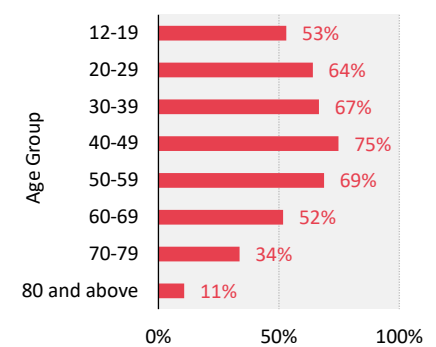
With a lack of large projects being launched, Hong Kong's residential property market saw relatively tepid sales. Year-on-year growth of transaction volume saw the growth rate soften to 23.6% in July, compared to 47.1% growth in the first half of this year, while transactions rose by 32.1% in July, compared with 65.9% growth in the first half.

Hong Kong Unemployment Rate



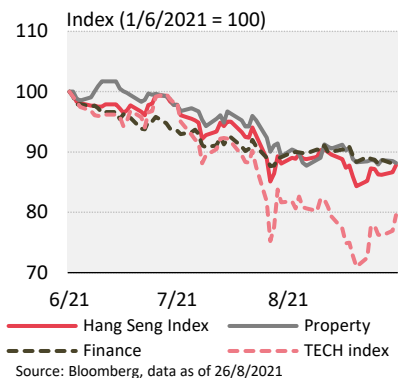
Source: Hong Kong Census and Statistics Department, data as of 19/8/2021

Vaccination Rate by Age Group



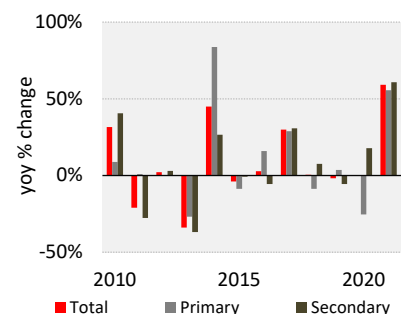
Source: Hong Kong government, data as of 24/8/2021

Stock Market Indices



Source: Bloomberg, data as of 26/8/2021

Hong Kong Residential Property Transaction Value



Source: Hong Kong Rating and Valuation Department, data as of 24/8/2021

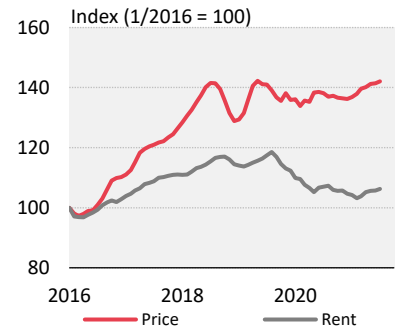
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But property prices have continued to soar since the start of this year. As of end-July, the property price index released by the Rating and Valuation Department (RVD) was up 4.3% from end-2020, just 0.2% below the peak level seen in May 2019. Meanwhile, residential rents have also seen an uptick since March, rising by 0.5% month-on-month in July – an increase of 1.6% from end-2020.

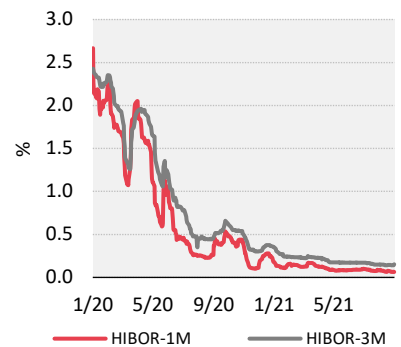
At present, Hong Kong’s market is flooded with ample liquidity, which is pushing down the city’s interbank rates. The 1-month HIBOR (which is related to the mortgage rate) had dived lower to 0.0648% as of 31st August, compared with 0.0827% at end-July, while the 3-month HIBOR hit 0.1515%. As the Federal Reserve has downplayed the surge of inflationary pressure as transitory, and its chair Jerome Powell indicated in the Jackson Hole meeting there was no rush to raise interest rates. General market expectation is that the US central bank will be hesitant to tighten its monetary policy. Low interest rates will prevail in the short term, which will support the property market. Furthermore, with worries about high inflation around the world lowering purchasing power, asset prices could rise further.

Housing Price and Rent Indices



Source: Rating and Valuation Department, data as of 28/8/2021

HKD HIBOR



Source: Bloomberg, data as of 31/8/2021

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