

Market Monitor – Hong Kong

# Labour Market Sees Further Improvement



## Unemployment rate continues to fall

Hong Kong's unemployment rate dropped sharply to 4.7% in the June-August period, the lowest level since March 2020 and down from 5% in the period spanning May to July. There were about 187,700 people out of work. The unemployment rate improved in almost all major sectors, except for the food and beverage sector, which stayed at 8.6% during the period, despite the first tranche of consumption vouchers being disbursed in August. It is expected that improvement in the broader labour market will slow towards the end of this year, given that Hong Kong's borders remain closed.

The consumption vouchers gave a boost to retail sales in August, amounting to HK\$28.6 billion, a jump of 11.9% year-on-year, compared with the 2.9% growth rate recorded in July. A rise in tourist arrivals also supported the retail sales market. Inbound tourists in August totalled about 10,811, up 24% from the previous month, with 8,523 arrivals coming from the mainland. This figure will rise again, as Hong Kong has allowed travellers from mainland China and Macau quarantine-free entry since mid-September, though mainlanders are still subject to quarantine when they return home.

Consumer prices rose 1.6% year-on-year in August, slower than the 3.7% increase in July, 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 edged up by 0.2 percentage points to 1.2%, led by higher prices for energy and takeaway meals.

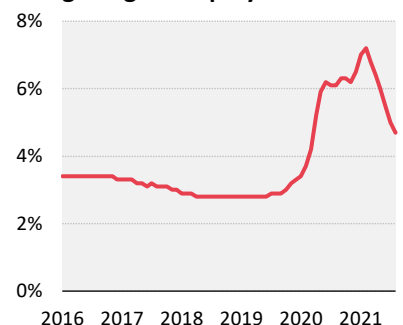
The business sector also saw a continual broad-based recovery amid favourable government measures such as the consumption voucher scheme and a rise in consumer confidence. The purchasing managers' index increased to 53.3 in August, the best reading since February 2014.

**Hong Kong's unemployment rate edges down to 4.7% for the 3 months ending in August.**

**Hong Kong is seeing slower vaccination progress, while businesses point to closed borders, social distancing measures, and a brain drain as their main challenges.**

**Residential property prices will continue their uptrend through the rest of 2021, though transactions will be slower.**

Hong Kong Unemployment rate



Source: Hong Kong Census and Statistics Department, data as of 21/9/2021

## Economic Research

October 2021

### Exports may see slower growth later this year

On the trade front, exports continued to bode well with robust overseas demand, growing at 25.9% year-on-year in August, after rising 29.5% in the first 7 months of 2021. However, with the Delta variant of Covid-19 spreading around the globe and soaring shipping costs, traders were less confident about their business outlook. According to a survey conducted by the Hong Kong Trade and Development Council, only 20% of traders expected an increase in Christmas sales this year, while 41% expected a decline.

We predict the economy will grow by 5% year-on-year in Q4, and 6.5% for the whole year. Overall inflationary pressure is expected to pick up mildly amid a stabilised epidemic situation and improving domestic demand, and is forecast to average 2.1% in Q4 and 1.7% for 2021 as a whole.

Meanwhile, Hong Kong's streak of zero locally infected Covid-19 cases continued as the vaccination rate progressed. By 30<sup>th</sup> September, about 4.49 million people had received at least one dose of vaccine, or about 59.5% of the population, up from 55% at end-August. Of these, about 55% of people were fully vaccinated. The close gap between the two rates indicates a stagnation in vaccination progress. The Hong Kong General Chamber of Commerce has earlier surveyed Hong Kong companies and found that the inability to resume cross-border travel, social distancing measures, and the brain drain were the top three challenges enterprises reported as hindering business activity.

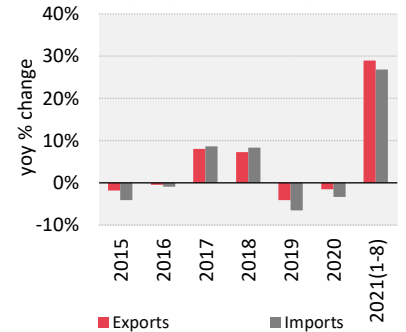
The cross-boundary Wealth Management Connect and southbound trading of the Bond Connect scheme has been launched, enhancing connectivity with the mainland market and promoting the internationalisation of the renminbi. It also signals an opening of individual capital accounts in mainland China. Meanwhile, the central authorities issued a new plan to comprehensively deepen the reform and opening-up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, expanding the total area from 14.92 km<sup>2</sup> to 120.56 km<sup>2</sup>.

### Property sector becomes main drag on the equity market

Chinese property developer Evergrande's liquidity crisis intensified investors' worries about the financial conditions of other mainland property developers. There have been fears that a chain reaction could spill over into China's financial sector, sparking massive selloffs in related companies and creating shockwaves in stock markets in Asia, Europe, and the US.

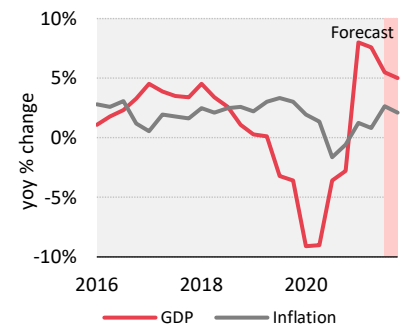
Furthermore, Reuters reported that Chinese officials have told Hong Kong developers to solve the city's chronic housing shortage. While no policies have been explicitly announced, market sentiment was nevertheless fearful and the Hang Seng Property Index plunged 6.7% in one day. Macau proposed a regulatory overhaul in 9 areas of its gambling sector ahead of the casino licenses rebidding process next year, including appointing government representatives in the concessionaires and looking to pre-approve dividend payouts. The uncertainty hanging over the industry sent casino stocks plunging.

### Hong Kong Exports and Imports



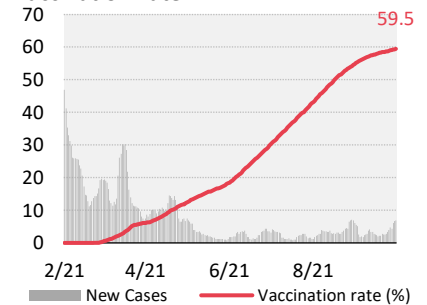
Source: Hong Kong Census and Statistics Department, data as of 28/9/2021

### GDP Growth and Inflation



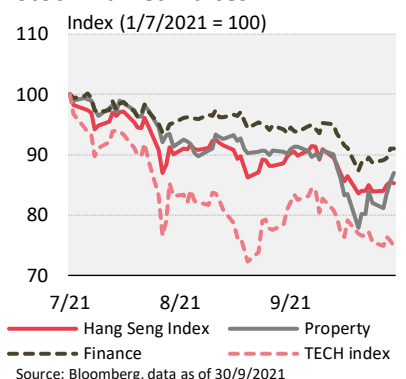
Sources: Hong Kong Census and Statistics Department; BEA Economic Research Department, data as of 30/9/2021

### Hong Kong Covid-19 Cases and Vaccination Rate



Source: Our World in Data, data as of 30/9/2021  
Remark: New cases are 7-day rolling average

### Stock Market Indices



Source: Bloomberg, data as of 30/9/2021

## Economic Research

October 2021

The Hang Seng Index closed at 24,099 points on 20<sup>th</sup> September 2021, representing a decline of 3.3% in a day. It closed 24,575 points at end-September, or 5% from end-August. In comparison, the Shanghai A-share index rose by 0.7% over the same period, while the Dow Jones Industrial Average dropped by 4.3%.

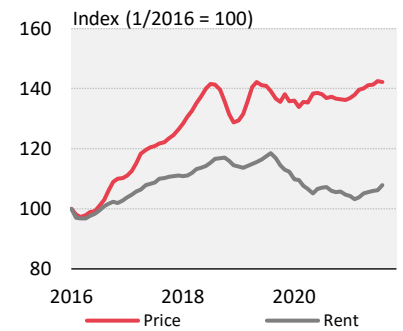
### Residential property prices continue uptrend

The number of Hong Kong’s residential property transactions slowed in Q3, with a 25.1% year-on-year growth in transaction volume during July and August, compared to 47.1% growth in the first half of this year, while the transaction amount rose by 33.5% in July-August, compared with 65.9% growth in the first half. Transactions in Q4 are expected to continue to trend downwards as the purchasing power accumulated during the epidemic outbreak gradually dissipates.

Property prices have continued to soar since the start of this year. As of end-August, the property price index released by the Rating and Valuation Department (RVD) was up 4.5% from end-2020, already surpassed the peak level seen in May 2019. Meanwhile, residential rents have also seen an uptick since March, rising by 1.6% month-on-month in August – an increase of 3.2% from end-2020.

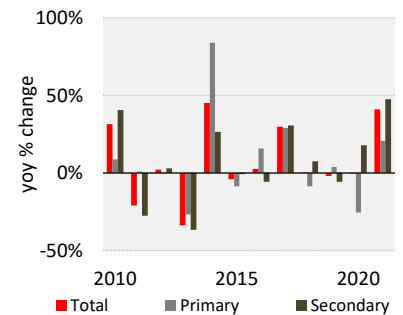
Housing supply is unlikely to increase markedly in short order. Moreover, although the US Fed signalled interest rate hikes might start as early as late 2022, the dovish stance of the US Federal Reserve has also served to fuel market appetite. Low interest rates will prevail in the short term, which together with an improving local economy, is likely to mean a continued uptrend for property prices for the rest of this year.

### Housing Price and Rent Indices



Source: Rating and Valuation Department, data as of 28/9/2021

### Hong Kong Residential Property Transaction Value



Source: Hong Kong Rating and Valuation Department, data as of 21/9/2021

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