

Market Monitor – Hong Kong
Continued Economic Momentum

Hong Kong's economic growth momentum continues, although the exports sector sees mounting pressure

The Hong Kong economy expanded at 5.4% year on year in Q3 2021, keeping the recovery on track, although it was down from the 7.8% annual expansion in 1H due to the marked base effect. Overall, the economy grew at 7% during the first three quarters of this year.

Exports remained the main boost to economic recovery, propelled by robust overseas demand, while private consumption was also recovering fast at 7% annual growth in Q3, but it was not enough to offset the 7.9% plunge in the same period last year.

Exports grew at 16.5% year on year in September, after rising 29% in the first 8 months of 2021. They are expected to remain robust for the rest of the year, albeit growing at a slower pace. However, the economic outlook has been dimmed by the spread of the Delta variant of Covid-19 around the globe, as well as supply bottlenecks, soaring shipping costs, and a surge in energy prices. Exports to the US and EU saw slower growth during the month. Moreover, the moderating growth of Mainland China is also creating downward pressure on Hong Kong's exports market.

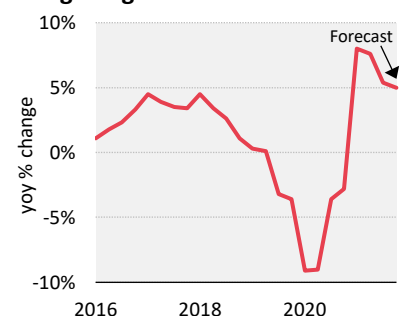
Retail sales grow alongside a robust labour market

Retail sales in September amounted to HK\$28 billion, a year-on-year jump of 7.3%, alongside a robust labour market. The October distribution of consumption vouchers will be another boost, though the immediate economic stimulation will be smaller than in the first round, as some consumers may keep their credit until the November and December shopping seasons.

Hong Kong economy expands at 5.4% year on year in Q3 2021, keeping the recovery on track.

Exports are still the main boost to economic recovery, while private consumption is also recovering.

Residential property prices will continue their uptrend through the rest of 2021, supported by optimism around the Northern Metropolis development project and abundant liquidity in the market.

Hong Kong GDP Growth


Sources: Hong Kong Census and Statistics Department; BEA Economic Research Department, data as of 1/11/2021

Economic Research

November 2021

Hong Kong's unemployment rate dropped further, but the improvement is smaller than in previous months. It was 4.5% in the July-September period, down from 4.7% in the period spanning June to August. There were about 180,600 people out of work, down by 7,100 people from the previous month.

The labour market recovery is uneven, however. Finance and insurance, real estate, and professional and business services are now above pre-crisis levels, with an increased number of establishments and more employees. At the same time, manufacturing and the trade and wholesale sector have not yet recovered from the pandemic, and are still seeing business closures and layoffs. Companies in the retail sector have experienced a contraction, with the number of establishments now roughly the same as before the crisis, but with a smaller number of employees overall.

Employers are cautious about business conditions. The purchasing managers' index fell to 50.8 in October, down from 51.7 in September, indicating a moderate improvement in business conditions. A survey by the Hong Kong Institute of Human Resource Management found that Hong Kong's employees' average pay rise was 1% this year, below the inflation rate for the first time in 10 years. 57% of companies were undecided about whether to raise salaries next year. Only 37% said yes, with an average raise of 3%.

Vaccination rate is slowing

Hong Kong's Covid-19 situation is stable, but its vaccination rate is slowing. By 31st October, about 4.6 million people had received at least one dose of vaccine, or about 61.1% of the population, slightly up from 59.5% at end-September. Of these, about 59% were fully vaccinated. The goal of reopening the border with mainland China is high on Hong Kong's agenda. Hong Kong government has just announced almost all exemptions from quarantine for overseas travellers would end.

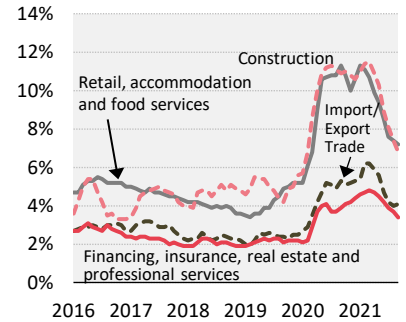
Hong Kong's tech and bank stocks rally

While China's Q3 economic growth hit a one-year low of 4.9% year on year, below the market estimate, Hong Kong's stock market has been boosted by gains in financial stocks, with investors eyeing cross-border wealth management potential. Hong Kong has approved 19 banks to offer wealth management products to mainland individuals from 19th October.

Meanwhile, Alibaba Group and tech peers advanced amid speculation that China is softening its tech crackdown, with Alibaba's founder Jack Ma said to be making his first overseas trip in more than a year.

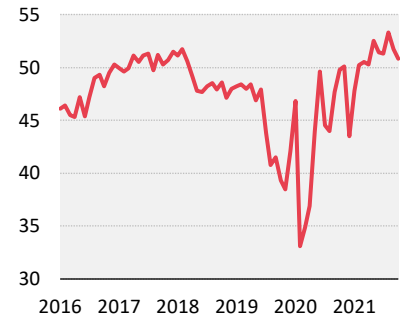
The Hang Seng Index closed at 25,377 points on 29th October, 2021, representing a rise of 3.3% from end-September. In comparison, the Shanghai A-share index dropped by 0.6% over the same period, while the Dow Jones Industrial Average rose by 5.8%.

Hong Kong Unemployment Rate



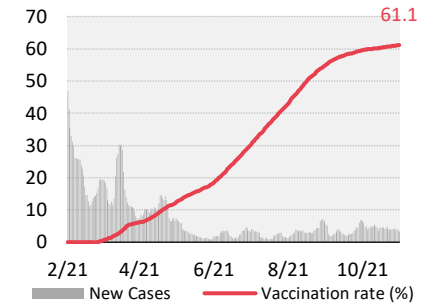
Source: Hong Kong Census & Statistics Department, data as at 21/10/2021

Hong Kong Purchasing Managers' Index



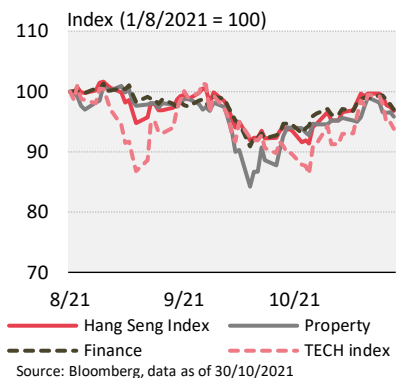
Source: IHS Markit, data as of 3/11/2021

Hong Kong Covid-19 Cases and Vaccination Rate



Source: Our World in Data, data as of 31/10/2021
Remark: New cases are 7-day rolling average

Stock Market Indices



Source: Bloomberg, data as of 30/10/2021

Economic Research

November 2021

Residential property prices fall with a volatile stock market

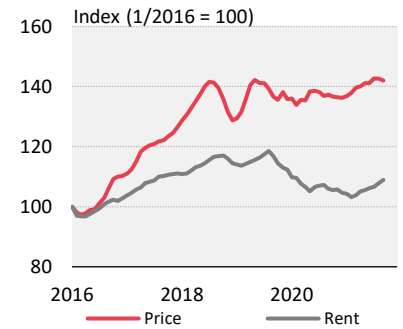
Hong Kong's property prices have edged down for a second consecutive month, after hitting a record high in July, following a lacklustre stock market, according to the revised figures released by the Rating and Valuation Department (RVD). As of end-September, the property price index was up 4.3% from end-2020, 0.5% below the peak level seen in July 2021. Meanwhile, residential rents continued to see an uptick, rising by 4.1% from end-2020, with a brightening economic outlook and the return of mainland Chinese students and new job-market entrants to Hong Kong.

Although the US Federal Reserve (Fed) shifted to a more hawkish stance in its September meeting, the HIBOR is continuing to hover at a low level, and the market has abundant liquidity. The market consensus is that the Hong Kong prime rate will remain unchanged, although the Fed may raise interest rates as early as next year.

In her policy address, Hong Kong chief executive Carrie Lam announced plans to build a Northern Metropolis stretching across the Yuen Long and New Territories North districts, encompassing about 300 sq. km close to Shenzhen. The new metropolis is expected to accommodate 2.5 million people in more than 900,000 residential flats within 20 years. The Northern Metropolis will be a hub of innovation and technology. With expected improvements in transport connections, including five railway projects and a proposed new station at Science Park/Pak Shek Kok, property prices in the area will be driven up in the near term.

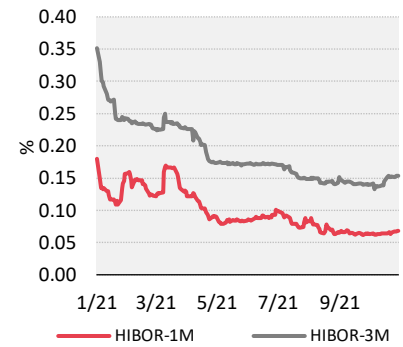
Hong Kong's office rental market showed signs of recovery as Q3 saw more office space taken up than left empty for the first time in 2 years, according to real estate firm Cushman & Wakefield. A resurgence of transaction activity was led by banking and finance, insurance, business centres, and co-working spaces, highlighting the continued outperformance and expansion by these sectors.

Housing Price and Rent Indices



Source: Rating and Valuation Department, data as of 27/10/2021

HKD HIBOR



Source: Bloomberg, data as of 30/10/2021

Disclaimer

This document is prepared by The Bank of East Asia, Limited (“BEA”) for customer reference only. Other than disclosures relating to BEA, the content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are as of the date hereof, are expressed solely as general market commentary, and do not constitute an offer of securities, nor a solicitation, suggestion, investment advice, or guaranteed return. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This document has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed and as required by the law. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this document, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down. Past performance is not indicative of future performance. The investments mentioned in this document may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this document. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

The views and opinions in this document do not constitute the official views of BEA.

This document is the property of BEA and is protected by relevant intellectual property laws. Without the prior written consent of BEA, the information herein is not allowed to be copied, transferred, sold, distributed, published, broadcast, circulated, modified, or developed commercially, in either electronic or printed forms, nor through any media platforms that exist now or are developed later.

For more information, please visit our webpage at <https://www.hkbea.com/html/en/bea-about-bea-economic-research.html>. For any enquiries, please contact the Economic Research Department (email: lerd@hkbea.com, tel: (852) 3609-1504, post: GPO Box 31, Hong Kong).

