

Market Monitor – Hong Kong

Economic Recovery Continues



Hong Kong’s economic growth supported by export sector

The Hong Kong economy expanded at 5.4% year on year in Q3 2021, in line with preliminary estimates. On a quarterly basis, it expanded 0.1%, reversing the 0.9% contraction of the previous quarter. Overall, the economy has grown at 7% during the first three quarters of this year.

Exports remained the main boost to economic recovery, with a 14.2% year-on-year growth in real terms in Q3, propelled by robust overseas demand, while private consumption was also recovering fast at 7.1% annual growth, but it was not enough to offset the 7.9% plunge of the same period last year. Investment, on the other hand, saw a 10.8% year-on-year growth. With the local epidemic situation under control, growth momentum looks set to continue in 2022.

Export sector faces ongoing pressures

Exports are expected to remain robust for the foreseeable future. They grew further at 21.4% year on year in October, after rising 27.3% in the first 9 months of 2021. However, the softening global economic recovery, coupled with supply bottlenecks, soaring shipping costs, and an energy shortage, is continuing to add to the downside risks. Exports to advanced Western economies show a slowing year-on-year growth entering the second half of this year. Moreover, the moderating growth of Mainland China is also exerting a downward pressure on Hong Kong’s exports market.

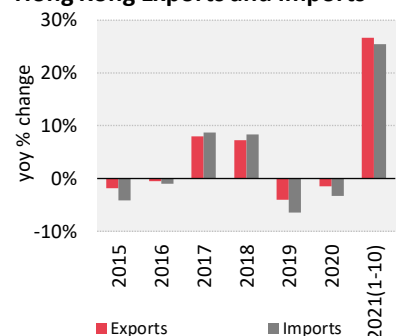
Meanwhile, a stable epidemic situation is supportive to overall business environment. The purchasing managers’ index in Hong Kong rose to 52.6 in November, up from 50.8 in October.

Hong Kong economic growth momentum rolls on, with robust exports.

Retail sales rise again in October, while the unemployment rate drops further.

Residential property prices will be supported by ample liquidity and chronic lack of supply.

Hong Kong Exports and Imports



Source: Hong Kong Census and Statistics Department, data as of 25/11/2021

Economic Research

December 2021

Retail sales rise for eighth month

Retail sales continued to grow in October, shooting up 12% year-on-year, which amounts to a value of HK\$30.7 billion, and has surpassed the level during the same period in 2019. Consumer confidence has been boosted by the government’s October distribution of consumption vouchers, and brightening economic outlook. Sales of electrical goods and other consumer durables grew 52.1% annually, the largest leap among other categories, and was followed by a 23.1% growth in jewellery, watches and valuable gifts. Motor vehicles and parts, on the other hand, saw an 18.6% decline in sales. Meanwhile, online sales soared 29.4% annually to HK\$2.45 billion, representing 8% in total retail revenue.

Hong Kong Retail sales

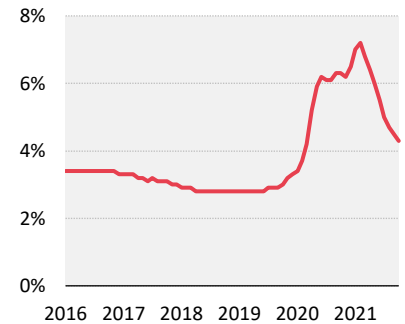


Source: Hong Kong Census and Statistics Department, data as of 30/11/2021

Labour market improves further

In sync with the economic recovery, Hong Kong’s unemployment rate continued to trend lower. It was at 4.3% in the August-October period, down from 4.5% in the period spanning July to September. There were about 171,800 people out of work, down by 8,800 people from the previous month. Decoration, repair, and maintenance for buildings; the food and beverage industry; and arts, entertainment, and recreation all saw marked improvements in unemployment rates. Hong Kong’s Covid-19 situation is stable, but the new Omicron variant was said to delay pilot border opening with Mainland China until late December. As such, the extent of further improvement in the labour market will be smaller given the closed border. Meanwhile, a survey by ECA International found that on average Hong Kong employees will get a salary increase of 1.1% after factoring in inflation next year, up from 0.6% this year. This rise nevertheless lags behind many Asian peer economies, with Singapore and Taiwan both expecting an average 2% salary rise in 2022.

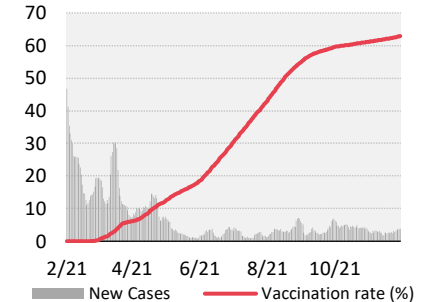
Hong Kong Unemployment rate



Source: Hong Kong Census and Statistics Department, data as of 16/11/2021

Official figures show that more than 1.6 million Hong Kong people suffered poverty in 2020, equivalent to a poverty rate of 23.6%. Although the increase was offset by government handouts, which lowered the poverty rate to 7.6%, it has been commented that some of these handouts were one-offs, including the HK\$10,000 cash handout last year, which are no solution to the vast wealth gap.

Hong Kong Covid-19 Cases and Vaccination Rate



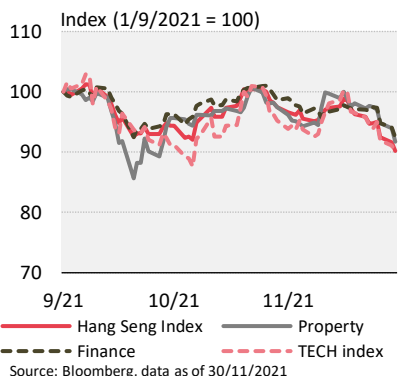
Source: Our World in Data, data as of 30/11/2021
Remark: New cases are 7-day rolling average

Hong Kong’s vaccination rate is slowing. By 29th November, about 4.74 million people had received at least one dose of vaccine, or about 62.9% of the population, slightly up from 61.1% at end-October. Of these, about 60% received two doses of vaccine.

New Omicron variant drags equity market

Hong Kong’s equity market advanced in early November as mainland media reported that Chinese policymakers would be loosening funding restrictions on property developers. However, sentiment was somewhat impacted by news that the Cyberspace Administration of China has published draft rules in November indicating that companies listing in Hong Kong may need to undergo a cybersecurity review.

Stock Market Indices



Source: Bloomberg, data as of 30/11/2021

Investment sentiment was further dampened by the new Omicron variant of the coronavirus, while a gambling crackdown hit casino concessionaires.

Economic Research

December 2021

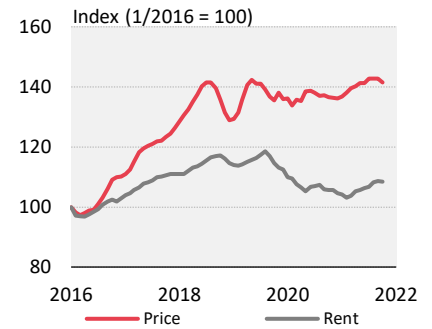
The Hang Seng Index retreated to 23,475 points on 30th November, 2021, representing a drop of 7.5% from end-October. In comparison, the Shanghai A-share index rose by 0.5% over the same period, while the Dow Jones Industrial Average declined by 3.7%. In particular, the Hang Seng Property Index declined 5.9% between end-October and end-November, while the TECH index dropped by 5.4%.

Residential property prices on a declining trajectory

Hong Kong's residential property prices edged downward for two consecutive months, following a lacklustre stock market and buyers' wait-and-see attitude ahead of the Policy Address. According to the figures released by the Rating and Valuation Department (RVD), as of end-October, the property price index was up 3.9% from end-2020, but was 0.9% below the level seen in the prior month. Meanwhile, residential rents dropped 0.3% month-on-month, or rose by 3.6% from end-2020.

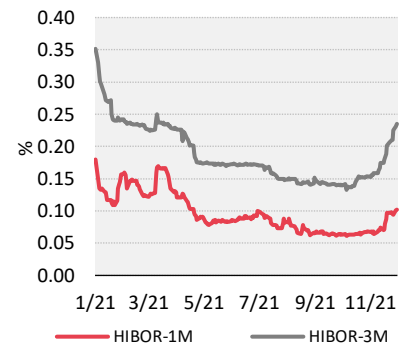
As the equity market underperformed, this caused capital outflows, while it was near year-end, and sent the HIBORs higher. The US Federal Reserve (Fed) Chairman shifted his tone and suggested it was probably the time to retire the word "transitory" when mentioning inflation, and the Fed may end its asset purchases a few months earlier. Yet 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.

Housing Price and Rent Indices



Source: Rating and Valuation Department, data as of 26/11/2021

HKD HIBOR



Source: Bloomberg, data as of 30/11/2021

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