Economic Research

January 2022

Market Monitor – Hong Kong

Growth Momentum Continues Entering 2022

Exports sector – main engine of economic recovery

Exports remained the main boost to economic recovery, with a 25% year-on-year growth in November, propelled by robust overseas demand, following a rise of 26.7% in the first 10 months of 2021. Exports are expected to remain robust entering 2022.

However, the Omicron variant of Covid-19 is spreading around the world and casting a shadow on the global economic recovery. Meanwhile, supply bottlenecks, soaring shipping costs, and an energy shortage continue to linger and add to the downside risks. The slowing growth of Mainland China is also exerting a downward pressure on Hong Kong's exports market. Overall, with a high base of comparison this year, exports are expected to grow at a slower pace this year.

Stable business environment allows domestic market to recover

In contrast to the increasingly challenging environment, Hong Kong's domestic market is quite stable. With the epidemic situation relatively under control, the general business environment is improving.

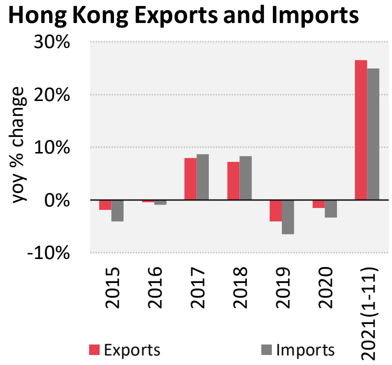
Hong Kong's unemployment rate continued to trend lower. It was at 4.1% in the September-November period, down from 4.3% in the period spanning August to October. The improvement is broad-based, with distinct decreases in the construction sector as well as in retail, accommodation, and food services. Total employment increased by about 6,800 between August-October and the September-November period, while the labour force decreased by about 6,900 during the same period. Looking ahead, it will take time to see a full recovery of the labour market to pre-pandemic levels, especially with the threat of a new Covid-19 variant and with the border remaining closed. As such, any further reduction in the unemployment rate is likely to be smaller, and unemployment is projected to stay at around the present level throughout 2022.

Exports will likely continue to be Hong Kong's growth engine, while the stable business environment will help support the domestic market.

In addition, a fast recovering labour market will help the economy sustain its growth momentum.

Residential property prices still have room to rise amid ample liquidity and a chronic lack of supply.

Hong Kong Exports and Imports



Source: Hong Kong Census and Statistics Department, data as of 28/12/2021

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Retail sales continued to grow in November, shooting up 7.1% year on year, which amounts to a value of HK$ 30.7 billion and surpasses that of the same period in 2019. Consumer confidence has been boosted by the government's disbursement of consumption vouchers and by solid economic recovery. The improvement was largely driven by wearing apparel, which grew 17.9% annually, followed by a 14.4% growth in jewellery, watches, and valuable gifts. However, supermarkets and other retailers selling fish, livestock and poultry saw a decline in sales.

Economic growth momentum will stay steady in the near term

Looking ahead, economic growth momentum will stay steady this year, albeit at a slower pace than in 2021 due to the different bases of comparison. Yet downward pressure is building up, with supply chain bottlenecks, an ongoing global pandemic, and moderating economic growth in Mainland China. The economy is forecast to grow at 3.2% in 2022, after growing at 6.5% in 2021.

Inflation rose to 1.8% in November, marginally higher than the 1.7% increase recorded in October, which is mainly attributed to a faster rise in utilities bills and prices for clothing and footwear. With the economy on track for recovery and soaring import prices, Hong Kong's inflationary pressure is expected to rise to 1.9% in 2022, up from 1.5% last year.

Hong Kong's vaccination rate is slowing. By 31st December, about 4.87 million people had received at least one dose of vaccine, or about 65.2% of the population, slightly up from 62.9% as at end-November. Of these, about 62.3% had received two doses of vaccine.

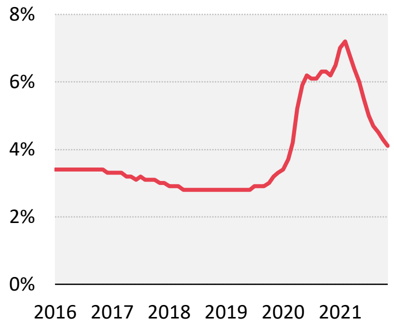
Hong Kong is lobbying to roll out a pilot partial border opening with Mainland China, but the plan has been delayed. If Mainland China reopens its border with Hong Kong, the city's retail, hotel, and catering industries will benefit the most.

Equity market affected by regulatory uncertainties

Regulatory uncertainties remain a key concern affecting the performance of Hong Kong equities. In addition, US sanctions on China's tech firms, including those on SenseTime when it was planning for an initial public offering (IPO), have further soured investment sentiment towards that sector. Live-streaming platforms also suffered a significant decline in stock prices after Hangzhou imposed a heavy fine on a top live-streamer for tax evasion.

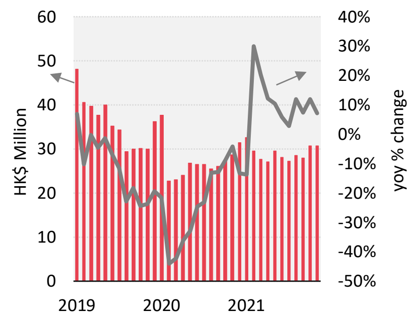
However, the market was somewhat bolstered by China's 0.5-percentage-point cut to the reserve requirement ratio for banks and a 5-basis-point cut in the 1-year loan prime rate. The Chinese government's emphasis on economic stability for 2022 will mean more fiscal and monetary support to the real economy, which will benefit company performances and bolster market sentiment. Meanwhile, the Hong Kong Stock Exchange's new listing requirements for special purpose acquisition companies ("SPAC"), which become effective on 1st January, 2022, will attract more homecoming listings.

Hong Kong Unemployment Rate



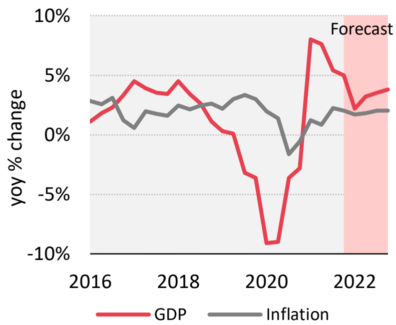
Source: Hong Kong Census and Statistics Department, data as of 16/12/2021

Hong Kong Retail Sales



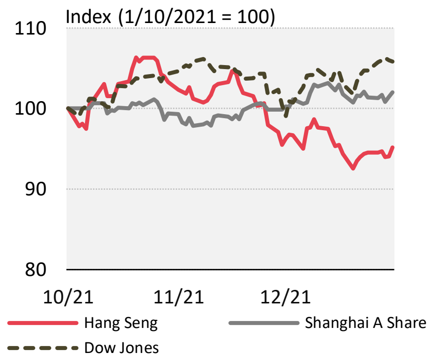
Source: Hong Kong Census and Statistics Department, data as of 3/1/2022

GDP Growth and Inflation



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

Stock Market Indices



Source: Bloomberg, data as of 31/12/2021

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The Hang Seng Index retreated to 23,397.7 points on 31st December, 2021, representing a drop of 0.3% from end-November, or a 14% decline from end-2020, nearly wiping out the gains from the pandemic low. In comparison, the Shanghai A-share index rose by 2.1% from end-November, while the Dow Jones Industrial Average rose by 5.4%. In particular, the TECH index dropped by 5.9% between end-November and end-December, or 32.7% from the end of 2020.

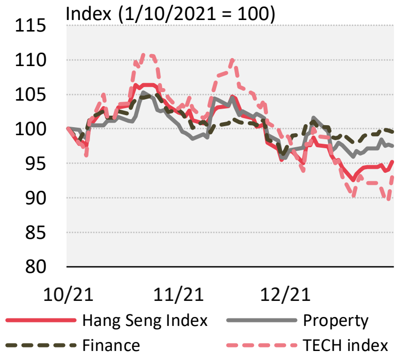
Residential property prices still have room to rise

Hong Kong's residential property prices edged downward for two consecutive months, amid a lacklustre stock market. According to the figures released by the Rating and Valuation Department (RVD), as of end-November the property price index was up 3.1% from end-2020, but was 1.2% below the level seen in the previous month. Meanwhile, residential rents had dropped 0.7% month on month, but were up 3.1% from end-2020.

With a supply shortage and a low interest rate environment, there is now room for property prices to rise. The US Federal Reserve (Fed) is now tapering off its asset purchasing programme twice as quickly, and the market generally expects the programme will end in March. Meanwhile, the majority of officials expect a 75-basis-point interest rate hike in 2022. Reaction in the financial markets was rather muted, indicating that investors generally do not expect aggressive interest rate hikes.

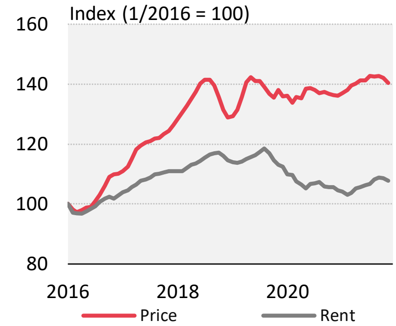
The HIBOR will trend higher than in 2021. Having said that, with abundant liquidity in Hong Kong, the HIBOR is not expected to closely follow the movements of the LIBOR, nor is an increase in the prime rate likely next year.

Stock Market Indices



Source: Bloomberg, data as of 31/12/2021

Housing Price and Rent Indices



Source: Rating and Valuation Department, data as of 29/12/2021

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