

# Economic Overview for Mainland China & Hong Kong

Economic Research Department  
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## 1 Mainland China economic outlook

- *Easing momentum in late 2021*
- *Delicate challenge of propping up growth while deleveraging the property sector*
- *Stability - the main economic priority in 2022*

## 2 Hong Kong economic outlook

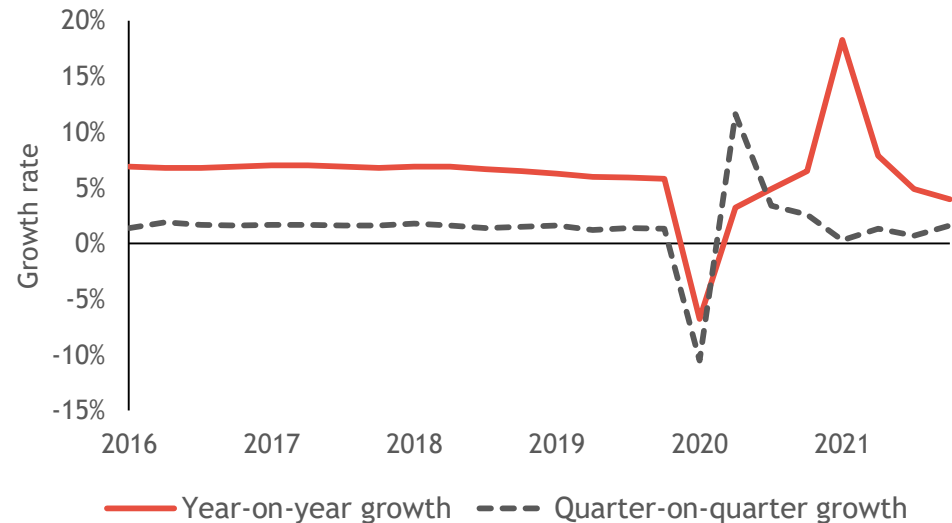
- *Growth momentum continues*
- *Property prices are expected to stabilise this year*



# China's economy has seen easing momentum since Q3 2021 and uneven economic development due to Covid-19

## Growth momentum slowed by a number of headwinds

China's Economic Growth



Source: National Bureau of Statistics, PRC (data as of 17/1/2022)

- The economy has faced sporadic COVID outbreaks, energy crunches, heavy regulatory oversight, and floods.
- Property market downturn has led to a decline in the real estate sector as well as its related industries, such as construction and building materials (cement, steel, coking coal, etc.).

## Exports is the growth driver, while consumption lags behind

Main Economic Indicators for China



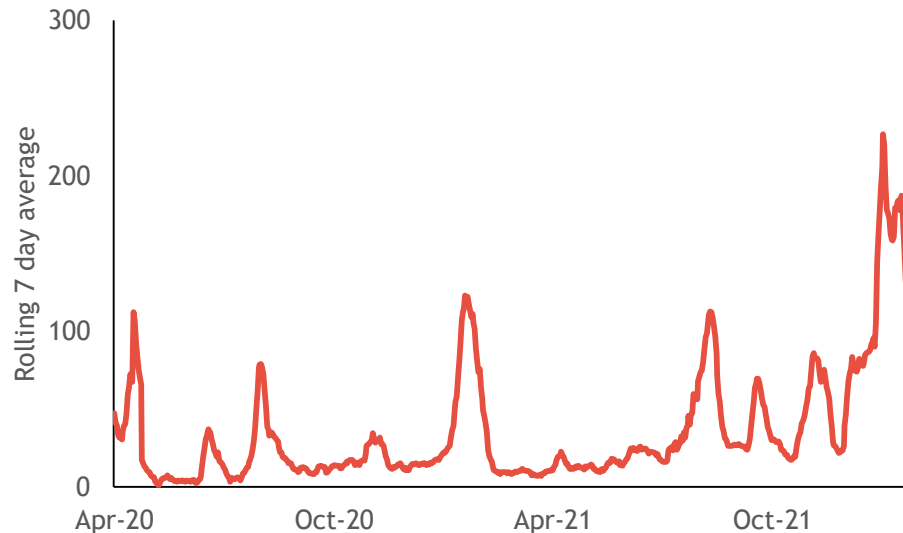
Source: National Bureau of Statistics, PRC (data as at 17/1/2022)

- The exports market is surprisingly resilient, defying supply chain bottlenecks and soaring input costs.
- Meanwhile, private consumption is dragged down by Covid-19 and the recent property market downturn.

# Sporadic outbreaks of Covid-19 dampen consumer sentiment

## Covid-19 outbreaks becoming more frequent and impactful

New Covid-19 Cases in China

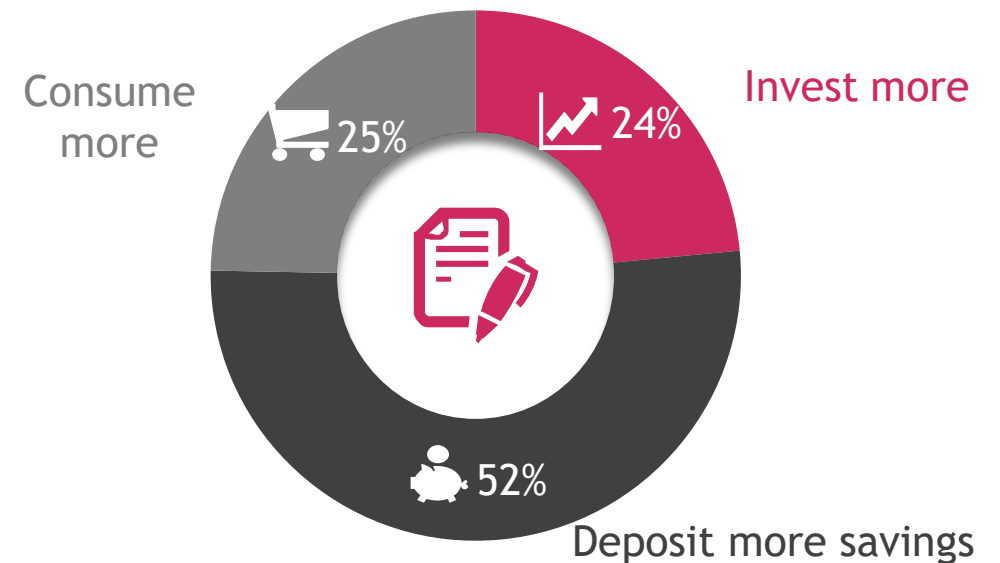


Source: Our World in Data (data as of 25/1/2022)

- Although China continues to adopt a zero tolerance approach to Covid-19, outbreaks are becoming more frequent and the number of new cases is accelerating.

## This is dampening consumer sentiment and willingness to spend

Survey of urban residents' relative preference to invest, save, or consume

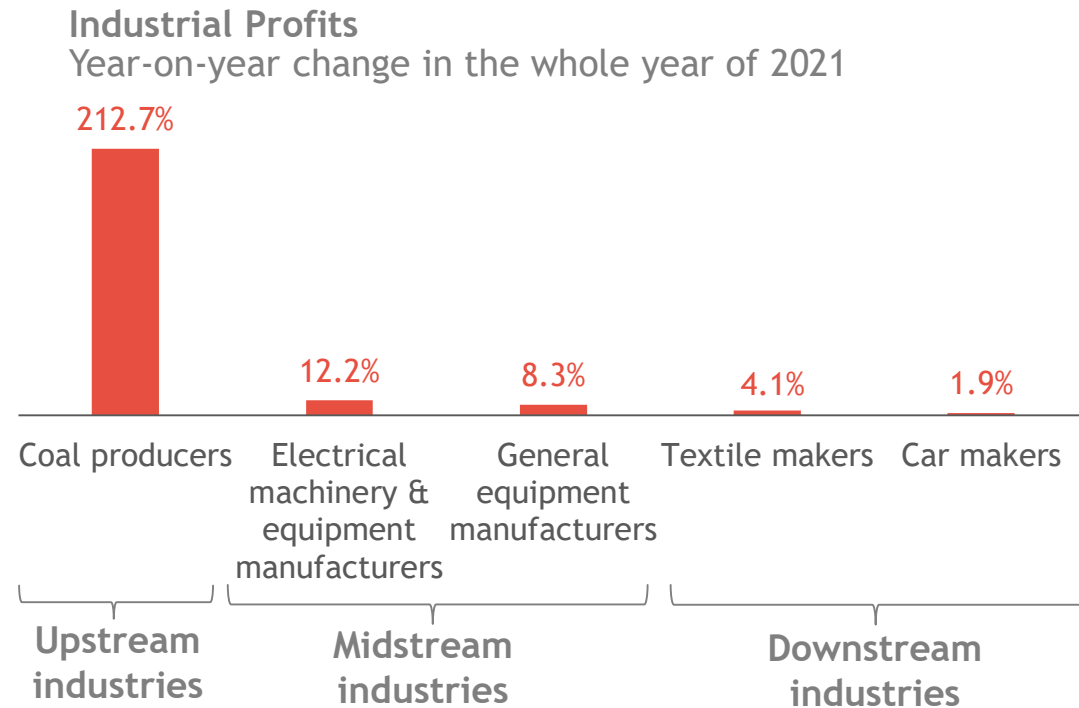


Source: People's Bank of China (data as of 31/12/2021)

- With high uncertainty, residents prefer to save rather than invest or consume.

# Uneven economic development between upstream and downstream industries as well as between large and small firms

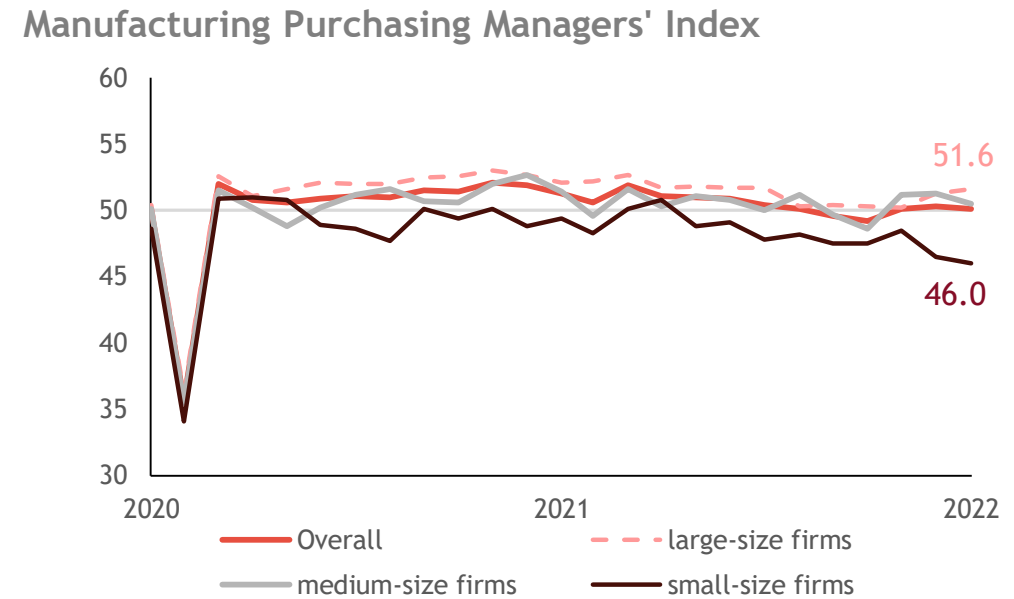
## Upstream industries performing much better than downstream ones



Source: National Bureau of Statistics (data as of 27/1/2022)

- Although the divergence has improved in recent months, the gap is still large, as soaring input prices are putting pressure on downstream industries.

## Bigger companies performing better than smaller ones

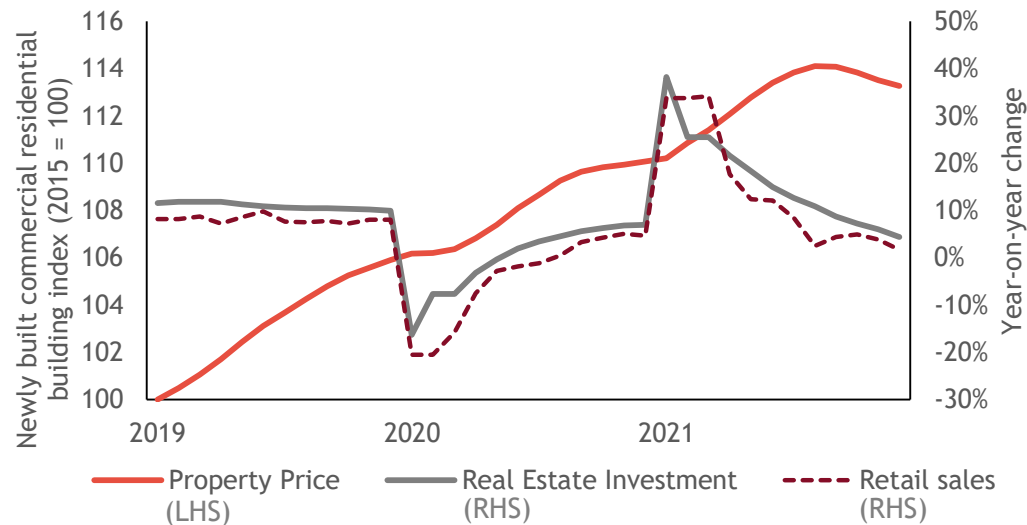


- While large and medium-sized manufacturers are seeing improvement, small and micro-sized firms are still struggling.

# Economy experiencing further pressure of tight regulations

## Property market downturn has dampened private consumption and investment

China's Property Price Index and Real Estate Investment

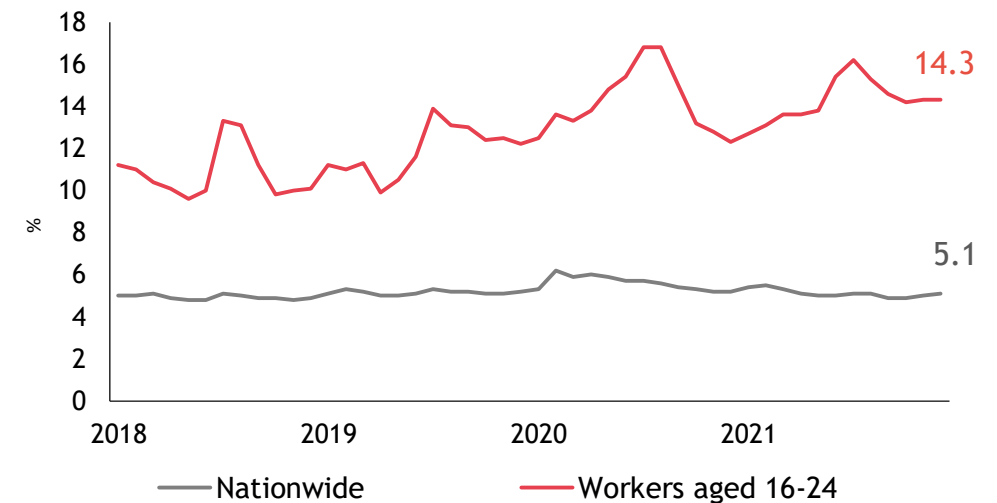


Sources: National Bureau of Statistics; BEA Economic Research, data as of 17/1/2022

- Property market sentiment has turned bleak, which is affecting investment and private consumption as well as other related sectors such as property services, including construction materials like cement, steel, and coking coal.

## Regulations on private tuition & internet services impacting younger workers in particular

China's Urban Surveyed Unemployment Rate

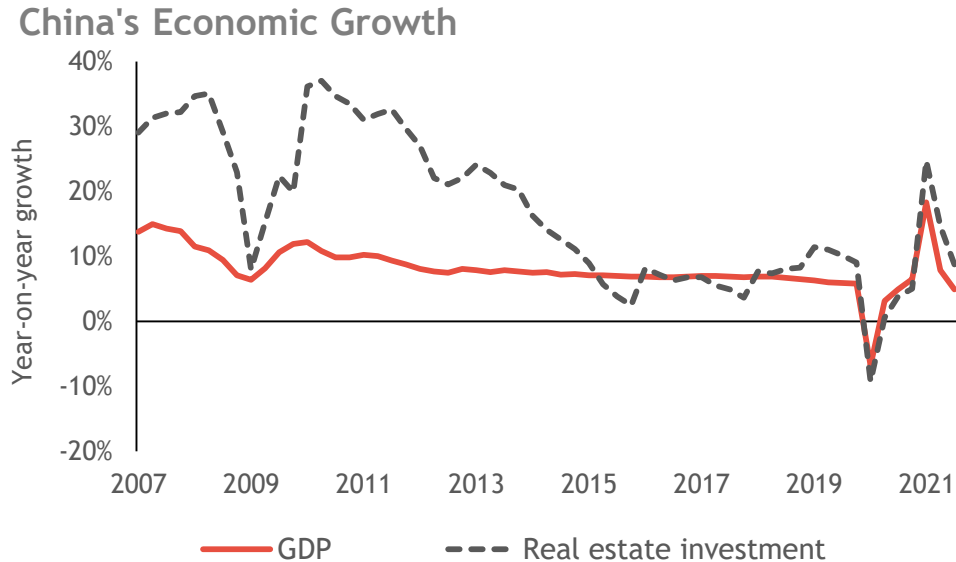


Source: National Bureau of Statistics, data as of 17/1/2022

- Workers are being laid off from jobs in internet services, education, and the property sector, which is also dimming employment prospects for college graduates.
- Didi Global and Bytedance are said to have laid off thousands of employees last year. New Oriental has said that it will cut 40,000 staff by end-2021.

# Property market has been the main driver of China's economic growth but now is also a potential source of systematic risk

Property market has been a key engine for economic growth



Source: National Bureau of Statistics, PRC (data as of 17/1/2022)

- Property sector has been one of the main drivers in investment and overall economic growth.

Yet it also overleverages the financial system and needs rectification

 27%

As of Q3 2021, property-related loans accounted for 27% of banking assets, not including loans by trusts and other asset companies.

 20%

The urban property market is over-developed, with a vacancy rate of over 20%\*.

\*The Standard, "China faces tricky balancing act in push for stability", 20<sup>th</sup> December, 2021

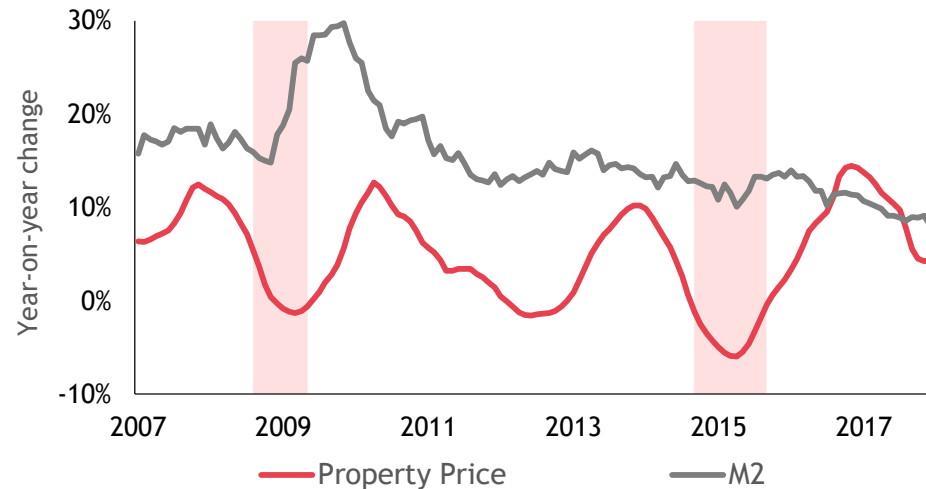
 1.3

China had a fertility rate of just 1.3 children per woman in 2020, on a par with Japan and Italy. Housing demand will decline as time goes on.

# Will China reverse its property market restrictions?

## Previous attempts to rein in the property market were unsuccessful

Property prices and money supply

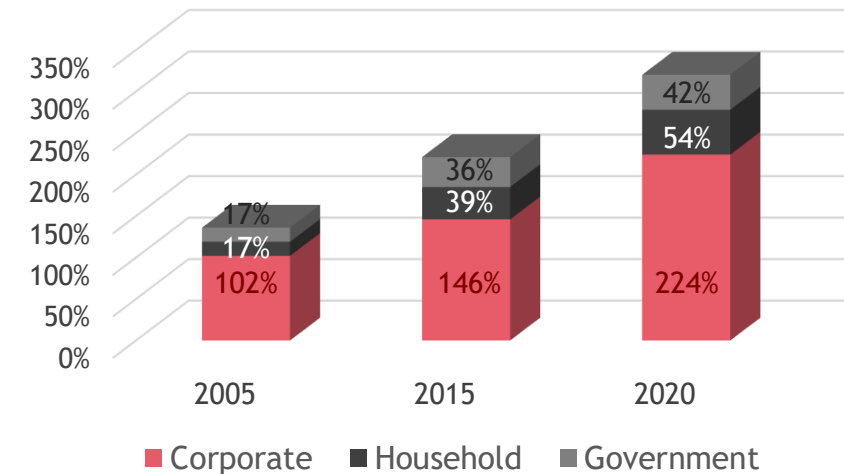


Sources: National Bureau of Statistics; BEA Economic Research, data as of 31/1/2018

- In 2008 and 2014, when the property market underwent downturns, economic growth swiftly lost steam.
- The government promptly reversed course and pumped in liquidity to save the economy.

## ...but this time, the risk of inaction is very high

China's Debt to GDP Ratio (%)



Source: Bloomberg, data as of 11/1/2022

- The aftermath brought soaring debt levels.
- China's debt to GDP level continued to rise and reached 323% by end-2020.
- Therefore, general market expectation is that China will not reverse its policy direction.



# China faces the delicate challenge of propping up growth while deleveraging the property sector

Deleveraging the property sector has a real impact on the economy



33%

At least **one third** of local government revenues are derived from land sales, and another 10% to 15% from taxes on development.



70%

About **70%** of household wealth in China is in real estate holdings. Private consumption will be undermined by a property market downturn.



20%-30%

Construction, real estate services, and construction materials such as steel and cement will be affected. Some estimate that the property sector accounts for **20%-30%** of China's economy.

Yet the government seems determined to press ahead, albeit cautiously

2021 Central Economic Work Conference & Recent Policy Highlights



**“Houses are for living in, not speculation”**

*This principal has been reiterated since 2017*



**Policy implementation varies between cities**

*Local governments may have greater flexibility in adjusting their restrictions in terms of homebuyer qualifications and financing*



**Cut in banks' reserve requirement ratio and loan prime rates**

*These piecemeal steps are a gesture to soothe market concern*

# Stability - the main economic priority in 2022

## Highlights of the 2021 Central Economic Work Conference

### 1 Stability

- “Prioritising stability” is given preeminence over “making progress while ensuring stability” in the official press release
- Government departments at all levels should shoulder responsibility for ensuring economic stability



### 2 Active fiscal policy

- Accelerate spending
- Front-load infrastructure investment
- *Ministry of Finance has vowed bigger tax and fee cuts, and offered local governments early allocation of CNY1.46 trillion in special-purpose bonds for 2022*



### 3 Targeted monetary policy

- Guide financial institutions to support **small businesses**, the **innovation sector**, and **green industries**



### 4 Traffic light system for capital investment

- Strengthen anti-trust rules
- *Common prosperity: Control internet companies & corporate leverage*



# This will translate into 3 key trends in 2022: common prosperity, self-sufficiency in technology, and decarbonisation



## Common prosperity

- Address wealth inequality by ensuring **fairer market competition and reducing monopolies**
- **Push up birth rate** by deflating housing bubble, lowering education and medical costs, and improving social welfare. These measures will benefit the **mass-affluent class**



## Self-sufficiency in technology

- Formulate plans to strengthen **basic research**
- Promote **manufacturing upgrading** and raise “little giants” in niche markets
- **Nurture home-grown talent & recruit top professionals** from around the world”, particularly in **Beijing, Shanghai, and the Greater Bay Area**



## Decarbonisation

- **Renewable energy and other low-carbon technologies** will see larger investment, aided by the People’s Bank of China’s low interest rate credit covering 60% of green loans granted by banks
- However, environmental information disclosure will add costs for companies, and there is no evidence green financing has a lower default rate

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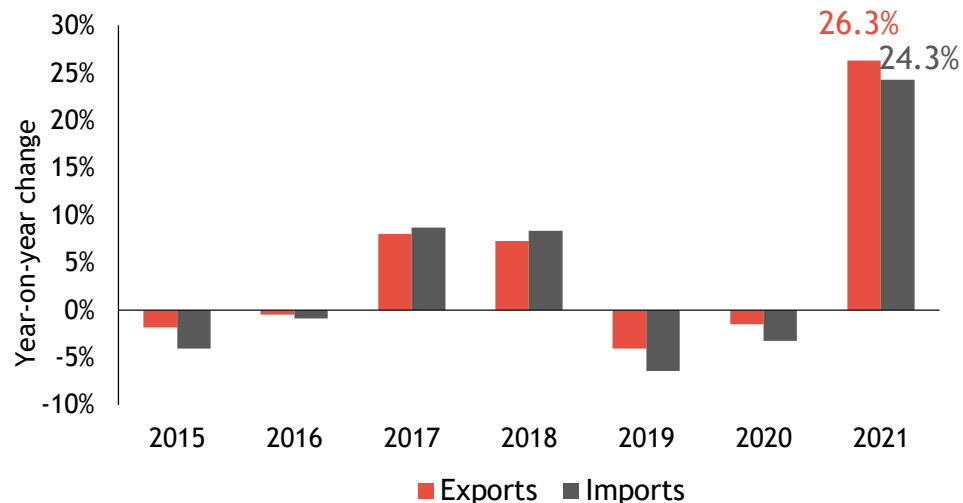
## 2 Hong Kong economic outlook

- *Covid-19 is a central concern*
- *Property prices will stabilise*

# Hong Kong economy: Covid-19 is a central concern

## Exports, the main growth driver, likely to slow in 2022

Hong Kong Exports and Imports

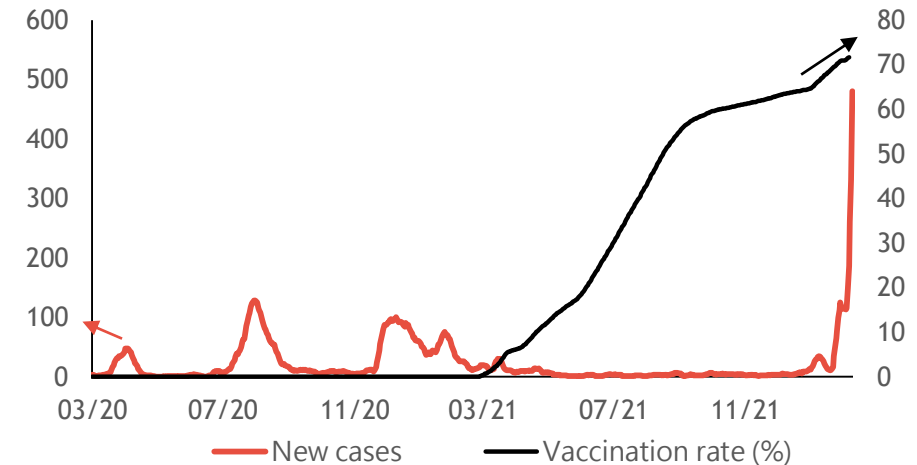


Source: Hong Kong Census and Statistics Department, data as of 28/1/2022

- Downside risks are looming with the Omicron variant, supply bottlenecks, and moderating growth in Mainland China.
- With a high base of comparison, exports are expected to grow at a slower rate in 2022.

## Covid-19 could stall the labour market and block improvement in private consumption

Hong Kong Covid-19 Cases and Vaccination Rate



Sources: Hong Kong Center for Health Protection; Our World in Data, data as of 9/2/2022

Remark: New cases are 7-day rolling average

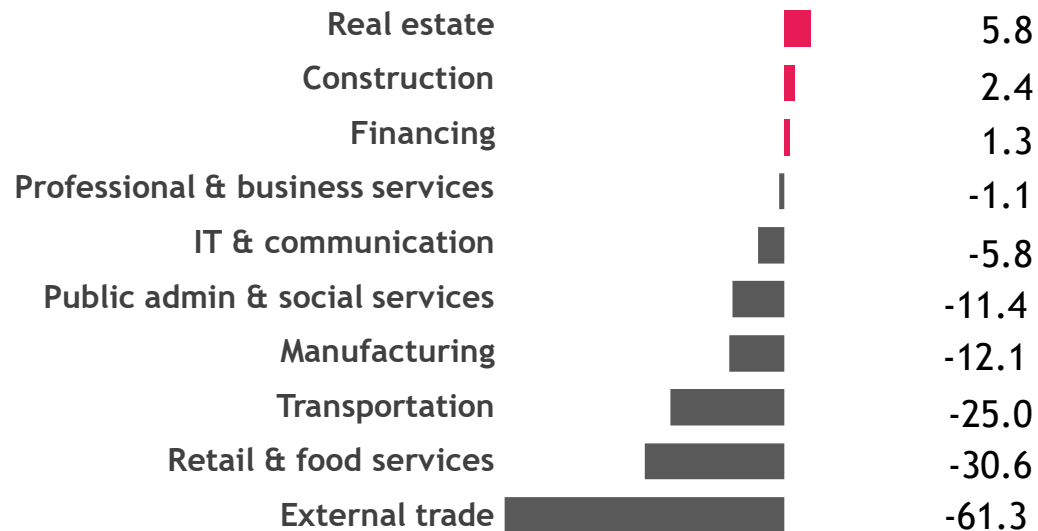
- Prior to the fifth Covid-19 outbreak, private consumption was recovering steadily, while Hong Kong's unemployment rate continued to trend lower.
- Covid-19 has delayed reopening of the border, and earlier-than-expected US interest rate hikes could cloud the outlook.



# Different sectors are seeing varying impacts, but in general small and medium-sized enterprises are struggling

## Employment has not yet returned to pre-pandemic levels in most industries

Hong Kong employment change (end-2019 to end-2021)  
Number in thousands

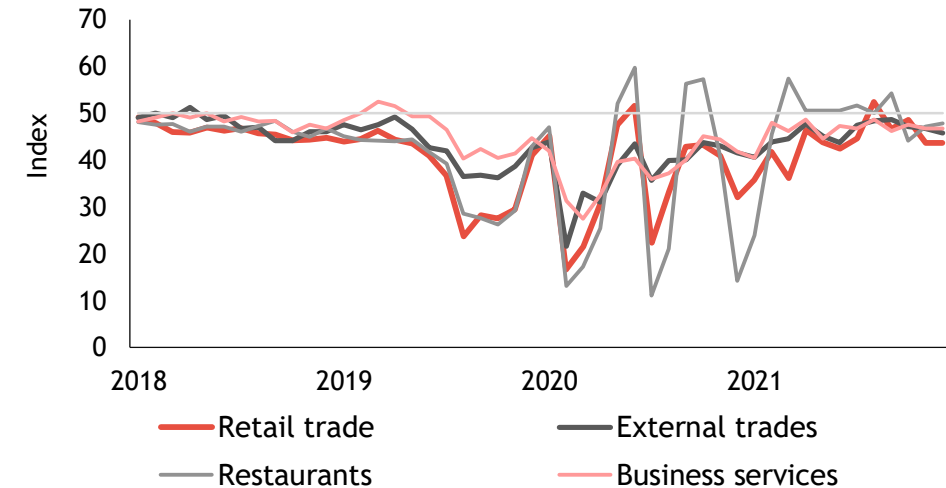


Source: HK Census and Statistical Department, data as of 11/1/2022

## Most small & medium-sized enterprises are struggling to return to growth figures

Diffusion Indices of Small & Medium-Sized Enterprises' Business Receipts

Above 50 represents an expansion, below 50 a contraction

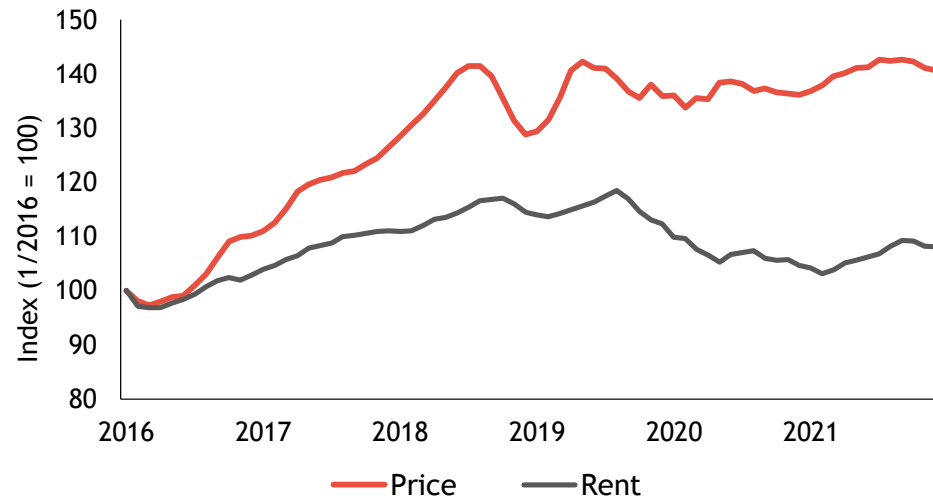


Source: HK Census and Statistical Department, data as of 11/1/2022

# Hong Kong property prices have been edging down, but are expected to stabilise this year

Property prices and rents have been trending downwards recently

Hong Kong Housing Price and Rent Indices

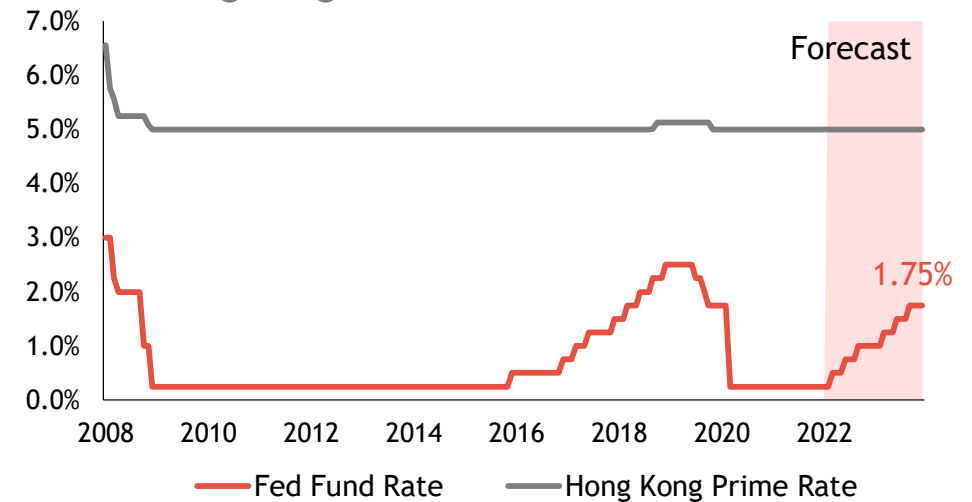


Source: Rating and Valuation Department, data as of 29/1/2022

- Hong Kong's residential property prices edged downward in the 3 consecutive months to December 2021 amid a lacklustre stock market.
- As of end-December 2021, both property prices and rent indices were up 3.3% from end-2020.

Property prices are expected to stabilise this year, with both upsides and downsides at play

US and Hong Kong Interest Rates



Sources: Bloomberg; BEA Economic Research Department, data as of 28/1/2022

- The US Fed is expected to kickstart interest rate hikes this year, but Hong Kong's prime rate will likely lag behind Fed actions and may remain unchanged in 2022.
- This and limited supply are countering the adverse impacts of Covid-19 and concern about mainland policies.

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# Thank You

For further information, please contact the Economic Research Department

Celia Lam

[LAMCYH1@hkbea.com](mailto:LAMCYH1@hkbea.com)

3609 1542

Annie Wong

[WONGAYK@hkbea.com](mailto:WONGAYK@hkbea.com)

3609 1534

Francis Cheng

[CHENGFFS@hkbea.com](mailto:CHENGFFS@hkbea.com)

3609 1543