BEA 東亞銀行

Economic Research

February 2022

Market Monitor – Hong Kong

Recovery Affected by New Covid-19 Outbreak

Services sector adversely affected by new Covid-19 outbreak

Since mid-2021, Hong Kong's epidemic situation has stabilised, providing a solid foundation for the recovery of consumer sentiment and the overall economy. However, a fifth outbreak of Covid-19 in early 2022 is affecting sales and restaurant revenues during the crucial Lunar New Year peak season.

Following a local outbreak of the highly transmissible Covid-19 variant, the Hong Kong government has adopted stringent "zero-Covid" measures by tightening curbs on incoming flights and cancelling all large-scale events, including the traditional Lunar New Year fairs. Face-to-face classes are suspended, from kindergartens to secondary schools. Meanwhile, dine-in services at restaurants are banned after 6 p.m., while bars are completely closed. Unfortunately, the number of cases has continued to spiral upward after outbreaks were detected in several housing estates.

Catering business to suffer more than in previous rounds of restrictions

A blow to the retail and catering sectors, and to the overall economy, is inevitable. In light of previous rounds of dining-in service restrictions, the loss in restaurant revenues is expected to be approximately HKD1.6 billion per month. The loss has been particularly severe among Chinese restaurants – with an average annual decline of 43%, and bars – with an average annual decline of 87%, compared to a 19.2% decline in fast food restaurant earnings. The impact this time will be even greater, as the Lunar New Year is traditionally a golden season for the food and beverage industry due to company banquets and family reunion dinners, as well as the large quantities of ingredients used.

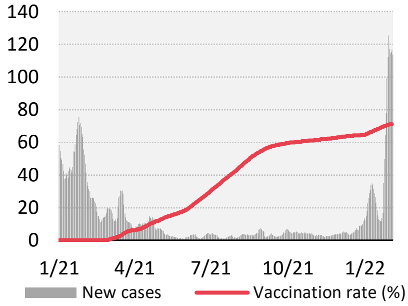
Retail sales, once the effect of the consumption voucher scheme had faded, registered a year-on-year growth of 6.2% in December, slower than the 7.1% growth seen in November. Sales of jewellery, watches, and valuable gifts grew 24% annually, while fuels

The fifth wave of Covid-19 outbreak in early 2022 affected the sales and restaurant receipts of the crucial Lunar New Year peak season.

While a cut in cargo flights heightens inflationary pressure, the Omicron outbreak is poised to stall the labour market improvement.

Residential property prices shall be stabilised with both upsides and downsides at play.

Hong Kong Covid-19 Cases and Vaccination Rate



Sources: Hong Kong Center for Health Protection; Our World in Data, data as of 4/2/2022
Remark: New cases are 7-day rolling average

rose by 18.4%. However, supermarkets and food, alcoholic drinks and tobacco saw a 6.8% and 3% decline in sales respectively. The new pandemic outbreak will adversely affect consumer sentiment, with recovery being further weighed on by the delayed re-opening of the border with Mainland China.

To mitigate the impact, the government announced that it will provide HK$3.57 billion in subsidies to hard-hit sectors. The upcoming budget proposal to be announced in late-February may offer more fiscal stimulus. Yet the general market expectation is for a smaller-scale stimulus than last year. Hong Kong is trying to extend vaccinations to children aged 5 and above. Sinovac jabs have become available for children aged 5 to 11 since 21st January, with BioNTech doses being offered from mid-February. But some parents are hesitant due to concerns over the as-yet-unknown long-term side effects of the jabs.

Cut in cargo flights heightens inflationary pressure

Meanwhile, in contrast to the elevated inflationary pressure in advanced economies, Hong Kong's consumer price surge has been moderate. Inflation rose to 2.4% in December, compared to a 1.8% increase recorded in November. Prices of meal takeaways and energy bills rose faster due to a low base of comparison after the fourth epidemic wave in 2020. However, with the economy on track for recovery and soaring import prices, Hong Kong's inflationary pressure is expected to rise. The cut in cargo flights to Hong Kong will inflict shortages of some goods and further heighten price pressures.

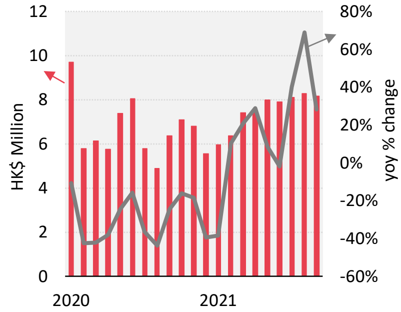
Labour market improvement may stall with Omicron outbreak

Hong Kong's unemployment rate continued to trend lower. It was at 3.9% in the October-December period, down from 4.1% in the period spanning September to November. Over the past year, the most new jobs were seen in the construction sector, with a net increase of 20,000 jobs, followed by the food and beverage services sector, while a net loss of 11,000 jobs was seen in the manufacturing and professional sector, and 5,700 fewer jobs in the business services sector over the same period. Nevertheless, the recent outbreak of Covid-19 cases may stall the labour market improvement in these sectors. Meanwhile, the shrinking labour force is raising concern. The city lost 124,700 workers during end-2019 to end-2021, which is 3.2% of the workforce.

Exports remained the main boost to economic recovery, with a 24.8% year-on-year growth in December - propelled by robust overseas demand – and 26.3% for the full year of 2021. Exports are expected to remain robust entering 2022 despite lingering supply bottlenecks, soaring shipping costs, and a slower global economic recovery.

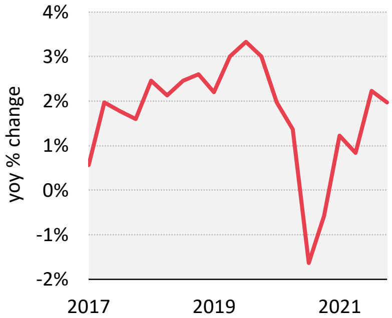
In sum, economic growth momentum will stay steady. Yet Covid-19 continues give rise to high uncertainty, and repeated outbreaks could hinder Hong Kong's market sentiment, delay the reopening of the border with mainland China, and harm the city's overall economic recovery. Moreover, an earlier-than-expected US monetary tightening could spark volatility in Hong Kong's asset markets and adversely affect private consumption.

Hong Kong Restaurant Receipts



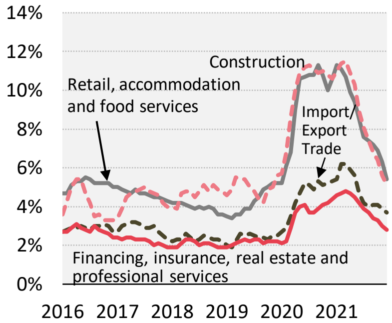
Source: Hong Kong Census and Statistics Department, data as of 20/12/2021

Hong Kong Quarterly Inflation



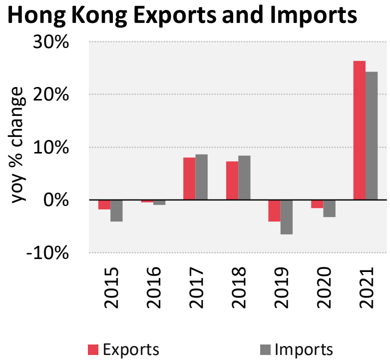
Sources: Hong Kong Census and Statistics Department; BEA Economic Research Department, data as of 20/1/2022

Hong Kong Unemployment Rate



Source: Hong Kong Census & Statistics Department, data as at 18/1/2022

Hong Kong Exports and Imports



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

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Equity market rally among China's easing policies

The Hang Seng Index rose to 23,802.26 points on 31st January, 2022, representing a rise of 1.7% from end-December. China's second cut to the 1-year loan prime rate to 3.7% during the month helped the stock market gain momentum, and market anticipation is that more policy easing is in the pipeline. In addition, Macau proposed to cap the number of casino operators at 6 and shorten their concessions to 10 years. The general market view is that the new proposal is advantageous to the existing players, whose stocks consequently saw a marked increase.

However, the TECH index performance remained lacklustre, falling by 4.5% between end-December 2021 and end-January 2022. Tech stocks fell into a correction phase alongside their Nasdaq peers, against the backdrop of a possible rate hike by the US Federal Reserve (Fed) in March as well as the shadow of China's tech sector regulation.

In comparison, the Shanghai A-share index dropped by 7.7% from end-December, while the Dow Jones Industrial Average dropped by 3.3%. According to Bloomberg data, Hang Seng Index stocks were trading at 11.8 times projected earnings, the lowest among major markets after Brazil.

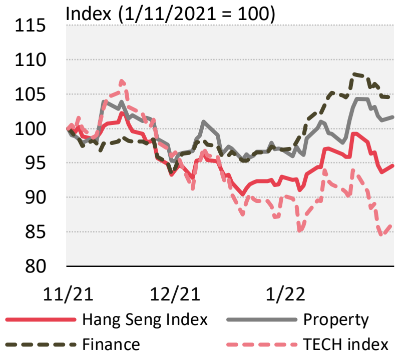
Residential property prices will be stable this year

Hong Kong's residential property prices edged downward for three consecutive months, amid a lacklustre stock market. According to the figures released by the Rating and Valuation Department (RVD), as of end-December 2021 the property price index was down 0.3% month-on-month, or up 3.3% from end-2020. Meanwhile, residential rents had dropped 0.1% month on month, but were up 3.3% from end-2020.

There is market speculation that the Fed will kickstart its interest rate hike cycle as early as March 2022, which may have a negative impact on Hong Kong's housing market. However, this is countered by a chronic supply shortage, ample liquidity in the market, and resilient market demand.

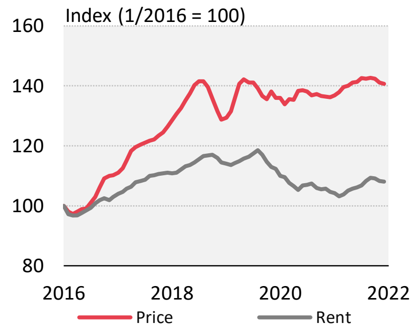
Together with the industrial and retail property sector, according to a CBRE report, Hong Kong's property market has been voted by property investors as this year's 6th most attractive investment destination in the Asia-Pacific region. In contrast, in 2021 it had dropped out of the top 10 list.

Stock Market Indices



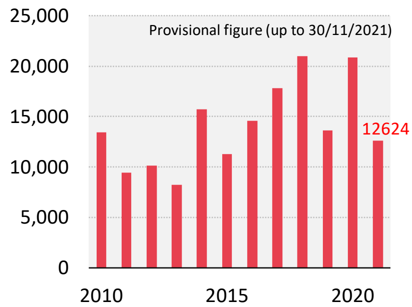
Source: Bloomberg, data as of 31/1/2022

Housing Price and Rent Indices



Source: Rating and Valuation Department, data as of 27/1/2022

Hong Kong Residential Unit Completions



Source: Hong Kong Rating and Valuation Department, data as of 6/1/2022

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