Economic Research

March 2022

Market Monitor – Hong Kong

Hong Kong's Biggest Outbreak

Hong Kong undergoes its worst COVID outbreak

Entering February, Hong Kong began to experience its worst Covid-19 outbreak to date, seeing a record of over 40,000 daily new cases, with more than 191,583 cases recorded in just one month, compared to a cumulative 12,649 cases in the 2 years to end-2021.

This is particularly worrisome as Hong Kong has already adopted very strict social distancing rules, with a closed border, closures of entertainment venues, snap lockdowns of buildings with infected cases, and mandatory testing and quarantine. Yet all these measures failed to keep the highly transmissible Omicron variant under control.

The onset of the fifth COVID-19 outbreak led to an immediate contraction in Hong Kong's private sector, with the purchasing managers' index (PMI) shrinking to 42.9 in February, down from 48.9 in January.

Surge in COVID cases weighs on labour market

Hong Kong's unemployment rate stayed at 3.9% in the November-January period, the same as the level seen in the period spanning October to December. During the period, the food and beverage services sector saw a 0.3 percentage point rise in unemployment, with other major sectors such as the arts, entertainment, and recreation industry also seeing a marked deterioration.

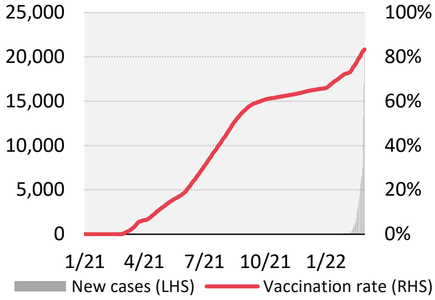
The recent outbreak of Covid-19 cases may inflict greater damage on the retail, catering, and transportation sectors, which hire mainly lower-skilled workers. However, industries such as professional services, financial services, and information technology are less affected operationally by the anti-pandemic measures. Their challenges include recruiting and retaining overseas talent, and international companies expanding operations here, given the stringent quarantine rules.

Entering February, Hong Kong experiences its worst COVID-19 outbreak yet.

Onset of the COVID outbreak leads to immediate deterioration in the private sector and retail sales.

Hong Kong's "dynamic zero" strategy is expected to result in repeated tightening and loosening of anti-pandemic restrictions, and is likely to cause a bumpy economic recovery.

Hong Kong Covid-19 Cases and Vaccination Rate



Source: Hong Kong government data, data as of 28/2/2022
Remark: New cases are 7-day rolling average

Economic Research

March 2022

Retail sales under pressure due to dampened consumer sentiment and the immediate impact of a new "vaccine pass"

Retail sales registered a year-on-year growth of 4.1% in January, slower than the 6.1% growth seen in December. Sales of supermarkets grew 10.5% annually, while fuel sales rose by 16.9%. However, electrical goods and other consumer durables saw an 8.2% decline in sales, while sales of motor vehicles and parts dropped by 20.5%.

The government launched a "vaccine pass" on 24th February. This scheme boosted Hong Kong's vaccination rate, which rose by 10.9 percentage points in February. Nonetheless, the move has also had an immediate impact on retail businesses. A survey conducted by the Hong Kong Retail Management Association on 22 retailers, covering about 3,900 stores, showed that 70% of retailers expected foot traffic in shopping malls to fall by at least half as a result, with sales revenues dropping by between 20% and 60%, while street-level stores are also expected to be adversely affected.

To support the affected sectors, the government injected HK$27 billion into the Anti-epidemic Fund to support 67,000 businesses and 750,000 individuals. The government also introduced a Temporary Unemployment Relief for the first time, providing a one-off HK$10,000 subsidy to laid-off workers who used to earn under HK$30,000 per year.

Exports remain a bright spot

Exports remained the bright spot of the economy. However, they grew at 18.4% year on year in January, after a 26.3% growth for the full year of 2021, with a high base of comparison in the same period last year. Looking ahead, exports are expected to remain robust during the first half of 2022 despite lingering supply bottlenecks, soaring shipping costs, and a slower global economic recovery.

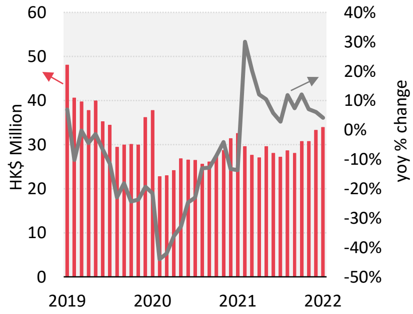
Repeated tightening and loosening of anti-pandemic measures expected

It is hoped that a higher vaccination rate will tame the new COVID outbreak. However, it should be noted that countries such as Singapore, which has a vaccination rate as high as 87%, have still failed to contain Omicron outbreaks. As Hong Kong continues its "dynamic zero" strategy, repeated tightening and loosening of anti-pandemic restrictions in Hong Kong is expected, there is a risk of continued tightening and loosening of anti-pandemic restrictions which will result a bumpy economic recovery. But the actual impact depends on the development of the domestic epidemic and how long these measures remain in place.

Moreover, with US inflation now stronger and longer-lasting than previously expected, the Federal Reserve (Fed) could accelerate its pace of monetary tightening, potentially sparking volatility in Hong Kong's asset markets and adversely affecting consumer purchases.

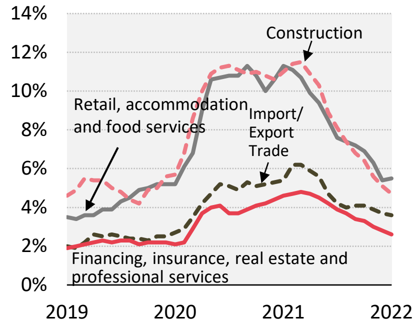
Meanwhile, inflation remained muted and rose to 1.2% in January, compared to a 2.4% increase recorded in December. Fresh produce such as vegetables soared in price after

Hong Kong Retail Sales



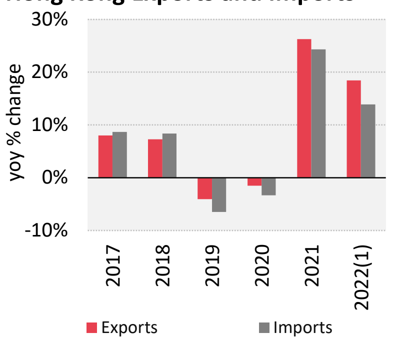
Source: Hong Kong Census and Statistics Department, data as of 4/3/2022

Hong Kong Unemployment Rate



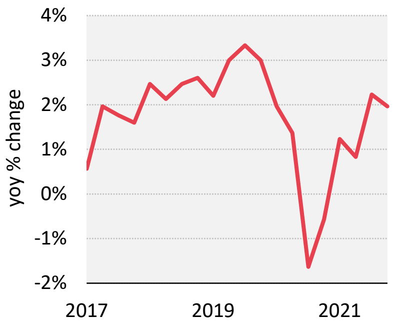
Source: Hong Kong Census & Statistics Department, data as at 21/2/2022

Hong Kong Exports and Imports



Source: Hong Kong Census and Statistics Department, data as of 25/2/2022

Hong Kong Quarterly Inflation



Sources: Hong Kong Census and Statistics Department; BEA Economic Research Department, data as of 22/2/2022 truck drivers were tested positive for Covid-19 at the mainland Chinese border. Soaring import prices, together with a cut in cargo flights to Hong Kong, will further heighten price pressure.

Equity market loses from Russia-Ukraine tensions

The Hang Seng Index dropped to 22,713.02 points on 28th February, 2022, representing a decline of 4.6% from end-January. Sanctions on Russia drew capitals to safe havens like the US dollar and treasuries. The prices of commodities jumped, while stocks were under pressure.

The Hang Seng finance index dropped by 2.6% between end-January and end-February, while the TECH index continued its downward trends by declining 3.3% during the month.

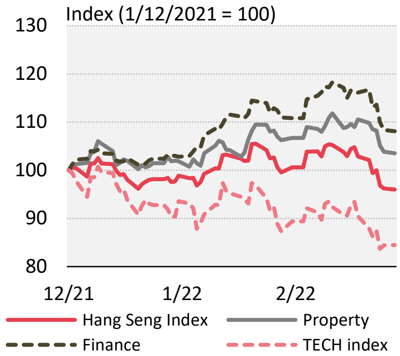
In comparison, the Shanghai A-share index rose by 3% from end-January, while the Dow Jones Industrial Average dropped by 3.5%.

Residential property prices under pressure with epidemic outbreak

Hong Kong's residential property prices edged downward for four consecutive months. According to the figures released by the Rating and Valuation Department (RVD), as of end-January 2022 the property price index was down 1.1% month on month. Meanwhile, residential rents had dropped 0.4% month on month.

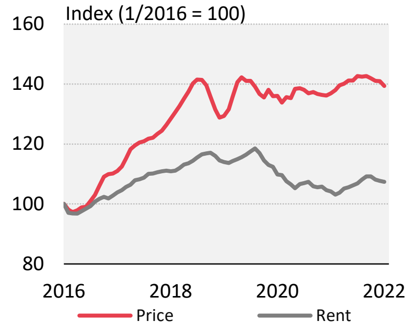
The grim pandemic outbreak has dented market sentiment as prospective buyers are deterred from visiting flats, weakening transaction volumes in the secondary market. With the US Federal Reserve's imminent interest rate hike in March, Hong Kong's property market will be under pressure in the short term.

Stock Market Indices



Source: Bloomberg, data as of 28/2/2022

Housing Price and Rent Indices



Source: Rating and Valuation Department, data as of 24/2/2022

BEA 東亞銀行

Economic Research

March 2022

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).