Economic Research

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*Market Monitor – Hong Kong*

# Surge in COVID Cases Weighs on the Economy

## Surge in COVID cases weighs on labour market

**Hong Kong's fifth Covid-19 outbreak appears to have peaked in early March, but caused a sharp deterioration in the labour market.**

**Hong Kong has announced a roadmap for easing Covid restrictions, and cancelled a flight ban from 9 countries.**

**Residential property prices edged downward for five consecutive months, affected by the epidemic situation and stock market performance.**

Hong Kong's fifth Covid-19 outbreak appeared to have peaked in early March, resulting in more than 1.17 million confirmed cases, and about 8,000 deaths. A figure of around 38.5 deaths per million people was reported on 9th March, the highest worldwide. The number of new confirmed cases stayed high, putting Hong Kong's economy under great pressure, with the purchasing managers' index (PMI) shrinking to 42 in March, down from 42.9 in February.

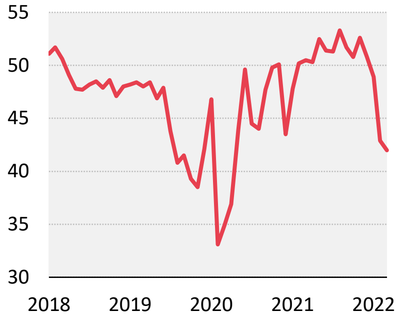
Meanwhile, the labour market has rapidly deteriorated. The unemployment rate soared to 4.5% during December-February, up from 3.9% in the period spanning November to January. During December-February, the food and beverage services sector saw unemployment rise by 1.9 percentage points to 8.1%, with other major sectors such as the arts, entertainment, and recreation industry also seeing a marked rise in the unemployment rate (at 8.2%).

The government announced a new round of its employment subsidy scheme to lend support to the labour market by helping businesses pay workers a subsidy of HK$8,000 a month from May to July.

## Retail sales and inflation dragged down by weaker consumer sentiment

Retail sales registered a year-on-year decline of 14.6% in February, slower than the 4% growth seen in January. Supermarket sales grew 5.8% annually, while medicines and cosmetics rose by 8.8%. However, clothing and shoes saw a 39% decline in sales, while sales of luxury items such as jewellery dropped by 33.6%. The Omicron variant is sweeping through Hong Kong, and has dampened consumer sentiment, while rising infections among staff has led to shop shutdowns. Even chain supermarkets and restaurants have had to shorten operating hours.

**Hong Kong Purchasing Managers' Index**




Source: IHS Markit, data as of 6/4/2022

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 rose to 1.6% in February, compared to a 1.2% increase recorded in January, mainly led by soaring prices in vegetables after some supply disruptions from mainland China. Looking forward, soaring energy prices sparked by the Russia-Ukraine conflict are adding to price pressures. But electricity and gas have a weighting of a mere 2.5% in the consumption basket, and Hong Kong's subdued economic activity due to the recent Covid-19 outbreak is likely to have a greater negative impact on inflationary pressure.

## Hong Kong eases quarantine measures

Hong Kong decided to ease its border control measures against overseas travellers. Starting from 1st April, a flight ban from 9 countries, including the US and UK, will be lifted for Hong Kong residents, and hotel quarantine is shortened from 14 days to 7 days. A roadmap for easing restrictions has been announced. Schools will resume face-to-face classes from 19th April, while public venues will reopen from 21st April in 3 phases within 3 months. A mass testing of the entire population was delayed and then made voluntary. Despite the easing, Hong Kong still has the toughest travel restrictions in Asia besides Mainland China, Macau, and Taiwan.

## Exports remain a bright spot

Exports were the bright spot of the economy, but here too there were signs of a slowdown, with a 0.9% year-on-year growth in February following an 18.4% growth in January. This deceleration was due to the different timing of the Lunar New Year and softened global demand.

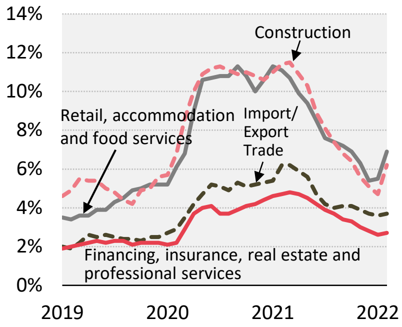
Looking ahead, downside risks are building. Surging Covid-19 cases in Mainland China might worries about closures of factories and ports, while the Russia-Ukraine dented global market sentiment and sent the energy and commodity prices higher, and might affect exports demand. But the actual effects depend on how long the conflicts will last, and if it exert material impacts on the advanced countries' economies.

## Hang Seng Index sees a V-shaped rebound

The Ukraine war led to surging energy costs and concerns about slowing global economic growth. A deteriorating Covid-19 situation in Mainland China also weighed on sentiment. Furthermore, the US securities regulator has named 5 US-listed Chinese companies as liable under the Holding Foreign Companies Accountable Act, triggering accounting concerns among Chinese ADRs. Additionally, China's technology stocks plunged after domestic regulators rolled out further controls to shield minors from video games.

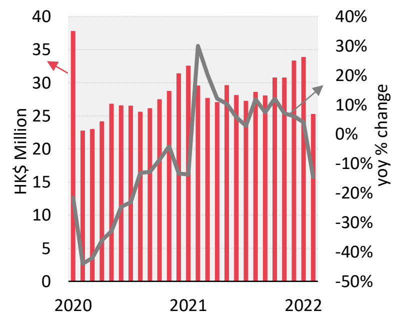
The Hang Seng Index plunged to 18,415.08 points on 15th March, 2022, representing a decline of 5.7% in a single day. However, the equity market experienced a V-shape

### Hong Kong Unemployment Rate



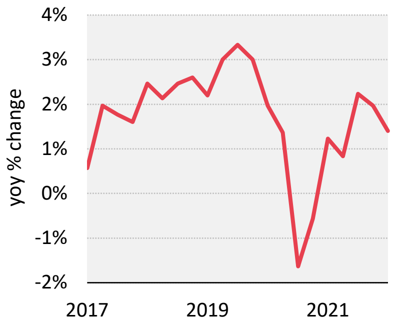

Source: Hong Kong Census & Statistics Department, data as at 17/3/2022

### Hong Kong Retail Sales



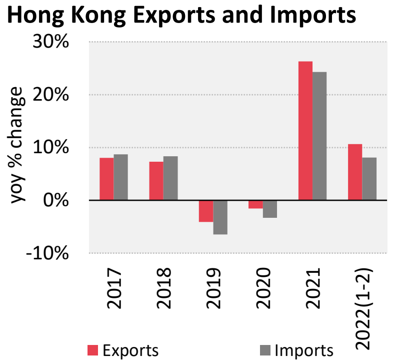

Source: Hong Kong Census and Statistics Department, data as of 31/3/2022

### Hong Kong Quarterly Inflation




Sources: Hong Kong Census and Statistics Department; BEA Economic Research Department, data as of 21/3/2022

### Hong Kong Exports and Imports




Source: Hong Kong Census and Statistics Department, data as of 28/3/2022 rebound after Chinese vice premier Liu He pledged to stabilise markets.

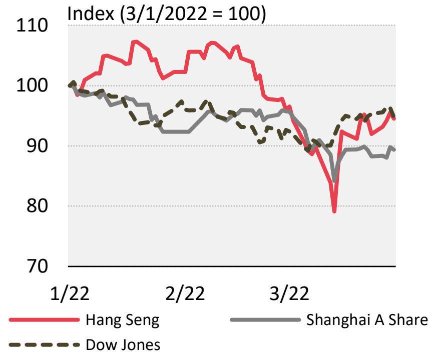
The Hang Seng Index ended at 21,996.8 points on 31st March, representing a decline of 3.2% from end-February. In comparison, the Shanghai A-share index dropped by 6.1% from end-February, while the Dow Jones Industrial Average rose by 2.3%.

## Residential property prices affected by epidemic outbreak and stock market performance

According to the figures released by the Rating and Valuation Department (RVD), as of end-February 2022 the property price index was down 2.1% month on month to the lowest level in 13 months. Meanwhile, residential rents had risen 0.5% month on month.

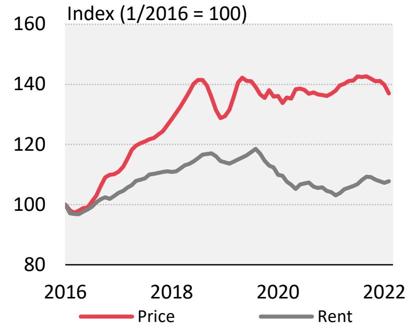
The US Federal Reserve (Fed) raised the interest rate in March by 0.25 percentage points, the first hike since December 2018, and its chairman Jerome Powell suggested the Fed could raise the rate by 0.5% if necessary. The impact on Hong Kong's property market will be more psychological in the short term, given that HKD interest rates are not expected to move in tandem with their USD counterparts due to abundant liquidity in the market. The pandemic situation and stock market underperformance are currently more important factors, while the recently raised mortgage cap announced in the government budget is positive for market sentiment.

**Stock Market Indices**




Source: Bloomberg, data as of 31/3/2022

**Housing Price and Rent Indices**




Source: Rating and Valuation Department, data as of 29/3/2022

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