BEA東亞銀行

Economic Research

May 2022

Market Monitor – Hong Kong

Covid-19 Measures Continue To Be a Drag on Hong Kong Economy

Challenging quarters for Hong Kong economy but with recovery in sight

Hit by another COVID-19 outbreak, Hong Kong's economy slid into contraction in Q1, breaking four quarters of consecutive growth, with a 2.9% slump quarter on quarter and a 4% slump year on year in real terms, according to the advance estimates. Private consumption plunged by 5.4% year on year.

Meanwhile, Hong Kong's inflation grew from 1.4% in January-February to 1.7% in March, primarily driven by an increase in basic food price inflation from 4.5% in February to 7.6% in March. However, the inflation rate is still consider modest compared with rampant global inflation brought on by persistent supply chain bottlenecks and the Ukraine crisis. This is primarily due to Hong Kong's subdued economic activity during the outbreak of the latest Covid wave to the pandemic.

The continued strict social distancing rules further weighed on the labour market. The seasonally adjusted unemployment rate increased from 4.5% in the December 2021 – February 2022 period to 5.0% in the January – March 2022 period. Retail, accommodation, and food services sector saw the biggest percentage point rise in unemployment, from a rate of 7.1% in February to 8.9% in March. With social distancing rules continuing throughout most of April, the drag on the labour market is expected to continue.

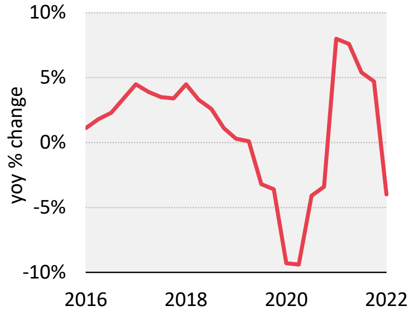
Entering May, Hong Kong's fifth Covid-19 outbreak has been largely contained, with only 212 confirmed new cases recorded as of end April (rolling 7 days average). The vaccination rate also continues to climb, with the number of people who have taken their third dose increasing to 3.2 million people, representing 43.3% of Hong Kong's total population. With the government's new round of the Consumption Voucher scheme and the phased relaxation of social distancing rules, Hong Kong economy will be welcoming a much-needed relief.

Lockdown continues to weigh on Hong Kong's economy, with unemployment hitting 5% in Jan – Mar 2022.

Global inflation, Ukraine war, and supply chain bottlenecks continue to drive increased volatility across the equity market.

Looking ahead, the relaxation of Covid restrictions from end April and the Consumption Voucher scheme will give a much-needed boost to local retail sales.

Hong Kong GDP Growth



Sources: Hong Kong Census and Statistics Department; BEA Economic Research Department, data as of 3/5/2022

Retail sales hampered by strict social distancing measures

March's retail sales continued to be impacted as Hong Kong entered its second month of strict social distancing measures. Retail sales registered a year-on-year decline of 13.8% in March, continuing its downward trend from the 14.6% decline recorded in February.

In April, the government disbursed the first half of its Consumption Voucher scheme credits from 7th April. This scheme is expected to have a positive impact on retail businesses, with a recovery of footfall in shopping malls seen over the Easter weekends. Coupled with the gradual relaxation of social distancing rules starting from 21st April, this will provide a much needed boost to retail sales in the short term. In the long term, clear guidance from the government on managing the future Covid-19 situation will be needed to ensure a sustainable recovery of retail sales.

Exports impacted by Mainland China's Covid-19 lockdown

Exports recorded an 8.9% year-on-year decline in March, compared with 10.6% annual growth in the first two months of the year. This was due to dampened global demand for exports amid continued geopolitical risks and soaring input prices as well as Mainland China's stringent measures following its new wave of Covid-19 outbreaks.

Uncertainties will continue to shroud the exports sector in the short term. With Mainland China experiencing sporadic COVID-19 outbreaks and the prolonged Russia-Ukraine crisis further exacerbating global supply chain bottlenecks, it remains to be seen how fast logistics operations can overcome challenges and return to normal efficiency.

Volatility continue to drive sentiment in equity market

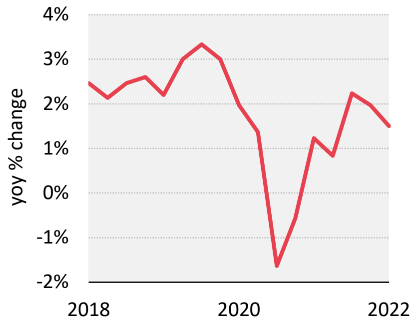
Investor sentiment continued to be weigh down by the Ukraine war and global inflationary pressure. US 10-year Treasury yields reached their highest level since 2018 in April. As Federal Reserve chairman Jerome Powell indicated on 21st April that aggressive rate hikes could come soon, investors continued to rotate away from equities – which are highly sensitive to rate hikes.

Meanwhile, the outbreak of Covid-19 cases in Mainland China clouded its economic outlook and also had a negative impact on the Hang Seng Index (HSI), as more than half the stocks listed in Hong Kong are of Mainland-based companies.

The HSI ended trading at 21,089.4 points on 29th April, 2022, representing a decline of 4.1% from end-March. The Hang Seng Tech Index has continued its downward trend, dropping 1.9% in April to end at 4,471.8 points.

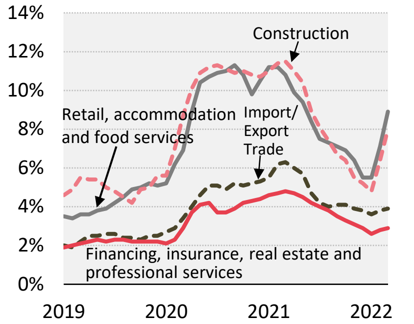
In comparison, the Shanghai A-share index dropped by 6.3% in the same period; while the Dow Jones Industrial Average declined by 4.9%.

Hong Kong Quarterly Inflation



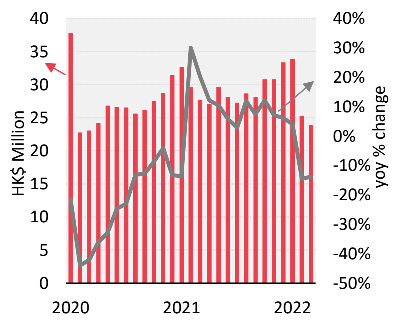
Sources: Hong Kong Census and Statistics Department; BEA Economic Research Department, data as of 22/4/2022

Hong Kong Unemployment Rate



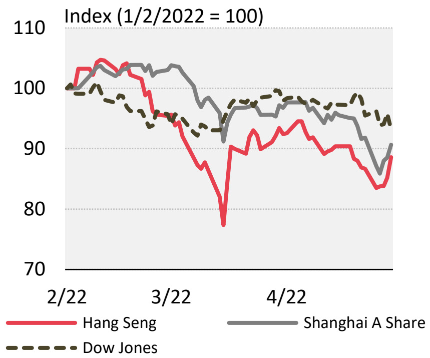
Source: Hong Kong Census & Statistics Department, data as at 21/4/2022

Hong Kong Retail Sales



Source: Hong Kong Census and Statistics Department, data as of 5/5/2022

Stock Market Indices



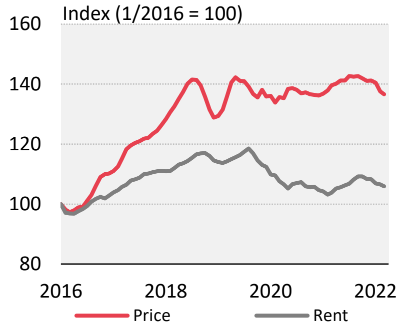
Source: Bloomberg, data as of 29/4/2022

Residential property prices affected by epidemic, but optimism is growing

According to the figures released by the Rating and Valuation Department (RVD), as of end-March 2022, the property price index was down 0.7% month on month to the lowest level in 15 months. Meanwhile, residential rents had fallen 0.6% month on month.

However, the housing market is showing signs of recovery, with a gradual improvement in the local COVID-19 situation and reopening of the economy. Market sentiment recovered somewhat, with more new residential projects being launched and rising volumes of secondary market transactions. However, with the US Federal Reserve planning further rate hikes throughout 2022, Hong Kong's property market will remain under pressure.

Housing Price and Rent Indices



Source: Rating and Valuation Department, data as of 27/4/2022

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