

Market Monitor – Hong Kong

Jobs Market Continues to be Impacted by Covid Regulations



Economy sees signs of recovery as epidemic eases, but unemployment rate continues to rise

Entering May, Hong Kong’s fifth Covid-19 outbreak has been largely contained, with only 112 confirmed new cases recorded as of end-May (rolling 7-day average). Hong Kong’s economy is seeing signs of recovery, with the purchasing managers’ index (PMI) rising to 51.7 in April, up from 42 in March and ending 3 months of contraction.

Nonetheless, the labour market has not seen much improvement despite the rising PMI. The seasonally adjusted unemployment rate increased from 5.0% in the January – March period to 5.4% in the February – April period. Retail, accommodation, and food services continue to be the weakest sectors, experiencing the biggest percentage point rise in unemployment, from 8.9% in January – March to 10% in February – April. With social distancing rules having begun to ease from 21st April, the labour market is expected to see gradual improvements in the months ahead.

Meanwhile, Hong Kong’s inflation declined from 1.7% in March to 1.3% in April, primarily due to slower increases in the prices of food staples. The year-on-year rise in prices of food staples in April was 5.2%, down from 7.6% in the previous month. As domestic cost pressures are expected to remain largely mild, Hong Kong’s overall inflation is expected to stay moderate in the near term.

Retail sales rebound in April as local epidemic stabilizes and consumption vouchers are disbursed

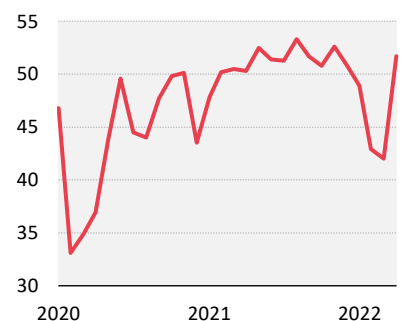
April’s retail sales rebounded in April as local epidemic stabilized and first batch of consumption vouchers was distributed. Retail sales registered a year-on-year growth of 11.7% in April, after the 13.8% decline recorded in March.

Hong Kong’s PMI rebounds into expansion territory in April.

However, lockdown impacts continue to be felt within the labour market, with unemployment hitting 5.4% in Feb – Apr 2022.

Hong Kong property prices are expected to remain stable during the year, as the potential rise in supply and higher interest rates may offset the positive market sentiment brought about by the stabilising local epidemic.

Hong Kong Purchasing Managers' Index



Source: S&P Global, data as of 5/5/2022

Going forward, the second phase of the government's consumption voucher distribution is expected in July. With the relaxation of social distancing measures in phases, Hong Kong's retail sector should regain momentum in the second half of the year. However, the trajectory of recovery of local retail sector will still hinge on the development of the pandemic and large-scale resumption of cross-border activities with the Mainland.

Exports see renewed growth in April

With epidemic-induced transportation disruptions easing slightly in the latter part of April, total exports registered a year-on-year growth of 1.1%, after a year-on-year decrease of 8.9% in March. In the first four months of 2022, total exports of goods increased by 2.8% year on year.

Looking ahead, the global outlook has worsened amid high inflation in some major economies and monetary policy tightening by global central banks in response, with the situation further complicated by ongoing conflict in Ukraine and the lingering threat of the pandemic. Hong Kong's export sector may only see a mild recovery in the near term, despite the gradual recovery of cross-boundary land transport and a stable local epidemic situation.

Hong Kong equity market rebounds at the end of May

Hong Kong equity market ended a three-month losing streak in May, as Mainland government rolled out series of policies to stabilize the economy and the People's Bank of China cut the 5-year loan prime rate during the month.

The Hang Seng Index ended trading at 21,415.2 points on 31st May, 2022, representing a rise of 1.5% from end-April. The Hang Seng Tech Index has also reversed downward trend, rising 0.3% in May to end the month at 4,483.6 points.

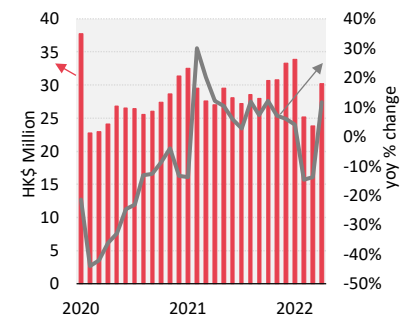
In comparison, the Shanghai A-share index rose by 4.6% in the same period, while the Dow Jones Industrial Average rose by 0.04%.

Greater supply and tighter financial conditions may limit the recovery of property prices

According to figures released by the Rating and Valuation Department (RVD), as of end-April 2022, the property price index was up 0.5% month on month, ending a fall of three consecutive months. Meanwhile, residential rents were flat month on month.

According to the RVD's forecast, private housing supply will rise to 22,851 units this year, up from 14,386 units last year. Although the scheduled relaxation of social distancing measures is expected to lift property market sentiment, the potential rise in interest rates and increase in housing supply will partly offset the positive sentiment, and Hong Kong property prices are expected to remain stable during the year.

Hong Kong Retail Sales



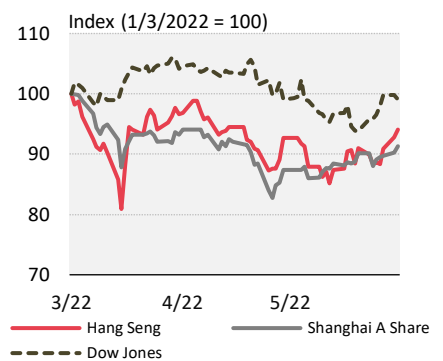
Source: Hong Kong Census and Statistics Department, data as of 1/6/2022

Hong Kong Exports and Imports



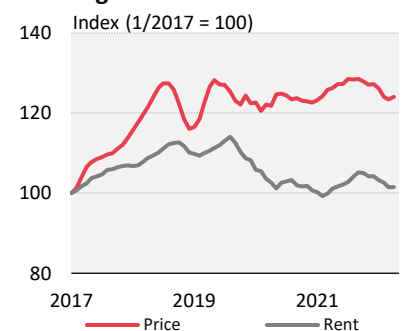
Source: Hong Kong Census and Statistics Department, data as of 26/5/2022

Stock Market Indices



Source: Bloomberg, data as of 31/5/2022

Housing Price and Rent Indices



Source: Rating and Valuation Department, data as of 27/5/2022

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