

Market Monitor – Hong Kong

## Relaxing Anti-pandemic Measures, But Full Recovery Still Takes Time



### Local economic activities are gradually restarting, but the external environment remains challenging

The SAR government has gradually relaxed pandemic control measures, including reduced entry quarantine and testing requirements, and lifted restrictions on the business hours of restaurants and bars, etc., which is conducive to the gradual restart of local economic activities, such as the catering industry. However, quarantine-free travel between Mainland and Hong Kong has yet to be announced. Rising local cases, as well as the relatively high base of comparison from the issuance of consumer coupons in the same period last year, has restricted the pace of local economic recovery. Furthermore, after the US Federal Reserve (Fed) raised interest rates by 375 basis points (bps) since early 2022, the HK dollar interest rate (HIBORs) has risen along with the US dollar interest rate. Commercial banks in Hong Kong has also raised the prime rate by a total of 37.5 bps in September and November. Tighter global and local financial conditions have put pressure on asset markets, while the gloomy global economic outlook has further dragged down Hong Kong's trade performance. Overall, with the stabilizing pandemic situation and the continued loosening of its control measures, local economic activities will gradually return to normal, however, full recovery will take time amid continued external uncertainties.

### The jobs market continues to improve along the relaxation of Covid curbs

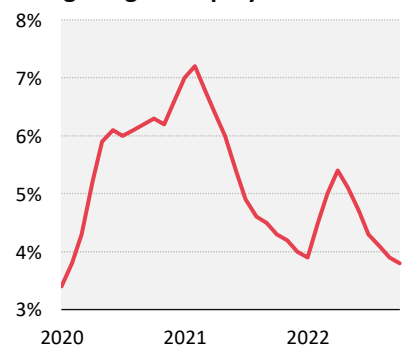
With the orderly relaxation of anti-pandemic measures by the SAR government, the jobs market has further improved. The unemployment rate from August to October was 3.8%, which was 0.1 percentage point lower than the unemployment rate from July to September. Among the industries, the unemployment rate of consumption- and tourism-related sectors (i.e. retail, accommodation and food services sector) fell by 0.6 percentage points to 5.2%. The unemployment rate for the decoration, repair and maintenance of buildings sector fell by 0.9 percentage points to a still elevated 8.2%. The property market is consolidating, which may affect the labour demand of related industries.

Anti-pandemic measures have been gradually relaxed with local economic activities restarting, however, a full recovery will take time.

The uncertain external environment and the continued tightening of financial conditions have affected Hong Kong's export and asset market performance.

Mainland policies have led to an improvement in Hong Kong's financial market sentiment.

Hong Kong Unemployment Rate



Source: Hong Kong Census and Statistics Department

## Economic Research

December 2022

In addition, the SAR government has relaxed the quarantine and testing requirements for inbound arrivals, but has yet been able to achieve quarantine-free travel with the Mainland. The government is yet to completely abolish the testing requirement and entry restriction to listed premises for inbound travellers, implying the tourism industry's hard road to normality. According to the Hong Kong Tourism Board, the number of inbound arrivals was around 80,000 in October, a month-on-month (MoM) increase of 22%, of which overseas tourists increased by 1.2 times MoM. Most of the tourists are believed to be on business or family travel. Following the relaxation of cross-border restrictions to "0+3" at end-September, the SAR government has further relaxed quarantine and testing requirements for arrivals in mid-November. The government reduced the required number of nucleic acid tests from the original 4 to 2 to enhance its appeal to overseas tourists. However, a full recovery of the tourism sector still depends on the progress of negotiations for quarantine-free travel with the Mainland.

### External uncertainty continues to hamper economic recovery

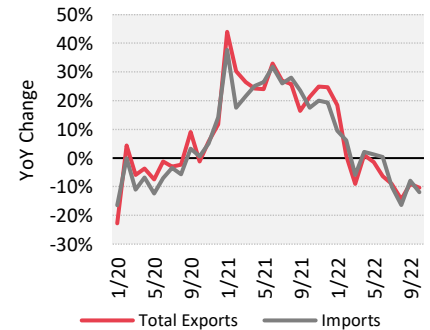
The global economy is currently restrained by multiple headwinds such as the pandemic, geopolitics, inflation and interest rate hikes. Hong Kong, as a small open economy, will inevitably be hit. The regional pandemic outbreak in the Mainland has also hindered cross-border land transportation and weakened Hong Kong's trade performance. In October, exports of goods fell by 10.4% year-on-year (YoY), the second-largest decline of the year, while imports of goods fell by 11.9% YoY. The trade deficit narrowed to HK\$20.9 billion as imports fell more than exports.

Meanwhile, the US Fed has raised interest rates by a total of 375 bps since early 2022, which has led to a significant rise in HIBORs. Hong Kong's commercial banks have raised the prime rate by a total of 37.5 bps since September in response. The rise in interest rates has increased the repayment amount of homeowners and weakened property market sentiment. According to the Rating and Valuation Department, the private residential price index in October fell by 10.5% compared with the end of last year, and fell by 2.4% MoM in October, widening from the 2.1% MoM drop in September. Against the backdrop of an incomplete economic recovery, continued upward interest rates and generally stable housing policies, it is expected that there will still be moderate and downwards pressure on private residential property prices.

Inflationary pressure remains moderate. In October, Hong Kong's overall consumer price index (CPI) rose by 1.8% YoY, which was a significant drop from September's 4.4%, which was distorted by the rent subsidy for public housing. Energy prices continued to record double-digit increases, up 13.4% YoY, reflecting high international fuel prices. Recently, China Light and Power (CLP) and Hong Kong Electric have been approved to increase electricity tariffs in the coming year, by 19.8% and 45.6% YoY respectively. This is expected to increase household expenses and business operating pressure. However, in view of the low proportion of electricity, gas and water in the CPI, it is not expected to meaningfully raise the overall level of inflation. With a strong Hong Kong dollar exchange rate and mild local cost pressures, inflation pressure in Hong Kong are expected to remain moderate and much lower than that of other advanced economies.

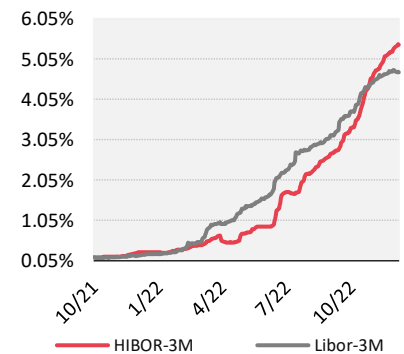
Taking into consideration the weaker-than-expected performance of the first three quarters, the bleak global economic outlook, pandemic and geopolitical uncertainties, tightening financial conditions, and weak asset market performance, etc., the SAR government has lowered its economic forecast for 2022 to a 3.2% contraction. Looking

### Hong Kong Exports and Imports



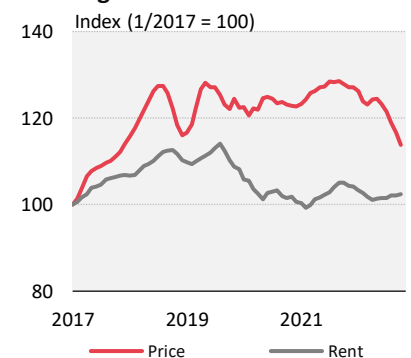
Source: Hong Kong Census and Statistics Department

### HIBOR and LIBOR



Source: Bloomberg, data as of 7/12/2022

### Housing Price and Rent Indices



Source: Rating and Valuation Department

## Economic Research

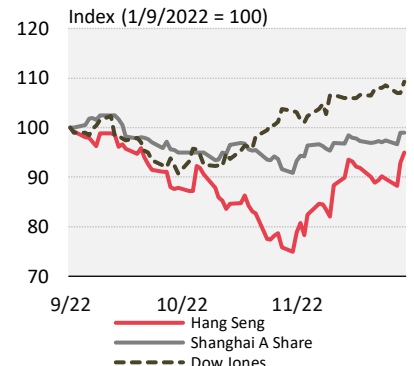
December 2022

forward to 2023, the improving pandemic outlook and its related control measures, together with the benefits from national strategies such as the 14<sup>th</sup> Five-Year Plan, the Guangdong-Hong Kong-Macao Greater Bay Area, as well as Mainland opening-up measures such as connectivity of capital markets, these could offset the impact of external challenges and promote a steady recovery.

### Favourable policies drive better stock market performance in Hong Kong

In November, the Mainland announced a 20-point optimization of Covid-related policies and a 16-point plan to stabilise property market. In addition, the meeting between President Xi and US President Joe Biden also sent positive signals to the market, driving Hong Kong stocks to rebound. As of end-November, the Hang Seng Index closed at 18,597.23, rebounding 26.6% from the end of October. During the period, the Shanghai A-shares and the Dow Jones Industrial Average rose by 8.9% and 5.7% respectively.

### Stock Market Indices



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