Market Monitor – Hong Kong

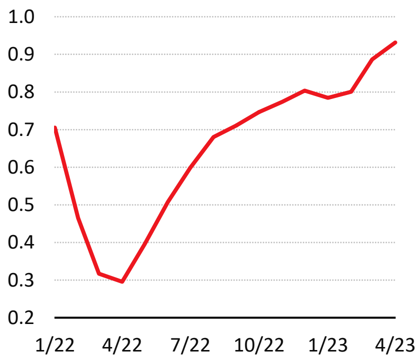
An expanding domestic sector leads to a sustained recovery

- The labour market has shown notable improvements, with the unemployment rate declining to 3.0% in February - April.
- The festive season in May indicated a sustained services spending.
- Hibors picked up visibly as the half-year seasonality impacts intensified.

A solid labour market and Government's stimulus has shored up the domestic sector

The labour market has shown notable improvements, providing a solid impetus to private spending. In February – April 2023, the unemployment rate and underemployment rate went down to 3.0% and 1.2%, respectively. Both were near their pre-pandemic lows in 2019. Meanwhile, private vacancies remained elevated at a monthly average of 106,577 in February – April, with the ratio of vacancies per unemployed person rising to 0.93, the highest level since 2022. These favourable conditions in the labour market suggest buoyant optimism among businesses to increase hiring, which can boost consumer confidence given higher expectations in household income.

Job vacancy to unemployed ratio



Sources: Census and Statistics Department

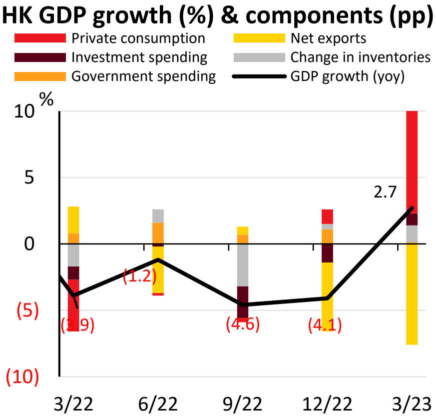
Inflation picked up slightly but remained largely moderate. In April, the composite consumer price index (CPI) increased by 2.1% year-on-year (YoY), up from a 1.9% YoY increase in Q1 2023. Food and energy were the major items lifting overall inflation, with each adding 0.7 percentage points (ppts) and 0.5 ppts to the headline CPI inflation in April. After registering declines for 6 consecutive months, housing inflation reported a turnaround to 0.5% YoY growth in April, driven by both a stabilization in the private housing market and an increase in public housing rental. With a sustained economic recovery, rising private rental and a tight labour market, Hong Kong's inflationary pressure is expected to go up moderately.

Economic Research

June 2023

Consumption remains the primary contributor to growth. The updated GDP figures for Q1 2023 highlighted the pivotal role of private spending in leading the economic recovery. Among the headline 2.7% YoY GDP growth for Q1 2023, private consumption expenditure added 8.0 percentage points (pp), which offset a 7.9 pp subtraction from the net exports in goods. The economic reopening, the resumption of full cross-border travel, pent-up demand and better job prospects have laid a solid foundation for private spending.

HK GDP growth (%) & components (pp)

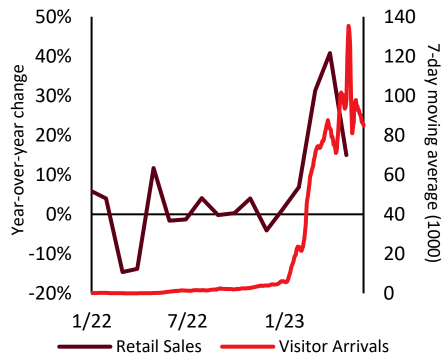


The Government's consumption vouchers disbursed from mid-April also offered a timely boost to fuel the local retail sector. Retail sales surged by 15.0% YoY in April. Regarding merchandise trade, both exports and imports have yet to resume growth, with each declining by 13.0% and 11.9% YoY in April. This partly reflected a high base in 2022 but the weakening trend of external demand remains, indicating that the domestic rather than external sector would be the growth driver for this year.

The Festive season in May indicated a sustained services spending

The Golden Week Holiday and the Mother's Day demonstrated remarkable gains in tourism revenues and services spending. The Golden Week Holiday in early May attracted a considerable number of visitor arrivals to Hong Kong. The strong momentum in visitor arrivals continued for the rest of May, indicating a sustained increase in tourism-related activities. Local residents also exhibited a robust willingness to spend. A sharp revival of restaurant bookings was seen during the Mother's Day in mid-May, with sales estimated to return to 90% of the pre-pandemic levels in 2019. Looking ahead, a vibrant tourism sector and a surge in services spending are expected to underpin the resilience of Hong Kong's economy and power a robust recovery in the coming quarters.

HK Tourism & Retail Sales Recovery

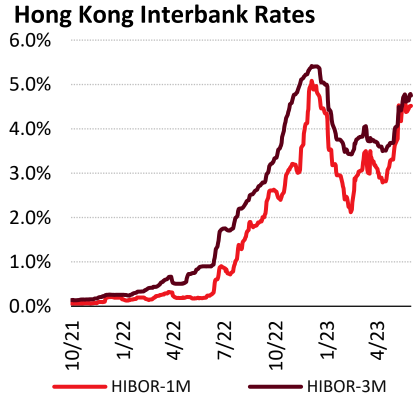


Source: Bloomberg

Hibors picked up visibly as the half-year seasonality impacts intensified

Half-year end funding demand has driven upward pressure on the HKD interest rates. Since the banking crisis in US and Europe flared up, banks become more cautious in maintaining a sound liquidity management. Coupled with a smaller of pool of interbank liquidity and a resurgence of rate hike expectations by the Federal Reserve (Fed), these developments have led to a visible surge of Hibors as the half-year end draws near. The 1-month Hibor soared from 3.51% in the end of April to 4.51% in the end of May. Given a slowly easing inflationary pressure in the US, the Fed is set to maintain higher interest rates for longer, which will continue to pose some upward pressures on Hibors for the rest of 2023. While the recent rise of Hibors will undoubtedly increase the burden of certain borrowers, its impacts on the Hong Kong economy is expected to be contained thanks to a resilient domestic recovery and upbeat private sentiment.

Hong Kong Interbank Rates

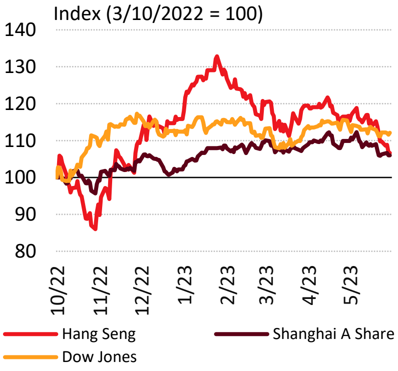


Source: Bloomberg

Hong Kong's housing market has maintained steady performance. Home prices stayed on an uptrend with the official residential price index rising further to a year-to-date growth of 5.8% as of April 2023. The residential rental market was also picking up with its official price index increasing to a year-to-date growth of 1.5% as of April 2023. Demand from non-local students reportedly drove a faster recovery in rental prices. Total residential transactions only moderated slightly to 4,003 units in May, down from 4,583 units in April. Overall, the uptrend in prices with moderating transaction probably suggests the housing market is undergoing a transition phase from a rapid rebound to a steady recovery.

In May 2023, Hong Kong equity markets declined as risk sentiment worsened. A number of unfavorable conditions led to selling pressures on Hong Kong listed stocks, including a slower-than-expected recovery of Mainland China's economy, a re-escalation of geopolitical tensions after the G7 summit, rising market expectations for the Fed's rate hikes, depreciation of the Renminbi, as well as concerns over the US debt ceiling negotiation's. As of the end of May 2023, the Hang Seng Index closed at 18,234, down 8.3% from the end of April 2023. During the same period, the Shanghai A shares and the Dow Jones Industrial Average also went down by 3.6% and 3.5%, respectively.

Stock Market Indices



Source: Bloomberg

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