Economic Research

July 2023

Market Monitor – Hong Kong

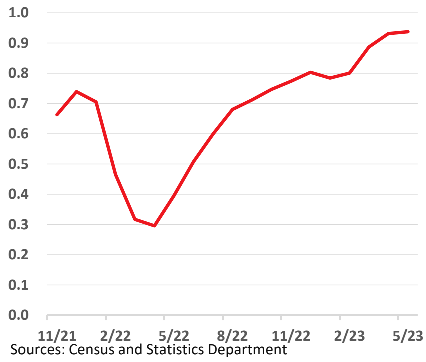
A Robust Labour Market Drives a Persistent Recovery

- The labour market has shown notable improvements with the unemployment rate remaining at 3.0% in March - May.
- Exports continued to fall as global demand slumped amid high interest rates.
- Hibors fluctuated amid seasonal funding demand near the half-year end.

Labour market remained robust and PMI stayed in expansion

The labour market continued to improve along with the economic recovery. In March - May 2023, the unemployment rate and underemployment rate stood at 3.0% and 1.2%, same as those in February - April. Both indicators were near their pre-pandemic lows in 2019. Meanwhile, private vacancies remained elevated at a monthly average of 106,022 in March - May, representing a year-on-year (YoY) increase of 40.1% and a decrease of 0.5% over the average figure in February - April. The ratio of vacancies per unemployed person increased to 0.94, the highest level since 2022. These favourable conditions in the labour market suggest continued optimism among businesses to increase hiring, which can boost consumer confidence along with higher expectations in household income. The labour market should improve further in the coming months as the economy recover.

Job Vacancies to Unemployed Ratio

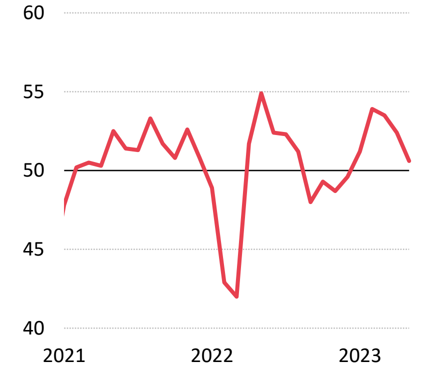


Sources: Census and Statistics Department

The unemployment situation in tourism-related, housing-related and financial sectors improved further. While the unemployment rate in March - May was unchanged at 3.0%, improvements were seen in several sub-sectors. Compared with February - April, the umemployment rate of the accommodation services sector declined by 0.4 percentage points (ppt) to 3.5%, likely boosted by rising visitor arrivals; the rebound of housing market helped the construction and real estate sectors to report lower unemployment rates at 4.3% and 2.7%, down by 0.2 ppts and 0.1ppts, respectively; the unemployment rates in financial and insurance sectors also dropped by 0.1 ppts to 1.9% and 2.7%, respectively, reflecting the benefits from the resurging cross-border business activities.

Business surveys showed a moderation from the reopening boost but improved prospects in trade performance. After months of a strong recovery, the Hong Kong PMI in June retreated and remained in expansion territory at 50.3. It suggested positive private sector sentiment with some moderation. The PMI survey found that the private sector continued to see steady demand from the Mainland China, though the reopening boost started to show signs of waning. Meanwhile, the HKTDC Export Index rose to 47.8 in Q2 2023, the highest level since Q2 2021. The sub-indices for all major export markets increased with the EU, ASEAN and US markets rebounding to the expansion territory.

Hong Kong Purchasing Managers' Index



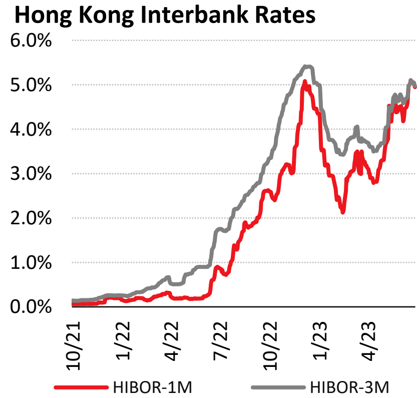
Source: S&P Global, data as of 30/6/2023

Inflation fell slightly but remained largely moderate. In May, the composite consumer price index (CPI) increased by 2.0% YoY, slightly smaller than the corresponding YoY increase of 2.1% in April. Price gains were mainly driven by food, electricity, gas & water, and miscellaneous services. Housing inflation remained steady at 0.5% YoY. Public and private housing rents were up by 1.7% and 0.1% YoY, respectively. With a sustained economic recovery, rising private rentals and a tight labour market, Hong Kong's inflationary pressure is expected to go up moderately.

Merchandise exports fell with base effects and weak demand

Trade performance remained sluggish but stabilization is likely to be seen ahead. In May, total exports of goods decreased by 15.6% YoY to HKD 327.6 billion, after a decrease of 13.0% YoY in April. Lower exports mainly seen in electrical machinery, apparatus, appliances & electrical parts (down by 19.0% YoY), and office machines & automatic data processing machines (down by 33.1% YoY). Across major export destinations, declines were also widely seen. Total exports to to Asia dropped by 18.2% YoY. Outside Asia, exports to the US, Netherlands and Germany were down by -17.7%, 18.5% and 32.9% YoY, respectively. Looking ahead, the weakness in the advanced economies will continue to pose challenges to Hong Kong's exports, but exporters began to show improved confidence, suggesting that a stabilization is likely to be seen in the 2H 2023.

Hong Kong Interbank Rates

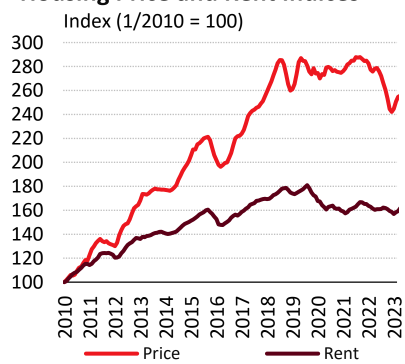


Source: Bloomberg, data as of 30/6/2022

HIBOR fluctuated amid seasonal funding demand near the half-year end

Upward pressure on HIBORs increased, driven by the Fed's hawkish outlook, a lower aggregate balance and seasonal impacts, etc. Large commercial banks in Hong Kong held its prime lending rate at 5.75% after the Fed's left the fed funds rate unchanged in June. HIBORs continued an uptrend in June, driven by higher rate hike expectations by the Fed, the reduced aggregated balance and mid-year's seasonal impacts. The widely used benchmark rate of 1M HIBOR and 3M HIBOR briefly exceeded 5% in June. As of the end of June, 1M and 3M HIBORs stood at 4.93% and 4.97%, rising about 179 bps and 126 bps over the past three months. The negative spread between the 1M and 3M LIBOR and HIBOR narrowed to 26 and 57 bps as of 30th June. Looking ahead, upward pressure on HIBORs remain in 2H 2023, as the Fed is likely to increase interest rates further and liquidity conditons in Hong Kong are somewhat tighter with a lower aggregate balance. Depending on the funding demand and liquidity condition, the commercial banks in Hong Kong could still follow the Fed's rate move ahead.

Housing Price and Rent Indices

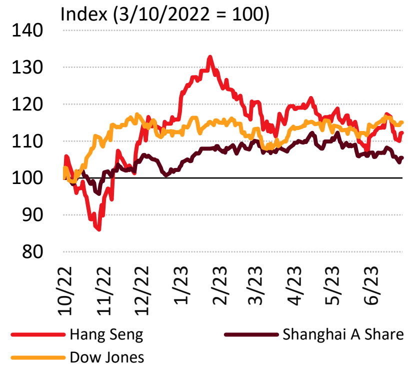


Source: Rating and Valuation Department

Regarding the housing market, the sentiment remained largely steady amid upward pressure of interest rate, with 1M HIBOR once climbed to above 5% level. The official private residential property price index dropped 0.7% MoM in May, narrowing the price increases to 4.9% in the first five months of 2023. The numbers of agreement for sale and purchase of building units have declined for three consecutive months. The transaction volume dropped to 4,777 units in June, decreased by 9.6% MoM and 24.1% YoY, and the amount of total transaction was HKD 39.7 billion, dropped by 11% MoM and 25.4% YoY. Going forward, upward pressure of interest rate could still weigh on property market in the near term, but a resilient employment market and continuous economic recovery should lend further support to hold the property market largely steady in 2H 2023.

In June 2023, the Hong Kong equity markets declined as risk sentiment worsened. A number of unfavorable conditions led to the selling pressures on Hong Kong listed stocks, including a slower-than-expected recovery of Mainland China's economy, a re-escalation of geopolitical tensions, rising market expectations for the Fed's rate hikes, as well as a retreat of the Renminbi. As of the end of June, the Hang Seng Index closed at 18,916, down 5.1% from the end of May. During the same period, Shanghai A shares and the Dow Jones Industrial Average went down by 0.5% and rose by 3.1%, respectively.

Stock Market Indices



Source: Bloomberg

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