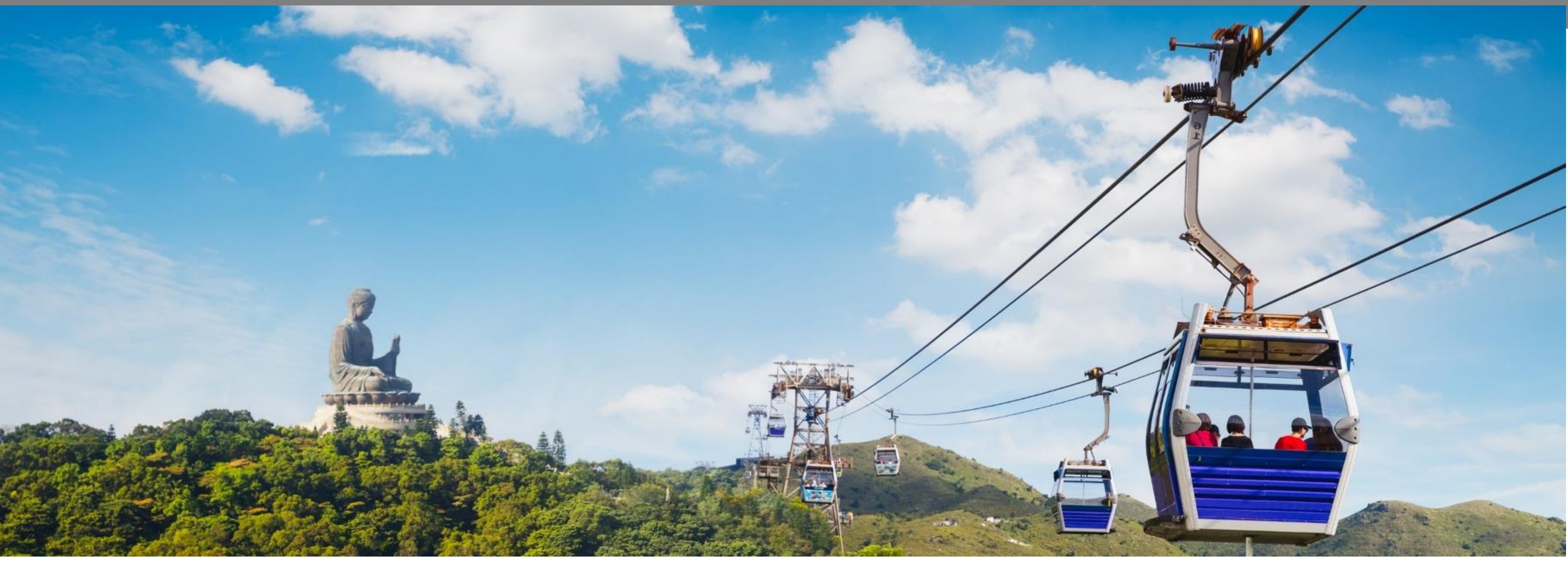
BEA 東亞銀行

Economic Research

September 2023

Market Monitor – Hong Kong

Resilient Labour Market and Domestic Demand Lead Recovery

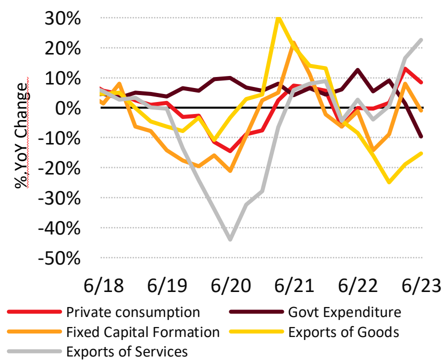


- Hong Kong's real GDP expanded by 2.2% year-on-year (YoY) in 1H 2023, with the Government's 2023 full-year forecast revised lower to 4.0-5.0%.
- The labour market and domestic spending remained resilient, driven by inbound tourism and the disbursement of the Government's consumption vouchers.
- Near-term inflation stayed moderate, with a gradual pickup expected ahead.

Private consumption and tourism led the economic recovery in 1H 2023

Private consumption and inbound tourism served as the major growth drivers in 1H 2023. Hong Kong's GDP grew by 1.5% year-on-year (YoY) in Q2 2023, following a 2.9% growth in Q1 2023 and taking the 1H average to 2.2%. Since the resumption of cross-border travel in January, visitor arrivals have continued to soar. Total visitor arrivals increased to 8.5 million in Q2 2023, up from 4.4 million in Q1 2023. In connection with this, service exports were significantly boosted, accelerating from 16.6% YoY growth in Q1 2023 to 22.9% in Q2 2023. Domestically, private consumption expenditure increased by 8.2% YoY in Q2 2023, after an increase of 13.0% in Q1 2023. However, weakening external demand and global monetary tightening posed a drag on overall growth. Total exports of goods decreased by 15.2% YoY in Q2 2023, after an 18.9% contraction in Q1 2023. Gross domestic fixed capital formation reversed to a 0.9% YoY drop in Q2 2023 from a 7.9% growth in Q1 2023. Considering the difficult external environment, the Government revised its growth forecast for 2023 downward from 4.5-5.5% to 4.0-5.0%.

YoY Growth rate of major components



Source: Hong Kong Census and Statistics Department

The labour market continued to improve, with growing talent inflows to Hong Kong. The unemployment rate fell to 2.8% in May-July 2023, a level last seen when the labour market was at near full employment from April 2018 to June 2019. Private vacancies remained elevated at a monthly average of 103,859 in May-July 2023, which raised the ratio of vacancies per unemployed person to 0.93. Better job prospects have continued to lay a solid foundation for private consumption. Besides, the Government's efforts to attract talent have also begun to bear fruit. As of July 2023, over 38,000 applicants had arrived in Hong Kong through various talent schemes, exceeding the Government's full year target of 35,000. The talent inflows would help relieve the labour market's tightness, further boosting the recovery momentum. Furthermore, the Enhanced Supplementary Labour Scheme starts accepting applications on September 4th, which employers can utilise to import lower-skilled workers for sectors with severe manpower shortages, such as construction and transport. The scheme can help secure a sufficient labour supply to support Hong Kong's long-term development needs.

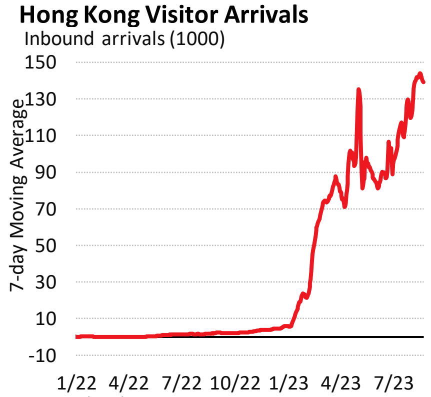
Domestic consumption is expected to stay resilient in 2H 2023. Increasing tourist arrivals continued to benefit the local retail sector, which reported a 16.5% YoY growth in retail sales in July. Tourist-related spending showed a significant uptick, including jewellery, watches, clocks, and valuable gifts (+19.8% YoY); wearing apparel (+34.3%); commodities in department stores (+25.6%); medicines and cosmetics (+45.7%); and footwear, allied products, & other clothing accessories (+44.9%), etc. The second batch of Government's consumption vouchers, disbursed from mid-July, also helped lift the local retail sector. For the first 7 months of 2023, total retail sales registered a YoY increase of 20.1%, which is one of the primary drivers of the economic recovery. Along with a further recovery in the tourism sector and the upcoming holiday seasons, domestic consumption and the retail sector are expected to maintain their growth momentum ahead.

A softer contraction in merchandise trade and business sentiment

Trade performance remained sluggish, with stabilization expected towards the year's end. Hong Kong merchandise exports stayed on a downward trend with a YoY fall of 9.1% in July. Lower exports were mainly seen in electrical machinery, apparatus, appliances, & electrical parts thereof (-14.6% YoY), and office machines & automatic data processing machines (-19.0%). Exports to the Chinese Mainland were down by 15.2% YoY, and those to major Asian markets also went down in varying degrees, in particular the Philippines (-29.6% YoY), Malaysia (-24.6%), South Korea (-17.4%), and Japan (-13.2%). Exports to the non-Asian economies were mixed, as exports to the US and Germany were down by 22.5% YoY and 5.8%, respectively, and a 34.6 YoY increase was recorded in exports to the UK. Looking ahead, global monetary tightening and weak overseas demand, particularly in the advanced economies, will continue to weigh on Hong Kong's export performance, but a stabilization is likely to be seen towards the year-end, thanks to favourable base effects.

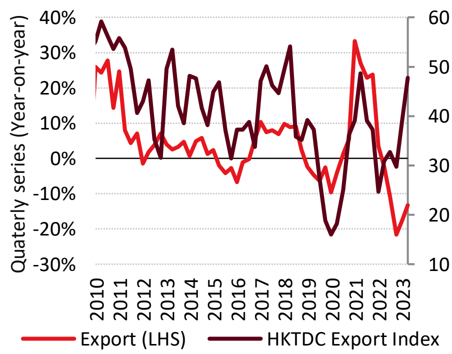
Business sentiment showed mild improvements. In August, the S&P Global Purchasing Managers' Index (PMI) of Hong Kong increased to 49.8 from 49.4 in July. While the headline PMI was in contraction territory, it signalled business activity only eased marginally. Besides, the report found that cost inflation continued to abate. Looking ahead, recent policy supports from the Chinese Mainland are expected to fuel its economic momentum, which will be the pivotal force to stimulate demand and benefit Hong Kong's economic growth in the near term.

Hong Kong Visitor Arrivals



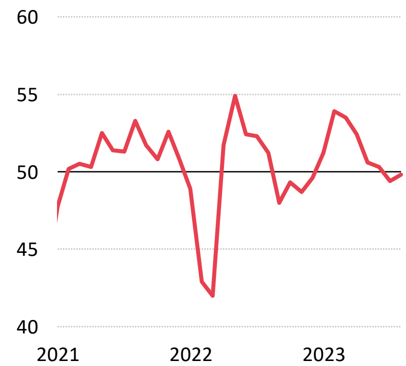
Sources: Bloomberg

Hong Kaong Trade Performance



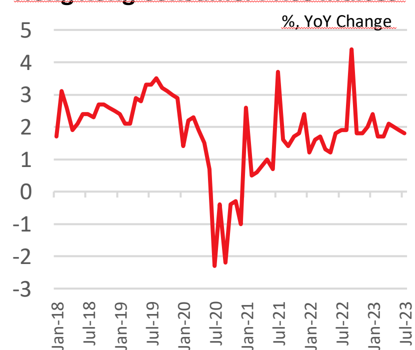
Source: Hong Kong Census and Statistics Department, HKTDC

Hong Kong Purchasing Managers' Index



Source: S&P Global, data as of 9/3/2023

Hong Kong Consumer Price Indices



Data Source: Census and Statistics Department, HKSAR

Economic Research

September 2023

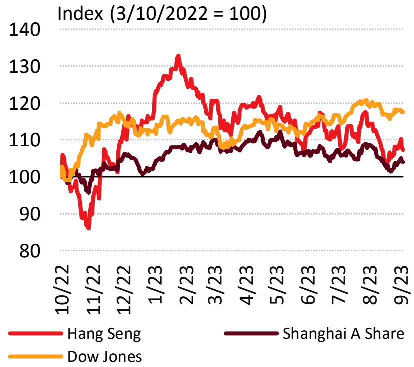
Inflation remained moderate, with an expected gradual pickup ahead

Near-term inflation remained moderate. In July 2023, the composite consumer price index (CPI) increased by 1.8% YoY, slightly lower than the 1.9% increase in June 2023. It is worth mentioning that housing inflation has shown a modest uptrend in recent months, up from 0.5% YoY in May 2023, to 0.6% in June and 0.7% in July. With the rise of private rental prices in recent months, housing inflation is expected to become more notable ahead. In addition, food prices could become more volatile in the near term, possibly driven by the adverse weather conditions. Overall, domestic inflationary pressure is expected to pick up gradually ahead.

Investors' cautiousness affected equity market performance

Hong Kong's equity market declined amid rising risk adversity. Investor sentiment turned more cautious amid numerous uncertainties, including rising expectations for the Fed's prolonged monetary tightening, continuous geopolitical tensions, slower-than-expected economic growth in the Chinese Mainland, as well as a more volatile RMB. In late-August, the Government announced the establishment of the Task Force on Enhancing Stock Market Liquidity. The Task Force will review factors affecting stock market liquidity and make improvement proposals to the Government. As of end-August 2023, the Hang Seng Index closed at 18,382, down 8.5% from the end of July. During the same period, Shanghai A shares and the Dow Jones Industrial Average went down by 9.6% and 2.4%, respectively.

Stock Market Indices



Source: Bloomberg

BEA 東亞銀行

Economic Research

September 2023

Disclaimer

This material is prepared by The Bank of East Asia, Limited ("BEA") for customers' reference only. The content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are expressed solely as general market commentary, and do not constitute an offer of securities or investment, nor a solicitation, suggestion, investment advice, or guaranteed return in respect of such an offer. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This material has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this material, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down, and may become valueless. Past performance is not indicative of future performance. The investments mentioned in this material may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this material. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

This material is the property of BEA and is protected by relevant intellectual property laws. Without the prior written consent of BEA, the information herein is not allowed to be copied, transferred, sold, distributed, published, broadcast, circulated, modified, or developed commercially, in either electronic or printed forms, nor through any media platforms that exist now or are developed later.

For more information, please visit our webpage at https://www.hkbea.com/html/en/bea-about-bea-economic-research.html. For any enquiries, please contact the Economic Research Department of BEA (email: lerd@hkbea.com/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).