

Market Monitor – Hong Kong

Booming Tourism Led to Persistent Growth in Retail Sales

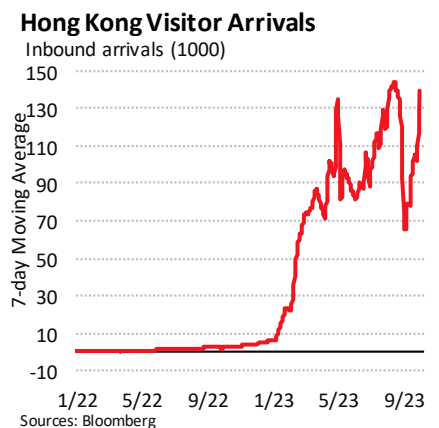


- Inbound tourism has served as the major growth driver for retail sales, and total visitor arrivals surpassed 23.3 million at the end of Q3 2023.
- A robust labour market has laid out a solid foundation for the economic recovery, while exports showed a moderate decline.
- Headline inflation stayed modest amid increasing rental prices.

**Retail sales grew strongly along with the pickup in tourism**

**Inbound tourism has consistently fuelled the retail sector in Hong Kong.** Since the resumption of cross-border travel in January, there has been a continuous surge in visitor arrivals to Hong Kong. In Q3 2023, total visitor arrivals increased to 10.4 million, a significant increase from 8.5 million in Q2 and 4.4 million in Q1. The robust recovery of inbound tourism significantly lifted Hong Kong’s real service exports, which posted rapid growth at 16.6% Year-on-Year (YoY) in Q1 and 22.9% in Q2. Meanwhile, the retail sector has remained in an uptrend amid the rise of inbound tourists. Total retail sales value witnessed a remarkable YoY increase of 19.3% for the first eight months of 2023. In August, total retail sales value maintained a double-digit growth of 13.7% YoY. This followed a strong growth of 16.7% in July, when the Government disbursed the 2<sup>nd</sup> batch of consumption vouchers midway through the month. With the return of tourists and positive consumer sentiment, the retail sales of jewellery, watches and clocks, & valuable gifts, wearing apparel, and medicines & cosmetics all saw spectacular YoY increases in August of 57.2%, 40.0%, and 42.9%, respectively.

**Domestic consumption and tourism are set to maintain rapid growth momentum.** Starting in mid-September, the Government initiated the “Night Vibes Hong Kong” Campaign, featuring an array of night-time events that have gathered significant popularity among both local residents and tourists. It would deliver a further boost to



consumer sentiment. During the Mid-Autumn Festival and the National Day Golden Week in early October, Hong Kong's visitor arrivals witnessed a notable surge. Looking ahead, Hong Kong should continue to register strong growth in service exports and private consumption, fuelled by an ongoing recovery in the tourism sector and strong demand for services spending in the upcoming festive seasons.

**The labour market stayed robust, serving as a significant pillar for the economy.** In June - August 2023, the unemployment rate stood at 2.8%, unchanged from May - July. The underemployment rate dropped slightly from 1.2% in May - July to 1.1% in June - August 2023. Both indicators have consistently hovered near their full-employment levels in recent months. Additionally, private job vacancies remained elevated at a monthly average of 105,225 in June - August 2023, with the ratio of vacancies per unemployed person rising to 0.94. The resilience of the labour market, coupled with the Government's expansionary fiscal stance, should continue to bolster the economy.

### Merchandise trade and business sentiment stabilized

**Hong Kong's export growth in August recorded a narrower decrease, beating market expectations.** The YoY decrease in merchandise exports improved sharply from 9.1% in July to merely 3.7% in August, representing the smallest contraction since March 2023. For the first eight months of 2023, total export value fell by 13.2% YoY. Among Hong Kong's major trade partners, improvements were mainly seen in exports to the Chinese Mainland, which were down by 1.5% YoY in August, up from the 15.2% decline in July. Looking ahead, foreign demand, particularly from advanced economies, continues to be dragged down by global monetary tightening, but Hong Kong export performance is likely to gradually stabilise, given stronger favourable base effects towards the year-end.

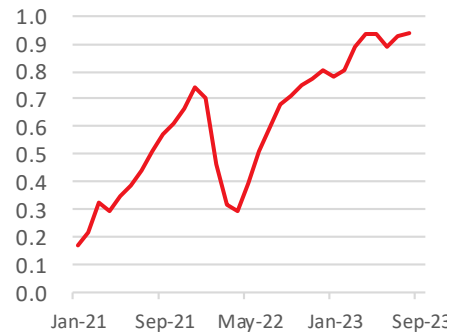
**Business sentiment registered a marginal decline.** In September 2023, the S&P Global Purchasing Managers' Index (PMI) of Hong Kong fell slightly to 49.6, down from 49.8 in August. The report indicated that severe weather conditions in September led to lower new orders but a renewed accumulation of backlogged work. Besides, firms raised employment levels further to handle the backlogs.

### Inflation remained moderate, with an expected gradual pickup ahead

**Inflation decelerated slightly but remained largely modest.** In August 2023, the composite consumer price index (CPI) climbed by 1.8% YoY, matching the rate seen in July. Food inflation saw a slight uptick, rising from 2.1% YoY in July to 2.2% in August. Besides, housing inflation, another significant contributor to headline inflation, increased from 0.7% YoY in July to 0.8% in August. This indicates that higher rental prices continued to add upward pressure on inflation. With a sustained economic recovery, rising private rentals and a tight labour market, Hong Kong's inflationary pressure is expected to increase modestly.

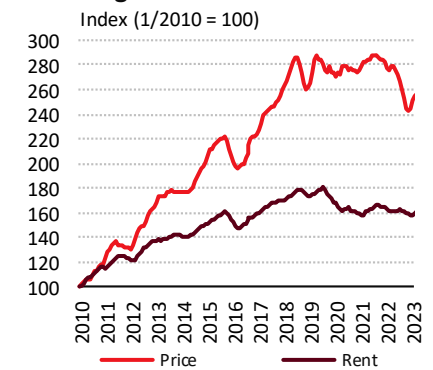
**Monetary tightening somewhat increases the burdens for mortgage borrowers.** By the end of September, 1-month HIBOR climbed to 5.39%, registering a month-to-month (MoM) rise of 168 bps, while 3-month HIBOR surged to 5.27%, up by 83 bps. While the US Federal Reserve kept its interest rate steady at the September meeting, major banks

### Job Vacancies to Unemployment Ratio



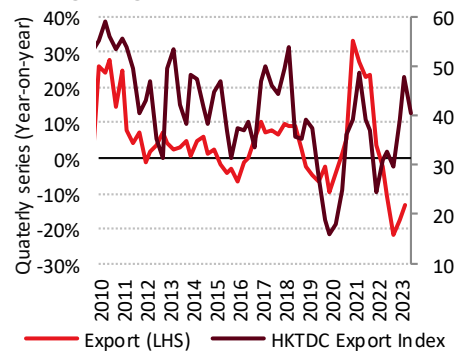
Source: Hong Kong Census and Statistics Department

### Housing Price and Rent Indices



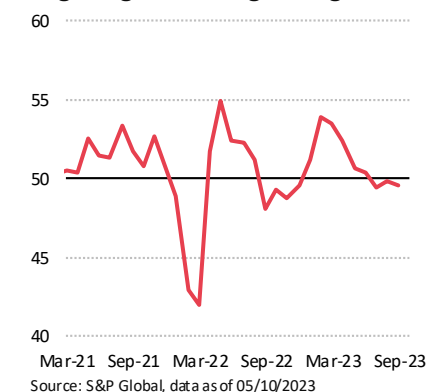
Source: Rating and Valuation Department

### Hong Kong Trade Performance



Source: Hong Kong Census and Statistics Department, HKTDC

### Hong Kong Purchasing Managers' Index



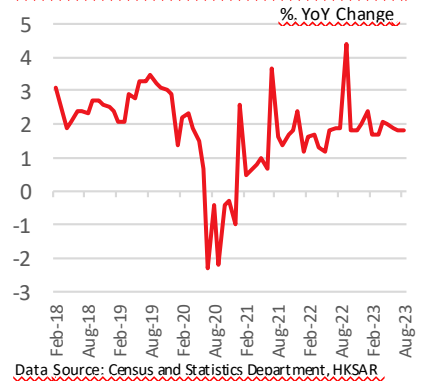
Source: S&P Global, data as of 05/10/2023

in Hong Kong recently adjusted their terms by charging higher rates on new mortgage borrowers, which somehow increased the burdens for homebuyers. In August, Hong Kong’s residential property prices retreated by 1.4% MoM, bringing its year-to-date growth to 1.3%. Over the same period, residential rental prices rose by 1.4% MoM, representing a year-to-date growth of 5.6%. It indicated steady demand for housing, especially from non-local students and new immigrants from various talent schemes. Overall, the residential property market is expected to maintain a steady performance.

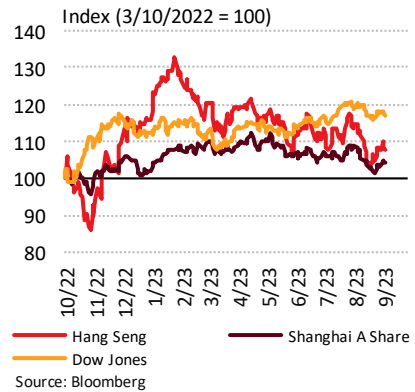
**Fears of monetary tightening equity market performance**

**Hong Kong's stock market declined in September.** Following stronger-than-expected economic data in the US, the US Fed maintained a hawkish stance. It i investor sentiment to turn cautious amid renewed fears over monetary tightening. By the end of September 2023, the Hang Seng Index had closed at 17,809, reflecting a 3.1% decrease from the end of August. Meanwhile, Shanghai A shares declined by 0.3%, while the Dow Jones Industrial Average fell by 3.5%.

**Hong Kong Consumer Price Indices**



**Stock Market Indices**



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