BEA 東亞銀行

Economic Research **July 2024**

Market Monitor – Hong Kong

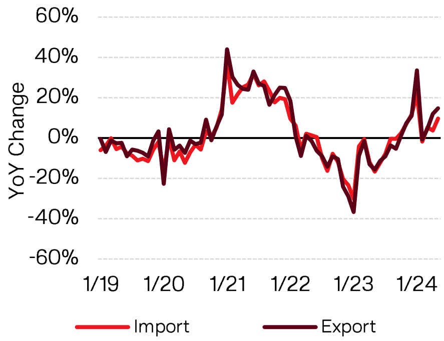
External trade remained the driver of growth

- Hong Kong's merchandise exports expanded for the third consecutive month, with the narrowing of trade deficits turning into a key growth driver.
- Retail sales stayed soft amid a high comparison base, a slower-than-expected recovery of inbound tourism and strong outbound travel by local residents.
- Home sales momentum normalised further, while the residential rental rate has climbed for three consecutive months.

Ongoing recovery of external trade fostered growth

The growth of merchandise exports accelerated for three months in a row. Hong Kong's total merchandise exports rose by 14.8% year-on-year (YoY) in May 2024. The strong performance was mainly due to a low comparison base and the revival of regional trade momentum. During the month, strong export growth was seen in our major trading partners: the Chinese Mainland (+23.6% YoY in May), the US (+26.6%), Vietnam (+31.5%) and Thailand (+23.4%). Meanwhile, total merchandise imports recovered less than those of exports, rising 9.6% YoY. For the first five months of 2024, Hong Kong's total exports and imports of goods rose by 12.5% YoY and 7.4%, respectively. As exports recovered faster than imports, trade deficits were down notably by 40% YoY to HKD 105 billion during the same period, causing the improvement of trade deficits to become a crucial growth driver for Hong Kong's economy in 1H 2024.

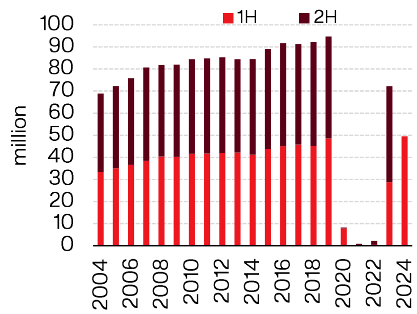
Imports and exports growth



Source: Bloomberg

The recovery of outbound travel continued to exceed that of inbound tourism. Inbound tourism further recovered with the organisation of numerous mega events and the improvement of cross-boundary transportation. Total visitor arrivals in June totalled 3.1 million, up 14.0% YoY but down 7.8% MoM. The mild MoM decline is partly because of the seasonality related to the Labour Day Holiday. In 1H 2024, total visitor arrivals surged by 64.2% YoY, totalling 21.2 million visitors, which is roughly 70% of the amount seen during the same period in 2018. However, the recovery of outbound travel was even faster, possibly due to a strong Hong Kong dollar exchange rate, a more efficient transportation link and the increasing travel demand of local residents. The number of local residents departing from Hong Kong reached a record high of 49.5 million in 1H 2024, implying more than a full recovery from the pre-pandemic level. As such, the strong outbound travel demand could somewhat offset the positive impacts brought by the recovery of inbound tourism.

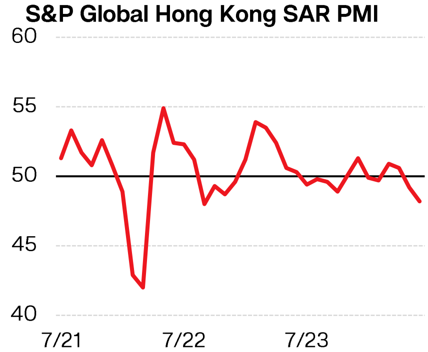
Outbound travel of HK residents



Source: Bloomberg

Retail sales stayed soft in May. The value of retail sales declined by 11.5% YoY in May, possibly because of the high comparison base, the lack of stimulus boost from consumption vouchers, and the abovementioned uneven recovery between inbound and outbound tourism. In the first five months of 2024, total retail sales value declined 6.1% YoY. On business sentiment, the S&P Global Hong Kong SAR PMI went down further from 49.2 in May to 48.2 in June, marking the lowest reading since October 2022 and reflecting some slowdown in business activities. However, the unemployment rate stayed unchanged at a near-full employment level of 3.0% in March – May. Despite the still challenging environment, the expansion of the Individual Visit Scheme, the increase in duty-free allowance for Mainland tourists, the promotion of mega events, together with the largely steady labour market environment and the expectation of rate cuts, could all help render some support to the economy.

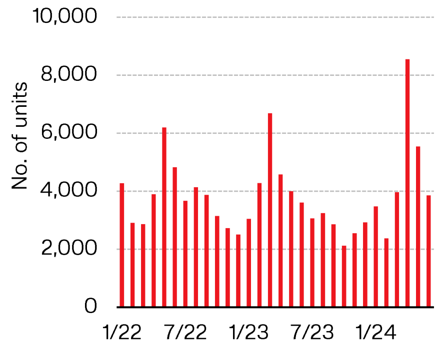
S&P Global Hong Kong SAR PMI



Source: S&P Global

Home sales momentum normalised further. In May, the official home price index softened and registered a month-on-month (MoM) drop of 0.3% and a year-to-date drop of 1.7%, marking the first MoM decline after the relaxation of demand management measures in late February. However, the private residential rental rate posted another 1.0% MoM gain in May, with a year-to-date increase of 1.6%. The divergence between residential prices and the rental rate could be explained by the enthusiastic responses to the talent attraction schemes as well as the fact that end-users opt for leasing instead of buying in an elevated mortgage rate environment. Meanwhile, home sales momentum normalised further. The number of residential transactions declined by 30% MoM to 3,856 in June, the fourth highest figure in the past 13 months. The decline was driven by the delayed expectation of rate cuts and faltering pent-up demand. In 1H 2024, total residential transactions were up 5.9% YoY, as market sentiment was bolstered by the easing of housing policies. Looking ahead, the potential rate cuts by major central banks in 2H 2024 would lead to further recovery of the Hong Kong property market.

Number of residential sales

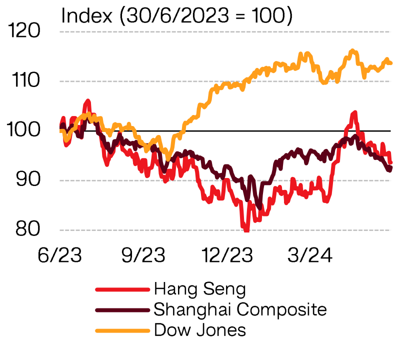


Source: Bloomberg

Wait-and-see attitude ahead of the third plenary session

The stock market edged down in June. After hitting a recent high of HKD 140 billion in May 2024, the average daily turnover of the Hong Kong Stock Exchange declined to HKD 111 billion in June 2024. On key stock indices' performance, the Hang Seng Index and Shanghai Composite Index were down by 2.0% and 3.9% MoM in June, respectively, whilst the Dow Jones Industrial Average Index was up by 1.1%. Investors generally opted for a wait-and-see attitude and are looking forward to any potential policy direction to be unveiled at the third plenary session of the 20th China Communist Party Central Committee, which is set to take place on 15-18 July 2024.

Equity Indices



Source: Bloomberg

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