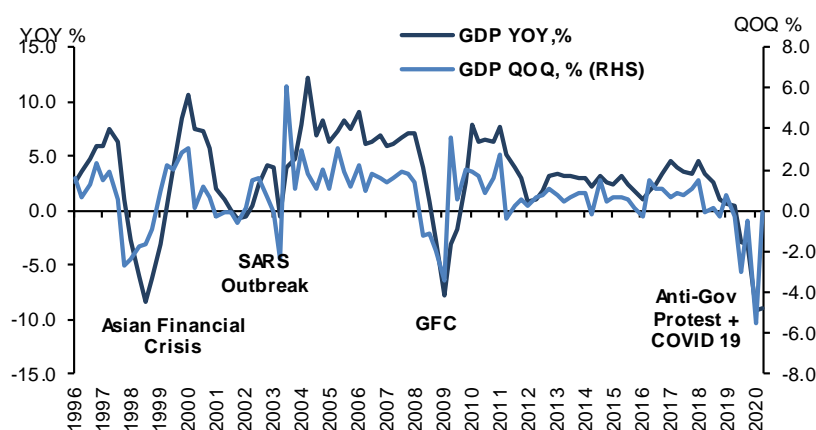


Hong Kong Deep in Recession

Hong Kong GDP contracted 9.0% YOY in the second quarter. The economy remained mired in a downturn amid a synchronized fall in consumer spending and business investment as well as weak international trade. Employment rate has surged to over 15-year high. The third virus outbreak in mid-July is likely to jeopardise any hope of a recovery in 3Q.

Figure 1: Hong Kong GDP Growth



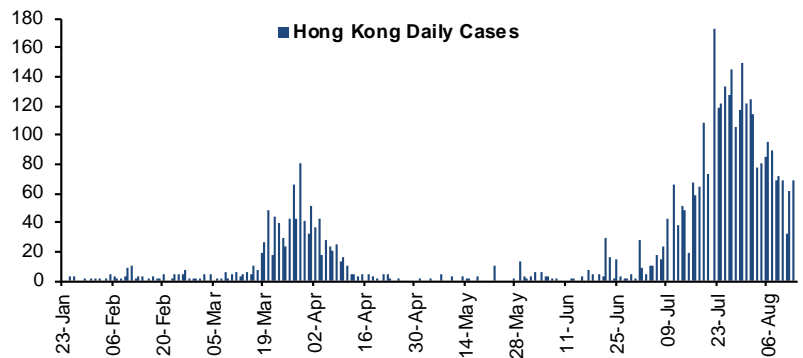
Source: Censatd, Bloomberg

Second quarter GDP unrevised from initial estimate, still worse than previous recessions

Hong Kong remained mired in recession in the second quarter of 2020 with GDP growth coming in at -9% (1Q: -9.1% revised), unrevised from the preliminary reading. This marked GDP's fourth back-to-back contraction since 3Q last year. The current downturn is worse than its previous ones during the Asian Financial Crisis (-8.3%) and Global Financial Crisis (-7.8%). On a seasonally adjusted QOQ basis, GDP recorded a small decline of -0.1%, after the heftier fall in 1Q (-5.5%).

Consumer spending, investment sustained declines; trade remained weak

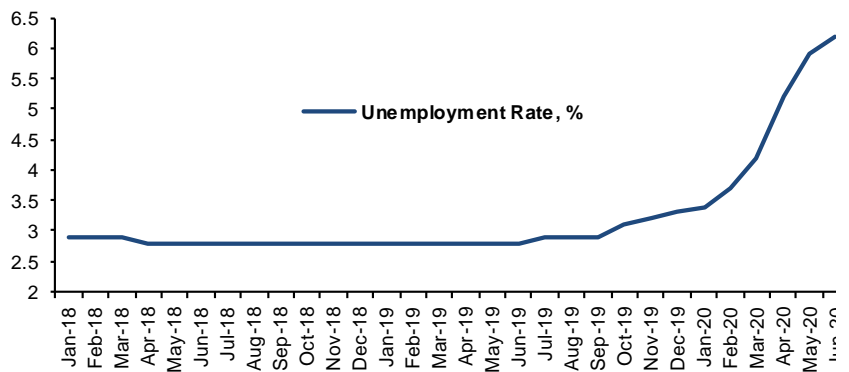
The fall in household spending/private consumption expenditure steepened further to -14.2% YOY (1Q: -10.6%). Government spending rose 9.8% YOY (1Q: +8.8%) compared to same quarter last year as government raised spending to combat the ongoing downturn. Gross fixed capital formation/investment fell even more sharply in 2Q, recording a 21.4% decline (1Q: -15.8%), its sixth double-digit drop. The private sector slashed spending in building/construction (-10%) as well as machinery, equipment & intellectual property products (-18%). Exports of goods continued to fall albeit at smaller magnitude (-2.4% vs -9.7%). Services exports collapsed by 46.1% YOY (1Q: -37.4%). Imports of goods fell 7.1% YOY (1Q: -11.1%). Similarly, services imports tanked with a sharp drop of 42.9%. Generally its international trade sector remained weak despite a recent rebound in exports to mainland China.



Source: Bloomberg

Stricter social distancing rules to weigh on 3Q outlook

The minute QOQ change offers signs that the downturn has bottomed up. Chances of a potential stabilization were dampened by the third wave of Covid-19 virus which had hit Hong Kong in mid-July, prompting the imposition of more stringent social distancing measures. The virus resurgence is even stronger than March-April, with cases going up as high as 173 at its peak. The Hong Kong government acted swiftly by closing schools, limiting social gathering to two persons and prohibiting dine-in after 6pm, after which restaurants are only allowed to provide take-away services. These measures are expected to further weigh on the private sector in the third quarter, particularly in the food/dining/catering industry which has been grappling with the loss in foreign visitors ever since the anti-government protest broke out in March 2019 and subsequently the halt in global tourism sector altogether, not to mention the city's already sky-high rentals.



Source: Bloomberg

Unemployment rate highest in more than 15 years

Unemployment rate has been climbing since October last year to 6.2% in the April-June period, its highest level in more than 15 years, moving further away from its once stable range of 2.8-2.9%. The deteriorating job market suggests that the government's stimulus relief packages that include a cash payout of HK\$10,000 may not be sufficient to help its citizen weather this downturn. The most recent stimulus package (worth HKD137.5b) had been announced on 8 Apr, when added to the 2020-21 HKD120b budget and HKD30b Anti-epidemic Fund announced in late February brought the total stimulus to around HKD288b, representing around 10% of Hong Kong's GDP. A deteriorating job market coupled with stricter social distancing measures is expected to hamper consumer spending. Businesses on the other hand will continue to cut back on investment in an ongoing downturn.

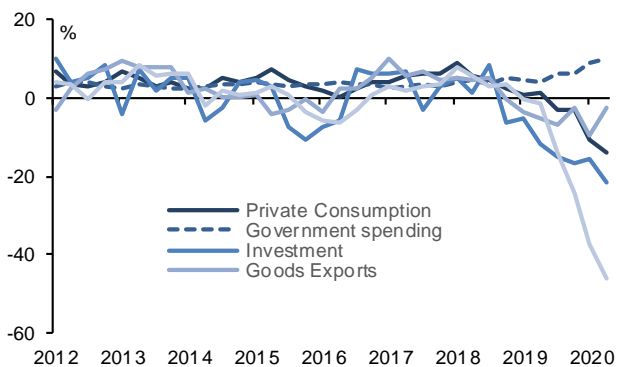
Official forecast at -6% to -8%

The situation will likely to improve once the virus is contained; its citizens are well known for adapting and adhering to hygienic practices, after having battled SARS in early 2000s. Nonetheless, virus resurgence remains a key risk globally in the absence of vaccines. Even countries with the most successfully contained outbreak (Vietnam, New Zealand) saw relapses.

The government said that Hong Kong's near term outlook remains highly uncertain. Domestic recovery depends on the containment of the virus and global economic recovery which is likely to be bumpy and uneven. US-China tension also fuels uncertainties. The official forecast for 2020 is now downgraded to -6% to -8%, from the previous -4% to -7%.

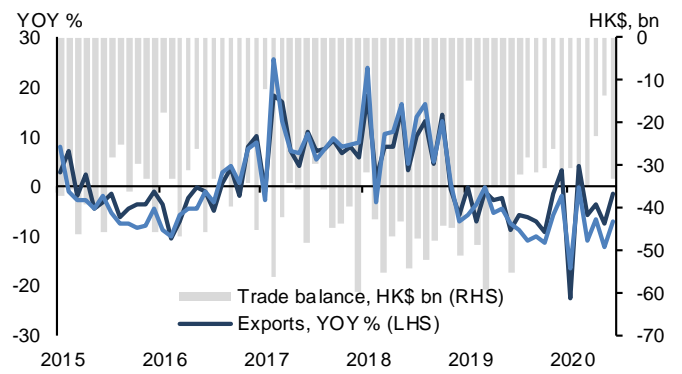
Hong Kong Overview:

Figure 2: GDP Expenditure Components



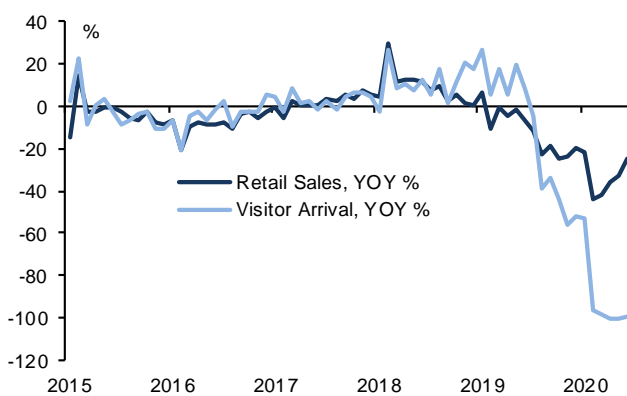
Source: Bloomberg

Figure 3: External Trade



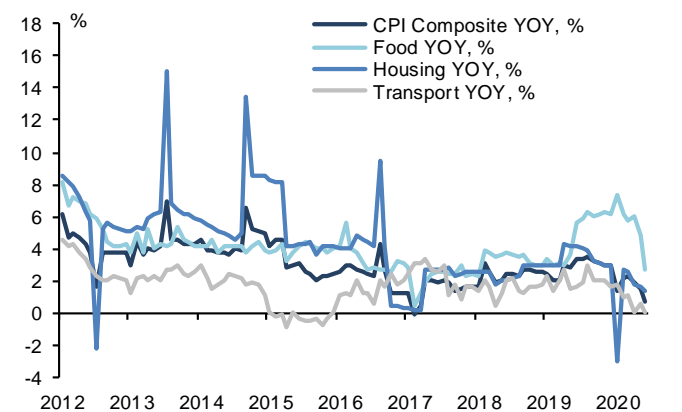
Source: Bloomberg

Figure 4: Retail Sales and Visitor Arrival



Source: Bloomberg

Figure 5: CPI and Major Components



Source: Bloomberg

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