Box 1.2

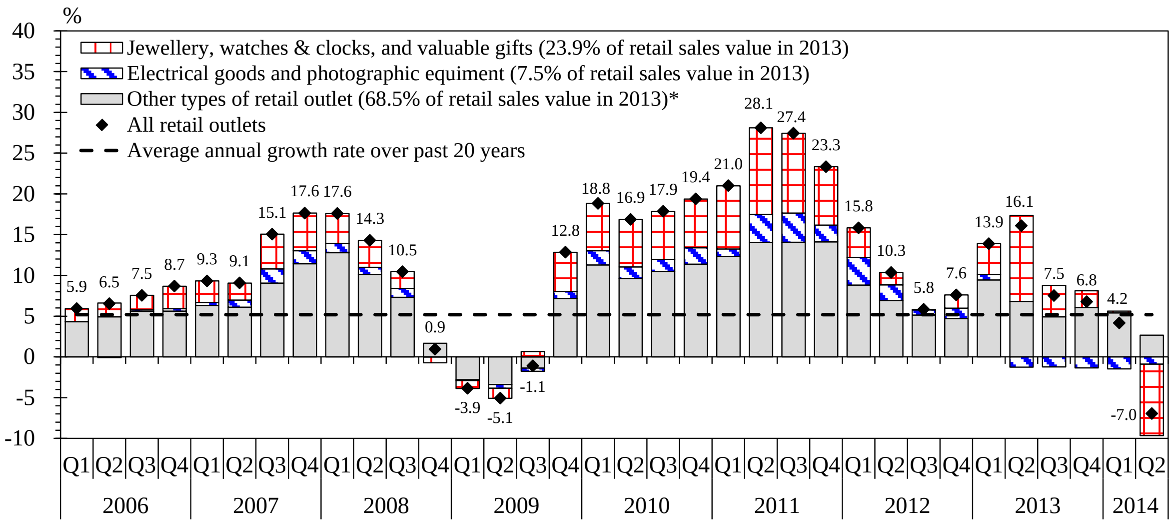
The recent performance of Hong Kong's retail sales

After being dented by the global financial crisis in late 2008 and 2009, Hong Kong's retail sales staged a sharp rebound and then grew briskly further in the ensuing years. However, retail sales decelerated abruptly in early 2014 and registered year-on-year decline for five consecutive months since February 2014, raising concerns about the outlook for the sector. This box article takes a deeper look into the development in retail sales in the past few years and attempts to put the recent disappointing performance into perspective.

First of all, it should be noted that the jumps in retail sales after the global financial crisis had been exceptional. Buttressed by an increasingly tight labour market, improving incomes and thriving inbound tourism, retail sales value surged at an average annual rate of 15.8% during 2010 to 2013, far outpacing the average trend growth of about 5% over the past 20 years (***Chart 1***). While that was favourable for short term economic growth, such a phenomenonal growth pace is difficult to sustain over a longer horizon.

Secondly, the recent deterioration in retail sales was mainly due to weakness in two types of retail outlets – those selling luxury items (namely "jewellery, watches and clocks, and valuable gifts") and, to a lesser extent, those selling electrical goods and photographic equipment (***Chart 1***). Specifically, in the second quarter of 2013, amid a sharp correction in gold prices, the sales value of luxury items rose tremendously by nearly 50% year-on-year and significantly boosted the total retail sales value in that quarter. Against such an exceptionally high base, the sales value of luxury items saw a 31.5% year-on-year dive in the second quarter this year, pulling the overall retail sales into contraction. Another factor denting the retail sales performance was the notable deceleration in the sales of electrical goods and photographic equipment. After taking out the luxury items and electrical goods and photographic equipment, the sales value in other types of retail outlet had actually been expanding rather steadily in the past few years, though also with some moderation in the more recent quarters.

Chart 1 : Contribution to change in retail sales value by selected types of retail outlet



Notes : (*) Other types of retail outlet include "food, alcoholic drinks and tobacco", "supermarkets", "fuels", "clothing, footwear and allied products", "department stores", "other consumer goods" and consumer durable goods other than electrical goods and photographic equipment.
% share in retail sales value may not add up to 100% due to rounding.

Box 1.2 (Cont'd)

One possible reason for the volatile sales in luxury items and electrical goods and photographic equipment is the change in per capita visitor spending. During 2010 to 2013, the sales value of jewellery and valuables leaped by a cumulative 164% and that of electrical goods and photographic equipment by 78%. Such surges in sales could hardly be explained solely by local residents' demand. Detailed breakdowns about visitor shopping expenditure are available only at annual intervals through the surveys conducted by the Hong Kong Tourism Board, and therefore it is hard at present to escertain how the pattern of visitor spending had changed in the first half of 2014. Nevertheless, as evidenced by the movements in exports of travel services (which cover tourists' spending on shopping, food and beverages, accommodation, entertainment, etc), the growth in total visitor spending had slowed sharply in recent quarters, notwithstanding the sustained rise in visitor arrivals.

From ***chart 2a***, the implied per capita visitor spending, as proxied by the difference between change in exports of travel services and number of visitor arrivals, had grown solidly over the past few years before reverting to a noticeable decline in the first half of 2014, closely resembling the trend seen in the sales of luxury items and electrical goods and photographic equipment. While there were anecdotal evidences suggesting a change in tourists' shopping preferences, the rising share of same-day in-town visitors, with its per capita spending being only around 30% of that of overnight visitors, could also be one of the reasons dampening the growth in per capita visitor spending (***Chart 2b***).

Chart 2a : Exports of travel services and number of visitor arrivals

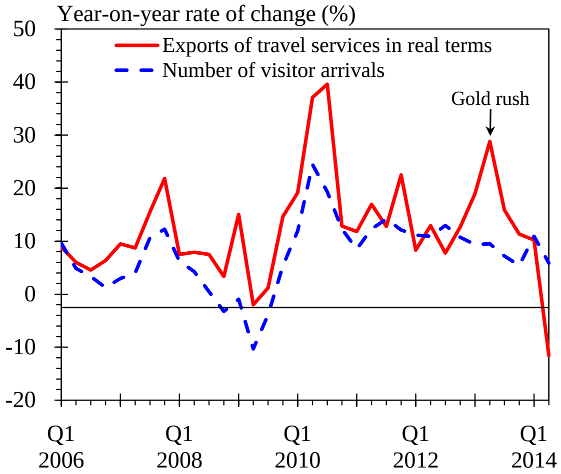
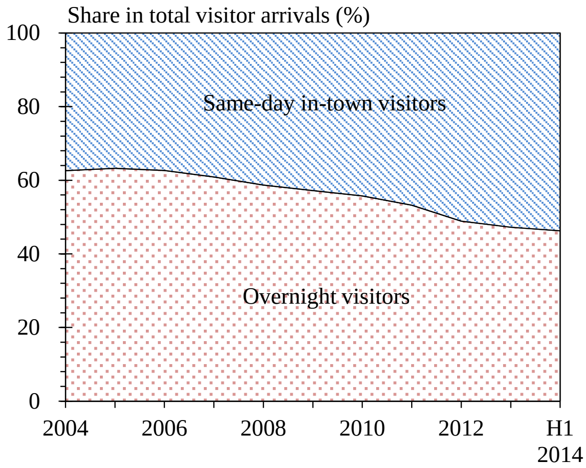


Chart 2b : Compositional shift in visitor arrivals



Considering the retail sales performance by type of retail outlet and the implied per capita visitor spending, it seems plausible that the sharp plunge in retail sales value in the second quarter was the combined result of a distinctly high base of comparison and a shift in tourists' spending away from big-ticket items. In fact, tourists' shopping expenditure accounted for nearly 40% of retail sales value in 2013, and hence its fluctuations could easily distort the retail sales figures and mask the underlying trend in local residents' consumption.

Looking ahead, as the unfavourable base effects gradually fade, Hong Kong's retail sales performance should hopefully turn more stable in the coming months. Nonetheless, given the size of the retail trade industry, which accounted for about 4% of GDP in 2012 and about 9% of total employment in 2013, the Government will closely monitor the repercussions of a slower growth in retail sales on local economic sentiment and labour market conditions.