

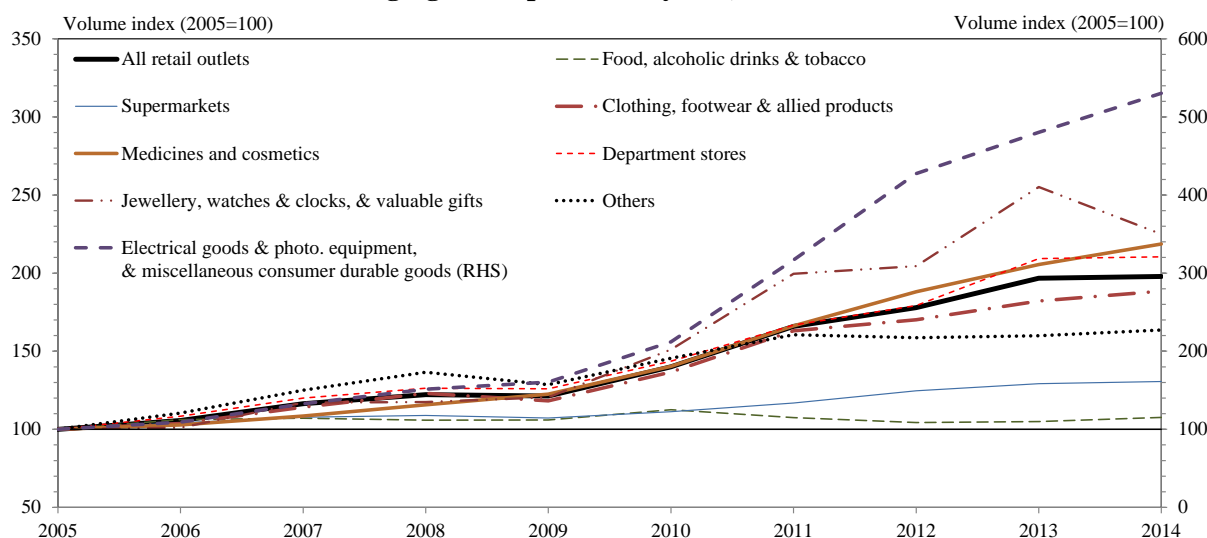
## Box 1.1

### An update on retail sales trends and performance

The retail sector is important to the Hong Kong economy. The industry directly contributed 4.3% to Hong Kong's GDP in 2013 and some 330 000 jobs, equivalent to 9% of total employment, in the first three quarters of 2014. This box article provides a brief analysis on the recent trends of retail sales with a focus on volume movement by outlet type, as well as an update of **Box 1.2** in the *Half-yearly Economic Report 2014* which covered the retail sales performance up to the second quarter of 2014.

Retail sales exhibited much resilience during the global financial crisis of 2008-2009 and expanded rapidly in the post-crisis years. Overall sales volume attained a cumulative growth of 63.1% from 2009 to 2014. Analysed by retail outlet, “electrical goods and photographic equipment, and miscellaneous consumer durable goods” saw the fastest increase in business volume, followed by “jewellery, watches and clocks, and valuable gifts”, “medicines and cosmetics”, and department stores. The strength of sales in these outlet types suggests that, apart from improved local consumer sentiment amid the generally favourable job market conditions and the Government's various measures to support the domestic economy in recent years, sustained vibrancy in inbound tourism also played a key role. However, retail sales growth weakened to a mere 0.6% in volume terms in 2014, substantially slower than the average annual growth of 12.8% in 2010-2013. The notable decline in the sales of luxury items in 2014 was the major contributory factor (*Chart 1*).

**Chart 1 : After surging in the post-crisis years, retail sales slowed in 2014**

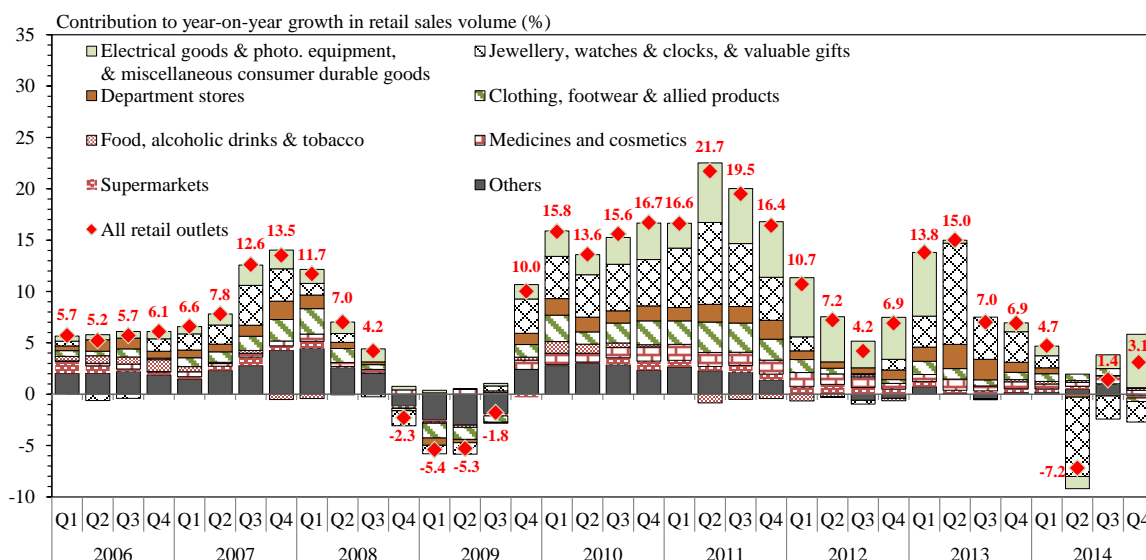


The quarterly profile in *Chart 2* revealed that retail sales saw wide fluctuations in 2014. The 4.7% moderate year-on-year growth in the first quarter was followed by a 7.2% plunge in the second quarter. Retail sales then rebounded modestly by 1.4% in the third quarter, and picked up somewhat to a 3.1% growth in the final quarter of 2014.

The plunge in the second quarter of 2014 was related to luxury items, mainly as a result of the high base caused by the spike of gold sales to visitors in 2013 amid the sharp correction in gold prices. Such drag on overall retail sales lessened somewhat in the third and fourth quarters. Moreover, despite the sustained rapid increases in visitor arrivals, sales growth in department stores and medicines and cosmetics also moderated in 2014. All these conceivably reflected some changes in tourists' spending profile. In the latter part of 2014, there was a surge in the sales of electrical and electronic goods, thanks to the launch of new smartphones, supporting retail sales in the fourth quarter.

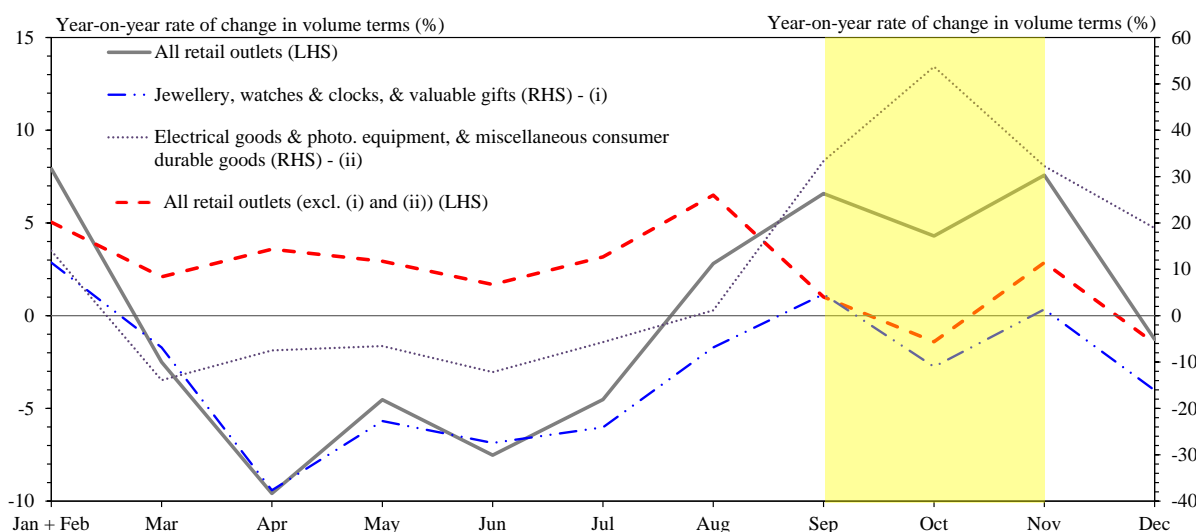
## Box 1.1 (Cont'd)

**Chart 2 : Retail sales growth was dampened by luxury items in mid-year but was supported by boost to sales in electrical and electronic products in late 2014**



The monthly profile in **Chart 3** can help explain the subtlety in retail sales movements in the latter part of 2014, when the “Occupy Movement” was in progress. As mentioned above, the sales performance of the luxury items and electrical and electronic goods accounted for much of the volatility in overall retail sales over the course of 2014. Excluding these volatile components to better reflect the underlying local consumption strength, retail sales, after maintaining some moderate volume growth in the first eight months of 2014, slowed visibly to a modest growth of 1.0% in September and declined by 1.4% in October. Conceivably, such a sharp turn in the underlying growth trend of retail sales partly reflected the weaker consumer sentiment amid the disruptions caused by the “Occupy Movement”. Such underlying retail sales reverted to grow by 2.9% in November but declined again by 1.5% in December.

**Chart 3 : Retail sales performance was disrupted in October 2014**



Retail sales performance in the period ahead will depend mainly on the future developments in inbound tourism, external environment, and local job conditions. Given the various uncertainties, the Government will continue to closely monitor the situation.