

Box 1.2

An update on the recent performance of Hong Kong's retail sales

This note provides an update of *Box 1.1* in the *2014 Economic Background and 2015 Prospects* by examining the recent trends of retail sales and the related employment situation.

After registering a notable average annual growth of 12.8% in 2010-2013, retail sales slowed down to a meagre 0.6% growth in volume terms in 2014. Sales weakened to a 0.5% year-on-year decline in the third quarter of 2015, following a 1.7% growth in the first half of the year (*Chart 1*). The lacklustre performance of retail sales raised concerns about the outlook for the sector and the wider implications for the economy.

Chart 1 : Retail sales remained lacklustre in the first three quarters of 2015, dragged by continued slowdown in inbound tourism

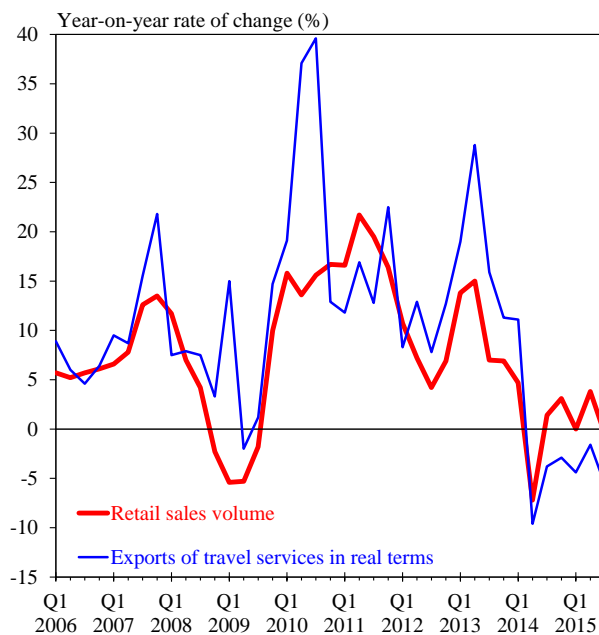
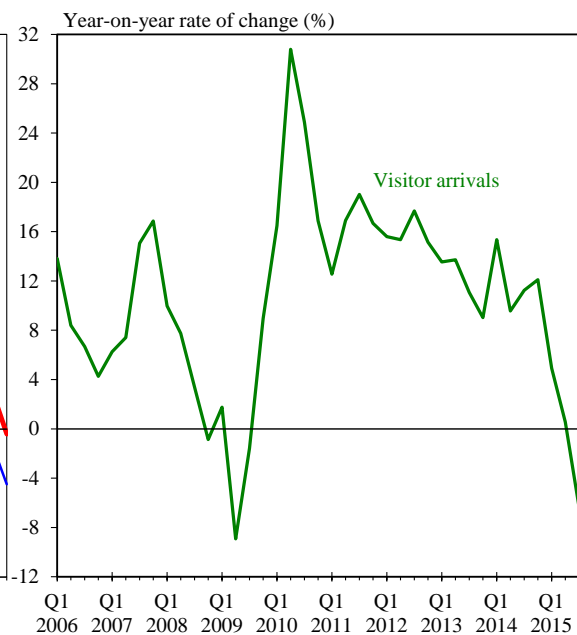


Chart 2 : Visitor arrivals recorded the first decline since the third quarter of 2009, adding downward pressure on the retail sector

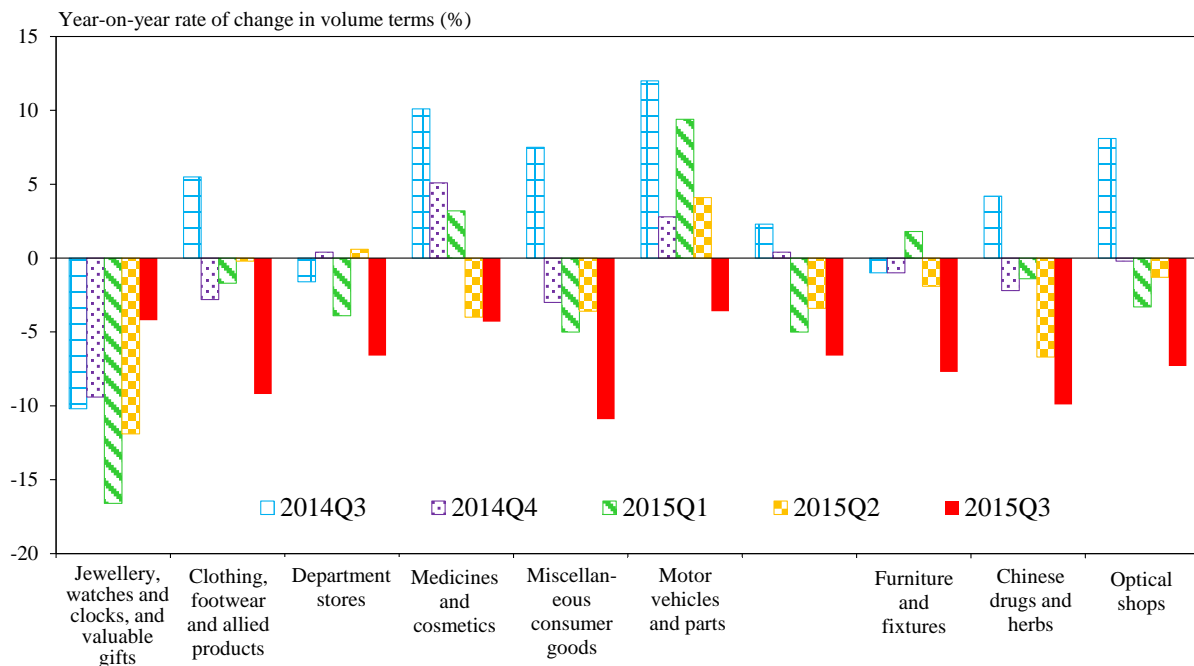


To analyse the possible reasons behind the recent weakness in retail sales, it would be useful to look at inbound tourism performance, as the share of tourists' shopping expenditure in retail sales value has been substantial (around 42% in 2014). The number of visitor arrivals slowed down markedly to a 6.4% year-on-year decline in the third quarter of 2015 (*Chart 2*). Exports of travel services (which cover visitors' spending on shopping, food and beverages, accommodation, entertainment, etc.), likewise slackened in tandem, down 5.6% in real terms in the third quarter. Against this backdrop, our retail sales performance was inevitably affected.

Chart 3 showed that the sales volume of those retail outlet types that are more related to tourist spending, such as "jewellery, watches and clocks, and valuable gifts", "department stores", "medicines and cosmetics" and "clothing, footwear and allied products", saw visible declines in the third quarter of 2015, mirroring continued contraction in inbound tourism. Meanwhile, retail outlets selling goods that are conceivably more local consumption related, including "books, newspapers, stationery and gifts" and durable goods such as "motor vehicles and parts" and "furniture and fixtures", also saw widened declines, as compared to previous quarters, suggesting that the stock market correction in the quarter, coupled with a more uncertain global economic outlook, have dented local consumer sentiment to some extent.

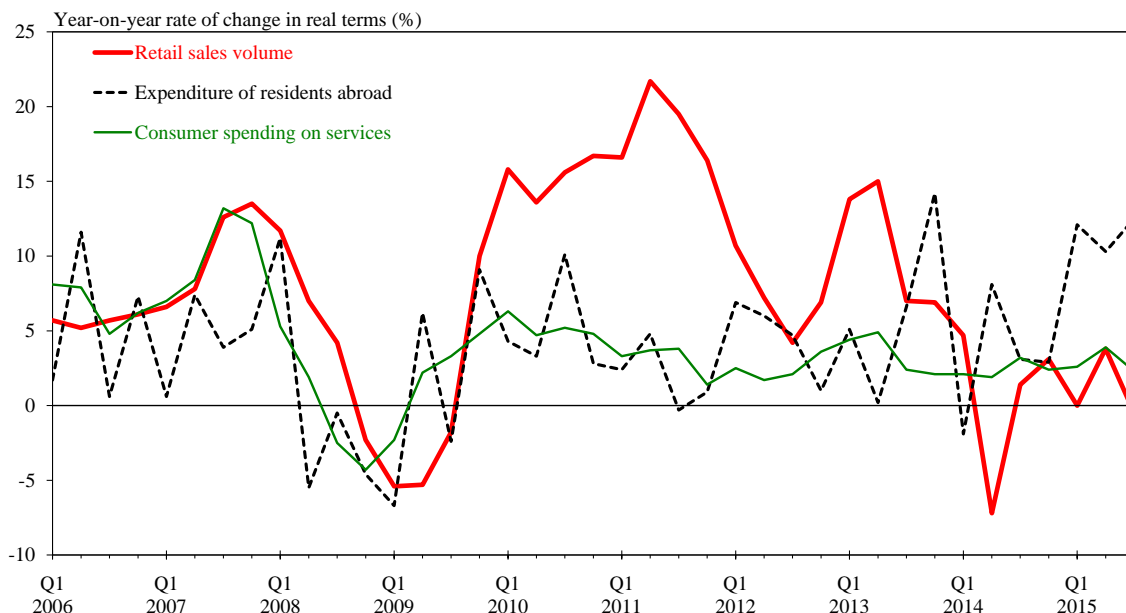
Box 1.2 (Cont'd)

Chart 3 : Sales of many retail outlets saw visible declines in the third quarter of 2015



It should be noted that private consumption expenditure continued to expand solidly in the third quarter, by 4.3% in real terms over a year earlier, underpinned by the further growth of spending on non-goods items, viz. services and outbound travel, which is not captured by the retail sales figures (*Chart 4*).

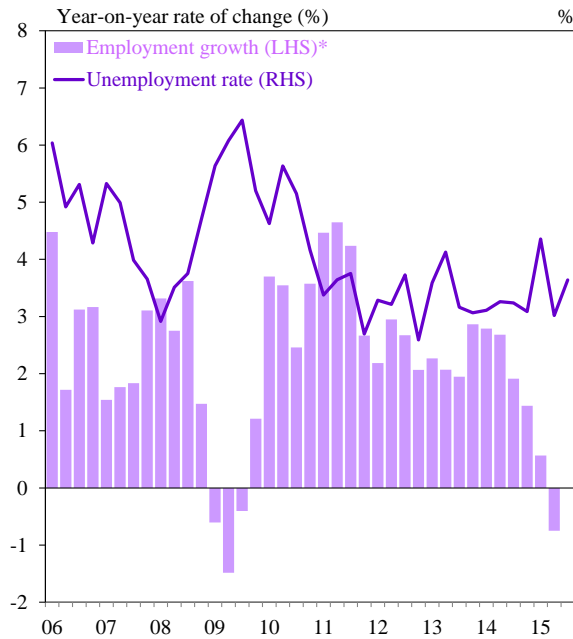
Chart 4 : Further growth was seen in the spending on non-goods items in the third quarter of 2015



Protracted slowdown in retail sales would have negative impacts on the labour market conditions in Hong Kong, as the retail sector directly contributed around 9% of total employment (i.e. around 330 000 jobs) in 2014. While the retail sector's unemployment rate continued to stay relatively low, employment actually fell in the second quarter of 2015 over a year earlier, marking the first decline since the 2008-09 Global Financial Crisis (*Chart 5*). Indeed, business sentiment among large enterprises and SMEs in the retail sector turned more cautious recently (*Chart 6*). Hiring intentions among large enterprises in the sector also deteriorated visibly.

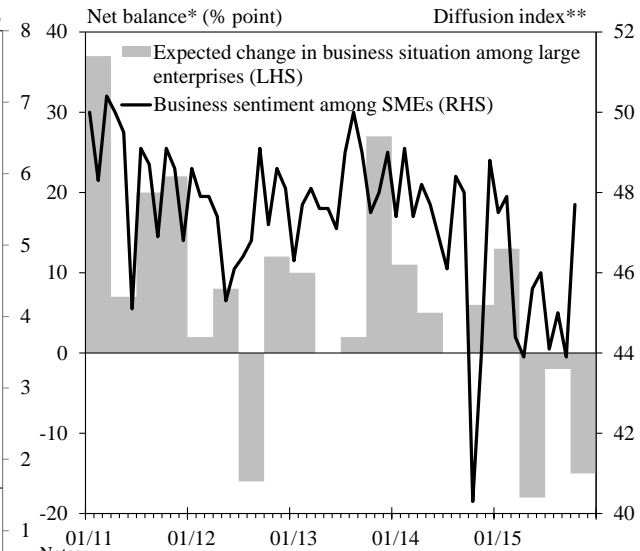
Box 1.2 (Cont'd)

Chart 5 : Employment in the retail sector slackened to a decline in the second quarter of 2015



Note:
 (*) According to the Quarterly Survey of Employment and Vacancies, the latest figure for employment in the retail sector is up to the second quarter of 2015.

Chart 6 : Business sentiment in the retail sector turned more cautious



Notes:
 (*) Net balance indicates the direction of expected change in business situation versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely upward trend, while a negative sign, a likely downward trend.
 (***) A diffusion index reading above 50 indicates that the business condition is generally favourable, whereas an index below 50 indicates otherwise.

Looking ahead, the near-term outlook for the retail business hinges much on the inbound tourism performance and on how the external headwinds will affect the overall economy. Persistent weakness in inbound tourism will pose downward pressure on the retail business. Moreover, the difficult external environment, including weaker global growth and heightened financial market volatility amid the uncertainties associated with the US' interest rate lift-off, might also erode consumer confidence. The Government will continue to monitor closely the situation and its potential repercussions on the local economy and job creation.