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.

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.
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.