

Box 1.1

Discrepancy between the recent performance of PCE and retail sales in Hong Kong

Private consumption expenditure (PCE), which measures the overall consumption expenditure of Hong Kong residents, grew visibly by 4.6% in the first half of 2017 in real terms over a year earlier, an acceleration from the 1.8% growth for 2016 as a whole. While local retail sales volume likewise improved over the same period, its performance was weaker by comparison (*Chart 1*). This box article, by making reference to the coverage of these two indicators, explains the factors behind the differences in their recent performance.

By definition, PCE covers consumer spending on goods (purchased from all channels including retail outlets) and services by Hong Kong residents, both domestically and abroad. Meanwhile, retail sales figures cover the sales receipts of goods sold by local retail outlets to both local residents and foreign visitors. Simply put, PCE has a much broader coverage than retail sales in terms of the types of purchases and geographical locations (as PCE covers residents' expenditure outside Hong Kong). Yet, PCE does not include visitors' shopping expenditure in Hong Kong, which is instead covered in retail sales figures.

Until a year or two ago, inbound tourism witnessed a sustained period of rapid expansion, with visitor arrivals and visitors' shopping expenditure⁽¹⁾ surging at an average annual rate of 8.4% and 12.0% respectively over the past ten years, far outpacing the average annual growth of 7.1% in retail sales value over the same period. Thus, tourists spending assumed an increasingly significant role in driving retail sales, with its estimated share in retail sales rising from just 22% in 2006 to around 35% to 40% in recent years. Hence, the performance of retail sales also increasingly reflected the change of visitors' shopping profile, on top of the shopping outlay of local residents. For instance, when the year-on-year decline in visitors' shopping expenditure widened from 4.3% in the first half of 2015 to 23.1% in the first half of 2016, the year-on-year decline in retail sales value also worsened from 1.6% to 10.5% over the same period. Then, as inbound tourism began to bottom out slowly since the second half of 2016, retail sales also improved relatively in tandem (*Chart 2*).

Chart 1: Retail sales showed a weaker performance than PCE of late

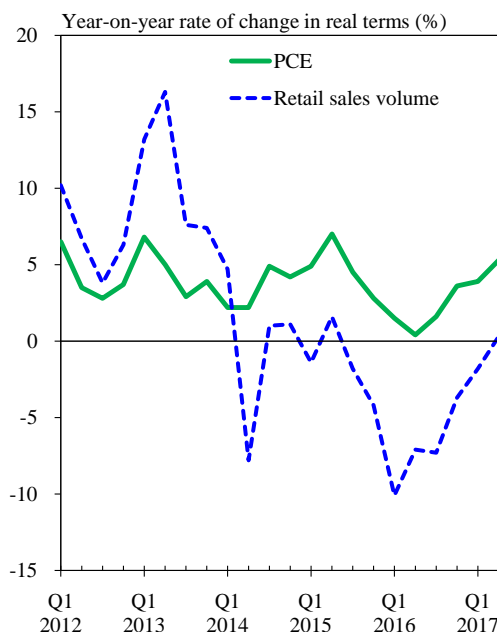
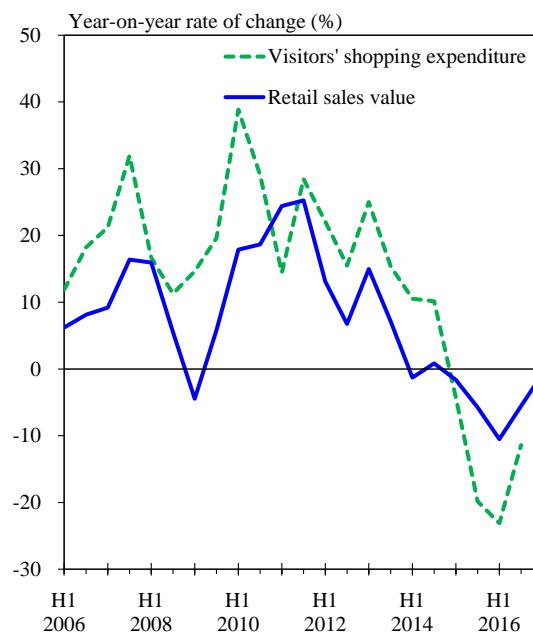


Chart 2: Retail sales followed the swings in visitors' shopping expenditure



(1) Refers to the shopping expenditure of overnight and same-day-in-town visitors compiled by the Hong Kong Tourism Board. It is used as a proxy of inbound tourism's contribution to retail sales in this article.

Box 1.1 (Cont'd)

On the other hand, the performance of PCE hinges on local consumer sentiment, which in turn depends on factors such as conditions in the labour market and asset markets, in addition to the external environment. In recent years, thanks to a sustained period of full employment in the labour market with real growth in wages and earnings, local consumer sentiment generally fared well, though it was somewhat affected by various adversities in the external environment that emerged in individual quarters. For instance, in the first half of 2016, as global economic growth was lacklustre with gyrations in global financial markets, local consumer sentiment worsened correspondingly, dragging the growth in PCE to only 1.0% year-on-year. However, while spendings on both goods and services responded to the change in local consumer sentiment, fluctuations in services outlays have been smaller than those in retail sales over time (*Chart 3*), conceivably due in part to the fact that a significant proportion of services consumption are “necessities” such as housing, transportation, medical services and education services. Considering that services outlays account for over 50% of overall consumer spending, this further explains why PCE exhibits more resilience and a more stable trend than retail sales. As for the more recent period in 2017 so far, with favourable labour market conditions and increases in asset prices, local consumption demand was robust, rendering solid growth in PCE. Furthermore, the state of local consumer sentiment could also be gauged by statistics from the payment side. Specifically, steady growth in the total value of transactions by credit and debit cards issued in Hong Kong⁽²⁾ since the fourth quarter of 2016 was another indication of the prevailing optimistic local consumer sentiment (*Chart 4*).

Chart 3: Growth in services spending tended to be more stable

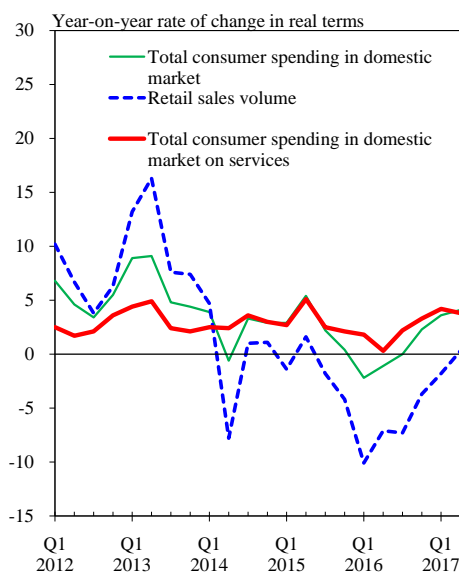
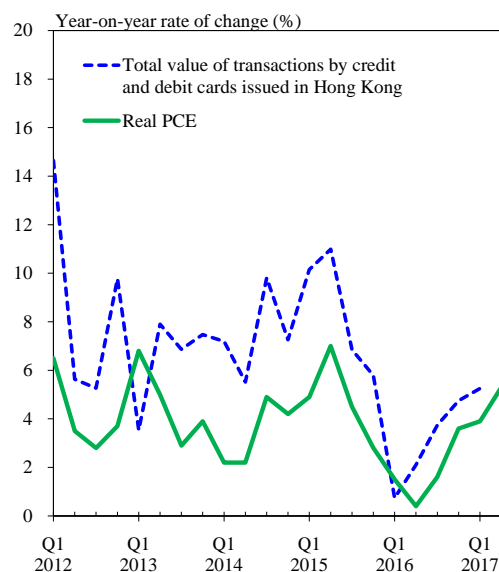


Chart 4: Payment side indicator likewise pointed to robust local consumer sentiment



In sum, PCE is a more appropriate and comprehensive measure of the state of local private consumption than retail sales. Looking ahead, while various sources of external uncertainties remain at play, especially the uncertain pace of US monetary policy normalisation, near-term local consumer sentiment is likely to remain sanguine on the back of favourable labour market conditions, thereby rendering further impetus to PCE growth going forward. As for the outlook for retail sales, while the prevailing positive local consumer sentiment would be a supportive factor, its performance would unavoidably hinge on the recovery pace of inbound tourism. Considering the importance of private consumption in the local economy, and the role of the retail sector as a key employment generator, we will closely monitor local consumption demand and the retail sector in the period ahead.

(2) Sourced from statistics of payment cards issued in Hong Kong as published by the HKMA. Credit card transactions in this article refer to credit card transactions on retail sales as defined by the HKMA. HKMA's definition of retail sales is different from that of the Census and Statistics Department.