

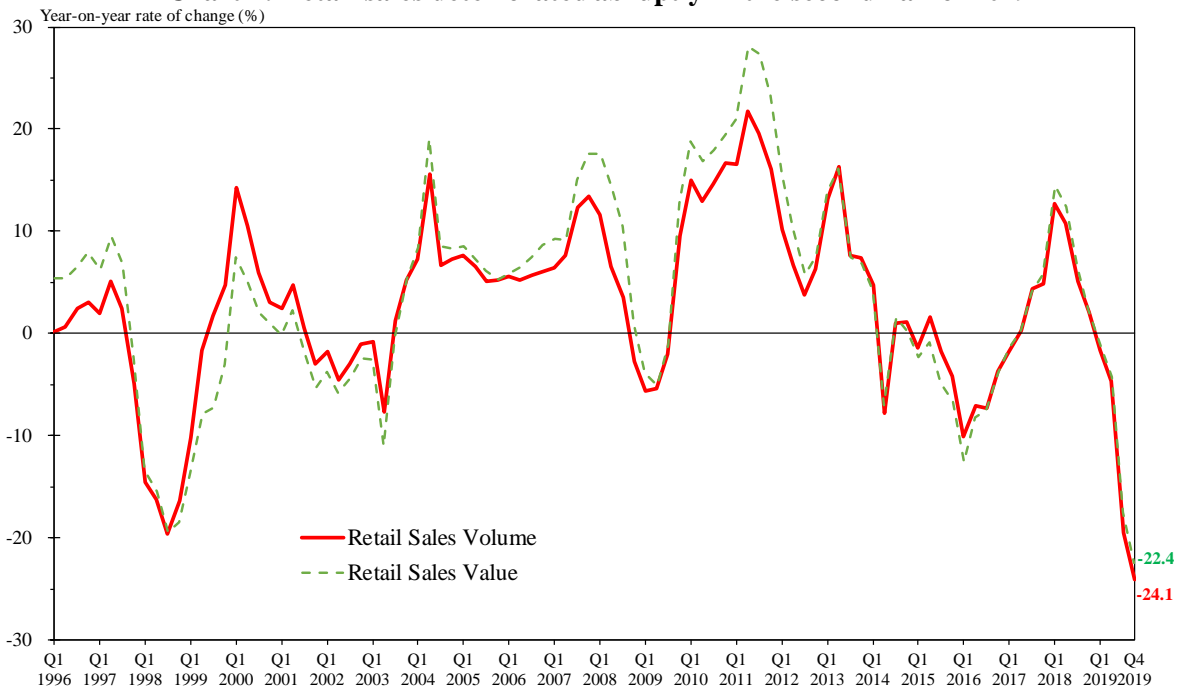
**Box 1.1****Recent performance of Hong Kong's retail sales**

This note examines the performance of retail sales in recent years and provides an update to **Box 1.2** in the *Third Quarter Economic Report 2015*.

After two lacklustre years in 2015 and 2016 partly due to the implementation of the “one trip per week” Individual Visit Endorsements, retail sales gradually recovered in 2017 alongside the economic upturn and resumed a modest growth of 1.9% in volume for the year as a whole. Also helped by buoyant inbound tourism, growth in retail sales volume picked up strongly to 7.6% in 2018. Yet the growth momentum started to wane in the latter part of 2018, as worsened economic conditions dampened consumer sentiment while tourist spending showed moderated increases (*Chart 1*).

Retail sales underwent a difficult year in 2019. Retail sales volume declined by 3.1% in the first half of 2019 from a year earlier, as consumer sentiment turned increasingly cautious in the face of mounting external headwinds and subpar economic conditions. This was followed by an abrupt deterioration in the second half of the year, mainly reflecting a severe blow from the local social incidents. The year-on-year fall in retail sales volume widened sharply to 19.5% in the third quarter and further to 24.1% in the fourth quarter<sup>(1)</sup>, the largest quarterly decline since data were available in 1981. For 2019 as a whole, retail sales volume fell by 12.3%, the largest annual fall since 1998.

**Chart 1: Retail sales deteriorated abruptly in the second half of 2019**



Note: Retail sales statistics compiled before the fourth quarter of 2005 followed the Hong Kong Standard Industrial Classification (HSIC) Version 1.1, while the statistics compiled on or after the fourth quarter of 2005 followed the HSIC Version 2.0.

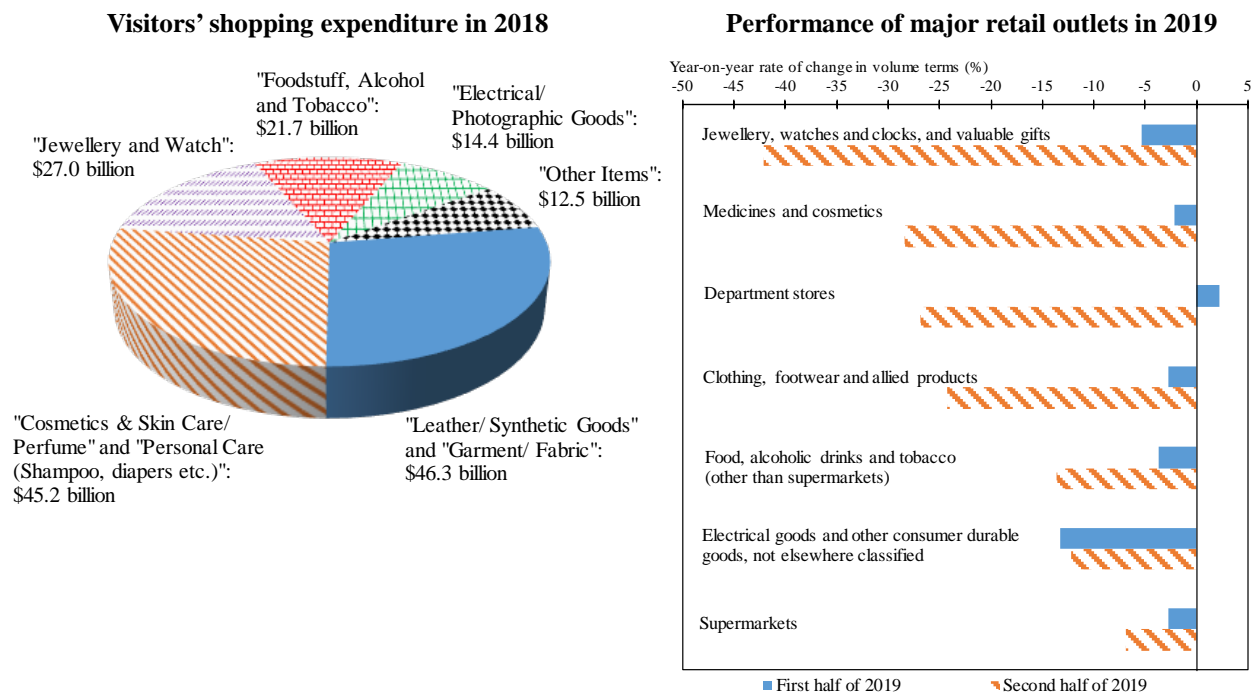
Analytically, the local social incidents dealt a severe blow to retail sales through three channels, i.e. weighing on inbound tourism, dampening local consumer sentiment and disrupting the safe environment needed for people contact. Since July 2019, mass demonstrations with violence have hurt Hong Kong's image as a safe city and severely deterred visitors. Visitor arrivals swung from a notable year-on-year growth of 13.9% in the first half of the year to sharp declines of 26.0% in the third quarter and 50.5% in the fourth quarter, the worst quarterly decline since the SARS outbreak in 2003. The fall in visitor arrivals for 2019 as a whole, at 14.2%, was the biggest annual decline on record. Total tourism expenditure associated to inbound tourism registered a mild decline of 0.5% in the first half of 2019, and should have recorded a sizable fall in the second half judging from the plunge in visitor arrivals.

(1) Retail sales statistics for the fourth quarter of 2019 and the year as a whole are provisional figures.

**Box 1.1 (Cont'd)**

According to statistics compiled by the Hong Kong Tourism Board, within the total visitor expenditure of \$328.2 billion in 2018, \$167.1 billion was spent on shopping. This was equivalent to around one-third of the value of total retail sales <sup>(2)</sup>. Therefore, the sharp fall in visitor arrivals in the second half of 2019 took a heavy toll on retail business. Retail outlets selling “leather/ synthetic goods”, “garment/ fabric”, “jewellery and watch”, “cosmetics & skin care/perfume” and “personal care”, which feature prominently in visitors’ shopping expenditure, witnessed particularly noticeable declines in sales volume in the second half of 2019 (*Chart 2*).

**Chart 2: Retail outlets selling items that feature prominently in visitors’ shopping expenditure witnessed particularly noticeable sales declines in the second half of 2019**



The local social incidents have also severely hurt consumer sentiment. The overall Hong Kong Consumer Confidence Index compiled by the City University of Hong Kong plummeted from 77.7 in the second quarter of 2019 to 52.8 in the third quarter of 2019, the lowest reading since the Index was available in 2008. It remained at a low level of 68.7 in the fourth quarter 2019. Private consumption expenditure, after growing moderately in the first half, turned to decline by 3.3% and 2.9% in real terms in the third and fourth quarter of 2019 respectively from a year earlier.

Furthermore, at the height of the local social incidents, radical protesters blocked roads and damaged public transportation facilities, not only causing serious disruptions to major transport networks but also raising concerns about personal safety of residents. Retail outlets and shopping malls in many areas were forced to close earlier from time to time. Many residents avoided going out in the fear of being hurt or having problems returning home.

Latest surveys showed that both large and small-and-medium sized enterprises in the retail sector remained pessimistic about the business situation in the near term (see *Box 1.2* for an analysis of business sentiment). More recently, the business environment of the retail sector has become even more difficult due to the threat of the novel coronavirus infection. The outlook for the retail business in 2020 is subject to high uncertainties, depending very much on whether the spread of the novel coronavirus infection can be kept under control and how the local social incidents unfold.

(2) Total shopping expenditure by visitors is obtained from the Departing Visitor Survey compiled by the Hong Kong Tourism Board. Retail sales value is obtained from the Monthly Survey of Retail Sales compiled by the Census and Statistics Department.