

Possible economic losses caused by the recent social incidents

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Abstract

The local social incidents involving violent acts in the past few months have caused significant disruptions to inbound tourism and consumption-related economic activities. Based on objective data, this article crudely estimates the possible economic losses arising from the additional decline in businesses of the retail, restaurant and accommodation sectors, as well as that in other tourists' consumption expenditure due to the incidents. Our crude estimates suggest that, of the 2.9% year-on-year economic contraction in the third quarter of 2019, around 2 percentage points were conceivably attributable to the impacts on these sectors.

近期社會事件可能導致的經濟損失

摘要

過去幾個月涉及暴力衝擊行為的本地社會事件對訪港旅遊業及與消費相關的經濟活動造成極為沉重的打擊。本文根據客觀數據，粗略推算零售、餐飲和酒店業的業務，以及訪港旅客的其他消費開支可能因有關事件引致的額外跌幅所帶來的經濟損失。根據粗略推算，2019年第三季經濟按年負增長2.9%的其中約兩個百分點，相信可歸因於這些行業所受到的衝擊。

I. INTRODUCTION

1. The local social incidents involving violent acts in the past few months have caused significant disruptions to inbound tourism and consumption-related economic activities. Based on objective data, this article crudely estimates the possible economic losses arising from the additional decline in businesses of the retail, restaurant and accommodation sectors, as well as that in other tourists' consumption expenditure due to the incidents.

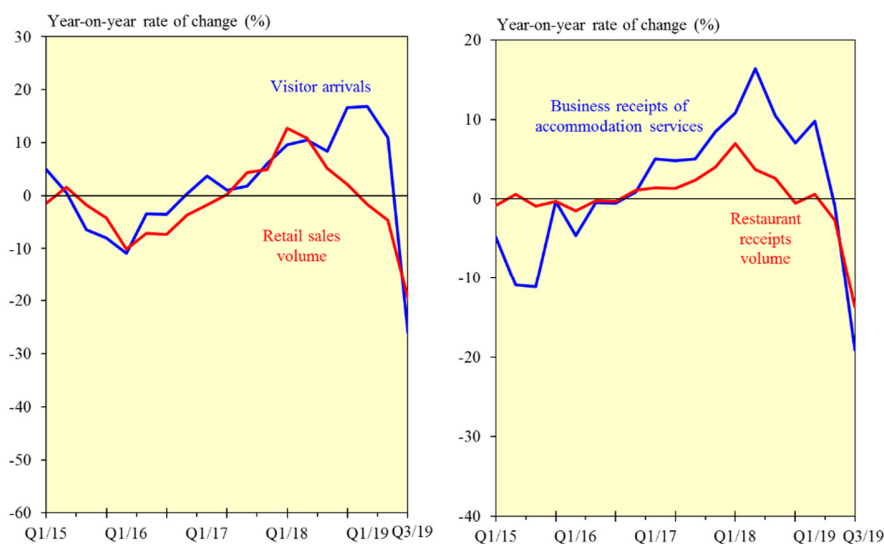
II. ESTIMATION METHOD

2. As Hong Kong is a small and open economy, its economic performance is susceptible to external factors. It is not an easy task to conduct a quantitative analysis of the impact of the local social incidents on our economy. We have used several estimation methods and their results are largely consistent. This article elaborates on one of these estimation methods that uses more reliable data, is more concise in logical reasoning and yields relatively conservative results.

3. Both objective data and feedback from the affected trades through various channels clearly indicate that the local social incidents caused significant disruptions to inbound tourism and consumption-related sectors. The retail, restaurant, accommodation and inbound tourism sectors were particularly hard hit. The business performances of these sectors deteriorated sharply in the third quarter of 2019, at a pace¹ not seen for many years (*Chart 1*) and apparently disproportionate to the external development during the period. As such, bulk of worsening business situation in these sectors from the second quarter to the third quarter conceivably reflected the significant disruptions by the local social incidents and violent acts. Therefore, by comparing the business performances of these sectors between the second and third quarters, and making reference to the operating statistics of the affected sectors (including those on the relationship between their business receipts and value added) and the interrelations among different sectors obtained from the Census and Statistics Department's (C&SD) annual survey, the economic losses caused by the local social incidents can be crudely estimated.

1 In the third quarter of 2019, the year-on-year decline in the volume of retail sales enlarged markedly to 19.5% from the 4.7% in the second quarter. The decline in restaurant receipts in real terms widened visibly to 13.7% in the third quarter from the 2.7% in the second quarter. Visitor arrivals drastically turned to a 26.0% decline in the third quarter from a 10.9% increase in the second quarter. As for hotel sector, the decline in business receipts of accommodation services accelerated further to 19.3% in the third quarter from 0.9% in the second quarter. Meanwhile, around 40 territories issued a travel alert for Hong Kong because of the local social situation.

Chart 1 : The performances of the retail, restaurant and accommodation sectors and visitor arrivals saw noticeable declines in the third quarter of 2019



4. Economic losses are calculated in terms of value added, which mainly includes profits and income. It is worth noting that a fall in business receipts in one sector does not only cause direct economic losses for that sector, but also leads to indirect economic losses for other supporting sectors. All figures in this article are in 2018 prices.

III. ESTIMATION RESULTS

5. By comparing C&SD’s data in the second and third quarters of 2019, it is estimated that the recent local social incidents resulted in **additional** declines in retail sales volume, restaurant receipts and business receipts for the accommodation sector, of around 15, 11 and 18 percentage points respectively. Moreover, visitor arrivals turned abruptly to a year-on-year decline of 26.0% in the third quarter of 2019, from a 10.9% increase in the second quarter, which also led to a plunge in other tourists’ consumption expenditure in Hong Kong in the third quarter. In sum, the disruptions to the retail, restaurant and accommodation sectors as well as other tourists’ consumption expenditure due to the local social incidents are crudely estimated to bring about possible economic losses of **about \$15 billion** in total (in 2018 prices) in the third quarter of 2019, **equivalent to about 2% of GDP in the third quarter of 2018² (Table 1)**.

² According to the chain volume measures of GDP by economic activity, the decline in the value added of the retail sector in real terms enlarged markedly to 20.6% in the third quarter of 2019 from 4.8% in the second quarter. The decline in the value added of the restaurant sector in real terms widened visibly to 15.6% in the third quarter from the 2.7% in the second quarter. The value added of the accommodation sector in real terms turned to a decline of 10.4% in the third quarter from a 1.4% increase in the second

6. Hence, by taking account of the economic impacts on these tourism- and consumption-related sectors only, of the 2.9% year-on-year economic contraction in the third quarter, around 2 percentage points were attributable to the impacts of such factors as violent acts and social unrest. Apart from the direct economic losses for these sectors, the indirect economic losses for other supporting sectors are also taken into account.

7. Other factors could also have contributed to the worsening of the business in the retail, restaurant and accommodation sectors as well as other tourists' consumption expenditure in the third quarter. For instance, the abrupt deterioration in US-Mainland trade talks in the third quarter of 2019 led to a drop in the local stock market and dampened consumption sentiment, which, to some extent, affected the retail and restaurant sectors. Nonetheless, external factors and the wealth effect arising from the asset market swings in the third quarter appear to be difficult to explain the abrupt deterioration of inbound tourism and consumption-related sectors in that quarter³.

IV. CONCLUDING REMARKS AND CAVEATS

8. It is worth noting that, as the local social incidents involving violent acts also dampened overall economic and investment sentiment, the consumption expenditure of local residents on sectors other than retail, restaurant and accommodation services as well as investment expenditure of business enterprises conceivably were also affected. The above crude estimates, which have not taken such factors into account, might be relatively conservative.

quarter. If crudely estimated with reference to the worsening in value added in the second and third quarters, the severe setbacks in these sectors and the decline in other tourists' consumption expenditure caused by the local social incidents would entail economic losses of slightly above 2 percentage points of GDP in the third quarter, somewhat higher than the estimate in this article.

3 We also utilised an internal econometric model to estimate the expected economic performance of Hong Kong economy in the third quarter of 2019 in the absence of the local social incidents and taking a comprehensive account of external factors. The estimate was then compared with the actual figures to gauge the economic impact of the local social incidents. The estimate derived from this method is more than 2 percentage points of GDP, higher than the estimate in this article. From this, the evolving external factors should not be the major cause of the abrupt deterioration in our economy in the third quarter of 2019. As for the wealth effect, the Hang Seng Index averaged 27 007 in the third quarter, down 5.6% from the second quarter. Past research by Hong Kong's scholars and analysts indicates that the wealth effect on consumption and the economy due to such magnitude of change would be rather limited. For more details, please refer to the Economic Letter of the Office of the Government Economist entitled "Quantitative analysis of wealth effects on private consumption expenditure in Hong Kong" (May 2019). <https://www.hkeconomy.gov.hk/en/pdf/el/el-2019-05.pdf>

Table 1 : Crude estimates of the economic losses arising from the decline in businesses of the retail, restaurant and accommodation sectors, as well as that of other tourists' consumption expenditure in the third quarter of 2019

	Retail sector ^(*)	Restaurant sector ^(^)	Accommodation sector ^(@)	Other tourists' consumption expenditure ^(α)	Total
Additional losses in business receipts / visitor arrivals, comparing the third quarter with the second quarter	Around 15 percentage points (Business receipts)	Around 11 percentage points (Business receipts)	Around 18 percentage points (Business receipts)	Around 37 percentage points (Visitor arrivals)	
	(\$ billion, 2018 prices)				
Direct economic losses	3.19	1.65	1.29	1.66	7.79
Indirect economic losses ^(#)	4.19	1.35	0.49	0.96	7.00
Direct and indirect economic losses ^(β)	7.38	3.01	1.78	2.62	14.79
Notes : (#)	The supporting industries for retail, restaurant and accommodation sectors as well as other tourists' consumption expenditure include the import/export trade, wholesale trade, transportation and finance sectors, among others.				
(*)	The value added of the retail sector amounted to \$90.9 billion in 2018, with a 3.4% direct contribution to GDP (at basic prices).				
(^)	The value added of the restaurant sector amounted to \$60.2 billion in 2018, with a 2.2% direct contribution to GDP (at basic prices).				
(@)	The value added of the accommodation sector amounted to \$31.1 billion in 2018, with a 1.2% direct contribution to GDP (at basic prices).				
(α)	The value added of other tourists' consumption expenditure amounted to \$32.6 billion in 2018, with a 1.2% direct contribution to GDP (at basic prices).				
(β)	Direct and indirect economic losses are crudely estimated by comparing the business performances of these sectors in the second and third quarters of 2019, and making reference to the operating statistics obtained from C&SD's annual survey.				