

Impact of Coronavirus Outbreak on Hong Kong Economy

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The outbreak of coronavirus disease, which has started since late 2019 with the number of infected and fatality cases far exceeding those of the 2003 SARS episode, is likely to further dampen the weak growth momentum of Hong Kong. Currently, the Hong Kong economy has entered into negative growth, with tourism, retail and restaurants facing the hardest hit. Hong Kong residential property market continues its consolidation trend. The Hong Kong economy is expected to record two consecutive years of negative growth in 2020.

1. A basic assessment of the current coronavirus disease outbreak

The current coronavirus disease came at the time of massive movement of people around the Chinese New Year and spread at a much faster and wider scale than the 2003 SARS episode in the Mainland. According to the National Health Commission, all the provinces, autonomous regions, municipalities and special administrative regions have recorded infected cases, with the number of infected and fatality cases in the Mainland at 80,026 and 2,912 as of 1 March respectively. Moreover, the World Health Organization has declared the epidemic as a global health emergency event. Over 60 countries around the globe recorded coronavirus infected cases. The number of infected cases in Japan, South Korea and Italy, etc., have increased rapidly, with rising risks of community-wide outbreak. If the disease continues to spread overseas, there is also a risk of more imported cases ahead.

The trend of the coronavirus outbreak remains highly uncertain. The number of infected cases increased rapidly starting from mid-January and entered into a stage of rapid growth in February. It is expected that the outbreak will gradually dissipate between early April and mid-April. According to historic experiences, the surge in SARS cases gradually came to an end during the summer season in June, though it remains uncertain whether the current outbreak will be eased when the weather turns warmer. Some experts even warned that the coronavirus disease may become chronic and will continue to exist like flu. Therefore, it is necessary to prepare for the worst-case scenario. This report will assess the economic impact on Hong Kong in accordance with the base scenario.

2. The Hong Kong economy faces huge downward pressures amid epidemic outbreak

The Hong Kong economy recorded a negative growth of 1.2% in 2019, the first negative print since 2009. In 1H 2019, the Hong Kong economy recorded a subdued growth of 0.5% year-on-year, largely reflecting the impact of China-US trade tensions. In 2H 2019, the Hong Kong economy was not only dragged down by the external uncertainties but also the violent demonstration related to the amendment of the Fugitive Offenders Ordinance. The Hong Kong economy then contracted by 2.8% and 2.9% year-on-year in real terms in Q3 and Q4 respectively, resulting in a negative growth for the full year of 2019.

Although the number of current infected and fatality cases of coronavirus disease in Hong

Kong are much lower than those of the SARS outbreak in 2003, the strengthened policy measures, such as the closure of a number of border check points, the suspension of individual visitor scheme, the implementation of mandatory quarantine, the extended period of school suspension, and the work-from-home arrangements initiated by the government, as well as the high public awareness of epidemic prevention, etc., will inevitably lead to huge downward pressures on the Hong Kong economy in the near term.

On one hand, the dependency of Hong Kong on the Mainland economy has increased notably since the 2003 SARS episode. The share of Hong Kong merchandise exports to the Mainland increased from 42.6% in 2003 to 55.4% in 2019, while the share of services exports to the Mainland also raised from 27.0% in 2003 to 40.4% in 2018. The number of Mainland's tourist arrivals reached 43.77 million in 2019, accounting for 78.3% of the total, up from 8.47 million and 54.5% in 2003.

From the financial perspective, the number and market capitalization of Mainland companies listed in Hong Kong reached 1,258 and HK\$ 26.39 trillion in January 2020, accounting for 51% and 73% of total respectively compared with 249 (24% share of total) and HK\$ 1.68 trillion (30% share) in 2003, while the amount of IPO funds raised by Mainland enterprises reached HK\$ 256 billion (82% share) in 2019, a significant increase from HK\$ 51.3 billion in 2003. In 2019, the amount of Mainland-related loans extended by Hong Kong banks reached HK\$ 4.63 trillion (no relevant information in 2003), and the amount of direct investment inflows from the Mainland also reached HK\$ 296.6 billion in 2018, a significant increase by 6.8 times from the 2003 level. In addition to the abovementioned data, Hong Kong is the world's largest offshore RMB center, a prominent asset management center in Asia, and an international arbitration center, all of these have a substantial proportion of businesses serving the Mainland economy.

On the other hand, the Mainland economy is currently being hit by the epidemic, with Q1 economic growth likely to slow sharply. The epidemic prevention remains the first priority, in which the cross-border movement of people, consumption and investment sentiment, the pace of business development and expansion, etc., are all expected to be affected. In addition, the Mainland has now played an important role in the global economy. With the Mainland economic activities now being hit by epidemic, transportation, logistics and industrial production are also likely to face difficulties in resuming its full production, and most of the additional US tariffs on Mainland goods remain unchanged, Hong Kong, acting as a major financing services and trading hub of Mainland, will inevitably be affected.

3. The epidemic directly hits the tourism, retail and restaurant sectors, etc.

Over the past decade, the Hong Kong economy has benefited from the large inflows of Mainland tourists, providing strong support to a number of inbound tourism related sectors, such as retail, accommodation, food and beverage as well as cross-border transportation, etc. In 2H 2019, the tourism related sectors have already been hit by the violent demonstration related to the amendment of the Fugitive Offenders Ordinance. The number of tourist arrivals declined by 43.7%, 55.9% and 51.5% year-on-year between October and December 2019 respectively, and the value of retail sales also declined by 24.4%, 23.7% and 19.4% year-on-year during the same period. Currently, the tourism and retail sectors have yet recovered from the social incident, and the coronavirus epidemic will hit those sectors further.

Meanwhile, the Hong Kong SAR government has shut all the cross-border check points except

Hong Kong International Airport, Shenzhen Bay, and Hong Kong-Zhuhai-Macau Bridge, which substantially reduced the cross-border transportation services, prohibited all Hubei residents and anyone who has visited Hubei in the last 14 days from entering Hong Kong unless they are Hong Kong residents, suspended all group tourists, individual visitor scheme from the Mainland, and mandatory quarantined all those who have visited the Mainland in the last 14 days, etc. In 2019, more than three-fourth of the visitors came from the Mainland. According to the preliminary figures of Hong Kong Tourism Board, the number of daily tourist arrivals declined to just 3,000, down 98% year-on-year and far lower than the trough of 10,000 in May 2003. The hotel industry also revealed that the occupancy rate dropped to just 20%, with some high-class hotels even declined to single digit level, reflecting that Hong Kong tourism industry has already come to a halt.

In the retail, food and beverage sectors, the impact is not only limited to the dramatic decrease in the number of tourists visiting Hong Kong, it is also affected by reduced local economic activities due to lower movement of people, extended suspension of schools, and the work-from-home arrangements by the government and large corporations, etc. It is reported that there is an increasing number of retail and catering establishments closing their stores or reducing their service hours, and some of them even cut wages or downsized their operations. The unemployment rate of retail, accommodation and catering sector increased to 5.2% between November 2019 and January 2020, up 1.7 percentage points from the previous year, though it has yet fully reflected the negative impact from the epidemic outbreak. The unemployment rate of those industries is expected to increase sharply in 1H 2020.

4. The recovery trend after the epidemic might be different from that of the SARS episode

Generally, the economy will suffer from a huge short-term shock from the epidemic with a gradual recovery after the outbreak. But the recovery of current outbreak is likely to be different from that of the SARS episode.

1) The Hong Kong economy is in a different stage of development and unlikely to stage a rebound similar to the SARS episode

Firstly, the Hong Kong economy before the SARS outbreak in 2003 had entered into a consolidation for six years since the Asian Financial Crisis in 1997. The economy expanded 1.7% in 2002. The residential property prices had already declined by more than 60%, while deflation was coming to an end. Therefore, the SARS episode resulted in a huge short-term impact on the economy, but the economy then quickly recovered in the coming few quarters.

Secondly, even the Hong Kong economy was not that satisfactory after the Asian Financial Crisis, the annual economic growth rate between 1999 and 2002 still reached 3.1% in real terms, higher than 2.8% average between 2014 and 2018. In 2019, the Hong Kong economy was dragged down by the escalating trade tensions between China and the US, the social incident and violent demonstration, which resulted in the first negative growth in ten years. Against this backdrop, the current coronavirus disease will lead to a further hit to the Hong Kong economy.

2) Residential property prices remain at multi-year high and likely to have huge volatilities ahead

Compared to the SARS episode in 2003, the residential property bubble had already bust after the Asian Financial Crisis and entered into six years of correction. Residential property prices

declined by more than 60% in 2002 and SARS was just one of the driving forces leading to further price correction. The residential property prices declined by a total of 70% to its trough in 2003.

Currently, residential property prices stay at multi-year high and has yet entered into a notable consolidation, largely because of the government's demand management measures and Hong Kong Monetary Authority's prudential mortgage management measures as well as the low interest rate environment of Hong Kong. However, an elevated property price is more likely to result in huge volatilities. If the Hong Kong economy enters into a prolonged period of negative growth ahead, the residential property prices are likely to face a certain degree of downward pressure.

Nevertheless, with the support of largely accommodative global monetary policy environment, prolonged low interest rate in Hong Kong, relatively tight housing supply conditions, and the somewhat relaxing mortgage regulations, etc., the property market is not expected to record substantial decline and will likely recover in tandem with the overall economy, assuming there is no change to the regulatory measures of both the government and Hong Kong Monetary Authority.

3) The economy and financial markets of both the Mainland and Hong Kong are much larger in scale than the SARS episode, the positive policy effect is also likely to be different

In 2002, the economy of the Mainland and Hong Kong reached US\$ 1.48 trillion and US\$ 166.4 billion respectively, while they expanded 9 times and 124% to US\$ 14.4 trillion and US\$ 373.0 billion in 2019 respectively. At the same time, the market capitalization and the banking sector assets of Hong Kong also increased 9.6 times and 3 times from HK\$ 3.61 trillion and HK\$ 6.0 trillion in 2002 to HK\$ 38.36 trillion and HK\$ 24.46 trillion in 2019 respectively.

Based on the current size of the Hong Kong economy and its financial markets, it should have some capabilities to withstand from the speculative attack, in particular most hedge funds remain rather limited in asset size at several hundred billion US dollars. On the other hand, if it is hoped to formulate any policy measures to support the Hong Kong economy or financial markets, the positive policy effect is likely to be more subdued because of its much larger base currently.

5. Counter cyclical measures are supportive to Hong Kong economic growth

All in all, the main challenge for the Hong Kong economy in 2020 is the epidemic outbreak, which is likely to bring huge uncertainty regarding when the economy will recover. As the outbreak continues to take toll, together with prevention measures such as work-from-home arrangements by the government and large corporations, and school suspension for an extended period, the Hong Kong economy is likely to contract further with a negative growth of 5% to 6% in 1H 2020. In addition to the epidemic, the economic outlook is still clouded by the unresolved local social incident and violent demonstration, and the external performance is also constrained by the China-US trade tensions and tariff measures, etc.

It is worth mentioning that the government has a fiscal reserve of over HK\$ 1 trillion, which gives it enough capacity to provide counter cyclical measures to support the economy. Recently, the Financial Secretary in his latest Budget announced HK\$120 billion spending plan, equivalent to over 4% of GDP, to support enterprises, safeguard jobs, stimulate the economy and relieve people's burden, which could offset the contractionary pressures and provide stimulative effects to the economy. The full year Hong Kong GDP growth is expected to contract by around 0.4% for 2020.

主要經濟指標 (Key Economic Indicators)

一. 本地生產總值 GDP	2018	2019	2019/Q3	2019/Q4
總量 (億元) GDP(\$100 Million)	27,355	27,030	6,996	6,738
升幅 (%) Change(%)	2.9	-1.2	-2.8	-2.9
二. 對外貿易 External Trade			2020/1	2020/1
外貿總值 (億元) Total trade(\$100 Million)				
總出口 Total exports	41,581	40,961	2,694	2,694
進口 Total imports	47,214	45,714	3,000	3,000
貿易差額 Trade balance	-5,633	-4,753	-306	-306
年增長率 (%) YOY Growth(%)				
總出口 Total exports	7.3	-5.6	-22.7	-22.7
進口 Imports	8.4	-8.1	-16.4	-16.4
三. 消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	2.4	2.9	1.4	1.4
四. 樓宇買賣 Sale & Purchase of Building Units				
合約宗數 (宗) No. of agreements	79,193	74,804	3,776	3,776
年升幅 (%) Change(%)	-5.5	-5.5	-32.4	-32.4
五. 勞動就業 Employment			2019/10- 2019/12	2019/11- 2020/1
失業人數 (萬人) Unemployed(ten thousands)	10.5	12.4	12.4	12.2
失業率 (%) Unemployment rate(%)	2.8	3.3	3.3	3.4
就業不足率 (%) Underemployment rate(%)	1.1	1.2	1.2	1.2
六. 零售市場 Retail Market			2020/1	2020/1
零售額升幅 (%) Change in value of total sales(%)	8.8	-11.1	-21.4	-21.4
零售量升幅 (%) Change in volume of total sales(%)	7.6	-12.3	-23.0	-23.0
七. 訪港遊客 Visitors				
總人數 (萬人次) arrivals (ten thousands)	6,515	5,590	320.8	320.8
年升幅 (%) Change(%)	11.4	-14.2	-52.7	-52.7
八. 金融市場 Financial Market			2019/12	2020/1
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	783.6	779.3	779.3	776.6
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	-0.4	2.6	2.6	3.2
M2	4.3	2.8	2.8	2.3
M3	4.3	2.7	2.7	2.2
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	5.0	2.9	2.9	0
港元存款 In HK\$	3.6	2.5	2.5	1.1
外幣存款 In foreign currency	6.4	3.2	3.2	-1.2
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	4.4	6.7	6.7	0.7
當地放款 use in HK	4.0	7.1	7.1	0.8
海外放款 use outside HK	5.3	5.8	5.8	0.3
貿易有關放款 Trade financing	-7.7	-0.7	-0.7	-0.6
最優惠貸款利率 (%) Best lending rate (%)	5.1250	5.0000	5.0000	5.0000
恆生指數 Hang Seng index	25,846	28,189	28,189	26,312