# Hong Kong

September 2020

| Agriculture | Automotive/ Transport | Chemicals/ Pharma | Construction Const.Mtrls | Consumer Durables | Electronics/ ICT | Financial Services | Food | Machines/ Engineering | Metals | Paper | Services | Steel | Textiles |
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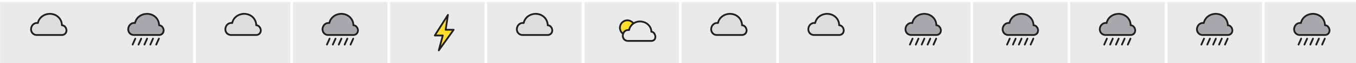

Source: Atradius

## Industry performance

Changes since June 2020 · Sources: Atradius, Oxford Economics

### Automotive/Transport

**Down from Fair to Poor**

Due to supply chain disruptions and lower consumer and investor sentiment, sales of passenger cars and commercial vehicles are decreasing. Automotive value added is expected to contract by 14.5% in 2020. Import and export activities have been adversely impacted by worldwide lockdown policies. Transport value added is expected to decline by almost 9% in 2020.

### Chemicals/Pharmaceuticals

**Remains Fair**

Local demand for pharmaceutical products should benefit from rising health awareness and related expenses. However, due to less demand from mainland China, pharmaceuticals value added is expected to grow only 0.2% in 2020.

### Construction/ Construction Materials

**Down from Fair to Poor**

Due to sharply increasing property prices, the Hong Kong government has adopted various measures to control prices and expand land supply. Social unrest as of mid-2019 has caused rising resident outflow and decreasing inflow. The inflow decrease accelerated due to the lockdown, which in turn has lowered demand for flats. Following a 5.8% decrease of value added in 2019, construction is forecast to record a consecutive decline of about 6% in 2020.

### Consumer Durables

**Remains Bleak**

Sector performance has deteriorated with the beginning of social unrest in mid-2019, as shops and malls were closed when protests took place in certain districts. Due to the lockdown policy as of February 2020, tourists from the mainland (who used to be a main revenue source for the sector) are banned from entering Hong Kong. Decreased consumer sentiment and rising unemployment hamper a rebound in the short-term. After a 6% decline in 2019, retail value added is forecast to decrease 18% in 2020. Due to mounting cashflow issues, both closures and insolvencies of local shops have increased.

### Electronics/ICT

**Remains Fair**

Hong Kong is mainly a re-export hub for electronic components sold to/by Chinese factories, and an ICT services provider. In H1 of 2020, the sector suffered from global lockdown measures, supply chain disruptions and deteriorating demand. Due to the ongoing US-China trade war and US sanctions on Chinese ICT businesses, Hong Kong electronics/ICT manufacturers with Chinese factories could suffer revenue losses. Some manufacturers resort to relocating their factories to Southeast Asia (e.g. Vietnam and Malaysia) in order to avoid US tariffs. ICT value added is expected to contract by almost 2% in 2020 and rebound in 2021 by more than 3%, given that supply chain issues are overcome and demand resumes.

### Financial Services

**Remains Good**

The financial sector is of major importance to the Hong Kong economy. Over the past decade, the sector has benefited from active cross-border financial and fund-raising activities. However, 2020 has been a volatile year so far for the industry amid the coronavirus pandemic. The stock market plunged in February and March due to immerse uncertainty, but started to recover again in April, thanks to quantitative easing by the US Federal Reserve and hot money flowing to the market. Due to listing restrictions on Chinese companies by the US, some mainland Chinese companies, such as Alibaba and JD.com, resort to raising funds in Hong Kong, which boosts the local IPO market.

The coronavirus outbreak has impacted cash flow and liquidity of local companies, which could lead to more loan defaults and tighter lending conditions. However, provisions of guarantee by the Hong Kong government were established to assist SMEs in seeking adequate bank loans. Finance sector value added is forecast to grow by about 1% in 2020.

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## Industry performance

Changes since June 2020 · Sources: Atradius, Oxford Economics

### Food

**Remains Fair**

Despite ongoing sales, the supply chain has been impacted by the consequences of the lockdown. With the coronavirus pandemic, dining at home has become more frequent, which has increased consumers´ purchases at supermarkets/wet markets. At the same time, almost all restaurants have been severely impacted, facing many restrictions due to social distancing measures. After a slight 0.5% growth in 2019, value added is forecast to slightly contract by 1.5% in 2020.

### Machines/Engineering

**Remain Fair**

Local machines/engineering companies have set up their factories mainly in China and Southeast Asia, and Hong Kong serves as a middleman between mainland Chinese factories and overseas end-buyers. In Q1 of 2020, the nationwide lockdown in China delayed production schedules and disrupted the supply chain. Due to the still subdued global economic outlook, factories receive less orders and have reduced their production scale. The re-export volume from Hong Kong is expected to decrease, and sector value added is forecast to contract by almost 8% in 2020.

### Metals/Steel

**Remains Poor**

Metal and steel factories are rarely found in Hong Kong, with local businesses in this sector mainly serving as traders. Metals and steel demand has been negatively affected by lower demand from end-sectors, such as construction, automotive and shipbuilding.

### Paper

**Down from Fair to Poor**

The paper industry is of minor relevance in Hong Kong compared to other sectors. Due to the economic slump and decreasing advertisement revenues, some magazines and newspapers have left the market. Due to increased remote working, demand for office paper has decreased. Paper value added is expected to contract by 14.5% in 2020.

### Services

**Remains Poor**

The services sector is one of the most important industries in Hong Kong. In 2019 revenues were already negatively affected by social unrest and a slight decline in the number of tourists. This has been exacerbated by the coronavirus pandemic. Due to the lockdown policy, the monthly number of tourists has decreased by 90% year-on-year since February 2020. To counter the local outbreak, the Hong Kong government temporarily banned the operation of entertainment businesses, beauty salons, fitness centres, etc. Nighttime dine-in services were also prohibited for restaurants. Hotel and catering sector value added is forecast to decline by almost 40% in 2020.

Suffering from high rents and loss of revenues, many local service providers started to face cashflow issues and have chosen to cease business, and both payment delays and insolvencies are expected to rise in the coming months.

### Textiles

**Down from Fair to Poor**

Local textile companies have set up their factories mainly in China and Southeast Asia, and Hong Kong serves as a middleman between mainland Chinese factories and overseas end-buyers. Due to the still subdued global economic outlook, factories have received fewer orders and have reduced their production scale. Due to ongoing US-China trade war, Hong Kong textile manufacturers with factories on the mainland could suffer revenue losses. Some manufacturers have started to relocate their factories to Southeast Asia in order to avoid US tariffs. In the domestic market, wholesalers and retailers are facing declining sales due to lower consumer sentiment. Textiles value added is forecast to contract by almost 10% in 2020.