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## **Hong Kong**

### **Agricultural Situation**

## **Hong Kong's Economy is on the Path to Recovery**

**1999**

Prepared by:

**Howard R. Wetzel**

**U.S. Consulate General, Hong Kong**

Drafted by:

Caroline Yuen

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#### **Report Highlights:**

Hong Kong's economy has showed signs of recovery in 1999 and food imports have strengthened, starting in the latter half of 1999. However, U.S. food exports to Hong Kong during January-September 1999 remained soft, experiencing a decline of 14 percent when compared with the same period of 1998. The decline in U.S. exports to Hong Kong exceeded the decline of Hong Kong's total food imports, implying that U.S. food products are facing severe competition from other suppliers.

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Includes PSD changes: No

Includes Trade Matrix: No

Unscheduled Report

Hong Kong [HK1], HK

Hong Kong's economy has showed signs of recovery in 1999 after suffering a setback last year. Positive economic indicators such as retail sales, restaurant receipts, and tourist arrivals have helped to strengthen Hong Kong's food imports, starting in the latter half of 1999. Supermarket and Chinese restaurant businesses are doing particularly well. However, U.S. food exports to Hong Kong during January-September 1999 remained soft, experiencing a decline of 14 percent when compared with the same period of 1998. The decline in U.S. exports to Hong Kong exceeded the decline of Hong Kong's total food imports, implying that U.S. food products are facing severe competition from other suppliers. The purpose of this report is to give an update on Hong Kong's food market, analyzing the economy's impact on Hong Kong's food imports, restaurant and food retail business.

### ***Hong Kong Economy***

Hong Kong continues to maintain its free trade policy after the 1997 handover to China. The absence of trade barriers and capital controls allow the free flow of goods into Hong Kong. In fact, the Heritage Foundation and the Wall Street Journal have just published the "2000 Index of Economic Freedom" and named Hong Kong as the world's freest economy - for the sixth straight year.

The continuation of this free trade policy is crucial to the gradual recovery of the Hong Kong economy. After nearly two years of exceptional difficulty, Hong Kong has weathered the storm of the Asian financial crises. Following a 0.7 percent growth in GDP in the second quarter of 1999, the first positive figure since the final quarter of 1997, the third quarter indicated a robust 4.5 percent GDP growth over a year earlier. The growth has been partly attributed to the revival of the tourism sector and the picking up of local consumer spending. These are favorable factors for U.S. food exports to Hong Kong. For 1999 as a whole, GDP is forecast to grow 1.8 percent.

Following a marked upturn some months earlier, the residential property market settled somewhat in the third quarter of 1999. Compared with the trough in October 1998, flat prices were higher by an average of 12 percent. Yet compared with the peak level in 1997, they were still 28 percent lower. The stock market also rebounded from an index at 7,000 in August 1998 to over 16,000 in December 1999.

Looking ahead, the Hong Kong economy appears poised to continue benefiting from the revival of demand in East Asia, better economic conditions in Europe, and sustained import growth in the U.S. An improvement in Hong Kong's export trade will help boost the local economy, with increased spending expected for food and eating out. Nonetheless, the high unemployment rate of 6.1 percent inhibits consumer spending sentiment. The drop in the Consumer Price Index - forecast to decline 4 percent for 1999 - implies that the Hong Kong economy is undergoing cost/price adjustments to restore some of its lost competitiveness. The food industry is no exception. Price is the key consideration for all sectors including import, wholesale, retail and HRI businesses. With weakening prices, business turnover in terms of value cannot match that in terms of volume.

### ***Retail Sales & Restaurant Receipts***

The volume of retail sales for January-September 1999 amounted to US\$17.3 billion (HK\$133.7 billion), a decline of 3.5 percent compared with the same period last year. But for the first half of 1999, the decrease in retail volume over the same period of 1998 was as big as 6.1 percent. In fact, the volume of retail sales started to register a positive year-on-year growth starting in July (+0.8 percent) and continuing into August (+2.1 percent) and September (+2.5 percent). In other words, the Hong Kong economy is gradually recovering and consumers have more incentive to

spend money. This positive phenomenon is reflected by the growth in retail sales of high-value items such as motor vehicles (15 percent) and jewellery & watches (4 percent) for September 1999.

For food and drinks, the retail volume increased 3.3 percent for January-September 1999 when compared with January-September 1998, whereas retail value increased just 0.2 percent. This reflects the deflation of food prices in Hong Kong. For the first nine months in 1999, retail volume for supermarkets declined 1.8 percent. However, it is worth noting that year-on-year retail sales in supermarkets grew consecutively in July (0.6 percent), August (7.1 percent) and September (12 percent). The good performance of supermarket retail business in the past few months has been largely ascribed to the price war between major supermarkets. Attractive prices in supermarkets have been able to boost sales significantly. Presently, there are no imminent signs the price war will end soon, hence, retail sales for supermarkets are expected to continue to grow in the coming months.

### ***Restaurant Receipts***

The value of total receipts for the restaurant sector was estimated at US\$1.78 billion (HK\$13.8 billion) in the second quarter of 1999, virtually the same as a year earlier. Over the same period, the value of total food purchases by restaurants fell by 3 percent to US\$606 million (HK\$4.7 billion). These figures are more positive than those for the first quarter: total receipts -- US\$1.78 billion (HK\$13.8 billion), down 2 percent from the first quarter of 1998; total purchases -- US\$600 million (HK\$4.7 billion), down 6 percent from the first quarter of 1998. There are two points worth noting. First, the downward trend of restaurant receipts has halted, reflecting the gradual return of Hong Kong consumers' habit of eating out, in tandem with the pick-up in overall economic activity. Second, restaurant operators are continuing to control costs by substituting more economic for more expensive food items, coupled with the price deflation effect. As a result, restaurant purchases declined while restaurant receipts remained constant.

Analyzed by type of restaurants for the second quarter, the total receipts of Chinese restaurants remained virtually unchanged in comparison to the same period last year. Total receipts of bars increased by 2 percent. As to the miscellaneous eating and drinking places, the total receipts increased more markedly by 10 percent. On the other hand, the total receipts of non-Chinese restaurants fell by 1 percent in the second quarter of 1999 over a year earlier, whereas the total receipts of fast food shops remained virtually unchanged.

The rebound in inward tourism also contributed to the improvement in restaurant business. For January-September 1999, the number of tourists amounted to 7.7 million, increasing 11.2 percent from the corresponding period last year. Tourist expenditures on meals also rose 8.1 percent, totaling US\$667 million (HK\$5,168 million). The effect of rising tourism on Hong Kong's restaurant business cannot be underestimated - the tourist component of domestic restaurant receipts is estimated at about 12 percent. So the rebound of inbound tourism definitely affects Hong Kong's restaurant business.

### ***Imports & Retained Imports***

Studying the retail sales figures, it is not surprising to find that Hong Kong's year-on-year third quarter retained imports (1998: \$1,338 million; 1999: \$1,456 million; +9 percent) performed far better than the second quarter (1998: \$1,420 million; 1999: \$1,206 million; -15 percent). The remarkable 9 percent increase in retained imports of food has been driven by the upturn of the economy, consumers' more positive spending sentiment and improved inbound tourism in the latter half year of 1999 (see Figure 2).

On the other hand, the year-on-year downward trend for Hong Kong's food re-exports has narrowed from -13 percent for the second quarter to -5 percent for the third quarter (see Figure 3). An improvement in domestic demand and re-export trade resulted in the 4 percent increase in Hong Kong's total food imports for the third quarter, in contrast to the 14 percent decline in the second quarter (Figure1).

In the past nine months, U.S. food exports to Hong Kong declined 14 percent to \$1,009 million. The trend is similar to Hong Kong's total food imports, i.e, a far better third quarter (-4 percent) than second quarter (-29 percent) (Figure 4). However, it should be noted that Hong Kong's total food imports for January-September 1999 dropped only 5 percent, which translates to a loss of U.S. market share.

U.S. food exports to Hong Kong that experienced significant decreases in the past nine months when compared with the same period last year included red meats; fresh fruit; processed fruit and vegetables; and wine and beer. Apart from the slackened domestic demand and re-exports in Hong Kong, there were other factors at play. For example, a much smaller crop of U.S. oranges for export, due to the freeze in Southern California, led to the drop of U.S. fresh fruit exports. However, competition from other major suppliers and Hong Kong importers' opting for more economical products were also some key factors.

In conclusion, there are discernible signs that the economy is recovering from its recent low ebb. The positive impact on retail food sales, restaurant receipts and food imports for the third quarter is expected to continue into 2000. U.S. food exporters reviewing their marketing strategies for the Hong Kong market may take note that sales in supermarkets are surging and that sales at Chinese restaurants are picking up faster than non-Chinese restaurants. However, the continuing high unemployment rate (6.1 percent) in Hong Kong and lack of purchasing power in mainland China, which translates into lower Hong Kong food re-exports, will limit our optimism for next year's total Hong Kong food imports.

Figure 1: Hong Kong Total Food Imports

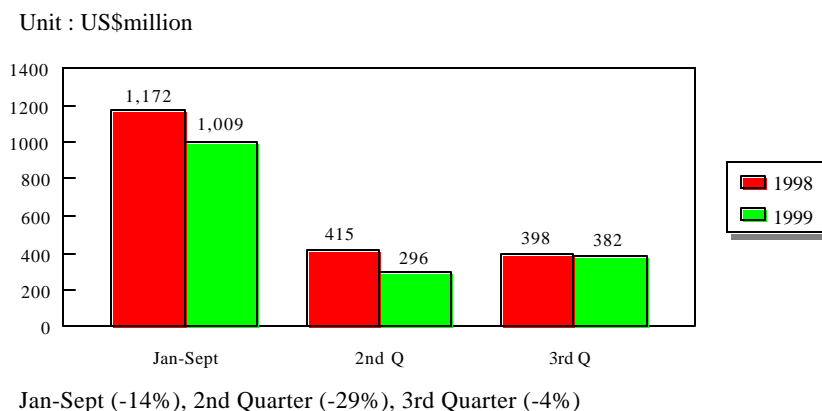


Figure 2 : Hong Kong Retained Imports

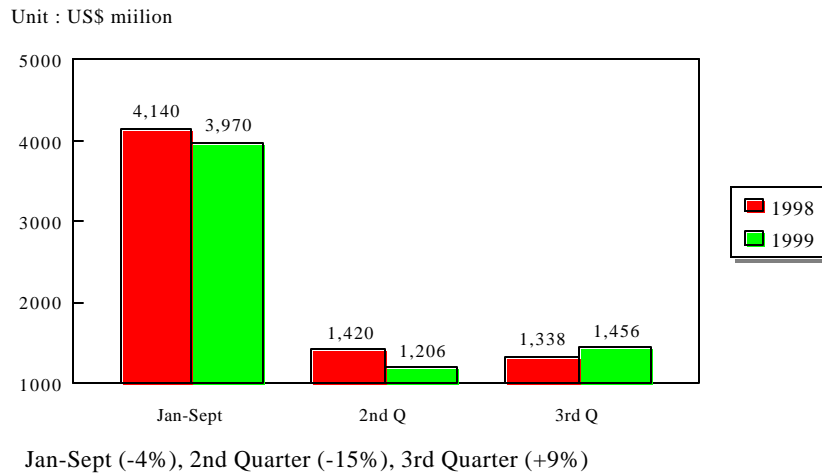


Figure 3 : Hong Kong Food Re-exports

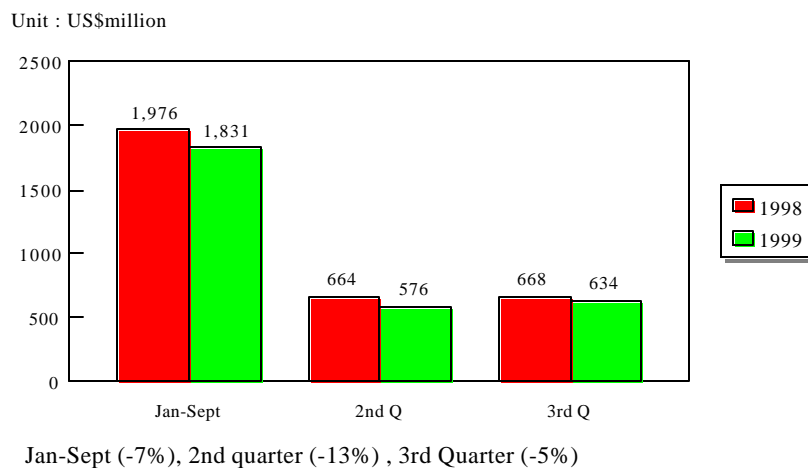


Figure 4 : US Food Exports to HK

