

RETAIL IN HONG KONG EXPECTS STRONG UPTURN

SALES INCREASE OF 4 TO 6 PER CENT TARGETED FOR 2018 / POPULATION FAVORS TRADITIONAL SHOPPING EXPERIENCE



Hong Kong (GTAI) - Hong Kong's favorite pastime is shopping. Chinese tourists also visit the city just for shopping quite often. The demand for jewelry, watches and cosmetics in particular is booming. The retail sales of the Special Administrative Region (SVR) is expected to rise to around USD 60 billion in 2018. The status-conscious consumers prefer Italian and French luxury goods. German providers can score in certain categories.

The Hong Kong Special Administrative Region (SAR) retail sector experienced one of its worst years of recent history in 2016. According to the statistics office, sales shrank nominally by 8 percent compared to the previous year. On the one hand, domestic consumers showed themselves buttoned-up side in the face of a rather sluggish economy. Private consumption rose in real terms by just under 2 percent.



On the other hand, the number of foreign visitors decreased. The tourism authority counted around 57 million arrivals in 2016 only, which was almost 5 percent less than in 2015. Three quar-

ters of the tourists traditionally come from the neighboring Chinese mainland and are particularly eager to buy. But in 2016, they restricted their purchases.

Domestic consumption rose in real terms by nearly 7 percent in the third quarter of 2017

However, the second half of 2017 brought the turnaround. The overall economy of SVR revived noticeably. Consumer spending in the third quarter increased by nearly 7 percent in real terms compared to the same period of the previous year. The number of tourists also rose again. From January to December, the authorities registered a growth of more than 3 percent.

Foreign visitor arrivals in Hong Kong (in millions)

Year	Visitors
2014	60.8
2015	59.3
2016	56.7
2017	58.5
2018 *)	60.0

*) Forecast

Source: Hong Kong Tourism Board

Retail sales rose in 2017 as a result by just over 2 percent to more than USD 57 billion. Especially at the end of the year, business had developed very briskly. In the fourth quarter, revenues increased by nearly 6 percent compared to the same quarter of the previous year. That leaves the economic researchers hoping for 2018. The auditing company PWC, for example, expects a market growth of 4 to 6 percent. As a result, the total revenues should rise to around USD 60 billion. It would thus be on about the same level as in 2014, but only in nominal terms.

Hong Kong retail sales (in USD bn, change on year to year in %)

Year	Value	Change
2015	60.9	-3.7
2016	56.0	-8.1
2017	57.2	2.2
2018 *)	about 60,0	4.0 to 6.0

*) Forecast

Source: 2014 til 2017: Hong Kong Statistical Office; 2018: PWC

The individual sectors of the retail trade developed very differently in 2017. The demand for electronic articles was weakening. But the business with jewelry, watches and cosmetics flourished. These are small and light goods, that Chinese tourists usually can take across the border without customs clearance. The equally lively sales of food and beverages as well as motor vehicles is mainly due to the greater



spending pleasure of domestic consumers.

Retail sales in 2017, by product group (in USD bn, year-on-year change in %)

Product group	Value	Change
Jewelry and Watches	9.6	3.4
Textiles	7.7	0.2
Medicine and Cosmetics	5.6	5.5
Food and Beverages	5.4	3.2
Electronic Articles	3.1	-9.0
Automotive, incl. parts	2.0	3.1
Furniture	0.9	2.2
Books and Stationery	0.9	1.0

Source: Hong Kong Statistical Office



For German providers of consumer goods, the former British colony is a not unattractive market. Although the population of 7.4 million is quite small, it has a gross domestic product (GDP) per capita that is at the level of Germany. Since there is virtually no manufacturing industry, almost all goods need to be imported. The Chinese tourists increase the volume of demand. In 2017 45 million visitors from the People's Republic came to Hong Kong. Many of them came just for one day, whose only goal was shopping.

German consumer goods are quite popular with both domestic consumers and Chinese tourists.

However, there are big differences between the different sectors. Apparel, leather goods and cosmetics are dominated by French and Italian brands in the upper market segment. For furniture (especially kitchens) or stationery German suppliers however play a significant role. Also body care and food "Made in Germany" enjoy a great popularity.

Big chains dominate the market

The retail sector is predominantly in the hands of large corporations. In the food sector the chains Wellcome and ParknShop dominate, in the drugstore area Watsons and Mannings as well as in the electronics division Fortress and Broadway. The e-commerce however has undermined its dominant position a bit.

However - the population still prefers the traditional shopping experience. Purchasing via the Internet does not yet play a major role for the end customer as in other countries around the world. But it has changed the business in the B2B area. In the meantime restaurants and hotels mostly shop online.

Internet addresses

Name	Internet address
Census and Statistics Department	http://www.censtatd.gov.hk/home/index.jsp (homepage); http://www.censtatd.gov.hk/hkstat/sub/sp320.jsp?tableID=089&ID=0&productType=8 (Overview of retail sales); http://gia.info.gov.hk/general/201802/01/P2018020100410_277399_1_1517469181773.pdf (Detailed retail sales statistics)
Hong Kong Tourism Board	http://partnernet.hktb.com/filemanager/intranet/pm/VisitorArrivalStatistics/Vis_Stat_E/VisE_2017/Tourism%20Statistics%2012%202017.pdf (Visitor Information and arrivals)

Source:

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