

# Golden week not that shiny for Hong Kong

Introduction of import tax cuts in China weighs on Hong Kong retail sales growth even though domestic consumer spending remains stable



Source: Shutterstock

**3.9%** Retail sales

Consensus: 4.9%

Worse than expected

## Mainland tourists not spending as much

It is disappointing to see retail sales growing at a slower rate in October because it was supposed to be a good month as it falls into Mainland's Golden Week. Mainland tourists came, but they did not spend as much. At ING, we were expecting 6.2% year-on-year as the prior figure was 5.6%.

Mainland visitors' favourite buy is jewellery which grew at 8.4%YoY in October, slower than the 14.8%YoY in September. Spending on Chinese drugs, optical shops, which are also Mainland tourists favourite buy in Hong Kong, also grew at a slower rate.

It's possible that many tourists may not only be coming to Hong Kong for shopping and the ones that do may not be spending on big ticket items.

## The import tariff cut will add extra burden

The fact that Mainland has announced to cut import tariffs for nearly 200 items including cosmetics, luxury fashion clothing and selected drugs and frozen and live seafood, which appear to be Mainland tourists' favourite buy in Hong Kong is certainly a cause for concern.

Some of these items are directly bought by tourists when they visit Hong Kong and some of these items are currently imported from Hong Kong and do not need to pay any tariffs.

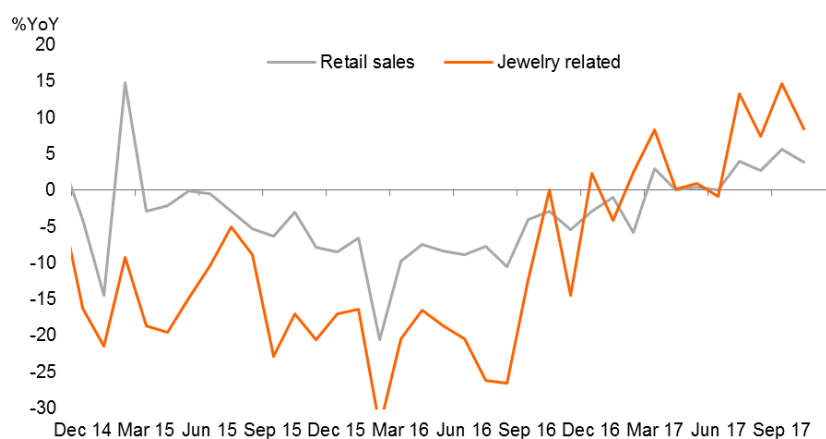
This means Mainland tariff cut in December would hurt Hong Kong's retail sales on most of the Mainland's favoured items, and because some of them are imported, it will also indirectly reduce Hong Kong imports somehow.

Sales of jewellery and luxurious watches will be closely watched because they are not included in the tariff cut list, most likely because of the anti-graft camping onshore. But we have to bear in mind that sales of these items are unstable.

Domestically, spending power is stable due to the low unemployment rate (3.0% in Oct) but stagnated real wage, which was 1.5%YoY in June, could provide some support for retail sales in general.

But the different spending pattern between domestic consumers and tourists imply that some retailers would feel the pain during the interim period. And this may be challenging to the historically low unemployment rate of 3.0% in Oct in the short term.

## Even the Golden Week holiday didn't boost Hong Kong retail sales



Source: ING, Bloomberg