

## Hong Kong's dire economic situation gets dramatically worse

Hong Kong retail sales were in a sea of red in October. Both domestic and tourism spending were dismal. This situation will only reverse once we see a long-term end to violent anti-government protests



Anti-government protests continued in Hong Kong over the weekend

**-24.3%** Hong Kong retail sales  
YoY, October

### Violent protests continue to wreck the economy

Hong Kong retail sales fell 24.3%YoY in October after falling 18.2% the previous month. It is the ninth consecutive month of negative yearly growth. The continuing violent anti-government protests and ongoing China-US trade tensions account for this dismal situation.

As we have [explained before](#) this is very different from the disruption we saw during the SARS epidemic in the early 2000s.

## Tourists not landing in Hong Kong

Tourists are not going to Hong Kong due to the brutal incidents at the airport, increasingly violent activities elsewhere and not to mention dreadful traffic conditions.

Sales of jewellery, mainland China tourists' favourite shopping item in Hong Kong, fell 42.9%YoY in October after big declines in August (-47.1%YoY) and September (-40.8%YoY).

And, of course, it's not just tourism from mainland China that's declined. Tourism from everywhere (literally everywhere [according to the Statistics Department](#)) on a monthly basis since August has dropped by double digits. And this has widespread impact on accommodation and catering spend.

And it's not just foreigners who are reducing their spending. From the retail sales data, we note that domestic spending is way down, with clothing sales falling 36.9%YoY in October after a fall of 25.9%YoY in September. It was a similar story for shoes and accessories (-37.0%YoY in October after -17.0%YoY in September).

## Vicious circle coming: more consumers will become unemployed

The trade war has led to redundancies in that sector. Since 1Q18, when it all started to kick off, employment there has fallen by 15%, affecting 67,500 people up to 3Q18. These people would normally be expected to get a job in the retail sector. But unfortunately, due to the violent protests, we see a 6% decrease in employment in both retail and catering affecting some 35,600 people just in the third quarter.

These people are themselves, consumers. If they cannot find a new job, this will put additional pressure on retail sales and will create more unemployment in the industry, thus creating a vicious circle.

### Hong Kong is entering a hard-landing recession

No one is expecting a sudden end to the violent situation. We're forecasting GDP growth at -7%YoY for 4Q19, and full-year growth will be -2.25% in 2019, which is close in scale to 2009's recession of -2.5%.

Our GDP growth forecast for 2020 is -5.8%, assuming that the trade war uncertainty will still be present, the violent protests will continue for the whole year, and unemployment will deepen, not least because of the impact on retail sales.