Economics

Chart of the Week: Hong Kong's retail sales and tourism downturn

Economics/Strategy/Rates/FX

Group Research

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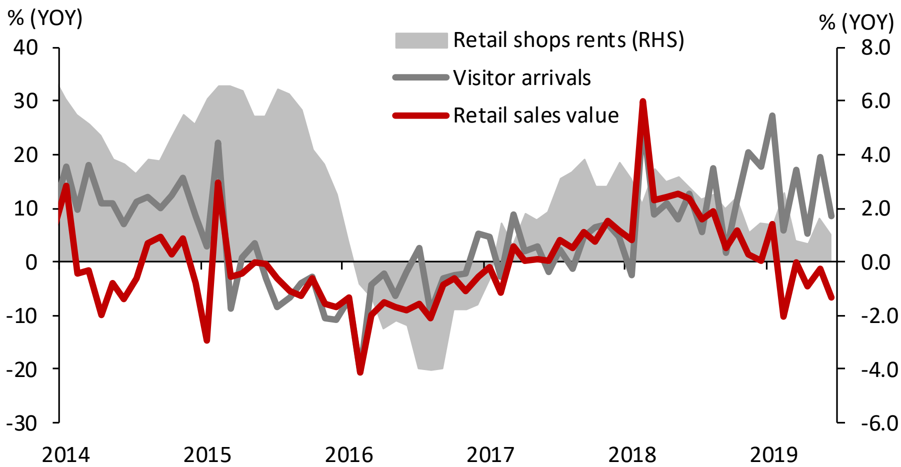
Key Events:

- *Japan's headline CPI is projected to ease to 0.6% YoY in July from 0.7% in June.*
- *Jobless rate of Hong Kong is expected to remain at a 20-year low of 2.8%. Yet, upward pressure is arising.*
- *Thailand's 2Q GDP is likely to slow to 2.3% YoY vs 2.8% in 1Q.*

Chart of the Week: Hong Kong tourist arrivals, retail sales value and rent

Retail sales (value) growth has been in negative territory since February. Trade tensions and domestic unrest are likely weighing on sentiments, in our view. As no respite is expected in the near term, the index could fall by 5% for 2019, especially as shops have not been able to operate during weekends. Weak CNY is an additional complicating factor hurting visitor arrivals. Underscoring the headwinds to the sector, tourism related jobless rate rose from 3.4% in February to 3.9% in June. We are concerned that such weakening of momentum could eventually feed through to commercial rental and the broader economy.

Tourist arrivals, retail sales value and rent



Source: CEIC, DBS

Event	Consensus	DBS	Previous
Aug 19 (Mon)			
Hong Kong: unemployment rate (Jul)	2.8%	2.8%	2.8%
Japan: Trade balance (Jul)	-JPY 194.5bn	-JPY 198.2bn	-JPY 589.5bn
-- exports	-2.3% y/y	-4.4% y/y	-6.7% y/y
-- imports	-2.3% y/y	-4.7% y/y	-7.2% y/y
Thailand: GDP (2Q)	2.3% y/y	2.3% y/y	2.8% y/y
Aug 20 (Tue)			
Hong Kong: CPI (Jul)	3.0% y/y	3.3% y/y	3.3% y/y
Taiwan: export orders (Jul)	-6.0% y/y	-8.1% y/y	-4.5% y/y
Aug 21 (Wed)			
Thailand: customs exports (Jul)	-2.2% y/y	4.8% y/y	-2.2% y/y
- customs imports	-6.0% y/y	-10.4% y/y	1.0% y/y
- customs trade balance	USD0.3bn	USD2.7bn	USD3.2bn
Aug 23 (Fri)			
Japan: CPI (Jul)	0.5% y/y	0.6% y/y	0.7% y/y
Taiwan: industrial production (Jul)	-1% y/y	0% y/y	-0.4% y/y
Singapore: CPI (Jul)	0.5% y/y	0.7% y/y	0.6% y/y

Hong Kong: The labor demand-supply balance should have remained largely tight due to aging population. The seasonally-adjusted unemployment rate is forecasted to remain at a 20-year low of 2.8%. However, the labour demand will continue to hinge on the playout of external uncertainties including the Sino-US trade friction, Brexit and global economic slowdown. The demand for labor, of which over 10% comes from the import/export trade and wholesale sector increased visibly since Jan. There will be upward pressure on the jobless rate of the retail, accommodation and food services sector due to the political instability as well.

CPI inflation should have stayed evaluated at 3.3% YoY in July. Increased pork and fruit prices in China have added add upward pressure to food price. A depreciating USD and hence HKD should also keep the upshot of import costs. Yet, headline local costs are largely contained due to slow economic growth and the latest one-off relief measures imposed by the government.

Japan: July inflation data are due this week. Headline CPI is projected to ease to 0.6% YoY from 0.7% in June, the lowest reading over four months; while core CPI is also likely to drop slightly to 0.5% from 0.6%. Disinflation forces mainly came from the decline in global oil prices and the appreciation of the yen. The Bank of Japan said at the July meeting that it will not hesitate to take additional easing measures if there is a risk that the economy will lose momentum for hitting the price target. In addition to the softening of inflation figures, the rise in Japan-South Korea trade tensions, uncertainties in China-US trade relations, looming of a domestic consumption tax hike, and dovishness of the Fed/ECB also point to the chance of BOJ easing during the Sep-Dec period.

Taiwan: July export orders and industrial production are due this week. Export orders are expected to continue falling sharply, by -8.1% YoY, compared to -4.5% in June. This reflects the slowdown in global growth, escalation of China-US trade war, rise in Japan-South Korea trade tensions, as well as the weakness in global tech sector. But actual exports have been outperforming export orders in the recent months (-0.5% in July, 0.5% in June), thanks to the decline in overseas production ratio and the expansion in onshore activities. Accordingly, July industrial production is expected to avoid a sharp contraction and to hover around 0%.

Singapore: CPI inflation for July die this week will remain fairly unchanged. The headline number is expected to register an increase of 0.7% YoY in price level, just a tad higher compared to the previous month (0.6% YoY). Weak growth dynamics continues weigh down in domestic inflationary pressure. But inflation is likely to start trending higher in the coming months as the effect from lower COE premium starts to fade. The Land Transport Authority has also announced a cut back in COE quota. Furthermore, impact from the energy market reform will also dissipate. Meanwhile, core inflation could continue to ease, which underscores the slowdown in growth momentum within the economy and the easing in demand pull inflationary pressure. In fact, inflation is likely to fall short of our full year projection of 1.1%.

Thailand: A delay in the government formation and thereafter budget approvals will push back the boost from government spending, with 2Q GDP likely to slow to 2.3% YoY vs 2.8% in 1Q. Add to this, drought conditions likely hurt farm output, whilst developments on the trade disputes continue to be fluid keeping net exports weak. We see downside risks of ~30-40bps to our full year growth forecast owing to a weaker than expected 1H performance. The BOT showed its hand by lowering policy rates by 25bp, in effect reversing December's hike. Pressure is on for them to do more, especially as the THB strength is seen as inconsistent with economic fundamentals. But there is limited space to cut aggressively, with record low in policy rates already within reach. Instead, support is being sought through stimulus measures, taking advantage of the fiscal headroom to turn expansionary.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).