



Hong Kong Economic Outlook & Future Challenges

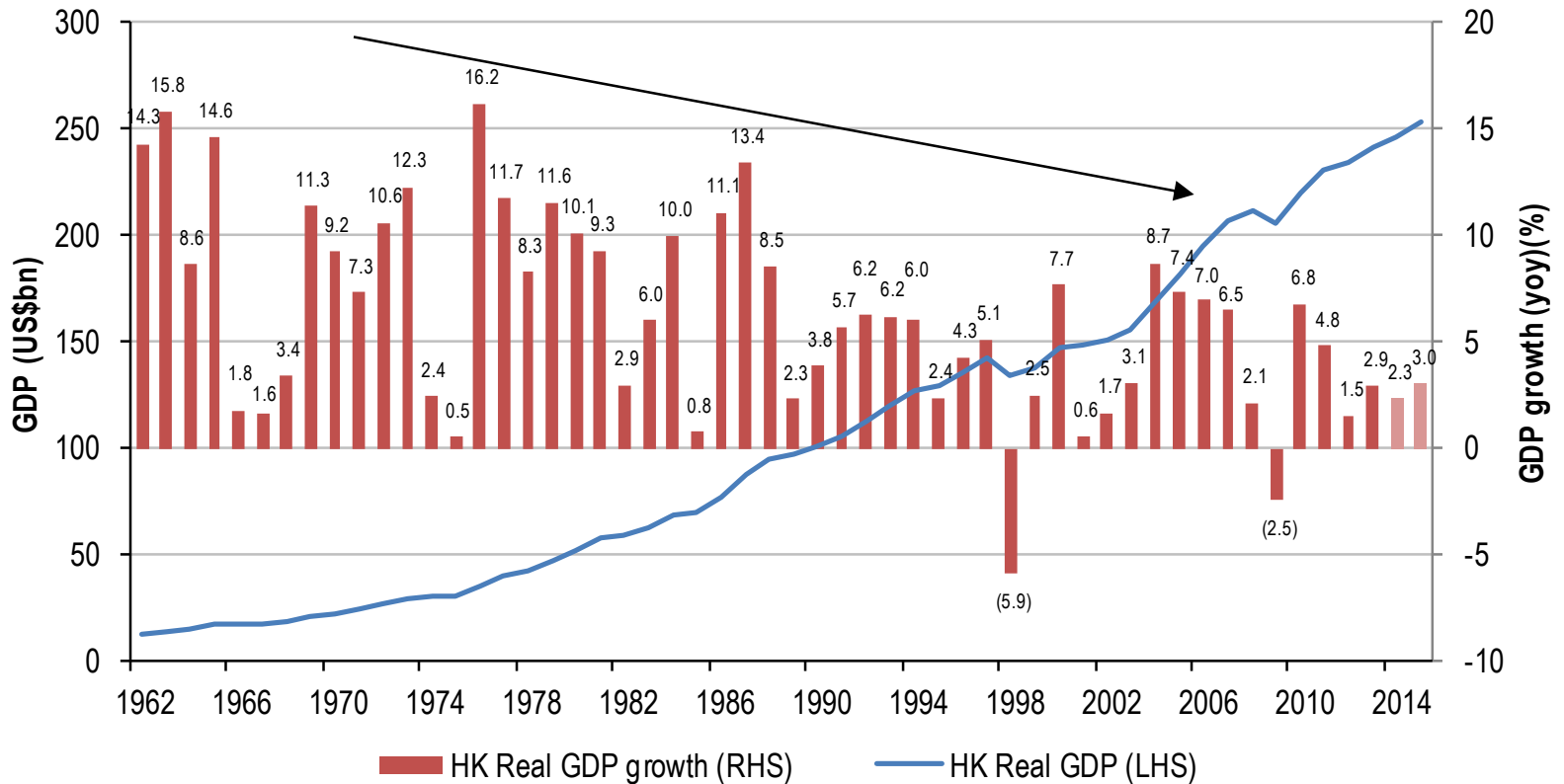
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September, 2014

Hong Kong : Struggling to sustain growth

- Hong Kong GDP growth staggering downwards

HK Real GDP growth



Source: CEIC

■ HK Real GDP growth (RHS)

— HK Real GDP (LHS)

Negative real interest rates to persist

- Negative real interest rates fueling asset price bubble growth

Hong Kong CPI growth

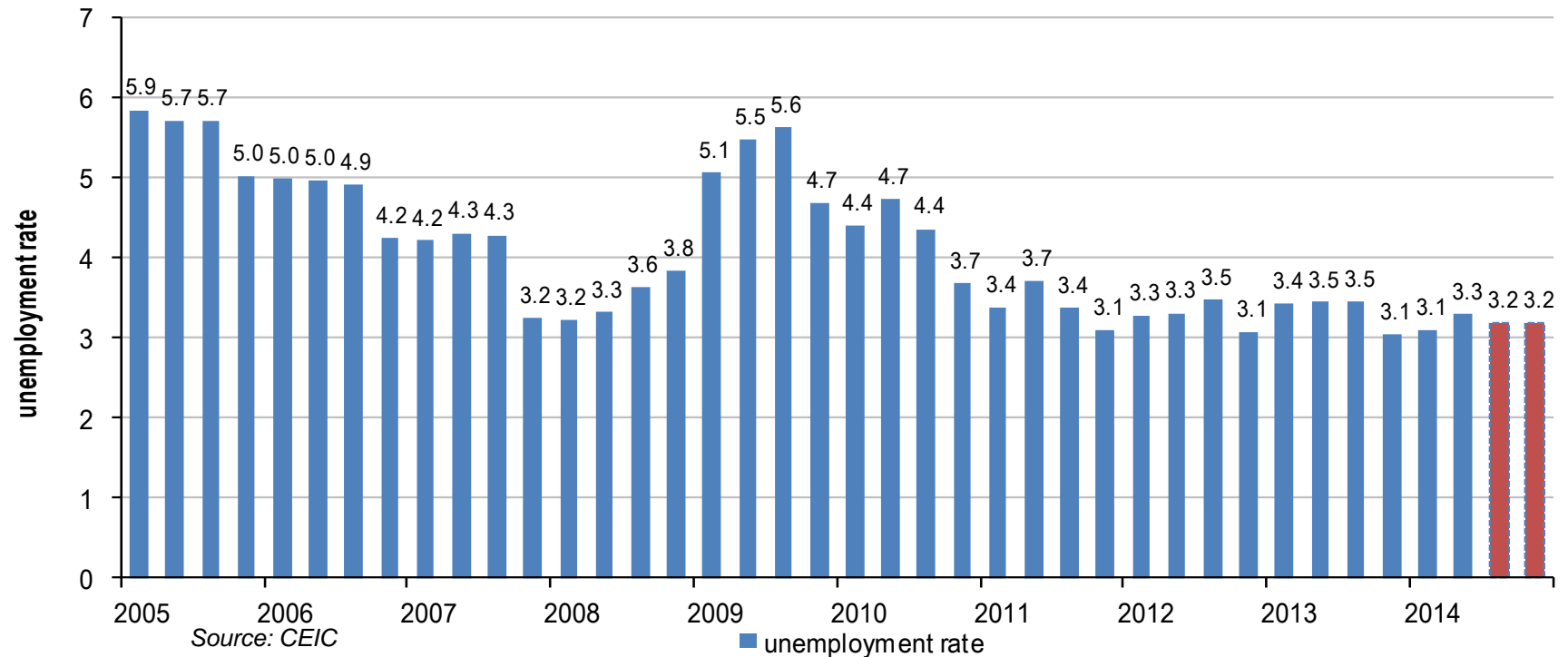


Source: CEIC

Low unemployment rates becoming a constraint

- Hong Kong's unemployment rate near ten year low. Constraint in labor resources limits growth prospects.

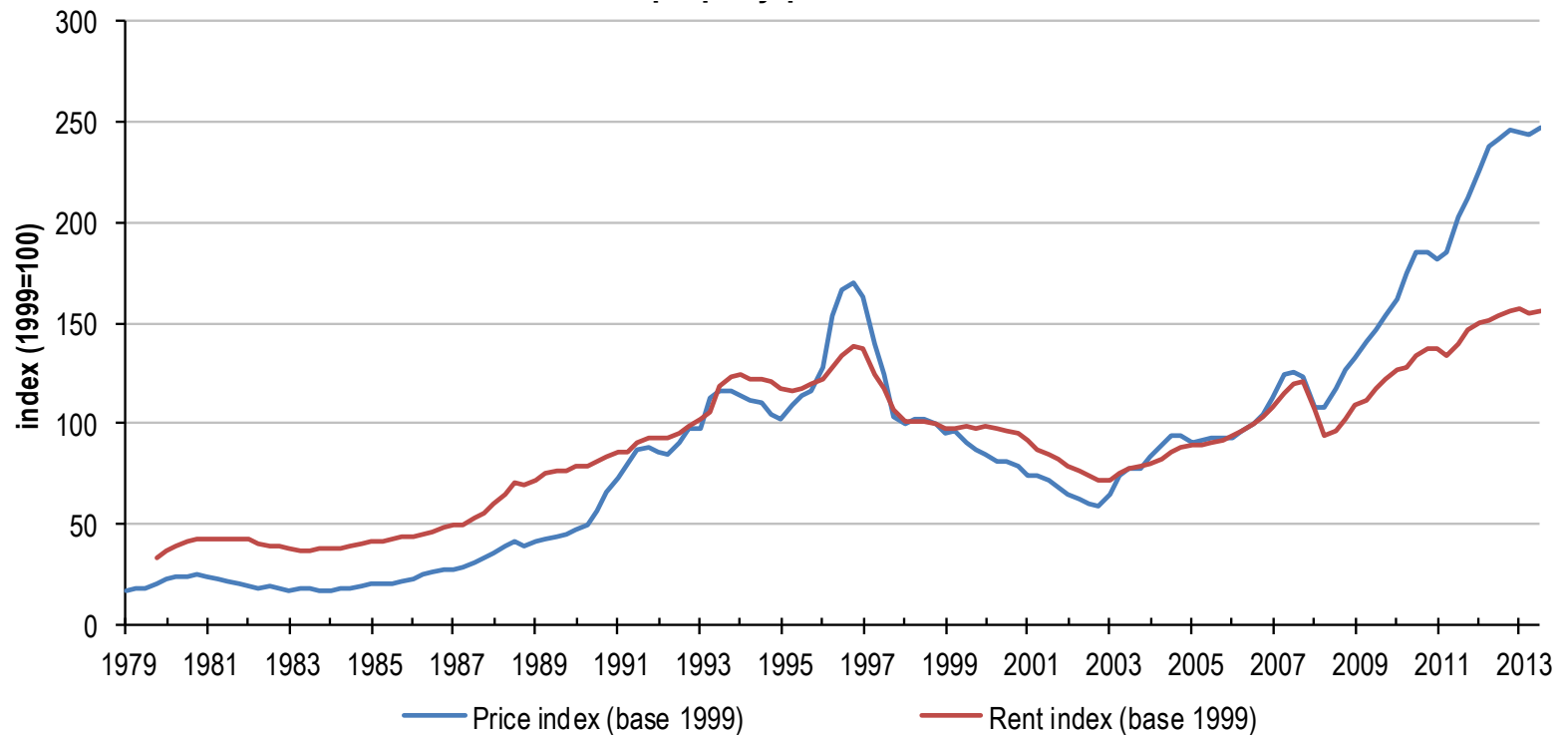
HK unemployment rate (%)



Residential property prices and rentals are skyrocketing

- High residential prices causing more social dissatisfaction. Personal financial risk is rising.

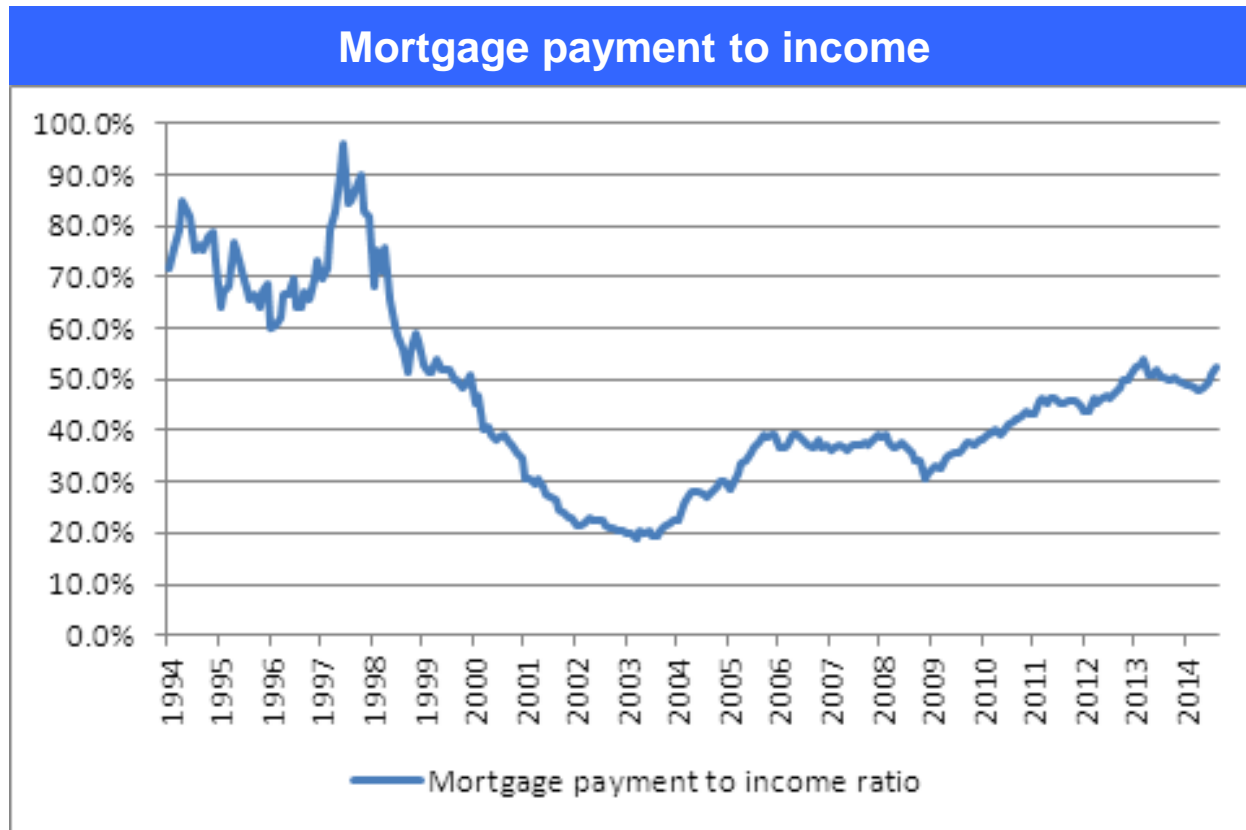
Hong Kong 's residential property price and rental index



Source: CEIC

Hong Kong's mortgage income ratio deteriorating

- Mortgage payment will become a heavy burden, should interest rate jump



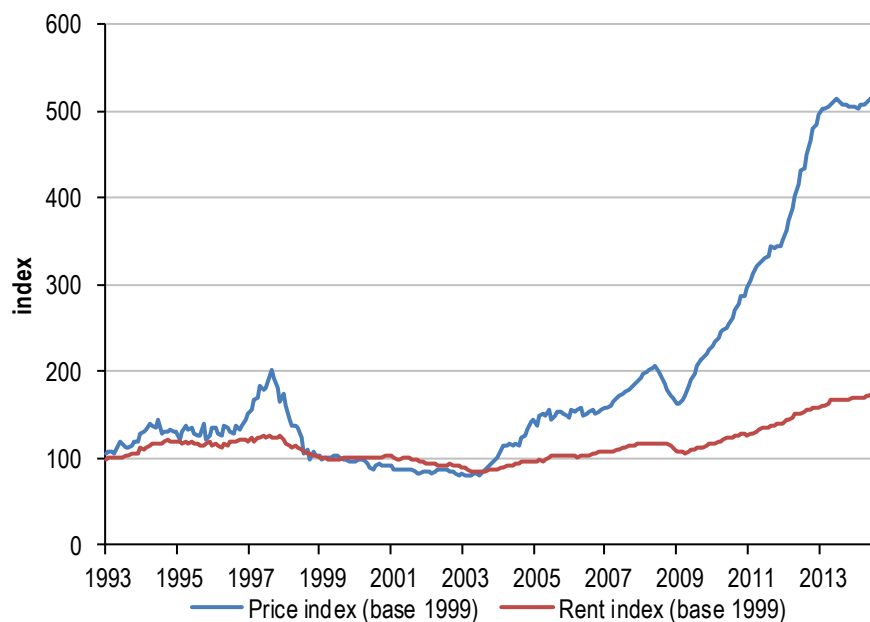
Based on unit size of 450 sq ft, 60% mortgage, 20 year period

Source: Bloomberg

High office and commercial property rentals remain a concern

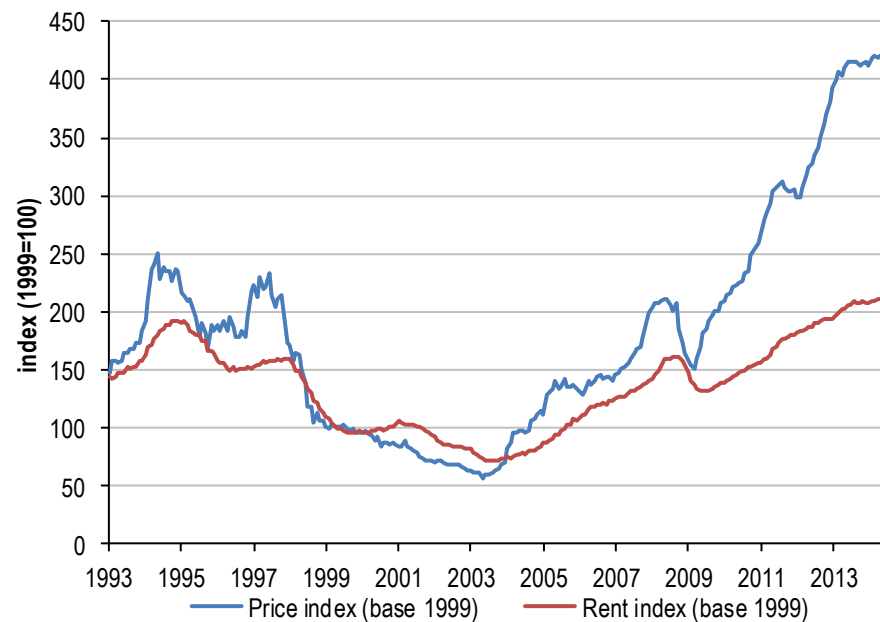
- High office and commercial property prices and rentals impeding development of business and entry of new ventures

HK commercial property :
Price and rent index (base 1999=100)



Source: CEIC

HK offices:
Price and rent index (base 1999=100)

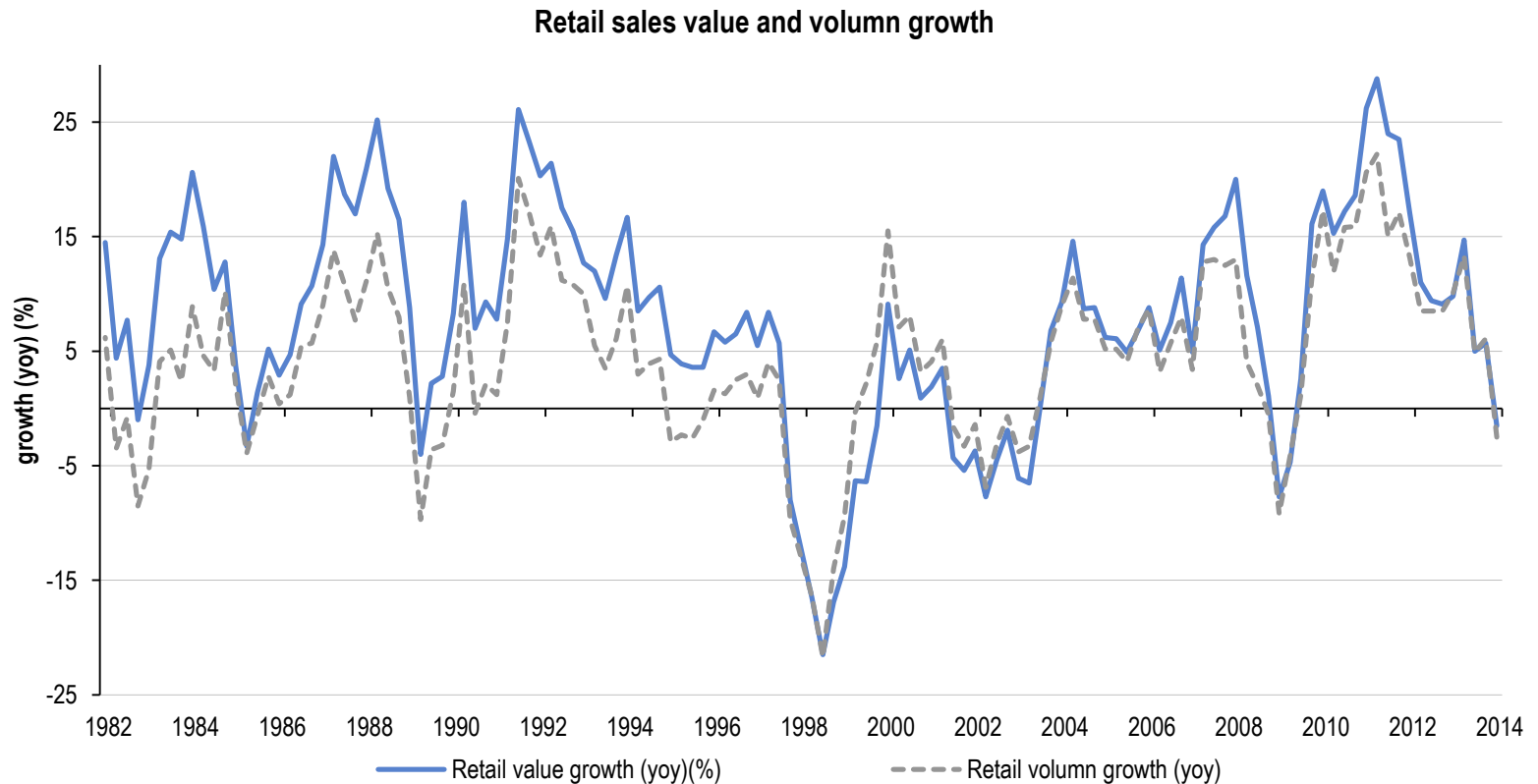


Source: CEIC

Hong Kong retail sales slowing down

Retail sales value and volume showed little sign of recovery

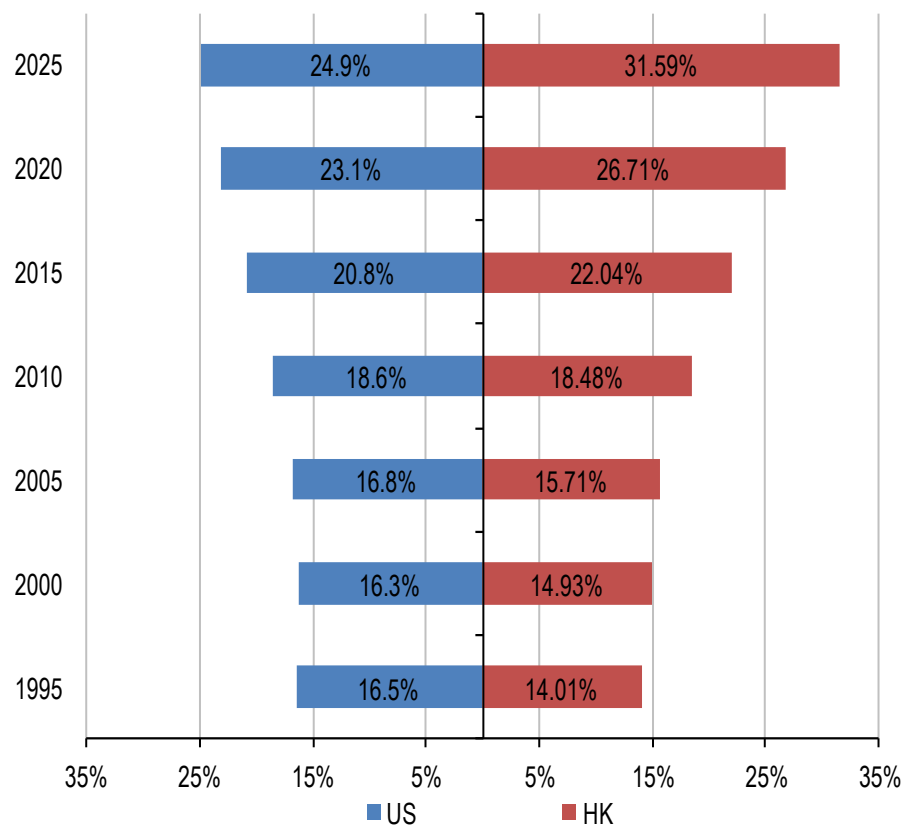
Retail sales value and volume growth in Hong Kong



Source: CEIC

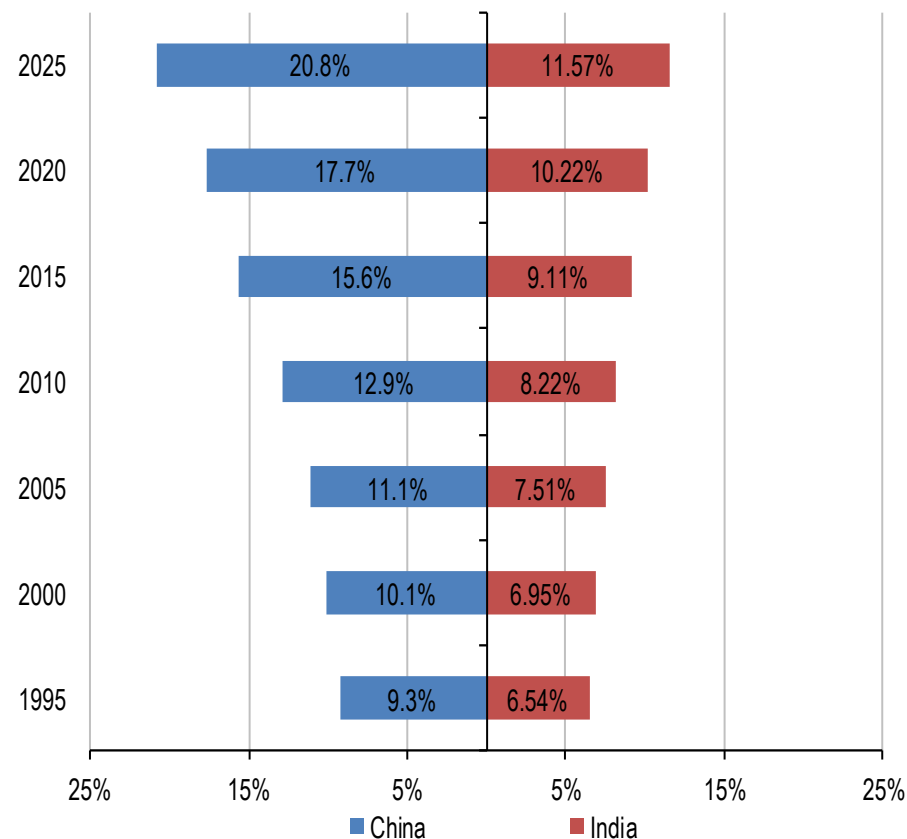
Ageing population is a long term worry for Hong Kong & china

HK and USA population density (as% of total)
age >60



Source: United States Census Bureau

China and India population density (as % of total)
age >60

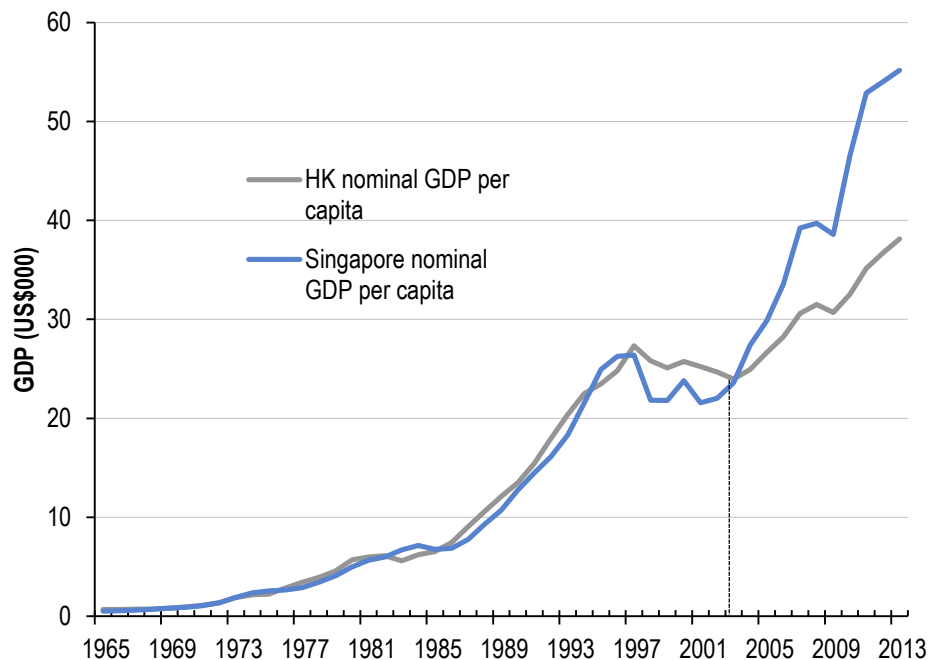


Source: United States Census Bureau

Singapore outpacing Hong Kong and intensifying competition

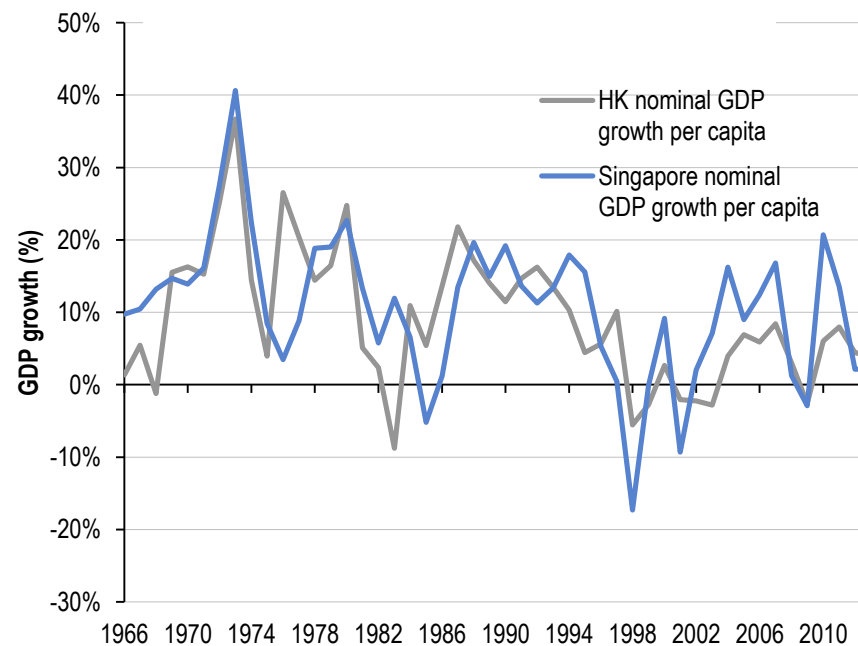
■ Singapore's development outpacing Hong Kong

HK vs Singapore nominal GDP per capita



Source: CEIC

HK vs Singapore nominal GDP growth per capita

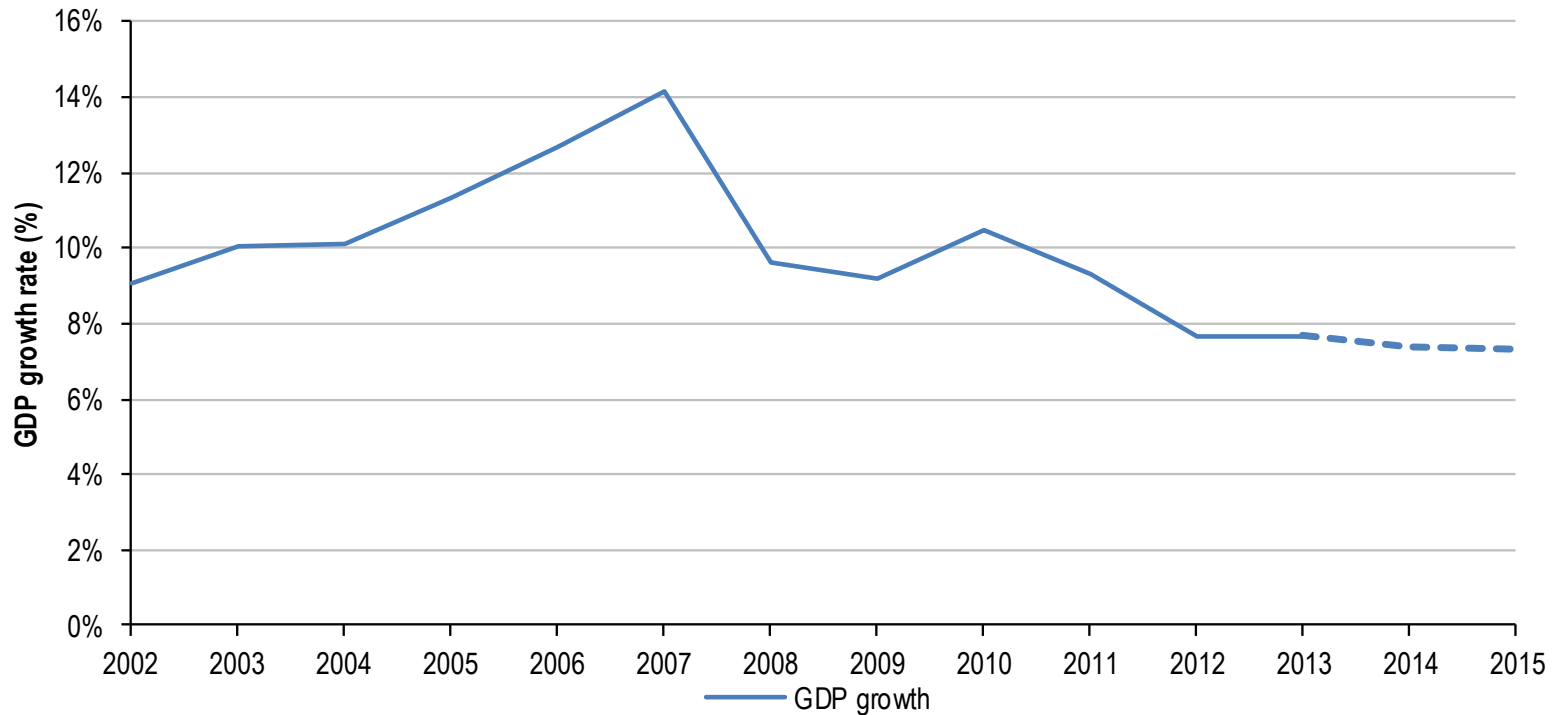


Source: CEIC

China's GDP growth slowing down

- China's GDP growth trending further downwards, economic structure undergoing rapid transformation

China real GDP growth

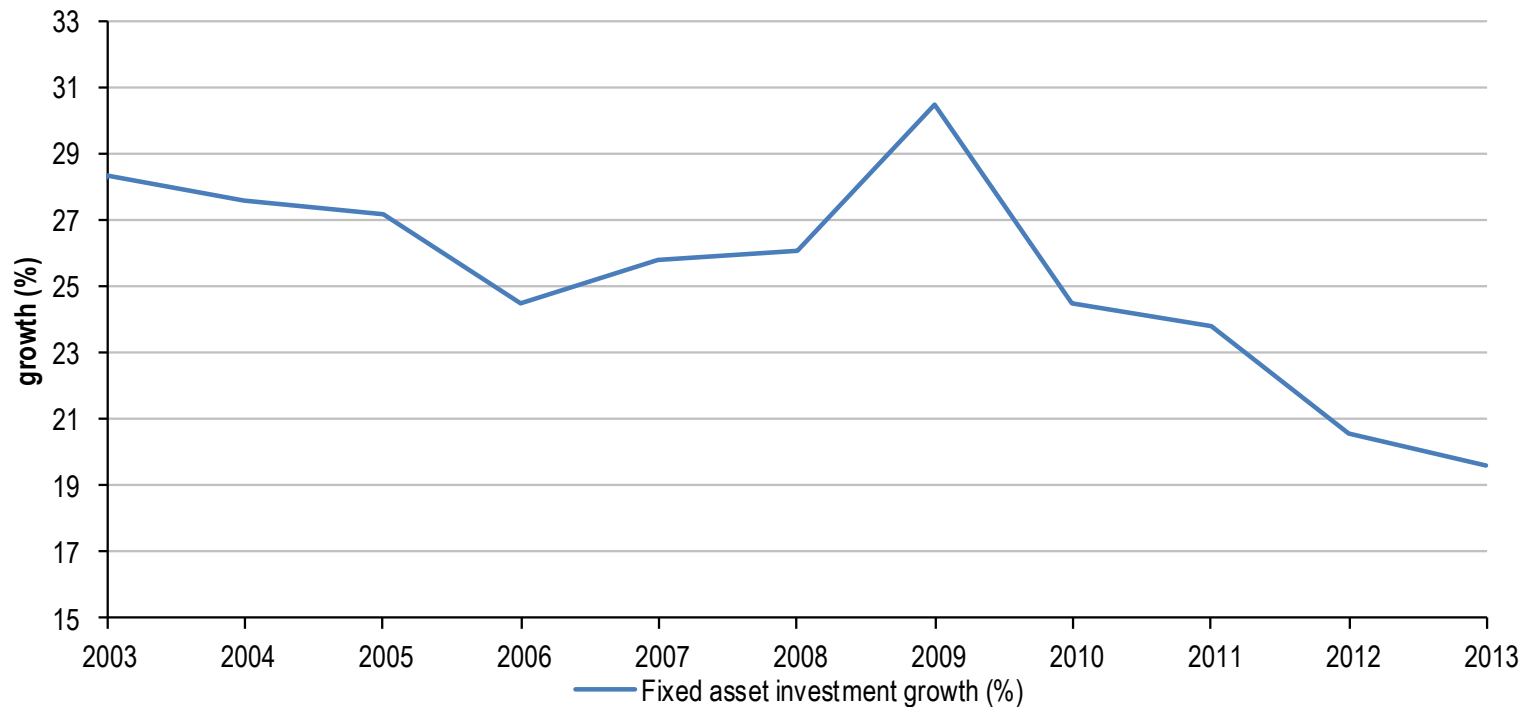


Source: CEIC

China relying less on fixed asset investment

- Further slowdown in fixed asset investment or capacity expansion is anticipated.

China's fixed asset investment (yoy growth)

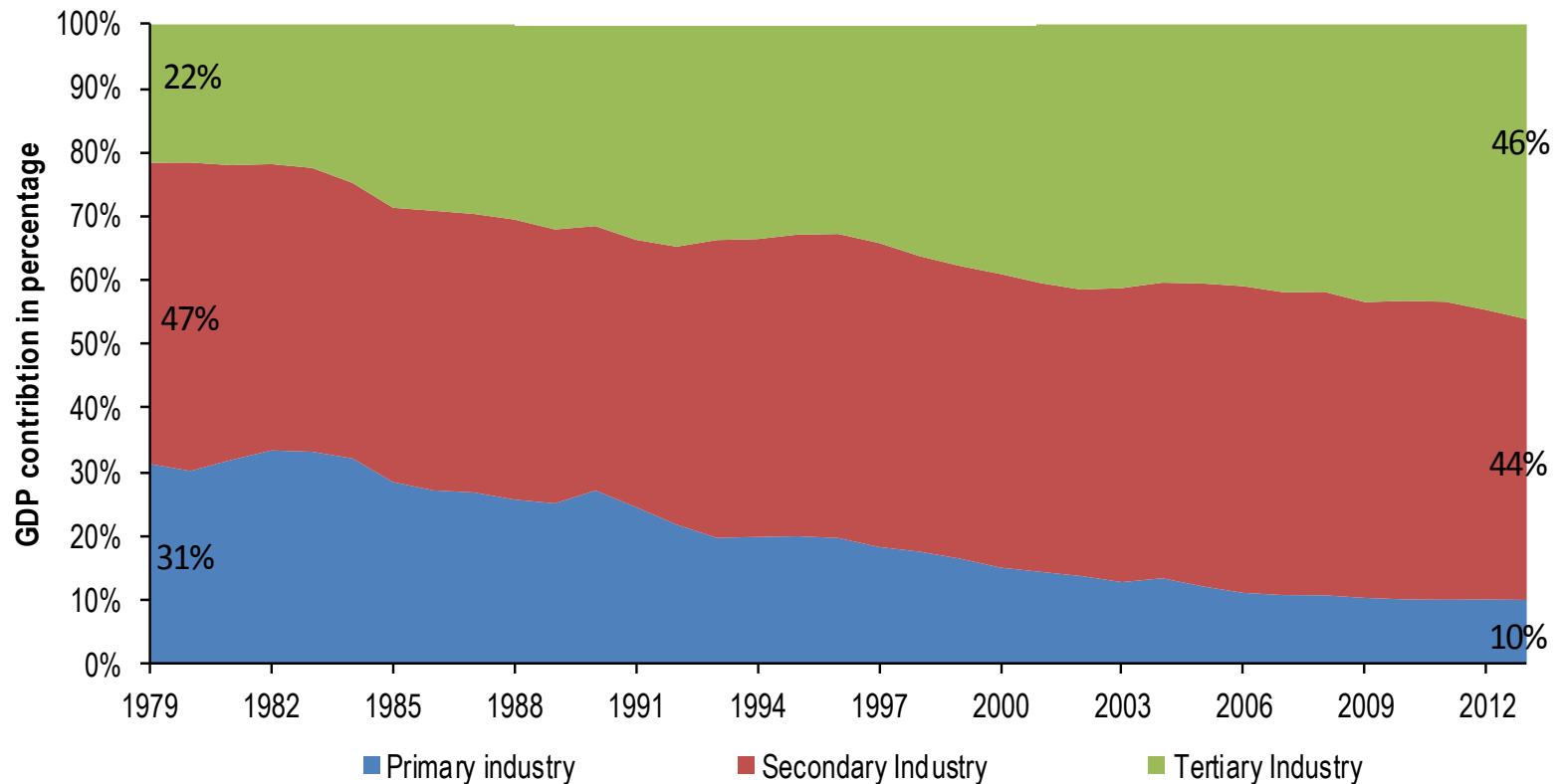


Source: CEIC

China's structural change towards services

- Service industry in China growing rapidly, and may rely less on Hong Kong

China GDP breakdown by industry type

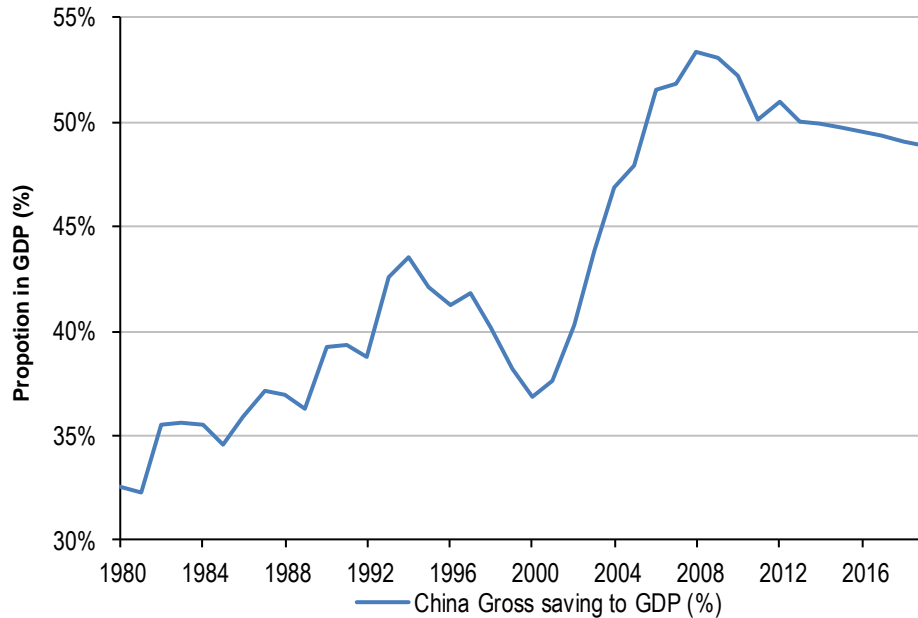


Source: CEIC

China's next problem

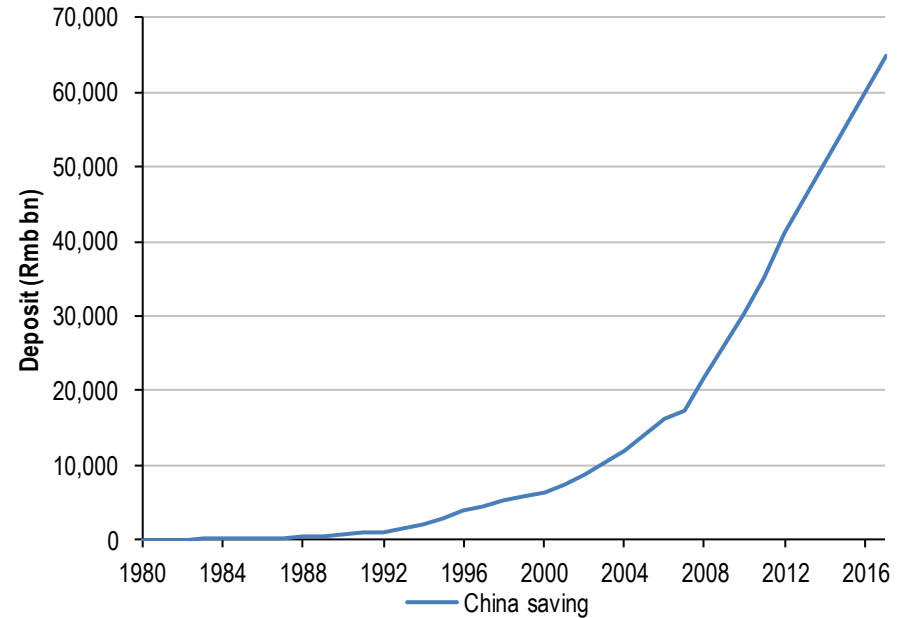
- Excessive saving : a key problem in China

China's gross saving to GDP (%)



Source: CEIC

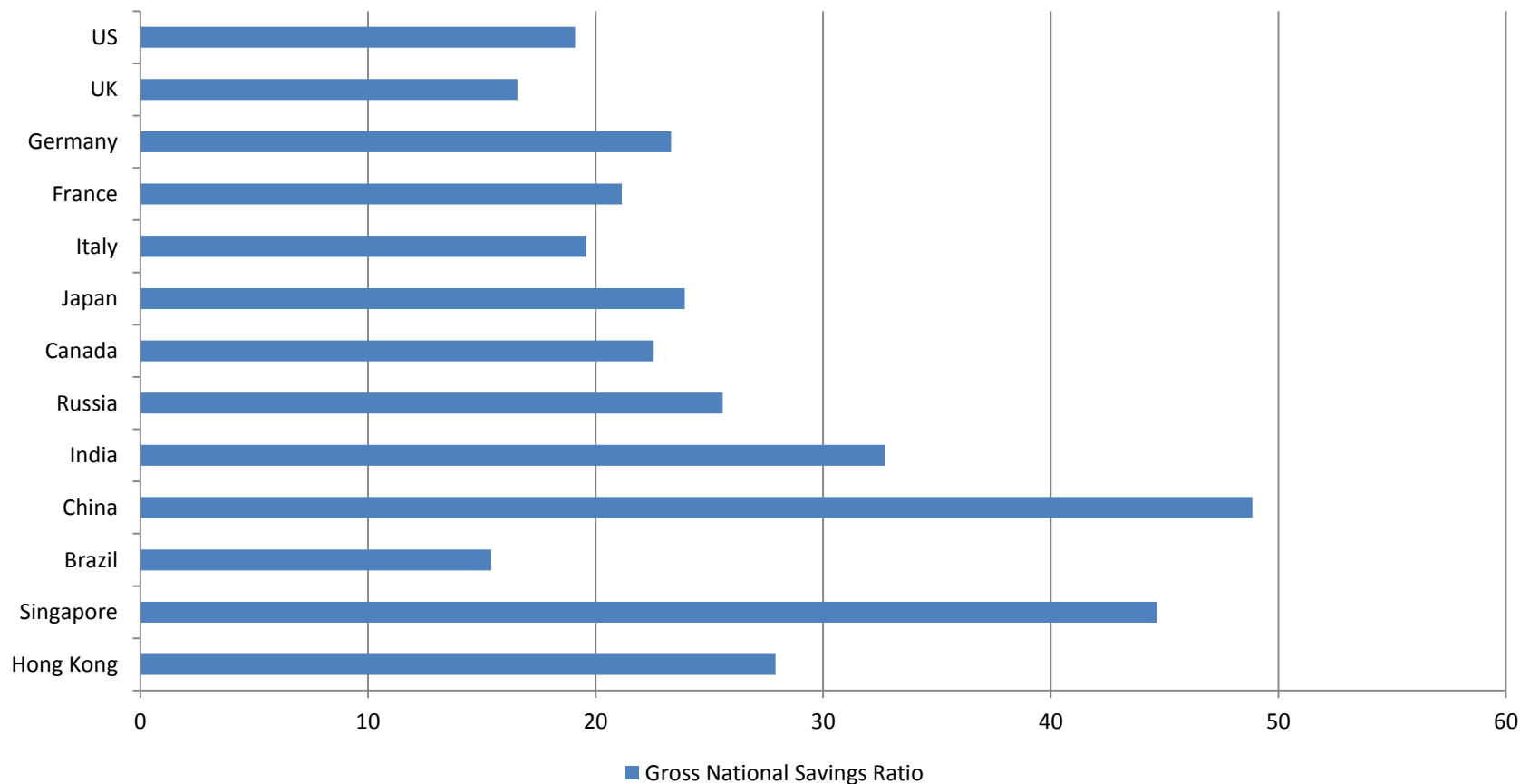
China's saving (Rmb bn)



Source: CEIC

How China differs from other countries ?

■ Gross national Savings ratio by country in 2013



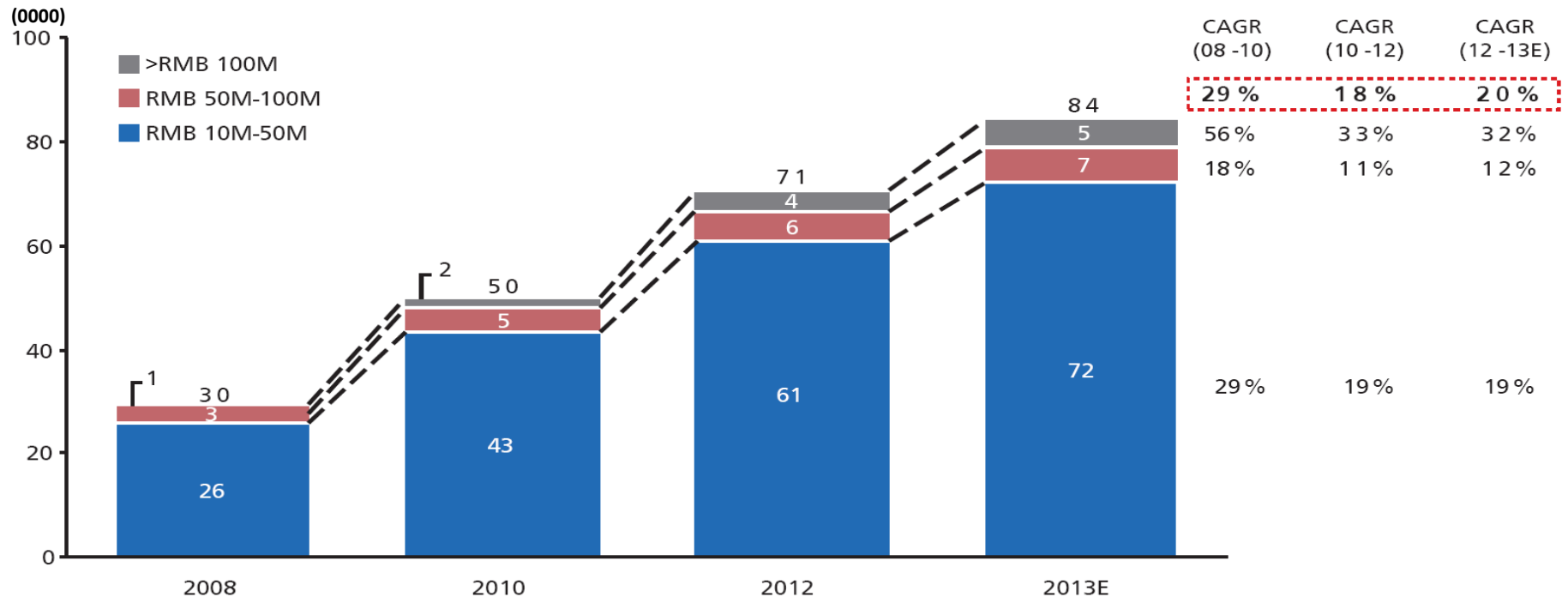
Source: Bloomberg

China's fast enlarging wealthy population

- China is rapid in wealth/asset creation, but slow in value creation

Number and Composition of Chinese High Net Worth Individuals (2008-13)

Number of Chinese HNWI's whose individual investable assets are more than RMB 10M



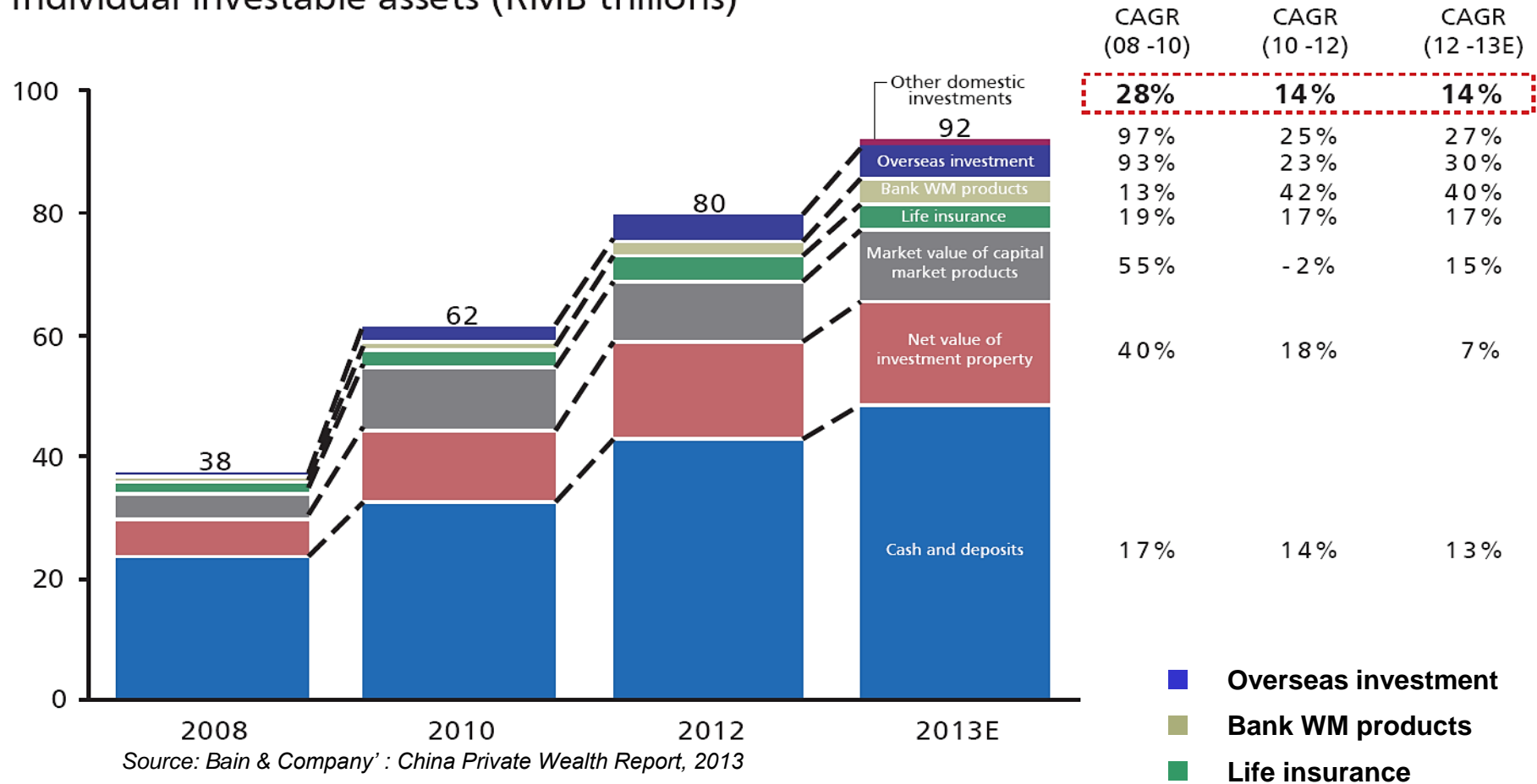
Source: Bain & Company: China Private Wealth Report, 2013

Bias will become a major risk

- Personal assets skewed towards low yielding cash & deposits

China's individual investible assets (2008-2013)

Individual investable assets (RMB trillions)

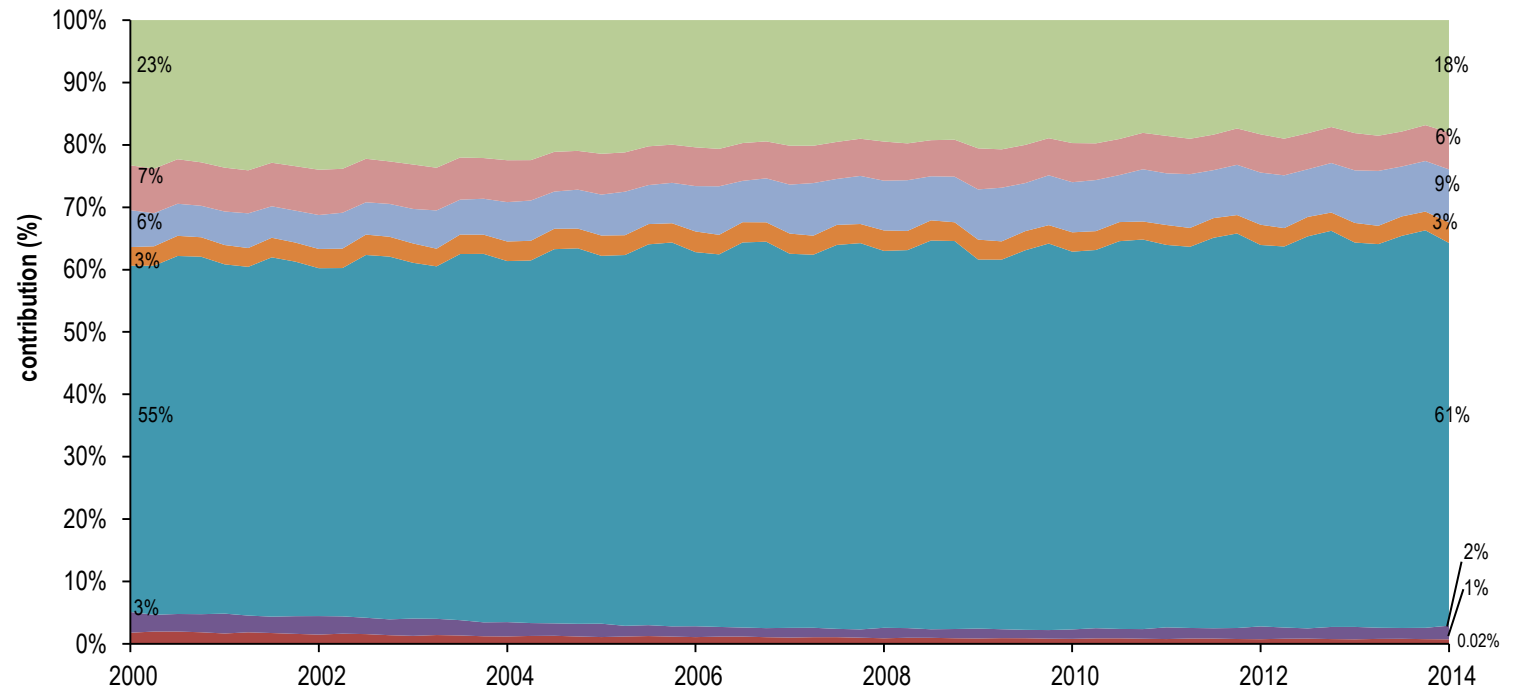


Source: Bain & Company: China Private Wealth Report, 2013

Hong Kong's service industry reaching a mature stage

- Hong Kong's finance industry after the 2007 financial crisis became almost stagnant. A new direction is emerging

Hong Kong GDP composition by type of industry



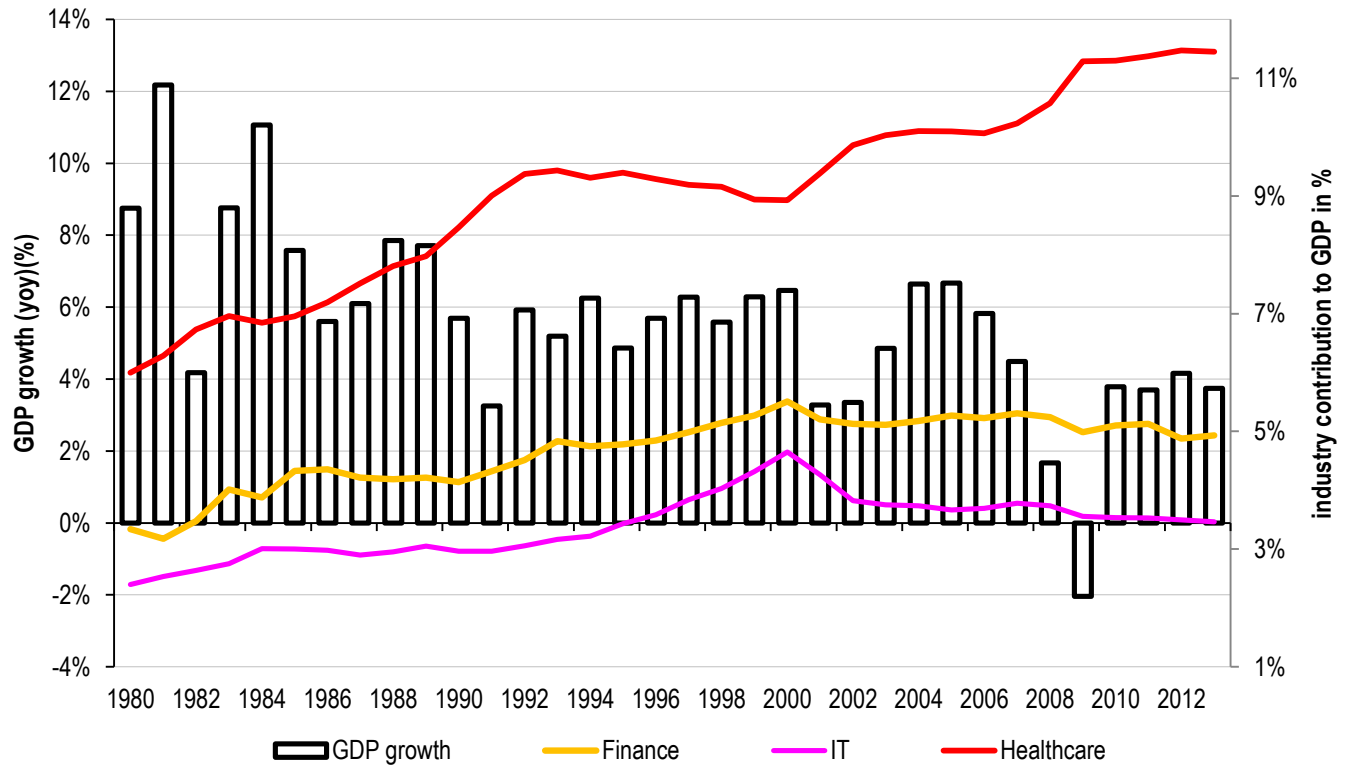
Source: CEIC

■ Primary industry ■ Manufacturing ■ Construction ■ Retail, accommodation, services ■ Transport ■ Finance ■ property ■ others

A lesson from US

- Industries should adapt to key economic needs

US GDP growth and % contributions from key industries



Source: CEIC

THANK YOU