

Hong Kong

By Mary Kavanagh

OPTIMISM PREVAILS

The overall outlook for the Hong Kong economy in 2014 is optimistic. Exports will increase by 5.5 percent in value, according to a report by the Hong Kong Trade Development Council (HKTDC). This is a significant increase over the 3.5 percent forecast for 2013 and a good indication that Hong Kong exports are back on a path to growth. UBS financial services company expects the Hang Seng Index to gain at least 15 percent in 2014 due to improved earnings, growth in consumption, a rise in internet commerce and increased profits by non-bank financial firms, the South China Morning Post reported. At the same time, there is some concern that an expected correction in inflated property prices — by as much as 10 percent — could negatively impact economic gains.

GOLD RUSH PROFITS

The sharp decline in gold prices that began in April 2013 and the subsequent gold rush by consumers to gold products of all kinds, translated into gains for major Hong Kong jewelers. Both Chow Tai Fook (CTF), the world's largest jewelry retail chain, and Lukfook Jewellery, one of the leading jewelry retailers in Hong Kong and Mainland China, reported impressive profits and revenue for the six months that ended on September 30, 2013. CTF announced a 92.3 percent jump in profit year on year and an increase of 48.5 percent in revenue over the same period in 2012. Lukfook reported an increase in revenue of 70 percent over the same half-year period in 2012 and a 72.9 percent increase in net profit — both half-year record highs.

The two retailers continue to expand their retail presence, with CTF opening 118 new retail outlets during the first half of the fiscal year, bringing its total to 1,954 locations as of September 30. The company said it will continue to expand its retail presence in Tier III and lower-tier cities in China. Lukfook opened 110 new shops over the same time period, bringing its total to 1,188 globally.

RELIANCE ON MAINLAND VISITORS

Mainland customers are the major contributors to jewelry sales in Hong Kong. In its interim results announcement, CTF attributed 60 percent of its retail sales in Hong Kong and Macau to Mainlanders and reported that in total, 80 percent of its business came from Mainland customers. The customer profile is similar for Lukfook. Hong Kong continued to be its key market, contributing 64.1 percent of the Luk Fook Group's total, an increase of 67 percent over 2012. Around 60 percent of this was sales to visitors from Mainland China.

Mainland visitors are also major contributors to the Hong Kong tourism industry. The total number of tourists in 2013 was predicted to reach 54 million, up 11 percent over the previous years. The average spending per visitor is estimated to be \$1,000. The number of Mainland visitors increased 18 percent in the first ten months of 2013 to 33.5 million, and the number coming for day trips only increased by 20.6 percent to 19.3 million.

HOLIDAY SEASON

“Christmas sales were steady, but not very exciting,” said Vincent Yiu, director at Brilliant Trading Company (BTC), a diamond manufacturer, wholesaler and retailer. “We are making money, but not as much as before,” he said, referring to the fact that even though the 2013 holiday sales volume was similar to that of 2012, margins were smaller.

CTF was more upbeat about how the year-end numbers would come in. A spokesperson for the company reported that sales in the run-up to Christmas were better than expected following the rollout of the company’s annual sales campaign in Hong Kong in early November.

“The market picked up momentum gradually,” the spokesperson added. Interviewed in the closing weeks of the season, he said the company anticipated “sales during the Christmas holiday to rise by a double-digit percentage compared to sales in 2012.”

“We expect the mass luxury jewelry segment, including gold products, gem-set jewelry and platinum and karat-gold products to continue to drive the growth momentum throughout 2014 until 2015,” said the CTF spokesperson. The positive forecast is based on a number of market drivers, such as a market for wedding jewelry in China that the company describes as “booming” and increased jewelry consumption by Mainland buyers that is fueled by rising disposable incomes and a growing middle class. Another factor driving growth is the increase in tourists, with the new, more lenient tourism laws now extended to more regions, including Tier III and Tier IV cities in the Mainland.

The Chinese New Year, the Year of the Horse in 2014, officially begins January 31. Even though it follows closely after Christmas this year, “these two festivals target different customers with different demands,” a spokesperson for CTF said. Whereas gem-set jewelry is a popular Christmas gift, for the Lunar New Year, “customers like to buy Chinese zodiac animal products as they believe they will bring good luck and fortune,” the spokesman said.

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