

Voluntary Report – Voluntary - Public Distribution

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Report Name: The Impact of Continuing Protests on the Food and Beverage Business

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Post: Hong Kong

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Report Highlights:

Hong Kong has experienced ongoing protests with escalating violence every weekend since June 2019. Hong Kong government officials have warned that these protests have pushed Hong Kong to the brink of economy downturn. Hundreds of restaurants have closed because the number of diners has declined as people eat at home and some restaurants have been unable to operate for days if they are located near large-scale protest activity. More closures are anticipated in the coming months. Inbound tourism has simultaneously dropped 34 percent in September compared to the previous year. The most worrisome aspect is that there is no sign of these protests dying down due to the largely unattainable demands of protesters.

Background

Hong Kong has been a safe and economically vibrant city for decades. The last riot happened over half a century ago in the 1960's and protests in recent years were peaceful.

The imminent cause for the current protests was the Hong Kong government's (HKG) attempt to implement a controversial extradition law triggering a series of peaceful, large-scale demonstrations. The HKG did not respond to the public's demands for withdrawal of the bill, fueling additional protests that have grown progressively less predictable and more violent. The incidents have developed quickly with the slogan of asking for "five demands, not one less". The five demands are:

- Full withdrawal of the extradition bill announced on September 4, 2019
- A commission of inquiry into alleged police brutality
- Retracting the classification of protesters as "rioters"
- Amnesty for arrested protesters
- Dual universal suffrage, meaning for both the Legislative Council and the Chief Executive

The HKG has recently withdrawn the extradition bill, but the other four demands remain unanswered. With all their frustrations, protesters have turned to using escalating violence claiming that the police have been using more brutal measures. Almost every weekend, protesters stage rallies and roadblocks in Hong Kong's commercial areas and the police respond with tear gas, water tanks, and rubber bullets to disperse crowds. Starting in November, violent confrontations have happened unpredictably over various districts even on weekdays, whereas previously protests occurred almost exclusively on weekends. The massive subway system has closed early, sometimes at 9:00pm, causing a disguised curfew and inflicting additional pain on the foodservice sector. (Note: The Hong Kong subway system typically operates from 6:00am-1:00am and is a critical part of transportation in the city, where the number of cars per capita is one tenth that of the United States.)

With this backdrop in the past five months, the HKG and local economists warn of a likely lengthy recession, which will be more detrimental than the financial blow imposed by the severe acute respiratory syndrome (SARS) disease that killed nearly 300 people in Hong Kong in 2003 or the 2014 protests that blocked the Central business district for 79 days.

Economic Indicators

The HKG announced a year-on-year decrease of 2.9 percent in the third quarter gross domestic product (GDP) in real terms compared to the 0.4 percent increase in the second quarter of 2019, marking its first year-on-year decline since 2009. According to the HKG's analysis of major GDP components, private consumption expenditure decreased by 3.4 percent in real terms in the third quarter of 2019 from a year earlier. The negative forecast was attributed not only to social unrest but also to the external economy, particularly the trade tensions between the United States and China. Given that Hong Kong is an entrepôt of U.S.-China trade, the trade tensions between the two countries and the associated uncertainty has dealt a blow to the economy with the detrimental impact unfolding gradually. By comparison, the social unrest has a very immediate and explicit impact on the economy in the areas of retail sales, foodservice, and inbound tourism. The HKG's latest forecast for 2019 GDP was revised to -1.3 percent. Accompanying the downturn of the economy, the unemployment rate increased to 3.1 percent during the August to October period from 2.9 percent during the three-month ended in September.

Retail Sales: The value of total retail sales in September 2019 decreased 18.3 percent compared with September 2018. Year-on-year retail sales in February through September 2019 experienced negative growth. Retail sales in the first nine months of 2019 have dropped 7.3 percent compared with the same period in 2018.

The continuing social unrest has dampened local consumption and consumer sentiment. In January – September 2019, retail sales of all sectors decreased with varying degrees-except for stable food. Retail sales for fish, livestock, and poultry grew 2.9 percent while that for fruits and vegetables grew 8.1 percent. Supermarkets sales also saw slight growth of one percent. The food sector retail sales have been the least impacted when compared to other sectors. These figures reflect that Hong Kong, as a developed economy with minimal agricultural production, still maintains a mature food market and meets more than 90 percent of its food and beverage needs through imports.

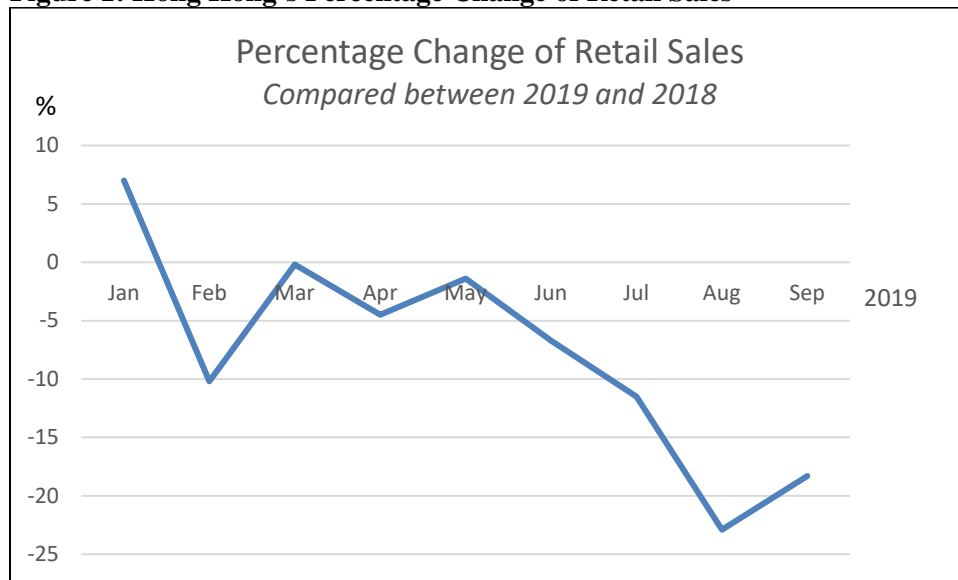
However, alcoholic drinks and tobacco are more elastic compared to food necessities. These items experienced the biggest drop compared to other “food” products. Likewise, sales of luxury items such as jewelry and watches, experienced the biggest drop in non-food retail sales.

Table 1: Hong Kong’s Retail Sales

	Percentage %		Jan-Sept 2019 over Jan-Sept 2018
	Aug 2019 over Aug 2018	Sept 2019 over Sept 2018	
All retail outlets	-22.9	-18.3	-7.3
Food, alcoholic drinks & tobacco (other than supermarkets)	-0.2	-13.8	-1.7
<i>* Fish, livestock and poultry,</i>	<u>10.9</u>	<u>2</u>	<u>2.9</u>
<i>* Fruits and vegetables</i>	<u>16.7</u>	<u>8.5</u>	<u>8.1</u>
<i>* Bread, pastry, confectionery and biscuits</i>	11.4	-21.9	-3.8
<i>* Other food, not elsewhere classified</i>	-14.5	-17.2	-2.5
<i>* Alcoholic drinks and tobacco</i>	-22.5	-16.2	-9.2
Supermarkets	<u>1.9</u>	<u>-2.6</u>	<u>0.9</u>
Supermarkets & supermarket sections of department stores	0.7	-4.5	-0.1
Clothing, footwear and allied products	-32.2	-24.9	-8.9
Consumer durable goods,	-14.2	-5.1	-10.8
Department stores	-29.9	-25.6	-6.3
Jewelry, watches and clocks, and valuable gifts	-47.1	-40.8	-16.5
Other consumers goods	-23.5	-18.2	-4.2

Source: Hong Kong Census & Statistics Department

Figure 1: Hong Kong's Percentage Change of Retail Sales



Source: Hong Kong Census & Statistics Department

Restaurants Receipts:

The restaurant business has been hard hit by the continuing social unrest. The value of the third quarter restaurants receipt amounted to USD3.4 billion, decreasing 11.7 percent over a year earlier. As protests happen sporadically in various prime commercial districts and shopping malls, people tend to stay home for dinner or try not to travel across districts to eat out.

Entertainment in the evening has been greatly reduced. Bars and Chinese restaurants have been the most affected. Halloween night is a typical festival for good business but turnover this year decreased 20 – 30 percent compared to last year.

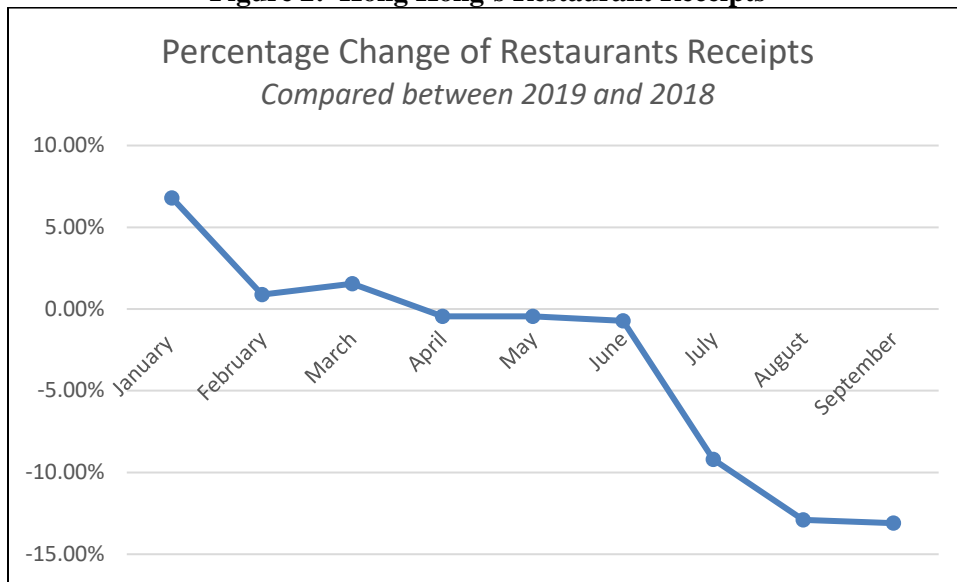
Of all restaurant categories, fast-food restaurants were the only segment to record growth in the third quarter at a rate of 2.2 percent. This is likely due to people buying food and meals on their way home from work.

Table 2: Breakdown of Restaurant Receipts, 3rd quarter, 2019

	Year-on-year change
Total restaurants receipts	11.7%
Chinese restaurants	-17.8%
Non-Chinese restaurants	-13.3%
Fast-food	2.2%
Bars	-18%
Misc. places	-2%

Source: Hong Kong Census and Statistics Department

Figure 2: Hong Kong's Restaurant Receipts



Source: Hong Kong Census and Statistics Department

Statistics show that the decrease in restaurant receipts sharpened starting in July. With the escalating violence of protesters and the strengthened use of force by the police, coupled with the suspension of the mass transit railway well before midnight, business figures are expected to drop further in October. According to the *Hong Kong Federation of Restaurants and Related Trades*, over 200 restaurants closed after the first three months of protests and this number jumped to 300 by the end of October.

The impact on business in residential areas is less than compared to commercial areas. Hong Kong residents are heading straight home and staying there.

Industry representatives worry that if protests continue, many more restaurants and bars will close in early 2020 after the traditional peak season of Christmas and Chinese New Year. Some landlords are willing to reduce rents by 10 to 30 percent, but many small to medium-sized operators will opt for stopping losses by closing up rather than hoping for better times ahead.

In contrast, the food delivery business has performed well in the past few months. One of the major stakeholders, "Deliveroo", has witnessed steady growth and orders in October rose more than double compared to the corresponding period in 2018. Each order value averaged USD26.

Inbound Tourism

The flourishing inbound tourism has been an effective catalyst in brushing up Hong Kong's economy in the past few years. A total of 65 million visitors came to Hong Kong in 2018, more than 11 percent above 2017, positively impacting restaurants, retail outlets, hotels, and a host of associated industries. The social unrest has resulted in a number of countries issuing travel alerts for Hong Kong. Hong Kong tourists started to decline starting July. The number of visitors registered a sharp year-on-year decline of 39 percent and 34 percent in September and October, respectively.

According to the Hong Kong Tourism Board statistics, inbound tourism went well in the first half of 2019 with a 14 percent growth in visitor numbers. These 35 million visitors to Hong Kong spent a total of USD20 billion, of

which, USD2 billion was on food (excluding expenses on food in hotels). Given the decline in tourist numbers starting July, it is expected to cause a corresponding decrease in the restaurant business.

Figure 3: Hong Kong Monthly Visitor Arrivals in 2019



Source: PartnerNet

Table 3: Tourist Expenditures

	Jan - Jun 2018 USD Millions	Jan - Jun 2019 USD Millions	% Growth
Total tourist expenditure	20,428	20,320	-0.5
Expenditure on meals outside hotels	1,954	2,074	6%

Source: Tourism Expenditure Associated to Inbound Tourism Jan – Jun 2019

Trade Data

Hong Kong’s total imports of all agricultural and food products decreased seven percent in the third quarter of 2019, deepening from the six percent decline for January – June 2019, when compared to the same period last year. The trade tensions between the United States and China has amplified its impact on Hong Kong’s economy, which had already started to reflect in the trade data for the first half of 2019, well before the social unrest. The deepening of the decrease in trade for the third quarter might suggest that the social turmoil also started to impact trade.

Compared to the other major suppliers of China and Brazil, Hong Kong’s imports of U.S. products dropped only six percent compared to the 11 percent decline experienced by products from China and Brazil. This is because U.S. exports to Hong Kong started to decrease after China’s increasing tariffs of U.S. products last year, thus lowering the base trade number of last year.

Table 4: Hong Kong's Imports of Agricultural & Related Products by Major Suppliers

Partner	USD million		%Δ 2018/17	%Δ 2019/18
	July - Sept			
	2018	2019	%	
_World	6,654	6,210	-2%	-6.67
China	1,463	1,307	-1%	-10.65
United States	895	832	-8%	-6.99
Brazil	595	532	-4%	-10.64
Australia	348	405	-2%	16.38
Thailand	335	332	14%	-0.87
Japan	342	327	10%	-4%

Source: TDM- Hong Kong Census & Statistics Department

Table 5 shows the change in agricultural and food imports for the third quarter of 2019 in volume and value, which indicates the impact of social unrest on consumption patterns to a varying scale. Firstly, it is noticeable that Hong Kong's imports of many consumer-oriented products did not decrease in the 3rd quarter of 2019 year-on-year, while there are exceptions for some meat products, but trade figures for these products are always distorted by volatile re-export trade to China. The imports of fresh vegetables, chocolate & cocoa products, snacks, non-alcoholic beverages, and tea have increased in both volume and value. These speak to the fact that Hong Kong is a developed market for food. The downturn in the economy in the short term has not yet affected basic food necessities in terms of volume. These trade figures correspond to the retail sales figures in recent months.

Secondly, the rise in value of many imports did not catch up to that of volume, showing that importers tried to lower the unit price of imported products because they saw consumers being more cautious in spending. With the expected growth in unemployment, particularly in the retail and restaurant sectors, this trend will be more discernible in the coming months.

Thirdly, wine and spirits imports to Hong Kong dropped in both value and volume. The decline echoed the bad performance of the restaurant and bar industry in the past quarter. Unlike meat products, for which less consumption in restaurants will be transferred to increased consumption at home or fast food, the loss of on-trade alcoholic beverage consumption is not necessarily compensated by an increase off-trade sales.

Table 5: Hong Kong's Imports of Agricultural & Related Products by Categories

Partner	USD million		%Δ	%Δ
	July - Sept		2019/18	2019/18
	2,018	2,019	Value	Volume
_World	6,654	6,210	-6.67	
Bulk Total	95	106	11.72	-3
Intermediate Total	541	555	2.56	
Consumer Oriented Total	4,791	4,514	-5.8	
<i>BICO-Beef & Beef Products</i>	<i>778</i>	<i>689</i>	<i>-11.43</i>	<i>-6</i>
<i>BICO-Fresh Fruit</i>	<i>631</i>	<i>647</i>	<i>2.59</i>	<i>-4</i>
<i>BICO-Food Preps. & Misc. Bev</i>	<i>518</i>	<i>458</i>	<i>-11.63</i>	<i>-2</i>

<i>BICO-Dairy Products</i>	517	496	-4.02	-4
<i>BICO-Wine & Beer</i>	420	313	-25.5	-9
<i>BICO-Pork & Pork Products</i>	394	330	-16.34	-7
<i>BICO-Poultry Meat & Prods. (ex. eggs)</i>	381	371	-2.62	4
<i>BICO-Tree Nuts</i>	202	246	21.71	14
<i>BICO-Processed Vegetables</i>	135	113	-16.27	11
<i>BICO-Fresh Vegetables</i>	111	140	26.56	2
<i>BICO-Meat Products NESOI</i>	92	112	22.07	6
<i>BICO-Chocolate & Cocoa Products</i>	85	98	14.67	9
<i>BICO-Snack Foods NESOI</i>	76	79	4.09	11
<i>BICO-Condiments & Sauces</i>	74	77	3.71	0
<i>BICO-Non-Alcoholic Bev. (ex. juices, coffee, tea)</i>	70	74	4.52	11
<i>BICO-Eggs & Products</i>	63	57	-9.02	-3
<i>BICO-Processed Fruit</i>	57	57	-0.51	-6
<i>BICO-Tea</i>	48	52	8.91	8
<i>BICO-Dog & Cat Food</i>	33	40	21.06	11
<i>BICO-Spices</i>	33	15	-55.59	32
<i>BICO-Coffee, Roasted and Extracts</i>	31	30	-0.82	6
<i>BICO-Fruit & Vegetable Juices</i>	29	10	-64.43	-31
<i>BICO-Nursery Products & Cut Flowers</i>	13	9	-27.57	-54
Agricultural Related Products	1,226	1,035	-15.58	
<i>BICO-Fish Products</i>	937	768	-18.1	-8
<i>BICO-Distilled Spirits</i>	184	167	-9.04	-7
<i>BICO-Forest Products</i>	105	100	-4.7	*
<i>BICO-Ethanol</i>	0	0	22.52	44
<i>BICO-Biodiesel & Blends > B30</i>	0	0	113.05	114

* the decrease ranged from 12% to 27%

Source: TDM- Hong Kong Census & Statistics Department

Conclusion: Hong Kong's economy is not promising for 2020 with the lingering uncertainty of trade negotiations between the United States and China and the no-way-out situation of the domestic conflict expressed in violence. While food necessities are unlikely to contract sharply in volume for domestic consumption, the decrease in value will be to a larger extent. Hong Kong general consumers will be more cautious with their spending and tend to be more value-for-money conscious. Thus, there could be rising demand for commodity rather than premium products. On the other hand, the only relief for restaurant operators is that they have more bargaining power over rent, which is always a significant challenge in Hong Kong. With the foreseeable reduced rent in 2020, restaurants may have more resources to focus on food ingredients and food quality and promotion in order to survive.

Attachments:

No Attachments.