



Hong Kong

Country Commodity Report

Q2 2022



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The Asian Development Bank has cut its growth forecast for Southeast Asia to 3.8%, including Hong Kong, off the back of China's sluggish performance, as new waves of COVID hit, along with a residential market downturn. In contrast to much of the world, inflation is not hitting the record rates seen elsewhere, posting a four-month low in May of 1.2% and expected to be 2% for the year. This is down to residential, which makes up 40% of the CPI, falling by 0.5% upon private rental dropping for a 19th consecutive month.

The Census and Statistics Department reported a 1.1% drop in nominal terms in the total gross value of construction works performed by main contractors in Q1 year-on-year. Downside risks include the supply chain constraints being felt globally, the uncertain geopolitical climate, and the Chinese slowdown weighing on demand.

As material costs will continue to represent a challenge for the construction industry for the foreseeable future, Linesight will publish quarterly updates to track commodities and provide insights about future projections on movements.



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Lumber

Hong Kong relies heavily on imports to meet lumber demand. Although prices picked up in H1, demand has been fairly sluggish, as residential construction, for example, has been particularly weak. There are schemes in place to boost residential construction, with the government attempting to increase the housing supply, and this includes the Green Form Subsidised Home Ownership Scheme (GSH) and Starter Homes (SH) pilot projects. Assuming the sector picks up again, lumber prices will stay close to current levels.



Cement and aggregates

Hong Kong has a heavy reliance on cement imports, given that its domestic cement production is limited to Green Island Cement Company Limited. This is the only integrated cement plant in Hong Kong, with a capacity of cement grinding and clinker production at 2.5 MT and 1.5 MT respectively.



Concrete blocks and bricks

The construction industry has continued to recover steadily, which has contributed to an improvement in demand for blocks and bricks, and this has come at a time of rising production costs. Local supplies will be sufficient to meet demand, but costs will be a factor in keeping prices close to current highs.



Steel (rebar and structural)

Steel prices in Hong Kong have dropped from recent highs, reflecting the downward trend in prices from key import markets – notably China, where demand has been weak owing to COVID-19 lockdowns. Hong Kong has also been importing rebar at relatively low prices for markets in the Middle East.



Copper



Copper demand is primarily met through imports from China and South Korea, and reflecting global pressures, prices soared in 2021. Although they are set to fall, prices are likely to remain elevated in the coming quarters, with increased volatility owing to the disruption caused by the Russia-Ukraine conflict.

Hong Kong - Commodity Report



| | Q3 2022 (f) | Q1 – Q2 (e) 2022 |
|------------------------------------|-------------|---------------------|
| Materials | HK\$ | % change |
| Copper (HK\$/MT) | 61,789 | -6.6% ↓ ■ |
| Steel rebar (HK\$/MT) | 6,140 | -3.3% ↓ ■ |
| Steel flat (HK\$/MT) | 7,865 | -4.1% ↓ ■ |
| Lumber (HK\$/M3) | 7,921 | 11.1% ↑ ● |
| Asphalt (HK\$/MT) | 9,362 | 5.3% ↑ ■ |
| Limestone (HK\$/MT) | 63.41 | -8.6% ↓ ■ |
| Cement (HK\$/MT) | 788 | -8.6% ↓ ■ |
| Concrete (HK\$/M3) | 1,175 | -8.6% ↓ ● |
| Welded mesh (HK\$/unit) | 72.61 | -3.3% ↓ ■ |
| Bricks (HK\$/'000 unit) | 3,424 | 6.3% ↑ ● |
| Plasterboard (HK\$/unit) | 101 | 41.4% ↑ ● |
| Diesel (HK\$/litre) | 15.61 | 5.3% ↑ ■ |

● Q1 to Q2 2022 % change greater than estimation in our Q1 report
 ■ Q1 to Q2 2022 % change less than estimation in our Q1 report

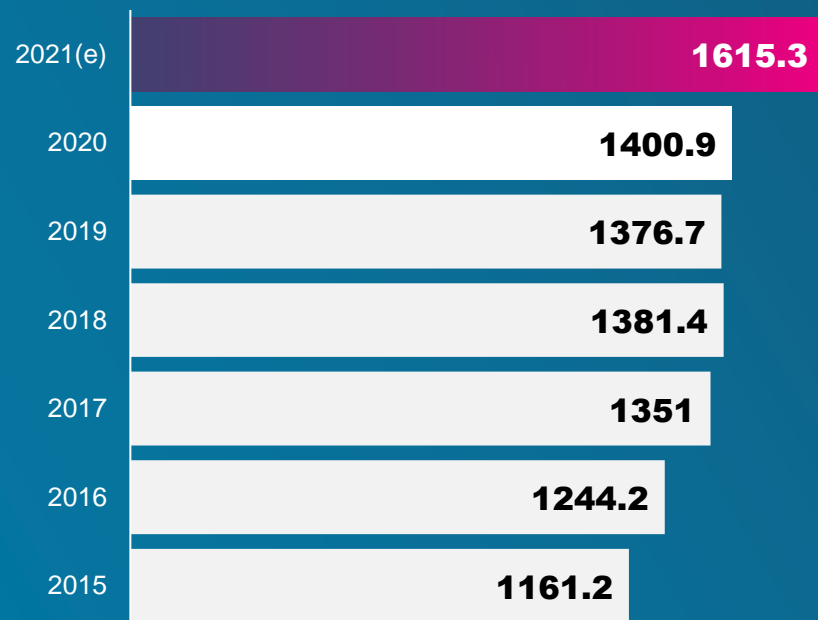
| Material | % change Q2 – Q3 2022 (f) | Level of impact of pricing on construction procurement and supply chain * | |
|------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  Copper | -8.1% ↓ |  Moderate | Copper prices fell in Q2 2022, as COVID-19 lockdowns in China significantly weakened demand. Prices are expected to be volatile in the coming quarters, given the expectation of improving demand in China and the wider region. |
|  Steel prices - Steel rebar - Flat steel | -3.0% ↓ -2.0% ↓ |  High | Owing in part to the drop in demand in China, steel prices went into decline in the latter part of Q2 2022, having been on a steep upward trend in the year to May. Construction output growth in Hong Kong has been fairly sluggish, but there are major infrastructure projects planned and underway, and these will provide a basis for underlying demand. |
|  Cement Concrete | +1.0% ↑ +1.0% ↑ |  Moderate | Cement prices have fallen in recent months, reflecting weaker demand in mainland China and sluggish demand in the construction industry. However, given the projection for a steady recovery in construction output along with higher energy costs, prices will remain relatively high in the coming quarters. |
|  Asphalt | -2.0% ↓ |  Moderate | Asphalt prices rose further in Q2 2022, having picked up in late 2021 in line with the underlying upward trend in crude oil. Bitumen supplies are primarily met through imports, and with global crude oil prices easing from the recent highs, prices are set to fall from current levels. |
|  Limestone | +1.0% ↑ |  Low | There has been an easing in limestone prices, but there will likely be some volatility around current levels in the coming quarters. Demand is primarily met through domestic production, and price fluctuation recently has been due mainly to higher logistics costs. |

Please note that commodity prices are based on representative materials available in the respective countries, and as these materials may not be standard across all markets, cross-country comparisons on prices can be ineffective. For example, asphalt types can vary between hot, cold or a bitumen price, and standard unit sizes for materials can vary across countries.

Hong Kong - Commodity Report



Construction cost index 2015-2021(e)



Knoema World Data Atlas

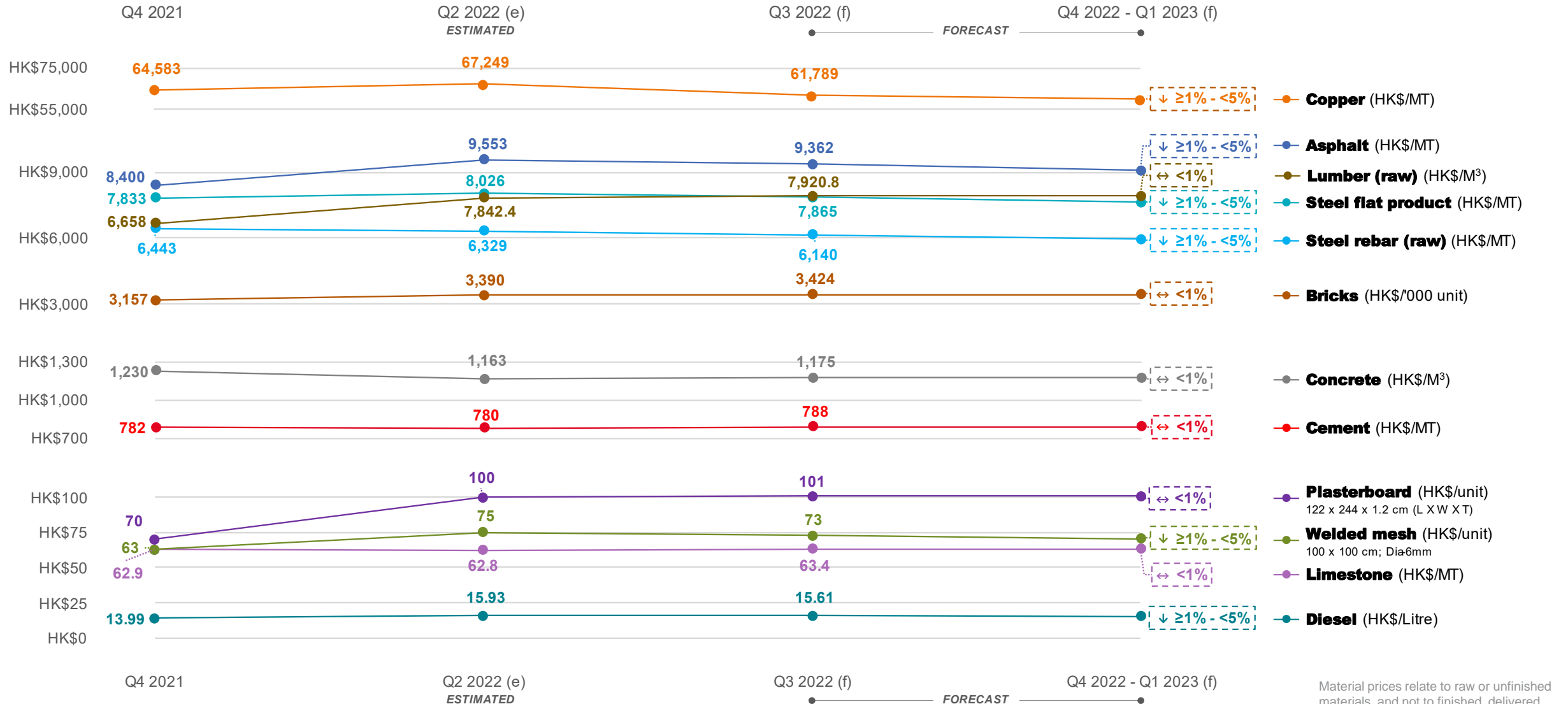
Index of economic freedom 89.1 out of 100

| Material | % change Q2 – Q3 2022 (f) | Level of impact of pricing on construction procurement and supply chain * | |
|---------------------------------------------------------------------------------------------------------|------------------------------|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  Lumber | +1.0% ↑ |  High | Although construction output growth has been weak, lumber prices have been on an upward trend, reflecting Hong Kong's reliance on increasingly more expensive imports. Global price pressures will ease, but as output starts to recover, demand will pick up, thereby keeping domestic prices relatively high. |
|  Welded mesh | -3.0% ↓ |  High | The price trend for welded mesh is based on the price of steel. Hence, a similar price trend is expected for mesh products. |
|  Bricks | +1.0% ↑ |  Moderate | Brick prices have been pushed up by higher fuel prices, used for both production and logistical purposes. Prices are expected to remain elevated, owing to continued upward pressure on energy costs, as well as the steady recovering in construction output. |
|  Plasterboard | +1.0% ↑ |  Low | No major changes are expected in plasterboard prices, which edged upwards in 2021. |
|  Diesel | -2.0% ↓ |  Moderate | Diesel prices in Hong Kong, which are among the highest in the world, rose to new highs in Q2 2022, reaching around HK\$18.50 per litre in June. With crude oil prices levelling off, and rising production of oil from OPEC countries, further upward pressure on diesel prices is expected to be contained. |

* Level of impact rating reflects a combination of factors: the price movement and also price level (compared to recent past beyond the last quarter), the importance of the material, and general state of the supply chain in terms of stability.

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Hong Kong - Construction Materials Pricing (2021-2022)



Material prices relate to raw or unfinished materials, and not to finished, delivered and erected on-site prices.

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Hong Kong - Report methodology



Linesight has commissioned independent global research to track construction materials and commodity prices. The approach and methodology for the collection of construction material pricing and other indicators is based on primary and secondary research.

Primary and secondary research

Primary research is conducted on a quarterly basis with stakeholders in the value chain, including manufacturers and suppliers/distributors of the target materials, to ascertain market information on prices in recent quarters, and also on projections for changes in the coming quarter and remainder of the year. The market analysis also involves a thorough assessment of secondary sources of data on materials and labour prices, in addition to underlying demand and supply trends that will impact market prices.

Sources include GlobalData's Construction Intelligence Center (CIC), the World Bank, IMF, OECD, as well as country specific national statistics offices, such as the U.S. Bureau of Economic Analysis, Bureau of Labor Statistics, and also industry specific associations and publications. A more comprehensive list of sources is included below.

Definitions

- Commodity prices are net of taxes for all the countries
- Prices are not customer delivered
- All commodities are raw materials
- Nominal and real data

Nominal data series do not exclude changes in prices and are also referred to as current prices series.

Annual changes in nominal data for construction output will include changes in construction activity, as well as changes in costs for materials and equipment.

Real data series are calculated by keeping prices constant (so, are also referred to as constant price series), and therefore, they reflect changes in activity only. Growth rates in nominal terms can overstate the pace of growth in construction activity if there is high inflation stemming from rising prices for key inputs.

Sample sources – Hong Kong

For Hong Kong, sources for this report include, but are not limited to:

- IMF
- Civil Engineering and Development Department – The Government of the Hong Kong Special Administrative Region
- Hong Kong Housing Authority
- The Census and Statistics Department
- GlobalData's Construction Intelligence Center (CIC)
- Fitch Ratings
- The Asian Development Bank

