



# Hong Kong Country Insights and Commodity Report Q3 2022



# Hong Kong

## Q3 2022

Hong Kong is expected to record a moderate contraction in 2022 following the growth seen in 2021. After two consecutive quarters of contraction, Hong Kong is generally accepted to now be in a recession, impacted by the global economic landscape, rising inflation (at its highest since 2015) and interest rates, and the sharper than anticipated Chinese slowdown.

The construction industry is expected to record growth of 1.4% in real terms in 2022, following the moderate decline seen in 2021. Construction activity has improved this year, and growth has also been supported by projects in the transport and residential sectors. The abovementioned Chinese slowdown poses a downside risk for the industry, as do the current geopolitical tensions, supply chain disruptions, and commodity and material pricing (albeit with reduced volatility being seen). Growth is expected in the coming years for the industry, as the government focuses on investment programmes to bolster growth.



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### Lumber

The short-term outlook is for fairly weak demand, amid the slowing economy and high interest rates. However, there are schemes aimed at boosting housing supply, namely the Green Form Subsidised Home Ownership Scheme and Starter Homes pilot projects, which will prop up demand.



### Cement and aggregates

Regional cement output fell in the first half of 2022, in part reflecting the drop in demand in China amid the slowdown in real estate development there. With output down and production costs rising, prices for cement in Hong Kong have remained high, despite the declines seen in prices in China.



### Concrete blocks and bricks

Rising production costs and an improvement in demand earlier this year has resulted in a relatively high price point for local bricks. With construction output growth being fairly weak, local supplies will be sufficient to meet demand.



### Steel (rebar and structural)

Steel rebar prices in Hong Kong dropped by around 8% in Q2 2022, with price weakness reflecting the slowdown in China's real estate development. Hong Kong has also been importing rebar at relatively low prices from markets in the Middle East and Turkey, with Turkish steel rebar reportedly being sold to Hong Kong for the first time this year in July.



### Copper

There has been a marked drop in copper prices, reflecting weak demand and investor confidence given the outlook for slowing economic growth. Hong Kong's copper demand is met mainly through Chinese and Korean imports.

# Hong Kong - Commodity Report



Materials	Q4 2022 (f)	Q4 2021 – Q4 2022 (f)		Q2 2022 – Q3 2022 (e)
	HK\$	HK\$	2021-22* % change	% change
<b>Copper</b> (HK\$/MT)	55,122	64,583	-14.65% ↓	-17.2% ↓ ●
<b>Steel rebar</b> (HK\$/MT)	5,184	6,443	-19.55% ↓	-12.3% ↓ ●
<b>Steel flat</b> (HK\$/MT)	6,661	7,833	-14.96% ↓	-15.7% ↓ ●
<b>Lumber</b> (HK\$/M3)	7,807	6,658	17.26% ↑	0.6% ↑ ■
<b>Asphalt</b> (HK\$/MT)	10,675	8,400	27.08% ↑	13.4% ↑ ●
<b>Limestone</b> (HK\$/MT)	73	63	16.08% ↑	15.8% ↑ ●
<b>Cement</b> (HK\$/MT)	922	782	17.86% ↑	3.7% ↑ ●
<b>Concrete</b> (HK\$/M3)	1,156	1,230	-6.05% ↓	-1.2% ↓ ●
<b>Welded mesh</b> (HK\$/unit (a))	65	63	3.07% ↑	-12.3% ↓ ●
<b>Bricks</b> (HK\$/'000 unit)	3,328	3,157	5.42% ↑	-0.8% ↓ ■
<b>Plasterboard</b> (HK\$/unit (b))	100	70	43.29% ↑	0% ↔ ■
<b>Diesel</b> (HK\$/litre)	17.80	13.99	27.2% ↑	13.4% ↑ ●

(a) 100x100cm, dia.-6mm  
(b) 122x244x1.2cm (LxWxT)

● Q2 to Q3 2022 % change greater than estimation in our Q2 report  
■ Q2 to Q3 2022 % change less than estimation in our Q2 report

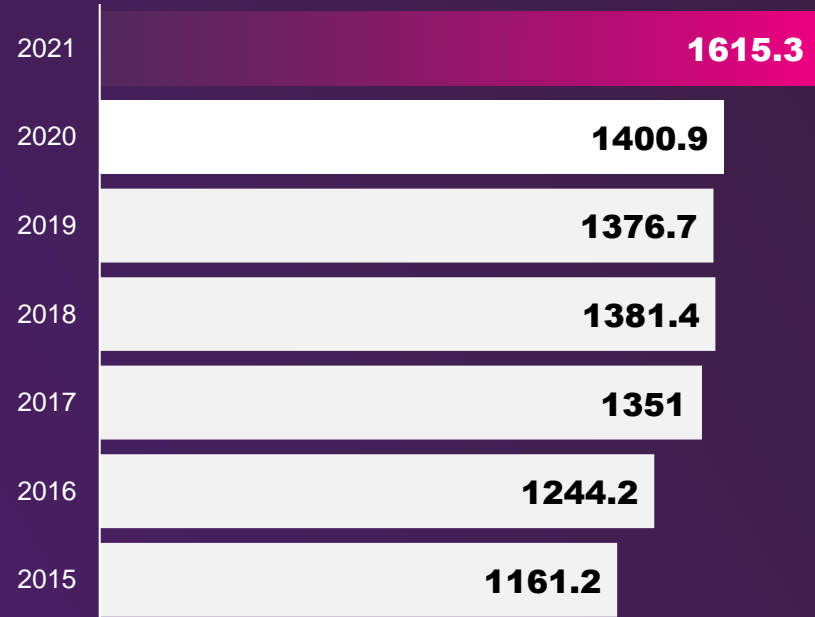
Material	% change Q3 – Q4 2022 (f)	Level of impact of pricing on construction procurement and supply chain *	
 <b>Copper</b>	-1.0% ↓	High	The copper market has faltered recently, dropping from the highs of April due to oversupply and weak demand globally. However, because of significant investments in the production of electric vehicles and the charging infrastructure, the underlying demand for copper will continue to grow.
 <b>Steel prices</b> - Steel rebar - Flat steel	-1.5% ↓ -1.5% ↓	Moderate	The price of steel products has fallen back in the past two quarters, having risen earlier in the year owing to high demand and tight supplies in the global market. Weak demand from China has been a key factor behind the recent decline, and prices are expected to continue to ease in the coming quarters.
 <b>Lumber</b>	-1.0% ↓	Moderate	The residential sector has struggled to regain growth momentum, with output remaining far below pre-COVID-19 levels. However, prices for lumber have risen this year, reflecting issues on the supply side and cost-push pressures. With a slowing economy and high interest rates, demand is expected to remain sluggish.
 <b>Asphalt</b>	-1.5% ↓	Moderate	Asphalt price inflation has eased because of the decline in international crude oil prices, and the increasing use of recycled material has also been a factor. There could be renewed price volatility given the expected rise in crude oil prices following OPEC+'s decision in early October to cut production levels. Hong Kong is also pursuing road infrastructure developments that will prop up demand.
 <b>Limestone</b>	+0.5% ↑	Low	Limestone demand is primarily met through domestic production, and price fluctuation recently has been due mainly to higher logistics costs. Prices are expected to remain close to current levels by the end of 2022.





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

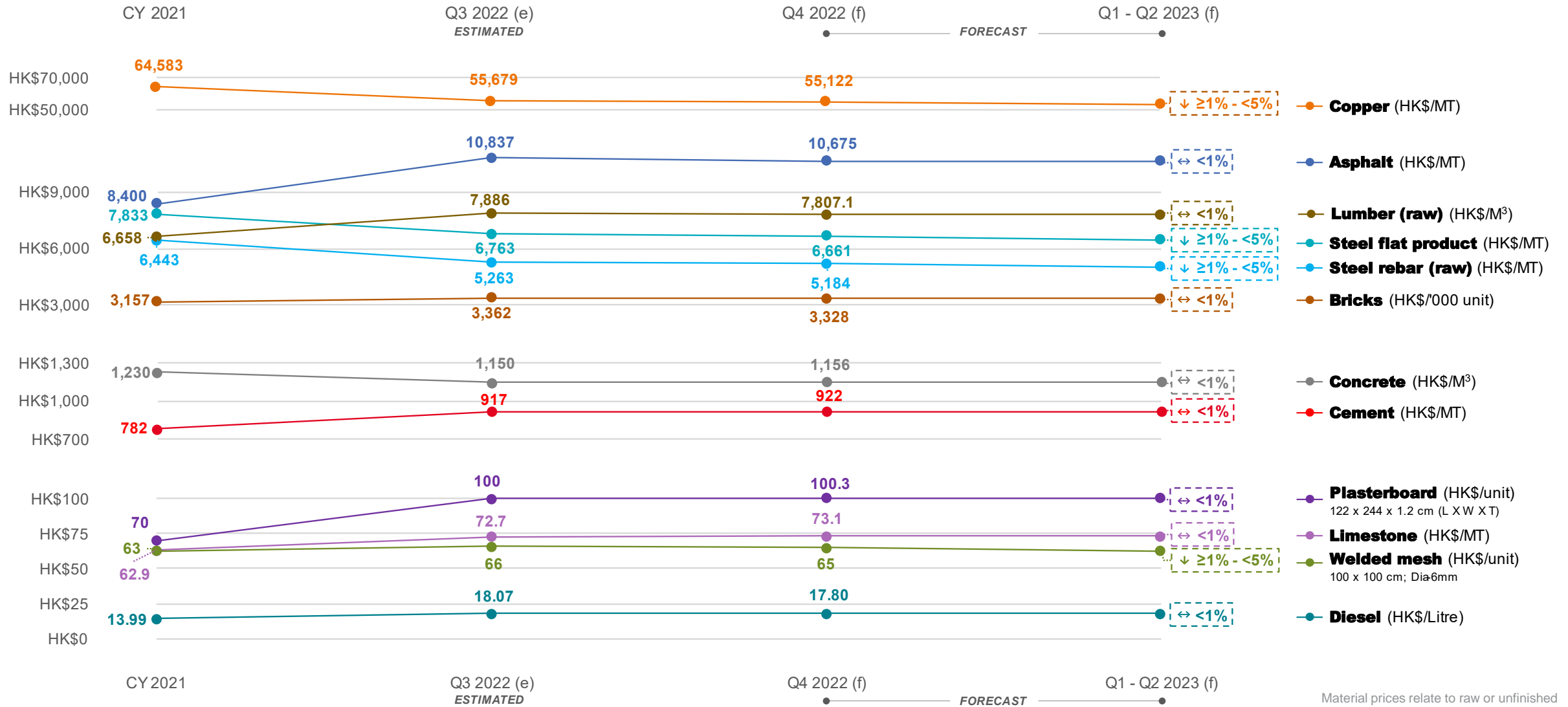


Material	% change Q3 – Q4 2022 (f)	Level of impact of pricing on construction procurement and supply chain *	
 <b>Cement Concrete</b>	+0.5% ↑ +0.5% ↑	Moderate	Cement prices rose sharply in the first half of the year, such that by June prices were up by around 18% on a year-on-year basis. This has reflected increases in costs for producers, and some expansion in demand, at a time of falling cement output levels, particularly in China. However, with investment levels set to wane amid the weaker economy and higher interest rate environment, producers will struggle to continue to pass on their higher costs.
 <b>Welded mesh</b>	-1.5% ↓	Moderate	Welded mesh prices have fallen back, a trend that is in line with that for steel rebar. Demand growth will be limited in the coming quarters, as construction output growth slows.
 <b>Bricks</b>	-1.0% ↓	Low	As with other building materials, brick prices came under upward pressure in the first half of the year, reflecting a mix of rising production costs and solid demand. Prices are expected to stabilise at a relatively high level into 2023, with continued supply-side pressures offsetting a weaker demand outlook.
 <b>Plasterboard</b>	+0.3% ↑	Low	Plasterboard prices have been relatively stable, and are expected to remain close to current levels in the coming quarters.
 <b>Diesel</b>	-1.5% ↓	Moderate	Although falling during the third quarter, diesel prices were still high, averaging HK\$18.1 per litre. Prices have been trending downwards in line with the fall in global crude oil, but this trend in crude prices could be reversed following the recent decision by OPEC+ members to cut production levels.

\* 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.

# Hong Kong – Macroeconomic overview



## Economic indicators



**-0.17%**

GDP growth in 2022 (f) and **6.42%** in 2021



**2.29%**

inflation rate in 2022 (f) and **1.57%** for 2021



**3.62M**

people employed in 2022 (f) and **3.58M** in 2021



**4.62%**

unemployment rate for 2022 (f) and **5.2%** in 2021



**140.28**

Consumer Price Index in 2022 (f) and **137.14** in 2021



**115.8**

Producer Price Index in July 2022 and **114.9** in July 2021

## National holidays









**17 public holidays**

in Hong Kong each year.

- The first day of January (1 January)
- Lunar New Year's Day (1 February)
- The second day of Lunar New Year (2 February)
- The third day of Lunar New Year (3 February)
- Ching Ming Festival (5 April)
- Good Friday (15 April)
- The day following Good Friday (16 April)
- Easter Monday (18 April)
- The day following Labour Day (2 May)
- The day following the Birthday of the Buddha (9 May)
- Tuen Ng Festival (3 June)
- Hong Kong Special Administrative Region Establishment Day (1 July)
- The second day following the Chinese Mid-Autumn Festival (12 September)
- National Day (1 October)
- Chung Yeung Festival (4 October)
- The first weekday after Christmas Day (26 December)
- The second weekday after Christmas Day (27 December)

# Hong Kong – Macroeconomic overview



Output 2021 and 2022 (in millions)			
	Total 2021	Total 2022 (f)	% change
Commercial 	HK\$47,635	HK\$48,881	2.6%
Energy and utilities 	HK\$19,339	HK\$19,691	1.8%
Industrial 	HK\$4,069	HK\$4,242	4.3%
Infrastructure 	HK\$56,996	HK\$58,435	2.5%
Institutional 	HK\$12,221	HK\$12,240	0.2%
Residential 	HK\$73,737	HK\$73,597	-0.2%

## Long-lead equipment (LLE) and Supply Chain narrative

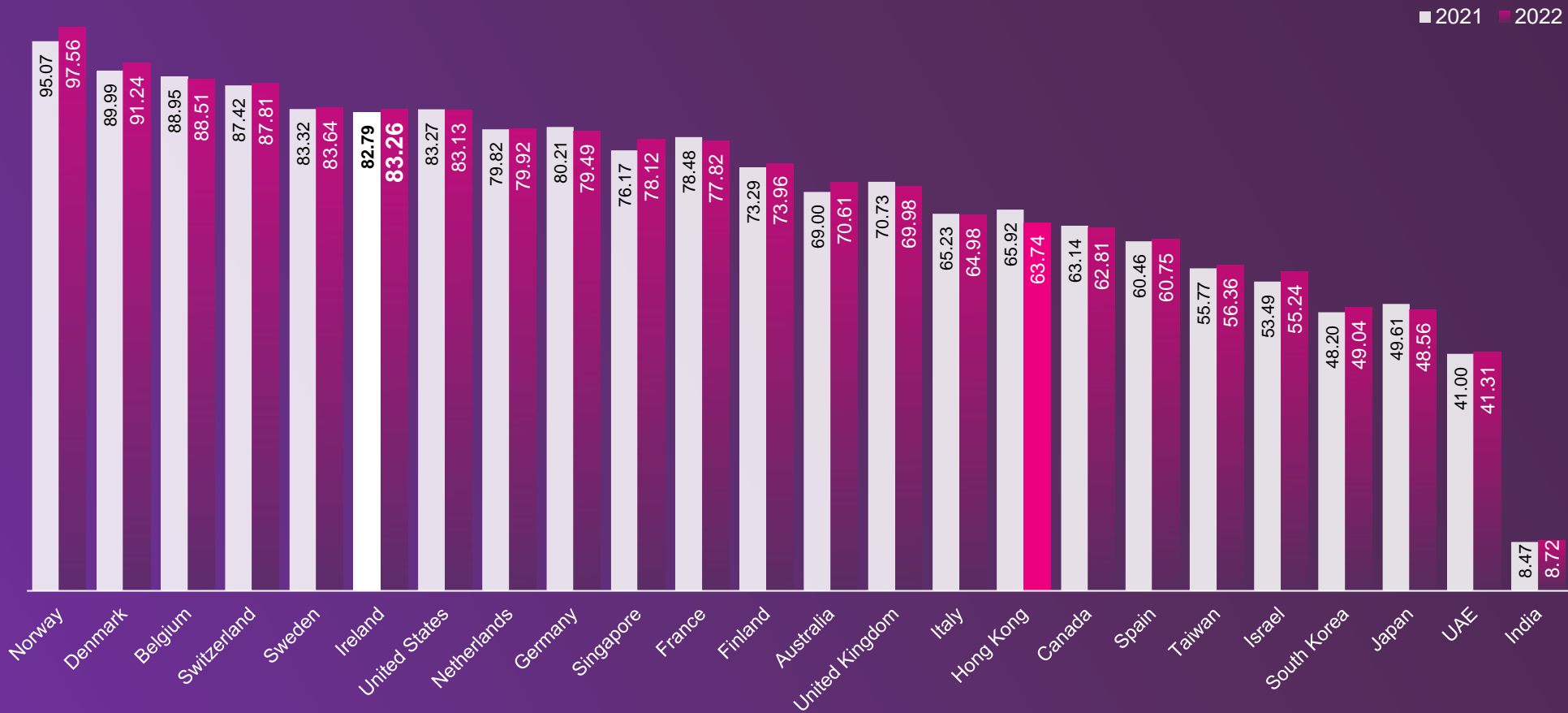
Long-lead equipment (LLE) lead times have changed drastically since the start of 2022. Suppliers have seen the implications of material shortages, delays and price hikes throughout the supply chain, which is leading to extended lead times and reduced commitment from suppliers for new projects. The key areas in focus are:

- Demand:** The demand for long-lead equipment in the data centre sector has continued to increase in Q3 2022. More data centre and crypto mining providers are joining the market, and this continued demand far outweighs the capacity of the supply chain. Entry onto the production line remains a significant challenge, with suppliers reporting fully booked capacity until Q2 2024. There has been some growth in the development of Tier 2 and Tier 3 suppliers to support this demand. However, it will take time to build an extended supply chain. There has also been no sign of a decline in demand yet in early Q4 2022.
- Material shortage:** Just as material availability started to improve, the further threat of escalation with the Russia-Ukraine conflict has cast further uncertainties of future material stocks and reserves. The supply chain has continued to seek alternative sources of raw materials, and although this has been with partial success, market lead times remain conservative.
- Freight durations and costs:** Heightened by the increase in fuel costs, and compounded by the instability of labour and container availability, freight durations have been particularly volatile in recent times. Early indications from Q4 2022 suggest some stabilization in shipping durations is returning to the market, but the associated costs remain volatile due to the global fuel crisis. As clients consider alternative solutions, it almost becomes cost prohibitive to use quicker forms of transport, such as air freight, due to these increasing fuel costs.

# Hong Kong – Macroeconomic overview



## Labour productivity



## Labour costs



**HK\$17,320**

average per month in July 2022  
compared to HK\$17,019 per  
month in July 2021

Labour productivity per hour worked in 2021 international dollars, converted using Purchasing Power Parities



# Hong Kong - Report methodology



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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.

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## 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
- The Census and Statistics Department
- GlobalData's Construction Intelligence Center (CIC)
- Fitch Ratings
- The Asian Development Bank

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