



Hong Kong Country Commodity Report Q4 2022



Hong Kong

Q4 2022

The sharp decline in Hong Kong's economy in recent quarters, has led its GDP to decline by 3.2% in 2022. This is primarily driven by increased interest rates and Hong Kong's declining exports, as a result of supply chain issues and weakening global demand. However, with the reopening of trade with mainland China and the government's support to increase domestic consumption, it is anticipated that the GDP will grow in coming quarters. Inflation remained at c.1.9% for the year 2022, forecasted to be c.2.2% for 2023.

The construction industry in Hong Kong picked up well in H1 2022. According to Hong Kong Census and Statistics Department, gross value of the construction works performed by the main contractors in H1 2022 was 21% higher than that in the same period in 2021, however in Q3 2022 it was projected to grow at 1.2% as compared to Q3 2021. The industry is currently dealing with various challenges including supply-chain issues, inflation, rising energy costs and labour shortage. However, with Investments in the transport, electricity, housing and industrial sectors, the industry is expected to grow at an average annual rate of 2% during 2023-26.



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Lumber

Lumber demand is expected to remain relatively weak in the short term, due to sluggish economic activity and high interest rates. However, in 2023, lumber demand will be supported by the government's focus on increasing the housing supply. Between 2023 and 2028, the government plan to construct approximately 127,700 housing units, of which, approximately 82,600 will be subsidised.



Cement and aggregates

Cement output continued to fall in the final quarters of 2022, with demand declining as the real estate downturn in China showed no signs of abating. Declining production volumes, exacerbated by rising energy costs, have kept cement prices elevated in Hong Kong, despite demand softening as construction output weakened.



Concrete blocks and bricks

Elevated thermal coal costs and relatively strong construction demand in the first half of 2022 saw brick prices peak in Q2 2022. However, with construction output weakening in the second half of the year, a glut of supply and a softening of demand the prices have started to drop back.



Steel (rebar and structural)

Steel prices in Hong Kong are expected to have continued to decline in the final quarter of last year, reflecting the slowing of global manufacturing activity and the downturn in China's real estate sector. Steel prices in China are rising as demand for infrastructure construction accelerates. The prices are expected to remain stable in 2023 as steel prices in China rise and infrastructure investment in Hong Kong increases.



Copper

Expectations of renewed demand in China following the easing of its zero COVID policies contributed to the increase in copper prices in Q4 2022. However, with the rebound in economic activity being far weaker than expected, due to the significant wave of COVID-19 cases, inflation is expected to slow substantially in the first quarter of 2023. Domestic copper demand will be supported by the commencement of construction works on large civil engineering projects in Q1 2023, including the \$8.0 billion Northern Link Express Rail development.



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Materials	Q1 2023 (f)	Q1 2022 – Q1 2023 (f)		Q3 2022 – Q4 2022 (e)
	HK\$	HK\$	2022-23 % change	% change
Copper (HK\$/MT)	60,801	72,000	-15.6% ↓	7.8% ↑ ●
Steel rebar (HK\$/MT)	5,687	6,543	-13.1% ↓	-1.0% ↓ ■
Steel Flat (HK\$/MT)	6,847	8,366	-18.2% ↓	-12.0% ↓ ●
Stainless Steel (HK\$/MT)	9,585	NA	NA	NA
Lumber (HK\$/M3)	7,725	7,061	9.4% ↑	-1.0% ↓ ●
Asphalt (HK\$/MT)	9,667	9,076	6.5% ↑	0.7% ↑ ■
Limestone (HK\$/MT)	73.6	68.7	7.0% ↑	-2.0% ↓ ●
Cement (HK\$/MT)	938	854	9.9% ↑	-0.1% ↓ ■
Concrete (HK\$/M3)	1,150	1,273	-9.7% ↓	7.8% ↑ ●
Welded mesh (HK\$/unit)	70.9	77.4	-8.4% ↓	-1.0% ↓ ■
Bricks (HK\$/'000 unit)	3,325	3,189	4.3% ↑	-0.8% ↓ ■
Plasterboard (HK\$/unit)	100.2	70.7	41.7% ↑	0.0% ↔ ■
Diesel (HK\$/litre)	18.0	15.1	18.8% ↑	0.5% ↑ ■

(f) Forecast (e) Estimated

● Q3 to Q4 2022 % change greater than estimation in our Q3 report
■ Q3 to Q4 2022 % change less than estimation in our Q3 report

Welded mesh: 100 x 100cm, dia.-6mm Plasterboard: 122 x 244 x 1.2cm (L x W x T)

Material	% change Q4 – Q1 2023 (f)	Level of impact of pricing on construction procurement and supply chain *	
 Copper	+1.3% ↑	Low	Copper prices are expected to remain elevated in the near term, with an expectation that demand from China strengthens as its reopening progresses. However, slowing global economic growth and weak manufacturing activity will contain price inflation in the coming quarters.
 Steel prices - Steel rebar - Flat steel	+0.7% ↑ +0.0% ↔	Low	Slowing residential construction activity and civil engineering works, and a reduced global demand as manufacturing activity softened, saw steel prices fall in the second half of 2022. In early 2023, prices will hold up by increased demand in China as works on its infrastructure construction drive picks up and the possibility of steel mills reducing output in response to high energy and input costs.
 Stainless steel	+1.3% ↑	Low	Due to elevated nickel costs, stainless steel prices are expected to rise in the short term.
 Lumber	-1.0% ↓	Moderate	Easing supply chain pressures and weak residential construction demand saw lumber prices fall slightly in the final quarter of last year. In Q1 2023, lumber prices are anticipated to fall marginally amid sluggish residential construction activity.
 Asphalt	-0.5% ↓	Low	Since Q3 2022, asphalt prices have been relatively steady, recording only a marginal rise in the final quarter of last year. In early 2023, prices are expected to be supported around their current level by firming domestic demand and stabilising global crude oil prices.
 Limestone	-0.5% ↓	Low	Limestone prices are expected to remain stable in the coming quarters, with weak demand offset by high production and transportation costs.

* 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.

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 2015-2022

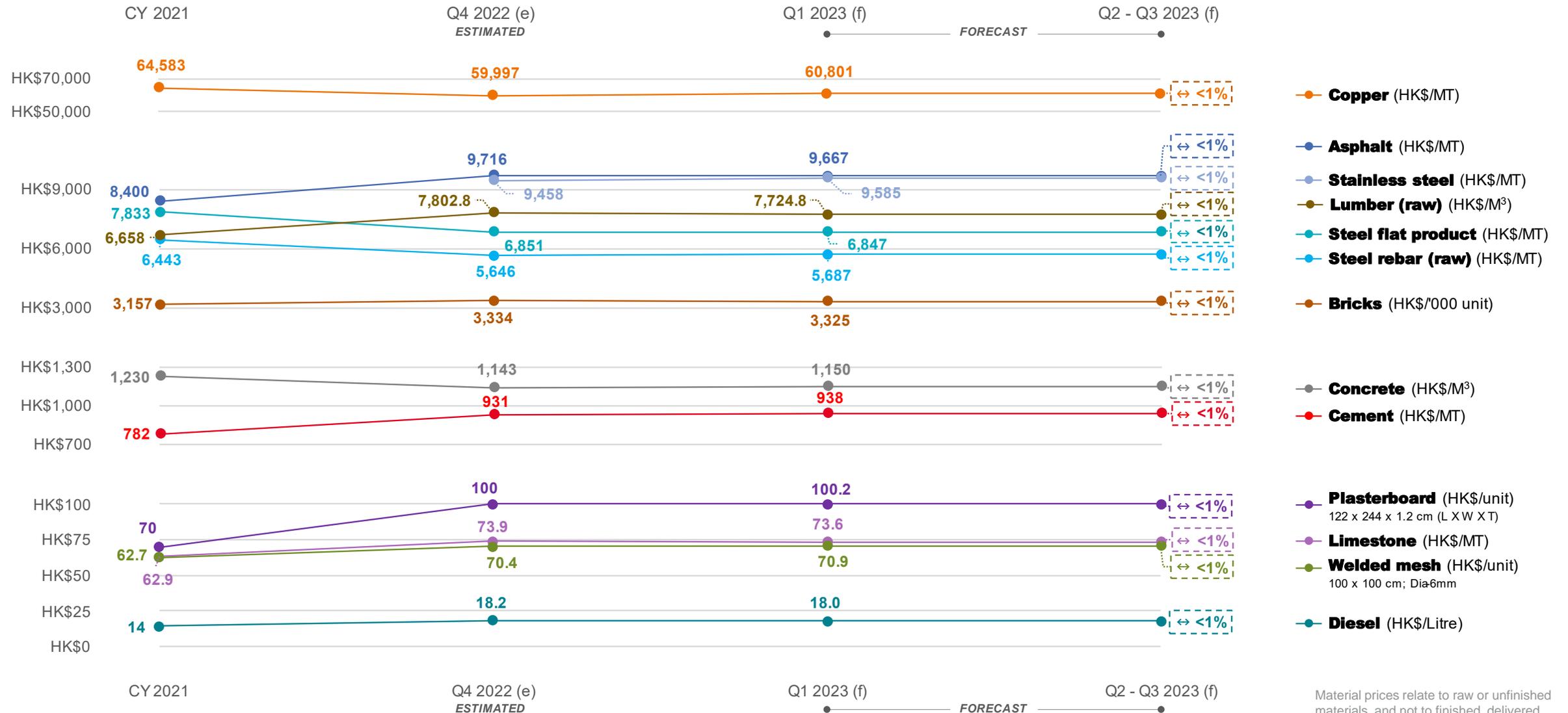


Material	% change Q4 – Q1 2023 (f)	Level of impact of pricing on construction procurement and supply chain *	
 Cement Concrete	+0.8% ↑ +0.6% ↑	Moderate	Cement prices remained stable in the final quarter of last year, with slowing demand growth from the residential and civil engineering sectors offset by increased production costs as energy prices rose. Demand from the building sector will remain sluggish in the first quarter of 2023, but infrastructure investment in China and high production costs will contribute to keeping cement prices elevated. Concrete prices are expected to exhibit a similar trend.
 Welded mesh	+0.7% ↑	Moderate	Welded mesh prices fell marginally in the final quarter of last year, following the trend of steel rebar prices. In Q1 2023, mesh prices are anticipated to rise in line with the expected increase in steel rebar prices.
 Bricks	-0.3% ↓	Low	Brick prices fell in Q4 2022, weighed down by soft demand from the residential construction sector. However, high production costs will keep prices relatively high.
 Plasterboard	+0.2% ↑	Low	Plasterboard prices are expected to remain stable in the short term, with high production costs being offset by fairly weak demand.
 Diesel	-1.0% ↓	Moderate	Diesel prices are anticipated decrease slightly from their current levels in Q1 2023, though the recent announcement by OPEC+ to reduce oil supply will exert upwards pressure on prices.

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Hong Kong – Construction Materials Pricing (2021-2023)



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.

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)

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