



Hong Kong

Country Insights and Commodity Report

Q1 2022



Hong Kong

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Hong Kong's economy has faced a challenging start to the year, with negative growth recorded in Q1 as an additional COVID wave impacted, following notable growth in 2021 – its fastest pace since 2010 at 6.4%. Exports of goods grew in 2021 as major economies around the world rebounded, particularly to Mainland China, the EU and the US. The Office of the Government Economist forecast a range of 2-3.5% for growth in 2022 as of February, although global market conditions have changed considerably since then.

Construction expenditure saw a very moderate increase of 0.3% in 2021, with a small decline in private sector expenditure offset by the rise in public sector spending. Similar to the rest of the world, material price escalation and supply chain challenges are having a bearing on the industry.

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 have picked up, the upward trend in sawn hardwood, for example, has not been as severe as in other major markets, reflecting sluggish domestic demand. Lumber prices increased in mid-2021, impacted by sharp inflation in global prices, but there was a reversal in the latter part of the year, with demand coming from the construction industry remaining tepid. However, residential construction is expected to pick up, with the government attempting to increase the housing supply through the adoption of several initiatives, including the Green Form Subsidised Home Ownership Scheme (GSH) and Starter Homes (SH) pilot projects.



Cement and concrete

Hong Kong's domestic cement production is limited to Green Island Cement Company Limited, which is the only integrated cement plant in Hong Kong, with a capacity of cement grinding and clinker production at 2.5MT and 1.5MT respectively. Reflecting its relatively high reliance on imports, Hong Kong was the eighth largest cement importer in 2020, bringing in 4.1MT.



Concrete blocks and bricks

As the construction industry continues a steady recovery from multi-year declines to 2020, demand for blocks and bricks will grow. Although sufficient supply will help to contain price pressures, higher energy costs will keep prices close to current highs.



Steel (rebar and structural)

Hong Kong's steel imports are dominated by China, and local prices are closely tied to prevailing levels in China, which dropped in late 2021, but have since reverted to an increasing trend.



Copper


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

Hong Kong - Commodity Report



Materials	Q4 2021	Q3 Q4 2022 (f)		Q4 - Q1 (e) 2022
	HK\$	HK\$	2021-22 (f) % change	% change
Copper (HK\$/MT)	64,582.6	76,756	18.8% ↑	11.5% ↑ ●
Steel rebar (HK\$/MT)	6,443	7,043	9.3% ↑	1.6% ↑ ●
Steel flat (HK\$/MT)	7,833	8,961	14.4% ↑	6.8% ↑ ●
Lumber (HK\$/M3)	6,658	7,578.7	13.8% ↑	6.1% ↑ ●
Asphalt (HK\$/MT)	8,400	9,582	14.1% ↑	8% ↑ ●
Limestone (HK\$/MT)	62.9	69.4	10.3% ↑	9.2% ↑ ●
Cement (HK\$/MT)	782	893	14.2% ↑	9.2% ↑ ●
Concrete (HK\$/M3)	1,230	1,286	4.6% ↑	3.5% ↑ ●
Welded mesh (HK\$/unit)	62.7	83	32.2% ↑	23.4% ↑ ●
Bricks (HK\$/'000 unit)	3,157	3,383	7.2% ↑	1% ↑ ●
Plasterboard (HK\$/unit)	70	73.5	5.1% ↑	1% ↑ ●
Diesel (HK\$/litre)	14	16.05	14.7% ↑	8.2% ↑ ●

Q3 Q4 2022 (f): Forecasted average
2021-22 % change: % change from Q4 2021 to Q3 Q4 2022 average
 ● **Q4 to Q1 2022 % change greater than estimation in our Q4 report**
 ■ **Q4 to Q1 2022 % change less than estimation in our Q4 report**

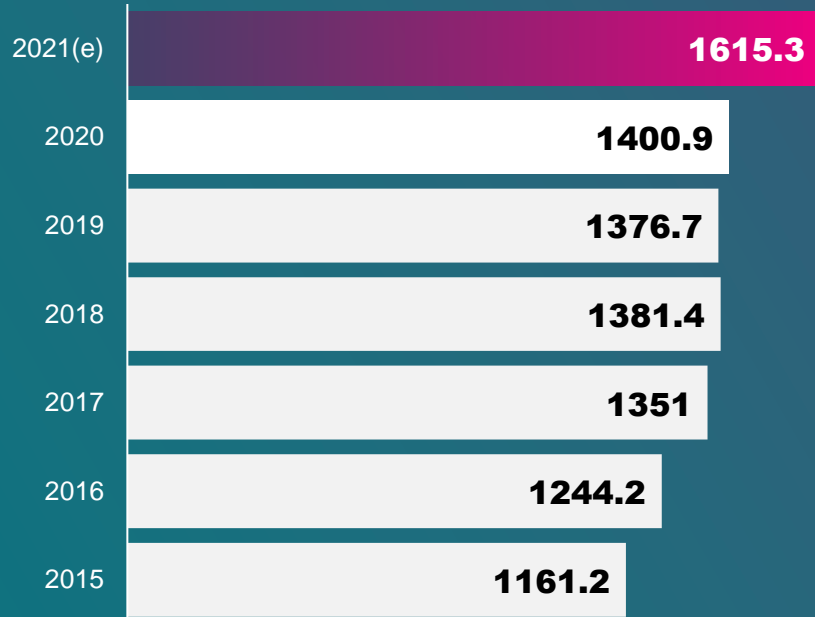
Material	% change Q1 – Q2 2022 (f)	Level of impact of pricing on construction procurement and supply chain *
 Metal prices - Copper - Steel rebar - Flat steel	+3.5% ↑ +4.5% ↑ +4.0% ↑	 High Copper prices stayed at relatively high levels in Q1 2022, continuing the general trend last year when prices were driven up by a wide supply-demand gap, amid shortages and low inventories. The construction industry in Hong Kong has been fairly sluggish, with output contracting marginally last year. However, reflecting international pressures and the decline in China's steel production owing in part to controls on energy, steel prices rose to a high level in Hong Kong during much of the second half of 2021. Although prices fell back in December, they have been on an upward trend since then. Slow growth in construction output in 2022 is expected, but steel prices will remain elevated, owing to higher raw materials costs.
 Cement Concrete	+1.5% ↑ +1.0% ↑	 Moderate Cement prices were fairly stable in 2020 and much of 2021, in part reflecting the sluggish demand in the construction industry. However, prices rose sharply in December, and continued upwards in Q1 2022. Given the projection for a steady recovery in output along with higher energy costs, prices will remain high.
 Asphalt	+2.5% ↑	 Low Having been stable in 2020 and into 2021, asphalt prices picked up in late 2021, in line with an underlying upward trend in crude oil. Bitumen supplies are primarily met through imports, and with higher crude oil prices following the outbreak of the Russia-Ukraine conflict, asphalt will now face further inflationary pressures.
 Limestone	+1.0% ↑	 Low Limestone demand is primarily met through domestic production, and recent price fluctuations have been due mainly to higher logistics costs. Prices are expected to remain close to current highs in 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(e)



Knoema World Data Atlas

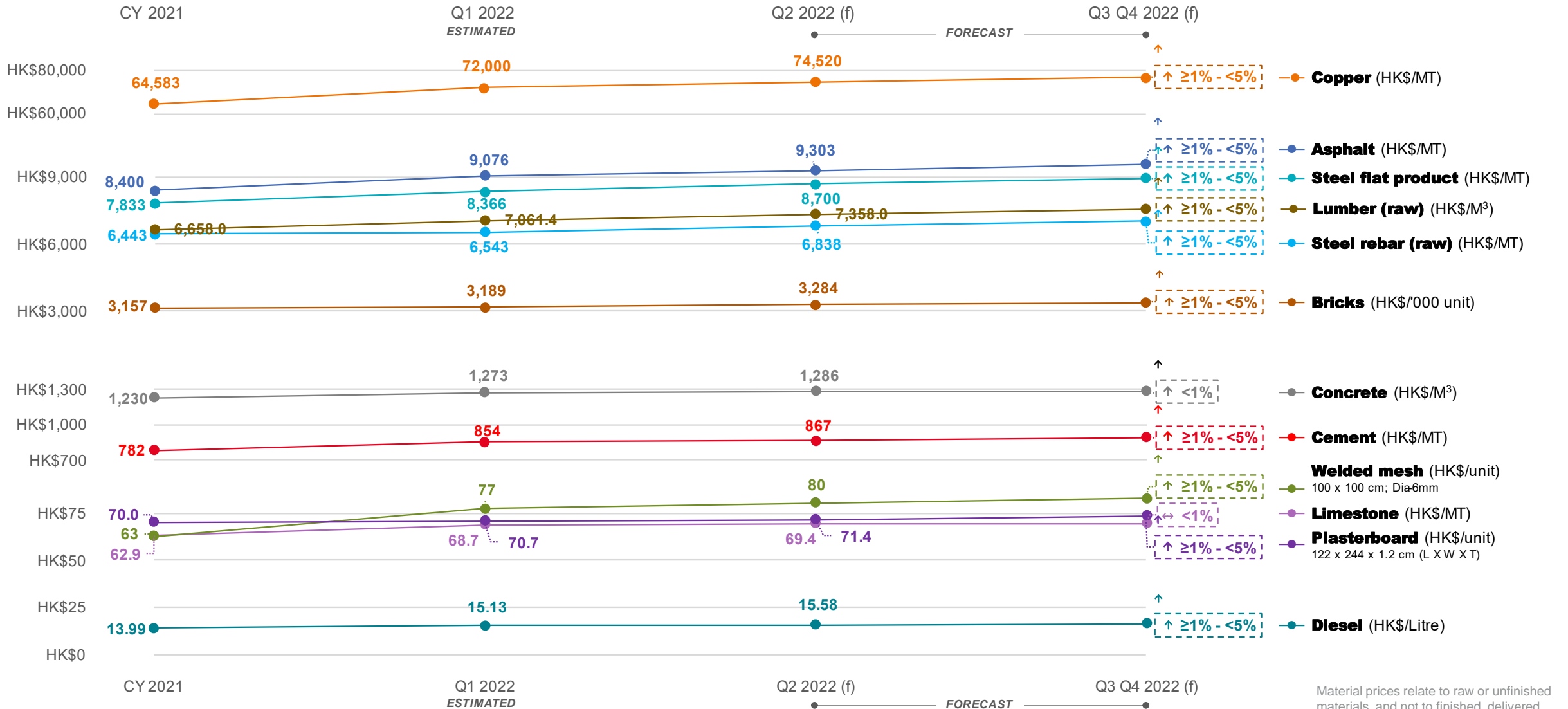
Index of economic freedom 89.10 out of 100

Material	% change Q1 – Q2 2022 (f)	Level of impact of pricing on construction procurement and supply chain *
 Lumber	+4.2% ↑	 Low Hong Kong's construction industry has been weak in recent years, having contracted for the fifth consecutive year in 2021. However, lumber prices rose over the course of 2021, and with Hong Kong reliant on increasingly more expensive imports, prices will remain high.
 Welded mesh	+4% ↑	 Moderate The price trend for welded mesh is based on the price of steel. Hence a similar price trend to steel bars is expected for mesh products.
 Bricks Plasterboard	+3% ↑ +1% ↑	 Low 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 recovery of construction output. Plasterboard prices will face some upwards pressure, reflecting higher production costs.
 Diesel	+3% ↑	 Low Diesel prices in Hong Kong are among the highest in the world, and trended upwards in 2021. Reflecting the surge in crude oil prices in the first few weeks after the outbreak of the Russia-Ukraine conflict in late February, diesel prices jumped to an average of around HKD16.4 per litre in March.

* 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 - Macroeconomic overview



Economic indicators



2%

GDP growth in 2022 (f) and 6.4% in 2021



1.9% inflation rate in 2022 (f) and **0.25%** for 2021



3.76M people employed in 2022 (f) and 3.69M in 2021



5.64% unemployment rate in 2022 (f) and 5.83% in 2021



102.7

Consumer Price Index in 2022 (f) and 102.3 in 2021

Weather conditions



14°C to 31°C

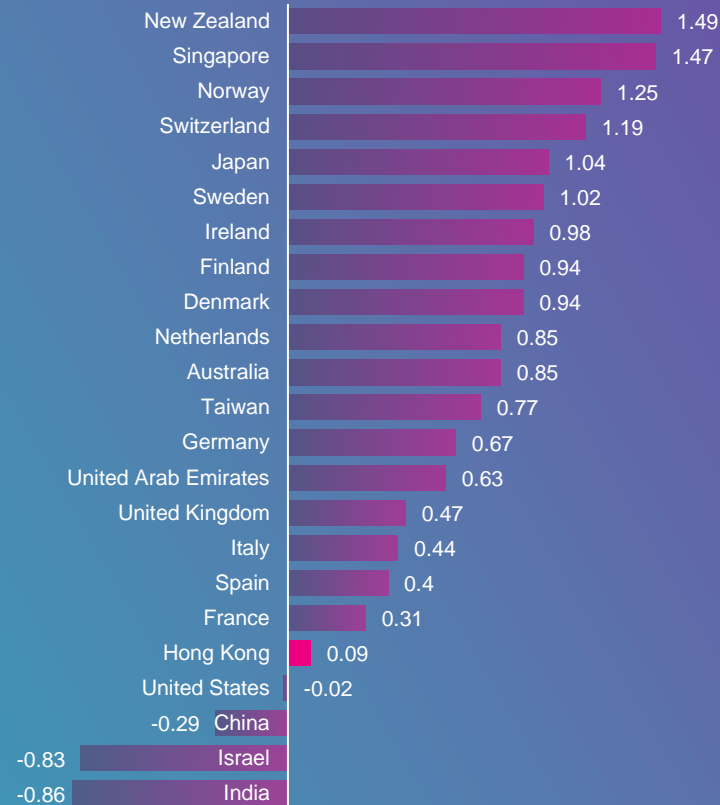
Typical temperature range throughout the year



2,400mm

Average annual rainfall in Hong Kong.

Political stability



Political stability index (-2.5 weak; 2.5 strong)

The index of Political Stability and Absence of Violence/ Terrorism measures perceptions of the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.

National holidays

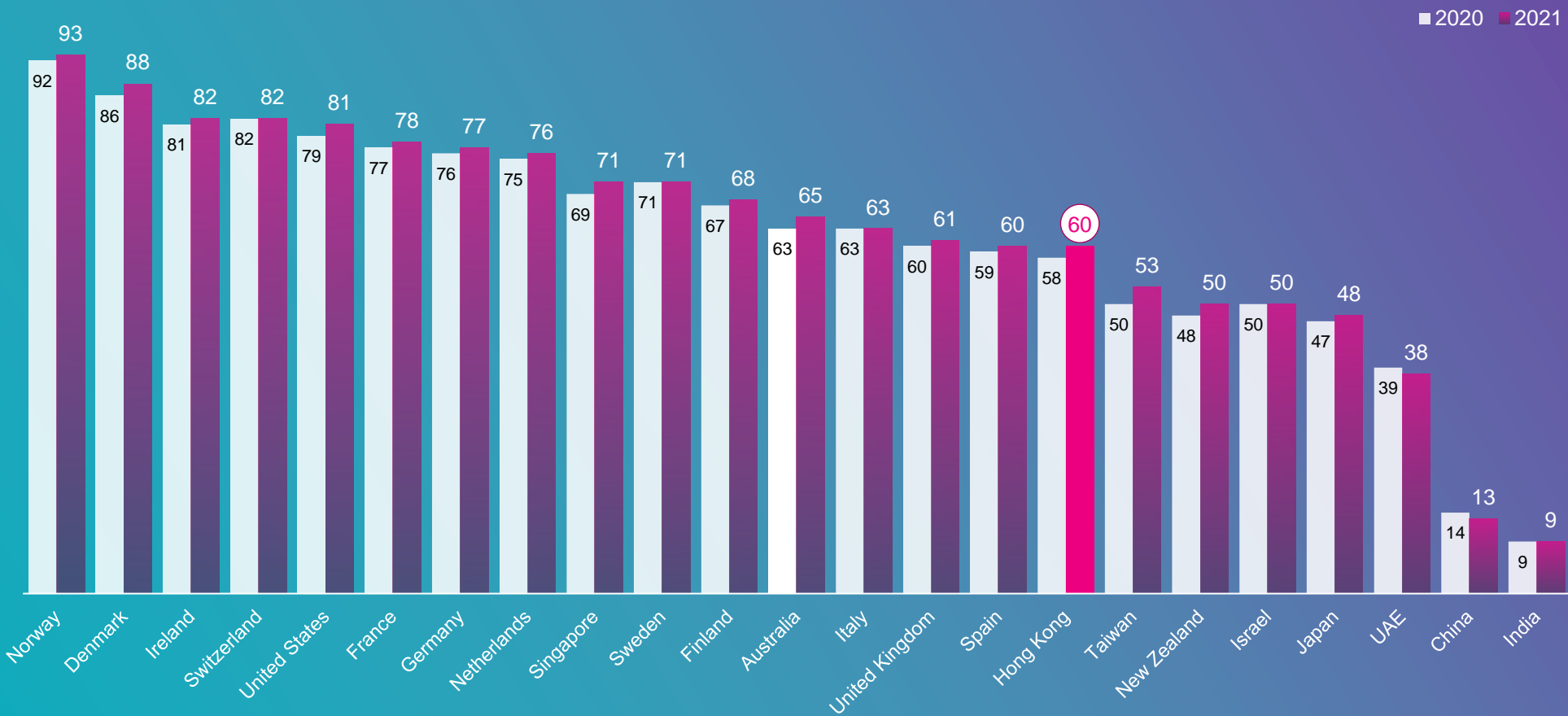


17 public holidays in Hong Kong each year. Most leave is taken during Chinese New Year.

Hong Kong - Macroeconomic overview



Labour productivity



Labour productivity per hour worked in 2020 international dollars, converted using Purchasing Power Parities

Labour costs







HKD133  is the average hourly earnings or **HKD276,790** average construction worker gross salary in Hong Kong.

An entry level construction worker (1-3 years of experience) earns an average salary of **HKD206,908**. A senior level construction worker (8+ years of experience) earns an average salary of **HKD336,933**.

\$60  is the labour productivity per hour worked in 2021 international dollars, and \$58 in 2020 (converted using Purchasing Power Parities)

Hong Kong - Construction overview



Output 2021 and 2022 (f) (in millions)			
Sector	Total 2021	Total 2022 (f)	% change
Commercial 	HK\$ 46,346.40	HK\$ 47,740.56	3%
Energy and utilities 	HK\$ 17,156.18	HK\$ 17,688.41	3.1%
Industrial 	HK\$ 3,137.65	HK\$ 3,156.49	0.6%
Infrastructure 	HK\$ 58,754.11	HK\$ 60,802.96	3.5%
Institutional 	HK\$ 12,223.24	HK\$ 12,355.12	1.1%
Residential 	HK\$ 81,775.02	HK\$ 83,060.85	1.6%
Total output	HK\$ 219,391.80	HK\$ 224,803.59	2.5%

Long-lead equipment (LLE) – time risks

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 sector has increased exponentially with the IT boom. More and more data centre and crypto mining providers are joining the market and this new demand far outweighs the capacity of the supply chain. Entry onto the production line has become a significant challenge with suppliers reporting fully booked capacity until Q1 2023. Opportunities exist for the development of Tier 2 and Tier 3 suppliers to Tier 1 status however that will take time to develop an extended supply chain.
- Material shortage:** The end of Q1 2022 saw a significant drop in the availability of raw materials used for LLE production. Global factors such as the conflict in Ukraine and the resurgence of COVID19 has halted production which is at its lowest levels in recent years. The ethical approach, which is to manoeuvre away from the use of Russian gas and oil, has reduced production levels and added longer lead times within the supply chain – even for APAC, as the European impact is felt. The raw material shortages are expected to continue into Q2 2022, whilst there is uncertainty for the security of the supply chain.
- Freight durations and costs:** Heightened by the increase in fuel costs and compounded by the shortage of labour and low supply of shipping containers, freight durations have soared as suppliers look for ways to mitigate these challenges. The demand for freight services has grown across all markets in recent years and the competition amongst industries has had a negative effect on availability and durations. As clients consider alternative solutions, it almost becomes cost prohibitive to use quicker forms of transport such as air freight due to increasing fuel costs.

Construction health & safety practices and culture



3,144 industrial accidents in the construction industry in 2021, up from 2,532 in 2020.



29.9/1000 accident rate in 2021, up from 26.1 in 2020.

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
- Economy.com
- The Global Economy
- Weather Spark
- Civil Engineering and Development Department – The Government of the Hong Kong Special Administrative Region
- Hong Kong Housing Authority
- GlobalData's Construction Intelligence Center (CIC)
- Conference-board.org
- Fitch Ratings

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