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Exports Confidence Improves, Labour Costs Escalate HKTDC Survey Results, Export Index, Revealed at Press Conference

16 March 2010 – Despite increasing labour costs and labour shortages on the Chinese mainland, the confidence level of local exporters has improved over the past few months, according to a recent survey conducted by the Hong Kong Trade Development Council (HKTDC). Survey results, together with the HKTDC Export Index for the first quarter of this year, were revealed today at an HKTDC press conference led by the Council's Chief Economist Edward Leung. They are also available in the latest issue of the HKTDC *Trade Quarterly*.

Export Index Up Again

The HKTDC Export Index increased to 55.1 in the first quarter. This marks the first time in two years that the Index has been in expansionary territory for two straight quarters and responds, in part, to stronger demand from overseas buyers. A reading above 50 indicates optimism among respondents. The Index is an indicator designed to monitor the current export performance of Hong Kong traders and gauge their near-term prospects.

Among industries, electronics and timepiece exporters were the most optimistic, expecting more purchases of raw materials or goods for further exports. The index for jewellery, however, slipped to 36.8, indicating that jewellery exports are unlikely to improve in the near term.

While the sub-indices for the United States, the European Union and Japan stayed below 50, export confidence improved significantly for the Chinese mainland, with the sub-index increasing to 55.6. "This is the third quarter in a row that the mainland sub-index has stayed in expansionary territory, indicating that local exporters are more confident of the mainland market," Mr Leung said.

It was reported that after the Chinese New Year, labour shortages in the Pearl River Delta (PRD) region exceeded two million. Workers left or made redundant earlier, however, are reluctant to return to the PRD, given rising employment opportunities in the inland provinces and other industry or service sectors. Though the situation has improved, employers have been forced to raise wages for recruiting and retaining workers.

To get a better sense of the labour cost issue facing Hong Kong companies, the export index survey respondents were asked additional questions about it. More than half said they or their suppliers had experienced labour shortages on the mainland over the past three months, and 70 per cent said labour costs had increased. Among those experiencing higher labour costs on the mainland, 80 per cent said that the increase was more than five per cent over the past three months, while 55 per cent said they could not pass on increased labour costs to their overseas buyers.

“Since overseas markets remain uncertain, it is difficult for manufacturers and exporters to raise prices,” Mr Leung said. “Consequently, their profit margins will be eroded by the labour supply. The problem could be compounded by anticipated renminbi appreciation.”

Mainland Promise

For those local manufacturers facing rising labour shortages and surging labour costs, Mr Leung suggested that targeting the mainland rather than the overseas market could help them. “The labour-cost problem will remain even after Hong Kong manufacturers and exporters shift to the mainland market,” he said. “The mainland market, however, can help them maintain their profit by boosting sales volumes and spare them from the negative impact of renminbi appreciation. Moreover, a steady increase in production to meet mainland demand can help offset fluctuations in export orders, offering more flexibility in staff deployment to maintain a stable workforce.”

The emergence of a middle class and the rising income levels of urban dwellers have boosted retail sales on the mainland in recent years. Unlike the older generation, however, many younger urban workers are reluctant to send home their earnings. Most regard themselves as city dwellers. Their consumption pattern has also been urbanised, as reflected in their quest for upmarket and trendy products.

In view of this, the Chinese government has decided to combine its efforts to expand consumer spending and promote urbanisation, pointing to a new long-term policy to fuel domestic demand. To advance urbanisation, the government will relax restrictions on rural workers looking to move their household registration to urban areas. It’s expected that in the next 10 to 15 years there will be an influx of some 13 million from rural areas into the cities each year. In addition to urbanisation, the government will continue to introduce such new initiatives as consumer finance and medical reforms to tackle the structural problems holding back spending.

“Those measures are expected to spur spending in urban as well as rural populations, and could probably trigger the release of pent-up demand in the mainland market,” Mr Leung said. “As a result of the labour shortage, mainland workers could also benefit from a rise in income levels; in effect, their spending power would go up as well,” he added.

Quality and Design

Under these circumstances, the mainland market looks brighter than ever, although companies all over the world see the same promise. Cautiously optimistic, Mr Leung believes that Hong Kong products, with their emphasis on quality and design excellence, can attract mainland consumers.

He recommends that Hong Kong companies put their efforts on designing products and devising medium- and long-term strategies for the mainland market. In addition to quality and design, he suggests that they must also emphasise promotion and after-sale services.

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About the HKTDC

Established in 1966, the Hong Kong Trade Development Council (HKTDC) is the international marketing arm for Hong Kong-based traders, manufacturers and service providers. With more than 40 offices worldwide, including 11 in the Chinese mainland, the HKTDC promotes Hong Kong as a platform for doing business with China and Asia. The HKTDC also organises trade fairs and business missions to connect companies with opportunities in Hong Kong and the mainland, while providing information via trade publications, research reports and online. For more information, visit www.hktdc.com