

## **Changing Landscape of Hong Kong's Retail Sales**

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### **Abstract**

Being a well-known destination for tourists from around the world, tourist shopping expenditure contributes significantly to the total retail sales in Hong Kong. Retail sales grow alongside tourist spending, especially in recent years after the launch of the Individual Visit Scheme (IVS) which facilitates visitors from the mainland of China (mainland China) to visit Hong Kong in their individual capacity. Spending by mainland China visitors is thus an important driving force underpinning the growth of retail sales in Hong Kong. In this paper, the relationship between retail sales statistics in Hong Kong and visitor arrivals from mainland China was explored. Regression analyses revealed a significant relationship between total retail sales value and visitor arrivals from mainland China after the launch of the IVS. Among visitor arrivals from mainland China, the relationship between total retail sales value and IVS visitors was stronger than that of non-IVS visitors. It is also noted that the relationship between IVS visitors and retail sales of some outlet types such as supermarkets; and jewellery, watches and clocks, and valuable gift was strong.

Keywords: Individual Visit Scheme, mainland China, visitor arrivals, visitor spending

### **1. Introduction**

Being a well-known destination for tourists from around the world, tourist shopping expenditure contributes significantly to the total retail sales in Hong Kong. As shown in Table 1 below, retail sales grew alongside tourist spending. From 1999 to 2012, total retail sales value increased from HK\$179,917 million to HK\$445,498 million, an increase of 148%. Over the same period, tourist shopping expenditure also increased significantly, from HK\$19,934 million to HK\$158,131 million, or an increase of 693%.

Among total tourist shopping expenditure, the share of spending by mainland China visitors increased from 33.0% in 1999 to 57.9% in 2012. Spending by mainland China visitors is thus an important driving force underpinning the growth of retail sales in Hong Kong.

Table 1. Tourist shopping expenditure and the value of total retail sales from 1999 to 2012

Year	Tourist shopping expenditure <sup>1</sup>				Total retail sales <sup>2</sup>	
	Total <sup>3</sup> (HK\$ million) (a)	Year-on-year growth rate (%)	Mainland China <sup>4</sup>		Value (HK\$ million)	Year-on-year growth rate (%)
			(HK\$ million) (b)	Share (b)/(a) x100%		
1999	19,934	-1.8	6,587	33.0%	179,917	-8.1
2000	21,713	8.9	8,556	39.4%	186,700	3.8
2001	22,377	3.1	10,086	45.1%	184,387	-1.2
2002	27,622	23.4	15,464	56.0%	176,859	-4.1
2003	32,199	16.6	20,224	62.8%	172,863	-2.3
2004	38,849	20.7	23,078	59.4%	191,612	10.8
2005	42,143	8.5	23,919	56.8%	204,372	6.7
2006	48,520	15.1	26,798	55.2%	219,002	7.2
2007	61,567	26.9	34,267	55.7%	247,000	12.8
2008	70,007	13.7	38,047	54.3%	273,126	10.6
2009	82,119	17.3	48,809	59.4%	274,742	0.6
2010	109,591	33.5	64,028	58.4%	324,966	18.3
2011	133,573	21.9	78,792	59.0%	405,732	24.9
2012	158,131	18.4	91,598	57.9%	445,498	9.8

From Chart 1 below, it is noted that the trend of total retail sales value broadly tracked the movement of visitor arrivals from mainland China.

In particular, in 2003, the Individual Visit Scheme (IVS)<sup>5</sup> was launched. The scheme facilitates residents of mainland China to visit Hong Kong in their individual capacity. Also, in 2009, the one-year multiple-entry IVS endorsement for Shenzhen residents to visit Hong Kong was introduced. Both had resulted in significant growth in the number of visitors from mainland China, which in turn provided strong support to the growth in retail sales.

<sup>1</sup> Extracted from *A Statistical Review of Hong Kong Tourism*, Hong Kong Tourism Board.

<sup>2</sup> Figures from the Monthly Survey of Retail Sales from 2005 onwards are based on the Hong Kong Standard Industrial Classification (HSIC) Version 2.0, while those before 2005 are based on HSIC Version 1.1.

<sup>3</sup> Include overnight visitor spending and same-day in-town visitor spending from all markets.

<sup>4</sup> Include overnight visitor spending from mainland China only.

<sup>5</sup> The IVS was first introduced in July 2003 as a liberalisation measure under the Closer Economic Partnership Arrangement (CEPA). The Scheme allows residents of various Mainland cities to visit Hong Kong in their individual capacity.

Chart 1. Total retail sales value and visitor arrivals from mainland China, January 1999 - December 2012



**2. Visitor arrivals from mainland China**

Given the structural change in 2003, regression analyses were performed to explore the relationship between visitor arrivals from mainland China (x) and total retail sales value (Y): (a) between January 1999 and June 2003, i.e. before the launch of the IVS; and (b) between July 2003 and December 2012, i.e. after the launch of the IVS. As shown in Table 2 below, a significant relationship was found between visitor arrivals from mainland China and total retail sales value after the launch of the IVS, whereas a not so significant relationship between visitor arrivals from mainland China and total retail sales value before the launch of the IVS is noted.

$$Y_{\text{before IVS}} = -0.0010x_{\text{mainland China}} + 15424$$

$$Y_{\text{after IVS}} = 0.0107x_{\text{mainland China}} + 6576$$

Table 2. Simple linear regression results of “before and after the launch of the IVS”

Visitors from mainland China	R <sup>2</sup>	Coefficient of x	t-stat	p-value
Before the launch of the IVS	0.016	-0.0010	-0.905	>.100
After the launch of the IVS	0.900	0.0107	31.771	<.001

This is graphically illustrated in Charts 2 and 3 below.

Chart 2. Total retail sales value against visitor arrivals from mainland China, before the launch of the IVS

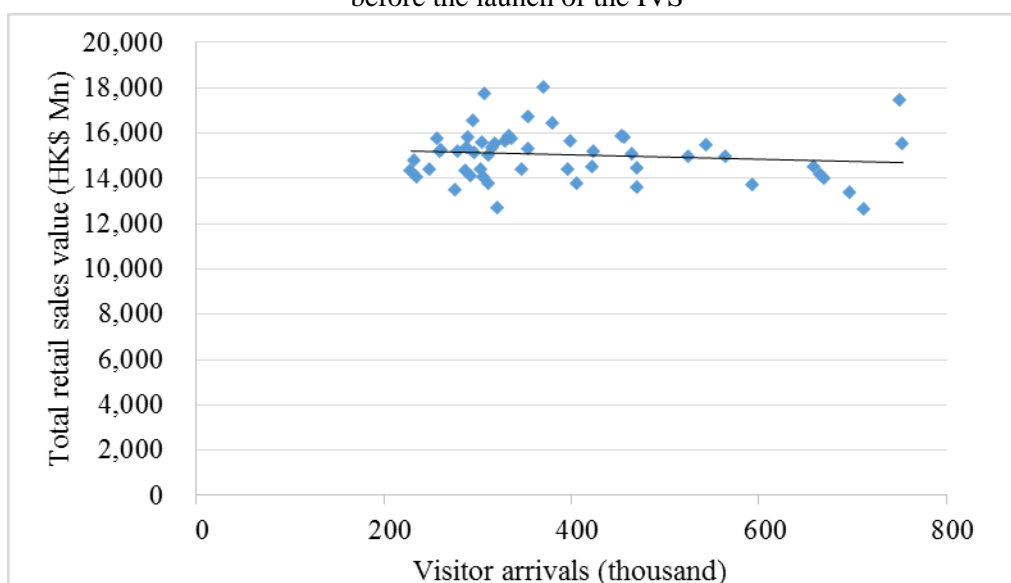
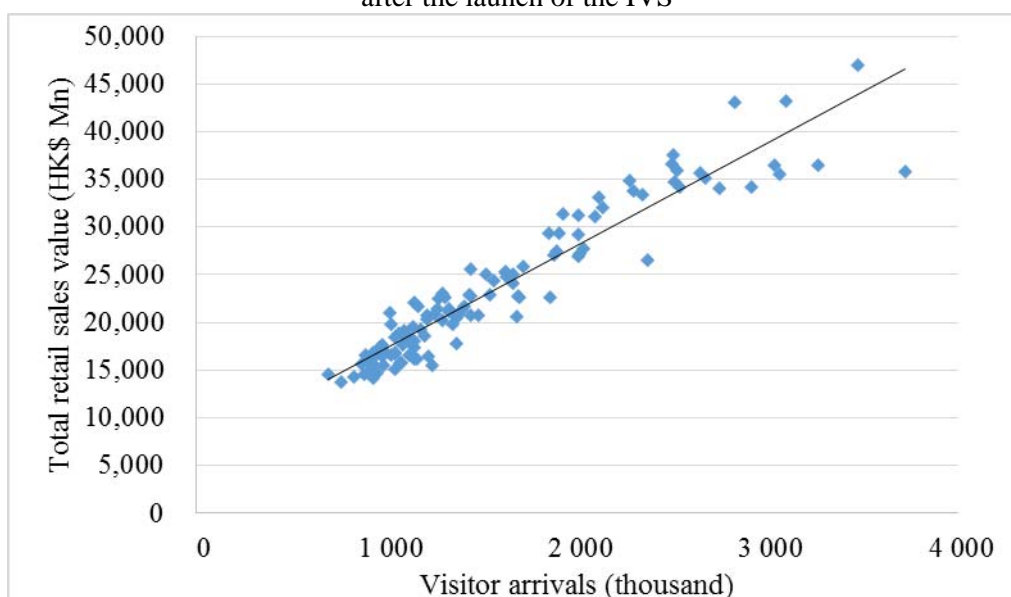


Chart 3. Total retail sales value against visitor arrivals from mainland China, after the launch of the IVS



Before the launch of the IVS, visitors from mainland China travelled to Hong Kong mainly through joining group tours and hence usually stayed overnight. After the launch of the IVS, however, visitors from mainland China could travel to Hong Kong in their individual capacity without the need to join group tours. They could choose to stay only one day in Hong Kong and spend more of their budget on shopping.

Based on the *Tourism Expenditure Associated to Inbound Tourism (TEAIT)* published by the Hong Kong Tourism Board, before 2003, the share of same-day in-town visitors contributed to only around 30% of total visitor arrivals from mainland China. In 2012, the share had become 57%. In 2012, the proportion of spending on shopping by same-day in-town visitors from mainland China out of their total spending was high, at 92.1%. This compares with that of overnight visitors, at 70.8%.

### 3. IVS and non-IVS visitor arrivals

Given the significance of IVS visitors, visitor arrivals from mainland China were separated into IVS visitors and non-IVS visitors for further analyses, as shown in Table 3 below. It is noted that there is a stronger relationship between IVS visitor arrivals and total retail sales value.

$$Y_{\text{after IVS}} = 0.0131x_{\text{IVS}} + 11791$$

$$Y_{\text{after IVS}} = 0.0391x_{\text{non-IVS}} - 3287$$

Table 3. Simple linear regression results of “IVS and non-IVS visitor arrivals”

Visitors from mainland China	R <sup>2</sup>	Coefficient of x	t-stat	p-value
IVS	0.913	0.0131	34.170	<.001
non-IVS	0.557	0.0391	11.876	<.001

This is graphically illustrated in Charts 4 and 5 below.

Chart 4. Total retail sales value against IVS visitor arrivals, July 2003 – December 2012

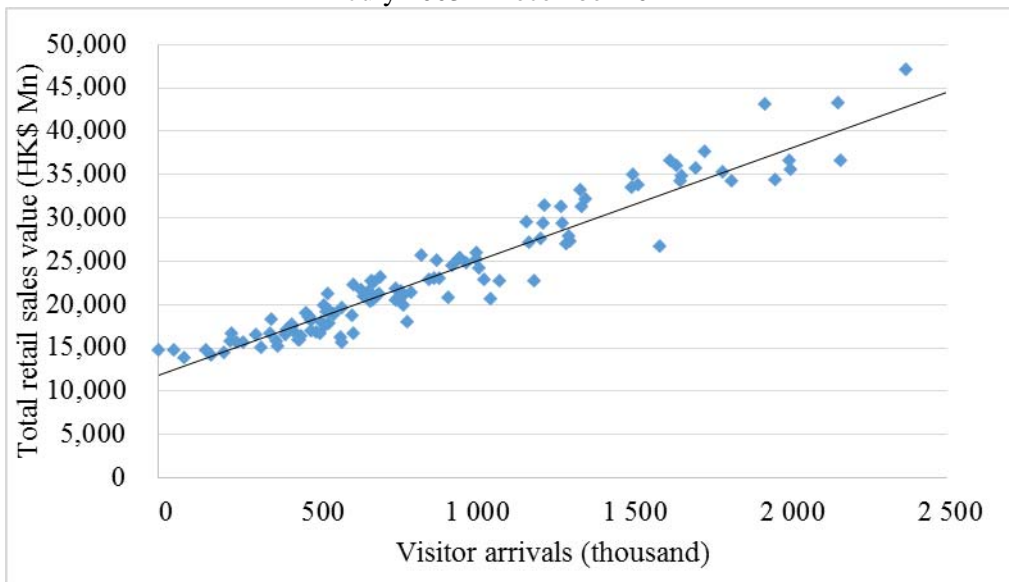
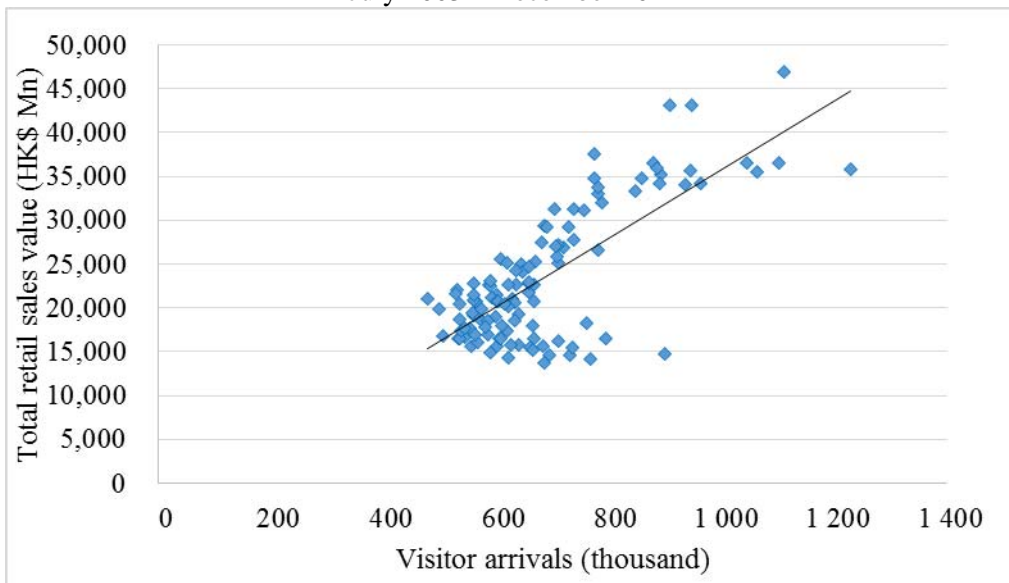


Chart 5. Total retail sales value against non-IVS visitor arrivals, July 2003 – December 2012



#### 4. Different retail outlet types

The relationship between the sales of different types of retail outlets with IVS visitor arrivals was also explored. As shown in Table 4 below, a stronger relationship is noted for outlet types like supermarkets; jewellery, watches and clocks, and valuable gifts; electrical goods and photographic equipment; medicines and cosmetics; and clothing, footwear and allied products. These products are generally considered to be favourite shopping items by visitors from mainland China. Meanwhile, a weaker relationship is noted for outlet types such as fuels; furniture and fixtures; and motor vehicles and parts.

Table 4. Summary of linear regression results of selected retail outlet types

Retail outlet type	R <sup>2</sup>	p
Supermarkets	0.907	<.001
Jewellery, watches and clocks, and valuable gifts	0.893	<.001
Electrical goods and photographic equipment	0.869	<.001
Medicines and cosmetics	0.850	<.001
Clothing, footwear and allied products	0.826	<.001
Department stores	0.776	<.001
Chinese drugs and herbs	0.774	<.001
Fuels	0.726	<.001
Food, alcoholic drinks and tobacco (other than supermarkets)	0.716	<.001
Furniture and fixtures	0.642	<.001
Optical shops	0.611	<.001
Motor vehicles and parts	0.593	<.001
Other consumer durable goods, not elsewhere classified	0.579	<.001
Books, newspapers, stationery and gifts	0.399	<.001

#### 5. Conclusions

The above analyses revealed a significant relationship between total retail sales value and visitor arrivals from mainland China after the launch of the IVS. Among visitor arrivals from mainland China, the relationship between total retail sales value and IVS visitors was stronger than that of non-IVS visitors. It is also noted that the relationship between IVS visitors and retail sales of some outlet types such as supermarkets; and jewellery, watches and clocks, and valuable gift was strong.

#### References

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