



## **Hong Kong's Recent Economic Situation and Near-term Outlook**

The Government released the First Quarter Economic Report 2013 on 10 May. The Economic Report, together with the press release containing the updated economic forecasts for the whole year of 2013, have been furnished to LegCo Members.

This paper analyses Hong Kong's overall economic development in the most recent period, and summarises the updated economic forecasts by the Government for 2013 as a whole.

Economic Analysis and Business Facilitation Unit  
Financial Secretary's Office  
24 May 2013

# Hong Kong's Recent Economic Situation and Near-term Outlook

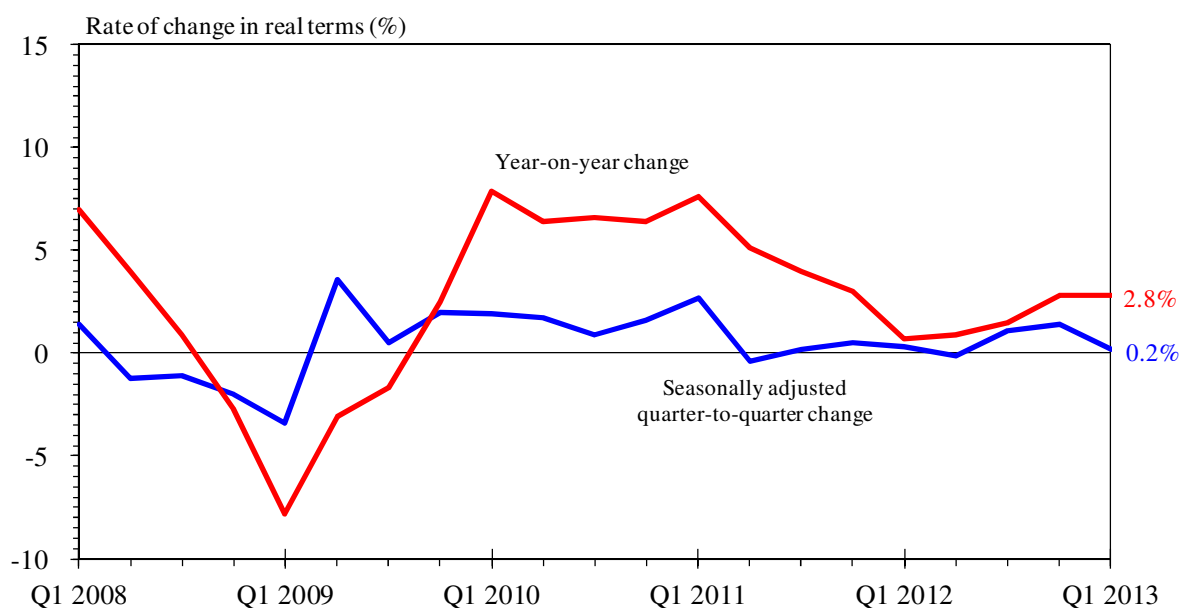
## Introduction

This paper analyses the latest development in the Hong Kong economy and briefly discusses the updated economic forecasts for 2013 as a whole.

## Recent economic situation

2. The Hong Kong economy continued to grow moderately in the first quarter of 2013, by 2.8% in real terms over a year earlier, same as the growth pace in the preceding quarter. While the external sector still faced an unsteady global economic environment, the domestic sector remained relatively resilient. On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded only by 0.2% in the first quarter, after a 1.4% growth in the preceding quarter (*Chart 1*).

**Chart 1 : The economy grew moderately in the first quarter of 2013**

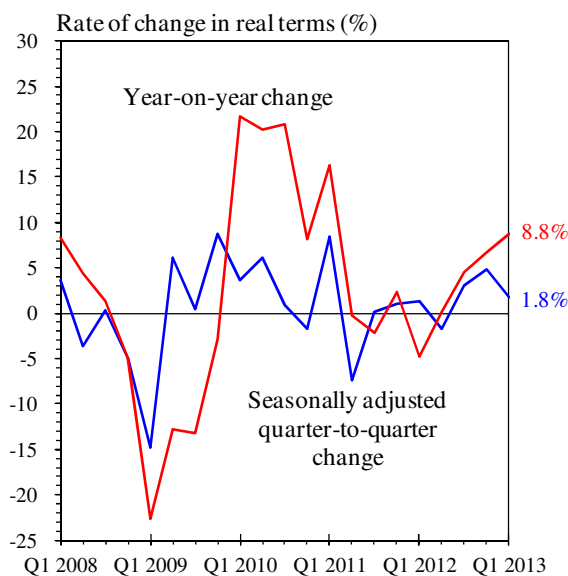


## External trade

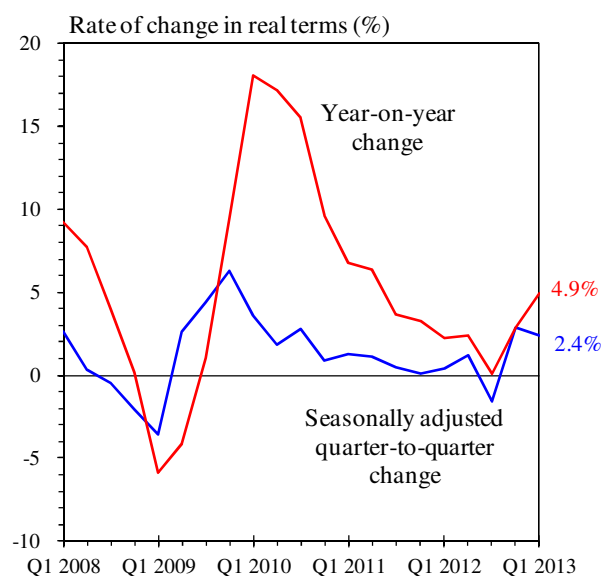
3. Total exports of goods grew by 8.8% in real terms in the first quarter of 2013 over a year earlier, following the 6.7% growth in the fourth quarter of 2012. Yet the appreciable growth was boosted in part by a surge in exports of non-monetary gold in the quarter. Excluding this peculiar factor, merchandise export performance was actually rather modest. While the Mainland and some other Asian markets saw solid growth, the advanced markets remained the weak spots, with exports to the US, EU and Japan all posting year-on-year declines. On a seasonally adjusted quarter-to-quarter basis, total exports of goods grew by 1.8% in real terms over the preceding quarter (*Chart 2(a)*).

4. Exports of services picked up to a 4.9% year-on-year growth in real terms in the first quarter of 2013, from the 2.9% growth in the fourth quarter. Exports of travel services continued to render the key impetus, growing notably further amid sustained double-digit growth in visitor arrivals. Those of financial and other business services showed moderate growth, thanks to improved financial market and commercial activities amid some stabilisation in global financial conditions. Yet held back by the generally still rather lacklustre trading environment, exports of trade-related services saw only modest growth, which in turn also dampened exports of transportation services. On a seasonally adjusted quarter-to-quarter comparison, exports of services rose by 2.4% in the first quarter (*Chart 2(b)*).

**Chart 2(a) : Total exports of goods picked up in growth in the first quarter, boosted in part by a surge in exports of non-monetary gold**



**Chart 2(b) : Exports of services strengthened further**



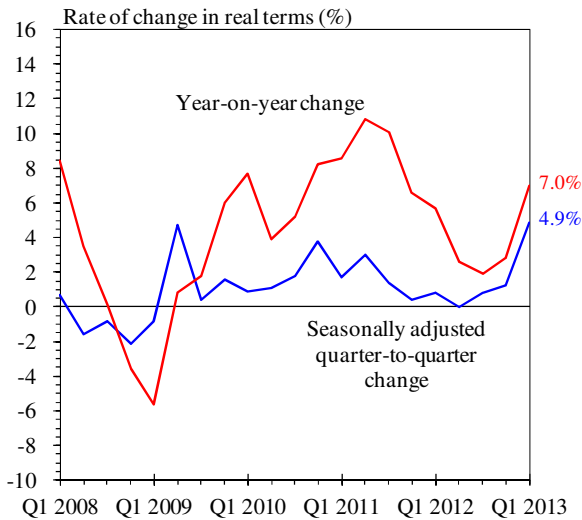
5. Exports of travel services expanded strongly by 15.3% year-on-year in real terms in the first quarter, following a 12.9% growth in the preceding quarter. The number of visitor arrivals rose visibly by 13.5% in the first quarter over a year earlier, with those from the Mainland (accounting for about 70% of the total) surging by 20.3%, thereby rendering some support to other business activities such as retail sales, transportation, hotel and catering. Those from non-Mainland markets as a whole however recorded a small year-on-year decline of 2.6%, reflecting the relatively weak global economy.

### **Domestic sector**

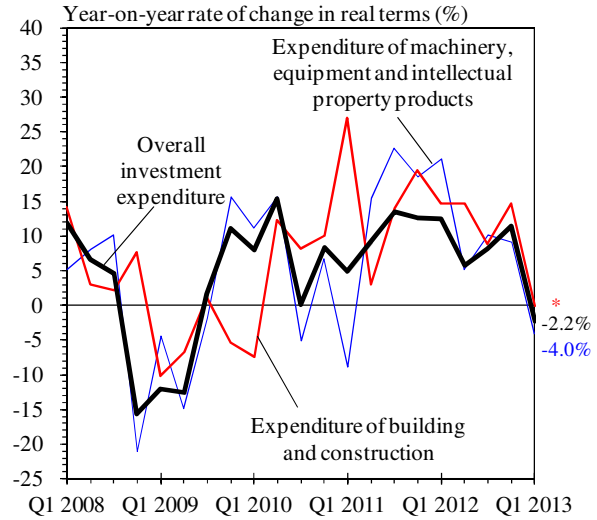
6. The domestic sector stayed relatively resilient in the first quarter of 2013. With consumer sentiment underpinned by broadly supportive job conditions as well as improved incomes over the past year, private consumption expenditure (PCE) grew briskly by 7.0% in real terms over a year earlier, much faster than the 2.8% growth in the fourth quarter of 2012. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure picked up visibly to a 4.9% growth in real terms in the first quarter, from 1.2% in the preceding quarter (*Chart 3(a)*).

7. Overall investment spending fell back modestly by 2.2% in real terms in the first quarter of 2013 from a year earlier, after sustaining notable growth throughout 2012 cumulating to a 9.4% growth for the year as a whole. The decline in the first quarter was mainly dragged by machinery and equipment investment, which contracted by 4.0%, though the distinctly high base of comparison in 2012 was also relevant. Meanwhile, the expenditure on building and construction was virtually unchanged in real terms from a year earlier, with large-scale public infrastructure works registering slower growth and private sector building activity falling back mildly, both after the robust growth over the past year (*Chart 3(b)*).

**Chart 3(a) : Private consumption grew briskly**



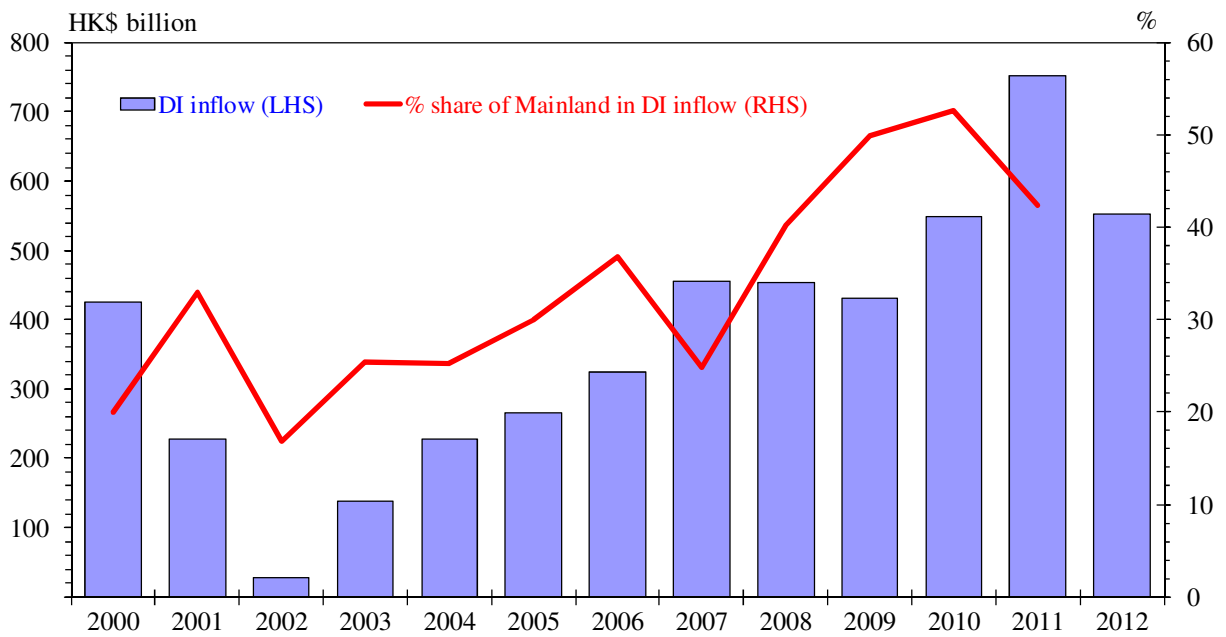
**Chart 3(b) : Investment spending fell back modestly**



Note : (\*) Change within  $\pm 0.05\%$ .

8. As for foreign direct investment (FDI), country breakdowns of FDI flow data are available up to end-2011 only. The Mainland continued to be a major source of Hong Kong's external direct investment (accounting for more than 40% of the total DI inflow in 2011), covering a wide range of economic activities. Investment ties between the Mainland and Hong Kong should continue to strengthen with the deepening economic integration between the two places and the further development of Hong Kong as China's global financial centre. The Government will also continue to foster economic links with other parts of the world, particularly the emerging markets. The latest data based on balance of payments figures indicate that FDI inflows dropped by 23% to \$579 billion (US\$75 billion) in 2012, representing 28% of GDP, reflecting the weaker foreign investment sentiments amid a highly uncertain global economic environment last year (*Chart 4*).

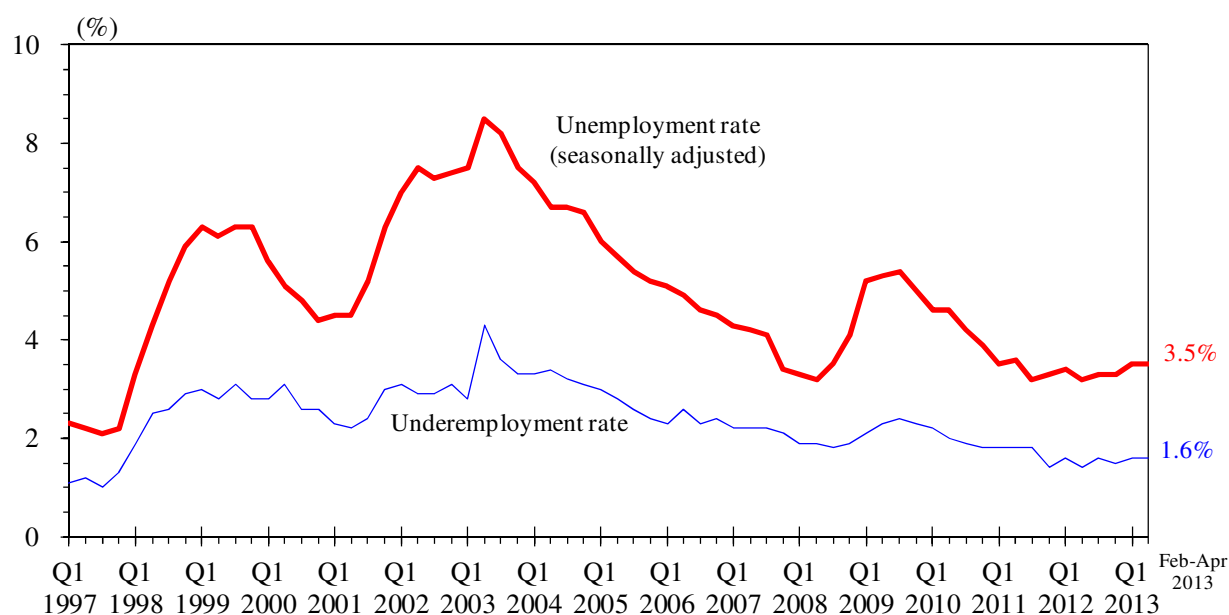
**Chart 4 : Mainland featured prominently as a source of Hong Kong's FDI**



## Labour Market

9. With the local economy on a sub-par growth for several quarters, signs of moderation began to surface in some segments of the labour market. The seasonally adjusted unemployment rate went up by 0.2 percentage point to 3.5% in February – April 2013, albeit still a relatively low level. The underemployment rate likewise rose marginally by 0.1 percentage point to 1.6% in February – April 2013 (*Chart 5*). Nevertheless, with the cushion from the resilient domestic consumption demand and vibrant inbound tourism, total employment rose to 3 718 300 in February – April 2013, still up by 28 700 from the fourth quarter of 2012.

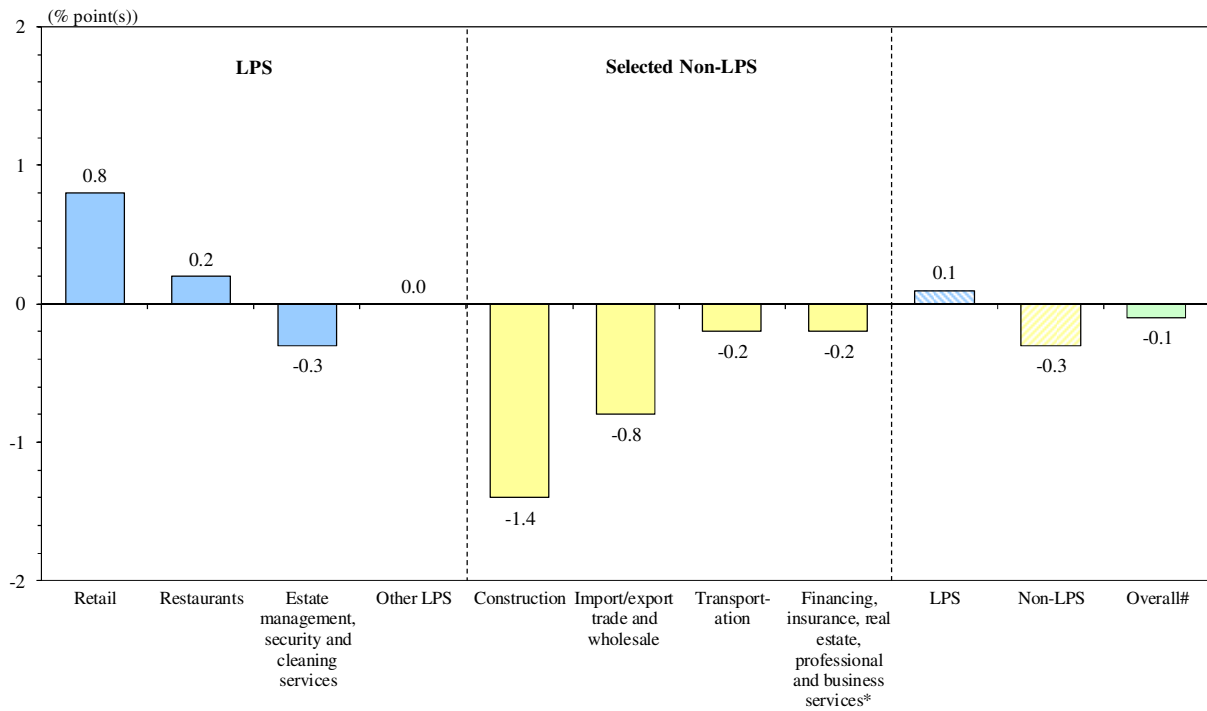
**Chart 5 : Unemployment rate edged up to 3.5% in February-April 2013**



10. The statutory minimum wage (SMW) has been implemented for over two years since 1 May 2011. The pressure on the labour market brought about by its implementation has been largely cushioned by the job creation in tandem with the strength of local consumption and inbound tourism during most of the period. The overall seasonally adjusted unemployment rate in February – April 2013, at 3.5%, was 0.1 percentage point lower than the level in February – April 2011, i.e. just before the implementation of the first SMW level. The unemployment rate for the low paying sectors (LPS)<sup>(1)</sup> as a whole, though with mixed performance amongst individual sectors, edged up only marginally by 0.1 percentage point to 3.3%. As for non-LPS as a whole, its unemployment rate went down by 0.3 percentage point to 3.1%, thanks to the notable job creation over the period (*Chart 6*).

(1) The Minimum Wage Commission identified LPS as (i) retail; (ii) restaurants; (iii) estate management, security and cleaning services; and (iv) other low-paying sectors – including: elderly homes; laundry and dry cleaning services; hairdressing and other personal services; local courier services; and food processing and production.

**Chart 6 : Mixed performance was seen amongst LPS and non-LPS in unemployment rates of February - April 2013 over February - April 2011 (before the implementation of the first SMW level)**



Notes: (\*) Excluding real estate maintenance management, security and cleaning services.  
 (#) Seasonally adjusted.

11. Analysed by skill segment, in February – April 2013, the unemployment rate for the higher-skilled segment went up by 0.1 percentage point to 2.1%, while that of the lower-skilled segment fell by 0.3 percentage point to 3.8% over February – April 2011. On a year-on-year comparison, the unemployment rate of the higher-skilled segment increased by 0.4 percentage point, while that of the lower-skilled segment held steady (*Table 1*).



**Table 1 : Change in unemployment rate and employment  
by occupational group**

	Employment					Unemployment rate		
	Feb – Apr 2013	Change as compared to Feb – Apr 2012		Change as compared to Feb – Apr 2011		Feb – Apr 2013	Change as compared to Feb – Apr 2012	Change as compared to Feb – Apr 2011
	(No.)	(No.)	(%)	(No.)	(%)	(%)	(% point)	(% point)
Higher-skilled	1 380 700	-15 100	-1.1	+53 100	+4.0	2.1	+0.4	+0.1
Lower-skilled	2 337 600	+84 100	+3.7	+122 900	+5.5	3.8	0.0	-0.3
Lower-skilled (excl. government employees and live-in domestic workers)	1 948 900	+86 100	+4.6	+96 900	+5.2			

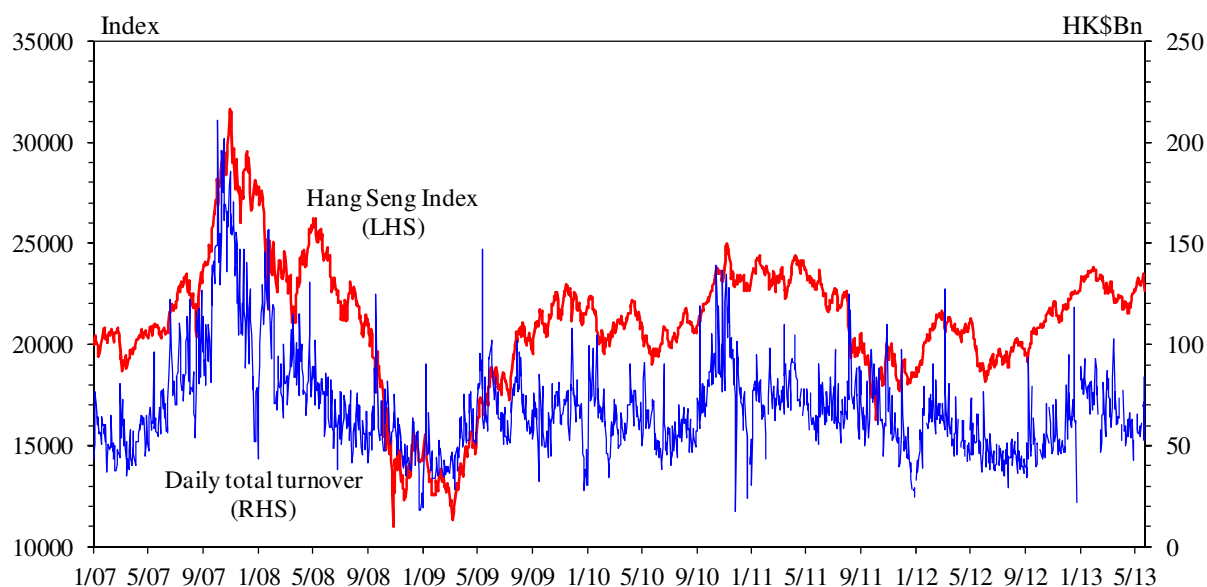
12. As the labour market conditions remained rather tight over the past year, the overall earnings situation continued to register improvement. In the first quarter of 2013, median household income rose by 5.8% in nominal terms over a year earlier, or by 2.0% in real terms after discounting inflation. In particular, the grassroots workers in the lowest income decile group continued to see remarkable year-on-year average employment earnings growth of 7.7% in nominal terms and 3.4% in real terms, thanks to still sturdy labour demand in the lower-skilled segment (Please refer to *Annex* for details). With a still rather cautious local hiring sentiment, the pace of earnings improvement in overall terms will likely remain moderate in the near term. Nevertheless, the recent uprating of SMW rate should render some support to the income situation, particularly for the lower-skilled workers.

### Asset markets

13. The local stock market on entering 2013 extended the rally since late 2012 upon some relative improvement in global financial conditions. Yet the stock market experienced a correction in the latter part of the first quarter, amid fluidity in the euro debt situation stemming from the inconclusive Italian election and Cypriot banking crisis in the quarter, as well as uncertainties surrounding the global growth prospects. With the expanded monetary easing in the advanced economies and some stabilisation in the euro debt situation, the Hang Seng Index rebounded somewhat since late April and closed at 22 670 on 23 May, flat compared with end-2012. In the first four months of 2013, average daily turnover rose back to

\$70.3 billion (*Chart 7*), but overall fund-raising activities stayed subdued, down by 34% year-on-year.

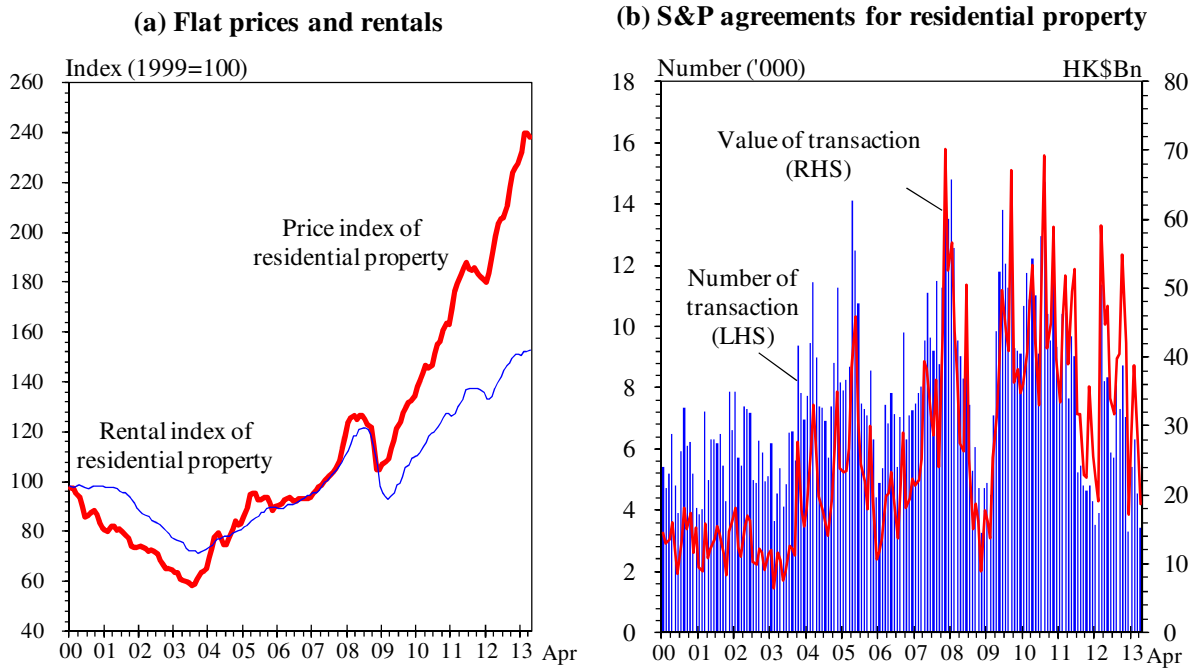
**Chart 7 : Local stock prices swung visibly in early 2013 amid the volatility in the overseas markets**



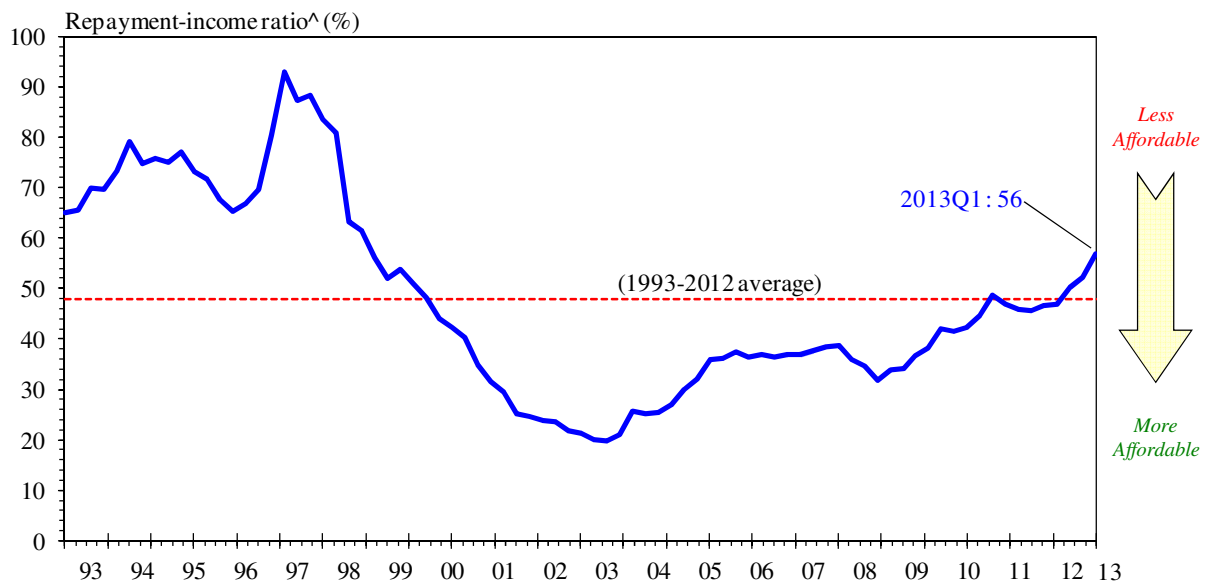
14. After regaining some momentum in the first two months of 2013, the residential property market cooled off after the announcement of the latest round of demand management measures by the Government in late February and the mortgage rate hike by major local banks in mid-March. The number of sale and purchase agreements for residential property received by the Land Registry plunged to 5 424 per month in the first quarter and further to 3 427 in April, well below the average of 6 778 per month in 2012 (*Chart 8(b)*).

15. In tandem with the shift in market sentiment, flat prices edged down by 0.1% in March, and fell further by 0.7% in April, reversing the exuberant situation in the first two months of 2013 when flat prices on average rose by 2.6% per month (*Chart 8(a)*). Meanwhile, flat rentals showed little change. As the increase in flat prices outpaced the growth in income, home purchase affordability as measured by the mortgage-to-income ratio worsened further, surging from 52% in the preceding quarter to 56% in the first quarter of 2013 and surpassing the long-term average of 47.9% over 1993-2012 (*Chart 9*).

**Chart 8 : Residential property market softened in March and April**



**Chart 9 : Home purchase affordability worsened further**



Note : (^) The ratio of mortgage payment for a flat with saleable area of 45 sq m (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing).

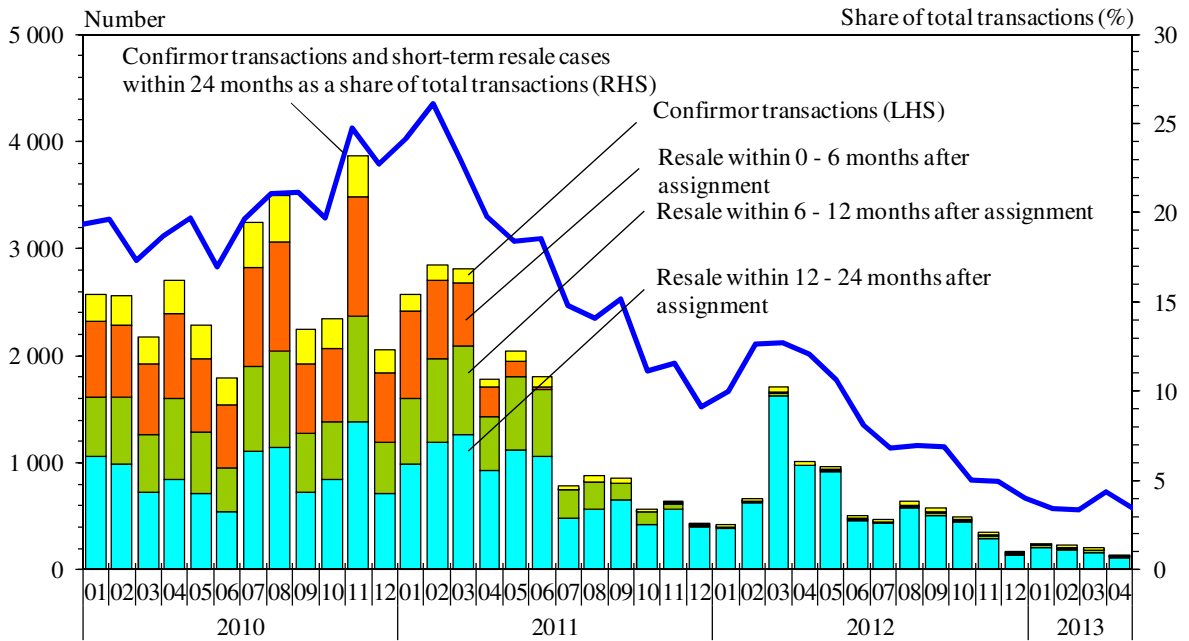
16. Raising flat supply through increasing land supply is the Government's top policy priority in ensuring a healthy and stable development of the property market. Taking together the Land Sale Programme and other sources, the total housing land supply in 2013-14 could provide for about 28 700 flats. As a result of the Government's sustained efforts, the total supply of flats in the coming few years increased from 64 000 units as estimated at end-March 2012 to 67 000 units as estimated at end-March 2013, the highest since September 2007.

17. As it will take time to increase flat supply, the Government has also rolled out measures to manage demand to forestall further exuberance in the housing market, so as to safeguard macroeconomic and financial stability. In February, the Government doubled the rates of existing ad valorem stamp duty for transactions of all types of properties and advanced the charging of stamp duty on non-residential property transactions. The Hong Kong Monetary Authority (HKMA) also introduced the sixth round of macro-prudential measures to strengthen the risk management of the banking sector's mortgage lending business, including requiring banks to assume a higher mortgage rate increase for stress-testing in mortgage application and further tightening the loan-to-value ratios of mortgage loans for non-residential properties. Also, the Residential Properties (First-hand Sales) Ordinance, which aims at enhancing the transparency and fairness of the sales arrangements of first-hand residential properties, took effect in April 2013.

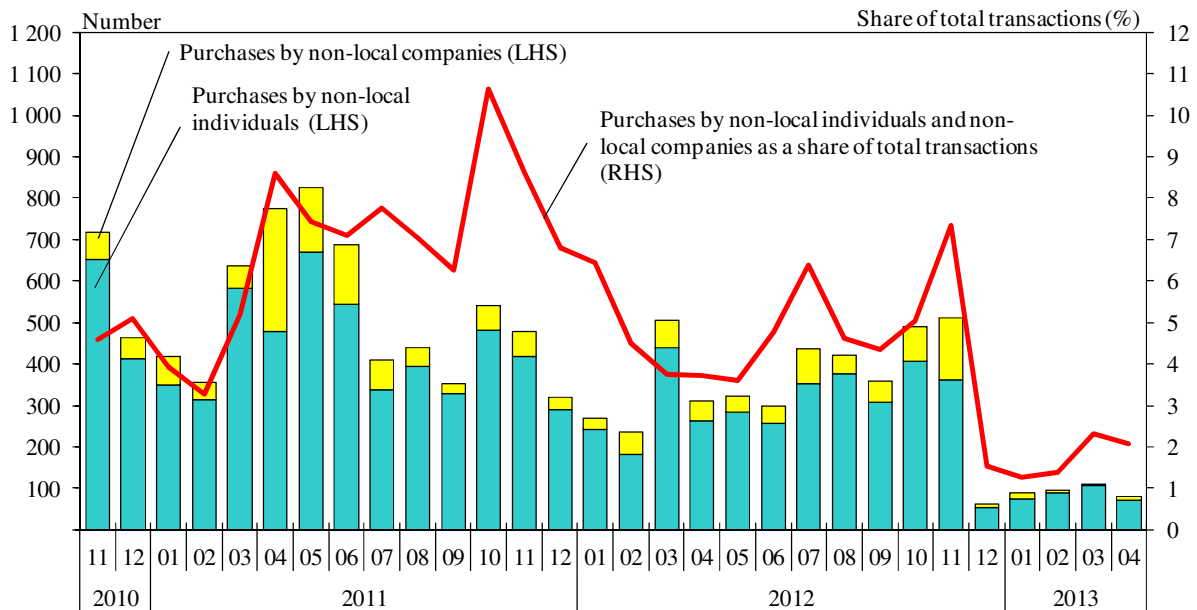
18. These measures have yielded results. On speculative activities, there were on average only 204 cases of short-term resale (comprising confirmor transactions and resale within 24 months after consignment) per month or 3.6% of total transactions in January to April, markedly below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty) (*Chart 10*). Reflecting the effects of the Buyer's Stamp Duty, purchases by non-local individuals and non-local companies plunged to an average of 94 cases per month or 1.7% of total transactions in January to April, markedly lower than the monthly average of 365 cases or 4.5% in January to October 2012 (*Chart 11*). As to mortgage lending, the average loan-to-value ratio of new mortgages was 55% in the first quarter, much lower than the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the HKMA.

19. The commercial property markets also remained generally buoyant in the first two months of 2013 but cooled off in March under the effect of the new demand management measures. Transactions generally fell to very low levels in March. More recently, prices of retail shop space and office space likewise reversed the momentum in the first two months of 2013 when prices on average rose by 1.1% and 2.9% respectively per month, and fell by 0.8% and 0.6% respectively during March. In the first quarter, rentals for retail shop space and office space increased by 1% and 3% respectively.

**Chart 10 : Speculative activities were sharply reduced**



**Chart 11 : Purchases by non-local buyers stayed subdued after the introduction of the Buyer's Stamp Duty**



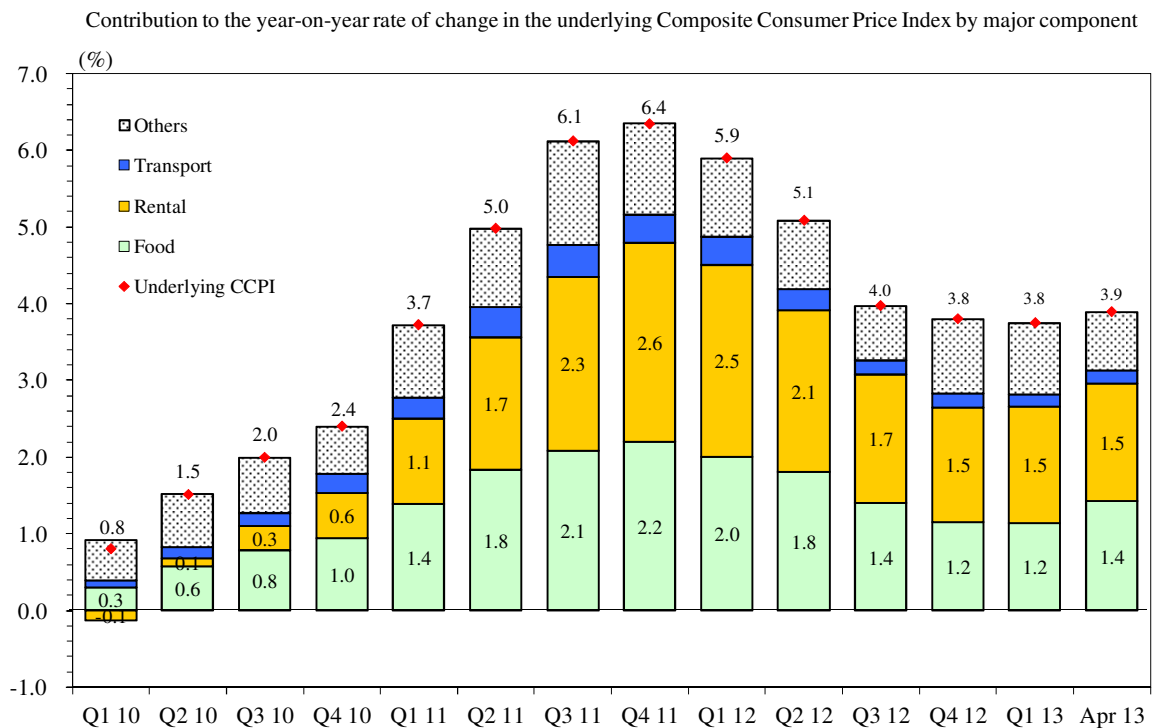
## Inflation

20. Overall inflationary pressures held largely stable so far in 2013. Externally, the year-on-year increase in import prices moderated further, thanks to the relatively stable international food and commodity prices, as well as the generally tame inflation in the Mainland and other import suppliers. Locally, the increase in labour costs decelerated somewhat in recent quarters amid the sub-par local economic growth. Yet, reflecting the lagged effect of higher fresh-letting residential rentals last year, the private housing rental component of the underlying Composite CPI

edged up in recent months. The local inflation developments were largely in line with those in a number of Asian and emerging market economies, which also saw broadly stable or even slightly higher headline inflation in early 2013.

21. In the first four months of 2013, headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, rose by 3.8%, same as that in the fourth quarter of 2012. Netting out the effects of the Government’s one-off relief measures to more accurately reflect the underlying inflation trend, underlying consumer price inflation also held steady at 3.8%. Both the rates of headline and underlying consumer price inflation were lower than the average rates of 4.1% and 4.7% for 2012 as a whole. The slight rise-back in headline and underlying consumer price inflation to 4.0% and 3.9% respectively in April 2013 was mainly driven by a surge in vegetable prices amid the poor weather in Southern China (*Chart 12*).

**Chart 12 : Consumer price inflation held stable in the first quarter, but rose back somewhat in April**



22. On a year-on-year comparison, price increases varied among the major components of the underlying Composite CPI (*Table 2*). Local food inflation (including costs of dining out) rose back slightly from 4.2% year-on-year in the fourth quarter of 2012 to 4.4% in the first four months of 2013, due mainly to the surge in prices of fresh vegetables in April. Meanwhile, the year-on-year increase in the private housing rental component rose back slightly, from 5.3% in the fourth quarter of 2012 to 5.4% in the first four months of 2013, reflecting the gradual

feed-through of the higher fresh-letting residential rentals over the past year. For many other CPI components, the rate of price increase remained moderate in the first four months of 2013, amid the sub-par economic performance and tame imported inflation. Separately, the prices of durable goods stayed on their secular downtrend.

**Table 2 : Composite Consumer Price Index by component**  
(year-on-year rate of change (%))

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2012</u>				<u>2013</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Apr</u>	<u>Jan-Apr</u>
Food	27.45	7.4	6.6	5.1	4.2	4.1	5.2	4.4
<i>Meals bought away from home</i>	17.07	6.1	5.7	5.3	4.6	4.4	4.3	4.4
<i>Other foodstuffs</i>	10.38	9.4	8.1	5.0	3.6	3.6	6.6	4.3
Housing <sup>(a)</sup>	31.66	8.1 (8.1)	6.4 (6.7)	2.8 (5.5)	5.2 (5.4)	5.2 (5.5)	5.9 (5.6)	5.4 (5.5)
<i>Private dwellings</i>	27.14	9.2 (9.1)	7.3 (7.7)	5.8 (6.0)	5.1 (5.3)	5.0 (5.4)	5.9 (5.4)	5.2 (5.4)
<i>Public dwellings</i>	2.05	-1.5 (-0.1)	-1.1 (0.1)	-87.8 (3.2)	9.7 (9.5)	9.7 (9.5)	8.9 (9.2)	9.5 (9.4)
Electricity, gas and water	3.10	-17.2 (4.0)	-18.3 (3.9)	3.6 (2.8)	4.6 (3.6)	4.9 (3.6)	4.9 (3.6)	4.9 (3.6)
Alcoholic drinks and tobacco	0.59	11.6	0.1	0.5	0.6	1.6	2.2	1.7
Clothing and footwear	3.45	4.9	3.2	2.3	1.9	1.5	1.2	1.5
Durable goods	5.27	-1.8	-0.9	-1.2	-1.7	-3.5	-5.3	-3.9
Miscellaneous goods	4.17	3.4	2.2	1.4	2.0	1.4	1.9	1.5
Transport	8.44	4.4	3.3	2.2	2.2	2.0	2.1	2.0
Miscellaneous services	15.87	2.8 (2.8)	3.1 (3.1)	2.3 (2.3)	2.9 (3.0)	3.5 (3.5)	2.8 (2.8)	3.3 (3.4)
All items	100.00	5.2 (5.9)	4.2 (5.1)	3.1 (4.0)	3.8 (3.8)	3.7 (3.8)	4.0 (3.9)	3.8 (3.8)

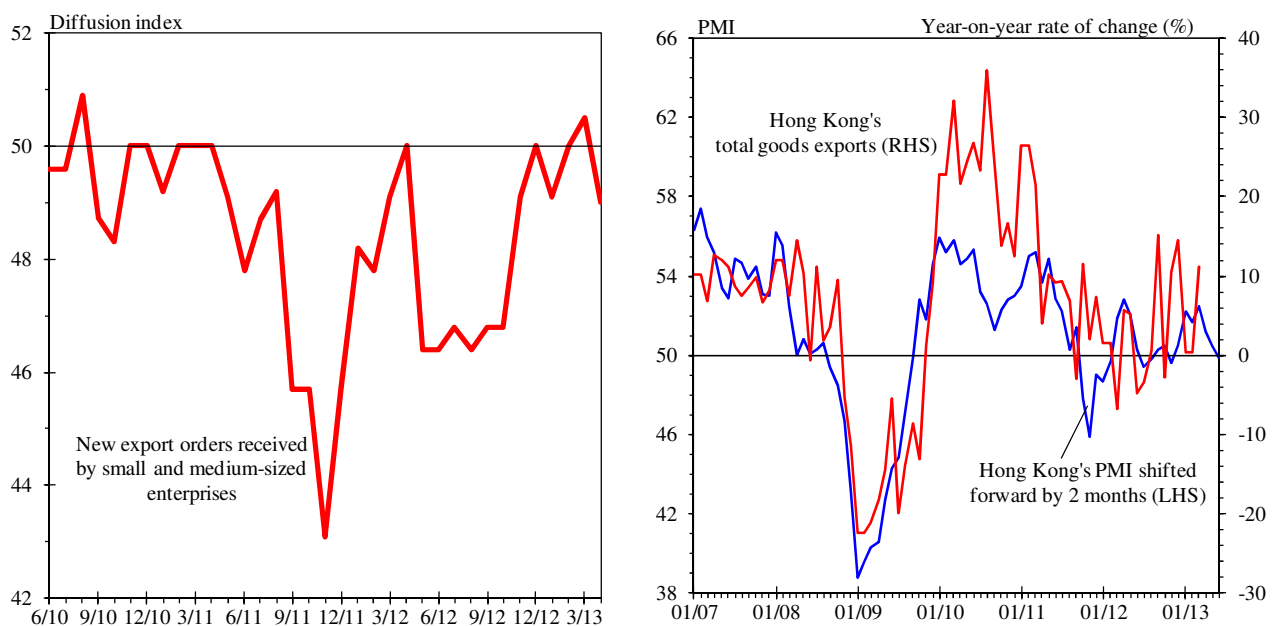
Notes : The year-on-year rates of change in the Composite Consumer Price Index are computed from the new 2009/10-based CPI series. Figures in brackets refer to the underlying rate of change after netting out the effect of Government's one-off relief measures.

- (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings is slightly less than the weighting of the entire housing component.

## Updated short-term economic forecasts for 2013

23. The global economic environment, albeit relatively improved from the dire situation in mid-2012, is still overcast by a considerable number of uncertain factors. The key source of downside risks continues to stem from the eurozone economy, which is wrought with structural problems and mired in recession under the debt overhang. The recovery in the US economy has yet to take hold, and the fiscal adjustment triggered by the tax rise and sequester will inevitably constrain its growth momentum. In view of the continued sluggishness in demand in the advanced economies, which would continue to put a drag on economic activity in Asia, Hong Kong's trade performance is likely to see some fluctuations in the period ahead (*Chart 13*). Nonetheless, the sustained solid growth of the Mainland economy should continue to lend some support to intra-regional trade going forward, to the benefit of Hong Kong.

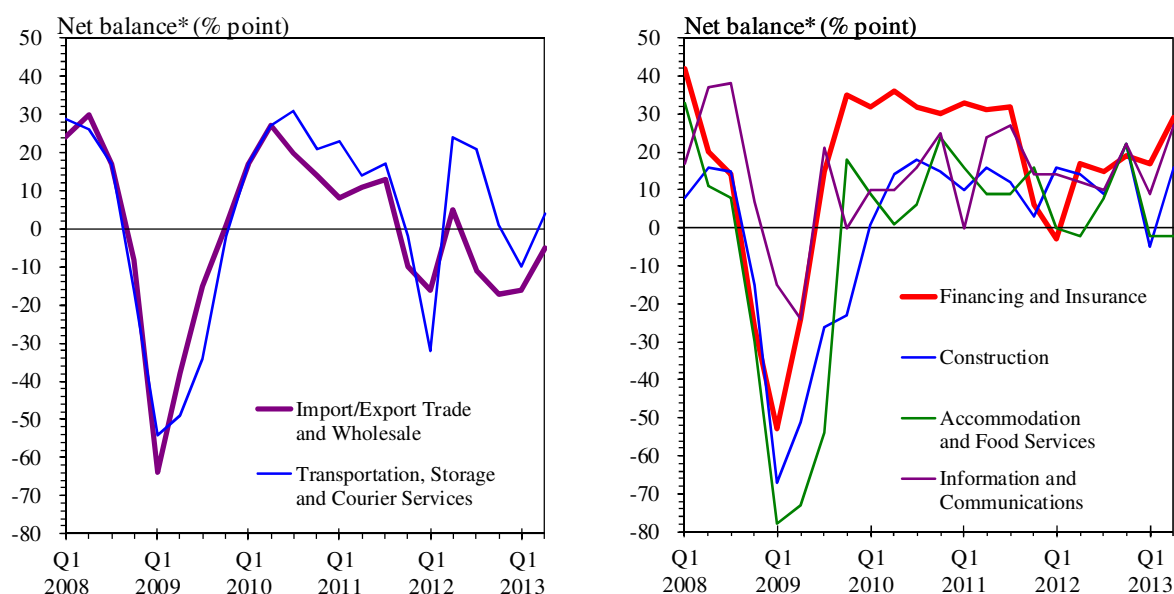
**Chart 13 : Hong Kong's trading environment is still subject to a high degree of uncertainty**



24. The latest Quarterly Business Tendency Survey indicated that overall business sentiment among large enterprises has turned somewhat more positive compared with the previous quarter (*Chart 14*). Moreover, domestic consumption is expected to stay resilient, underpinned by the still largely favourable labour market conditions. The ongoing infrastructure works, thriving inbound tourism, and the boost from the package of measures in the 2013-14 Budget should also render growth impetus to the local economy.



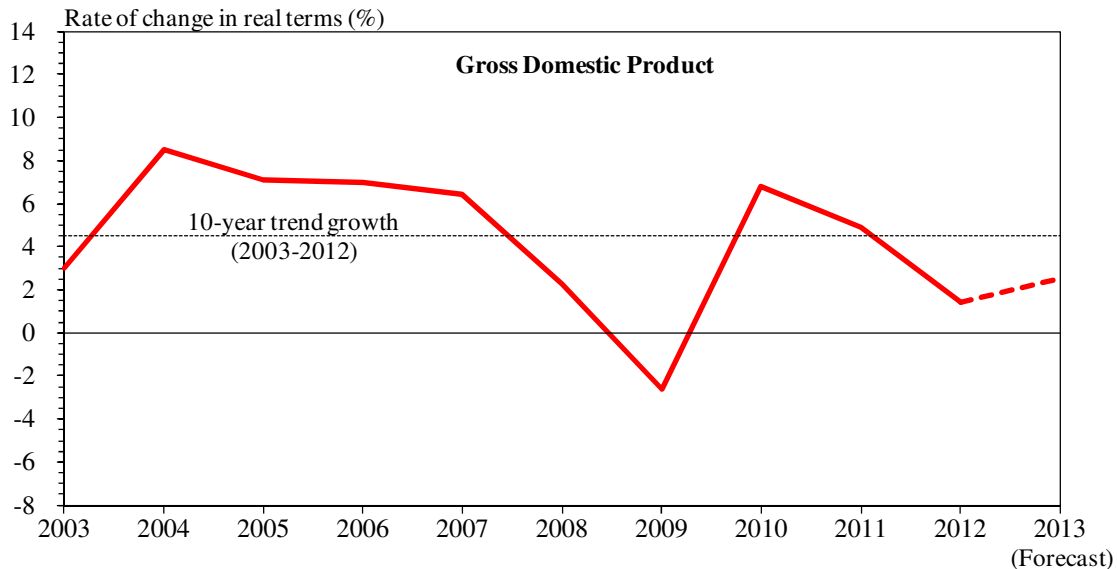
**Chart 14 : Sentiment of trade-related sectors somewhat improved, while that of domestic-related sectors was still sanguine**



Note : \* Net balance indicates the direction of expected change in business situation versus preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely

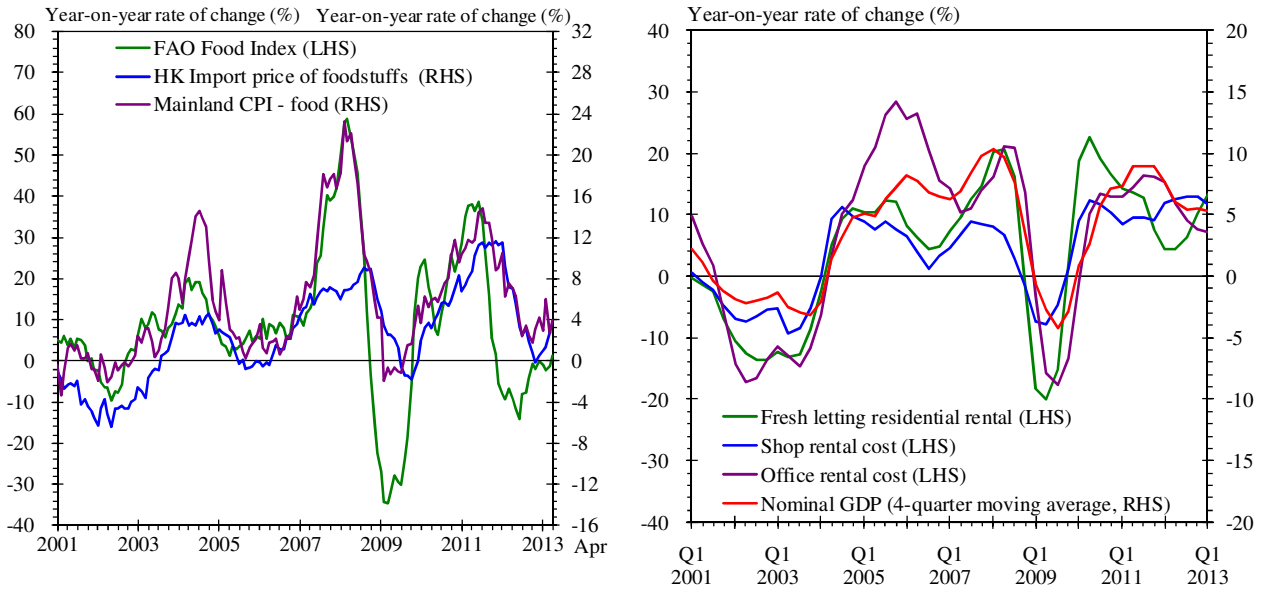
25. Although global financial conditions have improved somewhat lately, the advanced economies still lack growth momentum and need to continue with aggressive quantitative easing measures. On the whole, the recent developments in the global economic environment have been largely consistent with the picture envisaged earlier this year, and Hong Kong's economic growth in the first quarter also accords with expectations. As such, the GDP growth forecast of 1.5-3.5% for 2013 as announced in the Budget is maintained in the current round of review (*Chart 15*). For reference, in April the IMF projected Hong Kong's economic growth for this year at 3.0%, whereas the latest forecasts by private sector analysts mostly range from 3-4%, averaging at around 3.3%.

**Chart 15 : Economy is forecast to grow by 1.5-3.5% in 2013**



26. On inflation outlook, with the lagged effects of the surge in private housing rentals over the past year progressively feeding through, inflation is likely to rise slightly in the coming months. Yet imported inflation should remain tame, and local housing rentals have softened more recently following the Government's two rounds of demand management measures. These favourable developments should help to contain the upward pressure on inflation in the latter part of this year (*Chart 16*). In light of all the above factors, and with the actual outturn in the first quarter also in line with expectations, the forecast rates of headline and underlying consumer price inflation for 2013 put out in the Budget round, at 4.5% and 4.2% respectively, are maintained in the current round of review. For reference, in April the IMF forecast Hong Kong's consumer price inflation in 2013 at 3.5%, whereas the latest forecasts by private sector analysts mostly range from 3.5-4.5%, averaging at around 4%.

**Chart 16 : Inflation may rise slightly in the coming months, but the recent softening in rentals should help contain upward pressure on inflation in the latter part of this year**



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Financial Secretary's Office  
24 May 2013

## Recent situation of household income<sup>(1)</sup>

### Background

This Annex provides a regular update on the recent trend of household income / employment earnings and the latest situation of households with monthly income below \$6,500 (at constant 2010 prices)<sup>(2)</sup>.

### Overall situation of household income and employment earnings

2. The overall labour market conditions have been largely stable. The seasonally adjusted unemployment rate remained relatively low at 3.5% in the first quarter of 2013, and held unchanged in February – April. Meanwhile, total employment stood at 3 718 300, broadly similar to the new record high in the first quarter. Whilst the growth of various income-related indicators slowed somewhat of late after several quarters of moderate economic growth, the earnings of the grassroots continued to show visible improvements, thanks to sturdy labour demand in the lower-skilled segment in tandem with resilient domestic consumption and buoyant inbound tourism. Specifically, the average employment earnings of full-time employees in the lowest decile group rose by 7.7% year-on-year in the first quarter of this year. After adjusting for the 4.2% inflation, the corresponding increase was 3.4% in real terms (*Table 1*).

**Table 1 : Selected household income / employment earnings indicators  
(year-on-year rate of change (%))**

Period	Wages		Payroll		Median monthly household income		Employment earnings in the lowest decile <sup>^</sup>		
2011	Q1	4.9	(0.2)	7.2	(3.2)	5.6	(1.7)	5.9	(1.8)
	Q2	8.0	(2.0)	6.9	(1.8)	9.3	(3.9)	9.8	(4.1)
	Q3	9.9	(4.4)	8.3	(1.6)	11.1	(4.4)	13.4	(5.3)
	Q4	9.4	(3.9)	9.1	(3.2)	11.1	(5.1)	13.7	(8.0)
2012	Q1	8.0	(3.6)	7.2	(1.9)	9.5	(4.1)	13.4	(8.4)
	Q2	5.1	(1.7)	6.6	(2.3)	5.1	(0.9)	10.4	(6.4)
	Q3	4.8	(0.4)	6.3	(3.2)	3.0	(-0.2)	7.2	(5.2)
	Q4	5.1	(0.9)	5.9	(2.0)	5.0	(1.2)	6.7	(2.4)
2013	Q1	n.a.	n.a.	n.a.	n.a.	5.8	(2.0)	7.7	(3.4)

Notes :  
 (^) Average employment earnings of full-time employees.  
 ( ) Rate of change (%) in real terms.  
 n.a. Not available.

(1) Except statistics of the general labour market, foreign domestic helpers are excluded from the analysis.

(2) Based on Consumer Price Index (A).

## **Economically active households with monthly household income below \$6,500 in real terms**

3. In the first quarter of 2013, the number of economically active households with monthly household income below \$6,500 in real terms (referred to as “low-income households” thereafter) amounted to 72 600, down by 13.1% (or 10 900) over a year earlier. The corresponding proportion in total domestic households likewise declined from 3.5% to 3.0%. The continuously strong demand for lower-skilled workers in the labour market helped raise the employment earnings of the grassroots, thereby enabling them to leave this low-income segment.

4. In fact, the number and proportion of low-income households are closely related to the economic vicissitudes. During 2000 to 2008, when the economy performed persistently well for most of the period, the proportion of low-income households fell successively from 5.4% in the first quarter of 2002 to 3.9% in the first quarter of 2008. After the outbreak of the global financial tsunami in late 2008, the corresponding proportion rose back to 4.7% in the first quarter of 2010 as the Hong Kong economy was mired into recession. But with economic recovery taking hold and the labour market remaining persistently tight afterwards, such figure gradually fell to 3.0% in the first quarter of 2013, the lowest level for the first quarter since 1997 (*Table 2 and Chart 1*).

**Table 2 : Number and proportion of low-income households\***

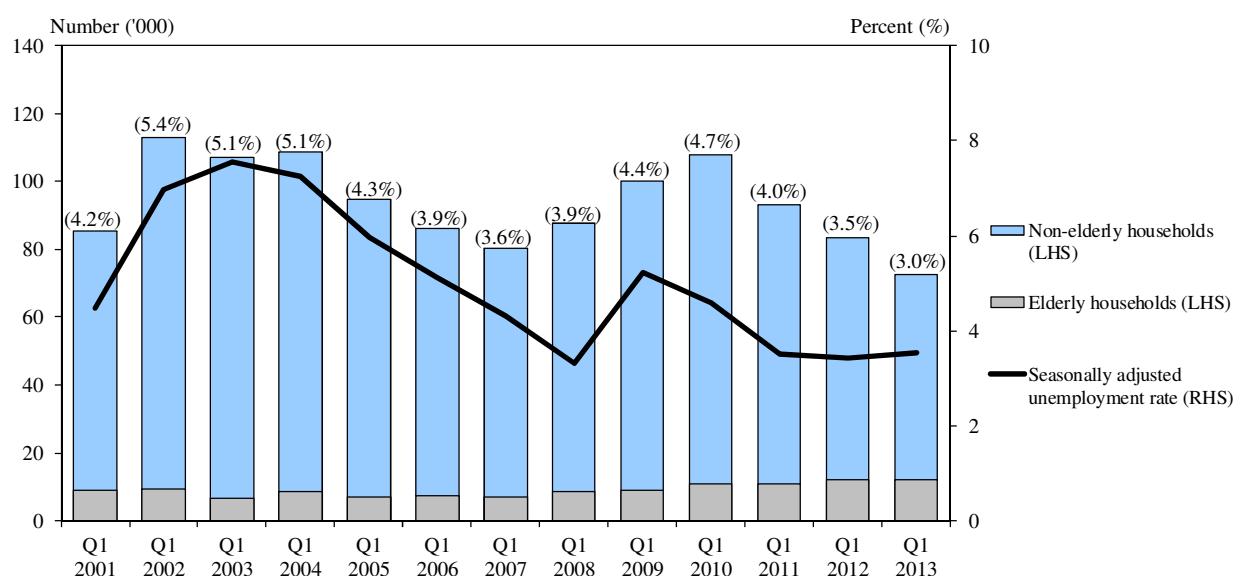
Period	Household type:		<b>Total</b>	Of which:
	Elderly households	Non-elderly households		Economically active persons therein
Q1 2002	9 500 (0.5)	103 600 (5.0)	<b>113 100</b> <b>(5.4)</b>	132 800 [4.1]
Q1 2008	8 500 (0.4)	79 300 (3.5)	<b>87 800</b> <b>(3.9)</b>	97 000 [2.9]
Q1 2010	10 800 (0.5)	97 100 (4.2)	<b>108 000</b> <b>(4.7)</b>	122 600 [3.6]
Q1 2011	11 100 (0.5)	82 200 (3.5)	<b>93 200</b> <b>(4.0)</b>	101 800 [3.0]
Q1 2012	12 000 (0.5)	71 600 (3.0)	<b>83 500</b> <b>(3.5)</b>	93 200 [2.7]
Q1 2013	12 100 (0.5)	60 500 (2.5)	<b>72 600</b> <b>(3.0)</b>	81 600 [2.3]

Notes : (\*) Low-income households refer to households with monthly household income less than \$6,500 at constant 2010 prices. This does not include households with all members being economically inactive.

( ) Proportion in all domestic households (%).

[ ] Proportion in total labour force (%).

**Chart 1 : Number of low-income households\***



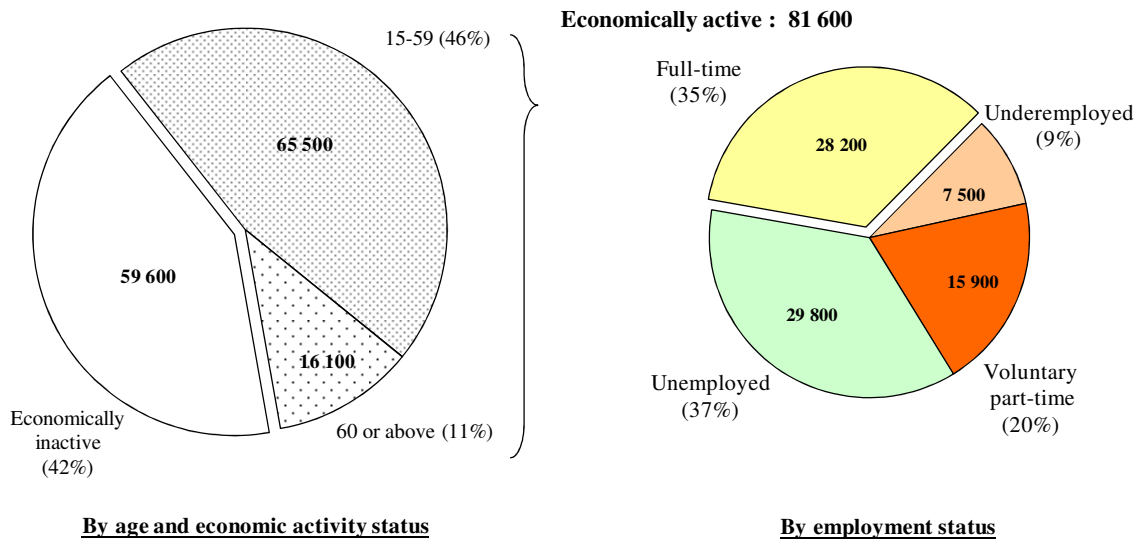
Notes : (\*) Low-income households refer to households with monthly household income less than \$6,500 at constant 2010 prices. This does not include households with all members being economically inactive. Figures in brackets are the proportions of low-income households in all domestic households.

## Socio-economic characteristics of low-income households

5. Further decomposition of low-income households in the first quarter of 2013 reveals the following observations:

- 141 200 persons were residing in the households concerned, among whom 81 600 were economically active. Most of these individuals (65 500 or 80%) were persons aged 15-59; the majority were in the age group of 40-59 (48 000 or 59%), whilst those aged 60 or above amounted to 16 100 (20%).
- The remaining 59 600 persons were economically inactive. More than half of them (54%) were either children aged below 15 or elderly persons aged 60 or above.
- Further detailed analysis indicates that among these 81 600 economically active persons, 35% were full-time workers, while the respective proportions for unemployed, voluntary part-timers and underemployed were 37%, 20% and 9% respectively (**Chart 2**).
- Analysed by occupation, most of the employed persons living in low-income households (around 90%) were lower-skilled workers (among whom 48% were elementary workers, and 23% were service workers and shop sales workers). A sectoral analysis revealed that many of them were engaged in the retail, accommodation and food services sector (13 000 or 25%), followed by cleaning and similar activities (5 000 or 10%).

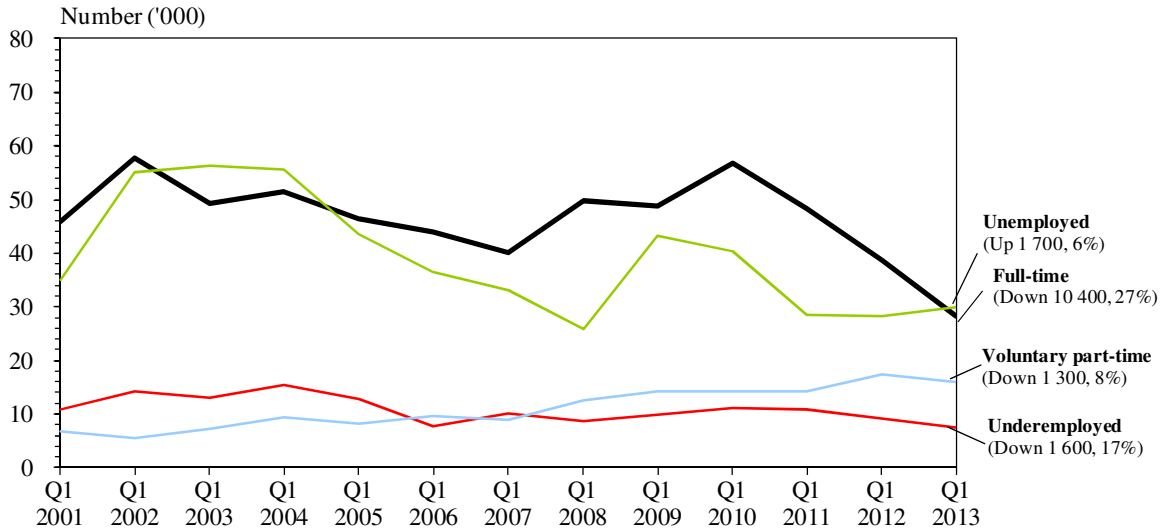
**Chart 2 : Persons living in low-income households\*  
by age and economic activity status, Q1 2013**



Note: (\*) Low-income households refer to households with monthly household income less than \$6,500 at constant 2010 prices. This does not include households with all members being economically inactive.

- Compared to a year earlier, the number of economically active persons living in low-income households went down by 11 600 (or 12%) from 93 200 to 81 600, with the respective proportion in total economically active persons also down from 2.7% to 2.3%. Among them, the number of full-time workers fell drastically by 27% from 38 600 to 28 200 in the first quarter of 2013, after decreasing notably by 20% year-on-year over the same period of 2012. This mainly reflected that many full-time employees have seen income improvement in the past year, thereby enabling them to climb out of the low-income group. On the other hand, the number of unemployed persons edged up by 1 700 (or 6%) to 29 800 (**Chart 3**).
- In fact, because full-time employees were able to enjoy distinct labour income growth after the implementation of the statutory minimum wage in 2011, they could more easily climb up the income ladder and leave the low-income group. As a result, those still remaining in the low-income group were mostly unemployed, voluntary part-timers and underemployed.

**Chart 3 : Composition of economically active persons in low-income households\***

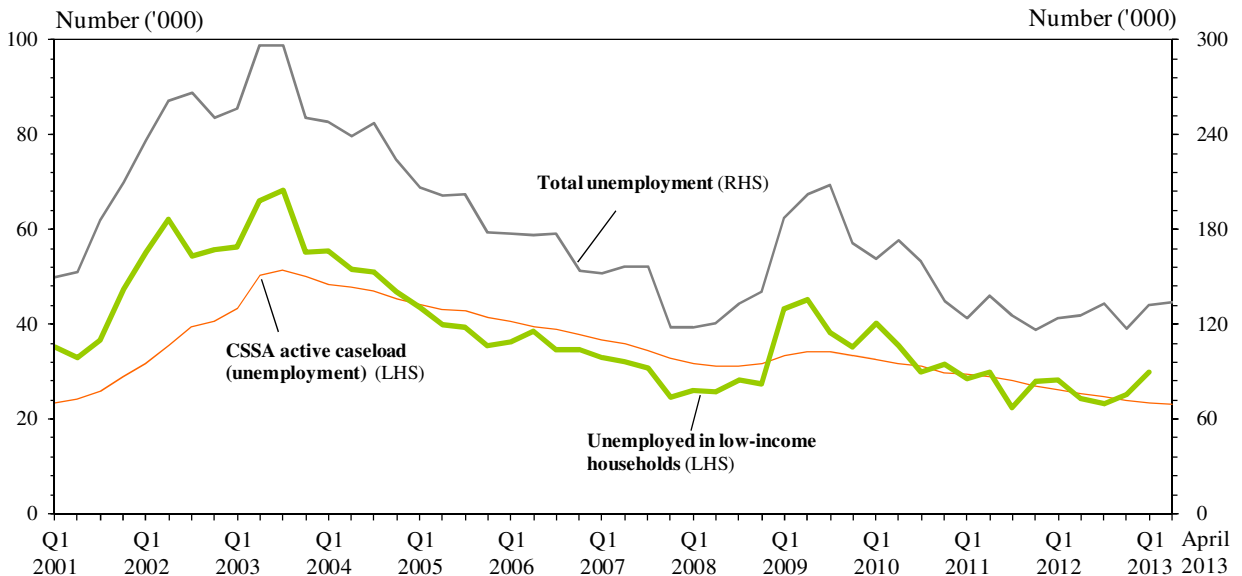


Notes : (\*) Low-income households refer to households with monthly household income less than \$6,500 at constant 2010 prices. This does not include households with all members being economically inactive. Figures in brackets are the year-on-year changes in number of economically active persons in Q1 2013.

**The number of CSSA cases**

6. Benefiting from the strong labour demand, the latest unemployment rate of lower-skilled workers was 3.8%, still lower by 2.3 percentage points as compared to the 6.1% in mid-2009. Meanwhile, the overall CSSA caseload remained on a downward trend, down by 7 424 (or 2.7%) to 267 206 in April 2013 as compared to a year earlier. The improvement in the number of unemployment cases was even more appreciable, down by 2 639 (or 10.2%) to 23 139 over the same period. When compared with their peaks in 2009, the cumulative declines amounted to 23 036 (or 7.9%) and 11 127 (or 32.5%) respectively (*Chart 4*).

**Chart 4 : The relationship between the unemployed in low-income households\*, CSSA active caseload (unemployment)^, and total unemployment in the economy**



Notes : (\*) Low-income households refer to households with monthly household income less than \$6,500 at constant 2010 prices. This does not include households with all members being economically inactive. (^) Monthly period-end figures.



## **Concluding remarks**

7. The Government is highly concerned about the poverty situation, and poverty alleviation is a priority of the Chief Executive's policy agenda. The Commission on Poverty (CoP) reinstated in this term of the Administration will comprehensively analyse the underlying causes and forms of poverty by setting a "poverty line" taking into account the unique circumstances of Hong Kong, and detailed analysis of households below the "poverty line" by their socio-economic characteristics, housing conditions and districts will be conducted, so as to facilitate policy discussion and formulation. Furthermore, various task forces under the CoP will focus on different areas to provide assistance to the needy.

8. The Government will continue to strengthen employment / training and retraining services so as to provide further support for job-seekers, and at the same time assist the vulnerable groups through social welfare policies, enabling them to share the fruits of economic growth. In the medium to long term, the Government will keep on investing substantially in education in order to improve the competitiveness and skills of the labour force in the knowledge-based economy, increase social mobility and reduce inter-generational poverty. To improve the livelihood of the grassroots, the fundamental solution is to promote overall economic growth so as to provide more employment and income opportunities.

9. Looking ahead, the global economic environment, albeit relatively improved from the dire situation in mid-2012, is still overcast by a considerable number of uncertain factors. For example, the eurozone economy is wrought with structural problems and mired in recession under the debt overhang; and the recovery in the US economy has yet to take hold. The continued sluggishness in demand in the advanced economies would continue to affect Hong Kong's trade performance which in turn would put a drag on our local economic performance. The Government will closely monitor the developments, and remain vigilant to the employment and earnings conditions of grassroots workers and low-income households, so as to provide measures and support to them as necessary.