



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

The Government released the Third Quarter Economic Report 2012 on 16 November. The Economic Report, together with the press release containing the updated economic forecasts for the whole year of 2012, have been furnished to LegCo Members.

This paper analyses Hong Kong's overall economic development in the most recent period, summarises the updated economic forecasts by the Government for 2012 as a whole, and provides some preliminary analysis on the outlook in 2013.

Economic Analysis and Business Facilitation Unit  
Financial Secretary's Office  
23 November 2012

## Recent Situation and Near-term Outlook For the Hong Kong Economy

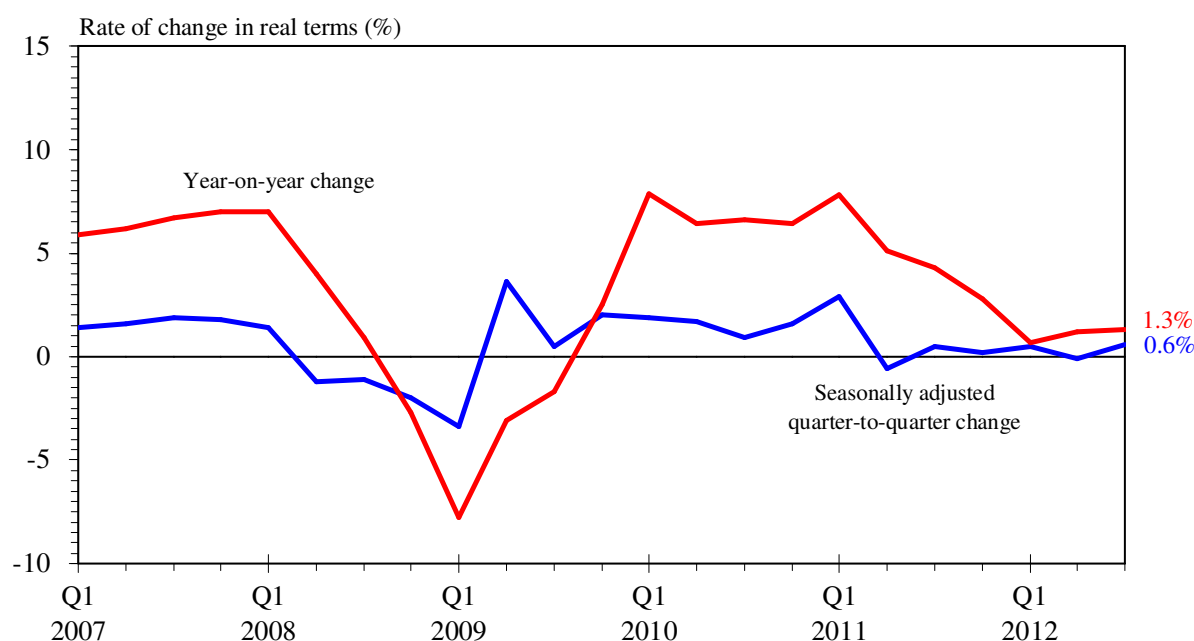
### Introduction

This paper analyses the latest development in the Hong Kong economy and briefly discusses the updated economic forecasts for 2012 as a whole and the economic outlook for 2013.

### Recent economic situation

2. The Hong Kong economy continued to face strong external headwinds in the third quarter of 2012, growing modestly by 1.3% over a year earlier, similar to the weak 1.2% growth in the second quarter. Among domestic economic activities, private consumption expenditure grew steadily further, while investment remained strong. Merchandise exports also rebounded towards the end of the quarter, though partly helped by a distinctly low base of comparison. On a seasonally adjusted quarter-to-quarter comparison, the economy resumed growth at 0.6% in the third quarter, after a marginal decline of 0.1% in the preceding quarter (*Chart 1*).

**Chart 1 : The economy remained rather weak in the third quarter of 2012**

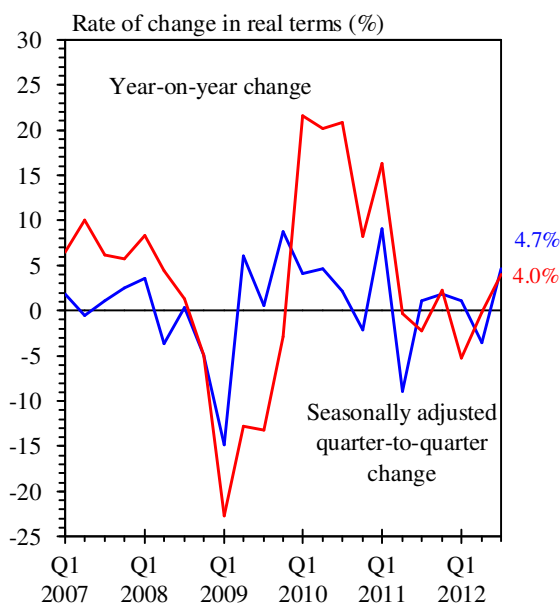


## External trade

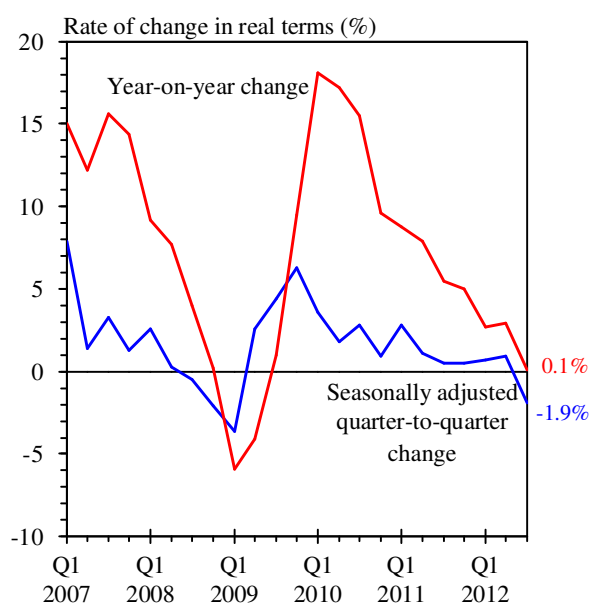
3. Total exports of goods grew moderately by 4.0% in real terms in the third quarter over a year earlier, reversing a 0.2% decline in the second quarter, thanks mainly to the notable rebound in September from a relatively low base of comparison a year earlier. Exports to the EU market still recorded a double-digit year-on-year decline in the third quarter, while those to the US and many major Asian markets were also weak. On the other hand, exports to both the Mainland and Japan saw faster year-on-year growth. On a seasonally adjusted basis, total exports of goods rebounded strongly by 4.7% in real terms in the third quarter over the preceding quarter (*Chart 2(a)*).

4. Exports of services however decelerated visibly to only a marginal 0.1% growth in the third quarter over a year earlier, from 2.9% in the second quarter. The lacklustre performance was the combined effects of sluggish trade flows, quieter fund-raising and cross-border financing activities in face of an uncertain global economic outlook, and moderation in per capita visitor spending. Reflecting this, exports of trade-related services only grew tepidly; those of transportation services and financial and business services dipped; and those of travel services also moderated despite the continued double-digit growth in visitor arrivals. On a seasonally adjusted quarter-to-quarter comparison, exports of services fell back by 1.9% in the third quarter (*Chart 2(b)*).

**Chart 2(a) : Total exports of goods rebounded in the third quarter**



**Chart 2(b) : Exports of services however slowed visibly**



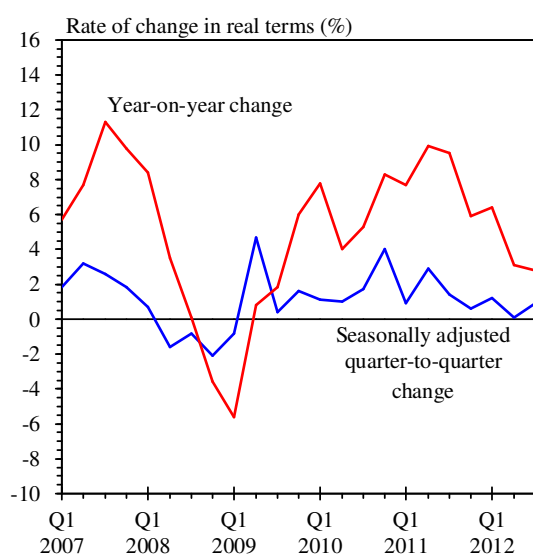
5. Exports of travel services saw a further visible year-on-year growth of 6.6% in the third quarter, albeit moderating from previous quarters, mainly reflecting the weaker visitor consumption sentiment amid the global economic slowdown. Nevertheless, the number of visitor arrivals still leaped further by 17.7% in the third quarter over a year earlier, with those from the Mainland (accounting for about 70% of the total) surging by 26.8%, 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 2.8%.

### **Domestic sector**

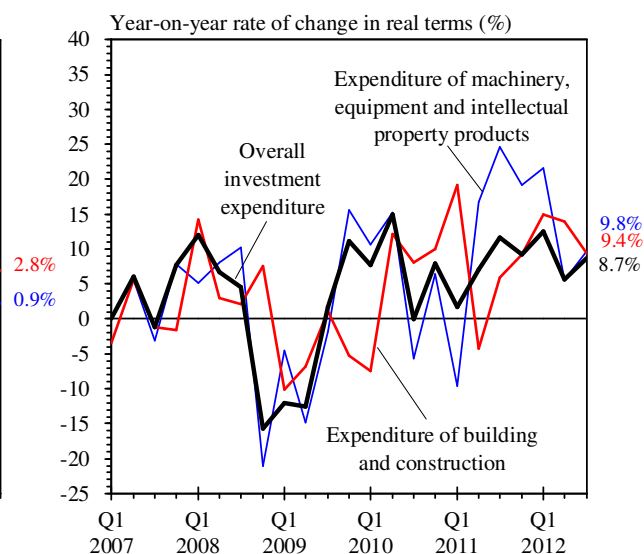
6. The domestic sector saw further growth in the third quarter. Thanks to still largely favourable employment and income conditions as well as the rally in asset prices during the quarter, private consumption expenditure (PCE) grew further by 2.8% in real terms over a year earlier. The more moderate year-on-year growth in recent quarters was affected partly by a distinctly high base of comparison last year. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure actually picked up to a 0.9% growth in real terms in the third quarter, faster than the 0.1% growth in the second quarter (*Chart 3(a)*).

7. Overall investment spending picked up to a strong 8.7% year-on-year growth in real terms in the third quarter, from 5.7% in the second quarter. The re-acceleration was mainly on account of the surge in machinery and equipment acquisition, at 9.8%. Meanwhile, private sector construction activity stayed active, while public sector infrastructure works carried on at a high level. As such, overall building and construction expenditure expanded appreciably further by 9.4% in real terms in the third quarter (*Chart 3(b)*).

**Chart 3(a) : Private consumption grew steadily further in the third quarter**



**Chart 3(b) : Investment spending remained strong**

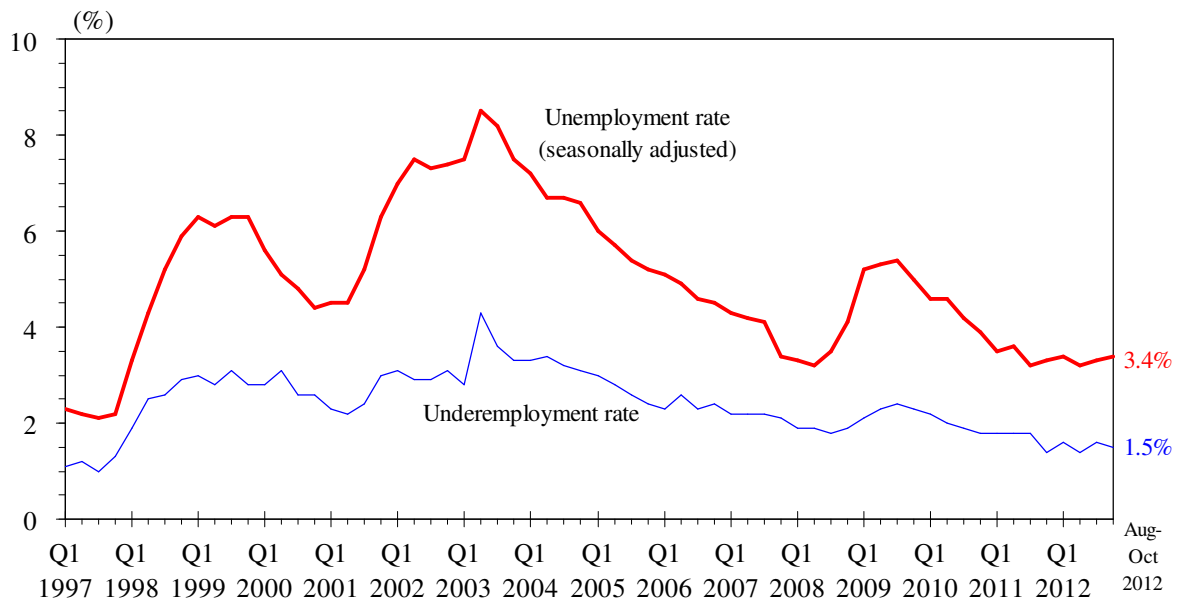


8. As for foreign direct investment (FDI), country breakdowns of FDI flow data are available up to end-2010 only. The Mainland featured prominently as a source of Hong Kong's external direct investment particularly in recent years (accounting for half of the total DI inflow in 2010), covering a wide 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 increased by 15% to \$742 billion (US\$95 billion) in 2011, representing 38% of GDP, before decreasing by 26% year-on-year in the first half of 2012 to \$316 billion (US\$41 billion), representing 33% of GDP, reflecting the weaker foreign investment sentiments amid an uncertain global economic environment.

## Labour Market

9. The pace of job creation decelerated in recent months alongside the continued subdued growth in the economy, and total employment increased only modestly in August – October 2012. As a result, the seasonally adjusted unemployment rate edged up further to 3.4% (*Chart 4*).

**Chart 4 : Unemployment rate edged up to 3.4% in August - October 2012**

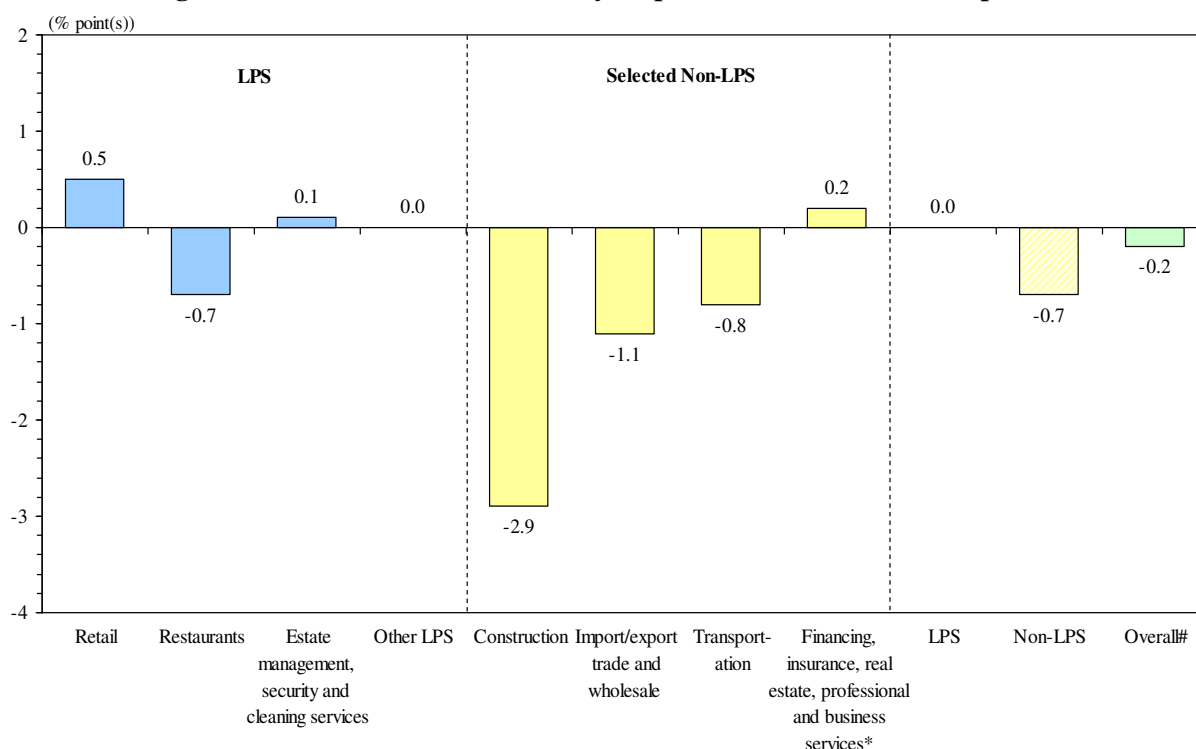


10. The statutory minimum wage (SMW) has been implemented for one and a half years since 1 May 2011. The pressure on the labour market brought about by its implementation has been largely cushioned by the job creation in tandem with the strength of local consumption and inbound tourism during most of the period. The overall seasonally adjusted unemployment rate in August – October 2012, at 3.4%, was actually 0.2 percentage point lower than the level in February – April 2011, i.e. just before the implementation of SMW. The unemployment situation in the low-paying sectors (LPS)<sup>(1)</sup>, though with mixed performance among individual sectors, held broadly stable in overall terms, with its unemployment rate staying low at 3.2%. As for non-LPS as a whole, its unemployment rate went down visibly by 0.7 percentage point to 2.7% (**Chart 5**), thanks to the notable job creation over the same period.

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(1) The Provisional 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 5 : Mixed performance was seen amongst LPS and non-LPS in unemployment rates of August - October 2012 over February - April 2011 (before SMW implementation)**



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

11. Analysed by skill segment, the number of higher-skilled employment went up by 20 200 to 1 347 800 in August – October 2012 as compared to February – April 2011 (before SMW implementation). The lower-skilled employment (excluding government employees and live-in domestic workers who are not covered by the SMW regime) increased even more noticeably by 89 400 to 1 941 500 over the same period. Compared to August – October last year, employment gains in the lower-skilled segment more than offset the losses in the higher-skilled counterpart. As for the unemployment rate, the unemployment rate for the higher-skilled segment held steady while that of the lower-skilled segment fell by 0.8 percentage point over February – April 2011. On a year-on-year basis, the unemployment rate of the higher-skilled segment went up by 0.4 percentage point, while that in the lower-skilled segment was still 0.4 percentage point lower (*Table 1*).

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

|   | Employment     |                                      |      |                                      |      | Unemployment rate |                                      |                                      |
|---|----------------|--------------------------------------|------|--------------------------------------|------|-------------------|--------------------------------------|--------------------------------------|
|   | Aug - Oct 2012 | Change as compared to Aug - Oct 2011 |      | Change as compared to Feb – Apr 2011 |      | Aug - Oct 2012    | Change as compared to Aug - Oct 2011 | Change as compared to Feb – Apr 2011 |
|   | (No.)          | (No.)                                | (%)  | (No.)                                | (%)  | (%)               | (% point)                            | (% point)                            |
| Higher-skilled  | 1 347 800      | -39 200                              | -2.8 | +20 200                              | +1.5 | 2.0               | +0.4                                 | 0.0                                  |
| Lower-skilled   | 2 317 100      | +107 200                             | +4.9 | +102 400                             | +4.6 | 3.3               | -0.4                                 | -0.8                                 |
| Lower-skilled (excl. government employees and live-in domestic workers) | 1 941 500      | +100 400                             | +5.5 | +89 400                              | +4.8 |                   |                                      |                                      |

12. With the economy growing at a subpar rate for four quarters in a row and the SMW lifting effect gradually dissipating, employment earnings growth was not as marked as compared to the past year. In the second quarter, the wage and payroll indices rose by 5.1% and 6.6% respectively, or by 1.7% and 2.3% respectively in real terms over a year earlier after discounting inflation. In the third quarter, the median employment earnings rose by 8.3% in nominal terms, representing an increase of 5.1% in real terms after discounting inflation. As for the grassroots workers, the year-on-year growth in average employment earnings of full-time employees in the lowest decile group was still notable at 7.2% in nominal terms and 5.2% in real terms respectively (Please refer to *Annex* for details).

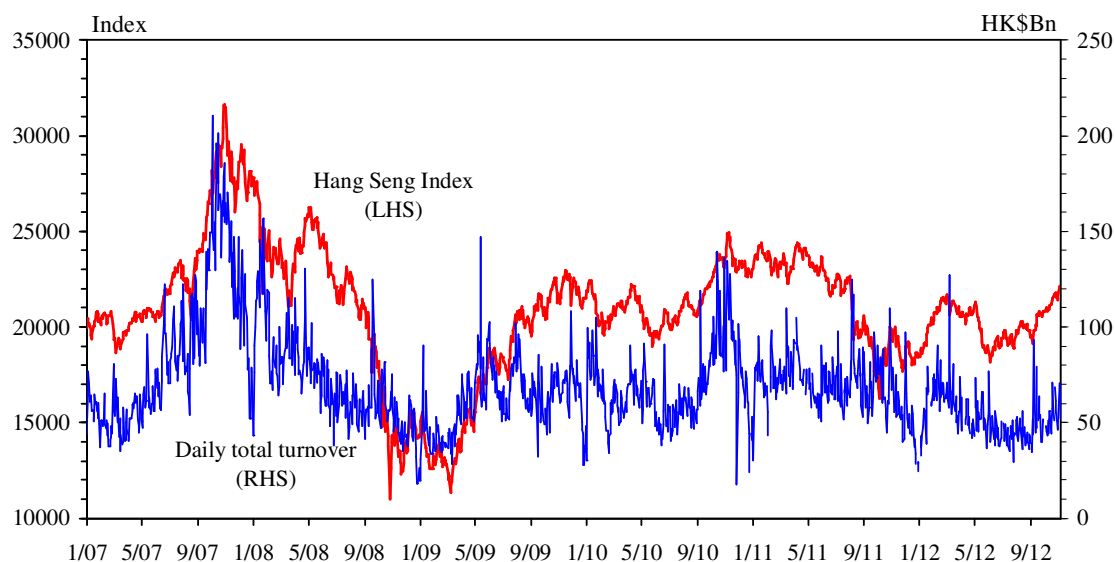
### Asset markets

13. Market sentiments revived somewhat following the ECB president's pledge to preserve the euro and amid increasing expectations of more policy accommodation in the advanced economies. The local stock market fluctuated range-bound in July and was generally on a recovery path since late July. With the subsequent announcement of monetary easing in Europe, the US and Japan in September, the Hang Seng Index (HSI) rallied further to close October at 21 642, up 11% from end-June 2012 and 17% from end-2011. However, average daily turnover of the stock market remained sluggish in the third quarter, with average



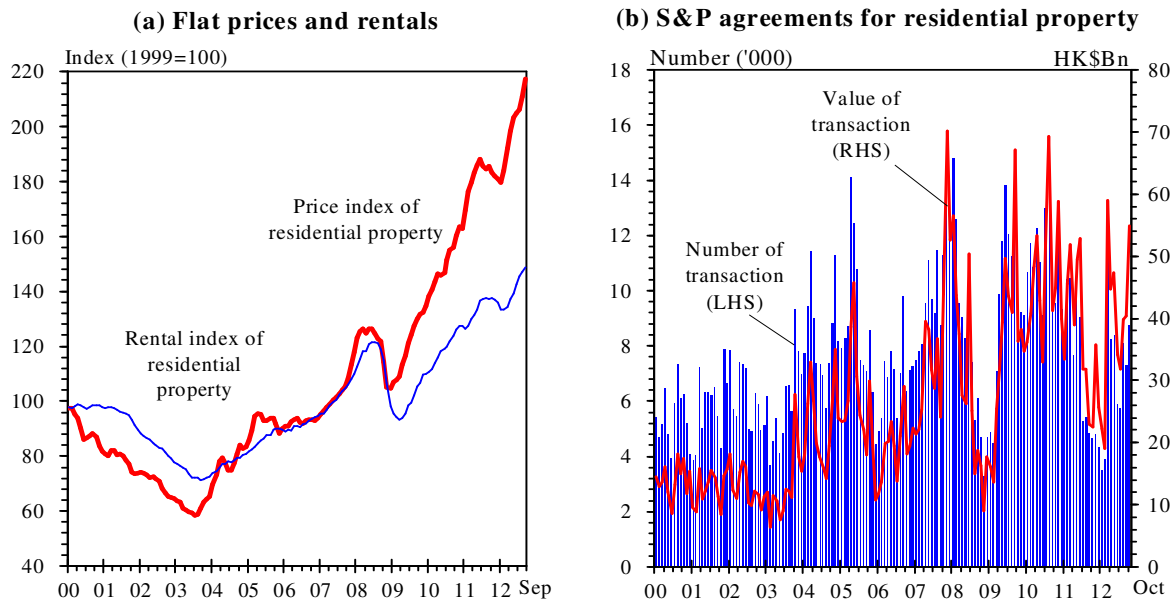
daily turnover down notably by 27% in the first ten months of 2012 over a year earlier (*Chart 6*). Fund-raising activity was also quieter compared with a year ago, with the amount of equity funds raised shrinking markedly by 77% year-on-year in the first ten months of 2012.

**Chart 6 : Local stock prices rebounded during the third quarter, amid some stabilisation of the euro debt crisis and expectations of a new round of quantitative easing in the US**



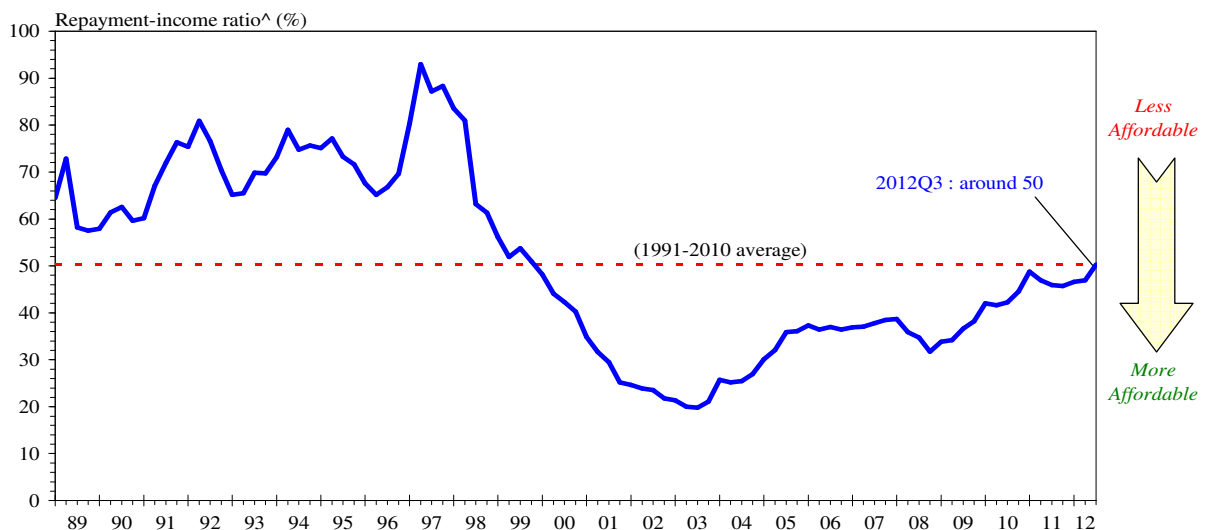
14. Residential property market went up further during the third quarter in the midst of liquidity glut and super-low interest rate environment. Market sentiment received a further boost after the announcement of another round of monetary easing in the US in September. By September, residential property prices had leaped further by 6% over June, cumulating to some 20% surge in the first nine months of 2012 and surpassing the 1997 peak by around 26% (*Chart 7*). Prices of small-and-medium-sized flats (less than 70 squared metres) have risen by 21% during the first nine months of 2012, much faster than the 11% for the large flats (160 squared metres or above). Between June and September, flat rentals rose by another 4%; whereas for commercial property markets, rentals of office space edged up by 1%, while those for retail shop space rose further by 6%.

**Chart 7 : Residential property market saw increasing signs of exuberance during the third quarter**



15. Even with prevailing low interest rates, the housing affordability ratio had risen to around 50% in the third quarter, close to the average of 50.4% over the past 20 years (**Chart 8**). The number of transactions in the residential property market, though still down by 6% from the preceding quarter, was 36% higher than a year earlier. Analysed by type of trading, secondary market transactions shrank by 12% over the preceding quarter, while primary market transactions surged by 36%. The housing market went up further in October, with transactions up by a further 19%. But market information suggest that market transaction activities turned quieter in November after the Government's announcement of further measures to stabilise the housing market on 26 October. Speculative activities were further dented, and property prices also showed signs of some stabilisation.

**Chart 8 : Housing affordability rose to its long-term average**

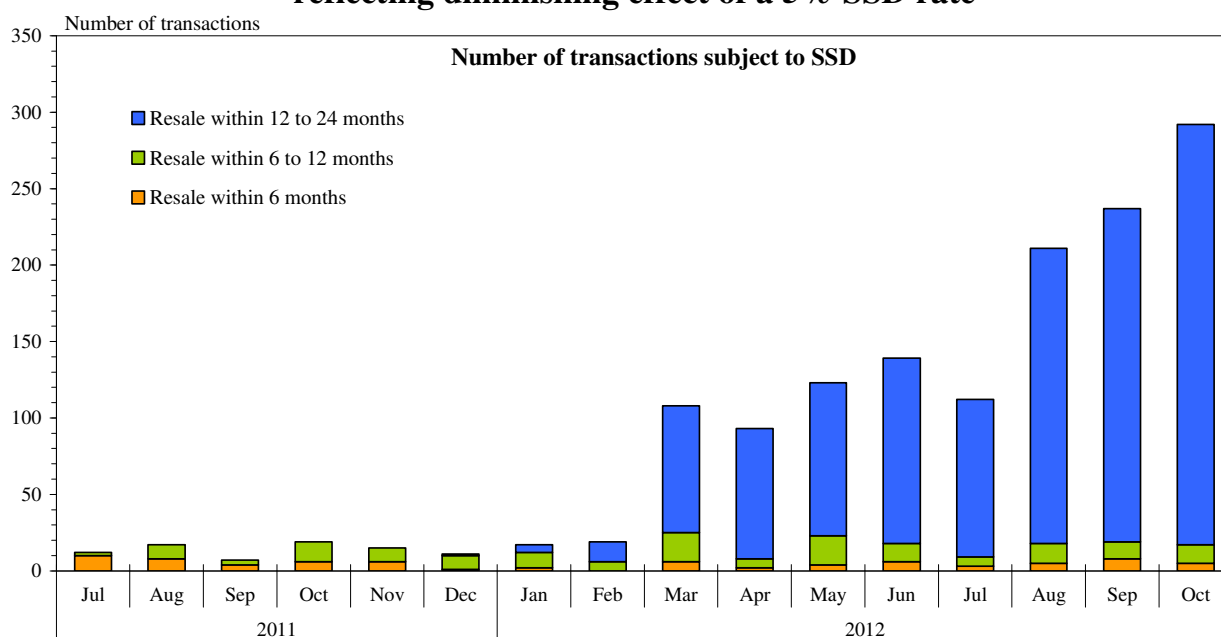


Note : (^) The ratio of mortgage payment for a flat with saleable area of 45 sq m (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing).

16. The Government has stayed alert to how volatilities in residential property prices may affect the overall macroeconomic and financial stability. To ensure a healthy and stable development of the housing market, the Government has since early 2010 rolled out a series of measures along four directions: (1) increasing flat supply; (2) curbing speculative activities; (3) enhancing the transparency of the property market; and (4) preventing excessive expansion in mortgage lending. The Government has been closely monitoring the housing market to adjust the policy measures when necessary. With the property market showing increasing signs of exuberance, and to forestall the further build-up of bubble risk, in August to October the Government rolled out several rounds of measures. These included short, medium and long-term measures to increase the land and flat supply (August); tightened mortgage lending criteria to increase the resilience of the banking sector (September); as well as the enhanced Special Stamp Duty (SSD) to curb speculative transactions and the introduction of a Buyer's Stamp Duty (BSD) to accord priority to meeting the housing needs of Hong Kong permanent residents under a tight supply situation (October).

17. The Government's efforts are yielding some positive results. On increasing flat supply, the total supply of flats in the coming few years would increase from 53 000 units as estimated at end-2009, to 65 000 units as estimated at end-September 2012, the highest since early 2008. Speculative activities almost disappeared after the introduction of the SSD in November 2010. On average there were only 27 confirmor transactions per month (representing 0.3% of total residential property transactions) in the first nine months of 2012, much lower than the average of 318 cases per month (2.4% of total transactions) in Jan-Nov 2010 (i.e. before the introduction of SSD). Yet short-term resale cases within 12-24 months rose in recent months, reflecting the diminishing effect of a 5% SSD rate (*Chart 9*). As for mortgage lending, the average loan-to-value ratio of new mortgage loans declined from 64% in Jan-Oct 2009 (before the first round of the tightening of lending standards for residential mortgage loans) to 56% Jan-Sep 2012. Debt service ratio (DSR) for new residential mortgage loans declined to 36% in September 2012, from 41% in August 2010 when tighter requirement on DSR was introduced. On market transparency, the Residential Properties (First-hand Sales) Bill was passed by the Legislative Council in June 2012. The Government plans to set up an enforcement authority before June 2013 to implement the legislation.

**Chart 9 : Short-term resale cases within 12-24 months rose in recent months, reflecting diminishing effect of a 5% SSD rate**



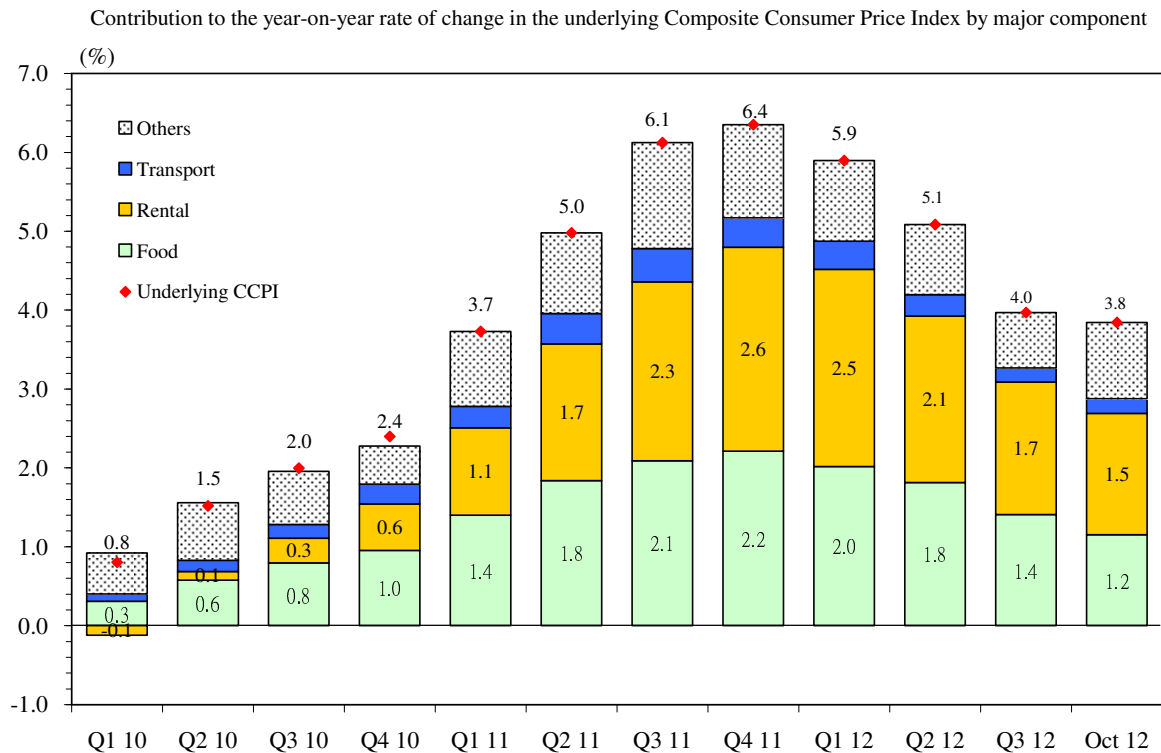
Source : Inland Revenue Department.

## Inflation

18. Inflation pressures eased further in recent months. Import prices rose at a more moderate pace, thanks to the earlier retreat in global food and commodity prices and the easing inflation in the Mainland and other import suppliers. Locally, the year-on-year increase in the private housing rental component of the Composite CPI tapered further, reflecting the gradual feed-through of the relative stabilisation in fresh-letting residential rentals during the second half of last year and early this year. Furthermore, labour costs rose at a slower pace more recently, due to the slower economic growth and the waning boost of the implementation of statutory minimum wage. In view of the concurrent easing of external and domestic price pressures, local inflation has sustained its downtrend in the third quarter, along with similar inflation developments in a number of Asian and emerging market economies.

19. Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, went down from 5.2% in the first quarter to 3.8% in October. Headline inflation averaged at 4.1% in the first ten months of the year, down visibly from the 5.3% last year. Underlying consumer price inflation, being more indicative of the underlying inflation trend by netting out the effects of Government's one-off relief measures, likewise decelerated visibly from 5.9% in the first quarter to 3.8% in October, averaging at 4.9% in the first ten months, also down from the 5.3% last year (*Chart 10*).

**Chart 10 : Consumer price inflation eased further with the narrower increases in food prices and rentals**



20. The price increases for most of the major components in the underlying Composite CPI, notably foodstuffs and housing, tapered further on a year-on-year basis in recent months (*Table 2*). Thanks to the earlier peak-out of global food prices, local food inflation (including costs of dining out) displayed an easing trend in the past few quarters, coming down progressively from the peak of 8.2% in the fourth quarter of 2011 to 4.2 in October 2012. Meanwhile, the increase in private housing rental component also moderated visibly, from 9.5% to 5.5% over the same period. Prices of many other CPI components, such as clothing and footwear, miscellaneous goods, transport and miscellaneous services also saw various degrees of moderation in their year-on-year increases, while prices of durable goods continued 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>2011</u> | <u>2012</u> |           |           |            |
|------------------------------------|----------------------|-------------|-------------|-----------|-----------|------------|
|                                    |                      | <u>Q4</u>   | <u>Q1</u>   | <u>Q2</u> | <u>Q3</u> | <u>Oct</u> |
| Food                               | 27.45                | 8.2         | 7.4         | 6.6       | 5.1       | 4.2        |
| <i>Meals bought away from home</i> | 17.07                | 6.1         | 6.1         | 5.7       | 5.3       | 4.9        |
| <i>Other foodstuffs</i>            | 10.38                | 11.5        | 9.4         | 8.1       | 5.0       | 3.2        |
| Housing <sup>(a)</sup>             | 31.66                | 8.4         | 8.1         | 6.4       | 2.8       | 5.3        |
|                                    |                      | (8.4)       | (8.1)       | (6.7)     | (5.5)     | (5.6)      |
| <i>Private dwellings</i>           | 27.14                | 9.6         | 9.2         | 7.3       | 5.8       | 5.2        |
|                                    |                      | (9.5)       | (9.1)       | (7.7)     | (6.0)     | (5.5)      |
| <i>Public dwellings</i>            | 2.05                 | -1.5        | -1.5        | -1.1      | -87.8     | 9.7        |
|                                    |                      | (-0.1)      | (-0.1)      | (0.1)     | (3.2)     | (9.4)      |
| Electricity, gas and water         | 3.10                 | -16.1       | -17.2       | -18.3     | 3.6       | 5.0        |
|                                    |                      | (3.9)       | (4.0)       | (3.9)     | (2.8)     | (3.9)      |
| Alcoholic drinks and tobacco       | 0.59                 | 20.0        | 11.6        | 0.1       | 0.5       | 0.6        |
| Clothing and footwear              | 3.45                 | 7.3         | 4.9         | 3.2       | 2.3       | 0.6        |
| Durable goods                      | 5.27                 | -3.1        | -1.8        | -0.9      | -1.2      | -1.8       |
| Miscellaneous goods                | 4.17                 | 3.3         | 3.4         | 2.2       | 1.4       | 2.2        |
| Transport                          | 8.44                 | 4.5         | 4.4         | 3.3       | 2.2       | 2.3        |
| Miscellaneous services             | 15.87                | 3.8         | 2.8         | 3.1       | 2.3       | 3.0        |
|                                    |                      | (3.8)       | (2.8)       | (3.1)     | (2.3)     | (3.1)      |
| All items                          | 100.00               | 5.7         | 5.2         | 4.2       | 3.1       | 3.8        |
|                                    |                      | (6.4)       | (5.9)       | (5.1)     | (4.0)     | (3.8)      |

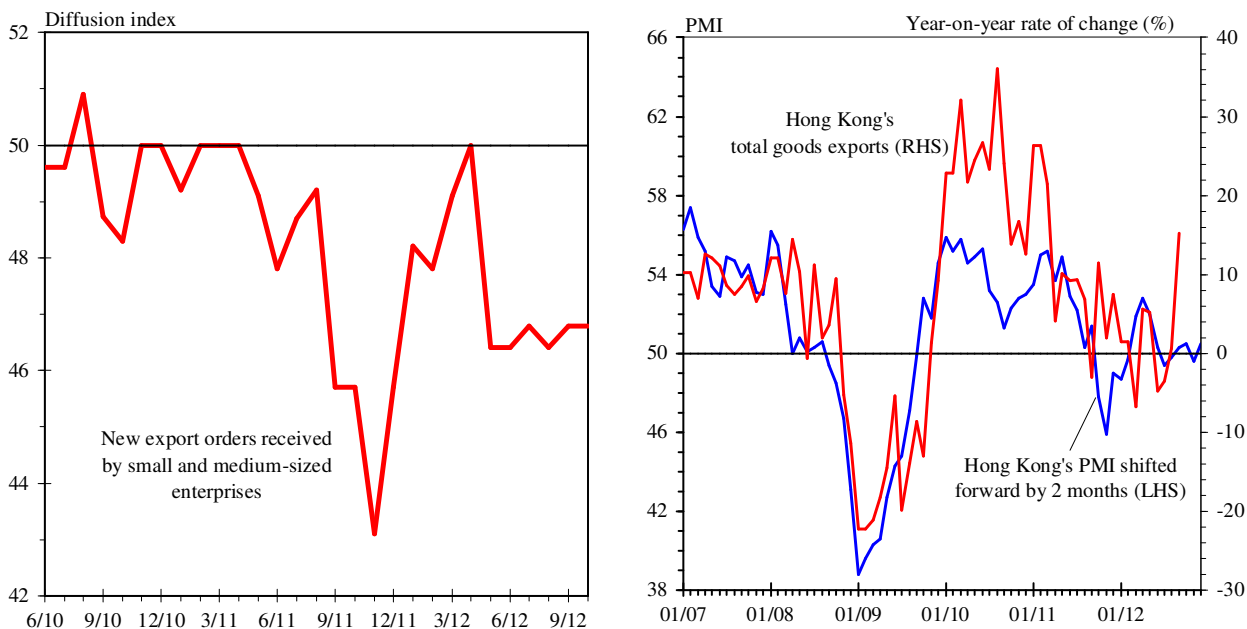
Notes : The year-on-year rates of change in the Composite Consumer Price Index are computed from the new 2009/10-based CPI series. Figures in brackets refer to the underlying rate of change after netting out the effect of Government's one-off relief measures.

- (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 2012

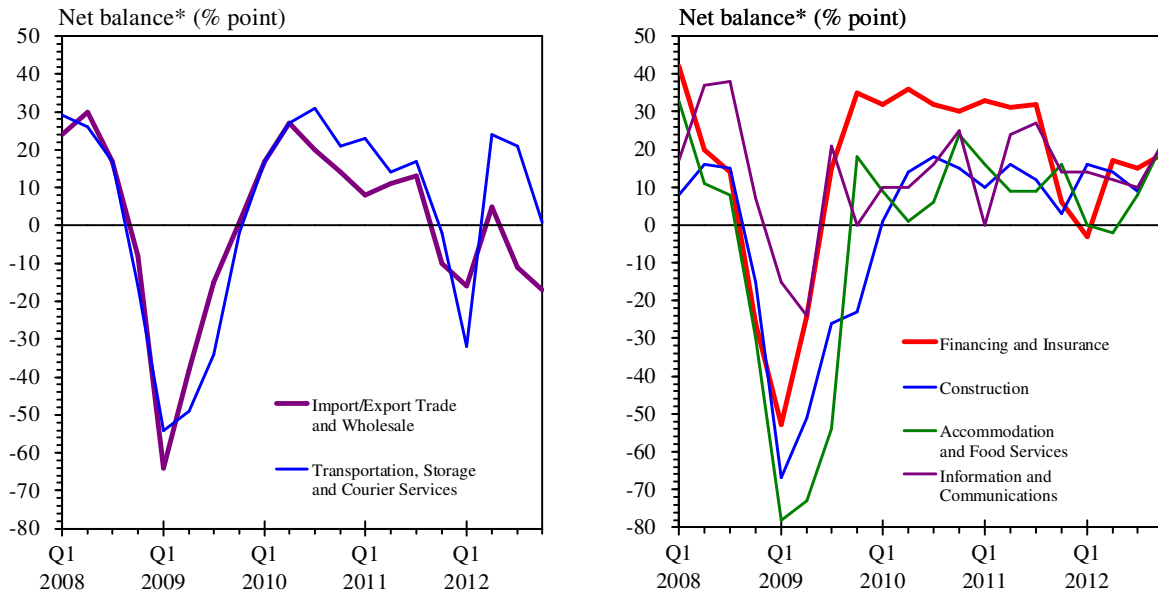
21. On the external front, while there has been some stabilisation of the eurozone sovereign debt crisis following the recent policy actions by the European authorities, economic growth and sentiments in Europe have remained subdued. In the US, recent economic data have been more positive, though with the outlook still overcast by the looming fiscal cliff. Against this background, Hong Kong's trading environment is still subject to a high degree of uncertainty (*Chart 11*). Nevertheless, activity in the Mainland economy has shown signs of re-acceleration in the more recent months, which should lend support to intra-regional trade going forward.

**Chart 11 : Hong Kong's trading environment is still subject to a high degree of uncertainty**



22. The latest Quarterly Business Tendency Survey indicated that the trade-related sectors remained generally cautious towards the near-term business outlook, yet sentiments in the domestic-related sectors were somewhat more upbeat (*Chart 12*). Indeed, domestically, consumption demand is expected to stay steady under the support of higher incomes over the past year. Also, both large-scale infrastructure works and private building activity should continue apace, thereby rendering continued momentum to domestic demand.

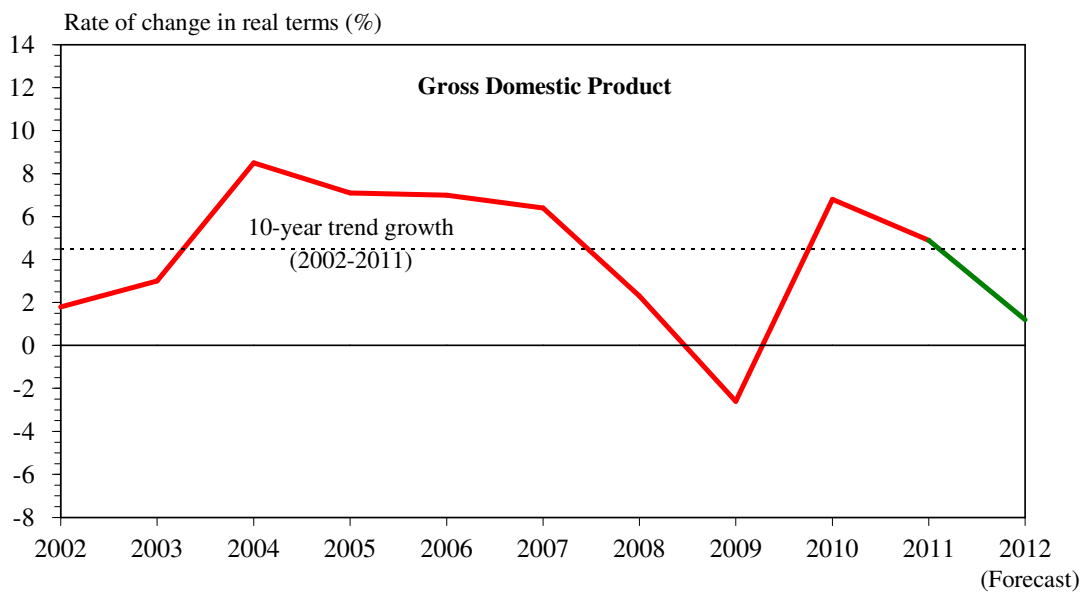
**Chart 12 : Trade-related sectors remained generally cautious, while sentiments in the domestic-related sectors were more upbeat in their outlook**



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 upward trend while a negative sign, a likely downward trend.

23. Having regard to the outturn of a subdued 1.0% year-on-year real GDP growth in the first three quarters of 2012, the GDP growth forecast for 2012 is slightly revised to 1.2%, from the earlier range forecast of 1-2% in the August round (*Chart 13*). For reference, in October the IMF projected Hong Kong's economic growth for this year at 1.8%, whereas most private sector analysts are currently projecting the economy to expand by 1-2%, averaging at around 1.5%.

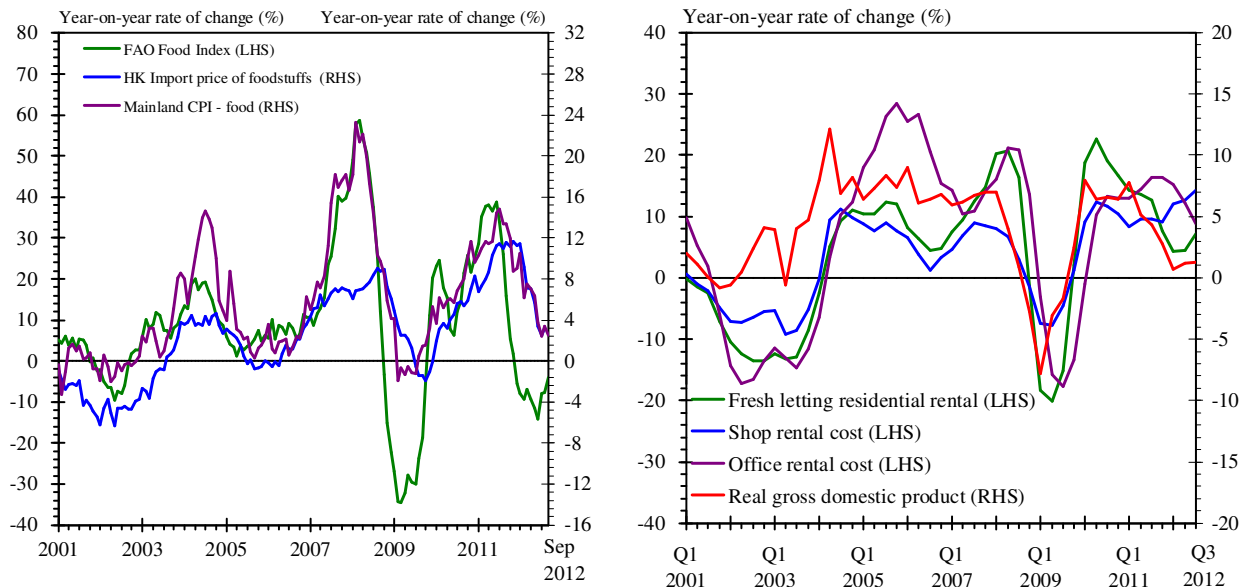
**Chart 13 : The economy is forecast to grow modestly by 1.2% in 2012**





24. On inflation outlook, the more moderate increases in import prices in recent months should help to keep inflation largely contained in the rest of the year. However, with the rebound of global food prices in July and August following the drought in the US, the new round of quantitative easing in the advanced economies, and the renewed pick-up in local housing rentals in the past few months, the pace of tapering in CPI inflation in the months ahead is expected to be slower than earlier envisaged (*Chart 14*). Judging from the actual outturn so far and the latest developments, the forecast rates of headline and underlying consumer price inflation for 2012 as a whole are slightly revised upwards to 3.9% and 4.5% respectively, from 3.7% and 4.3% in the August round. For reference, in October the IMF forecast Hong Kong's headline consumer price inflation in 2012 at 3.8%.

**Chart 14 : The pace of inflation easing has been slower than earlier envisaged, but inflation should remain contained for the rest of the year**



### Economic outlook for 2013

25. The year 2013 would still be a challenging year. Although the IMF forecast global economic growth to pick up to 3.6%, whether this projection could be realised hinges to a large extent on whether the US economy would avert a “fiscal cliff” and whether the euro debt crisis would avoid a wider contagion. Meanwhile, the debt problems of the advanced economies will take time to resolve. Also, the ongoing and prolonged fiscal austerity measures may continue to weigh on economic growth in Europe and the US for an extended period of time, thereby leading to continued modest growth for the world economy. The external environment will remain volatile in 2013. This coupled with the potentially stronger protectionist sentiments will overcast the global trade outlook. Fortunately, the US economic activities have seen some signs of revival recently. The Mainland

economy has also seen a pick-up in growth momentum of late, and the fundamentals of the Asian economies remain sound. Barring an abrupt deterioration in final demand of the advanced economies, Hong Kong's external trade is expected to remain relatively stable next year.

26. Domestically, while the unemployment rate remains low, the sluggish external environment has begun to dent local consumer sentiment and business confidence, thereby posing more pressure on the labour market. But the relative improvement in the Mainland economy lately, coupled with the sustained pick-up in construction works and further growth of inbound tourism, should render some support to domestic demand. The Government will closely monitor the developments on the external front and announce the economic forecast for 2013 along with the 2013/14 Budget in February next year. For reference, the IMF's latest 2013 economic growth forecast on Hong Kong is 3.5%. The prevailing forecasts from private sector range from 2.5-4.5%, averaging at around 3.5%.

27. The inflation situation in 2013 will depend on a host of factors on the external front, including the exchange rate movements, international commodity prices and the pace of recovery in the major economies. Although international commodity prices had so far not risen in any significant way after the US rolled out QE3, the global liquidity glut could add to volatilities in international commodity prices and asset prices. Locally, while wage pressures have moderated recently, the rental trends in different segments of the property market varied. The Government will continue to monitor the various local and external factors behind inflation developments, and also pay attention to the impact of inflation on the grassroot level. For reference, the IMF's latest 2013 inflation forecast for Hong Kong is 3.0%, while those from private sector analysts average at 3.8%.

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23 November 2012

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

### **Background**

This Annex provides a regular update on the latest situation of household income and employment earnings. While the definition of low-income is open to different interpretations, a benchmark of monthly household income below \$6,500 (at constant 2010 prices) is adopted in this paper, in the light of the implementation of statutory minimum wage (SMW) in May 2011. The income situation of the grassroots is analysed along multiple perspectives:

- (i) Adjusting the \$6,500 monthly income threshold by inflation<sup>(2)</sup>;
- (ii) Focussing on economically active households with monthly income less than \$6,500, in particular the number and proportion of economically active members living therein, their age distribution, employment situation and characteristics and skill levels, etc.;
- (iii) Adding other income-related indicators, such as wages, payroll, employment earnings, the number of overall Comprehensive Social Security Assistance (i.e. CSSA, including unemployment or low earnings) cases, etc.

### **Overall situation of wages and earnings**

2. The pace of job creation decelerated in recent months in tandem with the continued subdued growth in the economy, and total employment increased only modestly in August – October 2012. The seasonally adjusted unemployment rate thereby edged up further to 3.4%. Meanwhile, alongside the slowing economy and waning of the SMW lifting effect, the growth rates in various income-related indicators were not as marked as compared to those seen in the past year. Nevertheless, the average employment earnings of full-time employees in the lowest decile group rose by 7.2% year-on-year in nominal terms in the third quarter of 2012. After discounting price changes, the corresponding increase was 5.2% in real terms, indicating still visible improvement in the earnings of the grassroots (*Table 1*).

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(1) Foreign domestic helpers are excluded from the analysis. Besides, some figures presented in this Annex are statistics which involve the use of the population figures in the compilation process. Taking into account the results of the 2011 Population Census, the population figures compiled after the 2006 Population By-census has been revised accordingly.

(2) The adjustment is based on Consumer Price Index (A). \$6,500 at constant 2010 prices is equivalent to around \$6,800 at current prices.

**Table 1 : Selected indicators on wages, payroll and employment earnings  
(year-on-year rate of change (%))**

| Period |    | Wages |        | Payroll |        | Median monthly<br>employment earnings |        | Employment earnings<br>in the lowest decile <sup>^</sup> |        |
|--------|----|-------|--------|---------|--------|---------------------------------------|--------|--|--------|
| 2010   | Q1 | 1.9   | (-1.2) | 1.1     | (-0.9) | 4.3                                   | (2.2)  | 3.3  | (0.1)  |
|        | Q2 | 2.2   | (-1.6) | 4.9     | (2.0)  | *                                     | (-2.7) | 3.3  | (-0.3) |
|        | Q3 | 2.4   | (1.3)  | 0.8     | (-0.7) | 9.1                                   | (7.4)  | 7.3  | (7.4)  |
|        | Q4 | 3.3   | (*)    | 3.1     | (0.3)  | 9.1                                   | (6.2)  | 5.9  | (2.7)  |
| 2011   | Q1 | 4.9   | (0.2)  | 7.2     | (3.2)  | *                                     | (-3.7) | 5.9  | (1.8)  |
|        | Q2 | 8.0   | (2.0)  | 6.9     | (1.8)  | 9.1                                   | (3.7)  | 9.8  | (4.1)  |
|        | Q3 | 9.9   | (4.4)  | 8.3     | (1.6)  | *                                     | (-6.1) | 13.4   | (5.3)  |
|        | Q4 | 9.4   | (3.9)  | 9.1     | (3.2)  | *                                     | (-5.4) | 13.7   | (8.0)  |
| 2012   | Q1 | 8.0   | (3.6)  | 7.2     | (1.9)  | 8.3                                   | (3.0)  | 13.4   | (8.4)  |
|        | Q2 | 5.1   | (1.7)  | 6.6     | (2.3)  | 5.8                                   | (1.6)  | 10.4   | (6.4)  |
|        | Q3 | n.a.  | (n.a.) | n.a.    | (n.a.) | 8.3                                   | (5.1)  | 7.2  | (5.2)  |

Notes :  
 (^) Average monthly employment earnings of full-time employees.  
 ( ) Rate of change (%) in real terms.  
 (\*) Change of less than 0.05%.  
 n.a. Not available.

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

3. In the third quarter of 2012, 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 59 800, slightly up by 2 400 over a year earlier. The corresponding proportion in total domestic households edged up from 2.4% to 2.5%.

4. An analysis of the number and proportion of low-income households over the past ten years or so indicated that they largely followed economic vicissitudes. During 2000 and 2008, when the economy performed persistently well for most of the period, the proportion of low-income households fell successively from 5.7% in the third quarter of 2003 to 3.6% in 2008 over the same period. After the outbreak of the global financial tsunami in late 2008, the corresponding proportion rose back to 4.0% in the third quarter of 2009 as the Hong Kong economy was mired in recession. With economic recovery taking hold afterwards, the figure gradually fell back to 2.4% in the third quarter of 2011. The latest figure in 2012 edged up by 0.1 percentage point to 2.5% in tandem with the muted economic growth, yet still low when compared to the levels in the past ten years (*Table 2 and Chart 1*).

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

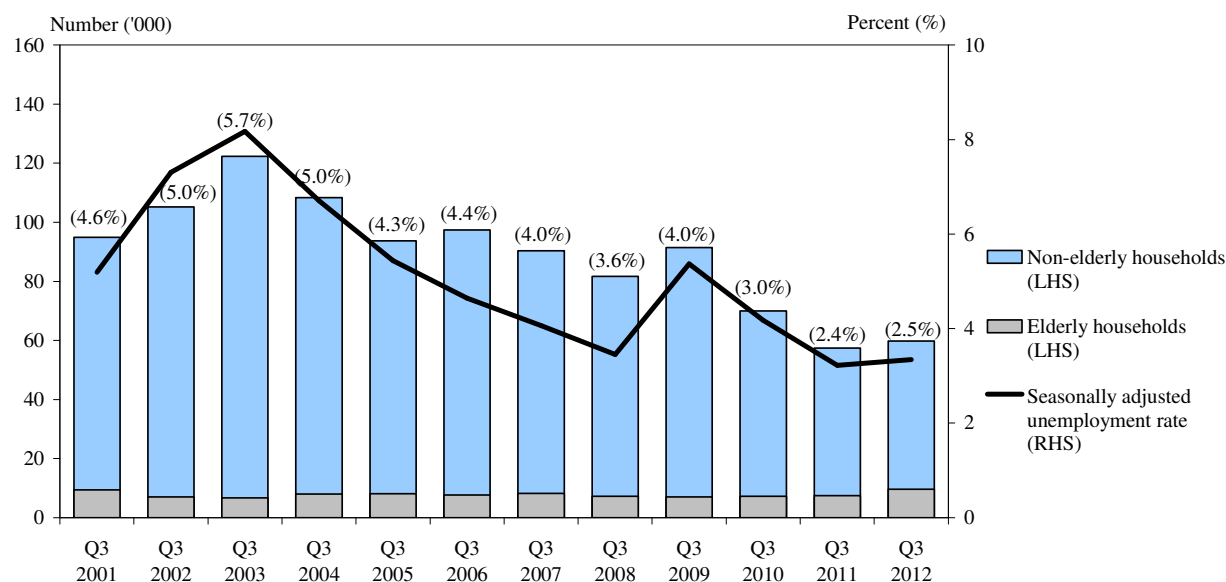
| <u>Period</u> | Household type:           |                               | <u>Total</u>                   | Of which:                                  |
|---------------|---------------------------|-------------------------------|--------------------------------|--|
|               | <u>Elderly households</u> | <u>Non-elderly households</u> |                                | <u>Economically active persons therein</u> |
| Q3 2002       | 7 000<br>(0.3)            | 98 200<br>(4.7)               | <b>105 200</b><br><b>(5.0)</b> | 125 800<br>[3.8]                           |
| Q3 2008       | 7 200<br>(0.3)            | 74 400<br>(3.3)               | <b>81 600</b><br><b>(3.6)</b>  | 91 100<br>[2.7]                            |
| Q3 2009       | 7 100<br>(0.3)            | 84 400<br>(3.7)               | <b>91 500</b><br><b>(4.0)</b>  | 105 100<br>[3.1]                           |
| Q3 2010       | 7 200<br>(0.3)            | 62 900<br>(2.7)               | <b>70 000</b><br><b>(3.0)</b>  | 79 200<br>[2.3]                            |
| Q3 2011       | 7 500<br>(0.3)            | 49 900<br>(2.1)               | <b>57 400</b><br><b>(2.4)</b>  | 63 900<br>[1.8]                            |
| Q3 2012       | 9 600<br>(0.4)            | 50 200<br>(2.1)               | <b>59 800</b><br><b>(2.5)</b>  | 64 800<br>[1.8]                            |

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.

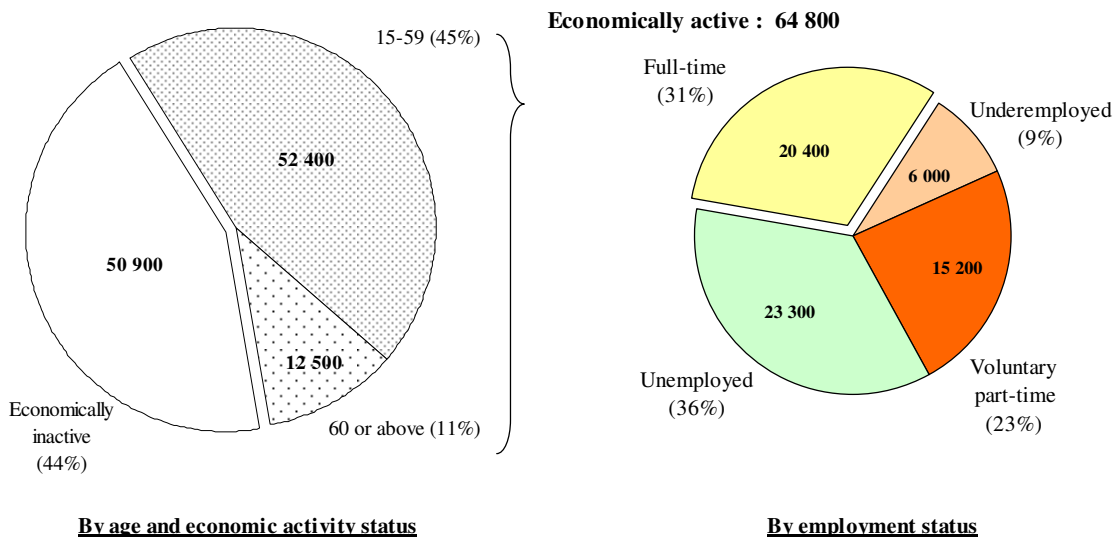
Figures in brackets are the proportions of low-income households in all domestic households.

## Socio-economic characteristics of low-income households

5. Further decomposition of low-income households in the third quarter of 2012 yields the following observations:

- 115 800 persons were residing in the households concerned, among whom 64 800 were economically active. Most of these individuals (52 400 or 81%) were persons aged 15-59, with the majority within the age group of 40-59 (36 700 or 57%), whilst those aged 60 or above amounted to 12 500 (19%).
- The remaining 50 900 persons were economically inactive. More than half of them (51%) were either children aged below 15 or elderly persons aged 60 or above.
- A more in-depth analysis by employment status showed that among these 64 800 economically active persons, 31% were full-time workers, while the respective proportions for unemployed, voluntary part-timers, and underemployed were 36%, 23% and 9% (*Chart 2*).

**Chart 2 : Persons living in low-income households\*  
by age and economic activity status, Q3 2012**

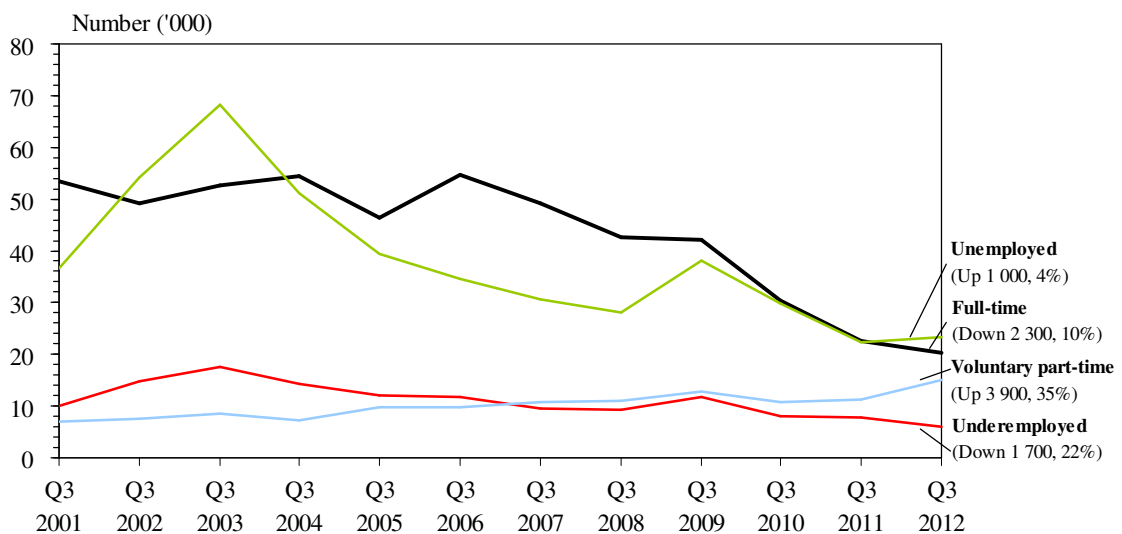


Note : (\*) Low-income households refer to households with monthly household income less than \$6,500 at constant 2010 prices. This does not include households with all members being economically inactive.

- Analysed by occupation, most of the employed persons living in low-income households (around 90%) were lower-skilled workers (among whom 44% were elementary workers, and 25% were service and sales workers). A breakdown by economic sector revealed that many of them were engaged in the retail, accommodation and food services sector (10 600 or 26%), followed by repair, laundry, domestic and other personal service activities (5 700 or 14%).

- Their weekly working hours averaged at 29 hours in the third quarter of 2012, shorter than the economy-wide average (44 hours). This largely reflected that their proportion of voluntary part-time employment was relatively high across many industries (e.g. repair, laundry, domestic and other personal service activities: 57%; cleaning and similar activities: 54%; retail, accommodation and food services: 40%), as did that of underemployment in some sectors (e.g. construction: 56%).
- Compared with a year ago, among the economically active persons living in low-income households, the number of full-timers was down by 2 300 (or 10%) to 20 400, as did the number of underemployed by 1 700 (or 22%) to 6 000. On the other hand, the number of voluntary part-time workers increased by 3 900 (or 35%) to 15 200. Over the same period, the number of unemployed persons edged back up by 1 000 (or 4%) to 23 300, having declined notably by 25% to 22 300 in the third quarter of 2011 (*Chart 3*).

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

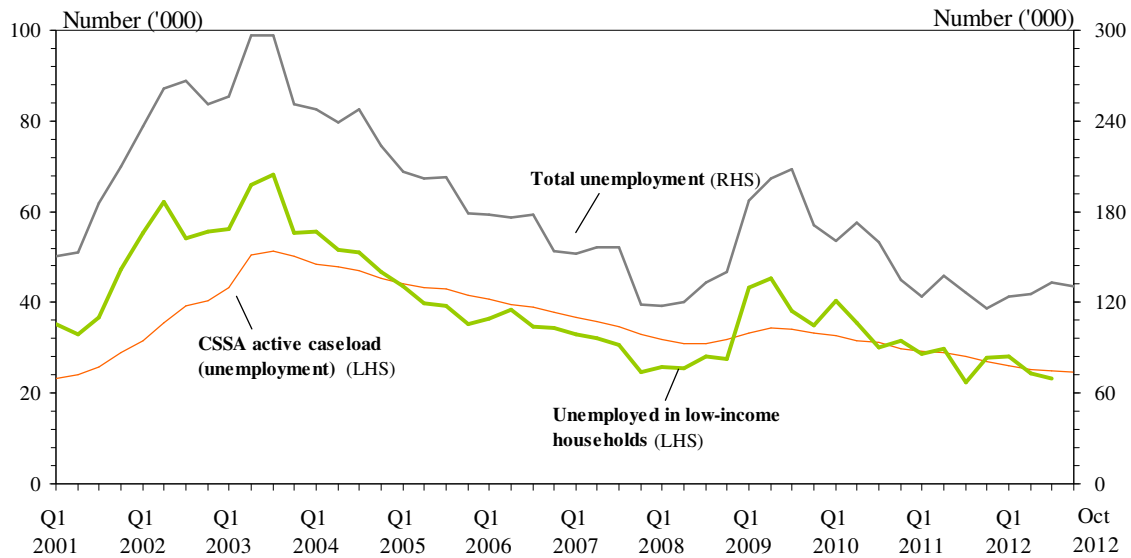


Notes : (\*) Low-income households refer to households with monthly household income less than \$6,500 at constant 2010 prices. This does not include households with all members being economically inactive. Figures in brackets are the year-on-year changes in number of economically active persons in Q3 2012.

## The number of CSSA cases

6. Notwithstanding the slow economic growth, the unemployment rate of lower-skilled workers held largely stable at 3.3% in August – October 2012, actually down slightly by 0.1 percentage point from 3.4% in the third quarter. The number of overall CSSA caseload continued to improve. The number involved decreased by 7 739 (or 2.8%) to 271 123 in October 2012 as compared to a year earlier. The decline in the unemployment cases was even more distinct, down by 3 171 (or 11.4%) to 24 604 over the same period (*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 one of the specific priority areas of the Chief Executive’s policy agenda. The Commission on Poverty (CoP) reinstated in this term of Administration will comprehensively analyse the underlying causes and forms of poverty. By establishing a ‘poverty line’ on an objective and measurable basis, the poverty situation of Hong Kong can be monitored, and the effectiveness of relevant poverty alleviation policies be assessed. Furthermore, various task forces under the CoP which focus on different areas will provide all-round assistance to the needy.

8. Meanwhile, 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 (e.g. supporting academic research of higher education institutions and increasing related subsidies) 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 significant downside risks in the external environment would continue to overshadow the Hong Kong economy, thereby affecting the pace of job creation and posing further upward pressure on the unemployment rate. 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 when and where necessary.

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Financial Secretary's Office  
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