



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

The Government released the First Quarter Economic Report 2015 on 15 May. The Economic Report, together with the press release containing the updated economic forecasts for the whole year of 2015, have been furnished to LegCo Members.

This paper analyses Hong Kong's overall economic development in the most recent period, provides some analysis on the outlook for the rest of 2015, and summarises the updated economic forecasts by the Government for 2015 as a whole.

Economic Analysis and Business Facilitation Unit
Financial Secretary's Office
22 May 2015

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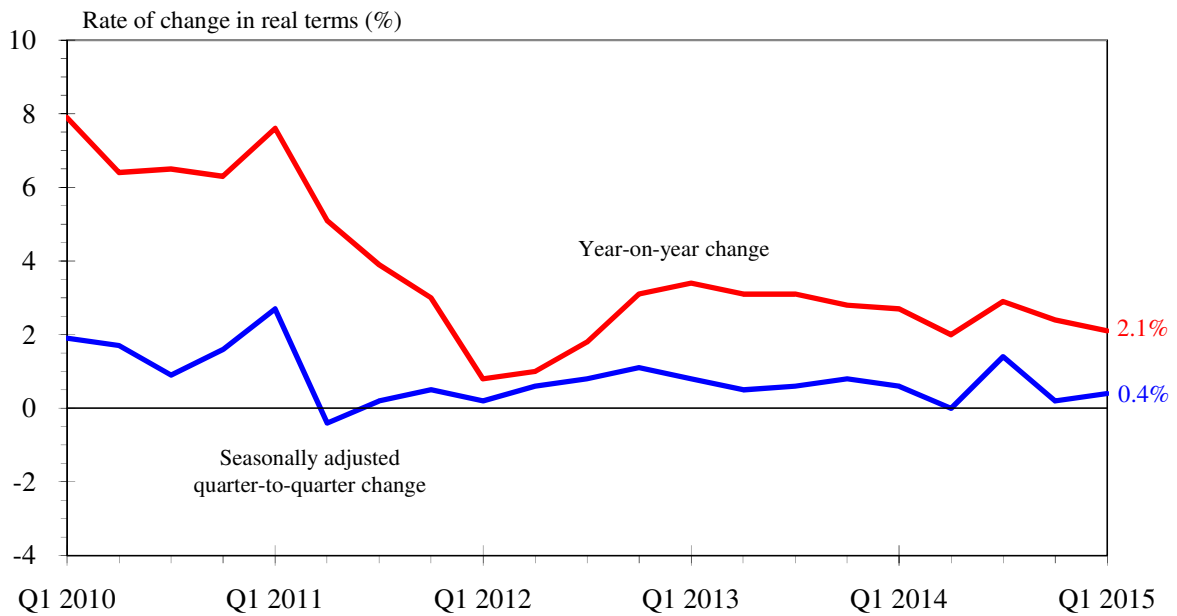
Introduction

This paper analyses the latest development in the Hong Kong economy and briefly discusses the outlook for the rest of 2015, and provides updated economic forecasts by the Government for 2015 as a whole.

Recent economic situation

2. The Hong Kong economy grew modestly in the first quarter of 2015, by 2.1% in real terms over a year earlier, slightly lower than the 2.4% growth in the preceding quarter. Domestic demand remained the key source of growth. External demand was still lacklustre, with goods exports expanding only marginally and with services exports, mainly affected by the slowdown in inbound tourism, declining further. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew slightly by 0.4% in the first quarter, after the 0.2% growth in the preceding quarter (*Chart 1*).

Chart 1 : The Hong Kong economy continued to grow modestly in the first quarter of 2015



External trade

3. Global economic growth was slow on entering 2015, particularly so in the US and Europe. The US economy grew much slower than expected in the first quarter, due partly to the unusually harsh weather and partly to the stronger US dollar. The eurozone economy stabilised somewhat along with the launch of new quantitative easing measures. In the first quarter, economic growth in the eurozone accelerated slightly, but its import demand remained sluggish and the Greek debt problem re-emerged. The Mainland economy expanded steadily further, but it would still face downward pressures in the near term. The economy grew by 7.0% from a year earlier in the first quarter, in line with the growth target for the year. Other emerging economies also faced varying degrees of growth slowdown. Meanwhile, in contrast to the Fed's inclination to normalise monetary policy, many other central banks, including the People's Bank of China, eased their policies in recent period. The diverging monetary policy stances, coupled with the elevated geopolitical tensions in various parts of the world, increased global financial market volatility, thereby adding headwinds to global economic growth.

4. In face of the unsteady external environment, anaemic regional trade flows and a stronger US dollar, Hong Kong's merchandise exports grew marginally by 0.4% year-on-year in real terms in the first quarter, slightly down from the 0.6% rise in the preceding quarter. The overall picture remained lacklustre. Among the advanced markets, while exports to the US grew modestly, those to the EU and Japan slid further. Exports to the Mainland and such higher-income Asian markets as Korea and Taiwan also registered declines of varying degrees, weighed down by the sluggish recovery of import demand in the advanced economies. On the other hand, some Asian markets, including India and a number of ASEAN economies, grew solidly further. On a seasonally adjusted basis, total exports of goods declined by 1.4% in real terms in the first quarter from the preceding quarter (*Chart 2(a)*).

5. Exports of services remained sluggish, falling by 0.6% in real terms in the first quarter of 2015 over a year earlier, after the 0.3% drop in the preceding quarter. This was mainly dragged by the continued decline in exports of travel services, being marked by weaker per capita visitor spending and the visible slowdown in growth of tourist arrivals to a single-digit level in the first quarter. Alongside subdued trade and cargo flows, exports of transportation services only registered mild growth, while exports of trade-related services declined slightly. Yet, exports of financial and other business services grew further, thereby rendering some cushion to overall services exports, thanks to the expansion of cross-border financial activity. On a seasonally adjusted basis, exports of services rose marginally by

0.3% in real terms in the first quarter over the preceding quarter (*Chart 2(b)*).

Chart 2(a) : Total exports of goods only rose marginally

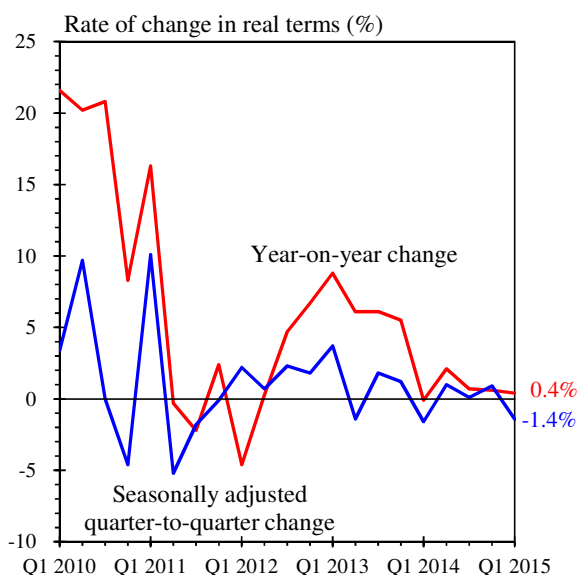
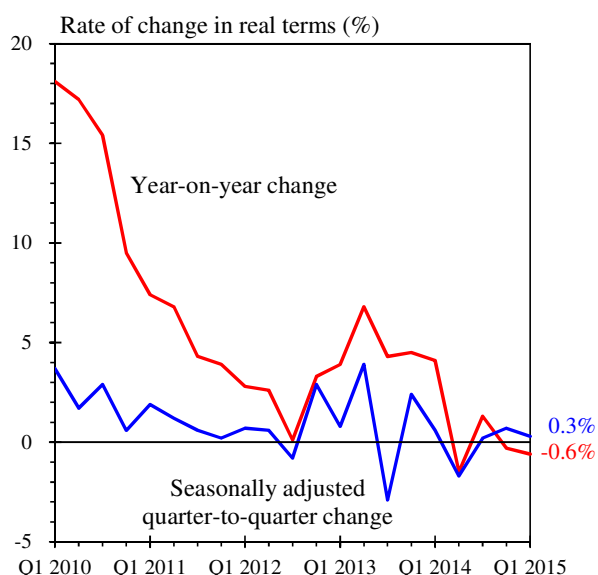


Chart 2(b) : Exports of services remained subdued



6. Specifically, exports of travel services registered an enlarged year-on-year decline of 4.5% in real terms in the first quarter of 2015, further to the 2.9% contraction in the fourth quarter of 2014. The year-on-year growth in the number of visitor arrivals moderated to 4.9% in the first quarter, with Mainland visitors (accounting for more than 70% of the total) slowing to show a 7.7% growth, while non-Mainland visitors registering a decline of 4.7%. This, coupled with the further fall in tourist spending on big-ticket items, which led to a decline of per capita visitor spending, resulted in a marked slowdown in inbound tourism in the first quarter.

Domestic sector

7. Domestic demand performance was relatively steady. Private consumption expenditure expanded moderately further in the first quarter of 2015, by 3.5% in real terms over a year earlier. Consumption sentiment was somewhat unsteady at the beginning of the year, but the stable income and job conditions continued to provide support. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure edged up by 0.1% in the first quarter (*Chart 3(a)*).

8. Overall investment spending in terms of gross domestic fixed capital formation picked up visibly by 7.3% year-on-year in real terms in the first quarter of 2015, following the 3.4% growth in the preceding quarter. Yet, the pick-up was

largely because machinery and equipment acquisition, which is usually rather volatile, rebounded markedly by 14.2%. On the other hand, large-scale infrastructure works slackened to a decline, partly due to an exceptionally high base of comparison a year earlier, while private sector building and construction activity attained further moderate growth (*Chart 3(b)*).

Chart 3(a) : Private consumption expenditure expanded moderately

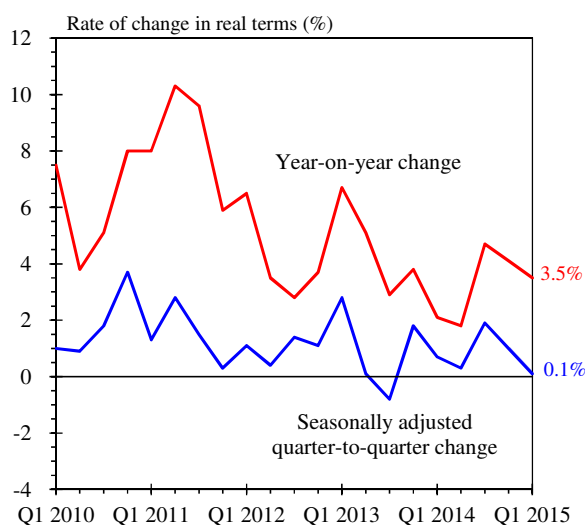
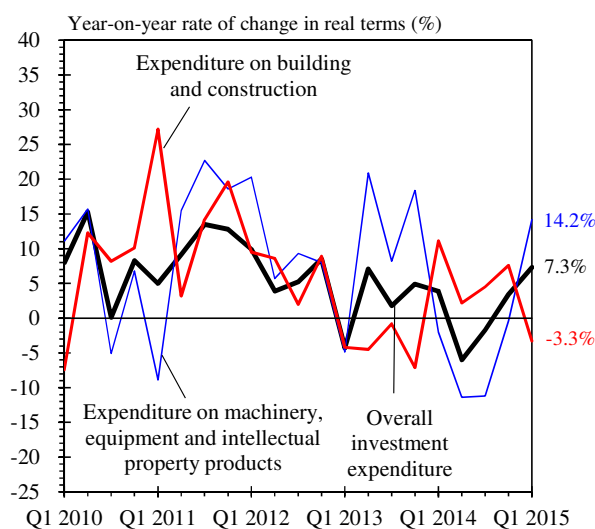


Chart 3(b) : Investment spending picked up visibly



9. As for foreign direct investment (FDI), the Mainland remained the major source of Hong Kong’s external direct investment, accounting for more than 30% of the total DI position in 2013. Leveraging on our favourable business environment and competitive advantages of the services sector amid further deepening reform and opening-up of the Mainland economy, Hong Kong serves as an ideal platform for Mainland’s companies to develop their overseas business. In fact, there were over 900 offices representing Mainland Chinese companies in Hong Kong as of 2014, among which 119 served as regional headquarters. Amid improved global investment sentiment, the latest balance of payments figures indicate that FDI inflows⁽¹⁾ increased notably by 51% to \$899.4 billion (US\$116.0 billion) in 2014, representing 40% of GDP.

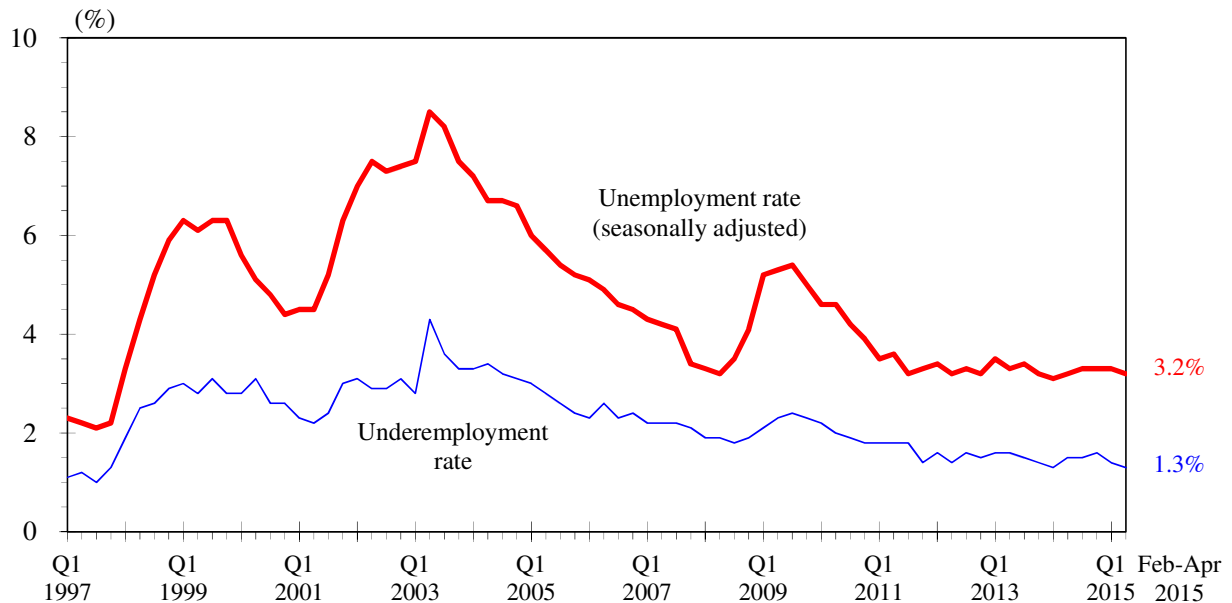
Labour Market

10. The labour market held broadly stable on entering 2015. The seasonally adjusted unemployment rate, which remained unchanged at 3.3% for nine

(1) This item is referred to as “direct investment liability” under the international standard as stipulated in the *Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6)* released by the International Monetary Fund (IMF).

consecutive periods, edged down by 0.1 percentage point to 3.2%. The underemployment rate likewise inched down further by 0.1 percentage point to 1.3% (**Chart 4**). Both total employment and the labour force attained further year-on-year growth, while job vacancies in private sector establishments remained high, indicating largely stable hiring sentiment and still rather tight manpower resource balance.

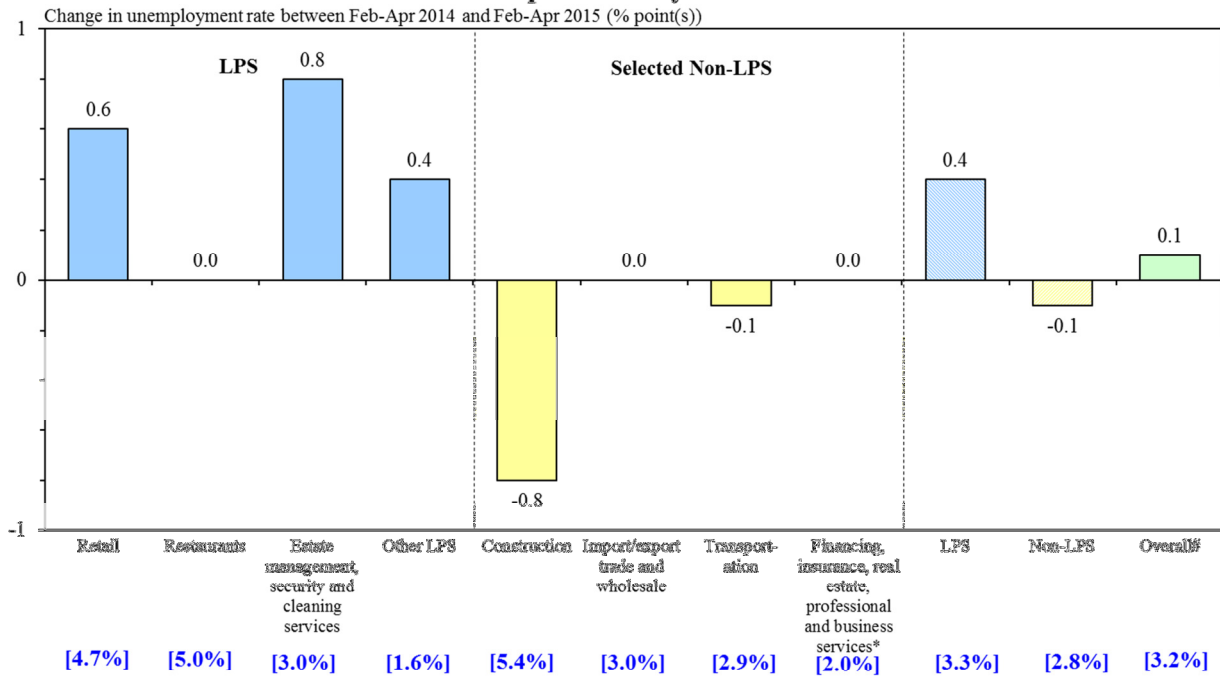
Chart 4 : The labour market held broadly stable



11. Over the past four years, macroeconomic conditions have been relatively stable and labour demand remained sturdy during most of the period, thereby relieving to some extent the pressure on the labour market brought about by the implementation of Statutory Minimum Wage (SMW). The overall seasonally adjusted unemployment rate in February – April 2015, at 3.2%, was lower than the level (3.5% in February – April 2013) right before the upward adjustment of the SMW rate in 2013. Nevertheless, weighed by the further slowdown in inbound tourism of late, the unemployment rate for the retail and accommodation services sector rose by 0.5 percentage point over a year earlier. The unemployment rate for the low paying sectors (LPS)⁽²⁾ went up by 0.4 percentage point over a year earlier to 3.3%. The unemployment rate for the non-low paying sectors (non-LPS) edged down by 0.1 percentage point to 2.8% over the same period (**Chart 5**).

(2) 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 5 : Unemployment situation of LPS as a whole worsened somewhat compared to a year earlier



Notes: Figures in brackets refer to the unemployment rate for that sector in Feb-Apr 2015.
 (*) Excluding real estate maintenance management, security and cleaning services.
 (#) Seasonally adjusted.

12. Analysed by skill segment, the unemployment rate for the higher-skilled segment fell by 0.6 percentage point over February – April 2013 to 1.6% in February – April 2015, broadly on par with its year-ago level. On the other hand, that for the lower-skilled segment was virtually unchanged at 3.8% when compared to February – April 2013, yet 0.1 percentage point marginally higher than its year-ago level (*Table 1*). Meanwhile, employment in both segments attained further year-on-year growth.

Table 1 : The unemployment rate of the lower-skilled workers rose slightly from its year-ago level

	Employment					Unemployment rate		
	Feb – Apr 2015	Change as compared to Feb – Apr 2013 (before the implementation of the revised SMW rate)		Change as compared to Feb – Apr 2014 (a year earlier)		Feb – Apr 2015	Change as compared to Feb – Apr 2013 (before the implementation of the revised SMW rate)	Change as compared to Feb – Apr 2014 (a year earlier)
	(No.)	(No.)	(%)	(No.)	(%)	(%)	(% point)	(% point)
Higher-skilled	1 433 200	+38 400	+2.8	+41 800	+3.0	1.6	-0.6	@
Lower-skilled	2 359 000	+52 600	+2.3	+31 500	+1.4	3.8	@	+0.1
Lower-skilled (excl. government employees and live-in domestic workers)	1 946 500	+21 200	+1.1	+3 300	+0.2			

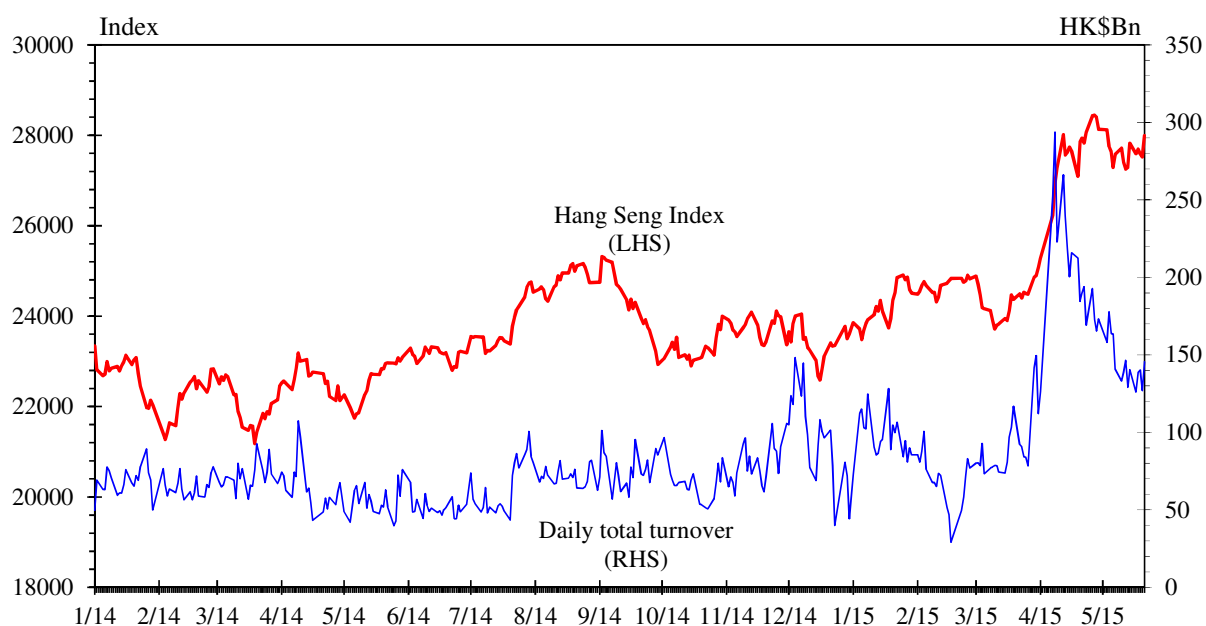
Note : (@) Less than 0.05 percentage point.

13. Earnings sustained growth in 2014 on the back of the tight labour market. In December 2014, overall nominal wages and payroll rose by 4.2% and 3.9% respectively over a year earlier. However, more recent data showed that the year-on-year nominal growth of the average monthly employment earnings for full-time employees in the lower-skilled segment (excluding foreign domestic helpers) moderated to 3.1% in the first quarter of 2015 alongside the lacklustre performance of the retail trade and other tourism-related sectors. For the overall income situation, the median monthly household income (excluding foreign domestic helpers) stayed on the rise, up by 6.5% year-on-year in the first quarter of 2015, translating into a real increase of 2.0% after discounting inflation (Please refer to *Annex* for details).

Asset markets

14. The local stock market generally trended upward amid some fluctuations during the first quarter. It hit a seven-year high in April. The Hang Seng Index closed at 27 993 on 22 May, 18.6% higher than end-2014 (*Chart 6*). Average daily turnover rose to \$113.4 billion in the first four months, and total IPO funds raised was 15.7% higher than in the same period last year.

Chart 6 : Local stock market trended upward in recent months

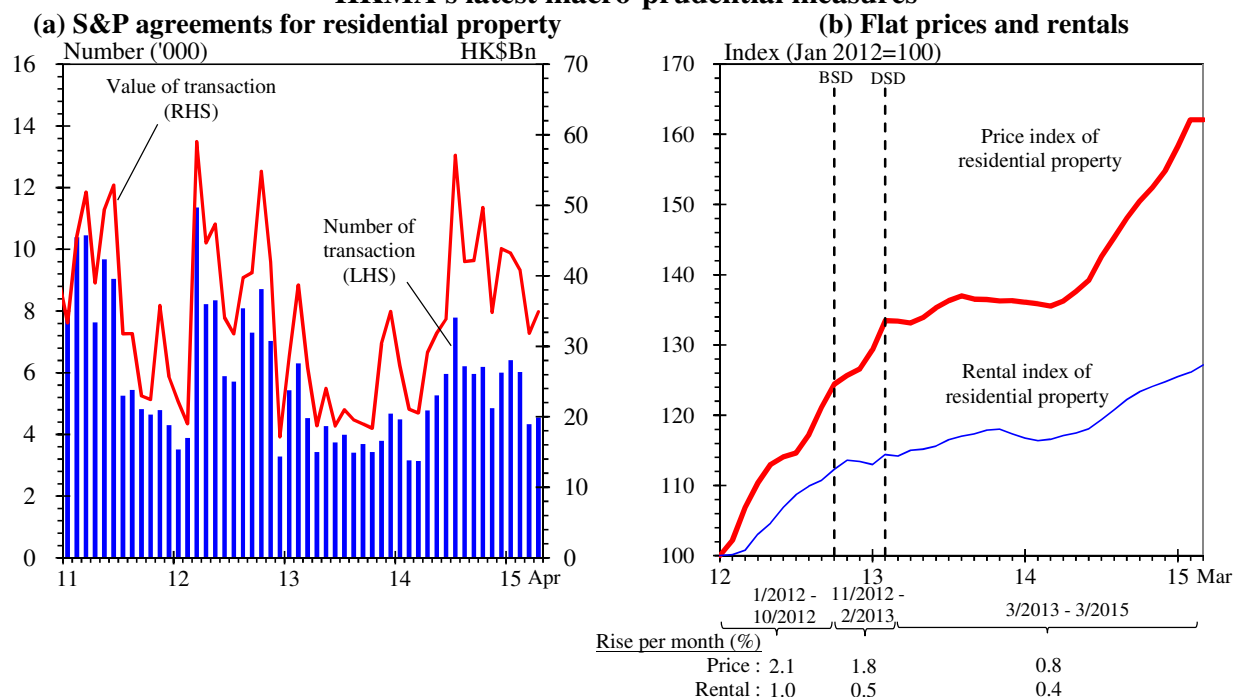


15. Amid the continued low interest rate environment and a tight demand-supply balance, the residential property market heated up further in the first two months of 2015. Yet the exuberance of the market sentiment receded somewhat after the Hong Kong Monetary Authority (HKMA) announced its latest round of macro-prudential measures in late February.

16. Affected by the quiet trading in March and April, the number of sale and purchase agreements for residential property received by the Land Registry fell to 5 329 per month in the first four months of 2015, 10% below the average during April to December 2014 and 31% below the long-term average over 1995-2014 (*Chart 7(a)*).

17. Overall flat prices were largely flat in March following an increase of 2.3% per month in January-February, but there was still a 5% surge between December 2014 and March 2015 (*Chart 7(b)*). The surge was driven by small-and-medium-sized flats (less than 100 square metres), the prices of which soared by 5% during the first quarter. The prices of large flats (100 square metres or above) went up by a less rapid 3%. Meanwhile, overall flat rentals rose by another 2%.

Chart 7 : Residential property market cooled off somewhat following the introduction of HKMA's latest macro-prudential measures



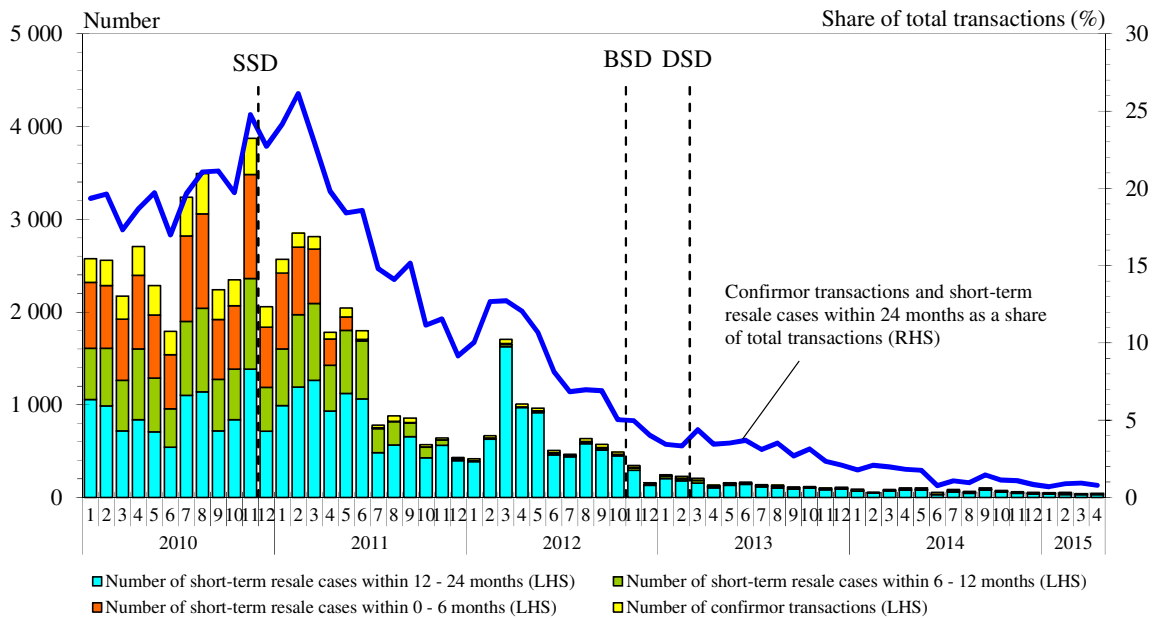
18. Raising flat supply through increasing land supply is the Government's top policy priority in ensuring the healthy and stable development of the property market. In February, the Government announced the 2015-16 Land Sale Programme which includes 29 residential sites capable of providing a total of about 16 000 flats. Combining the various housing land supply sources including the Land Sale Programme, railway property development projects, redevelopment projects of the Urban Renewal Authority, projects subject to lease modification/land exchange and other sources, it is estimated that the total housing land supply in 2015-16 could provide for some 28 500 private flats. As a result of the Government's efforts, the total supply of flats in the coming few years rose to another record high of 78 000 units as estimated at end-March 2015.

19. As it takes time to increase supply, the Government has also put in significant efforts to manage demand and reduce the possible risks to financial stability arising from an exuberant property market. In late February, the HKMA announced the seventh round of macro-prudential measures on property mortgage to strengthen banks' risk management and resilience. The maximum loan-to-value (LTV) ratio for residential properties with value below \$7 million was cut, and the maximum debt-servicing ratio for borrowers who buy a second residential property or a non-self use property was also lowered.

20. These measures have yielded results. On speculative activities, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) declined further to a record low of 50 cases per month or

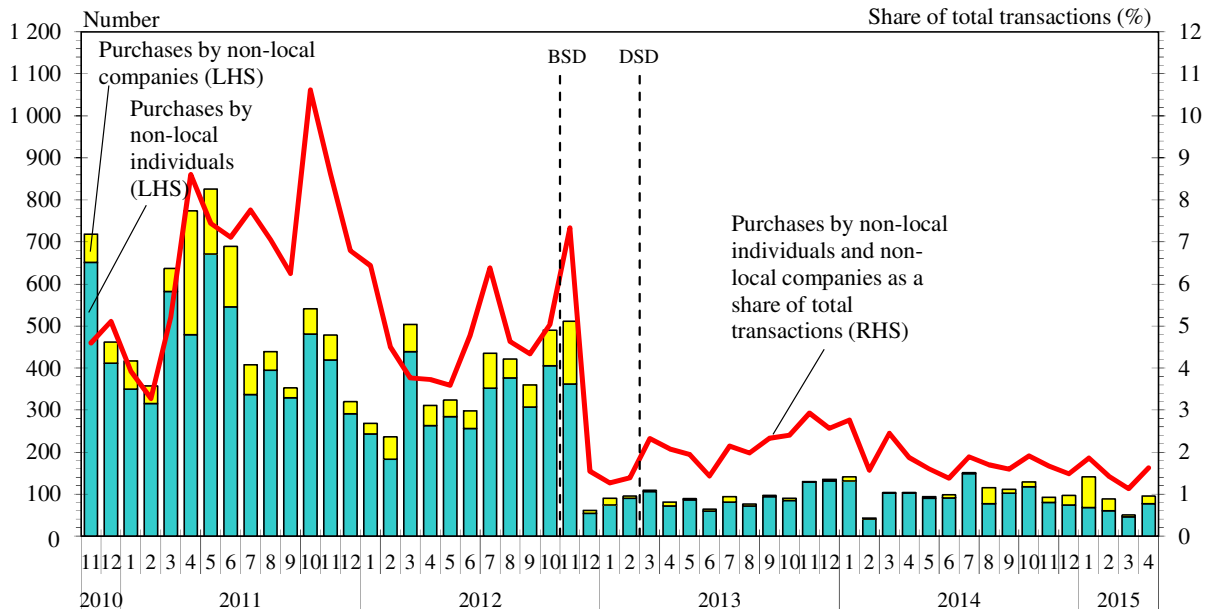
0.8% of total transactions in the first quarter of 2015, well below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty) (*Chart 8*). Reflecting the effects of the Buyer's Stamp Duty, purchases by non-local individuals and non-local companies stayed low at 93 cases per month or 1.5% of total transactions in the first quarter, much lower than the monthly average of 365 cases or 4.5% in January to October 2012 (*Chart 9*). As to mortgage lending, the average LTV ratio of new mortgages in the first quarter, at 54%, was 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.

Chart 8 : Speculative activities stayed subdued



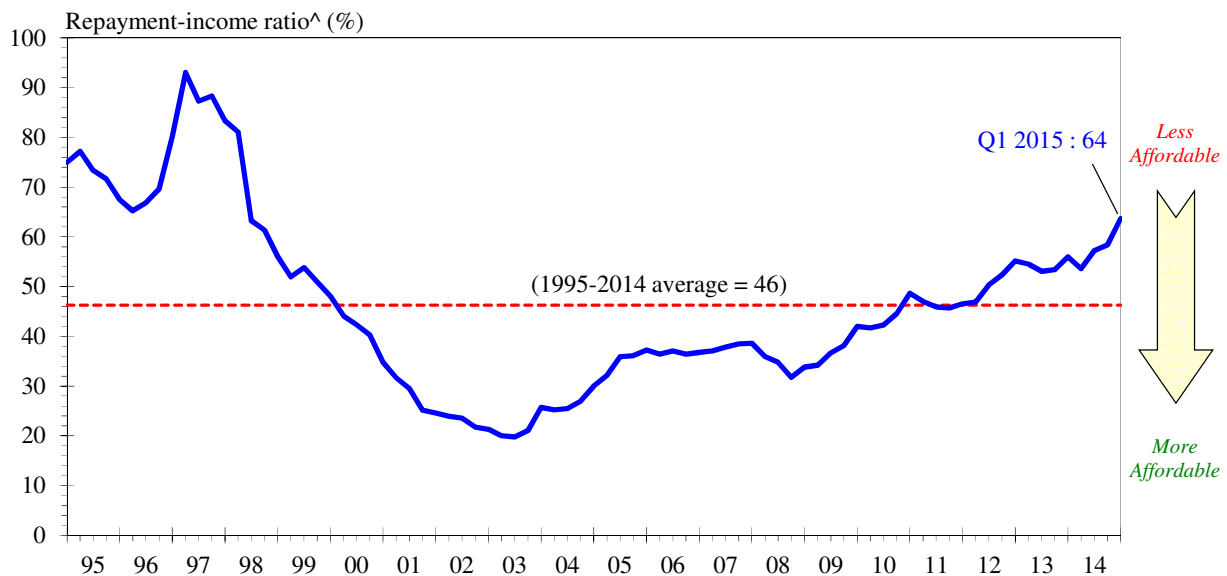
Note : Confirmor transactions refer to resale before assignment.

Chart 9 : Purchases by non-local buyers remained low



21. Yet the risks of a housing market bubble are still prominent. Overall flat prices in March 2015 have surpassed the 1997 peak by a rampant 69%. Home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) rose to around 64% in the first quarter, exceeding the long-term average of 46% over 1995-2014 (*Chart 10*). Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 83%.

Chart 10 : Mortgage-to-income ratio stayed elevated



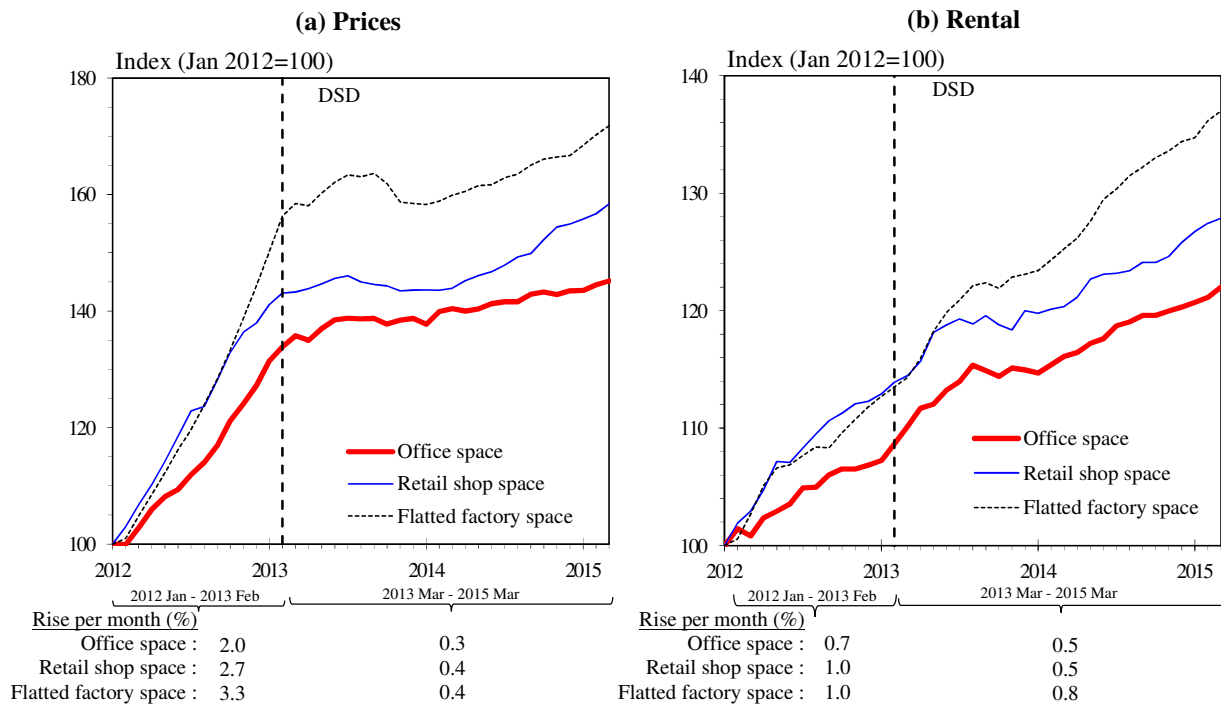
Note : (^) The ratio of mortgage payment for a flat with saleable area of 45 sq m (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing). This ratio is different from the debt servicing ratio published by the HKMA, which is the ratio of actual monthly debt obligations of mortgagees to their monthly income of newly approved mortgagees.

22. Looking ahead, the US Federal Reserve's exact timing and pace to raise interest rates remain uncertain given the mixed readings of economic data in recent period. Meanwhile, other major central banks, in particular in the eurozone and Japan, are continuing with their monetary easing measures. Lately, the Mainland has also cut the reserve requirements for banks and lowered the interest rates. The global liquidity glut would thus continue, increasing the risks of greater volatility in capital flows and global financial markets. The Government will continue to monitor the situation closely, and will not hesitate to introduce measures when necessary, in order to maintain the healthy and stable development of the property market.

23. The commercial and industrial property markets held relatively steady in the first quarter of 2015. Prices and rentals continued to record mild increases. During the first quarter of 2015, both sale prices and rentals of retail shop space rose by 2%. Over the same period, overall sale prices and rentals of office space both

edged up by 1%. As to flatted factory space, sale prices and rentals rose by 3% and 2% respectively (*Chart 11*). Trading activities generally rose further, though still at low levels by historical standards.

Chart 11 : Prices and rentals of non-residential properties recorded mild increases

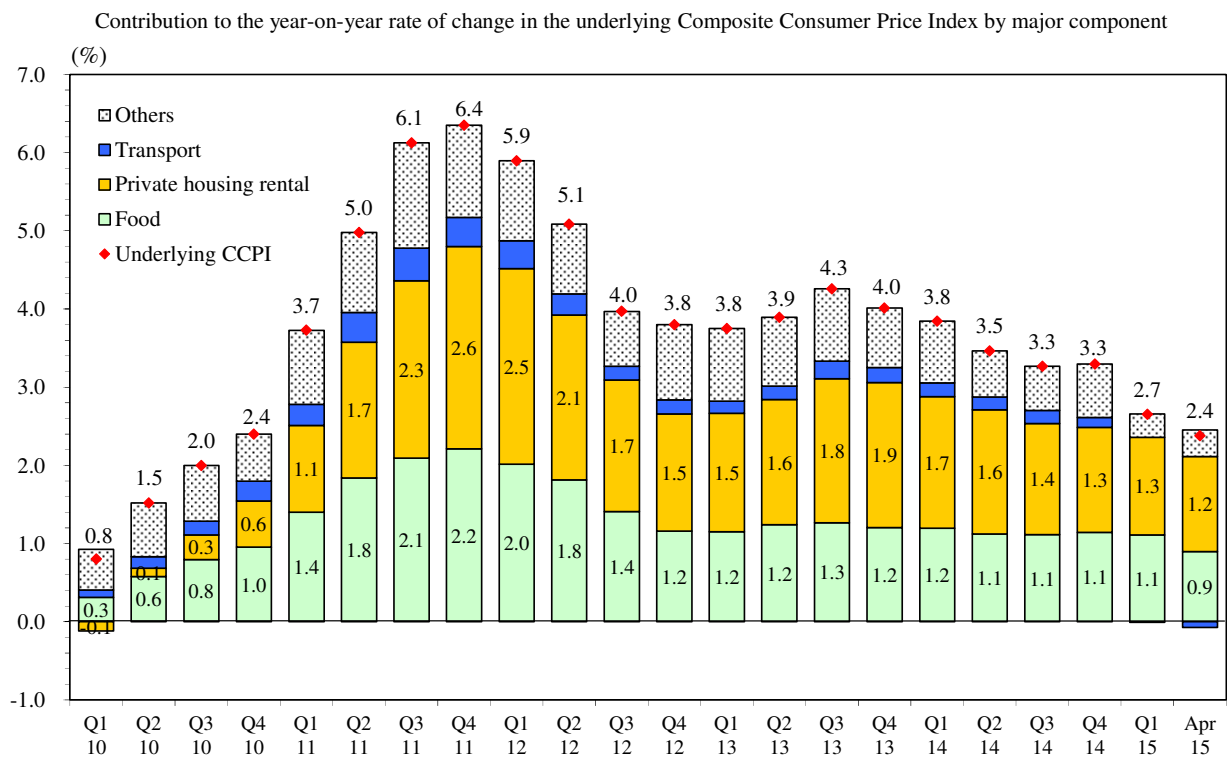


Inflation

24. Consumer price inflation eased at a somewhat faster pace in the first quarter of 2015, reflecting developments on both local and external fronts. Domestically, the year-on-year increase in private housing rental component moderated further, retail sales performance turned weaker, and the increase in labour costs held largely steady. Externally, the softer international food and energy prices, a relatively strong US dollar, and easing inflation in our major import partners all helped reduce imported inflation.

25. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, underlying consumer price inflation fell to 2.7% in the first quarter of 2015 and further to 2.4% in April, from 3.3% in the fourth quarter of 2014 (*Chart 12*). Headline consumer price inflation was 4.4% in the first quarter of 2015 and 2.8% in April, both lower than 5.1% in the fourth quarter of 2014.

Chart 12 : Underlying consumer price inflation eased successively



26. On a year-on-year comparison, price pressures on many major components of the underlying Composite CPI receded by varying degrees in the first four months of 2015 (*Table 2*). The earlier slump in international oil prices led to decreases in motor and aircraft fuel prices. As a result, transport inflation eased visibly since end-2014 and turned negative in the first four months of the year. Meanwhile, charges for package tours fell markedly amid the weakening of some major foreign currencies against the US dollar, resulting in a slower price increase in miscellaneous services. Besides, the prices for durable goods continued their secular downtrend. Moreover, the price increases of the two largest components by weight in the Composite CPI both moderated. Specifically, the increase in the private housing rental component decelerated from 4.6% in the fourth quarter of 2014 to 4.3% in the first four months of 2015, thanks largely to the continued feed-through of the milder rises in fresh-letting residential rentals during most of 2014. Over the same period, local food inflation (including costs of dining out) receded from 4.1% in the fourth quarter of 2014 to 3.8% in the first four months of 2015 amid soft global food prices.

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2014</u>				<u>2015</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	4.3	4.0	4.0	4.1	4.0	3.2	3.8
<i>Meals bought away from home</i>	17.07	4.5	4.7	4.6	4.6	4.4	4.3	4.4
<i>Other foodstuffs</i>	10.38	4.0	3.1	3.1	3.5	3.3	1.4	2.8
Housing ^(a)	31.66	5.6 (5.3)	5.0 (5.0)	7.6 (4.8)	8.5 (5.0)	8.2 (4.7)	4.2 (4.6)	7.2 (4.7)
<i>Private dwellings</i>	27.14	6.4 (5.9)	5.6 (5.5)	4.9 (4.9)	7.1 (4.6)	6.8 (4.3)	3.7 (4.2)	6.0 (4.3)
<i>Public dwellings</i>	2.05	-1.8 (-0.1)	-0.9 (0.4)	101.4 ^(b) (3.6)	29.0 (9.8)	29.0 (9.8)	10.0 (9.4)	24.3 (9.7)
Electricity, gas and water	3.10	5.5 (4.4)	3.4 (2.7)	24.9 (1.6)	25.5 (1.3)	21.5 (-1.4)	21.6 (-1.3)	21.5 (-1.4)
Alcoholic drinks and tobacco	0.59	3.3	7.6	7.4	7.6	4.3	*	3.2
Clothing and footwear	3.45	2.1	2.2	0.8	-1.4	-0.8	-2.0	-1.2
Durable goods	5.27	-3.3	-2.7	-3.3	-4.4	-5.5	-5.3	-5.5
Miscellaneous goods	4.17	3.1	2.0	2.4	1.5	1.2	1.4	1.2
Transport	8.44	2.2	2.1	2.1	1.6	-0.1	-0.9	-0.3
Miscellaneous services	15.87	4.4 (3.1)	3.2 (2.0)	2.3 (1.9)	2.1 (2.1)	0.8 (0.8)	1.5 (1.5)	1.0 (1.0)
All items	100.00	4.2 (3.8)	3.6 (3.5)	4.8 (3.3)	5.1 (3.3)	4.4 (2.7)	2.8 (2.4)	4.0 (2.6)

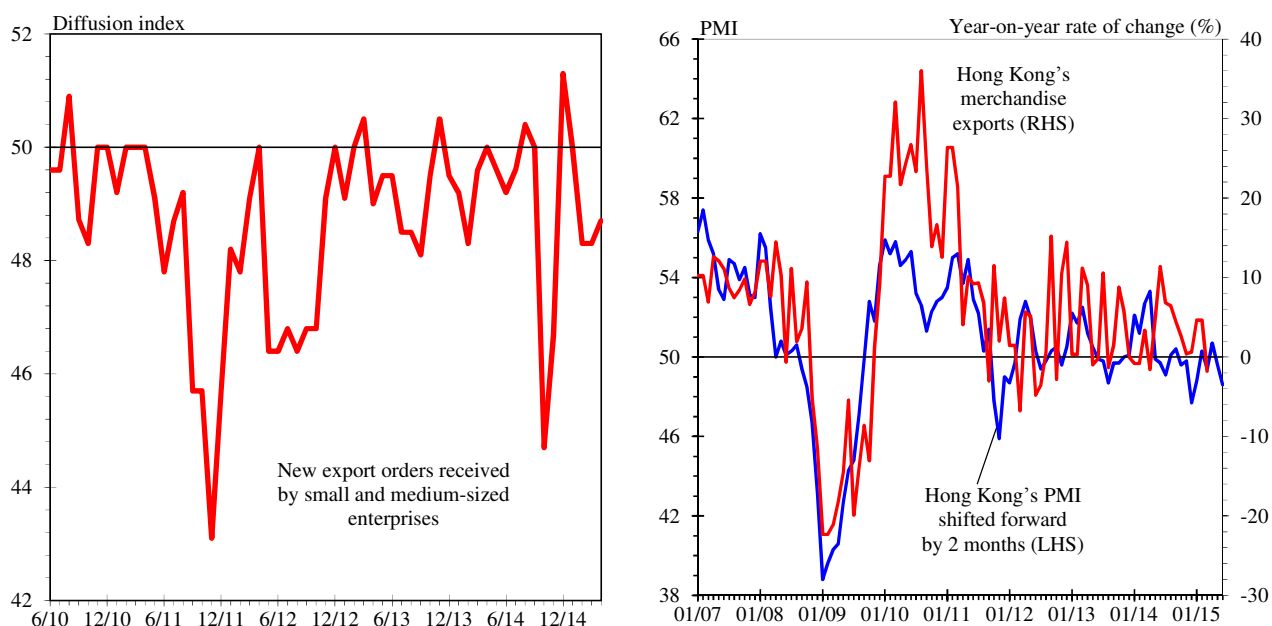
Notes : The year-on-year rates of change in the Composite Consumer Price Index are computed from the new 2009/10-based CPI series. Figures in brackets refer to the underlying rate of change after netting out the effect of Government's one-off relief measures.

- (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.
- (b) The larger year-on-year increases in the public housing rental component of the Composite Consumer Price Index in the third quarter of 2014 were due to a low base of comparison resulted from the Government's payment of public housing rentals in September 2013.
- (*) Change within $\pm 0.05\%$.

Updated short-term economic forecasts for 2015

27. Looking ahead, global economic growth is likely to remain moderate and uneven. There are also considerable uncertainties. The timing and path of the prospective interest rate hike in the US remains highly uncertain amid recent mixed readings of economic data. Moreover, the conflicting policy directions of major central banks could have notable repercussions on capital fund flows and interest rate expectations, posing threats to global financial stability. The lingering Greek debt problem, fragile fundamentals of the eurozone, and elevated geopolitical tensions in various regions, could worsen the external environment. Meanwhile, emerging markets economies, including the Mainland, are also likely to experience varying degrees of growth slowdown. The lacklustre external environment, coupled with a strong US dollar, will continue to constrain our export performance (*Chart 13*).

Chart 13 : Hong Kong's export outlook is still overcast by external uncertainties

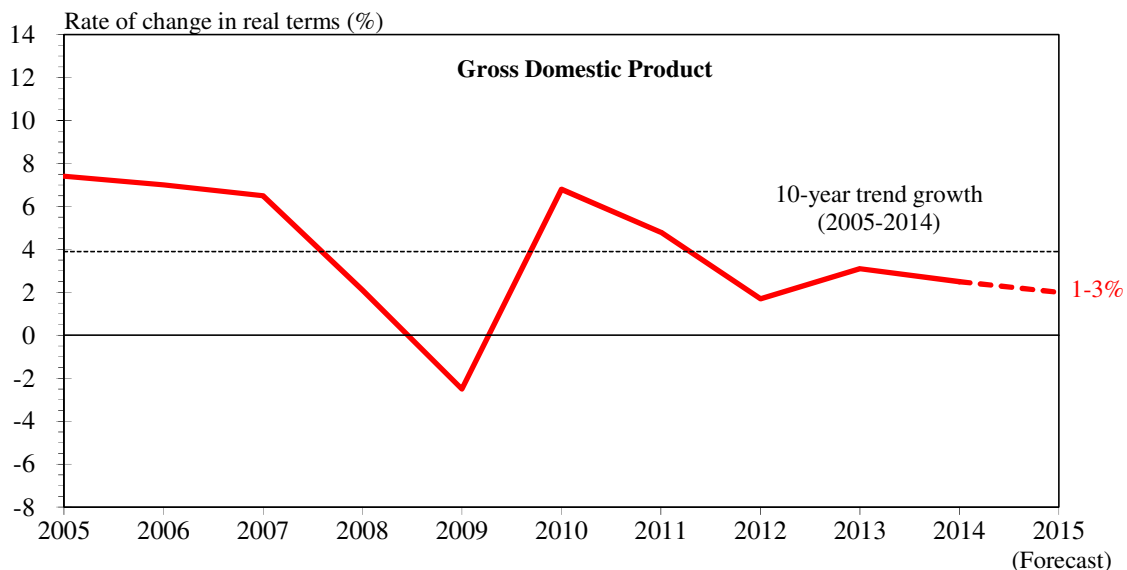


28. Domestic demand is likely to remain an important growth driver. The steady job and income conditions should render support to local consumption, and the boost from the package of relief measures in the 2015-16 Budget would also provide cushion against the external headwinds. However, the slowdown in inbound tourism, if persisted, would reduce the domestic growth momentum, and is a cause for concern. Indeed, retail sales slackened in the first quarter of 2015, with retail sales volume holding flat and retail sales value declining by 2.3% over a year earlier, both weaker than in the preceding quarter. The Hong Kong Tourism Board will step up publicity work this year and has been cooperating with the industry to

introduce measures to attract visitors. The Government will stay vigilant to the potential impacts of the future development in inbound tourism and various external uncertainties on the economy and labour market in the period ahead.

29. Taking into account the actual growth outturn in the first quarter, which was largely in line with expectations, and the range of uncertainties still facing the global and Hong Kong economies, the forecast GDP growth of 1-3% for 2015, as announced in the Budget, is maintained in the current round of review (*Chart 14*). For reference, the International Monetary Fund (IMF) in April forecast Hong Kong's economic growth in 2015 at 2.8%, whereas the latest forecasts by private sector analysts mostly range from 1.6-3%, averaging around 2.4%.

Chart 14 : Economic growth for 2015 as a whole is forecast at 1-3%



30. Underlying consumer price inflation eased somewhat faster than expected in the first quarter, thanks to the abating imported inflation, notable fall in energy prices and moderate local cost pressures. As these developments will likely continue for a while, the upside risks to consumer price inflation should remain contained in the near term (*Chart 15*). Given the lower-than-expected actual outturn in the first quarter, the forecast rates of headline and underlying consumer price inflation for 2015 are revised slightly downward from 3.5% and 3% respectively in the Budget round to 3.2% and 2.7% respectively in the current round of review (*Chart 16*). For reference, the IMF in April forecast Hong Kong's consumer price inflation in 2015 at 3.2%, while the latest forecasts by private sector analysts mostly range from 2.3-3.8%, averaging around 3.3%.

Chart 15 : Upside risks to inflation in the near term should recede further with benign international food and commodity prices and as local cost pressures remain moderate

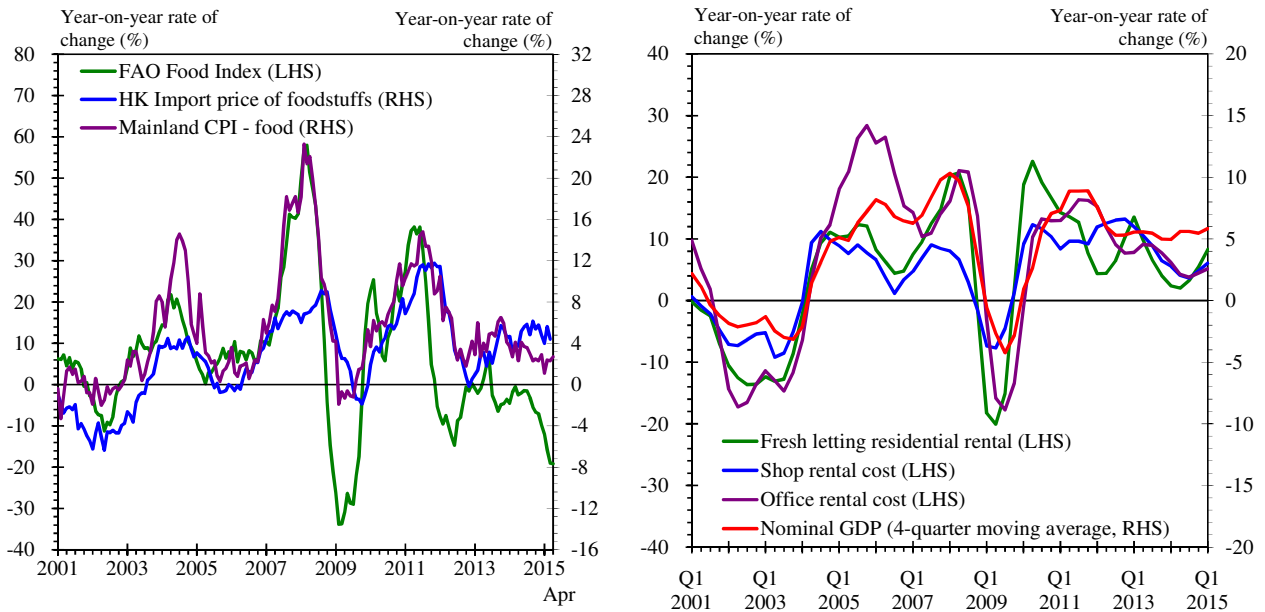


Chart 16 : Inflation is expected to ease further in 2015



Recent situation of household income⁽¹⁾

Background

This Annex provides a regular update on the latest trends of household income and employment earnings among various groups. The benchmark of monthly household income for low-income households is \$7,000 (at constant Q2 2013 prices)⁽²⁾, adjusted by inflation⁽³⁾, so as to reflect the latest circumstance.

Overall situation of household income and employment earnings

2. The labour market held broadly stable in the first quarter of 2015. Both total employment and the labour force grew further, and the manpower situation remained tight. The seasonally adjusted unemployment rate stayed at 3.3% for the third consecutive quarter, and that for February – April edged down to 3.2%. Median monthly household income, a reflection of the overall income, increased by 6.5% year-on-year in the first quarter of 2015, or 2.0% in real terms after adjusting for inflation.

3. On the back of the tight labour market, the average employment earnings of full-time employees (excluding bonus) increased by 6.0% year-or-year, or 1.6% in real terms. The average employment earnings of full-time unskilled employees rose by 5.1% year-on-year in the first quarter of 2015. After taking into account price changes, it fell by 1.3%. The fall was however mainly due to a big jump in headline inflation, which in turn was affected by the distortions arising from the Government's one-off relief measures. For higher-skilled staff, in June 2014, the Salary Index for Managerial and Professional Employees indicates that employees in the same company and occupation enjoyed nominal and real salaries growth of 5.3% and 1.8% respectively over a year earlier (*Table 1*).

(1) Foreign domestic helpers are excluded from the analysis except general labour market statistics.

(2) The benchmark of monthly household income for low-income households is based on the rate of Statutory Minimum Wage (SMW) at \$30 per hour (adjusted in May 2013) for analysing the latest situation in the first quarter of 2015. In May 2015, the rate of SMW has been raised from \$30 per hour to \$32.5 per hour.

(3) Being adjusted based on Consumer Price Index (A).

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

Period	Median monthly household income		Overall employment earnings of employees*		Employment earnings of unskilled employees [^]		Salaries of managerial and professional employees [~]		
2013	Q1	6.4	(2.6)	3.2	(-0.4)	6.2	(2.0)		
	Q2	7.8	(3.7)	3.2	(-0.8)	7.2	(2.5)	6.0	(2.2)
	Q3	10.2	(4.6)	5.4	(0.0)	5.7	(-1.6)		
	Q4	6.7	(2.3)	4.8	(0.5)	7.4	(2.9)		
2014	Q1	4.5	(0.4)	4.5	(0.4)	7.1	(2.7)		
	Q2	2.3	(-1.3)	6.3	(2.6)	5.9	(2.1)	5.3	(1.8)
	Q3	4.0	(-0.8)	5.2	(0.4)	6.8	(-0.3)		
	Q4	6.0	(0.9)	4.7	(-0.3)	7.0	(0.0)		
2015	Q1	6.5	(2.0)	6.0	(1.6)	5.1	(-1.3)	n. a.	n. a.

Notes: (*) Average employment earnings of full-time employees (excluding bonus).
 (^) Average employment earnings of full-time employees.
 (~) The index is released annually for June.
 () Rate of change (%) in real terms.
 (n.a.) Not available.

Economically active households with monthly household income below \$7,000 in real terms

4. In the first quarter of 2015, the number of economically active households with monthly household income below \$7,000 in real terms (referred to as “low-income households” thereafter) amounted to 61 800, down by 2 200 or 3.5% over the level a year ago. The respective proportion in total domestic households was 2.5%⁽⁴⁾.

5. Analysing the number and proportion of low-income households over the past ten years or so shows that their changes 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 a peak of 4.3% in the first quarter of 2003 to 2.8% in 2008 over the same period. After the outbreak of the global financial tsunami in late 2008, the corresponding proportion rose back to 3.8% in the first quarter of 2010 as the Hong Kong economy was mired into recession. But with economic recovery taking hold afterwards, the figure also fell back. At 2.5% in the first quarter of 2015, which was 0.2 percentage point lower than a year ago, such proportion still remained at a relatively low level over the past ten years (*Table 2 and Chart 1*).

(4) All figures pertaining to low-income households in the first quarter of 2015 are provisional figures.

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>
Q1 2003	2 700 (0.1)	88 400 (4.2)	91 200 (4.3)	106 800 [3.3]
Q1 2008	2 800 (0.1)	59 800 (2.6)	62 500 (2.8)	69 300 [2.0]
Q1 2010	3 900 (0.2)	84 200 (3.6)	88 100 (3.8)	100 600 [3.0]
Q1 2011	3 200 (0.1)	71 900 (3.1)	75 100 (3.2)	81 800 [2.4]
Q1 2012	3 600 (0.2)	61 200 (2.6)	64 900 (2.7)	72 900 [2.1]
Q1 2013	4 200 (0.2)	57 400 (2.4)	61 600 (2.6)	68 700 [1.9]
Q1 2014	3 100 (0.1)	60 900 (2.5)	64 100 (2.7)	73 700 [2.1]
Q1 2015	6 000 (0.2)	55 800 (2.3)	61 800 (2.5)	67 700 [1.9]

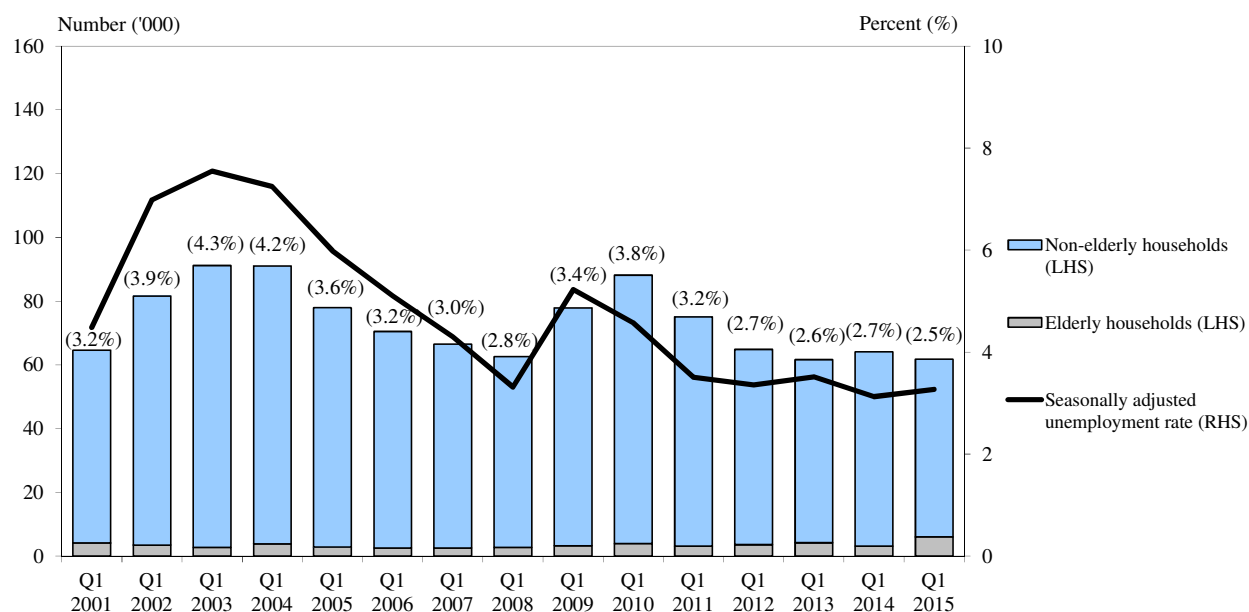
Notes : (*) Low-income households refer to households with monthly household income less than \$7,000 at constant Q2 2013 prices. This does not include households with all members being economically inactive.

(#) Elderly households refer to domestic households with all members aged 65 and above.

() Proportion in all domestic households (%).

[] Proportion in total labour force (%).

Chart 1 : Number of low-income households^(*)



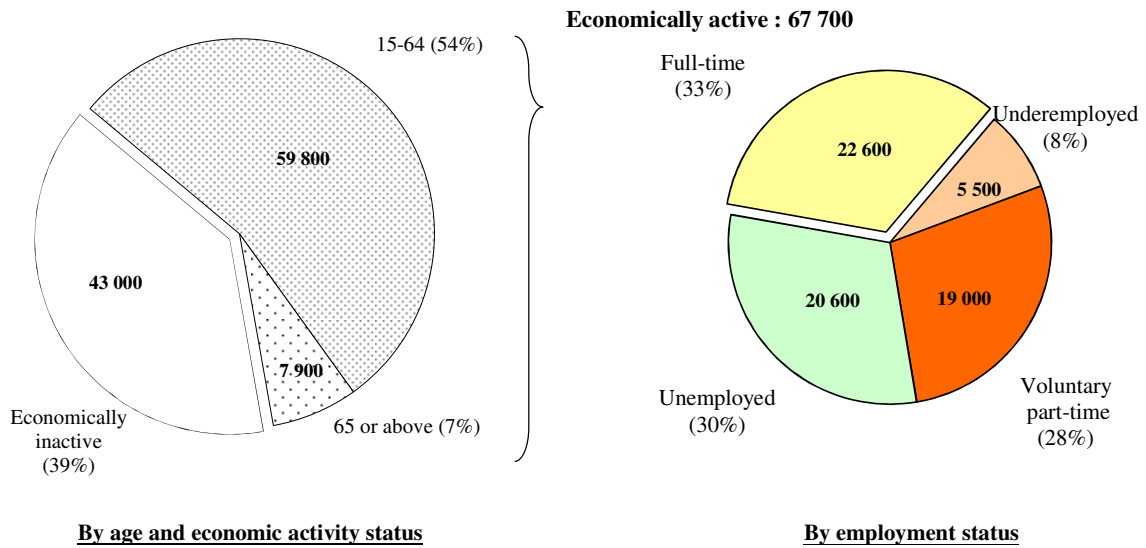
Notes : (*) Low-income households refer to households with monthly household income less than \$7,000 at constant Q2 2013 prices. This does not include households with all members being economically inactive. Figures in brackets are the proportions of low-income households in all domestic households.

Socio-economic characteristics of low-income households

6. Further decomposition of low-income households in the first quarter of 2015 reveals the following observations:

- 110 700 persons were residing in the households in question, among whom 67 700 were economically active. Most of these individuals (59 800 or 88%) were persons aged 15-64, with the majority within the age group of 40-64 (46 500 or 69%), whilst those aged 65 or above amounted to 7 900 (12%).
- The remaining 43 000 persons were economically inactive. Almost 50% of them (47%) were either children aged below 15 or elderly persons aged 65 or above.
- A more in-depth analysis by employment status shows that among these 67 700 economically active persons, 33% were full-time workers, while the respective proportions for unemployed, voluntary part-timers, and underemployed were 30%, 28% and 8% respectively (**Chart 2**).

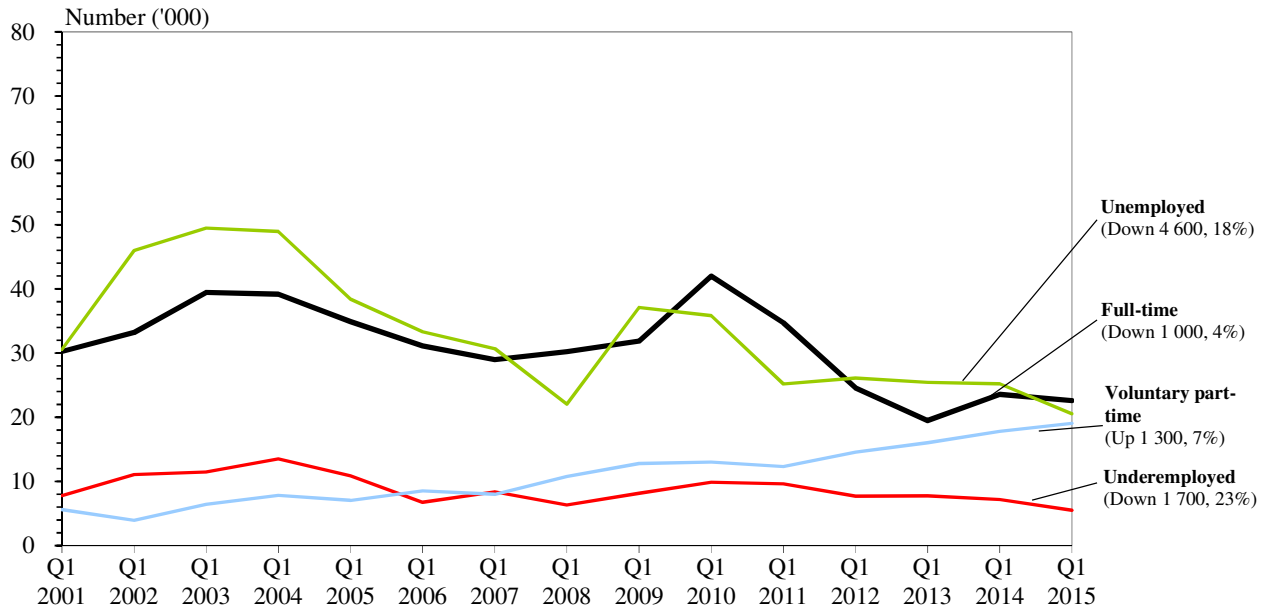
**Chart 2 : Persons living in low-income households*
by age and economic activity status, Q1 2015**



Note : (*) Low-income households refer to households with monthly household income less than \$7,000 at constant Q2 2013 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 (86%) were lower-skilled workers (among whom 39% were elementary workers, and 32% were service and sales workers). A breakdown by economic sector revealed that most of them were engaged in the retail, accommodation and food services sector (13 900 or 30%), followed by repair, laundry, domestic and other personal service activities (5 000 or 11%).
- There were 67 700 economically active persons living in low-income households, down 8.2% over a year ago. Among them, the year-on-year decline in number of unemployed and underemployed were most notable, while that of voluntary part-timers rose (*Chart 3*). These figures indicate that continued economic growth has helped improve the income situation of the grassroots workers.

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

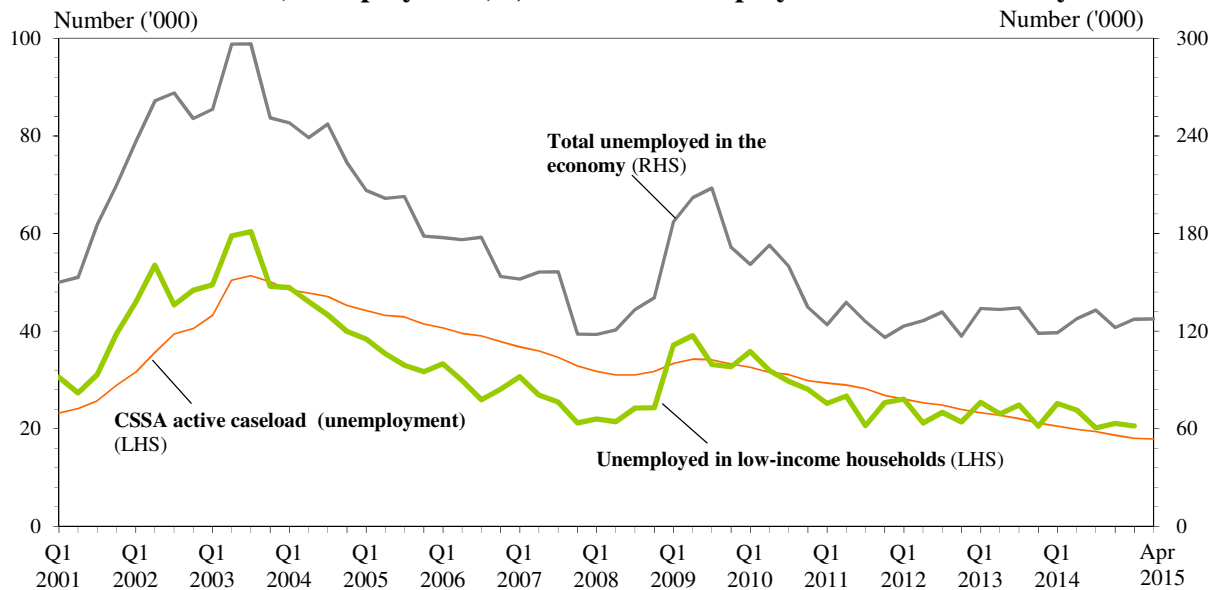


Notes : (*) Low-income households refer to households with monthly household income less than \$7,000 at constant Q2 2013 prices. This does not include households with all members being economically inactive. Figures in brackets are the year-on-year changes in number of economically active persons in Q1 2015.

The number of CSSA cases

7. Demand for grassroots labour remained sturdy. In February – April 2015, the lower-skilled unemployment rate was 3.8%. In the meantime, the number of overall CSSA caseload continued to decline, by 8 213 (or 3.2%) to 250 436 in April 2015 as compared to a year earlier. The decrease in unemployment cases was even more distinct, down by 2 394 (or 11.8%) to 17 870 over the same period (*Chart 4*), a manifestation of the self-reliance of grassroots workers who are able to leave the social security net amid tight labour market conditions over the past year.

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 \$7,000 at constant Q2 2013 prices. This does not include households with all members being economically inactive.
 (^) Monthly period-end figures.

Concluding remarks

8. The Government has always attached great importance to the employment and income situations of the people, especially the impact of sub-par economic performance on the grassroots. Notwithstanding the modest economic growth since 2014, labour demand has remained solid, and the state of full employment has continued.

9. Employment is the best route out of poverty. The Government will continue to strengthen employment / training and retraining services so as to provide support for job-seekers, and assist the vulnerable groups through social welfare, enabling them to share the fruits of economic growth. The Government will also keep on investing substantially in education in order to improve the competitiveness and skills of the workforce, increase social mobility, and reduce the child poverty risk and 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.

10. In the short term, the employment outlook will continue to hinge on the overall economic situation and business sentiment. In view of the recent moderation in visitor spending, we need to observe closely its impact on the employment situation of relevant sectors. The Government will remain vigilant to the employment and earnings conditions of grassroots workers and low-income households, and will provide measures and support to them when and where necessary.

Economic Analysis and Business Facilitation Unit
Financial Secretary's Office
22 May 2015