



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

The Government released the First Quarter Economic Report 2017 on 12 May. The Economic Report, together with the press release containing the updated economic forecasts for the whole year of 2017, 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 2017, and summarises the updated economic forecasts by the Government for 2017 as a whole.

Economic Analysis and Business Facilitation Unit
Financial Secretary's Office
26 May 2017

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

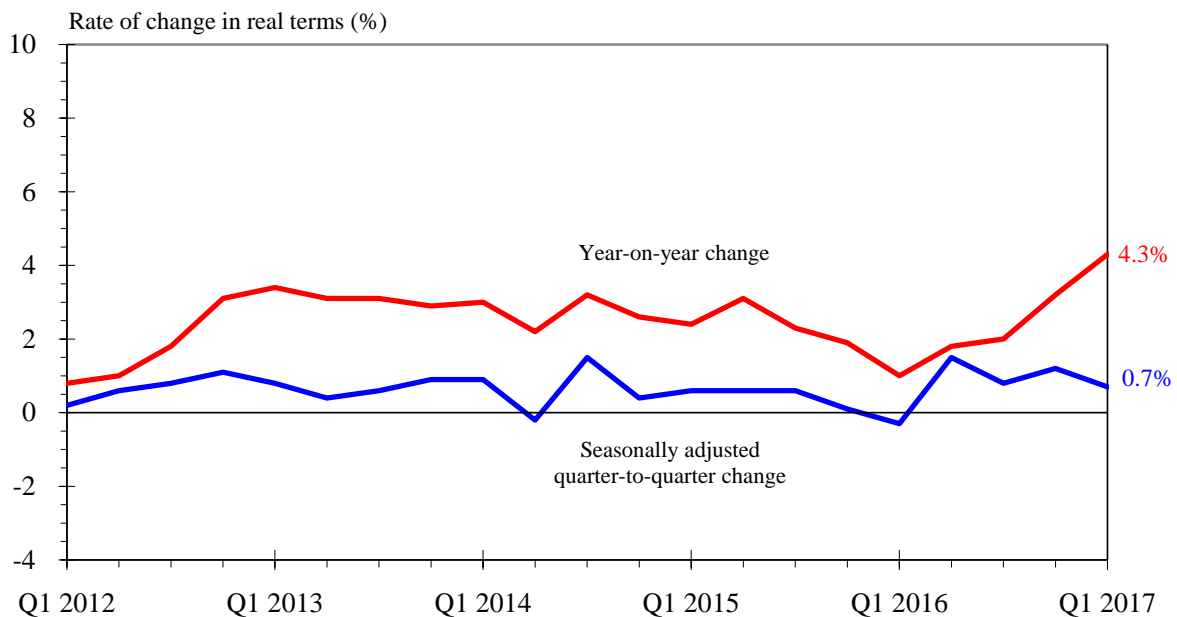
Introduction

This paper analyses the latest development in the Hong Kong economy and briefly discusses the outlook for the rest of 2017, and provides updated economic forecast by the Government for 2017 as a whole.

Recent economic situation

2. The Hong Kong economy grew notably by 4.3%⁽¹⁾ in the first quarter of 2017, sustaining the improving trend that began in the second quarter of last year. The growth pace was the highest since the second quarter of 2011. External demand continued to strengthen as the global economic situation further improved. Domestic demand also held up well, supported by favourable employment conditions and more positive business sentiment. The notable pick-up in economic growth in the first quarter was also partly benefitted from the low base of comparison a year earlier, when the economy registered a slow growth of 1.0% amid an austere external environment. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew further by 0.7% in the first quarter, after registering three consecutive quarters of growth, averaging 1.2% per quarter (*Chart 1*).

Chart 1 : The Hong Kong economy showed notable growth in the first quarter of 2017



(1) Unless specified, all figures in the sections of Recent economic situation, External trade and Domestic sector in this document refer to year-on-year change in real terms.

External trade

3. Global economic activity picked up further in the first quarter of 2017. The US economy sustained expansion, while the Mainland economy, beating market expectations, accelerated slightly and stayed firmly on track to attain medium-to-high growth. The euro area and Japan both registered further modest economic growth. Reflecting a brightening global outlook, in April the International Monetary Fund (IMF) projected global economic growth to rise from 3.1% in 2016 to 3.5% in 2017, which was 0.1 percentage point higher than the corresponding forecast made three months earlier. However, the IMF points out that binding structural impediments continue to hold back a stronger global economic recovery and the downside risks still warrant attention.

4. On the back of strengthening global demand and continued expansion in regional trading and manufacturing activities, Hong Kong's total exports of goods grew briskly by 9.2% in the first quarter, marking the fastest growth since the first quarter of 2013 (*Chart 2(a)*). Exports to many Asian economies, including the Mainland, registered strong growth in the first quarter, as the intensified trading and manufacturing activities in Asia notably increased the region's intake for raw materials, semi-manufactures and capital goods. Meanwhile, exports to the major advanced markets also improved by various extents. Exports to Japan picked up amid the revival in the regional trade flows, while those to the US and EU both reverted to moderate growth. Amid an improving global economy, the value of merchandise exports continued to register notable growth in April.

5. Exports of services likewise picked up to grow by 2.6% in the first quarter, benefitting from the stronger trade and cargo flows as well as better global economic sentiment (*Chart 2(b)*). In particular, exports of transport services sustained brisk growth, while exports of financial services reverted to a modest growth and exports of business and other services also grew slightly further. With visitor arrivals resuming growth gradually, exports of travel services also continued to see relative improvement after a period of setback.

Chart 2(a) : Total exports of goods grew briskly

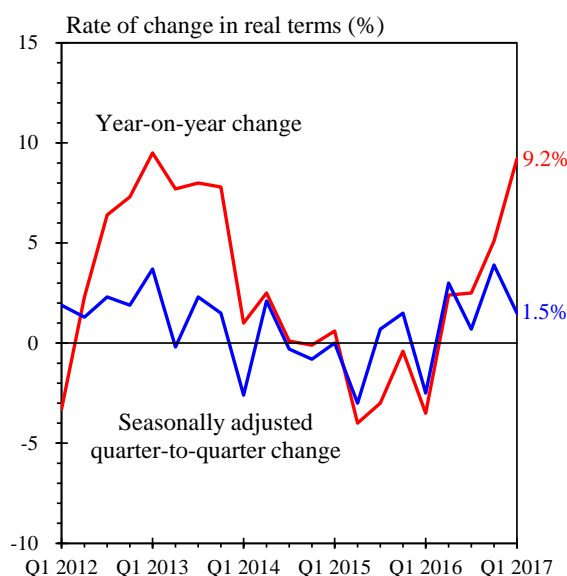
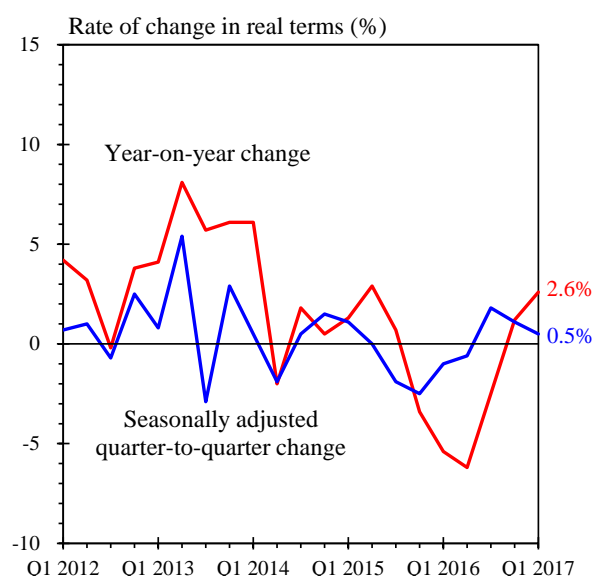


Chart 2(b) : Exports of services picked up



Domestic sector

6. The domestic sector stayed resilient in the first quarter. Local consumption sentiment remained well underpinned by the favourable employment and earning conditions and, to a certain extent, the positive wealth effect from higher asset prices. Private consumption expenditure grew solidly by 3.7%, similar to the expansion pace in the preceding quarter (*Chart 3(a)*). Coupled with the relative improvement of inbound tourism, retail sales volume showed a further narrower decline of 1.7% in the first quarter. On the other hand, government consumption expenditure went up further by 3.7% in the first quarter, broadly similar to the growth pace in recent years.

7. Overall investment spending in terms of gross domestic fixed capital formation continued to increase notably by 6.4% in the first quarter, after the visible rebound of 6.3% in the second half of last year (*Chart 3(b)*). Overall building and construction activity grew further, as buttressed by the double-digit growth in public building and construction works and the visible expansion in private sector building and construction works. However, machinery and equipment acquisition had yet to recover.

Chart 3(a) : Private consumption expenditure grew solidly further

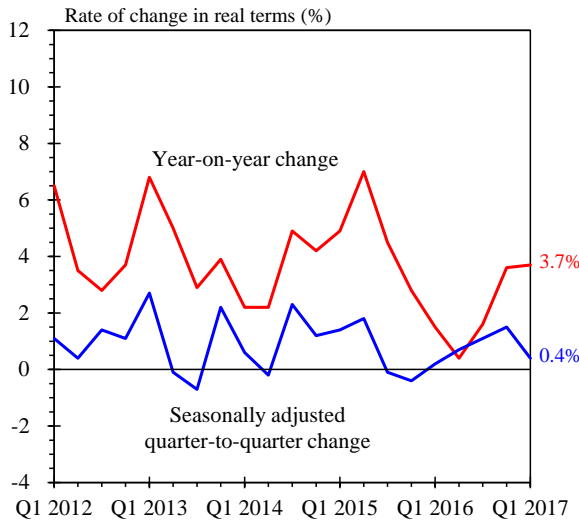
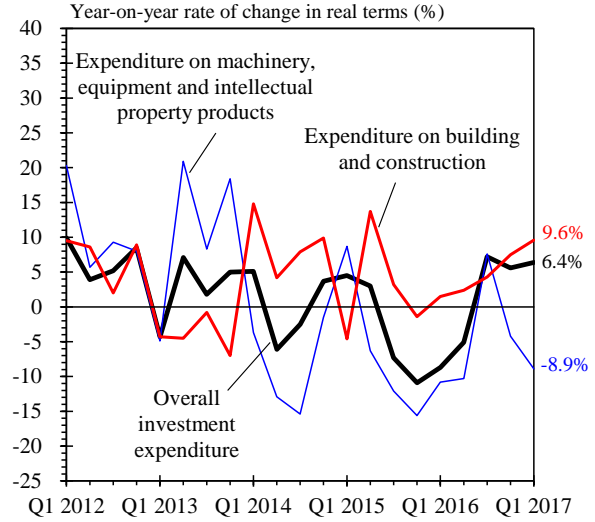


Chart 3(b) : Investment spending picked up

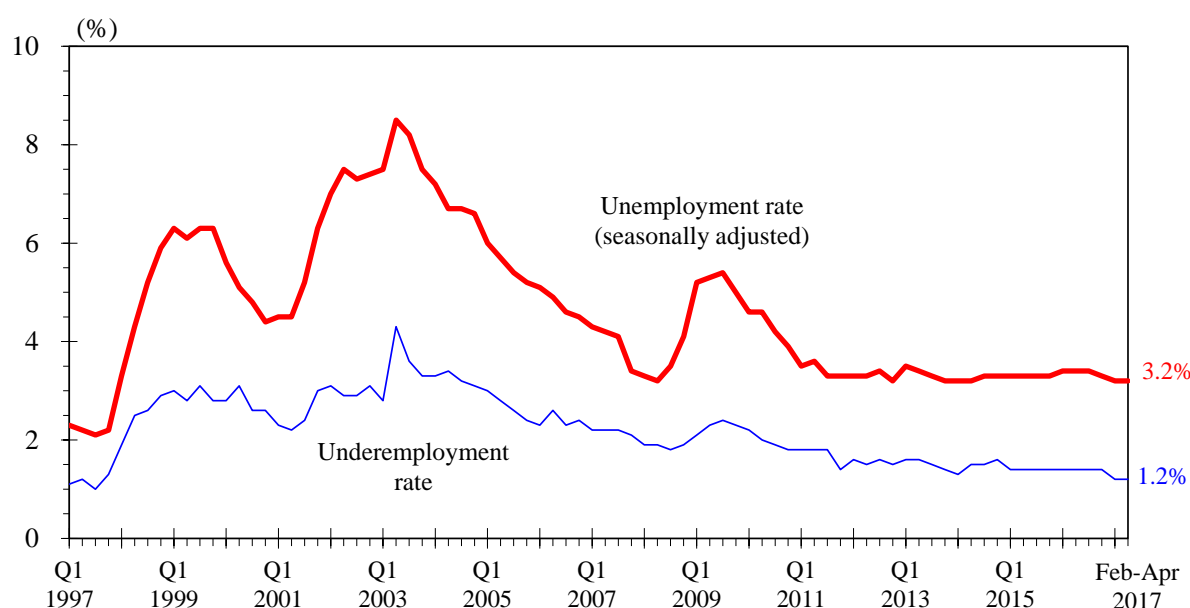


8. As for external direct investment (DI), according to the latest country breakdowns data up to end-2015, the Mainland remained prominent as a major source of Hong Kong’s inward DI, accounting for around 27% of the total position of inward DI at end-2015. This accentuates our business friendly environment and prominent intermediary role between the Mainland and the rest of the world. The balance of payments statistics as at end-2016 also showed that total position of direct investment liabilities amounted to \$13,844.8 billion, equivalent to 556% of GDP in 2016.

Labour Market

9. The labour market remained in full employment on entering 2017. The seasonally adjusted unemployment rate edged down to 3.2% in the first quarter of 2017 and held steady in February – April 2017, a low level last seen in the second quarter of 2014. The underemployment rate likewise dropped to a three-year low of 1.2% (*Chart 4*). Both labour force and total employment expanded at a faster pace in early 2017.

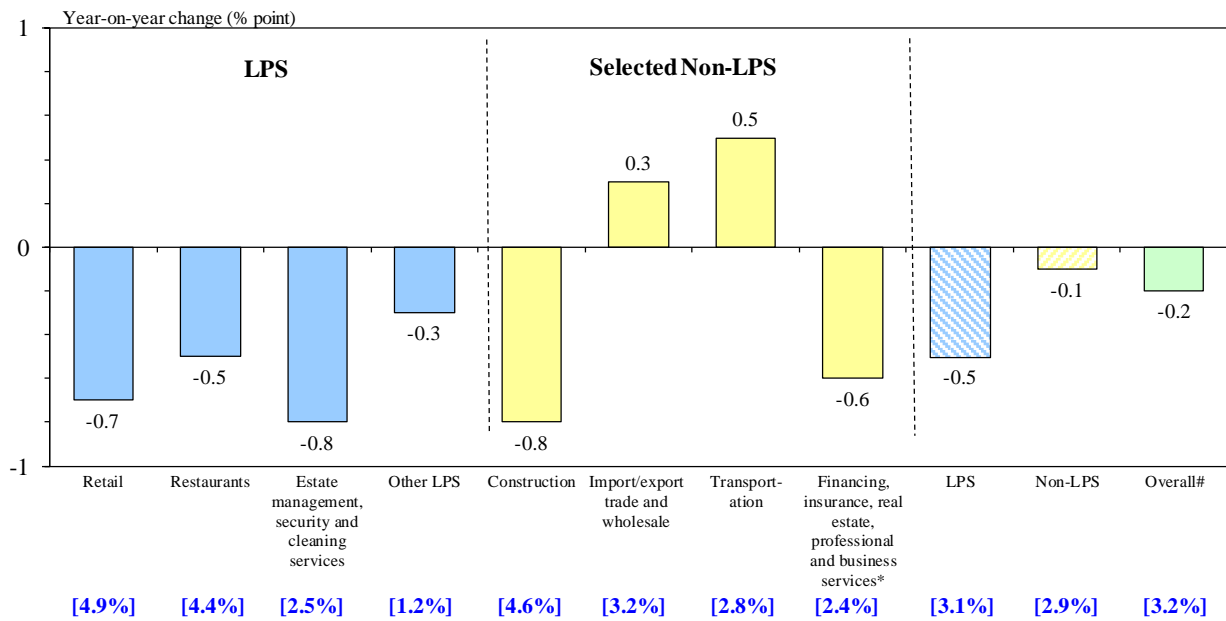
Chart 4 : The labour market remained in full employment on entering 2017



10. The Hong Kong economy has witnessed sustained expansion since the implementation of Statutory Minimum Wage (SMW), thereby relieving the pressure on the labour market brought about by SMW. In February – April 2017, the unemployment rate of the low paying sectors (LPS)⁽²⁾ declined by 0.5 percentage point from a year earlier to 3.1%, while that of the non-LPS counterpart edged down by 0.1 percentage point to 2.9% (*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 rates of most sectors declined



Notes: Figures in brackets refer to the unemployment rate for that sector in Feb-Apr 2017 (provisional figures).

(*) Excluding real estate maintenance management, security and cleaning services.

(#) Seasonally adjusted, and including first-time job-seekers and re-entrants into the labour force.

11. Analysed by skill segment, both the unemployment rates for the higher- and lower-skilled segments inched down in February – April 2017 by 0.3 percentage point on a year-on-year basis, by 1.7% and 3.7% respectively (*Table 1*). Higher-skilled employment posted an appreciable year-on-year increase of 2.8%.

Table 1 : The employment and unemployment situations by skill segment

	Employment [#]					Unemployment rate [#]		
	Feb – Apr 2017	Change as compared to Feb – Apr 2015 (before the previous implementation of the revised SMW rate)		Year-on-year change		Feb – Apr 2017	Change as compared to Feb – Apr 2015 (before the previous implementation of the revised SMW rate)	Year-on-year change
	(No.)	(No.)	(%)	(No.)	(%)	(%)	(% point)	(% point)
Higher-skilled	1 496 100	+ 54 800	+3.8	+41 000	+2.8	1.7	+0.1	-0.3
Lower-skilled	2 320 600	-4 200	-0.2	+1 800	+0.1	3.7	-0.1	-0.3
Lower-skilled (excl. government employees and live-in domestic workers)	1 898 400	-25 000	-1.3	-24 000	-1.2			

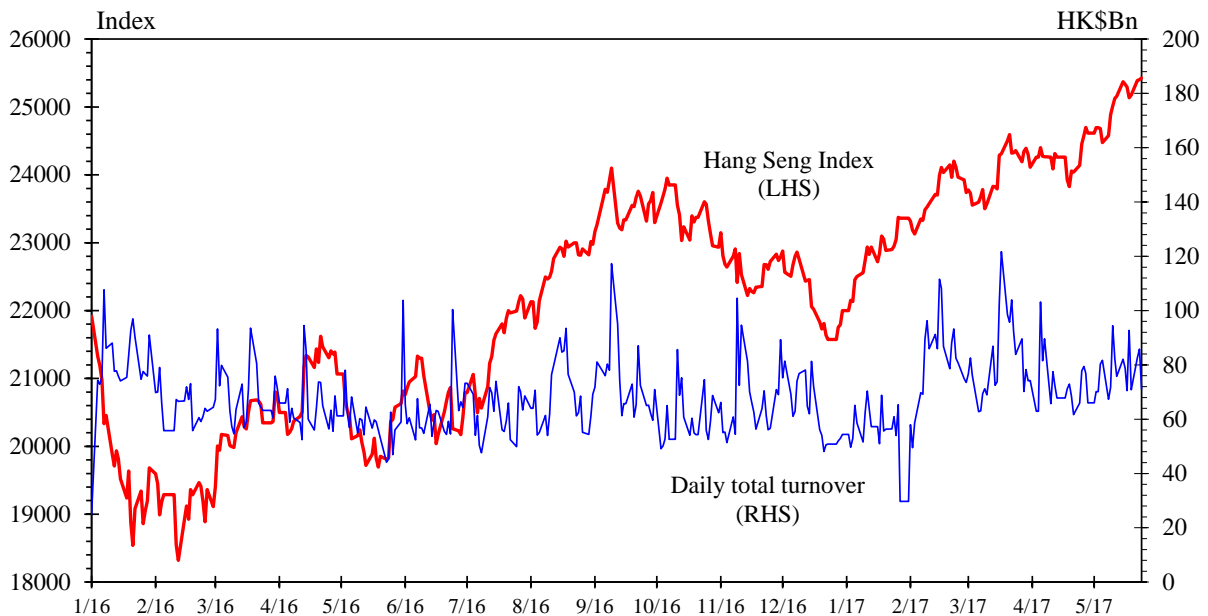
Notes : (#) Provisional figures.

12. Wages and earnings stayed on the rise in 2016 amid a resilient and stable labour market, albeit at a slightly slower pace compared to the preceding year alongside the moderated inflation. Nominal wage and payroll increased by 3.6% and 3.8% respectively in December 2016 over a year earlier, signifying continued real improvement in labour incomes. More recent data showed that earnings of lower paid workers posted further appreciable gains, with the average monthly employment earnings of full-time employees in the lowest three income decile groups combined (excluding foreign domestic helpers) grew by 5.2% in nominal terms in the first quarter of 2017 over a year earlier, much faster than the underlying Consumer Price Index(A) inflation of 1.6% over the same period. Overall income also sustained solid growth, with the median monthly household income (excluding foreign domestic helpers) up by 4.0% in nominal terms in the first quarter of 2017 over a year earlier, also faster than the concurrent underlying Consumer Price Index inflation of 1.4% (Please refer to *Annex* for details).

Asset markets

13. The local stock market generally trended upwards so far this year, as risk aversion continued to recede amid a brightening global economic outlook that also boosted other major stock markets worldwide. The Hang Seng Index closed at 25 631 on 25 May, up by 16.5% from end-2016. Average daily turnover of the stock market increased to \$74.3 billion in the first quarter, from \$64.3 billion in the preceding quarter, and stayed at \$74.2 billion in April (*Chart 6*).

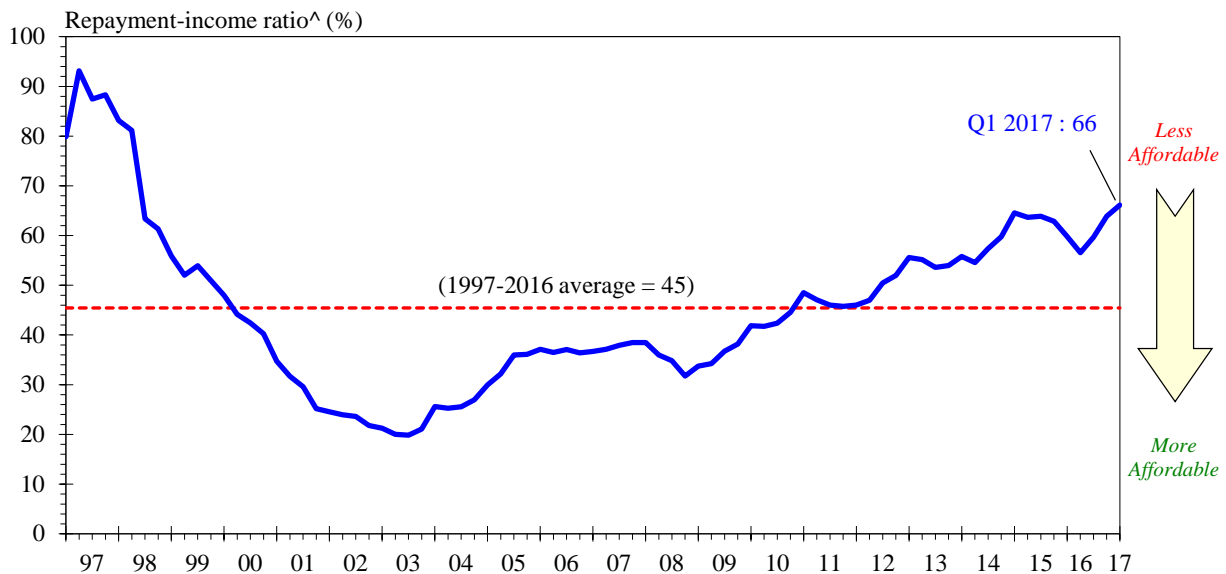
Chart 6 : Local stock market generally generally trended upwards so far this year



14. The residential property market has reactivated since February and turned rather active in March and April, affected by such factors as the still tight near-term flat completions and market expectation of benign upward pressure on local interest rates in the near term. The number of sale and purchase agreements for residential property received by the Land Registry rose successively from 3 286 in January to 7 060 in April. In the first four months of 2017, it surged by 89% over the low base a year earlier to an average of 5 070 cases per month, though still 28% below the level in September to November 2016 before the introduction of the New Residential Stamp Duty (NRSD) (*Chart 7(a)*).

15. In tandem, the month-to-month increase in overall flat prices accelerated from 0.7% in January to 2.3% in March and 2.1% in April. Between December 2016 and April 2017, overall flat prices recorded a gain of 7%. Also, overall flat rentals in April 2017 rose by 3% over December 2016 (*Chart 7(b)*).

Chart 8 : The mortgage payment to income ratio rose 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). 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 mortgages.

17. Raising flat supply through increasing land supply is the Government's top policy priority in ensuring the healthy and stable developments of the property market. In February, the Government announced the 2017-18 Land Sale Programme, which comprises 28 residential sites capable of providing about 18 900 flats. Combining the various sources (including Government land sale, railway property development projects, the Urban Renewal Authority's projects, and private development and redevelopment projects), the total potential private housing land supply in 2017-18 is estimated to have a capacity to produce about 31 600 flats. The Government's efforts in raising land supply have yielded results. The total supply of flats in the coming three to four years (comprising unsold flats of completed projects, flats under construction but not yet sold and flats on disposed sites where construction can start any time) rose from 94 000 units as estimated at end-2016 to another record high of 96 000 units as estimated at end-March 2017.

18. 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. The Government introduced the 15% NRSD in November last year to further suppress investment demand, and tightened up the exemption arrangement for Hong Kong permanent residents under the measure in April 2017 in response to the public concern over the increase in transactions involving acquisition of multiple

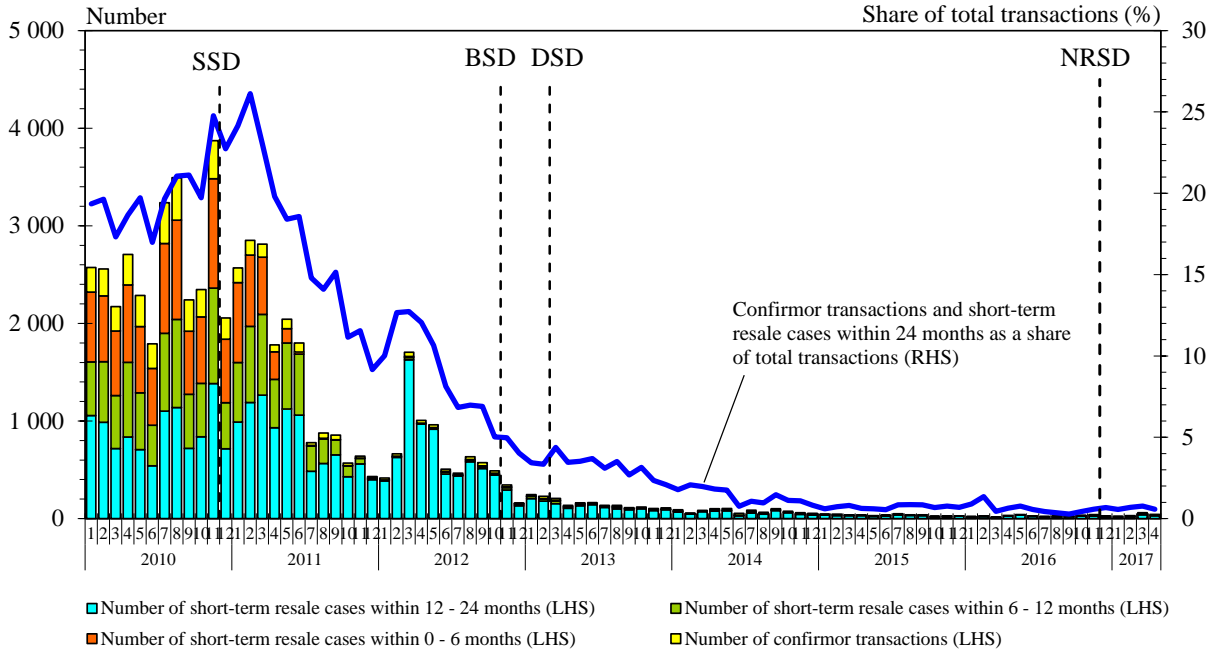
residential properties under a single instrument⁽⁴⁾. To strengthen banks' risk management and resilience, in May 2017 the Hong Kong Monetary Authority (HKMA) introduced the latest round of macroprudential measures for property mortgage loans⁽⁵⁾.

19. The various demand-side management measures have yielded notable results. On speculative activities, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) remained low at an average of 39 cases per month or 0.7% of total transactions in the first four months of 2017, 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 9*). Reflecting the effects of the Buyer's Stamp Duty, purchases by non-local individuals and non-local companies stayed low at an average of 91 cases per month or 1.5% of total transactions in the first four months of 2017, much lower than the monthly average of 365 cases or 4.5% in January to October 2012 (*Chart 10*). As an indicator of investment activities, purchases by Hong Kong permanent residents who owned at least one residential property were modest at 340 cases per month or 5.8% of total transactions in the first four months of 2017, sharply below the monthly average of 1 181 cases or 22.1% in January to November 2016 before the introduction of NRSD (*Chart 11*). As to mortgage lending, the average LTV ratio of new mortgages was 51% in the first quarter, considerably below 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.

(4) On 11 April 2017, the Government announced the tightening up of the exemption arrangement under the 15% NRSD measure. Under the previous exemption arrangement, acquisition of residential property under a single instrument, irrespective of the number of residential property involved, by a Hong Kong permanent resident who is acting on his/her own behalf and is not an owner of any other residential property in Hong Kong, is exempted from the NRSD rate of 15% and is only subject to the lower ad valorem stamp duty rates at Scale 2. After the tightening up, if such a buyer acquires more than one residential property under a single instrument, the transaction concerned is no longer exempted and is subject to the NRSD rate of 15%.

(5) The measures include *first*, raising the risk-weight floor by 10 percentage points (from 15% to 25%) for new residential mortgage loans granted after 19 May 2017 by banks using Internal Ratings-Based Approach to calculate capital charges for credit risk; *second*, lowering the applicable loan-to-value ratio (LTV) cap by 10 percentage points for property mortgage loans extended to borrowers with one or more pre-existing mortgages, in addition to observing the existing requirement of lowering the applicable debt servicing ratio (DSR) limit by 10 percentage points; *third*, lowering the applicable DSR limit by 10 percentage points for property mortgage loans extended to borrowers whose income is mainly derived from outside of Hong Kong, in addition to observing the existing requirement of lowering the applicable LTV cap by 10 percentage points.

Chart 9 : Short-term speculative activities stayed subdued



Note : Confirmor transactions refer to resale before assignment.

Chart 10 : Purchases by non-local buyers remained low

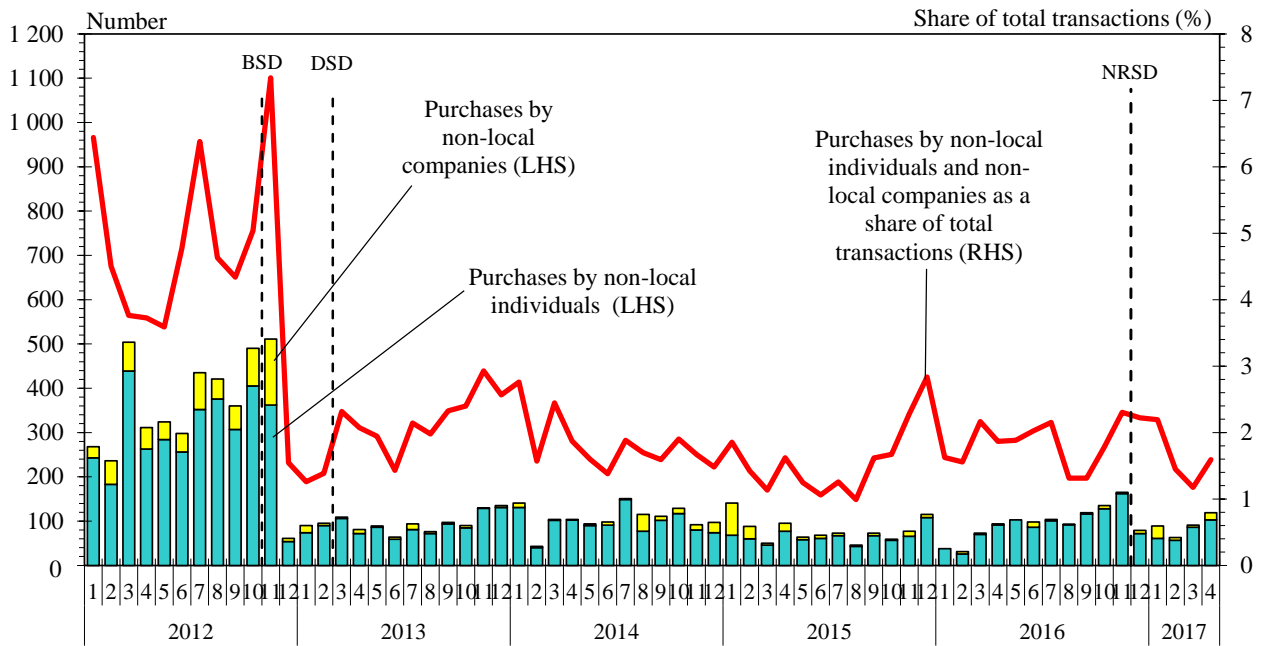
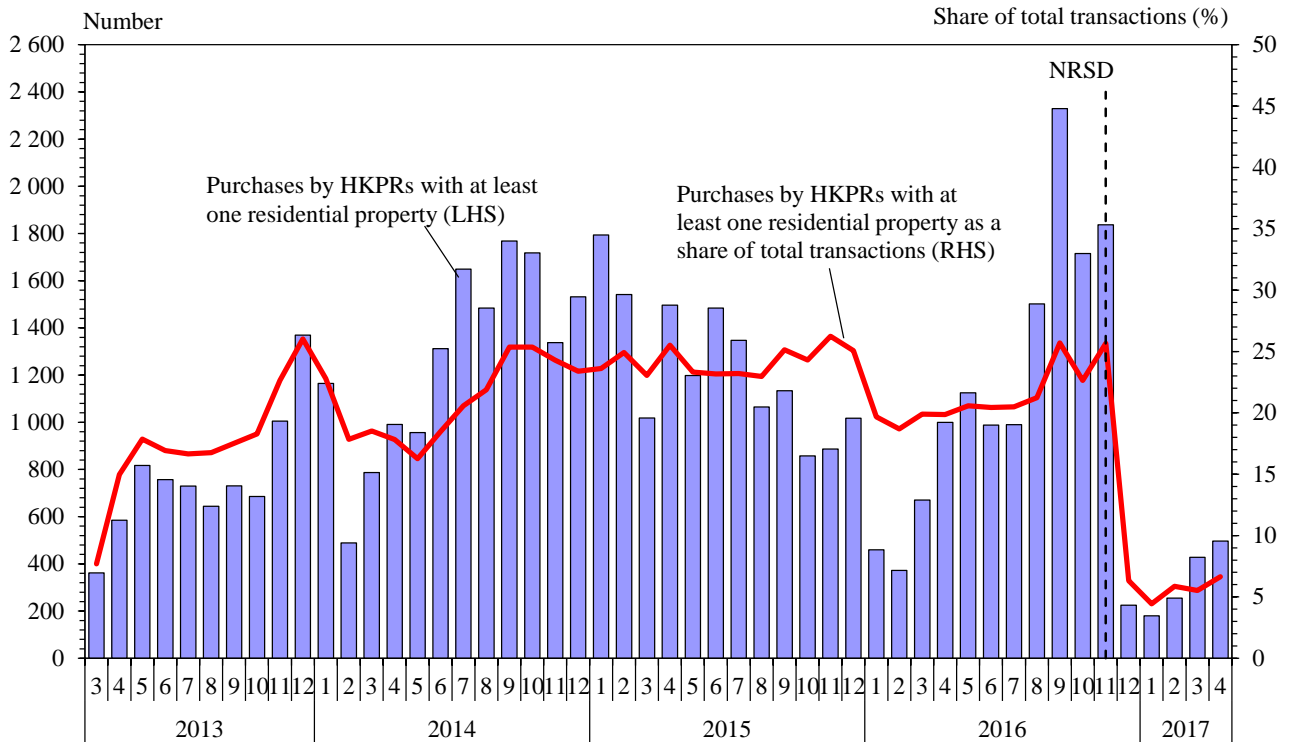


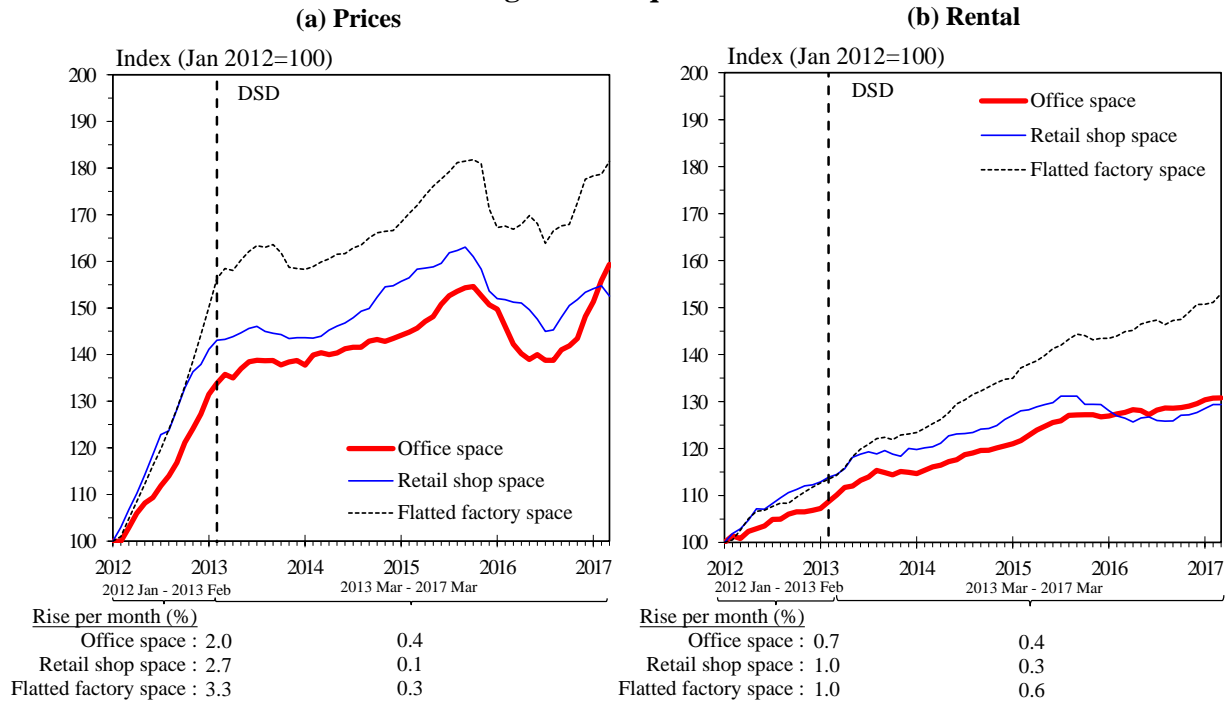
Chart 11 : Investment activities decreased visibly



20. Looking forward, the global and local economic conditions, the pace of US interest rate normalisation as well as the market sentiment and demand-supply situation will continue to be the major factors affecting the residential property market. Local interest rates are set to rise as the US interest rate normalisation continues. Meanwhile, with the substantial increase in residential land supply in the past few years, the average completions of private flats in the coming five years are projected to reach 20 300 units per year, an increase of 70% over the annual average in the past five years. The tight demand-supply situation in the past few years is set to improve significantly. These factors will eventually put more pressures on the property market.

21. The commercial and industrial property markets showed mixed performance in the first quarter of 2017. Trading activities were generally modest, and prices and rentals of different types of property exhibited diverse movements. Overall sale prices of office space surged by 8% between December 2016 and March 2017, while overall rentals rose by 1%. Over the period, sale prices of retail shop space edged down by 1%, while rentals edged up by 1%. As to flatted factory space, sale prices and rentals both rose by 2% (*Chart 12*).

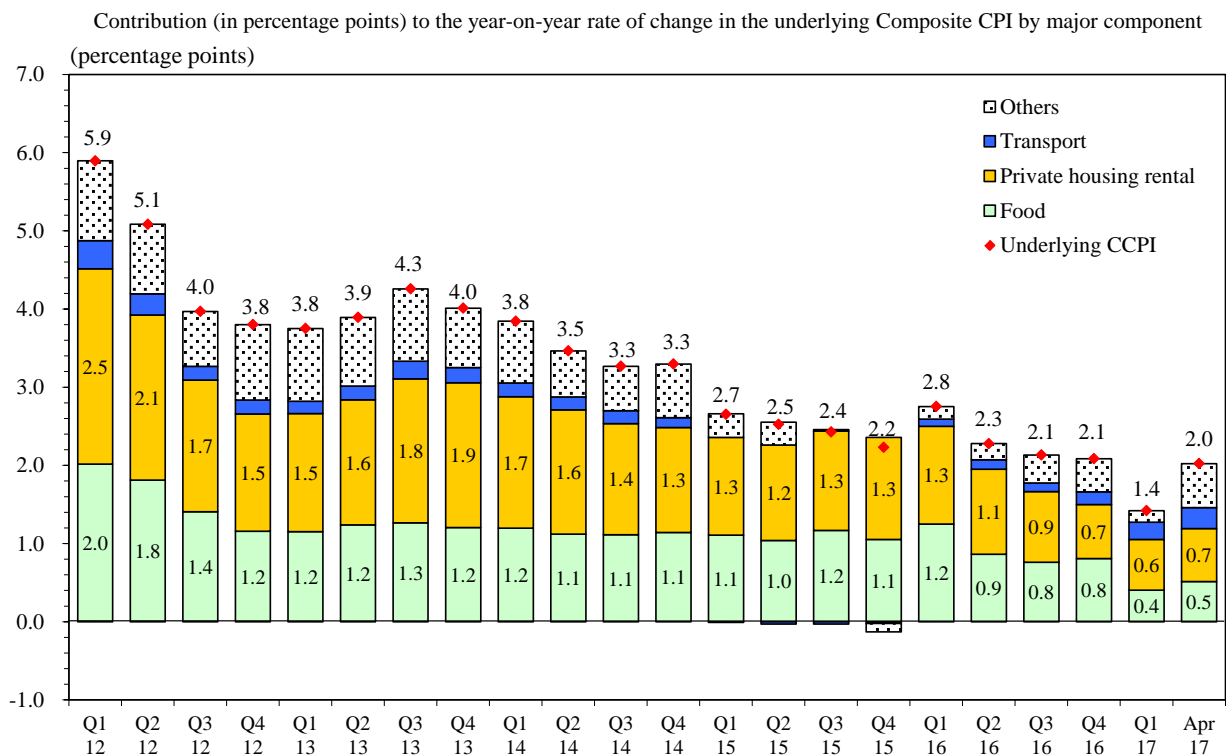
Chart 12 : Prices and rentals of non-residential properties exhibited diverse movements during the first quarter of 2017



Inflation

22. Inflation pressure was rather modest in general, as external price pressures remained largely tame and domestic cost increase was moderate. Moreover, the low inflation rate in the first quarter was partly due to the higher base of comparison last year arising from some temporary factors. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, underlying consumer price inflation eased to 1.4% in the first quarter of 2017 and stood at 2.0% in April, averaging 1.6% in the first four months, lower than the 2.3% in 2016 as a whole (*Chart 13*).

Chart 13 : Underlying consumer price inflation eased



Note : The year-on-year rates of change of the underlying Composite CPIs from the fourth quarter of 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series.

23. Price pressures of many major components of the underlying Composite Consumer Price Index (Composite CPI) were contained in the first quarter of 2017 (*Table 2*). Among the major components, local food inflation (including costs of dining out) slowed visibly from 3.0% in the fourth quarter of 2016 to 1.6% in the first four months of 2017. This was mainly attributable to a high base of comparison in basic foodstuffs last year owing to bad weather conditions back then. The increase in the private housing rental component also slowed slightly to 2.1% in the first four months of 2017, as the softer fresh-letting residential rental pressures during most of the past year continued to feed through. Thanks to the downward adjustment in the electricity charge in early 2017, the price of electricity, gas and water component registered a notable decline during the first quarter. Prices of miscellaneous services showed a narrower year-on-year increase in the first quarter of 2017, but visible increase in April, as year-on-year change in charges for package tours in March and April were affected by the timing of the Easter holidays, which fell in late March last year but in mid-April this year. Meanwhile, the prices of durable goods continued their secular downtrend.

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2016</u>					<u>2017</u>		
		<u>2016</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Apr</u>	<u>Jan-Apr</u>
Food	27.29	3.4	4.6	3.2	2.8	3.0	1.5	1.9	1.6
<i>Meals bought away from home</i>	17.74	3.3	3.7	3.3	3.1	3.1	2.8	2.7	2.8
<i>Other foodstuffs</i>	9.55	3.6	6.3	3.1	2.1	2.7	-1.1	0.3	-0.7
Housing ^(a)	34.29	3.3 (3.7)	4.0 (4.0)	3.5 (4.6)	3.1 (6.0)	2.8 (0.4)	2.7 (0.3)	2.7 (2.7)	2.7 (0.9)
<i>Private dwellings</i>	29.92	3.2 (3.4)	4.2 (4.2)	3.6 (4.8)	3.0 (4.1)	2.3 (0.6)	2.1 (0.5)	2.2 (2.2)	2.1 (0.9)
<i>Public dwellings</i>	1.94	3.5 (7.2)	* (*)	0.4 (0.5)	3.6 (51.3)	9.9 (-5.6)	9.9 (-5.6)	9.6 (11.5)	9.9 (-1.8)
Electricity, gas and water	2.67	0.6 (1.0)	-1.1 (*)	-1.6 (-1.1)	4.0 (4.1)	1.4 (1.4)	-5.5 (-5.5)	-1.2 (-1.2)	-4.4 (-4.4)
Alcoholic drinks and tobacco	0.54	1.5	0.3	1.2	2.4	2.1	2.3	3.4	2.5
Clothing and footwear	3.21	-3.4	-3.3	-2.8	-4.5	-3.0	-1.9	-1.7	-1.9
Durable goods	4.65	-5.4	-5.7	-5.4	-5.3	-5.0	-3.6	-3.0	-3.4
Miscellaneous goods	3.56	1.5	0.5	1.3	2.3	2.1	2.3	1.9	2.2
Transport	7.98	1.6	1.2	1.5	1.4	2.1	2.9	3.4	3.0
Miscellaneous services	15.81	2.3 (2.3)	2.7 (2.7)	2.1 (2.1)	2.5 (2.5)	1.9 (1.9)	0.6 (0.6)	2.7 (2.7)	1.1 (1.1)
All items	100.00	2.3 (2.4)	2.8 (2.8)	2.3 (2.6)	2.1 (3.1)	2.1 (1.2)	1.4 (0.5)	2.0 (2.0)	1.6 (0.9)

Notes : (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.

() Figures in brackets represent the headline rates of change before netting out the effect of Government's one-off relief measures.

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

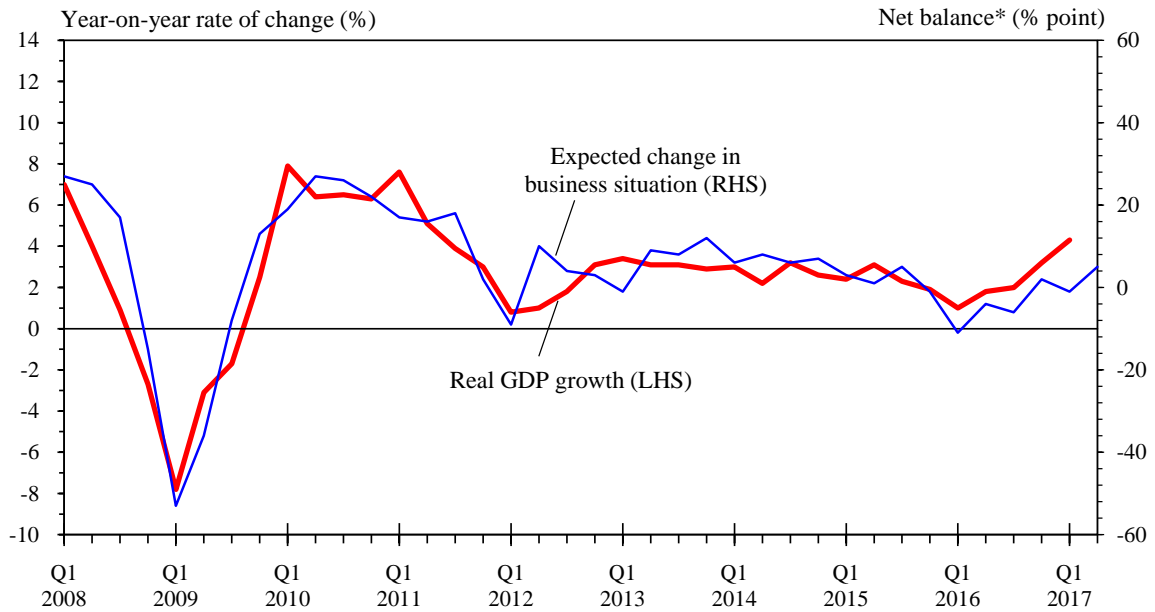
Updated economic forecasts for 2017

24. As for the outlook for the rest of this year, the global economy is likely to gradually improve further, given that many advanced economies are poised for sustaining modest to moderate growth and that the Mainland economy is firmly on track to attain medium-to-high growth. The ensuing recovery in global demand should continue to render support to Asia's trade flows in the near term and hence to Hong Kong's export performance. Also, the recent revival in visitor arrivals, if continued, could give an extra lift to our exports of services in the period ahead. However, downside risks in the external environment, though receded somewhat, still warrant attention. These include the US interest rate normalisation, policy divergence among major central banks, Brexit-related negotiations, and various uncertainties surrounding policy and political developments in the US and Europe. Moreover, the possible rise of protectionist sentiment and elevated geopolitical tensions in various regions are also potentially destabilising factors.

25. Domestic demand should stay resilient. Local consumption sentiment is likely to remain buttressed by favourable employment and income conditions. The latest Quarterly Business Tendency Survey indicated that large enterprises had turned somewhat positive about their near-term business outlook (*Chart 14*). In addition, the package of relief measures in the 2017-18 Budget (Budget), as well as expansion in building and construction activities, should also render growth impetus to the economy.

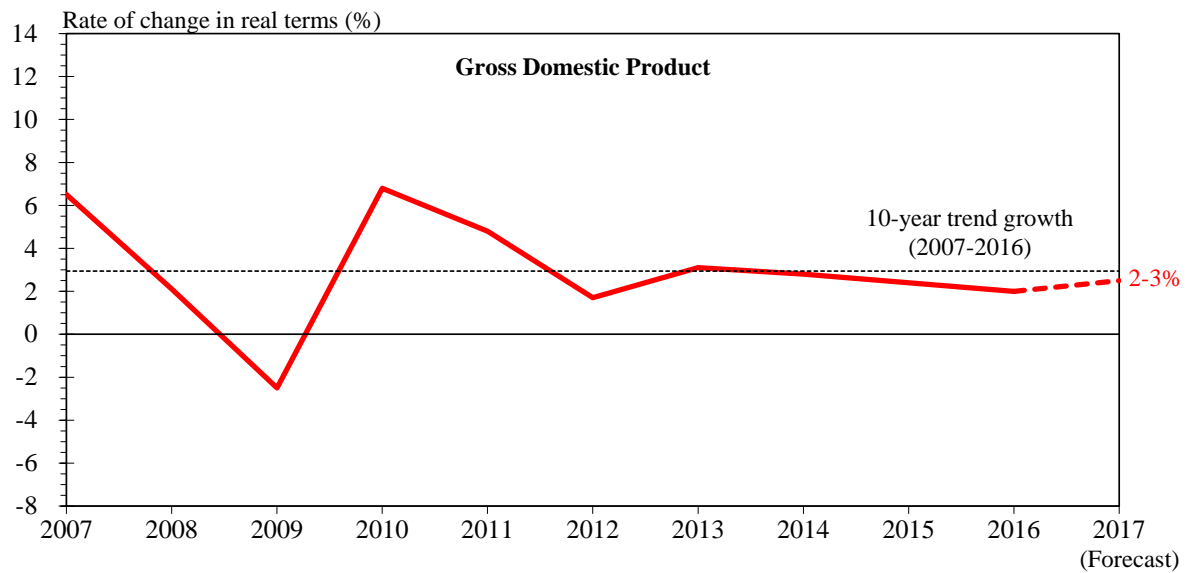
26. Overall, the actual growth outturn in the first quarter is better than expected amid the strengthening of global demand conditions. Nevertheless, as the global economic outlook is still subject to various uncertainties, the forecast real GDP growth of 2-3% for 2017, as announced in the Budget, is maintained in the May round of review (*Chart 15*). There is upside to the forecast if the global economy continues to improve and the downside risks do not materialise in the period ahead. For reference, the IMF in April forecast Hong Kong economy would grow by 2.4% this year. In addition, some private sector analysts revised upwards their real GDP growth forecasts of Hong Kong in 2017 after the announcement of the first quarter GDP statistics, with the latest forecasts by private sector analysts ranging from 2.0% to 3.0%, averaging around 2.3%.

Chart 14 : Sentiments among large enterprises were generally on an improving trend in the past several quarters



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.

Chart 15 : Economic growth for 2017 as a whole is forecast at 2-3%



27. On inflation, taking into account the still-benign inflation in our major import sources, moderate rises in local costs, and continued feed-through of softer fresh-letting residential rentals last year, consumer price inflation should remain well contained in the near term (*Chart 16*). The forecast rates of underlying and headline consumer price inflation for 2017 as a whole put out in the Budget round are therefore maintained in the May round of review, at 2% and 1.8% respectively (*Chart 17*). For reference, the IMF in April forecast headline consumer price inflation rate for Hong Kong at 2.6% this year and the forecasts by private sector analysts mostly range from 1.6% to 2.5%, averaging around 1.8% for this year.

Chart 16 : Considering the low inflation in our major import sources and moderate increases in domestic costs, inflation should remain well contained in the near term

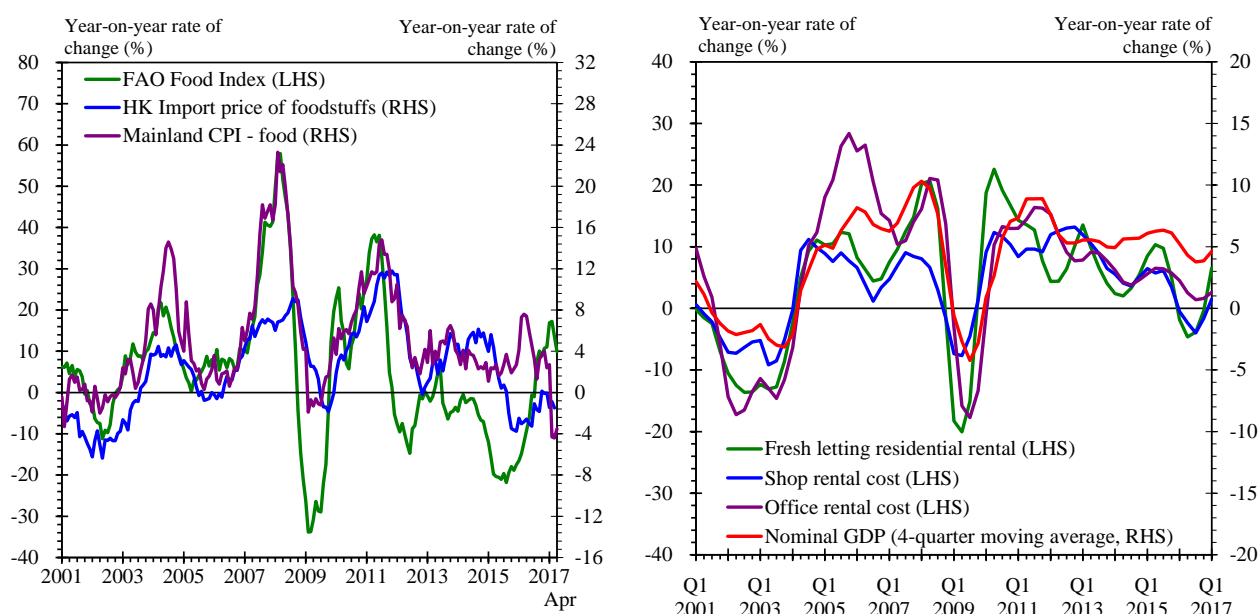
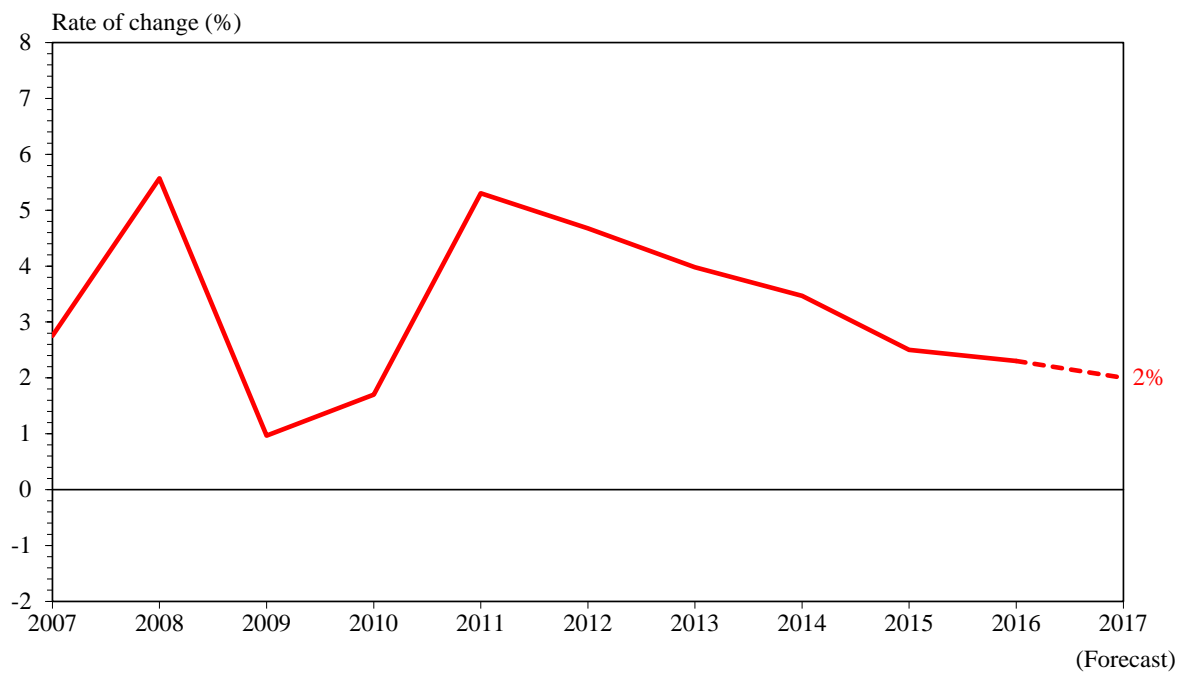


Chart 17 : Inflationary pressure should remain largely contained in 2017



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26 May 2017

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 \$7,600 (at constant Q2 2015 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 tightened somewhat since entering 2017. On a year-on-year comparison, total employment in February – April 2017 increased by 1.1%, while the seasonally adjusted unemployment rate fell to a low of 3.2%, the lowest level last seen in the second quarter of 2014. Median household income, a reflection of the overall income, increased by 4.0% year-on-year in the first quarter of 2017, or 3.4% in real terms after adjusting for inflation.

3. With the labour market stayed resilient, overall wages and earnings stayed on the rise. The average employment earnings of full-time employees (excluding bonus) increased by 3.3% year-on-year in the first quarter of 2017, or 2.8% in real terms. Meanwhile, the average employment earnings of full-time unskilled employees grew by 5.2% year-on-year. After netting out inflation, there was a real improvement of 5.1%. For higher-skilled staff, in June 2016, the Salary Index for Managerial and Professional Employees indicates that employees in the same company and occupation enjoyed nominal and real salaries growth of 5.2% and 2.9% 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 \$32.5 per hour (adjusted in May 2015) for analysing the latest situation in the first quarter of 2017. In May 2017, the rate of SMW has been raised from \$32.5 per hour to \$34.5 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~	
2014	Q1	3.2	(-0.9)	4.6	(0.4)	7.1	(2.7)		
	Q2	2.7	(-0.9)	6.1	(2.3)	6.0	(2.1)	5.3	(1.8)
	Q3	2.9	(-1.9)	6.0	(1.1)	6.6	(-0.6)		
	Q4	5.0	(-0.1)	5.6	(0.5)	6.9	(@)		
2015	Q1	5.9	(1.5)	5.7	(1.4)	5.2	(-0.9)		
	Q2	7.7	(4.7)	4.4	(1.4)	6.3	(2.0)	5.7	(3.8)
	Q3	8.0	(5.3)	6.4	(3.8)	8.0	(4.6)		
	Q4	3.0	(0.7)	7.0	(4.6)	6.6	(3.9)		
2016	Q1	4.0	(1.2)	5.0	(2.1)	6.3	(3.1)		
	Q2	4.2	(1.5)	4.7	(2.0)	4.9	(2.2)	5.2	(2.9)
	Q3	0.7	(-2.3)	6.2	(3.1)	5.1	(0.6)		
	Q4	4.2	(2.9)	4.0	(2.7)	5.3	(4.2)		
2017	Q1	4.0	(3.4)	3.3	(2.8)	5.2	(5.1)	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.
 (@) Change of less than 0.05%.
 (n.a.) Not available.

Economically active households with monthly household income below \$7,600 in real terms

4. In the first quarter of 2017, the number of economically active households with monthly household income below \$7,600 in real terms (referred to as “low-income households” thereafter) amounted to 60 100, down by 3 900 or 6.0% over the level a year ago. The corresponding proportion in total domestic households was 2.4%⁽⁴⁾.

5. Analysing the number and proportion of low-income households over the past ten years or so suggests 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 4.4% 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 4.2% in the first quarter of 2009 as the Hong Kong economy was mired into recession. But with economic recovery

(4) All figures pertaining to low-income households in the first quarter of 2017 are provisional figures.

taking hold afterwards, the figure also fell back. At 2.4% in the first quarter of 2017, which was lower than a year ago (by 0.2 percentage point), such proportion was still at a relatively low level over 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>
Q1 2003	2 800 (0.1)	89 500 (4.2)	92 400 (4.4)	108 100 [3.3]
Q1 2008	2 900 (0.1)	60 900 (2.7)	63 700 (2.8)	70 700 [2.1]
Q1 2009	3 500 (0.2)	91 400 (4.0)	94 900 (4.2)	110 300 [3.2]
Q1 2010	3 900 (0.2)	84 700 (3.7)	88 600 (3.8)	101 300 [3.0]
Q1 2011	3 300 (0.1)	74 100 (3.2)	77 300 (3.3)	84 200 [2.5]
Q1 2012	3 600 (0.2)	64 700 (2.7)	68 400 (2.9)	76 900 [2.2]
Q1 2013	4 300 (0.2)	66 400 (2.8)	70 700 (3.0)	79 400 [2.2]
Q1 2014	3 300 (0.1)	63 300 (2.6)	66 600 (2.8)	76 500 [2.2]
Q1 2015	6 300 (0.3)	59 600 (2.4)	65 800 (2.7)	72 000 [2.0]
Q1 2016	4 600 (0.2)	59 400 (2.4)	63 900 (2.6)	70 700 [1.9]
Q1 2017	7 800 (0.3)	52 300 (2.1)	60 100 (2.4)	67 200 [1.8]

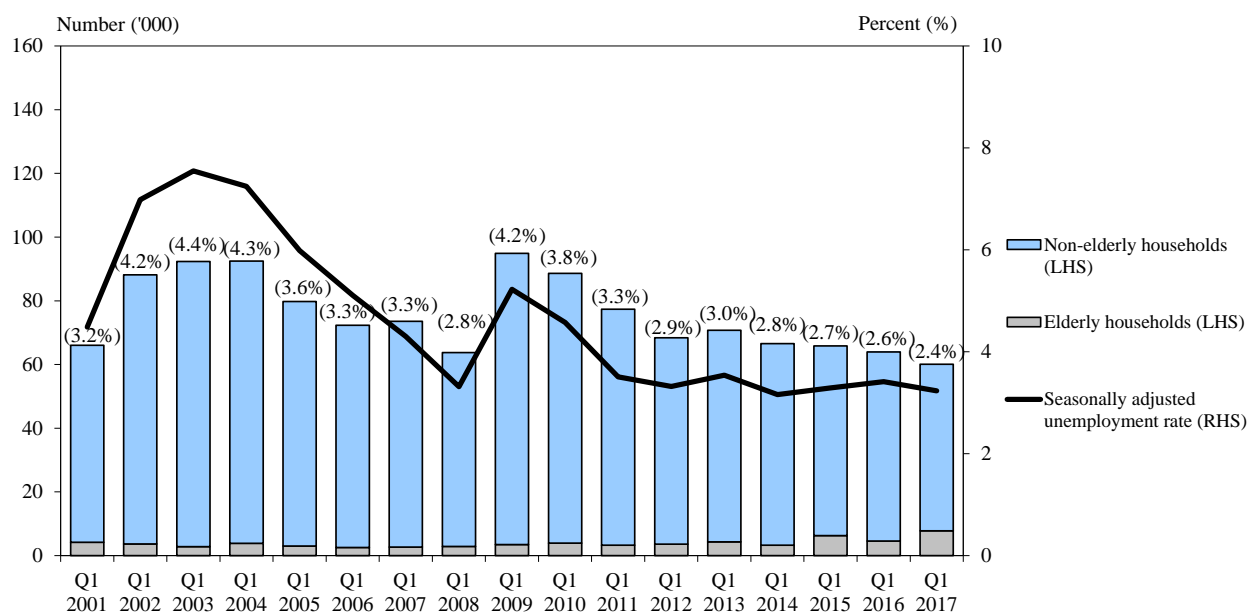
Notes : (*) Low-income households refer to households with monthly household income less than \$7,600 at constant Q2 2015 prices. This does not include households with all members being economically inactive.

(#) 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*



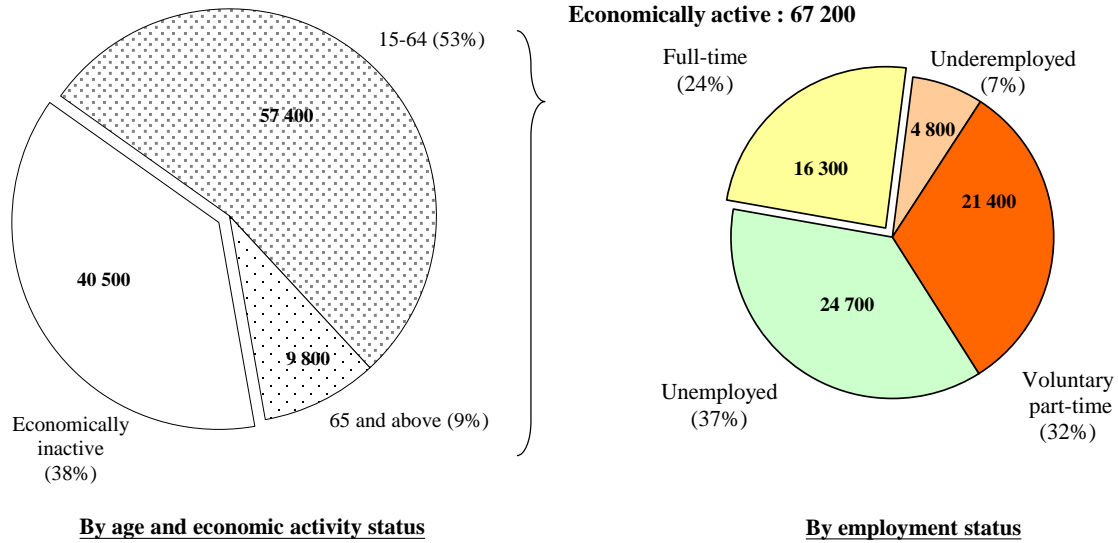
Notes : (*) Low-income households refer to households with monthly household income less than \$7,600 at constant Q2 2015 prices. This does not include households with all members being economically inactive. Figures in brackets are the proportions of low-income households in all domestic households.

Socio-economic characteristics of low-income households

6. Further decomposition of low-income households in the first quarter of 2017 reveals the following observations:

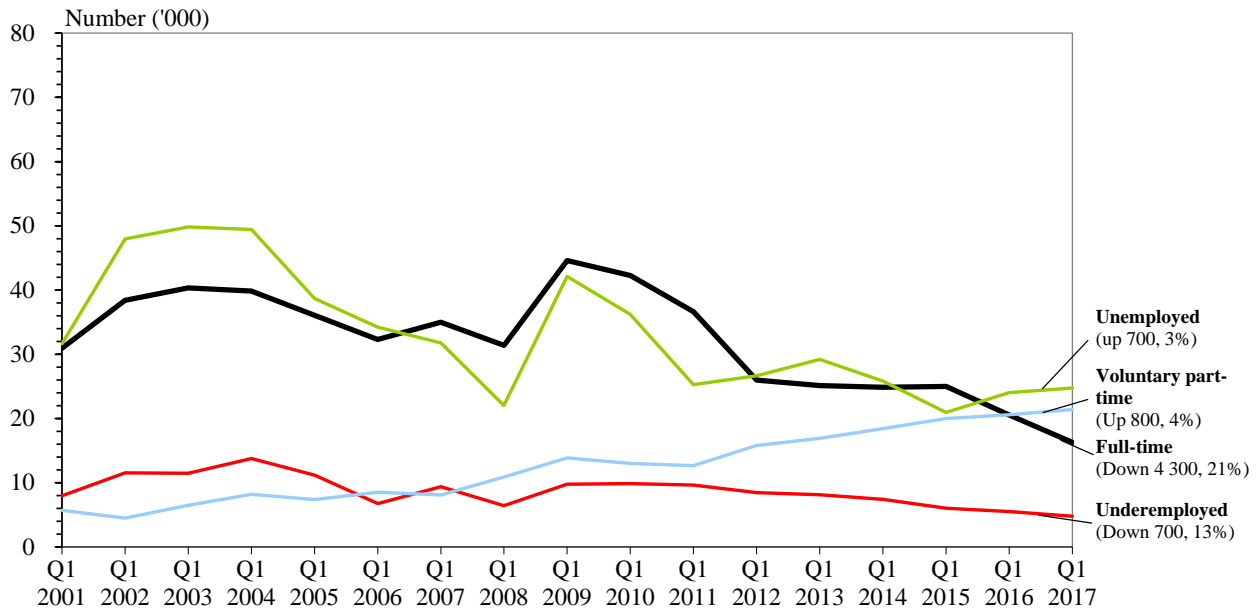
- 107 700 persons were residing in the households in question, among whom 67 200 were economically active. Most of these individuals (57 400 or 85%) were persons aged 15-64, with the majority within the age group of 40-64 (41 900 or 62%), whilst those aged 65 and above amounted to 9 800 (15%).
- The remaining 40 500 persons were economically inactive. 19 400 of them (48%) were either children aged below 15 or elderly persons aged 65 and above.
- A more in-depth analysis by employment status shows that among these 67 200 economically active persons, 24% were full-time workers, while the respective proportions for voluntary part-timers, unemployed and underemployed were 32%, 37% and 7% (**Chart 2**). Among these, the number of voluntary part-timers rose by 4% over a year ago (**Chart 3**).

**Chart 2 : Persons living in low-income households*
by age and economic activity status, Q1 2017**



Note : (*) Low-income households refer to households with monthly household income less than \$7,600 at constant Q2 2015 prices. This does not include households with all members being economically inactive.

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



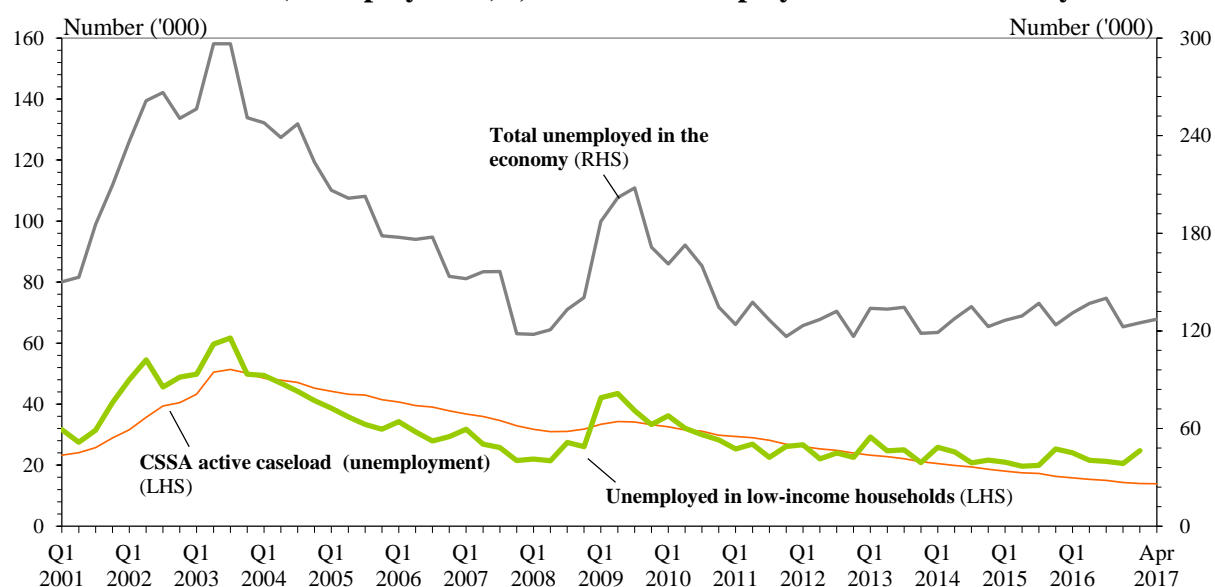
Notes : (*) Low-income households refer to households with monthly household income less than \$7,600 at constant Q2 2015 prices. This does not include households with all members being economically inactive. Figures in brackets are the year-on-year changes in number of economically active persons in Q1 2017.

- Analysed by occupation, the majority of the employed persons living in low-income households (84%) were lower-skilled workers (among whom 39% were elementary workers, and 27% 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 (11 400 or 27%), followed by transportation (4 700 or 11%).

The number of CSSA cases

7. The lower-skilled unemployment rate in February – April 2017 fell by 0.3 percentage point on a year-on-year comparison to 3.7%. Meanwhile, the number of overall CSSA caseload declined by 6 119 (or 2.5%) to 236 189 in April 2017 as compared to a year earlier. The decrease in unemployment cases was even more distinct, down by 1 782 (or 11.4%) to 13 875 over the same period, decreasing for 92 consecutive months (*Chart 4*). This indicates a manifestation of the self-reliance of grassroots workers who were able to leave the social security net amid broadly stable 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 \$7,600 at constant Q2 2015 prices. This does not include households with all members being economically inactive.

(^) Monthly period-end figures.

Concluding remarks

8. Employment is the best route out of poverty. The Government will continue to strengthen employment / training and retraining services so as to provide support to job-seekers, and assist needy persons who cannot provide for themselves through the social security system on a reasonable and sustainable basis. 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.

9. Thanks to the improved economic performance, labour demand stayed on the rise on entering 2017. The labour market remained firm and tightened somewhat. The Government will stay 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. The Government has implemented the “Low-income Working Family Allowance” in May last year, which aims at encouraging continuous employment for self-reliance, and can, to some extent, help alleviate the poverty situation of the working poor.

Economic Analysis and Business Facilitation Unit
Financial Secretary’s Office
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