

## Press Release

(embargoed until 4:30 p.m. on 12 May 2017)

### **Economic Situation in the First Quarter of 2017 and Latest GDP and Price Forecasts for 2017**

The Government released today (12 May) the First Quarter Economic Report 2017, together with the preliminary figures on Gross Domestic Product (GDP) for the first quarter of 2017.

Acting Government Economist, Mr Andrew Au, described the economic situation in the first quarter of 2017 and provided the latest GDP and price forecasts for 2017.

#### **Main points**

- \* The Hong Kong economy grew notably by 4.3% in real terms in the first quarter of 2017 over a year earlier, sustaining the improving trend that began in the second quarter of last year. External demand continued to strengthen as the global economic environment further improved. Domestic demand also held up well, supported by favourable employment conditions and more positive business sentiment. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew further by 0.7% in the first quarter, after three consecutive quarters of rapid growth, averaging 1.2% per quarter.
- \* 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% year-on-year in real terms in the first quarter, marking the fastest growth since the first quarter of 2013. Exports of services likewise picked up to a 2.6% year-on-year growth in real terms, benefitting from stronger trade and cargo flows as well as better global economic sentiment. With visitor arrivals resuming growth gradually, exports of travel services also continued to see relative improvement after a prolonged period of setback.
- \* The domestic segment stayed resilient. Private consumption expenditure sustained a solid year-on-year growth of 3.7% in real terms in the first quarter, as local consumer sentiment was well underpinned by favourable job and income conditions and, to some extent, the relatively buoyant asset market performance. Overall investment expenditure increased notably by 6.4% year-on-year in real terms, thanks to the strong expansion of building and construction activity, despite the continued fall in machinery and equipment acquisition.
- \* The labour market remained in a state of full employment, with total employment rising to a new quarterly high in the first quarter. The seasonally adjusted unemployment rate eased to 3.2% in the first quarter, a low level last seen in the second quarter of 2014, and the underemployment rate also fell to a three-year low of 1.2%. Wages and earnings showed further real improvements on the back of a tight labour market.

- \* The local stock market rallied during the first quarter, alongside the worldwide increase in risk appetite that also fuelled many overseas stock markets. Global investors reacted positively to the improving global outlook despite the interest rate normalisation in the US and various policy and political uncertainties in the US and Europe. Separately, the residential property market showed some reactivation during the first quarter, with both flat prices and trading activities picking up.
- \* Looking ahead, 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.
- \* 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. In addition, the package of relief measures in the 2017-18 Budget, as well as expansion in building and construction activities, should also render growth impetus to the economy.
- \* 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 current round of review. There is upside to the forecast if the global economy continues to improve and the downside risks do not materialise in the period ahead. The Government will continue to closely monitor the external developments and their possible ramifications on the Hong Kong economy.
- \* Underlying consumer price inflation moderated to 1.4% in the first quarter. Inflation pressure was generally tame, though the low inflation rate in the first quarter was also partly due to some incidental factors that created a high base of comparison in the same quarter of last year. 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. The forecast rates of underlying and headline consumer price inflation for 2017 as a

whole put out in the Budget round, at 2% and 1.8% respectively, are therefore maintained in the current round of review.

## Details

### GDP

According to the preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP grew by 4.3% in real terms in the first quarter of 2017 over a year earlier, up from the 3.2% growth in the preceding quarter (revised from the earlier estimate of 3.1%). The stronger year-on-year growth of the Hong Kong economy, which was the highest since the second quarter of 2011, also partly benefitted from the low base of comparison in the first quarter of last year, when economic growth hit a trough 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 three consecutive quarters of rapid growth, averaging 1.2% per quarter (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the first quarter of 2017 are presented in *Table 1*. Developments in different segments of the economy in the first quarter of 2017 are described below.

### External trade

3. *Total exports of goods* showed a brisk growth of 9.2% in real terms in the first quarter over a year earlier, up from an increase of 5.1% in the preceding quarter and 1.8% for 2016 as a whole. This marked the fastest quarterly growth in four years. Analysed by major market, by reference to external merchandise trade statistics, exports to many Asian economies, including the Mainland, registered strong growth in the first quarter, as the intensified Asian trading and manufacturing activities notably increased the region's intake for raw materials, semi-manufactures and capital goods. Meanwhile, our exports to major advanced markets also improved by various extents. Exports to Japan picked up amid the revival in regional trade flows, while those to the US and the EU both reverted to moderate growth. On a seasonally adjusted quarter-to-quarter basis, total exports of goods rose by 1.5% in real terms in the first quarter.

4. *Exports of services* also benefitted from better global economic conditions, up by 2.6% in real terms in the first quarter over a year earlier, compared to the 1.2% growth in the preceding quarter and the 3.2% decline for 2016 as a whole. Exports of transport services sustained brisk growth, amid stronger regional trade and cargo flows. Exports of financial services reverted to modest growth and exports of business and other services grew slightly, thanks to a more sanguine global economic environment. Exports of travel services also saw further relative improvement, reflecting the continued recovery of visitor arrivals. However, tourist spending had yet to resume growth, probably being constrained by currency movements and changing tourist spending patterns. On a seasonally

adjusted quarter-to-quarter basis, exports of services continued to rise by 0.5% in real terms in the first quarter.

### **Domestic sector**

5. The domestic sector stayed resilient in the first quarter. Local consumption sentiment remained well underpinned by favourable job and income conditions and, to some extent, the positive wealth effect from higher asset prices. *Private consumption expenditure* grew solidly by 3.7% in real terms in the first quarter over a year earlier, similar to the expansion pace in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure increased by 0.4% in real terms in the first quarter. *Government consumption expenditure* went up further by 3.7% year-on-year in real terms in the first quarter, broadly similar to the growth pace in recent years.

6. Overall investment spending in terms of *gross domestic fixed capital formation* continued to increase notably in the first quarter, by 6.4% year-on-year in real terms, after the visible rebound of 6.3% in the second half of last year. Overall building and construction activity registered further strong growth, 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 continued to decline, as such spending by the private sector has yet to recover.

### **The labour sector**

7. The labour market, while in a state of full employment, tightened slightly, with the *seasonally adjusted unemployment rate* easing to 3.2% in the first quarter, a low level last seen in the second quarter of 2014, and with the *underemployment rate* edging down to a three-year low of 1.2%. Amid a gradual recovery in labour demand, total employment picked up in growth to reach another quarterly high in the first quarter. Wages and earnings stayed on the rise in the fourth quarter of 2016 under a resilient and stable labour market.

### **The asset markets**

8. The *local stock market* generally trended upwards throughout the first quarter, 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 the first quarter at 24 112, up markedly by 9.6% from end-2016, registering the best first-quarter performance since 2012. On 11 May, the Hang Seng Index closed at 25 126.

9. The *residential property market* showed some reactivation in the first quarter. Trading volume picked up successively from the low in January, though for the quarter as a whole, it was still down by 22% from the preceding quarter. Residential property prices increased by 4% between December 2016 and March 2017. Overall flat prices in March 2017 exceeded the 1997 peak by 85%, and the housing affordability ratio worsened further to around 66% in the first quarter. Flat rentals rose by 2% during the first quarter. Meanwhile, office and shop rentals both went up by 1%. In early April, the Government announced to tighten up the exemption arrangement for Hong Kong permanent residents regarding the acquisition of more than one residential property under a single instrument, in respect of the New Residential Stamp Duty introduced in November 2016.

## **Prices**

10. Consumer price inflation was modest in the first quarter. External cost pressures stayed largely tame, thanks to the low inflation in our major import sources and the strength of the US dollar against other major currencies over the past year. Locally, rises in labour costs remained steady along with the stable labour market conditions. Rental cost pressures, as reflected in consumer price inflation, were largely contained, as the slower increases in fresh-letting residential and commercial rentals during 2016 continued to feed through. Besides, the higher base of comparison in the first quarter of last year also contributed to lower consumer price inflation in the first quarter of this year, given the food price spikes early last year due to bad weather conditions, as well as the higher package tour charges in March last year due to the earlier onset of the Easter holidays. All in all, *headline consumer price inflation* went down to 0.5% in the first quarter, from 1.2% in the preceding quarter. 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 from 2.1% in the preceding quarter.

## **Latest GDP and price forecasts for 2017**

11. Looking ahead, 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.

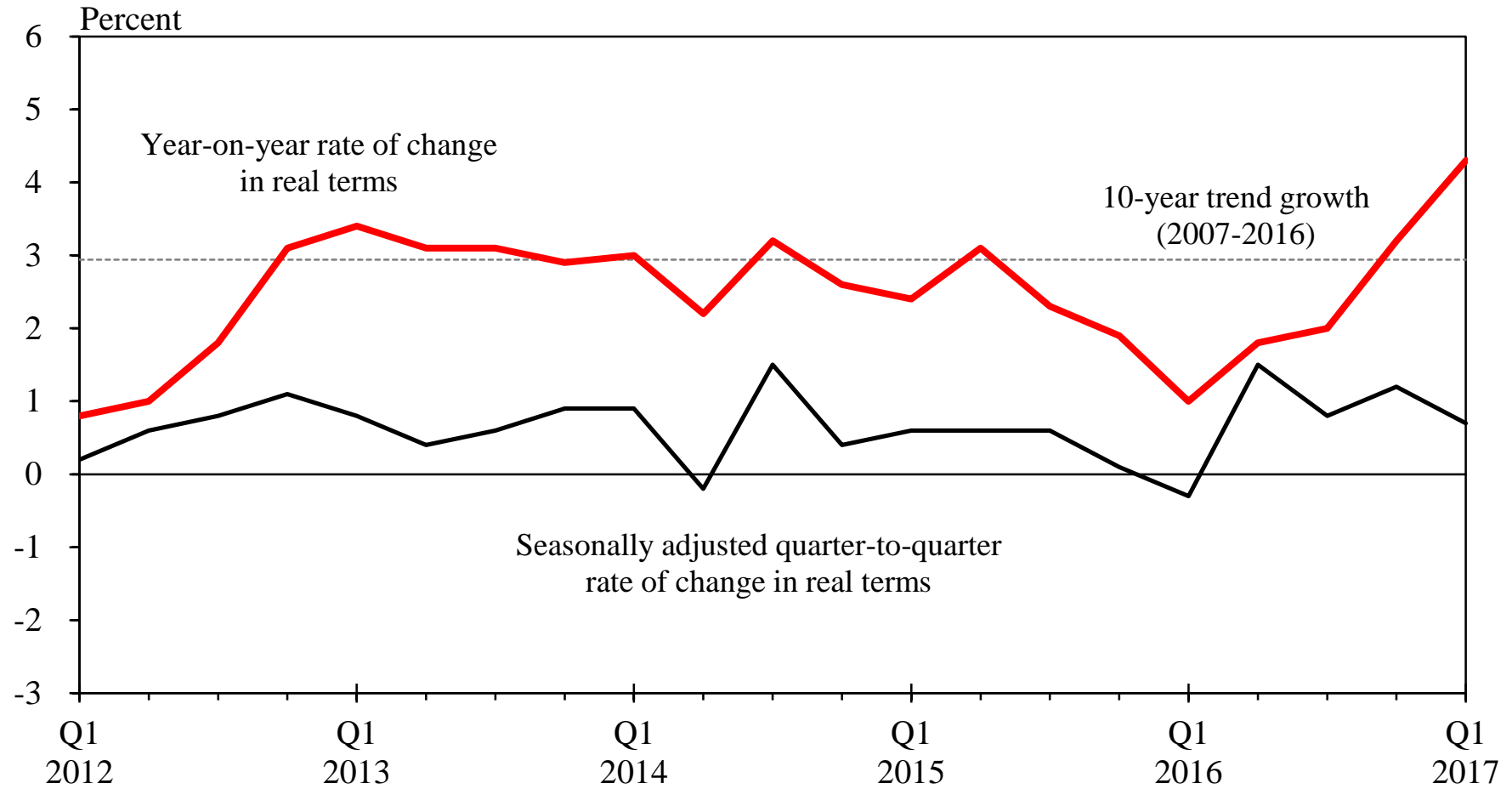
12. Domestic demand should stay resilient. Local consumption sentiment is likely to remain buttressed by favourable employment and income conditions. The latest Quarterly Business Tendency Survey indicated that large enterprises had turned somewhat positive about their near-term business outlook. In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

13. 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 current round of review (*Table 2*). 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 latest forecasts by private sector analysts mostly range from 2.0-2.6%, averaging around 2.1%. The Government will continue to closely monitor the external developments and their possible ramifications on the Hong Kong economy.

14. On inflation outlook, 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. The forecast rates of underlying and headline consumer price inflation for 2017 as a whole put out in the Budget round, at 2% and 1.8% respectively, are therefore maintained in the current round of review (*Table 2*).

(The First Quarter Economic Report 2017 is now available for online download, free of charge at [www.hkeconomy.gov.hk/en/reports/index.htm](http://www.hkeconomy.gov.hk/en/reports/index.htm). The Report of the Gross Domestic Product, First Quarter 2017, which contains the GDP figures up to the first quarter of 2017, is also available for online download, free of charge at the homepage of the Census and Statistics Department, [www.censtatd.gov.hk](http://www.censtatd.gov.hk).)

# Hong Kong's Gross Domestic Product



Note : Figures for the first quarter of 2017 are preliminary estimates.

**Table 1**

**Gross Domestic Product, its main expenditure components  
and the main price indicators  
(year-on-year rate of change (%))**

	<u>2015</u> <sup>#</sup>	<u>2016</u> <sup>#</sup>	<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>#</sup>	<u>2016</u> <u>Q3</u> <sup>#</sup>	<u>Q4</u> <sup>#</sup>	<u>2017</u> <u>Q1</u> <sup>+</sup>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	4.8	1.8	1.5 (0.2)	0.4 (0.7)	1.6 (1.1)	3.6 (1.5)	3.7 (0.4)
Government consumption expenditure	3.4	3.4	3.2 (0.9)	3.6 (1.0)	3.4 (0.5)	3.4 (0.9)	3.7 (1.2)
Gross domestic fixed capital formation	-3.2	-0.3	-8.7	-5.1	7.2	5.6	6.4
<i>of which :</i>							
Building and construction	2.2	3.9	1.5	2.4	4.3	7.5	9.6
Machinery, equipment and intellectual property products	-7.7	-4.6	-10.8	-10.3	7.6	-4.2	-8.9
Total exports of goods <sup>&amp;</sup>	-1.7	1.8	-3.5 (-2.5)	2.4 (3.0)	2.5 (0.7)	5.1 (3.9)	9.2 (1.5)
Imports of goods <sup>&amp;</sup>	-2.7	1.1	-5.6 (-3.8)	0.6 (3.6)	3.1 (1.9)	5.6 (4.0)	9.9 (0.2)
Exports of services <sup>&amp;</sup>	0.3	-3.2	-5.4 (-1.0)	-6.2 (-0.6)	-2.5 (1.8)	1.2 (1.1)	2.6 (0.5)
Imports of services <sup>&amp;</sup>	5.0	2.0	4.1 (1.7)	1.2 (-1.1)	0.8 (-0.2)	2.0 (1.6)	0.9 (0.5)
<b>Gross Domestic Product</b>	<b>2.4</b>	<b>2.0</b>	<b>1.0</b> <b>(-0.3)</b>	<b>1.8</b> <b>(1.5)</b>	<b>2.0</b> <b>(0.8)</b>	<b>3.2</b> <b>(1.2)</b>	<b>4.3</b> <b>(0.7)</b>
<i>Change in the main price indicators (%)</i>							
<b>GDP deflator</b>	<b>3.6</b>	<b>1.8</b>	<b>2.1</b> <b>(0.5)</b>	<b>1.7</b> <b>(0.5)</b>	<b>1.5</b> <b>(0.2)</b>	<b>1.8</b> <b>(0.6)</b>	<b>1.9</b> <b>(0.6)</b>
<b>Composite CPI</b>							
<b>Headline</b>	<b>3.0</b> <sup>@</sup>	<b>2.4</b>	<b>2.8</b> <b>(0.7)</b>	<b>2.6</b> <b>(-0.6)</b>	<b>3.1</b> <b>(0.4)</b>	<b>1.2</b> <b>(0.7)</b>	<b>0.5</b> <b>(0.1)</b>
<b>Underlying</b> <sup>^</sup>	<b>2.5</b> <sup>@</sup>	<b>2.3</b>	<b>2.8</b> <b>(0.7)</b>	<b>2.3</b> <b>(0.2)</b>	<b>2.1</b> <b>(0.5)</b>	<b>2.1</b> <b>(0.7)</b>	<b>1.4</b> <b>(0.1)</b>
<b>Change in nominal GDP (%)</b>	<b>6.1</b>	<b>3.9</b>	<b>3.2</b>	<b>3.6</b>	<b>3.6</b>	<b>5.0</b>	<b>6.3</b>

Notes : Figures are subject to revision later on as more data become available. Seasonally adjusted quarter-to-quarter rate of change is not applicable to gross domestic fixed capital formation, as no clear seasonal pattern is found for the category due to the presence of considerable short term fluctuations.

(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) Revised figures.

(+) Preliminary figures.

( ) Seasonally adjusted quarter-to-quarter rate of change.

(^) After netting out the effects of Government's one-off relief measures.

(@) The year-on-year rates of change of the 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. Splicing has been applied to the indices in order to obtain better estimates of the rates of change for the year 2015.



**Table 2****Economic forecasts for 2017  
(rate of change (%))**

	<u>Forecasts as released on 22.2.2017</u> (%)	<u>Latest forecasts on 12.5.2017</u> (%)
<b>Real Gross Domestic Product (GDP)</b>	2 to 3	2 to 3
<b>Composite Consumer Price Index (CCPI)</b>		
<i>Underlying CCPI</i>	2	2
<i>Headline CCPI</i>	1.8	1.8



# First Quarter Economic Report 2017

Government of the Hong Kong  
Special Administrative Region

# ***FIRST QUARTER ECONOMIC REPORT 2017***

ECONOMIC ANALYSIS DIVISION  
ECONOMIC ANALYSIS AND BUSINESS FACILITATION UNIT  
FINANCIAL SECRETARY'S OFFICE  
GOVERNMENT OF THE  
HONG KONG SPECIAL ADMINISTRATIVE REGION

*May 2017*

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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

- *The Hong Kong economy grew notably by 4.3% in the first quarter of 2017 over a year earlier, sustaining the improving trend that began in the second quarter of last year. External demand continued to strengthen as the global economic environment further improved. Domestic demand also held up well, supported by favourable employment conditions and more positive business sentiment.*
- *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 in the first quarter, marking the fastest year-on-year growth since the first quarter of 2013. Exports of services likewise picked up, benefitting from the stronger trade and cargo flows as well as better global economic sentiment. With visitor arrivals resuming growth gradually, exports of travel services also continued to see relative improvement after a prolonged period of setback.*
- *The domestic segment stayed resilient. Private consumption expenditure sustained solid growth, as local consumer sentiment was well underpinned by the favourable job and income conditions and, to some extent, the relatively buoyant asset market performance. Overall investment expenditure increased notably, thanks to the strong expansion of building and construction activity despite the continued fall in machinery and equipment acquisition.*
- *The labour market remained in a state of full employment, with total employment rising to another record high. The seasonally adjusted unemployment rate eased to 3.2% in the first quarter, a low level last seen in the second quarter of 2014, and the underemployment rate also fell to a three-year low of 1.2%. Wages and earnings showed further real improvements on the back of a tight labour market.*
- *The local stock market rallied during the first quarter, alongside the worldwide increase in risk appetite that also fuelled many overseas stock markets. Global investors reacted positively to the improving global outlook despite the interest rate normalisation in the US and the various policy and political uncertainties in the US and Europe. Separately, the residential property market showed some reactivation during the first quarter, with both flat prices and trading activities picking up.*
- *Inflation pressure remained well contained. External cost pressures stayed largely tame, thanks to the low inflation in our major import sources and the strength of the US dollar against many other currencies over the*

*past year. Increases in domestic costs were also moderate in the meanwhile.*

## **Overall situation**

1.1 The Hong Kong economy expanded notably by 4.3% in the first quarter of 2017 over a year earlier, with exports strengthening and domestic demand displaying remarkable resilience. This well sustained the improving trend that started in the second quarter of last year. The strengthening global economic environment helped buttress the performance of Hong Kong's exports of goods and services in the first quarter. The sustained recovery of visitor arrivals also reduced the drag on exports of travel services. Along with an improved economic outlook, local consumer sentiment held firm. Business sentiment, especially among the large enterprises, also improved. Overall investment expenditure saw faster growth, supported by the strong expansion of building and construction activity, despite the continued decline in machinery and equipment acquisition. The labour market was in full employment and turned slightly tighter, with the unemployment rate edging lower. Nevertheless, consumer price inflation remained modest.

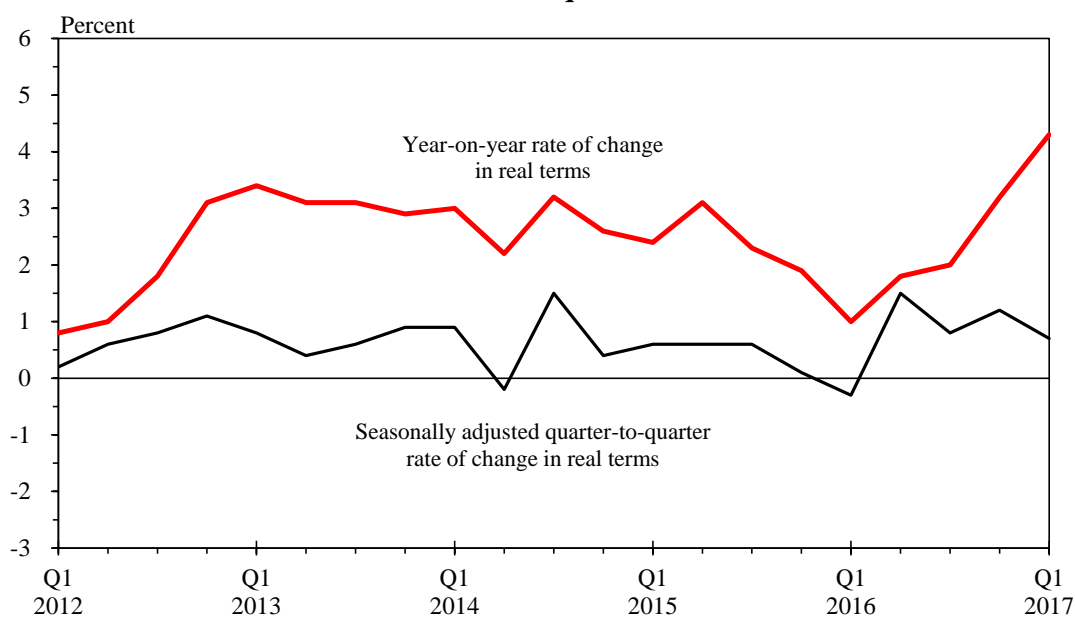
1.2 Global economic activity picked up further in the first quarter. The US economy sustained expansion, while the Mainland economy, beating market expectations, accelerated slightly and stayed firmly on track to attain medium-to-high growth. The euro area and Japan both registered further modest economic growth. The Federal Reserve raised interest rates in mid-March, the second time within three months, and indicated more rate hikes to come if the US economic situation remains favourable (see **Box 1.1** on US interest rate outlook). Reflecting a brightening global outlook, in April the International Monetary Fund (IMF) projected global economic growth<sup>(1)</sup> 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 recovery and the balance of risks remains tilted to the downside, especially over the medium term. Meanwhile, the concern about the building up of trade tensions between the US and the Mainland was mitigated somewhat, following the successful visit by President Xi to the US in early April.

1.3 Against the background of the continued recovery in global demand, Hong Kong's exports of goods accelerated markedly in growth in the first quarter. Benefitting from the improving trade and cargo flows, more optimistic global economic sentiment and a gradual recovery in inbound tourism, exports of services also picked up. On the domestic front, a more

optimistic global outlook was also supportive to both local consumption and investment sentiments. The favourable employment and income conditions underpinned the solid growth in private consumption, whereas the strong expansion of building and construction activities lent strength to overall investment spending despite the still-weak machinery and equipment acquisition. Inflation pressure remained modest in the first quarter amid moderate local cost pressures and muted imported inflation.

1.4 In the first quarter of 2017, *Gross Domestic Product* (GDP)<sup>(2)</sup> grew by 4.3% in real terms over a year earlier, up from the 3.2% growth in the preceding quarter (revised from the earlier estimate of 3.1%). The stronger year-on-year growth of the economy, which was the highest since the second quarter of 2011, also benefitted from the low base of comparison in the first quarter of last year, when economic growth hit a trough amid a disappointing external environment. On a seasonally adjusted quarter-to-quarter comparison<sup>(3)</sup>, real GDP grew further by 0.7% in the first quarter, after three consecutive quarters of rapid growth, averaging 1.2% per quarter.

**Diagram 1.1 : The Hong Kong economy showed notable year-on-year growth in the first quarter**





## **The external sector**

1.5 *Total exports of goods* compiled under the GDP accounting framework showed a notable growth of 9.2% in real terms in the first quarter over a year earlier, up from an increase of 5.1% in the preceding quarter and 1.8% for 2016 as a whole. Analysed by major market, by reference to external merchandise trade statistics, 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, our 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.

1.6 *Exports of services* also benefitted from the better global economic conditions in the first quarter, up by 2.6% in real terms over a year earlier, compared to the 1.2% growth in the preceding quarter and the 3.2% decline for 2016 as a whole. Exports of transport services sustained brisk growth, amid the stronger regional trade and cargo flows. Exports of financial services reverted to a modest growth and exports of business and other services also grew slightly further, thanks to a more sanguine global economic environment. Exports of travel services also saw some relative improvement, reflecting the continued recovery of visitor arrivals. However, tourist spending had yet to resume growth, probably being constrained by the currency movements and changing tourist spending patterns.

**Table 1.1 : Gross Domestic Product, its main expenditure components  
and the main price indicators  
(year-on-year rate of change (%))**

	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>	<u>2016</u>				<u>2017</u>
			<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>+</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	4.8	1.8	1.5 (0.2)	0.4 (0.7)	1.6 (1.1)	3.6 (1.5)	3.7 (0.4)
Government consumption expenditure	3.4	3.4	3.2 (0.9)	3.6 (1.0)	3.4 (0.5)	3.4 (0.9)	3.7 (1.2)
Gross domestic fixed capital formation	-3.2	-0.3	-8.7	-5.1	7.2	5.6	6.4
<i>of which :</i>							
Building and construction	2.2	3.9	1.5	2.4	4.3	7.5	9.6
Machinery, equipment and intellectual property products	-7.7	-4.6	-10.8	-10.3	7.6	-4.2	-8.9
Total exports of goods <sup>&amp;</sup>	-1.7	1.8	-3.5 (-2.5)	2.4 (3.0)	2.5 (0.7)	5.1 (3.9)	9.2 (1.5)
Imports of goods <sup>&amp;</sup>	-2.7	1.1	-5.6 (-3.8)	0.6 (3.6)	3.1 (1.9)	5.6 (4.0)	9.9 (0.2)
Exports of services <sup>&amp;</sup>	0.3	-3.2	-5.4 (-1.0)	-6.2 (-0.6)	-2.5 (1.8)	1.2 (1.1)	2.6 (0.5)
Imports of services <sup>&amp;</sup>	5.0	2.0	4.1 (1.7)	1.2 (-1.1)	0.8 (-0.2)	2.0 (1.6)	0.9 (0.5)
<b>Gross Domestic Product</b>	<b>2.4</b>	<b>2.0</b>	<b>1.0</b> <b>(-0.3)</b>	<b>1.8</b> <b>(1.5)</b>	<b>2.0</b> <b>(0.8)</b>	<b>3.2</b> <b>(1.2)</b>	<b>4.3</b> <b>(0.7)</b>
<i>Change in the main price indicators (%)</i>							
<b>GDP deflator</b>	<b>3.6</b>	<b>1.8</b>	<b>2.1</b> <b>(0.5)</b>	<b>1.7</b> <b>(0.5)</b>	<b>1.5</b> <b>(0.2)</b>	<b>1.8</b> <b>(0.6)</b>	<b>1.9</b> <b>(0.6)</b>
<b>Composite CPI</b>							
<b>Headline</b>	<b>3.0<sup>@</sup></b>	<b>2.4</b>	<b>2.8</b> <b>(0.7)</b>	<b>2.6</b> <b>(-0.6)</b>	<b>3.1</b> <b>(0.4)</b>	<b>1.2</b> <b>(0.7)</b>	<b>0.5</b> <b>(0.1)</b>
<b>Underlying<sup>^</sup></b>	<b>2.5<sup>@</sup></b>	<b>2.3</b>	<b>2.8</b> <b>(0.7)</b>	<b>2.3</b> <b>(0.2)</b>	<b>2.1</b> <b>(0.5)</b>	<b>2.1</b> <b>(0.7)</b>	<b>1.4</b> <b>(0.1)</b>
<b>Change in nominal GDP (%)</b>	<b>6.1</b>	<b>3.9</b>	<b>3.2</b>	<b>3.6</b>	<b>3.6</b>	<b>5.0</b>	<b>6.3</b>

Notes : Figures are subject to revision later on as more data become available. Seasonally adjusted quarter-to-quarter rate of change is not applicable to gross domestic fixed capital formation, as no clear seasonal pattern is found for the category due to the presence of considerable short term fluctuations.

(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) Revised figures.

(+) Preliminary figures.

( ) Seasonally adjusted quarter-to-quarter rate of change.

(^) After netting out the effects of Government's one-off relief measures.

(@) The year-on-year rates of change of the 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. Splicing has been applied to the indices in order to obtain better estimates of the rates of change for the year 2015.

## Box 1.1

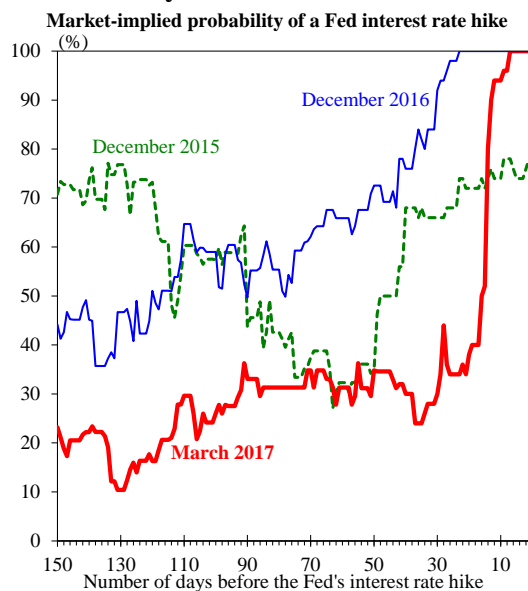
### The US interest rate outlook

Following the interest rate hike in December 2016, the US Federal Reserve (Fed) raised the target range for the federal funds rate by another 25 basis points to 0.75-1.00% in March 2017, marking the third increase since December 2015. While the Fed kept the federal funds rate unchanged in its latest Federal Open Market Committee (FOMC) meeting in early May, the interest rate normalisation process in the US is expected to continue in the coming years, though the pace would hinge on the developments of the US economy. Considering that the US interest rate is highly relevant to the Hong Kong economy, this note briefly examines the uncertainties surrounding the US interest rate outlook.

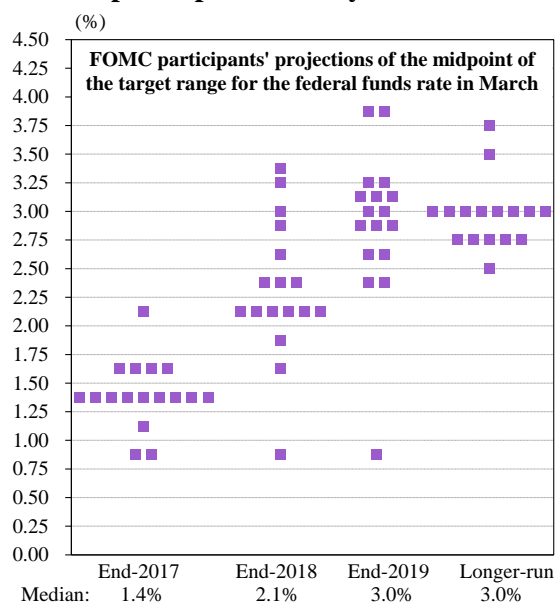
Swings in market perceptions on the Fed's future interest rate actions could bring about significant shifts in the direction of capital flows and heighten volatility in global financial and foreign exchange markets, especially against the backdrop of deepening policy divergence among major central banks. While many regarded the rate hike in March 2017 as widely expected at the time it was announced, market participants only priced in a probability of around 40% for a March rate hike in late February, notwithstanding generally positive incoming economic data. It was after Fed officials had signalled an interest rate hike could come as early as March that the market priced in a considerably higher probability for an upcoming interest rate move (*Chart 1*). Similar observations can be drawn when the same analysis is performed on the two other interest rate hikes earlier on. These showed the potential extent of uncertainty when predicting US interest rate movements as purely deduced from analysing financial market data.

Another perspective to look at the US interest rate outlook is from the projections of the Fed. *Chart 2* shows the extent of disparity between the federal funds rate projections of individual FOMC participants in their meeting in March this year. While the median and mode of their projections both pointed to two more interest hikes of 25 basis points each this year, the extent of variability became much larger at end-2018 (from 1.50-1.75% to 3.25%, if removing the extreme values) and at end-2019 (from 2.25-2.50% to 3.25%, if removing the extreme values). On the other hand, it is worth noting that, despite the great variability in the expected interest rate paths of the FOMC participants in the coming two to three years, most of them considered that the US federal funds rate should be around 3.0% in the longer run, i.e. around 2 percentage points higher than the current level.

**Chart 1 : Expectations in the financial markets for an interest rate hike only aligned with the Fed shortly before the FOMC decision**



**Chart 2 : Notable disparity between the expected interest rate paths of the FOMC participants in 2-3 years' time**

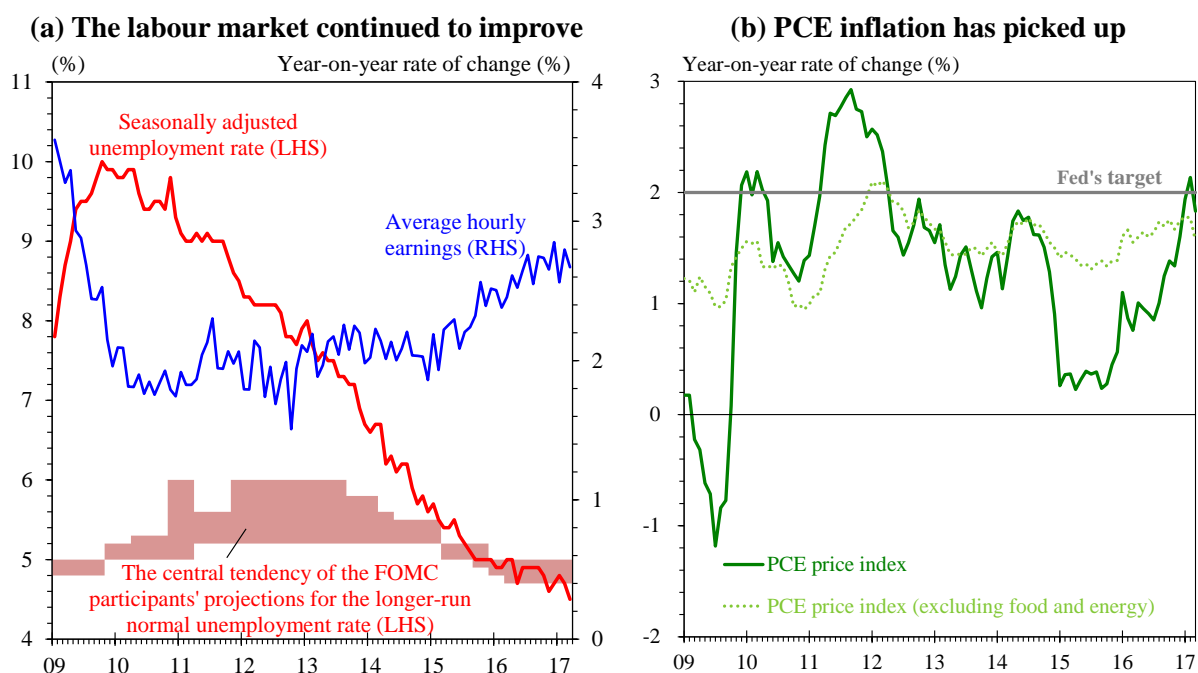


## Box 1.1 (Cont'd)

Although there appears to be uncertainty about the pace of interest rate hikes down the road, the US economy's solid progress towards the Fed's dual mandate of maximising employment and maintaining stable prices will provide support for the interest rate normalisation process to continue. In particular, the US labour market has improved significantly and is in the vicinity of fulfilling maximum employment, supported by continued expansion of the US economy. Nonfarm payroll employment gains were solid, averaging 187 000 per month in 2016 and 178 000 per month in the first quarter of 2017. The unemployment rate trended lower to 4.5% in March, slightly below the central tendency of the longer-run normal level projected by the FOMC participants. Alongside a tighter labour market, average hourly earnings growth accelerated gradually from 2.4% year-on-year in the first quarter of 2016 to 2.7% in the first quarter of 2017 (*Chart 3a*).

As for prices, personal consumption expenditure (PCE) inflation, the Fed's preferred measure, has moved closer to the Fed's 2% target, picking up progressively from 0.9% in the first quarter of 2016 to 1.4% in the fourth quarter and to 2.0% in the first quarter of 2017, on the back of the oil price recovery, while core PCE inflation averaged 1.7% in the first quarter of 2017 (*Chart 3b*).

**Chart 3 : The US economy's solid progress towards the Fed's objectives for monetary policy will provide support for further interest rate normalisation down the road**



It is widely expected that the US economy will see slightly faster growth going forward. In April, the IMF projected the US economic growth to be 2.3% in 2017 and 2.5% in 2018, representing a pick-up from the 1.6% growth in 2016. Firmer economic expansion in the US, coupled with a further strengthening in labour market conditions, should help support a sustained pick-up in wage growth, which would in turn exert upward pressures on inflation. Hence the possibility of a faster pace of interest rate increases should not be ruled out.

### **Box 1.1 (Cont'd)**

However, the still-evolving policy developments under the new US administration have complicated the US economic outlook and the Fed's course of monetary policy. On one hand, the proposed tax reforms and infrastructure spending plans, and initiatives to review financial regulations, if implemented in a timely manner, could provide a stronger impetus to US growth. Yet the sustainability of US long-term fiscal position could limit the availability of policy space. On the other hand, there are concerns about a possible rise in protectionist sentiment and the potential adoption of more inward-looking trade policies. The movements of the US dollar will also complicate the inflation picture. How the new administration's set of economic policies will ultimately impact on US growth and inflation, and hence the interest rate outlook, remains to be seen.

Another dimension of the Fed's monetary policy normalisation that deserves a close watch is the eventual scale-back of the Fed's balance sheet. In its May policy statement, the Fed once again indicated that the current reinvestment policy of longer-term asset securities is anticipated to continue until the normalisation of interest rates is well under way to help keep financial conditions accommodative. That said, according to the minutes of March's FOMC meeting, most participants judged that a change to the Fed's current reinvestment policy (implying a scale-back in the Fed's balance sheet) would likely be appropriate later this year, though the timing is still uncertain and would depend on economic and financial conditions. Given the various uncertainties surrounding the issue, market speculations about the Fed's preferred size and composition of its balance sheet as well as the appropriate timing to start its scale-back might affect financial and liquidity conditions in the period ahead.

While there are uncertainties surrounding the Fed's timing and pace of future interest rate hikes and hence risks of increased financial market volatility, Hong Kong is capable of navigating through capricious global financial conditions and of handling massive capital flows, thanks to our strong economic fundamentals and robust financial system. The Government will continue to closely monitor the US economic and monetary policy developments and their possible impacts on the Hong Kong economy.

## The domestic sector

1.7 The domestic sector stayed resilient in the first quarter. Local consumption sentiment remained well underpinned by the favourable employment and earning conditions and, to some extent, the positive wealth effect from higher asset prices. *Private consumption expenditure* grew solidly by 3.7% in real terms in the first quarter over a year earlier, similar to the expansion pace in the preceding quarter. *Government consumption expenditure* went up further by 3.7% in the first quarter, broadly similar to the growth pace in recent years.

**Table 1.2 : Consumer spending by major component<sup>(a)</sup>  
(year-on-year rate of change in real terms (%))**

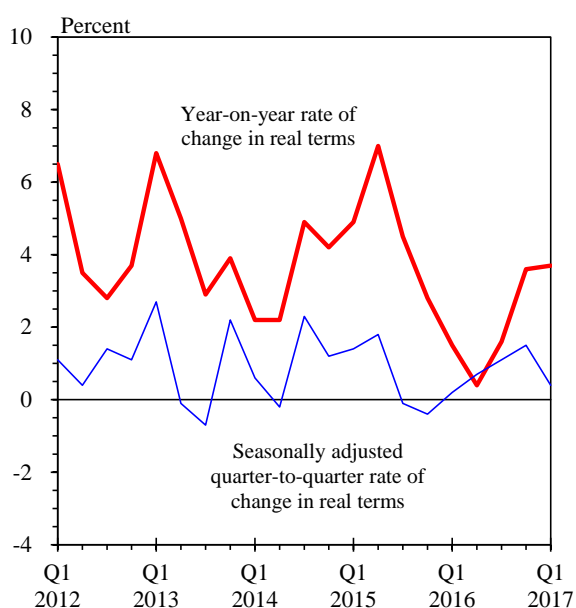
	Total consumer spending in the domestic market <sup>(a)</sup>	<i>Of which :</i>					Residents' expenditure abroad	Visitor spending	Private consumption expenditure <sup>(b)</sup>
		Food	Durables	Non- durables	Services				
2016 Annual	-0.2	0.9	-13.3	-0.3	1.9	7.1	-8.1	1.8	
H1	-1.7	0.7	-17.9	-2.5	1.1	9.2	-11.0	1.0	
H2	1.2	1.2	-8.8	1.9	2.8	5.1	-5.3	2.7	
Q1	-2.2	-1.8	-17.8	-3.4	1.8	16.6	-13.0	1.5	
Q2	-1.1	2.7	-18.1	-1.5	0.3	2.4	-8.8	0.4	
Q3	*	0.3	-8.1	-2.9	2.2	4.0	-7.4	1.6	
Q4	2.3	2.0	-9.3	6.1	3.3	6.1	-3.3	3.6	
2017 Q1	3.5	3.3	-1.1	4.5	3.9	-0.2	-0.3	3.7	

Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

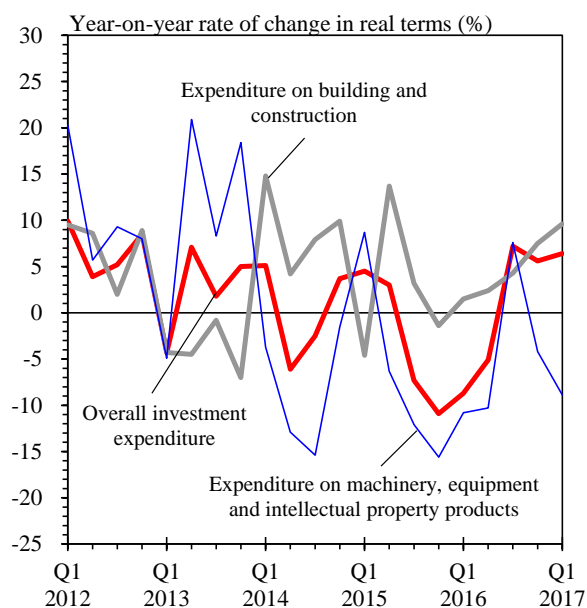
(b) Private consumption expenditure is obtained by deducting visitor spending from the total consumer spending in the domestic market, and adding back residents' expenditure abroad.

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

**Diagram 1.2 : Private consumption expenditure grew moderately further**



**Diagram 1.3 : Investment spending picked up**



1.8 Overall investment spending in terms of *gross domestic fixed capital formation* increased notably further by 6.4% year-on-year in real terms in the first quarter, after the visible rebound of 6.3% in the second half of last year. Overall building and construction activity grew strongly 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 continued to decline, as such spending by the private sector had yet to recover. Conceivably reflecting the more optimistic global economic outlook, the results of the latest Quarterly Business Tendency Survey and the Monthly Survey on the Business Situation of Small and Medium-sized Enterprises (SMEs) (see **Box 1.2** for details of business sentiments) suggested that business sentiment turned slightly more positive since entering 2017, particularly so among the large enterprises.

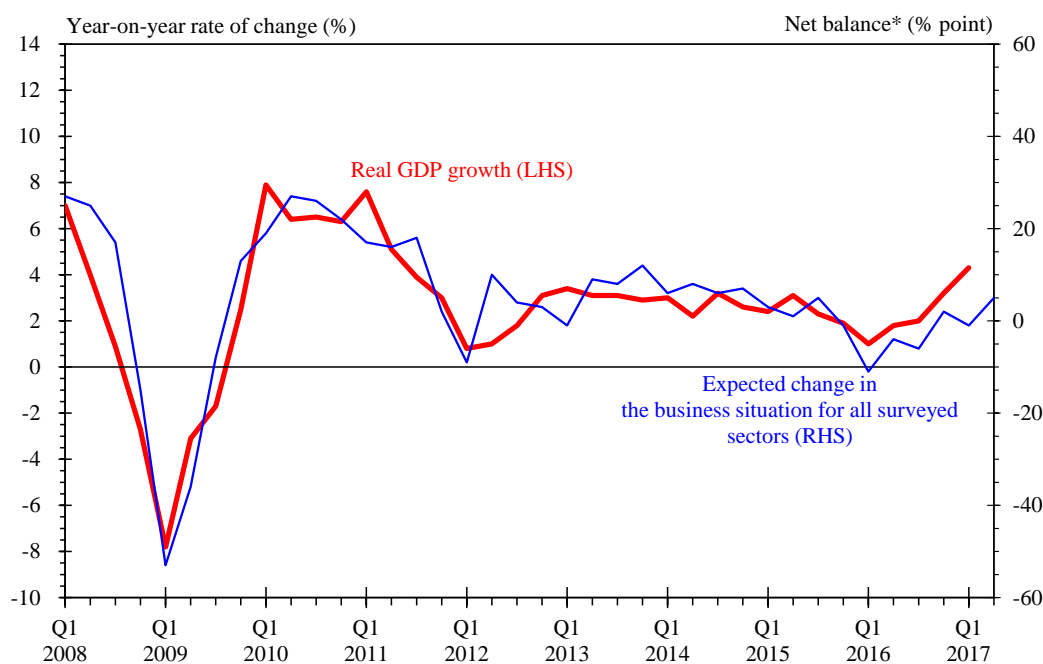
## Box 1.2

### Business sentiment in Hong Kong

To gain a better understanding of the prevailing business situation and expectations in Hong Kong, the Census and Statistics Department (C&SD) conducts the Quarterly Business Tendency Survey (QBTS) to collect views from over 500 large establishments and the Monthly Survey on the Business Situation of Small and Medium-sized Enterprises (SMEs) to solicit feedbacks from over 500 SMEs<sup>(1)</sup>.

According to recent QBTS results, the overall business sentiment of large enterprises in Hong Kong, though still somewhat cautious in some sectors, was generally on an improving trend in the past several quarters. This was largely in line with the re-acceleration of Hong Kong's economic growth since the second quarter of 2016, after a notable slackening in the first quarter of 2016 (*Chart 1*). Based on the latest survey results, in which respondents were asked to exclude seasonal influences in their responses, the proportion of respondents expecting their businesses to fare better in the second quarter of 2017 was slightly higher than that of those expecting a weaker business performance, with large enterprises in such sectors as "information and communications" and "financing and insurance" particularly optimistic about the near-term business outlook. Many other sectors such as "professional and business services", "retail", "import/export trade and wholesale" and "construction" also showed varying degrees of relative improvement (*Table 1*). Meanwhile, hiring sentiment of large enterprises in most sectors remained positive, amid a tight labour market (*Table 2*).

**Chart 1 : 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 the business situation versus the 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.

(1) SMEs in the sectors covered refer to establishments with fewer than 50 persons engaged.



## Box 1.2 (Cont'd)

**Table 1 : Large enterprises in some sectors turned more optimistic about the near-term business outlook**

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2016				2017	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	-10	+12	-2	+2	+18	+14
Construction	-11	-7	-12	-11	-18	-14
Import/export trade and wholesale	-30	-8	-14	-14	-6	-2
Retail	-47	-40	-38	-2	-15	-4
Accommodation and food services	-15	-17	-11	+13	-14	-13
Transportation, storage and courier services	+1	+8	+5	+12	+7	-2
Information and communications	+13	0	+12	+15	0	+19
Financing and insurance	+7	+9	+6	+12	+12	+24
Real estate	-7	-6	-3	+4	-2	0
Professional and business services	0	-11	-14	+9	-8	0

Note: (\*) Net balance indicates the direction of expected change in the business situation versus the 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.

**Table 2 : Hiring sentiment among large enterprises was mostly positive**

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2016				2017	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	-3	+12	+12	+17	+10	-7
Construction	+13	+1	+11	+4	-8	0
Import/export trade and wholesale	-3	-3	-6	-5	0	+2
Retail	+9	-2	-4	+4	+1	+4
Accommodation and food services	+7	+12	+15	+16	+5	+9
Transportation, storage and courier services	+10	+11	+18	+20	+17	+9
Information and communications	+13	+12	+21	+13	+14	+24
Financing and insurance	+7	+7	+10	+10	+15	+16
Real estate	+14	+14	+6	+27	+28	+18
Professional and business services	+5	-4	-7	+15	0	+6

Note: (\*) Net balance indicates the direction of expected change in the number of persons engaged versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing “up” over that choosing “down”. A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

As for the SMEs, a set of diffusion indices is compiled by the C&SD based on the monthly survey, to gauge the general directions of change in the respondents’ views on business receipts, employment and new orders versus the preceding month. The diffusion indices on business receipts suggested that the overall business situation of the SMEs showed some relative improvement in recent months. The overall index picked up successively from 45.2 in December 2016 to 47.2 in March 2017 and stayed steady at 47.0 in April, albeit still below the boom-bust threshold of 50.0 (*Table 3*). Performances of individual sectors were mixed in terms of business receipts. While the SMEs in the business services sector fared better in April, the readings for those in wholesale trade, real estate, restaurants, and logistics were well below the boom-bust threshold of 50.0. Nevertheless, the SMEs surveyed in general suggested a broadly stable employment situation in recent months (*Table 4*).

For the import/export trade sector in particular, SMEs’ views on new orders were sought separately to help gauge the likely export performance in the near term. The diffusion index on new orders hovered below the 50.0 boom-bust threshold in recent months, plausibly reflecting some concerns about lingering external uncertainties (*Table 5*).

The monthly survey on SMEs also indicated that the overall credit situation remained highly accommodative in recent months. In April 2017, 8.0% of SMEs reported current need for credit. Thanks to the generally accommodative monetary conditions and the Government’s continued efforts to support SMEs through various loan guarantee and funding schemes, only 0.5% reported tight access to credit (*Table 6*).

While these two surveys have their limitations and the results should be interpreted with care, the latest survey findings seem to suggest that business sentiment in general turned slightly more positive since entering 2017, though some cautiousness lingered on among certain businesses. Although the global economy has been improving gradually since the second quarter of last year, the Government will remain vigilant to various risk factors in the external environment and their possible repercussions on the Hong Kong economy.

**Box 1.2 (Cont'd)**
**Table 3 : Diffusion indices<sup>^</sup> on SMEs' business receipts**

	2016									2017			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
<i>Local segments</i>													
Restaurants	44.0	41.4	40.2	49.2	45.0	47.5	44.1	41.9	42.4	45.1	44.4	43.0	43.7
Real estate	46.6	53.4	43.8	50.0	47.4	55.3	42.1	33.3	40.4	45.2	48.0	50.0	42.5
Retail trade	38.8	44.2	37.2	39.7	43.3	45.3	47.9	47.1	43.2	45.2	44.0	43.1	47.6
Wholesale trade	32.4	35.3	38.9	41.7	50.0	47.2	41.7	48.1	41.1	46.4	44.6	40.0	40.0
Business services	50.0	51.8	48.5	45.6	48.5	47.1	47.2	51.2	51.1	51.1	49.0	51.0	54.2
<i>External segments</i>													
Import/export trade	50.9	46.3	41.4	44.0	45.2	45.2	46.9	47.2	47.2	45.2	46.7	50.0	47.0
Logistics	46.7	46.4	37.5	39.5	47.4	50.0	47.1	45.7	38.3	43.5	45.3	44.1	44.1
<b>All the above sectors*</b>	<b>45.7</b>	<b>45.9</b>	<b>41.0</b>	<b>43.6</b>	<b>45.7</b>	<b>46.6</b>	<b>46.3</b>	<b>46.4</b>	<b>45.2</b>	<b>46.0</b>	<b>46.1</b>	<b>47.2</b>	<b>47.0</b>

Notes : (^) The diffusion index is computed by adding the percentage of SMEs reporting "up" to one half of the percentage of SMEs reporting "same". A diffusion index reading above 50 indicates that the business condition is generally favourable, whereas an index below 50 indicates otherwise. Respondents were requested to exclude seasonal effects in reporting their views.

(\*) Weighted average using total number of SMEs in individual sectors as weights.

**Table 4 : Diffusion indices<sup>^</sup> on SMEs' employment situation**

	2016									2017			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
<i>Local segments</i>													
Restaurants	50.9	48.3	45.9	50.0	51.7	48.3	51.7	46.3	48.2	50.0	47.5	48.7	46.8
Real estate	50.0	50.0	50.0	46.1	50.0	51.3	51.3	44.8	47.1	47.1	48.0	51.0	50.0
Retail trade	47.4	49.5	48.7	48.3	49.6	49.6	49.6	50.0	49.1	49.4	49.7	49.7	50.0
Wholesale trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	48.2	50.0	48.3
Business services	50.0	50.0	48.5	48.5	48.5	48.6	50.0	50.0	50.0	50.0	50.0	51.0	51.0
<i>External segments</i>													
Import/export trade	50.5	49.5	48.8	48.7	49.1	48.2	48.2	50.7	49.1	50.0	50.0	49.1	49.7
Logistics	43.3	50.0	50.0	44.7	50.0	44.4	47.1	52.2	51.7	51.6	50.0	48.5	50.0
<b>All the above sectors*</b>	<b>49.4</b>	<b>49.6</b>	<b>48.8</b>	<b>48.4</b>	<b>49.5</b>	<b>48.8</b>	<b>49.3</b>	<b>49.8</b>	<b>49.2</b>	<b>49.7</b>	<b>49.5</b>	<b>49.6</b>	<b>49.7</b>

Notes : (^) The diffusion index is computed by adding the percentage of SMEs reporting "up" to one half of the percentage of SMEs reporting "same". A diffusion index reading above 50 indicates that the employment situation is generally favourable, whereas an index below 50 indicates otherwise. Respondents were requested to exclude seasonal effects in reporting their views.

(\*) Weighted average using total number of SMEs in individual sectors as weights.

**Table 5 : Diffusion index<sup>^</sup> on SMEs' current new orders**

	2016									2017			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Import/export trade	48.6	47.7	41.4	44.9	46.9	46.5	47.4	48.6	48.1	47.3	46.4	49.1	47.9

Note : (^) The diffusion index is computed by adding the percentage of SMEs reporting "up" to one half of the percentage of SMEs reporting "same". A diffusion index reading above 50 indicates that the new orders condition is generally favourable, whereas an index below 50 indicates otherwise. Respondents were requested to exclude seasonal effects in reporting their views.

**Table 6 : Percentage of SMEs with current credit need and reporting tight credit access<sup>&</sup>**

	2016							2017				
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
All selected sectors*												
With current credit need	13.0	8.9	8.4	9.3	9.2	9.4	9.8	8.4	8.5	7.8	8.0	
Reported tight access to credit	1.2	0.8	0.3	0.9	0.7	0.6	0.5	0.2	0.1	0.7	0.5	

Notes : (&) From the June 2016 round onwards, the questions on access to credit have been enhanced for better understanding of the current credit need and credit access situation of SMEs. It should be noted that the assessment of credit access situation might display great fluctuations from month to month given the small number of SMEs involved, as a great majority of SMEs reported "no credit need". Thus the results should be interpreted with caution.

(\*) Weighted average using total number of SMEs in individual sectors as weights.

## **The labour sector**

1.9 The labour market, while in a state of full employment, tightened slightly, with the *seasonally adjusted unemployment rate* easing to 3.2% in the first quarter of 2017, a low level last seen in the second quarter of 2014, and the *underemployment rate* edging down to a three-year low of 1.2%. Amid a gradual recovery in labour demand, total employment picked up in growth to reach another record high in the first quarter of 2017. Wages and earnings stayed on the rise in the fourth quarter of 2016 under a resilient and stable labour market.

## **The asset markets**

1.10 The *local stock market* generally trended upwards throughout the first quarter of 2017, 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 the first quarter at 24 112, up markedly by 9.6% from end-2016, the best first-quarter performance since 2012. Average daily turnover of the stock market increased to \$74.3 billion in the first quarter, from \$64.3 billion in the preceding quarter. Credit growth also picked up, with loans for use in Hong Kong at end-March 2017 surging by 11.5% over a year earlier, faster than the 7.3% growth recorded three months earlier.

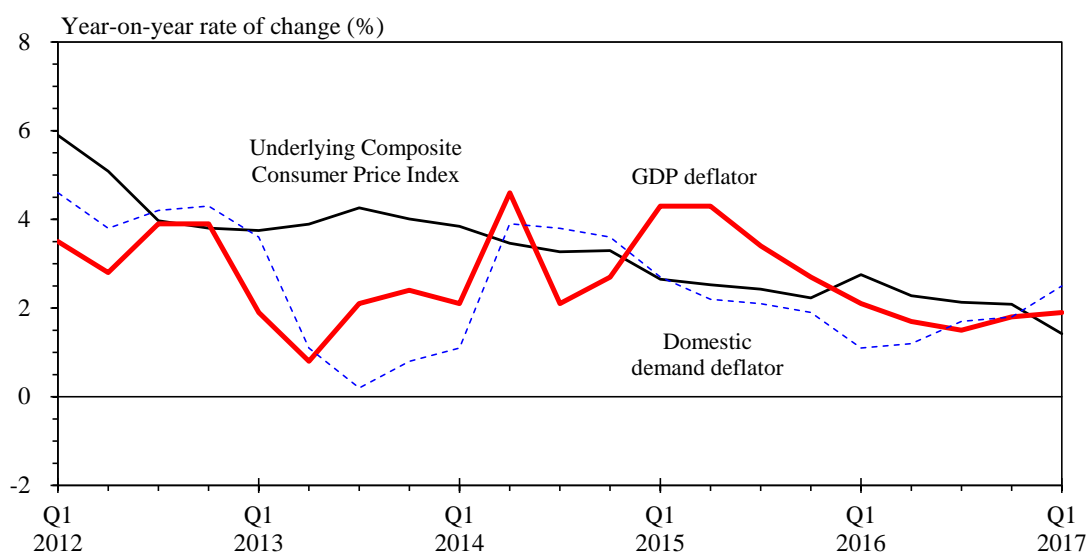
1.11 The *residential property market* showed some reactivation in the first quarter of 2017. Trading volume picked up successively from the low in January, though for the quarter as a whole still down by 22% from the preceding quarter. Residential property prices increased by 4% between December 2016 and March 2017. Overall flat prices in March 2017 exceeded the 1997 peak by 85%, and the housing affordability ratio worsened further to around 66% in the first quarter. Flat rentals rose by 2% during the first quarter. Meanwhile, office and shop rentals both went up by 1%. In early April, the Government announced to tighten up the existing exemption arrangement for Hong Kong permanent residents, regarding the acquisition of more than one residential property under a single instrument, under the New Residential Stamp Duty introduced in November 2016.

## Inflation

1.12 Consumer price inflation was modest in the first quarter. External cost pressures stayed largely tame, thanks to the low inflation in our major import sources and the strength of the US dollar against other major currencies over the past year. Locally, rises in labour cost remained steady along with the stable labour market conditions. Rental cost pressures as reflected in consumer price inflation were largely contained, as the slower increases in fresh-letting residential and commercial rentals during 2016 continued to feed through. Besides, the higher base of comparison in the first quarter of last year also contributed to lower consumer price inflation in the first quarter of this year, given the food price spikes early last year due to bad weather conditions, as well as the higher package tour charges in March last year due to the earlier arrival of the Easter holidays. All in all, *headline consumer price inflation* went down to 0.5% in the first quarter, from 1.2% in the preceding quarter. 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 from 2.1% in the preceding quarter.

1.13 The year-on-year rate of increase in the *GDP deflator* picked up slightly to 1.9% in the first quarter from 1.8% in the preceding quarter, reflecting mainly the movement of domestic demand deflator. Meanwhile, the terms of trade deteriorated somewhat as import prices increased slightly faster than export prices.

**Diagram 1.4 : Underlying consumer price inflation eased in the first quarter**



Note : The year-on-year rates of change of the Composite Consumer Price Index 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.

## **GDP by major economic sector**

1.14 The growth in net output of the services sector as a whole picked up to 2.3% in real terms in 2016 from 1.7% in 2015, as the headwinds in the external environment gradually subsided over the course of last year. Specifically, alongside the general recuperation of Asia's trade flows, net output of import and export trade rebounded over the course of 2016, while that of transportation and storage continued to grow moderately. As the primary property market turned more active over the course of 2016, net output of real estate (mainly reflecting activity of private sector developers and property agency) also rebounded in 2016. Net output of financing and insurance sector continued to show notable growth, whereas that of professional and business services grew moderately for the year as a whole. Net output of public administration, social and personal services expanded steadily further. On the other hand, economic activities related to inbound tourism were still weak, as visitor arrivals fell during most of the year. Net output of wholesale and retail trades declined distinctly for the year as a whole, notwithstanding some relative improvement in the fourth quarter of 2016. Net output of accommodation and food services only rose marginally in 2016. As for the secondary sector, net output growth of construction sector slowed in 2016 on a high base of comparison after years of intensive large-scale infrastructure works, yet there was a pick-up in growth over the course of year as the economy regained momentum. Meanwhile, the secular downtrend in net output of manufacturing sector continued.

**Table 1.3 : GDP by economic activity<sup>(a)</sup>  
(year-on-year rate of change in real terms (%))**

	<u>2015</u>	<u>2016</u>	<u>2015</u>				<u>2016</u>			
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Manufacturing	-1.5	-0.4	-1.5	-1.2	-2.1	-1.3	-0.3	-0.4	-0.1	-1.0
Construction	5.4	2.6	-2.2	18.9	6.2	1.2	-1.2	0.8	3.0	7.6
Services <sup>(b)</sup>	1.7	2.3	2.1	1.4	1.7	1.8	1.6	2.7	2.3	2.5
Import/export, wholesale and retail trades	-1.1	0.4	-0.1	-3.9	-0.5	-0.2	-2.1	0.9	0.8	1.7
Import and export trade	-0.9	2.1	0.1	-5.4	-0.3	1.0	0.1	2.8	2.3	2.9
Wholesale and retail trades	-1.6	-6.0	-0.8	1.7	-1.5	-4.8	-10.0	-5.9	-5.9	-2.8
Accommodation <sup>(c)</sup> and food services	-1.9	0.1	-1.3	-1.7	-4.0	-0.6	-0.9	1.0	0.1	0.2
Transportation, storage, postal and courier services	3.3	3.3	3.5	2.6	2.7	4.5	2.6	3.4	3.5	3.8
Transportation and storage	4.0	3.4	4.1	3.1	3.2	5.3	2.8	3.5	3.4	3.8
Postal and courier services	-8.2	2.3	-6.6	-7.1	-9.2	-9.7	-1.4	2.7	5.8	2.5
Information and communications	4.0	3.7	5.0	4.7	3.6	3.0	3.7	4.2	3.7	3.3
Financing and insurance	6.1	4.7	4.8	8.0	5.8	5.7	5.0	4.2	4.7	4.8
Real estate, professional and business services	0.7	3.0	2.9	0.6	0.1	-0.7	1.8	3.7	3.2	3.5
Real estate	-2.3	3.7	0.6	-1.4	-2.5	-5.7	0.6	2.9	5.5	6.0
Professional and business services	3.2	2.5	5.2	2.2	2.1	3.4	2.6	4.4	1.4	1.7
Public administration, social and personal services	2.5	2.7	2.1	1.9	3.3	2.9	2.5	3.3	2.5	2.3

Notes : Figures are subject to revision later on as more data become available.

- (a) The GDP figures shown in this table are compiled from the production approach, in parallel with those shown in Table 1.1 which are compiled from the expenditure approach. For details, see Note (2) to this chapter.
- (b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity.
- (c) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

## **Other economic developments**

1.15 President Xi and US President Trump held their first meeting in Florida in early April, pledging to expand mutually beneficial co-operation. A new US-China Comprehensive Dialogue headed by the two Presidents would be established, overseeing diplomatic and security, economic, law enforcement and cybersecurity, and social and culture issues. Notably, a 100-day plan was set up for discussing key trade issues. The developments helped allay the market concern about a possible deterioration of the trade relations between the two largest economies in the world.

1.16 In view of the need to stabilise the economy and support employment amid an uncertain external environment, the 2017-18 Budget (the Budget) proposed a series of tax and relief measures amounting to \$35.1 billion. These one-off relief measures, together with other spending initiatives in the Budget, were estimated to have a fiscal stimulus effect of boosting GDP for 2017 by 1.1 percentage points. The Budget also laid out measures to support SMEs and the tourism industry in Hong Kong.

1.17 On top of tax and relief measures, the Budget adopted a forward-looking approach and earmarked some \$61 billion of the fiscal surplus to strengthen various policy areas for the future. These included provision of services for the elderly and persons with disabilities, sports and recreation facilities, innovation and technology development, and youth development. To secure our long-term economic growth prospect, the Government would continue to strengthen the competitiveness of pillar industries (viz. trading and logistics industry, financial services industry, business and professional services industry, and tourism industry), and encourage diversified development in innovation and technology, creative industries, and financial technologies.

1.18 Manpower and land were identified in the Budget as two major constraints on our economic growth. On human capital, the Government has been investing heavily to nurture talent, as education has been the largest policy area in the Government's recurrent expenditure. On land supply, the Government would continue its endeavour to increase land supply on all fronts to meet the housing, economic and social development needs of Hong Kong.

1.19 The Financial Secretary in his Budget Speech called for a sound and progressive fiscal policy. The Government will be appropriately proactive in developing the economy and improving people's livelihood, be forward looking and invest continuously for the future of Hong Kong, and make good use of financial resources with a view to building a fair and just society that shares the

fruits of economic advancement among people from all walks of life. To make optimal allocation of financial resources, the Government will take into account the source and nature of the fiscal surplus, alongside the prevailing economic situation, the future society needs and the community's expectations. Strict fiscal discipline will also need to be maintained to ensure sustainability in the long run, as well as resilience to withstand short-term economic fluctuations. Separately, the Government pledged to comprehensively examine various tax issues, with a view to fostering development of industries, strengthening Hong Kong's international competitiveness and enhancing our tax regime.

1.20 In late March, the Asian Infrastructure Investment Bank (AIIB) announced that Hong Kong would become a new member upon deposit of first instalment of capital subscription. Hong Kong's participation in the AIIB will create new opportunities for the financial and professional services sector, and reinforce our position as a premier international financial centre.



## Notes :

- (1) The upward revision in the global economic growth forecasts for 2017 by the IMF in April 2017 mainly consisted of an improved outlook for advanced economies and a more optimistic growth prospect for the Mainland. The table below presents a more detailed comparison between the growth forecasts made by the IMF in April 2017 and those three months ago.

	<u>2016</u>	<u>2017</u>	
	(%)	<u>January round</u> (%)	<u>April round</u> (%)
World (PPP <sup>##</sup> weighted)	3.1	3.4	3.5
Advanced economies	1.7	1.9	2.0
US	1.6 <sup>#</sup>	2.3	2.3
Euro area	1.8 <sup>#</sup>	1.6	1.7
UK	1.8 <sup>#</sup>	1.5	2.0
Japan	1.0 <sup>#</sup>	0.8	1.2
Emerging market and developing economies	4.1	4.5	4.5
Emerging and developing Asia	6.4	6.4	6.4
Mainland China	6.7 <sup>#</sup>	6.5	6.6
India <sup>^</sup>	7.1 <sup>#</sup>	7.2	7.2
Middle East and North Africa	3.8	2.9	2.3

- Notes : (#) Actual figures.  
 (^) Fiscal year.  
 (##) PPP refers to purchasing power parity.

- (2) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.
- (3) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.

## CHAPTER 2 : THE EXTERNAL SECTOR

### *Summary*

- *The recovery of the global economy seen in the latter part of 2016 extended well into the first quarter of 2017. The US economy sustained expansion, whereas economic activities in the euro area and Japan grew modestly further. Meanwhile, the Mainland economy accelerated slightly and stayed firmly on track to attain medium-to-high growth. The ensuing expansion in global and regional trade flows provided further impetus for Hong Kong's export growth in the first quarter.*
- *Similar to other Asian economies, Hong Kong's merchandise exports grew briskly in real terms<sup>(1)</sup> in the first quarter. Under the auspices of strengthening global demand and improving economic performance of the region, exports of raw materials, semi-manufactures and capital goods to Asian economies were the key growth propeller, with exports to the Mainland, Taiwan, Korea, India and some emerging Asian markets all growing appreciably. Exports to the major advanced markets also showed various extents of improvement.*
- *Exports of services likewise benefitted from an improving external economic environment and picked up further in growth in the first quarter. Exports of transport services sustained brisk growth, thanks to the stronger trade and cargo flows in the region. Exports of financial services reverted to a modest growth and exports of business and other services grew slightly, thanks to a more sanguine global economic environment. Exports of travel services also showed further relative improvement, as visitor arrivals gradually resumed growth.*
- *As the global outlook is still fraught with uncertainties, a host of support measures for the SMEs were announced in the 2017-18 Budget to ease their burden and assist them to develop their businesses. The Government also made progress in enhancing our economic co-operation with our trading partners.*

## Goods trade

### *Total exports of goods*

2.1 The recovery of the global economy seen in the latter part of 2016 extended well into the first quarter of 2017. The ensuing strengthening of global demand boosted the growth impetus to global and regional manufacturing activity, powering the growth of Asia's exports in early 2017. In tandem, Hong Kong's *merchandise exports* (comprising re-exports and domestic exports) grew briskly by 8.8% year-on-year in real terms in the first quarter of 2017, up from the 5.9% growth in the preceding quarter. The relatively low base of comparison due to the austere external environment in early 2016 also contributed.

2.2 In the first quarter of 2017, the global economic landscape recovered further. The economic activity in the US attained moderate year-on-year expansion, with manufacturing and export activities picking up further and the labour market sustaining improvement. Meanwhile, the euro area economy grew modestly further, though the momentum was still being circumscribed by the lingering structural issues and the highly heterogeneous situations among member states (see **Box 2.1** for details). Japan's economic indicators also registered some improvement. Against this background, import demand in major advanced economies continued to recover in the first quarter. Separately, the Mainland economy stayed on the notable growth track, expanding by 6.9% in the first quarter over a year earlier, beating market expectations. As to other major emerging market economies, India sustained strong growth while Russia also improved. The International Monetary Fund in April forecast global trade growth to pick up somewhat to 3.8% in volume terms in 2017, up from the 2.2% growth in 2016.

2.3 The strengthening global demand as well as improving economic performance of the Asia region encouraged manufacturing activity expansion in Asia, boosting intake in raw materials, semi-manufactures and capital goods. It also provided growth impetus to trade flows in the region. Goods exports in many Asian economies improved in the first quarter of 2017 and attained double-digit year-on-year growth against the low base a year ago when trade flows plunged back then. In tandem with the region's intensified trade flows, Hong Kong's merchandise exports also benefitted and registered notable growth.

**Table 2.1 : Total exports of goods, re-exports and domestic exports  
(year-on-year rate of change (%))**

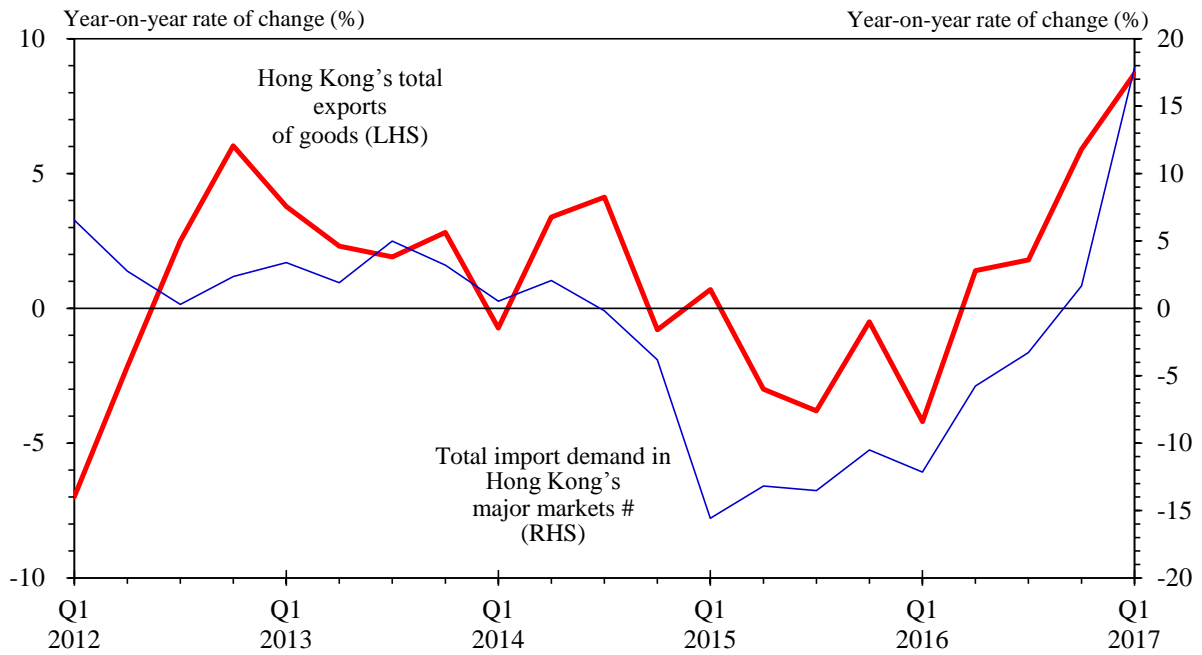
	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>
2016 Annual	-0.5	1.4	-1.7	-0.4	1.5	-1.7	-8.5	-7.0	-1.4
Q1	-6.8	-4.2 (-4.7)	-2.6	-6.7	-4.0 (-4.7)	-2.6	-15.2	-12.1 (-2.4)	-3.2
Q2	-1.2	1.4 (6.1)	-2.2	-0.9	1.6 (6.3)	-2.2	-16.8	-14.7 (-2.7)	-2.1
Q3	-0.2	1.8 (1.0)	-1.6	-0.2	1.8 (0.9)	-1.6	-2.0	-0.1 (8.2)	-1.1
Q4	5.5	5.9 (3.8)	-0.5	5.6	6.0 (3.9)	-0.5	0.9	-0.7 (-3.8)	0.9
2017 Q1	10.3	8.8 (-0.4)	1.6	10.4	8.8 (-0.4)	1.6	4.9	1.8 (1.9)	3.0

Notes : ( ) Seasonally adjusted quarter-to-quarter rate of change.

(a) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

2.4 *Re-exports*<sup>(2)</sup>, the mainstay of overall merchandise exports and accounting for 98.8% of total exports by value, grew remarkably by 8.8% year-on-year in real terms in the first quarter, up from the 6.0% growth in the preceding quarter. *Domestic exports*, constituting the remaining 1.2% of total exports, rebounded by 1.8% in real terms over a year earlier in the first quarter, after nine consecutive quarters of declines.

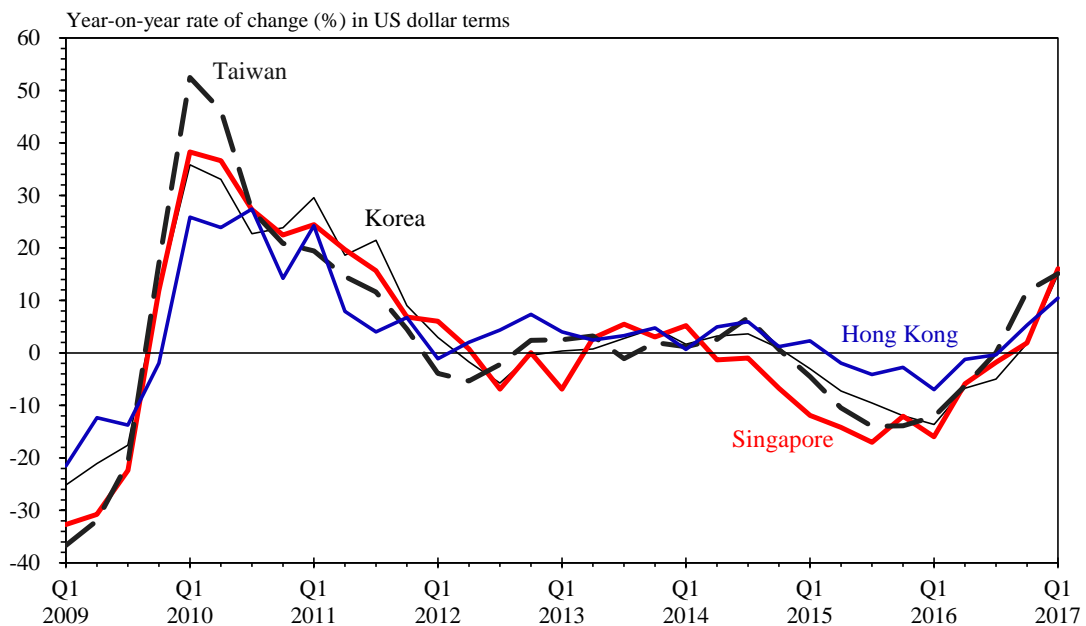
**Diagram 2.1 : Merchandise exports grew briskly in the first quarter of 2017**



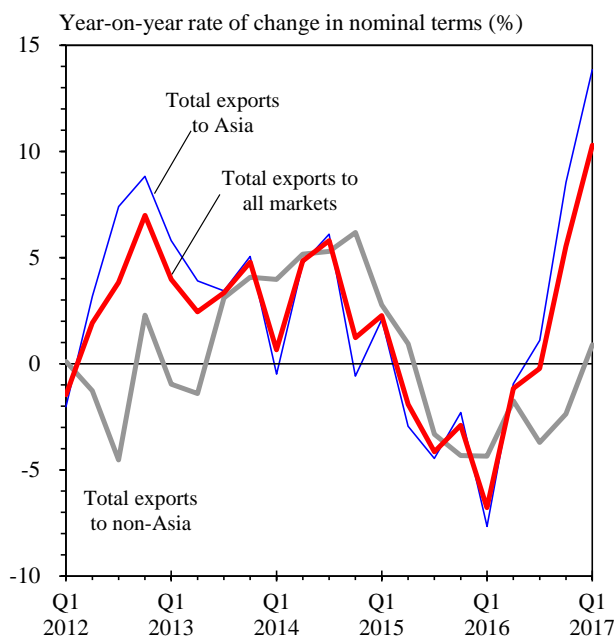
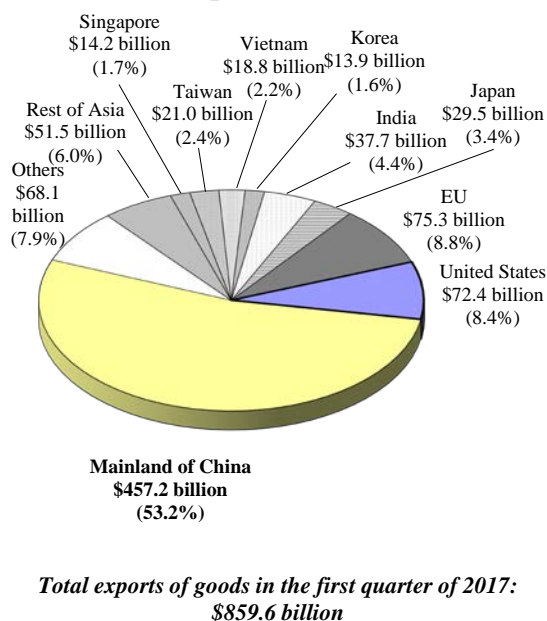
Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in Asia, the United States and the European Union taken together.

(#) Import demand figure for the first quarter of 2017 is based on statistics for January and February 2017.

**Diagram 2.2 : Merchandise exports of higher-income Asian economies improved further in the first quarter**



**Diagram 2.3 : Exports to Asia were the key growth propeller of overall merchandise exports, and exports to other markets also showed various extents of improvement**



**Table 2.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))**

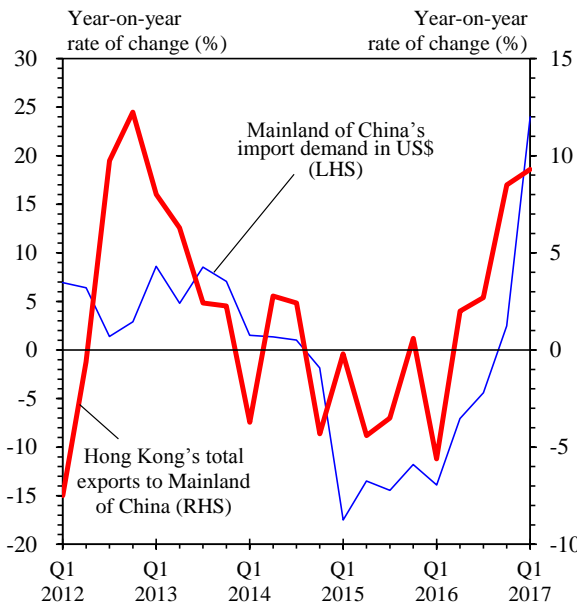
	Annual	Q1	2016			2017
			Q2	Q3	Q4	Q1
Mainland of China	2.2	-5.6	2.0	2.7	8.5	9.3
United States	-1.9	-4.8	-1.4	0.2	-1.9	3.4
European Union	-0.7	-2.6	3.8	-0.4	-3.2	3.0
Japan	-2.3	-3.3	-6.6	-1.1	1.7	7.5
India	17.6	15.8	28.0	15.8	12.1	40.1
Vietnam	-4.8	-2.1	-8.0	-9.8	0.7	10.8
Taiwan	19.0	-2.9	17.1	27.5	31.5	44.3
Singapore	5.9	-0.4	-1.6	7.7	18.3	-1.2
Korea	1.5	-14.0	3.2	6.7	11.2	15.3
Overall*	1.4	-4.2	1.4	1.8	5.9	8.8

Note : (\*) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

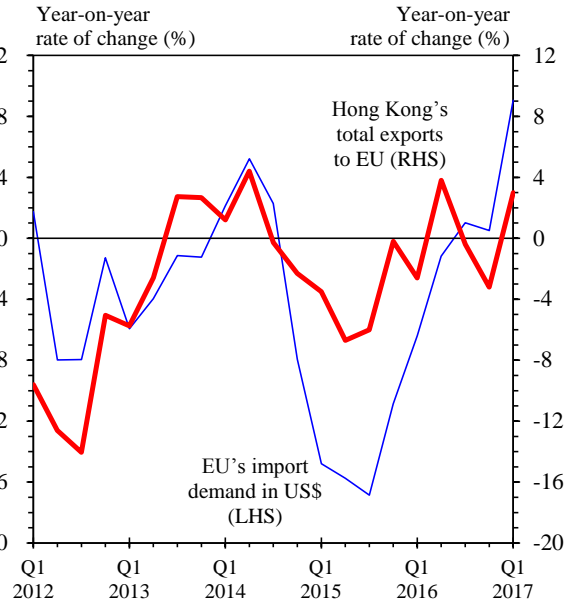
2.5 Against the background of strengthening global demand, as well as improving economic performance of Asia, trading and manufacturing activities in Asia intensified, leading to notable growth in intake for raw materials, semi-manufactures and capital goods in the region. When analysed by market, exports to many major Asian economies registered strong growth in the first quarter, and were the key growth propeller of Hong Kong's overall merchandise exports. In particular, exports to the Mainland registered another quarter of robust performance, achieving near double-digit growth in real terms. As to the higher-income Asian markets, exports to Taiwan surged on the back of the continued expansion in industrial production there, and those to Korea picked up to show further notable growth. However, exports to Singapore were relatively weak. Meanwhile, exports to many Asian emerging markets showed appreciable growth, with those to Vietnam accelerating to attain double-digit growth, and those to India expanding remarkably further on the back of the solid economic performance there.

2.6 Exports to the major advanced markets also showed improvement of various extents in the first quarter. Exports to the US reverted to a moderate growth, as the import demand there rose further alongside revival in fixed investments, sustained job gains and fall in unemployment rate. The EU market likewise bounced back to show moderate growth, amid continued modest economic expansion. Meanwhile, exports to Japan picked up, on the back of the intensified regional trade flows in Asia as well as some improvement in industrial activities there. The lower base of comparison a year ago in exports to Japan after a prolonged period of setback also contributed.

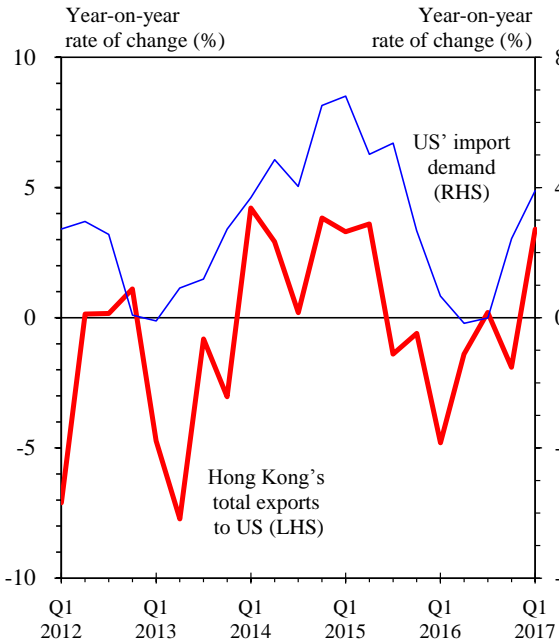
**Diagram 2.4 : Exports to the Mainland registered another quarter of robust performance**



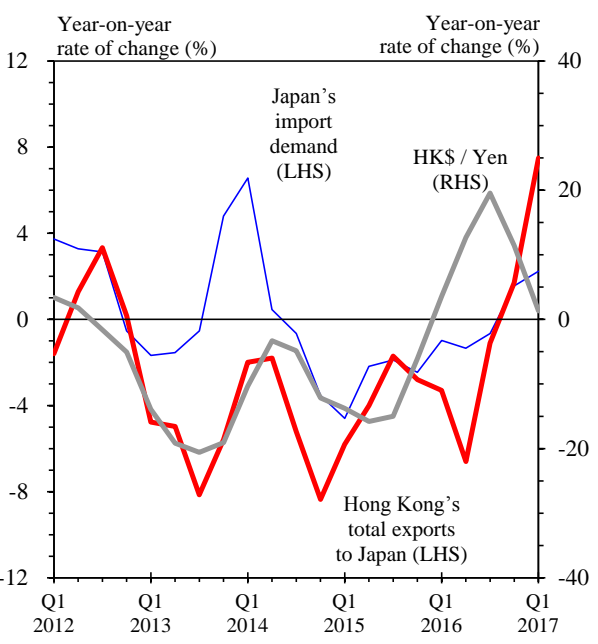
**Diagram 2.5 : Exports to the EU bounced back to show moderate growth**



**Diagram 2.6 : Exports to the US reverted to a moderate growth**

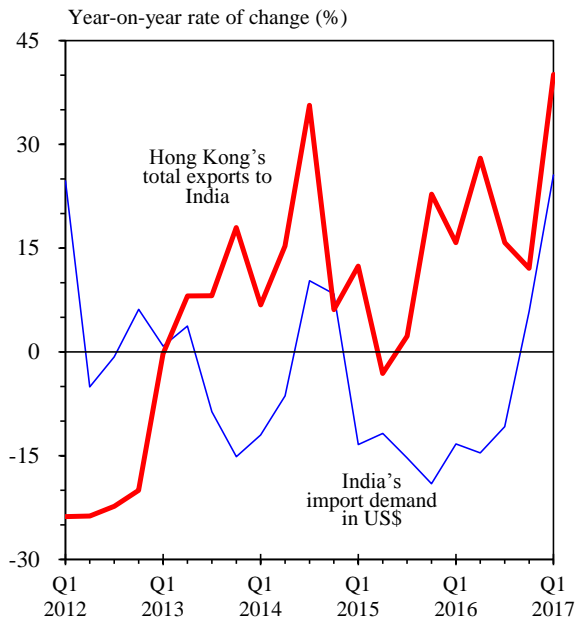


**Diagram 2.7 : Exports to Japan likewise picked up**

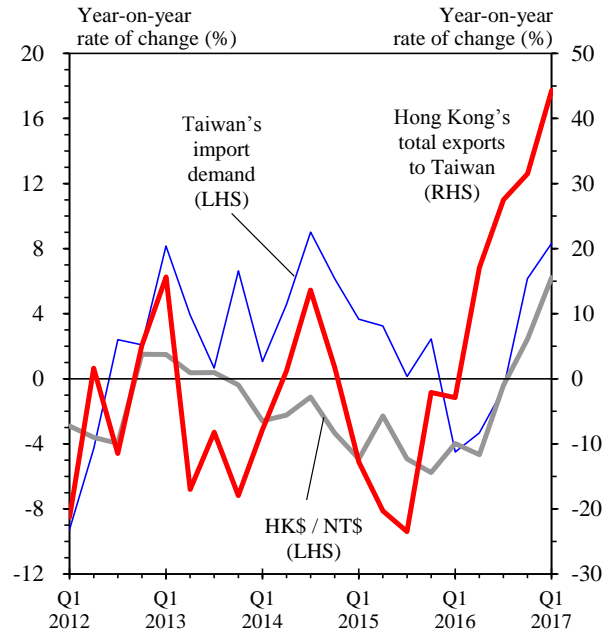




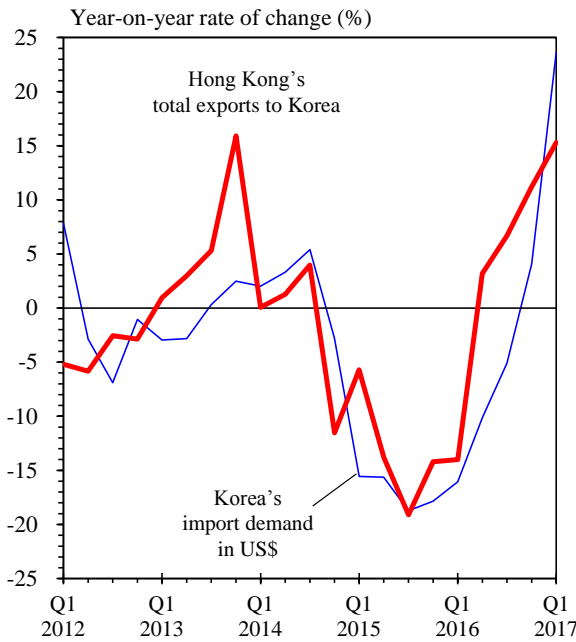
**Diagram 2.8 : Exports to India expanded remarkably further**



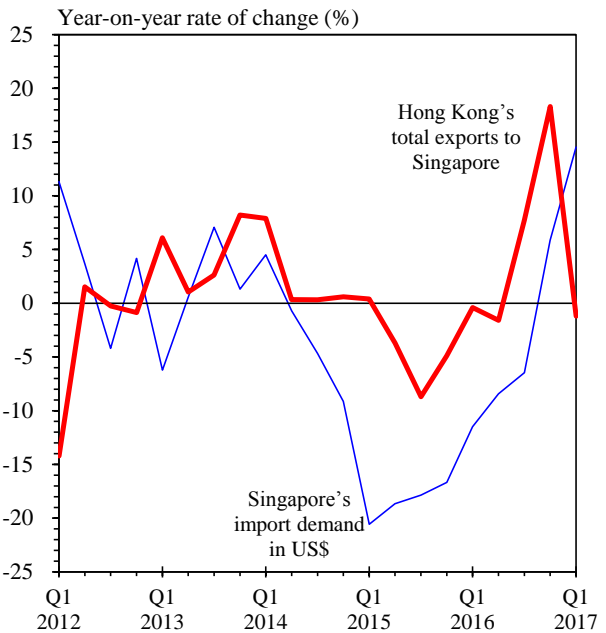
**Diagram 2.9 : Exports to Taiwan surged**



**Diagram 2.10 : Exports to Korea picked up to show further notable growth**



**Diagram 2.11 : Exports to Singapore related to a slight decline**



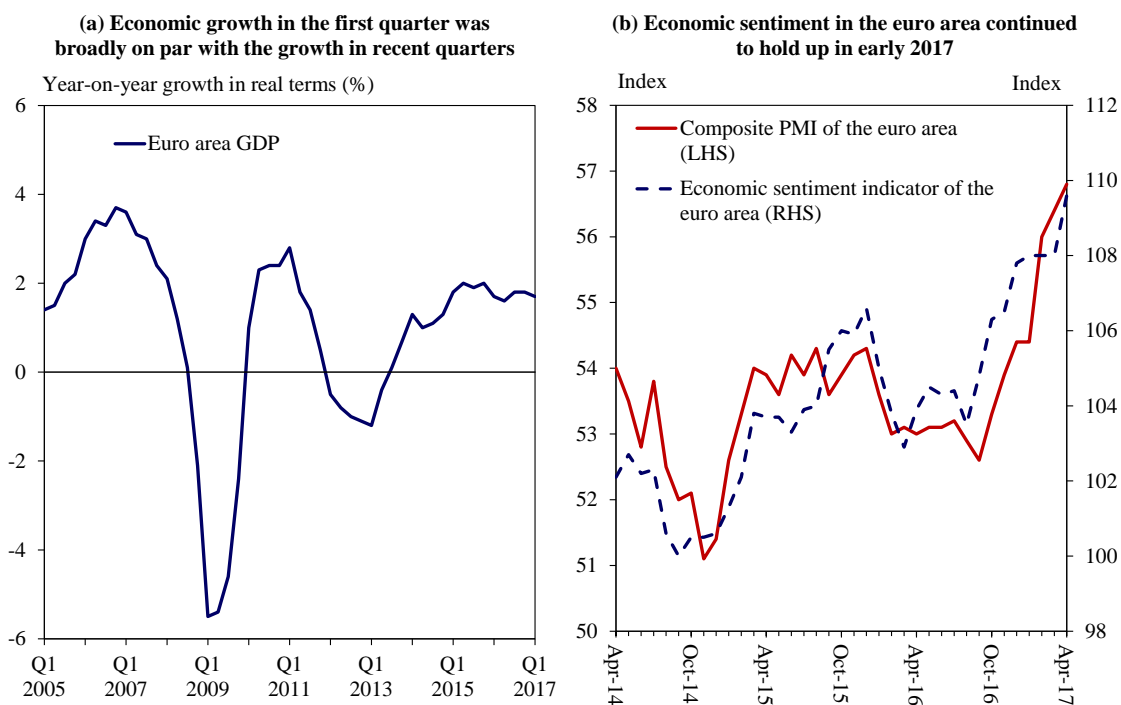
## Box 2.1

### Recent economic performance of the euro area

In March 2017, the European Central Bank (ECB) raised the projections for economic growth in the euro area slightly by 0.1 percentage point in both 2017 and 2018, to 1.8% and 1.7% respectively. The euro area economy sustained modest growth in recent quarters, with domestic demand acting as the main driver on the back of the highly accommodative monetary policy by the ECB. Although the negative impacts from Brexit developments have so far been limited, the recovery pace of the region has varied visibly between member states and on the whole stayed only modest. This note briefly reviews the latest developments, as well as some obstacles to a more robust recovery, in the euro area economy.

The euro area economy grew by 1.7% in the first quarter of 2017 over a year earlier, broadly on par with the quarterly year-on-year growth which ranged between 1.6-2.0% in the preceding two years (*Chart 1a*). Along with the economic expansion, deflation risks have been dissipating. More recently, economic sentiment continued to hold up in April, with the Composite Purchasing Managers' Index (PMI) rising further in the expansionary zone (*Chart 1b*).

**Chart 1 : Euro area economy has sustained modest growth**



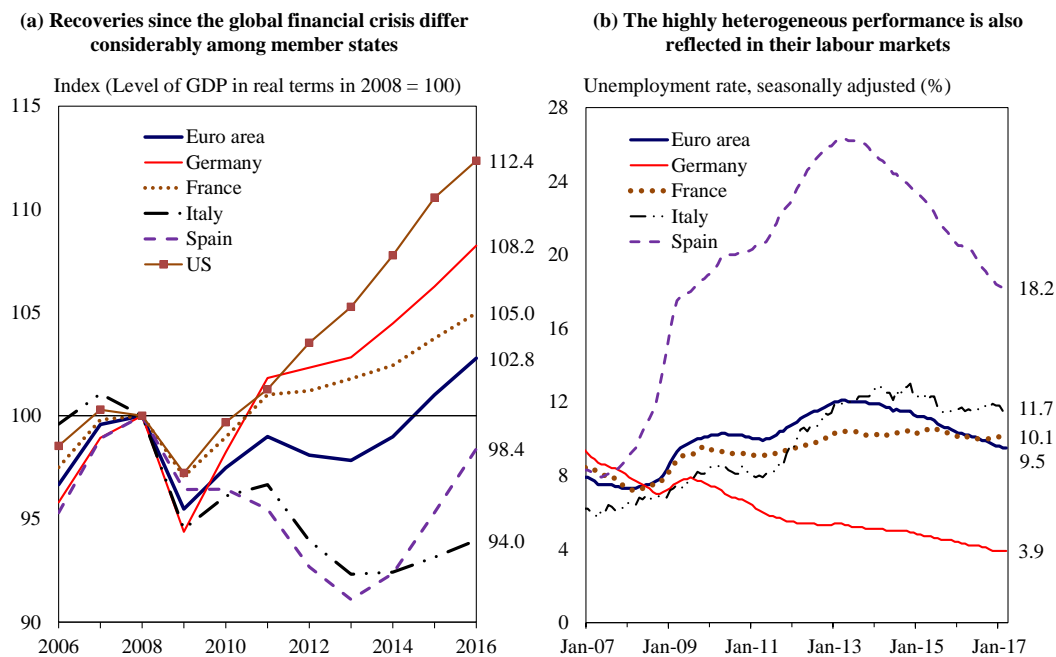
Sources: Eurostat and Markit.

Nevertheless, the situations of major member states varied considerably. The real GDP of Spain and Italy have yet to return to their levels before the global financial crisis of 2008 (*Chart 2a*). Mostly dragged by their weak economic fundamentals, their recovery paths have been particularly bumpy, being derailed by the European sovereign debt crisis during 2011-2013, notwithstanding some recent improvements.

## Box 2.1 (Cont'd)

By comparison, Germany and France fared much better, with their real GDP in 2016 being 8% and 5% respectively higher than in 2008, as these two economies were not at the epicentre of the European sovereign debt crisis. Nonetheless, all the four major member states of the euro area underperformed the US economy, which had expanded by 12% since 2008.

**Chart 2: The economic situations of major member states varied considerably**



Sources: Eurostat and the US Bureau of Economic Analysis.

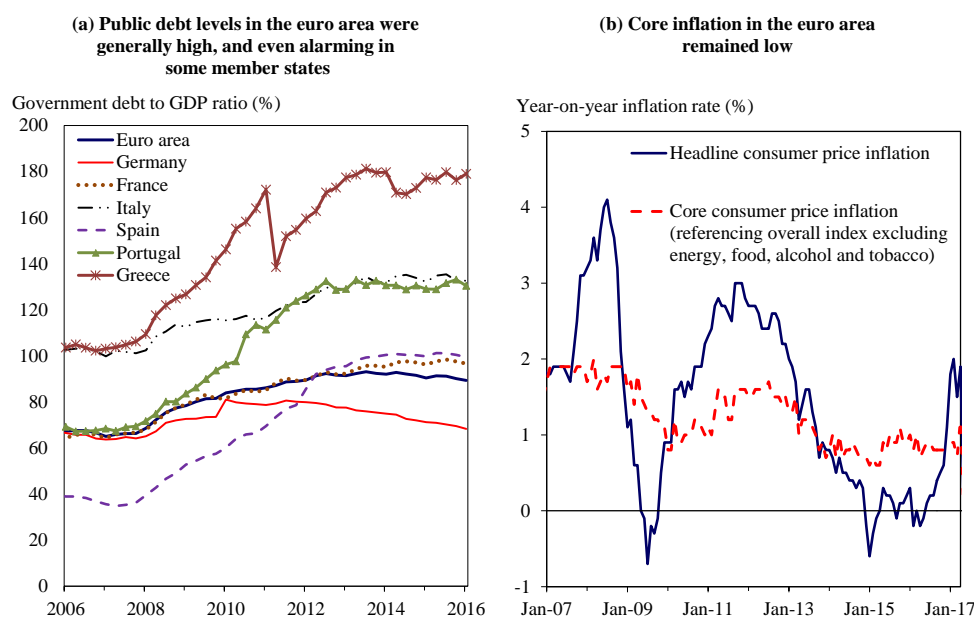
The highly heterogeneous performance is also reflected in their labour markets. The overall seasonally adjusted unemployment rate for the euro area climbed down steadily from a peak of 12.1% in April 2013 to 9.5% in March 2017, and some five million jobs had been regained since 2013. However, while the unemployment rate in Germany fell notably to a low level of 3.9% in March, the improvements in France and Italy were less discernible. The unemployment rate in Spain, while falling, was still at an alarmingly high level of 18.2% (*Chart 2b*). Persistently high unemployment rates could dampen consumer sentiment and drag domestic demand in the short run, and would pose impediment to economic growth potential in the long run.

Another issue of concern is the fiscal health within the currency bloc. The overall government debt to GDP ratio in the euro area was at 89% as at end-2016 (*Chart 3a*), visibly higher than the 60% required in the Stability and Growth Pact (SGP) of the EU. The government debt to GDP ratios in some member states of weaker economic fundamentals such as Greece, Italy and Portugal were alarmingly elevated, at 179%, 133% and 130% respectively, whereas those in Spain and France were also high, with both of them close to 100%.

Admittedly, there has been some relative stabilisation in the overall euro area government debt to GDP ratio of late, but it has been partly thanks to the improvement in Germany. Other debt-ridden states such as Greece, Portugal and Italy in fact saw little improvements. Market concerns about their debt sustainability could still cause jitters in the international financial markets going forward.

## Box 2.1 (Cont'd)

### Chart 3: Fiscal health remains a concern in the currency bloc



Source: Eurostat.

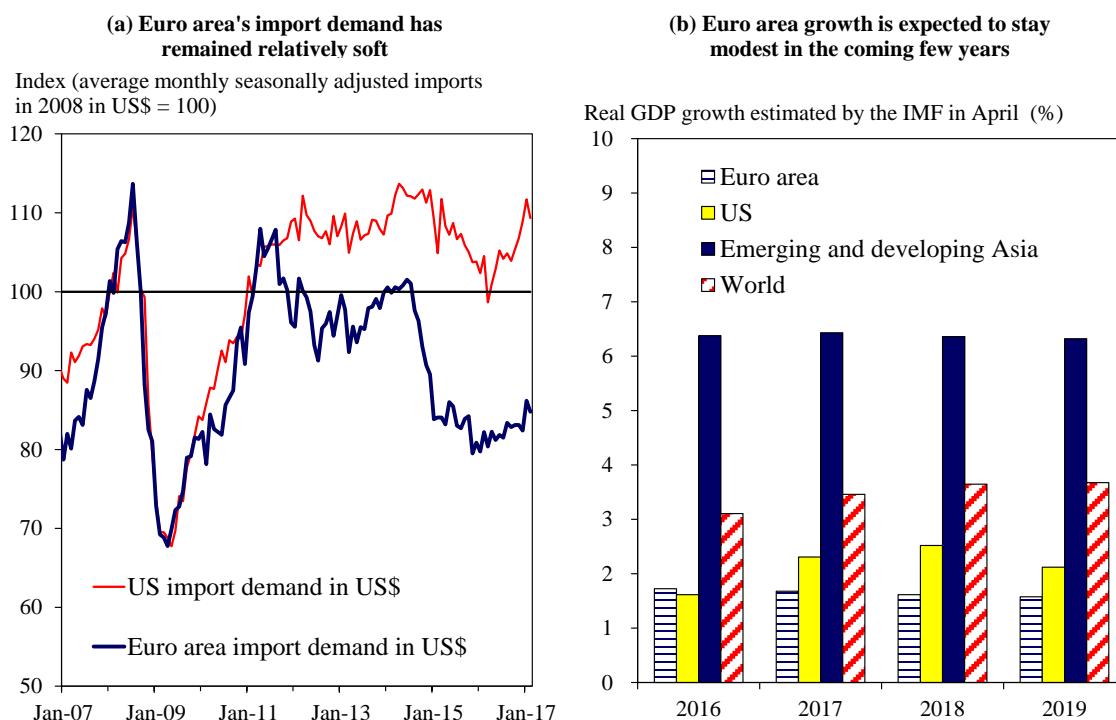
Moreover, there are notable policy challenges facing those member states with weak fundamentals. For the debt-ridden, slow-growing states, they need strong fiscal stimuli but their own elevated levels of government debt, which are already well above the requirements of SGP, give them no policy space to do so. As the monetary union members, the use of a single currency also deprives them of enjoying greater currency depreciation to revive their economies. From the longer-term perspective, further fiscal and economic reforms in debt-ridden member states are necessary in order to improve their fiscal sustainability and regain competitiveness. However, the challenges in implementing reforms should not be underestimated, considering the social resistance involved and the implications for the possible rise of anti-establishment sentiment in these member states. Broadly speaking, the prolonged weakness of these member states could limit the euro area's overall economic performance going forward.

With the overall economic growth in the euro area staying modest and the underlying consumer price inflation pressures remaining subdued (core inflation was at only 0.8% on average in the first quarter of 2017) (*Chart 3b*), accommodative monetary policy is expected to remain the mainstay of the euro area economic policy tools. Although the ECB has reduced the size of its monthly asset purchase to €60 billion starting from April 2017, it continued to indicate that a very substantial degree of monetary accommodation is still needed and that key ECB interest rates would remain at the present or lower levels in the period ahead. Against this background, monetary divergence between major central banks will likely continue, especially in light of the continued monetary policy normalisation in the US (see *Box 1.1* for details).

There are also other developments that are worth attention. The future relationship between the UK and the EU remains highly uncertain at this stage, as the Brexit negotiation would be a highly complicated process, with possible repercussions for the EU economy. The early general election in the UK in June adds further uncertainty to the issue. Separately, general elections to be held in France in June as well as Germany in September are also a cause for concern. Heightened geopolitical tensions in Eastern Europe and the Middle East, the influx of migrants and the threats of terrorist attacks, could also possibly dampen the region's economic sentiment.

## Box 2.1 (Cont'd)

### Chart 4: Euro area's growth outlook is still modest



Sources: Eurostat, CEIC and International Monetary Fund (IMF).

In the context of global trade, the euro area is a major export market for Asian economies. However, with the rather slow recovery in Europe and the weak euro (the euro depreciated by 16%<sup>(1)</sup> between April 2008 and April 2017), the currency bloc's import demand remained relatively soft. Despite some recent improvement, euro area's monthly import demand in US dollar terms in the first two months of 2017 was still some 15% lower than the average monthly imports in 2008 after seasonal adjustments (*Chart 4a*). In contrast, being another major market for Asian exports, US' average import demand in the first two months of this year was some 11% above the average monthly level in 2008.

In sum, while there was progress in the economic recovery in the euro area in recent years, the structural issues as well as the highly heterogeneous situations among member states could still constrain the growth of the euro area beyond the near term. In April, the IMF forecast the euro area's annual economic growth to stay modest in 2017 to 2019, at 1.6-1.7%, assuming the Brexit negotiations proceed without raising excessive uncertainty and the arrangements could eventually avoid a very large increase in economic barriers. Such a forecast growth pace, if realised, would be still slower than that for the US and way below that for the emerging and developing Asia (*Chart 4b*). With the euro area being a major economic bloc that has close economic ties with Hong Kong, the Government will stay alert to the developments and monitor the situation closely.

(1) This is based on the nominal effective exchange rate index calculated by the ECB, using weighted averages of bilateral euro exchange rates against 19 trading partners of the euro area.

## *Imports of goods*

2.7 *Imports of goods* grew markedly further by 9.0% year-on-year in real terms in the first quarter, up from the 6.2% growth in the preceding quarter, on the back of the faster growth in imports for subsequent re-exports as well as retained imports. *Retained imports*, referring to the imports for domestic use, which accounted for around one-quarter of total imports, accelerated to grow by 9.6% year-on-year in real terms in the first quarter, up from the 6.6% in the preceding quarter. The continued notable growth in retained imports mirrored the solid expansion in domestic demand, amid the favourable employment conditions and stronger economic sentiment.

**Table 2.3 : Imports of goods and retained imports  
(year-on-year rate of change (%))**

		<u>Imports of goods</u>				<u>Retained imports</u> <sup>(a)</sup>			
		<u>In value terms</u>	<u>In real terms</u> <sup>(+)</sup>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		
2016	Annual	-0.9	1.0	-1.7	-2.6	-0.6	-1.6		
	Q1	-8.2	-5.4	(-2.4)	-2.8	-12.2	-8.9	(4.6)	-3.6
	Q2	-3.2	-0.5	(3.6)	-2.6	-9.2	-6.0	(-3.7)	-3.7
	Q3	1.2	2.9	(2.6)	-1.4	5.8	6.3	(7.6)	-0.5
	Q4	5.6	6.2	(2.4)	-0.1	5.7	6.6	(-1.8)	1.0
2017	Q1	10.7	9.0	(2.2)	1.6	11.6	9.6	(10.2)	1.5

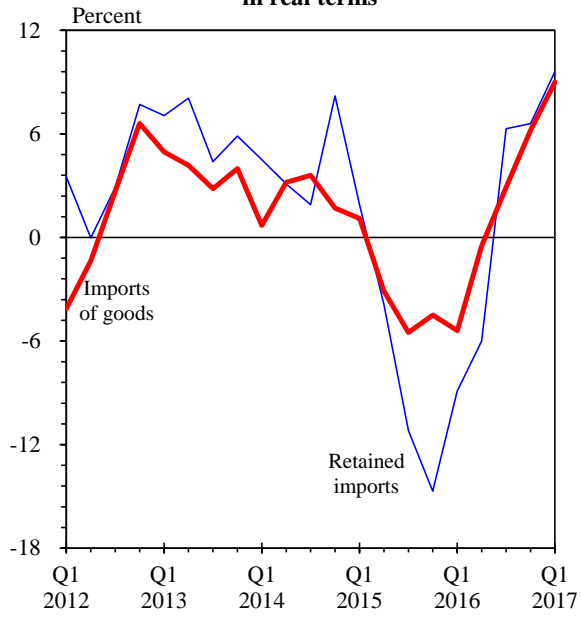
Notes : (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

(+) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

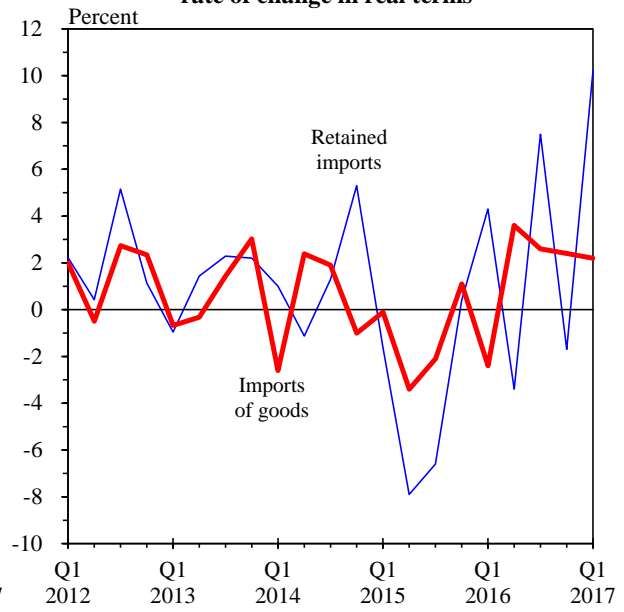
( ) Seasonally adjusted quarter-to-quarter rate of change.

**Diagram 2.12 : Imports and retained imports grew markedly further**

**(a) Year-on-year rate of change in real terms**



**(b) Seasonally adjusted quarter-to-quarter rate of change in real terms**

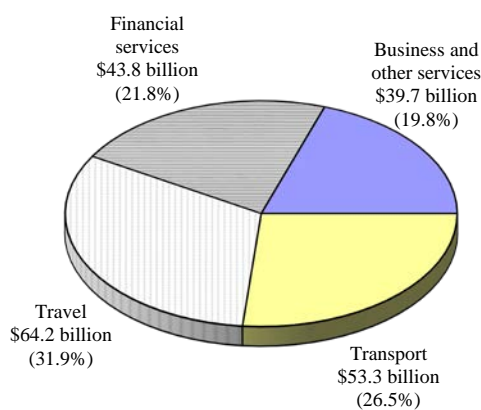


## Services trade

### *Exports of services*

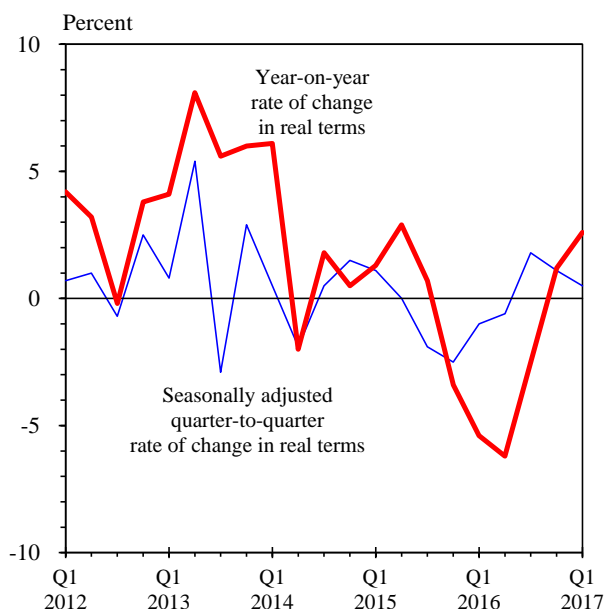
2.8 *Exports of services* likewise benefited from the improving global economic conditions, growing by 2.6% year-on-year in real terms in the first quarter, faster than the 1.2% growth in the preceding quarter. Exports of transport services sustained brisk growth, amid stronger trade and cargo flows in the region. Exports of financial services reverted to a modest growth, and exports of business and other services grew slightly, thanks to a more sanguine global economic environment. Meanwhile, exports of travel services also showed further relative improvement, with a continued tapering in the year-on-year rate of decline, thanks to the recovery in visitor arrivals. However, tourist spending had yet to resume growth, probably being constrained by the currency movements and changing tourist spending patterns.

**Diagram 2.13 : Travel, transport and financial services are the major service components within exports of services**



*Exports of services in the first quarter of 2017:*  
\$201.0 billion

**Diagram 2.14 : Exports of services picked up further in growth in the first quarter of 2017**





**Table 2.4 : Exports of services by major service group  
(year-on-year rate of change in real terms (%))**

		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Transport</u>	<u>Travel<sup>(a)</sup></u>	<u>Financial services</u>	<u>Business and other services</u>
2016	Annual	-3.2	2.2	-8.6	-3.7	-1.0
	Q1	-5.4 (-1.0)	-2.0	-13.1	0.1	-2.6
	Q2	-6.2 (-0.6)	-1.1	-8.9	-15.1	-0.7
	Q3	-2.5 (1.8)	2.5	-8.1	-1.7	-1.1
	Q4	1.2 (1.1)	9.6	-4.0	-0.2	0.2
2017	Q1	2.6 (0.5)	9.4	-1.2	1.9	0.7

Notes : Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

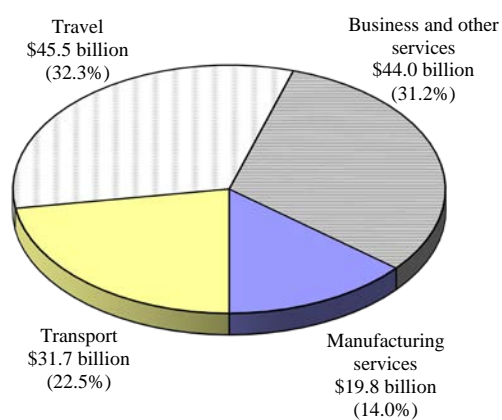
(a) Comprising mainly inbound tourism receipts.

( ) Seasonally adjusted quarter-to-quarter rate of change.

### ***Imports of services***

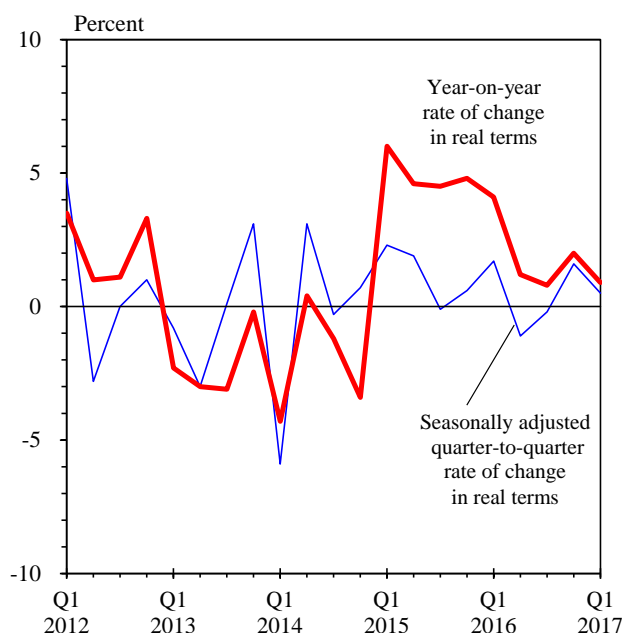
2.9 *Imports of services* grew mildly by 0.9% in real terms in the first quarter over a year earlier, moderated from the 2.0% growth in the preceding quarter. Major service components continued to show mixed performance. Imports of travel services grew at a visibly decelerated pace in the first quarter, largely attributable to the difference in timing of the Easter holidays, which fell in late March in 2016 but in mid-April in 2017. Imports of transport services grew moderately further, in tandem with the intensified trading activities in the region. Imports of business and other services also attained moderate growth, as improved global economic outlook supported the cross-border financial and commercial activities. However, imports of manufacturing services remained on a decline, mirroring the sluggish demand for outward processing activities.

**Diagram 2.15 : Travel services had the largest share in imports of services**



*Imports of services in the first quarter of 2017: \$141.0 billion*

**Diagram 2.16 : Imports of services grew mildly in the first quarter**



**Table 2.5 : Imports of services by major service group (year-on-year rate of change in real terms (%))**

*Of which :*

		Imports of services		Travel <sup>(+)</sup>	Transport	Manufacturing services <sup>(^)</sup>	Business and other services
2016	Annual	2.0		5.9	-0.3	-1.9	1.8
	Q1	4.1	(1.7)	13.0	-0.5	0.9	0.2
	Q2	1.2	(-1.1)	2.9	-1.2	-0.5	2.5
	Q3	0.8	(-0.2)	3.7	-1.0	-2.8	1.6
	Q4	2.0	(1.6)	4.7	1.5	-4.1	2.8
2017	Q1	0.9	(0.5)	0.4	2.1	-3.2	2.1

Notes : Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchandising under the standards stipulated in the *System of National Accounts 2008*.

(+) Comprising mainly outbound travel spending.

(^) This includes the value of processing fees paid by Hong Kong to the processing units outside Hong Kong and raw materials / semi-manufactures directly procured by these processing units.

( ) Seasonally adjusted quarter-to-quarter rate of change.

## Goods and services balance

2.10 Compiled based on the change of ownership principle, the goods deficit in the first quarter widened somewhat from the same quarter a year earlier, as retained imports grew notably amid solid expansion in domestic demand, and the growth in imports of goods outpaced that of exports of goods. With the services surplus offsetting the goods deficit, the combined goods and services account registered a slight surplus of \$2 billion in the first quarter of 2017, equivalent to 0.2% of total import value, smaller than that of \$12 billion, equivalent to 1.1% of total import value, in the first quarter of 2016.

**Table 2.6 : Goods and services balance  
(\$ billion at current market prices)**

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			<u>As % of imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2016	Annual	3,900	767	4,037	578	-136	189	53	1.1
	Q1	849	194	892	138	-44	55	12	1.1
	Q2	929	177	987	138	-57	39	-18	-1.6
	Q3	1,025	196	1,037	148	-12	48	36	3.1
	Q4	1,098	200	1,121	153	-24	47	23	1.8
2017	Q1	941	201	999	141	-58	60	2	0.2

Notes : Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

Figures may not add up exactly to the total due to rounding.

## **Other developments**

2.11 The small and medium enterprises (SMEs) are important to Hong Kong's economy and employment market, and the Government has always accorded high priority to the developments of SMEs, including those engaging in trading activity. As the global outlook is still fraught with uncertainties, the 2017-18 Budget continued to implement support measures for local SMEs. Apart from the tax relief measures to ease their burden, the application periods for different supporting programs were extended. The Budget also proposed to strengthen the underwriting capacity of the Hong Kong Export Credit Insurance Corporation, as a measure to support the business developments of the SMEs.

2.12 The Trade Facilitation Agreement (TFA) of the World Trade Organization (WTO) entered into force in February 2017, representing the first multilateral agreement concluded since the establishment of the WTO. Hong Kong has always been a staunch supporter of free trade, and was the first WTO Member to accept the TFA in December 2014. The TFA sets out binding obligations for participating WTO Members to improve and harmonise their import/export and customs procedures, and is expected to reduce costs and improve efficiency in doing business by ensuring a more transparent and predictable trading environment. Hong Kong, being an externally oriented economy and an international trading hub, will benefit from the TFA.

2.13 The Government continued to strengthen the economic co-operation with the Mainland. The 22nd Working Meeting of the Hong Kong/Guangdong Co-operation Joint Conference was held in February, covering the co-operations in such areas as Belt and Road Initiative, the development of the Guangdong-Hong Kong-Macao Big Bay Area, innovation and technology, financial and professional services and tourism. Both sides formulated the 2017 Work Plan, covering 77 key co-operation items. Many of these co-operation items are mapped out in accordance with the directions set out in the National 13th Five-Year Plan.

2.14 The Government also stepped up efforts to enhance the co-operations with other economic partners across the globe with a view to further strengthening the role of Hong Kong as an international hub for business, trade and finance. In the first quarter, the Government signed Comprehensive Avoidance of Double Taxation Agreements (CDTAs) with Belarus and Pakistan, which are both economies along the Belt and Road. Apart from CDTAs, the Government also expanded the network of "automatic exchange of financial account information in tax matters" (AEOI) notably, with nine AEOI

agreements signed in the first few months of 2017, including the agreements with Korea, Belgium, Canada, Guernsey, Italy, Mexico, the Netherlands, Portugal and South Africa.

**Notes :**

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the external trade quantum index series compiled using the chain linking approach, which were first released in March 2015 to replace the previous trade index numbers compiled using the Laspeyres method with a fixed base year. The series are not comparable with the real trade aggregates under GDP (reported in Chapter 1) which are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*. Apart from this, non-monetary gold is recorded as a separate item in the statistics of merchandise trade and not included in the trade aggregates reported in Chapter 2, but is included in the trade aggregates under GDP in accordance to the international compilation standard.
- (2) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

### *Summary*

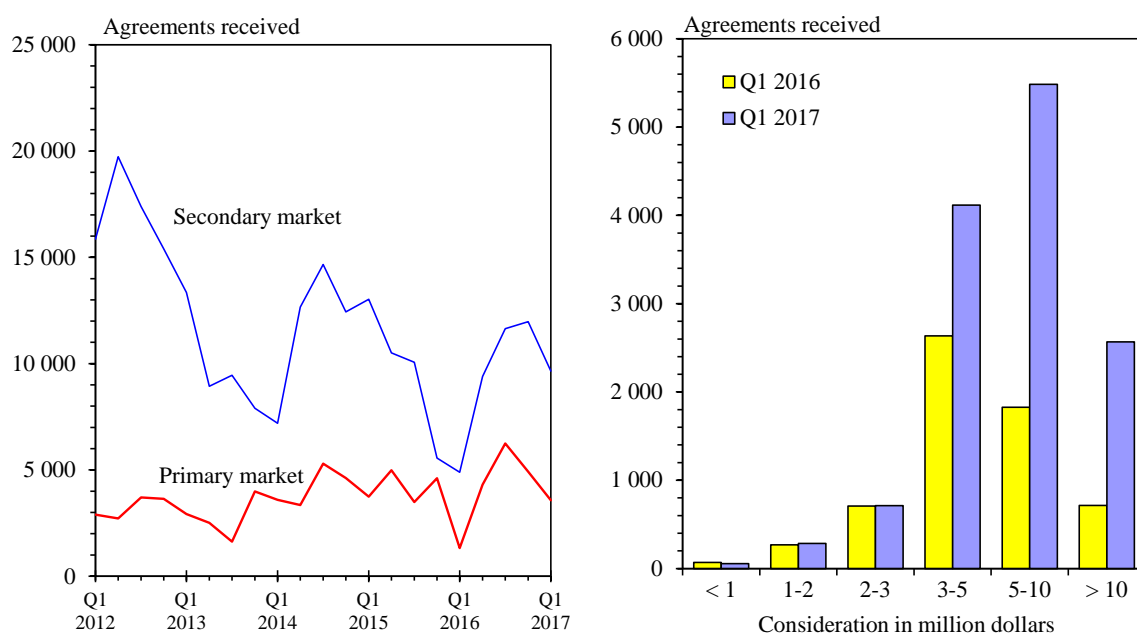
- *The residential property market reactivated during the first quarter of 2017 amid a still tight demand-supply situation, and turned rather exuberant in March as the earlier fear for a faster-than-expected US interest rate hike lessened. Trading activities picked up successively from the low in January. The increase in flat prices accelerated in parallel, extending the cumulative gain to 4% during the first quarter.*
- *Reflecting the Government's sustained efforts to increase land and flat supply, total flat supply in the coming three to four years rose to another record high of 96 000 units.*
- *The commercial and industrial property markets showed mixed performance in the first quarter. Prices and rentals of different types of property exhibited diverse movements, while trading activities were generally modest.*
- *Inbound tourism improved further in the first quarter, with the Mainland market showing some rebound. Overall visitor arrivals rose by an accelerated 3.7% over a year earlier to 14.2 million.*
- *Supported by the visible growth in external trade, the logistics sector improved further in the first quarter. Total container throughput continued to rise markedly by 12.6% year-on-year, while air freight throughput registered an increase of 11.6%.*

## Property

3.1 The *residential property market* reactivated during the first quarter of 2017 amid a still tight demand-supply situation, and turned rather exuberant in March as the earlier fear for a faster-than-expected US interest rate hike lessened. Trading activities picked up successively from the low in January, while the increase in flat prices accelerated in parallel.

3.2 Reflecting the pick-up in trading, the total number of sale and purchase agreements for residential property received by the Land Registry rose notably from 3 286 in January to 5 856 in March. Yet for the first quarter as a whole, the figure fell by 22% from the preceding quarter to 13 221, though 113% higher than the very low base a year earlier. Within the total, primary and secondary market transactions fell by 27% and 19% respectively from the preceding quarter. Likewise, total consideration fell by 23% to \$114.3 billion.

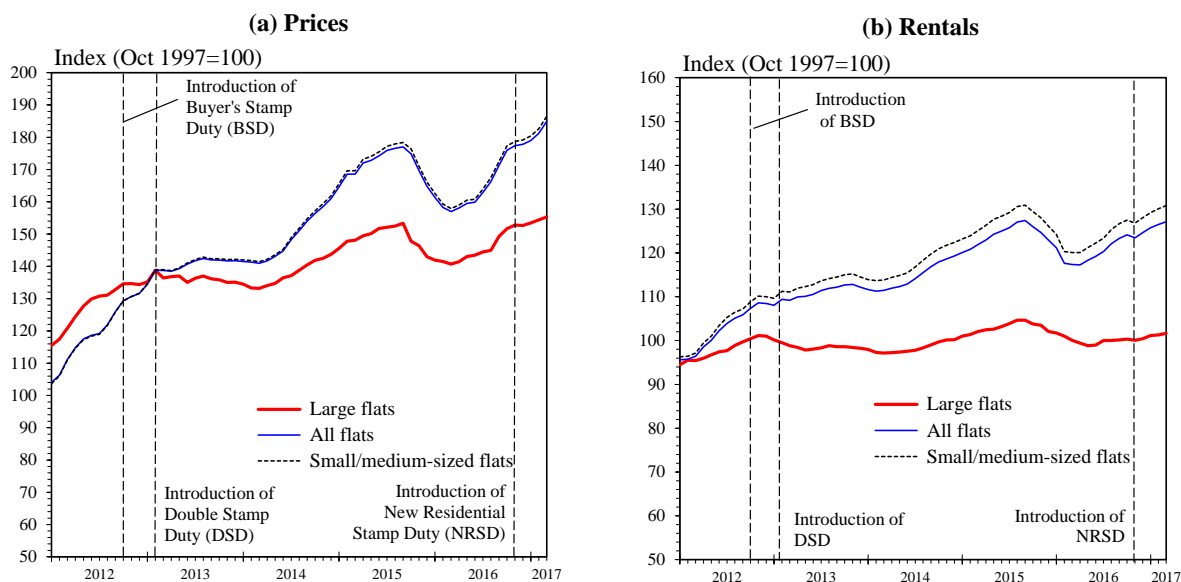
**Diagram 3.1 : Trading picked up successively from the low in January, though for the first quarter as a whole it was still lower than in the preceding quarter**



3.3 In tandem, the month-to-month increase in overall flat prices accelerated from 0.7% in January to 2.1% in March. Taking the first quarter as a whole, overall flat prices recorded a gain of 4% between December 2016 and March 2017. Prices of small/medium-sized flats and large flats rose by 4% and 2% respectively.

3.4 Overall flat rentals continued to rise, by 2% during the first quarter, with rentals of small/medium-sized flats and large flats increasing by 2% and 1% respectively. Reflecting the relative movements of flat prices and rentals, the average rental yield for residential property stayed at 2.6% in March 2017, unchanged from December 2016.

**Diagram 3.2 : Increase in flat prices accelerated during the first quarter, while flat rentals continued to rise**

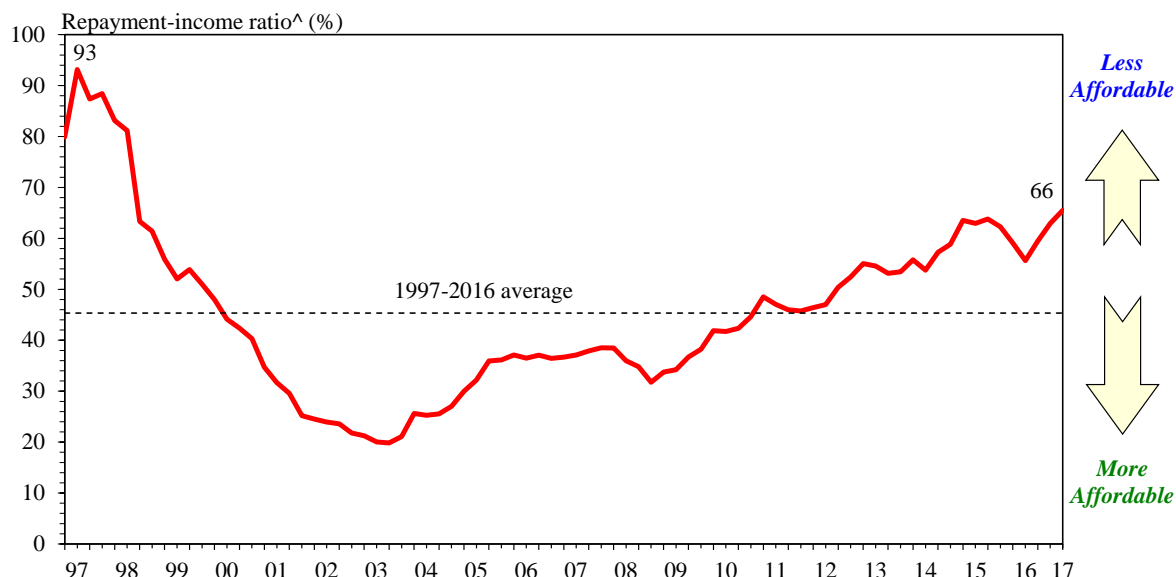


Note : Residential property price index pertains to secondary market transactions only. Large flats refer to those with a saleable area of at least 100 m<sup>2</sup>, and small/medium-sized flats with a saleable area of less than 100 m<sup>2</sup>.

3.5 As a result of the surge over the past several years, overall flat prices in March 2017 exceeded the 1997 peak by 85%. The 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) worsened further to around 66% in the first quarter, significantly above the long-term average of 45% over 1997-2016<sup>(1)</sup>. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 86%.



**Diagram 3.3 : The mortgage payment to income ratio worsened further**



Note : (^) The ratio of mortgage payment for a 45m<sup>2</sup> flat (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing).

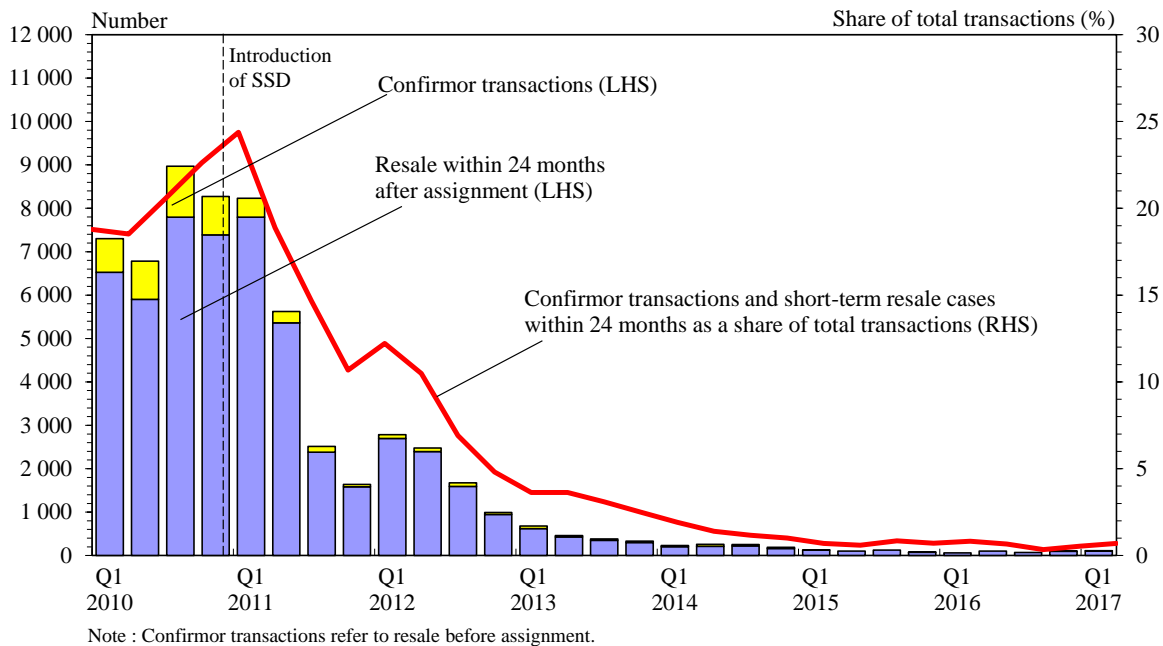
3.6 Raising flat supply through increasing land supply is the Government’s top policy priority in ensuring a healthy and stable development of the property market. In February, the Government announced the 2017-18 Land Sale Programme, which comprises 28 residential sites capable of providing about 18 900 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.

3.7 Reflecting the Government’s sustained efforts in raising land supply, 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. In addition, another 10 400 units could be added to the total supply after the conversion of a number of residential sites into “disposed sites”.

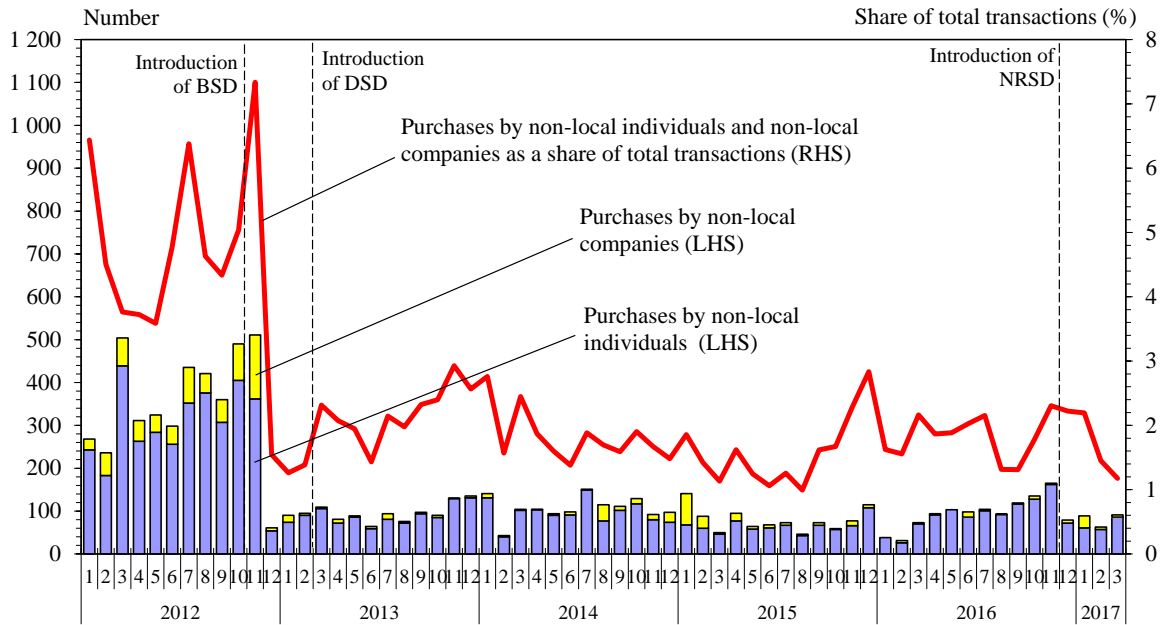
3.8 The Government has also put in significant efforts to manage demand and reduce the possible risks to financial stability arising from an exuberant property market<sup>(2)</sup>. In response to the public concern over the increase in transactions involving acquisition of multiple residential properties under a single instrument, in April 2017 the Government tightened up the exemption arrangement for Hong Kong permanent residents under the 15% New Residential Stamp Duty (NRSD) measure introduced last November<sup>(3)</sup>. 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 38 cases per month or 0.7% of total transactions in the first quarter, 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). Reflecting the effects of the Buyer's Stamp Duty, *purchases by non-local individuals and non-local companies* also stayed low at 81 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. As an indicator of *investment activities*, purchases by Hong Kong Permanent Residents who owned at least one residential property were modest at 288 cases per month or 5.3% of total transactions in the first quarter, sharply below the monthly average of 1 181 cases or 22.1% in January to November 2016 before the introduction of the NRSD. As to *mortgage lending*, the average loan-to-value ratio of new mortgages was 51% in the first quarter, likewise 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 Hong Kong Monetary Authority.

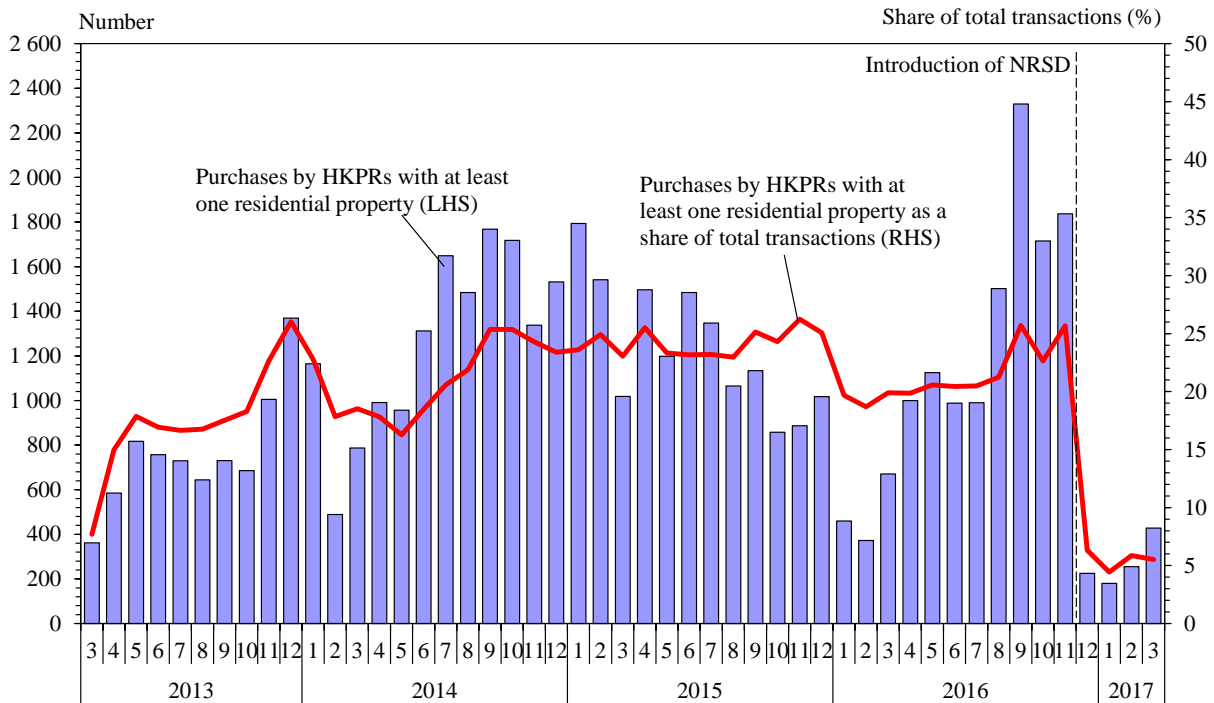
**Diagram 3.4 : Speculative activities stayed subdued**



**Diagram 3.5 : Purchases by non-local buyers remained low**



**Diagram 3.6 : Investment activities decreased visibly**



3.9 Looking forward, the global and local economic conditions as well as the pace of US interest rate normalisation 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. In the medium term, the substantial increase in residential land supply in the past few years will help ease the demand-supply situation. These factors will eventually put more pressure on the property market.

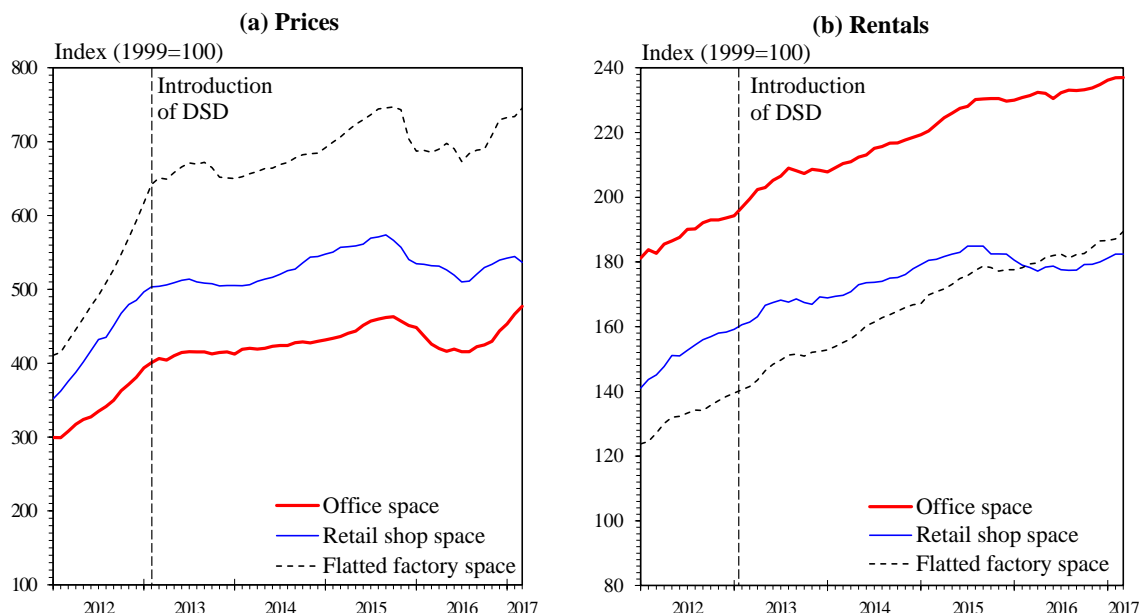
3.10 The *commercial* and *industrial property markets* showed mixed performance in the first quarter of 2017. Prices and rentals of different types of property exhibited diverse movements, while trading activities were generally modest.

3.11 Comparing March 2017 with December 2016, overall sale prices of *office space* surged by 8%. Within the total, prices of Grade A, B and C office space soared by 8%, 10% and 4% respectively. Over the same period, overall rentals rose by 1%, with those of Grade A and C office space rising by 1% and 2% respectively and those of Grade B office space staying virtually flat. The average rental yield of Grade A, B and C office space were 2.8%, 2.8% and 3.0% respectively in March 2017, compared with 2.9%, 3.1% and 3.0% in December 2016. Transactions for office space increased slightly by 4% over the preceding quarter to 430 cases in the first quarter, and surged by 204% over a year earlier.

3.12 Sale prices of *retail shop space* edged down by 1% between December 2016 and March 2017, while rentals edged up by 1%. The average rental yield stayed unchanged at 2.6% over the period. Trading activities fell by 10% from the preceding quarter to 490 cases in the first quarter, but were 54% higher than a year earlier<sup>(4)</sup>.

3.13 For *flatted factory space*, sale prices and rentals both rose by 2% during the first quarter. The average rental yield edged down from 3.1% to 3.0%. Transactions fell by 12% from the preceding quarter to 950 cases in the first quarter, but jumped by 111% over a year earlier.

**Diagram 3.7 : Prices and rentals of non-residential properties exhibited diverse movements during the first quarter**



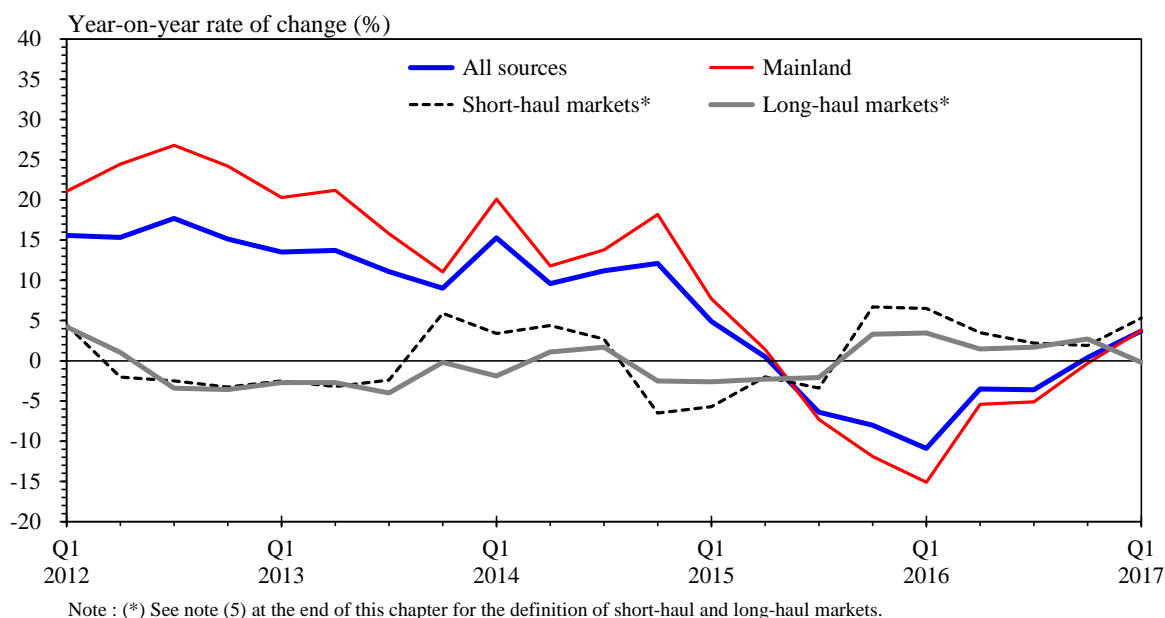
## Land

3.14 Reflecting the Government's efforts to increase land supply, three residential sites and one business site, with a total area of about 3.6 hectares, were disposed of in the first quarter, fetching a land premium of about \$37.6 billion. In addition, the tender exercises for two commercial sites in Cheung Sha Wan and Central, one commercial/hotel site in Kai Tak, one industrial site in Kwai Chung and three sites for petrol filling station in Kwai Chung, Fanling and Tuen Mun also commenced in the quarter. There were three land exchange cases approved in the first quarter, while lease modifications of 15 sites were approved.

## Tourism

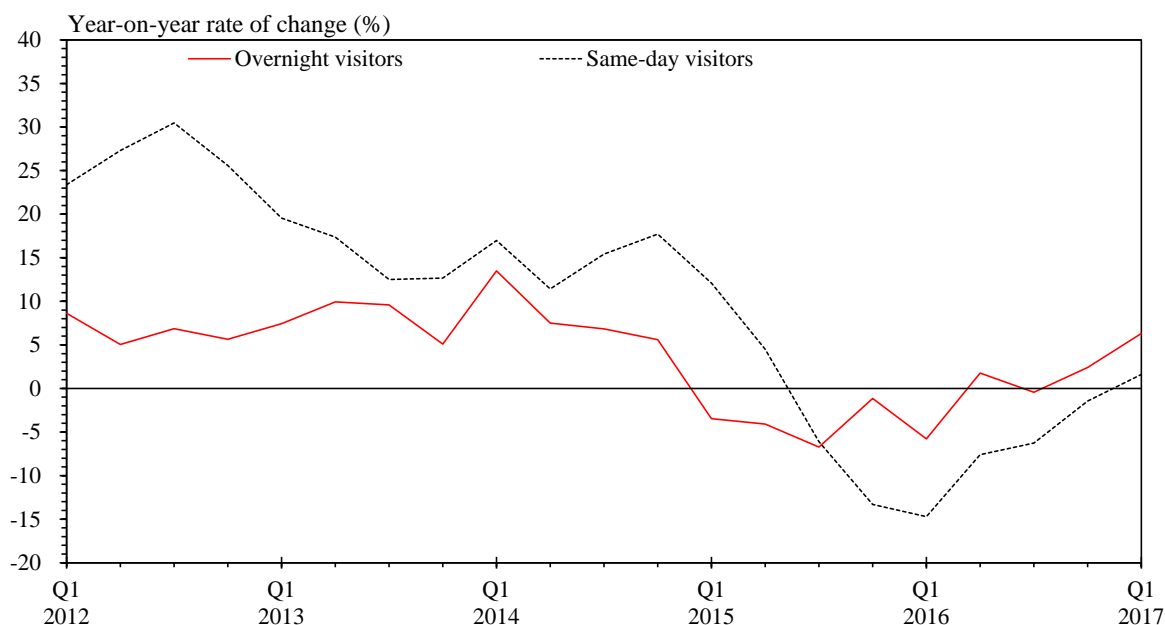
3.15 Inbound tourism improved further in the first quarter of 2017. Overall *visitor arrivals* rose by an accelerated 3.7% over a year earlier to 14.2 million. Mainland visitors, which accounted for 76.0% of the total, rebounded by 3.8% to 10.8 million. As for non-Mainland markets, visitor arrivals from the short-haul markets increased further by 5.3%, while visitor arrivals from long-haul markets edged down by 0.2%<sup>(5)</sup>.

**Diagram 3.8 : Inbound tourism continued to improve in the first quarter**



3.16 Analysed by the length of stay, overnight visitor arrivals rose by an accelerated 6.3% over a year earlier, while same-day visitor arrivals reverted to an increase of 1.6%. Reflecting these movements, the share of overnight visitors rose from 44.9% a year earlier to 46.0% in the first quarter, while that of same-day visitors declined from 55.1% to 54.0%.

**Diagram 3.9 : The increase in overnight visitors accelerated while same-day visitors rebounded**



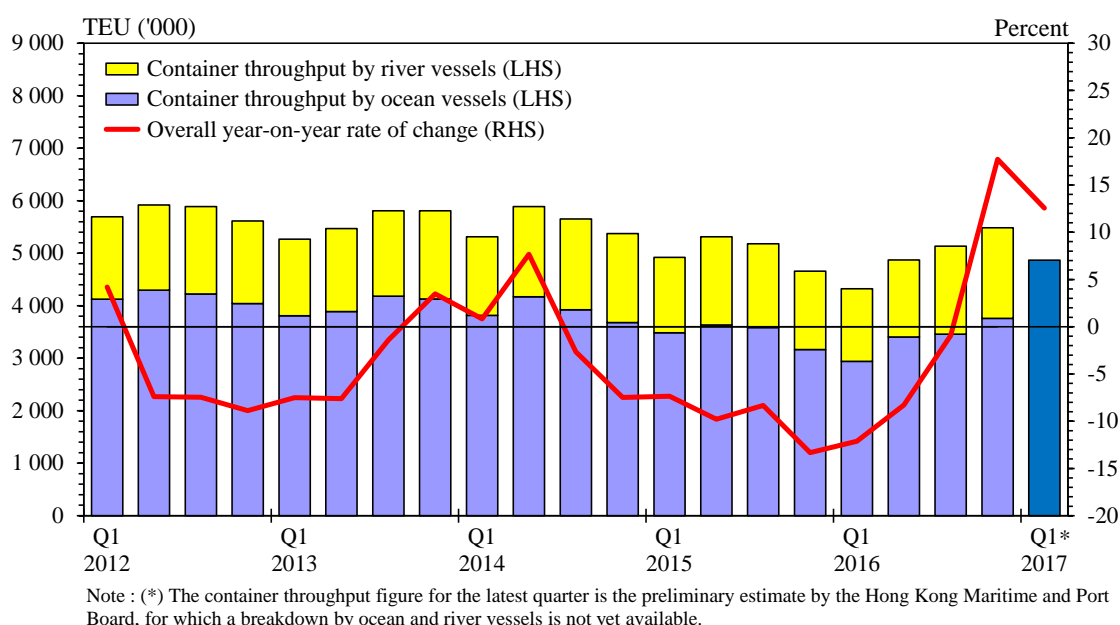
3.17 Supported by the increase in overnight visitors, the average hotel room occupancy rate rose from 83% a year earlier to 88% in the first quarter, though the average achieved hotel room rate declined further by 2.1% to \$1,272<sup>(6)</sup>.

3.18 To provide support to the tourism industry and to enhance the attractiveness and competitiveness of Hong Kong, a series of short, medium and long-term measures were announced in the 2017-18 Budget. Licence fees for some tourism-related trades and industries (e.g. travel agents, hotels and guesthouses as well as restaurants) would be waived for one year. The Government would also allocate an additional sum of \$243 million to launch five measures, including supporting light shows and home-grown mega events, promoting further the diversification of tourism products, stepping up efforts to attract more high-spending visitors, enhancing Hong Kong’s appeal as a tourist destination, and providing funding support for the training of members of the tourism industry.

## Logistics

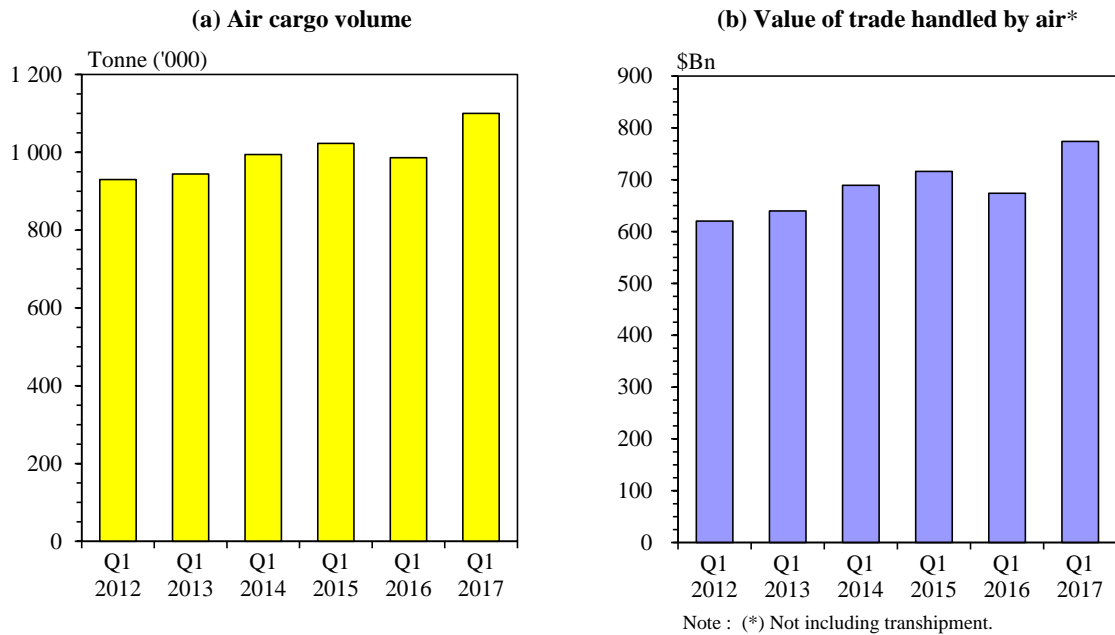
3.19 Supported by the visible growth in external trade, the logistics sector improved further in the first quarter of 2017. *Total container throughput* continued to increase markedly, by 12.6% over a year earlier to 4.9 million twenty-foot equivalent units (TEUs). In parallel, the value of trade handled at the Hong Kong port rose by 4.0%, but its share in total trade shrank from 20.0% a year earlier to 18.9%.

**Diagram 3.10 : Container throughput continued to rise markedly in the first quarter**



3.20 *Air freight throughput* rose by 11.6% over a year earlier to 1.1 million tonnes in the first quarter. Likewise, the value of trade by air increased by 14.8%, with its share in total trade rising from 40.7% a year earlier to 42.3%.

**Diagram 3.11 : Air cargo throughput and value of trade handled by air rose in the first quarter**



## Transport

3.21 Traffic flows for most major modes of transport showed modest growth in the first quarter of 2017. Air passenger traffic edged down by 0.1% from a year earlier to 17.6 million, while water-borne passenger trips rose by 1.5% to 6.4 million. As to land-based cross-boundary traffic, passenger trips increased by 1.6% to 54.7 million, and average daily vehicle movements by 6.4% to 41 728.

## Environment

3.22 As announced in the 2017-18 Budget, during 1 April 2017 to 31 March 2018, the first registration tax (FRT) of electric private cars will be waived up to \$97,500, while that for electric commercial vehicles, electric motor cycles and electric motor tricycles will still be waived in full. The new FRT regime for electric private cars would help strike a balance between promoting the use of electronic private cars and stemming the excessive growth of the private car fleet. Separately, the Environment Bureau announced in March the proposed implementation details of municipal solid waste charging. Subject to the passage of the legislation of the municipal solid waste charging, the policy is expected to be launched in the second half of 2019 the earliest.



## Notes :

- (1) The historical data on the home purchase affordability have been revised to reflect the revision to income statistics in the General Household Survey. For details of the revision to income statistics, see note (1) at the end of Chapter 5 in this report.
- (2) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 in the 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 in the 2012 Economic Background and 2013 Prospects and Box 3.1 in the First Quarter Economic Report 2013. For details of the measures promulgated in 2014, see Box 4.1 in the 2013 Economic Background and 2014 Prospects. For details of the measures promulgated in 2015, see Box 3.1 of the First Quarter Economic Report 2015. For details of the measure promulgated in 2016, see note (1) at the end of Chapter 4 in the 2016 Economic Background and 2017 Prospects.
- (3) 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%.
- (4) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (5) Short-haul markets refer to North Asia, South and Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In the first quarter of 2017, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 76%, 16% and 8% of total visitors.
- (6) The figures on hotel room occupancy and achieved room rate do not include guesthouses.

## CHAPTER 4 : THE FINANCIAL SECTOR<sup>#</sup>

### *Summary*

- *With the interest rate normalisation in the United States proceeding slowly so far, the low interest rate environment in Hong Kong continued in the first quarter of 2017. The Hong Kong dollar interbank interest rates stayed at low levels.*
- *The Hong Kong dollar spot exchange rate weakened slightly against the US dollar during the first quarter. Meanwhile, as the US dollar depreciated against most major currencies, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices decreased by 1.3% and 0.5% respectively.*
- *Total loans and advances expanded by an accelerated 4.6% during the first quarter amid a further pick-up in economic activity and increased funding demand by multinational corporations. Loans for use in and outside Hong Kong increased by 4.0% and 6.2% respectively.*
- *The local stock market staged a strong rally in the first quarter, as market sentiment was first boosted by improved global economic outlook and then easing concerns about a faster-than-expected rate hike in the US. The Hang Seng Index ended the quarter at 24 112 or 9.6% higher than at end-2016. Trading activities picked up while fund raising activities were subdued.*

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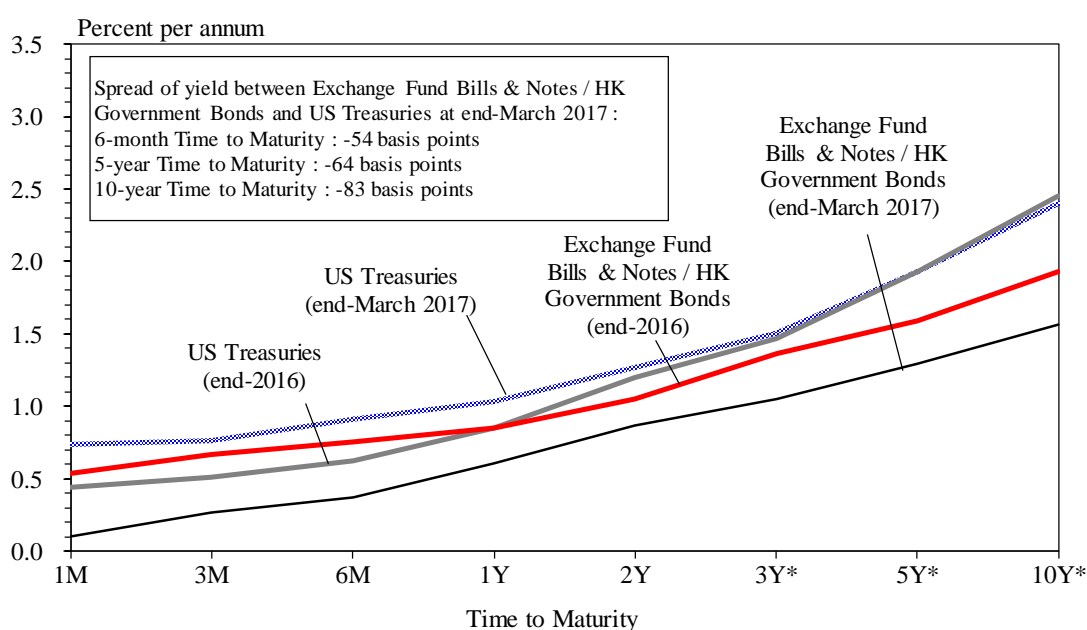
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

## Interest rates and exchange rates

4.1 With the interest rate normalisation in the United States proceeding slowly so far, the low interest rate environment in Hong Kong continued in the first quarter of 2017. The US Federal Open Market Committee raised the target range for the Federal Funds Rate from 0.50-0.75% to 0.75-1.00% in March, whilst indicating that increases in interest rate are expected to be gradual and the policy rate is likely to remain below the long-term levels for some time. Consequentially the HKMA adjusted the *Base Rate* under the Discount Window upward from 1.00% to 1.25%<sup>(1)</sup>. Yet the *Hong Kong dollar interbank interest rates* stayed low. The overnight HIBOR declined from 0.66% at end-2016 to 0.10% at end-March 2017, and the three-month HIBOR from 1.02% to 0.94%.

4.2 The *Hong Kong dollar yield curve* shifted downward during the first quarter, while the *US dollar yield curve* flattened. Reflecting these movements, the yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills turned from positive 13 basis points at end-2016 to negative 54 basis points at end-March 2017, while the negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes widened from 52 basis points to 83 basis points.

**Diagram 4.1 : The Hong Kong dollar yield curve shifted downward, while the US dollar yield curve flattened**

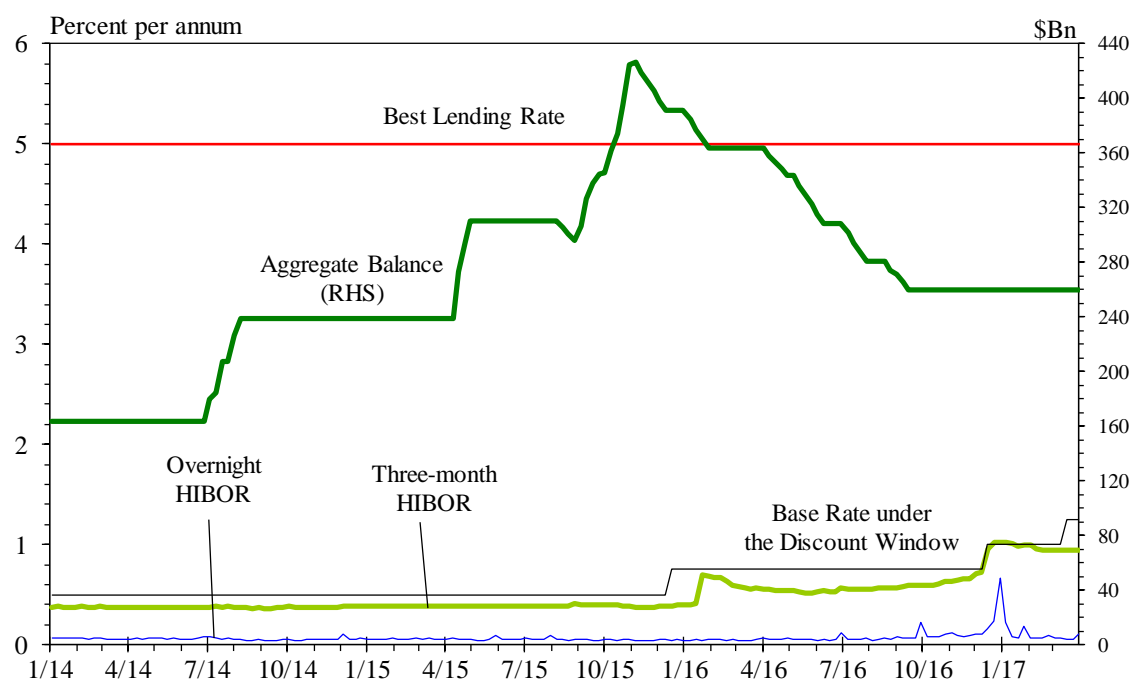


Note : (\*) With the HKMA stopping new issuance of Exchange Fund Notes of tenors of three years or above since January 2015, the Hong Kong dollar yields for tenor of 3 years and above refer to those for Hong Kong Government Bonds.

4.3 Interest rates on the retail front also stayed at low levels. The *Best Lending Rates* remained unchanged at 5.00% or 5.25% in the first quarter. The *average savings deposit rate* and *one-year time deposit rate* quoted by the

major banks for deposits of less than \$100,000 also stayed flat at 0.01% and 0.15%. The *composite interest rate*<sup>(2)</sup>, which indicates the average cost of funds for retail banks, stayed low at 0.32% at end-March 2017, only marginally higher than the 0.31% at end-2016.

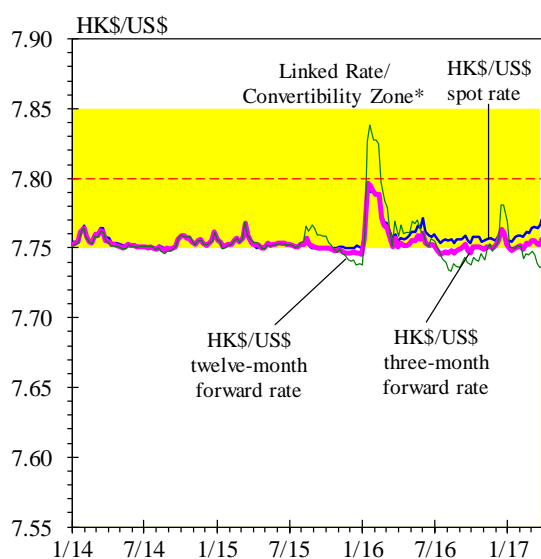
**Diagram 4.2 : Hong Kong dollar interest rates remained low  
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* weakened slightly against the US dollar during the first quarter, reflecting in part the widened negative spread between Hong Kong dollar and US dollar interest rates. It closed at 7.770 at end-March 2017, compared with 7.754 at end-2016. The *Hong Kong dollar forward rates* also registered larger discounts. The 3-month forward rate discount widened from 25 pips (each pip is equivalent to HK\$0.0001) at end-2016 to 146 pips at end-March 2017, while the 12-month forward rate reverted from a premium of 145 pips to a discount of 335 pips.

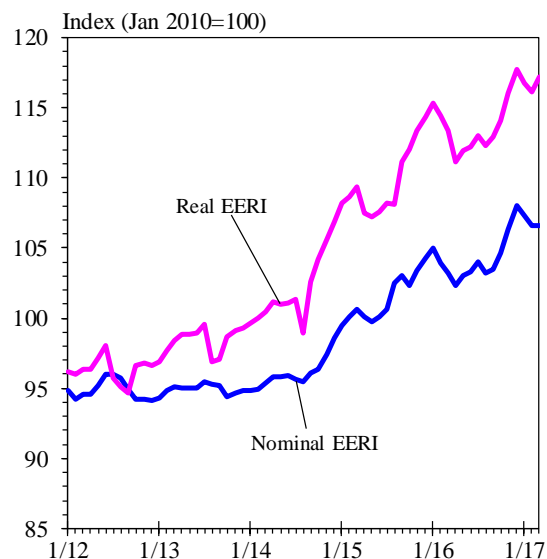
4.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar weakened against most major currencies, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*<sup>(3)</sup> decreased by 1.3% and 0.5% respectively during the first quarter.

**Diagram 4.3 : Hong Kong dollar weakened slightly against the US dollar during the first quarter (end for the week)**



Note : (\*) The shaded area represents the Convertibility Zone that was introduced in May 2005 as part of the three refinements to the Linked Exchange Rate System.

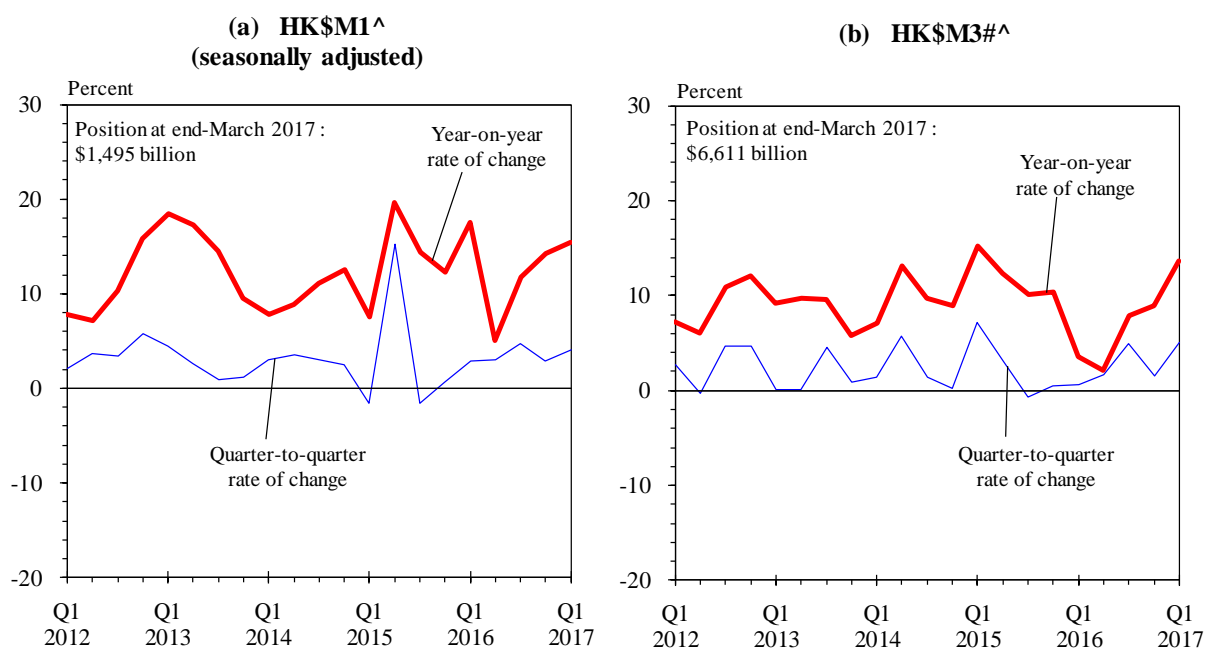
**Diagram 4.4 : The trade-weighted nominal and real EERIs declined (average for the month)**



## Money supply and banking sector

4.6 The monetary aggregates continued to register solid growth in the first quarter. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) expanded by 4.0% over end-2016 to \$1,495 billion<sup>(4)</sup> at end-March 2017, and the Hong Kong dollar broad money supply (HK\$M3) by 5.1% to \$6,611 billion. Meanwhile, *total deposits* with authorized institutions (AIs)<sup>(5)</sup> rose by 3.0% to \$12,084 billion, with Hong Kong dollar and foreign currency deposits growing by 5.1% and 1.0% respectively.

**Diagram 4.5 : The monetary aggregates continued to register solid growth in the first quarter**



**Table 4.1 : Hong Kong dollar money supply and total money supply**

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
<u>% change during the quarter</u>		<u>HK\$<sup>^</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>
2016	Q1	2.9	5.4	0.6	1.1	0.6	1.1
	Q2	3.0	0.6	1.7	0.4	1.7	0.4
	Q3	4.7	6.9	4.9	5.1	4.9	5.1
	Q4	2.9	-0.9	1.5	1.0	1.5	1.0
2017	Q1	4.0	0.7	5.1	3.4	5.1	3.4
Total amount at end-March 2017 (\$Bn)		1,495	2,229	6,599	12,929	6,611	12,978
% change over a year earlier		15.4	7.3	13.7	10.1	13.7	10.1

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 Amid a further pick-up in economic activity and increased funding demand by multinational corporations, *total loans and advances* expanded by an accelerated 4.6% over end-2016 to \$8,395 billion at end-March 2017. Within the total, Hong Kong dollar loans rose by 3.2% and foreign currency loans by a faster 6.4%. Reflecting the relative movements in deposits and loans, the loan-to-deposit ratio for Hong Kong dollar declined from 77.1% at end-2016 to 75.7% at end-March 2017, while that for foreign currencies increased from 59.9% to 63.1%.

4.8 Loans for use in Hong Kong (including trade finance) increased by

4.0% over end-2016 to \$5,865 billion at end-March 2017 and loans for use outside Hong Kong by 6.2% to \$2,531 billion. Within the former, loans to most major economic sectors registered increases. Trade finance reverted to an increase of 2.6%, partly underpinned by the improvement in external trade. On the back of the stock market rally, loans to financial concerns and loans to stockbrokers surged by 12.1% and 9.7% respectively. Loans to manufacturing rose by 4.6%, and loans to wholesale and retail trade by 1.6%. As for property-related lending, loans to building, construction, property development and investment continued to rise, by 4.9%, while loans for purchase of residential property grew at a slightly slower pace of 1.6% amid a moderation in trading activities after the introduction of further demand-side management measure in November 2016.

**Table 4.2 : Loans and advances**

All loans and advances for use in Hong Kong

		Loans to :							Total <sup>(b)</sup>	All loans and advances for use outside Hong Kong <sup>(c)</sup>	Total loans and advances
		Trade finance	Manu- facturing	Whole- sale and retail trade	Building, construction, property development and investment	Purchase of residential property <sup>(a)</sup>	Financial concerns	Stock- brokers			
% change during the quarter											
2016	Q1	-1.5	-2.9	-6.3	2.7	0.5	-3.6	7.8	0.1	-0.8	-0.2
	Q2	5.7	8.8	0.7	1.5	0.5	13.7	6.8	3.1	0.7	2.4
	Q3	-1.1	-4.4	0.9	1.4	1.0	4.7	-6.9	1.5	1.9	1.6
	Q4	-2.8	0.1	-2.5	4.7	2.1	5.1	9.9	2.5	2.7	2.5
2017	Q1	2.6	4.6	1.6	4.9	1.6	12.1	9.7	4.0	6.2	4.6
Total amount at end-March 2017 (\$Bn)		467	258	419	1,322	1,184	612	72	5,865	2,531	8,395
% change over a year earlier		4.3	9.0	0.7	13.1	5.3	40.2	19.9	11.5	11.8	11.6

Notes : Some loans have been reclassified. As such, the figures are not strictly comparable with those of previous quarters.

(a) Figures also include loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme, in addition to those for the purchase of private residential flats.

(b) Loans to individual sectors may not add up to all loans and advances for use in Hong Kong, as some sectors are not included.

(c) Also include loans where the place of use is not known.

4.9 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 19.2% at end-2016. Asset quality of the local banking sector also stayed healthy. The ratio of classified loans to total loans edged down from 0.81% at end-September to 0.72% at end-2016, and the delinquency ratio

for credit card lending from 0.25% to 0.24%. Meanwhile, the delinquency ratio for residential mortgage loans stayed low at 0.04% at end-March 2017, comparable to the 0.03% at end-2016.

**Table 4.3 : Asset quality of retail banks\***  
(as % of total loans)

<u>As at end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2015	Q1	98.39	1.14	0.46
	Q2	98.23	1.28	0.49
	Q3	98.08	1.36	0.56
	Q4 <sup>^</sup>	97.87	1.44	0.69
2016	Q1	97.77	1.45	0.78
	Q2	97.80	1.40	0.80
	Q3	97.68	1.51	0.81
	Q4	97.75	1.53	0.72

Notes : Due to rounding, figures may not add up to 100.

(\*) Period-end figures relate to Hong Kong offices and overseas branches. Loans and advances are classified into the following categories: Pass, Special Mention, Substandard, Doubtful and Loss. Loans in the substandard, doubtful and loss categories are collectively known as “classified loans”.

(<sup>^</sup>) Figures prior to December 2015 cover retail banks’ Hong Kong offices and overseas branches. Starting from December 2015, the coverage was expanded to include the banks’ major overseas subsidiaries.

4.10 The *offshore renminbi (RMB) business* stayed soft, as investors remained cautious on the outlook of RMB exchange rate. Total RMB deposits (including customer deposits and outstanding certificates of deposit) contracted further by 6.7% from end-2016 to RMB583.1 billion at end-March 2017. RMB trade settlement transactions handled by banks in Hong Kong plunged by 27.4% from a year earlier to RMB821.4 billion in the first quarter. RMB financing activities continued to slow down. RMB bond issuance plummeted from RMB19.2 billion in the preceding quarter to RMB0.8 billion in the first quarter, while outstanding RMB bank loans declined by 12.4% from end-2016 to RMB258.3 billion at end-March 2017.



**Table 4.4 : Renminbi deposits and cross-border renminbi trade settlement in Hong Kong**

As at end of period		Demand and savings deposits (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	Interest rates on <sup>(a)</sup>		Number of AIs engaged in RMB business	Amount of cross-border RMB trade settlement <sup>(c)</sup> (RMB Mn)
					Savings deposits <sup>(b)</sup> (%)	Three-month time deposits <sup>(b)</sup> (%)		
2016	Q1	187,124	572,302	759,425	0.25	0.53	145	1,130,645
	Q2	204,282	507,266	711,549	0.25	0.53	146	1,234,587
	Q3	201,829	463,671	665,500	0.25	0.53	145	1,189,244
	Q4	135,520	411,187	546,707	0.25	0.53	144	987,651
2017	Q1	131,103	376,169	507,272	0.25	0.53	141	821,390
% change in 2017 Q1 over 2016 Q1		-29.9%	-34.3%	-33.2%	N.A.	N.A.	N.A.	-27.4%
% change in 2017 Q1 over 2016 Q4		-3.3%	-8.5%	-7.2%	N.A.	N.A.	N.A.	-16.8%

Notes : (a) The interest rates are based on a survey conducted by the HKMA.

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

## The debt market

4.11 The Hong Kong dollar *debt market* continued to expand in the first quarter. Total gross issuance of Hong Kong dollar debt securities edged up by 0.2% over the preceding quarter to \$799.3 billion, of which 88.8% was attributed to Exchange Fund papers issuance<sup>(6)</sup>. With more debt issued than maturing, the total outstanding balance of Hong Kong dollar debt securities grew by 1.1% over end-2016 to \$1,748.8 billion at end-March 2017. This was equivalent to 26.5% of HK\$M3 or 23.0% of Hong Kong dollar-denominated assets of the banking sector<sup>(7)</sup>.

4.12 As to the Government Bond (GB) programme, a total of \$1.8 billion institutional GBs were issued through tenders in the first quarter. The total outstanding amount of Hong Kong dollar bonds under the GB Programme was \$103.1 billion at end-March, comprising 13 institutional issues totaling \$70.1 billion and four retail issues (three iBonds and one Silver Bond) totaling \$33.0 billion. In addition, three US dollar sukuks, each with the issuance size of US\$1.0 billion, were outstanding under the Programme.

4.13 In February the Financial Secretary announced that the Government

would issue the second batch of Silver Bond as scheduled in the 2017-18 financial year. Appropriate issuance terms, including issuance size and tenure, will be formulated in light of market environment. This would help meet the demand for financial products with steady return from senior residents and further promote the development of the local bond market.

**Table 4.5 : New issuance and outstanding value of  
Hong Kong dollar debt securities (\$Bn)**

	<u>Exchange Fund paper</u>	<u>Statutory bodies/govern ment-owned corporations</u>	<u>Govern -ment</u>	<u>Public sector total</u>	<u>AIs<sup>(a)</sup></u>	<u>Local corporations</u>	<u>Non-MDBs overseas borrowers<sup>(b)</sup></u>	<u>Private sector total</u>	<u>MDBs<sup>(b)</sup></u>	<u>Total</u>
<b>New Issuance</b>										
2016 Annual	2,689.6	20.9	29.4	2,739.9	181.2	25.2	100.7	307.1	5.5	3,052.6
Q1	622.4	4.4	1.6	628.4	53.8	5.2	20.9	79.9	0.8	709.1
Q2	677.3	14.1	16.5	707.8	56.1	3.3	30.8	90.3	2.8	800.9
Q3	677.7	0.3	4.8	682.8	29.0	9.3	21.7	60.1	1.9	744.8
Q4	712.3	2.2	6.5	720.9	42.4	7.3	27.2	76.9	0.0	797.8
2017 Q1	709.7	9.7	1.8	721.3	54.9	4.1	17.4	76.4	1.7	799.3
% change in 2017 Q1 over 2016 Q1	14.0	121.8	12.5	14.8	2.0	-21.6	-16.8	-4.4	112.3	12.7
% change in 2017 Q1 over 2016 Q4	-0.4	353.3	-72.3	*	29.5	-43.9	-36.0	-0.6	N.A.	0.2
<b>Outstanding (as at end of period)</b>										
2016 Q1	856.9	46.6	102.0	1,005.5	226.1	142.6	165.1	533.8	6.0	1,545.2
Q2	912.4	56.3	102.0	1,070.6	256.7	143.2	175.0	574.9	8.8	1,654.4
Q3	962.1	53.1	106.8	1,121.9	264.7	150.6	177.8	593.1	10.5	1,725.6
Q4	963.1	50.0	102.8	1,115.9	273.1	153.4	177.6	604.1	10.5	1,730.6
2017 Q1	964.6	54.4	104.6	1,123.7	283.7	153.2	176.5	613.4	11.8	1,748.8
% change in 2017 Q1 over 2016 Q1	12.6	16.8	2.5	11.8	25.5	7.5	6.9	14.9	97.2	13.2
% change in 2017 Q1 over 2016 Q4	0.2	8.8	1.8	0.7	3.9	-0.1	-0.6	1.5	11.5	1.1

Notes : Figures may not add up to the corresponding totals due to rounding and may be subject to revisions.

N.A. Not available.

(a) AIs : Authorised institutions.

(b) MDBs : Multilateral Development Banks.

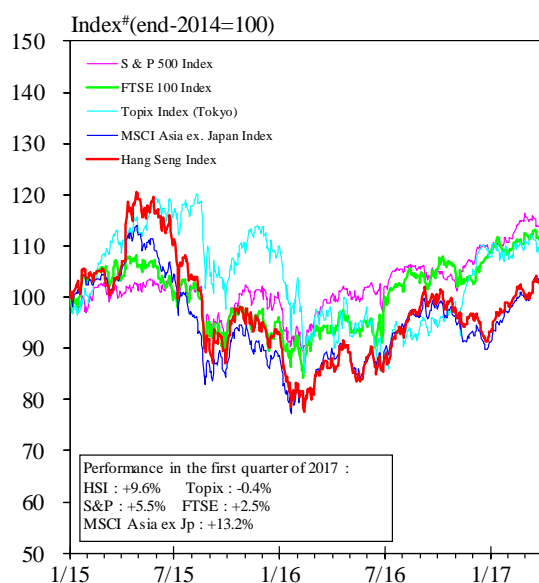
(\*) Change of less than  $\pm 0.05\%$ .

## The stock and derivatives markets

4.14 The *local stock market* staged a strong rally in the first quarter of 2017. Market sentiment was first boosted by improved global economic outlook and then easing concerns about a faster-than-expected rate hike in the US. In tandem with the rise in the major global stock markets, the Hang Seng Index (HSI) soared to 24 593 on 21 March, the highest closing since late July 2015, before ending the quarter at 24 112 or 9.6% higher than at end-2016. The *market capitalisation* also expanded by 10.0% to \$27.2 trillion. The local stock market was the sixth largest in the world and the third largest in Asia<sup>(8)</sup>.

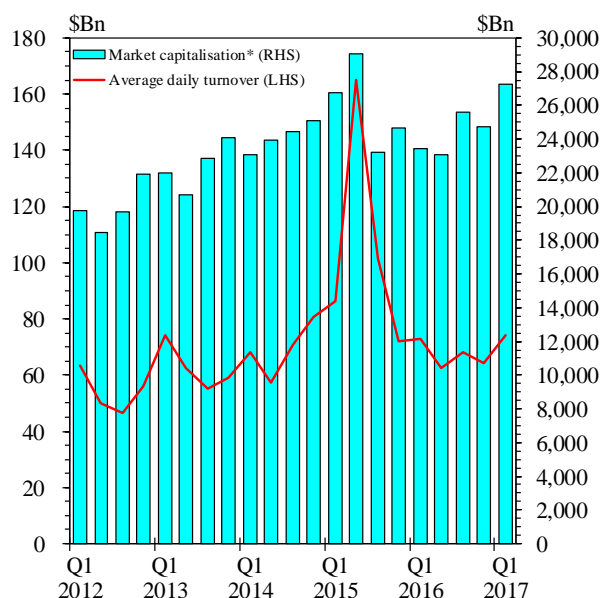
4.15 Trading activities also picked up. *Average daily turnover* in the securities market rose by 15.6% over the preceding quarter or 2.3% over a year earlier to \$74.3 billion in the first quarter. Within the total, the average daily trading value of derivative warrants, unit trusts (including Exchange-Traded Funds) and equities surged by 38.5%, 31.7% and 12.1% respectively over the preceding quarter, while that of callable bull/bear contracts<sup>(9)</sup> declined by 3.8%. As to futures and options<sup>(10)</sup>, the average daily trading volume rose by 3.1% over the preceding quarter. Within the total, trading of stock options rose by 12.7% and that of HSI options showed virtually no change, while that of HSI futures and H-shares Index futures dropped by 9.8% and 3.4% respectively.

**Diagram 4.6 : The local stock market staged a strong rally in the first quarter of 2017**



Note : (#) Position at end of month.

**Diagram 4.7 : Market capitalisation expanded, while trading activities picked up**



Note : (\*) Position at end of quarter.

**Table 4.6 : Average daily turnover of futures and options of the Hong Kong market**

		Hang Seng Index futures	Hang Seng Index options	H-shares Index futures	Stock options	Total futures and options traded*
2016	Annual	130 826	37 869	133 729	297 903	761 744
	Q1	141 439	38 235	154 053	293 047	805 276
	Q2	135 572	38 802	138 127	292 684	758 733
	Q3	127 885	37 186	122 196	304 828	748 269
	Q4	119 016	37 295	121 896	300 596	737 238
2017	Q1	107 376	37 294	117 732	338 771	759 988
	% change in 2017 Q1 over 2016 Q1	-24.1	-2.5	-23.6	15.6	-5.6
	% change in 2017 Q1 over 2016 Q4	-9.8	0.0	-3.4	12.7	3.1

Note : (\*) Turnover figures for individual futures and options are in number of contracts, and may not add up to the total futures and options traded as some products are not included.

4.16 Fund raising activities, which are inherently volatile due to the nature of business, were subdued in the first quarter. *Total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)<sup>(11)</sup>, plunged by 67.5% from the preceding quarter or 37.8% from a year earlier to \$56.7 billion. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) plummeted by 77.6% from the preceding quarter to \$13.3 billion. Hong Kong ranked the seventh globally in terms of the amount of funds raised through IPOs in the first quarter.

4.17 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-March 2017, a total of 1 013 Mainland enterprises (including 243 H-share companies, 158 “Red Chip” companies and 612 private enterprises) were listed on the Main Board and the GEM, accounting for 50% of the total number of listed companies and 64% of total market capitalisation. Mainland-related stocks accounted for 73% of equity turnover and 39% of total equity fund raised in the Hong Kong stock exchange in the first quarter.

## **Fund management and investment funds**

4.18 On the back of the rally in the stock market, the fund management business generally showed solid performance in the first quarter. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*<sup>(12)</sup> went up by 8.5% over end-2016 to \$701.2 billion at end-March 2017. The monthly average gross retail sales of *mutual funds* surged by 66.6% over a year earlier or 37.5% over the preceding quarter to US\$7.1 billion in January – February<sup>(13)</sup>. Yet the amount of net assets managed by *retail hedge funds* shrank further<sup>(14)</sup>.

## **Insurance sector**

4.19 Different segments of the *insurance sector*<sup>(15)</sup> showed diverse performance in 2016. Gross premium income from long-term business leapt by 41.3%, underpinned by the sharp growth in premium income from non-investment linked plans. Meanwhile, gross premium and net premium of general business edged down by 0.7% and 2.0% respectively.

**Table 4.7 : Insurance business in Hong Kong\* (\$Mn)**

	General business			Premium for long-term business <sup>^</sup>					Gross premium from long-term business and general business
	Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	
2015 Annual	45,961	32,085	1,697	120,435	10,243	178	417	131,273	177,234
Q1	12,939	9,053	645	32,060	4,249	52	121	36,482	49,421
Q2	10,943	7,888	58	28,909	3,210	42	80	32,241	43,184
Q3	11,592	7,900	803	27,356	1,328	43	145	28,872	40,464
Q4	10,487	7,244	191	32,110	1,456	41	71	33,678	44,165
2016 Annual	45,643	31,457	1,606	179,147	5,744	255	343	185,489	231,132
Q1	13,078	8,864	574	37,256	1,239	50	92	38,637	51,715
Q2	10,937	7,762	501	42,058	853	68	78	43,057	53,994
Q3	11,727	8,094	215	49,250	1,422	70	116	50,858	62,585
Q4	9,901	6,736	316	50,583	2,230	67	57	52,937	62,838
% change in 2016 Q4 over 2015 Q4	-5.6	-7.0	65.4	57.5	53.2	63.4	-19.7	57.2	42.3
% change in 2016 over 2015	-0.7	-2.0	-5.4	48.7	-43.9	43.3	-17.7	41.3	30.4

Notes : (\*) Figures are based on provisional statistics of the Hong Kong insurance industry.

(^) Figures refer to new business only. Retirement scheme business is excluded.

## Highlights of policy and market developments

4.20 In March, the Asian Infrastructure Investment Bank (AIIB) approved Hong Kong's application for accession to membership. The AIIB is a Multilateral Development Bank established in 2016 to provide financial support for infrastructure development and regional connectivity in Asia. Given the depth and breadth of Hong Kong's financial markets and availability of financial sector professionals, the professional services and financial services of Hong Kong will stand to benefit from AIIB's operations. Upon payment of the first instalment of capital subscription, Hong Kong will formally become a new member of the AIIB.

## Notes :

- (1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher. Between 9 October 2008 and 31 March 2009, this formula for determination of the Base Rate was temporarily changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points and by removing the other leg relating to the moving averages of the relevant interbank interest rates. After a review of the appropriateness of the new Base Rate formula, the narrower 50 basis point spread over the FFTR was retained while the HIBOR leg was re-instated in the calculation of the Base Rate after 31 March 2009.
- (2) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movement in various deposit rates, interbank and other interest rates to closely track the average cost of funds for banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector.
- (3) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against some 15 currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong during 2009 and 2010.

The Real EERI of the Hong Kong dollar is obtained by adjusting the Nominal EERI for relative movements in the seasonally adjusted consumer price indices of the respective trading partners.

- (4) The various definitions of the money supply are as follows:

M1 : Notes and coins with the public, plus customers' demand deposits with licensed banks.

M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks, held outside the monetary sector as well as short-term Exchange Fund placements of less than one month.

M3 : M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.

Among the various monetary aggregates, more apparent seasonal patterns are found in HK\$M1, currency held by the public, and demand deposits.

- (5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-March 2017, there were 156 licensed banks, 21 restricted licence banks and 17 deposit-taking companies in Hong Kong. Altogether, 194 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (6) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.



- (7) Assets of the banking sector include notes and coins, amount due from Authorised Institutions in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposit (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.
- (8) The ranking is based on the figures compiled by the World Federation of Exchanges and the London Stock Exchanges Group.
- (9) Given the relatively small share (less than 0.5% of the daily turnover in the securities market), trading of debt securities and its movements were not analysed.
- (10) At end-March 2017, there were 84 classes of stock options contracts and 74 classes of stock futures contracts.
- (11) At end-March 2017, there were 1 732 and 277 companies listed on the Main Board and GEM respectively.
- (12) At end-March 2017, there were 18 approved trustees. On MPF products, 33 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 485 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 278 000 employers, 2.57 million employees and 202 000 self-employed persons have participated in MPF schemes.
- (13) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-February 2017, the survey covered a total of 1 344 active authorised funds.
- (14) At end-March 2017, there were two SFC-authorised retail hedge funds with combined net asset size of US\$28 million. The amount of net assets under management represented a 3.4% decrease from end-2016, and a 82.5% decrease from end-2002, the year when the hedge funds guidelines were first issued.
- (15) At end-March 2017, there were 160 authorised insurers in Hong Kong. Within this total, 47 were engaged in long-term insurance business, 94 in general insurance business, and 19 in composite insurance business. These authorised insurers came from 23 countries and territories (including Hong Kong).

## CHAPTER 5 : THE LABOUR SECTOR

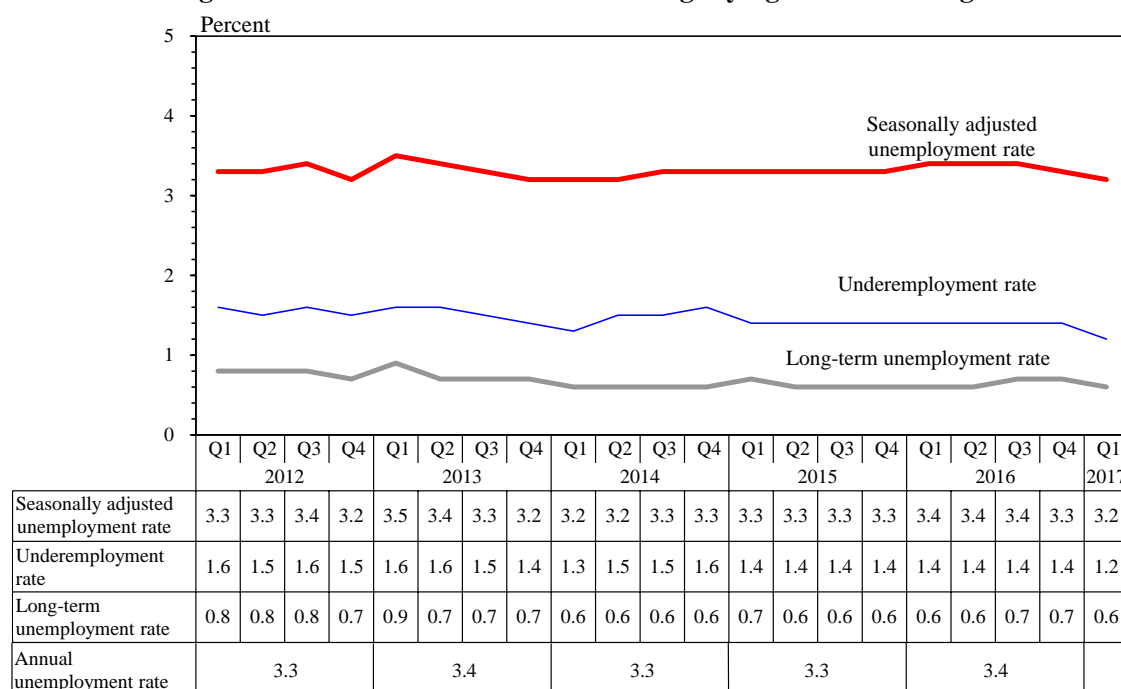
### *Summary*

- *The labour market tightened somewhat in the first quarter of 2017, with the seasonally adjusted unemployment rate edging down to 3.2%, a low level last seen in the second quarter of 2014, continuing to indicate a state of full employment.*
- *With the economy regaining momentum over the course of 2016, labour demand firmed up gradually and cast off its earlier weakness. Total employment growth picked up on entering 2017, while the latest data also indicated a smaller decline in number of private sector vacancies.*
- *Both nominal wages and payroll stayed on the rise in 2016 under a resilient and stable labour market, albeit at a slightly slower pace compared to the preceding year alongside the moderated inflation. Earnings of lower paid workers likewise posted further appreciable gains.*

### **Overall labour market situation<sup>(1)</sup>**

5.1 The labour market stayed resilient and tightened somewhat in the first quarter of 2017. Thanks to the improved economic performance, labour demand continued to regain some previously lost ground on entering 2017. Both labour force and total employment expanded at a faster pace in the first quarter of 2017. Compared to the preceding quarter, the seasonally adjusted *unemployment rate*<sup>(2)</sup> edged down further by 0.1 percentage point to 3.2%, a low level last seen in the second quarter of 2014. The *underemployment rate*<sup>(3)</sup> likewise went down by 0.2 percentage point over the preceding quarter to a three-year low of 1.2%. Latest data collected from private sector establishments also pointed to recovering labour demand, with employment growth picking up slightly and the dip in overall job vacancies narrowed further. Against this backdrop, overall wages and earnings stayed on the rise, with the earnings of lower paid workers faring even better.

**Diagram 5.1 : The labour market turned slightly tighter on entering 2017**



## Labour force and total employment

5.2 On the supply side, the *labour force*<sup>(4)</sup> expanded further by 0.9% to 3 947 400 over a year earlier in the first quarter of 2017, faster than the 0.3% increase in the preceding quarter. With the labour force participation rate edging up by 0.1 percentage point year-on-year to 61.2% in the first quarter, labour force growth was slightly faster than the concurrent increase of 0.7% in the working-age population (i.e. land-based non-institutional population aged 15 and above).

5.3 On the demand side, *total employment*<sup>(5)</sup> grew by 1.0% over a year earlier, reaching 3 822 400 in the first quarter of 2017. In particular, employment in such sectors as construction, real estate, repair, laundry, domestic and miscellaneous services, and human health services recorded further sturdy growth in early 2017. Employment in the consumption- and tourism-related sectors as a whole, viz. retail, accommodation and food services, likewise posted a respectable increase under the continued recovery of inbound tourism.

**Table 5.1 : The labour force, and persons employed, unemployed and underemployed**

	<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed<sup>(a)</sup></u>	<u>Persons underemployed</u>
2016 Annual	3 920 100 (0.4)	3 787 100 (0.4)	133 000	54 700
Q1	3 914 100 (0.2)	3 783 000 (§)	131 100	53 500
Q2	3 911 200 (0.5)	3 774 300 (0.3)	136 900	54 500
Q3	3 925 900 (0.5)	3 785 800 (0.4)	140 100	55 800
Q4	3 914 500 (0.3)	3 791 900 (0.3)	122 500	54 700

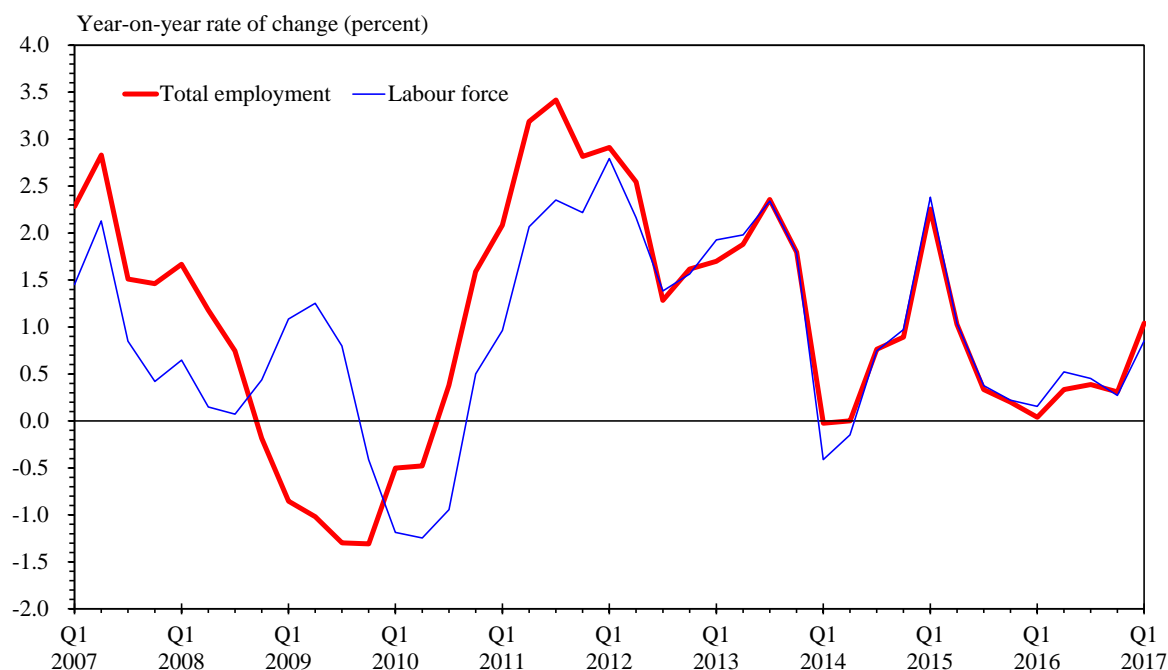
*Three months ending*

2017 Jan	3 930 500 (0.5)	3 809 400 (0.6)	121 100	50 100
Feb	3 943 800 (0.9)	3 824 400 (1.0)	119 400	48 800
Mar	3 947 400 (0.9)	3 822 400 (1.0)	125 000	49 000
	<0.7>	<0.8>		

- Notes : (a) These include first-time job-seekers and re-entrants into the labour force.  
 ( ) % change over a year earlier.  
 < > Seasonally adjusted quarter-to-quarter % change for the first quarter of 2017.  
 § Change less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Both the labour force and total employment expanded at a faster pace in the first quarter of 2017**



**Table 5.2 : Labour force participation rates by gender and by age group (%)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017 Q1</u>
<u>Male</u>						
15-24	36.3	37.8	37.8	39.1	39.5	37.0
<i>of which:</i>						
15-19	10.4	11.0	11.1	11.7	12.9	9.6
20-24	61.1	62.5	61.4	62.0	60.7	58.0
25-29	94.4	93.8	93.4	93.7	92.9	91.8
30-39	96.8	96.9	96.5	96.5	96.4	96.8
40-49	95.3	95.5	94.7	95.1	95.0	95.1
50-59	85.2	86.9	86.7	86.6	86.0	86.5
≥ 60	25.5	27.0	28.0	28.5	29.9	30.8
Overall	68.7	69.2	68.8	68.8	68.6	68.4
<u>Female</u>						
15-24	37.6	40.0	39.3	41.4	41.9	40.6
<i>of which:</i>						
15-19	9.7	11.5	12.5	12.8	12.3	10.3
20-24	62.2	64.2	61.4	63.6	63.6	62.0
25-29	87.3	86.5	86.3	85.7	86.2	87.3
30-39	77.6	78.4	78.9	78.4	78.0	80.3
40-49	70.7	72.8	73.0	73.7	73.4	73.7
50-59	53.9	56.2	57.2	58.3	59.7	60.0
≥ 60	8.8	9.7	10.7	11.4	12.3	13.3
Overall	53.5	54.5	54.5	54.7	54.8	55.3
<u>Both genders combined</u>						
15-24	36.9	38.9	38.5	40.2	40.7	38.8
<i>of which:</i>						
15-19	10.0	11.3	11.8	12.3	12.6	10.0
20-24	61.6	63.4	61.4	62.8	62.2	60.0
25-29	90.3	89.6	89.4	89.2	89.2	89.3
30-39	85.5	85.9	86.0	85.7	85.4	86.9
40-49	81.4	82.5	82.3	82.7	82.4	82.6
50-59	69.2	71.1	71.4	71.8	72.2	72.5
≥ 60	16.9	18.0	19.0	19.6	20.7	21.7
Overall	60.5	61.2	61.1	61.1	61.1	61.2

Source : General Household Survey, Census and Statistics Department.

## Profile of unemployment

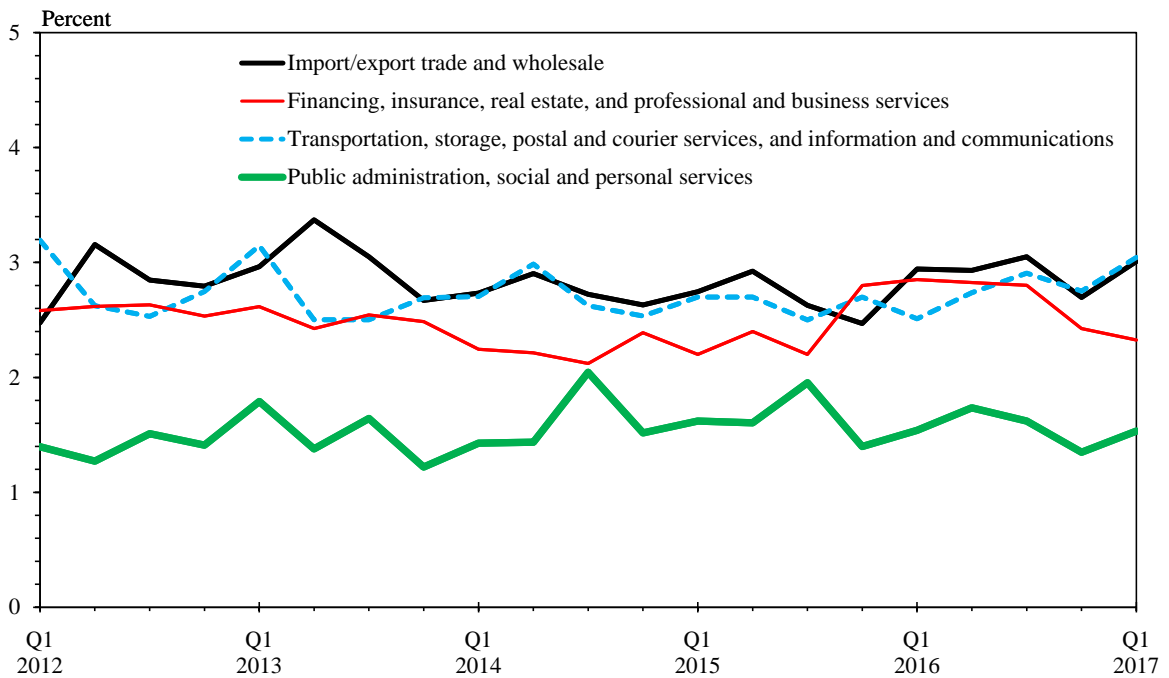
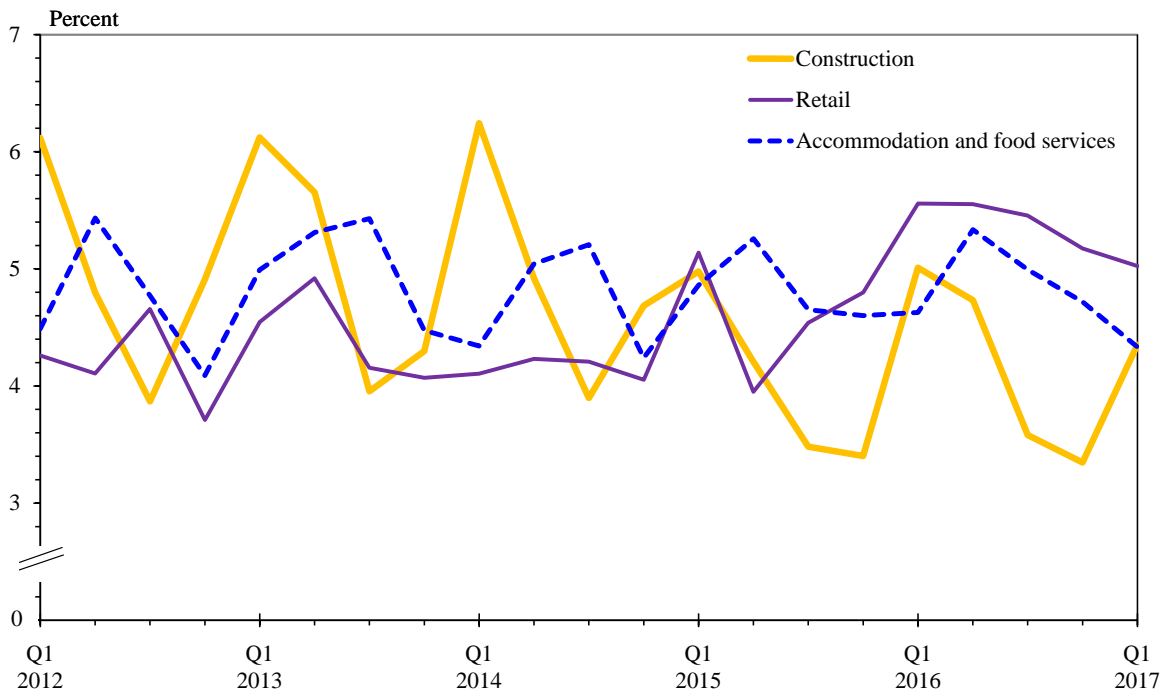
5.4 The number of unemployed persons in the first quarter of 2017 increased by 2 500 over the preceding quarter to 125 000, but was 4.7% lower than a year earlier. After netting out seasonal fluctuations, the seasonally adjusted unemployment rate went down to an almost three-year low of 3.2%.

5.5 Improvement in the unemployment rate (not seasonally adjusted) were observed across many economic sectors as compared to the preceding quarter, with more visible improvement seen in the food and beverage services activities (down 0.6 percentage point), real estate (down 0.4 percentage point), and professional and business services (excluding cleaning and similar activities) (also down 0.4 percentage point) sectors. On a year-on-year comparison to net out the effect of seasonality, most of the major economic sectors saw an improved unemployment situation in the first quarter of 2017 over a year earlier amid the tightening of the labour market, with the exception of transportation and storage, cleaning and similar activities, and social work activities. In particular, unemployment rates in the retail sector and accommodation and food services sector fell by 0.6 and 0.3 percentage point respectively from a year earlier alongside the gradual recovery of inbound tourism. Regarding the *low paying sectors*<sup>(6)</sup> as a whole, its unemployment rate held steady at 3.2%, and was 0.2 percentage point below its year-ago level.

5.6 Analysed by skill segment, the unemployment rate of the higher-skilled segment showed little change over the preceding quarter at 1.8%, while that of the lower-skilled segment increased by 0.3 percentage point to 3.6%, though the latter conceivably reflected in large the influences of seasonality. On a year-on-year comparison which nets out the effect of seasonality, the unemployment rates of both the higher-skilled and lower-skilled segments inched down, by 0.1 and 0.2 percentage point respectively.

5.7 As regards other socio-economic attributes, more discernible year-on-year decreases in the unemployment rate were observed among persons aged 15-24 (down 0.6 percentage point), and those with tertiary education (down 0.3 percentage point).

**Diagram 5.3 : Improvements in unemployment rates were seen in many major economic sectors in the first quarter of 2017 over a year earlier**



**Table 5.3 : Unemployment rates by major economic sector**

	<u>2016</u>				<u>2017</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Import/export trade and wholesale	2.9	2.9	3.0	2.7	3.0
Retail	5.6	5.6	5.5	5.2	5.0
Accommodation and food services	4.6	5.3	5.0	4.7	4.3
Transportation, storage, postal and courier services	2.6	2.9	3.0	2.9	3.3
Information and communications	2.4	2.4	2.8	2.8	2.5
Financing and insurance	2.0	2.1	2.2	1.9	2.0
Real estate	2.4	3.0	2.5	2.3	1.9
Professional and business services	3.6	3.3	3.4	2.8	2.7
Public administration, social and personal services	1.5	1.7	1.6	1.3	1.5
Manufacturing	4.3	3.8	3.0	2.4	2.6
Construction	5.0	4.7	3.6	3.3	4.4
Overall*	3.3 (3.4)	3.5 (3.4)	3.6 (3.4)	3.1 (3.3)	3.2 (3.2)

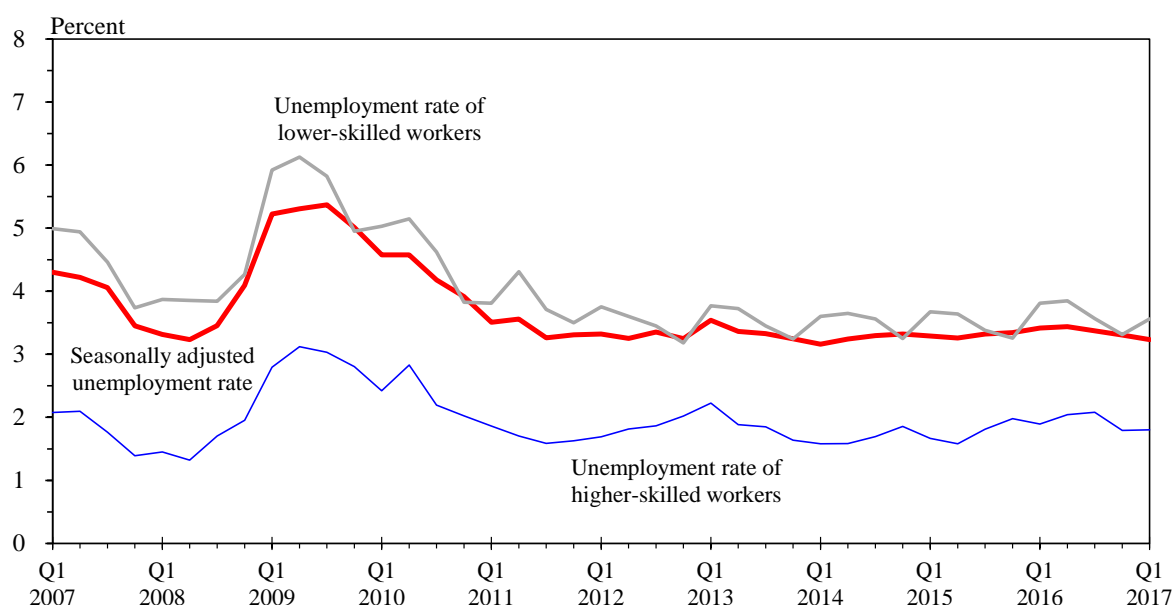
Notes : \* Including first-time job-seekers and re-entrants into the labour force.

( ) Seasonally adjusted unemployment rates.

Source : General Household Survey, Census and Statistics Department.



**Diagram 5.4 : The unemployment rates of both the higher-skilled and lower-skilled segments went slightly lower over a year earlier**



**Table 5.4 : Unemployment rates\* by skill segment**

	<u>2016</u>				<u>2017</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<u>Higher-skilled segment</u>	1.9	2.0	2.1	1.8	1.8
Managers and administrators	1.7	1.8	1.2	1.3	1.4
Professionals	1.3	1.6	2.1	1.4	1.8
Associate professionals	2.3	2.4	2.6	2.2	2.0
<u>Lower-skilled segment</u> <sup>^</sup>	3.8	3.8	3.6	3.3	3.6
Clerical support workers	3.4	3.5	3.9	3.4	3.2
Service and sales workers	4.8	5.0	4.3	4.3	4.3
Craft and related workers	4.9	4.3	3.8	3.8	4.5
Plant and machine operators and assemblers	2.4	2.5	2.8	1.8	2.8
Elementary occupations	3.2	3.3	2.9	2.6	3.1

Notes : \* Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

<sup>^</sup> Including other occupations.

Source : General Household Survey, Census and Statistics Department.

**Table 5.5 : Unemployment rates\* by age and educational attainment**

	<u>2016</u>				<u>2017</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<u>Age</u>					
15-24	8.9	10.2	10.8	9.4	8.3
<i>Of which:</i>					
15-19	15.0	16.9	11.9	11.6	11.7
20-24	7.9	9.1	10.6	9.1	7.8
25-29	3.9	3.9	4.4	3.6	4.0
30-39	2.0	2.2	2.5	2.4	2.1
40-49	3.0	3.0	2.8	2.4	2.6
50-59	3.4	3.1	3.1	2.8	3.3
≥ 60	2.2	3.0	1.9	1.9	2.2
<u>Educational attainment</u>					
Primary education and below	3.3	3.5	2.9	2.8	3.2
Lower secondary education	4.4	4.4	4.0	4.0	4.5
Upper secondary education <sup>^</sup>	3.2	3.7	3.5	3.1	3.0
Post-secondary education	3.2	3.0	3.6	2.9	2.9

Notes : \* Not seasonally adjusted, but including first-time job-seekers and re-entrants into the labour force.

^ Including craft courses.

Source : General Household Survey, Census and Statistics Department.

5.8 Other indicators measuring the intensity of unemployment in the first quarter of 2017 mostly remained stable when compared to their year-ago levels. The number of long-term unemployed persons (i.e. unemployed for six months or longer) went down slightly to 23 600 in the first quarter of 2017 from 24 100 a year earlier, with the long-term unemployment rate staying low at 0.6% and the median duration of unemployment holding steady at 70 days. Likewise, the share of long-term unemployment in total unemployment remained at a relatively low level of 18.9%. The proportion of dismissal or lay-offs among the total number of unemployed persons (not including first-time job-seekers and re-entrants into the labour force) also remained largely unchanged at 49.0%.

## **Profile of underemployment**

5.9 The underemployment situation also improved in the first quarter of 2017 on the back of a gradually strengthening labour demand. Compared to the preceding quarter, the underemployment rate went down by 0.2 percentage point to a three-year low of 1.2%, with the number of underemployed persons declining by 5 600 to 49 000. More notable declines in underemployment rate were seen in the cleaning and similar activities as well as construction sectors. Analysed by occupational category, the underemployment rate of the higher-skilled segment edged down by 0.1 percentage point to 0.4%. As for the lower-skilled segment, its underemployment rate went down by 0.2 percentage point to 1.8% as well, with craft and related workers, elementary occupations and plant and machine operators and assemblers saw more visible declines.

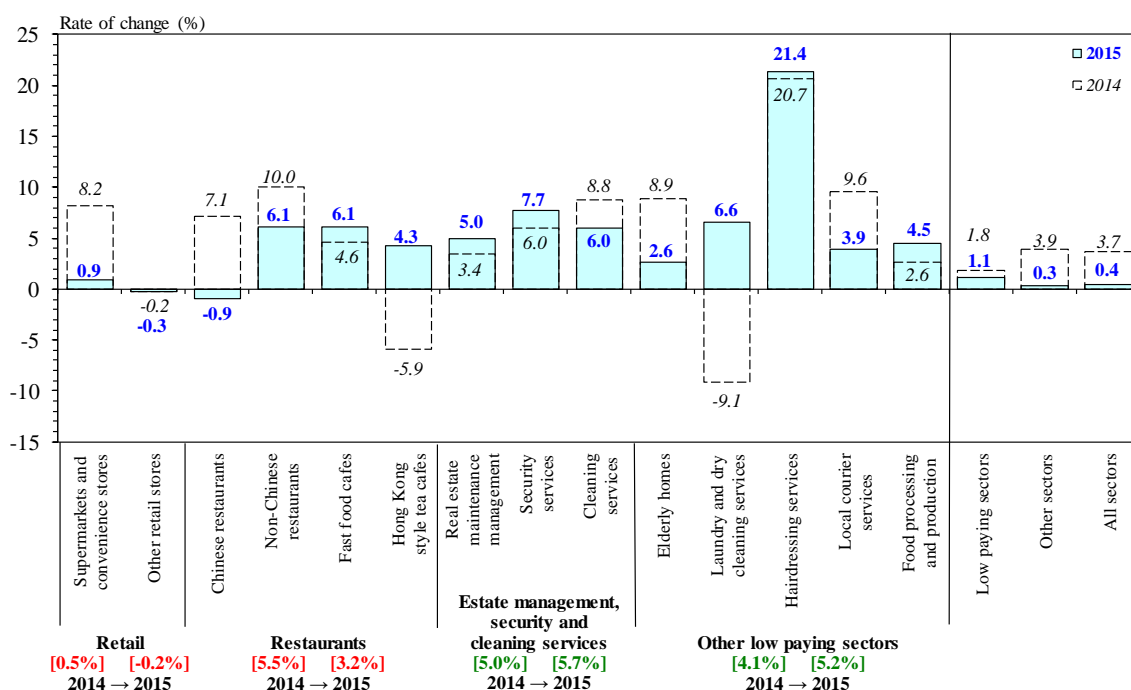
## Box 5.1

### Business performance and operating situation of low paying sectors in 2015

The business performance of enterprises is closely related to the labour market situation. The implementation of the Statutory Minimum Wage (SMW), while helping protect grassroots employees from excessively low wages, increases the labour costs incurred by firms. Rising operating costs will inflict certain pressure on business performance, and how enterprises will cope with the challenge hinges critically on the economic environment. If they eventually resort to downsizing, the job security of employees will definitely be compromised. This is particularly so for those with lower skills and weaker bargaining power. Fortunately, with the Hong Kong economy sustaining expansion since the implementation of SMW in May 2011, the labour market has stayed broadly resilient. Based on the results of the 2015 Annual Survey of Economic Activities<sup>(1)</sup> released by the Census and Statistics Department, this article analyses the business performance and operating situation of the low paying sectors (LPS), which hire more low-paid employees, and those of the small and medium enterprises<sup>(2)</sup> (SMEs) therein.

The Hong Kong economy grew moderately further by 2.4% in 2015. The business receipts of most LPS still registered modest expansion, though those of the retail sector edged down by 0.2% amid the slowdown in inbound tourism then. Dragged by a consolidating retail sector, the overall business receipts of LPS notched up by 1.1% in 2015, slightly slower than the growth in 2014 (*Chart 1*).

**Chart 1: Business receipts of most LPS recorded growth on the back of moderate economic expansion in 2015**



Note: [ ] Figures in brackets denote the rate of change in business receipts of all enterprises in that sector in the specified year.

Source: Annual Survey of Economic Activities, Census and Statistics Department.

(1) For the business performance of enterprises in LPS in previous years, please see Box 6.1 in the 2012 Economic Background and 2013 Prospects, Box 5.1 in the First Quarter Economic Report 2014, Box 5.1 in the First Quarter Economic Report 2015 and Box 5.1 in the First Quarter Economic Report 2016.

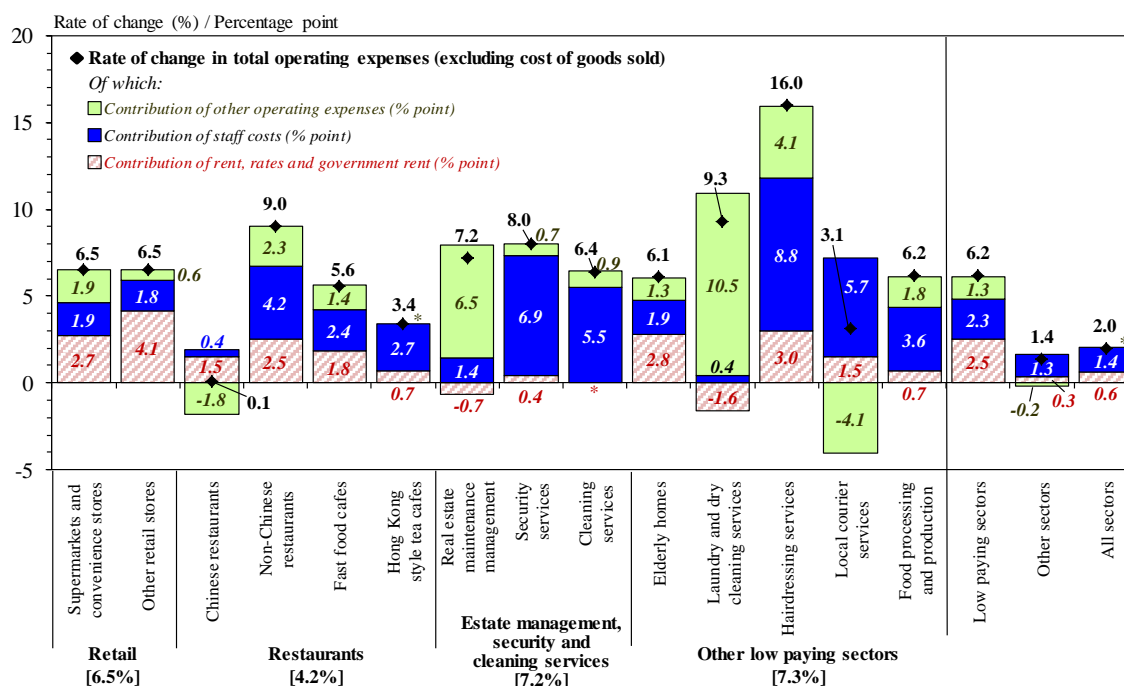
(2) The statistics discussed in this article pertain to enterprises with employees only. SMEs refer to enterprises with fewer than 50 persons engaged.

## Box 5.1 (Cont'd)

### Operating costs

Along with a largely stable labour market in 2015 and the SMW uprating in May of the same year, labour costs generally increased. With most LPS being labour-intensive in nature, rising staff costs remained a key factor underlying the increase in their total operating expenses, particularly so for sectors such as hairdressing, security, local courier and cleaning services. Taking security and cleaning services as examples, within the increases in their total operating expenses of 8.0% and 6.4% respectively, 6.9 and 5.5 percentage points respectively came from the rise in staff costs, accounting for over 85% of the total increases. Moreover, the other operating expenses of the laundry and dry cleaning services sector also surged, largely reflecting the indirect impact of rising labour costs via service outsourcing for some of the firms therein. As regards other LPS such as retail, in addition to the increase in wage bills, they also had to face greater pressure from rentals which took up a relatively large share in their total operating costs (nearly 40%) (*Chart 2*).

**Chart 2: Staff costs remained a key driver for the increase in the total operating expenses of most LPS**



Note: The sum of the individual items may not be equal to the totals due to rounding.

[ ] Figures in brackets denote the rate of change in total operating expenses of all enterprises in that sector in 2015.

(\*) Within  $\pm 0.05$  percentage point.

Source: Annual Survey of Economic Activities, Census and Statistics Department.

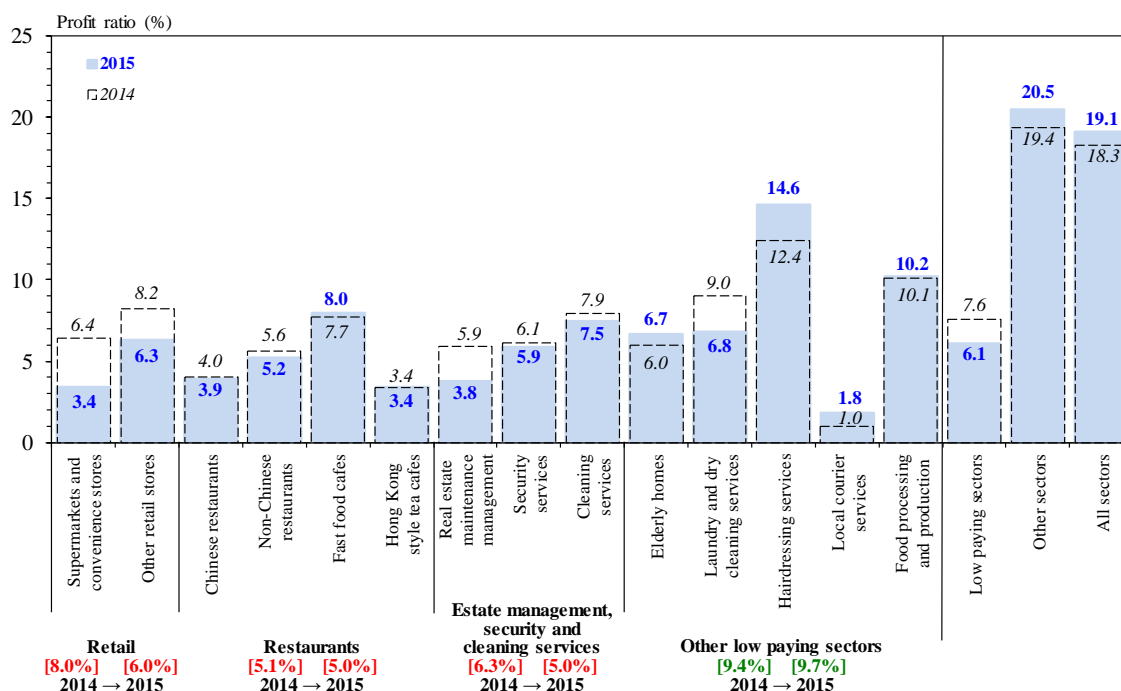
While firms had to face certain cost pressure, it is worth noting that the growth in total operating expenses of LPS decelerated slightly from 7.4% in 2014 to 6.2% in 2015. This possibly reflected firms' efforts in enhancing cost control to improve operational efficiency amid the evolving business landscape. Taking retail and restaurants as examples, although staff costs and rentals continued to post relatively notable increases, growth in their other operating expenses slowed markedly in 2015.

## Box 5.1 (Cont'd)

### Profitability

Thanks to the generally stable economic environment in 2015, enterprises could still pass on part of the additional operating costs to consumers through raising prices. Statistics showed that except retail, laundry and dry cleaning services, and real estate maintenance management, the profit ratios<sup>(3)</sup> of most LPS were largely the same as in 2014. Regarding the retail sector, which was affected more by the consolidation in the tourism industry, its profit ratio fell further from 8.0% in 2014 to 6.0% in 2015 (*Chart 3*).

**Chart 3: The profitability of most LPS in 2015 were largely the same as in 2014**



Note: [ ] Figures in brackets denote the profit ratio of all enterprises in that sector in the specified year.  
 Source: Annual Survey of Economic Activities, Census and Statistics Department.

### SMEs

Alongside the moderate expansion of the Hong Kong economy in 2015, the business receipts of SMEs in most LPS recorded growth. Among these sectors, the performance of retail SMEs was better than their large-sized counterparts, with a rebound of 7.3% in business receipts in 2015. Conceivably, retail SMEs benefited from the relatively resilient local consumption demand, whereas the decline in tourist spending had a more visible impact on large retail stores selling luxurious products.

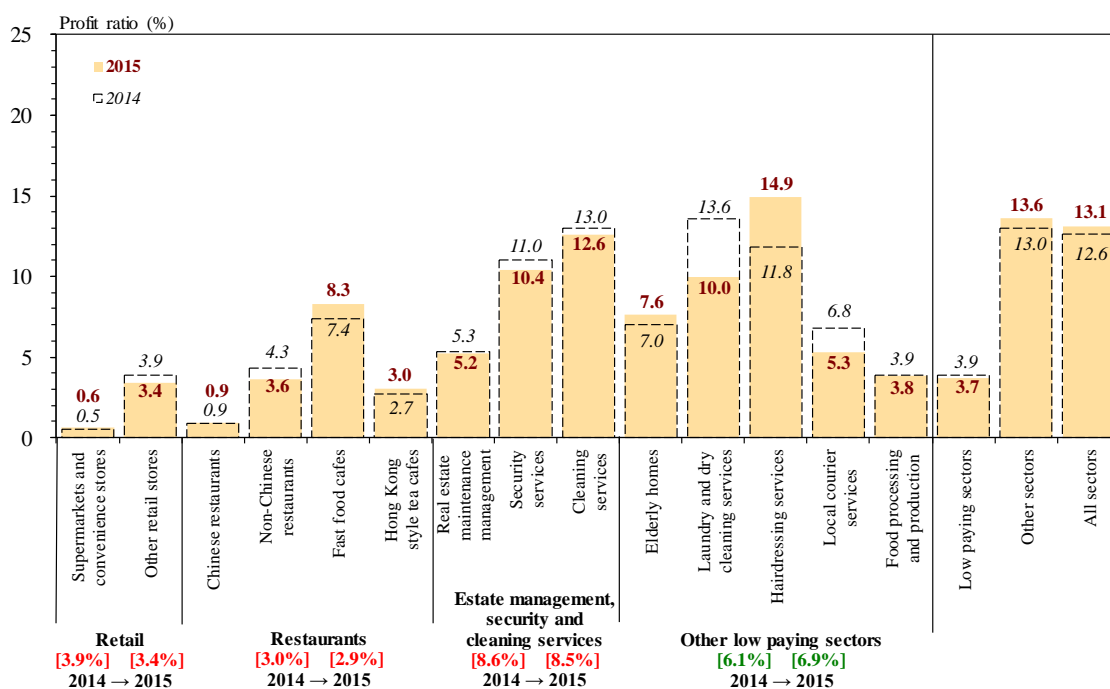
Nonetheless, the overall profitability of SMEs in most LPS fared worse than that of the sector as a whole (*Chart 4*). Compared with large enterprises, SMEs in general fail to benefit from economies of scale and more effective management. Constrained by limited resources, they are also less capable of passing on costs to customers and controlling costs. For instance, the profit ratios of SMEs in the retail and restaurants sectors stayed relatively low at only 3.4% and 2.9% respectively in 2015, compared with the respective overall levels of 6.0% and 5.0%. SMEs in individual sub-sectors such as Chinese restaurants,

(3) Earnings before tax ratio (abbreviated as profit ratio) refers to the ratio of profits (before deducting tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off; provisions, etc.) to business receipts.

### Box 5.1 (Cont'd)

supermarkets and convenience stores recorded even thinner profits. As a result, apart from having less room for manoeuvre than large enterprises when facing headwinds from the external environment, SMEs are also less capable of tiding themselves over in difficult periods by squeezing their profits. Hence, layoffs or even windings-up might occur when enterprises could not withstand the double blows of external shocks and rising operating costs. The impact on the labour market should not be taken lightly.

**Chart 4: Overall profitability of SMEs remained relatively weak, reflecting their austerer operating environment**



Note: [ ] Figures in brackets denote the profit ratio of SMEs in that sector in the specified year.  
 Source: Annual Survey of Economic Activities, Census and Statistics Department.

### Concluding remarks

All in all, with the relatively modest upward adjustment of SMW in 2015, the pressure thus entailed on the operation of enterprises was not as notable as that when SMW was first implemented. Thanks to the still modestly-expanding local economy despite a subpar external environment, which helped cushion the impact of SMW on firms' operation, the labour market has remained in a state of full employment since the implementation of SMW.

However, a persistent increase in labour costs will inevitably exert some pressure on the operation of enterprises in the labour-intensive LPS. While the Hong Kong economy has regained some momentum since the second half of 2016 and the more recent economic data also pointed to continued resilience in domestic demand and a gradual improvement in inbound tourism, the external environment is still fraught with uncertainties and will continue to pose challenges to enterprises in various sectors. The SMW rate was recently uplifted to \$34.5 per hour on 1 May 2017. In view of the still uncertain macroeconomic outlook, how different sectors will fare down the road still warrants continuous close monitoring.

## Profile of employment in establishments

5.10 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only up to December 2016. To bring the analysis more up-to-date, attempts have been made wherever possible by drawing reference to information from supplementary sources.

5.11 Private sector employment recorded a moderate increase of 0.8% in December 2016 over a year earlier to 2 829 800, indicating a progressive recovery in labour demand towards end-2016. Pace of job gains remained sturdy in construction sites (covering manual workers only) (up 10.2% year-on-year) and human health services (up 4.2%), while a pick-up was also observed in professional and business services (excluding cleaning and similar activities) (up 2.9%). At the same time, declines in persons engaged in such consumption- and tourism-related sectors as retail (down 0.2% year-on-year), and accommodation and food services (down 0.1%) narrowed further alongside the relative improvement of inbound tourism in the latter part of 2016. On the other hand, more noticeable declines in employment were seen in manufacturing (down 4.1%) amid its secular downtrend, as well as arts, entertainment, recreation and other services (down 3.1%). Analysed by establishment size, employment in small and medium-sized enterprises (SMEs)<sup>(7)</sup> rebounded from its weakness that began in late 2015 and grew by 0.4% year-on-year in December 2016, whereas employment in large enterprises gained 1.1% from a year earlier. For 2016 as a whole, total employment growth in private sector establishments was modest at 0.6%, the slowest pace since 2009, given the relatively sluggish performance in the earlier part of the year. As for the civil service, the year-on-year employment growth was 1.0% in December 2016, and 1.2% for 2016 as a whole.



**Table 5.6 : Employment by major economic sector**

	<u>2015</u>					<u>2016</u>				
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>
Import/export trade and wholesale	546 500 (-1.4)	549 200 (-0.7)	545 700 (-1.5)	545 400 (-1.6)	545 500 (-1.9)	542 400 (-0.7)	542 900 (-1.1)	543 000 (-0.5)	542 000 (-0.6)	541 600 (-0.7)
Retail	269 600 (-0.5)	271 500 (0.6)	269 900 (-0.7)	268 900 (-0.3)	268 100 (-1.3)	266 600 (-1.1)	266 200 (-1.9)	266 200 (-1.4)	266 500 (-0.9)	267 500 (-0.2)
Accommodation <sup>(a)</sup> and food services	283 000 (-0.1)	283 700 (0.9)	282 700 (-0.1)	282 300 (-0.2)	283 300 (-0.8)	281 600 (-0.5)	280 600 (-1.1)	280 800 (-0.7)	282 100 (-0.1)	282 900 (-0.1)
Transportation, storage, postal and courier services	177 400 (1.6)	176 600 (2.8)	176 500 (1.1)	178 200 (1.6)	178 500 (1.1)	178 400 (0.5)	178 600 (1.2)	177 900 (0.8)	178 200 (§)	178 800 (0.2)
Information and communications	105 300 (1.1)	104 000 (1.2)	104 900 (1.4)	105 500 (0.7)	106 500 (1.2)	106 000 (0.7)	105 700 (1.6)	105 100 (0.2)	105 700 (0.2)	107 300 (0.8)
Financing, insurance, real estate, professional and business services	712 100 (2.2)	711 400 (2.6)	712 300 (2.6)	712 500 (2.6)	712 400 (1.2)	719 500 (1.0)	714 100 (0.4)	718 000 (0.8)	720 600 (1.1)	725 200 (1.8)
Social and personal services	497 200 (3.1)	494 100 (3.9)	495 200 (3.2)	497 400 (3.1)	501 900 (2.2)	505 500 (1.7)	505 500 (2.3)	503 400 (1.7)	505 200 (1.6)	508 000 (1.2)
Manufacturing	99 600 (-2.8)	100 300 (-3.1)	99 600 (-2.6)	99 600 (-3.0)	98 900 (-2.6)	96 000 (-3.6)	97 800 (-2.5)	96 100 (-3.5)	95 300 (-4.4)	94 900 (-4.1)
Construction sites (manual workers only)	95 100 (14.9)	91 900 (16.9)	92 800 (16.4)	93 700 (8.3)	102 000 (18.1)	107 800 (13.3)	104 800 (14.1)	106 200 (14.4)	107 800 (15.0)	112 400 (10.2)
<i>All establishments surveyed in the private sector<sup>(b)</sup></i>	2 796 700 (1.2)	2 793 700 (1.9)	2 790 500 (1.3)	2 794 600 (1.1)	2 808 000 (0.7)	2 814 800 (0.6)	2 807 200 (0.5)	2 807 600 (0.6)	2 814 500 (0.7)	2 829 800 (0.8)
		<0.2>	<§>	<0.2>	<0.2>		<0.1>	<0.2>	<0.3>	<0.2>
<i>Civil service<sup>(c)</sup></i>	164 100 (0.7)	163 600 (0.5)	163 800 (0.6)	164 000 (0.6)	164 900 (0.9)	166 100 (1.2)	166 200 (1.5)	165 500 (1.1)	165 900 (1.1)	166 600 (1.0)

Notes : Employment figures enumerated from business establishments, as obtained from the Quarterly Survey of Employment and Vacancies, are somewhat different from those enumerated from households, as obtained from the General Household Survey. This is mainly due to the difference in sectoral coverage: while the former survey covers selected major sectors, the latter survey covers all sectors in the economy.

(a) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(b) The total figures on private sector employment cover also employment in mining and quarrying; and in electricity and gas supply, and waste management, besides employment in the major sectors indicated above.

(c) These figures cover only those employed on civil service terms of appointment. Judges, judicial officers, ICAC officers, locally engaged staff working in the Hong Kong Economic and Trade Offices outside Hong Kong, and other government employees such as non-civil service contract staff are not included.

( ) % change over a year earlier.

< > Seasonally adjusted quarter-to-quarter % change.

§ Change less than 0.05%.

Sources : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.  
Quarterly Employment Survey of Construction Sites, Census and Statistics Department.

## Vacancies

5.12 The vacancy situation likewise saw relative improvement towards the year-end. The year-on-year vacancy loss in private sector establishments narrowed further to 5.8% in December 2016 from 7.1% in September 2016. Yet for 2016 as a whole, the number of job openings dipped for the third year in a row, down by 9.1% to an average of 68 750, due to the significant fall in vacancies in the earlier part of the year.

5.13 Analysed by economic sector, vacancies in financing and insurance in December 2016 plummeted by 19.0% year-on-year, partly due to a high base of comparison a year earlier, while other sectors such as information and communications (down 14.4% year-on-year), professional and business services (excluding cleaning and similar activities) (down 13.8%), human health services (down 12.7%), and arts, entertainment, recreation and other services (down 12.5%) also recorded double-digit declines. On the other hand, vacancies in construction sites (covering manual workers only) jumped by 29.7% year-on-year, while robust increase in vacancies was also observed in import/export trade and wholesale (up 9.7%) under the bounce-back in regional trade flows. Meanwhile, the relative improvement of inbound tourism helped to arrest the vacancy loss in the accommodation and food services sector, which saw a modest 1.2% increase in vacancies after seven consecutive quarters of decline. In terms of occupational category, higher-skilled vacancies saw a widened year-on-year decline, to 10.2% as compared to the 4.6% decrease in September 2016. This partly offset the positive development in the lower-skilled segment, where the year-on-year drop in vacancies shrank from 8.2% to 3.8% over the same period. For 2016 as a whole, vacancies in higher- and lower-skilled segments declined at largely similar paces, by 9.4% and 8.9% respectively, with the slump in vacancies most pronounced among associate professionals. Analysed by the size of establishments, vacancies in large enterprises and SMEs saw narrower declines of 5.0% and 6.8% respectively in December 2016 over a year earlier. As for the civil service, the number of job openings increased by 2.6% year-on-year to 8 820 in December 2016, and by 4.7% to 8 640 for 2016 as a whole.

5.14 The ratio of job vacancies per 100 unemployed persons went up from 50 in September 2016 to 55 in December 2016, though remaining below that of 58 a year ago. Reflecting a tightening manpower balance amid the gradual recovery in labour demand towards end-2016, the ratios for higher- and lower-skilled segments went up from 65 and 57 in September 2016 to 72 and 60 respectively. For 2016 as a whole, the overall ratio declined to 52 from 58 in

2015, with the corresponding ratios of the higher- and lower-skilled segments fell to 67 and 56 from 84 and 64 respectively. This notwithstanding, manpower shortages remained notable in the residential care and social work services, arts, entertainment and recreation services, human health services, real estate, and financing and insurance sectors in December 2016, for which the corresponding ratios exceeded 100.

**Table 5.7 : Vacancies by major economic sector**

	<u>Number of vacancies</u>										Vacancy rate in Dec 2016 (%)
	<u>2015</u>					<u>2016</u>					
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	
Import/export trade and wholesale	7 810 (-7.7)	9 000 (-2.3)	8 200 (0.6)	7 610 (-10.0)	6 450 (-19.8)	6 990 (-10.5)	6 920 (-23.1)	6 940 (-15.4)	7 030 (-7.5)	7 070 (9.7)	1.3
Retail	8 320 (-8.6)	8 550 (-11.7)	8 440 (-4.2)	8 350 (-9.6)	7 950 (-8.7)	7 600 (-8.7)	7 660 (-10.5)	7 100 (-15.9)	8 280 (-0.9)	7 370 (-7.2)	2.7
Accommodation <sup>(a)</sup> and food services	14 610 (-9.1)	15 470 (-12.1)	15 150 (-4.1)	14 600 (-6.1)	13 200 (-13.7)	13 140 (-10.0)	12 930 (-16.4)	13 040 (-13.9)	13 230 (-9.4)	13 360 (1.2)	4.5
Transportation, storage, postal and courier services	3 640 (-1.1)	3 960 (-5.4)	4 060 (0.6)	3 440 (1.7)	3 100 (-0.4)	3 240 (-11.0)	3 440 (-13.2)	3 290 (-19.1)	3 210 (-6.8)	3 040 (-2.0)	1.7
Information and communications	2 800 (9.3)	2 930 (14.3)	2 480 (-6.5)	2 620 (11.3)	3 160 (18.3)	2 640 (-5.7)	2 550 (-13.0)	2 470 (-0.3)	2 830 (7.9)	2 710 (-14.4)	2.5
Financing, insurance, real estate, professional and business services	18 790 (4.9)	18 360 (3.0)	18 780 (3.1)	18 590 (4.4)	19 440 (9.2)	17 790 (-5.3)	18 400 (0.2)	18 020 (-4.1)	17 670 (-4.9)	17 070 (-12.2)	2.3
Social and personal services	15 800 (12.0)	15 620 (34.3)	17 290 (4.1)	15 760 (13.2)	14 540 (1.9)	14 040 (-11.1)	14 280 (-8.6)	14 260 (-17.5)	14 210 (-9.9)	13 410 (-7.8)	2.6
Manufacturing	2 720 (-10.6)	2 990 (-6.6)	2 730 (-23.9)	2 700 (-6.4)	2 470 (-1.2)	2 330 (-14.2)	2 880 (-3.5)	2 280 (-16.2)	2 100 (-22.1)	2 070 (-16.4)	2.1
Construction sites (manual workers only)	800 (-42.6)	880 (-45.8)	940 (-39.1)	710 (-53.7)	650 (-22.7)	740 (-7.4)	960 (8.8)	550 (-41.6)	590 (-16.6)	850 (29.7)	0.7
All establishments surveyed in the private sector <sup>(b)</sup>	75 590 (-1.3)	78 070 (0.4)	78 380 (-1.7)	74 670 (-0.9)	71 240 (-3.1)	68 750 (-9.1)	70 300 (-10.0)	68 200 (-13.0)	69 340 (-7.1)	67 140 (-5.8)	2.3
		<-1.8>	<0.1>	<-1.8>	<-0.3>		<-7.8>	<-3.7>	<5.0>	<0.7>	
Civil service <sup>(c)</sup>	8 250 (15.1)	7 820 (23.3)	8 030 (10.4)	8 540 (14.9)	8 590 (13.0)	8 640 (4.7)	8 090 (3.3)	8 900 (10.8)	8 740 (2.4)	8 820 (2.6)	5.0

Notes : Vacancy rate refers to the ratio of vacancies to total employment opportunities (actual employment plus vacancies).

(a) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(b) The total figures on private sector vacancies cover also vacancies in mining and quarrying; and in electricity and gas supply, and waste management, besides vacancies in the major sectors indicated above.

(c) These figures cover only vacancies for those staff to be employed on civil service terms of appointment.

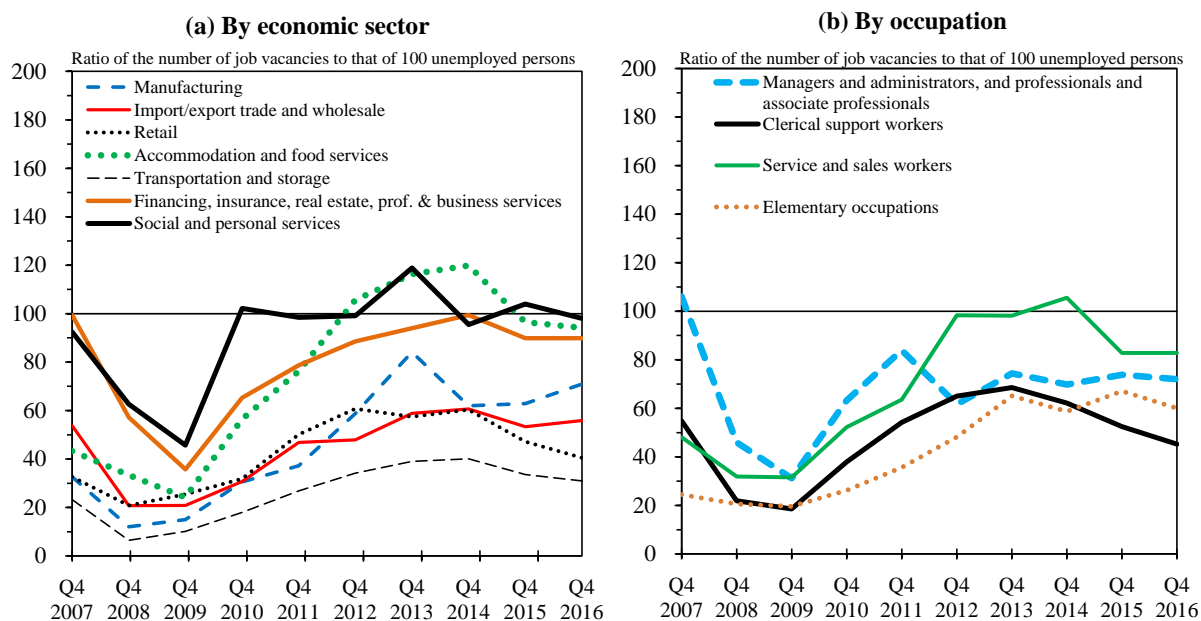
( ) % change over a year earlier.

<> Seasonally adjusted quarter-to-quarter % change.

Sources : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

Quarterly Employment Survey of Construction Sites, Census and Statistics Department.

**Diagram 5.5 : Easing trend in manpower resource balance saw signs of stabilisation towards end-2016**



5.15 The vacancy rate for private sector establishments, measured in terms of the percentage of job vacancies to total employment opportunities, fell to 2.3% in December 2016, 0.2 percentage point below its year-ago level, and was also 0.1 percentage point lower than September 2016. Compared to a year earlier, declines in vacancy rate were more visible in the financing and insurance, information and communications, professional and business services (excluding cleaning and similar activities), and arts, entertainment, recreation and other services sectors. For 2016 as a whole, the vacancy rate went down to 2.4% for the third year in a row, from 2.6% in 2015.

5.16 The vacancy registration figures compiled by the Labour Department (LD), notwithstanding its smaller sample size, may provide some additional hints on the latest developments in the labour market. In the first quarter of 2017, the number of private sector job vacancies averaged around 110 900 per month, up by 3.3% over a year earlier after registering declines for two consecutive quarters, suggesting that the overall hiring sentiment turned slightly more positive on entering 2017.

## Wages and earnings

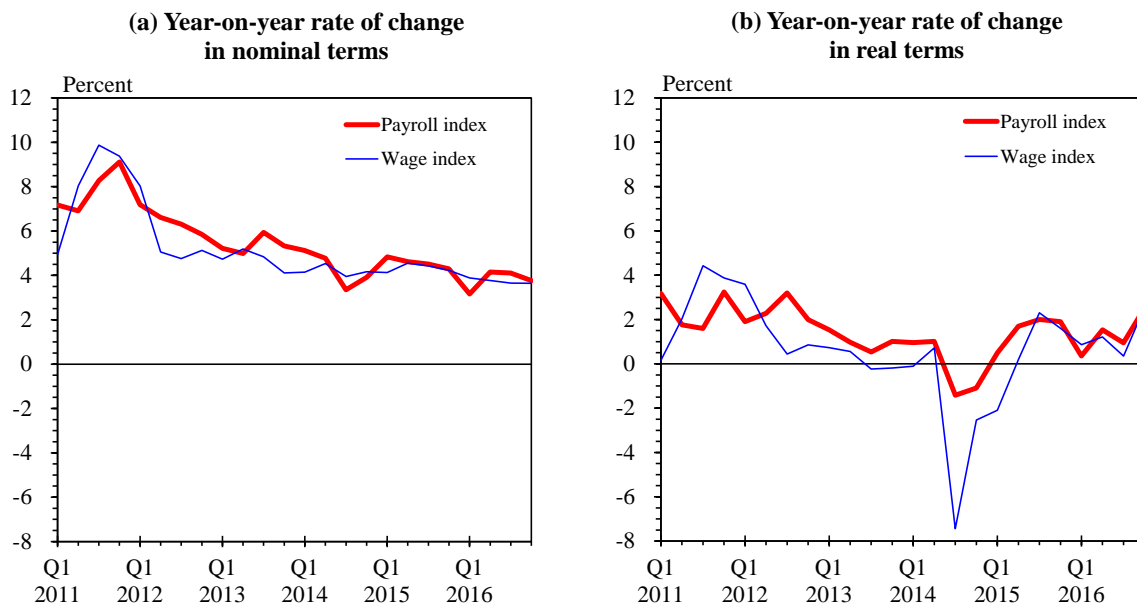
5.17 Both nominal wages and payroll stayed on the rise in 2016 as the overall labour market remained in a state of full employment. *Wage index*, which covers regular payment to employees at the supervisory level or below, rose by 3.6% year-on-year in December 2016. For 2016 as a whole, labour wages posted an increase of 3.7% in nominal terms, though slower than the 4.4% gain in 2015 alongside the receding inflationary pressure. After adjusting for inflation<sup>(8)</sup>, the wage index rose by 1.2% in real terms for 2016 as a whole.

5.18 Nominal wages continued to see year-on-year increases across all selected economic sectors in December 2016, more notably in the personal services (up 4.9%), accommodation and food service activities (up 4.8%), and professional and business services (up 4.5%) sectors. Analysed by occupation, wages of operatives (up 5.2%), service workers (up 4.7%), and miscellaneous non-production workers (including such lower-income occupations as guards, cleaners, messengers / office assistants, and bell boys) (up 4.3%) grew solidly further.

5.19 *Labour earnings*<sup>(9)</sup>, as measured by the index of payroll per person engaged in the private sector, including overtime pay, discretionary bonuses and other irregular payments, went up at a broadly similar pace of 3.8% in the fourth quarter of 2016 over a year earlier. For 2016 as a whole, nominal earnings rose by 3.7%, translating into a real improvement of 1.3%.

5.20 Nominal payroll increased further across-the-board in the fourth quarter of 2016, more notably in such sectors as accommodation and food service activities (up 5.1%), professional and business services (up 4.6%), real estate activities (up 4.4%), and information and communications (up 4.0%). Meanwhile, payroll in the retail trade also increased steadily by 2.9%, thanks to the relative improvement of inbound tourism towards the year-end.

**Diagram 5.6 : Nominal wages and earnings stayed on the rise towards end-2016**



Note: The real wages and earnings in late 2014 to early 2015 were affected by the larger year-on-year increases in the headline Consumer Price Indices, which in turn reflected the distortion arising from the Government’s one-off relief measures.

5.21 More recent statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, revealed that the average monthly employment earnings<sup>(10)</sup> of full-time employees (excluding foreign domestic helpers) engaged in elementary occupations grew by 5.2% in the first quarter of 2017 over a year earlier, while that of those in the lowest three decile groups combined likewise went up by 5.2%, both being much faster than the underlying Consumer Price Index(A) inflation of 1.6% over the same period, signifying sustained and appreciable real income improvement for lower paid workers.

## **Highlights of labour-related measures and policy developments**

5.22 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job-seekers on the spot. During January to March 2017, LD organised three large-scale job fairs in North District and Mong Kok. 153 participating organisations offered over 10 700 vacancies from the retail, catering, property management, transport and other industries. There were also 16 training bodies joining the job fairs to introduce job training courses and receive applications on the spot. Apart from large-scale job fairs, district-based job fairs are organised at LD's Job Centres from time to time to assist job-seekers in finding employment. Recruitment activities are also staged by catering, retail and construction employers at the three industry-based recruitment centres regularly for interviewing job-seekers on the spot.

5.23 The Chief Executive in Council adopted the recommendation of the Minimum Wage Commission to raise the Statutory Minimum Wage (SMW) rate from \$32.5 to \$34.5 per hour (up by 6.2%). With the approval of the Legislative Council for the related subsidiary legislation, the revised SMW rate of \$34.5 per hour came into force on 1 May 2017. LD is launching extensive publicity activities on implementation of the revised SMW rate.

5.24 The Standard Working Hours Committee (SWHC) submitted its report to the Government on 27 January 2017 to put up recommendations on working hours policy direction. The Government will take full account of the report of SWHC and the views of various sectors of the community, and strive to map out within the term of the current Government the working hours policy direction that suits Hong Kong's socio-economic situation.

## Notes :

- (1) Labour force statistics enumerated from the General Household Survey are statistics which involve the use of the population figures in the compilation process. These statistics have been revised and backcasted to the three-month period of May – July 2011 to take into account the results of the 2016 Population By-census which provided a benchmark for revising the population figures compiled since the 2011 Population Census.

The classification of occupation adopted by the Census and Statistics Department follows the International Standard Classification of Occupations (ISCO), which is used to classify the occupation of an employed person or the previous occupation of an unemployed person. After the implementation of the new ISCO, 2008 (ISCO-08), the General Household Survey has been enhanced to adopt the ISCO-08 in compiling labour force statistics by occupation, with statistics backcasted to the quarter of January – March 2011. Starting from the reference quarter of January – March 2011, all the labour force statistics by occupation, unless otherwise specified, are compiled based on the ISCO-08.

- (2) For a person aged 15 or above to be classified as unemployed, he or she should: (a) not have a job and not be performing any work for pay or profit during the reference period (i.e. seven days before enumeration); (b) be available for work during the reference period; and (c) be seeking work during the 30 days before enumeration.

Notwithstanding the above, the following types of persons are also considered unemployed: (a) persons without a job, having sought work but not available for work because of temporary sickness; (b) persons without a job, available for work but not having sought work because they will take up new jobs or start business at a subsequent date, or expect to return to their original jobs; and (c) discouraged workers not having sought work because they believe work is not available to them.

Even at full employment, some frictional unemployment is bound to exist as workers move between jobs in order to obtain better terms of employment. The precise level of unemployment which can be described as purely frictional varies amongst economies, depending on the structure and characteristics of their labour markets.

The seasonally adjusted series is compiled using the X-12 ARIMA method, which is a standard method applied in compiling seasonally adjusted statistical data series.

- (3) The main criteria for an employed person aged 15 or above to be classified as underemployed are: involuntarily working less than 35 hours during the reference period (i.e. seven days before enumeration), and either available for additional work during the reference period or seeking additional work during the 30 days before enumeration.

Following these criteria, employed persons taking no-pay leave due to slack work during the reference period are also classified as underemployed if they had worked less than 35 hours or were on leave for the entire reference period.

- (4) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.



- (5) Figures enumerated from household data. The employed population is defined here to include those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (6) The low paying sectors as identified by the Minimum Wage Commission include:
- (i) retail (including supermarkets and convenience stores, and other retail stores);
  - (ii) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes, and Hong Kong style tea cafes);
  - (iii) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services and membership organisations);
  - (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.
- (7) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as small and medium-sized enterprises (SMEs) in Hong Kong. Yet, establishments with the same main business registration number (BRN) and engaging in activities of the same industry sector are grouped into one business unit for the purpose of calculating the number of SMEs. Thus, a business with a lot of small chain stores each employing a small number of employees will be considered as a single large enterprise, instead of separate SMEs.
- (8) Different consumer price indices (CPIs) are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the relatively low expenditure group, is taken as the price deflator for wages in respect of employees engaged in occupations up to the supervisory level.
- (9) In addition to wages, which include all regular and guaranteed payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (10) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.

## CHAPTER 6 : PRICES

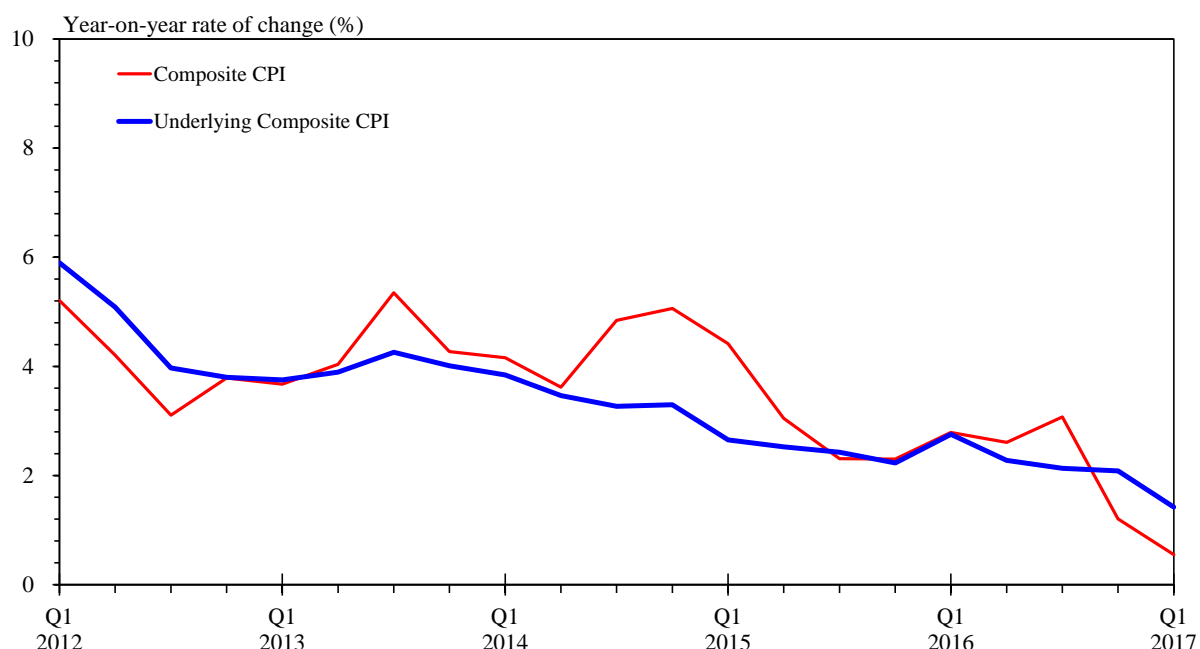
### *Summary*

- *Consumer price inflation was rather modest in the first quarter of 2017, due to low imported inflation and moderate domestic cost pressures. The year-on-year increase in the underlying Composite Consumer Price Index (Composite CPI)<sup>(1)</sup>, which nets out the effects of the Government's one-off relief measures, slowed to 1.4% in the first quarter of 2017, from 2.1% in the fourth quarter of 2016. Likewise, the headline Composite CPI inflation rate went down from 1.2% to 0.5% over the same period. The easing in inflation on a year-on-year basis also partly reflected the high base of comparison for food prices due to bad weather conditions in the early months of last year and partly the timing of the Easter holidays, which occurred in March last year and in April this year.*
- *Domestic cost pressures were largely contained. Increases in labour costs remained steady in tandem with the stable labour market conditions. Rental cost pressures as reflected in the CPIs were generally kept at bay, as the slower increases in fresh-letting residential and commercial rentals during 2016 continued to feed through, even though fresh-letting rentals rose somewhat faster in the more recent months.*
- *External price pressures on the whole remained tame, thanks to the low inflation in our major import sources and the strength of the US dollar against many other currencies over the past year. Overall import prices only increased modestly in the first quarter of 2017. Import prices of foodstuffs and consumer goods were lower than their year-ago levels.*
- *Considering the moderate increases in domestic costs as well as the still-modest import price pressures, inflation pressure should stay moderate in the near term.*

## Consumer prices

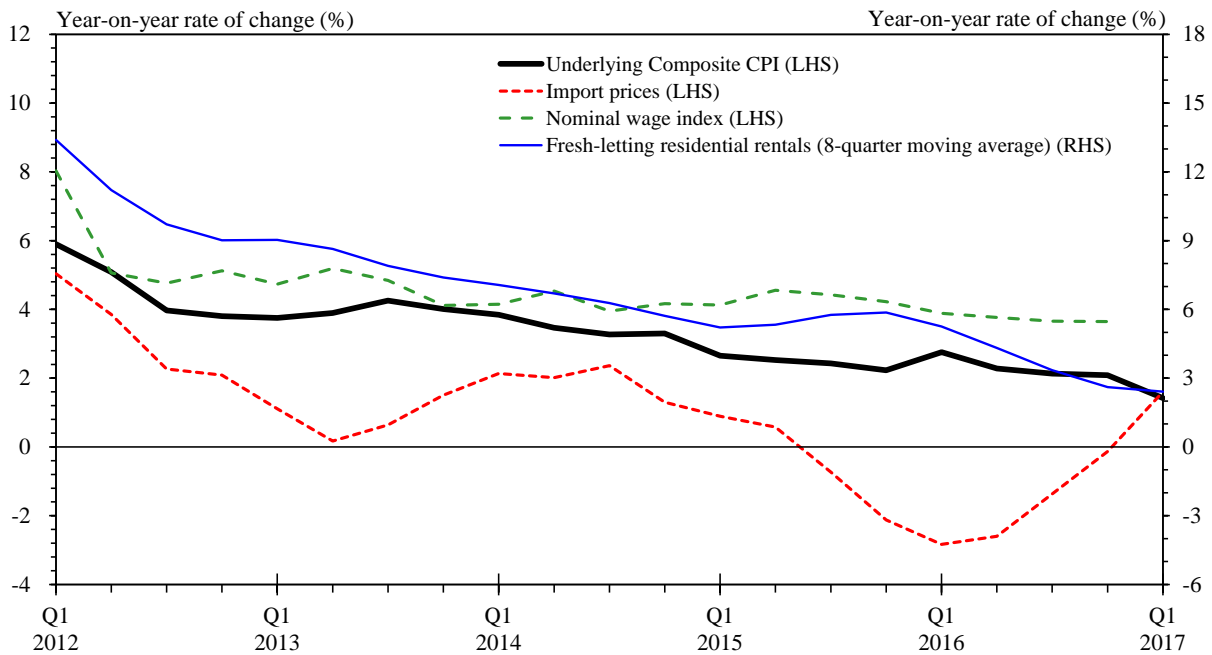
6.1 Inflation pressure was modest in general in the first quarter of 2017, as domestic cost pressures held moderate and imported inflation remained largely tame. On the domestic front, steady increases in labour costs continued, supported by a stable labour market. The feed-through of the slower increases in fresh-letting residential and commercial rentals during 2016 also helped keep the rental cost pressures as reflected in the CPIs in check, despite the somewhat faster increases in fresh-letting rentals in the more recent months. Externally, imported inflation was timid, thanks to the low inflation in Hong Kong's major import sources<sup>(2)</sup>, and the strength of the US dollar against many other currencies over the course of 2016.

**Diagram 6.1 : Inflation pressure was rather modest in the first quarter of 2017**



Note : The year-on-year rates of change of the 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.

**Diagram 6.2 : Local cost pressures were moderate while import price pressures remained largely tame**



Note : The year-on-year rates of change of the 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.

6.2 Underlying consumer price inflation, as measured by the year-on-year rate of change in the underlying Composite CPI, which nets out the effects of the Government’s one-off relief measures to more genuinely reflect the underlying inflation trend, averaged 1.4% in the first quarter of 2017, receding from 2.1% in the preceding quarter. Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, also went down to 0.5% in the first quarter of 2017, from 1.2% in the preceding quarter. The lower headline rate as compared to the underlying rate is due to the rates concession in the first quarter of 2017 and its absence in the same quarter a year ago. On top of the generally modest inflation pressure which is the main reason underlying the prevailing modest inflation rates, certain temporary factors also led to lower inflation rates this quarter, including the high base of comparison in the same quarter last year for food prices owing to bad weather conditions back then, and likewise for charges for package tours as the Easter holidays fell in March last year but April this year.

**Table 6.1 : Consumer Price Indices**  
(year-on-year rate of change (%))

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying<sup>(a)</sup></u>	<u>Headline</u>			
2016	Annual	2.3	2.4	2.8	2.3	2.1
	H1	2.5	2.7	2.9	2.7	2.5
	H2	2.1	2.1	2.8	1.9	1.7
	Q1	2.8	2.8	3.1	2.8	2.5
	Q2	2.3	2.6	2.7	2.7	2.4
	Q3	2.1	3.1	4.5	2.6	2.2
	Q4	2.1	1.2	1.1	1.2	1.3
2017	Q1	1.4	0.5	0.1	0.6	0.9

**(seasonally adjusted quarter-to-quarter rate of change (%))**

2016	Q1	0.7	0.7	0.9	0.6	0.6
	Q2	0.2	-0.6	-1.4	-0.5	-0.1
	Q3	0.5	0.4	0.6	0.5	0.2
	Q4	0.7	0.7	1.0	0.6	0.6
2017	Q1	0.1	0.1	*	0.1	0.2

Notes : (a) Underlying consumer price inflation is calculated by netting out the effects of all relevant one-off measures introduced since 2007, including the waiver and Government's payment of public housing rentals, rates concession, suspension and subsequent abolition of Employees Retraining Levy, and subsidies for household electricity charges.

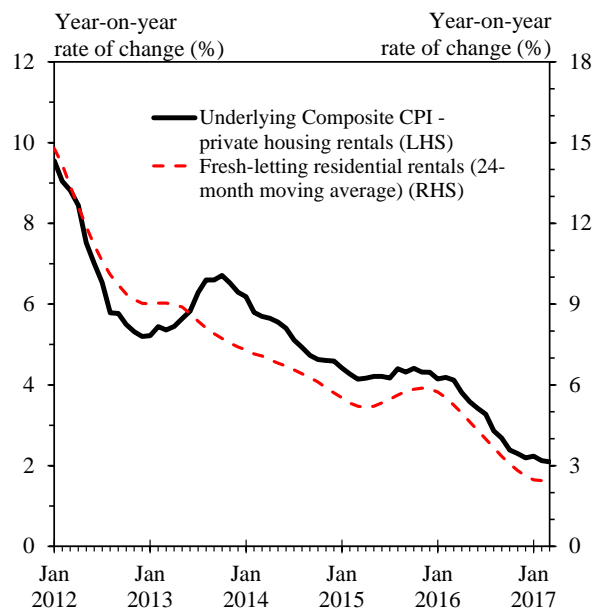
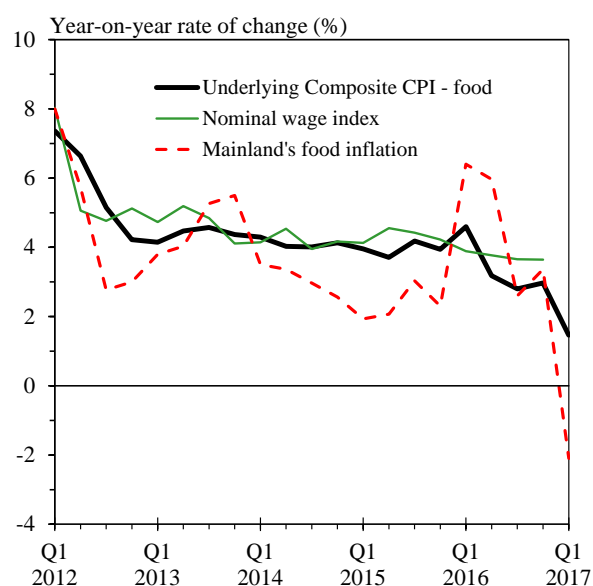
(\*) Change within  $\pm 0.05\%$ .

6.3 Price pressures in many major components of the underlying Composite CPI were contained in the first quarter of 2017. Among the major components, local food inflation (including costs of dining out) slowed visibly from 3.0% in the fourth quarter of 2016 to 1.5% in the first quarter 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 narrowed slightly to 2.1% in the first quarter 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. Prices of miscellaneous services showed a narrower increase of 0.6% in the first quarter of 2017, as charges for package tours registered a widened decline due to 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.

**Diagram 6.3 : Food and private housing rental components of the underlying Composite CPI**

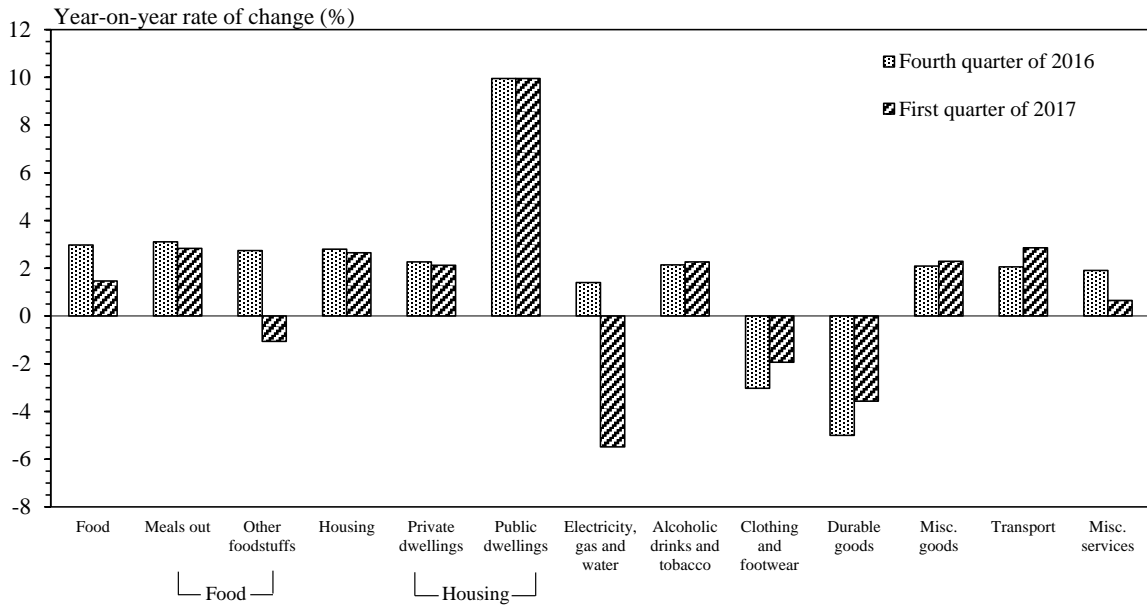
(a) Food inflation slowed visibly in the first quarter of 2017 against a temporarily high base of comparison

(b) Rental inflation eased slightly further

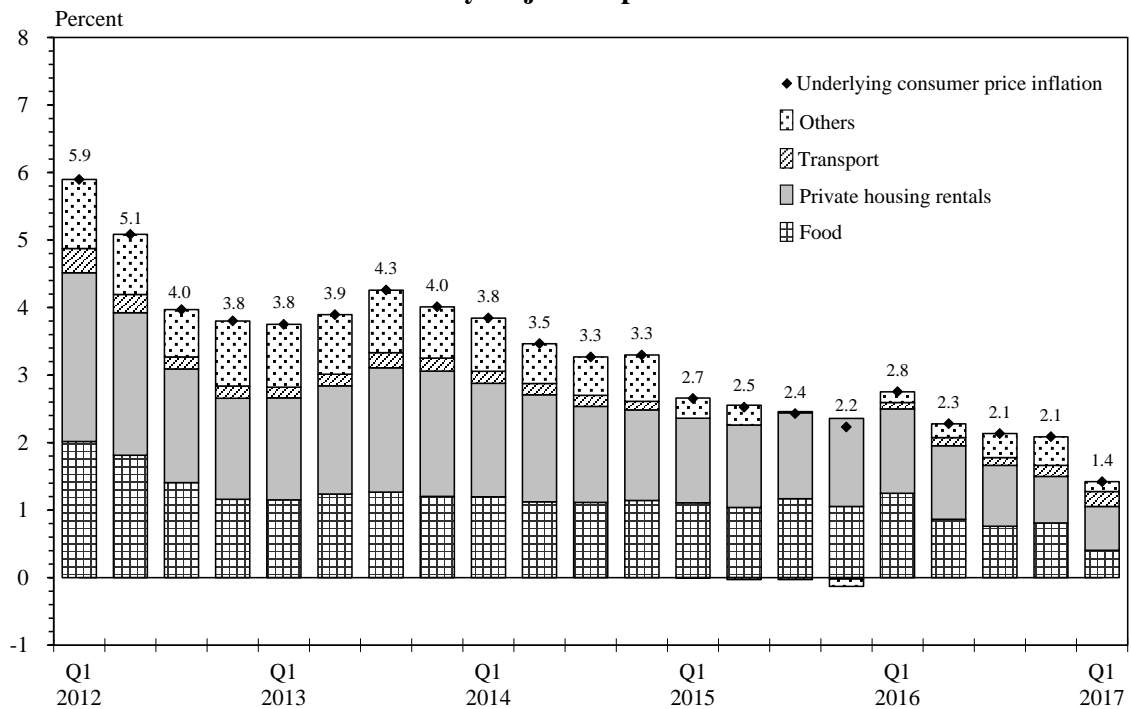


Note : The year-on-year rates of change of the CPIs from October 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series.

**Diagram 6.4 (a) : Price pressures remained in check in many of the underlying Composite CPI components**



**Diagram 6.4 (b) : Contribution to underlying consumer price inflation by major component**



Note : The year-on-year rates of change of the 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.

**Table 6.2 : Underlying Composite Consumer Price Index by component  
(year-on-year rate of change (%))**

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2015</u>	<u>Annual</u>	<u>2016</u>				<u>2017</u>
				<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Food	27.29	4.0 <sup>(b)</sup>	3.4	4.6	3.2	2.8	3.0	1.5
<i>Meals bought away from home</i>	17.74	4.2 <sup>(b)</sup>	3.3	3.7	3.3	3.1	3.1	2.8
<i>Other foodstuffs</i>	9.55	3.4 <sup>(b)</sup>	3.6	6.3	3.1	2.1	2.7	-1.1
Housing <sup>(a)</sup>	34.29	4.5 <sup>(b)</sup> (5.1) <sup>(b)</sup>	3.3 (3.7)	4.0 (4.0)	3.5 (4.6)	3.1 (6.0)	2.8 (0.4)	2.7 (0.3)
<i>Private dwellings</i>	29.92	4.3 <sup>(b)</sup> (4.7) <sup>(b)</sup>	3.2 (3.4)	4.2 (4.2)	3.6 (4.8)	3.0 (4.1)	2.3 (0.6)	2.1 (0.5)
<i>Public dwellings</i>	1.94	6.2 <sup>(b)</sup> (10.9) <sup>(b)</sup>	3.5 (7.2)	* (* )	0.4 (0.5)	3.6 (51.3)	9.9 (-5.6)	9.9 (-5.6)
Electricity, gas and water	2.67	-2.6 <sup>(b)</sup> (8.4) <sup>(b)</sup>	0.6 (1.0)	-1.1 (* )	-1.6 (-1.1)	4.0 (4.1)	1.4 (1.4)	-5.5 (-5.5)
Alcoholic drinks and tobacco	0.54	1.3 <sup>(b)</sup>	1.5	0.3	1.2	2.4	2.1	2.3
Clothing and footwear	3.21	-1.8 <sup>(b)</sup>	-3.4	-3.3	-2.8	-4.5	-3.0	-1.9
Durable goods	4.65	-5.6 <sup>(b)</sup>	-5.4	-5.7	-5.4	-5.3	-5.0	-3.6
Miscellaneous goods	3.56	0.9 <sup>(b)</sup>	1.5	0.5	1.3	2.3	2.1	2.3
Transport	7.98	-0.3 <sup>(b)</sup>	1.6	1.2	1.5	1.4	2.1	2.9
Miscellaneous services	15.81	1.1 <sup>(b)</sup> (1.1) <sup>(b)</sup>	2.3 (2.3)	2.7 (2.7)	2.1 (2.1)	2.5 (2.5)	1.9 (1.9)	0.6 (0.6)
All items	100.00	2.5 <sup>(b)</sup> (3.0) <sup>(b)</sup>	2.3 (2.4)	2.8 (2.8)	2.3 (2.6)	2.1 (3.1)	2.1 (1.2)	1.4 (0.5)

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.

(b) The year-on-year rates of change of the 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. Splicing has been applied to the indices in order to obtain better estimates of the rates of change for the year 2015.

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

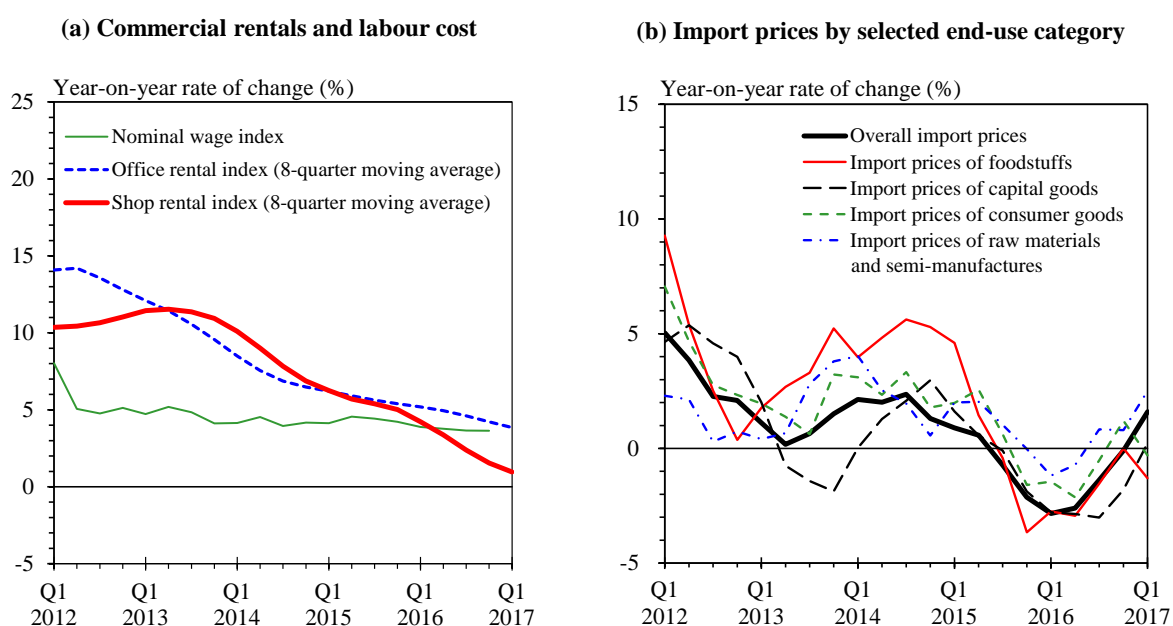
(\* ) Change within  $\pm 0.05\%$ .



## Costs of factor inputs and import prices

6.4 The increases in local cost pressures were largely moderate in the first quarter of 2017. The growth in wages and earnings remained steady in recent quarters amid the broadly stable overall labour market conditions. The year-on-year increases in office and shop rentals extended their easing trends when analysed on an eight-quarter moving-average basis, notwithstanding their recent pick-up in the fresh-letting markets.

**Diagram 6.5 : Local cost pressures remained at bay, while external price pressures were still moderate**



6.5 External price pressures remained tame, against the backdrop of still-modest inflation in our major import sources and the strength of the US dollar against many other currencies over the past year. Overall import prices rose modestly by 1.6% in the first quarter over a year earlier, reversing the 0.1% decline in the preceding quarter. Analysed by end-use category, import prices of raw materials and semi-manufactures increased by 2.5% over a year ago in the first quarter, while import prices of capital goods edged up by 0.2%. Meanwhile, import prices of foodstuffs and consumer goods stayed soft, registering year-on-year declines of 1.3% and 0.3% respectively. In contrast, mirroring the rebound in international oil prices from the trough in early 2016, import prices of fuels surged by 46.1% in the first quarter of 2017 over a year earlier.

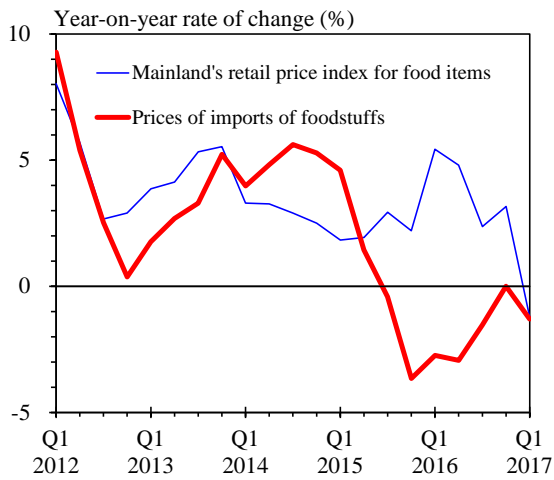
**Table 6.3 : Prices of imports by end-use category  
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2016	Annual	-1.8	-0.7	*	-21.4	-2.6	-1.7
	H1	-2.9	-1.8	-0.9	-33.7	-2.8	-2.7
	H2	-0.7	0.3	0.8	-6.7	-2.4	-0.7
	Q1	-2.7	-1.4	-1.2	-39.2	-2.8	-2.8
	Q2	-2.9	-2.1	-0.7	-28.5	-2.9	-2.6
	Q3	-1.5	-0.5	0.8	-15.5	-3.0	-1.4
	Q4	*	1.2	0.8	3.1	-1.8	-0.1
2017	Q1	-1.3	-0.3	2.5	46.1	0.2	1.6

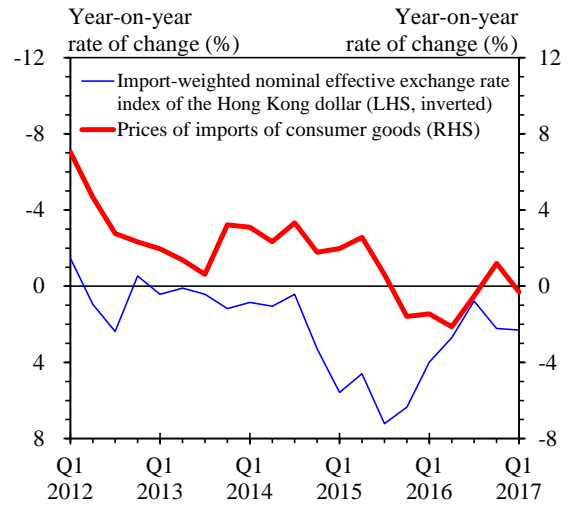
Note : (\*) Change within  $\pm 0.05\%$ .

### Diagram 6.6 : Import prices by end-use category

(a) Import prices of food softened somewhat

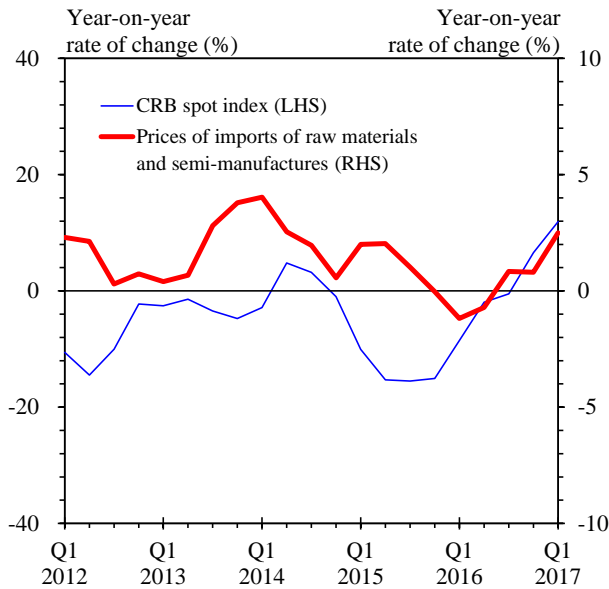


(b) Import prices of consumer goods related to a decline

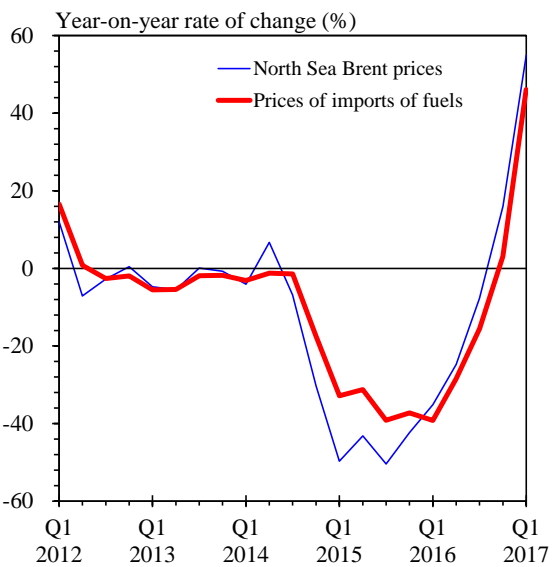


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Import prices of raw materials and semi-manufactures rose moderately



(d) Import prices of fuels surged in tandem with global oil prices



## Output prices

6.6 Output prices, as measured by the *Producer Price Indices*<sup>(3)</sup>, stayed weak in 2016, and showed only limited increases in some sectors over the course of the year. For the manufacturing sector, output prices had a rebound in the second half of 2016, thereby turning in a small annual increase for the year as a whole. Among the selected service sectors, output prices for accommodation services declined further for 2016 as a whole, though reverted to a mild increase in the fourth quarter upon the modest recovery in visitor arrivals. While the fall-off in output prices for water transport and air transport widened for 2016 as a whole, their declines had been narrowing over the course of the year, conceivably thanks to the gradual recovery in the external trading environment. Meanwhile, the output prices for land transport and courier services continued to rise modestly. Output prices for telecommunications services maintained the downward trend in 2016.

**Table 6.4 : Producer Price Indices for the manufacturing sector and selected service sectors (year-on-year rate of change (%))**

<u>Industry group</u>	<u>Annual</u>	<u>2015</u>				<u>2016</u>				
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Manufacturing	-2.7	-0.6	-2.8	-4.4	-3.2	1.3	-2.8	0.4	3.9	4.0
Selected service sectors <sup>(a)</sup>										
Accommodation services	-3.6	-1.6	-5.4	-4.8	-2.6	-2.1	-4.7	-1.9	-2.2	0.2
Land transport	2.3	2.9	2.3	2.1	2.0	1.6	2.6	2.1	0.9	1.0
Water transport	-7.0	-0.2	-3.5	-10.4	-13.5	-12.4	-15.8	-14.8	-11.6	-7.0
Air transport	-7.8	-3.4	-7.9	-9.2	-10.8	-9.9	-12.1	-10.9	-10.9	-5.7
Telecommunications	-4.3	-3.9	-4.4	-4.7	-4.2	-2.8	-3.6	-3.1	-2.3	-1.9
Courier services	4.5	4.2	4.8	4.7	4.3	2.1	1.8	2.3	2.8	1.5

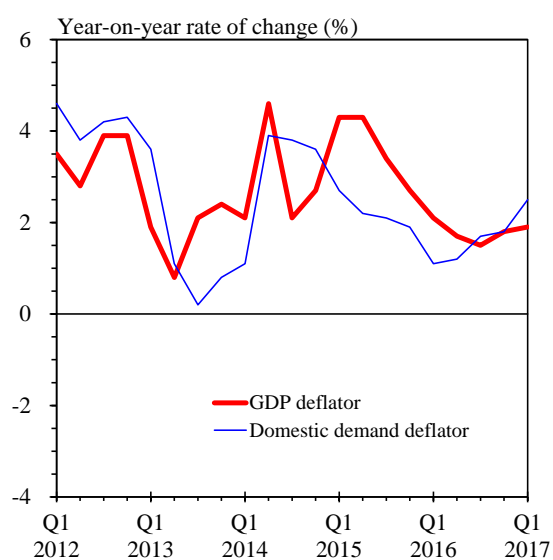
Note : (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the producers often do not charge their customers explicitly.

## GDP deflator

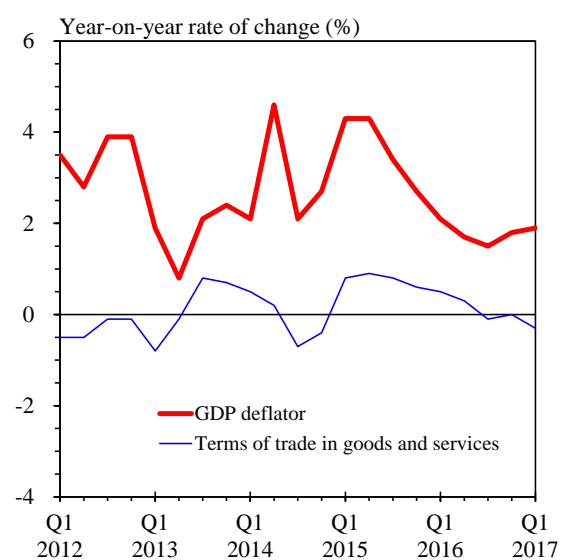
6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*<sup>(4)</sup> rose by 1.9% in the first quarter of 2017 over a year earlier, slightly faster than the 1.8% increase in the fourth quarter of 2016. Meanwhile, the *terms of trade*<sup>(5)</sup> deteriorated somewhat as import prices increased at a faster rate than export prices. Taking out the external trade components, the year-on-year rate of increase in the domestic demand deflator was largely moderate, at 2.5%.

Diagram 6.7 : GDP deflator

(a) Increase in GDP deflator was largely steady



(b) Terms of trade deteriorated



**Table 6.5 : GDP deflator and the main expenditure component deflators  
(year-on-year rate of change (%))**

	2015		2016				2017
	<u>Annual</u> <sup>#</sup>	<u>Annual</u> <sup>#</sup>	<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>#</sup>	<u>Q3</u> <sup>#</sup>	<u>Q4</u> <sup>#</sup>	<u>Q1</u> <sup>+</sup>
Private consumption expenditure	1.2	1.6	1.1	1.5	2.1	1.8	1.6
Government consumption expenditure	4.4	3.8	3.8	3.7	3.9	3.7	3.4
Gross domestic fixed capital formation	4.5	0.1	-0.2	-0.8	-0.4	1.3	4.5
Total exports of goods <sup>&amp;</sup>	-0.7	-1.4	-2.7	-2.4	-1.3	0.3	1.6
Imports of goods <sup>&amp;</sup>	-1.4	-1.8	-3.4	-2.8	-1.4	0.3	1.9
Exports of services <sup>&amp;</sup>	-2.8	-2.0	-4.0	-2.3	-1.2	-0.5	1.1
Imports of services <sup>&amp;</sup>	-4.6	-1.4	-3.5	-1.6	0.1	-0.7	0.9
<b>Gross Domestic Product</b>	<b>3.6</b>	<b>1.8</b>	<b>2.1</b> <0.5>	<b>1.7</b> <0.5>	<b>1.5</b> <0.2>	<b>1.8</b> <0.6>	<b>1.9</b> <0.6>
Total final demand <sup>&amp;</sup>	*	-0.5	-1.5	-1.2	-0.3	0.7	1.8
Domestic demand	2.2	1.5	1.1	1.2	1.7	1.8	2.5
Terms of trade in goods and services <sup>&amp;</sup>	0.7	0.2	0.5	0.3	-0.1	*	-0.3

Notes : Figures are derived based on the series of chain volume measures of GDP. They are subject to revision later on as more data become available.

(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) Revised figures.

(+) Preliminary figures.

< > Seasonally adjusted quarter-to-quarter rate of change.

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

## Notes :

- (1) The Consumer Price Indices (A), (B) and (C) are compiled by reference to the average expenditure patterns for different groups of households as obtained from the Household Expenditure Survey. Then, by aggregating the expenditure patterns of all the households covered by the above three indices, a Composite CPI is compiled.

The expenditure ranges of the households covered in the 2014/15-based CPIs are shown below:

	<u>Approximate proportion of households covered</u> (%)	<u>Average monthly expenditure range during Oct 2014 to Sep 2015</u> (\$)
CPI(A)	50	5,500 to 24,499
CPI(B)	30	24,500 to 44,499
CPI(C)	10	44,500 to 89,999

The weightings of the various components in the 2014/15-based CPIs are as follows:

<u>Expenditure component</u>	<u>Composite CPI</u> (%)	<u>CPI(A)</u> (%)	<u>CPI(B)</u> (%)	<u>CPI(C)</u> (%)
Food	27.29	34.37	26.26	20.85
<i>Meals bought away from     home</i>	17.74	20.99	17.88	13.98
<i>Other foodstuffs</i>	9.55	13.38	8.38	6.87
Housing	34.29	33.77	35.24	33.60
<i>Private dwellings</i>	29.92	26.51	32.15	30.72
<i>Public dwellings</i>	1.94	5.44	0.49	--
<i>Maintenance costs and     other housing charges</i>	2.43	1.82	2.60	2.88
Electricity, gas and water	2.67	3.85	2.38	1.76
Alcoholic drinks and tobacco	0.54	0.75	0.57	0.26
Clothing and footwear	3.21	2.57	3.26	3.88
Durable goods	4.65	3.41	5.03	5.53
Miscellaneous goods	3.56	3.28	3.64	3.77
Transport	7.98	6.75	7.60	9.84
Miscellaneous services	15.81	11.25	16.02	20.51
All items	100.00	100.00	100.00	100.00

- (2) The table below presents the year-on-year rates (%) of consumer price inflation in selected economies.

	<u>2015</u>					<u>2016</u>					<u>2017</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Selected developed economies											
US	0.1	-0.1	*	0.1	0.5	1.3	1.1	1.0	1.1	1.8	2.5
Canada	1.1	1.1	0.9	1.2	1.3	1.4	1.5	1.6	1.2	1.4	1.9
EU	*	-0.3	0.1	*	0.1	0.3	*	-0.1	0.3	0.8	1.8
Japan	0.8	2.3	0.5	0.1	0.2	-0.1	*	-0.3	-0.5	0.3	0.3
Major emerging economies											
Mainland China	1.4	1.2	1.4	1.7	1.5	2.0	2.1	2.1	1.7	2.2	1.4
Russia	15.5	16.2	15.8	15.7	14.5	7.1	8.3	7.4	6.8	5.8	4.6
India	4.9	5.3	5.1	3.9	5.3	4.9	5.3	5.7	5.2	3.7	3.5
Brazil	9.0	7.7	8.5	9.5	10.4	8.7	10.1	9.1	8.7	7.0	4.9
Selected Asian economies											
Hong Kong	3.0 <sup>^</sup>	4.4	3.0	2.3	2.3 <sup>^</sup>	2.4 <sup>^</sup>	2.8 <sup>^</sup>	2.6 <sup>^</sup>	3.1 <sup>^</sup>	1.2 <sup>^</sup>	0.5 <sup>^</sup>
Singapore	-0.5	-0.3	-0.4	-0.6	-0.7	-0.5	-0.8	-0.9	-0.4	*	0.6
Taiwan	-0.3	-0.6	-0.7	-0.3	0.3	1.4	1.7	1.3	0.7	1.8	0.8
Korea	0.7	0.7	0.6	0.6	0.9	1.0	0.9	0.8	0.7	1.5	2.1
Malaysia	2.1	0.7	2.2	3.0	2.6	2.1	3.4	1.9	1.3	1.7	4.3
Thailand	-0.9	-0.5	-1.1	-1.1	-0.9	0.2	-0.5	0.3	0.3	0.7	1.3
Indonesia	6.4	6.5	7.1	7.1	4.8	3.5	4.3	3.5	3.0	3.3	3.6
Philippines	1.4	2.4	1.7	0.6	1.0	1.8	1.1	1.5	2.0	2.5	3.2
Vietnam	0.6	0.7	1.0	0.5	0.3	2.7	1.3	2.2	2.8	4.4	5.0
Macao	4.6	5.1	4.8	4.5	3.9	2.4	3.7	2.6	1.8	1.4	0.9

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

(<sup>^</sup>) By reference to the new 2014/15-based CPI series.

- (3) The Producer Price Index is designed to reflect changes in the prices of goods and services received by local producers. Producer prices refer to the transacted prices, net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.
- (4) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding chained-dollar figures. The rate of change in the GDP deflator may differ substantially from that in the Composite CPI over the same time span. The Composite CPI covers consumer price inflation in particular. Yet the GDP deflator is a much broader measure of inflation for the entire economy, and takes into account all the price changes related to consumption, investment, exports and imports. Also, the rate of change in the GDP deflator may differ appreciably from that in the total final demand deflator, depending on the movement in the prices of final demand and imports. Likewise, the rate of change in the GDP deflator may differ appreciably from that in the domestic demand deflator, depending on the movement in the prices of imports and exports.
- (5) The terms of trade is defined as the ratio of the prices of total exports to the prices of total imports.





## Statistical Appendix

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**Table 1 : Gross Domestic Product by expenditure component  
(at current market prices)**

	(\$Mn)					
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Private consumption expenditure	982,368	1,026,482	1,013,615	1,090,234	1,224,402	1,314,969
Government consumption expenditure	138,967	148,017	152,512	157,371	168,517	185,310
Gross domestic fixed capital formation	340,356	350,796	339,552	386,852	455,294	517,411
<i>of which:</i>						
Building and construction	111,776	127,312	123,746	139,249	179,341	204,860
Machinery, equipment and intellectual property products	204,083	198,633	191,568	209,568	239,854	278,477
Changes in inventories	12,841	8,480	22,941	37,522	11,739	-3,662
Total exports of goods <sup>&amp;</sup>	2,574,439	2,758,181	2,454,394	3,021,492	3,406,765	3,632,957
Imports of goods <sup>&amp;</sup>	2,364,930	2,563,428	2,351,386	2,995,928	3,464,968	3,779,686
Exports of services <sup>&amp;</sup>	502,775	544,358	501,303	625,719	710,716	764,026
Imports of services <sup>&amp;</sup>	536,060	565,399	473,686	546,930	578,035	594,266
<b>GDP</b>	<b>1,650,756</b>	<b>1,707,487</b>	<b>1,659,245</b>	<b>1,776,332</b>	<b>1,934,430</b>	<b>2,037,059</b>
<i>Per capita GDP (\$)</i>	<i>238,676</i>	<i>245,406</i>	<i>237,960</i>	<i>252,887</i>	<i>273,549</i>	<i>284,899</i>
<b>GNI</b>	<b>1,703,567</b>	<b>1,807,994</b>	<b>1,709,007</b>	<b>1,813,928</b>	<b>1,987,256</b>	<b>2,066,514</b>
<i>Per capita GNI (\$)</i>	<i>246,312</i>	<i>259,851</i>	<i>245,096</i>	<i>258,240</i>	<i>281,019</i>	<i>289,019</i>
Total final demand	4,551,746	4,836,314	4,484,317	5,319,190	5,977,433	6,411,011
Total final demand excluding re-exports <sup>(a)</sup>	2,823,914	3,001,538	2,823,844	3,235,971	3,604,705	3,828,055
Domestic demand	1,474,532	1,533,775	1,528,620	1,671,979	1,859,952	2,014,028
Private	1,297,607	1,342,889	1,327,688	1,449,592	1,614,010	1,737,274
Public	176,925	190,886	200,932	222,387	245,942	276,754
External demand	3,077,214	3,302,539	2,955,697	3,647,211	4,117,481	4,396,983

Definition of Terms :

Total final demand	= private consumption expenditure + government consumption expenditure + gross domestic fixed capital formation + changes in inventories + total exports of goods + exports of services
Private sector domestic demand	= private consumption expenditure + gross domestic fixed capital formation by the private sector + changes in inventories
Public sector domestic demand	= government consumption expenditure + gross domestic fixed capital formation by the public sector
Domestic demand	= private sector domestic demand + public sector domestic demand
External demand	= total exports of goods + exports of services

**Table 1 : Gross Domestic Product by expenditure component  
(at current market prices) (Cont'd)**

	(\$Mn)							
	<u>2013</u>	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>		<u>2016</u>		<u>2017</u>
					Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
Private consumption expenditure	1,413,058	1,502,768	1,593,227	1,648,082	414,332	400,391	435,447	419,479
Government consumption expenditure	198,572	214,216	231,261	248,085	59,721	62,118	62,931	67,880
Gross domestic fixed capital formation	515,516	530,916	537,228	536,155	128,353	135,706	152,813	132,542
<i>of which:</i>								
Building and construction	211,130	244,047	262,791	278,550	67,816	68,755	75,897	75,165
Machinery, equipment and intellectual property products	264,997	242,902	228,591	212,471	51,258	54,670	59,691	42,968
Changes in inventories	-1,673	7,473	-20,580	5,635	1,682	1,549	4,341	5,694
Total exports of goods <sup>&amp;</sup>	3,926,059	3,986,769	3,889,225	3,900,462	929,176	1,025,058	1,097,702	941,253
Imports of goods <sup>&amp;</sup>	4,142,651	4,237,700	4,066,527	4,036,909	986,624	1,036,803	1,121,390	999,453
Exports of services <sup>&amp;</sup>	812,640	829,085	808,948	767,035	176,986	196,380	200,017	200,950
Imports of services <sup>&amp;</sup>	583,216	573,522	574,345	577,544	137,658	148,189	153,274	140,962
<b>GDP</b>	<b>2,138,305</b>	<b>2,260,005</b>	<b>2,398,437</b>	<b>2,491,001</b>	<b>585,968</b>	<b>636,210</b>	<b>678,587</b>	<b>627,383</b>
<i>Per capita GDP (\$)</i>	<i>297,860</i>	<i>312,609</i>	<i>328,945</i>	<i>339,531</i>	--	--	--	--
<b>GNI</b>	<b>2,178,824</b>	<b>2,306,612</b>	<b>2,442,813</b>	<b>2,575,114</b>	<b>624,390</b>	<b>651,533</b>	<b>698,030</b>	<b>N.A.</b>
<i>Per capita GNI (\$)</i>	<i>303,504</i>	<i>319,056</i>	<i>335,031</i>	<i>350,996</i>	--	--	--	--
Total final demand	6,864,172	7,071,227	7,039,309	7,105,454	1,710,250	1,821,202	1,953,251	1,767,798
Total final demand excluding re-exports <sup>(a)</sup>	4,025,243	4,116,670	4,139,943	4,207,530	1,008,075	1,061,078	1,143,539	1,064,310
Domestic demand	2,125,473	2,255,373	2,341,136	2,437,957	604,088	599,764	655,532	625,595
Private	1,827,460	1,929,514	1,991,566	2,066,158	514,631	509,919	556,673	520,999
Public	298,013	325,859	349,570	371,799	89,457	89,845	98,859	104,596
External demand	4,738,699	4,815,854	4,698,173	4,667,497	1,106,162	1,221,438	1,297,719	1,142,203

Notes: (a) Re-export margin is nevertheless retained in the total final demand.  
 (#) Figures are subject to revision later on as more data become available.  
 (&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.  
 (--) Not applicable.  
 N.A. Not yet available.

**Table 2 : Rates of change in chain volume measures of Gross Domestic Product by expenditure component (in real terms)**

(%)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Private consumption expenditure	8.6	1.9	0.2	6.1	8.4	4.1
Government consumption expenditure	3.2	2.0	2.3	3.4	2.5	3.6
Gross domestic fixed capital formation	3.2	1.4	-3.5	7.7	10.2	6.8
<i>of which:</i>						
Building and construction	-0.3	6.8	-5.5	5.7	15.7	7.2
Machinery, equipment and intellectual property products	2.5	*	-2.2	6.5	12.3	10.2
Total exports of goods <sup>&amp;</sup>	6.9	3.2	-11.2	18.0	4.6	3.3
Imports of goods <sup>&amp;</sup>	9.9	3.7	-7.0	19.9	6.7	4.6
Exports of services <sup>&amp;</sup>	15.9	4.9	1.7	15.3	5.7	2.7
Imports of services <sup>&amp;</sup>	5.7	1.1	-12.9	10.0	-0.2	2.2
<b>GDP</b>	<b>6.5</b>	<b>2.1</b>	<b>-2.5</b>	<b>6.8</b>	<b>4.8</b>	<b>1.7</b>
<b>Per capita GDP</b>	<b>5.6</b>	<b>1.5</b>	<b>-2.7</b>	<b>6.0</b>	<b>4.1</b>	<b>0.6</b>
<b>RGNI</b>	<b>8.2</b>	<b>3.3</b>	<b>-4.6</b>	<b>3.7</b>	<b>4.8</b>	<b>-0.2</b>
<b>Per capita RGNI</b>	<b>7.3</b>	<b>2.7</b>	<b>-4.8</b>	<b>2.9</b>	<b>4.1</b>	<b>-1.3</b>
Total final demand	8.1	2.8	-6.1	14.0	5.3	3.4
Total final demand excluding re-exports <sup>(a)</sup>	8.2	2.9	-3.5	11.0	4.7	3.2
Domestic demand	7.8	1.4	0.5	7.1	6.5	3.9
Private	8.9	1.2	-0.1	6.6	6.7	3.6
Public	0.6	3.2	4.5	10.2	5.5	5.8
External demand	8.2	3.5	-9.1	17.6	4.8	3.2

- Notes: (a) Re-export margin is nevertheless retained in the total final demand.  
 (#) Figures are subject to revision later on as more data become available.  
 (&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.  
 (--) Not applicable.  
 (\*) Change within  $\pm 0.05\%$ .  
 N.A. Not yet available.

**Table 2 : Rates of change in chain volume measures of Gross Domestic Product by expenditure component (in real terms) (Cont'd)**

	<u>2013</u>	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>	<u>2016</u>			<u>2017</u>	Average annual rate of change:	
					Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	10 years 2006 to 2016 <sup>#</sup>	5 years 2011 to 2016 <sup>#</sup>
Private consumption expenditure	4.6	3.3	4.8	1.8	0.4	1.6	3.6	3.7	4.4	3.7
Government consumption expenditure	2.7	3.1	3.4	3.4	3.6	3.4	3.4	3.7	2.9	3.2
Gross domestic fixed capital formation	2.6	-0.1	-3.2	-0.3	-5.1	7.2	5.6	6.4	2.4	1.1
<i>of which:</i>										
Building and construction	-4.3	9.3	2.2	3.9	2.4	4.3	7.5	9.6	3.9	3.6
Machinery, equipment and intellectual property products	11.3	-8.7	-7.7	-4.6	-10.3	7.6	-4.2	-8.9	1.7	-0.3
Total exports of goods <sup>&amp;</sup>	8.2	0.8	-1.7	1.8	2.4	2.5	5.1	9.2	3.1	2.4
Imports of goods <sup>&amp;</sup>	9.9	1.5	-2.7	1.1	0.6	3.1	5.6	9.9	4.5	2.8
Exports of services <sup>&amp;</sup>	6.0	1.6	0.3	-3.2	-6.2	-2.5	1.2	2.6	4.9	1.4
Imports of services <sup>&amp;</sup>	-2.1	-2.2	5.0	2.0	1.2	0.8	2.0	0.9	0.7	0.9
<b>GDP</b>	<b>3.1</b>	<b>2.8</b>	<b>2.4</b>	<b>2.0</b>	<b>1.8</b>	<b>2.0</b>	<b>3.2</b>	<b>4.3</b>	<b>2.9</b>	<b>2.4</b>
<i>Per capita GDP</i>	<i>2.7</i>	<i>2.0</i>	<i>1.5</i>	<i>1.4</i>	--	--	--	--	<i>2.2</i>	<i>1.6</i>
<b>RGNI</b>	<b>4.0</b>	<b>2.7</b>	<b>3.8</b>	<b>4.0</b>	<b>3.7</b>	<b>3.5</b>	<b>5.6</b>	<b>N.A.</b>	<b>2.9</b>	<b>2.8</b>
<i>Per capita RGNI</i>	<i>3.6</i>	<i>1.9</i>	<i>2.9</i>	<i>3.3</i>	--	--	--	--	<i>2.2</i>	<i>2.1</i>
Total final demand	6.6	1.6	-0.4	1.5	1.0	2.6	4.5	7.1	3.6	2.5
Total final demand excluding re-exports <sup>(a)</sup>	4.2	0.6	0.1	1.5	0.1	2.7	3.5	4.6	3.2	1.9
Domestic demand	4.1	2.9	1.6	2.6	1.1	4.7	4.5	5.5	3.8	3.0
Private	4.1	2.6	1.3	2.6	0.9	5.2	4.0	5.0	3.7	2.8
Public	3.7	4.6	2.9	2.9	2.4	1.8	7.3	8.3	4.4	4.0
External demand	7.8	1.0	-1.4	0.9	0.9	1.6	4.5	8.0	3.4	2.3

**Table 3 : Gross Domestic Product by economic activity  
(at current prices)**

	2011		2012		2013		2014		2015 <sup>#</sup>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture, fishing, mining and quarrying	944	*	1,114	0.1	1,225	0.1	1,496	0.1	1,630	0.1
Manufacturing	30,578	1.6	30,600	1.5	30,156	1.4	27,885	1.3	26,716	1.1
Electricity, gas and water supply, and waste management	33,877	1.8	35,382	1.8	35,119	1.7	35,636	1.6	34,653	1.5
Construction	65,484	3.4	73,445	3.6	83,288	4.0	96,205	4.4	107,902	4.6
Services	1,770,166	93.1	1,872,498	93.0	1,948,292	92.9	2,044,750	92.7	2,154,603	92.7
<i>Import/export, wholesale and retail trades</i>	492,900	25.9	511,537	25.4	523,741	25.0	531,541	24.1	527,822	22.7
<i>Accommodation<sup>(a)</sup> and food services</i>	66,421	3.5	72,044	3.6	75,413	3.6	78,725	3.6	78,134	3.4
<i>Transportation, storage, postal and courier services</i>	120,034	6.3	120,609	6.0	125,465	6.0	137,658	6.2	150,073	6.5
<i>Information and communications</i>	62,952	3.3	70,866	3.5	76,145	3.6	77,761	3.5	80,813	3.5
<i>Financing and insurance</i>	305,282	16.1	319,312	15.9	346,248	16.5	367,989	16.7	409,933	17.6
<i>Real estate, professional and business services</i>	213,987	11.3	232,416	11.5	225,789	10.8	239,434	10.9	252,714	10.9
<i>Public administration, social and personal services</i>	313,585	16.5	337,678	16.8	356,326	17.0	379,588	17.2	407,467	17.5
<i>Ownership of premises</i>	195,005	10.3	208,036	10.3	219,166	10.4	232,053	10.5	247,648	10.6
<b>GDP at basic prices</b>	<b>1,901,049</b>	<b>100.0</b>	<b>2,013,038</b>	<b>100.0</b>	<b>2,098,080</b>	<b>100.0</b>	<b>2,205,972</b>	<b>100.0</b>	<b>2,325,505</b>	<b>100.0</b>
Taxes on products	69,401	--	63,575	--	75,314	--	83,236	--	95,433	--
Statistical discrepancy (%)	-1.9	--	-1.9	--	-1.6	--	-1.3	--	-0.9	--
<b>GDP at current market prices</b>	<b>1,934,430</b>	<b>--</b>	<b>2,037,059</b>	<b>--</b>	<b>2,138,305</b>	<b>--</b>	<b>2,260,005</b>	<b>--</b>	<b>2,398,437</b>	<b>--</b>

Notes: Individual figures may not add up exactly to the total due to rounding.

(a) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(#) Figures are subject to revision later on as more data become available.

(--) Not applicable.

(\*) Less than 0.05%.

**Table 4 : Rates of change in chain volume measures of Gross Domestic Product by economic activity (in real terms)**

(%)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>	<u>2016</u>			
							Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>
Agriculture, fishing, mining and quarrying	0.8	-3.2	4.9	-6.0	-6.8	-2.9	-7.1	-0.2	-3.5	-1.3
Manufacturing	0.7	-0.8	0.1	-0.4	-1.5	-0.4	-0.3	-0.4	-0.1	-1.0
Electricity, gas and water supply, and waste management	0.6	1.4	-2.9	0.8	-2.6	0.3	2.1	0.2	0.6	-1.5
Construction	18.3	8.3	4.2	13.0	5.4	2.6	-1.2	0.8	3.0	7.6
Services	5.2	1.8	2.7	2.5	1.7	2.3	1.6	2.7	2.3	2.5
<i>Import/export, wholesale and retail trades</i>	9.1	1.9	3.3	1.2	-1.1	0.4	-2.1	0.9	0.8	1.7
<i>Accommodation<sup>(a)</sup> and food services</i>	8.3	1.8	3.6	2.2	-1.9	0.1	-0.9	1.0	0.1	0.2
<i>Transportation, storage, postal and courier services</i>	7.2	0.9	4.1	2.9	3.3	3.3	2.6	3.4	3.5	3.8
<i>Information and communications</i>	2.8	2.8	4.0	3.9	4.0	3.7	3.7	4.2	3.7	3.3
<i>Financing and insurance</i>	6.5	0.8	7.7	5.3	6.1	4.7	5.0	4.2	4.7	4.8
<i>Real estate, professional and business services</i>	2.6	3.1	-4.0	1.9	0.7	3.0	1.8	3.7	3.2	3.5
<i>Public administration, social and personal services</i>	1.8	2.1	2.5	2.4	2.5	2.7	2.5	3.3	2.5	2.3
<i>Ownership of premises</i>	0.7	1.1	0.3	0.8	0.6	0.6	0.4	0.5	0.6	0.7
Taxes on products	-6.8	-10.4	-6.4	6.7	7.1	-9.0	-21.7	-25.5	-6.3	24.2
<b>GDP in chained (2015) dollars</b>	<b>4.8</b>	<b>1.7</b>	<b>3.1</b>	<b>2.8</b>	<b>2.4</b>	<b>2.0</b>	<b>1.0</b>	<b>1.8</b>	<b>2.0</b>	<b>3.2</b>

Notes: (#) Figures are subject to revision later on as more data become available.

(a) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.



**Table 5 : Balance of Payments by major component  
(at current prices)**

(\$Mn)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>	<u>2016</u>			
						Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>
Current account <sup>(a)</sup>	32,151	32,475	31,453	79,553	115,519	17,241	14,966	46,548	36,764
Goods	-146,729	-216,592	-250,931	-177,302	-136,447	-43,566	-57,448	-11,745	-23,688
Services	169,760	229,424	255,563	234,603	189,491	55,229	39,328	48,191	46,743
Primary income	29,455	40,519	46,607	44,376	84,113	10,924	38,422	15,323	19,443
Secondary income	-20,336	-20,876	-19,786	-22,124	-21,638	-5,346	-5,337	-5,221	-5,734
Capital and financial account <sup>(a)</sup>	-67,664	-86,308	-73,785	-128,642	-122,822	10,251	8,918	-75,890	-66,102
Capital account	-1,433	-1,609	-748	-216	-362	-72	-57	-48	-185
Financial account	-66,231	-84,699	-73,037	-128,426	-122,460	10,323	8,975	-75,842	-65,917
Financial non-reserve assets	122,658	-26,810	66,052	153,570	-113,605	15,570	-7,116	-77,793	-44,265
<i>Direct investment</i>	-102,623	-50,250	-85,718	794,800	354,466	-7,598	31,738	157,441	172,885
<i>Portfolio investment</i>	-31,592	-386,077	-64,384	-970,938	-325,571	84,715	-18,862	-213,675	-177,749
<i>Financial derivatives</i>	15,208	54,661	118,359	99,178	28,599	11,804	6,712	6,174	3,909
<i>Other investment</i>	241,665	354,856	97,795	230,531	-171,098	-73,352	-26,704	-27,733	-43,310
Reserve assets	-188,889	-57,890	-139,089	-281,996	-8,856	-5,246	16,092	1,951	-21,651
Net errors and omissions	35,513	53,833	42,332	49,089	7,303	-27,492	-23,884	29,342	29,337
<b>Overall Balance of Payments</b>	<b>188,889</b>	<b>57,890</b>	<b>139,089</b>	<b>281,996</b>	<b>8,856</b>	<b>5,246</b>	<b>-16,092</b>	<b>-1,951</b>	<b>21,651</b>

Notes: Individual figures may not add up exactly to the total due to rounding.

- (a) In accordance with the accounting rules adopted in compiling Balance of Payments, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. In the capital and financial account, a positive value indicates a net financial inflow while a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, a negative value for the reserve assets represents a net increase while a positive value represents a net decrease.
- (#) Figures are subject to revision later on as more data become available.

**Table 6 : Goods and services trade  
(at current market prices)**

	(\$Mn)								
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>				
						Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
Total exports of goods	3,632,957	3,926,059	3,986,769	3,889,225	3,900,462	929,176	1,025,058	1,097,702	941,253
Imports of goods	3,779,686	4,142,651	4,237,700	4,066,527	4,036,909	986,624	1,036,803	1,121,390	999,453
<b>Goods trade balance</b>	<b>-146,729</b>	<b>-216,592</b>	<b>-250,931</b>	<b>-177,302</b>	<b>-136,447</b>	<b>-57,448</b>	<b>-11,745</b>	<b>-23,688</b>	<b>-58,200</b>
	<b>(-3.9)</b>	<b>(-5.2)</b>	<b>(-5.9)</b>	<b>(-4.4)</b>	<b>(-3.4)</b>	<b>(-5.8)</b>	<b>(-1.1)</b>	<b>(-2.1)</b>	<b>(-5.8)</b>
Exports of services	764,026	812,640	829,085	808,948	767,035	176,986	196,380	200,017	200,950
Imports of services	594,266	583,216	573,522	574,345	577,544	137,658	148,189	153,274	140,962
<b>Services trade balance</b>	<b>169,760</b>	<b>229,424</b>	<b>255,563</b>	<b>234,603</b>	<b>189,491</b>	<b>39,328</b>	<b>48,191</b>	<b>46,743</b>	<b>59,988</b>
	<b>(28.6)</b>	<b>(39.3)</b>	<b>(44.6)</b>	<b>(40.8)</b>	<b>(32.8)</b>	<b>(28.6)</b>	<b>(32.5)</b>	<b>(30.5)</b>	<b>(42.6)</b>
Exports of goods and services	4,396,983	4,738,699	4,815,854	4,698,173	4,667,497	1,106,162	1,221,438	1,297,719	1,142,203
Imports of goods and services	4,373,952	4,725,867	4,811,222	4,640,872	4,614,453	1,124,282	1,184,992	1,274,664	1,140,415
<b>Goods and services trade balance</b>	<b>23,031</b>	<b>12,832</b>	<b>4,632</b>	<b>57,301</b>	<b>53,044</b>	<b>-18,120</b>	<b>36,446</b>	<b>23,055</b>	<b>1,788</b>
	<b>&lt;0.5&gt;</b>	<b>&lt;0.3&gt;</b>	<b>&lt;0.1&gt;</b>	<b>&lt;1.2&gt;</b>	<b>&lt;1.1&gt;</b>	<b>&lt;-1.6&gt;</b>	<b>&lt;3.1&gt;</b>	<b>&lt;1.8&gt;</b>	<b>&lt;0.2&gt;</b>

Notes: Figures in this table are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) Figures are subject to revision later on as more data become available.

() As a percentage of the total value of imports of goods/services.

< > As a percentage of the total value of imports of goods and services.

**Table 6a : Goods and services trade based on the standards stipulated in the *System of National Accounts 2008* , other than the change of ownership principle**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>		<u>2016</u>		<u>2017</u>
						Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
<b><u>At current market prices (\$Mn)</u></b>									
Total exports of goods	3,591,776	3,816,390	3,877,458	3,779,263	3,776,638	912,334	989,242	1,051,658	915,309
Imports of goods	4,116,410	4,394,928	4,471,810	4,289,991	4,240,000	1,039,442	1,088,649	1,174,232	1,046,631
<b>Goods trade balance</b>	<b>-524,634</b> <b>(-12.7)</b>	<b>-578,538</b> <b>(-13.2)</b>	<b>-594,352</b> <b>(-13.3)</b>	<b>-510,728</b> <b>(-11.9)</b>	<b>-463,362</b> <b>(-10.9)</b>	<b>-127,108</b> <b>(-12.2)</b>	<b>-99,407</b> <b>(-9.1)</b>	<b>-122,574</b> <b>(-10.4)</b>	<b>-131,322</b> <b>(-12.5)</b>
Exports of services	1,003,047	1,058,584	1,079,989	1,052,355	1,007,273	226,193	261,342	274,471	254,321
Imports of services	455,382	467,214	481,005	484,326	490,867	117,205	125,489	128,842	121,211
<b>Services trade balance</b>	<b>547,665</b> <b>(120.3)</b>	<b>591,370</b> <b>(126.6)</b>	<b>598,984</b> <b>(124.5)</b>	<b>568,029</b> <b>(117.3)</b>	<b>516,406</b> <b>(105.2)</b>	<b>108,988</b> <b>(93.0)</b>	<b>135,853</b> <b>(108.3)</b>	<b>145,629</b> <b>(113.0)</b>	<b>133,110</b> <b>(109.8)</b>
Exports of goods and services	4,594,823	4,874,974	4,957,447	4,831,618	4,783,911	1,138,527	1,250,584	1,326,129	1,169,630
Imports of goods and services	4,571,792	4,862,142	4,952,815	4,774,317	4,730,867	1,156,647	1,214,138	1,303,074	1,167,842
<b>Goods and services trade balance</b>	<b>23,031</b> <b>&lt;0.5&gt;</b>	<b>12,832</b> <b>&lt;0.3&gt;</b>	<b>4,632</b> <b>&lt;0.1&gt;</b>	<b>57,301</b> <b>&lt;1.2&gt;</b>	<b>53,044</b> <b>&lt;1.1&gt;</b>	<b>-18,120</b> <b>&lt;-1.6&gt;</b>	<b>36,446</b> <b>&lt;3.0&gt;</b>	<b>23,055</b> <b>&lt;1.8&gt;</b>	<b>1,788</b> <b>&lt;0.2&gt;</b>
<b><u>Rates of change in real terms (%)</u></b>									
Total exports of goods	1.9	6.5	0.8	-1.9	1.4	2.0	2.0	4.7	9.3
Imports of goods	3.0	7.2	0.9	-2.7	0.6	0.3	2.5	4.8	9.4
Exports of services	2.2	4.9	1.2	-0.3	-2.4	-4.7	-1.6	1.3	2.4
Imports of services	1.9	1.5	1.8	5.3	2.7	1.5	1.6	3.2	1.5

Notes: (#) Figures are subject to revision later on as more data become available.

( ) As a percentage of the total value of imports of goods/services.

< > As a percentage of the total value of imports of goods and services.

**Table 7 : Total exports of goods by market  
(in value terms)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>		<u>2016</u>			<u>2017</u>
	(% change)				(% change)	(\$Mn)	Q2	Q3	Q4	Q1
							(% change over a year earlier)			
<b>All markets</b>	<b>2.9</b>	<b>3.6</b>	<b>3.2</b>	<b>-1.8</b>	<b>-0.5</b>	<b>3,588,247</b>	<b>-1.2</b>	<b>-0.2</b>	<b>5.5</b>	<b>10.3</b>
Mainland of China	6.3	4.9	1.5	-2.1	0.4	1,943,469	-0.7	1.0	8.6	12.6
United States	2.3	-2.1	3.1	0.2	-5.3	324,040	-5.2	-3.9	-4.8	2.4
Japan	6.5	-6.1	-2.8	-6.6	-4.9	116,746	-7.5	-3.9	-3.2	4.0
India	-17.5	7.9	13.1	8.1	14.6	116,702	20.9	10.4	15.2	40.1
Taiwan	-5.2	-4.3	2.5	-18.0	14.6	74,516	11.0	22.3	33.3	44.5
Vietnam	9.9	15.5	14.0	14.7	-5.8	72,173	-10.1	-10.1	0.6	13.1
Germany	-12.8	-5.1	-1.7	-3.2	-5.1	66,717	4.4	-10.3	-8.4	3.6
Singapore	-0.5	4.7	2.2	-2.3	4.8	61,285	-2.0	5.8	18.2	-2.6
Netherlands	-2.0	1.1	12.7	10.2	10.3	57,378	11.0	13.7	14.5	21.8
Korea	-4.0	9.0	-2.7	-12.8	-0.6	54,040	1.5	3.4	9.1	15.2
Rest of the world	0.2	5.4	7.6	-1.8	-3.3	701,182	-3.9	-4.3	-0.4	1.4

Note: Individual figures may not add up exactly to the total due to rounding.

**Table 8 : Imports of goods by source  
(in value terms)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>		<u>2016</u>			<u>2017</u>
	(% change)				(% change)		(\$Mn)	Q2	Q3	Q4
	(% change over a year earlier)									
<b>All sources</b>	<b>3.9</b>	<b>3.8</b>	<b>3.9</b>	<b>-4.1</b>	<b>-0.9</b>	<b>4,008,384</b>	<b>-3.2</b>	<b>1.2</b>	<b>5.6</b>	<b>10.7</b>
Mainland of China	8.5	5.5	2.3	-0.1	-3.4	1,916,831	-3.1	-1.7	-1.1	8.6
Taiwan	1.6	6.9	14.7	-8.6	6.4	292,072	0.2	11.4	16.5	19.6
Singapore	-3.2	*	5.8	-5.7	6.4	261,694	1.1	15.5	20.2	12.9
Japan	-2.2	-8.1	0.9	-9.9	-5.2	246,698	-5.7	-5.5	5.1	8.9
United States	-3.3	7.4	*	-3.9	-2.0	206,645	-13.2	0.9	11.7	3.1
Korea	2.4	3.4	10.6	-2.0	14.0	196,228	3.3	11.1	48.5	46.3
India	-5.5	6.7	10.0	-13.7	11.9	92,773	15.5	13.7	20.9	28.4
Malaysia	-6.0	4.7	16.7	-7.9	-3.7	90,584	-6.2	-6.8	1.9	3.8
Thailand	-4.8	6.4	13.7	-3.7	-2.7	82,586	-5.0	-3.6	1.4	10.6
Philippines	0.3	2.5	22.0	10.3	5.8	59,768	9.0	4.2	20.5	36.4
Rest of the world	5.3	3.2	-0.3	-10.6	-3.1	562,507	-6.8	1.4	2.6	1.0

Notes: Individual figures may not add up exactly to the total due to rounding.

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

**Table 9 : Exports and imports of services by component  
(at current market prices)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>		<u>2016</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	(% change)				(% change)	(\$Mn)	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>7.5</b>	<b>6.4</b>	<b>2.0</b>	<b>-2.4</b>	<b>-5.2</b>	<b>767,035</b>	<b>-8.4</b>	<b>-3.7</b>	<b>0.7</b>	<b>3.8</b>
Transport	-0.6	-2.5	2.2	-6.8	-4.7	219,967	-7.8	-4.2	4.7	6.5
Travel	15.8	17.7	-1.5	-5.8	-9.0	255,064	-9.6	-7.4	-3.4	0.6
Financial services	7.8	6.1	7.0	8.5	-5.5	140,436	-18.0	-1.5	0.9	5.6
Other services	8.7	1.4	4.7	1.6	1.6	151,568	2.0	1.4	2.9	3.5
<b>Imports of services</b>	<b>2.8</b>	<b>-1.9</b>	<b>-1.7</b>	<b>0.1</b>	<b>0.6</b>	<b>577,544</b>	<b>-0.4</b>	<b>0.9</b>	<b>1.2</b>	<b>1.8</b>
Transport	2.3	-1.4	1.5	-5.9	-1.0	132,906	-2.5	0.1	1.5	2.0
Travel	5.2	5.7	3.7	4.7	5.1	187,792	2.1	4.9	4.1	0.9
Manufacturing <sup>^</sup>	-0.4	-16.5	-20.2	-2.7	-3.7	86,677	-3.9	-4.2	-2.1	3.5
Other services	4.0	3.2	3.5	2.2	-0.7	170,169	0.4	*	*	2.0

Notes: Individual figures may not add up exactly to the total due to rounding.

Figures in this table are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) Figures are subject to revision later on as more data become available.

(^) This includes the value of processing fees paid by Hong Kong to the processing units outside Hong Kong and raw materials / semi-manufactures directly procured by these processing units.

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

**Table 9a : Exports and imports of services by component based on the standards stipulated in the *System of National Accounts 2008* , other than the change of ownership principle  
(at current market prices)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>		<u>2016</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	(% change)				(% change)	(\$Mn)	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>6.6</b>	<b>5.5</b>	<b>2.0</b>	<b>-2.6</b>	<b>-4.3</b>	<b>1,007,273</b>	<b>-6.9</b>	<b>-3.0</b>	<b>0.7</b>	<b>3.7</b>
Transport	-0.6	-2.5	2.2	-6.8	-4.7	219,967	-7.8	-4.2	4.7	6.5
Travel	15.8	17.7	-1.5	-5.8	-9.0	255,064	-9.6	-7.4	-3.4	0.6
Trade-related	3.9	2.1	1.9	-3.0	-1.3	280,040	-0.8	-0.7	0.7	3.4
Other services	9.0	4.7	6.6	6.4	-2.1	252,202	-8.8	*	2.3	4.7
<b>Imports of services</b>	<b>3.8</b>	<b>2.6</b>	<b>3.0</b>	<b>0.7</b>	<b>1.4</b>	<b>490,867</b>	<b>0.2</b>	<b>1.9</b>	<b>1.9</b>	<b>1.6</b>
Transport	2.3	-1.4	1.5	-5.9	-1.0	132,906	-2.5	0.1	1.5	2.0
Travel	5.2	5.7	3.7	4.7	5.1	187,792	2.1	4.9	4.1	0.9
Trade-related	1.7	-2.7	2.8	0.1	-0.5	33,562	-0.4	-0.5	1.5	3.1
Other services	4.6	4.8	3.6	2.7	-0.7	136,607	0.6	0.1	-0.4	1.7

Notes: Individual figures may not add up exactly to the total due to rounding.

(#) Figures are subject to revision later on as more data become available.

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

**Table 10 : Incoming visitors by source**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>		<u>2016</u>		<u>2017</u>
						Q2	Q3	Q4	Q1
<u>('000)</u>									
<b>All sources</b>	<b>48 615.1</b>	<b>54 298.8</b>	<b>60 838.8</b>	<b>59 307.6</b>	<b>56 654.9</b>	<b>13 425.2</b>	<b>14 558.0</b>	<b>14 936.7</b>	<b>14 242.8</b>
Mainland of China	34 911.4	40 745.3	47 247.7	45 842.4	42 778.1	9 987.8	11 301.2	11 061.3	10 823.0
South and Southeast Asia	3 651.8	3 718.0	3 614.8	3 559.1	3 701.8	992.4	793.3	1 087.7	834.5
Taiwan	2 088.7	2 100.1	2 031.9	2 015.8	2 011.4	502.8	527.7	496.8	489.8
Europe	1 867.7	1 893.7	1 863.3	1 829.4	1 904.9	451.6	411.1	560.8	480.4
United States	1 184.8	1 109.8	1 130.6	1 181.0	1 211.5	312.3	268.4	351.5	291.7
Japan	1 254.6	1 057.0	1 078.8	1 049.3	1 092.3	235.1	283.8	309.1	319.8
Others	3 656.1	3 674.9	3 871.9	3 830.7	3 954.8	943.3	972.4	1 069.5	1 003.6
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>16.0</b>	<b>11.7</b>	<b>12.0</b>	<b>-2.5</b>	<b>-4.5</b>	<b>-3.5</b>	<b>-3.6</b>	<b>0.4</b>	<b>3.7</b>
Mainland of China	24.2	16.7	16.0	-3.0	-6.7	-5.4	-5.1	-0.3	3.8
South and Southeast Asia	-2.6	1.8	-2.8	-1.5	4.0	5.5	-0.3	0.1	0.7
Taiwan	-2.8	0.5	-3.2	-0.8	-0.2	2.4	-2.8	-3.7	1.2
Europe	3.7	1.4	-1.6	-1.8	4.1	3.0	3.6	3.2	-0.2
United States	-2.3	-6.3	1.9	4.5	2.6	1.1	1.7	5.3	4.4
Japan	-2.3	-15.7	2.1	-2.7	4.1	-1.0	1.6	8.8	20.9
Others	0.9	0.5	5.4	-1.1	3.2	1.8	6.4	4.0	3.5

Note: Individual figures may not add up exactly to the total due to rounding.



**Table 11 : Property market**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Completion of new property by the private sector</b>							
('000 m <sup>2</sup> of internal floor area)							
Residential property <sup>(a)</sup> (in units)	10 471	8 776	7 157	13 405	9 449	10 149	8 254
Commercial property	368	390	235	189	197	226	161
<i>of which :</i>							
Office space	320	341	151	124	155	136	123
Other commercial premises <sup>(b)</sup>	48	49	84	65	42	90	39
Industrial property <sup>(c)</sup>	16	78	3	21	105	170	85
<i>of which :</i>							
Industrial-cum-office premises	0	4	0	0	0	0	0
Conventional flatted factory space	16	70	3	21	32	46	85
Storage premises <sup>(d)</sup>	0	4	0	0	73	123	0
<b>Production of public housing</b>							
(in units)							
Rental housing flats <sup>(e)</sup>	5 667	22 759	19 021	6 385	17 787	9 778	20 898
Subsidised sales flats <sup>(e)</sup>	2 010	2 200	370	1 110	0	0	0
<b>Building plans with consent to commence work in the private sector</b>							
('000 m <sup>2</sup> of usable floor area)							
Residential property	900.0	530.0	546.8	570.5	580.6	796.4	816.0
Commercial property	327.5	147.7	178.3	158.4	133.6	210.2	309.5
Industrial property <sup>(f)</sup>	103.5	106.6	97.1	34.3	109.3	70.7	138.1
Other properties	207.7	212.8	253.2	459.2	232.7	428.9	136.4
Total	1 538.6	997.1	1 075.4	1 222.4	1 056.2	1 506.1	1 400.1
<b>Agreements for sale and purchase of property</b>							
(Number)							
Residential property <sup>(g)</sup>	123 575	95 931	115 092	135 778	84 462	81 333	50 676
Primary market	20 123	11 046	16 161	13 646	10 880	12 968	11 046
Secondary market	103 452	84 885	98 931	122 132	73 582	68 365	39 630
Selected types of non-residential properties <sup>(h)</sup>							
Office space	4 129	2 845	2 521	3 591	3 071	3 269	1 685
Other commercial premises	5 490	4 149	5 359	7 639	5 980	7 282	4 305
Flatted factory space	9 072	5 741	5 554	8 206	7 619	9 731	4 271

Notes: Individual figures may not add up exactly to the total due to rounding.

- (a) Figures before 2002 cover all completed residential premises to which either temporary or full Occupation Permits have been granted, as well as village type houses issued with Letters of Compliance. Property developments subject to a Consent Scheme need a Certificate of Compliance, Consent to Assign or Consent to Lease in addition to an Occupation Permit before the premises can be individually assigned. Village-type housing units are excluded as from 2002 and units issued with temporary Occupation Permits are also excluded as from 2004 onwards.

Residential premises here pertain to private residential units, excluding units built under the Private Sector Participation Scheme (PSPS), Home Ownership Scheme (HOS), Buy or Rent Option, Mortgage Subsidy Scheme, Sandwich Class Housing Scheme, Urban Improvement Scheme (UIS) and Flat-for-Sale Scheme. Figures from 2004 onwards also cover those private flats converted from subsidised flats.

- (b) These include retail premises and other premises designed or adapted for commercial use, with the exception of purpose-built offices. Car-parking space and commercial premises built by the Hong Kong Housing Authority and the Hong Kong Housing Society are excluded.
- (c) These include industrial-cum-office premises, but exclude specialised factory buildings which are developed mainly for own use.
- (d) These include storage premises at the container terminals and the airport.

**Table 11 : Property market (Cont'd)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>		<u>2016</u>		<u>2017</u>
				Q2	Q3	Q4	Q1
<b>Completion of new property by the private sector</b>							
('000 m <sup>2</sup> of internal floor area)							
Residential property <sup>(a)</sup> (in units)	15 719	11 280	14 595	5 614	3 339	3 839	4 370
Commercial property	161	233	276	83	10	101	20
<i>of which :</i>							
Office space	104	164	153	55	0	53	12
Other commercial premises <sup>(b)</sup>	57	69	123	29	10	49	7
Industrial property <sup>(c)</sup>	116	30	78	0	0	5	0
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	36	30	5	0	0	5	0
Storage premises <sup>(d)</sup>	80	0	73	0	0	0	0
<b>Production of public housing</b>							
(in units)							
Rental housing flats <sup>(e)</sup>	5 634	10 147	21 755	187	4 697	4 884	N.A.
Subsidised sales flats <sup>(e)</sup>	0	1 326	229	0	0	229	N.A.
<b>Building plans with consent to commence work in the private sector</b>							
('000 m <sup>2</sup> of usable floor area)							
Residential property	647.1	893.3	645.8	57.2	271.1	106.4	N.A.
Commercial property	290.3	319.0	312.4	79.5	76.9	40.6	N.A.
Industrial property <sup>(f)</sup>	105.9	225.3	76.2	28.0	16.6	16.5	N.A.
Other properties	217.1	555.4	235.1	42.3	13.3	121.7	N.A.
Total	1 260.4	1 993.0	1 269.4	207.0	377.9	285.3	N.A.
<b>Agreements for sale and purchase of property</b>							
(Number)							
Residential property <sup>(g)</sup>	63 807	55 982	54 701	13 700	17 890	16 890	13 221
Primary market	16 857	16 826	16 793	4 308	6 244	4 916	3 573
Secondary market	46 950	39 156	37 908	9 392	11 646	11 974	9 648
Selected types of non-residential properties <sup>(h)</sup>							
Office space	1 271	1 470	1 105	258	294	412	429
Other commercial premises	3 092	2 067	1 530	270	393	548	492
Flatted factory space	3 016	3 407	2 732	587	616	1 079	948

Notes: (e) The series, sourced from the Housing Authority's housing production figures, exhaustively cover all housing production and to count projects (including surplus HOS projects) which undergo transfer of usage at the time of disposal and according to their actual usage. Moreover, surplus HOS courts and blocks pending disposal are excluded from production statistics until they are disposed. Rental and sales flats projects of the Housing Society are included.

(f) These include multi-purpose industrial premises designed also for office use.

(g) The figures are derived from sale and purchase agreements of domestic units received for registration for the relevant periods. They generally relate to transactions executed up to four weeks prior to their submission for registration. Sales of domestic units refer to sale and purchase agreements with payment of stamp duty. These statistics do not include sales of units under the Home Ownership Scheme, the Private Sector Participation Scheme and the Tenants Purchase Scheme except those after payment of premium. Primary sales generally refer to sales from developers. Secondary sales refer to sales from parties other than developers.

(h) Timing of the figures for non-residential properties is based on the date on which the sale and purchase agreement is signed, which may differ from the date on which the agreement is received for registration.

N.A. Not yet available.

**Table 12 : Property prices and rentals**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	103.5	120.5	121.3	150.9	182.1	206.2	242.4
Office space	165.5	199.0	179.8	230.4	297.9	334.7	409.8
Shopping space	172.5	192.2	193.1	257.2	327.4	420.5	506.8
Flatted factory space	199.5	235.9	216.3	284.4	385.0	489.8	655.4
Property rental indices <sup>(b)</sup> :							
Residential flats	101.8	115.7	100.4	119.7	134.0	142.6	154.5
Office space	131.9	155.5	135.7	147.6	169.9	188.3	204.1
Shopping space	111.8	116.2	110.9	122.9	134.3	151.3	165.5
Flatted factory space	100.5	109.3	99.4	108.9	118.6	131.9	147.3
<u>(% change)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	11.7	16.4	0.7	24.4	20.7	13.2	17.6
Office space	18.8	20.2	-9.6	28.1	29.3	12.4	22.4
Shopping space	12.4	11.4	0.5	33.2	27.3	28.4	20.5
Flatted factory space	25.9	18.2	-8.3	31.5	35.4	27.2	33.8
Property rental indices <sup>(b)</sup> :							
Residential flats	11.1	13.7	-13.2	19.2	11.9	6.4	8.3
Office space	12.4	17.9	-12.7	8.8	15.1	10.8	8.4
Shopping space	7.2	3.9	-4.6	10.8	9.3	12.7	9.4
Flatted factory space	10.4	8.8	-9.1	9.6	8.9	11.2	11.7

Notes: (a) Figures pertain to prices of existing flats traded in the secondary market, but not new flats sold in the primary market.

(b) All rental indices shown in this table have been adjusted for concessionary leasing terms such as provision of refurbishment, granting of rent-free periods, and waiver of miscellaneous charges, if known.

For residential property, changes in rentals cover only new tenancies for which rentals are freshly determined. For non-residential property, changes in rentals cover also lease renewals upon which rentals may be revised.

(#) Figures for non-residential property are provisional.

(+) Provisional figures.

**Table 12 : Property prices and rentals (Cont'd)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>		<u>2016</u>		<u>2017</u>
				Q2	Q3	Q4 <sup>#</sup>	Q1 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	256.9	296.8	286.1	275.2	288.4	306.1	314.2
Office space	423.0	448.9	426.5	418.3	417.8	432.7	465.6
Shopping space	521.2	559.2	526.9	525.7	514.0	534.3	541.1
Flatted factory space	668.0	723.9	692.8	692.6	681.9	709.4	737.3
Property rental indices <sup>(b)</sup> :							
Residential flats	159.5	172.8	168.2	164.8	169.8	172.8	176.2
Office space	213.7	226.7	232.3	231.7	232.8	233.9	236.7
Shopping space	173.1	182.5	178.6	178.1	177.5	179.5	182.0
Flatted factory space	160.1	174.4	181.5	181.0	182.0	184.5	187.7
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	6.0	15.5	-3.6	-8.0	-5.5	4.3	14.4
Office space	3.2	6.1	-5.0	-6.0	-9.1	-5.3	6.5
Shopping space	2.8	7.3	-5.8	-6.0	-10.0	-3.7	1.4
Flatted factory space	1.9	8.4	-4.3	-4.2	-8.1	-3.0	7.3
Property rental indices <sup>(b)</sup> :							
Residential flats	3.2	8.3	-2.7	-4.6	-3.9	-0.4	6.5
Office space	4.7	6.1	2.5	2.5	1.4	1.6	2.6
Shopping space	4.6	5.4	-2.1	-2.4	-4.0	-1.6	1.5
Flatted factory space	8.7	8.9	4.1	4.5	2.7	3.8	5.2

**Table 13 : Monetary aggregates**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	454,342	491,115	671,241	730,093	794,726	920,920	1,000,344
M2 <sup>(a)</sup>	3,281,017	3,239,857	3,587,717	3,866,788	4,046,216	4,537,384	4,795,130
M3 <sup>(a)</sup>	3,300,500	3,261,306	3,604,843	3,878,193	4,055,404	4,545,590	4,806,012
Total money supply (\$Mn)							
M1	616,709	645,833	901,819	1,017,227	1,127,320	1,377,359	1,510,895
M2	6,106,348	6,268,058	6,602,310	7,136,271	8,057,530	8,950,005	10,056,437
M3	6,139,758	6,300,751	6,626,843	7,156,260	8,081,079	8,970,396	10,085,243
Deposit (\$Mn)							
HK\$	3,075,042	3,033,980	3,373,595	3,617,183	3,740,240	4,176,200	4,390,953
Foreign currency	2,793,856	3,024,004	3,007,445	3,245,081	3,851,020	4,120,234	4,789,109
Total	5,868,898	6,057,984	6,381,040	6,862,265	7,591,260	8,296,434	9,180,062
Loans and advances (\$Mn)							
HK\$	2,184,705	2,354,755	2,401,323	2,824,445	3,160,002	3,333,059	3,606,018
Foreign currency	776,971	930,883	887,160	1,403,281	1,920,659	2,233,751	2,850,795
Total	2,961,676	3,285,638	3,288,483	4,227,726	5,080,661	5,566,810	6,456,813
Nominal Effective Exchange Rate Indices (Jan 2010 = 100) <sup>(b)</sup>							
Trade-weighted	106.3	100.7	101.9	99.5	94.6	94.9	94.9
Import-weighted	107.6	101.3	102.2	99.2	93.9	94.2	94.7
Export-weighted	104.8	100.1	101.6	99.8	95.4	95.6	95.1
<u>(% change)</u>							
Hong Kong dollar money supply							
M1	17.1	8.1	36.7	8.8	8.9	15.9	8.6
M2 <sup>(a)</sup>	18.1	-1.3	10.7	7.8	4.6	12.1	5.7
M3 <sup>(a)</sup>	18.1	-1.2	10.5	7.6	4.6	12.1	5.7
Total money supply							
M1	25.4	4.7	39.6	12.8	10.8	22.2	9.7
M2	20.8	2.6	5.3	8.1	12.9	11.1	12.4
M3	20.6	2.6	5.2	8.0	12.9	11.0	12.4
Deposit							
HK\$	19.7	-1.3	11.2	7.2	3.4	11.7	5.1
Foreign currency	27.6	8.2	-0.5	7.9	18.7	7.0	16.2
Total	23.4	3.2	5.3	7.5	10.6	9.3	10.7
Loans and advances							
HK\$	13.9	7.8	2.0	17.6	11.9	5.5	8.2
Foreign currency	41.2	19.8	-4.7	58.2	36.9	16.3	27.6
Total	20.0	10.9	0.1	28.6	20.2	9.6	16.0
Nominal Effective Exchange Rate Indices (Jan 2010 = 100) <sup>(b)</sup>							
Trade-weighted	-4.3	-5.3	1.2	-2.4	-4.9	0.3	0.0
Import-weighted	-4.4	-5.9	0.9	-2.9	-5.3	0.3	0.5
Export-weighted	-4.4	-4.5	1.5	-1.8	-4.4	0.2	-0.5

**Definition of Terms :**

The Hong Kong Dollar Money Supply is the Hong Kong dollar component of the respective monetary aggregate.

**Total Money Supply:**

- M1: Legal tender notes and coins with the public, plus customers' demand deposits with licensed banks.
- M2: M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit issued by licensed banks and held outside the monetary sector.
- M3: M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus negotiable certificates of deposit issued by such institutions and held outside the monetary sector.

**Table 13 : Monetary aggregates (Cont'd)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>		<u>2016</u>		<u>2017</u>
				Q2	Q3	Q4	Q1
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	1,116,675	1,253,380	1,428,775	1,329,267	1,417,126	1,428,775	1,474,229
M2 <sup>(a)</sup>	5,225,773	5,765,549	6,280,156	5,899,348	6,187,842	6,280,156	6,598,508
M3 <sup>(a)</sup>	5,236,188	5,778,772	6,292,591	5,911,089	6,200,545	6,292,591	6,611,151
Total money supply (\$Mn)							
M1	1,708,724	1,971,146	2,213,970	2,089,932	2,234,444	2,213,970	2,228,810
M2	11,011,372	11,618,441	12,507,980	11,791,318	12,390,203	12,507,980	12,928,850
M3	11,048,944	11,655,019	12,551,184	11,828,214	12,431,638	12,551,184	12,977,811
Deposit (\$Mn)							
HK\$	4,800,330	5,312,403	5,808,986	5,450,475	5,733,148	5,808,986	6,104,834
Foreign currency	5,272,804	5,437,346	5,918,168	5,597,236	5,894,377	5,918,168	5,979,283
Total	10,073,135	10,749,749	11,727,154	11,047,711	11,627,525	11,727,154	12,084,117
Loans and advances (\$Mn)							
HK\$	4,000,361	4,152,589	4,479,107	4,264,170	4,331,398	4,479,107	4,622,401
Foreign currency	3,275,910	3,381,951	3,544,283	3,435,335	3,492,673	3,544,283	3,772,722
Total	7,276,271	7,534,540	8,023,390	7,699,505	7,824,071	8,023,390	8,395,123
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) <sup>(b)</sup>							
Trade-weighted	96.0	101.3	104.1	102.8	103.5	106.3	106.8
Import-weighted	96.0	101.7	104.2	102.9	103.3	106.2	106.8
Export-weighted	95.9	100.9	104.1	102.7	103.8	106.4	106.8
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	11.6	12.2	14.0	3.2	12.0	14.0	12.9
M2 <sup>(a)</sup>	9.0	10.3	8.9	2.2	7.8	8.9	13.7
M3 <sup>(a)</sup>	9.0	10.4	8.9	2.1	7.8	8.9	13.7
Total money supply							
M1	13.1	15.4	12.3	9.0	10.7	12.3	7.3
M2	9.5	5.5	7.7	3.1	8.3	7.7	10.1
M3	9.6	5.5	7.7	3.1	8.3	7.7	10.1
Deposit							
HK\$	9.3	10.7	9.3	2.1	8.1	9.3	14.0
Foreign currency	10.1	3.1	8.8	7.3	10.1	8.8	6.4
Total	9.7	6.7	9.1	4.7	9.1	9.1	10.1
Loans and advances							
HK\$	10.9	3.8	7.9	*	4.2	7.9	10.4
Foreign currency	14.9	3.2	4.8	0.7	2.6	4.8	13.1
Total	12.7	3.5	6.5	0.3	3.5	6.5	11.6
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) <sup>(b)</sup>							
Trade-weighted	1.2	5.5	2.8	2.8	1.5	2.9	2.7
Import-weighted	1.4	5.9	2.5	2.7	0.8	2.2	2.3
Export-weighted	0.8	5.2	3.2	3.1	2.4	3.6	3.1

Notes: (a) Adjusted to include foreign currency swap deposits.

(b) Period average.

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

**Table 14 : Rates of change in business receipts indices for services industries/domains**

(%)

	2013	2014	2015	2016	2016			
					Q1	Q2	Q3	Q4
<b>Services Industry</b>								
Import and export trade	-0.3	0.1	-3.9	-2.5	-10.7	-2.9	0.1	3.0
Wholesale	4.3	1.5	-4.9	-1.0	-7.8	-1.7	3.2	2.6
Retail	11.0	-0.2	-3.7	-8.1	-12.5	-8.2	-7.5	-3.7
Transportation	1.4	6.1	-4.3	-6.5	-8.5	-9.0	-6.8	-1.6
<i>within which :</i>								
Land transport	8.0	6.9	5.4	3.6	5.9	3.9	4.4	0.7
Water transport	-2.9	6.8	-7.7	-11.2	-16.3	-16.1	-12.7	1.4
Air transport	2.4	5.3	-5.1	-7.0	-8.2	-8.7	-6.9	-4.3
Warehousing and storage	8.2	11.9	12.7	12.1	14.8	16.3	10.6	7.7
Courier	26.1	5.4	-5.9	5.5	-3.1	6.8	12.6	5.6
Accommodation services <sup>(a)</sup>	5.6	6.5	-6.6	-1.1	-4.6	-0.5	-0.5	0.9
Food services	3.5	3.5	3.9	2.9	1.9	3.0	2.6	4.1
Information and communications	6.0	5.9	10.8	0.6	6.9	6.5	-3.7	-5.3
<i>within which :</i>								
Telecommunications	8.0	10.7	19.6	-0.8	8.6	7.5	-6.4	-10.0
Film entertainment	-4.3	-11.7	-3.1	-4.5	3.0	-8.4	-5.2	-7.0
Banking	16.8	5.9	8.3	8.1	-9.6	28.1	3.9	5.8
Financing (except banking)	2.6	6.7	19.0	-6.0	-10.7	-15.6	5.1	-0.3
<i>within which :</i>								
Financial markets and asset management	1.0	8.9	19.0	-8.7	-12.5	-18.6	0.8	-1.6
<i>within which : Asset management</i>	14.9	11.0	7.0	4.1	*	2.1	8.7	6.0
Insurance	15.1	18.2	11.7	21.8	10.5	21.7	29.9	25.2
Real estate	0.1	17.0	8.1	16.5	6.9	10.9	21.3	26.5
Professional, scientific and technical services	7.2	7.6	5.3	3.3	2.1	3.8	2.7	4.3
Administrative and support services	9.5	7.3	7.4	0.9	2.9	0.5	0.1	0.2
<b>Services Domain</b>								
Tourism, convention and exhibition services	17.8	-0.9	-5.0	-7.8 <sup>+</sup>	-13.3 <sup>+</sup>	-8.1 <sup>+</sup>	-6.6 <sup>+</sup>	-3.0 <sup>+</sup>
Computer and information technology services	2.1	-1.8	-4.2	-3.5	-4.7	-5.7	-4.4	0.7

Notes: Upon the implementation of the new HSIC Version 2.0 by the C&SD in October 2008, the new classification has been adopted in compiling the quarterly business receipts indices. Starting from the first quarter of 2009, all business receipts indices are compiled based on the HSIC Version 2.0, and the base period of the indices has been changed to 2008 (i.e. with the quarterly average of the indices in 2008 taken as 100). The series of business receipts indices under the HSIC Version 2.0 has also been backcasted to the first quarter of 2005.

(a) Accommodation services covers hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

(+) Provisional figures.

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

**Table 15 : Labour force characteristics**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>		<u>2016</u>		<u>2017</u>
						Q2	Q3	Q4	Q1
<u>(%)</u>									
Labour force participation rate	60.5	61.2	61.1	61.1	61.1	60.9	61.0	60.6	61.2
Seasonally adjusted unemployment rate <sup>(a)</sup>	3.3	3.4	3.3	3.3	3.4	3.4	3.4	3.3	3.2
Underemployment rate	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.2
<u>('000)</u>									
Population of working age	6 251.5	6 297.5	6 340.1	6 383.7	6 420.9	6 426.3	6 438.2	6 454.3	6 449.8
Labour force	3 782.2	3 855.1	3 871.1	3 903.2	3 920.1	3 911.2	3 925.9	3 914.5	3 947.4
Persons employed	3 658.0	3 724.0	3 743.5	3 773.8	3 787.1	3 774.3	3 785.8	3 791.9	3 822.4
Persons unemployed	124.3	131.1	127.6	129.4	133.0	136.9	140.1	122.5	125.0
Persons underemployed	57.2	58.3	56.8	53.3	54.7	54.5	55.8	54.7	49.0
<u>(% change over a year earlier)</u>									
Population of working age	1.4	0.7	0.7	0.7	0.6	0.8	0.7	0.7	0.7
Labour force	2.1	1.9	0.4	0.8	0.4	0.5	0.5	0.3	0.9
Persons employed	2.3	1.8	0.5	0.8	0.4	0.3	0.4	0.3	1.0
Persons unemployed	-1.9	5.5	-2.7	1.4	2.8	6.0	2.3	-0.9	-4.7
Persons underemployed	-9.6	1.9	-2.6	-6.1	2.5	-1.8	4.9	3.0	-8.4

Note: (a) Seasonal adjustment is not applicable to annual unemployment rates.



**Table 16 : Employment in selected major industries**

Selected major industries	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>				(No.)
	(% change)					Mar	Jun	Sep	Dec	
Manufacturing	-5.1	-3.0	-1.2	-2.8	-3.6	-2.5	-3.5	-4.4	-4.1	94 856
Construction sites (manual workers only)	13.8	11.2	4.4	14.9	13.3	14.1	14.4	15.0	10.2	112 370
Import and export trade	-1.1	-0.2	0.1	-1.4	-0.7	-1.2	-0.5	-0.6	-0.6	480 963
Wholesale	-0.6	-2.0	-0.3	-1.4	-0.8	-0.4	-0.1	-1.3	-1.2	60 647
Retail	2.5	2.3	2.2	-0.5	-1.1	-1.9	-1.4	-0.9	-0.2	267 534
Food and beverage services	1.6	0.9	2.4	0.1	-0.2	-0.7	-0.4	0.1	*	243 313
Accommodation services <sup>(a)</sup>	9.2	5.0	3.2	-1.1	-2.1	-3.5	-2.5	-1.2	-1.1	39 566
Transportation, storage, postal and courier services	1.8	2.0	2.7	1.6	0.5	1.2	0.8	*	0.2	178 802
Information and communications	5.6	5.1	2.7	1.1	0.7	1.6	0.2	0.2	0.8	107 342
Financing and insurance	1.9	1.0	2.3	2.3	0.8	1.1	0.4	0.5	1.0	222 720
Real estate	4.2	1.6	0.6	1.7	-0.1	-1.0	-0.5	*	1.1	130 033
Professional and business services (excluding cleaning and similar services)	3.4	4.5	2.7	2.4	1.9	0.6	1.6	2.5	2.9	290 975
Cleaning and similar services	3.3	1.6	0.2	2.4	0.5	-0.3	1.0	0.1	1.1	81 446
Education	2.4	2.8	4.4	3.9	2.3	2.7	2.2	1.8	2.3	198 380
Human health services	4.9	5.2	4.3	4.5	4.3	4.2	4.4	4.3	4.2	123 066
Residential care and social work services	2.0	0.5	0.6	2.8	3.0	4.3	3.7	3.2	0.8	62 523
Arts, entertainment, recreation and other services	0.6	1.6	5.9	0.9	-2.2	-0.9	-2.6	-2.1	-3.1	123 983
Civil service <sup>(b)</sup>	1.1	1.3	1.0	0.7	1.2	1.5	1.1	1.1	1.0	166 615
Others <sup>(c)</sup>	-5.1	3.5	3.1	-1.0	0.8	-0.8	0.8	1.4	1.9	11 251

Notes: Starting from March 2009, the survey coverage has been expanded to include more economic activities in some of the industries due to the change in industrial classification based on the Hong Kong Standard Industrial Classification Version 2.0. The activities newly covered are in the industries of transportation, storage, postal and courier services; professional and business services; and arts, entertainment, recreation and other services. The series of employment statistics under the HSIC Version 2.0 has also been backcasted to March 2000.

(a) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(b) These figures cover only those employed on civil service terms of appointment. Judges, judicial officers, ICAC officers, locally engaged staff working in the Hong Kong Economic and Trade Offices outside Hong Kong, and other government employees such as non-civil service contract staff are not included.

(c) Include employment in mining and quarrying; and in electricity and gas supply, and waste management.

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

**Table 17 : Number of manual workers engaged at building and construction sites**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>		<u>2016</u>		
						Mar	Jun	Sep	Dec
<u>(Number)</u>									
Building sites									
Private sector	37 687	41 308	44 024	50 372	60 243	57 069	59 557	61 091	63 255
Public sector <sup>(a)</sup>	10 578	9 860	11 212	15 470	16 030	15 949	15 047	15 152	17 971
Sub-total	48 265	51 168	55 236	65 842	76 273	73 018	74 604	76 243	81 226
Civil engineering sites									
Private sector	1 410	1 322	1 414	1 609	1 386	1 670	1 317	1 334	1 221
Public sector <sup>(a)</sup>	21 621	26 813	26 145	27 652	30 141	30 125	30 272	30 242	29 923
Sub-total	23 030	28 135	27 559	29 261	31 526	31 795	31 589	31 576	31 144
<b>Total</b>	<b>71 295</b>	<b>79 303</b>	<b>82 795</b>	<b>95 103</b>	<b>107 799</b>	<b>104 813</b>	<b>106 193</b>	<b>107 819</b>	<b>112 370</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	18.6	9.6	6.6	14.4	19.6	20.7	22.1	21.6	14.6
Public sector <sup>(a)</sup>	-14.2	-6.8	13.7	38.0	3.6	1.8	-1.5	0.3	13.5
Sub-total	9.4	6.0	8.0	19.2	15.8	16.0	16.5	16.6	14.4
Civil engineering sites									
Private sector	12.8	-6.2	7.0	13.8	-13.9	17.8	-37.8	-11.4	-12.6
Public sector <sup>(a)</sup>	25.2	24.0	-2.5	5.8	9.0	9.4	13.6	12.5	1.2
Sub-total	24.4	22.2	-2.0	6.2	7.7	9.9	9.8	11.3	0.6
<b>Total</b>	<b>13.8</b>	<b>11.2</b>	<b>4.4</b>	<b>14.9</b>	<b>13.3</b>	<b>14.1</b>	<b>14.4</b>	<b>15.0</b>	<b>10.2</b>

Notes: Individual figures may not add up exactly to the total due to rounding.

(a) Including the Mass Transit Railway Corporation Limited and the Airport Authority Hong Kong.

**Table 18 : Rates of change in indices of payroll per person engaged  
by selected industry section**

(%)

Selected industry section	2012	2013	2014	2015	2016	2016			
						Q1	Q2	Q3	Q4
<b>(in nominal terms)</b>									
Manufacturing	8.2	3.3	5.3	5.2	3.5	3.9	4.0	3.9	3.1
Import/export and wholesale trade	4.6	3.3	2.8	3.7	2.3	2.6	2.3	1.9	2.6
Retail trade	10.1	6.7	4.2	3.5	2.4	2.0	2.2	2.8	2.9
Transportation, storage, postal and courier services	1.2	5.4	3.3	4.3	3.3	3.8	3.6	2.4	3.4
Accommodation <sup>(a)</sup> and food service activities	6.2	6.7	5.2	5.8	5.1	5.0	5.1	5.2	5.1
Information and communications	8.2	5.4	5.1	4.4	3.4	3.2	3.0	3.6	4.0
Financial and insurance activities	4.7	4.6	6.3	4.0	2.7	2.5	3.0	2.9	3.6
Real estate activities	7.7	5.9	4.7	5.1	4.2	4.0	4.1	4.5	4.4
Professional and business services	4.7	7.1	6.9	5.8	5.1	5.8	5.0	4.8	4.6
Social and personal services	7.6	3.6	1.6	6.7	2.5	-1.2	3.7	4.1	3.3
<b>All selected industry sections surveyed</b>	<b>6.5</b>	<b>5.4</b>	<b>4.3</b>	<b>4.6</b>	<b>3.7</b>	<b>3.2</b>	<b>4.2</b>	<b>4.1</b>	<b>3.8</b>
<b>(in real terms)</b>									
Manufacturing	3.9	-0.9	0.9	2.1	1.0	1.1	1.4	0.7	1.9
Import/export and wholesale trade	0.5	-1.0	-1.5	0.7	-0.1	-0.2	-0.3	-1.2	1.4
Retail trade	5.7	2.3	-0.1	0.5	*	-0.8	-0.3	-0.3	1.7
Transportation, storage, postal and courier services	-2.7	1.0	-1.0	1.3	0.9	1.0	1.0	-0.7	2.1
Accommodation <sup>(a)</sup> and food service activities	2.0	2.3	0.8	2.7	2.6	2.1	2.5	2.0	3.8
Information and communications	4.0	1.0	0.7	1.4	1.0	0.3	0.4	0.5	2.7
Financial and insurance activities	0.5	0.4	1.9	0.7	0.3	-0.3	0.4	-0.2	2.3
Real estate activities	3.6	1.4	0.2	2.0	1.7	1.1	1.4	1.3	3.1
Professional and business services	0.7	2.6	2.3	2.8	2.6	2.9	2.4	1.6	3.3
Social and personal services	3.6	-0.8	-2.7	3.6	0.1	-3.9	1.1	0.9	2.1
<b>All selected industry sections surveyed</b>	<b>2.3</b>	<b>1.1</b>	<b>-0.1</b>	<b>1.5</b>	<b>1.3</b>	<b>0.4</b>	<b>1.5</b>	<b>1.0</b>	<b>2.5</b>

Notes: The rates of change in real terms are compiled from the Real Indices of Payroll per Person Engaged. The Indices are derived by deflating the Nominal Indices of Payroll per Person Engaged by the 2014/15-based Composite CPI.

In addition to wages, which include all regular and guaranteed payments like basic pay and stipulated bonuses and allowances, payroll also covers overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in industrial and occupational coverage, the movements in payroll per person engaged do not necessarily match closely with those in wage rates.

(a) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

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

**Table 19 : Rates of change in wage indices  
by selected industry section**

(%)

Selected industry section	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>			
						Mar	Jun	Sep	Dec
<b>(in nominal terms)</b>									
Manufacturing	4.3	4.7	4.9	4.0	4.0	3.5	3.6	3.8	3.9
Import/export, wholesale and retail trades	4.5	2.9	2.5	3.1	2.7	2.9	2.8	2.7	2.8
Transportation	3.3	3.9	4.8	4.4	3.5	3.8	3.6	3.3	3.3
Accommodation <sup>(a)</sup> and food service activities	7.9	5.7	4.7	5.4	4.9	5.0	4.9	5.0	4.8
Financial and insurance activities <sup>(b)</sup>	4.2	4.4	3.2	3.2	3.4	3.5	3.2	3.0	3.2
Real estate leasing and maintenance management	7.6	9.3	4.5	3.4	3.7	3.4	3.4	3.7	3.5
Professional and business services	6.5	5.9	6.7	6.9	4.7	5.4	4.7	4.4	4.5
Personal services	9.2	6.2	7.8	6.5	5.5	6.3	5.8	5.3	4.9
<b>All industries surveyed</b>	<b>5.6</b>	<b>4.7</b>	<b>4.2</b>	<b>4.4</b>	<b>3.7</b>	<b>3.9</b>	<b>3.8</b>	<b>3.7</b>	<b>3.6</b>
<b>(in real terms)</b>									
Manufacturing	0.6	-0.1	-1.6	0.2	1.4	0.5	1.0	0.5	2.8
Import/export, wholesale and retail trades	0.6	-1.7	-3.9	-0.6	0.3	-0.1	0.3	-0.5	1.7
Transportation	-0.7	-0.6	-1.9	0.6	1.0	0.7	1.1	0.1	2.2
Accommodation <sup>(a)</sup> and food service activities	3.8	1.1	-1.8	1.5	2.3	1.9	2.3	1.6	3.7
Financial and insurance activities <sup>(b)</sup>	0.1	0.1	-3.7	-0.5	0.9	0.5	0.7	-0.3	2.1
Real estate leasing and maintenance management	3.4	4.5	-1.9	-0.4	1.1	0.4	0.9	0.4	2.4
Professional and business services	2.2	1.5	*	2.9	2.3	2.3	2.1	1.1	3.4
Personal services	5.3	1.5	1.1	2.6	3.0	3.2	3.2	2.0	3.8
<b>All industries surveyed</b>	<b>1.6</b>	<b>0.1</b>	<b>-2.4</b>	<b>0.6</b>	<b>1.2</b>	<b>0.9</b>	<b>1.2</b>	<b>0.3</b>	<b>2.5</b>

Notes: The rates of change in real terms are compiled from the Real Wage Indices. The Indices are derived by deflating the Nominal Wage Indices by the 2014/15-based CPI(A).

(a) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(b) Excluding stock, commodity and bullion brokers, exchanges and services companies; and real estate agencies.

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

**Table 20 : Monthly wage level and distribution analysed  
by industry section : all employees**

(HK\$)

Industry section	May – Jun 2015			May – Jun 2016		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing <sup>(a)</sup>	12,100	14,900	22,300	12,700	15,600	23,500
Electricity and gas supply; sewerage, waste management and remediation activities	18,800	25,000	39,500	18,900	25,800	40,700
Construction	15,700	20,000	24,700	16,700	21,200	26,000
Import and export trade	12,000	16,500	25,500	12,500	17,100	26,300
Wholesale	10,300	13,300	18,000	10,700	13,800	19,000
Retail trade	9,500	12,000	16,100	10,000	12,400	16,600
<i>within which:</i>						
Supermarkets and convenience stores	6,300	10,300	12,700	6,500	10,600	12,900
Other retail stores	9,700	12,200	16,700	10,100	12,600	17,300
Land transport	13,000	16,800	24,500	13,500	17,500	25,400
Other transportation, storage, postal and courier services <sup>(b)</sup>	12,300	16,200	21,600	12,900	16,800	22,500
Restaurants	9,000	11,100	15,000	9,600	11,800	15,900
<i>within which:</i>						
Hong Kong style tea cafes	9,400	11,000	14,400	10,000	11,700	15,500
Chinese restaurants	10,500	12,600	17,000	11,000	13,200	18,000
Restaurants, other than Chinese	9,900	11,700	15,100	10,400	12,300	16,000
Fast food cafes <sup>(c)</sup>	3,900	8,300	10,800	4,200	8,800	11,400
Accommodation <sup>(d)</sup> and other food service activities	11,000	13,800	18,000	11,500	14,400	18,800
Information and communications	13,600	20,000	30,500	14,200	20,700	31,500
Financing and insurance	16,000	25,100	42,500	16,700	26,000	43,800
Real estate activities <sup>(e)</sup>	12,500	20,000	29,800	13,000	20,700	30,800
Estate management, security and cleaning services	8,500	10,600	13,200	9,100	11,200	13,800
<i>within which:</i>						
Real estate maintenance management	10,600	11,900	14,500	11,000	12,400	15,200
Security services <sup>(f)</sup>	9,800	11,400	13,400	10,300	11,800	14,000
Cleaning services	7,100	8,300	9,300	7,400	8,700	9,800
Membership organisations <sup>(g)</sup>	8,500	11,800	18,300	9,000	12,300	19,000
Professional, scientific and technical services	13,400	20,500	32,000	14,200	21,500	33,500
Administrative and support services activities	11,100	15,100	23,500	11,600	15,800	24,500
Travel agency, reservation service and related activities	10,800	13,100	18,600	11,400	13,800	19,600
Education and public administration (excluding the Government)	13,000	25,400	45,400	13,600	26,800	48,500
Human health activities; and beauty and body prettifying treatment	12,200	16,700	36,200	12,900	17,600	37,700
Miscellaneous activities	9,300	11,000	14,500	9,700	11,500	15,000
<i>within which:</i>						
Elderly homes	10,300	12,000	14,600	10,800	12,600	15,300
Laundry and dry cleaning services	7,800	10,400	13,700	8,000	10,700	14,000
Hairdressing and other personal services	9,000	10,500	14,000	9,300	11,000	14,500
Local courier services	7,600	9,200	13,000	7,800	9,500	13,600
Food processing and production	8,900	11,000	15,900	9,300	11,500	16,500
Other activities not classified above	10,400	14,000	21,600	10,700	14,500	22,600
<b>All industry sections above</b>	<b>11,000</b>	<b>15,500</b>	<b>24,400</b>	<b>11,600</b>	<b>16,200</b>	<b>25,400</b>

Notes: Monthly wages are rounded to the nearest hundred of Hong Kong dollar.

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

(d) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(e) Excluding real estate maintenance management.

(f) Including investigation activities and services to buildings and landscape care activities.

(g) Including incorporated owners/tenants committees, kaifong welfare associations, etc.

**Table 21 : Hourly wage level and distribution analysed  
by industry section : all employees**

(HK\$)

Industry section	May – Jun 2015			May – Jun 2016		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing <sup>(a)</sup>	46.9	60.7	90.0	48.9	63.3	94.9
Electricity and gas supply; sewerage, waste management and remediation activities	69.2	96.6	146.1	71.8	100.0	150.1
Construction	65.1	83.0	103.0	69.6	88.9	110.4
Import and export trade	51.1	70.4	108.0	52.9	73.2	111.2
Wholesale	45.3	57.4	76.6	47.0	58.3	77.8
Retail trade	37.8	45.3	60.5	39.7	47.1	63.2
<i>within which:</i>						
Supermarkets and convenience stores	35.8	39.1	45.5	37.6	42.3	47.0
Other retail stores	38.5	46.7	62.5	40.3	48.9	66.0
Land transport	49.5	70.6	108.9	51.4	73.3	112.8
Other transportation, storage, postal and courier services <sup>(b)</sup>	45.5	59.4	81.0	47.2	62.1	84.4
Restaurants	38.0	42.3	53.8	40.0	44.7	55.6
<i>within which:</i>						
Hong Kong style tea cafes	38.7	42.3	52.5	41.0	45.0	55.5
Chinese restaurants	38.6	44.4	60.5	40.8	47.0	63.5
Restaurants, other than Chinese	39.4	45.1	55.6	41.2	47.3	58.9
Fast food cafes <sup>(c)</sup>	35.8	38.1	42.1	38.0	40.6	44.8
Accommodation <sup>(d)</sup> and other food service activities	40.2	49.5	64.9	41.9	51.7	67.9
Information and communications	54.9	78.6	121.0	56.5	80.8	124.1
Financing and insurance	63.9	98.5	167.6	66.2	101.8	173.6
Real estate activities <sup>(e)</sup>	56.8	79.9	128.4	58.8	83.1	132.4
Estate management, security and cleaning services	34.0	38.1	49.3	35.7	40.0	51.9
<i>within which:</i>						
Real estate maintenance management	34.0	37.7	54.4	35.7	39.7	55.4
Security services <sup>(f)</sup>	34.5	37.5	45.1	35.7	39.4	47.0
Cleaning services	33.6	37.4	42.2	35.1	39.6	44.0
Membership organisations <sup>(g)</sup>	36.3	48.4	75.3	37.9	50.1	77.4
Professional, scientific and technical services	56.5	83.1	137.8	59.0	86.7	144.0
Administrative and support services activities	43.0	62.1	96.4	45.2	65.5	101.0
Travel agency, reservation service and related activities	43.4	57.7	78.7	45.5	60.6	81.7
Education and public administration (excluding the Government)	60.9	119.5	200.0	64.4	124.7	211.4
Human health activities; and beauty and body prettifying treatment	55.3	78.2	145.2	57.4	81.5	153.0
Miscellaneous activities	37.5	43.8	58.8	39.2	46.1	61.1
<i>within which:</i>						
Elderly homes	35.6	43.5	58.0	37.3	45.4	60.6
Laundry and dry cleaning services	37.0	42.9	54.1	38.0	44.2	58.5
Hairdressing and other personal services	39.6	45.1	60.7	42.0	46.9	62.5
Local courier services	37.0	44.1	54.0	38.8	45.8	56.5
Food processing and production	37.4	42.8	60.0	39.4	44.7	62.6
Other activities not classified above	45.2	57.8	90.4	46.8	59.3	93.4
<b>All industry sections above</b>	<b>44.2</b>	<b>62.9</b>	<b>100.0</b>	<b>46.2</b>	<b>65.4</b>	<b>103.9</b>

Notes: Hourly wages are rounded to the nearest ten cents of Hong Kong dollar.

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

(d) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(e) Excluding real estate maintenance management.

(f) Including investigation activities and services to buildings and landscape care activities.

(g) Including incorporated owners/tenants committees, kaifong welfare associations, etc.

**Table 22 : Rates of change in prices**

(%)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
GDP deflator	3.1	1.3	-0.4	0.3	3.9	3.5	1.8	2.9
Domestic demand deflator	2.4	2.6	-0.8	2.2	4.5	4.2	1.4	3.1
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	2.0	4.3	0.5	2.4	5.3	4.1	4.3	4.4
CPI(A)	1.3	3.6	0.4	2.7	5.6	3.6	5.1	5.6
CPI(B)	2.2	4.6	0.5	2.3	5.2	4.3	4.1	4.2
CPI(C)	2.7	4.7	0.6	2.1	5.1	4.1	3.8	3.5
Unit Value Indices :								
Domestic exports	0.8	5.1	-0.2	5.4	5.7	2.4	2.5	0.2
Re-exports	2.4	3.8	1.2	4.6	8.0	3.4	1.3	2.0
Total exports of goods	2.3	3.8	1.1	4.7	8.0	3.4	1.3	2.0
Imports of goods	2.3	4.4	-0.1	6.4	8.1	3.3	0.9	1.9
Terms of Trade Index	0.1	-0.5	1.3	-1.7	-0.1	0.1	0.4	0.1
Producer Price Index for all manufacturing industries	3.0	5.6	-1.7	6.0	8.3	0.1	-3.1	-1.7
Tender Price Indices :								
Public sector building projects	20.1	41.9	-15.9	12.5	11.6	8.3	6.6	7.3
Public housing projects	19.7	30.8	-6.8	6.7	10.1	6.4	9.3	8.0

Notes: (a) The year-on-year rates of change before October 2015 were derived using the index series in the base periods at that time (for instance the 2009/10-based index series), compared with the index a year earlier in the same base period.

(#) Figures are subject to revision later on as more data become available.

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

N.A. Not yet available.

**Table 22 : Rates of change in prices (Cont'd)**

(%)

	<u>2015</u>	<u>2016</u>	<u>2016</u>			<u>2017</u>	Average annual rate of change:	
			Q2	Q3	Q4		10 years	5 years
							2006 to 2016	2011 to 2016
GDP deflator <sup>#</sup>	3.6	1.8	1.7	1.5	1.8	1.9	2.2	2.7
Domestic demand deflator <sup>#</sup>	2.2	1.5	1.2	1.7	1.8	2.5	2.3	2.5
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	3.0	2.4	2.6	3.1	1.2	0.5	3.3	3.6
CPI(A)	4.0	2.8	2.7	4.5	1.1	0.1	3.4	4.2
CPI(B)	2.9	2.3	2.7	2.6	1.2	0.6	3.2	3.5
CPI(C)	2.1	2.1	2.4	2.2	1.3	0.9	3.1	3.1
Unit Value Indices :								
Domestic exports	-3.0	-1.4	-2.1	-1.1	0.9	3.0	1.7	0.1
Re-exports	0.1	-1.7	-2.2	-1.6	-0.5	1.6	2.5	1.0
Total exports of goods	0.1	-1.7	-2.2	-1.6	-0.5	1.6	2.5	1.0
Imports of goods	-0.4	-1.7	-2.6	-1.4	-0.1	1.6	2.5	0.8
Terms of Trade Index	0.5	*	0.4	-0.3	-0.3	*	*	0.2
Producer Price Index for all manufacturing industries	-2.7	1.3	0.4	3.9	4.0	N.A.	1.4	-1.2
Tender Price Indices :								
Public sector								
building projects	5.9	1.0	0.9	0.3	0.3	N.A.	9.1	5.8
Public housing projects	12.5	-0.7	3.4	-8.8	-6.0	N.A.	9.2	7.0



**Table 23 : Rates of change in Composite Consumer Price Index**

(%)

	Weight	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>All items</b>	<b>100.00</b>	<b>2.0</b> <b>(2.8)</b>	<b>4.3</b> <b>(5.6)</b>	<b>0.5</b> <b>(1.0)</b>	<b>2.4</b> <b>(1.7)</b>	<b>5.3</b> <b>(5.3)</b>	<b>4.1</b> <b>(4.7)</b>	<b>4.3</b> <b>(4.0)</b>
Food	27.29	4.3	10.1	1.3	2.4	7.0	5.8	4.4
<i>Meals bought away from home</i>	17.74	2.5	5.9	1.6	1.7	5.2	5.4	4.4
<i>Food, excluding meals bought away from home</i>	9.55	7.1	16.8	0.9	3.5	9.9	6.5	4.4
Housing <sup>(a)</sup>	34.29	2.0	4.1	3.7	0.4	7.2	5.6	6.7
<i>Private housing rent</i>	29.92	4.0	6.8	3.6	0.9	7.2	6.8	6.3
<i>Public housing rent</i>	1.94	-17.7	-27.2	9.5	-7.8	11.9	-7.1	16.0
Electricity, gas and water	2.67	-0.7	-6.5	-25.3	43.3	-4.2	-8.2	6.9
Alcoholic drinks and tobacco	0.54	-1.2	0.1	18.7	3.4	17.1	3.0	1.5
Clothing and footwear	3.21	4.1	0.8	2.7	1.8	6.8	3.1	1.7
Durable goods	4.65	-4.7	-2.0	-3.0	-2.7	-3.8	-1.4	-4.3
Miscellaneous goods	3.56	2.5	5.0	2.3	2.4	3.8	2.2	2.2
Transport	7.98	-0.1	2.5	-0.9	2.0	4.4	3.0	2.3
Miscellaneous services	15.81	1.7	0.8	-2.1	2.0	3.5	2.8	3.7

Notes: The year-on-year rates of change before October 2015 were derived using the index series in the base periods at that time (for instance the 2009/10-based index series), compared with the index a year earlier in the same base period. The weights quoted in this table correspond to that in the 2014/15-based index series.

Figures in brackets represent the underlying rate of change after netting out the effects of Government's one-off relief measures.

(a) Apart from "Private housing rent" and "Public housing rent", the "Housing" section also includes "Management fees and other housing charges" and "Materials for house maintenance".

**Table 23 : Rates of change in Composite Consumer Price Index (Cont'd)**

(%)										
	Weight	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>			<u>2017</u>	Average annual rate of change:	
					Q2	Q3	Q4	Q1	10 years 2006 to 2016	5 years 2011 to 2016
<b>All items</b>	<b>100.00</b>	<b>4.4</b> <b>(3.5)</b>	<b>3.0</b> <b>(2.5)</b>	<b>2.4</b> <b>(2.3)</b>	<b>2.6</b> <b>(2.3)</b>	<b>3.1</b> <b>(2.1)</b>	<b>1.2</b> <b>(2.1)</b>	<b>0.5</b> <b>(1.4)</b>	<b>3.3</b> <b>(3.3)</b>	<b>3.6</b> <b>(3.3)</b>
Food	27.29	4.1	4.0	3.4	3.2	2.8	3.0	1.5	4.6	4.3
<i>Meals bought away from home</i>	17.74	4.6	4.2	3.3	3.3	3.1	3.1	2.8	3.9	4.4
<i>Food, excluding meals bought away from home</i>	9.55	3.4	3.4	3.6	3.1	2.1	2.7	-1.1	5.9	4.3
Housing <sup>(a)</sup>	34.29	6.7	5.1	3.7	4.6	6.0	0.4	0.3	4.5	5.6
<i>Private housing rent</i>	29.92	6.0	4.7	3.4	4.8	4.1	0.6	0.5	4.9	5.4
<i>Public housing rent</i>	1.94	18.3	10.9	7.2	0.5	51.3	-5.6	-5.6	0.3	8.7
Electricity, gas and water	2.67	14.9	8.4	1.0	-1.1	4.1	1.4	-5.5	1.6	4.3
Alcoholic drinks and tobacco	0.54	6.5	1.3	1.5	1.2	2.4	2.1	2.3	5.0	2.7
Clothing and footwear	3.21	0.9	-1.8	-3.4	-2.8	-4.5	-3.0	-1.9	1.6	0.1
Durable goods	4.65	-3.4	-5.6	-5.4	-5.4	-5.3	-5.0	-3.6	-3.6	-4.0
Miscellaneous goods	3.56	2.3	0.9	1.5	1.3	2.3	2.1	2.3	2.5	1.8
Transport	7.98	2.0	-0.3	1.6	1.5	1.4	2.1	2.9	1.6	1.7
Miscellaneous services	15.81	3.0	1.1	2.3	2.1	2.5	1.9	0.6	1.9	2.6

**Table 24 : Rates of change in implicit price deflators of GDP  
and its main expenditure components**

(%)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Private consumption expenditure	4.1	2.5	-1.4	1.4	3.6	3.2	2.7
Government consumption expenditure	2.2	4.4	0.7	-0.2	4.5	6.2	4.3
Gross domestic fixed capital formation	-2.1	1.7	0.3	5.8	6.8	6.4	-2.9
Total exports of goods	2.0	3.8	0.3	4.3	7.8	3.2	-0.1
Imports of goods	1.5	4.5	-1.4	6.3	8.4	4.3	-0.3
Exports of services	2.6	3.2	-9.4	8.2	7.5	4.7	0.4
Imports of services	2.5	4.3	-3.8	4.9	5.9	0.6	0.3
<b>Gross Domestic Product</b>	<b>3.1</b>	<b>1.3</b>	<b>-0.4</b>	<b>0.3</b>	<b>3.9</b>	<b>3.5</b>	<b>1.8</b>
Total final demand	2.2	3.3	-1.3	4.1	6.7	3.7	0.4
Domestic demand	2.4	2.6	-0.8	2.2	4.5	4.2	1.4

Notes: Figures in this table are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) Figures are subject to revision later on as more data become available.

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

**Table 24 : Rates of change in implicit price deflators of GDP  
and its main expenditure components (Cont'd)**

(%)

	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>	<u>2016</u>			<u>2017</u>	Average annual rate of change:	
				Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>		Q1 <sup>#</sup>	10 years 2006 to 2016 <sup>#</sup>
Private consumption expenditure	2.9	1.2	1.6	1.5	2.1	1.8	1.6	2.2	2.3
Government consumption expenditure	4.7	4.4	3.8	3.7	3.9	3.7	3.4	3.5	4.7
Gross domestic fixed capital formation	3.1	4.5	0.1	-0.8	-0.4	1.3	4.5	2.3	2.2
Total exports of goods	0.7	-0.7	-1.4	-2.4	-1.3	0.3	1.6	1.9	0.3
Imports of goods	0.8	-1.4	-1.8	-2.8	-1.4	0.3	1.9	2.0	0.3
Exports of services	0.4	-2.8	-2.0	-2.3	-1.2	-0.5	1.1	1.1	0.1
Imports of services	0.5	-4.6	-1.4	-1.6	0.1	-0.7	0.9	0.9	-0.9
<b>Gross Domestic Product</b>	<b>2.9</b>	<b>3.6</b>	<b>1.8</b>	<b>1.7</b>	<b>1.5</b>	<b>1.8</b>	<b>1.9</b>	<b>2.2</b>	<b>2.7</b>
Total final demand	1.4	*	-0.5	-1.2	-0.3	0.7	1.8	2.0	1.0
Domestic demand	3.1	2.2	1.5	1.2	1.7	1.8	2.5	2.3	2.5

