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

The Government released the First Quarter Economic Report 2011 in mid-May. The Economic Report, together with the press release containing the updated economic forecasts for the whole year of 2011, have been furnished to LegCo Members.

This paper analyses Hong Kong’s overall economic development in regard to external trade, domestic demand, labour market, asset markets and consumer prices in the most recent period. It then describes the updated economic forecasts by the Government for 2011 as a whole.

Economic Analysis Division
Economic Analysis and Business Facilitation Unit
Financial Secretary’s Office
1 June 2011
Recent Situation and Near-term Outlook
For the Hong Kong Economy

Introduction

This paper analyses the latest development in the Hong Kong economy and briefly discusses the updated economic forecasts for 2011 as a whole released in mid-May.

Recent economic situation

2. The Hong Kong economy sustained strong momentum in the first quarter of 2011, with real GDP leaping by 7.2% over a year earlier. Growth in the first quarter was slightly higher than the already appreciable 7.0% growth for 2010 as a whole, marking the fifth consecutive quarter that growth was distinctly above the average annual growth over the past 10 years. On a seasonally adjusted quarter-to-quarter comparison, GDP grew notably by 2.8% in real terms in the first quarter, the eighth consecutive quarter of expansion (Chart 1).

Chart 1: The economy stayed robust in the first quarter

3. Total exports of goods resumed the strong uptrend in the first quarter, surging by 16.8% in real terms over a year earlier and re-accelerating from the 8.2% growth in the fourth quarter of 2010. On a seasonally adjusted quarter-to-quarter basis, total exports of goods also gathered steam and leaped by 14.4% in real terms over the preceding quarter (Chart 2(a)). The strong
export performance was driven mainly by the robust growth of the Mainland economy spurring production and export activities in the Asian region as a whole. The US and European markets also grew further, albeit still lagging behind other major markets, and also yet to bounce back to the pre-crisis levels.

4. Exports of services likewise stayed buoyant in the first quarter, leaping by 9.1% in real terms over a year earlier, following the 9.3% growth in the fourth quarter of 2010. On a seasonally adjusted quarter-to-quarter comparison, exports of services grew further by 4.0% in real terms in the first quarter (*Chart 2(b)*). Exports of financial and other business services surged on the back of strong growth in cross-border financing and sustained external demand for Hong Kong’s commercial and professional services. Exports of trade-related services grew robustly further in tandem with vibrant regional trade flows. Exports of travel services likewise grew apace, thanks to strong tourist arrivals from Asia as a whole and further increase in arrivals from the long-haul markets. Yet exports of transportation services recorded only moderate growth.

5. Domestically, private consumption expenditure grew strongly further in the first quarter, by 7.6% in real terms over a year earlier. Consumer sentiment was well supported by the improving job and income situations and to some extent by the further increases in asset prices. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure grew further by
0.7% in real terms in the first quarter (Chart 3(a)). The volume of total retail sales leaped by 21.9% in April over a year earlier, reflecting the still-buoyant consumption market.

6. Overall investment spending however relapsed to a year-on-year decline of 1.1% in real terms in the first quarter following the strong 7.8% growth in 2010 (Chart 3(b)). This was due to the fall-back in private machinery and equipment investment in the first quarter, by 13.8% in real terms, after the increase in 2010. On the other hand, building and construction expenditure in the public sector continued to surge. As such, overall building and construction expenditure still showed a notable growth of 13.4% in real terms, despite a further decline in private sector building and construction expenditure.

7. The labour market saw further broad-based improvement in early 2011 amid the robust economic conditions. The seasonally adjusted unemployment rate came down progressively to 3.4% in the first quarter. Although it rose back slightly to 3.5% in February-April, the seasonally adjusted unemployment rate was barely above the post-1997 low of 3.3% in mid-2008. The underemployment rate likewise climbed back from a low of 1.8% in the first quarter to 1.9% in February-April (Chart 4). Nevertheless, labour earnings showed notable improvement. The median household income rose by 5.6% in the first quarter in nominal terms over a year earlier, or by 1.7% in real terms after discounting inflation. Over the same period, average employment earnings for the lowest decile of full-time employees rose by 6.2% in nominal terms or by 2.0% in real terms.
8. With the robust, broad-based upturn in the economy in 2010, many major sectors saw brisk expansion in activities. Net output of the services sector, the mainstay of Hong Kong’s economy, leaped by 7.0% in real terms in 2010, reversing the 1.6% contraction in 2009 (Chart 5). Import/export, wholesale and retail trades saw the fastest expansion, backed by the strong resurgence in trade flows and buoyant demand. This was followed by financing and insurance, transportation and storage, accommodation and food services, and professional and business services. Real estate activity reverted to a small increase in the fourth quarter of 2010, though still recording a modest decline for 2010 as a whole. Manufacturing output increased by 3.5% in 2010, while construction output soared by 15.8% as the works of various large-scale infrastructure projects intensified.
Chart 5: Many major sectors saw brisk expansion in activities alongside the robust economic upturn

9. The local stock market hovered around 23,000-24,000 during most of the first quarter, but fell to a low of 22,284 in mid-March amid the political unrest in the Middle East and North Africa and the mega-earthquake in Japan. The stock market rose back to above 24,000 in early April. Thereafter, however, concerns over the eurozone sovereign debt crisis intensified in view of a possible restructuring of Greek debt. This coupled with the macroeconomic tightening across Asia and in the Mainland weakened market sentiments, leading to some consolidation in the global financial, foreign exchange and commodity markets. As a result, the Hang Seng Index (HSI) fell alongside major stock markets around the world. Nevertheless, the stock market rebounded distinctly in the last few trading days of May to recoup most of the lost ground. As at end-May, the HSI closed at 23,684, up 2.8% from end-2010. In the first four months of 2011, the daily turnover of the local stock market averaged at $76.7 billion, lower than that of $86.5 billion in the fourth quarter of 2010 (Chart 6).
Chart 6: The local stock market exhibited ups and downs in recent months on concerns over the European sovereign debt problem and macroeconomic tightening in Asia

10. The residential property market stayed active during most of the first quarter of 2011 amid the further strong economic growth and low interest rate environment, even though the market showed some consolidation towards the end of the quarter following the earthquake and nuclear crisis in Japan and the tightening of mortgage lending terms by the major banks in Hong Kong. Preliminary figures indicated that residential property prices went up notably by 9% during the first quarter of 2011. Prices of small/medium-sized flats rose sharply by 9%, and those of large flats by 6%. Following the rebound since early 2009, overall flat prices in March 2011 were already 3% higher than the 1997 peak, while prices of large flats have even exceeded the 1997 peak by a rampant 17%. Residential property rentals were relatively more stable, with merely a small increase of 1% between December 2010 and March 2011, conceivably as the introduction of Special Stamp Duty (SSD) redirected more residential flat supply to the rental market (Chart 7(a)).

11. Trading activities moderated somewhat following the introduction of SSD in November last year. The number of sale and purchase agreements for residential property received by the Land Registry fell by 20% over a year earlier to 36,483 in the first four months of 2011 (Chart 7(b)). Of these, the number of secondary transactions fell by 15%, and the number of primary sales by a sharp 52%. In the first four months of 2011, average monthly transactions decreased by 31% from the pre-SSD peak in November 2010.
12. Speculative activities also cooled down visibly after the introduction of SSD. Confirmer transactions plunged by 53% over a year earlier to 506 cases in the first four months of 2011, and its share in total transactions also fell to just around 1%. However, as flat prices continued to rise at a faster pace than income, 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) soared further from 45% in the fourth quarter of 2010 to around 49% in the first quarter of 2011, only slightly lower than the long-term average of 51% over 1990-2009. The Government has recently enhanced its effort to increase land supply. The Hong Kong Monetary Authority has stepped up examinations on banks’ mortgage business. The major banks have also tightened their mortgage lending terms and raised the margin for the HIBOR-based mortgage loans. The Government will monitor the housing market situation closely to ensure its stable and healthy development.

13. Consumer price inflation went up further in the first four months of 2011. The notable increase in import prices remained the key driving factor, as global commodity prices continued to surge on the back of a more solid global recovery, loose monetary environment and a weaker US dollar. The surge in global food prices was particularly visible. The political unrest in the Middle East and North Africa also fuelled the increases in oil prices. The feed-through of rising private housing rentals after the surge last year was another major factor behind the increase in inflation lately. Although wage pressures were still relatively contained in early 2011, with unemployment rate trending down to a level close to its post-1997 low, wage pressures are also likely to become more evident in the coming months, more so upon the implementation of Statutory Minimum Wage in May. As such, the pressures from both external and local business costs are likely to remain elevated in the
near term. Indeed, inflation has emerged as a major concern on a region-wide basis across Asian economies where growth is robust. For the US and Europe, the pick-up in the prices of food and energy items has also pushed up consumer price inflation there.

Chart 8: The main driving force behind rising inflation is the acceleration in food prices and housing rentals

Contribution to the year-on-year rate of change in the underlying Composite Consumer Price Index by major components

14. Specifically, headline consumer price inflation by reference to the new 2009/10-based series rose to 3.8% in the first quarter of 2011, from 2.7% in the fourth quarter of 2010. Netting out the effects of Government’s one-off relief measures to reflect the inflation trend more accurately, underlying consumer price inflation rose to 3.7% in the first quarter, from 2.4% in the previous quarter. In April 2011, headline and underlying consumer price inflation increased slightly further to 4.6% and 4.4% respectively, from 4.4% and 4.3% in March (Chart 8).

15. Several key components of the underlying Composite Consumer Price Index (Composite CPI) saw larger year-on-year increases in the first four months of the year. The food and housing components, given their relatively large weightings in the consumption basket, were the main drivers behind the pick-up in inflation. Both meals bought away from home and other foodstuffs showed considerably faster price increases, due mainly to the further uptrend in imported food prices, but increased pricing power of the retailers and vendors amid a robust consumption demand also played a role. The acceleration in private housing cost in the CPI reflected the feed-through of the strong rise-back in market rentals since early 2009. Prices of alcoholic drinks and tobacco surged upon the hike in cigarettes tax on 23 February. Prices of clothing and
footwear also picked up notably, again a reflection of the strength of the consumption market. But the situation in most other categories, including miscellaneous goods and services, electricity, gas and water, and transport, were somewhat more moderate, in terms of both their year-on-year price increases and the pace of acceleration from the preceding quarter. Meanwhile, prices of durable goods continued their secular downtrend (Table 1).

**Table 1: Composite Consumer Price Index by component**

*(year-on-year rate of change (%))*

<table>
<thead>
<tr>
<th>Expenditure component</th>
<th>Weighting (%)</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Q4</td>
<td>Q1</td>
</tr>
<tr>
<td>Food</td>
<td>27.45</td>
<td>3.6</td>
<td>5.2</td>
</tr>
<tr>
<td>Meals bought away from home</td>
<td>17.07</td>
<td>2.4</td>
<td>4.1</td>
</tr>
<tr>
<td>Other foodstuffs</td>
<td>10.38</td>
<td>5.6</td>
<td>7.0</td>
</tr>
<tr>
<td>Housing(a)</td>
<td>31.66</td>
<td>2.2</td>
<td>3.8</td>
</tr>
<tr>
<td>Private dwellings</td>
<td>27.14</td>
<td>2.2</td>
<td>4.1</td>
</tr>
<tr>
<td>Public dwellings</td>
<td>2.05</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>3.10</td>
<td>16.1</td>
<td>7.3</td>
</tr>
<tr>
<td>Alcoholic drinks and tobacco</td>
<td>0.59</td>
<td>0.5</td>
<td>8.1</td>
</tr>
<tr>
<td>Clothing and footwear</td>
<td>3.45</td>
<td>1.9</td>
<td>5.6</td>
</tr>
<tr>
<td>Durable goods</td>
<td>5.27</td>
<td>-5.0</td>
<td>-4.4</td>
</tr>
<tr>
<td>Miscellaneous goods</td>
<td>4.17</td>
<td>2.5</td>
<td>3.1</td>
</tr>
<tr>
<td>Transport</td>
<td>8.44</td>
<td>3.0</td>
<td>3.3</td>
</tr>
<tr>
<td>Miscellaneous services</td>
<td>15.87</td>
<td>2.7</td>
<td>3.3</td>
</tr>
<tr>
<td>All items</td>
<td>100.00</td>
<td>2.7</td>
<td>3.8</td>
</tr>
</tbody>
</table>

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

(a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings is slightly less than the weighting of the entire housing component.
Updated short-term economic forecasts for 2011

16. Benefiting from the thriving Asian and emerging economies, the global economy has continued to expand. As such, the external environment has largely held up well so far this year. However, the pace of US economic recovery is still dragged by the weak fundamentals and hence remains slow; the sovereign debt problems in some of the eurozone countries have worsened again lately, thereby increasing volatilities in the financial markets and casting a shadow over Europe’s economic prospects. On the other hand, some new uncertainties have successively emerged, including further macroeconomic policy tightening in Asia, heightened geopolitical risks in the Middle East and North Africa, and Japan’s earthquake and nuclear incident. These uncertainties would pose some downside risks to Hong Kong’s external trade, possibly causing export growth to slow in the rest of the year. Indeed, the marked deceleration in merchandise exports in April conceivably reflected in part the disruptions to the regional supply chains caused by the Japan incident. In view of the uncertainties on the external front, the Government will closely monitor the situation and remain vigilant.

17. The domestic sector should stay rather robust. Local consumption should largely continue to fare well with the support of improving job and income conditions. As for business confidence, the results of the latest Quarterly Business Tendency Survey showed that large enterprises remained positive on the near-term business outlook.

18. With real GDP churning out a stronger-than-expected 7.2% year-on-year growth in the first quarter which had already surpassed the pre-crisis peak by 7.3%, and even allowing for some moderation in the rest of the year, the economy is poised for a real growth of 5-6% for 2011 as a whole (Chart 9), revised upwards by 1 percentage point from the 4-5% forecast announced in the 2011-12 Budget in February. For reference, in April the IMF projected Hong Kong’s economic growth for this year at 5.4%, whereas most private sector analysts are currently projecting the economy to expand by 4.5-6%, averaging at around 5.2%.

19. On inflation outlook, the further increase in price pressure lately was the combined result of rising imported inflation and local costs. On the external front, global commodity prices soared on the back of a weak US dollar, the global liquidity glut, and strong demand from emerging economies, with particularly notable surge in food prices. Political unrest in the Middle East and North Africa has added further upward pressure on the already elevated oil prices and worldwide inflation. Indeed, inflation has become a common challenge faced by Asian economies with vibrant growth.
20. Domestically, upward pressures on local costs have increased after five quarters of very rapid economic growth. The feed-through of the surge in housing rentals last year to the consumer price level is expected to become more visible in the coming months. With the economy near full employment plus the one-off effect from the implementation of Statutory Minimum Wage, upward pressures on local wages are likely to rise further. With domestic and external factors both adding to local inflation in the near term, the forecast rates of headline and underlying consumer price inflation for 2011 as a whole (by reference to the 2009/10-based Composite CPI series) are revised upwards to 5.4% and 5.5% respectively, from the 4.5% first announced in the Budget in February this year. For reference, in April the IMF forecast Hong Kong’s headline consumer price inflation in 2011 at 5.8%. The Government is very concerned about rising price pressures in recent months, and will continue to monitor the situation closely and roll out measures where appropriate to relieve the impact of inflation on people’s livelihood.

**Chart 9 : With economic performance stronger than expected, growth is forecast to be 5-6% in 2011**

Economic Analysis Division
Economic Analysis and Business Facilitation Unit
Financial Secretary’s Office
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Annex

Recent Situation of Household Income (1)

Background

This Annex provides a regular update on the latest situation of household income and employment earnings. While the definition of low-income is open to different interpretations, the analysis of low-income households in previous papers was based on a monthly household income benchmark of $4,000. Following the implementation of statutory minimum wage (SMW) in May this year, this benchmark should be adjusted to reflect the resulting changes in income distribution. In the light of this, the income benchmark for analysis of low-income households is therefore revised to $6,500. Opportunity is also taken to enhance the analytical framework, with the aim of analysing the income situation of the grassroots from different angles:

(i) Adjusting the $6,500 monthly income threshold in accordance with inflation (2);

(ii) Focusing on economically active households with monthly income less than $6,500, in particular the number and proportion of economically active members living therein, their age distribution, employment situation and characteristics and skill levels, etc.;

(iii) Adding other income-related indicators, such as median household income, change in individual employment earnings and the number of overall Comprehensive Social Security Assistance (i.e. CSSA, including unemployment or low earnings) cases, etc.

Overall situation of household income and employment earnings

2. Thanks to the sustained strong economic activity, labour market conditions are generally improving. Though the seasonally adjusted unemployment rate edged up by 0.1 percentage point to 3.5% recently after declining visibly from a peak of 5.5% in mid-2009 to 3.4% in the first quarter of 2011, total employment has continued to increase, reaching an all-time high of 3,585,500. Income has generally improved in tandem, and has largely returned to the level before the 2008 financial crisis. Even for the lowest decile group of full-time employees, their average employment earnings rose by 5.7% in the fourth quarter of 2010 over a year earlier, with a notably further gain of 6.2% in the first

(1) Foreign domestic helpers are excluded from the analysis.

(2) The threshold is pitched at $6,500 at constant 2010 prices, by reference to the 2009/10-based Consumer Price Index (A).
quarter of 2011. After discounting price changes, the increase was 2.0% in real terms over the same period (Table 1).

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

<table>
<thead>
<tr>
<th>Period</th>
<th>Median monthly household income</th>
<th>Median monthly employment earnings</th>
<th>Employment earnings in the lowest decile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>-2.7 (-4.3)</td>
<td>4.0 (2.2)</td>
<td>1.6 (0.6)</td>
</tr>
<tr>
<td>Q2</td>
<td>-3.9 (-3.9)</td>
<td>*</td>
<td>0.3 (1.0)</td>
</tr>
<tr>
<td>Q3</td>
<td>-5.7 (-4.8)</td>
<td>*</td>
<td>-1.6 (-0.2)</td>
</tr>
<tr>
<td>Q4</td>
<td>-3.9 (-5.4)</td>
<td>*</td>
<td>2.5 (-0.8)</td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>* (-2.1)</td>
<td>0.5 (-1.5)</td>
<td>3.1 (-0.1)</td>
</tr>
<tr>
<td>Q2</td>
<td>2.9 (0.1)</td>
<td>*</td>
<td>2.9 (-0.7)</td>
</tr>
<tr>
<td>Q3</td>
<td>3.7 (2.0)</td>
<td>4.1 (2.4)</td>
<td>7.1 (7.2)</td>
</tr>
<tr>
<td>Q4</td>
<td>2.9 (0.1)</td>
<td>9.1 (6.2)</td>
<td>5.7 (2.4)</td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>5.6 (1.7)</td>
<td>4.3 (0.5)</td>
<td>6.2 (2.0)</td>
</tr>
</tbody>
</table>

Notes:  
^ Average employment earnings of full-time employees.
( ) Percentage rate of change (%) in real terms.
* Less than 0.05%.

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

3. In the first quarter of 2011, the number of economically active households with monthly household income below $6,500 in real terms (referred to as “low-income households” thereafter) amounted to 93 000, which was 15 200 (or 14%) lower as compared to a year earlier. The corresponding proportion in total domestic households also fell from 4.7% to 4.0%. This is attributable to a broad-based increase in employment earnings along with the recent robust economic growth, which has lifted some households out from the low-income group.

4. Over the past decade, the number and proportion of low-income households have moved broadly in line with the economic cycle. During 2000 and 2008, when the economy performed persistently well for most of the period, the proportion of low-income households declined successively from 5.4% in the first quarter of 2002 to 3.8% in the first quarter of 2008. After the outbreak of the global financial tsunami in late-2008, the Hong Kong economy mired into recession, thereby leading to an increase in the corresponding proportion to 4.7% in the first quarter of 2010. But with economic recovery taking hold afterwards, the figure fell back to 4.0% in the first quarter of 2011 (Table 2 and Chart 1).
### Table 2: Number and proportion of low-income households*

<table>
<thead>
<tr>
<th>Period</th>
<th>Elderly households</th>
<th>Non-elderly households</th>
<th>Total</th>
<th>Economically active persons therein</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2008</td>
<td>8 300</td>
<td>78 200</td>
<td>86 500</td>
<td>95 600</td>
</tr>
<tr>
<td></td>
<td>(0.4)</td>
<td>(3.5)</td>
<td>(3.8)</td>
<td>[2.8]</td>
</tr>
<tr>
<td>Q1 2009</td>
<td>8 800</td>
<td>91 700</td>
<td>100 500</td>
<td>116 600</td>
</tr>
<tr>
<td></td>
<td>(0.4)</td>
<td>(4.0)</td>
<td>(4.4)</td>
<td>[3.4]</td>
</tr>
<tr>
<td>Q1 2010</td>
<td>10 700</td>
<td>97 500</td>
<td>108 200</td>
<td>123 000</td>
</tr>
<tr>
<td></td>
<td>(0.5)</td>
<td>(4.2)</td>
<td>(4.7)</td>
<td>[3.6]</td>
</tr>
<tr>
<td>Q1 2011</td>
<td>10 900</td>
<td>82 100</td>
<td>93 000</td>
<td>101 700</td>
</tr>
<tr>
<td></td>
<td>(0.5)</td>
<td>(3.5)</td>
<td>(4.0)</td>
<td>[3.0]</td>
</tr>
</tbody>
</table>

**Notes:**
- * Low-income households refer to households with monthly household income less than $6,500 at constant 2010 prices. This does not include households with all members being economically inactive.
- ( ) Proportion in all domestic households (%).
- [ ] Proportion in total labour force (%).

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

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

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### Socio-economic characteristics of low-income households

5. Further analysis of low-income households in the first quarter of 2011 yields the following observations:

- 185 700 persons were living in these households, among whom 101 700 were economically active. Most of these individuals (87 200 or 86%) were persons aged 15-59, with a majority within the age group of 40-59 (60 800 or 60%), whilst some 14 500 were aged 60 or above (14%).
The remaining 84 100 persons were economically inactive. Around half of them were either children under the age of 15 or elderly persons aged 60 or above.

Analysed by employment status, among these 101 700 economically active persons, 43% were full-time, while the unemployed and part-time (working voluntarily for less than 35 hours per week, or involuntarily for the same amount of time, i.e. underemployed) each accounted for 28% (Chart 2).

Chart 2: Persons living in low-income households* by age and economic activity status, Q1 2011

By age and economic activity status

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Economic Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>15-59</td>
<td>Full-time</td>
</tr>
<tr>
<td>60 or above</td>
<td>Unemployed</td>
</tr>
</tbody>
</table>

Economically active: 101 700

By employment status

- Full-time (43%)
- Unemployed (28%)
- Voluntary part-time (18%)
- Underemployed (10%)

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

Analysed by occupation, most of the employed persons living in low-income households (over 90%) were lower-skilled workers (among whom 48% were engaged in elementary occupations, and 19% were services workers and shop sales workers). A breakdown by economic sector revealed that many of them were in retail, accommodation and food services sector (17 400 or 24%), followed by cleaning and similar activities (6 600 or 9%). Their average monthly working hours in the first quarter of 2011, at 37 hours, was also smaller than the economy-wide average.

Compared with a year ago, economically active persons living in low-income households decreased by 21 300 from 123 000 to 101 700, with the proportion in total economically active persons also down from 3.6% to 3.0%. The number of unemployed persons living in low-income households fell by 29% from 40 600 to 28 700. When matched with the decrease of 22% in the number of overall unemployed persons, this indicates that economic recovery did indeed lead to a general improvement in employment situation of the
low-income households. Likewise, the number of full-time workers fell significantly by 17% from 53 400 to 44 200 (Chart 3).

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

The number of CSSA cases

6. Benefiting from strong economic growth, the unemployment rate of lower-skilled workers decreased successively from 6.2% in mid-2009 to 3.8% in the first quarter of 2011. Despite a marginal increase to 4.0% lately, the cumulative decrease still amounted to 2.2 percentage points. The overall CSSA caseload has also declined steadily by a total of 7 891 (or 2.7%) from a peak of 290 242 in August 2009 to 282 351 in April 2011. Improvement in the number of unemployment CSSA cases was even more visible, falling by 5 060 (or 14.8%) to 29 206 over the same period (Chart 4).
Notes: (*) Low-income households refer to households with monthly household income less than $6,500 at constant 2010 prices. This does not include households with all members being economically inactive.

(\(^{\wedge}\)) Monthly period-end figures.

Concluding remarks

7. With buoyant economic performance, not only has the overall income situation improved successively, that of grassroots workers also demonstrated a visible increase, thereby leading to a decline in the number of low-income households. Implementation of SMW in May, launching of the Work Incentive Transport Subsidy Scheme, together with the various relief measures in the Budget, should help to further alleviate the living burden of low-income households.

8. In the medium to long term, the Government will continue to strengthen employment / training and retraining services so as to provide further support for job-seekers. At the same time, through social welfare policies, the Government will continue to adopt a multi-pronged approach to assist the vulnerable groups, enabling them to share the fruits of economic growth. More importantly, the Government will keep on investing substantially in education (e.g. increasing tertiary degree places and related subsidies) in order to improve the competitiveness and skills of the labour force, increase social mobility and reduce inter-generational poverty. To improve the livelihood of low-income households, the fundamental solution is to promote overall economic growth so as to provide more employment and income opportunities for this group.

9. The Government will closely monitor the impact of rising inflation on grassroots workers and low-income households.

Economic Analysis Division
Economic Analysis and Business Facilitation Unit
Financial Secretary’s Office
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