



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

The Government released the First Quarter Economic Report 2012 on 11 May. The Economic Report, together with the press release containing the updated economic forecasts for the whole year of 2012, have been furnished to LegCo Members.

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

Economic Analysis and Business Facilitation Unit
Financial Secretary's Office
28 May 2012

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

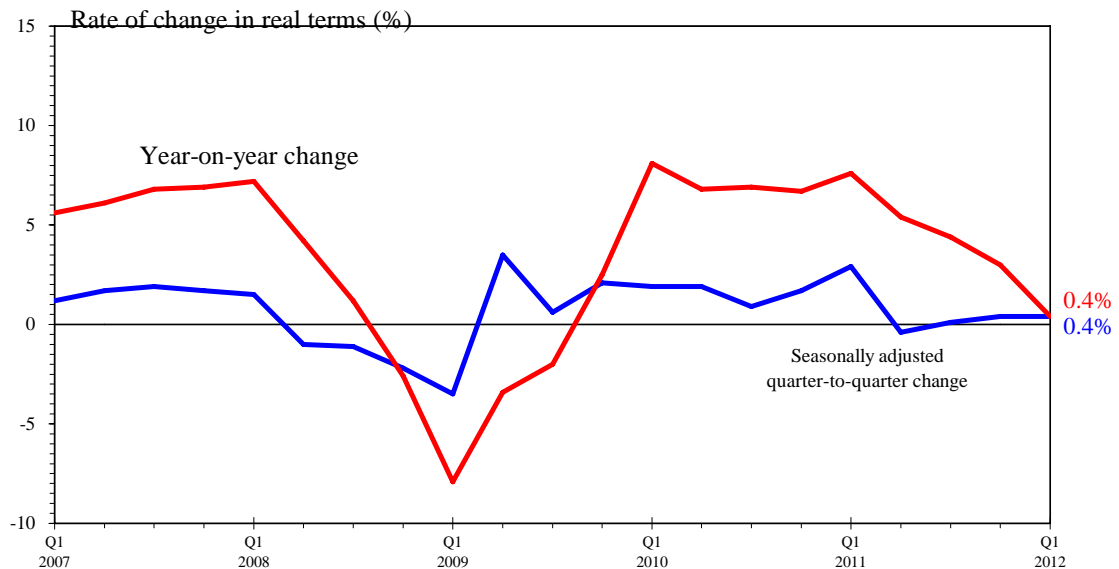
Introduction

This paper analyses the latest development in the Hong Kong economy and briefly discusses the updated economic forecasts for 2012 as a whole released in mid-May.

Recent economic situation

2. The Hong Kong economy slowed further in the first quarter of 2012, with real GDP posting a slight year-on-year growth of 0.4%, after a 3.0% expansion in the fourth quarter of 2011. The weak performance in the first quarter was mainly dragged by the lull in exports amid a difficult external environment. The domestic sector nevertheless continued to display strength and help cushion the overall economic performance. On a seasonally adjusted quarter-to-quarter comparison, real GDP also grew slightly by 0.4% in the first quarter, similar to that in the preceding quarter (*Chart 1*).

Chart 1 : The economy slowed visibly to only a meagre growth in the first quarter of 2012 on weak export performance

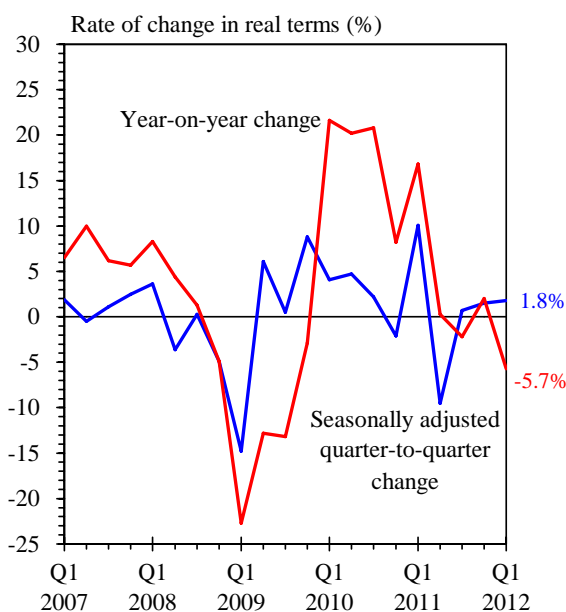


External trade

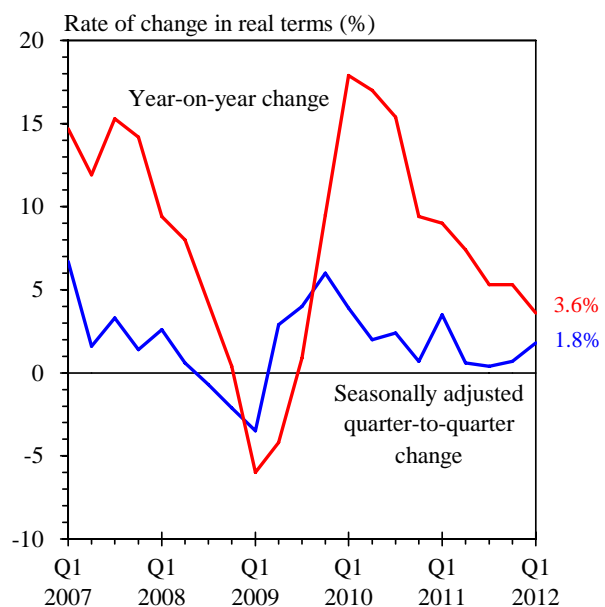
3. Total exports of goods fell by 5.7% in real terms in the first quarter of 2012 over a year earlier, after a brief rebound of 2.0% in the fourth quarter of 2011. While the rather noticeable year-on-year decline was partly exacerbated by the exceptionally high base of comparison in the same quarter of last year, the weakness of exports in the first quarter was widespread across the major markets. Apart from the further dip in exports to the US and the EU, those to the Asian markets also slackened distinctly alongside the slowing intra-regional trade flows, particularly those related to the intake of raw materials, caused by the subdued final demand in the advanced markets. Yet on a seasonally adjusted quarter-to-quarter basis, total exports of goods actually grew modestly by 1.8% in real terms over the preceding quarter (*Chart 2(a)*). Merchandise exports rebounded somewhat in April, but should have only posted a meagre year-on-year growth in volume terms.

4. Exports of services grew by 3.6% year-on-year in real terms in the first quarter of 2012, following the 5.3% growth in the fourth quarter of 2011. Exports of trade-related services felt more of the pinch from the slackening trade flows, while exports of financial and business services also dipped marginally on slower cross-border financing activities. Nevertheless, exports of travel services continued to grow robustly amid the prevailing strength of inbound tourism, while exports of transportation services also fared somewhat better, thereby cushioning the overall services exports performance. On a seasonally adjusted basis, exports of services grew steadily further by 1.8% in real terms over the preceding quarter (*Chart 2(b)*).

**Chart 2(a) : Total exports of goods
slackened in the first quarter**

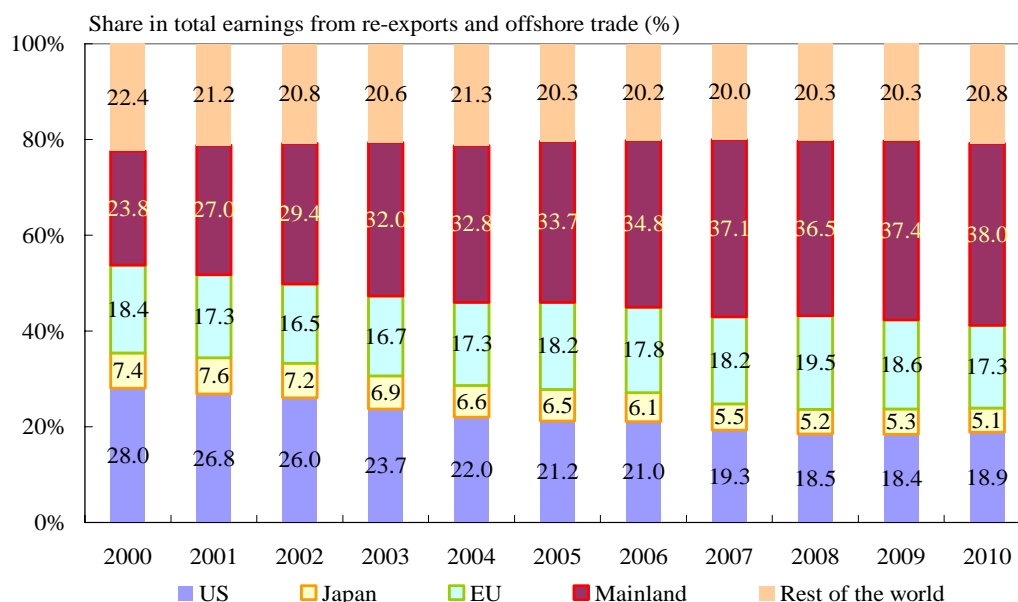


**Chart 2(b) : Exports of services slowed
but still grew moderately**



5. On our trade dependence on the advanced markets, the conventional way is to look at their shares in our merchandise exports. In 2011, the three major advanced markets (the EU, the US and Japan) together accounted for 24.7% of our total merchandise exports, much less than the 52.4% share of the Mainland. However, recognising the relative shift of Hong Kong's trade structure towards offshore trade (covering merchanting and merchandising activities) over the years⁽¹⁾, it would also be useful to combine merchandise trade and offshore trade together when examining the market compositions of our external trade. Indeed, in terms of earnings from re-exports and offshore trade combined (comprising the re-export margin, gross margin from merchanting and commission from merchandising), the three major advanced markets as a whole still had a larger combined share (at about 41%) in Hong Kong's earnings from trade than the Mainland market (at about 38%) (*Chart 3*). While our increasing dependence on the Mainland market is self-evident, the above analysis indicates that the advanced markets can still affect the Hong Kong economy significantly through both conventional and offshore trade. At this stage, it is thus still hard to decouple our economic performance fully from the fragility of the advanced economies, and therefore the lingering eurozone sovereign debt crisis and the unsteady recovery in the US economy warrant close monitoring.

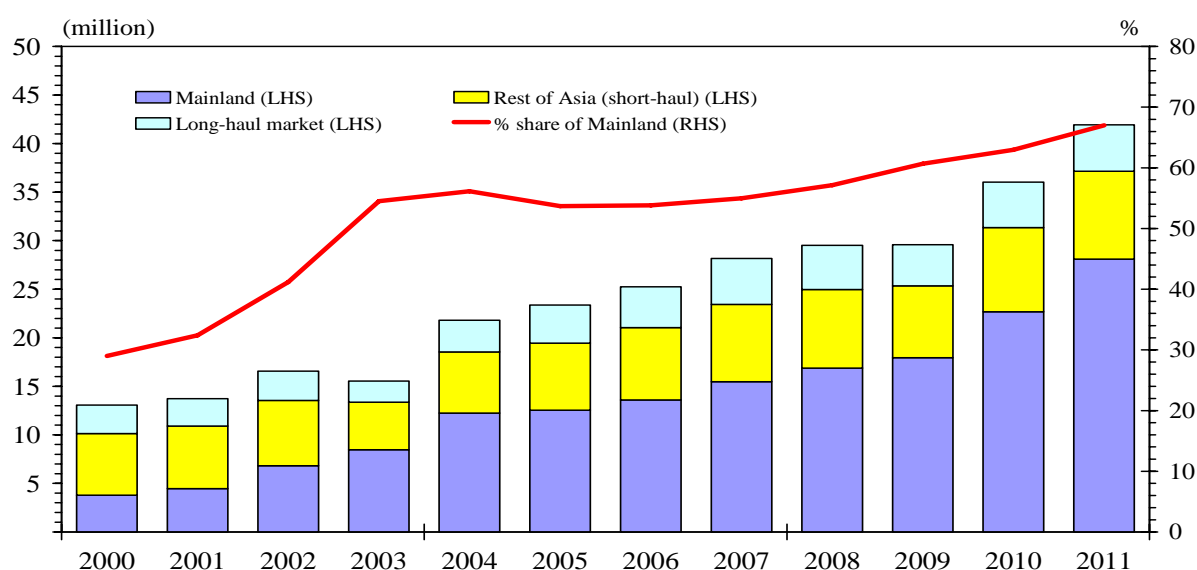
Chart 3: The advanced markets took up a larger share in Hong Kong's earnings from re-exports and offshore trade than the Mainland in 2010



(1) The details are given in Box 2.1 of First Quarter Economic Report 2012. Merchanting involves the trading of goods which are purchased from and then sold to parties outside Hong Kong without the goods entering or leaving Hong Kong, for which the Hong Kong trader takes ownership of the goods involved. Merchandising involves the service of arranging on behalf of buyers/sellers outside Hong Kong the purchases/sales of goods according to their specifications, in which the Hong Kong broker or agent does not take ownership of the goods.

6. Despite the weaknesses in merchandise trade and exports of trade-related services, overall exports of services held up rather well in the first quarter of 2012. A key impetus to cushion our services export performance is the prevailing strength of inbound tourism, in particular the strong influx of visitor arrivals from the Mainland. The implementation of the Individual Visit Scheme (IVS) since 2003 had boosted visitor arrivals from the Mainland by over two-fold to reach 28.1 million in 2011, lending strong support to other business activities such as retail sales, transportation, hotel and catering. Indeed, the Mainland is our largest market of inbound tourism, accounting for 67% of total visitor arrivals in 2011, while the other Asian markets combined accounted for another 22%, with the remaining 11% coming from the long-haul markets (*Chart 4*). In the first quarter of 2012, total visitor arrivals continued to grow strongly by 15.6% over a year earlier, with those from the Mainland leaping by 21.1%, while those from non-Mainland markets as a whole increased modestly by 4.4%.

Chart 4 : Visitor arrivals from the Mainland have grown to a predominant share since IVS



Domestic sector

7. The domestic sector held up well in the first quarter of 2012. Private consumption expenditure grew briskly by 5.6% year-on-year in real terms in the first quarter, further to the 6.6% growth in the preceding quarter, thanks to the stable job conditions and notably improved income levels over the past year. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure held broadly stable in the first quarter (*Chart 5(a)*).

8. Overall investment spending posted a strong growth of 12.2% year-on-year in real terms in the first quarter of 2012, up further from the 9.8% growth in the

preceding quarter (*Chart 5(b)*). The significant investment growth in the first quarter was broadly based. Machinery and equipment acquisition stayed robust, leaping by 23.1% year-on-year in real terms. Overall building and construction expenditure picked up further to an 11.1% increase in real terms in the first quarter, from 7.6% in the preceding quarter. Apart from the continued hectic pace of public sector infrastructure works, private sector construction activity also gathered further pace.

Chart 5(a) : Private consumption grew briskly further in the first quarter

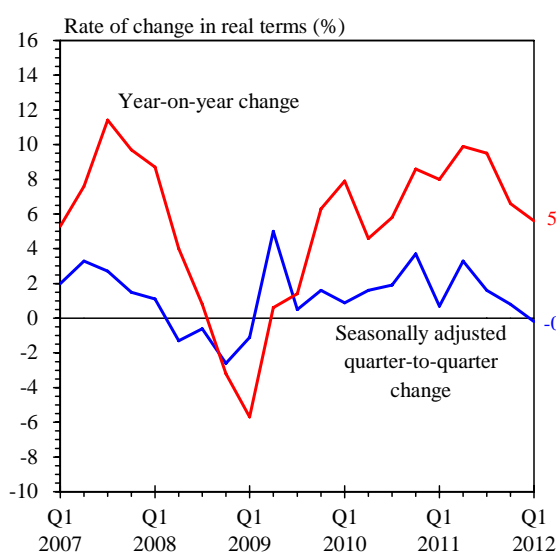
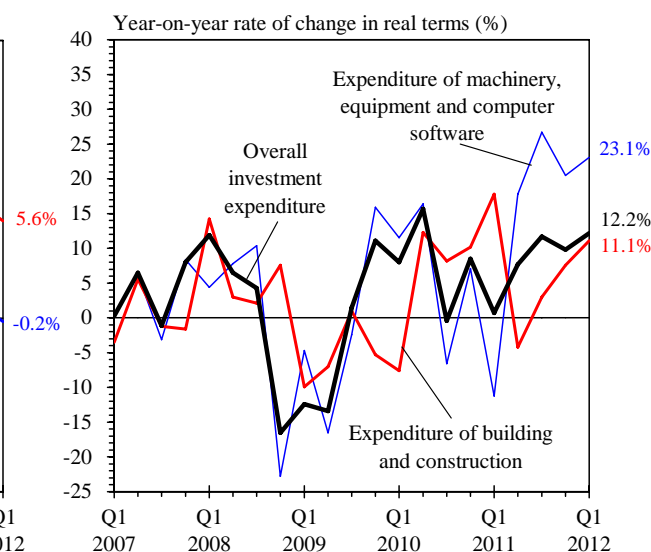


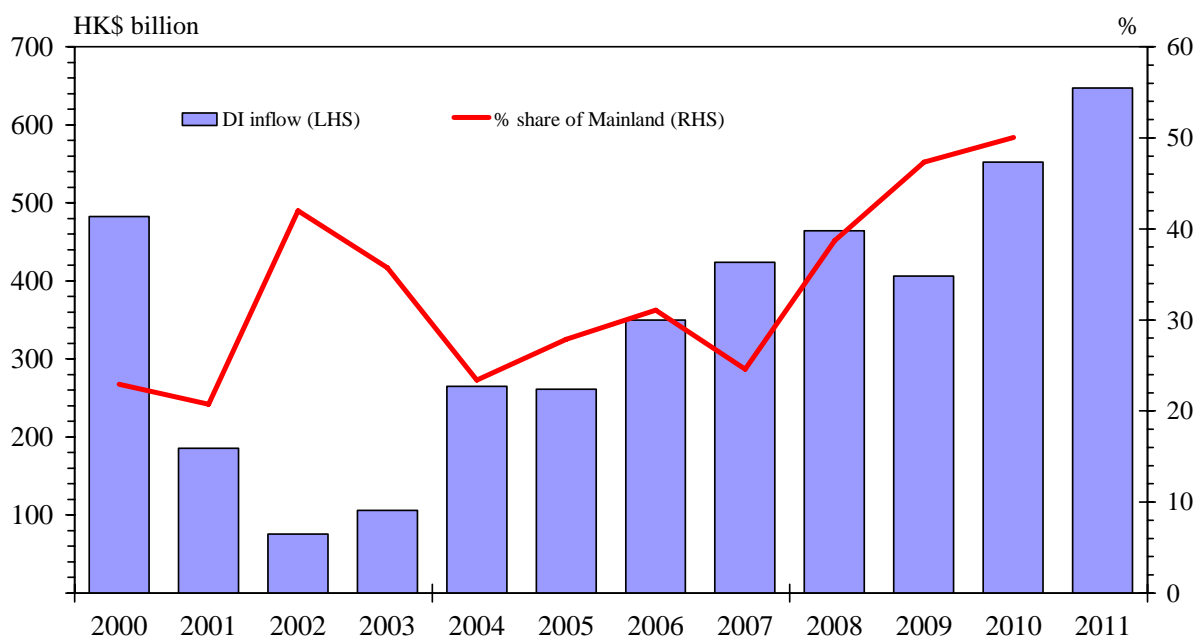
Chart 5(b) : Overall investment likewise grew strongly



9. As regards foreign direct investment (FDI), direct investment (DI) inflow has remained vibrant in recent years, despite some aberrations caused by the 2008-09 global financial tsunami. This is indeed a strong manifestation of Hong Kong's position as a regional business hub and an international financial centre. Specifically for 2011, DI inflow continued to surge, by 17% to \$647 billion (US\$83 billion), representing 34% of GDP, albeit with considerable fluctuations over the four quarters of the year.

10. Country breakdowns of FDI flow data are available up to end-2010 only. The Mainland featured prominently as a source of Hong Kong's external direct investment particularly in recent years (accounting for half of the total DI inflow in 2010), covering a wide range of economic activities (*Chart 6*). Looking ahead, investment ties between the Mainland and Hong Kong should strengthen further with the deepening economic integration between the two places and the continued development of Hong Kong as China's global financial centre. The Government will also continue to foster economic links with other parts of the world, particularly the emerging markets.

Chart 6 : The Mainland featured prominently as a source of Hong Kong's FDI



Labour Market

11. Labour market conditions held firm on entering 2012, supported by resilient domestic demand as well as vibrant inbound tourism. In February – April 2012, the seasonally adjusted unemployment rate stayed at a relatively low level of 3.3%, as did the underemployment rate at 1.5%, signifying a full-employment situation (*Chart 7*). On the back of buoyant labour demand, job creation remained brisk. Specifically, total employment in February – April 2012, at 3 649 300, was 107 000 or 3.0% higher than a year earlier. Employment growth was seen across the board, with more notable gains in the professional and business services (+11.0%); construction (+6.4%); financing and insurance (+5.1%); import/export trade and wholesale (+4.7%); and retail (+4.3%) sectors (*Chart 8*).

Chart 7 : Labour market conditions held firm in early 2012

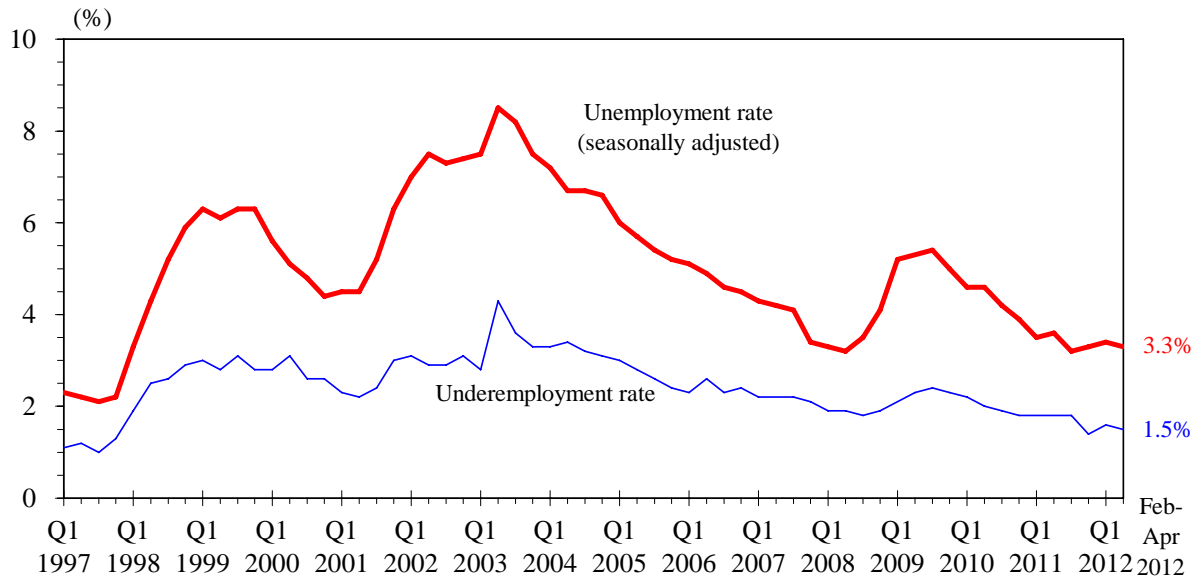
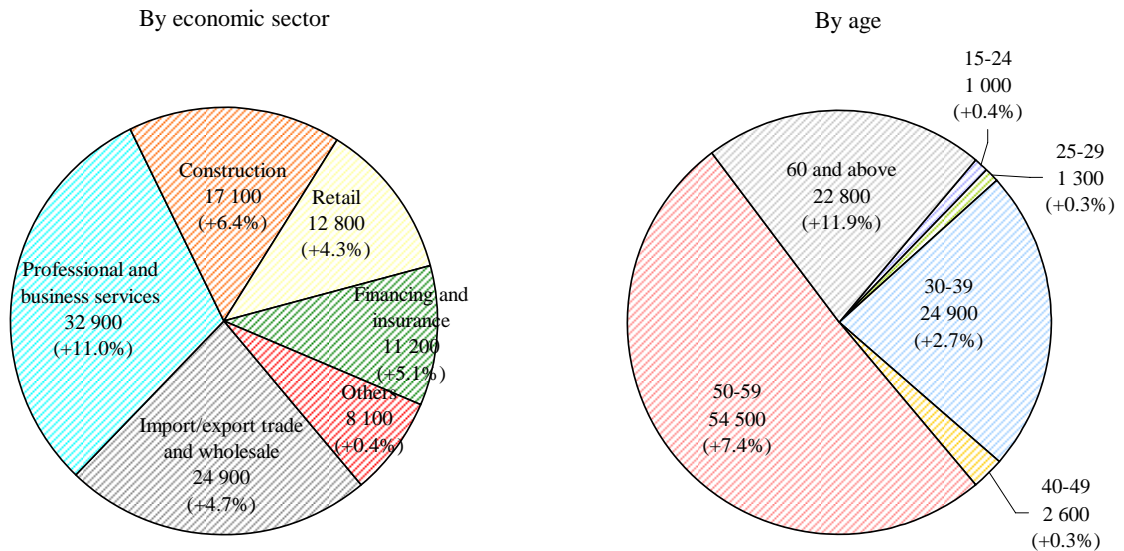


Chart 8 : Job gains were broad-based across most sectors and age groups

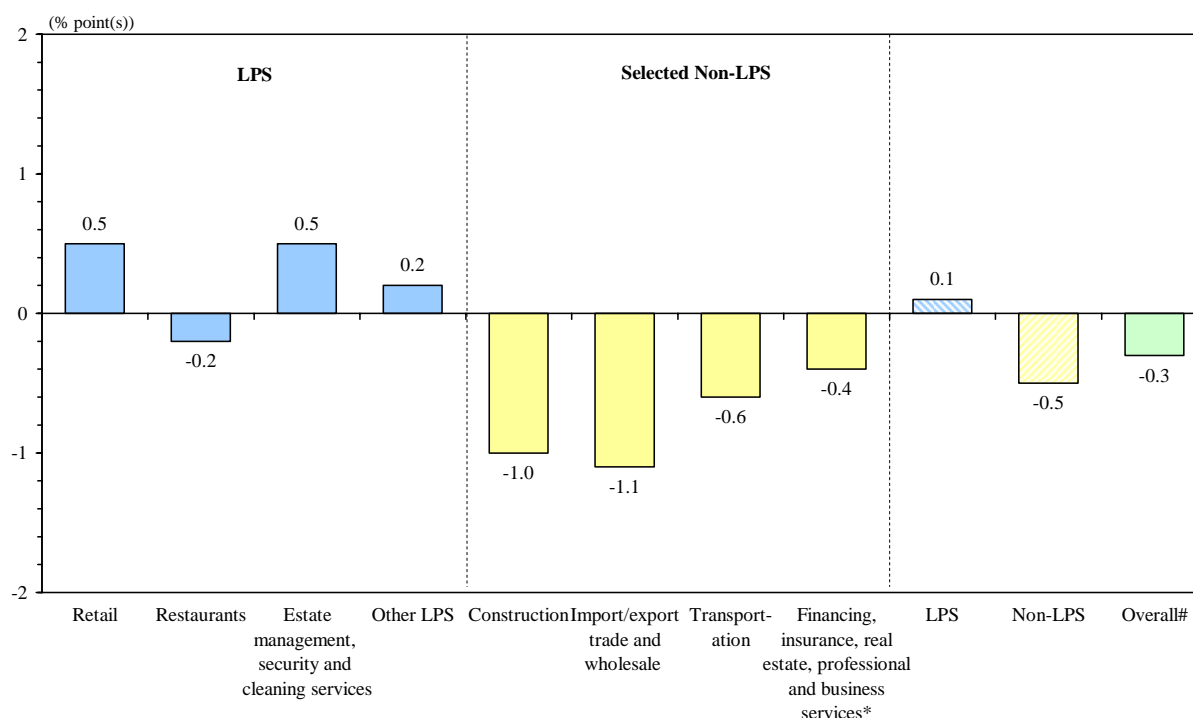
Total employment rose significantly by 107 000 in February - April 2012 over a year earlier



Note: (*) Figures in brackets refer to the year-on-year rates of change in employment of the corresponding groups.

12. The statutory minimum wage (SMW) has been implemented for just over a year since 1 May 2011. The pressure on the labour market brought about by its implementation has been largely cushioned by sustained brisk pace of job creation in tandem with the strength of local consumption and inbound tourism. The overall seasonally adjusted unemployment rate in February – April in 2012, at 3.3%, was actually 0.3 percentage point lower than in February – April 2011, i.e. just before the implementation of SMW. The unemployment situation in low-paying sectors (LPS)⁽²⁾, though with mixed performance among individual sectors, held broadly stable in overall terms, with its unemployment rate only marginally up by 0.1 percentage point to 3.3%. As for the non-LPS sectors, its unemployment rate went visibly down by 0.5 percentage point to 2.9% (**Chart 9**), thanks to notable job creation over the past year.

Chart 9 : Mixed performance was seen amongst LPS and non-LPS in unemployment rates of February - April 2012 over a year earlier (before SMW implementation)



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

(#) Seasonally adjusted.

(2) The Provisional Minimum Wage Commission identified LPS as (i) retail; (ii) restaurants; (iii) estate management, security and cleaning services; and (iv) other low-paying sectors – including: elderly homes; laundry and dry cleaning services; hairdressing and other personal services; local courier services; and food processing and production.

13. Analysed by skill segment, the number of lower-skilled employment (excluding government employees and live-in domestic workers who are not covered by the SMW regime) increased by 10 800 to 1 862 800 in February – April 2012 as compared to a year earlier. Job gains in the higher-skilled segment however were even more noticeable, amounting to 68 200 over the same period. With job creation apace, the unemployment rates for both segments fell by 0.3 percentage point over a year earlier (*Table 1*).

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

	Employment			Unemployment rate	
	Feb – Apr 2012	Change over a year earlier		Feb – Apr 2012	Change over a year earlier
	(No.)	(No.)	(%)	(%)	(% point)
Higher-skilled	1 395 800	68 200	+5.1	1.7	-0.3
Lower-skilled	2 253 500	38 800	+1.8	3.8	-0.3
Lower-skilled (excl. government employees and live-in domestic workers)	1 862 800	10 800	+0.6		

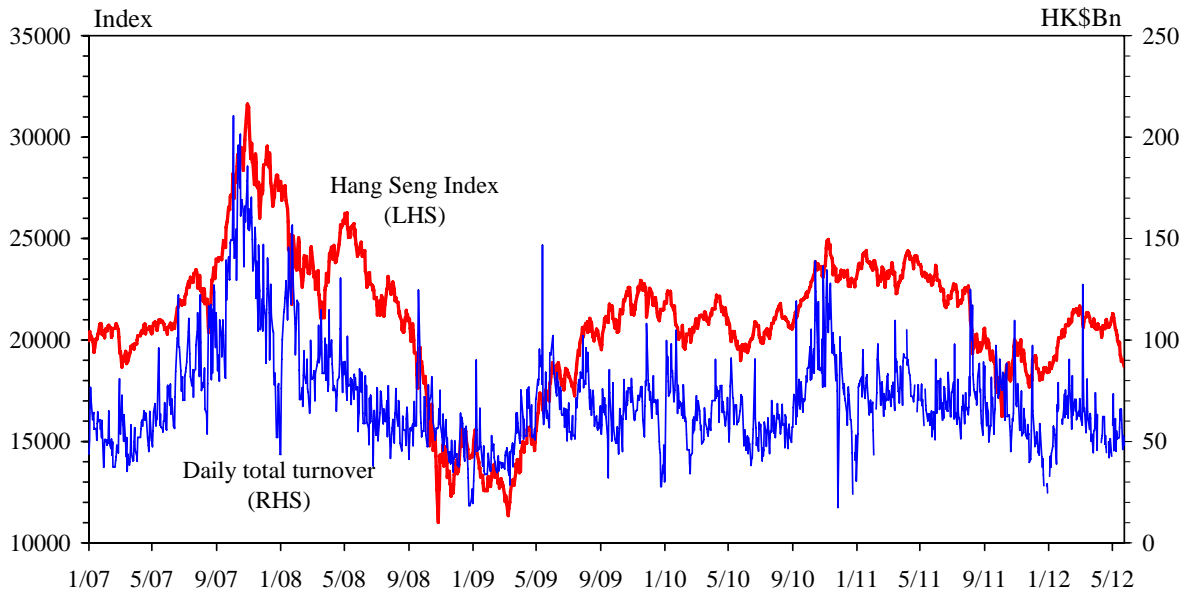
14. Against the backdrop of full-employment, coupled with the additional boost from the implementation of SMW, household income and employment earnings sustained visible increases over the past year. In particular, median household income jumped by 9.5% in the first quarter of 2012 over a year earlier, to a new record level of \$20,800. After discounting for price changes, it was notably up by 4.1% in real terms. Meanwhile, average employment earnings for full-time employees went up by 5.6% in nominal terms and 0.4% in real terms. Among them, those in the lowest decile group saw even more impressive increases, at 13.4% and 8.4% respectively (Please refer to *Annex* for details).

Asset markets

15. The local stock market staged a rebound on entering 2012 alongside other markets worldwide, amid some positive developments pertinent to the US economy and the eurozone sovereign debt situation early in the year. However, the Hang Seng Index (HSI) retreated noticeably since the start of May amid increasing worries over the euro debt situation and the political uncertainty there, as well as softer economic data from the US and the Mainland. The HSI closed at 18 801 on 28 May, up only 2% from end-2011. In the first four months of 2012, the daily turnover of the local stock market averaged at \$60.3 billion, somewhat higher than

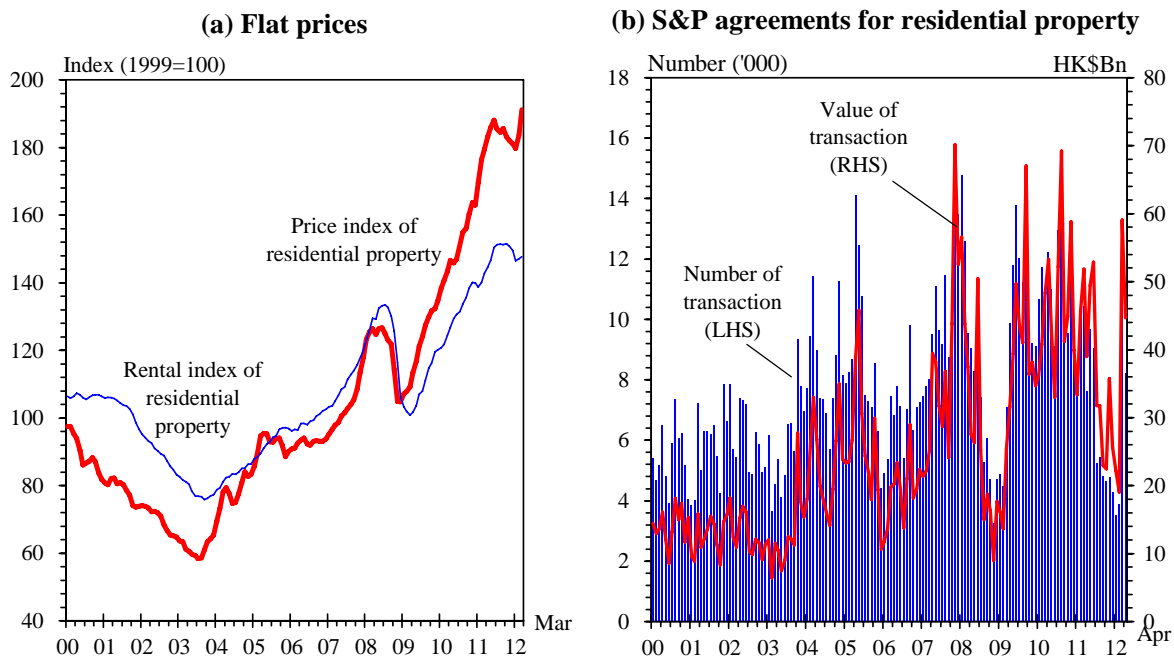
that of \$59.3 billion in the fourth quarter of 2011 (*Chart 10*).

Chart 10 : The local stock market rebounded in early 2012, but fell back visibly in May amid renewed uncertainty over the euro debt situation



16. The residential property market regained momentum after February 2012, after a period of consolidation since mid-2011. The revival came in tandem with the rebound in stock markets in early 2012, further helped by the cut in mortgage rates by several banks during the quarter. Residential property prices, after a 1% dip in January, recouped all the lost ground in February and March, resulting in a 5% gain during the first quarter of 2012. By March 2012, overall flat prices surpassed the previous historic peak in 1997 by around 10%. On the other hand, flat rentals extended the softening trend on entering 2012, and posted a 2% decline during the first quarter. Yet both shop and office rentals edged up further by 3% and 1% respectively over the same period (*Chart 11*).

Chart 11 : Residential property market revived since February, with both prices and transactions rising



17. Trading also turned more active in the first quarter, with the number of transactions up 36% from the preceding quarter to 18 749 in the first quarter of 2012. However, the number of transactions in the first quarter was still 35% below a year earlier. Analysed by type of trading, secondary market transactions leapt by 53% over the preceding quarter while primary market transactions retreated by 15%. The housing affordability ratio, though remaining below the long-term average of 50% over 1991-2010, worsened marginally to 46.5% in the first quarter of 2012, from 45.8% in the preceding quarter.

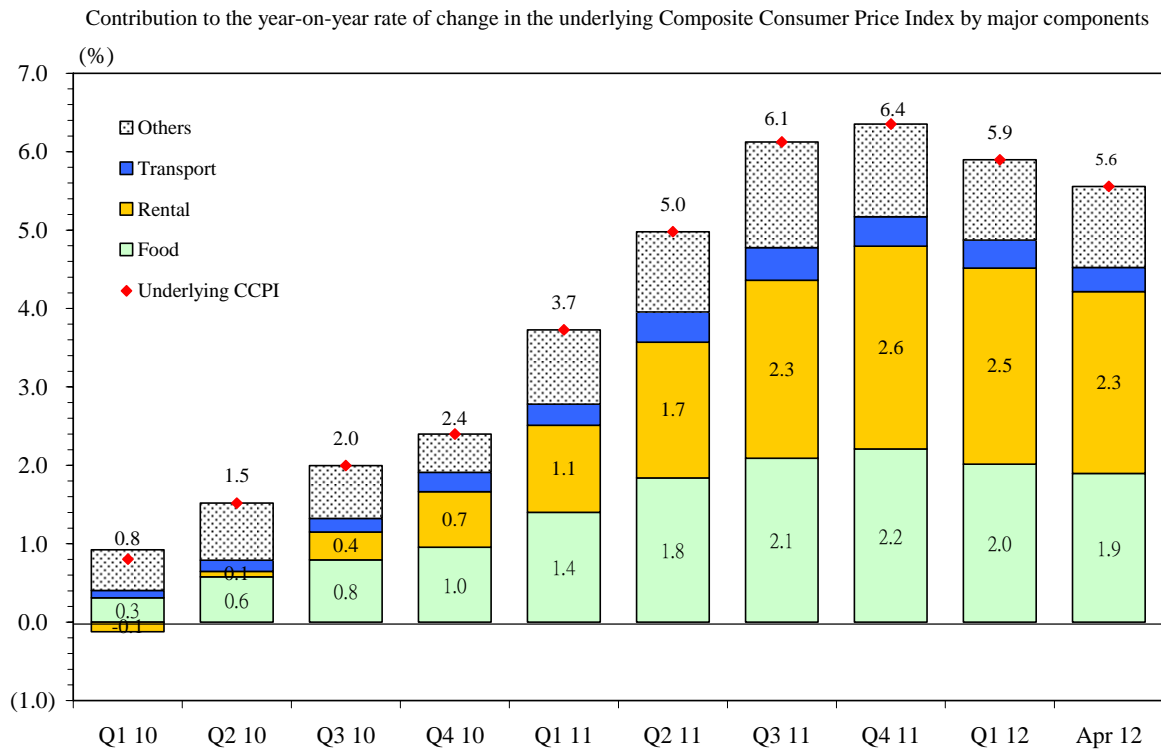
18. The various Government efforts on the property market have yielded some results. Following through the efforts to ensure a stable and healthy development of the residential property market, in February the Government announced the 2012-13 Land Sale Programme that could provide for a total of about 13 500 flats. Taking together the supply from various sources, it is estimated that housing land supply in the coming year could provide for some 30 000 private flats. Speculative activities almost vanished after the introduction of the Special Stamp Duty in November 2010. Confirmor transactions fell markedly to 87 cases in the first quarter of 2012, 91% lower than the pre-SSD average in January–November 2010. Its share in total transactions also shrank to a meagre 0.4%. The number of short-term resales within 0-6 months and 6-12 months plummeted by 99% and 98% respectively in the first quarter of 2012 when compared to their pre-SSD averages in January–November 2010. Nonetheless, with the exceptionally low interest rate environment likely to persist for a prolonged period, the Government would stay vigilant to the risk of a property market bubble and would introduce further measures when necessary.

Inflation

19. Following an almost uninterrupted acceleration since late 2010, inflation stabilised in the latter part of 2011 and eased in the first four months of 2012. Although international oil prices stayed elevated amid the geopolitical tension in the Middle East, imported inflation in Hong Kong eased back somewhat in early 2012, thanks to the retreat in global food and commodity prices as well as the receding inflation in the Mainland. Locally, the increase in fresh letting flat rentals also tapered significantly, though wage cost pressures remained notable on the back of a tight labour market. Against the background of a more difficult economic environment and slower inflation in the region, local inflation is likely to come down further in the period ahead, in line with the inflation developments in many other Asian and emerging economies.

20. Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite Consumer Price Index (Composite CPI), went down to 5.2% in the first quarter of 2012 and further to 4.7% in April, from 5.7% in the fourth quarter of 2011. Underlying consumer price inflation, being more indicative of the underlying inflation trend by netting out the effects of Government's one-off relief measures, likewise decelerated from 6.4% in the fourth quarter of 2011 to 5.9% in the first quarter of 2012, edging down further to 5.6% in April (*Chart 12*).

Chart 12 : Consumer price inflation eased back, as increases in food prices and rentals peaked out



21. Many of the major components in the underlying Composite CPI saw slower year-on-year price increases in the first four months of 2012, suggesting a more broad-based easing of price pressures (*Table 2*). Of particular note were food and housing, the two key drivers of the rising inflation during 2011. Local food inflation (including costs of dining out), having gone up almost continuously since late 2009, eased progressively to 7.0% in April 2012, thanks to the earlier peaking out of international food prices and Mainland's food inflation. Meanwhile, the rate of increase in private housing rentals also edged slightly lower to 8.1% in April, consequential to the moderated rises in fresh-letting rentals in the past few quarters. Prices of many other major CPI components like clothing and footwear and miscellaneous services also saw smaller increases in early 2012, while prices of durable goods continued their secular downtrend.

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2011</u>				<u>2012</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Apr</u>
Food	27.45	5.2	6.9	7.8	8.2	7.4	7.0
<i>Meals bought away from home</i>	17.07	4.1	5.1	5.7	6.1	6.1	5.8
<i>Other foodstuffs</i>	10.38	7.0	9.8	11.3	11.5	9.4	8.8
Housing ^(a)	31.66	3.8	5.9	11.0	8.4	8.1	7.2
		(3.9)	(5.9)	(7.6)	(8.4)	(8.1)	(7.5)
<i>Private dwellings</i>	27.14	4.1	6.5	8.4	9.6	9.2	8.1
		(4.1)	(6.4)	(8.3)	(9.5)	(9.1)	(8.4)
<i>Public dwellings</i>	2.05	4.0	2.7	676.7 ^(b)	-1.5 ^(b)	-1.5	-1.2
		(3.8)	(3.9)	(2.5)	(-0.1)	(-0.1)	(*)
Electricity, gas and water	3.10	7.3	8.0	-16.1	-16.1	-17.2	-18.2
		(3.8)	(3.6)	(3.8)	(3.9)	(4.0)	(4.1)
Alcoholic drinks and tobacco	0.59	8.1	19.9	20.3	20.0	11.6	0.4
Clothing and footwear	3.45	5.6	6.3	7.8	7.3	4.9	3.3
Durable goods	5.27	-4.4	-4.3	-3.1	-3.1	-1.8	-0.5
Miscellaneous goods	4.17	3.1	4.2	4.5	3.3	3.4	2.9
Transport	8.44	3.3	4.7	5.0	4.5	4.4	3.7
Miscellaneous services	15.87	3.3	2.9	4.0	3.8	2.8	3.4
		(3.4)	(2.9)	(4.0)	(3.8)	(2.8)	(3.5)
All items	100.00	3.8	5.2	6.4	5.7	5.2	4.7
		(3.7)	(5.0)	(6.1)	(6.4)	(5.9)	(5.6)

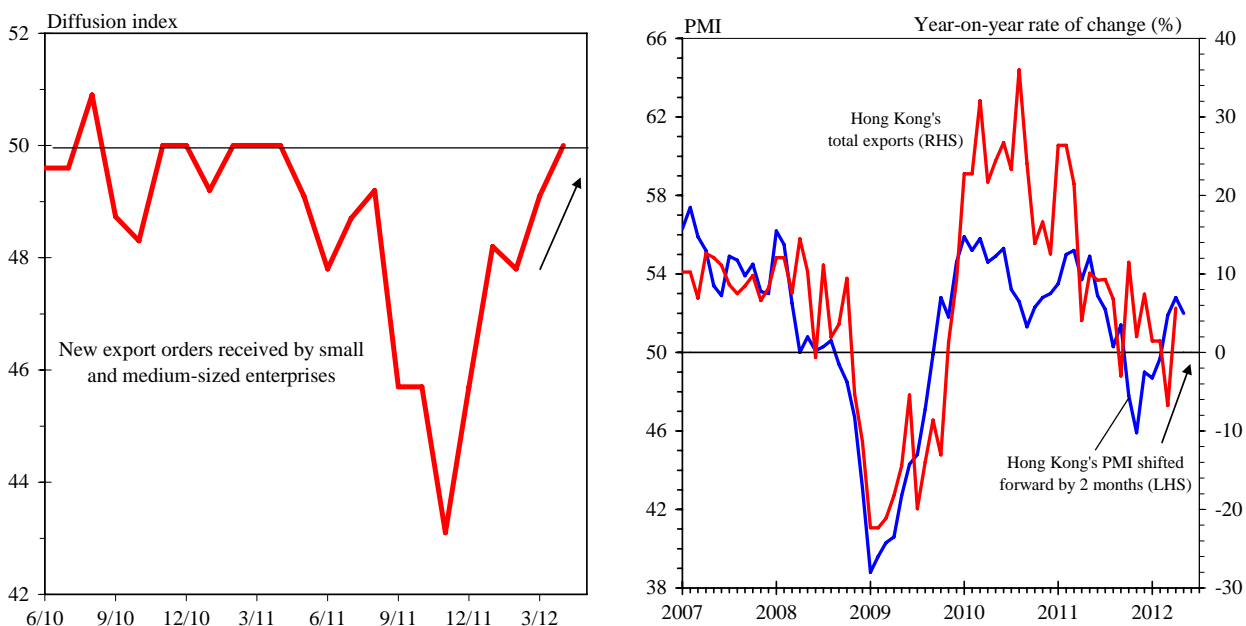
Notes : The year-on-year rates of change in the Composite Consumer Price Index are computed from the new 2009/10-based CPI series. Figures in brackets refer to the underlying rate of change after netting out the effect of Government's one-off relief measures.

- (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings is slightly less than the weighting of the entire housing component.
- (b) The relatively large difference between the headline and underlying year-on-year rates of inflation in July was mainly due to the difference in timing of the waiving of public housing rentals, which took place in July to September last year but fell in August to September this year.
- (*) Change within $\pm 0.05\%$.

Updated short-term economic forecasts for 2012

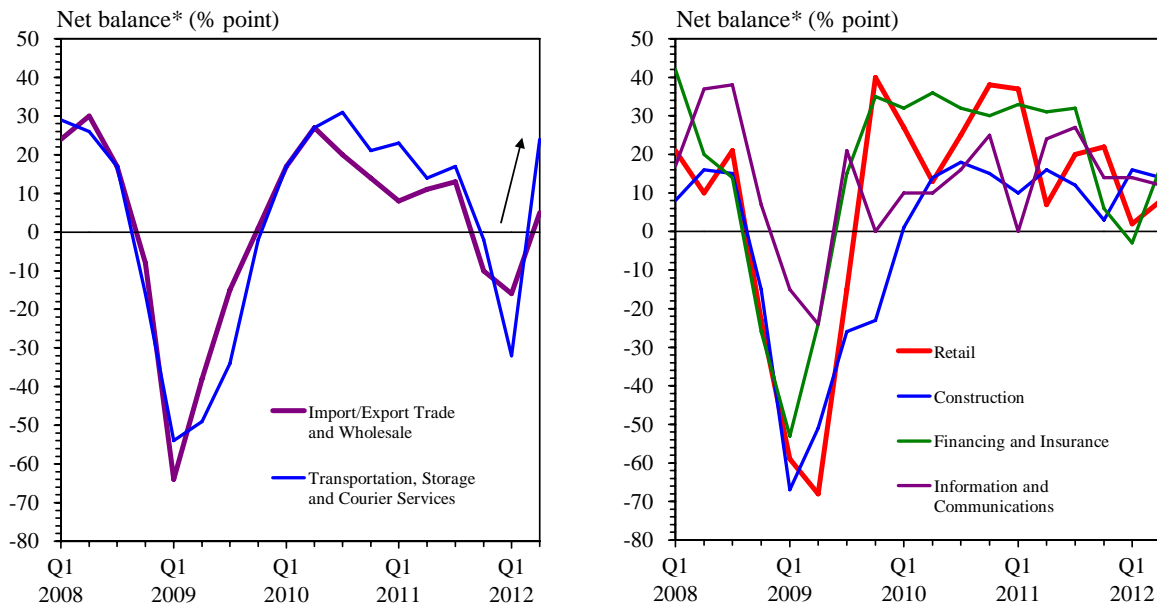
22. Downside risks in the external environment have increased notably of late, due mainly to the re-intensifying eurozone sovereign debt crisis amid heightened risks of a Greek turmoil. Although some relative improvements were seen in new export orders and the business sentiment of the trade-related sectors in recent months, Hong Kong's near-term export outlook is still faced with significant challenges (*Chart 13*). Nonetheless, the Mainland economy can be expected to display resilience given its ample room for policy maneuvering, thereby rendering an important stabilising force in the region. Also, the Fed envisages continued expansion in the US economy over coming quarters, albeit at a moderate pace. These positive developments should provide some support to Hong Kong's exports going forward. Thus, barring any abrupt deterioration of the eurozone debt situation, exports should gradually bottom out and revert to some growth later in the year.

Chart 13 : Hong Kong's near-term export outlook remains challenging despite some rise-back of new export orders in recent months



23. On the other hand, the domestic sector is expected to stay relatively resilient. Local consumption demand would be underpinned by the still favourable income and employment conditions. The latest Quarterly Business Tendency Survey also indicated increased optimism among large enterprises on entering the second quarter (*Chart 14*). Moreover, hectic public sector infrastructure works and the package of measures in the 2012-13 Budget should render additional impetus to domestic demand.

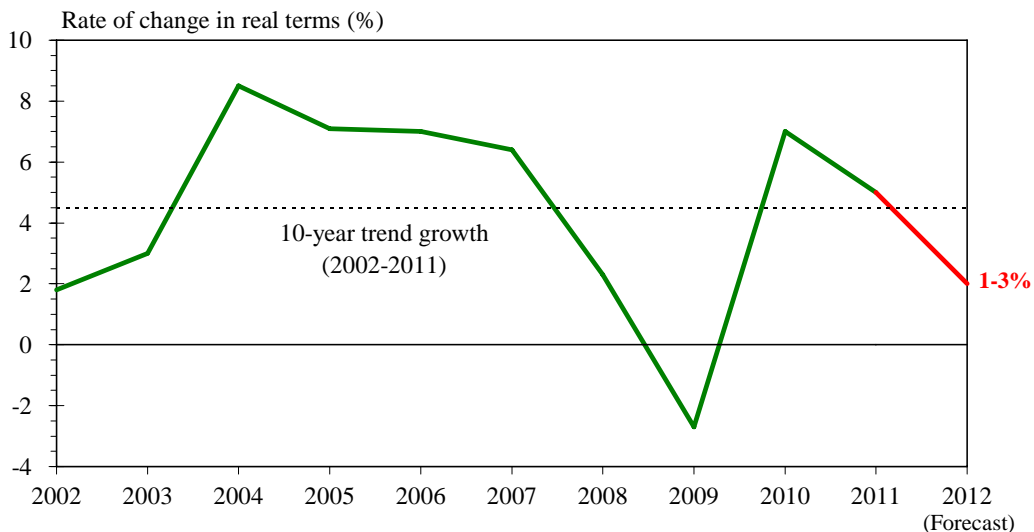
Chart 14 : Business sentiment of trade-related sectors revived of late, while domestic segment also stayed firm



Note : * Net balance indicates the direction of expected change in business situation versus preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

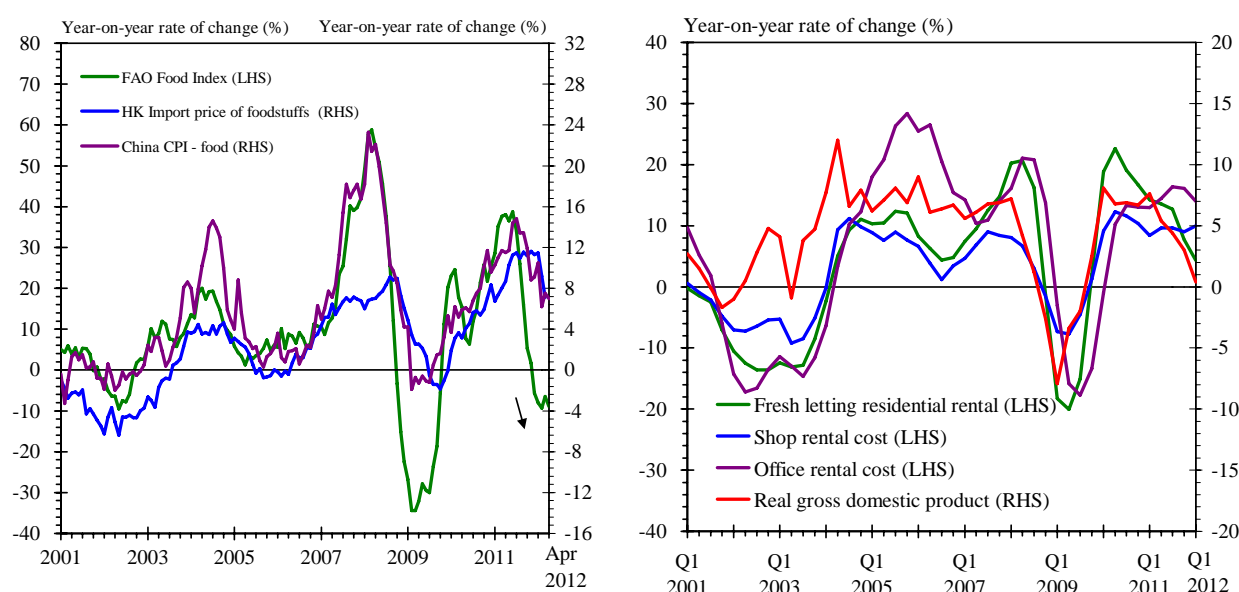
24. Overall, the Hong Kong economy is poised to gradually regain some momentum in the coming quarters. Barring any abrupt deterioration of the eurozone debt crisis, the forecast GDP growth of 1-3% for Hong Kong for 2012 as a whole announced in the Budget should be attainable (*Chart 15*). For reference, in April the IMF projected Hong Kong's economic growth for this year at 2.6%, whereas most private sector analysts are currently projecting the economy to expand by 2-3%, averaging at around 2.7%.

Chart 15 : Economy is poised to gradually regain momentum in the coming quarters, making a 1-3% growth for 2012 as a whole



25. On inflation outlook, with both imported inflation and domestic cost pressures easing back progressively in tandem with a slowing global and local economy, Hong Kong's inflation is expected to taper gradually further in the coming quarters. The forecast rates of headline and underlying consumer price inflation for 2012 as a whole put out in the Budget round, at 3.5% and 4% respectively, are therefore maintained in the May round of review (*Chart 16*). Nonetheless, some upside risks to inflation need to be closely watched over, including the elevated international oil prices stemming from geopolitical tensions, as well as a possible resurgence in global commodity and food prices amid abundant global liquidity. For reference, in April the IMF forecast Hong Kong's consumer price inflation in 2012 at 3.8%. The Government will continue to monitor the inflation situation, particularly its impact on the lower-income people.

Chart 16 : With imported inflation gradually receding and a slowing local economy, inflation is expected to taper further over the course of 2012



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 28 May 2012

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, a benchmark of monthly household income below \$6,500 (at constant 2010 prices) is adopted in this paper, in the light of the implementation of statutory minimum wage (SMW) in May 2011. The income situation of the grassroots will be analysed along multiple perspectives:

- (i) Adjusting the \$6,500 monthly income threshold by 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. Following the solid economic expansion in 2011 and notwithstanding the slowdown on entering 2012, labour market conditions held firm, thanks to the strong domestic demand and vibrant inbound tourism. Specifically, the seasonally adjusted unemployment rate stayed low at 3.4% in the first quarter of 2012 and edged down further to 3.3% in the latest period. Meanwhile, total employment stood at 3 649 300, broadly on a par with the record high in the first quarter. Along with increased job opportunities and the implementation of SMW, various income-related indicators showed notable growth. The increase in average employment earnings of full-time employees in the lowest decile group was most distinct, up by 13.4% year-on-year in nominal terms in the first quarter of 2012. After discounting price changes, the corresponding increase was still significant at 8.4% in real terms (*Table 1*), reflecting the visible improvement in earnings of the grassroots.

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

(2) Based on Consumer Price Index (A).

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

Period	Median monthly household income		Average monthly employment earnings of full-time employees			
			Overall		Lowest decile	
2010	Q1	* (-2.1)	1.1	(-1.0)	3.3	(0.1)
	Q2	2.0 (-0.8)	1.3	(-1.5)	3.3	(-0.3)
	Q3	2.9 (1.2)	0.4	(-1.2)	7.3	(7.4)
	Q4	2.9 (0.1)	7.1	(4.3)	5.9	(2.7)
2011	Q1	5.6 (1.7)	6.2	(2.3)	5.9	(1.8)
	Q2	9.3 (3.9)	6.4	(1.2)	9.8	(4.1)
	Q3	11.1 (4.4)	9.5	(2.9)	13.4	(5.3)
	Q4	11.1 (5.1)	6.1	(0.3)	13.7	(8.0)
2012	Q1	9.5 (4.1)	5.6	(0.4)	13.4	(8.4)

Notes : () 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 2012, the number of economically active households with monthly household income below \$6,500 in real terms (referred to as “low-income households” thereafter) amounted to 83 500, visibly lower by 10.4% (or 9 700) over a year earlier. The corresponding proportion in total domestic households likewise declined from 4.0% to 3.5%. The encouraging pace of job creation in the corporate sector, as well as the implementation of SMW, all helped raise the employment earnings of the grassroots, thereby enabling them to get out of this low-income segment.

4. As a matter of fact, the number and proportion of low-income households are closely related to the economic vicissitudes. During 2000 and 2008, when the economy performed persistently well for most of the period, the proportion of low-income households fell successively from 5.4% in the first quarter of 2002 to 3.9% in the first quarter of 2008. After the outbreak of the global financial tsunami in late 2008, the Hong Kong economy was mired into recession, and the corresponding proportion rose back successively to 4.7% in the first quarter of 2010. But with economic recovery taking hold afterwards, the figure gradually fell back, down to 3.5% in the first quarter of 2012, the lowest level for the first quarter since 1997 (*Table 2 and Chart 1*).

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

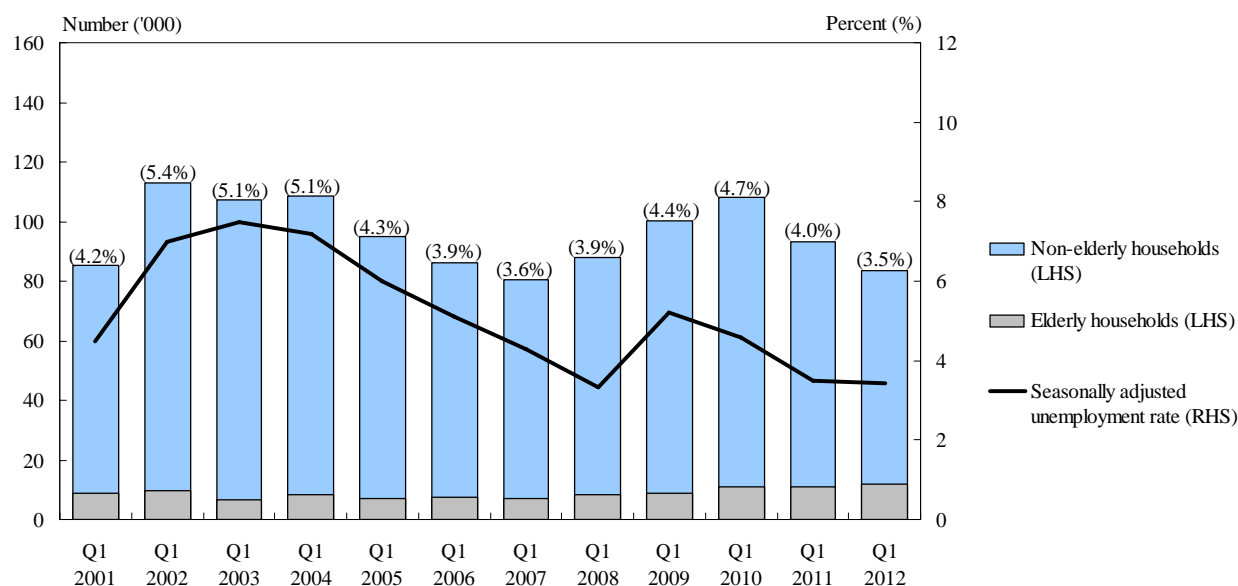
<u>Period</u>	Household type		<u>Total</u>	Of which:
	<u>Elderly households</u>	<u>Non-elderly households</u>		<u>Economically active persons therein</u>
Q1 2002	9 500 (0.5)	103 600 (5.0)	113 100 (5.4)	132 800 [4.1]
Q1 2008	8 500 (0.4)	79 300 (3.5)	87 800 (3.9)	97 000 [2.9]
Q1 2009	8 900 (0.4)	91 400 (4.0)	100 300 (4.4)	116 200 [3.4]
Q1 2010	10 800 (0.5)	97 100 (4.2)	108 000 (4.7)	122 600 [3.6]
Q1 2011	11 100 (0.5)	82 200 (3.5)	93 200 (4.0)	101 800 [3.0]
Q1 2012	12 000 (0.5)	71 600 (3.0)	83 500 (3.5)	93 200 [2.7]

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

() Proportion in all domestic households (%).

[] Proportion in total labour force (%).

Chart 1 : Number of low-income households*



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

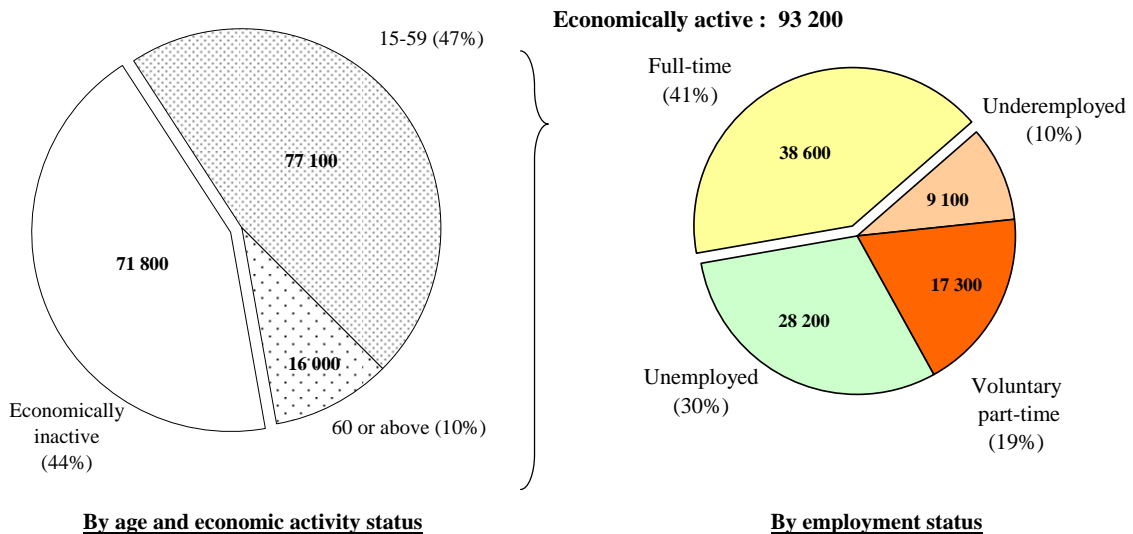
Figures in brackets are the proportions of low-income households in all domestic households.

Socio-economic characteristics of low-income households

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

- 164 900 persons were residing in the households concerned, among whom 93 200 were economically active. Most of these individuals (77 100 or 83%) were persons aged 15-59, with the majority within the age group of 40-59 (54 700 or 59%), whilst those aged 60 or above amounted to 16 000 (17%).
- The remaining 71 800 persons were economically inactive. More than half of them (54%) were either children aged below 15 or elderly persons aged 60 or above.
- A more in-depth analysis showed that among these 93 200 economically active persons, 41% were full-time workers, while the respective proportions for unemployed, voluntary part-timers, and underemployed were 30%, 19% and 10% respectively (*Chart 2*).

**Chart 2 : Persons living in low-income households*
by age and economic activity status, Q1 2012**

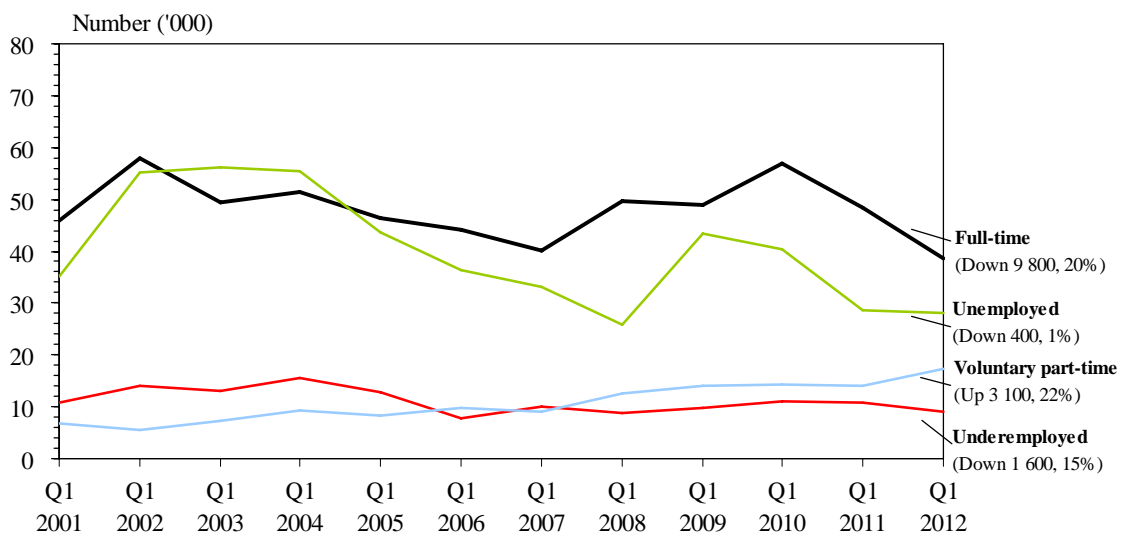


Note : (*) Low-income households refer to households with monthly household income less than \$6,500 at constant 2010 prices. This does not include households with all members being economically inactive.

- Analysed by occupation, most of the employed persons living in low-income households (around 90%) were lower-skilled workers (among whom 46% were elementary workers, and 24% were service and shop sales workers). A breakdown by economic sector revealed that many of them were engaged in the retail, accommodation and food services sector (16 100 or 25%), followed by cleaning and similar activities (7 300 or 11%).

- At 34 hours, their average weekly working hours in the first quarter of 2012 was also smaller than the economy-wide average (44 hours), largely due to relatively high proportions of voluntary part-timers and underemployed persons across different industries (e.g. repair, laundry, domestic and other personal service activities: 61%; construction: 51%; transportation: 37%; retail, accommodation and food services: 36%), which dragged down their monthly employment earnings further.
- Compared with a year ago, economically active persons living in low-income households went down appreciably by 8% from 101 800 to 93 200, with the proportion in total economically active persons also down from 3.0% to 2.7%. Among them, the number of full-time workers likewise fell notably by 20% from 48 400 to 38 600 (*Chart 3*), mainly because these people were able to come out of the low-income group alongside the earnings uplifts over the period.
- After declining drastically by 29% year-on-year to 28 500 in the first quarter of 2011, the number of unemployed persons living in low-income households continued to edge down over the same period in 2012, to 28 200 (*Chart 3*). When matched with the 23% cumulative decrease in the number of overall unemployed persons over these two years, this indicates that economic recovery has led to a general improvement in employment situation of the low-income households.

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

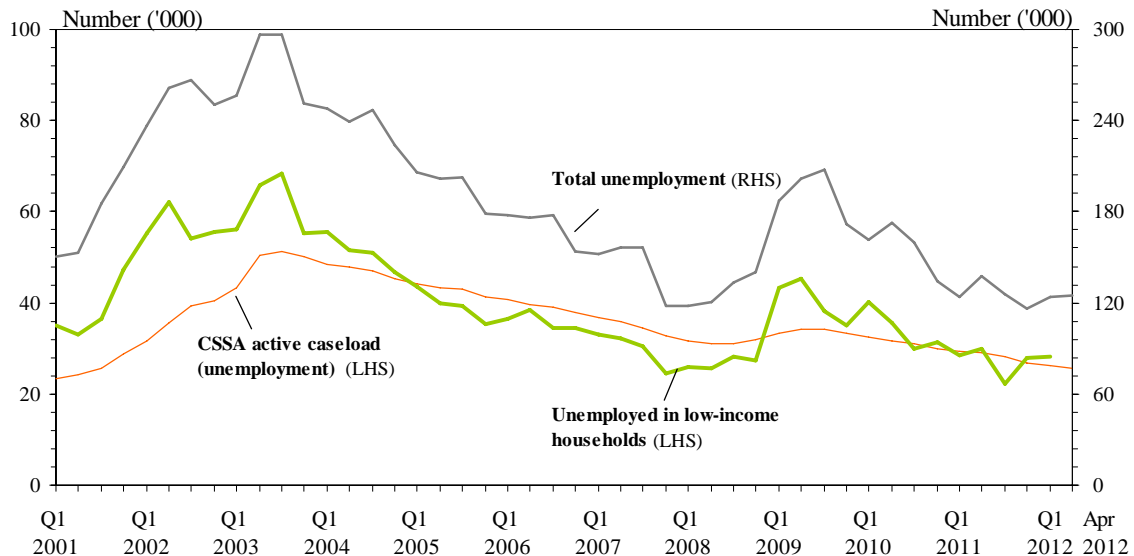


Notes : (*) Low-income households refer to households with monthly household income less than \$6,500 at constant 2010 prices. This does not include households with all members being economically inactive. Figures in brackets are the year-on-year changes in number of economically active persons in Q1 2012.

The number of CSSA cases

6. Benefiting from the strong labour demand, the unemployment rate of lower-skilled workers declined to 3.8% recently, from 6.1% in mid-2009 with a cumulative decrease of 2.3 percentage points. Along with such favourable development, the overall CSSA caseload has also been on a downward trend, down by 7 721 (or 2.7%) to 274 630 in April 2012 as compared to a year earlier. The extent of improvement in the number of unemployment cases was even more distinct, down by 3 428 (or 11.7%) to 25 778 over the same period. Compared with their peaks in 2009, such declines amounted to 15 612 (or 5.4%) and 8 488 (or 24.8%) respectively (*Chart 4*).

Chart 4 : The relationship between the unemployed in low-income households*, CSSA active caseload (unemployment)^, and total unemployment in the economy



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

(^) Monthly period-end figures.

Concluding remarks

7. The labour market remained firm, thereby leading to a broad-based and visible improvement in the overall income situation over the past year. Benefiting from SMW implementation, the grassroots workers in the lower-segment also enjoyed an appreciable increase in employment earnings. A notable decline in the number of low-income households thus followed. The various relief measures announced in the Budget of this financial year should provide further alleviation to the living burden of the grassroots.

8. The Government will continue to strengthen employment / training and retraining services so as to provide further support for job-seekers, and at the same time assist the vulnerable groups through social welfare policies, enabling them to

share the fruits of economic growth. In the medium to long term, the Government will keep on investing substantially in education (e.g. supporting academic research of higher education institutions and increasing related subsidies) in order to improve the competitiveness and skills of the labour force in the knowledge-based economy, increase social mobility and reduce inter-generational poverty. To improve the livelihood of the grassroots, the fundamental solution is to promote overall economic growth so as to provide more employment and income opportunities.

9. Looking ahead, the deterioration in the external environment, especially the slack of major advanced economies and the worsening eurozone debt crisis, would pose considerable uncertainties to the Hong Kong economy. In this regard, the increasing downside risks of the global economy may affect the pace of job creation in future. The Government will closely monitor the developments, remain vigilant to the employment and earnings conditions of grassroots workers and low-income households, and render support to them as and when necessary.

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