



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

The Government released the Third Quarter Economic Report 2011 in mid-November. 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 the most recent period, summarises the updated economic forecasts by the Government for 2011 as a whole, and provides some preliminary analysis on the outlook in 2012.

Economic Analysis Division  
Economic Analysis and Business Facilitation Unit  
Financial Secretary's Office  
14 November 2011

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

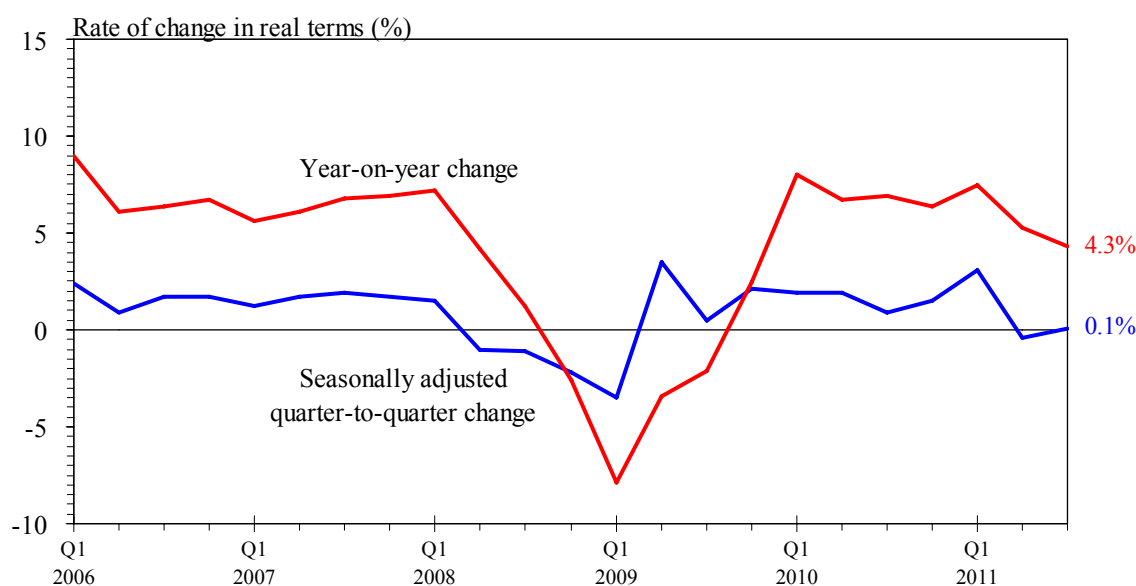
## Introduction

This paper analyses the latest development in the Hong Kong economy and briefly discusses the updated economic forecasts for 2011 as a whole and the economic outlook for 2012.

## Recent economic situation

2. The growth momentum of the Hong Kong economy tapered further in the third quarter of 2011, amid increasing headwinds on the external front caused by the deepening eurozone sovereign debt crisis and faltering recovery in the US. The domestic sector nevertheless stayed robust throughout the quarter, thereby rendering a strong support to overall economic performance. Real GDP grew by 4.3% in real terms in the third quarter over a year earlier. Though broadly on par with the trend growth over the past ten years, this represented a further moderation from the 5.3% year-on-year growth in the second quarter. The slowdown was evident also from the meagre growth of 0.1% on a quarter-to-quarter basis (*Chart 1*).

**Chart 1 : The economy grew at a less rapid pace in the third quarter, dragged by the further slackening in the external sector**

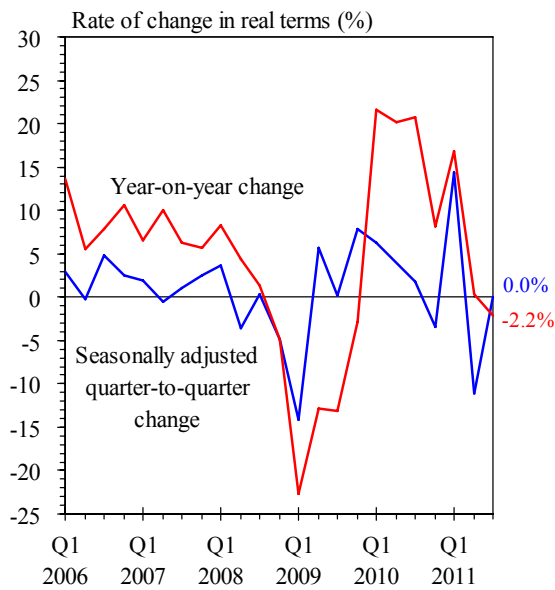


## **External trade**

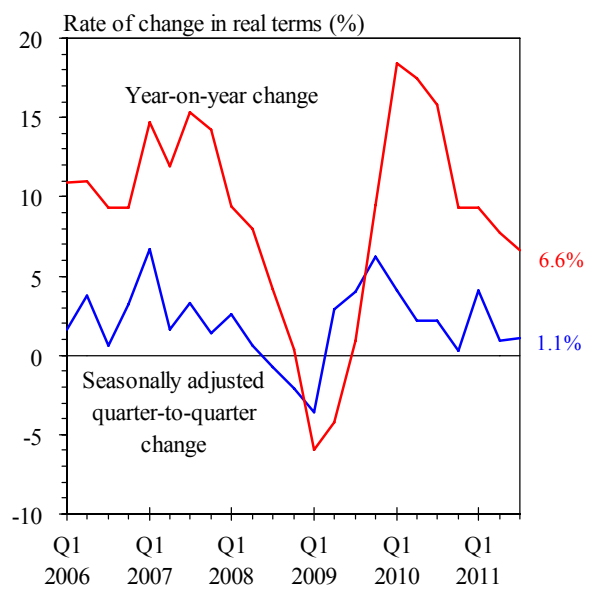
3. Total exports of goods slackened further in the third quarter to a 2.2% decline in real terms over a year earlier, from virtually zero growth in the second quarter. Exports to the US saw another quarter of noticeable decline, curtailed by the sluggish demand there. The decline in exports to the EU enlarged further, reflecting the sluggishness and weak sentiment in many EU member economies. Exports to a number of Asian markets, including the Mainland, also slowed, due to the fall-off in intra-regional exports and raw material intake which were closely tied to demand in the developed markets. Exports to Japan however showed some relative improvement, as the post-earthquake recovery proceeded. Exports to Taiwan and India maintained appreciable growth. In general, exports of consumer and capital goods to Asia held up relatively better, though not sufficient to make up for the lull in the developed markets. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods largely held flat in real terms in the third quarter (*Chart 2(a)*).

4. Exports of services were more resilient, maintaining a solid growth of 6.6% in real terms in the third quarter, following a 7.7% growth in the second quarter. Exports of travel services provided the main growth impetus, thanks to vibrant inbound tourism. Exports of financial and business services had further appreciable growth, despite heightened global financial market volatilities during the quarter. Exports of transportation and trade-related services (comprising mainly offshore trade activities) were however more significantly hit by the slowdown in global trade flows in the quarter. On a seasonally adjusted quarter-to-quarter basis, exports of services grew by 1.1% in real terms in the third quarter (*Chart 2(b)*).

**Chart 2(a) : Merchandise exports slackened further in the third quarter**



**Chart 2(b) : Exports of services however were more resilient**

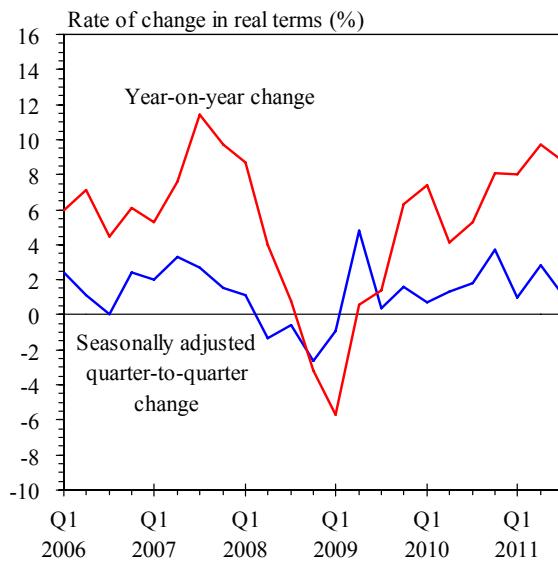


## Domestic sector

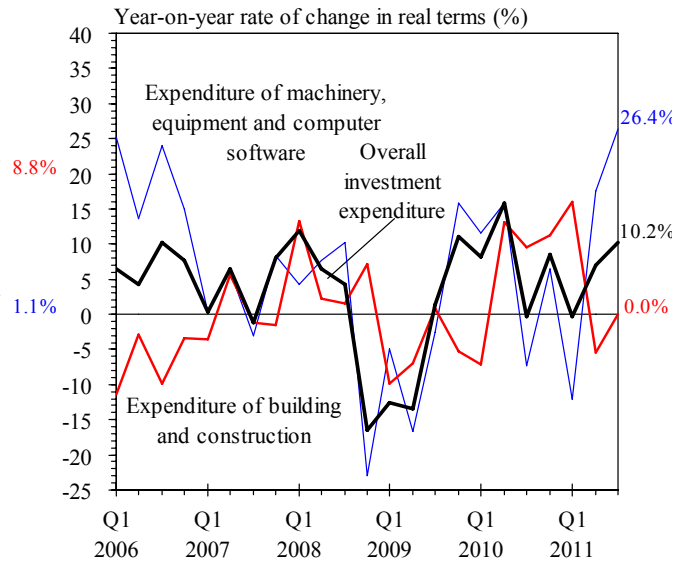
5. The domestic sector displayed remarkable strength throughout the third quarter, thereby rendering the key support to overall economic performance. Local consumer sentiment held firm, thanks to the further improvement in job and income conditions. Private consumption expenditure grew robustly further by 8.8% in real terms in the third quarter over a year earlier, following the 9.7% growth in the second quarter. On a seasonally adjusted quarter-to-quarter basis, private consumption expenditure grew further by 1.1% in real terms in the third quarter (*Chart 3(a)*).

6. Overall investment spending picked up to a strong growth of 10.2% in real terms in the third quarter over a year earlier, further to the 7.0% growth in the second quarter (*Chart 3(b)*). This was underpinned by a hectic expansion of machinery and equipment investment, by 26.4% year-on-year. Overall building and construction expenditure was virtually unchanged from a year earlier in real terms in the third quarter, after the 5.4% decline in the second quarter. Public sector works continued apace, thereby offsetting the shrinkage in private sector construction activity in the quarter.

**Chart 3(a) : Private consumption grew robustly further**



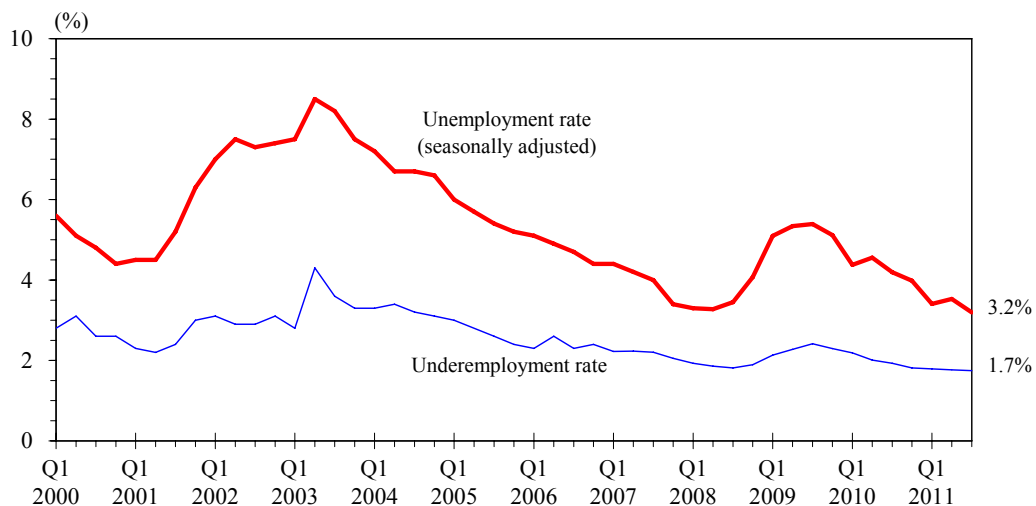
**Chart 3(b) : Overall investment picked up to a double-digit growth**



## Labour Market

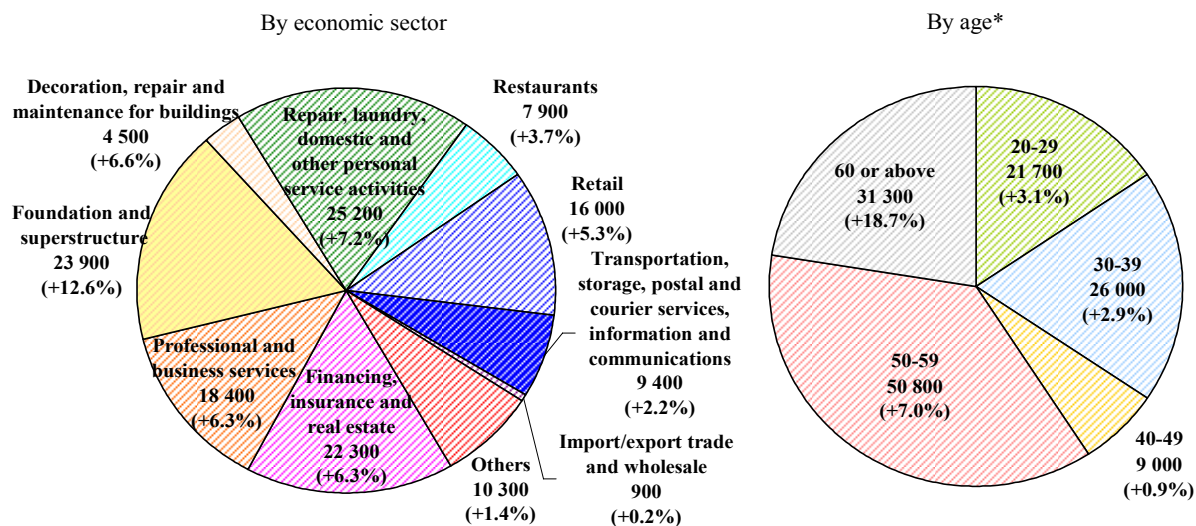
7. In tandem with the sustained economic growth, labour market conditions exhibited full-fledged improvements in the third quarter of 2011. The seasonally adjusted unemployment rate declined further to a 13-year low of 3.2%. Meanwhile, the underemployment rate fell to 1.7% (**Chart 4**). As a reflection of strong local demand for labour, total employment continued to hit record highs, reaching 3 642 400 in the third quarter. On a year-on-year comparison, the increase in employment amounted to 138 800 or 4.0%. Appreciable job gains were observed across most economic sectors, particularly in the foundation and superstructure (up 12.6% year-on-year); repair, laundry, domestic and other personal services (+7.2%); decoration, repair and maintenance for buildings (+6.6%); financing, insurance and real estate (+6.3%); professional and business services (+6.3%); and retail (+5.3%) sectors. On the other hand, job growth in import/export trade and wholesale was only meagre, at 0.2%, due to the slackening external trade in recent period (**Chart 5**).

**Chart 4 : Labour market saw further broad-based and notable improvements in the third quarter**



**Chart 5: New jobs were created across most sectors and age groups**

Total employment increased significantly by 138 800 in Q3 2011 over a year earlier



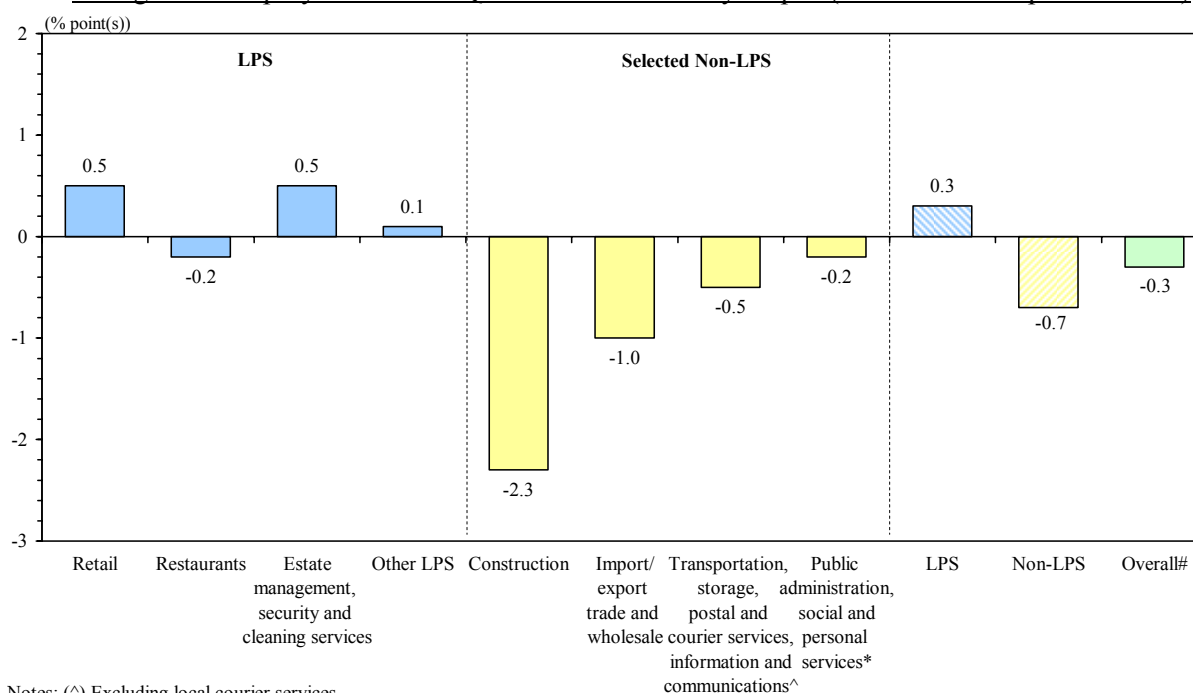
Notes: (\*) The number of employed persons aged 15-19 remained virtually unchanged. Figures in brackets refer to the year-on-year rates of change in employment of the corresponding groups.

8. Pressure on the labour market brought about by the implementation of statutory minimum wage (SMW) has been largely cushioned by the sustained pace of job creation. Specifically, comparing the third quarter with February – April (i.e. before SMW implementation), the unemployment rate of low-paying sectors (LPS)<sup>(1)</sup> went up cumulatively by 0.3 percentage point to 3.4%. But with the employment situation in many other sectors showing broad-based improvements, as can be seen from the decline in unemployment rate of non-LPS by 0.7 percentage point to 2.6%, the overall unemployment rate actually fell from 3.5% to 3.2% (**Chart 6**).

(1) 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.

**Chart 6 : Unemployment rate of LPS went up slightly, but overall unemployment rate actually fell further, thanks to broad-based improvements in other sectors**

Change in unemployment rate in Q3 2011 over February - April (before SMW implementation)



Notes: (^) Excluding local courier services.

(\*) Excluding elderly homes, membership organisations and laundry and dry cleaning services.

(#) Seasonally adjusted.

9. The slight rise in unemployment rate of LPS as a whole during the period reflected in part a moderate loss in lower-skilled jobs in the initial period after SMW implementation. But with job creation in many other sectors continuing apace, the overall employment situation in the past two quarters still held up well. Specifically, as compared with pre-SMW implementation, the number of lower-skilled jobs (excluding government employees and live-in domestic workers who are not covered by the SMW regime) dropped by 8 500 to 1 881 800 in the third quarter of 2011. Over the same period, job gains in the higher-skilled segment amounted to 61 400, more than offsetting the loss in the lower-skilled segment. Thanks to the strong growth in domestic demand, lower-skilled job creation resumed of late, bringing a gain of 6 200 jobs during the third quarter (*Table 1*).

**Table 1 : Change in number of employed persons before and after the implementation of SMW by occupation**

	Q3 2011	Change in Q3 over Q2 2011		Change in Q3 over February – April 2011 (before SMW implementation)	
	(No.)	(No.)	(%)	(No.)	(%)
Higher-skilled	1 384 000	+27 800	+2.1	+61 400	+4.6
Lower-skilled	2 258 300	+3 900	+0.2	-4 600	-0.2
Lower-skilled ( <i>excl. government employees and live-in domestic workers</i> )	1 881 800	+6 200	+0.3	-8 500	-0.4

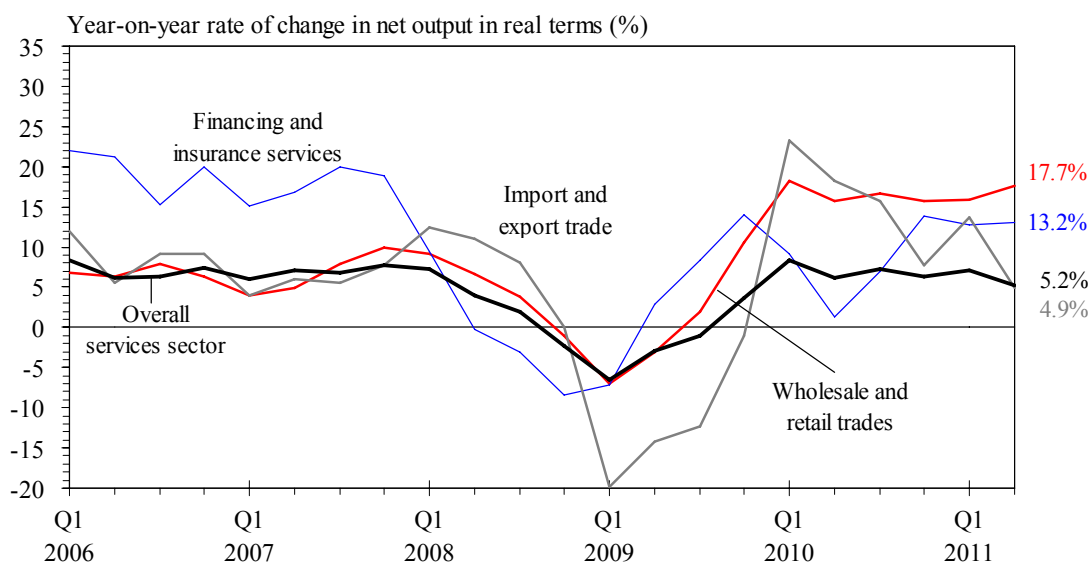
10. Household income and employment earnings increased substantially, largely attributable to the vibrant labour market amid sustained strong growth on the domestic front, together with the implementation of SMW in May. Median household income jumped by 11.1% year-on-year in the third quarter of 2011. After discounting for inflation, the increase was 4.4% in real terms. Average employment earnings for full-time employees also rose by 8.1% in nominal terms and 1.6% in real terms. Such increases were even more noticeable in the lowest decile group, at 13.1% and 5.0% respectively (Please refer to *Annex* for details).

### **GDP by major economic sector**

11. Activity across most major sectors expanded further in the second quarter, albeit tapering in momentum when compared to the exceptionally strong growth in the first quarter (*Chart 7*). In the second quarter of 2011, the net output of the services sector as a whole grew by 5.2% in real terms over a year earlier, further to the 7.1% growth in the first quarter. Among the major services sectors, growth accelerated in wholesale and retail trades, financing and insurance, and professional services, reflecting vibrant consumption demand and inbound tourism, as well as buoyant financial and commercial activities. But the performance in trade-related sectors fared far less well. In particular, growth moderated notably in import/export trade, and in transportation and storage. Real estate activity, mainly reflecting the net output of private sector developers, continued to decline. As for the secondary sector, manufacturing output expanded modestly further. Construction output however decelerated sharply to a year-on-year decline upon the slackening in private sector activities.



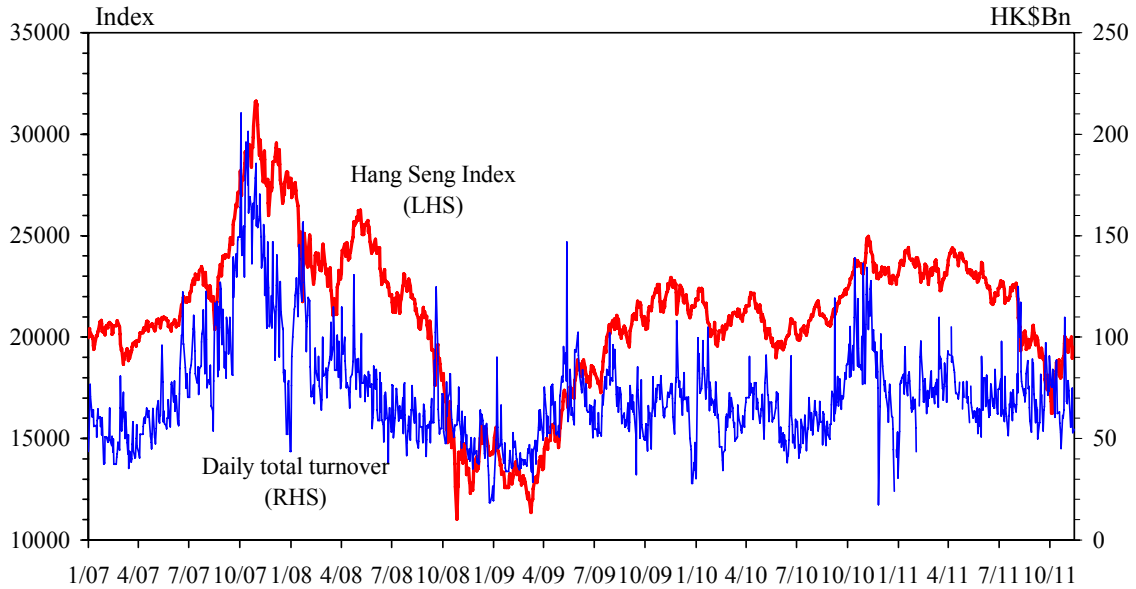
**Chart 7 : Many major sectors saw activities expanding further in the second quarter**



### Asset markets

12. The local stock market experienced much volatility and underwent a sharp sell-off along with many major overseas markets in recent months. Global financial markets were in turmoil over the slackening global economic recovery and the escalating European debt crisis, and the consequential return of risk aversion and flight to safer assets pushed worldwide stock markets lower. The Hang Seng Index (HSI) fell to 17 592 points at end-September, the lowest since July 2009. In October, as market sentiments were temporarily relieved by the announcement of specific rescue measures at the EU summit and anticipation of another round of quantitative easing in the US, the stock market rebounded somewhat to close at 19 865 at end-October, though still 11.3% and 13.8% lower than the respective levels at end-June 2011 and end-2010. The local stock market remained volatile on entering November, with the HSI closing at 19 508 as of 14 November. Amid heightened uncertainties and gyrations in the global financial markets, fund-raising activity contracted notably during the third quarter. In the first ten months of 2011, the amount of equity funds raised fell by 31% year-on-year. Average daily turnover of the stock market however held up with a modest increase in the third quarter over the preceding quarter. Taking the first ten months of 2011 together, average daily turnover increased by 10% over a year earlier (*Chart 8*).

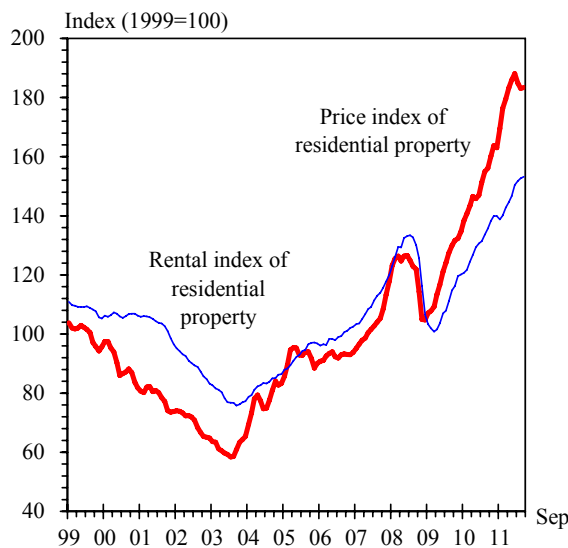
**Chart 8 : The local stock market underwent a sharp sell-off in September, rebounded somewhat in October and remained volatile on entering November**



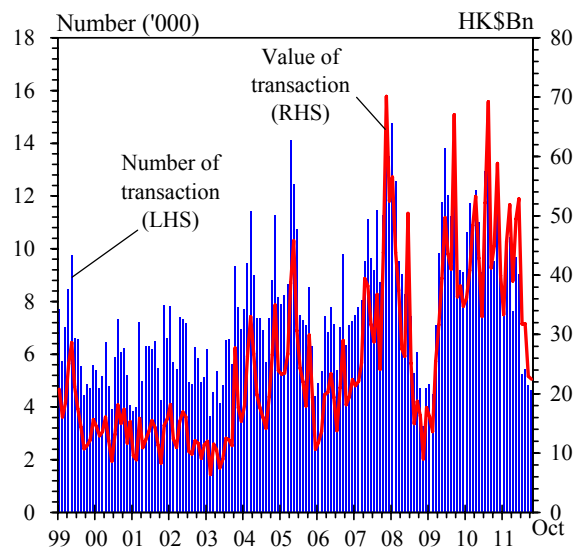
13. The residential property market likewise showed some consolidation in the third quarter, amid increased headwinds in the external environment and tighter mortgage loan terms offered by local banks. Overall flat prices fell by 2% between June and September 2011, the first quarterly decline since end-2008. Transactions in the third quarter plunged by 41% over the preceding quarter, reflecting the more cautious market sentiment. Over the period, flat rentals notched up by a slower rate of 2%, while office and shop rentals rose by 6% and 2% respectively. The property market stayed quiet in October, with transaction volume falling by a further 4% on the month, and anecdotal evidence also suggests that property prices remained soft lately (*Chart 9*).

**Chart 9 : Residential property market showed some consolidation in the third quarter, with both prices and transaction falling**

**(a) Flat prices**



**(b) S&P agreements for residential property**



14. In order to ensure the healthy and stable development of the property market, the Government has introduced a series of measures since early 2010 along four directions, viz. raise flat supply through increasing the land supply, curb speculative activities, prevent excessive growth of mortgage lending and increase transparency of the property market. In October, the Chief Executive introduced in the 2011-12 Policy Address new housing measures. In addition to further strengthening the Government's efforts along the four directions, the Government put forward two buffering measures, namely resuming the Home Ownership Scheme and enhancing the My Home Purchase Plan, to help low and middle-income families buy their own homes.

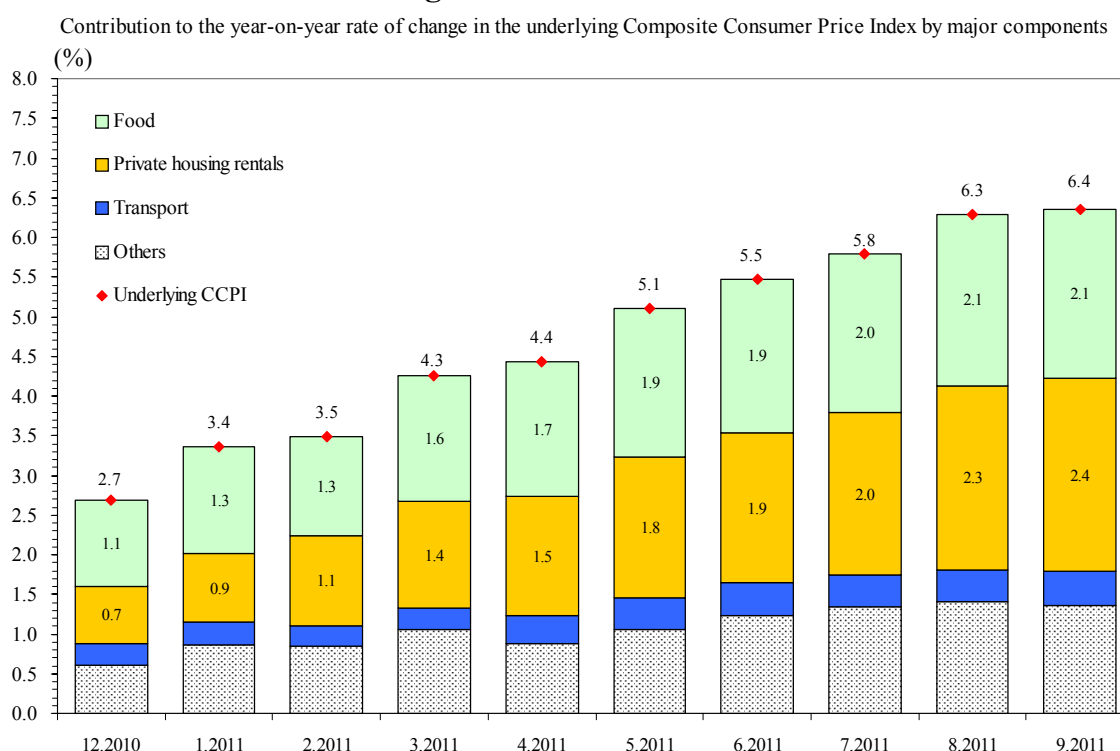
15. The various Government measures have achieved some positive results. Speculative activities almost vanished after the announcement of the introduction of Special Stamp Duty last November. Confirmor transactions plunged by 89% over a year earlier to a monthly average of 43 cases in the third quarter of 2011, and further by 91% year-on-year to 24 cases in October, with the share in total transactions down to a meagre 0.8% and 0.5% in the third quarter and October respectively. Regarding land supply, the total supply of flats in the coming few years (comprising unsold completed flats, flats already under construction but not yet sold and flats on disposed sites where construction has yet to commence) rose noticeably from 56 000 units as estimated at end-June to 63 000 units as estimated at end-September, the highest level since late 2008.

16. The latest developments on both external and local fronts have put the local residential market at increasing downside risks. These include the sluggish recovery in the advanced economies, envisaged moderation in local economic growth, and the rises in local mortgage rates. Yet at the same time, the loose monetary stance in the advanced economies is likely to remain for a period longer than earlier expected. As such, the Government will keep a close watch over on the evolving external developments and monitor how the dynamics of the various external factors would interact and impact on the local property market.

## Inflation

17. Consumer price inflation went up further in the third quarter under the influences of both local and external factors. Yet the pace of rising inflation showed some initial signs of slowing towards the end of the quarter amid a slight ease-back of food inflation (*Chart 10*). Domestically, the lagged effects from earlier surge in private housing rentals continued to filter through, while wages also picked up visibly on the back of a tight labour market. On the external front, import prices showed further notable increase, owing to the earlier surge in global food and commodity prices. Headline consumer price inflation rose from 5.2% in the second quarter to 6.4% in the third quarter. Netting out the effect of the Government's relief measures, underlying consumer price inflation went up from 5.0% to 6.1% (*Table 2*).

**Chart 10 : Consumer price inflation went up further but at a slower pace, amid a slight ease-back of food inflation**



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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>2011</u>		
					<u>Jul</u>	<u>Aug</u>	<u>Sep</u>
Food	27.45	5.2	6.9	7.8	7.4	8.0	7.8
<i>Meals bought away from home</i>	17.07	4.1	5.1	5.7	5.5	5.7	5.7
<i>Other foodstuffs</i>	10.38	7.0	9.8	11.3	10.7	11.7	11.3
Housing <sup>(a)</sup>	31.66	3.8	5.9	11.0	16.4	8.3	8.3
		(3.9)	(5.9)	(7.6)	(7.0)	(7.9)	(7.9)
<i>Private dwellings</i>	27.14	4.1	6.5	8.4	7.6	8.6	9.0
		(4.1)	(6.4)	(8.3)	(7.5)	(8.5)	(8.9)
<i>Public dwellings</i>	2.05	4.0	2.7	676.7 <sup>(b)</sup>	3098.9 <sup>(b)</sup>	-5.7	-60.2
		(3.8)	(3.9)	(2.5)	(4.0)	(4.0)	(-0.3)
Electricity, gas and water	3.10	7.3	8.0	-16.1	-16.0	-16.2	-15.9
		(3.8)	(3.6)	(3.8)	(3.7)	(3.6)	(3.9)
Alcoholic drinks and tobacco	0.59	8.1	19.9	20.3	20.1	20.3	20.3
Clothing and footwear	3.45	5.6	6.3	7.8	7.3	7.5	8.7
Durable goods	5.27	-4.4	-4.3	-3.1	-3.3	-3.2	-3.0
Miscellaneous goods	4.17	3.1	4.2	4.5	4.1	4.6	4.8
Transport	8.44	3.3	4.7	5.0	4.8	4.9	5.3
Miscellaneous services	15.87	3.3	2.9	4.0	4.0	4.0	4.1
		(3.4)	(2.9)	(4.0)	(4.0)	(4.0)	(4.1)
All items	100.00	3.8	5.2	6.4	7.9	5.7	5.8
		(3.7)	(5.0)	(6.1)	(5.8)	(6.3)	(6.4)

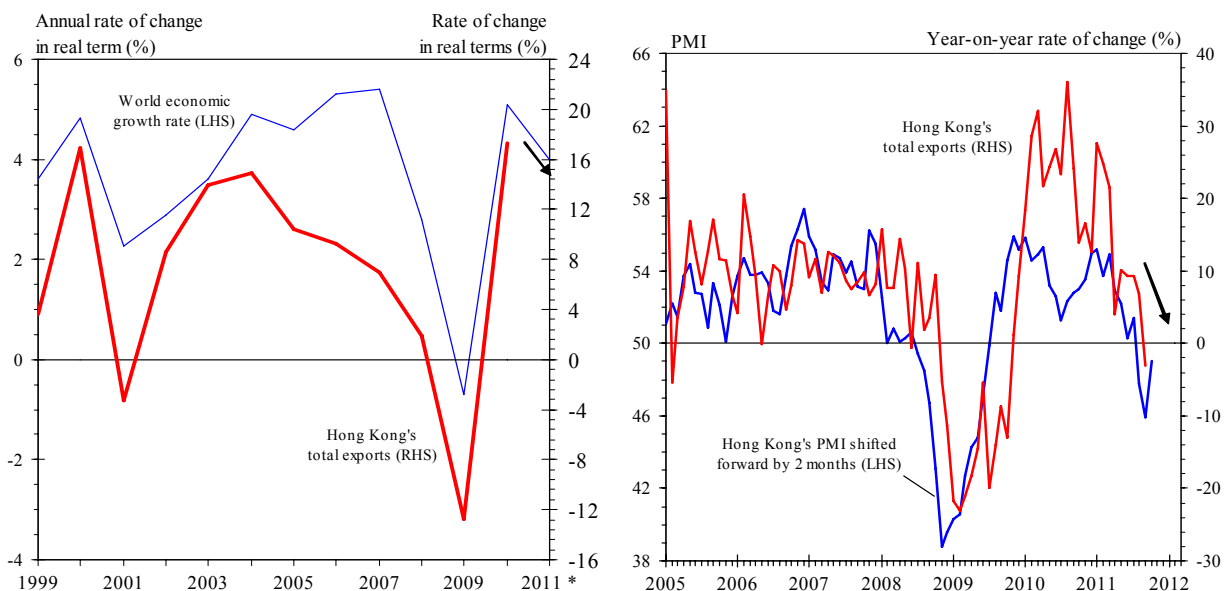
Notes : The year-on-year rates of change in the Composite Consumer Price Index are computed from the new 2009/10-based CPI series. Figures in brackets refer to the underlying rate of change after netting out the effect of Government's one-off relief measures.

- (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.

## Updated short-term economic forecasts for 2011

18. The external environment has deteriorated substantially of late. The negative impacts on the global economy caused by the eurozone sovereign debt crisis and the ensuing global financial turbulence have intensified towards the end of the third quarter, and are likely to remain pronounced in the period ahead. While the eurozone debt problem will remain a key threat to the global economic outlook, the weakness in the US economy also warrants concern. In Asia, the region as a whole has stayed relatively resilient, but growth has also moderated as a result of weakening external demand. Against the headwinds from such an austere global economic environment, Hong Kong's export outlook in the fourth quarter is bleak (*Chart 11*).

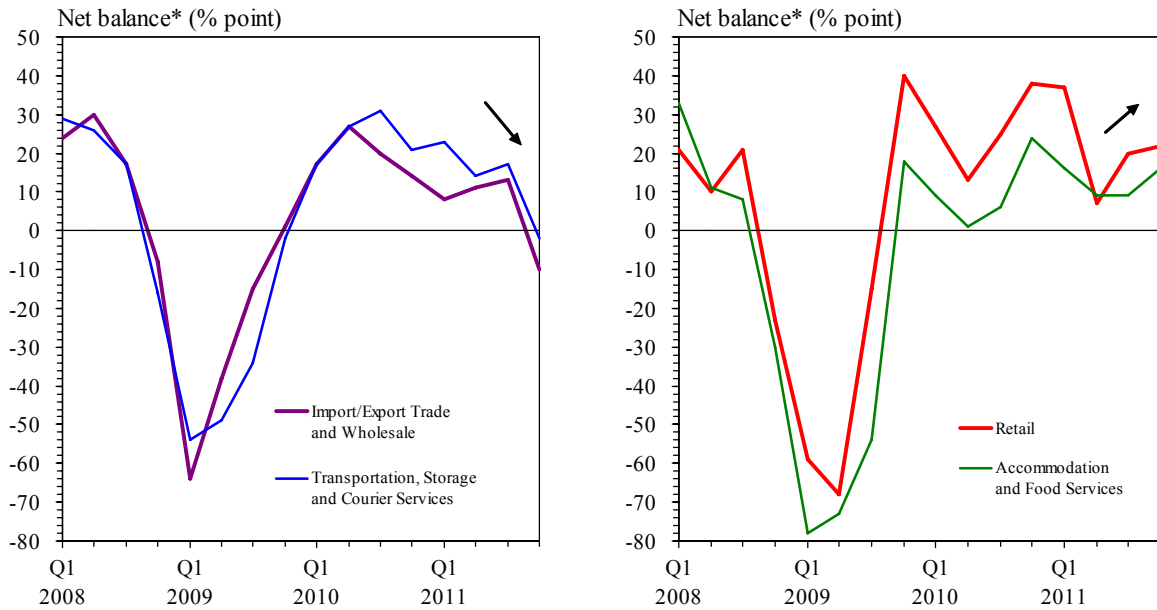
**Chart 11 : HK's export outlook is bleak amid increased headwinds from an austere external environment**



Source: (\*) IMF World Economic Outlook September 2011.

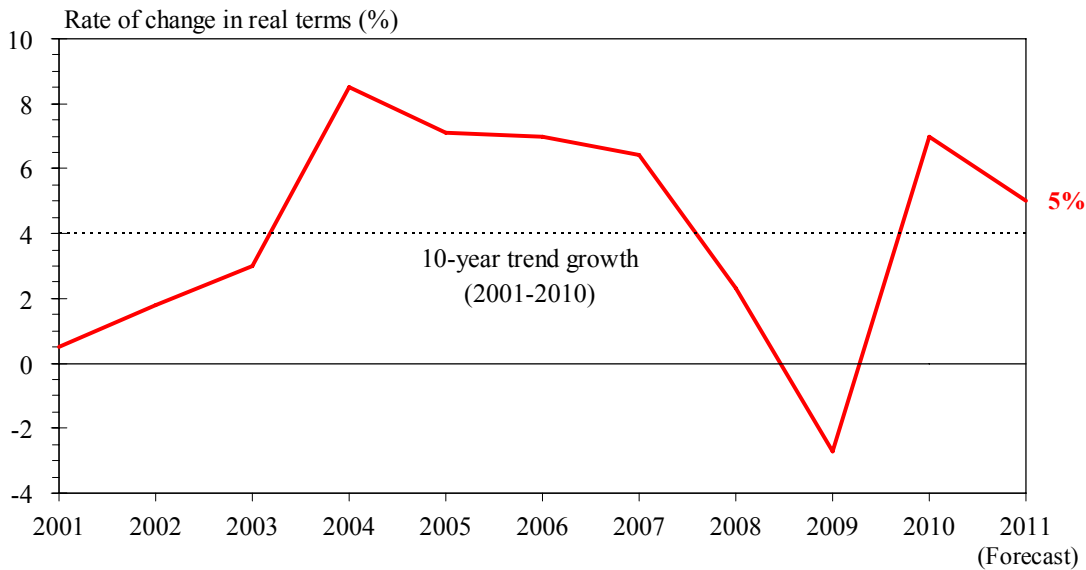
19. Domestic demand as well as inbound tourism are however expected to hold up better. This, coupled with continued hectic pace in infrastructure investment, should provide the key impetus to growth in the fourth quarter (*Chart 12*). Having regard to the actual outturn of a 5.6% GDP growth in the first three quarters of 2011, and with due cognizance of a still lacklustre export performance in the fourth quarter, the economy is now forecast to grow by 5% for 2011 as a whole, the lower bound of the earlier range forecast of 5-6% in the August round (*Chart 13*).

**Chart 12 : Domestic sector largely held firm, providing some cushion to a more challenging external sector**



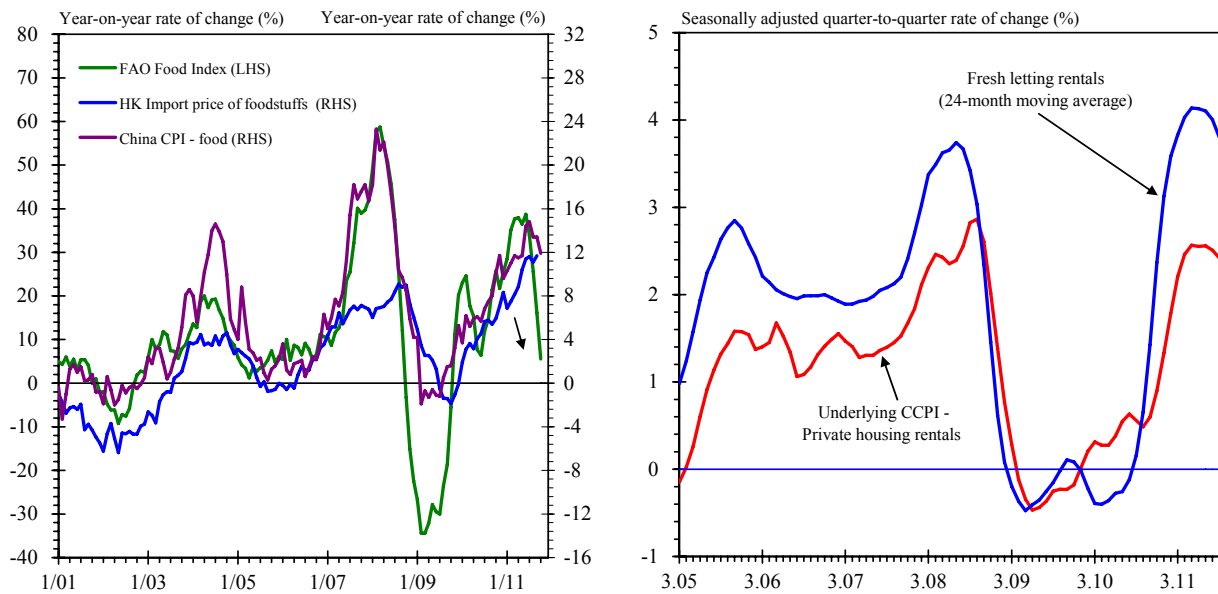
Note : \* Net balance indicates the direction of expected change in business situation versus preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely upward trend while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

**Chart 13 : GDP growth is forecast to be 5% in 2011, the lower end of the earlier 5-6% range forecast**



20. On inflation outlook, the continued ease-back in global food and commodities prices in recent months is a positive development, which in the course of time should help alleviate imported inflation. Judging from the actual outturn so far and the latest trend in global food prices, the forecast rates of headline and underlying consumer price inflation for 2011 as a whole are marked down slightly to 5.2% and 5.3% respectively, from 5.4% and 5.5% in the August round (**Chart 14**).

**Chart 14 : Judging from the latest trends in food prices and rentals, headline and underlying CPI inflation forecasts for 2011 are trimmed to 5.2% and 5.3% respectively**



## Economic outlook for 2012

21. The global recovery, which has been strong in 2010, weakened considerably since the second quarter of 2011 amid a series of negative shocks in the advanced economies. Hong Kong, being an open economy with trade in goods and services representing over 400% of GDP, is bound to be affected through the trade and financial market channels. While market sentiments are temporarily allayed by the rescue package announced after the EU summit in late October, there remains no clear-cut solution in sight to tackle the root problem of the eurozone debt crisis. The situation remains highly fluid at the present juncture, and the risks are much to the downside. The International Monetary Fund (IMF) has accordingly marked down the global growth forecasts for 2012, from 4.5% to 4.0%, and on the eurozone, from 1.7% to 1.1%. As the combined impacts of austerity measures, falling confidence and fiscal fragility weigh on the eurozone's real economy, core members such as Germany and France have lately also trimmed their growth forecasts for 2012, both to 1%. Also of concern is the weakness in the US economy. While recent data are better than expected, the pace of recovery is still heavily constrained by high unemployment, a depressed housing market, and ongoing deleveraging. Political impasse over fiscal consolidation and the dismal state in the euro area are two other negative factors holding back US recovery. With the US and EU both struggling with their own fiscal and structural fragility, global trade flows are set to lose momentum, thereby inevitably affecting the export-dependent economies in Asia. Amid such an uncertain external environment, Hong Kong's export performance is likely to remain rather lacklustre in the near term.



22. In face of increased headwinds in the external environment, large enterprises have turned less sanguine on their near-term business outlook, as indicated by the results of the latest Quarterly Business Tendency Survey. How the euro debt crisis will evolve, and to what extent it will affect the global economy and Asia, is a key source of uncertainty in 2012. Whether and to what extent the domestic sector can hold up in 2012 will also be crucial to the overall economic performance going forward. On the whole, while the economic outlook for 2012 is overshadowed by the worsening global environment, vibrant inbound tourism and hectic infrastructure should render some cushion against the expected setback in external trade.

23. Overall, with stalling global recovery and rising downside risks, the Hong Kong economy is likely to slow down further in early 2012. The Government will closely monitor the developments on the external front and announce the economic forecast for 2012 along with the 2012/13 Budget in February next year. As a reference, the IMF's latest 2012 economic growth forecast on Hong Kong is 4.3%. The prevailing forecasts from private sector range from 3.5% to 4.5%, averaging at around 4.1%.

24. The inflation situation in 2012 will depend on the developments in international commodity prices and exchange rate, the extent of the global slowdown as well as the performance of the domestic economy. Receding inflationary pressures from both the external and local sources in the face of expected slowdown in the global economy should provide the conditions for CPI inflation to ease during the course of the year. For reference, the latest forecasts of Hong Kong's inflation rate next year from private sector analysts average at 4.5%.

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## Recent situation of household income<sup>(1)</sup>

### 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 monthly household income below \$4,000 was once adopted as the demarcation level in previous papers. In the light of the implementation of statutory minimum wage (SMW) in May this year, this benchmark has been revised to \$6,500 since the previous analysis (June 2011) to reflect the resultant changes in income distribution. Further enhancements to the analytical framework were also introduced, with the aim of analysing the income situation of the grassroots along multiple perspectives:

- (i) Adjusting the \$6,500 monthly income threshold by inflation<sup>(2)</sup>;
- (ii) Focussing 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 economic growth over the past year, labour market conditions exhibited full-fledged improvements in the third quarter of 2011. Specifically, total employment grew further, reaching a record high of 3 642 400. The seasonally adjusted unemployment rate declined visibly from a peak of 5.5% in mid-2009 to a 13-year low of 3.2%, signifying a strong local demand for labour with virtually full employment. Meanwhile, income has generally increased at an accelerated pace. Average employment earnings of full-time employees in the lowest decile group rose year-on-year by 13.1% in the third quarter of 2011, following a 9.7% gain in the second quarter. After discounting price changes, the corresponding increases were still notable at 5.0% and 4.0% in real terms (*Table 1*). The real income growth of various indicators reflected the widespread improvement of livelihood owing to solid economic growth in addition to the boost from the implementation of SMW.

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

(2) Adjusting based on the 2009/10-based Consumer Price Index (A) of \$6,500 at constant 2010 prices.

**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)	0.9	(-1.1)	3.3	(0.1)
	Q2	2.3 (-0.5)	1.2	(-1.5)	3.2	(-0.5)
	Q3	3.7 (2.0)	-5.8	(-7.3)	7.3	(7.5)
	Q4	2.9 (0.1)	6.8	(4.0)	5.9	(2.7)
2011	Q1	5.6 (1.7)	5.3	(1.5)	6.0	(1.8)
	Q2	10.2 (4.8)	5.7	(0.6)	9.7	(4.0)
	Q3	11.1 (4.4)	8.1	(1.6)	13.1	(5.0)

Notes : ( ) Rate of change (%) in real terms.

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

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

3. In the third 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 57 900, visibly lower by 18.3% (or 13 000) as compared to a year earlier. The corresponding proportion in total domestic households also fell from 3.0% to 2.4%. This is attributable to the robust economic growth in the past year as well as the implementation of SMW, which have lifted the employment earnings of the general public, thereby enabling them to withdraw from the low-income segment.

4. Over the past decade, the number and proportion of low-income households have moved closely in line with the economic cycles. During 2000 and 2008, when the economy performed persistently well for most of the period, the proportion of low-income households declined successively from 5.0% in the third quarter of 2002 to 3.6% in the third 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 4.0% in the third quarter of 2009. But with economic recovery taking hold afterwards, the figure fell to 2.4% noticeably in the third quarter of 2011 (*Table 2 and Chart 1*).

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

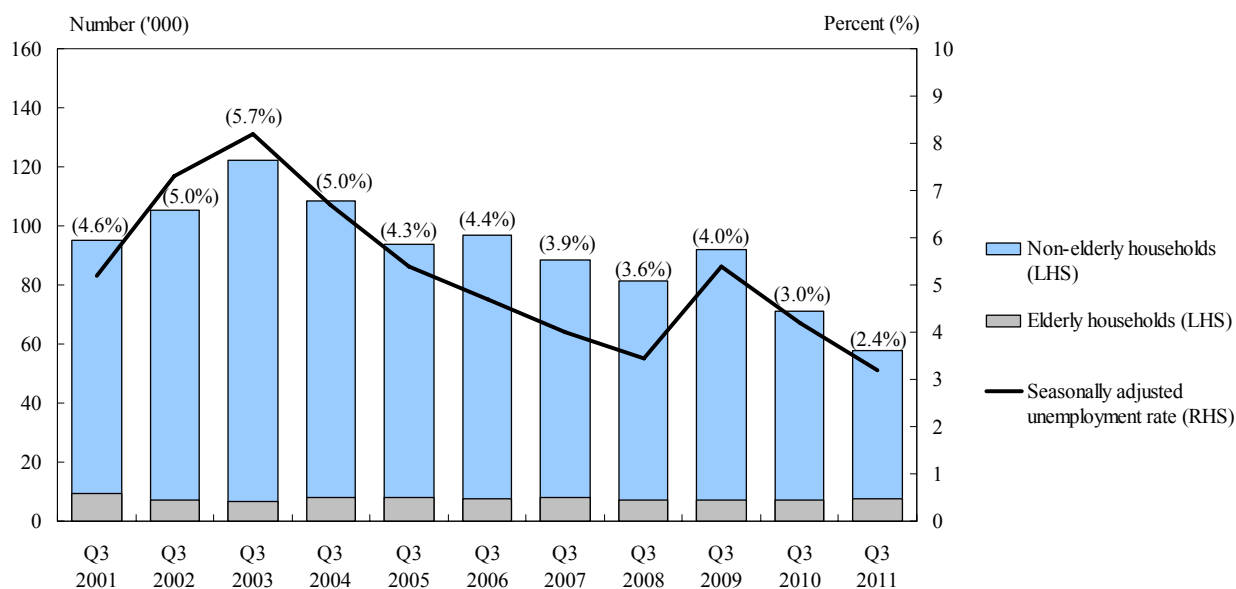
<u>Period</u>	Household type:			Of which:
	<u>Elderly households</u>	<u>Non-elderly households</u>	<u>Total</u>	<u>Economically active persons therein</u>
Q3 2001	9 400 (0.5)	85 500 (4.1)	<b>94 900</b> <b>(4.6)</b>	106 800 [3.3]
Q3 2006	7 600 (0.3)	89 500 (4.0)	<b>97 100</b> <b>(4.4)</b>	110 600 [3.2]
Q3 2008	7 100 (0.3)	74 300 (3.3)	<b>81 500</b> <b>(3.6)</b>	91 000 [2.6]
Q3 2009	7 000 (0.3)	84 900 (3.7)	<b>91 900</b> <b>(4.0)</b>	105 600 [3.0]
Q3 2010	7 200 (0.3)	63 800 (2.7)	<b>70 900</b> <b>(3.0)</b>	79 900 [2.3]
Q3 2011	7 300 (0.3)	50 600 (2.1)	<b>57 900</b> <b>(2.4)</b>	64 600 [1.8]

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\***



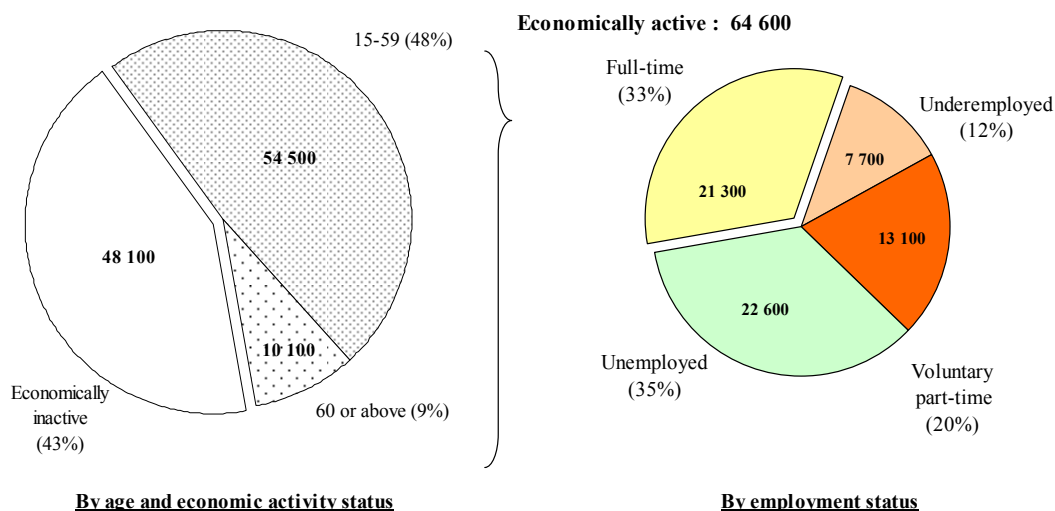
Notes : (\*) Low-income households refer to households with monthly household income less than \$6,500 at constant 2010 prices. This does not include households with all members being economically inactive. Figures in brackets are the proportions of low-income households in all domestic households.

## Socio-economic characteristics of low-income households

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

- 112 700 persons were residing in the households in question, among whom 64 600 were economically active. Most of these individuals (54 500 or 84%) were persons aged 15-59, with the majority within the age group of 40-59 (36 800 or 57%), whilst those aged 60 or above amounted to 10 100 (16%).
- The remaining 48 100 persons were economically inactive. Around half of them were either children aged below 15 or elderly persons aged 60 or above.
- A more in-depth analysis showed that among these 64 600 economically active persons, 33% were full-time workers, while the unemployed and part-timers (working voluntarily for less than 35 hours per week, or involuntarily for the same amount of time, i.e. underemployed) were 35% and 32% respectively (*Chart 2*).

**Chart 2 : Persons living in low-income households\*  
by age and economic activity status, Q3 2011**

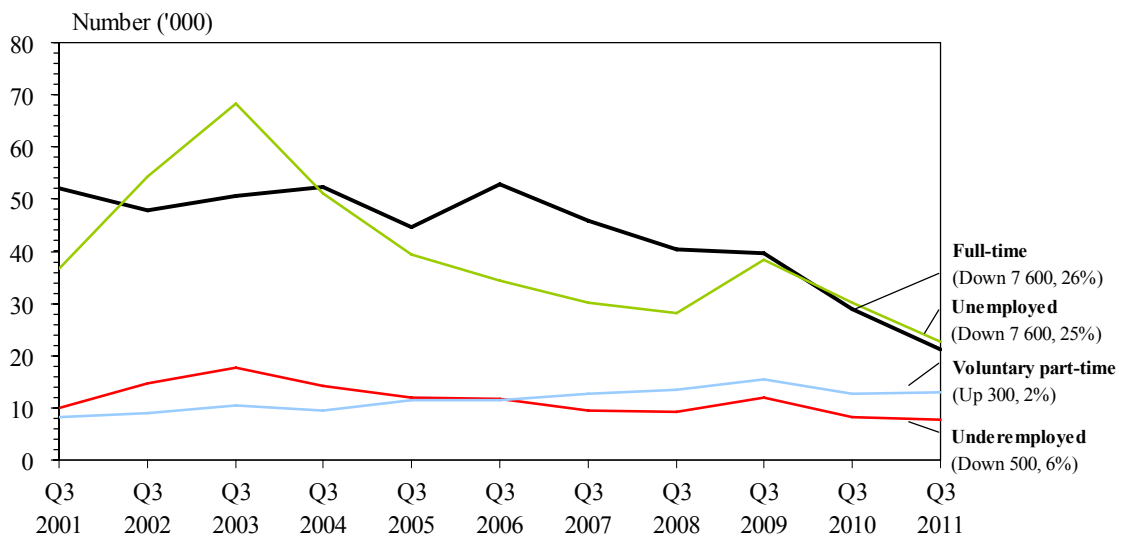


Note : (\*) Low-income households refer to households with monthly household income less than \$6,500 at constant 2010 prices. This does not include households with all members being economically inactive.

- Analysed by occupation, most of the employed persons living in low-income households (86%) were lower-skilled workers (among whom 45% were engaged in elementary occupations, and 20% were service workers and shop sales workers). A breakdown by economic sector revealed that many of them were in the retail, accommodation and food services sector (12 500 or 30%), followed by cleaning and similar activities (4 100 or 10%).

- At 33 hours per week, their average working hours in the third quarter of 2011 was also smaller than the economy-wide average (46 hours per week), largely due to relatively low proportions of full-time workers across different industries (e.g. repair, laundry, domestic and other personal service activities: 28%; transportation: 51%; retail, accommodation and food services: 58%), which dragged down their monthly employment earnings further.
- Compared with a year ago, economically active persons living in low-income households decreased notably by 15 300 from 79 900 to 64 600, with the proportion in total economically active persons also down from 2.3% to 1.8%. The number of unemployed persons living in low-income households fell distinctly by 25% from 30 200 to 22 600. When matched with the decrease of 21% in the number of overall unemployed persons, this indicates that economic recovery does indeed lead to a general improvement in employment situation of the low-income households. Likewise, the number of full-time workers declined significantly by 26% from 28 800 to 21 300, mainly reflecting their earnings uplifts (*Chart 3*).

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

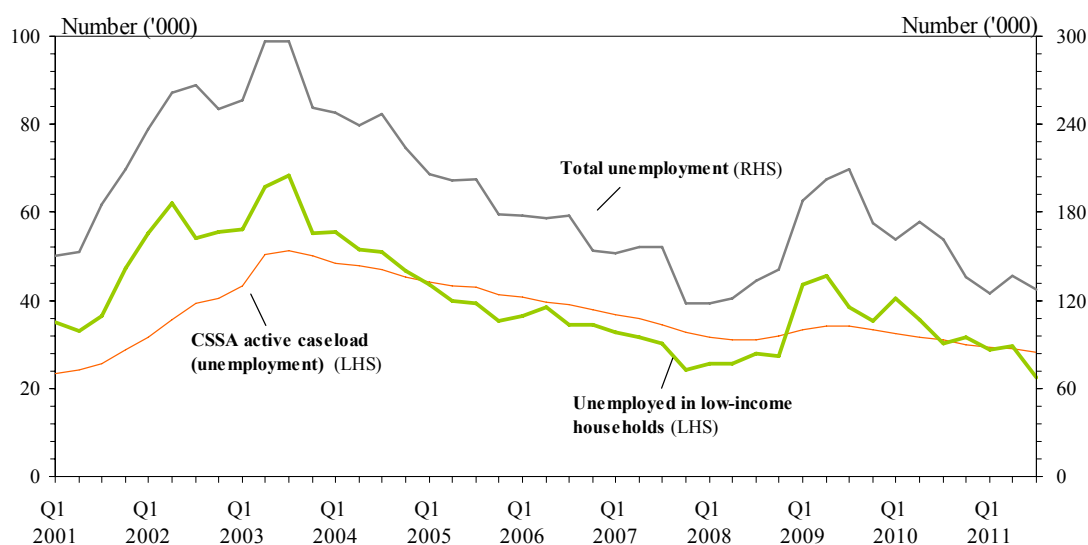


Notes : (\*) Low-income households refer to households with monthly household income less than \$6,500 at constant 2010 prices. This does not include households with all members being economically inactive. Figures in brackets are the year-on-year changes in number of economically active persons in Q3 2011.

### The number of CSSA cases

6. Benefiting from strong economic growth, the unemployment rate of lower-skilled workers has decreased successively from 6.2% in mid-2009 to a low level of 3.7% in the third quarter of 2011, with a cumulative decrease of 2.5 percentage points. The overall CSSA caseload has also declined steadily by 10 621 (or 3.7%) from a peak of 290 242 in August 2009 to 279 621 in September 2011. Improvement in the number of unemployment CSSA cases was even more visible, falling by 6 081 (or 17.7%) to 28 185 over the same period (*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 Government is very concerned about the poverty situation, and strives to tackle the problem by multi-pronged strategies. The recently announced 2011-12 Policy Address has proposed several one-off measures in the coming year, i.e. paying two months' rent for public housing tenants and providing an extra one-month allowance to Social Security Allowance recipients. To further alleviate the living burden of the grassroots, the Budget for the next financial year will also consider strengthening related measures after assessing the prevailing economic situation. Besides, the implementation of SMW, together with the launching of the Work Incentive Transport Subsidy Scheme and the Community Care Fund, should help improve the livelihood 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 assist the vulnerable groups, enabling them to share the fruits of economic growth. More importantly, we 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. The external sector deteriorated somewhat recently and the global economy for next year is bleak amid the deepening eurozone sovereign debt crisis and the stalling economy in the United States, bringing further uncertainties to the local economic outlook. The Government will closely monitor the developments, in particular the impacts on grassroots workers and low-income households, so as to provide timely measures and support to them when and where necessary.

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