



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

The Government released the First Quarter Economic Report 2014 on 16 May. The Economic Report, together with the press release containing the updated economic forecasts for the whole year of 2014, have been furnished to LegCo Members.

This paper analyses Hong Kong's overall economic development in the most recent period, provides some analysis on the outlook for the rest of 2014, and summarises the updated economic forecasts by the Government for 2014 as a whole.

Economic Analysis and Business Facilitation Unit  
Financial Secretary's Office  
3 June 2014

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

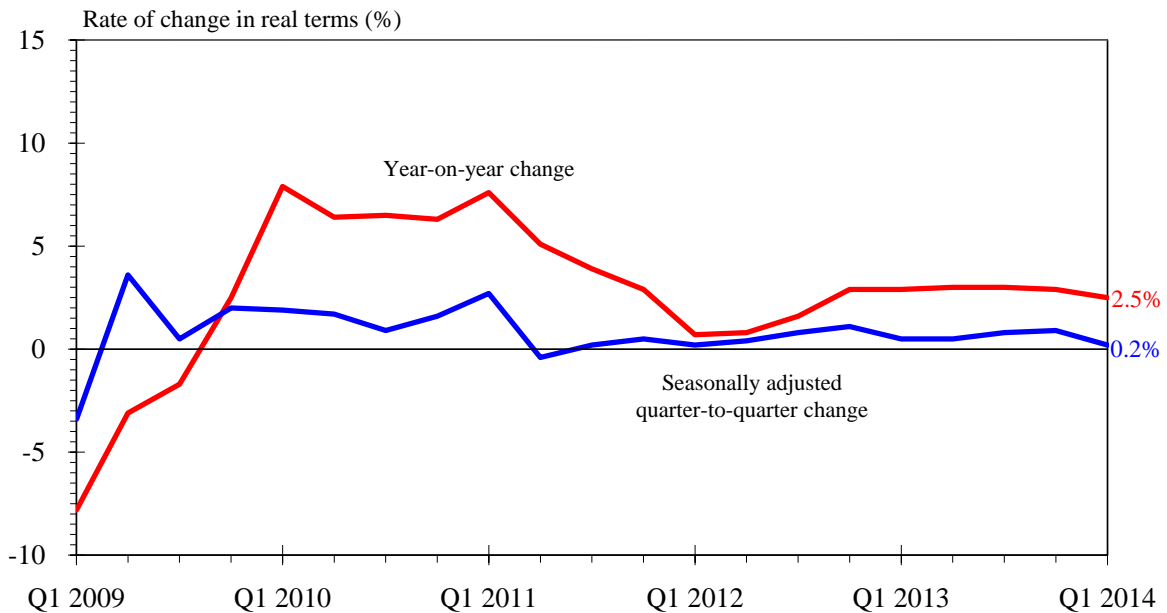
## Introduction

This paper analyses the latest development in the Hong Kong economy and briefly discusses the outlook for the rest of 2014, and provides updated economic forecasts by the Government for 2014 as a whole.

## Recent economic situation

2. The Hong Kong economy grew moderately in the first quarter of 2014, by 2.5% year-on-year in real terms, somewhat slower than the 2.9% growth in the preceding quarter. Merchandise exports were sluggish, reflecting the slow improvements in the advanced markets. Nevertheless, services exports and the domestic sector kept expanding, thereby maintaining the labour market in a state of full employment. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew slightly by 0.2% in the first quarter, after a 0.9% increase in the preceding quarter (*Chart 1*).

**Chart 1 : The Hong Kong economy grew moderately in the first quarter of 2014**



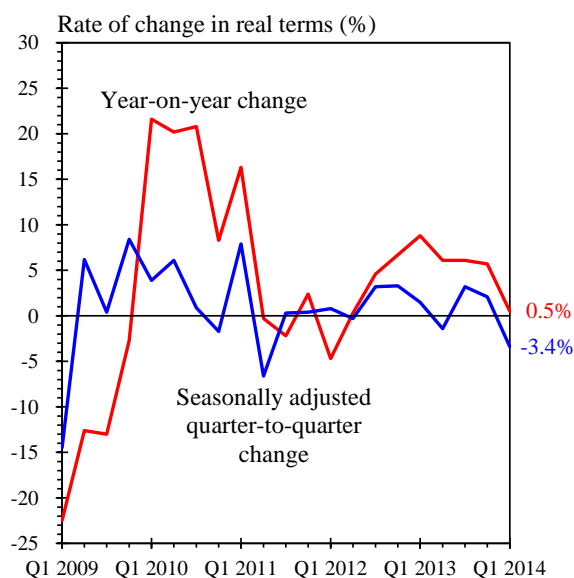
## External trade

3. The external environment was yet to provide stronger support to the Hong Kong economy. The US economy contracted in the first quarter due to adverse weather conditions early this year, while the recovery in Europe proceeded only at a slow pace. The US Federal Reserve (Fed) began to taper asset purchases in January, adding volatility to the global financial conditions and negatively affecting those emerging market economies with higher inflation and larger external imbalances. Geopolitical risks also increased recently in some parts of the world, though this had not yet affected the global economy in any significant way. Against this background, trading and production activities in Asia were generally lacklustre in the first quarter. The Mainland's export performance was also not immune to these developments, although its overall economy stayed comparatively steady.

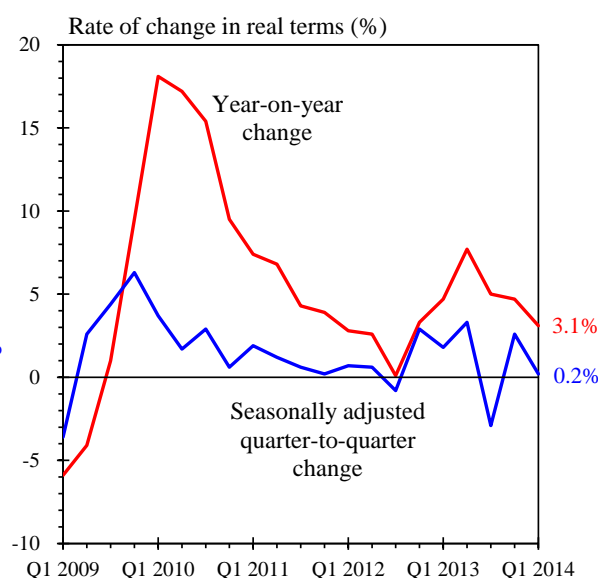
4. Against this background, Hong Kong's total exports of goods slowed markedly, with a meagre 0.5% year-on-year growth in real terms in the first quarter of 2014. The deceleration from the 5.7% rise in the preceding quarter was in part due to the sharp moderation in exports of non-monetary gold after the strong growth in the previous quarters. The decline in exports to the US and the EU at the start of the year was another factor, due to the sluggishness of the advanced economies, especially the US, which was temporarily disrupted by the adverse weather conditions. The weak demand conditions in the advanced economies also weighed on the regional trade flows in Asia, causing a relapse in Hong Kong's exports to major Asian markets. On a seasonally adjusted basis, total exports of goods fell by 3.4% in real terms in the first quarter from the preceding quarter (*Chart 2(a)*). Into the second quarter, the performance of merchandise exports was still unsatisfactory and registered a slight year-on-year decline in value terms in April, although it was partly due to a high base of comparison a year earlier.

5. Exports of services also slowed, to a 3.1% growth in real terms in the first quarter over a year earlier, down from the 4.7% growth in the preceding quarter. The main drag came from the setback in exports of trade-related services and transportation services in tandem with the relapse in trade flows. On the other hand, thanks to the sustained expansion of inbound tourism, exports of travel services grew notably further, though not as significant as the double-digit growth attained last year. Exports of financial and other business services also expanded further. On a seasonally adjusted basis, exports of services rose slightly by 0.2% in real terms in the first quarter over the preceding quarter (*Chart 2(b)*).

**Chart 2(a) : Growth in total exports of goods moderated visibly**



**Chart 2(b) : Exports of services also slowed**



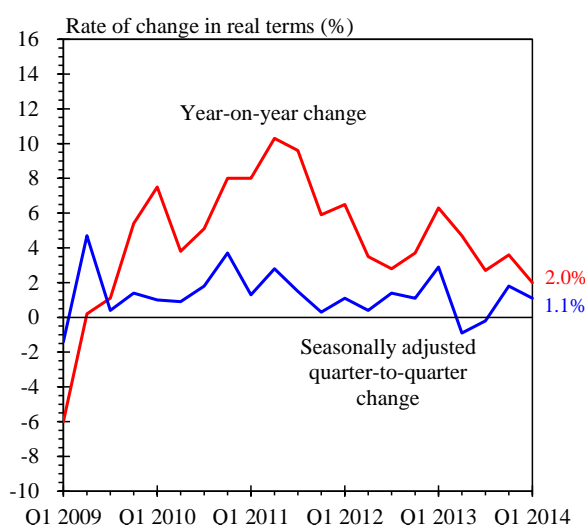
6. Specifically, exports of travel services still saw a rather notable growth of 7.9% year-on-year in real terms in the first quarter, though moderated from the surge of 18.2% in 2013. Further expansion of inbound tourism in the first quarter rendered support to other business activities such as retail sales, transportation, hotel and catering. The number of visitor arrivals rose visibly further by 15.3% in the first quarter over a year earlier, with those from the Mainland (accounting for more than 70% of the total) surging by 20.1%. However, there was a decline of per capita visitor spending, partly reflecting the high base of comparison last year. The number of visitors from non-Mainland markets as a whole only recorded a modest year-on-year increase of 1.5%, reflecting the relative sluggishness of the global economy at the start of the year.

### Domestic sector

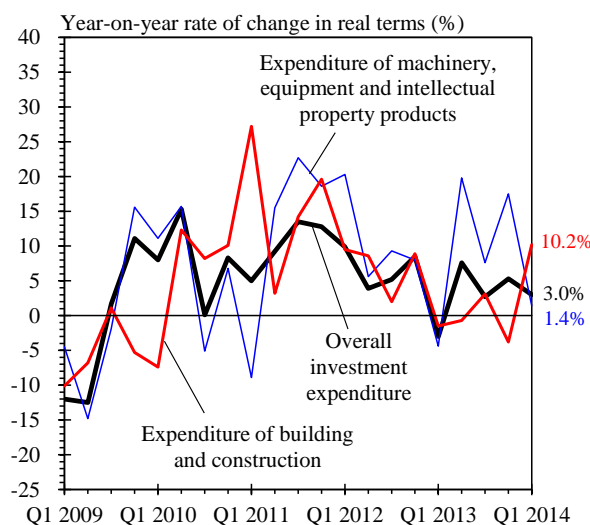
7. Domestic demand held steady. Private consumption expenditure grew by 2.0% year-on-year in real terms in the first quarter of 2014. This was somewhat slower than the 3.6% growth in the preceding quarter, due partly to a high base of comparison in the same quarter of 2013 and partly affected by the difference in the timing of Easter holidays in 2013 and 2014. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure grew solidly, by 1.1% in the first quarter (*Chart 3(a)*).

8. Overall investment spending in terms of gross domestic fixed capital formation increased moderately, by 3.0% year-on-year in real terms in the first quarter of 2014, following a 5.3% growth in the preceding quarter. Within this, machinery and equipment acquisition, which was typically volatile, grew slightly by 1.4% after notable gains in the preceding three quarters. On the other hand, overall building and construction expenditure rebounded notably, as expenditure on large-scale infrastructure works surged while private sector construction activity also revived somewhat (*Chart 3(b)*).

**Chart 3(a) : Private consumption expenditure grew moderately in the first quarter**



**Chart 3(b) : Investment spending also increased moderately**



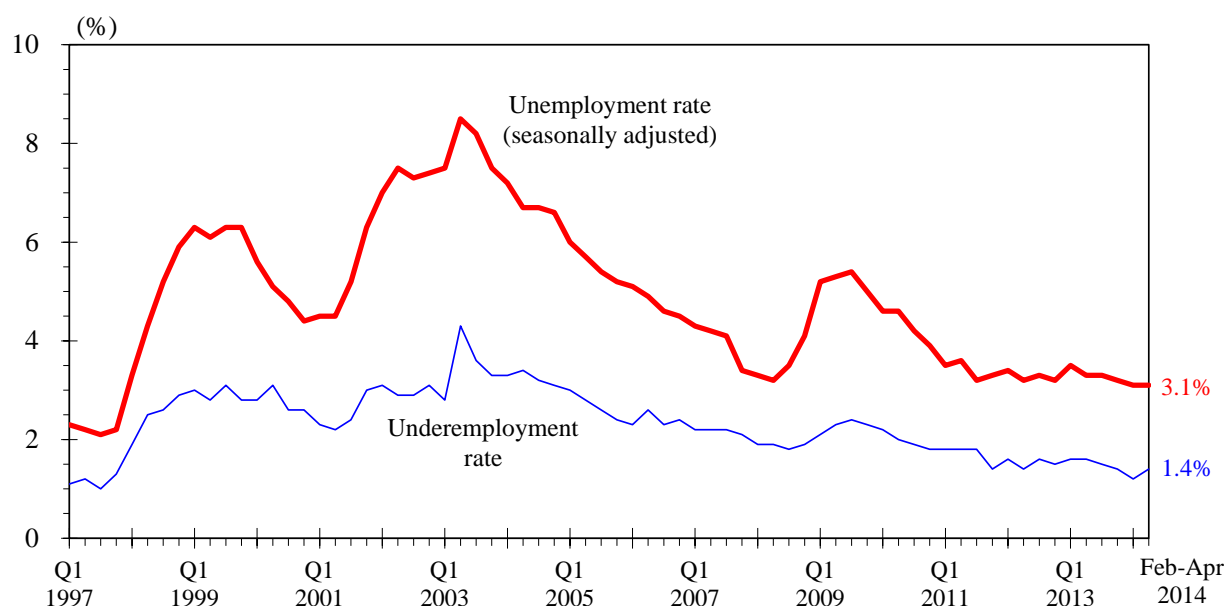
9. As for foreign direct investment (FDI), the Mainland remained the major source of Hong Kong’s external direct investment, accounting for more than 40% of the total DI inflow in 2012, reflecting the appeal of Hong Kong’s favourable business environment as a vital platform for Mainland’s companies to develop their overseas business amid the nation’s “Go-Global” strategy. Indeed, there were over 900 offices representing Mainland Chinese companies in Hong Kong as of 2013, among which 114 served as regional headquarters. Amid improved global investment sentiment, the latest balance of payments figures indicate that FDI inflows <sup>(1)</sup> rebounded slightly by 2% to \$594 billion (US\$77 billion) in 2013, representing 28% of GDP.

(1) This item is referred to as “direct investment liability” under the international standard as stipulated in the *Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6)* released by the International Monetary Fund (IMF).

## Labour Market

10. The labour market remained tight upon entering 2014. Supported by the sturdy labour demand, total employment stayed near its historical high in the recent periods. As a result, the seasonally adjusted unemployment rate held stable at a 16-year low of 3.1% in February – April 2014 for the fourth consecutive month. The underemployment rate was likewise at a relatively low level of 1.4% (*Chart 4*).

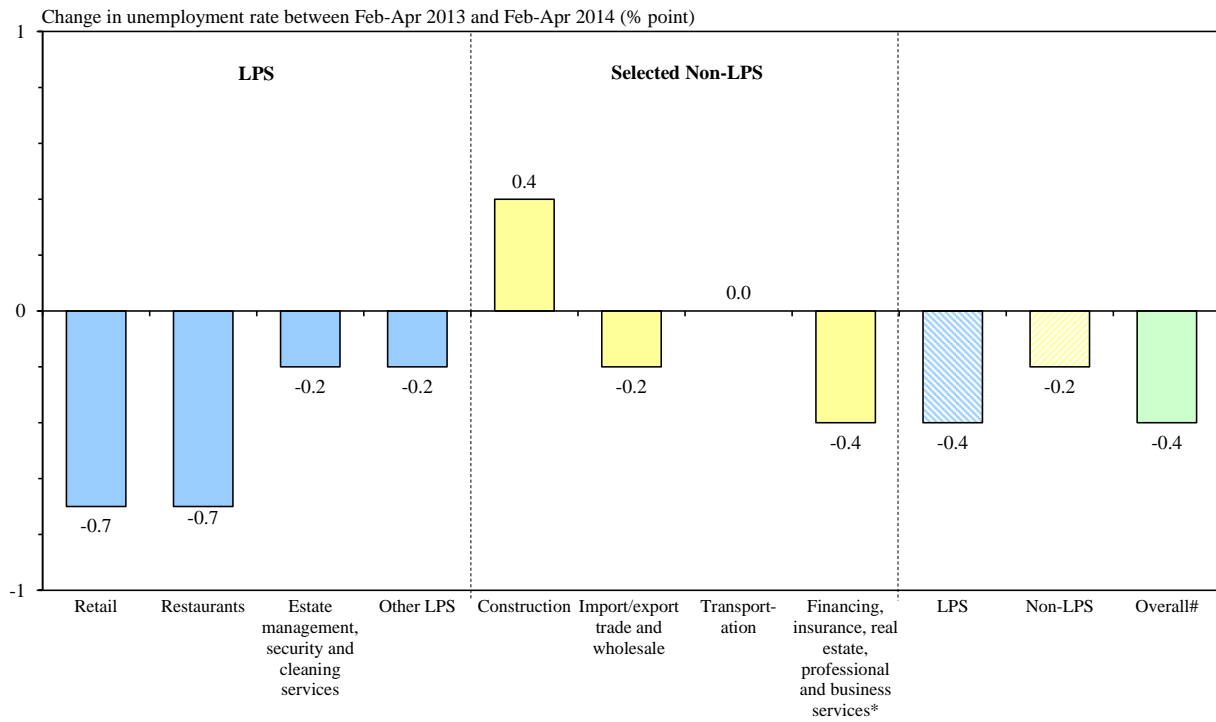
**Chart 4 : The labour market remained in a state of full employment**



11. The Statutory Minimum Wage (SMW) has been implemented for over three years since 1 May 2011. During most of the period, labour demand remained strong amid vibrant local consumption and inbound tourism, thereby easing the pressure on the labour market brought about by the implementation of SMW. The overall seasonally adjusted unemployment rate in February – April 2014, at 3.1%, was lower than the year-ago level (3.5% in February – April 2013) right before the upward adjustment of the SMW rate. The unemployment rates for the low paying sectors (LPS)<sup>(2)</sup> and non-LPS were both 2.9% in February – April 2014, down by 0.4 and 0.2 percentage point respectively over a year earlier. Unemployment situations in all individual sectors of LPS showed improvements (*Chart 5*).

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

**Chart 5 : Unemployment situation of LPS showed general improvements after the implementation of the revised SMW rate**



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

12. Analysed by skill segment, in February – April 2014, the unemployment rates for the higher-skilled and lower-skilled segments fell by 0.5 and 0.2 percentage point to 1.6% and 3.6% respectively over February – April 2013 (*Table 1*). In terms of employment, the lower-skilled segment recorded a modest gain over a year earlier.

**Table 1 : The unemployment situation in both segments improved, with lower-skilled segment recording further gain in employment**

	Employment			Unemployment rate	
	Feb – Apr 2014	Change as compared to Feb – Apr 2013 (a year earlier, before the implementation of the revised SMW rate)		Feb – Apr 2014	Change as compared to Feb – Apr 2013 (a year earlier, before the implementation of the revised SMW rate)
	(No.)	(No.)	(%)	(%)	(% point)
Higher-skilled	1 376 600	-4 100	-0.3	1.6	-0.5
Lower-skilled	2 348 100	+10 500	+0.4	3.6	-0.2
Lower-skilled (excl. government employees and live-in domestic workers)	1 960 200	+11 300	+0.6		

13. Wages and earnings stayed on the rise in 2013, reflecting the persistently tight manpower situation throughout the year. Payroll and wages increased across all major industries in 2013, with the corresponding nominal indices up by 5.4% and 4.7% respectively. After discounting inflation, there were real improvements of 1.1% and 0.1% respectively. More recent data showed that lower-paid workers continued to enjoy more visible wage growth, thanks in part to the upward adjustment of the SMW rate in May 2013. The average monthly employment earnings for full-time employees engaged in elementary occupations sustained an appreciable nominal growth of 6.4% year-on-year in the first quarter of 2014, translating into a real increase of 2.0% after discounting inflation (Please refer to *Annex* for details).

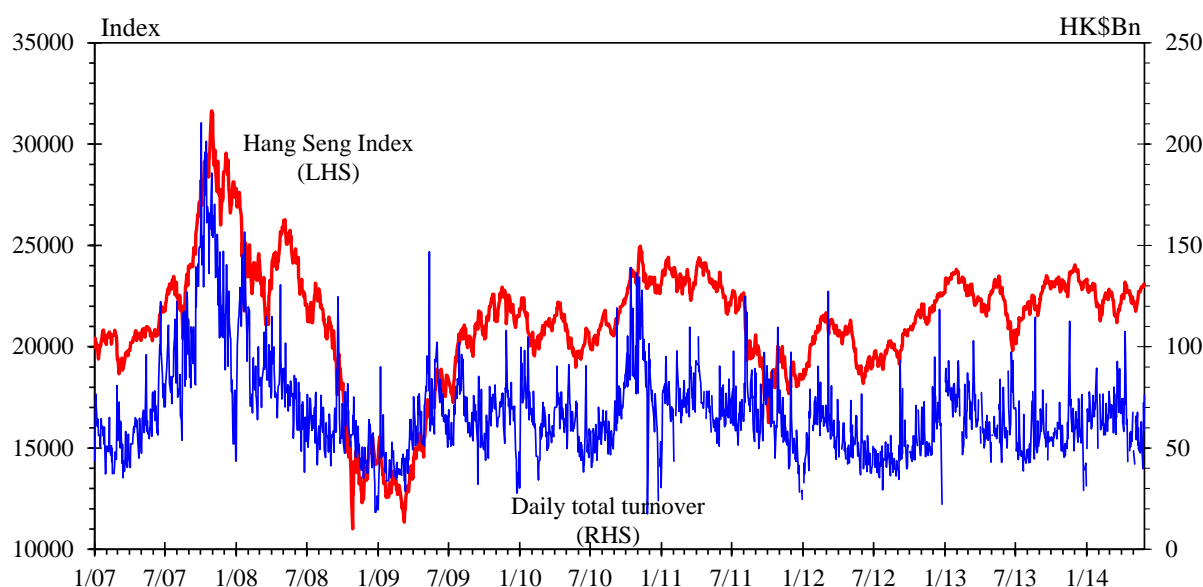
### **Asset markets**

14. The Hang Seng Index fell at the beginning of the year amid the worsening market sentiment under the influence of Fed's tapering. Signs of slower Mainland's growth momentum and the emergence of geopolitical risks surrounding Eastern Europe also ratcheted up risk aversion. The Hang Seng Index recovered some lost ground after mid-March on expectation of further supportive measures by the Central Government to maintain solid economic growth and the announcement of the Shanghai-Hong Kong Stock Connect pilot programme, but fluctuated in April



and May alongside such factors as the evolving geopolitical situation. The Hang Seng Index closed at 23 082 on 30 May, 1% lower than end-2013 (*Chart 6*). Average daily turnover rose to \$65.2 billion in the first five months. Fund-raising activity retreated somewhat in the first quarter compared with the elevated level in the preceding quarter, but remained notably higher compared to the same period last year.

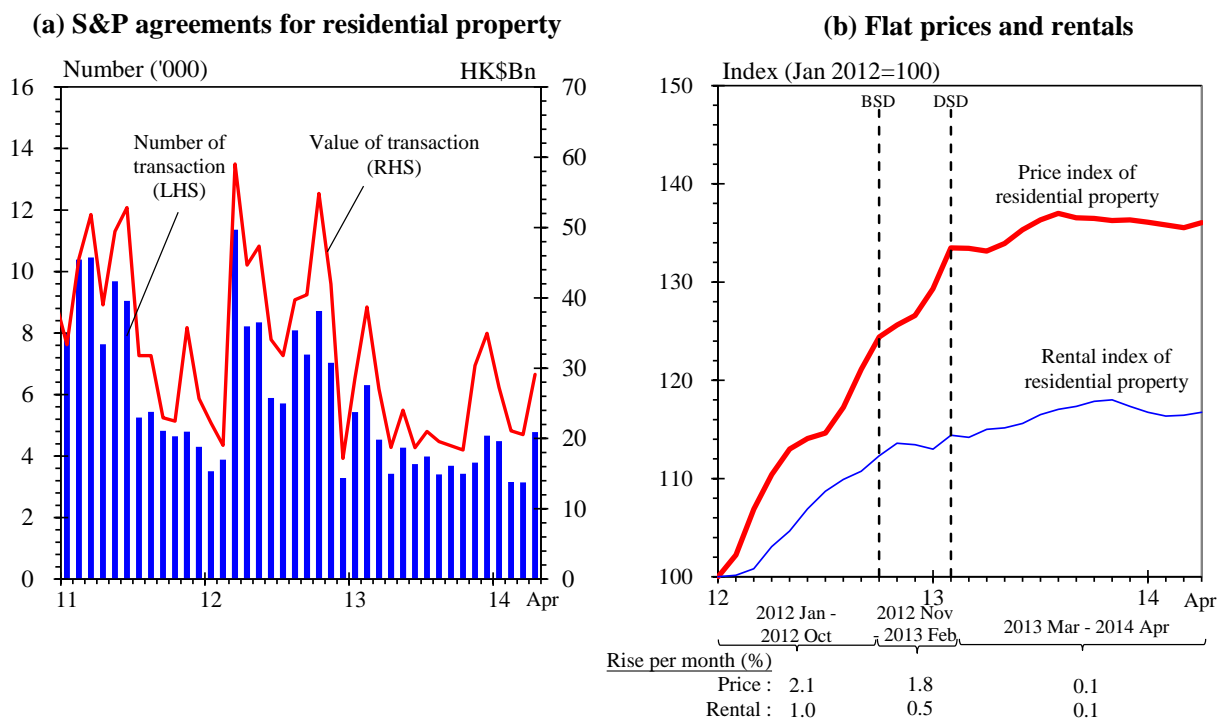
**Chart 6 : Local stock prices eased slightly in the first five months of 2014**



15. The residential property market continued to consolidate in recent months. Market sentiment remained cautious under the sustained effects of the Government's various counter-cyclical measures, and market conditions weakened further with the gradual tapering of asset purchases by the Fed. With most buyers sitting on the sidelines, trading activities stayed generally subdued. The total number of sale and purchase agreements for residential property received by the Land Registry remained at a low level of 3 892 cases per month during January to April 2014, well below the long-term monthly average of 7 900 over 1994-2013. (*Chart 7(a)*).

16. Overall flat prices edged down by 0.2% between December 2013 and April 2014 (*Chart 7(b)*). Within the total, prices of small-and-medium-sized flats (less than 100 square metres) and large flats (100 square metres or above) fell by 0.2% and 0.7% respectively. Compared with the recent peak in August 2013, overall flat prices in April 2014 have dropped by a cumulative 0.7%. Meanwhile, flat rentals edged down by 0.5% between December 2013 and April 2014.

**Chart 7 : Residential property market continued to consolidate in recent months**

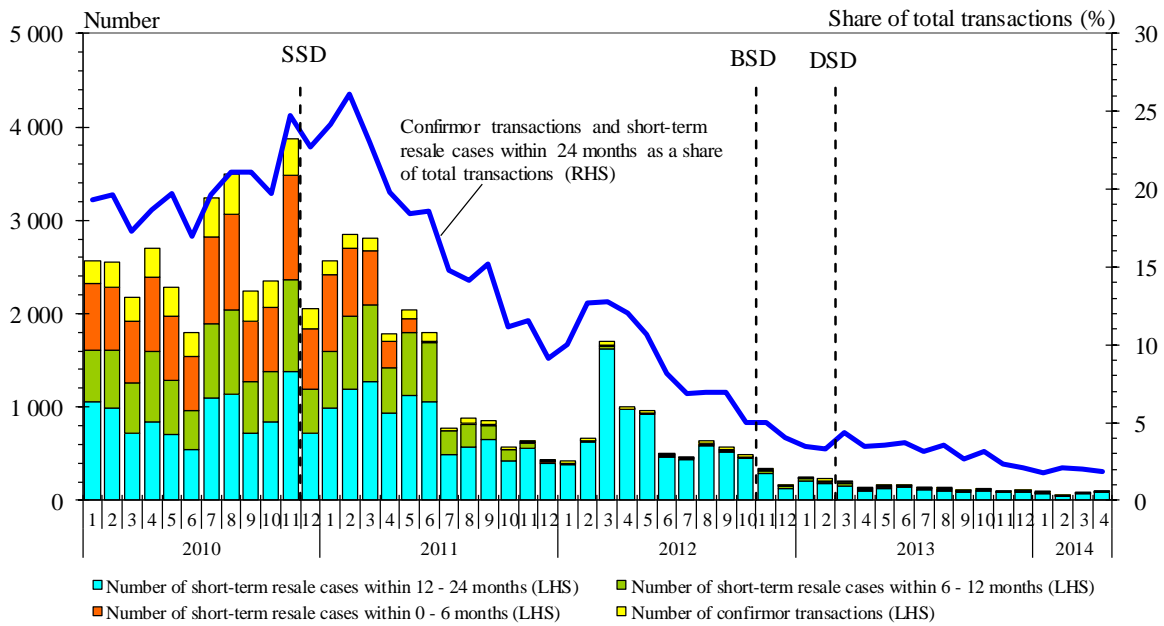


17. Raising flat supply through increasing land supply is the Government’s top policy priority in ensuring the healthy and stable development of the property market. To sustain these efforts, in February the Government announced the 2014-15 Land Sale Programme which included 34 residential sites capable of providing a total of about 15 500 flats. Taking together the Land Sale Programme and other sources, the total housing land supply in 2014-15 could provide for about 30 000 private flats. As a result of the Government’s various efforts, the total supply of flats in the coming few years rose from 67 000 units as estimated at end-March 2013 to 72 000 units as estimated at end-March 2014.

18. As it takes time to increase supply, the Government has also put in significant efforts to manage demand and reduce the possible risks to financial stability arising from an exuberant property market. These measures have yielded notable results. On speculative activities, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) fell further to 83 cases per month or 1.9% of total transactions in January to April 2014, markedly below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty) (*Chart 8*). Reflecting the effects of the Buyer’s Stamp Duty, purchases by non-local individuals and non-local companies stayed low at 98 cases per month or 2.2% of total transactions in January to April, much lower than the monthly average of 365 cases or 4.5% in January to October 2012 (*Chart 9*). As to mortgage lending, the average loan-to-value ratio of new mortgages in January to April, at 55%, was lower than the average of 64% in January to October 2009 before the first

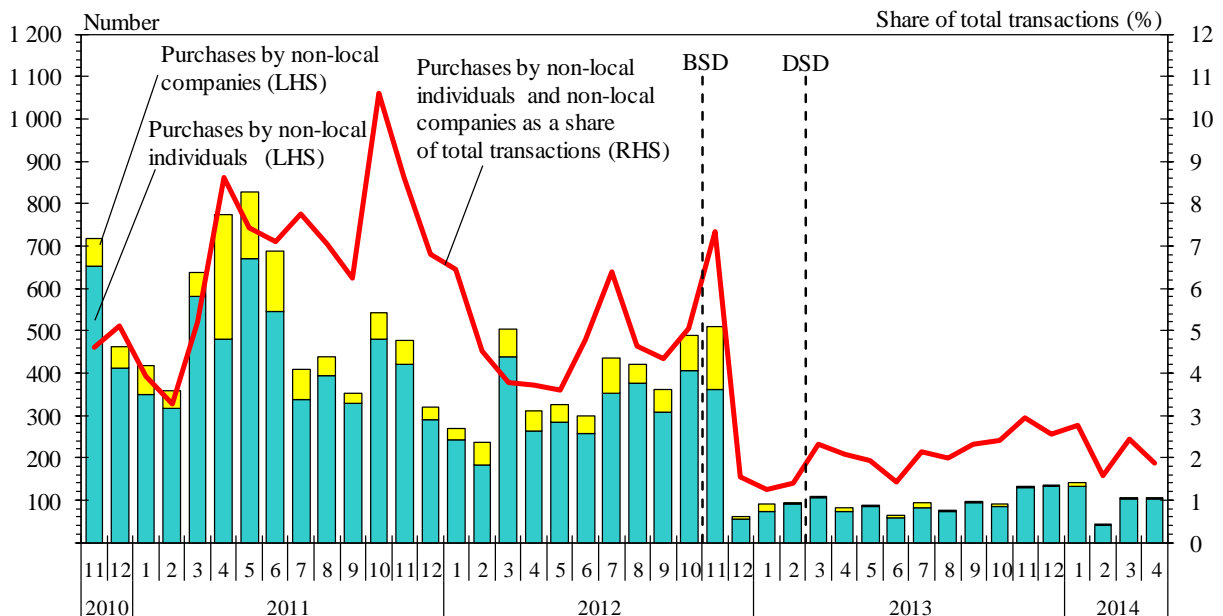
round of macro-prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority.

**Chart 8 : Speculative activities stayed subdued**



Note : Confirmor transactions refer to resale before assignment.

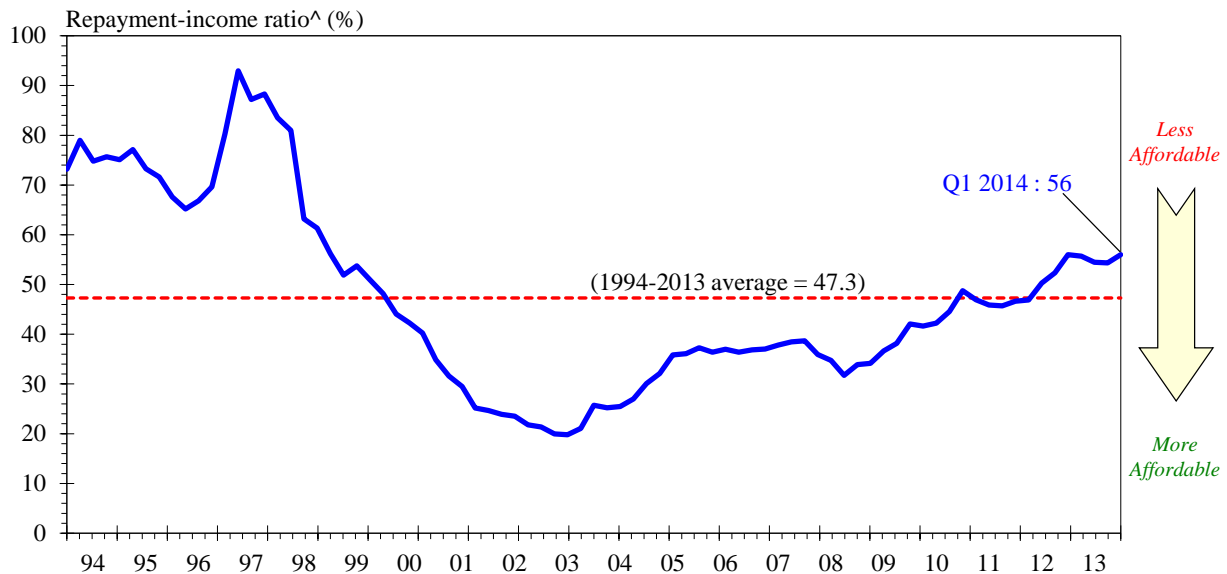
**Chart 9 : Purchases by non-local buyers remained low**



19. Notwithstanding the recent market consolidation, the risks of a property market bubble remained elevated. Home purchase affordability as measured by the mortgage-to-income ratio stayed elevated at around 56% in the first quarter of 2014, exceeding the long-term average of 47.3% over 1994-2013 (*Chart 10*). Should

interest rates rise by three percentage points to a more normal level, the ratio would soar to 73%.

**Chart 10 : Mortgage-to-income ratio stayed elevated**

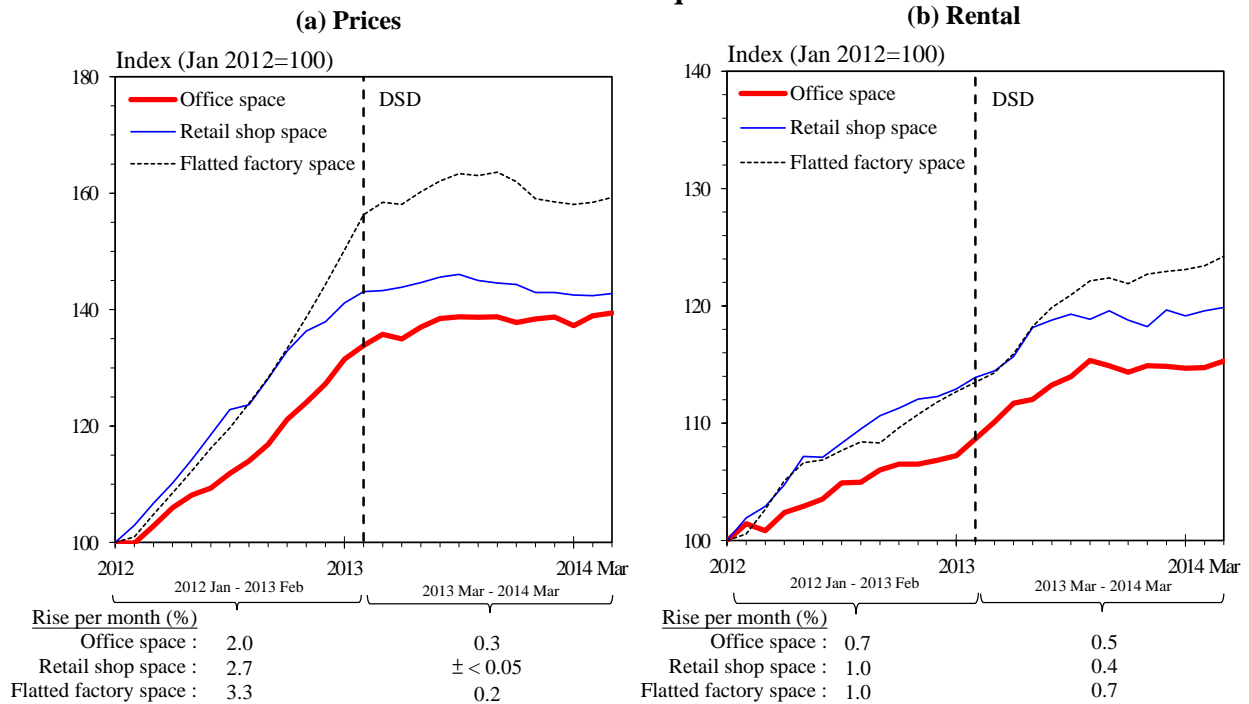


Note : (^) The ratio of mortgage payment for a flat with saleable area of 45 sq m (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing). This ratio is different from the debt servicing ratio published by the HKMA, which is the ratio of actual monthly debt obligations of mortgagees to their monthly income of newly approved mortgages.

20. The US Federal Reserve has gradually reduced its asset purchases since January 2014. While the actual pace of exit from the ultra-loose monetary policy in the US is still uncertain, there might be wider fluctuations in interest rate expectation and international capital flows as the interest rate up-cycle draws nearer, with ramifications on asset prices, including flat prices in Hong Kong. The Government will continue to monitor the situation closely, and respond in a prompt and appropriate manner.

21. The commercial property markets also remained quiet, with sentiment likewise dampened by uncertainties arising from the US's exit from its extremely loose monetary policy. Trading activities further shrank to very low levels. Between December 2013 and March 2014, prices of retail shop space were little changed, while overall prices of office space edged up by 1%. Over the same period, rentals of retail shop space and office space largely held steady, indicating that the upward pressures in non-residential property market had also abated (*Chart 11*).

**Chart 11 : Prices and rentals of non-residential properties were generally flat in the first quarter**

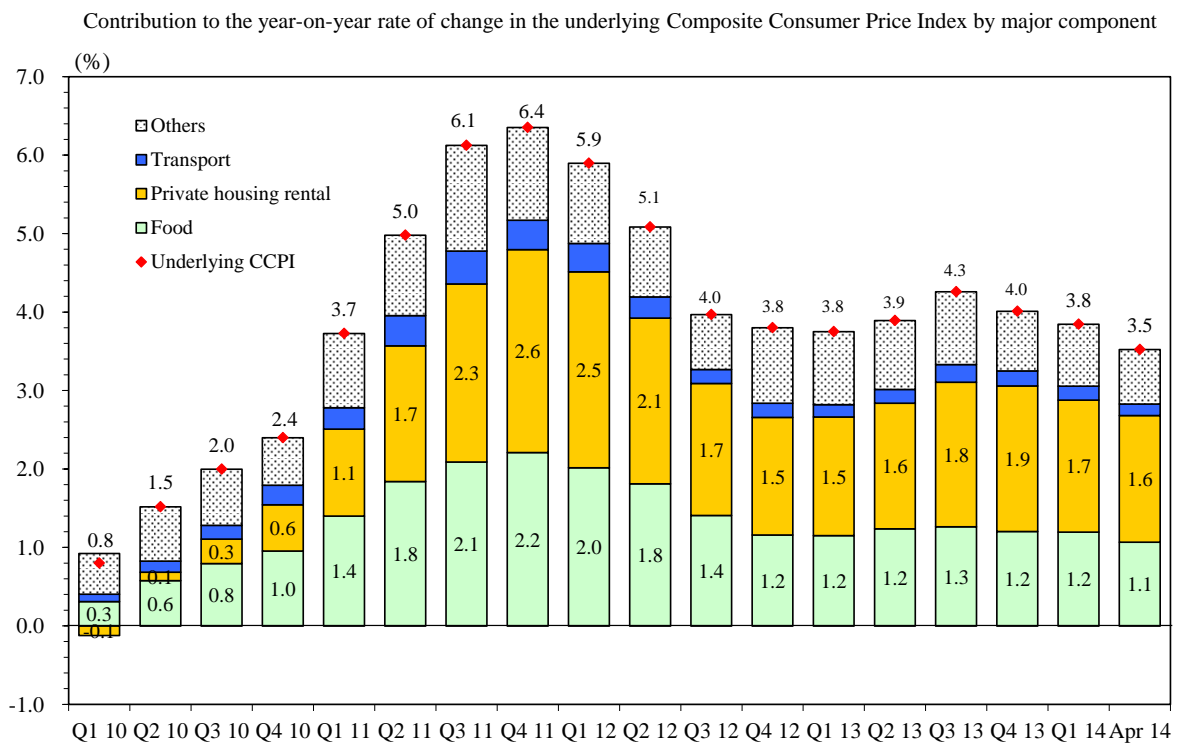


## Inflation

22. Consumer price inflation eased continuously in the first four months of 2014. Domestically, the increase in private housing rental component moderated. The growth in wage costs also held steady. Externally, international food and commodity prices generally saw little upward pressure, and inflation in Hong Kong's most major import partners remained in check.

23. Netting out the effects of the Government's relief measures to more accurately reflect the underlying inflation trend, underlying consumer price inflation edged down to 3.8% in the first quarter and further to 3.5% in April, from 4.0% in the fourth quarter of 2013 (*Chart 12*). Headline consumer price inflation was 4.2% in the first quarter and 3.7% in April, similarly down from 4.3% in the fourth quarter of 2013.

**Chart 12 : Consumer price inflation eased in the first four months of 2014**



24. On a year-on-year comparison, price increases varied among the major components of the underlying Composite CPI (*Table 2*). A notable trend was the deceleration of the price increase in the private housing rental component, the second largest component by weight, from 6.5% in the fourth quarter of 2013 to 5.8% in the first four months of 2014. Thanks to stable international food prices thus far this year, local food inflation (including costs of dining out) receded slightly from 4.4% to 4.2% over the same period. Yet, the prices of alcoholic drinks and tobacco saw a higher increase since March, reflecting the rise in cigarette prices after the announcement of tobacco duty hike in the 2014-15 Budget. The price increases of many other components were moderate, while that of durable goods stayed on a secular downtrend.

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2013</u>				<u>2014</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Apr</u>	<u>Jan-Apr</u>
Food	27.45	4.1	4.5	4.6	4.4	4.3	3.8	4.2
<i>Meals bought away from home</i>	17.07	4.4	4.3	4.3	4.5	4.5	4.7	4.5
<i>Other foodstuffs</i>	10.38	3.6	4.8	4.9	4.1	4.0	2.4	3.6
Housing <sup>(a)</sup>	31.66	5.2 (5.5)	6.1 (5.8)	9.4 (6.3)	6.1 (5.8)	5.6 (5.3)	5.1 (5.1)	5.5 (5.2)
<i>Private dwellings</i>	27.14	5.0 (5.4)	6.1 (5.7)	7.0 (6.5)	7.0 (6.5)	6.4 (5.9)	5.7 (5.6)	6.2 (5.8)
<i>Public dwellings</i>	2.05	9.7 (9.5)	8.9 (9.2)	777.6 <sup>(b)</sup> (5.9)	-1.8 (-0.1)	-1.8 (-0.1)	-0.9 (0.4)	-1.6 (0.1)
Electricity, gas and water	3.10	4.9 (3.6)	5.9 (4.4)	9.6 (7.2)	7.1 (5.3)	5.5 (4.4)	4.4 (3.5)	5.2 (4.2)
Alcoholic drinks and tobacco	0.59	1.6	1.9	1.4	1.1	3.3	7.1	4.3
Clothing and footwear	3.45	1.5	1.0	1.7	2.5	2.1	1.7	2.0
Durable goods	5.27	-3.5	-5.0	-4.7	-4.0	-3.3	-2.5	-3.1
Miscellaneous goods	4.17	1.4	2.2	2.5	2.7	3.1	2.3	2.9
Transport	8.44	2.0	2.2	2.8	2.4	2.2	1.8	2.1
Miscellaneous services	15.87	3.5 (3.5)	3.1 (3.1)	3.9 (3.1)	4.3 (3.1)	4.4 (3.1)	3.7 (2.5)	4.2 (3.0)
All items	100.00	3.7 (3.8)	4.0 (3.9)	5.3 (4.3)	4.3 (4.0)	4.2 (3.8)	3.7 (3.5)	4.0 (3.8)

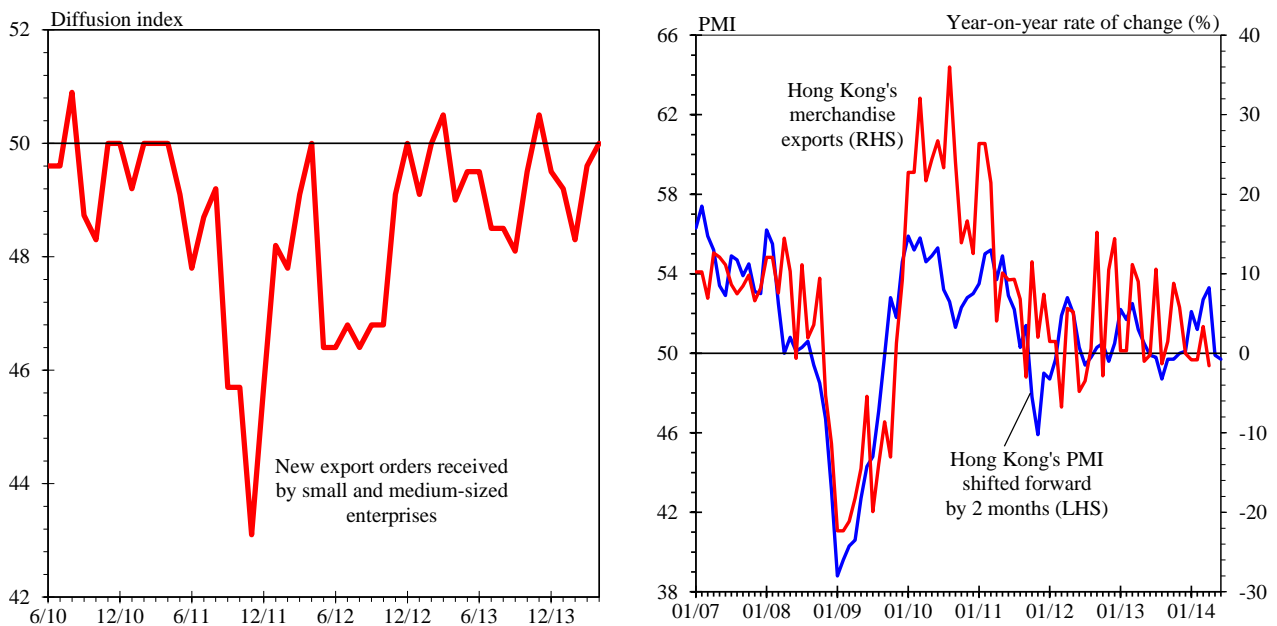
Notes : The year-on-year rates of change in the Composite Consumer Price Index are computed from the new 2009/10-based CPI series. Figures in brackets refer to the underlying rate of change after netting out the effect of Government's one-off relief measures.

- (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 larger year-on-year increase in the public housing rental component of the Composite Consumer Price Index in the third quarter of 2013 was due to a low base of comparison resulted from the Government's payment of public housing rentals in July 2012.

## Updated short-term economic forecasts for 2014

25. Looking ahead, recent US economic data have turned more positive after the adverse effects of the unusually cold weather on economic activity faded, raising hope for faster pace of growth going forward. Yet, the continuation of asset purchase tapering by the US Federal Reserve amid improving economic outlook could possibly change interest rate expectations, heighten global financial volatility, and may add headwinds to emerging markets with weaker fundamentals. Also, the eurozone economy still lacks growth momentum and will likely recover only at a modest pace. The capability of the Japanese economy to sustain stable growth after the sales tax hike also remains to be seen. The geopolitical tensions in different parts of the world are of concern as well (*Chart 13*).

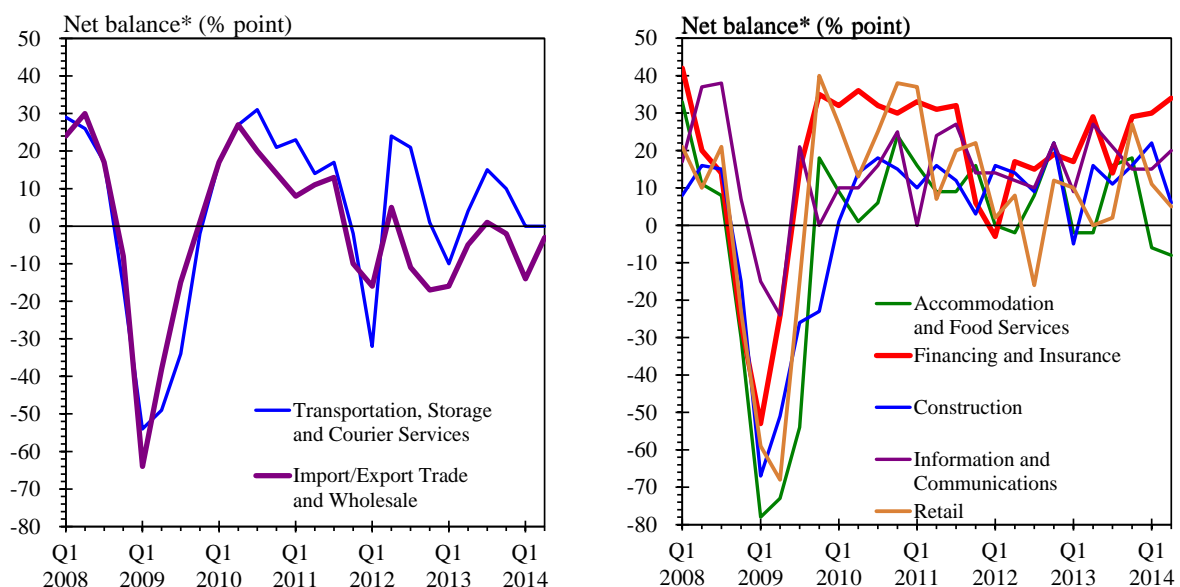
**Chart 13 : Hong Kong's export outlook is still overcast by uncertainties**





26. Domestic demand is likely to stay steady. The latest Quarterly Business Tendency Survey indicated that overall business sentiment among large enterprises remained largely positive compared with the previous quarter (*Chart 14*). Infrastructure works, as a key driving force of domestic demand, should stay hectic. Moreover, favourable job and income conditions should be conducive to the local consumption market, although the growth pace would likely turn more moderate after expanding notably for a prolonged period. In the May round of review, the GDP growth forecast for 2014 was set at 3-4%. For reference, the International Monetary Fund (IMF) in April forecast Hong Kong's economic growth in 2014 at 3.7%, whereas the latest forecasts by private sector analysts mostly range from 3-4%, averaging around 3.4%.

**Chart 14 : Business sentiment of large enterprises remained largely positive**

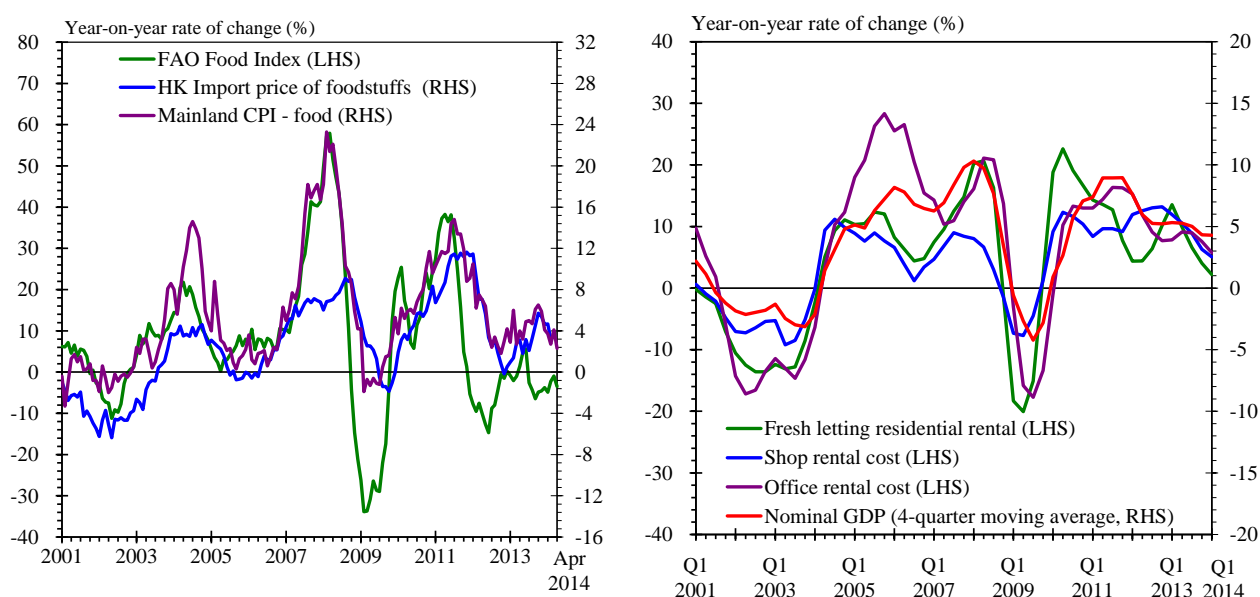


Note : \* Net balance indicates the direction of expected change in business situation versus preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely upward trend while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

27. Nonetheless, numerous uncertainties have arisen both externally and domestically of late. Of particular concern are the heightened geopolitical risks in some Asian economies, which, if escalated further, could impinge on the regional economic sentiment and possibly the region's growth momentum, adding headwinds to Hong Kong's external sector. Moreover, the recent decline in retail sales, though partly due to a high base of comparison, reflected the lower per-capita visitor spending in Hong Kong. The weakening retail sales trend, if persists, could possibly dampen Hong Kong's economic performance down the road, putting pressure on the labour market. The Government will monitor these developments closely and stay vigilant.

28. On inflation outlook, with rentals easing on a broad front, wage rise staying steady, while imported price pressures still modest, the upside risks to consumer price inflation remain limited in the near term (*Chart 15*). The forecast rates of headline and underlying consumer price inflation for 2014 are 4.6% and 3.7% respectively. For reference, the IMF in April forecast Hong Kong's consumer price inflation in 2014 at 4%, whereas the latest forecasts by private sector analysts mostly range from 3-4.5%, averaging around 3.8%.

**Chart 15 : Upside risks to inflation this year likely to remain limited on subdued imported inflation and easing rentals**



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 3 June 2014

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

### **Background**

This Annex provides a regular update on the latest trends of household income and employment earnings among various groups. As the level of statutory minimum wage (SMW) has been raised from \$28 per hour to \$30 per hour since May 2013, the benchmark of monthly household income for low-income households is also increased from \$6,500 to \$7,000 (at constant Q2 2013 prices), adjusted by inflation<sup>(2)</sup>, so as to reflect the latest circumstance.

### **Overall situation of household income and employment earnings**

2. The labour market remained in a state of full employment. In the first quarter of 2014, the seasonally adjusted unemployment rate stayed at a 16-year low of 3.1%, and the latest figure for February – April remained unchanged. Various household / employment income indicators grew in tandem. Median monthly household income, a reflection of the overall income, grew by 4.5% year-on-year in the first quarter of 2014. After netting out inflation, the corresponding real growth was 0.4%.

3. Wages and earnings generally maintained their upward trends across various segments. In the first quarter of 2014, median monthly employment earnings recorded a noticeable year-on-year increase of 7.7%. The corresponding real increase was still visible, at 3.4%. For higher-skilled staff, the latest Salary Index for Managerial and Professional Employees indicates that employees in the same company and occupation enjoyed nominal and real salaries growth of 6.0% and 2.2% respectively over a year earlier. As regards full-time unskilled employees, their average employment earnings also rose by 6.4% year-on-year in the first quarter of 2014. After taking inflation into account, the real increase was 2.0% (*Table 1*).

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(1) Foreign domestic helpers are excluded from the analysis except general labour market statistics.

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

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

<u>Period</u>	<u>Median monthly household income</u>		<u>Median monthly employment earnings</u>		<u>Employment earnings of the unskilled<sup>^</sup></u>		<u>Salaries of managerial and professional employees<sup>~</sup></u>	
2012	Q1	8.8 (3.5)	8.3 (3.0)	11.2 (6.3)				
	Q2	4.6 (0.4)	8.3 (4.0)	9.7 (5.8)	5.8	(2.0)		
	Q3	2.5 (-0.6)	8.3 (5.1)	7.7 (5.7)				
	Q4	5.0 (1.2)	8.3 (4.4)	5.3 (1.0)				
2013	Q1	6.4 (2.6)	0.0 (-3.5)	6.2 (1.9)				
	Q2	7.8 (3.7)	0.0 (-3.9)	7.0 (2.3)	6.0	(2.2)		
	Q3	10.2 (4.6)	3.8 (-1.4)	5.6 (-1.6)				
	Q4	7.1 (2.8)	7.7 (3.3)	7.3 (2.8)				
2014	Q1	4.5 (0.4)	7.7 (3.4)	6.4 (2.0)	n.a.	n.a.		

Notes: ( ^ ) Average employment earnings of full-time employees.  
( ~ ) The index is released annually for Q2.  
( ) Rate of change (%) in real terms.  
(n.a.) Not available.

**Economically active households with monthly household income below \$7,000 in real terms**

4. In the first quarter of 2014, the number of economically active households with monthly household income below \$7,000 in real terms (referred to as “low-income households” thereafter) amounted to 61 700. The respective proportion in total domestic households was 2.6%.

5. Analysing the number and proportion of low-income households over the past ten years or so shows that their changes largely followed economic vicissitudes. During 2000 and 2008, when the economy performed persistently well for most of the period, the proportion of low-income households fell successively from a peak of 4.3% in the first quarter of 2003 to 2.8% in 2008 over the same period. After the outbreak of the global financial tsunami in late 2008, the corresponding proportion rose back to 3.8% in the first quarter of 2010 as the Hong Kong economy was mired into recession. But with economic recovery taking hold afterwards, the figure also fell back. At 2.6% in the first quarter of 2014, such proportion still remained at a relatively low level over the past ten years (*Table 2 and Chart 1*).

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

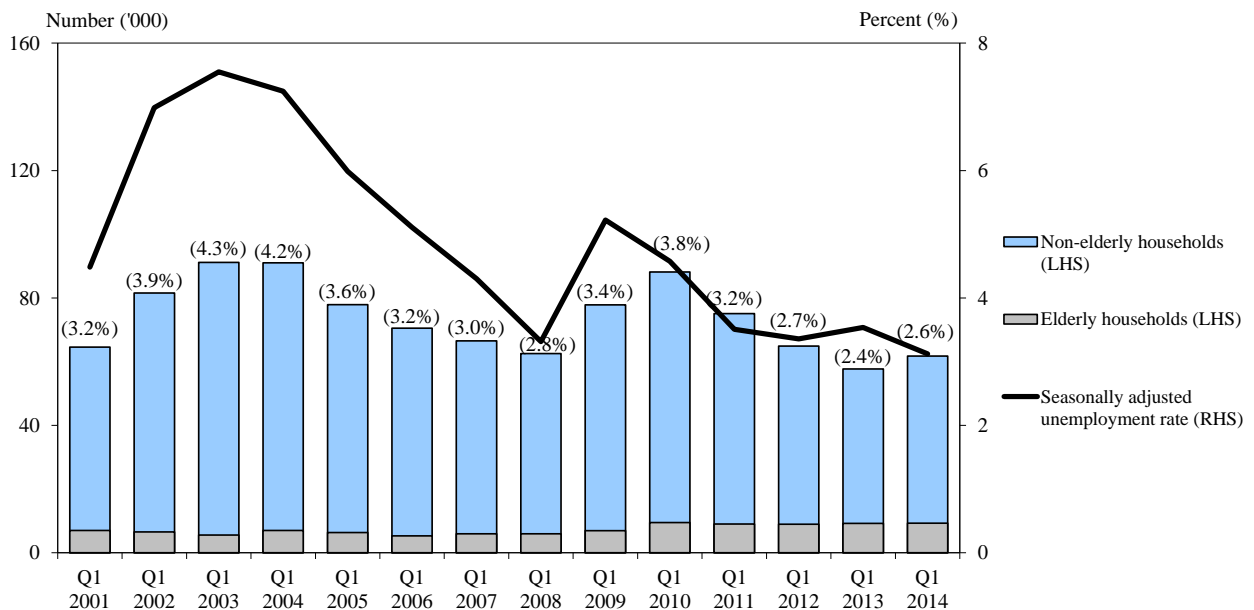
<u>Period</u>	Household type:			Of which:
	<u>Elderly households</u>	<u>Non-elderly households</u>	<u>Total</u>	<u>Economically active persons therein</u>
Q1 2003	5 600 (0.3)	85 600 (4.1)	<b>91 200</b> <b>(4.3)</b>	106 800 [3.3]
Q1 2008	6 000 (0.3)	56 600 (2.5)	<b>62 500</b> <b>(2.8)</b>	69 300 [2.0]
Q1 2010	9 500 (0.4)	78 700 (3.4)	<b>88 100</b> <b>(3.8)</b>	100 600 [3.0]
Q1 2011	9 000 (0.4)	66 100 (2.8)	<b>75 100</b> <b>(3.2)</b>	81 800 [2.4]
Q1 2012	9 000 (0.4)	55 900 (2.4)	<b>64 900</b> <b>(2.7)</b>	72 900 [2.1]
Q1 2013	9 200 (0.4)	48 500 (2.0)	<b>57 700</b> <b>(2.4)</b>	64 200 [1.8]
Q1 2014	9 300 (0.4)	52 500 (2.2)	<b>61 700</b> <b>(2.6)</b>	70 700 [2.0]

Notes : (\*) Low-income households refer to households with monthly household income less than \$7,000 at constant Q2 2013 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\***



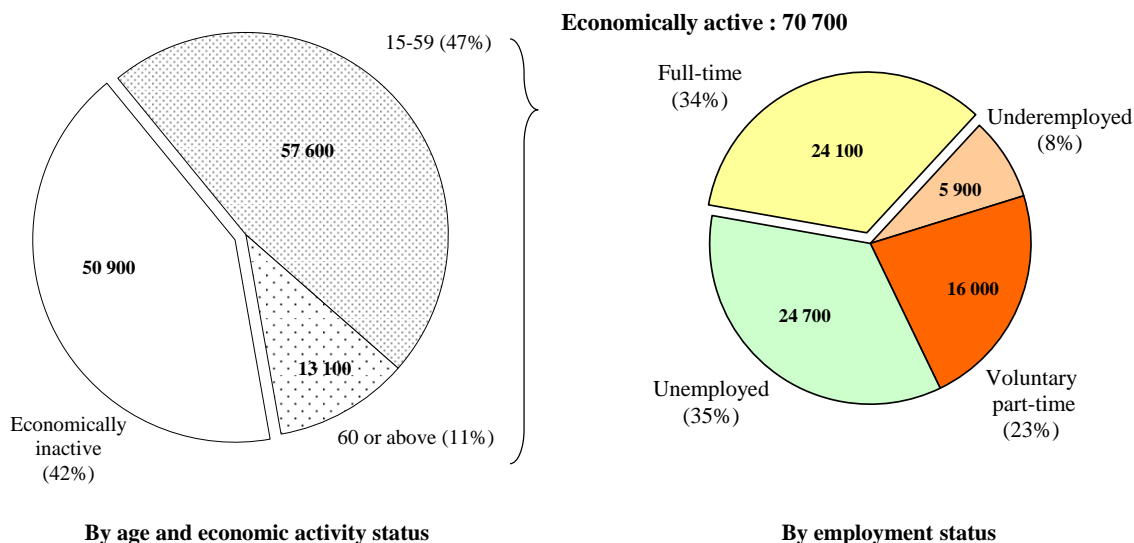
Notes : (\*) Low-income households refer to households with monthly household income less than \$7,000 at constant Q2 2013 prices. This does not include households with all members being economically inactive. Figures in brackets are the proportions of low-income households in all domestic households.

## Socio-economic characteristics of low-income households

6. Further decomposition of low-income households in the first quarter of 2014 reveals the following observations:

- 121 500 persons were residing in the households concerned, among whom 70 700 were economically active. Most of these individuals (57 600 or 82%) were persons aged 15-59, with the majority within the age group of 40-59 (39 700 or 56%), whilst those aged 60 or above amounted to 13 100 (18%).
- The remaining 50 900 persons were economically inactive. More than half of them (57%) were either children aged below 15 or elderly persons aged 60 or above.
- A more in-depth analysis by employment status showed that among these 70 700 economically active persons, 34% were full-time workers, while the respective proportions for unemployed, voluntary part-timers, and underemployed were 35%, 23% and 8% respectively (*Chart 2*).

**Chart 2 : Persons living in low-income households\*  
by age and economic activity status, Q1 2014**

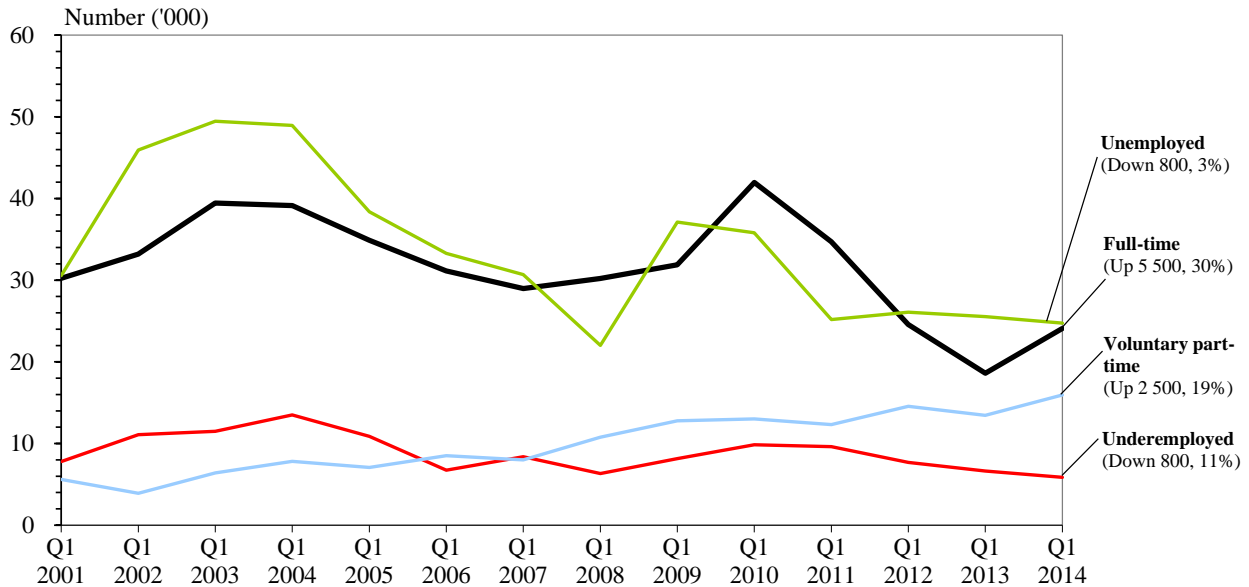


Note : (\*) Low-income households refer to households with monthly household income less than \$7,000 at constant Q2 2013 prices. This does not include households with all members being economically inactive.

- Analysed by occupation, most of the employed persons living in low-income households (88%) were lower-skilled workers (among whom 41% were elementary workers, and 27% were service and sales workers). A breakdown by economic sector revealed that most of them were engaged in the retail, accommodation and food services sector (10 900 or 24%), followed by repair, laundry, domestic and other personal service activities (5 800 or 13%).

- There were 70 700 economically active persons living in low-income households, or 2.0% of total economically active persons. Among them, the number of full-timers and voluntary part-timers increased while the unemployed and underemployed dropped (*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 \$7,000 at constant Q2 2013 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 2014.

### The number of CSSA cases

7. Demand for grassroots labour remained strong. In February - April 2014, the lower-skilled unemployment rate held low at 3.6%. The number of overall CSSA caseload likewise continued to decline, by 8 557 (or 3.2%) to 258 649 in April 2014 as compared to a year earlier. The decrease in unemployment cases was even more distinct, down by 2 875 (or 12.4%) to 20 264 over the same period (*Chart 4*), a manifestation of the self-reliance of grassroots workers who are able to leave the social security net amid tight labour market conditions.

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



Notes : (\*) Low-income households refer to households with monthly household income less than \$7,000 at constant Q2 2013 prices. This does not include households with all members being economically inactive.

(^) Monthly period-end figures.

### Concluding remarks

8. The Government has always attached great importance to the employment and income situations of the people, especially the impact of sub-par economic performance on the grassroots. The tight manpower resource balance has contributed to a relatively stable income growth for people from different strata, with further improvement in wages and earnings of the grassroots workers.

9. Employment is the best route out of poverty. The Government will continue to strengthen employment / training and retraining services so as to provide support for job-seekers, and assist the vulnerable groups through social welfare, enabling them to share the fruits of economic development. The Government will also keep on investing substantially in education in order to improve the competitiveness and skills of the workforce, increase social mobility, and reduce the child poverty risk and inter-generational poverty. To improve the livelihood of the grassroots, the fundamental solution is to promote overall economic growth so as to provide more employment and income opportunities.



10. In the short term, the external environment is still overcast by considerable uncertainties, and the growth of the local consumption market would likely turn more moderate after visible expansion for a prolonged period. In the meantime, we also need to closely monitor the impact of changes in external economic environment and in visitor spending behaviour. The Government will remain vigilant to the employment and earnings conditions of grassroots workers and low-income households, and will provide measures and support to them when and where necessary.

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Financial Secretary's Office  
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