

## Press Release

(embargoed until 4:30 p.m. on 14 August 2015)

### **Economic situation in the second quarter of 2015 and latest GDP and price forecasts for 2015**

The Government released today (14 August) the Half-yearly Economic Report 2015, together with the preliminary figures on Gross Domestic Product (GDP) for the second quarter of 2015.

The Government Economist, Mrs Helen Chan, described the economic situation in the second quarter of 2015 and provided the latest GDP and price forecasts for 2015.

#### **Main points**

- \* The Hong Kong economy expanded by 2.8% year-on-year in real terms in the second quarter of 2015, slightly faster than the 2.4% growth in the preceding quarter. Domestic demand exhibited much resilience, while the external sector remained weak. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew by 0.4% in the second quarter, after the 0.7% growth in the preceding quarter.
- \* Global economic performance was weaker-than-expected so far this year, resulting in a region-wide setback in exports and growth slowdown in Asia. Against this backdrop, Hong Kong was inevitably affected. Like many other Asian economies, Hong Kong's total exports of goods slackened to a decline in the second quarter, down by 3.6% in real terms over a year earlier. Exports of services, on the other hand, posted a slightly faster year-on-year growth of 1.0% in the second quarter. Within this, the surge in financial services exports more than compensated the negative impacts from sluggish trade flows and continued weakness in inbound tourism.
- \* The domestic sector held remarkably resilient in the second quarter, thereby cushioning the overall economy against the lull in external trade. Private consumption expenditure grew strongly by 6.0% in real terms over a year earlier in the second quarter, on the back of full employment and rising income. Investment expenditure also made solid growth, up 6.5% over a year earlier, supported by a notable rebound in building and construction works and further growth in machinery and equipment acquisition.
- \* The labour market remained in a state of full employment, with total employment staying near its record high. The seasonally adjusted unemployment rate edged down from 3.3% in the first quarter to 3.2% in the second quarter. Household income sustained further growth in real terms.
- \* After reaching a seven-year high in April, the local stock market underwent marked correction, upon the sharp escalation of Greece's debt situation towards the end of June and sharp swings of the Mainland stock market, though subsequently recovering some lost ground. The residential property market

turned more active during the second quarter, with prices in June up by 3% over March.

- \* Looking ahead, the global economic outlook in the near term remains mediocre. Among the advanced economies, the US economy is expected to attain moderate growth at best this year. Others still lack growth momentum, plagued by deep-seated structural issues and the crisis legacies. The export-dependent Asia has also seen an almost across-the-board growth slowdown, and the ensuing spillovers on Hong Kong's external trade have been visible. Against such backdrop, Hong Kong's exports of goods are expected to remain weak in the near term. The outlook for exports of services is also overcast by the weak trend in inbound tourism, as well as subdued trade flows.
- \* In face of various external headwinds, Hong Kong's economic growth in the coming two quarters would have to rely on the domestic sector as the key propeller. Local consumption should see further growth, underpinned by the still stable job and income conditions. At the same time, the latest Quarterly Business Tendency Survey indicated that large enterprises are still largely positive about the near-term business outlook. This, coupled with continued hectic infrastructure works, should lend support to overall investment in the period ahead.
- \* Taking into account the actual growth outturn of 2.6% in the first half, and with the Hong Kong economy poised for further moderate growth in the second half, the real GDP growth forecast for 2015 as a whole is revised to 2-3% in the current round of review, from that of the 1-3% in the May round.
- \* The downside risks in the external environment remain notable. As the US interest rate lift-off draws closer, the policy divergence among major central banks will likely deepen. The associated uncertainties may spark abrupt fund flows reversals and unusually large asset price shifts, with possible de-stabilising impacts on global economic and financial market environments. Emerging market economies with weaker fundamentals could face a further build-up of financial market strains and downdrag on the economy. Apart from these, the fragile recovery of the eurozone and Japan remains a concern. Locally, the potential impacts of recent stock market swings on local economic sentiment also need to be watched over.
- \* On the inflation front, underlying consumer price inflation continued its easing trend, down further to 2.5% in the second quarter from 2.7% in the preceding quarter. Given the muted global inflation, the softness in international commodity prices and moderate local cost pressures, the upside risks to inflation remain limited in the near term. With the actual inflation outturn so far this year somewhat lower-than-expected, the forecast rates of headline and underlying consumer price inflation for 2015, at 3.2% and 2.7% respectively in the May round, are revised slightly downward in the current round of review, to 3.1% and 2.6% respectively.

## Details

### GDP

According to the preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP grew by 2.8% in real terms in the second quarter of 2015 over a year earlier, slightly faster than the 2.4% growth in the preceding quarter (revised from the earlier estimate of 2.1%). On a seasonally adjusted quarter-to-quarter comparison, real GDP continued to grow by 0.4% in the second quarter, after the 0.7% growth in the preceding quarter (revised from the earlier estimate of 0.4%) (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the second quarter of 2015 are presented in *Table 1*. Developments in different segments of the economy in the second quarter of 2015 are described below.

### External trade

3. *Total exports of goods* fell by 3.6% year-on-year in real terms in the second quarter, down from an already meagre 0.4% growth in the preceding quarter. Among the advanced markets, exports to the EU and Japan extended their declines, thereby more than offsetting the merely modest growth in the US market. Exports to major Asian economies, including the Mainland, Singapore, Taiwan, Korea and India slowed down in tandem. The fall in exports of raw materials and semi-manufactures, as well as capital goods to many Asian economies was the key drag, which in turn reflected the negative spillovers of the subdued external demand on Asian production activities and economic growth. On a seasonally adjusted basis, total exports of goods declined by 3.2% in real terms in the second quarter over the preceding quarter.

4. *Exports of services* fared somewhat better than goods exports, posting a year-on-year growth of 1.0% in real terms in the second quarter. Exports of financial and other business services continued to be the bright spot, registering an even more spectacular growth in the second quarter, thanks to vibrant cross-border financial and fund-raising activities. Exports of travel services remained weak with a further decline, marked by a slowdown in visitor arrivals to virtually no growth and continued decline in per capita visitor spending. Exports of trade-related services and transportation services remained in the doldrums, reflecting subdued regional trade flows under the anaemic external trading environment. On a seasonally adjusted basis, exports of services declined by 0.8% in real terms in the second quarter over the preceding quarter.

## **Domestic sector**

5. Domestic demand held firm in the second quarter and remained the key driver to Hong Kong's economic growth. *Private consumption expenditure* grew strongly in the second quarter, by 6.0% in real terms over a year earlier, backed by favourable income and job prospects on one hand, with the buoyant asset market conditions during most of the quarter also providing an additional boost. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure increased by 1.2% in real terms in the second quarter. *Government consumption expenditure* maintained steady growth, at 3.3% year-on-year in the second quarter.

6. Overall investment spending in terms of *gross domestic fixed capital formation* expanded at a solid pace, up by 6.5% year-on-year in real terms in the second quarter, further to a 7.5% growth in the preceding quarter. Within this, overall building and construction expenditure reverted to show a marked growth of 12.5% year-on-year, as large-scale infrastructure works rebounded strongly, while private sector building and construction activity also maintained solid growth pace. At the same time, private sector machinery and equipment acquisition made a further year-on-year growth of 1.1%.

## **The labour sector**

7. The labour market remained in a state of full employment. The *seasonally adjusted unemployment rate* edged down from 3.3% in the first quarter to 3.2% in the second quarter, while the *underemployment rate* held unchanged at 1.4%. Labour demand remained rather buoyant, as job vacancies in the private sector remained high in March and total employment stayed near its record high in the second quarter. Incomes sustained further growth over the same period, with the median monthly household income (excluding foreign domestic helpers) registering a notable year-on-year increase of 4.7% in real terms. The average monthly employment earnings of full-time employees (excluding foreign domestic helpers) engaged in elementary occupations also picked up, with a 2.0% year-on-year growth in real terms, benefiting from the upward adjustment of the Statutory Minimum Wage rate since May 2015.

## **The asset markets**

8. The *local stock market* saw considerable fluctuations in recent months amid increased volatility over the global financial markets. It rallied on entering the second quarter, as the upbeat investment climate in the Mainland stock market and various positive market developments sent the local stock market to a seven-year high in April. It then underwent a marked correction towards the end of June and early July, upon rising concerns about Greece's debt negotiations and the sharp plunge in the Mainland stock market. The Hang Seng Index subsequently recovered some lost ground, closing 13 August at 24 019, 3.5% lower than end-March, yet 1.8% higher than end-2014.

9. The *residential property market* turned more active during the second quarter, having cooled down somewhat in March. Residential property prices rose by 3% during the second quarter, with overall flat prices in June exceeding the 1997 peak by 74% and the housing affordability ratio staying elevated at around 62% in the second quarter. Trading volume picked up over the recent low in March, though for the second quarter as a whole, they were 8% lower over the preceding quarter. Over the same period, flat, office and shop rentals all went up by 2%.

## Prices

10. Consumer price inflation continued its easing trend in the second quarter, alongside modest price pressures from the domestic and external fronts. Locally, the private housing rental component of the consumer price indices recorded milder year-on-year increases, reflecting the feed-through of the more moderate increases in the fresh-letting rentals last year. At the same time, the steady growth in labour costs also helped keep domestic price pressures largely at bay. Externally, the pressure from imported inflation was scant, reflecting various factors of the soft international food and commodity prices, low inflation of Hong Kong's major import partners, and the strength of the US dollar. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, *underlying composite consumer price inflation* eased from 2.7% in the first quarter to 2.5% in the second quarter, the lowest since the first quarter of 2011. For the first half of 2015 as a whole, underlying inflation averaged 2.6%, markedly lower by 0.9 percentage point over that of 3.5% in 2014. *Headline consumer price inflation* moved down to 3.0% in the second quarter, from 4.4% in the preceding quarter. For the first half as a whole, headline inflation averaged 3.7%, also distinctly down from 4.4% in 2014.

## Latest GDP and price forecasts for 2015

11. Looking ahead, the global economic outlook in the near term remains mediocre. Among the advanced economies, the US economy is expected to attain moderate growth at best this year. Others still lack growth momentum, plagued by deep-seated structural issues and the crisis legacies. The export-dependent Asia has also seen an almost across-the-board growth slowdown, and the ensuing spillovers on Hong Kong's external trade have been visible. Against such backdrop, Hong Kong's exports of goods are expected to remain weak in the near term. The outlook for exports of services is also overcast by the weak trend in inbound tourism, as well as subdued trade flows.

12. In face of various external headwinds, Hong Kong's economic growth in the coming two quarters would have to rely on the domestic sector as the key propeller. Local consumption should see further growth, underpinned by the still stable job and income conditions. At the same time, the latest Quarterly Business Tendency Survey indicated that large enterprises are still largely positive about the near-term business outlook. This, coupled with continued hectic infrastructure works, should lend support to overall investment in the period ahead.

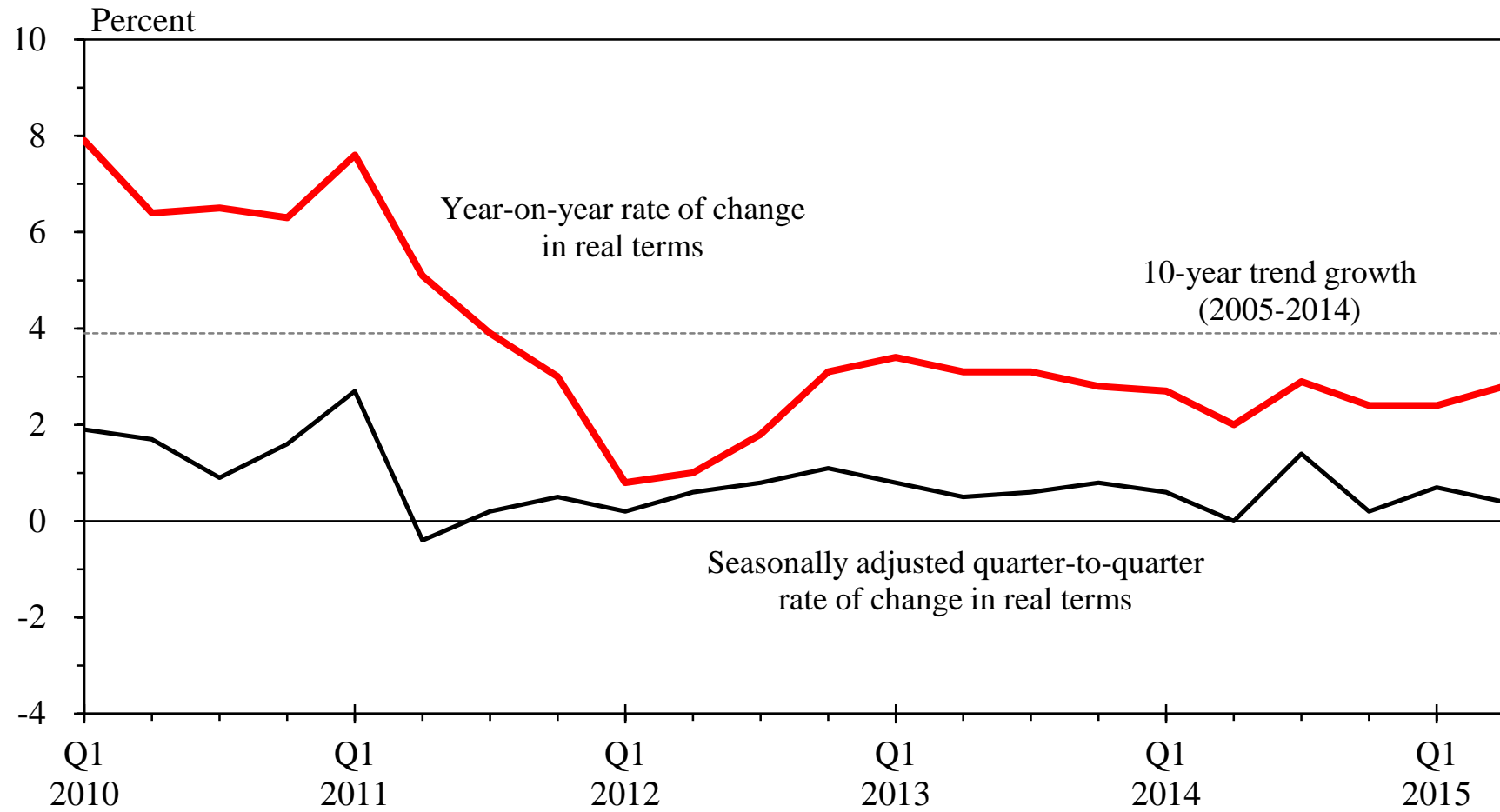
13. Taking into account the actual growth outturn of 2.6% in the first half, and with the Hong Kong economy poised for further moderate growth in the second half, the real GDP growth forecast for 2015 as a whole is revised to 2-3% in the current round of review, from that of the 1-3% in the May round (*Table 2*). For reference, the latest forecasts by private sector analysts mostly range from 1.6% to 2.9%, averaging around 2.3%.

14. The downside risks in the external environment remain notable. As the US interest rate lift-off draws closer, the policy divergence among major central banks will likely deepen. The associated uncertainties may spark abrupt fund flows reversals and unusually large asset price shifts, with possible de-stabilising impacts on global economic and financial market environments. Emerging market economies with weaker fundamentals could face a further build-up of financial market strains and downdrag on the economy. Apart from these, the fragile recovery of the eurozone and Japan remains a concern. Locally, the potential impacts of recent stock market swings on local economic sentiment also need to be watched over.

15. On inflation outlook, the upside risks to inflation remain limited in the near term, given the muted global inflation, the softness in international commodity prices and moderate local cost pressures. With the actual inflation outturn so far this year somewhat lower-than-expected, the forecast rates of headline and underlying consumer price inflation for 2015, at 3.2% and 2.7% respectively in the May round, are revised slightly downward in the current round of review, to 3.1% and 2.6% respectively (*Table 2*).

(The Half-yearly Economic Report 2015 is now available for online download, free of charge at [www.hkeconomy.gov.hk/en/reports/index.htm](http://www.hkeconomy.gov.hk/en/reports/index.htm). The Report of the Gross Domestic Product, Second Quarter 2015, which contains the GDP figures up to the second quarter of 2015, is also available for online download, free of charge at the homepage of the Census and Statistics Department, [www.censtatd.gov.hk](http://www.censtatd.gov.hk).)

## Hong Kong's Gross Domestic Product



Note : Figures for the second quarter of 2015 are preliminary estimates.

**Table 1**

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

	<u>2013</u>	<u>2014</u>	<u>2014</u>				<u>2015</u>	
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>±</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	4.6	3.2	2.1 (0.7)	1.8 (0.3)	4.7 (1.9)	4.1 (1.0)	5.3 (1.8)	6.0 (1.2)
Government consumption expenditure	3.0	3.0	2.7 (0.7)	2.6 (1.3)	3.6 (1.0)	3.3 (0.4)	3.4 (0.8)	3.3 (1.1)
Gross domestic fixed capital formation	2.6	-0.2	3.9	-6.0	-1.7	3.4	7.5	6.5
<i>of which :</i>								
Building and construction	-4.3	6.5	11.1	2.2	4.5	7.6	-3.3	12.5
Machinery, equipment and intellectual property products	11.3	-6.5	-2.0	-11.4	-11.2	-0.4	14.4	1.6
Total exports of goods	6.5	0.8	-0.1 (-1.6)	2.1 (1.0)	0.7 (0.1)	0.6 (0.9)	0.4 (-1.4)	-3.6 (-3.2)
Imports of goods	7.2	0.9	1.0 (-1.3)	1.2 (0.1)	0.3 (0.2)	1.1 (2.0)	0.1 (-2.1)	-3.2 (-3.1)
Exports of services	4.9	0.9	4.1 (0.6)	-1.5 (-1.7)	1.3 (0.2)	-0.3 (0.7)	* (0.9)	1.0 (-0.8)
Imports of services	1.5	1.9	-0.2 (-4.1)	4.9 (3.8)	2.0 (-0.8)	1.1 (2.1)	6.1 (0.8)	4.3 (2.1)
<b>Gross Domestic Product</b>	<b>3.1</b>	<b>2.5</b>	<b>2.7</b> <b>(0.6)</b>	<b>2.0</b> <b>(*)</b>	<b>2.9</b> <b>(1.4)</b>	<b>2.4</b> <b>(0.2)</b>	<b>2.4</b> <b>(0.7)</b>	<b>2.8</b> <b>(0.4)</b>
<i>Change in the main price indicators (%)</i>								
<b>GDP deflator</b>	<b>1.9</b>	<b>2.9</b>	<b>2.5</b> <b>(0.1)</b>	<b>4.6</b> <b>(1.2)</b>	<b>2.3</b> <b>(0.4)</b>	<b>2.3</b> <b>(0.6)</b>	<b>4.4</b> <b>(2.3)</b>	<b>4.7</b> <b>(1.4)</b>
<b>Composite CPI</b>								
<b>Headline</b>	<b>4.3</b>	<b>4.4</b>	<b>4.2</b> <b>(0.9)</b>	<b>3.6</b> <b>(0.7)</b>	<b>4.8</b> <b>(0.5)</b>	<b>5.1</b> <b>(2.9)</b>	<b>4.4</b> <b>(0.3)</b>	<b>3.0</b> <b>(-0.6)</b>
<b>Underlying<sup>^</sup></b>	<b>4.0</b>	<b>3.5</b>	<b>3.8</b> <b>(0.9)</b>	<b>3.5</b> <b>(0.7)</b>	<b>3.3</b> <b>(0.7)</b>	<b>3.3</b> <b>(0.9)</b>	<b>2.7</b> <b>(0.3)</b>	<b>2.5</b> <b>(0.6)</b>
<b>Change in nominal GDP (%)</b>	<b>5.0</b>	<b>5.5</b>	<b>5.2</b>	<b>6.7</b>	<b>5.3</b>	<b>4.8</b>	<b>7.0</b>	<b>7.7</b>

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

(#) Revised figures.

(+) Preliminary figures.

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

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

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



**Table 2****Economic forecasts for 2015  
(rate of change (%))**

	Forecasts as released on <u>15.5.2015</u> (%)	Latest forecasts on <u>14.8.2015</u> (%)
<b>Real Gross Domestic Product (GDP)</b>	1 to 3	2 to 3
<b>Composite Consumer Price Index (CCPI)</b>		
<i>Headline CCPI</i>	3.2	3.1
<i>Underlying CCPI</i>	2.7	2.6



# Half-yearly Economic Report 2015

Government of the Hong Kong  
Special Administrative Region

# ***HALF-YEARLY ECONOMIC REPORT 2015***

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

*August 2015*

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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

- *The Hong Kong economy grew slightly faster in the second quarter of 2015, by 2.8% in real terms over a year earlier, up from the 2.4% growth in the first quarter. Domestic demand exhibited much resilience, thereby more than offsetting the slackening in the external sector, which was still constrained by a highly unsteady external environment.*
- *The external trading environment remained challenging during the second quarter. The expected lift-off of US interest rates later this year and the lingering Greek debt problem heightened global financial market volatility, adding uncertainties to the global economy during the quarter. The negative spillovers associated with the subdued global demand also dampened regional trade flows. Against this backdrop, Hong Kong was inevitably affected. Like many other Asian economies, our total exports of goods slackened to a decline in the second quarter. Exports of services, on the other hand, posted a slightly faster growth in the quarter, as the surge in financial services exports more than compensated the negative impacts from sluggish trade flows and continued weakness in inbound tourism.*
- *The domestic sector, on the other hand, held up well in the second quarter, thereby cushioning the overall economy against the setback from the external front. Private consumption expenditure grew strongly, on the back of favourable job and income prospects. Investment expenditure also made solid growth, supported by a notable rebound in building and construction works and further growth in machinery and equipment acquisition.*
- *The labour market remained in a state of full employment, with total employment staying near its record high. The seasonally adjusted unemployment rate edged down from 3.3% in the first quarter to 3.2% in the second quarter. Incomes sustained further growth, with the median household income registering notable increase in real terms.*
- *The local stock market witnessed considerable fluctuations in the quarter. It surged to a seven-year high in April, partly boosted by the upbeat investment climate in the Mainland stock market and the growing local investor optimism amid various positive market developments. However, the Hang Seng Index came under pressure and underwent a visible correction towards the end of June, upon the sharp escalation of Greece's debt situation and the sharp swings of the Mainland stock market amid the*

*profit-taking and deleveraging of market participants. The residential property market turned more active in the second quarter, after quietening somewhat in March, with prices and rentals going higher.*

- *Inflation continued its easing trend in the second quarter, thanks largely to lower international commodity prices, tame imported inflation and also steady local cost pressures. Looking ahead, consumer price pressures in the near term should remain mild.*

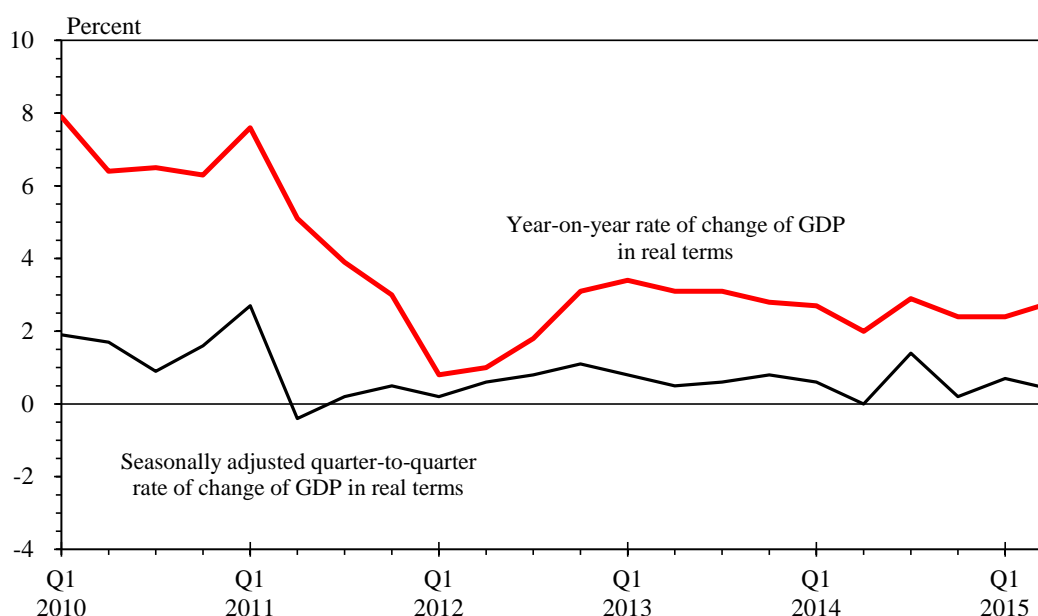
## **Overall situation**

1.1 The Hong Kong economy expanded at a slightly faster pace in the second quarter of 2015, mainly supported by the strength in domestic demand. The external sector was still held back by the highly unsteady trading environment as the world economy struggled to gain a firmer footing. The US economy after a weak start, regained some growth momentum in the second quarter, albeit only modestly. The timing and pace of the Federal Reserve's intended interest rate hikes will still hinge on incoming data. The recovery pace in the eurozone also remained slow. Although economic sentiment in the eurozone was largely positive during the second quarter, the sharp escalation of Greece's debt situation towards the end of the quarter created much renewed tension in the global economic and financial arena. The marked correction of the Mainland stock market, and the elevated geopolitical tensions in various regions also heightened volatility in global financial markets and added uncertainties to the external environment. With the sluggish demand conditions in the major economies weighing on global trade flows, industrial and trading activities in most Asian economies slackened distinctly in the second quarter.

1.2 Against such a difficult external environment, Hong Kong's external sector inevitably faced strong headwinds. Merchandise exports relapsed to more visible declines in May and June, which more than offset the modest rise in April. Services exports fared relatively better than goods exports, supported by the vibrant cross-border financial and fund-raising activities, but inbound tourism remained weak and trade-related services continued to come under the drag of sluggish trade flows. Fortunately, domestic demand held up well, thereby rendering the key support to the Hong Kong economy in the second quarter. Amid modest price pressures from both external and domestic fronts, underlying consumer price inflation eased further.

1.3 In the second quarter of 2015, *Gross Domestic Product (GDP)*<sup>(1)</sup> grew by 2.8% in real terms over a year earlier, slightly faster than the 2.4% growth in the preceding quarter (revised from the earlier estimate of 2.1%). On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, real GDP grew by 0.4% in the second quarter, after the 0.7% growth in the preceding quarter (revised from the earlier estimate of 0.4%).

**Diagram 1.1 : The Hong Kong economy grew slightly faster in the second quarter of 2015**



## The external sector

1.4 *Total exports of goods* compiled under the GDP accounting framework faltered again in the second quarter, falling by 3.6% year-on-year in real terms, down from an already meagre 0.4% growth in the preceding quarter. Among the advanced markets, exports to the EU and Japan extended their declines, thereby more than offsetting the merely modest growth in the US market. Exports to major Asian economies, including the Mainland, Singapore, Taiwan, Korea and India slowed in tandem. The fall in exports of raw materials and semi-manufactures, as well as capital goods to many Asian economies was the key drag, which in turn reflected the negative spillovers of the subdued external demand on Asian production activities and economic growth.



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

	<u>2013</u>	<u>2014</u>	<u>2014</u>				<u>2015</u>	
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>+</sup>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	4.6	3.2	2.1 (0.7)	1.8 (0.3)	4.7 (1.9)	4.1 (1.0)	5.3 (1.8)	6.0 (1.2)
Government consumption expenditure	3.0	3.0	2.7 (0.7)	2.6 (1.3)	3.6 (1.0)	3.3 (0.4)	3.4 (0.8)	3.3 (1.1)
Gross domestic fixed capital formation	2.6	-0.2	3.9	-6.0	-1.7	3.4	7.5	6.5
<i>of which :</i>								
Building and construction	-4.3	6.5	11.1	2.2	4.5	7.6	-3.3	12.5
Machinery, equipment and intellectual property products	11.3	-6.5	-2.0	-11.4	-11.2	-0.4	14.4	1.6
Total exports of goods	6.5	0.8	-0.1 (-1.6)	2.1 (1.0)	0.7 (0.1)	0.6 (0.9)	0.4 (-1.4)	-3.6 (-3.2)
Imports of goods	7.2	0.9	1.0 (-1.3)	1.2 (0.1)	0.3 (0.2)	1.1 (2.0)	0.1 (-2.1)	-3.2 (-3.1)
Exports of services	4.9	0.9	4.1 (0.6)	-1.5 (-1.7)	1.3 (0.2)	-0.3 (0.7)	* (0.9)	1.0 (-0.8)
Imports of services	1.5	1.9	-0.2 (-4.1)	4.9 (3.8)	2.0 (-0.8)	1.1 (2.1)	6.1 (0.8)	4.3 (2.1)
<b>Gross Domestic Product</b>	<b>3.1</b>	<b>2.5</b>	<b>2.7</b> <b>(0.6)</b>	<b>2.0</b> <b>(*)</b>	<b>2.9</b> <b>(1.4)</b>	<b>2.4</b> <b>(0.2)</b>	<b>2.4</b> <b>(0.7)</b>	<b>2.8</b> <b>(0.4)</b>
<i>Change in the main price indicators (%)</i>								
<b>GDP deflator</b>	<b>1.9</b>	<b>2.9</b>	<b>2.5</b> <b>(0.1)</b>	<b>4.6</b> <b>(1.2)</b>	<b>2.3</b> <b>(0.4)</b>	<b>2.3</b> <b>(0.6)</b>	<b>4.4</b> <b>(2.3)</b>	<b>4.7</b> <b>(1.4)</b>
<b>Composite CPI</b>								
<b>Headline</b>	<b>4.3</b>	<b>4.4</b>	<b>4.2</b> <b>(0.9)</b>	<b>3.6</b> <b>(0.7)</b>	<b>4.8</b> <b>(0.5)</b>	<b>5.1</b> <b>(2.9)</b>	<b>4.4</b> <b>(0.3)</b>	<b>3.0</b> <b>(-0.6)</b>
<b>Underlying<sup>^</sup></b>	<b>4.0</b>	<b>3.5</b>	<b>3.8</b> <b>(0.9)</b>	<b>3.5</b> <b>(0.7)</b>	<b>3.3</b> <b>(0.7)</b>	<b>3.3</b> <b>(0.9)</b>	<b>2.7</b> <b>(0.3)</b>	<b>2.5</b> <b>(0.6)</b>
<b>Change in nominal GDP (%)</b>	<b>5.0</b>	<b>5.5</b>	<b>5.2</b>	<b>6.7</b>	<b>5.3</b>	<b>4.8</b>	<b>7.0</b>	<b>7.7</b>

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

(#) Revised figures.

(+) Preliminary figures.

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

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

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

## Box 1.1

### Risks of capital flow reversals in emerging market economies from the eventual normalisation of US interest rates

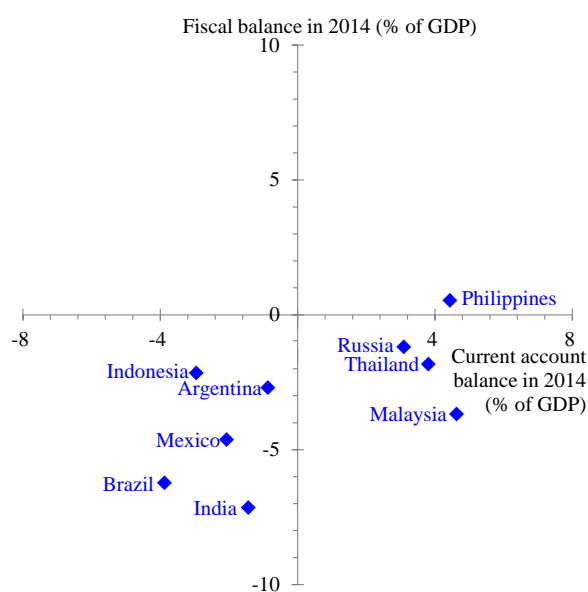
The weakening of emerging market economies (EMEs)' currencies over the course of 2014, alongside the end of the Federal Reserve (Fed)'s quantitative easing programme and the anticipated Fed's interest rate hike, has reignited concerns about capital flight in EMEs. There were worries about whether higher volatility in the asset and foreign exchange markets would threaten their economic and financial stability. This note attempts to examine some indicators related to the exposure of foreign capital in selected EMEs<sup>(1)</sup> amid the eventual normalisation of the US' interest rates.

EMEs saw massive capital inflows since the 2008-09 Global Financial Crisis, as investors around the world searched for higher yields after the bold monetary easing policies by major central banks brought the world interest rates to extremely low levels. These capital inflows, particularly those that are short-term, can be quite volatile and prone to sudden reversals, as evidenced by the global sell-off of emerging market assets following the Fed's monetary tapering talks in mid-2013.

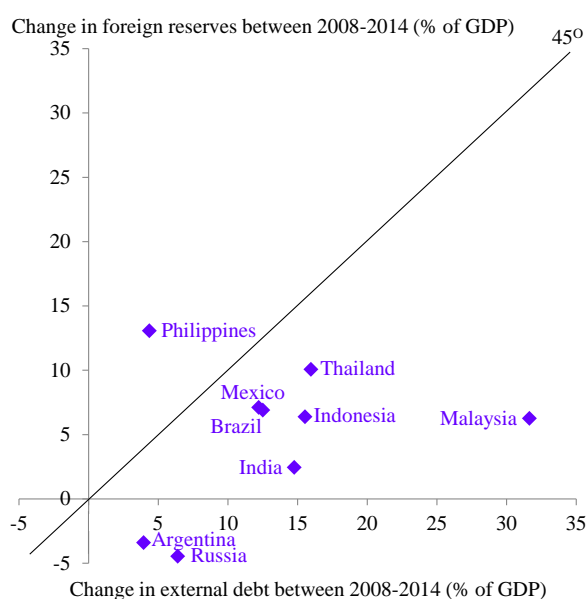
The exposure to risks of capital outflows in EMEs can be assessed based on their economic fundamentals, including (1) the current account balance; (2) fiscal strength; (3) external debt; and (4) the degree of leveraging as reflected in the asset markets. These indicators are useful in providing some pointers on the external and internal balances of an economy and its dependence on external funding.

Economies with current account deficits will have to rely on foreign capital inflows, be it in the form of foreign direct investments, portfolio investments and/or loans. Those with higher proportions of short-term foreign capital will be more susceptible to the repatriation of funds by overseas investors. A sustained widening of current account deficit is usually associated with an excessive build-up of external indebtedness and hence warrants a close look-out (*Chart 1*).

**Chart 1 : Current account and fiscal balances are useful for assessing risks of capital flow reversals**



**Chart 2 : Economies with visible external debt build-up would also face more severe pressures from abrupt capital outflows**



(1) The EMEs covered in this box article include Argentina, Brazil, India, Indonesia, Malaysia, Mexico, the Philippines, Russia and Thailand.

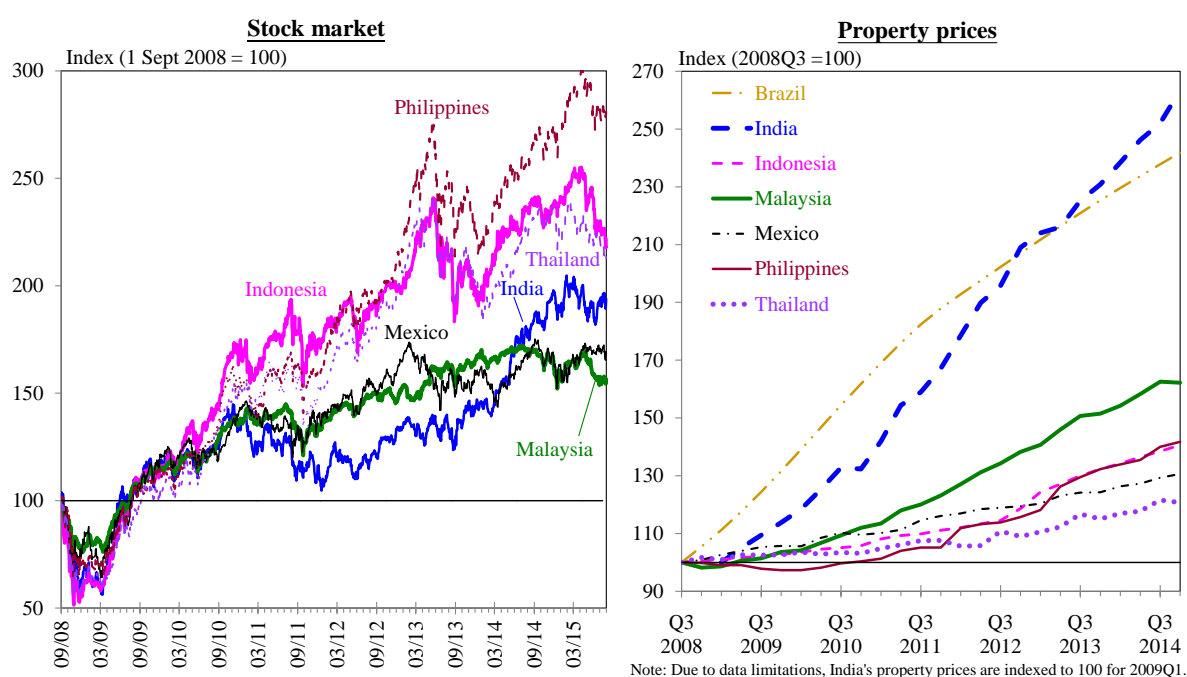
### Box 1.1 (Cont'd)

Besides the current account balance, it is also useful to examine the fiscal health, which is an important indicator of an economy's internal balance. Not only do economies with persistent or deteriorating fiscal deficits suggest an underlying structural problem, but unfavourable fiscal positions could also limit policy tools in cushioning external shocks. Twin deficits, i.e. current account and fiscal deficits, are usually more worrying signs of vulnerability and imbalances for an economy.

The third indicator is the reliance on external debt as a source of funding, which can be measured by an economy's total external debt as a ratio of GDP. Over the past years, many EMEs saw varying degrees of build-up in external debt. Those denominated in US dollars may face more difficulties in debt servicing if the eventual US interest rate hikes were to be accompanied by a stronger US dollar and thereby inflating their debt burden. Nevertheless, how well these economies can cope with sudden reversals of capital flows will again hinge on their economic fundamentals, including, for example, the extent of fiscal space. In particular, sizeable foreign reserves<sup>(2)</sup> should also render some cushion to such impacts and stabilise their currencies against massive capital outflows (*Chart 2*).

The risks of asset market corrections in EMEs alongside an abrupt change in capital flows should not be taken lightly. The equity and property prices of many EMEs saw sharp appreciations over the past years. Those with weaker economic fundamentals and less robust financial systems are likely to be harder hit. The escalation of Greece's debt situation in mid-June has heightened global financial market volatility, and some EMEs' equity markets have already seen corrections of varying degrees (*Chart 3*).

**Chart 3 : Asset markets in many EMEs saw exceptional performance**



(2) The foreign reserves of selected EMEs ranged from 10-40% of their respective GDPs in 2014. It is, however, noted that the balance of payments of some EMEs have worsened and their foreign reserves have dropped in recent quarters. The foreign reserves of Russia, Malaysia and Thailand declined by 31%, 17% and 13% respectively during 2013-2014. The Philippines' foreign reserves fell by 5% during 2014.

**Box 1.1 (Cont'd)**

A persistent moderation in growth could add to the risks of capital flow reversals. Fortunately, many EMEs maintained steady growth in the first half of 2015, albeit at slower paces. Also, lower inflationary pressures since 2014 have allowed room for their central banks to adopt more accommodative monetary policies to bolster growth. Besides, many EMEs have stepped up efforts to improve business and investment confidence, helping to put their economies on a firmer footing. Granting that the Fed's interest rate increases are to be slow and gradual, the stand-alone impact on the EMEs would hopefully be more manageable.

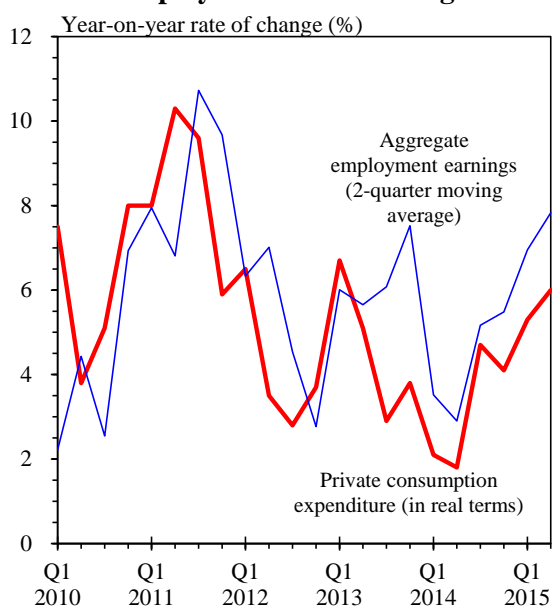
While the timing of the Fed's first interest rate hike remains data-dependent, any untimely or unexpected action by the Fed could pose a severe threat to global financial and macroeconomic stability. As the world's financial markets are increasingly interlinked, the Hong Kong economy will inevitably be affected. While our sound economic fundamentals and robust financial system are well-equipped to cope with massive capital flows, we still need to stay vigilant and closely monitor these developments and their potential impacts on short-term economic growth and outlook.

1.5 *Exports of services* fared somewhat better than goods exports, posting a year-on-year growth of 1.0% in real terms in the second quarter. Exports of financial and other business services continued to be the bright spot, registering an even more spectacular growth in the second quarter, thanks to vibrant cross-border financial and fund-raising activities. Exports of travel services remained weak with a further decline, marked by a slowdown in visitor arrivals to virtually no growth and continued decline in per capita visitor spending. Exports of trade-related services and transportation services remained in the doldrums, reflecting subdued regional trade flows under the anaemic external trading environment.

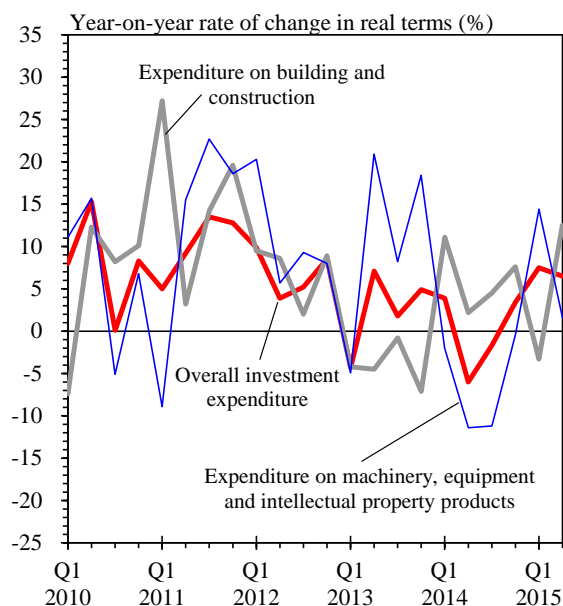
### The domestic sector

1.6 Domestic demand held firm in the second quarter and remained the key driver to Hong Kong's economic growth. *Private consumption expenditure* grew strongly in the second quarter, by 6.0% in real terms over a year earlier, backed by favourable income and job prospects on one hand, with the buoyant asset market conditions during most of the quarter also providing an additional boost. Meanwhile, *government consumption expenditure* maintained steady growth, at 3.3% year-on-year in the second quarter.

**Diagram 1.2 : Private consumption expenditure grew strongly, under the support of employment and income gains**



**Diagram 1.3 : Investment spending expanded further**



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

	Total consumer spending in the domestic market <sup>(a)</sup>	<i>Of which :</i>						
		<u>Food</u>	<u>Durables</u>	<u>Non- durables</u>	<u>Services</u>	<u>Residents' expenditure abroad</u>	<u>Visitor spending</u>	<u>Private consumption expenditure<sup>(b)</sup></u>
2014 Annual	2.3	3.6	6.7	-0.6	2.4	3.0	-1.5	3.2
H1	1.6	5.1	1.5	-1.1	2.0	3.0	0.5	2.0
H2	3.0	2.0	11.9	*	2.8	3.0	-3.3	4.4
Q1	4.1	4.8	5.4	7.8	2.1	-1.9	11.0	2.1
Q2	-0.8	5.4	-3.8	-9.0	1.9	8.1	-9.6	1.8
Q3	3.2	3.5	6.0	1.3	3.2	3.1	-3.8	4.7
Q4	2.8	0.6	16.5	-1.1	2.4	2.9	-2.9	4.1
2015 H1	3.6	3.4	12.9	0.3	3.2	10.9	-3.0	5.6
Q1	2.9	4.0	8.5	-0.3	2.6	12.1	-4.4	5.3
Q2	4.4	2.9	19.6	1.0	3.9	9.8	-1.5	6.0

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

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

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

1.7 Overall investment spending in terms of *gross domestic fixed capital formation* expanded at a solid pace, up by 6.5% year-on-year in real terms in the second quarter, further to a 7.5% growth in the preceding quarter. Within this, overall building and construction expenditure reverted to show a marked year-on-year growth of 12.5%, as large-scale infrastructure works rebounded strongly, while private sector building and construction activity also maintained steady growth. At the same time, private sector machinery and equipment acquisition made a further year-on-year growth of 1.1%. The latest Quarterly Business Tendency Survey indicated that business sentiment improved somewhat in overall terms, though tourism-related and trade-related sectors still remained rather cautious. The sentiment among small and medium-sized enterprises (SMEs), however, turned more cautious of late, reflecting increasing concerns over the sluggish external environment (see **Box 1.2** for details of the consultation on SMEs).

## Box 1.2

### Diffusion indices on small and medium-sized enterprises (an update)

To gain a better understanding of the current situation of business receipts, employment and credit access for small and medium-sized enterprises (SMEs)<sup>(1)</sup>, an ad-hoc consultation exercise has been conducted by the Census and Statistics Department on behalf of the Economic Analysis and Business Facilitation Unit since late November 2008. In the recent past, the exercise has been conducted on a sample panel of around 400 SMEs. This note provides a further update of the results reported in *Box 1.2* in the *First Quarter Economic Report 2015*.

A set of diffusion indices is compiled to indicate the general directions of change in the respondents' views on business receipts, employment and new export orders versus the preceding month. The percentage of SMEs reporting tight access to credit is also reported. While the findings should be interpreted with considerable caution given the coverage and nature of the consultation exercise, they can serve as a rough indicator to enable high frequency monitoring of SMEs' situation.

Business receipts of the SMEs consulted, as measured by the set of diffusion indices, suggested that the overall situation remained lacklustre in recent months and enterprises surveyed generally turned more cautious about the outlook (*Table 1*). The overall index, after trending up successively from April to June, retreated again in July to 46.9, the lowest level since November 2014. Sectoral breakdown shows that the diffusion indices for the wholesale trade and logistics sectors declined most visibly in July. Meanwhile, the reading for import/export trade also trended lower, mainly reflecting the sluggish trade performance amid the unsteady external environment. The reading for the business services sector weakened considerably and fell below 50.0. The retail trade and restaurant sectors remained subdued, in tandem with the continued weakness in inbound tourism. As to the employment situation, the feedback from SMEs suggested a broadly stable development in recent months (*Table 2*).

For the import/export trade sector in particular, SMEs' views on new export orders were sought separately to help gauge the likely export performance in the near term. The diffusion index on new export orders stood below the boom-bust threshold of 50.0 in July, notwithstanding a rebound from a recent low of 45.3 in May, conceivably reflecting the still rather sluggish global demand conditions.

The proportion of SMEs reporting tight credit access reached a low of 0.2% in July, thanks mainly to the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes.

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(1) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as SMEs in Hong Kong.

**Box 1.2 (Cont'd)****Table 1 : Diffusion indices<sup>^</sup> on business receipts**

	<u>2014</u>						<u>2015</u>						
	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
<i>Local segments</i>													
Restaurants	47.1	48.1	47.1	38.2	46.1	52.0	50.0	47.7	47.7	48.4	47.6	48.4	49.2
Real estate	47.0	47.0	46.9	40.6	54.7	45.3	48.5	47.1	51.5	45.5	53.2	50.0	50.0
Retail trade	46.1	48.4	48.0	40.3	43.9	48.8	47.5	47.9	44.4	43.9	45.6	46.0	44.1
Wholesale trade	36.8	44.4	41.7	33.3	44.4	44.4	50.0	44.4	44.4	41.7	47.2	50.0	38.9
Business services	48.4	48.4	45.3	45.2	46.8	48.4	45.6	50.0	47.0	48.4	53.2	51.6	46.8
<i>External segments</i>													
Import/export trade	48.8	49.6	49.2	42.6	47.9	50.8	50.0	47.5	49.6	49.6	46.2	50.4	49.6
Logistics	47.2	44.4	47.2	36.1	41.7	41.7	50.0	50.0	44.7	52.8	50.0	52.9	44.1
<b>All the above sectors*</b>	<b>47.0</b>	<b>48.3</b>	<b>47.6</b>	<b>41.0</b>	<b>46.7</b>	<b>48.9</b>	<b>48.8</b>	<b>47.8</b>	<b>47.4</b>	<b>47.3</b>	<b>47.7</b>	<b>49.4</b>	<b>46.9</b>

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

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

**Table 2 : Diffusion indices on employment situation**

	<u>2014</u>						<u>2015</u>						
	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
<i>Local segments</i>													
Restaurants	49.0	50.0	48.0	46.1	50.0	49.0	49.2	48.5	50.0	49.2	50.0	49.2	50.0
Real estate	50.0	50.0	50.0	50.0	51.6	50.0	48.5	50.0	51.5	47.0	46.8	50.0	48.3
Retail trade	49.6	50.4	50.0	49.2	50.8	49.6	49.6	50.0	50.0	50.0	49.6	50.4	48.6
Wholesale trade	47.4	52.8	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Business services	50.0	53.1	50.0	46.8	50.0	50.0	50.0	50.0	50.0	48.4	50.0	48.4	51.6
<i>External segments</i>													
Import/export trade	49.2	50.0	50.0	49.2	50.0	50.0	50.0	49.2	50.8	50.4	49.2	50.0	49.6
Logistics	50.0	50.0	47.2	50.0	47.2	50.0	47.1	47.1	47.4	50.0	50.0	50.0	52.9
<b>All the above sectors*</b>	<b>49.3</b>	<b>50.6</b>	<b>49.8</b>	<b>48.9</b>	<b>50.2</b>	<b>49.8</b>	<b>49.6</b>	<b>49.5</b>	<b>50.3</b>	<b>49.7</b>	<b>49.4</b>	<b>49.9</b>	<b>49.7</b>

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

**Table 3 : Diffusion index on current new export orders**

	<u>2014</u>						<u>2015</u>						
	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
Import/export trade	49.6	50.4	50.0	44.7	46.7	51.3	50.0	48.3	48.3	48.7	45.3	48.7	48.7

**Table 4 : Percentage of SMEs reporting tight current access to credit**

	<u>2014</u>						<u>2015</u>						
	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
All selected sectors*	0.8	0.8	0.8	0.8	0.8	1.0	0.8	0.7	0.7	0.7	0.9	0.2	0.2

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



## **The labour sector**

1.8 The labour market remained in a state of full employment. The *seasonally adjusted unemployment rate* edged down from 3.3% in the first quarter to 3.2% in the second quarter. Over the same period, the *underemployment rate* was unchanged at 1.4%. Labour demand stayed rather buoyant, as job vacancies in the private sector remained high in March and total employment stayed near its record high in the second quarter. Incomes sustained further growth over the same period, with the median monthly household income (excluding foreign domestic helpers) registering a notable year-on-year increase of 4.7% in real terms. The average monthly employment earnings of full-time employees (excluding foreign domestic helpers) engaged in elementary occupations also picked up, with a 2.0% year-on-year growth in real terms, benefitting from the upward adjustment of the Statutory Minimum Wage rate since May 2015.

## **The asset markets**

1.9 The *local stock market* saw considerable fluctuations in the quarter amid increased volatility across the global financial markets. It rallied on entering the second quarter, as the upbeat investment climate in the Mainland stock market and various positive market developments sent the local stock market to a seven-year high in April. However, it came under pressure subsequently, and underwent a marked correction towards the end of June, upon rising concerns about Greece's debt negotiations and the sharp plunge in the Mainland stock market. The Hang Seng Index closed the second quarter at 26 250, still 5.4% higher than three months earlier. Average daily turnover was substantially higher in the second quarter, at \$164.9 billion. Total equity fund raised were also larger when compared with the preceding quarter and the same period last year, making Hong Kong the world's largest market in terms of funds raised through Initial Public Offerings in the first half of 2015.

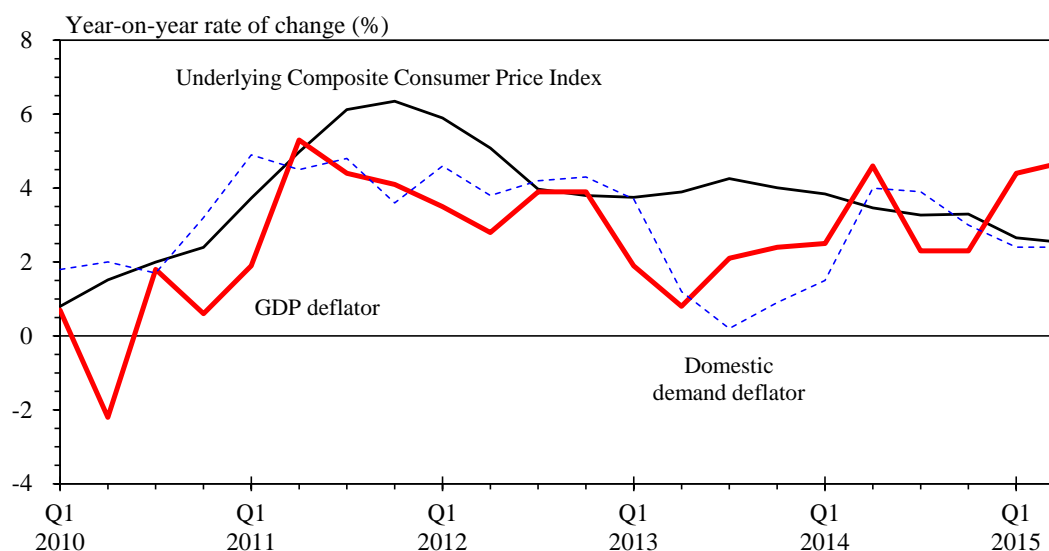
1.10 The *residential property market* turned more active during the second quarter, having cooled down somewhat in March after the Hong Kong Monetary Authority's introduction of the seventh round of macro-prudential measures. Residential property prices rose by 3% during the second quarter, with overall flat prices in June exceeding the 1997 peak by 74% and the housing affordability ratio staying elevated at around 62% in the second quarter. Trading volume picked up over the recent low in March, though for the second quarter as a whole, they were 8% lower over the preceding quarter. The risks of a housing market bubble remain prominent. Over the same period, flat, office and shop rentals all went up by 2%.

## Inflation

1.11 Consumer price inflation continued its easing trend in the second quarter, alongside modest price pressures from the domestic and external fronts. Locally, the private housing rental component of the consumer price indices recorded milder year-on-year increases, reflecting the feed-through of the more moderate increases in the fresh-letting rentals last year. At the same time, the steady growth in labour costs also helped keep domestic price pressures largely at bay. Externally, the pressure from imported inflation was scant, reflecting various factors of the soft international food and commodity prices, low inflation of Hong Kong's major import partners, and the strength of the US dollar. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, *underlying composite consumer price inflation* eased from 2.7% in the first quarter to 2.5% in the second quarter, the lowest since the first quarter of 2011. For the first half of 2015 as a whole, underlying inflation averaged 2.6%, markedly lower by 0.9 percentage point over that of 3.5% in 2014. *Headline consumer price inflation* moved down to 3.0% in the second quarter, from 4.4% in the preceding quarter. For the first half as a whole, headline inflation averaged 3.7%, also distinctly down from 4.4% in 2014.

1.12 The *GDP deflator* rose by 4.7% in the second quarter. Within this, domestic demand deflator posted a further increase, while the terms of trade continued to improve over the same period due mainly to the fall in overall import prices.

**Diagram 1.4 : Consumer price inflation continued its easing trend in the second quarter**



## **GDP by major economic sector**

1.13 Broadly consistent with the modest economic performance, net output of the services sector as a whole rose by 2.4% in real terms in the first quarter of 2015, after the 2.5% increase in the fourth quarter of 2014. The moderation in growth was experienced by many individual sectors. Affected by the slowdown in inbound tourism, net outputs of wholesale and retail trades, as well as accommodation and food services declined mildly. Growth in import and export trade as well as transportation and storage remained subdued amid the sluggish external environment. Net output of real estate, which mainly reflects activity of private sector developers and property agency, saw moderate growth, and so did financing and insurance. On the other hand, information and communications, and professional and business services picked up in the first quarter. As for the secondary sector, the decline in manufacturing activity narrowed slightly. Meanwhile, activity in the construction sector slackened to a decline amid a notable fall in the expenditure on large-scale public infrastructure works in the quarter.

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

	<u>2014</u>	<u>2014</u>				<u>2015</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	-0.4	2.1	2.2	-1.7	-3.6	-1.5
Construction	8.3	12.2	4.9	5.4	10.1	-5.1
Services <sup>(b)</sup>	2.4	2.3	2.1	2.9	2.5	2.4
Import/export, wholesale and retail trades	0.9	0.3	0.5	2.2	0.7	0.4
Import and export trade	1.2	-0.7	2.3	2.7	0.6	0.6
Wholesale and retail trades	-0.1	3.9	-6.1	0.3	1.3	-0.1
Accommodation <sup>(c)</sup> and food services	2.6	4.5	2.4	3.6	0.2	-0.7
Transportation, storage, postal and courier services	5.2	6.6	7.3	3.9	3.3	2.4
Transportation and storage	5.4	6.3	7.3	4.9	3.2	2.8
Postal and courier services	2.0	13.6	7.5	-14.1	3.4	-4.6
Information and communications	3.9	3.0	5.7	3.3	3.7	5.9
Financing and insurance	4.0	3.1	0.6	5.5	6.8	4.5
Real estate, professional and business services	3.2	1.9	3.7	3.5	3.7	4.6
Real estate	2.7	0.8	3.0	3.2	4.0	4.2
Professional and business services	3.6	3.0	4.3	3.7	3.4	5.1
Public administration, social and personal services	2.3	2.9	2.4	2.0	2.0	2.8

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

- (a) The GDP figures shown in this table are compiled from the production approach, in parallel with those shown in Table 1.1 which are compiled from the expenditure approach. For details, see Note (1) to this chapter.
- (b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity.
- (c) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

## **Other economic developments**

1.14 Hong Kong was ranked as the world's second most competitive economy in the International Institute for Management Development World Competitiveness Yearbook 2015, up from the fourth place last year. In particular, Hong Kong attained the top rank in terms of government efficiency and business efficiency, affirming the Government's efforts in upholding steadfast fiscal discipline, promoting a robust financial system, and maintaining favourable business environment. Separately, Hong Kong was the second largest recipient of foreign direct investment flows in the world, according to the United Nations Conference on Trade and Development World Investment Report 2015, underscoring the attractiveness of Hong Kong as an international business hub and our role as a key conduit for investment flows. To enhance Hong Kong's position as an international business centre, the Economic Development Commission held its eighth meeting in July and provided views on the strategies and initiatives of promoting Hong Kong as a premier intellectual property trading hub in the region.

1.15 The Government continues to proactively deepen economic integration with the Mainland. The Third Plenary Session of the Hong Kong-Shanghai Economic and Trade Co-operation Conference was held in April, reaching consensus on a total of 27 co-operation initiatives, covering such areas as Shanghai Free Trade Zone co-operation, commerce, trade and investment, and finance. Also, to seize the new opportunities created by the Mainland's "One Belt One Road" initiative, the Commission on Strategic Development discussed in its second meeting directions for Hong Kong to contribute towards the initiative and strengthen its strategic position as a centre for financial, professional and business services.

1.16 On strengthening financial linkages, a fourth protocol to the agreement for the avoidance of double taxation and prevention of income tax evasion between Hong Kong and the Mainland was signed. Besides, a memorandum of regulatory co-operation related to the mutual recognition of funds arrangement signed between the Hong Kong Securities and Futures Commission and the China Securities Regulatory Commission took effect in July, marking the Mainland's first mutual recognition of funds arrangement with a market outside. The arrangement should help enrich the types of fund products offered in the two places, conducive to enhancing Hong Kong as an international asset management centre.

1.17 The Government continues to enhance economic ties with overseas markets. Hong Kong and Canada announced the conclusion of the negotiation of an Investment Promotion and Protection Agreement in May. Separately, Hong Kong and Thailand signed a memorandum of understanding pledging mutual co-operation on investment promotion exchanges and best practices in June. These arrangements would facilitate and promote economic and investment relations between Hong Kong and these two economic partners.

**Notes :**

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

## CHAPTER 2 : THE EXTERNAL SECTOR

### *Summary*

- *External trade faltered again in the second quarter amid the slack in global demand. Thus far this year, world economic growth has been weaker than expected. Moreover, financial volatility continued unabated, with Greek debt woes deteriorating during the quarter. Against this backdrop, the global manufacturing cycle headed south, putting downward pressure on Asian exports, which in turn significantly curbed Hong Kong's exports to these markets.*
- *Hong Kong's merchandise exports relapsed to show a 3.0% year-on-year decline in real terms<sup>(1)</sup> in the second quarter of 2015, marking the worst performance since the first quarter of 2012. Weakness was evident across major markets, except for the US and some ASEAN markets, which held up further.*
- *Exports of services fared better and posted a modest year-on-year growth of 1.0% in the second quarter, supported by the surge in exports of financial and other business services upon hectic fund-raising and cross-border financial activities. However, the drag from the setback in exports of travel services continued as inbound tourism was still weak, while exports of trade-related services and transportation services remained in the doldrums alongside the subdued regional trade and cargo flows.*
- *Hong Kong's foreign direct investment inflows and outflows both ranked the second among the world economies in 2014, signifying our significant role as an international business hub. Hong Kong continues to strengthen economic collaboration with the Mainland and emerging markets. In the Third Plenary Session of the Hong Kong-Shanghai Economic and Trade Co-operation Conference in April, the two sides reached consensus on co-operation initiatives in a wide range of areas. In June, Invest Hong Kong and the Thailand Board of Investment signed a memorandum of understanding, providing a framework to enhance the close relationship between the two places in promoting both inward and outward investment.*

## Goods trade

### *Total exports of goods*

2.1 As with many Asian economies, Hong Kong's goods export performance faltered again in the second quarter of 2015, amid sluggish global demand over the period. *Merchandise exports* (comprising re-exports and domestic exports) relapsed to a decline of 3.0% in real terms in the second quarter over a year earlier, after increasing modestly by 0.7% in the first quarter. On a seasonally adjusted quarter-to-quarter basis, merchandise exports fell further by 1.3% in the second quarter, following the 0.6% decline in the first quarter, signifying the increasingly austere and complicated external landscape.

2.2 The global economy still operated in low gear. The US economy rebounded in the second quarter, but the growth pace remained moderate. The economic recovery of the eurozone still proceeded in a gradual manner, as the deep-seated structural issues remained notable. Emerging market economies continued to face downward pressures of varying extent. Brazil and Russia had both already slipped into economic contraction, while developing Asian economies, including the Mainland, also saw growth slowdown by varying extent. In July, the International Monetary Fund (IMF) revised down its global economic growth forecast for 2015 by two-tenths to 3.3%, marking the slowest annual growth in the post-global financial crisis era.

2.3 The unsteady external environment also impacted on business sentiment and hindered trade activity expansion. Apart from continued financial volatility emanated from divergent monetary policy stance among major central banks and geopolitical tensions in different parts of the world, the Greek debt situation escalated sharply towards the end of the second quarter and added further headwinds. Given the murky economic outlook, manufacturing production in advanced and emerging markets economies alike slackened across-the-board, which weighed heavily on Asian exports, with many of them suffering sharp declines in US dollar terms in the second quarter.



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

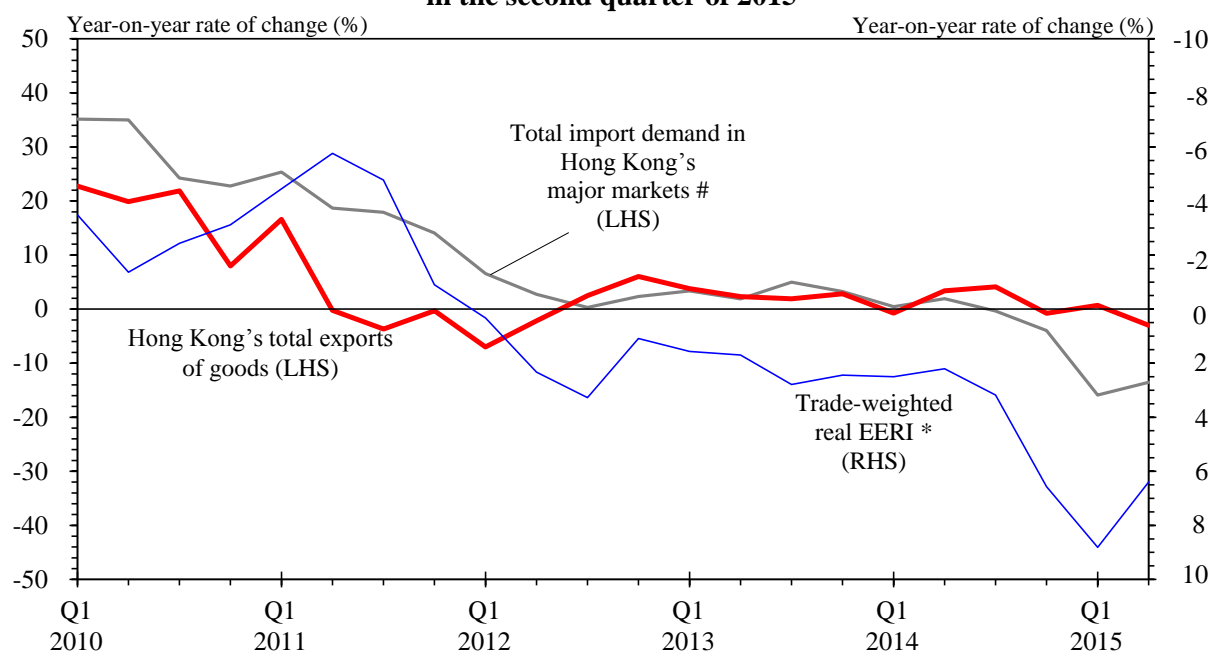
	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>
2014 Annual	3.2	1.5	2.0	3.2	1.5	2.0	1.7	2.9	0.2
Q1	0.7	-0.7 (-4.1)	1.7	0.7	-0.7 (-4.2)	1.7	-1.1	0.6 (-4.4)	-0.5
Q2	4.8	3.4 (3.8)	1.9	4.8	3.3 (3.8)	1.9	8.3	9.6 (3.4)	0.5
Q3	5.8	4.1 (2.0)	2.2	5.9	4.1 (2.1)	2.2	3.1	3.4 (-4.5)	1.3
Q4	1.2	-0.8 (-3.2)	2.2	1.3	-0.8 (-3.1)	2.3	-3.7	-2.4 (-5.8)	-0.7
2015 Q1	2.3	0.7 (-0.6)	2.0	2.5	0.8 (-0.6)	2.1	-10.1	-8.7 (-0.1)	-1.5
Q2	-1.9	-3.0 (-1.3)	1.3	-1.7	-2.8 (-1.2)	1.4	-15.6	-13.8 (-4.2)	-2.7

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

(a) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1, due to differences in coverage.

2.4 *Re-exports*<sup>(2)</sup>, the mainstay of overall merchandise exports and accounting for 98.6% of total exports by value, slackened to a 2.8% decline in real terms in the second quarter of 2015 over a year earlier, after the mild growth of 0.8% in the preceding quarter. *Domestic exports*, constituting the remaining 1.4% of total exports, fell markedly by 13.8% year-on-year in real terms in the second quarter of 2015, further to an 8.7% contraction in the first quarter.

**Diagram 2.1 : Merchandise exports slackened again in the second quarter of 2015**

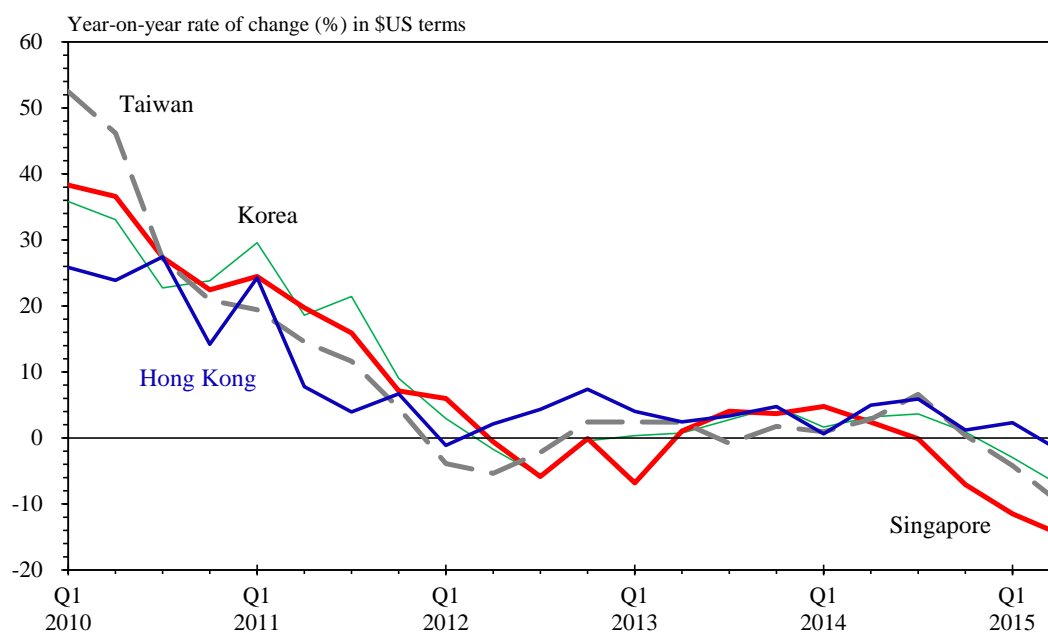


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in Asia, the United States and the European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

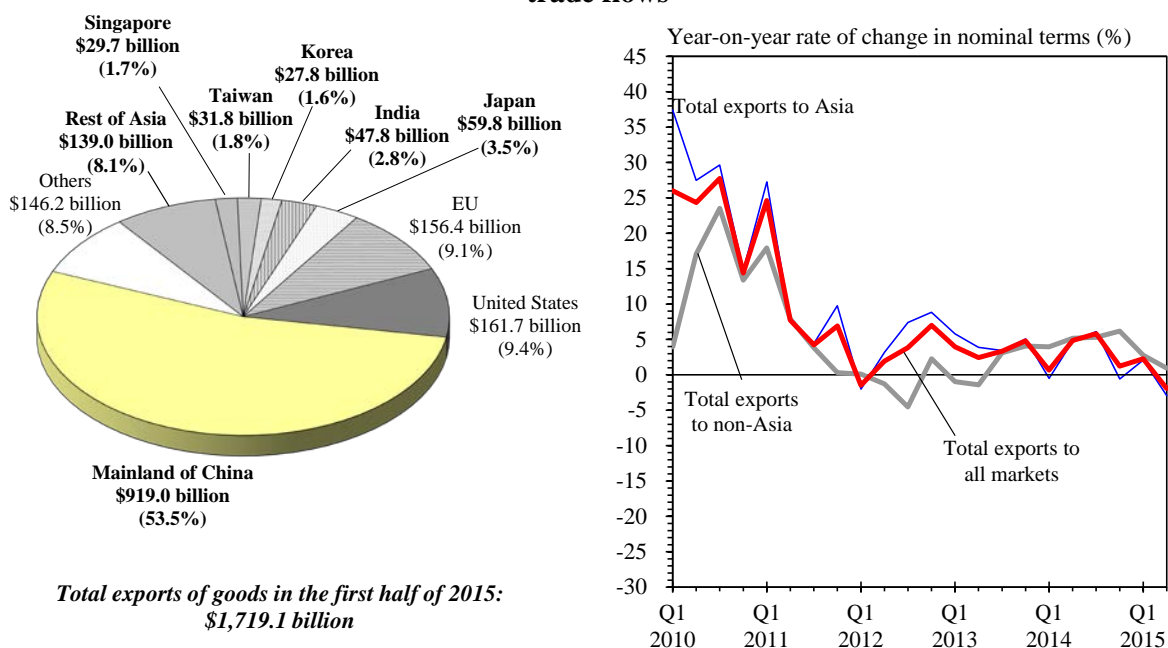
(\*) The real EERI in this graph is inverted in scale for easier comprehension. A positive change denotes real appreciation of the Hong Kong dollar.

(#) Import demand figure for the second quarter of 2015 is based on statistics for April and May 2015.

**Diagram 2.2 : Exports in Asian newly industrialised economies all registered notable declines in the second quarter of 2015**



**Diagram 2.3 : Exports to the Asian markets faltered in tandem with the slackening regional trade flows**



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

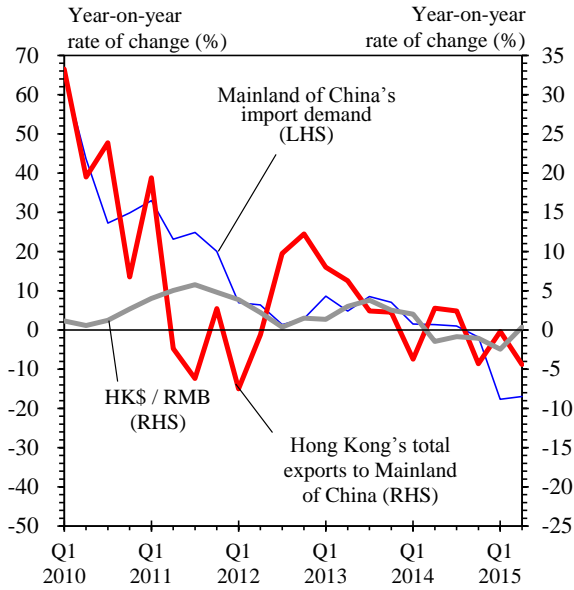
	<u>Annual</u>	<u>Q1</u>	<u>2014</u> <u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>2015</u> <u>Q1</u>	<u>Q2</u>
Mainland of China	-0.7	-3.7	2.8	2.4	-4.3	-0.2	-4.4
United States	2.7	4.2	2.9	0.2	3.8	3.3	3.6
European Union	0.6	1.2	4.4	-0.3	-2.3	-3.5	-6.7
Japan	-4.5	-2.0	-1.8	-5.2	-8.4	-5.8	-4.0
India	16.0	6.8	15.3	35.6	6.1	12.4	-3.1
Taiwan	2.1	-7.9	1.2	13.6	1.7	-12.8	-20.3
Korea	-1.8	0.1	1.3	4.0	-11.5	-5.7	-13.8
Singapore	2.1	7.9	0.3	0.3	0.6	0.4	-3.7
Overall*	1.5	-0.7	3.4	4.1	-0.8	0.7	-3.0

Note : (\*) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1, due to differences in coverage.

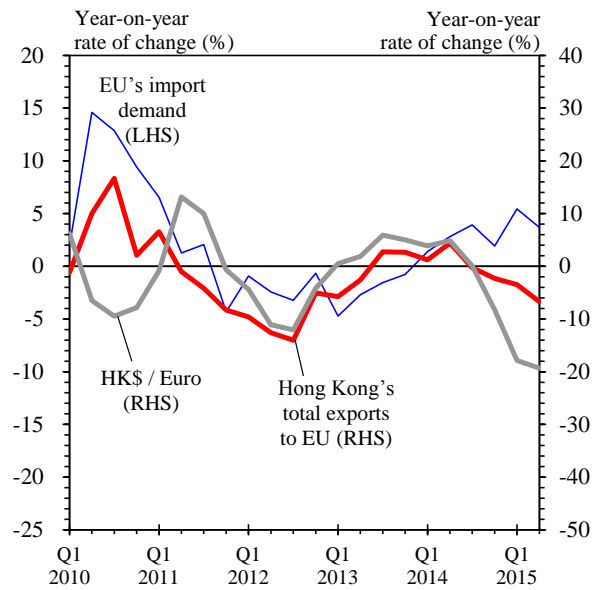
2.5 On a year-on-year comparison, merchandise exports to most major markets recorded declines of different degrees in the second quarter. Exports to the EU saw an enlarged decline, as the economic recovery there was too fragile to translate into solid import demand, which in turn was further curtailed by the much weakened euro. Exports to Japan declined further, as consumer spending there had not picked up in any significant way, and the weak yen also discouraged its import demand. Among the advanced economies, the US market was a relative bright spot and held up well with a further growth, largely mirroring the recovery of the US economy and continued improvement of its labour market during the period.

2.6 Merchandise exports to the major Asian markets also registered almost across-the-board declines in the second quarter, dragged mainly by the plunge in import intake of raw materials and semi-manufactures and capital goods, conceivably being significantly curbed by the sluggish global demand and the ensuing slowdown in industrial activity. Exports to Taiwan and Korea saw distinct declines, down by 20.3% and 13.8% respectively in real terms in the second quarter over a year earlier, while exports to Singapore also faltered, down 3.7% year-on-year. In a similar vein, exports to the Mainland fell by 4.4% year-on-year. Exports to India also reverted to a decline, again led by a visible fall in raw materials and semi-manufactures trade, though a high base of comparison a year earlier was also to blame. On the other hand, some ASEAN emerging markets continued to register notable growth and rendered some cushion to Hong Kong's total exports amid the subdued trading environment.

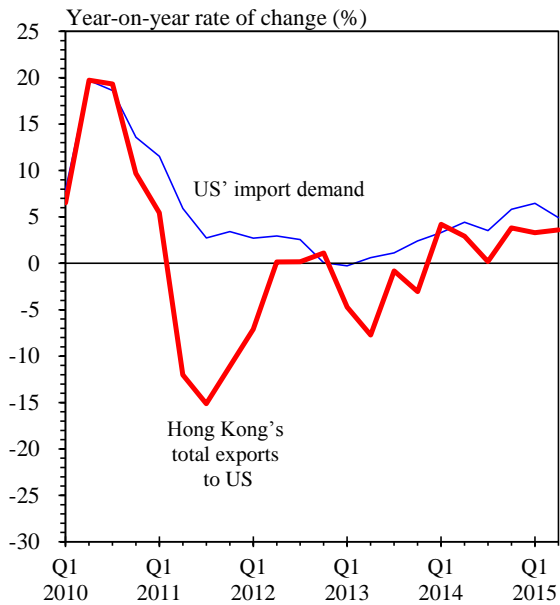
**Diagram 2.4 : Exports to the Mainland weakened in the second quarter**



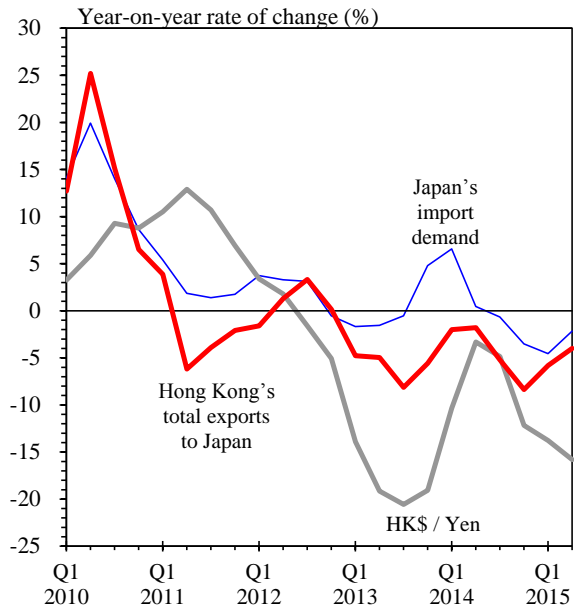
**Diagram 2.5 : Exports to the EU showed an enlarged decline**



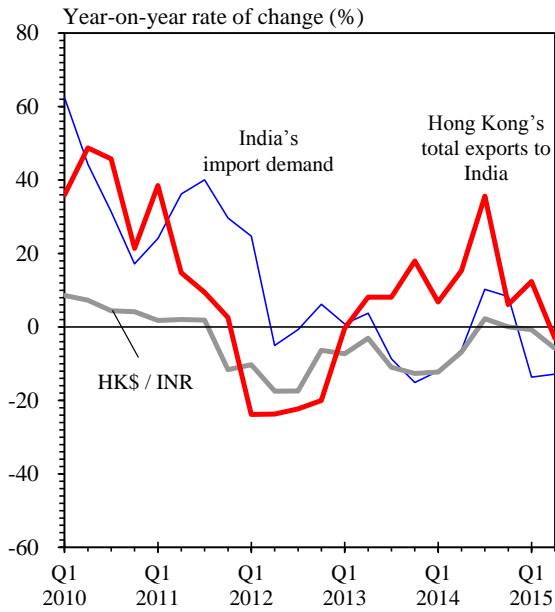
**Diagram 2.6 : Exports to the US held up in the second quarter**



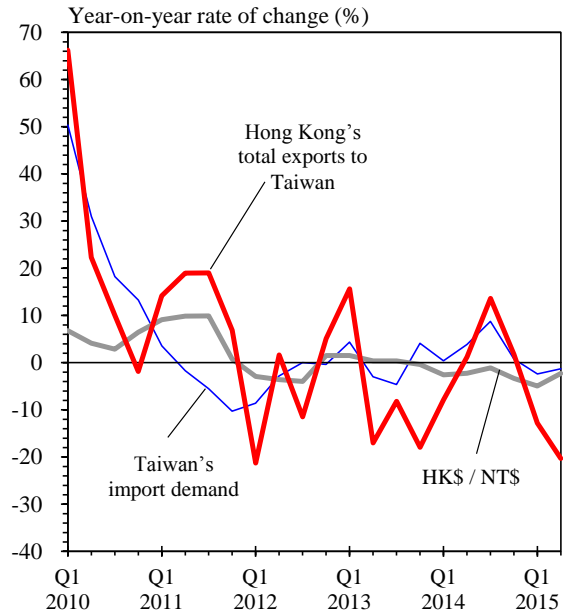
**Diagram 2.7 : Exports to Japan remained weak**



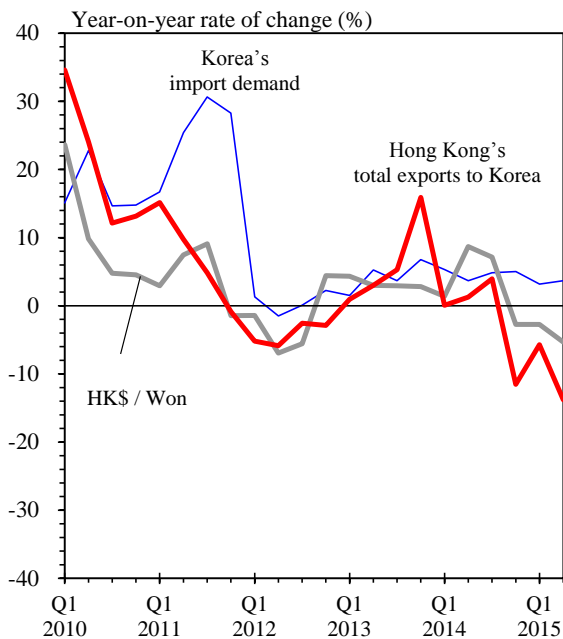
**Diagram 2.8 : Exports to India slackened to a decline, partly affected by a high base of comparison**



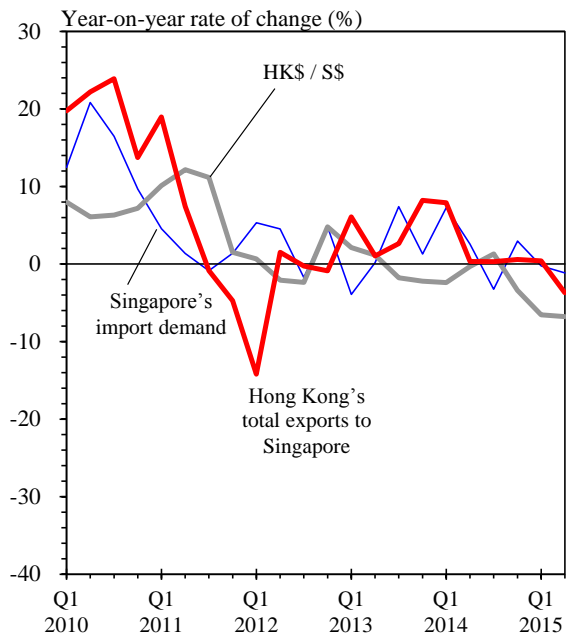
**Diagram 2.9 : Exports to Taiwan went sharply lower**



**Diagram 2.10 : Exports to Korea plummeted**



**Diagram 2.11 : Exports to Singapore turned more sluggish**



## Box 2.1

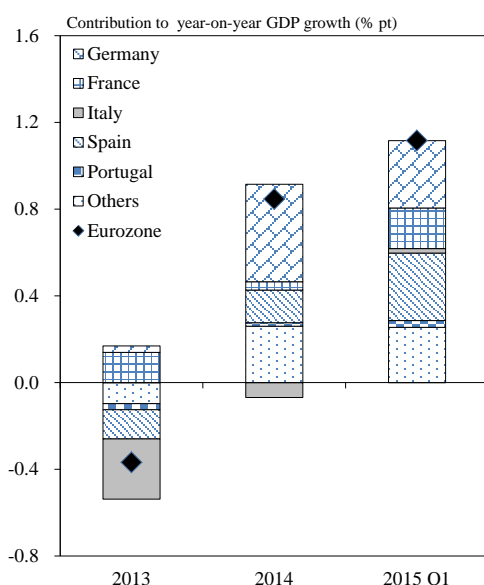
### Recent economic performance of the selected member economies in the eurozone

The eurozone came out from recession in mid-2013 and resumed modest growth. The growth momentum early this year seemed to show some pick-up, conceivably helped by better sentiment following the enlarged asset purchase programme rolled out by the European Central Bank. Nevertheless, the economic performance varied considerably among different member economies. To shed light on the recovery progress of the currency bloc from a macroeconomic perspective, this note examines and compares the latest economic situations of the four biggest member economies in the currency bloc, viz. Germany, France, Italy and Spain (referred hereafter as the Big Four)<sup>(1)</sup>.

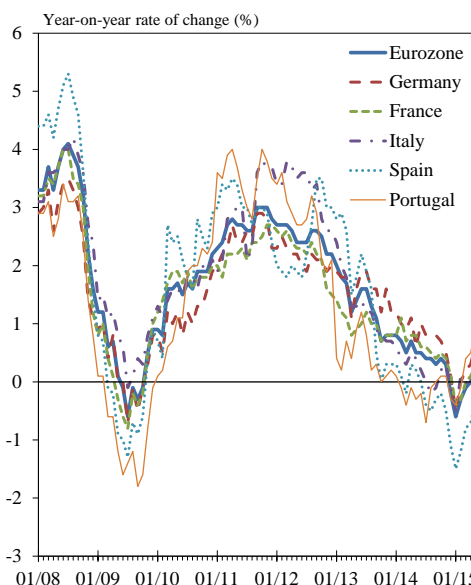
In 2014 when the economy of the eurozone rebounded, over half of the annual growth was contributed by Germany, while that by France and Spain combined was subtle, and Italy was still mired in recession, posing a drag on the region's growth. But the recovery was more broad-based on entering 2015, as Spain outperformed Germany to be the biggest growth driver of the region in the first quarter, and France saw a further pick-up in growth momentum. Meanwhile, Italy also reverted to some positive growth for the first time since 2011. Apart from the Big Four, nearly all other members (except Finland) registered year-on-year increases in GDP, ranging from 0.2 % to 4.9 % over the same period (*Chart 1*).

Along with the gradually recovering economy, deflationary pressures have generally receded. The inflation rate of Germany returned to positive territory in March 2015, followed by France in April. That of Italy also started to see some price increases in May, while Spain came out of an eleven-month deflation in June. Nevertheless, their inflation rates remained very low (i.e. 0.1%, 0.3%, 0.2% and 0.0% in June respectively) (*Chart 2*). It should also be noted that five of the member economies within the eurozone are still in deflation<sup>(2)</sup>.

**Chart 1 : Growth remained uneven despite recent improvements**



**Chart 2 : Inflation rates stayed low despite easing deflationary pressures**



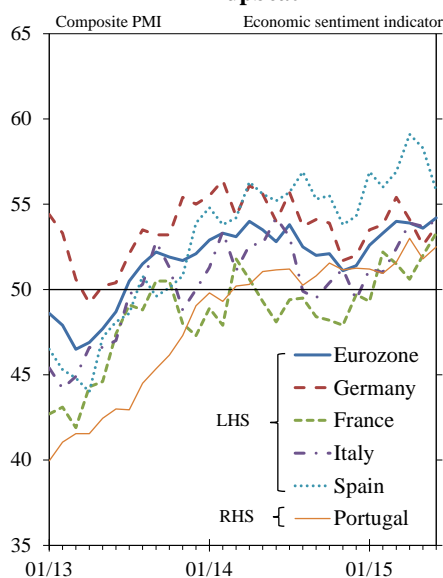
Business sentiment has generally stayed positive, though the outlook is now clouded by the uncertainties stemming from the Greece's debt negotiations. The composite PMIs for the Big Four economies all stayed comfortably above the boom-bust line of 50, in particular for Spain which saw a more visible improvement over the period, hinting a further expansion in economic activities in the second quarter (*Chart 3*). Externally, export performance of the Big Four also reverted to some growth in euro terms, partly helped by a rather visible depreciation in euro over the period. But their growth was still rather modest and there were no distinct outperformers (*Chart 4*).

(1) The four economies contributed to around three-fourth of total GDP of the eurozone in 2014.

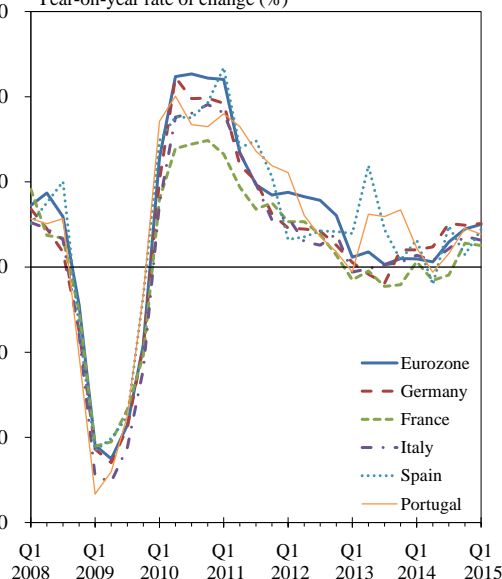
(2) The five economies are Greece, Cyprus, Lithuania, Slovenia and Slovakia.

## Box 2.1 (Cont'd)

**Chart 3 : Business sentiment remained upbeat**

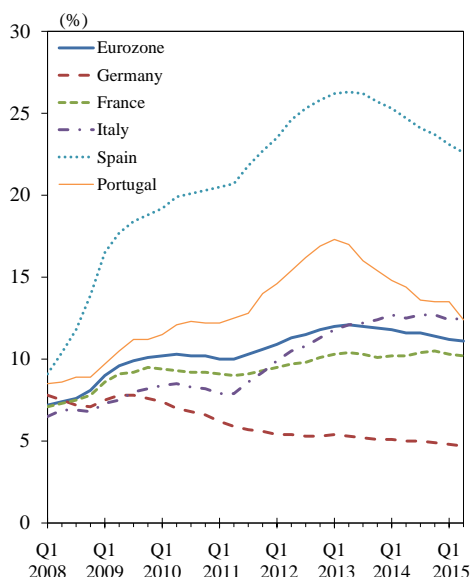


**Chart 4 : Exports performance of the member economies were only mediocre**

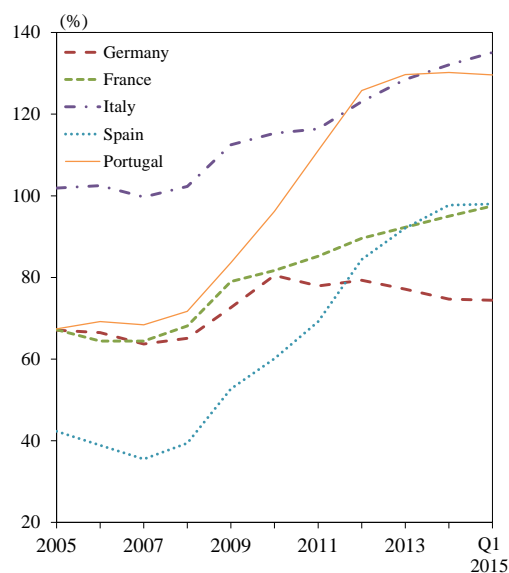


Despite the relative improvement in recent economic performance as seen above, deep-seated structural problems remain prominent. The double-digit unemployment rates in Spain (22.6%), Italy (12.5%) and France (10.2%) are still alarming, despite the visible improvements over the past year or so (*Chart 5*). The government gross debt-to-GDP ratios of these three economies were generally on an upward trend and stayed at dangerously high levels (with Italy surpassing 130% in the first quarter of 2015), which indicated their still rather fragile fiscal positions, and their limited rooms for fiscal policy manoeuvring (*Chart 6*).

**Chart 5 : Unemployment rates stayed elevated except for Germany**



**Chart 6 : High government gross debt-to-GDP levels are also worrisome**



According to the latest forecast of the IMF in July, the eurozone is expected to grow by 1.5% in 2015, mainly steamed by Spain (3.1%) and Germany (1.6%), while France and Italy would show some slow growth (1.2% and 0.7% respectively). Yet, downside risks are still notable. Whilst the deal reached in mid-July mitigated the immediate threat of a Greek exit from the eurozone, whether the crisis could be fully resolved remains to be seen. The financial market volatility induced by the diverging monetary policies among major central banks, and the geopolitical tensions in Eastern Europe, could also weigh on the growth outlook for the eurozone, which would in turn further impact on our external trade performance. As such, we need to stay alert and closely monitor the developments.



## *Imports of goods*

2.7 In the second quarter of 2015, *imports of goods* declined by 3.1% in real terms over a year earlier, following a 1.1% growth in the preceding quarter. Apart from the contraction in those imports for subsequent re-exporting, retained imports also weakened further to a decline. *Retained imports*, which accounted for over one-quarter of total imports, fell by 3.9% year-on-year in real terms in the second quarter, reverting from the 1.9% growth in the preceding quarter. Analysed by end-use category on a year-on-year comparison, retained imports of consumer goods and foodstuffs both declined in the second quarter, conceivably reflecting partly the weakness in retail and restaurant business caused by the setback in inbound tourism. In tandem with the general sluggishness in regional production activity, retained imports of raw materials and semi-manufactures dived. Retained imports of capital goods still made double-digit growth, a reflection that business investment sentiment held largely sanguine. Retained imports of fuels, after registering marked declines over the past year, grew visibly in the second quarter.

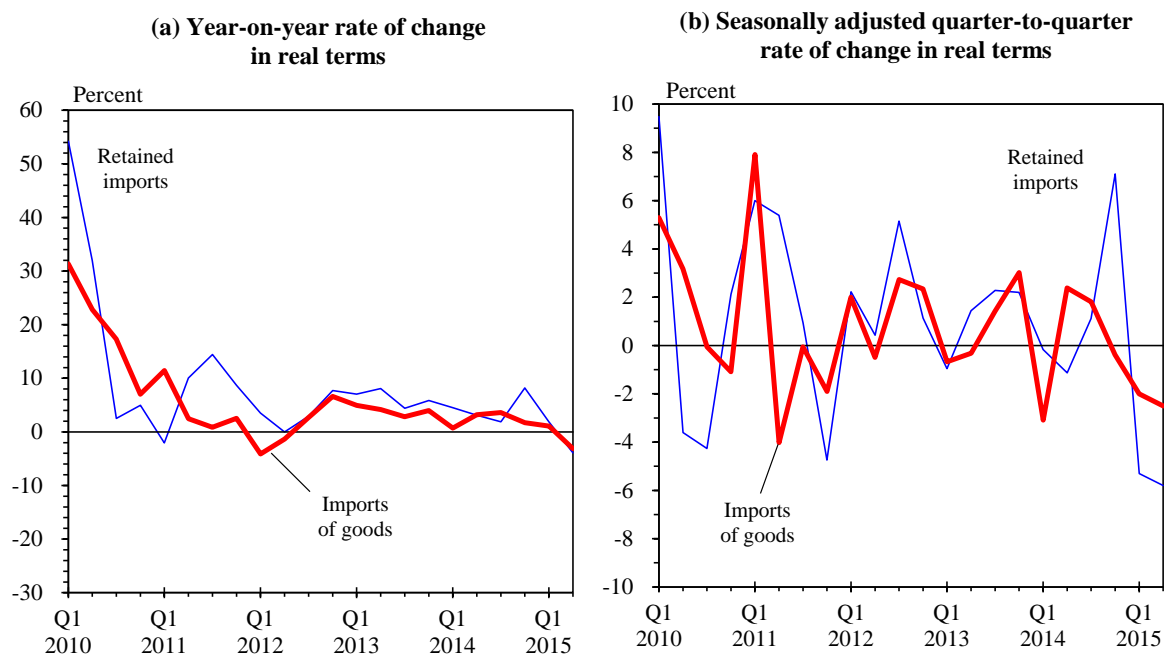
**Table 2.3 : Imports of goods and retained imports  
(year-on-year rate of change (%))**

		<u>Imports of goods</u>			<u>Retained imports</u> <sup>(a)</sup>				
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		
2014	Annual	3.9	2.3	1.9	5.1	4.5	1.0		
	Q1	2.1	0.7	(-3.1)	2.1	5.1	4.5	(-0.2)	2.5
	Q2	4.5	3.2	(2.4)	2.0	3.0	3.1	(-1.1)	1.7
	Q3	5.7	3.6	(1.8)	2.4	4.3	1.9	(1.1)	2.0
	Q4	3.2	1.7	(-0.4)	1.3	7.7	8.2	(7.1)	-1.6
2015	Q1	1.4	1.1	(-2.0)	0.9	-1.4	1.9	(-5.3)	-2.1
	Q2	-3.2	-3.1	(-2.5)	0.6	-6.9	-3.9	(-5.8)	-1.5

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

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

**Diagram 2.12 : Imports and retained imports both slackened**



**Table 2.4 : Retained imports by end-use category (year-on-year rate of change in real terms (%))**

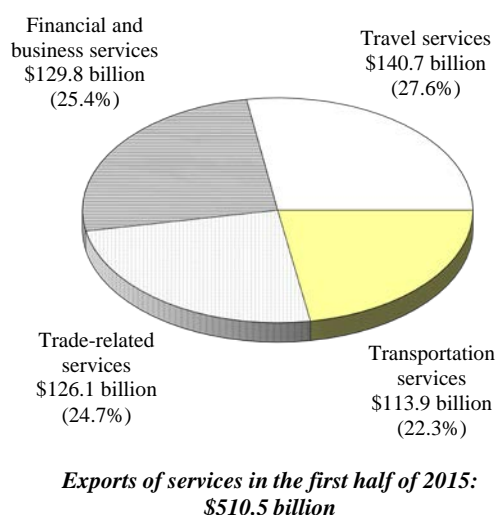
		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2014	Annual	8.2	5.8	-9.9	13.9	-5.9
	Q1	1.8	2.2	-1.6	10.5	-8.8
	Q2	7.6	12.4	-13.2	7.5	-2.6
	Q3	10.9	6.3	-23.5	12.7	-6.6
	Q4	12.4	3.4	-0.4	26.4	-5.2
2015	Q1	-13.0	4.1	44.6	-12.9	22.6
	Q2	-11.2	-11.1	17.0	-14.3	19.7

## Services trade

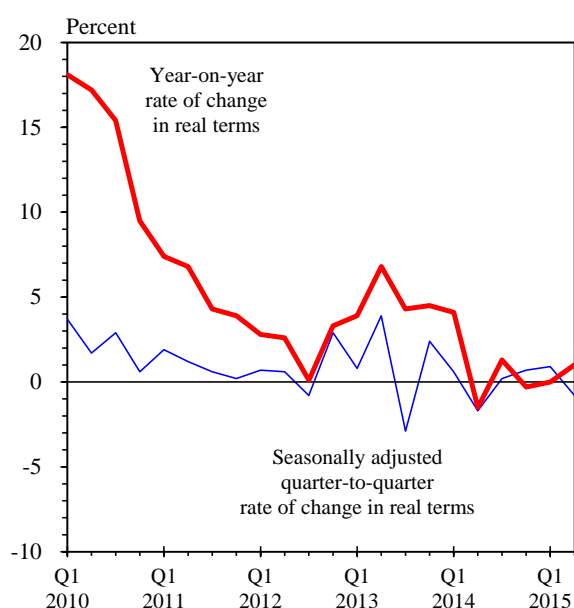
### *Exports of services*

2.8 *Exports of services* fared better than goods exports, posting a modest growth of 1.0% in real terms in the second quarter of 2015 over a year earlier, after staying flat in the preceding quarter. The weakness in exports of travel services posed a continued drag, as visitor arrivals slowed to virtually no growth in the second quarter, while per capita visitor spending remained on a decline. Meanwhile, exports of trade-related services and transportation services also remained in the doldrums, reflecting the subdued regional trade flows under the anaemic external trading environment. Yet, thanks to the hectic fund-raising and cross-border financial activities, exports of financial and other business services grew strongly in the second quarter and more than offset the drag from other services exports weakness, allowing overall services exports to expand modestly.

**Diagram 2.13 : Major service groups accounted for similar shares of Hong Kong's services exports, reflecting a diversified base**



**Diagram 2.14 : Exports of services picked up slightly in growth in the second quarter**



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

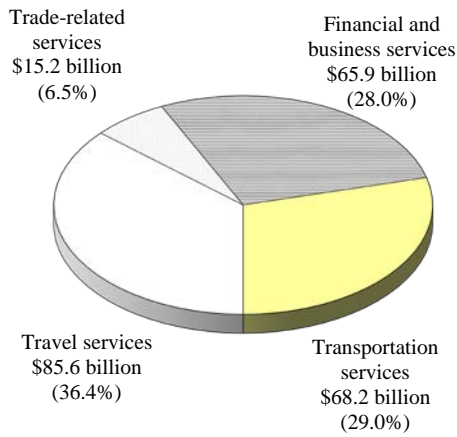
		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Trade-related services<sup>(a)</sup></u>	<u>Transportation services</u>	<u>Travel services<sup>(b)</sup></u>	<u>Financial and business services</u>
2014	Annual	0.9	1.3	2.6	-1.5	1.7
	Q1	4.1 (0.6)	-0.2	1.5	11.1	2.5
	Q2	-1.5 (-1.7)	1.5	3.9	-9.6	0.5
	Q3	1.3 (0.2)	2.7	2.9	-3.8	4.2
	Q4	-0.3 (0.7)	0.8	1.9	-2.9	-0.5
2015	Q1	* (0.9)	-1.0	1.0	-4.4	5.4
	Q2	1.0 (-0.8)	-1.8	-1.8	-1.5	11.0

- Notes :
- (a) Comprising mainly offshore trade.
  - (b) Comprising mainly inbound tourism receipts.
  - ( ) Seasonally adjusted quarter-to-quarter rate of change.
  - (\*) Within  $\pm 0.05\%$ .

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

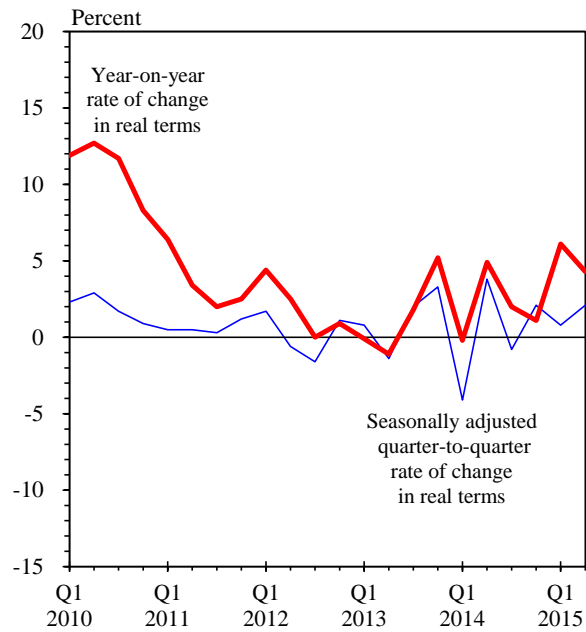
2.9 *Imports of services* made a solid growth of 4.3% year-on-year in real terms in the second quarter of 2015, after a 6.1% increase in the preceding quarter. Across the service categories, imports of travel services registered further notable year-on-year growth, reflecting keen interests among local residents in overseas travel, conceivably also boosted by the weakening of some major currencies against the US dollar. Imports of financial and other business services expanded moderately. Yet, imports of transportation services reverted to a decline, while imports of trade-related services grew only at a modest pace, in tandem with the subdued regional trade flows.

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



**Imports of services in the first half of 2015:**  
\$235.0 billion

**Diagram 2.16 : Imports of services grew solidly in the second quarter**



**Table 2.6 : Imports of services by major service group (year-on-year rate of change in real terms (%))**

*Of which :*

		<i>Of which :</i>				
		<u>Imports of services</u>	<u>Travel services</u> <sup>(+)</sup>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Financial and business services</u>
2014	Annual	1.9	3.7	0.1	1.1	1.6
	Q1	-0.2 (-4.1)	-2.7	-0.8	0.8	2.9
	Q2	4.9 (3.8)	10.5	1.8	2.5	1.7
	Q3	2.0 (-0.8)	4.0	0.4	1.7	1.4
	Q4	1.1 (2.1)	3.3	-0.9	-0.2	0.6
2015	Q1	6.1 (0.8)	12.6	0.5	1.0	5.3
	Q2	4.3 (2.1)	9.3	-2.8	1.2	6.6

Notes : (+) Comprising mainly outbound travel spending.

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

## Goods and services balance

2.10 The goods deficit narrowed slightly in the second quarter of 2015 compared with the same period last year, given the fall in goods imports outpaced that of exports. Adding the services surplus, the combined goods and services account registered a deficit of \$23 billion in the second quarter, equivalent to 1.9% of total import value, which was also lower than the deficit of \$33 billion (2.7% of total import value) in the same period last year.

**Table 2.7 : Goods and services balance  
(\$ billion at current market prices)**

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			As % of <u>imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2014	Annual	3,877	1,076	4,472	481	-594	595	1	#
	Q1	870	266	1,029	115	-158	151	-7	-0.6
	Q2	949	245	1,111	115	-162	129	-33	-2.7
	Q3	1,027	279	1,148	124	-122	155	33	2.6
	Q4	1,031	287	1,183	127	-152	160	8	0.6
2015	Q1	879	266	1,028	118	-149	148	-1	-0.1
	Q2	916	245	1,067	117	-150	127	-23	-1.9

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

(#) Within  $\pm 0.05\%$ .

## Other developments

2.11 Hong Kong strives to enhance economic co-operation with other provinces in the Mainland amid deepening economic integration between the two places. In the Third Plenary Session of the Hong Kong-Shanghai Economic and Trade Co-operation Conference in April, the two sides reached consensus on a wide range of areas, including those in China (Shanghai) Pilot Free Trade Zone co-operation, commerce, trade and investment, finance and tourism. On the areas of commerce, trade and investment in particular, Hong Kong and Shanghai will co-operate more closely to implement the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), deepen co-operation in service industries, and encourage Shanghai enterprises to “go global” by making use of our professional services.

2.12 At the margins of the Asia-Pacific Economic Co-operation Ministers Responsible for Trade Meeting in May, Hong Kong and Canada announced to the conclusion of the negotiation of an Investment Promotion and Protection

Agreement (IPPA). The signing of the IPPA will help enhance investment flows and further develop the economic and trade relations between the two places. In June, Hong Kong signed a Memorandum of Understanding on Co-operation in Wine-related Businesses between Hong Kong and Romania, which will facilitate co-operation in wine-related trading and investment promotion. In the same month, Invest Hong Kong and the Thailand Board of Investment signed a memorandum of understanding, providing a framework to enhance the close relationship between the two places in promoting both inward and outward investment.

2.13 According to the United Nations Conference on Trade and Development's World Investment Report 2015, Hong Kong's foreign direct investment (FDI) inflows and outflows both ranked the second among the world economies in 2014, signifying our significant role as an international business hub given the institutional strengths and favourable business environment.

**Notes :**

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

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

### *Summary*

- *After a brief consolidation in March, the residential property market re-activated in the second quarter of 2015, under sustained low interest rates and tight supply in the near term. Trading activities rose back from the low in March, while overall flat prices rose by another 3% during the quarter.*
- *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. Reflecting the Government's sustained efforts, total flat supply in the coming three to four years rose to another record high of 83 000 units.*
- *The commercial and industrial property markets held relatively steady in the second quarter. Prices and rentals recorded moderate increases. Yet trading activities of the different market segments showed a mixed performance.*
- *Inbound tourism slowed further in the second quarter, with overall visitor arrivals only edging up by 0.5% over a year earlier to 13.9 million. Growth in Mainland visitors decelerated sharply, and visitors from short-and long-haul markets remained on a decline.*
- *Dragged by the dismal external trade performance, the logistics sector slackened further in the second quarter. Container throughput plunged by 11.8%, while air freight throughput edged down by 1.4%.*

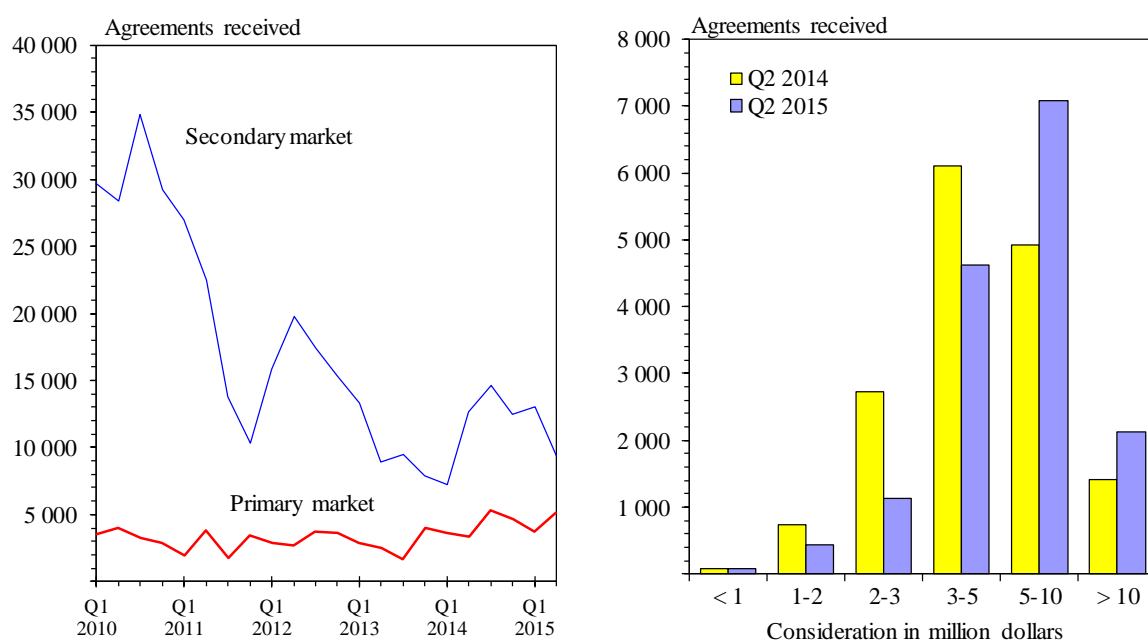


## Property

3.1 After a brief consolidation in March, the *residential property market* re-activated in the second quarter of 2015. Supported by continued low interest rates and a tight supply in the near term, demand for housing generally held firm. Transactions picked up through the quarter. Flat prices showed a noticeable rebound in April, though followed by somewhat moderated increases in the ensuing two months. Developers accelerated the pace of launching new projects during the quarter, which were mostly greeted with favourable market responses.

3.2 The total number of sale and purchase (S&P) agreements for residential property received by the Land Registry rebounded in April from the distinct low in March, and rose further in May and June. For the quarter as a whole, there were altogether 15 493 S&P agreements, still 8% lower than in the preceding quarter, or 3% lower than a year earlier. Reflecting the accelerated launch of new projects, primary market transactions surged by 33% over the preceding quarter, though secondary market transactions declined by 19%. Meanwhile, total consideration edged up by 2% over the preceding quarter to \$118.3 billion. Taking the first half of 2015 together, both the number of agreements and total consideration declined by 13% from the second half of 2014, to 32 261 and \$234.2 billion respectively.

**Diagram 3.1 : Trading activities picked up from the recent low in March**

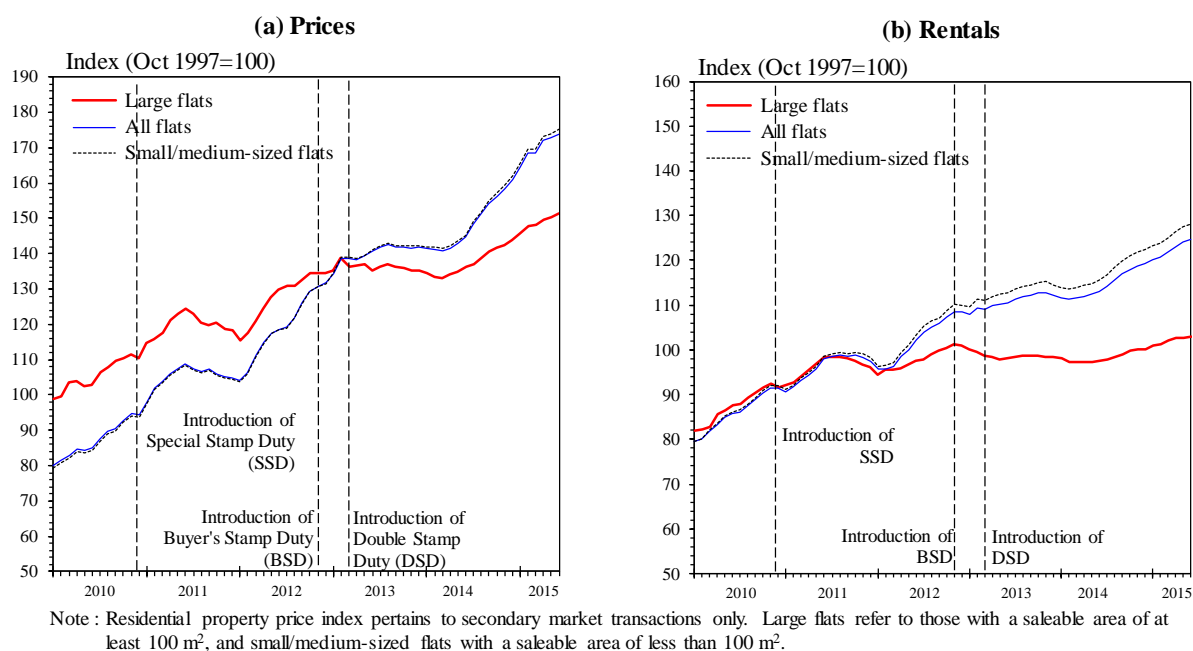


3.3 After staying flat in March, residential property prices showed a sharp rebound in April, followed by moderated increases in the ensuing two months.

Between March and June, overall flat prices rose by a total of 3%. Analysed by size, prices of small/medium-sized flats went up by 3%, and those of large flats by 2%. Compared with December 2014, overall flat prices in June 2015 rose by a cumulative 8%.

3.4 Meanwhile, the leasing market held steady. Overall flat rentals in June 2015 rose by 2% over March, and were 4% higher than in December 2014. Analysed by size, rentals of small/medium-sized flats and large flats rose by 2% and 1% respectively during the second quarter. The average rental yield for residential property stayed at 2.7% in June, same as in March.

**Diagram 3.2 : Flat prices and rentals recorded further gains during the second quarter**

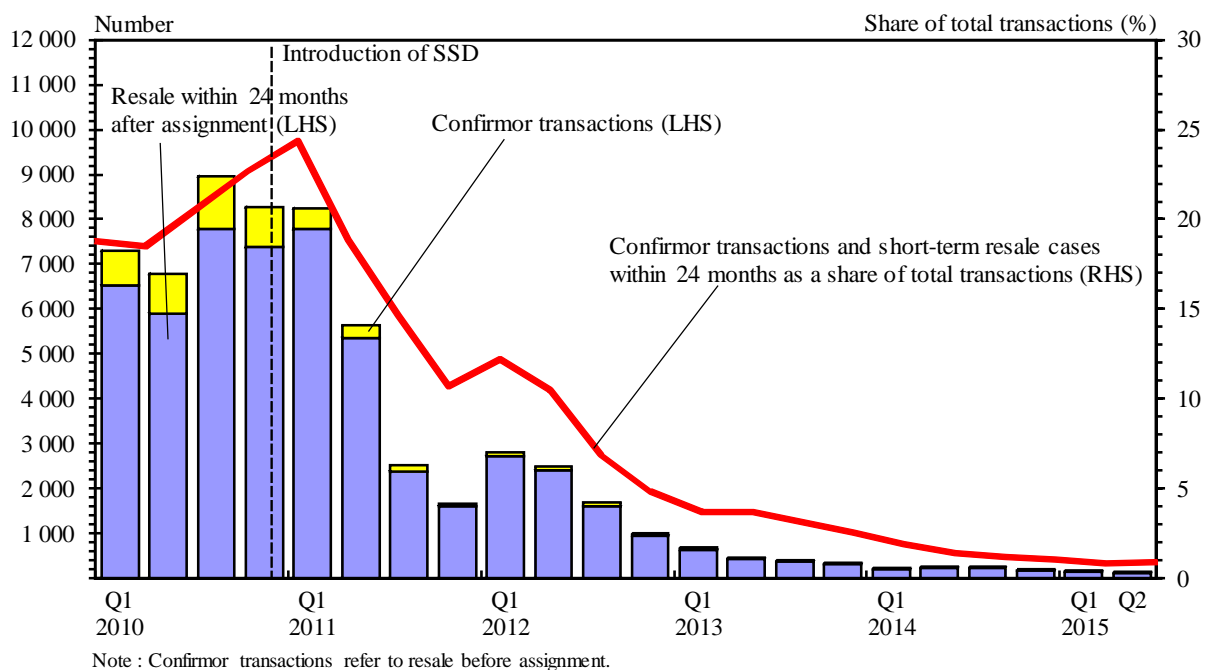


3.5 Raising flat supply through increasing land supply is the Government's top policy priority in ensuring the healthy and stable development of the property market. Reflecting the Government's sustained efforts, the number of private domestic units commencing work surged by 191% over a year earlier to 8 900 in the first half of 2015, though completions declined by 33% to 5 100. In the third quarter, the Government will put up for sale a total of four residential sites capable of providing about 2 600 flats. The private housing land supply in the second quarter and the third quarter of 2015, without taking account of private re-development/development projects, is estimated to have a capacity of providing about 10 600 flats, representing around 56% of the 2015/16 private housing land supply target of providing land capable of providing 19 000 flats. Over the medium term, the *total supply of flats* in the coming few years (comprising unsold flats of completed projects,

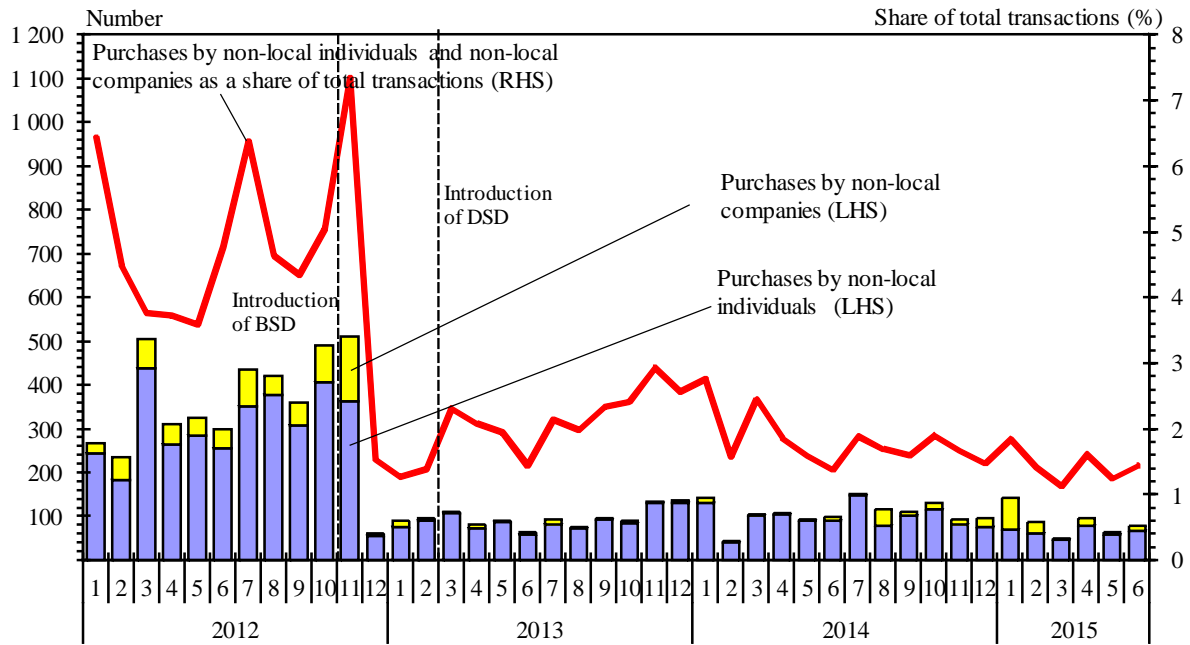
flats under construction but not yet sold and flats on disposed sites where construction can start any time) rose further from 78 000 units as estimated at end-March to another record high of 83 000 units as estimated at end-June. In addition, another 11 300 units could be added to the total supply after the conversion of a number of residential sites into “disposed sites”.

3.6 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<sup>(1)</sup>. 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) in the second quarter stayed low at 49 cases per month or 0.8% of total transactions, compared with the 86 cases per month or 1.4% a year earlier and 2 661 cases per month or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer’s Stamp Duty, *purchases by non-local individuals and non-local companies* also declined from 99 cases per month or 1.6% of total transactions a year earlier to 76 cases per month or 1.3% in the second quarter, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As to *mortgage lending*, the average loan-to-value ratio of new mortgages was 52% in the quarter, also below the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority.

**Diagram 3.3 : Speculative activities stayed subdued**

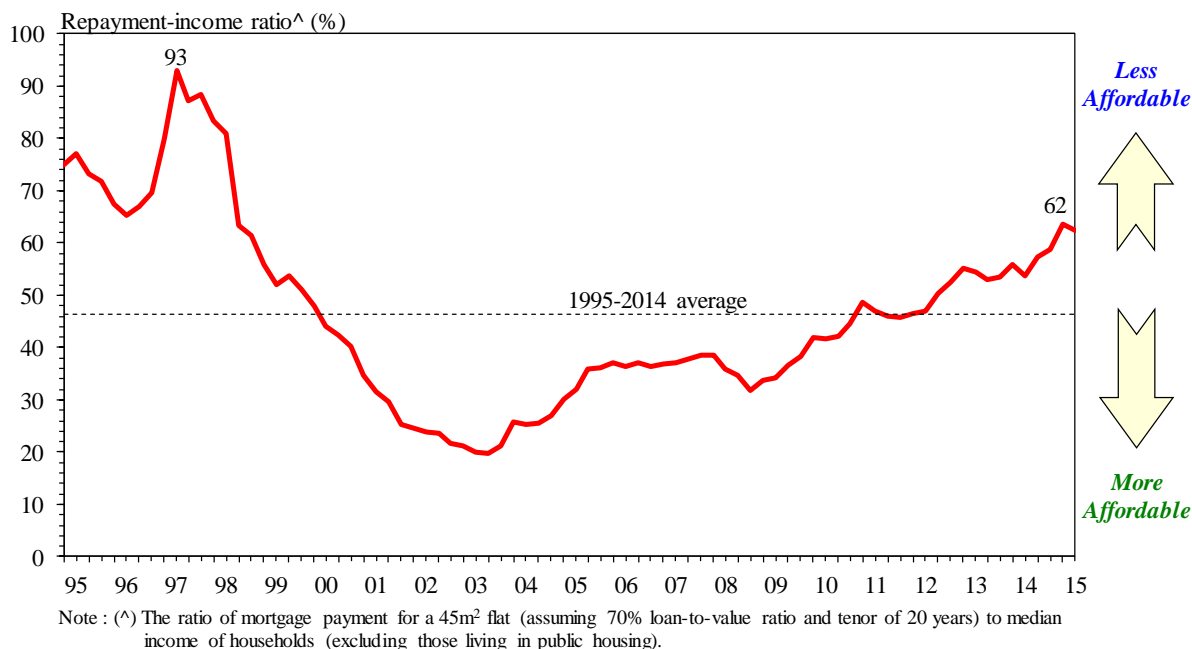


**Diagram 3.4 : Purchases by non-local buyers remained low**



3.7 With flat prices rising further during the quarter, the risks of a housing market bubble remain prominent. Following the almost uninterrupted rally in the past few years, overall flat prices in June 2015 have surpassed the 1997 peak by a rampant 74%. Home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) stayed elevated at around 62% in the second quarter, exceeding the long-term average of 46% over 1995-2014. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 81%.

**Diagram 3.5 : The mortgage payment to income ratio stayed elevated**



3.8 Looking ahead, while the US Federal Reserve still expects interest rate to be raised within this year, the exact timing and pace of the rate hike remain uncertain, much contingent on upcoming economic data. In contrast, other major central banks, in particular in the eurozone and Japan, have continued with monetary easing measures. More recently, the deterioration in the Greek debt crisis and the correction in the Mainland stock market have added further uncertainty to the prospects for global economic growth and monetary policy direction. The local property market may experience considerable fluctuations as market sentiment and fund flows shift along with changes in these external factors.

3.9 The *commercial and industrial property markets* held relatively steady in the second quarter of 2015. Prices and rentals recorded moderate increases. Yet trading activities of the different market segments showed a mixed performance.

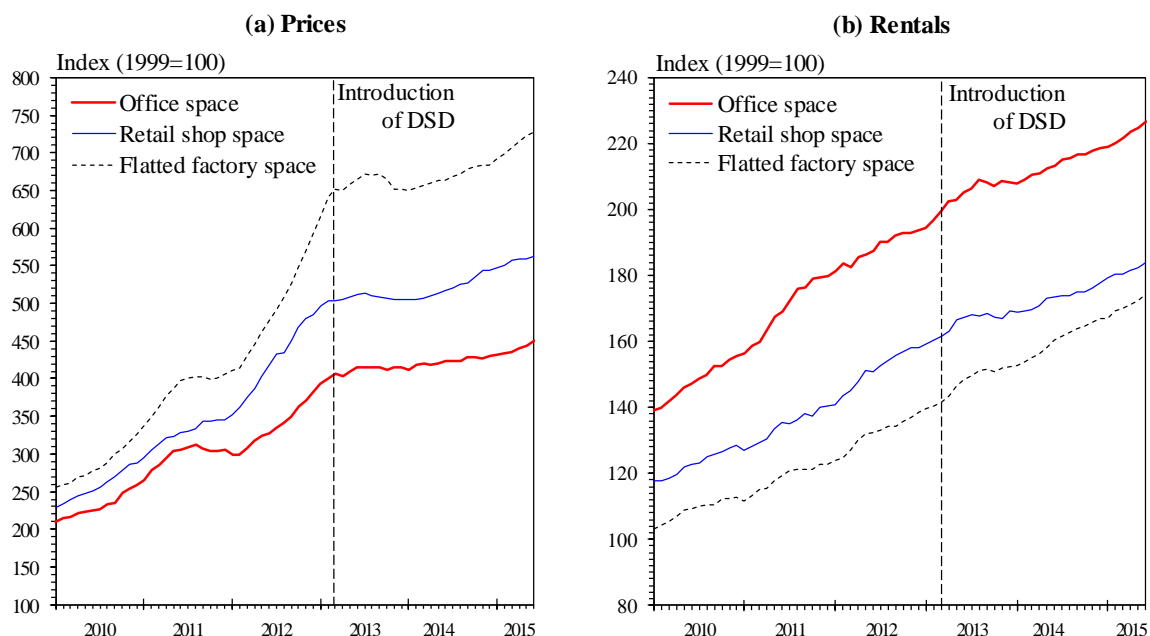
3.10 Overall sale prices of *office space* rose by 3% between March and June, with prices of Grade A, B and C office space rising by 4%, 3% and 4% respectively. Overall office space rentals also went up, by 2% over the period, with rentals of Grade A, B and C office space increasing by 2%, 3% and 3% respectively. During the first six months of 2015, overall sale prices rose by a cumulative 5%, and rentals by 4%. The average rental yields for Grade A, B and C office space in June, at 2.9%, 3.0% and 2.9% respectively, were unchanged from March. Transactions for office space surged by 22% over the

preceding quarter or 80% over a year earlier to 500 cases in the second quarter, though representing only a small fraction of total property transactions in the quarter.

3.11 Sale prices of *retail shop space* edged up by 1% between March and June, while rentals rose by a modest 2%. Comparing June 2015 with December 2014, both sale prices and rentals were moderately higher by 3%. The average rental yield for retail shop space stayed at a low of 2.4% in June, same as in March. Transactions fell further, by 10% from the preceding quarter or 41% from a year earlier to only 500 cases in the second quarter<sup>(2)</sup>.

3.12 As to *flatted factory space*, sale prices and rentals in June rose by 3% and 2% respectively over March. Between December 2014 and June 2015, sale prices and rentals rose by 6% and 4% respectively. The average rental yield, at 2.9% in June, was unchanged from March. Transactions rose by 5% over the preceding quarter or 44% over the low base a year earlier to 990 cases in the second quarter.

**Diagram 3.6 : Prices and rentals of non-residential properties recorded moderate increases**



## Land

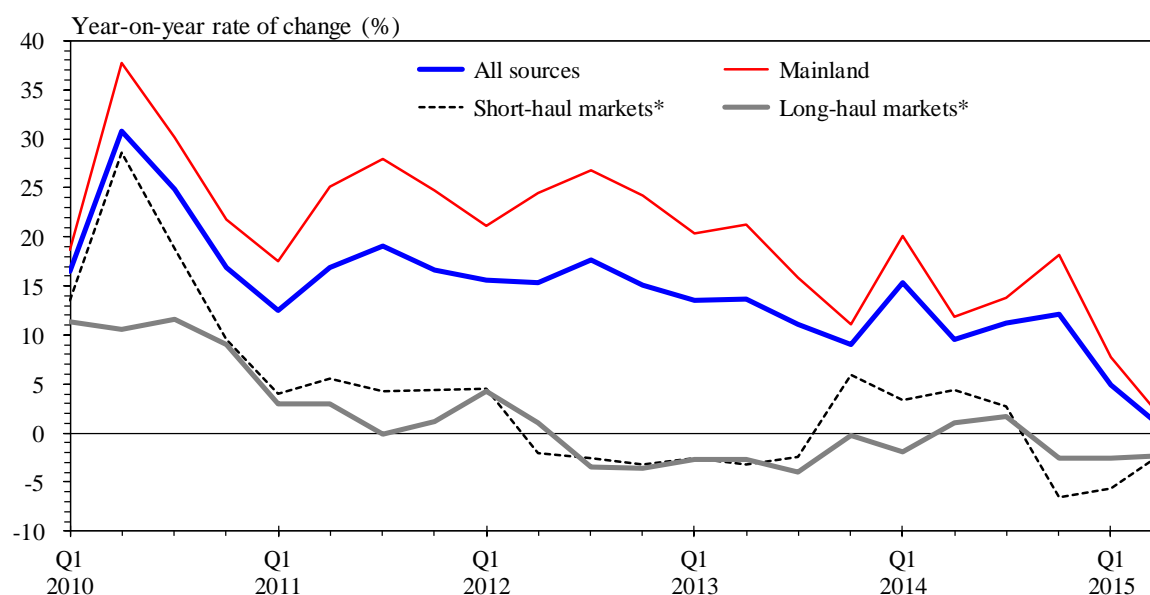
3.13 Reflecting the Government's efforts to increase land supply, six residential sites and one commercial/office site, with a total area of about 5.2 hectares, were disposed in the second quarter, fetching a land premium of about \$10.4 billion. The tender exercises for two residential sites in Tuen Mun and Yuen Long also commenced in the quarter. Meanwhile, 16 sites were

approved for lease modifications.

## Tourism

3.14 Inbound tourism slowed further in the second quarter of 2015, with overall *visitor arrivals* edging up by a mere 0.5% over a year earlier to 13.9 million. Growth in Mainland visitors, which constituted 76.0% of the total, decelerated sharply from 7.7% in the first quarter to only 1.4% in the second quarter. At the same time, visitors from short-haul markets and long-haul markets<sup>(3)</sup> remained weak, declining by 2.0% and 2.3% respectively, conceivably weighed down by the subpar global economic growth and probably partly due to currency factor.

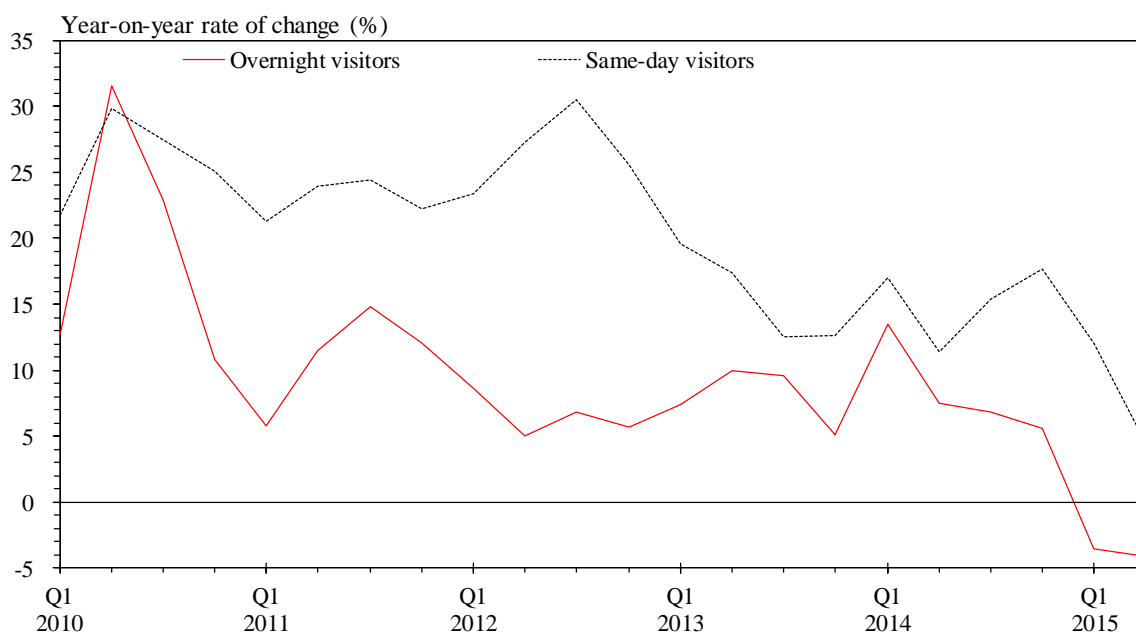
**Diagram 3.7 : Inbound tourism slowed further in the second quarter**



Note : (\*) See note (3) at the end of this chapter for the definition of short-haul and long-haul markets.

3.15 Analysed by the length of stay, same-day visitor arrivals increased by a decelerated 4.5% over a year earlier while overnight visitor arrivals declined by another 4.1%. Reflecting these movements, the share of same-day visitors rose further from 53.6% a year earlier to 55.7% in the second quarter, while that of overnight visitors declined further from 46.4% to 44.3%.

**Diagram 3.8 : Growth in same-day visitors decelerated further while overnight visitors declined for the second quarter**



3.16 Along with the slowdown in inbound tourism, the hotel sector recorded a relatively tepid performance in the second quarter. The average hotel room occupancy rate retreated further from 88% a year earlier to 84% in the second quarter. The average achieved hotel room rate plunged by 12.7% from a year earlier to \$1,249<sup>(4)</sup>.

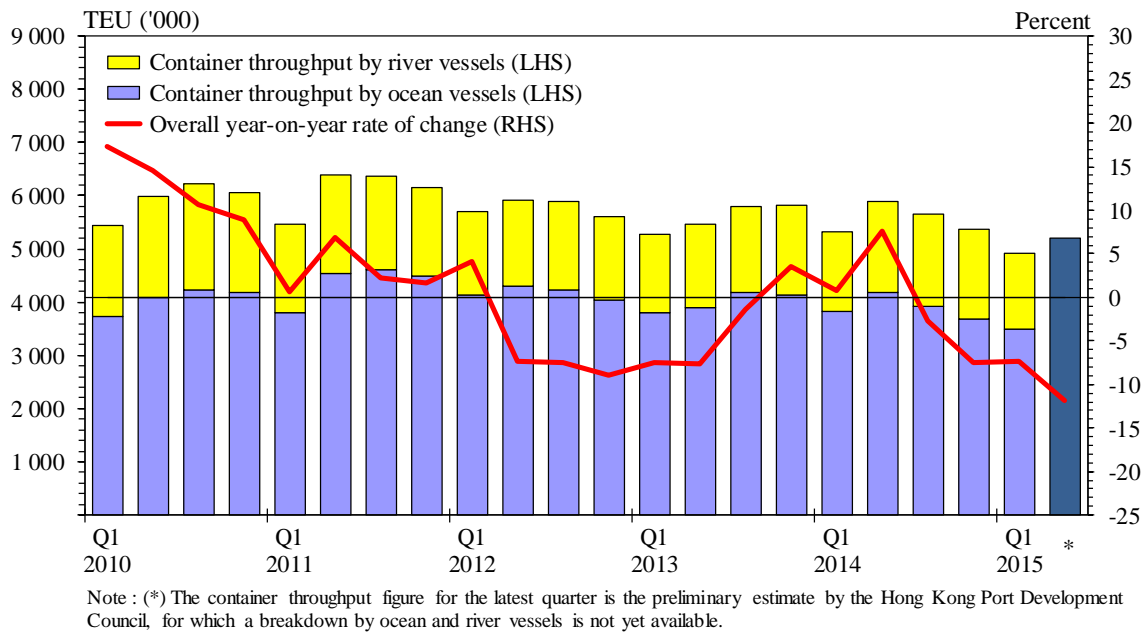
3.17 In April, the Central Government announced that the “multiple-entry” Individual Visit Endorsements for permanent residents of Shenzhen would be replaced by the “one trip per week” Individual Visit Endorsements, which allow the endorsement holders to visit Hong Kong only once a week. The new measure will enhance the effectiveness in cracking down parallel trading activities, and lessen the impact of substantial increase in visitor arrivals on some local districts.

## Logistics

3.18 Amid the dismal external trade performance, the logistics sector slackened further in the second quarter. *Total container throughput* plunged by 11.8% from a year earlier to 5.19 million twenty-foot equivalent units (TEUs), the sharpest fall since the third quarter of 2009 when the global economic environment was hard hit by the financial tsunami. In parallel, the value of trade handled at the Hong Kong port dropped by a sharp 8.8% from a year earlier, and its share in total trade shrank further from 22.6% to 21.2%.

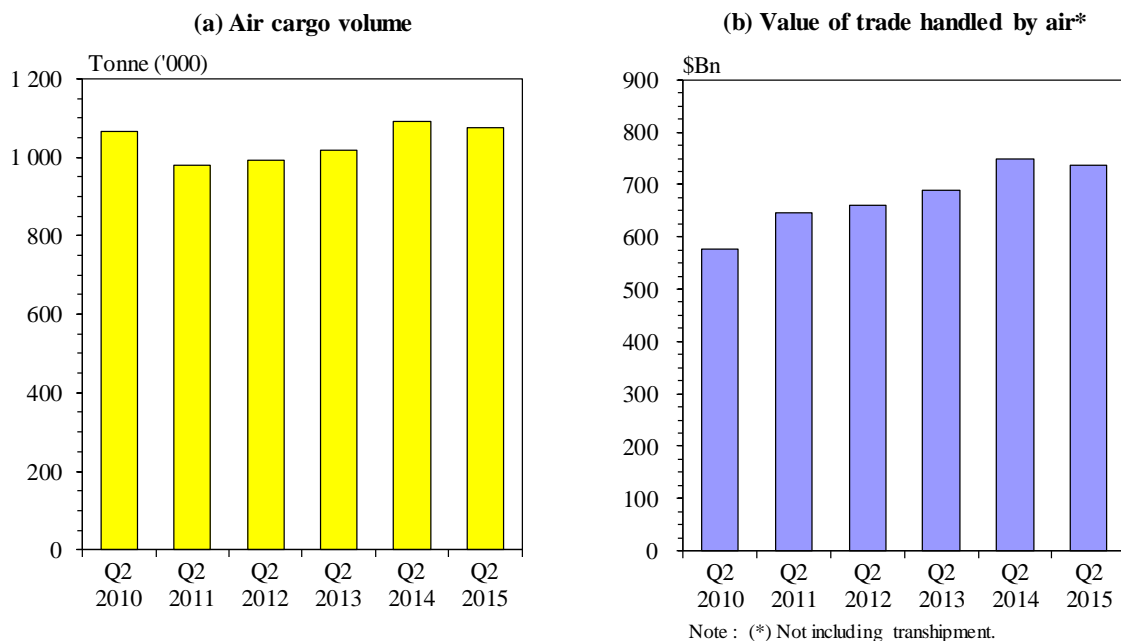


**Diagram 3.9 : Container throughput plunged in the second quarter**



3.19 *Air freight throughput* edged down by 1.4% from a year earlier to 1.1 million tonnes in the second quarter. The total value of trade by air also declined by 1.5% from a year earlier, though its share in overall trade value rose marginally from 38.6% to 39.0%.

**Diagram 3.10 : Air cargo throughput and value of trade handled by air declined in the second quarter**



## **Transport**

3.20 Traffic flows for the different modes of transport recorded varied performance in the second quarter. Air passenger traffic rose further, by 9.2% over a year earlier to 17.2 million, while water-borne passenger trips decreased marginally by 0.3% to 6.8 million. As to land-based cross-boundary traffic movements, passenger trips rose by 4.4% to 54.7 million, but average daily vehicular movements edged down by 0.3% to 41 700.

## **Testing and certification**

3.21 In April, the Government announced the implementation details of the measure on testing and certification under the Agreement between the Mainland and Hong Kong on Achieving Basic Liberalization of Trade in Services in Guangdong (Guangdong Agreement) signed under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). The Guangdong Agreement allows testing organisations in Hong Kong to co-operate with designated Mainland organisations to undertake testing of products in the “audio and visual apparatus” category of the China Compulsory Certification system that are designed and prototyped in Hong Kong, as well as processed or manufactured in Guangdong Province, and in respect of voluntary certification, to undertake testing of products manufactured or processed in Hong Kong or in the Mainland. Moreover, with respect to the mode of “commercial presence”, the Guangdong Agreement in general offers Hong Kong’s testing and certification industry market access to Guangdong Province on the same terms as Mainland enterprises. The Guangdong Agreement would help Hong Kong to seize further business opportunities.

## **Environment**

3.22 The Air Pollution Control (Ocean Going Vessels) (Fuel at Berth) Regulation came into effect on 1 July, making Hong Kong the first Asian city to require ocean-going vessels (OGVs) to use cleaner fuel while at berth. It is estimated that this regulation will help lower the total sulphur dioxide emissions in Hong Kong by 12%, thereby contributing to the improvement of Hong Kong’s air quality. At the same time, the Government extended the incentive scheme of halving the port facilities and light dues for OGVs using cleaner fuel at berth in order to maintain the competitiveness of Hong Kong’s port.

## Notes :

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

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

### *Summary*

- *The low interest rate environment in Hong Kong continued in the second quarter of 2015 amid the ongoing accommodative monetary policy in the United States.*
- *The Hong Kong dollar spot exchange rate stayed close to 7.75 per US dollar in the second quarter. The strong-side Convertibility Undertaking was repeatedly triggered between 9 and 24 April, and the Hong Kong Monetary Authority (HKMA) passively purchased a total of US\$9.2 billion, leading to a corresponding increase in the Aggregate Balance.*
- *As the US dollar weakened against other major currencies, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices declined during the second quarter.*
- *Total loans and advances grew by a moderated 0.6% during the second quarter. Within the total, loans for use in Hong Kong decreased by 0.7%, while loans for use outside Hong Kong expanded by 3.7%.*
- *The local stock market was rather volatile in second quarter, as sentiment swung in tandem with developments in the global economy and financial markets. The Hang Seng Index (HSI) rallied in April, but lost most of the gains in May and June amid concerns about a slowing Mainland economy, the Greek debt crisis and also the marked correction of the Mainland stock market towards the quarter-end. For the quarter as a whole, the HSI still rose by 5.4% over end-March to 26 250 at end-June. Meanwhile, trading activities were generally buoyant.*

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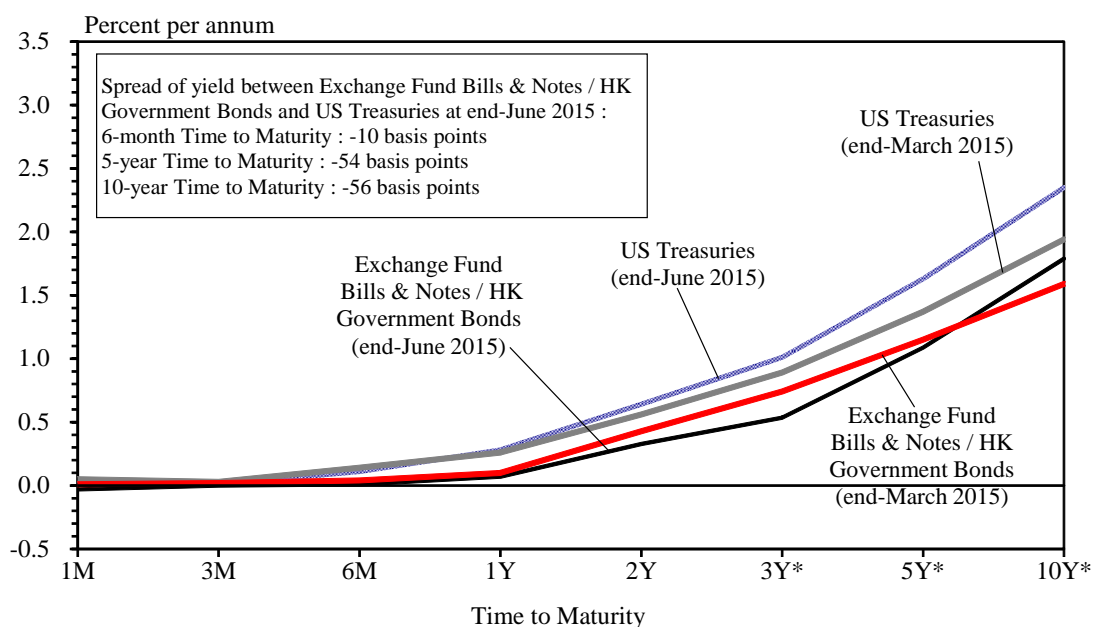
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

## Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the second quarter of 2015 amid the ongoing accommodative monetary policy in the United States. With the Federal Funds Target Rate staying at 0-0.25%, the Base Rate under the Discount Window operated by the HKMA held unchanged at 0.5% during the quarter<sup>(1)</sup>. The *Hong Kong dollar interbank interest rates* (HIBOR) stayed at low levels. While the overnight HIBOR edged up from 0.06% at end-March to 0.11% at end-June, this was still a very low level. Meanwhile, the three-month HIBOR stayed unchanged at 0.39% at end-June.

4.2 Both the *Hong Kong dollar* and the *US dollar yield curves* steepened in the second quarter. With a smaller increase in the 10-year Hong Kong dollar yields than its US dollar counterparts, the negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes widened further from 35 basis points at end-March to 56 basis points at end-June. On the other hand, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills remained unchanged at 10 basis points at end-June.

**Diagram 4.1 : Both the Hong Kong dollar and US dollar yield curves steepened in the second quarter**

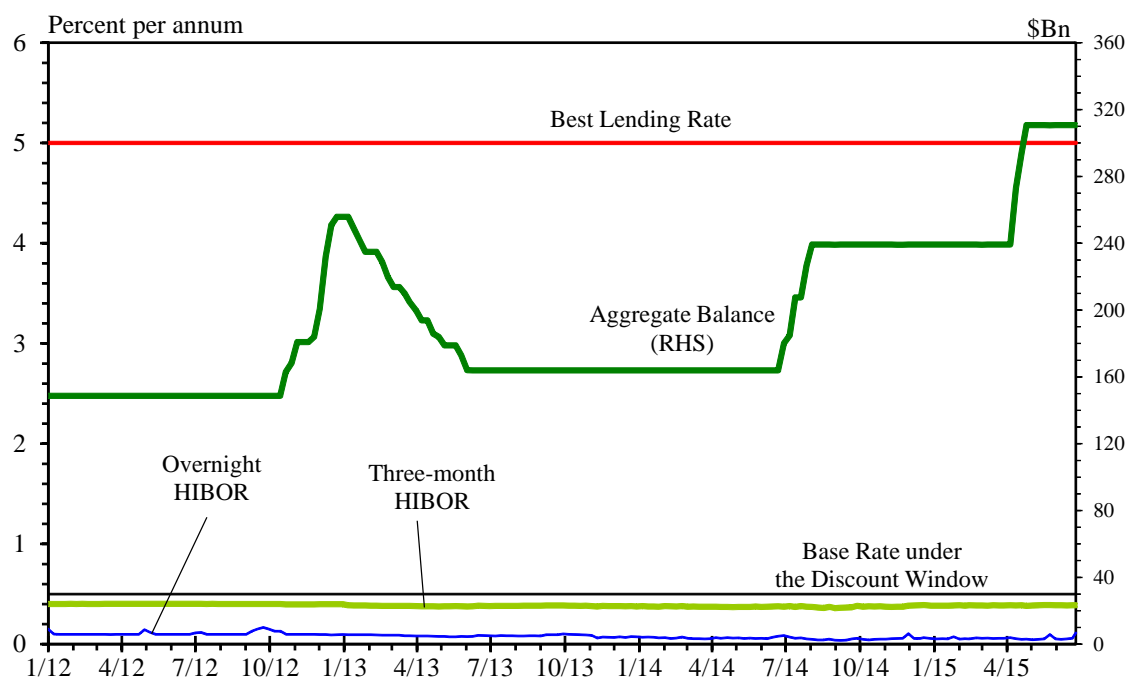


Note : (\*) With the HKMA stopping new issuance of Exchange Fund Notes of tenors of three years or above since January 2015, the Hong Kong dollar yields for tenor of 3 years and above refer to those for Hong Kong Government Bonds.

4.3 Interest rates on the retail front also stayed low. The *Best Lending Rates* remained unchanged at 5.00% or 5.25% during the second quarter. The *savings deposit rate* quoted by the major banks stayed unchanged at an average

of 0.01%, while the one-year time deposit rate (for deposits of less than \$100,000) quoted by the major banks edged down from 0.16% in March to 0.15% in June. Meanwhile, the *composite interest rate*<sup>(2)</sup>, which indicates the average cost of funds for retail banks, edged down from 0.33% at end-March to 0.29% at end-June.

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

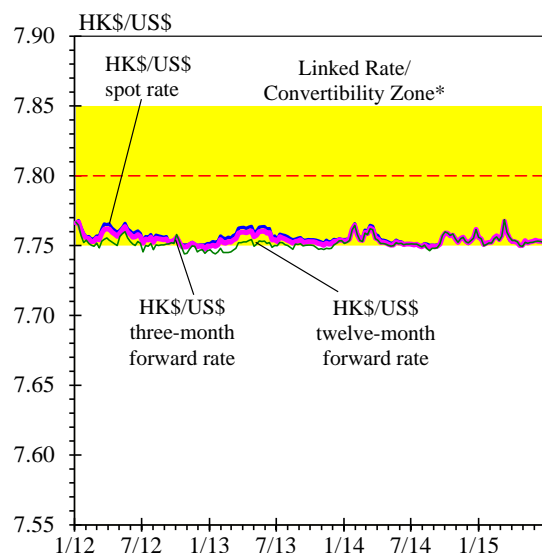


4.4 The *Hong Kong dollar spot exchange rate* stayed close to 7.75 per US dollar during the second quarter. Mainly driven by equity-related and commercial demand for the Hong Kong dollar, the strong-side Convertibility Undertaking was repeatedly triggered between 9 and 24 April, prompting the HKMA to passively purchase a total of US\$9.2 billion from banks with \$71.5 billion. This led to a corresponding increase in the Aggregate Balance from \$239.2 billion at end-March to \$310.7 billion at end-June. The spot exchange rate closed at 7.752 at end-June, compared with 7.755 at end-March. Meanwhile, the 3-month *Hong Kong dollar forward premium* declined from 11 pips (each pip equivalent to HK\$0.0001) at end-March to six pips at end-June. The 12-month Hong Kong dollar forward premium also decreased from 17 pips to zero.

4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar weakened against the major currencies including euro, Swiss franc and pound sterling, the *trade-weighted Hong Kong dollar*

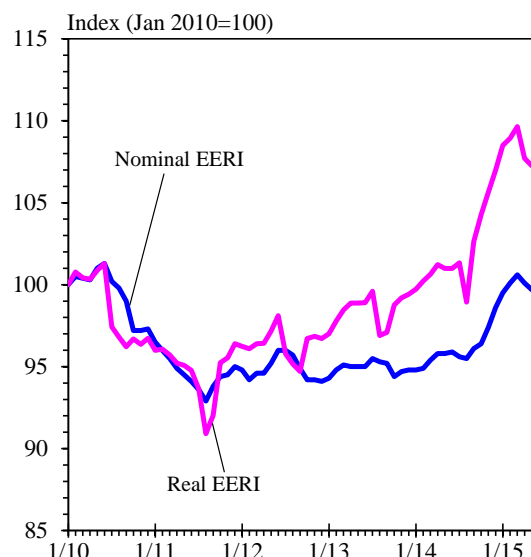
Nominal and Real Effective Exchange Rate Indices<sup>(3)</sup> declined by 0.5% and 1.8% respectively between March and June.

**Diagram 4.3 : Hong Kong dollar stayed close to 7.75 per US dollar (end for the week)**



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

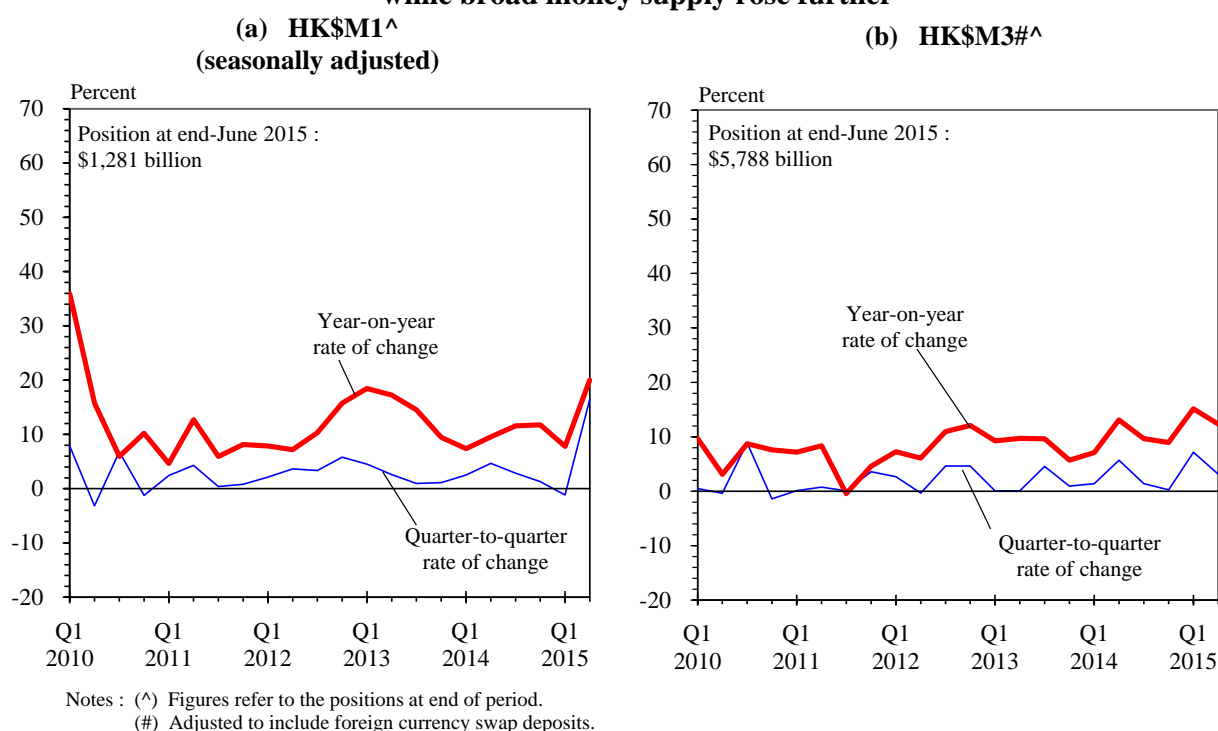
**Diagram 4.4 : The trade-weighted nominal and real EERIs declined (average for the month)**



## Money supply and banking sector

4.6 The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) rebounded by a sharp 16.5% over end-March to \$1,281 billion at end-June, while the broad money supply (HK\$M3) rose further by 3.1% to \$5,788 billion<sup>(4)</sup>. Meanwhile, *total deposits* with authorized institutions (AIs)<sup>(5)</sup> grew by 1.4% to \$10,552 billion. Within the total, Hong Kong dollar deposits went up by 3.5%, while foreign currency deposits declined by 0.7%.

**Diagram 4.5 : Narrow money supply rebounded sharply  
while broad money supply rose further**



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

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
<u>% change during the quarter</u>		<u>HK\$<sup>^</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>
2014	Q1	2.5	0.8	1.4	0.9	1.4	0.9
	Q2	4.7	6.9	5.7	4.5	5.7	4.5
	Q3	2.8	3.1	1.4	2.9	1.4	3.0
	Q4	1.3	1.8	0.3	0.9	0.3	1.0
2015	Q1	-1.1	13.6	7.2	3.0	7.2	3.0
	Q2	16.5	-1.3	3.1	0.8	3.1	0.8
Total amount at end-June 2015 (\$Bn)		1,281	1,917	5,775	11,436	5,788	11,469
<u>% change over a year earlier</u>		20.0	17.7	12.3	7.9	12.4	7.9

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 *Total loans and advances* grew by a moderated 0.6% over end-March to \$7,676 billion at end-June. Within the total, Hong Kong dollar loans edged down by 0.5%, while foreign currency loans expanded by 2.1%. Reflecting the relative movements in deposits and loans, the loan-to-deposit ratio for Hong Kong dollar declined from 83.1% at end-March to 79.9% at end-June, while that for foreign currencies picked up from 63.7% to 65.4%.



4.8 Loans for use in Hong Kong (including trade finance) decreased by 0.7% from end-March to \$5,313 billion at end-June, while loans for use outside Hong Kong expanded by 3.7% to \$2,363 billion. Within the former, loans to wholesale and retail trade declined by 1.3% amid the sluggish performance of retail sales. Loans to stockbrokers plunged by 55.2% after a surge in the previous quarter, while loans to financial concerns rebounded by 4.4%. Trade finance grew by a decelerated 0.7% in part reflecting the weak performance of external trade. As for property-related lending, loans for purchase of residential property rose by a moderate 1.7%, while loans to building, construction, property development and investment went up by 4.0%.

**Table 4.2 : Loans and advances**

All loans and advances for use in Hong Kong											
		Loans to :									
		Trade	Manu-	Wholesale	Building,	Purchase	Financial	Stock-	All loans		Total
		finance	facturing	and	construction,	of	concerns	brokers	and advances	for use	loans
%				retail	property	residential			and advances	outside	and
change				trade	and	property			for use	Hong Kong	advances
during					investment	(a)			outside	(c)	
the quarter											
									Total <sup>(b)</sup>		
2014	Q1	12.4	7.4	5.5	2.7	1.0	12.0	38.2	6.6	3.7	5.7
	Q2	2.4	6.6	5.4	1.6	2.1	3.3	68.2	4.4	1.7	3.6
	Q3	0.2	7.2	7.9	0.8	2.3	1.2	-38.9	1.4	3.3	1.9
	Q4	-14.5	0.2	-5.7	1.6	2.8	1.8	16.8	-0.8	5.2	0.9
2015	Q1	4.2	-3.8	0.9	1.3	2.7	-0.5	338.7	5.5	3.2	4.8
	Q2	0.7	-0.4	-1.3	4.0	1.7	4.4	-55.2	-0.7	3.7	0.6
Total amount at end-June 2015 (\$Bn)		570	255	472	1,119	1,076	405	101	5,313	2,363	7,676
% change over a year earlier		-10.0	3.0	1.4	7.9	9.9	7.0	40.2	5.4	16.2	8.5

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

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

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

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

4.9 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 17.0% at end-March 2015. So far no AIs have encountered difficulties in complying with the statutory minimum ratios required by the HKMA under Basel III<sup>(6)</sup>.

4.10 Hong Kong has been following the international timeline in implementing the Basel III framework. The implementation of the second phase<sup>(7)</sup> of the Basel III standards commenced in 2015, with the rules on capital buffers and liquidity coverage ratio coming into effect on 1 January, and the disclosure requirements associated with these standards and with the leverage ratio on 31 March. As part of the second phase of implementation of the capital standards, the HKMA also announced the phasing in of a Countercyclical Capital Buffer (starting with 0.625% in accordance with the Basel III transitional arrangement) with effect from 1 January 2016, and the designation of five authorized institutions as domestic systemically important institutions and thus adoption of higher loss absorbency capital requirement.

4.11 Asset quality of the local banking sector remained good. The ratio of classified loans to total loans remained low at 0.46% at end-March 2015, compared with 0.45% at end-2014. While the delinquency ratio for credit card lending edged up from 0.20% to 0.26%, this was still a low level by historical standards. Meanwhile, the delinquency ratio for residential mortgage loans stayed at a low level of 0.03% at end-June.

**Table 4.3 : Asset quality of retail banks\***

(as % of total loans)

<u>As at end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2014	Q1	98.42	1.12	0.46
	Q2	98.50	1.05	0.46
	Q3	98.53	1.04	0.43
	Q4	98.56	0.99	0.45
2015	Q1	98.39	1.14	0.46

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

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

4.12 Most segments of the *offshore renminbi (RMB) business* in Hong Kong recorded further growth in the second quarter of 2015. Total RMB deposits (including customer deposits and outstanding certificates of deposit) increased by 4.5% over end-March to RMB1,108.8 billion at end-June. Meanwhile, RMB trade settlement transactions handled by banks in Hong Kong declined by 3.5% from the first quarter to RMB1,569.7 billion in the second quarter, though representing a growth of 9.2% over a year earlier.

4.13 As to RMB bond issuance, total dim sum bond issuance, including the RMB14 billion sovereign bond issuance by the Ministry of Finance, amounted to RMB35.5 billion in the second quarter, compared with RMB6.9 billion in the preceding quarter. Outstanding RMB bank loans also rose by 5.6% over end-March to RMB236.3 billion at end-June.

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

<u>As at end of period</u>		<u>Interest rates on<sup>(a)</sup></u>					<u>Number of AIs engaged in RMB business</u>	<u>Amount of cross-border RMB trade settlement<sup>(c)</sup></u> (RMB Mn)
		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Savings deposits<sup>(b)</sup></u> (%)	<u>Three-month time deposits<sup>(b)</sup></u> (%)		
2014	Q1	167,082	777,828	944,910	0.25	0.53	147	1,488,813
	Q2	150,696	775,218	925,914	0.25	0.53	148	1,437,291
	Q3	144,306	800,168	944,473	0.25	0.53	149	1,609,298
	Q4	176,967	826,590	1,003,557	0.25	0.53	149	1,722,857
2015	Q1	157,444	794,550	951,994	0.25	0.53	147	1,626,122
	Q2	180,445	812,479	992,924	0.25	0.53	146	1,569,670
% change in 2015 Q2 over 2014 Q2		19.7	4.8	7.2	N.A.	N.A.	N.A.	9.2
% change in 2015 Q2 over 2015 Q1		14.6	2.3	4.3	N.A.	N.A.	N.A.	-3.5

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

## The debt market

4.14 As to the debt market, total gross issuance of *Hong Kong dollar debt* increased by 3.0% over the preceding quarter to \$590.7 billion in the second quarter, of which 91.6% were new debts issued by the Exchange Fund. Within the total, public sector debt issuance rose by 9.1%, with the increase in new debts issued by the Exchange Fund more than offsetting the fall in issuance by the Government and statutory bodies/government-owned corporations. Meanwhile, dragged by a decline in issuance by AIs and local corporations, private sector debt issuance plunged by 41.2%<sup>(8)</sup>. With more debt maturing than debts issued, the total outstanding amount of Hong Kong dollar debt edged down by 0.7% from end-March to \$1,430.1 billion at end-June. This was equivalent to 24.7% of HK\$M3 or 21.0% of Hong Kong dollar-denominated assets of the banking sector<sup>(9)</sup>.

4.15 As to Government Bond (“GB”), a total of \$4.7 billion institutional GBs were issued through tenders in the second quarter of 2015. At end-June, the total outstanding amount of Hong Kong dollar bonds under the GB Programme amounted to \$92.6 billion, comprising 12 institutional issues totaling \$72.6 billion and two retail issues (iBonds) totaling \$20 billion. Separately, the fifth issuance of iBond, with a maximum issuance of \$10 billion, was made available for subscription on 21 July 2015.

4.16 Following the success of the inaugural sukuk in 2014, the HKMA assisted the Government to issue the second sukuk in June 2015, at an issuance size of US\$1 billion with tenor of 5 years. The sukuk was in Wakalah structure, with one-third of assets underpinned by selected units in an office building in Hong Kong and two-thirds of assets underpinned by shariah-compliant commodities. The use of different sukuk structure demonstrated the flexibility of Hong Kong’s issuance platform. The deal was well-received, attracting orders of US\$2 billion (i.e. twice of the issuance size) from a diverse group of 49 international conventional and Islamic investors.

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

	Exchange Fund paper	Statutory bodies/govern ment-owned corporations	Govern -ment	Public sector total	AIs <sup>(a)</sup>	Local corporations	Non-MDBs overseas borrowers <sup>(b)</sup>	Private sector total	MDBs <sup>(b)</sup>	Total
<b>New Issuance</b>										
2014 Annual	2,177.3	9.6	30.8	2,217.7	127.1	33.3	50.5	210.9	1.3	2,430.0
Q1	525.4	2.5	7.5	535.4	33.3	9.8	13.3	56.4	1.3	593.1
Q2	539.5	0.2	3.8	543.5	23.2	6.5	20.6	50.3	0.0	593.8
Q3	533.6	4.9	16.5	555.1	32.2	8.3	5.6	46.2	0.0	601.3
Q4	578.7	2.1	3.0	583.8	38.4	8.7	10.9	58.0	0.0	641.8
2015 Q1	491.9	4.3	7.9	504.1	54.4	4.4	10.6	69.4	0.0	573.5
Q2	541.2	4.0	4.7	550.0	23.2	2.1	15.5	40.8	0.0	590.7
% change in 2015 Q2 over 2014 Q2	0.3	2,415.6	23.7	1.2	0.1	-67.8	-25.1	-19.0	N.A.	-0.5
% change in 2015 Q2 over 2015 Q1	10.0	-6.4	-40.5	9.1	-57.3	-52.0	45.5	-41.2	N.A.	3.0
<b>Outstanding (as at end of period) <sup>(c)</sup></b>										
2014 Q1	751.5	40.1	95.5	887.1	249.0	130.4	150.9	530.3	11.1	1,428.4
Q2	752.0	37.1	98.5	887.6	228.9	124.4	148.1	501.5	6.9	1,395.9
Q3	752.2	41.5	105.0	898.7	223.0	132.3	142.5	497.8	6.9	1,403.4
Q4	752.6	41.0	98.0	891.6	232.8	137.6	141.7	512.1	6.1	1,409.8
2015 Q1	752.8	43.5	105.9	902.2	249.7	140.3	142.4	532.4	6.1	1,440.7
Q2	753.0	43.2	94.1	890.3	245.9	140.1	148.5	534.5	5.3	1,430.1
% change in 2015 Q2 over 2014 Q2	0.1	16.4	-4.5	0.3	7.4	12.6	0.3	6.6	-22.6	2.4
% change in 2015 Q2 over 2015 Q1	*	-0.8	-11.1	-1.3	-1.5	-0.1	4.3	0.4	-13.1	-0.7

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

N.A. Not available.

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

(a) AIs : Authorised institutions.

(b) MDBs : Multilateral Development Banks.

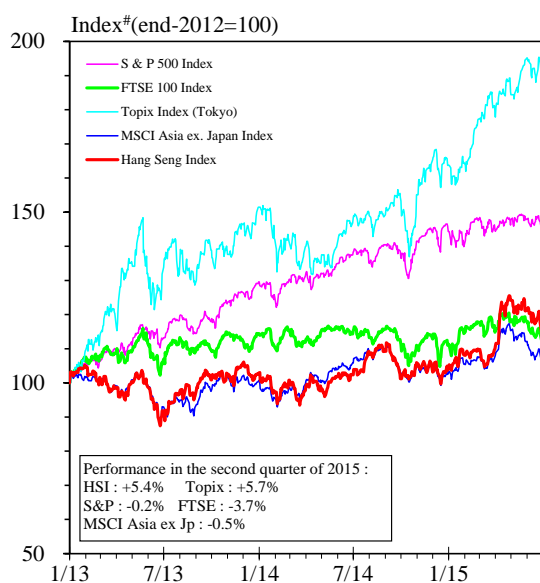
(c) Figures on AIs and hence the total have been revised downwards since more early redemption data have recently been available.

## The stock and derivatives markets

4.17 The *local stock market* was rather volatile in the second quarter, as sentiment swung in tandem with developments in the global economy and financial markets. Boosted by the rally in the Mainland stock market, the Hang Seng Index (HSI) surged to 28 443 on 28 April, the highest level since December 2007. Then it lost most of the gains in May and June, first hit by concerns about a slowing Mainland economy, then the re-emergence of the Greek debt crisis and also the marked correction of the Mainland stock market towards the quarter-end. For the quarter as a whole, the HSI still rose by 5.4% over end-March to 26 250 at end-June. In parallel, the *market capitalisation* expanded further by 8.7% to \$29.1 trillion. According to the World Federation of Exchanges, the local stock market was the sixth largest stock exchange in the world and fourth largest in Asia<sup>(10)</sup> as at end-June.

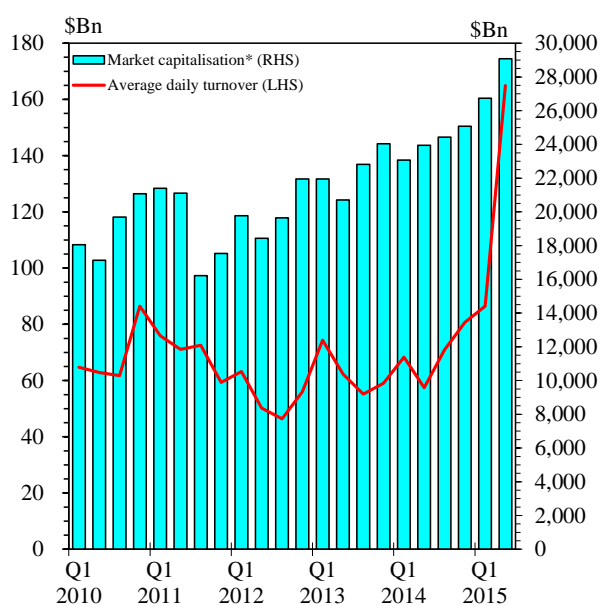
4.18 Trading activities were generally buoyant in the second quarter. *Average daily turnover* in the securities market jumped by 90.8% over the preceding quarter or 187.0% over a year earlier to \$164.9 billion, with transactions reaching an all-time high of \$293.9 billion on 9 April. As to *derivatives products*<sup>(11)</sup>, the average daily trading volume of futures and options soared by 40.7% over the preceding quarter or 90.6% over a year earlier. Within the total, the trading of stock options, H-shares Index futures, HSI options and HSI futures leapt by 44.2%, 42.1%, 26.7% and 26.7% respectively over the preceding quarter. The average daily trading value of securitised derivatives products also surged by 71.5% over the preceding quarter. Within the total, while trading of derivative warrants jumped by a sharp 95.0%, that of callable bull/bear contracts also rose by 16.1%.

**Diagram 4.6 : The local stock market was rather volatile in the second quarter**



Note : (#) Position at end of month.

**Diagram 4.7 : Market capitalisation rose further, and trading activities were buoyant**



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

**Table 4.6 : Average daily turnover of derivatives products of the Hong Kong market**

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	H-shares Index <u>futures</u>	Stock <u>options</u>	Total futures and options <u>traded*</u>	Derivative warrants <u>(\$Mn)</u>	Callable bull/bear contracts <u>(\$Mn)</u>	Total securitised derivatives traded <u>(\$Mn)^</u>
2014	Annual	69 098	30 440	89 005	301 797	579 676	8,277	4,980	13,257
	Q1	71 607	28 842	92 576	274 757	554 700	7,077	5,090	12,167
	Q2	64 897	28 810	77 613	251 375	496 449	6,404	4,074	10,478
	Q3	66 730	29 887	79 181	304 098	556 968	9,791	5,290	15,081
	Q4	73 141	34 162	106 657	374 821	696 281	9,709	5,426	15,135
2015	Q1	64 351	27 727	108 774	363 322	672 678	14,715	6,226	20,941
	Q2	81 541	35 129	154 553	523 860	946 336	28,693	7,228	35,921
% change in 2015 Q2 over 2014 Q2		25.6	21.9	99.1	108.4	90.6	348.0	77.4	242.8
% change in 2015 Q2 over 2015 Q1		26.7	26.7	42.1	44.2	40.7	95.0	16.1	71.5

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

(^) Comprising derivative warrants and callable bull/bear contracts.

4.19 Fund raising activities were buoyant in the first half of 2015. *Total equity capital raised*, comprising new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)<sup>(12)</sup>, jumped by 225% over a year earlier to \$708.9 billion. Within the total, the amount of funds raised through IPOs leapt by 58% to \$129.4 billion. In the first half of 2015, Hong Kong ranked the first globally in terms of the amount of funds raised through IPO.

4.20 Mainland enterprises continued to play a prominent role in the Hong Kong stock market. At end-June 2015, a total of 906 Mainland enterprises (including 210 H-share companies, 143 “Red Chips” companies and 553 private enterprises) were listed on the Main Board and GEM, accounting for 51% of the total number of listed companies and 63% of total market capitalisation. In the second quarter, Mainland-related stocks accounted for 73% of equity turnover and 60% of total equity fund raised on the Hong Kong stock exchange.

4.21 In May the Government gazetted the subsidiary legislations under the Securities and Futures (Amendment) Ordinance 2014 to implement the mandatory reporting and related record-keeping obligations under the first phase of the new over-the-counter (OTC) derivatives regulatory regime. Under the new regulatory regime, the reporting obligation covers certain types of interest rate swaps and non-deliverable forwards, and applies to authorised institutions, approved money brokers, licensed corporations and central counterparties that provide clearing services to persons in Hong Kong. The new regulatory regime would help increase the transparency of the OTC derivatives market and is therefore conducive to the financial stability of Hong Kong. The subsidiary legislations were subsequently passed by the Legislative Council and took effect in July 2015.

### **Fund management and investment funds**

4.22 Along with the buoyant local stock market, most segments of the fund management business showed further pick-up in the second quarter. Gross retail sales of *mutual funds* surged by 19.4% over the first quarter to US\$25.6 billion in the second quarter<sup>(13)</sup>. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*<sup>(14)</sup> also expanded by 4.3% over end-March to \$620 billion at end-June. Yet the amount of net assets managed by *retail hedge funds* continued to decline<sup>(15)</sup>.



4.23 To deepen Mainland-Hong Kong financial co-operation and promote the joint development of capital markets in the two places, the China Securities Regulatory Commission and the Securities and Futures Commission (SFC) announced the Mainland-Hong Kong Mutual Recognition of Funds (MRF) initiative in May, which was subsequently implemented in July. Through allowing Mainland and Hong Kong funds that meet the eligibility requirements to follow streamlined procedures to obtain authorization or approval for offering to retail investors in each other's market, the MRF enhances the mutual capital market access between the Mainland and Hong Kong and is an important element in the opening up of the Mainland's capital market.

### Insurance sector

4.24 The *insurance sector*<sup>(16)</sup> continued to record solid growth in the first quarter of 2015. Gross premium income from long-term business surged by another 33.3% over a year earlier, within which premium income from non-investment linked plans and that from investment-linked plans rose sharply by 34.9% and 25.5% respectively. Meanwhile, gross and net premium from general business grew modestly, by 3.1% and 4.4% respectively.

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

		General business			Premium for long-term business <sup>^</sup>					Gross premium from long-term business and general business
		Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	
2014	Annual	43,896	30,299	3,010	97,357	16,052	176	451	114,036	157,932
	Q1	12,551	8,668	902	23,770	3,387	39	180	27,376	39,927
	Q2	10,642	7,697	636	23,191	4,210	40	53	27,494	38,136
	Q3	11,534	7,936	853	24,652	4,317	47	120	29,136	40,670
	Q4	9,169	5,998	619	25,744	4,138	50	98	30,030	39,199
2015	Q1	12,939	9,053	645	32,060	4,249	52	121	36,482	49,421
% change in 2015 Q1 over 2014 Q1		3.1	4.4	-28.5	34.9	25.5	33.3	-32.8	33.3	23.8

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

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

## Highlights of policy and market developments

4.25 In May the Government issued the consultation conclusions on the proposed enhancements to the Deposit Protection Scheme (DPS). To accelerate the process of making deposit compensation to depositors in case of a bank crisis, the Government proposes to adopt the “gross payout” approach to determine DPS compensation (i.e. a depositor will be compensated an amount up to the protection limit without the need to set-off the depositor’s liabilities in the same bank at the time of payout), to provide more certainty for determining the quantification date used for calculating the compensation amount, and to enable the use of electronic communication channels under certain circumstances to notify depositors of the compensation arrangements and other details. In light of the positive responses received during the consultation, the Government is drafting a bill to amend the Deposit Protection Scheme Ordinance for introduction into the Legislative Council later this year.

### Notes :

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

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

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

- M1 : Notes and coins with the public, plus customers' demand deposits with licensed banks.
- M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks, held outside the monetary sector as well as short-term Exchange Fund placements of less than one month.
- M3 : M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.

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

- (5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-June 2015, there were 157 licensed banks, 23 restricted licence banks and 20 deposit-taking companies in Hong Kong. Altogether, 200 AIs (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (6) Basel III was introduced by the Basel Committee in December 2010 (and subsequently revised in June 2011) to strengthen the resilience of banks and banking systems in the light of lessons drawn from the global financial crisis. It tightens the definition of regulatory capital and increases the minimum common equity requirement from 2% to 4.5% of risk-weighted assets and the Tier 1 capital from 4% to 6% (with the total capital ratio remaining at 8%); requires banks to hold a Capital Conservation Buffer of 2.5% during good times and a Countercyclical Capital Buffer in the range of 0% to 2.5% (or higher at national discretion) at times of excessive credit growth, and for banks classified as systemically important (either globally or domestically), a Higher Loss Absorbency requirement ranging from 1% to 3.5%, all to be met by common equity. The rules implementing the buffers became effective on 1 January 2015, while the buffer requirements will come into effect on 1 January 2016. It introduces a supplementary leverage ratio as a backstop to risk-weighted capital measures and enhances the transparency of the capital base. In addition, Basel III introduces two liquidity standards, i.e. the Liquidity Coverage Ratio (LCR) to promote short term liquidity resilience and the Net Stable Funding Ratio (NSFR) to encourage more stable funding structures, with implementation dates of 1 January 2015 and 1 January 2018 respectively.
- (7) The first phase of Basel III standards, which covers revised minimum capital requirements calculated based on a stricter definition of capital base and a wider risk coverage, took effect in Hong Kong with the amendments to the Banking (Capital) Rules (by way of the Banking (Capital) (Amendment) Rules 2012) coming into operation since 1 January 2013. To implement the Basel Committee's disclosure requirements associated with these standards, amendments were introduced in the Banking (Disclosure) Rules (by way of the Banking (Disclosure) (Amendment) Rules 2013) which took effect from 30 June 2013.
- (8) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (9) Assets of the banking sector include notes and coins, amount due from AIs in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposit (NCDs) held, negotiable debt instruments other than NCDs held,

and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.

- (10) The ranking is made by the World Federation of Exchanges, a global trade association for the securities exchange industry. Its membership comprises 64 securities exchanges, covering almost all globally recognised stock exchanges.
- (11) At end-June 2015, there were 82 classes of stock options contracts and 40 classes of stock futures contracts.
- (12) At end-June 2015, there were 1 580 and 213 companies listed on the Main Board and GEM respectively.
- (13) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-June 2015, the survey covered a total of 1 164 active authorised funds.
- (14) At end-June 2015, there were 19 approved trustees. On MPF products, 35 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 457 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 275 000 employers, 2.56 million employees and 207 000 self-employed persons have participated in MPF schemes.
- (15) At end-June 2015, there were three SFC-authorised retail hedge funds with combined net asset size of US\$131 million. The amount of net assets under management dropped by 9% from the end-March 2015 level, and represented a decrease of 18% of that at end-2002, the year when the hedge funds guidelines were first issued.
- (16) At end-June 2015, there were 158 authorised insurers in Hong Kong. Within this total, 44 were engaged in long-term insurance business, 95 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 23 countries and territories (including Hong Kong).

## CHAPTER 5 : THE LABOUR SECTOR

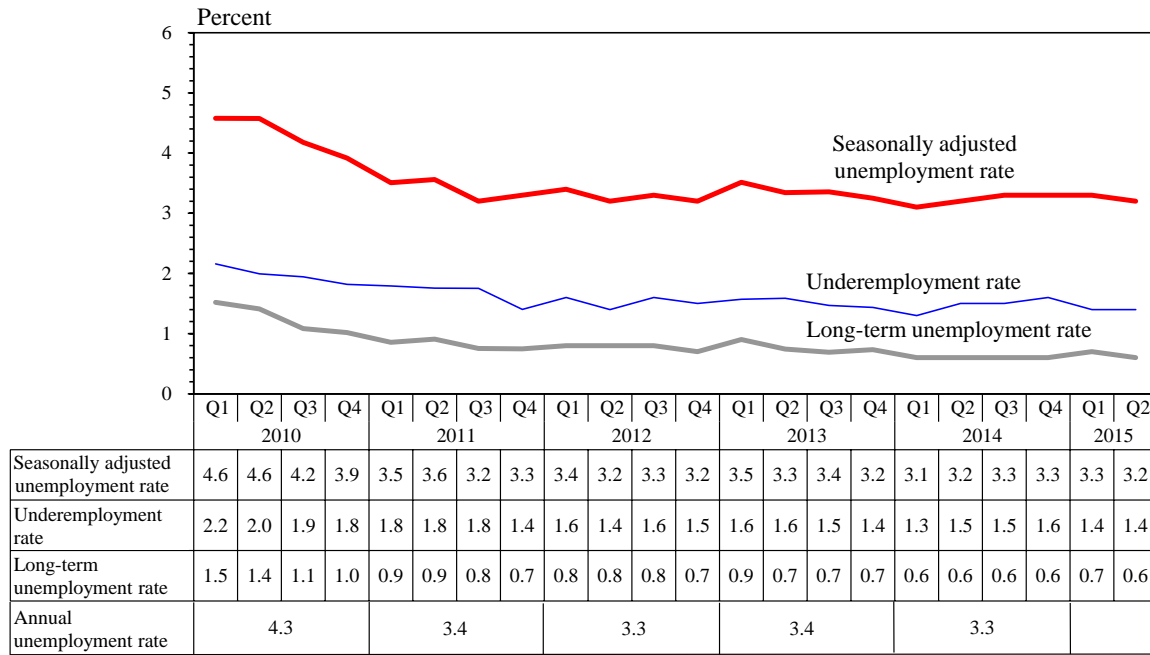
### *Summary*

- *The labour market held stable in the second quarter of 2015. Both total employment and the labour force posted further year-on-year growth. The persistently low unemployment rate and high level of vacancies suggested that the overall manpower resource balance remained tight.*
- *While the unemployment situations varied across different economic sectors, the seasonally adjusted unemployment rate edged down by 0.1 percentage point to 3.2% in the second quarter of 2015, after staying at 3.3% for three consecutive quarters. The underemployment rate held steady at 1.4%.*
- *Wages and earnings continued to see steady and across-the-board increases on entering 2015, echoing the still largely tight labour market. Low-paid workers saw more appreciable income growth, conceivably benefiting from the upward adjustment of the Statutory Minimum Wage (SMW) rate since May 2015.*

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

5.1 The labour market continued to display resilience in the second quarter of 2015. The seasonally adjusted *unemployment rate*<sup>(2)</sup> edged down by 0.1 percentage point to 3.2% in the second quarter of 2015, after staying at 3.3% in the preceding three quarters, while the *underemployment rate*<sup>(3)</sup> remained at 1.4%. Both total employment and the labour force grew further over a year earlier. This, together with the relatively high level of vacancies in private sector establishments, pointed to a tight manpower situation in overall terms. Against this backdrop, wages and earnings continued to see across-the-board increases on entering 2015. The upward adjustment of the SMW rate since May 2015 likewise rendered additional support to the employment earnings of the low-paid workers, resulting in more visible income gain at the grassroots level of late.

**Diagram 5.1 : The labour market continued to display resilience**



**Labour force and total employment**

5.2 On the supply side, the *labour force*<sup>(4)</sup> posted a year-on-year expansion of 1.6% to 3 921 500 in the second quarter of 2015. This was faster than the concurrent increase of 0.6% in the working-age population (i.e. land-based non-institutional population aged 15 and above), thanks to a further rise in the labour force participation rate to 61.4%. On the demand side, *total employment*<sup>(5)</sup> grew solidly further by 1.6% year-on-year over the same period, on par with the labour force growth, to 3 791 600.

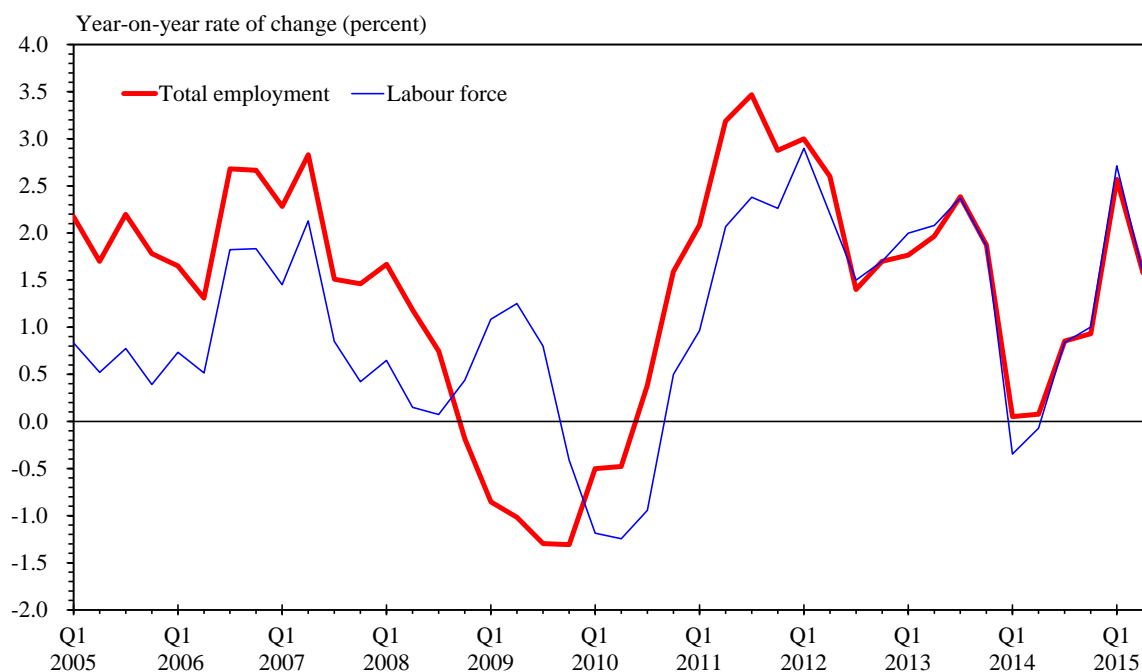
**Table 5.1 : The labour force, and persons employed, unemployed and underemployed**

	<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed<sup>(a)</sup></u>	<u>Persons underemployed</u>
2014 Annual	3 876 400 (0.5)	3 749 200 (0.6)	127 200	56 500
Q1	3 824 700 (-0.3)	3 705 900 (0.1)	118 800	48 400
Q2	3 860 400 (-0.1)	3 732 700 (0.1)	127 600	58 000
Q3	3 903 900 (0.8)	3 769 100 (0.9)	134 800	57 000
Q4	3 904 400 (1.0)	3 781 800 (0.9)	122 600	62 700
2015 Q1	3 928 400 (2.7)	3 801 100 (2.6)	127 300	53 500
<i>Three months ending</i>				
2015 Apr	3 919 800 (2.4)	3 792 300 (2.3)	127 500	49 400
May	3 907 700 (1.6)	3 780 100 (1.5)	127 700	52 900
Jun	3 921 500 (1.6)	3 791 600 (1.6)	129 900	55 600
	<-0.3>	<-0.3>		

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.  
 ( ) % change over a year earlier.  
 < > Seasonally adjusted quarter-to-quarter % change for the second quarter of 2015.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Total employment and the labour force posted further growth in the second quarter of 2015**



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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015 Q1</u>	<u>2015 Q2</u>
<u>Male</u>							
15-24	35.4	35.7	36.4	37.8	37.8	38.8	39.7
<i>of which:</i>							
15-19	10.2	9.9	10.5	11.0	11.1	10.7	12.2
20-24	60.6	61.1	61.1	62.5	61.5	63.1	63.2
25-29	94.0	93.9	94.5	93.8	93.4	94.1	93.5
30-39	96.5	96.5	96.8	96.9	96.5	96.3	96.3
40-49	95.0	95.1	95.3	95.5	94.7	95.7	95.1
50-59	84.4	84.9	85.1	86.8	86.7	86.7	86.8
≥ 60	22.0	23.4	25.6	26.9	27.8	28.1	28.3
Overall	68.5	68.4	68.7	69.1	68.8	69.0	69.0
<u>Female</u>							
15-24	36.7	37.0	37.5	40.0	39.3	41.1	41.9
<i>of which:</i>							
15-19	9.2	9.1	9.7	11.5	12.5	12.5	13.1
20-24	61.4	62.1	62.0	64.2	61.4	64.9	64.5
25-29	86.6	87.5	87.2	86.6	86.3	86.4	86.2
30-39	75.6	76.8	77.5	78.5	79.0	79.0	79.4
40-49	68.2	69.9	70.8	72.8	73.1	74.5	74.5
50-59	49.0	51.6	53.8	56.1	57.1	59.0	57.9
≥ 60	6.8	8.1	8.8	9.6	10.6	11.3	10.4
Overall	51.9	53.0	53.6	54.5	54.6	55.3	55.0
<u>Both genders combined</u>							
15-24	36.0	36.4	37.0	38.9	38.6	39.9	40.8
<i>of which:</i>							
15-19	9.7	9.5	10.1	11.2	11.8	11.6	12.6
20-24	61.0	61.6	61.6	63.4	61.4	64.0	63.8
25-29	89.8	90.2	90.3	89.7	89.4	89.8	89.4
30-39	84.3	84.9	85.4	85.9	86.0	85.9	86.2
40-49	80.2	81.0	81.4	82.5	82.3	83.5	83.2
50-59	66.5	68.0	69.2	71.0	71.4	72.2	71.7
≥ 60	14.1	15.5	16.9	17.9	18.9	19.4	19.0
Overall	59.6	60.1	60.5	61.2	61.1	61.5	61.4

Source : General Household Survey, Census and Statistics Department.



## Profile of unemployment

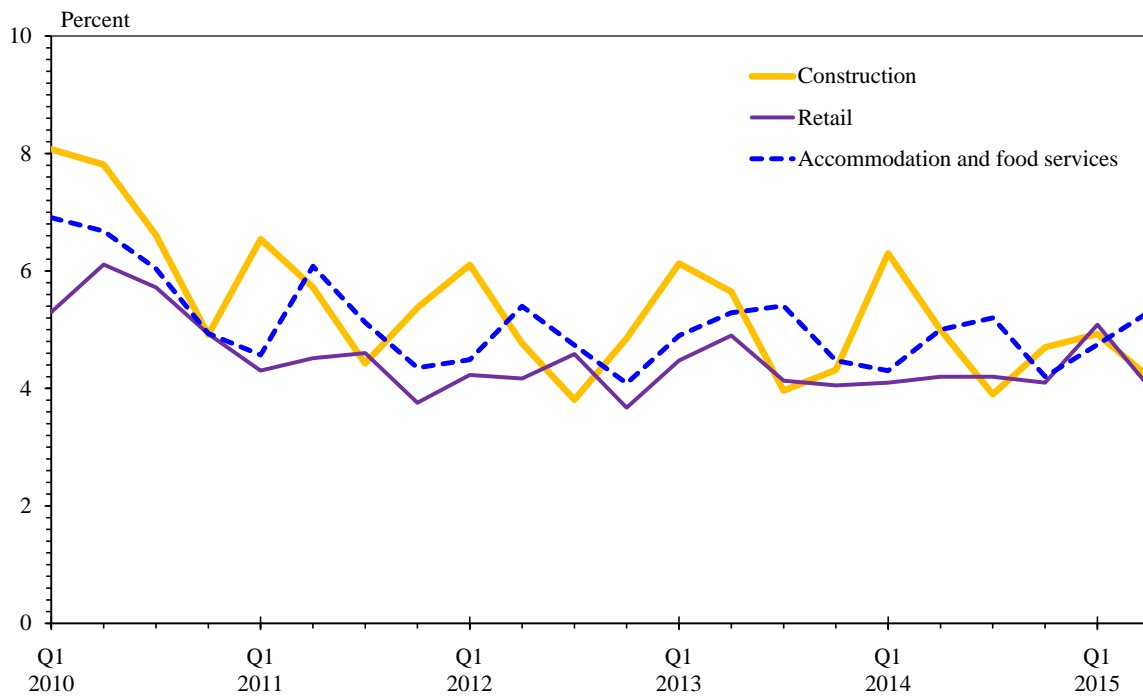
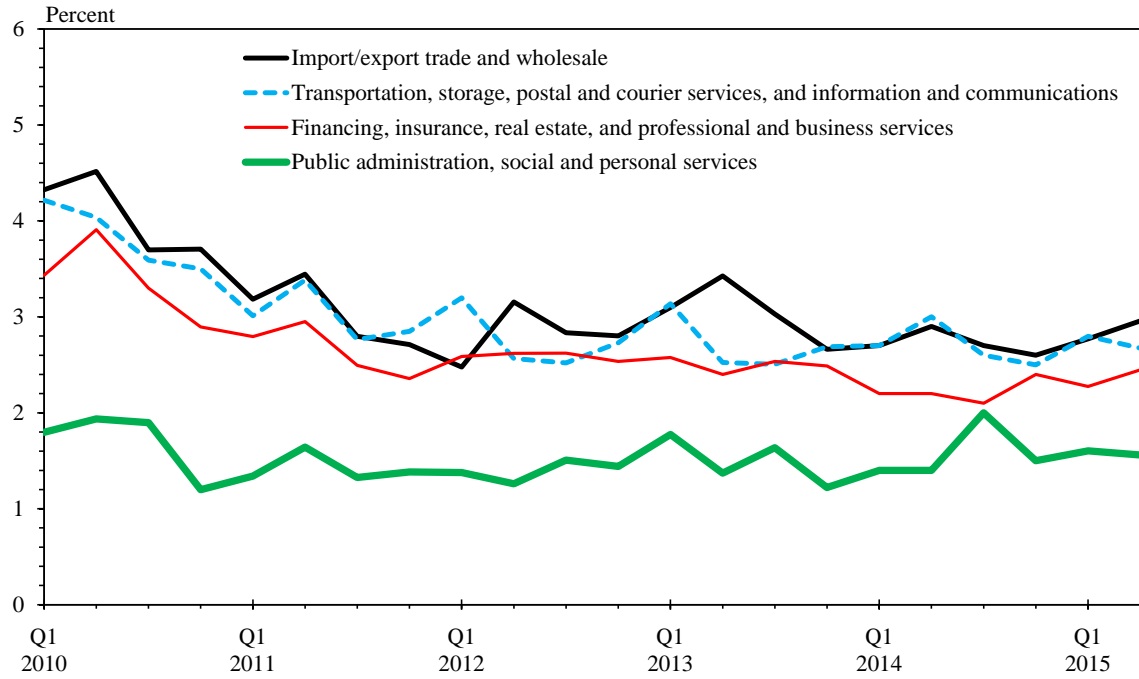
5.3 The number of unemployed persons (not seasonally adjusted) increased by 2 600 over the preceding quarter to 129 900 in the second quarter of 2015. After netting out seasonal fluctuations, the seasonally adjusted unemployment rate, after staying at 3.3% in the previous three quarters, inched down by 0.1 percentage point to 3.2%, which was broadly the same as its year-ago level.

5.4 The unemployment situations of different economic sectors varied in the second quarter of 2015. As compared to the previous quarter, more visible declines in unemployment rate (not seasonally adjusted) were observed in the decoration, repair and maintenance for buildings, art, entertainment and recreation, retail, and public administration sectors, while more noticeable rises were found in the wholesale, real estate, social work activities sectors. Specifically for consumption and tourism-related sectors like retail, its unemployment rate fell visibly from the previous quarter, and was also 0.2 percentage point lower over its year-ago level. On the other hand, the unemployment situation of the accommodation and food services sector slightly worsened, with its unemployment rate up by 0.3 percentage point over a year earlier. Reflecting these developments, the unemployment rate for the *low paying sectors*<sup>(6)</sup> as a whole inched down by 0.1 percentage point over the previous quarter to 3.3%, yet still 0.1 percentage point above its year-ago level.

5.5 Analysed by skill segment, the unemployment rates of both the higher-skilled and lower-skilled workers edged down quarter-to-quarter by 0.1 percentage point to 1.6% and 3.6% respectively, broadly on par with their year-ago levels. On a quarter-to-quarter basis, notable improvements in the unemployment rate were seen among elementary occupations, craft and related workers, as well as professionals.

5.6 As regards other socio-economic attributes, year-on-year improvements in the unemployment rate were noted among workers aged 40 and above, and with lower secondary and below education, offsetting the rises among those aged 15-24, and with post-secondary education.

**Diagram 5.3 : Unemployment situations varied across major economic sectors in the second quarter of 2015**



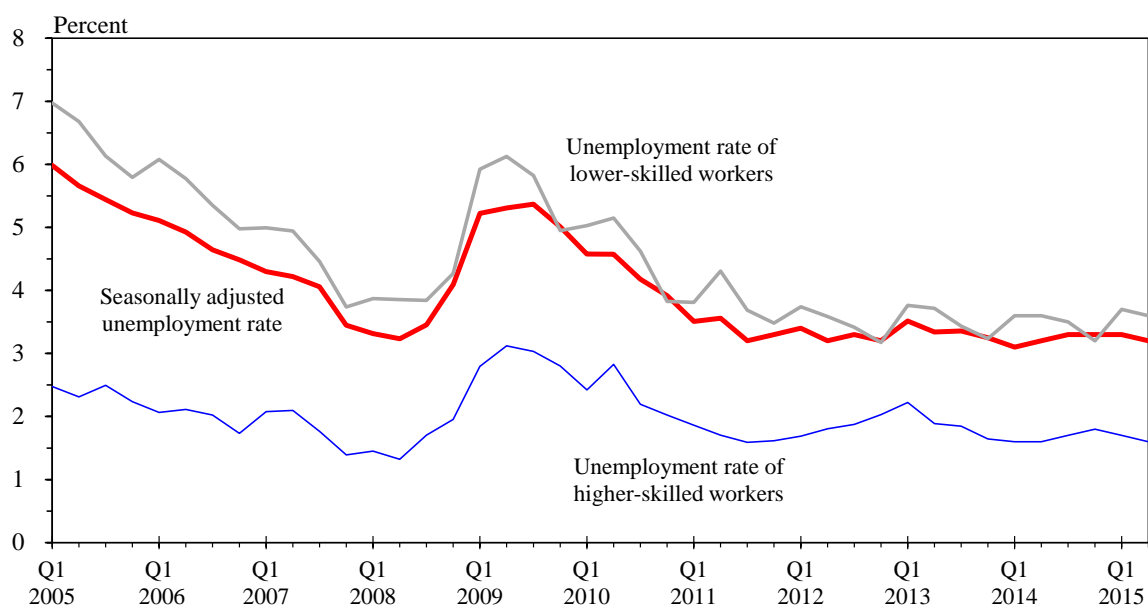
**Table 5.3 : Unemployment rates by major economic sector**

	<u>2014</u>				<u>2015</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Import/export trade and wholesale	2.7	2.9	2.7	2.6	2.8	3.0
Retail	4.1	4.2	4.2	4.1	5.1	4.0
Accommodation and food services	4.3	5.0	5.2	4.2	4.7	5.3
Transportation, storage, postal and courier services	2.9	3.2	2.5	2.1	2.9	2.7
Information and communications	2.0	2.3	2.9	3.7	2.4	2.6
Financing and insurance	1.5	1.5	1.8	1.5	1.8	1.4
Real estate	2.8	3.0	2.0	2.6	1.8	2.8
Professional and business services	2.5	2.4	2.4	2.9	2.8	3.0
Public administration, social and personal services	1.4	1.4	2.0	1.5	1.6	1.6
Manufacturing	3.2	3.7	3.2	3.1	3.1	3.4
Construction	6.3	5.0	3.9	4.7	4.9	4.2
Overall	3.1 (3.1)	3.3 (3.2)	3.5 (3.3)	3.1 (3.3)	3.2 (3.3)	3.3 (3.2)

Note : ( ) Seasonally adjusted unemployment rates.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.4 : Over the preceding quarter, the unemployment rates of both the higher- and lower-skilled segments inched down in the second quarter of 2015**



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

	<u>2014</u>				<u>2015</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
<u>Higher-skilled segment</u>	1.6	1.6	1.7	1.8	1.7	1.6
Managers and administrators	1.5	0.8	1.2	1.3	1.2	1.1
Professionals	1.1	0.9	1.7	1.7	1.5	1.2
Associate professionals	1.8	2.2	2.0	2.2	2.0	2.0
<u>Lower-skilled segment</u> <sup>^</sup>	3.6	3.6	3.5	3.2	3.7	3.6
Clerical support workers	2.7	3.3	3.3	2.6	2.8	3.7
Service and sales workers	4.1	4.3	4.8	3.9	4.9	4.7
Craft and related workers	5.9	4.1	3.9	4.8	4.3	4.0
Plant and machine operators and assemblers	2.6	1.9	1.4	1.4	1.9	2.2
Elementary occupations	3.2	3.6	3.0	3.0	3.3	2.9

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

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

Source : General Household Survey, Census and Statistics Department.

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

	<u>2014</u>				<u>2015</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
<u>Age</u>						
15-24	7.5	9.1	11.3	8.9	9.0	11.1
<i>of which:</i>						
15-19	10.0	14.5	12.3	11.8	13.9	17.7
20-24	7.1	8.2	11.2	8.4	8.2	10.1
25-29	3.1	3.5	3.8	3.4	2.9	3.5
30-39	2.2	2.1	2.4	1.8	2.0	2.1
40-49	2.7	2.9	2.5	2.6	3.2	2.6
50-59	3.1	3.0	2.7	2.9	2.8	2.8
≥ 60	2.9	2.8	2.6	3.0	3.0	2.4
<u>Educational attainment</u>						
Primary education and below	3.7	3.6	2.9	3.6	3.8	3.0
Lower secondary education	4.2	4.8	4.0	3.7	4.5	4.3
Upper secondary education <sup>^</sup>	3.2	3.2	3.3	3.1	3.2	3.2
Post-secondary education	2.4	2.7	3.5	2.9	2.7	3.2

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

^ Including craft courses.

Source : General Household Survey, Census and Statistics Department.

5.7 Other indicators measuring the intensity of unemployment suggested that labour market conditions remained largely favourable in the second quarter of 2015. The number of long-term unemployed persons (i.e. unemployed for six months or longer) went down from 26 700 in the preceding quarter to 23 000 in the second quarter of 2015, and the long-term unemployment rate edged down by 0.1 percentage point to 0.6%. The share of long-term unemployment in total unemployment likewise dropped from 21.0% to 17.7%, and the median duration of unemployment fell visibly further from 61 days to 57 days. Regarding the reason of unemployment, the proportion of dismissal or lay-offs among the total number of unemployed persons also went down from 42.2% to 40.6%.

## **Profile of underemployment**

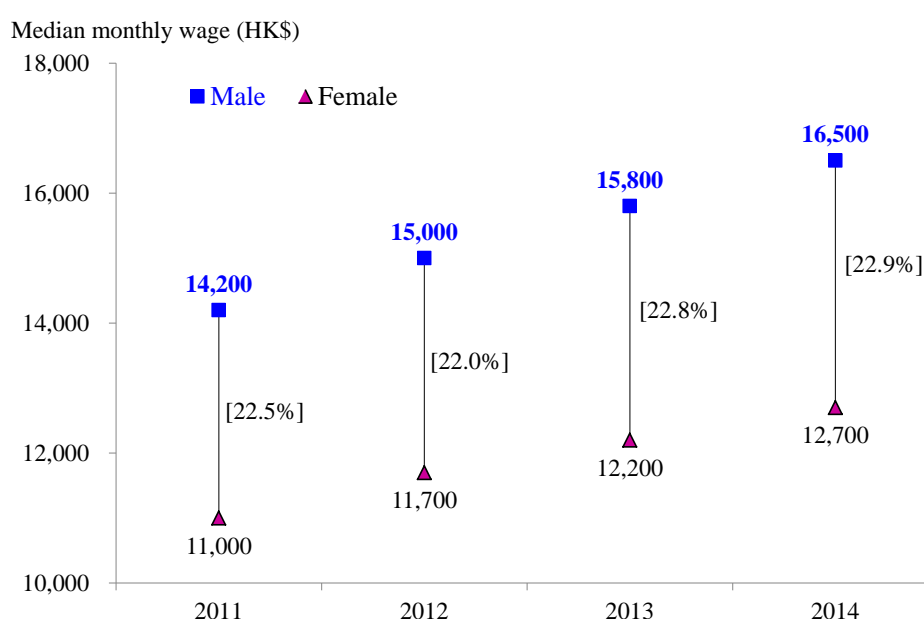
5.8 The underemployment situation held largely steady in the second quarter of 2015. While the number of underemployed persons increased by 2 100 over the preceding quarter to 55 600, the underemployment rate stayed at a low level of 1.4%. On a year-on-year comparison, the underemployment rate edged down by 0.1 percentage point, with diverse movements seen in different sectors. In particular, the underemployment situation in the decoration, repair and maintenance for buildings sector improved prominently. As for occupational category, the underemployment rate of elementary occupations likewise dropped notably. For the lower-skilled segment as a whole, which comprised the majority of underemployed persons, the underemployment rate edged down by 0.1 percentage point from a year earlier.

## Box 5.1

### Gender wage gap for low-paid employees in Hong Kong during 2011-2014

Like many other economies, females in Hong Kong in general earned lower monthly wages than males. Based on the results of Annual Earnings and Hours Survey (AEHS)<sup>(1)</sup> conducted by the Census and Statistics Department (C&SD), the median monthly wages of females were some 20% less than those of males throughout 2011 to 2014 (*Chart 1*). Literature suggests that such difference may be attributable to the variations in individual characteristics, like educational attainment, occupation engaged, hours of work or family role. Other studies, on the other hand, attempt to assess the impact of workplace characteristics on such pay difference, e.g. hiring practices, employment breaks, employer preferences and salary negotiation tactics etc.

**Chart 1: Monthly wage differentials for male and female employees during 2011-2014**



Note: Figures in brackets, computed based on unrounded median monthly wages, denote the differences between the median monthly wages of male and female employees as percentage of the median monthly wages of male employees.

Source: AEHS, C&SD.

As there is no regular official survey to study workplace characteristics in Hong Kong, this article will explore to what extent socio-economic characteristics help explain the gender wage gap observed. The focus will be put on low-paid employees since, as discussed below, male and female low-paid employees resemble each other closely in terms of demographic and employment profiles. For the sake of discussion, low-paid employees are defined as employees<sup>(2)</sup> with hourly wages within the lowest 10% of the overall hourly wage distribution. In 2014, there were 277 300 low-paid employees<sup>(3)</sup>, earning less than \$34.5 per hour.

(1) The survey reference period of AEHS since 2011 is May to June.

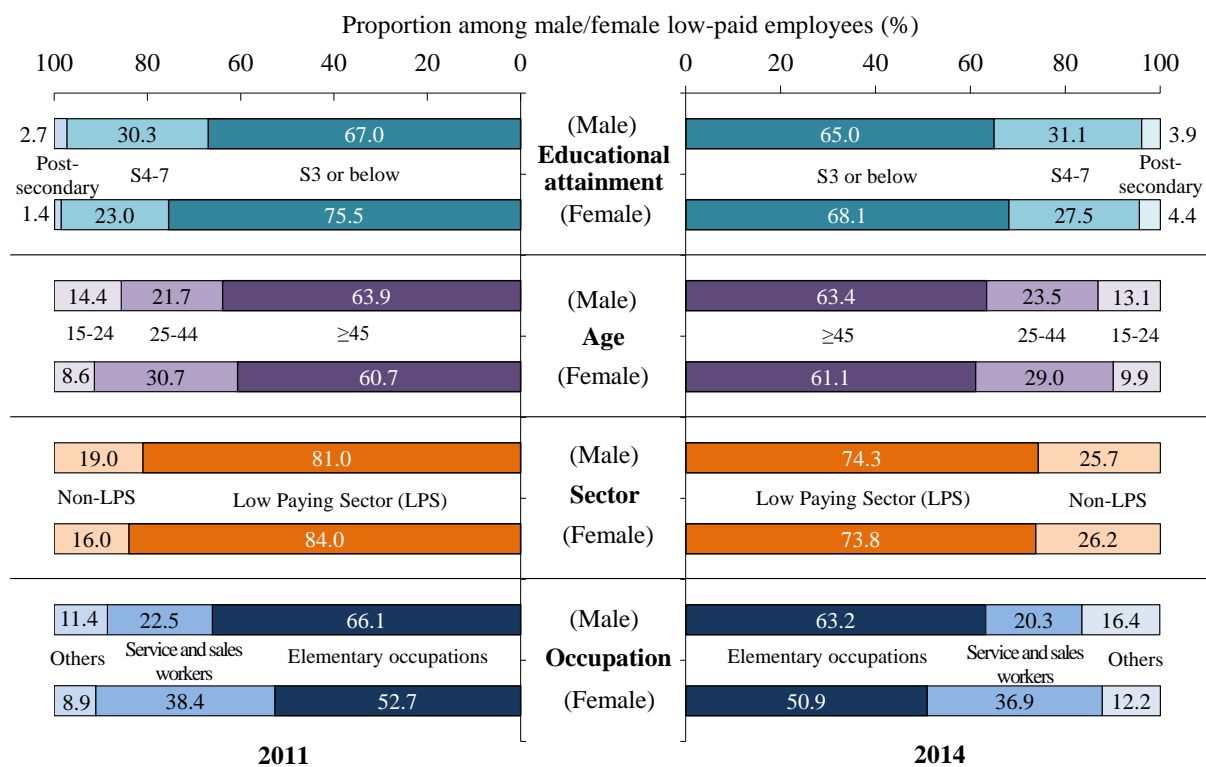
(2) AEHS covers all employees under the coverage of the Minimum Wage Ordinance, which does not apply to student interns or work experience students, live-in domestic workers and Government employees.

(3) In 2014, there were 112 400 males and 164 900 females classified as low-paid employees.

### Box 5.1 (Cont'd)

As shown in *Chart 2*, among both male and female low-paid employees in 2014, around two-thirds had educational attainment of lower secondary and below, over 60% were middle-aged/older (aged 45 and above) workers, over 70% of them worked in the low paying sectors<sup>(4)</sup> and over 80% were engaged either in elementary occupations or as service and sales workers. When compared to 2011, the socio-economic attributes of low-paid employees for both genders were largely similar.

**Chart 2: Characteristics of male and female low-paid employees in 2011 and 2014**



Note: Percentages may not add up to 100% due to rounding.

Source: AEHS, C&SD.

Despite the similar attributes of both male and female low-paid employees, a wage difference of some 10% was still seen between them in 2014 (*Chart 3a*). The wage gap was conceivably due in part to the different proportion of part-timers among male and female employees. In fact, 17.7% of female low-paid employees were part-timers, as against only 10.6% of their male counterparts. However, even when the comparison was confined to full-timers<sup>(5)</sup> only, the gender wage gap, albeit slightly smaller than that for all low-paid employees and narrowing down continuously in the last four years, still existed (*Chart 3b*).

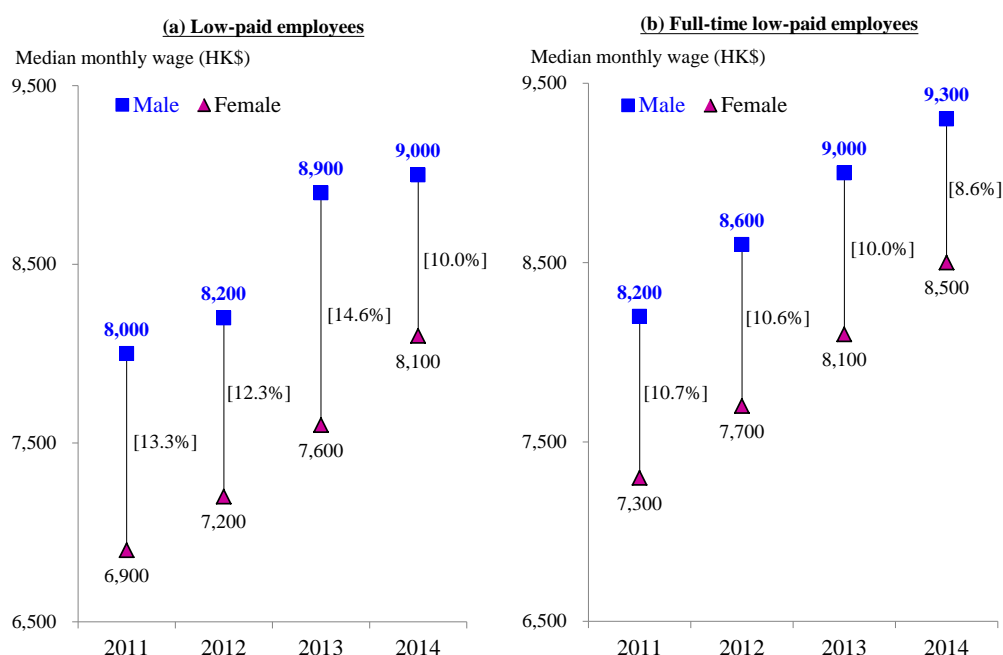
(4) The low paying sectors as identified by the Minimum Wage Commission include retail, restaurants, estate management, security and cleaning services, and other low paying sectors (including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production).

(5) In AEHS, full-time employees refer to employees who cannot be classified as part-time employees. Part-time employees fulfill one of the following conditions: (i) the number of usual days of work per week is less than 5 (for a person with a fixed number of working days per week); or (ii) the number of usual hours of work per working day is less than 6 (for a person with a fixed number of working days per week); or (iii) the number of usual hours of work per week is less than 30 (for a person without a fixed number of working days per week). However, persons who usually work 24 hours per shift are excluded, regardless of the number of usual days of work per week.



## Box 5.1 (Cont'd)

### Chart 3: Monthly wage differentials for male and female low-paid employees during 2011-2014

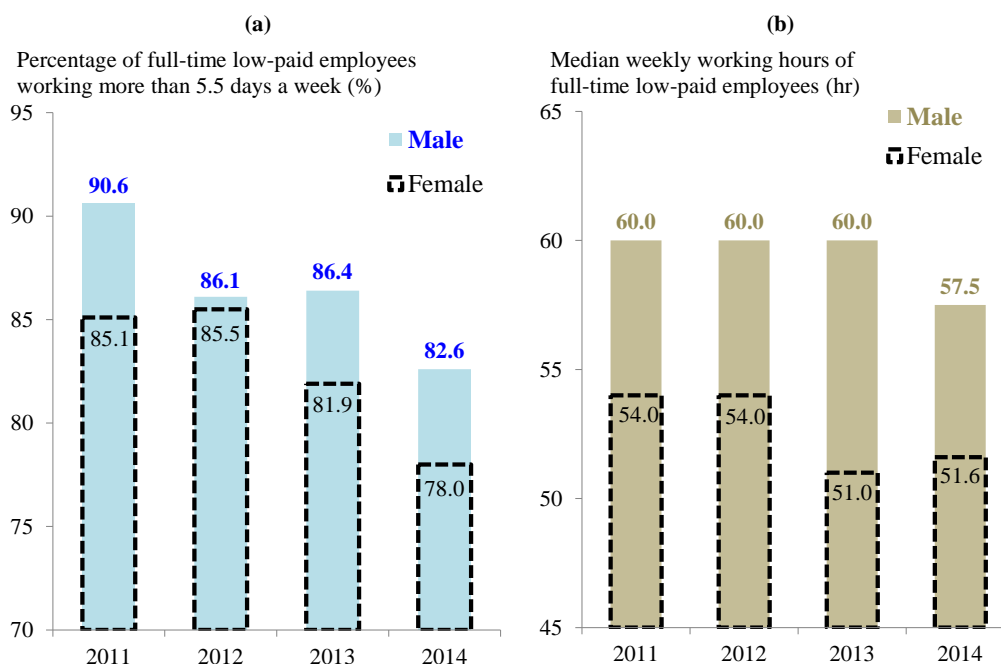


Note: Figures in brackets, computed based on unrounded median monthly wages, denote the differences between the median monthly wages of male and female low-paid employees as percentage of the median monthly wages of male low-paid employees.

Source: AEHS, C&SD.

Further analysing the work pattern of low-paid full-timers probably helped shed some light on the remaining gender wage gap. In overall terms, the median weekly working hours for male full-time employees were generally longer than their female counterparts, at 47.1 and 44.3 hours respectively in 2014. The contrast was even starker among full-time low-paid employees. Between-gender comparison showed that 82.6% of full-time low-paid males worked more than 5.5 days per week in 2014, compared with 78.0% of their female counterparts only (*Chart 4a*). In terms of median weekly working hours, full-time low-paid males worked 57.5 hours per week, roughly 6 hours (equivalent to around 11%) more than the corresponding female group in 2014 (*Chart 4b*).

### Chart 4: Days and hours of work per week for full-time low-paid employees during 2011-2014



Source: AEHS, C&SD.

**Box 5.1 (Cont'd)****Table 1: Median hourly wage differentials for full-time low-paid employees during 2011-2014**

	Full-time low-paid employees		
	Male	Female	Percentage difference*
	Median hourly wage (HK\$)		
2011	28.0	28.0	-
2012	29.0	28.9	+0.4%
2013	30.9	31.0	-0.2%
2014	32.0	32.0	-

Notes: (\*) Percentage difference, computed based on unrounded median hourly wages, denotes the difference between the median hourly wages of male and female full-time low-paid employees over the median hourly wages of male full-time low-paid employees.

(-) Less than 0.05%.

Source: AEHS, C&SD

Hence, after taking into account the difference in working hours between genders, the median hourly wages of the male and female full-time low-paid employees actually had insignificant differences (*Table 1*). While the implementation of Statutory Minimum Wage since 2011 could have played some role in narrowing gender wage gaps at the lower end of the income spectrum, the above statistics had yet to demonstrate any conclusive evidence. After all, as the policy has only been in place for merely four years or so, further investigation into the changes in hourly wage statistics is deemed necessary in this regard when more data become available.

## **Profile of employment in establishments**

5.9 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only up to March 2015. To bring the analysis more up-to-date, attempts have been made wherever possible by drawing reference to information from supplementary sources.

5.10 Total employment in private sector establishments grew solidly by 1.9% in March 2015 over a year earlier to a new record high of 2 793 700. Job gains were seen across most industries, in particular construction sites (covering manual workers only) (up 16.9% year-on-year), education (up 5.0%), and human health services (up 4.6%). Nonetheless, employment growth in accommodation and food services (up 0.9%), and retail trade (up 0.6%) softened visibly, conceivably affected by the slowdown in tourism-related sectors during the period. Meanwhile, employment in the manufacturing sector (down 3.1%) continued its secular downtrend. The import/export trade and wholesale sector also posted a mild job loss (down 0.7%) amid the unsteady external environment. Analysed by establishment size, the pace of job creation in large enterprises (up 2.6%), contributing around 71% of the total gain in March 2015, continued to outstrip that in small and medium-sized enterprises (SMEs)<sup>(7)</sup> (up 1.2%). Employment growth in the civil service remained modest, at 0.5% year-on-year in March 2015.

### **Vacancies**

5.11 Job vacancies in the private sector stood at a relatively high level of 78 070 in March 2015. While the figure remained virtually flat as compared to its year-ago level, diverse movements were observed across major economic sectors.

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

	<u>2014</u>					<u>2015</u>
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>
Import/export trade and wholesale	554 400 (§)	552 900 (-0.9)	554 100 (-0.1)	554 400 (0.5)	556 200 (0.6)	549 200 (-0.7)
Retail	270 800 (2.2)	270 000 (2.8)	271 900 (2.7)	269 800 (1.9)	271 600 (1.4)	271 500 (0.6)
Accommodation <sup>(a)</sup> and food services	283 200 (2.5)	281 200 (2.0)	283 200 (2.5)	283 000 (2.6)	285 600 (2.8)	283 700 (0.9)
Transportation, storage, postal and courier services	174 600 (2.7)	171 700 (2.1)	174 500 (3.1)	175 400 (2.6)	176 600 (2.9)	176 600 (2.8)
Information and communications	104 100 (2.7)	102 900 (4.6)	103 500 (2.4)	104 800 (2.2)	105 200 (1.9)	104 000 (1.2)
Financing, insurance, real estate, professional and business services	696 500 (1.9)	693 300 (2.5)	694 000 (2.3)	694 600 (1.4)	704 200 (1.5)	711 400 (2.6)
Social and personal services	482 200 (4.3)	475 600 (3.7)	480 000 (4.1)	482 500 (4.0)	491 000 (5.3)	494 100 (3.9)
Manufacturing	102 500 (-1.2)	103 500 (-0.5)	102 200 (-1.1)	102 600 (-1.2)	101 500 (-2.1)	100 300 (-3.1)
Construction sites (manual workers only)	82 800 (4.4)	78 600 (1.0)	79 700 (-3.4)	86 500 (12.7)	86 300 (7.8)	91 900 (16.9)
<i>All establishments surveyed in the private sector<sup>(b)</sup></i>	2 762 200 (2.1)	2 740 700 (1.9) <0.5>	2 754 200 (1.9) <0.5>	2 764 700 (2.2) <0.6>	2 789 200 (2.2) <0.6>	2 793 700 (1.9) <0.2>
<i>Civil service<sup>(c)</sup></i>	163 000 (1.0)	162 800 (1.4)	162 800 (1.2)	163 000 (0.9)	163 400 (0.6)	163 600 (0.5)

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

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

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

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

( ) % change over a year earlier.

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

§ Change less than 0.05%.

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

5.12 Analysed by economic sector, more visible increases in vacancies were observed in the social and personal services (up 34.3% year-on-year), information and communications (up 14.3%), financing and insurance (up 13.5%), and real estate (up 10.3%) sectors in March 2015. On the other hand, for the first time since 2009, the food and beverage services (down 14.4%), and retail trade (down 11.7%) sectors saw noticeable year-on-year dips in vacancies alongside the slackened performance of inbound tourism. Vacancies in construction sites (covering manual workers only) likewise plummeted (down 45.8%), but it was accompanied by a notable employment gain, signifying that some vacancies had been gradually filled. Mirroring the sectoral profile of vacancies, higher-skilled vacancies rose further by 11.3% amid a pick-up in demand for managers and administrators, and associate professionals on entering 2015. In contrast, lower-skilled vacancies dropped by 3.1%, more visibly among service and sales workers. Analysed by the size of establishments, the vacancies in large enterprises increased by 3.9%, whereas that in SMEs dropped by 4.1%. As for the civil service, the number of job openings grew considerably further by 23.3% year-on-year to 7 820.

5.13 On entering 2015, the overall manpower resource balance stayed tight. The ratio of job vacancies per 100 unemployed persons edged up from 60 in December 2014 to 61 in March 2015, mainly attributable to the higher-skilled segment. On a year-on-year comparison, however, the vacancy-to-unemployed ratio went down from its year-ago level of 65, dragged by the declines in vacancies among service and sales workers, and elementary occupations in the lower-skilled segment. Analysed by economic sector, even though the manpower resource balances in the tourism-related sectors showed some signs of easing, manpower shortages were still apparent in accommodation and food services, as well as sectors like human health services, residential care and social work services, real estate, and financing and insurance in March 2015.

5.14 The vacancy rate, measured in terms of the percentage of job vacancies to total employment opportunities, rose marginally from 2.6% in December 2014 to 2.7% in March 2015 for private sector establishments. Nevertheless, it was 0.1 percentage point lower than its year-ago level. More noticeable year-on-year declines in vacancy rate were seen in the construction sites (covering manual workers only), food and beverage services, retail trade, and professional and business services (excluding cleaning and similar services) sectors.

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

	Annual average	Number of vacancies 2014				2015		Vacancy rate in Mar 2015 (%)
		Mar	Jun	Sep	Dec	Mar		
Import/export trade and wholesale	8 460 (-13.7)	9 210 (-11.8)	8 150 (-19.4)	8 450 (-16.7)	8 040 (-5.9)	9 000 (-2.3)	1.6	
Retail	9 110 (4.0)	9 680 (2.9)	8 810 (8.4)	9 240 (0.6)	8 710 (4.9)	8 550 (-11.7)	3.1	
Accommodation <sup>(a)</sup> and food services	16 060 (11.1)	17 600 (13.2)	15 800 (21.8)	15 550 (8.2)	15 300 (2.3)	15 470 (-12.1)	5.2	
Transportation, storage, postal and courier services	3 680 (-1.8)	4 180 (15.7)	4 040 (-1.6)	3 380 (-7.1)	3 120 (-14.2)	3 960 (-5.4)	2.2	
Information and communications	2 560 (-4.6)	2 570 (-4.2)	2 650 (-13.1)	2 360 (-21.8)	2 670 (33.9)	2 930 (14.3)	2.7	
Financing, insurance, real estate, professional and business services	17 910 (1.2)	17 820 (1.8)	18 210 (1.4)	17 810 (-3.5)	17 800 (5.3)	18 360 (3.0)	2.5	
Social and personal services	14 110 (-12.9)	11 620 (-32.9)	16 600 (-6.1)	13 930 (-10.8)	14 280 (1.0)	15 620 (34.3)	3.1	
Manufacturing	3 040 (17.4)	3 200 (23.2)	3 580 (33.7)	2 880 (6.6)	2 500 (4.9)	2 990 (-6.6)	2.9	
Construction sites (manual workers only)	1 390 (32.4)	1 630 (75.1)	1 540 (49.8)	1 530 (73.1)	850 (-37.1)	880 (-45.8)	1.0	
<i>All establishments surveyed in the private sector<sup>(b)</sup></i>	<i>76 600 (-0.7)</i>	<i>77 790 (-3.0)</i>	<i>79 720 (2.4)</i>	<i>75 360 (-3.8)</i>	<i>73 530 (1.6)</i>	<i>78 070 (0.4)</i>	<i>2.7</i>	
		<i>&lt;-5.2&gt;</i>	<i>&lt;4.0&gt;</i>	<i>&lt;-2.7&gt;</i>	<i>&lt;5.7&gt;</i>	<i>&lt;-6.2&gt;</i>		
<i>Civil service<sup>(c)</sup></i>	<i>7 160 (9.9)</i>	<i>6 350 (2.0)</i>	<i>7 270 (4.2)</i>	<i>7 430 (11.4)</i>	<i>7 610 (22.8)</i>	<i>7 820 (23.3)</i>	<i>4.6</i>	

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

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

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

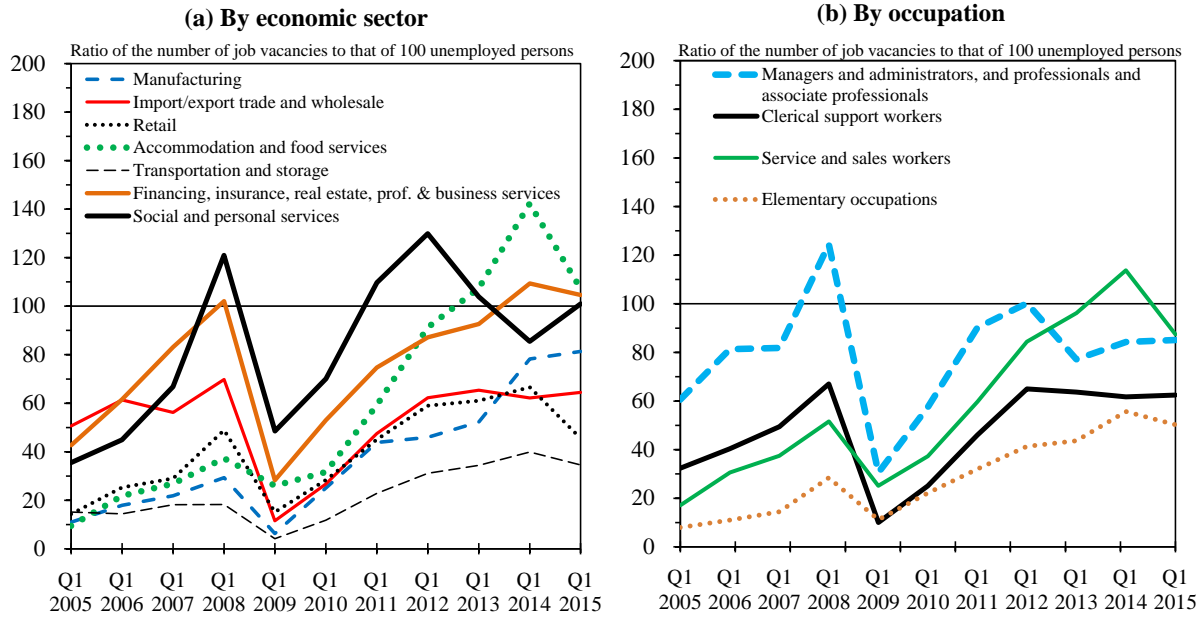
(c) These figures cover only vacancies for those staff to be employed on civil service terms of appointment.

( ) % change over a year earlier.

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

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

**Diagram 5.5 : Overall manpower resource balance stayed tight despite the easing in the tourism-related sectors and the lower-skilled segment**



5.15 The vacancy registration figures compiled by the Labour Department (LD), notwithstanding its smaller sample size, may provide some hints on the latest developments in the labour market. The average number of private sector job vacancies went up by 9.2% year-on-year to around 107 700 in the second quarter of 2015, suggesting that hiring sentiment remained largely steady.

## Wages and earnings

5.16 Wages continued to see steady and across-the-board increases on entering 2015, echoing the still largely tight manpower situation. *Wage index*, which covers regular payment to employees at the supervisory level or below, rose by 4.1% year-on-year in March 2015, broadly in line with the growth pace observed over the course of 2014. After adjusting for inflation<sup>(8)</sup>, real wages registered a decline of 2.3%, yet this was entirely due to a distinctly high headline inflation in March 2015 arising from the distortions of the Government's one-off relief measures.

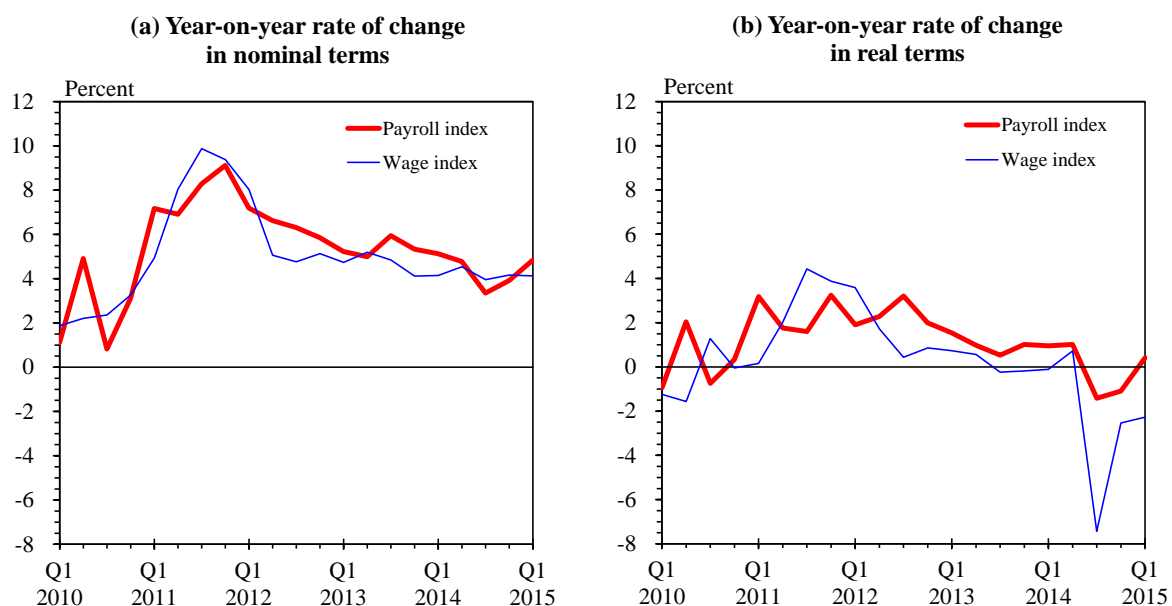
5.17 Increases in nominal wages were observed across all economic sectors and occupations in March 2015, most discernibly in personal services (up 7.9% year-on-year), and accommodation and food service activities (up 5.4%). Wages of lower-skilled workers such as service workers (up 5.7%) and craftsmen (up 4.8%) also saw further appreciable growth.

5.18 *Labour earnings*<sup>(9)</sup>, as measured by the index of payroll per person engaged in the private sector, posted a faster year-on-year increase of 4.8% in the first quarter of 2015. After adjusting for inflation, real earnings improved by 0.4%.

5.19 Rises in nominal payroll were seen across major sectors in the first quarter of 2015, with more prominent growth in social and personal services (up 8.4%), sewerage, waste management and remediation activities (up 7.4%), and professional and business services (up 6.7%).



**Diagram 5.6 : Nominal wages and earnings saw across-the-board increases on entering 2015**



Note: The real wages and earnings in the recent few quarters were affected by the larger year-on-year increases in the headline Consumer Price Indices, which in turn reflected the distortion arising from the Government's one-off relief measures.

5.20 More recent statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, revealed that the average monthly employment earnings<sup>(10)</sup> of full-time employees (excluding foreign domestic helpers) engaged in elementary occupations recorded appreciable year-on-year growth of 6.3% in the second quarter of 2015, conceivably benefiting from the upward adjustment of the SMW rate since May 2015. After discounting inflation, there was a real improvement of 2.0%. For the overall income situation, the median monthly household income (excluding foreign domestic helpers) recorded respectable year-on-year growth of 7.9% in the second quarter of 2015, or 4.7% in real terms.

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

5.21 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job-seekers on the spot. From January to July 2015, LD organised ten large-scale job fairs in North District, Mong Kok, Tsuen Wan, Wan Chai and Tuen Mun. 345 participating organisations offered over 26 100 vacancies from the retail, catering, property management, transport and other industries. There were also 17 training bodies joining the job fairs to introduce job training courses and receive applications on the spot. Apart from large-scale job fairs, district-based job fairs are organised at LD's Job Centres from time to time to assist job-seekers in finding employment. Recruitment activities are also staged by catering and retail employers at the two industry-based recruitment centres regularly for interviewing job-seekers on the spot.

5.22 Besides, LD continues its efforts in 2015 in launching pilot projects with employers of selected industries/ trades under the Youth Employment and Training Programme to enhance the employability and employment opportunities of young people with different backgrounds. The first two initiatives were collaborations with the hospitality industry and cultural enterprises. The third initiative, “『Y Worker』 YWCA Summer Workplace Attachment Training Program 2015”, aims to offer workplace attachment vacancies for young people with no or scanty work experience.

5.23 The SMW rate was raised by 8.3% from \$30 to \$32.5 per hour with effect from 1 May 2015. LD has organised extensive publicity activities to enhance public awareness of the revised rate. Targeted enforcement actions have also been undertaken to monitor employers' compliance with the new requirement.

5.24 The Standard Working Hours Committee (SWHC), with reference to the findings of the dedicated working hours survey, and the public engagement and consultation on working hours, agreed in principle to recommend a legislative approach to mandatorily require employers and employees in general to enter into written employment contracts specifying terms related to working hours of employees, and in parallel to explore whether there is a need for other suitable measure(s) to protect grassroots employees with lower income, lower skills and less bargaining power. SWHC aims to submit its report to the Government in the first quarter of 2016.

## Notes :

- (1) Labour force statistics enumerated from the General Household Survey are statistics which involve the use of the population figures in the compilation process. The statistics of the three-month periods of November 2013 – January 2014 to October – December 2014 have been revised to take into account the final end-2014 population estimates and those of November 2014 – January 2015 to December 2014 – February 2015 have been revised to incorporate the latest information.

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

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

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

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

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

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

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

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

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

## CHAPTER 6 : PRICES

### *Summary*

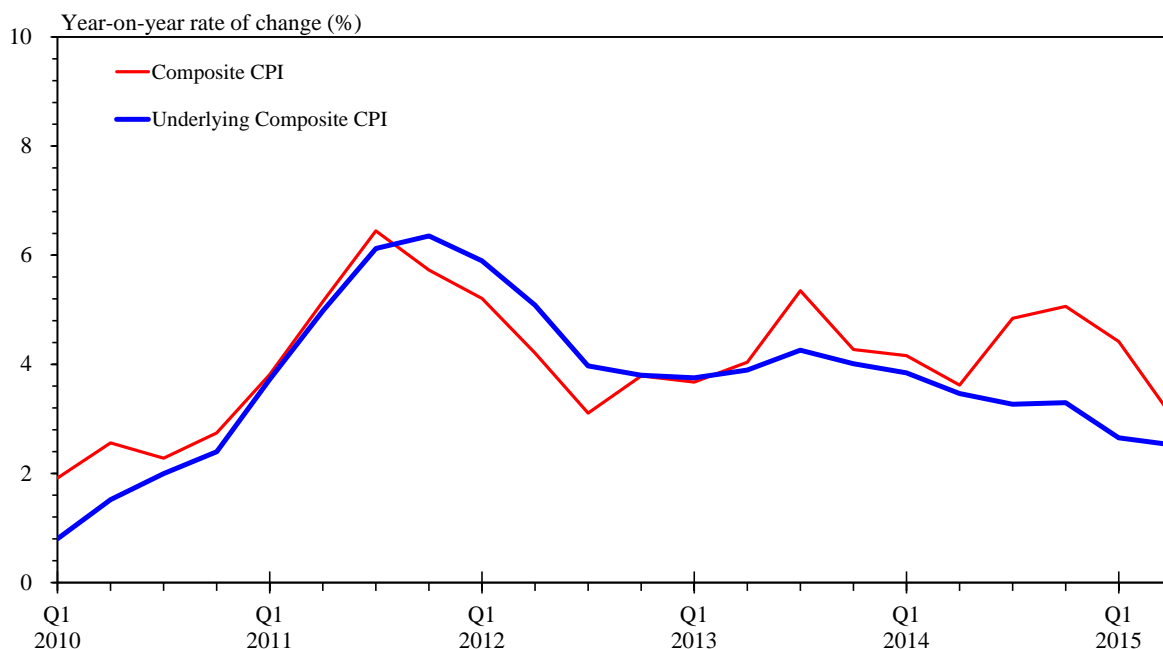
- *Inflation stayed on an easing trend throughout the first half of 2015, thanks to the modest price pressures from both domestic and external fronts. The underlying Composite Consumer Price Index (Composite CPI)<sup>(1)</sup>, which nets out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, rose by 2.5% in the second quarter over a year earlier, down from the 2.7% increase in the first quarter. Over the same period, the headline Composite CPI inflation likewise eased to 3.0% from 4.4%.*
- *Domestic cost pressures were largely contained. Increases in wages and earnings were broadly steady in the first half of 2015 on the back of a stable labour market and income conditions. The relatively mild increases in fresh-letting residential and commercial rentals during most of 2014 also continued to bring about a stabilising effect to the Composite CPI.*
- *External price pressures were kept at bay, mainly a reflection of the soft international food and commodity prices, and the low inflation in our major import sources. The strength of the US dollar against many other currencies also helped, to a certain extent, contain the imported inflation of Hong Kong.*
- *Looking ahead, consumer price pressures should remain mild in the near term, given the generally low global inflation, the softness in import prices and the steady local cost pressures. The upward adjustment of the Statutory Minimum Wage in May is expected to have only limited impact on labour costs and hence on inflation.*

### **Consumer prices**

6.1 Inflationary pressures continued to abate in the first half of 2015, due mainly to the modest price pressures from both domestic and external fronts. Locally, earnings growth was largely steady under a stable labour market. While the increases in fresh-letting residential rentals accelerated somewhat in recent months, the stabilising effect stemming from the relatively mild increases during most of 2014 continued to feed through to the private housing component of the CPI. The continued slowdown in inbound tourism might also help somewhat contain the price pressures from the retail segment,

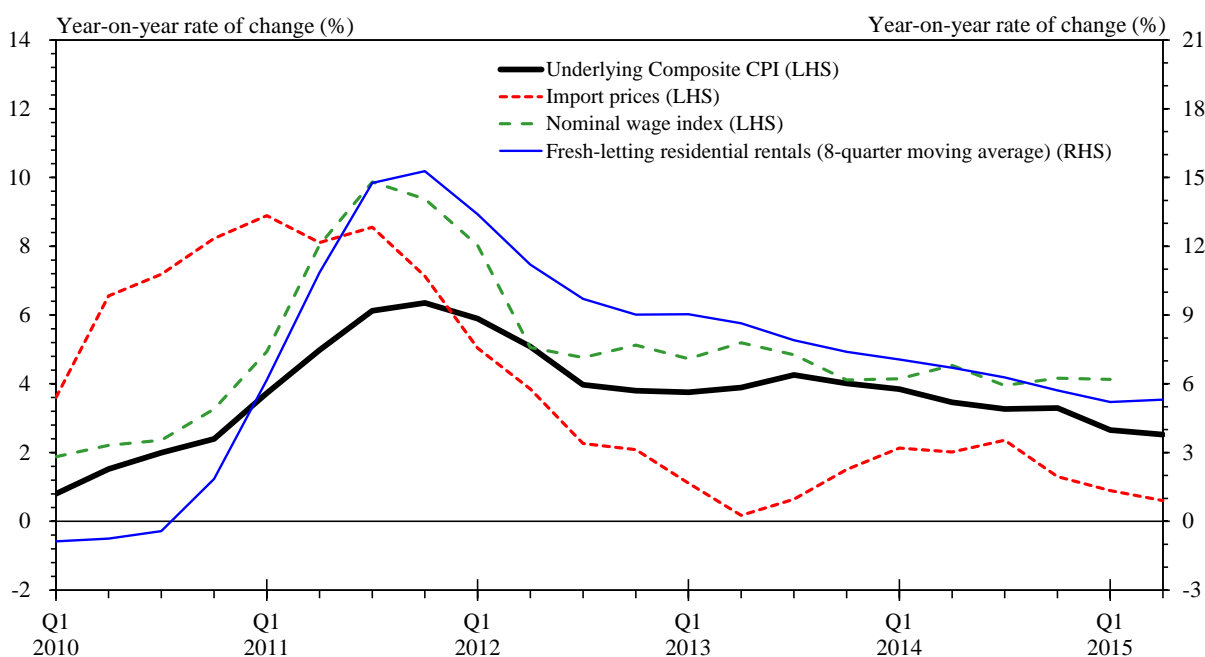
when discount offerings became more common to boost short-term sales. Externally, imported inflation remained soft, amid the relatively weak international food and commodity prices, strong US dollar and lower inflation in many of Hong Kong's major import sources<sup>(2)</sup>.

**Diagram 6.1 : Underlying inflation stayed on an easing trend in the first half of 2015**



Note : The year-on-year rates of change of the Consumer Price Indices from the fourth quarter of 2010 onwards are computed from the 2009/10-based series, and those before that from the 2004/05-based series. Splicing has been applied to the indices to maintain continuity.

**Diagram 6.2 : Price pressures from both domestic and external fronts were modest**



6.2 Underlying consumer price inflation, in terms of the year-on-year rate of change in the underlying Composite CPI, which nets out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, receded from 2.7% in the first quarter to 2.5% in the second quarter. Over the same period, headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, likewise eased from 4.4% to 3.0%. For the first half of 2015 as a whole, underlying and headline consumer price inflation averaged 2.6% and 3.7% respectively, both moderated from 3.3% and 5.0% respectively in the second half of 2014.

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

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying<sup>(a)</sup></u>	<u>Headline</u>			
2014	Annual	3.5	4.4	5.6	4.2	3.5
	H1	3.7	3.9	4.0	4.0	3.7
	H2	3.3	5.0	7.1	4.4	3.4
	Q1	3.8	4.2	4.3	4.3	3.9
	Q2	3.5	3.6	3.8	3.8	3.5
	Q3	3.3	4.8	7.2	4.1	3.3
	Q4	3.3	5.1	7.0	4.6	3.4
2015	H1	2.6	3.7	5.3	3.3	2.3
	Q1	2.7	4.4	6.5	3.9	2.6
	Q2	2.5	3.0	4.2	2.7	1.9
<b>(seasonally adjusted quarter-to-quarter rate of change (%))</b>						
2014	Q1	0.9	0.9	1.1	0.9	0.8
	Q2	0.7	0.7	0.7	0.7	0.7
	Q3	0.7	0.5	-0.2	0.9	0.8
	Q4	0.9	2.9	5.4	2.0	1.1
2015	Q1	0.3	0.3	0.5	0.3	0.1
	Q2	0.6	-0.6	-1.4	-0.5	*

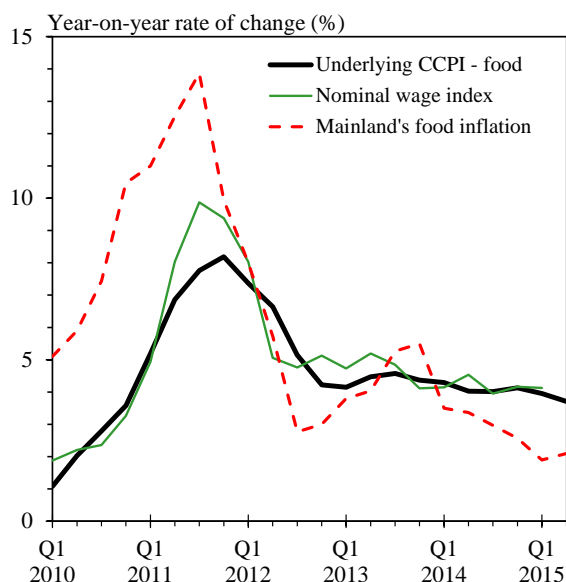
Notes : (a) Underlying consumer price inflation is calculated by netting out the effects of all relevant one-off measures introduced since 2007, including the waiver and Government's payment of public housing rentals, rates concession, suspension and subsequent abolition of Employees Retraining Levy,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

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

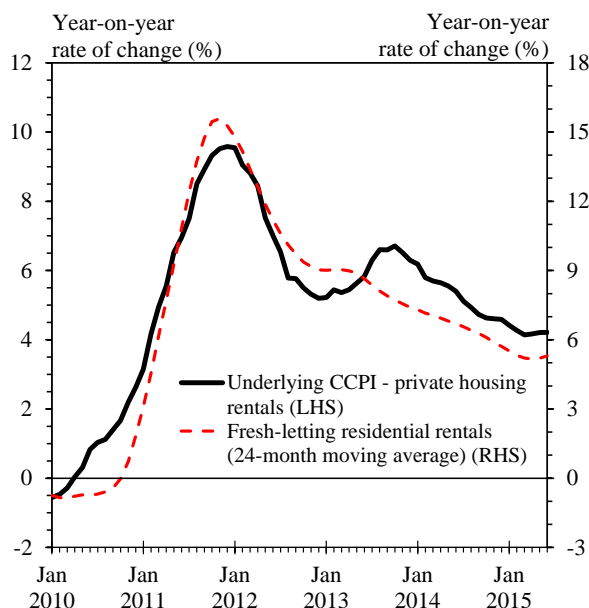
6.3 Analysed by major component of the underlying Composite CPI, inflationary pressures receded generally on a broad front. Food and private housing rentals, the two largest components by weight, both saw narrower year-on-year price increases in the first half of 2015. Local food inflation (including costs of dining out) tapered to 3.7% in the second quarter of 2015, from 4.0% in the preceding quarter. The increase in private housing rental component likewise eased slightly from 4.3% to 4.2% over the same period, reflecting the lagged effect of the slower rises in fresh-letting residential rentals last year. Mirroring the recent softness in retail sales performance amid slowdown in inbound tourism, the decline in clothing and footwear component widened. The prices of local motor fuel, included in the transport component, also registered a notable year-on-year decline as international oil prices were still much lower than a year earlier. The overall prices of alcoholic drinks and tobacco inched down in the second quarter, partly due to the faded lifting effect of the tobacco duty hike introduced in the 2014-15 Budget. Meanwhile, the prices of durable goods continued their secular downtrend.

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

**(a) Food inflation moderated further in the second quarter of 2015**

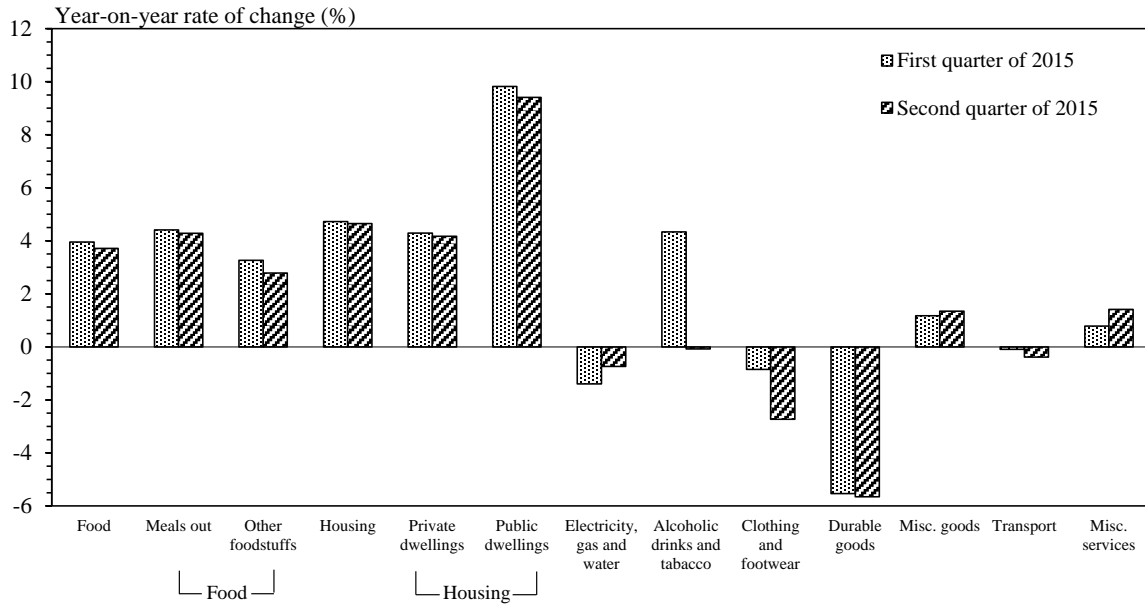


**(b) Continued feed-through from fresh-letting rentals helped stabilise rental inflation**

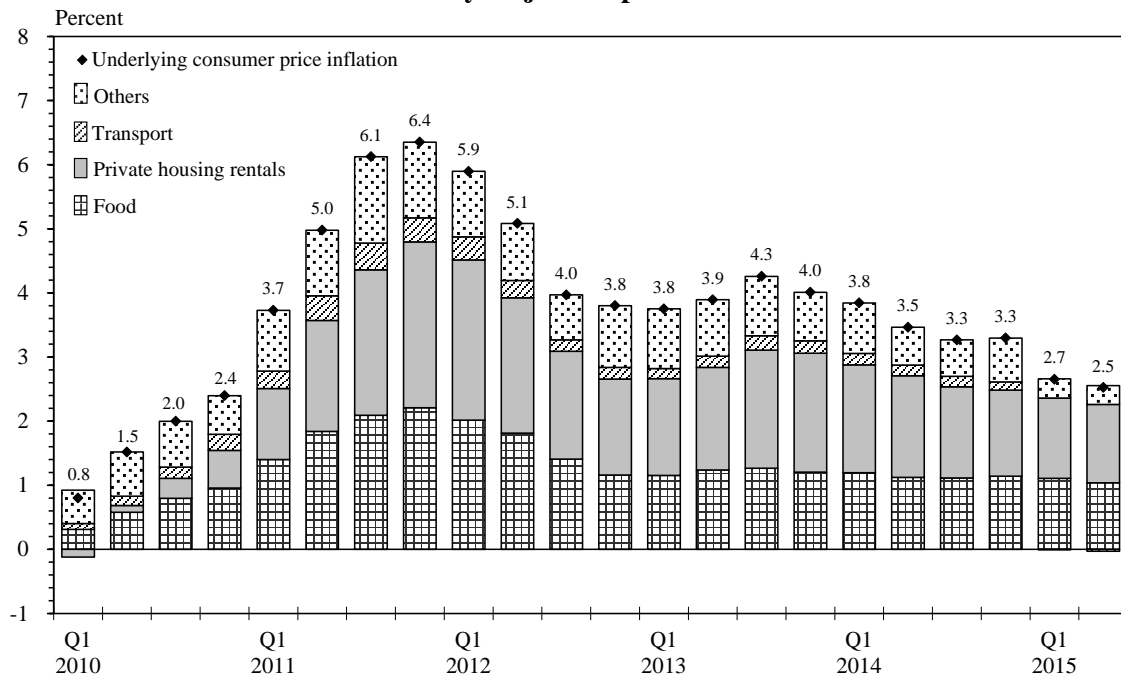




**Diagram 6.4 (a) : The price increases in many major components in the underlying Composite CPI were largely kept at bay**



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



Note : The year-on-year rates of change of the Composite CPI from the fourth quarter of 2010 onwards are computed from the 2009/10-based series, and those before that from the 2004/05-based series.

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>Annual</u>	<u>2014</u>				<u>2015</u>	
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Food	27.45	4.1	4.3	4.0	4.0	4.1	4.0	3.7
<i>Meals bought away from home</i>	17.07	4.6	4.5	4.7	4.6	4.6	4.4	4.3
<i>Other foodstuffs</i>	10.38	3.4	4.0	3.1	3.1	3.5	3.3	2.8
Housing <sup>(a)</sup>	31.66	6.7 (5.0)	5.6 (5.3)	5.0 (5.0)	7.6 (4.8)	8.5 (5.0)	8.2 (4.7)	4.2 (4.7)
<i>Private dwellings</i>	27.14	6.0 (5.2)	6.4 (5.9)	5.6 (5.5)	4.9 (4.9)	7.1 (4.6)	6.8 (4.3)	3.8 (4.2)
<i>Public dwellings</i>	2.05	18.3 (3.4)	-1.8 (-0.1)	-0.9 (0.4)	101.4 (3.6)	29.0 (9.8)	29.0 (9.8)	10.0 (9.4)
Electricity, gas and water	3.10	14.9 (2.5)	5.5 (4.4)	3.4 (2.7)	24.9 (1.6)	25.5 (1.3)	21.5 (-1.4)	22.8 (-0.7)
Alcoholic drinks and tobacco	0.59	6.5	3.3	7.6	7.4	7.6	4.3	-0.1
Clothing and footwear	3.45	0.9	2.1	2.2	0.8	-1.4	-0.8	-2.7
Durable goods	5.27	-3.4	-3.3	-2.7	-3.3	-4.4	-5.5	-5.7
Miscellaneous goods	4.17	2.3	3.1	2.0	2.4	1.5	1.2	1.3
Transport	8.44	2.0	2.2	2.1	2.1	1.6	-0.1	-0.4
Miscellaneous services	15.87	3.0 (2.3)	4.4 (3.1)	3.2 (2.0)	2.3 (1.9)	2.1 (2.1)	0.8 (0.8)	1.4 (1.4)
All items	100.00	4.4 (3.5)	4.2 (3.8)	3.6 (3.5)	4.8 (3.3)	5.1 (3.3)	4.4 (2.7)	3.0 (2.5)

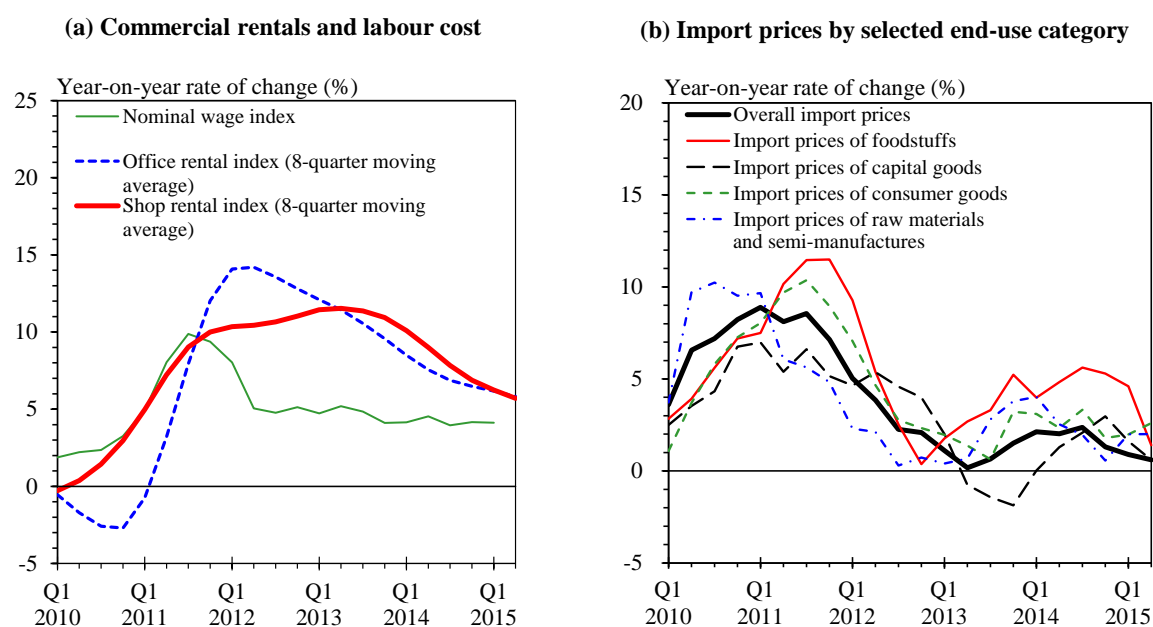
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings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

( ) Figures in bracket represent the underlying rates of change after netting out the effect of Government's one-off relief measures.

## Costs of factor inputs and import prices

6.4 Domestic cost pressures were largely contained during the first half of 2015. Increases in labour costs in the past few quarters were steady, at around 4% in nominal terms. Both office and shop rentals picked up somewhat in recent period, but their increases still followed a moderating trend when analysed on an eight-quarter-moving-average basis. Also, while the Statutory Minimum Wage level was adjusted upward in May, the impact on overall labour costs and hence on inflation is expected to be rather limited.

**Diagram 6.5 : Domestic cost pressures stayed largely contained whilst imported inflation remained benign**



6.5 External price pressures retreated further, largely contributed by the relatively soft international food and commodity prices, the still benign inflation in major import sources and, to a lesser extent, the strength of the US dollar against many other currencies. Overall import prices rose mildly by 0.6% over a year earlier in the second quarter, moderated from the 0.9% increase in the first quarter, giving an average increase of 0.7% for the first half of 2015 as a whole. The easing import price pressures were almost across-the-board amongst different end-use categories. The year-on-year increase in import prices of foodstuffs slowed visibly to 1.4% in the second quarter. Likewise for capital goods, with year-on-year increase in import prices eased to 0.6%. Reflecting the plunge in international oil prices since the second half of 2014, the import prices of fuels were still significantly lower in the second quarter over a year ago, falling by 31.2% year-on-year. Meanwhile, import price pressures of raw materials and semi-manufactures remained contained, up by 2.0% over the last year. The import prices for consumer goods increased slightly faster, by 2.6% year-on-year, albeit still at a moderate pace.

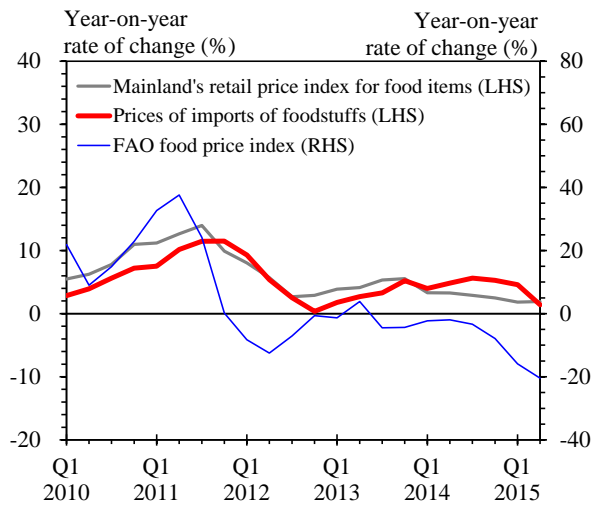
**Table 6.3 : Prices of imports by end-use category  
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2014	Annual	4.9	2.6	2.2	-6.1	1.7	1.9
	H1	4.4	2.7	3.2	-2.2	0.7	2.1
	H2	5.4	2.6	1.3	-9.9	2.5	1.8
	Q1	4.0	3.1	4.0	-3.1	*	2.1
	Q2	4.8	2.3	2.5	-1.2	1.3	2.0
	Q3	5.6	3.3	2.0	-1.4	2.1	2.4
	Q4	5.3	1.8	0.6	-17.4	3.0	1.3
2015	H1	3.0	2.3	2.0	-32.0	1.1	0.7
	Q1	4.6	2.0	2.0	-32.8	1.6	0.9
	Q2	1.4	2.6	2.0	-31.2	0.6	0.6

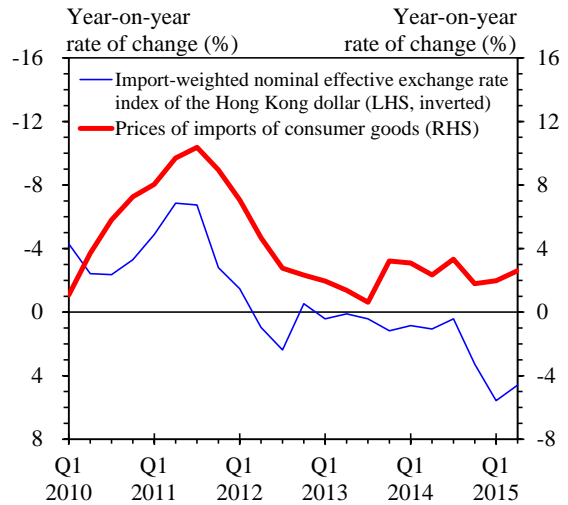
Note : (\*) Change within  $\pm 0.05\%$ .

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

(a) Increase in import prices of food eased notably

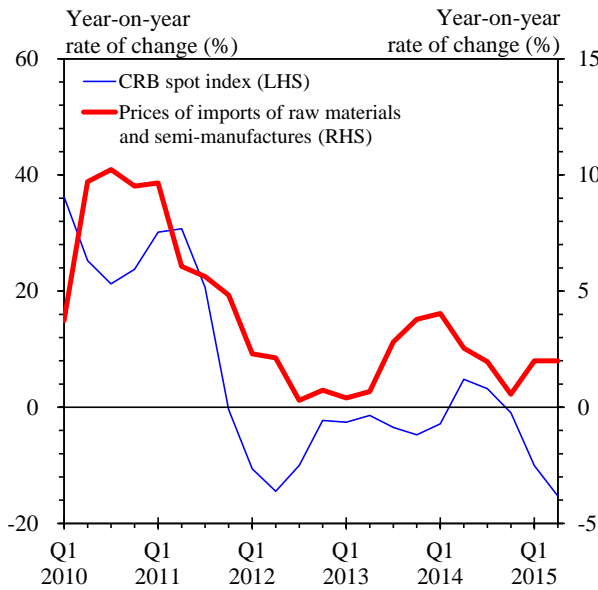


(b) Import prices of consumer goods remained largely moderate

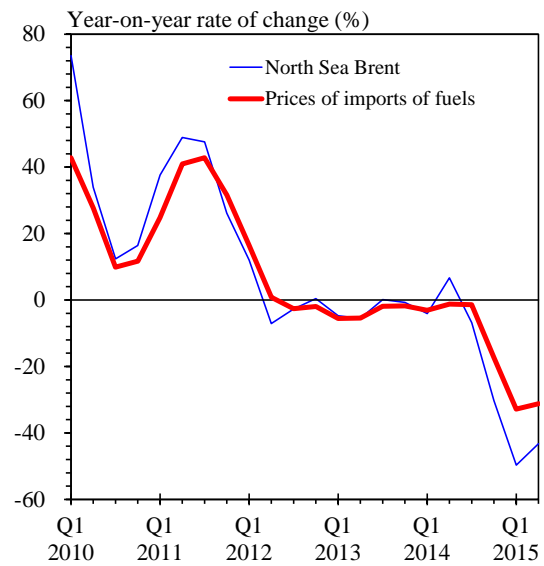


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Import prices of raw materials and semi-manufactures stayed low



(d) The decline in import prices of fuels was still visible



## Output prices

6.6 The movement of output prices, as measured by the *Producer Price Indices*<sup>(3)</sup>, remained mixed across sectors. In the first quarter of 2015, output prices in the manufacturing sector still registered a mild decline, despite narrowing somewhat as compared to the preceding quarter. Likewise, output prices eased back amongst most of the selected service sectors. For accommodation services, output prices fell alongside the slowdown in inbound tourism. Reflecting the anaemic external trade performance and also the plummet in international oil prices, the year-on-year increases in output prices for land transport held largely stable, while those for water transport and air transport decreased at varying degrees. Output prices for telecommunications services also stayed on its secular downtrend. This reflected the lowering of production costs due to mass production and technological advancement on one hand, and limited price pressures amid intense competition on the other. Meanwhile, output prices for courier services registered some visible pick up over the period, owing to the increases in international courier prices.

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

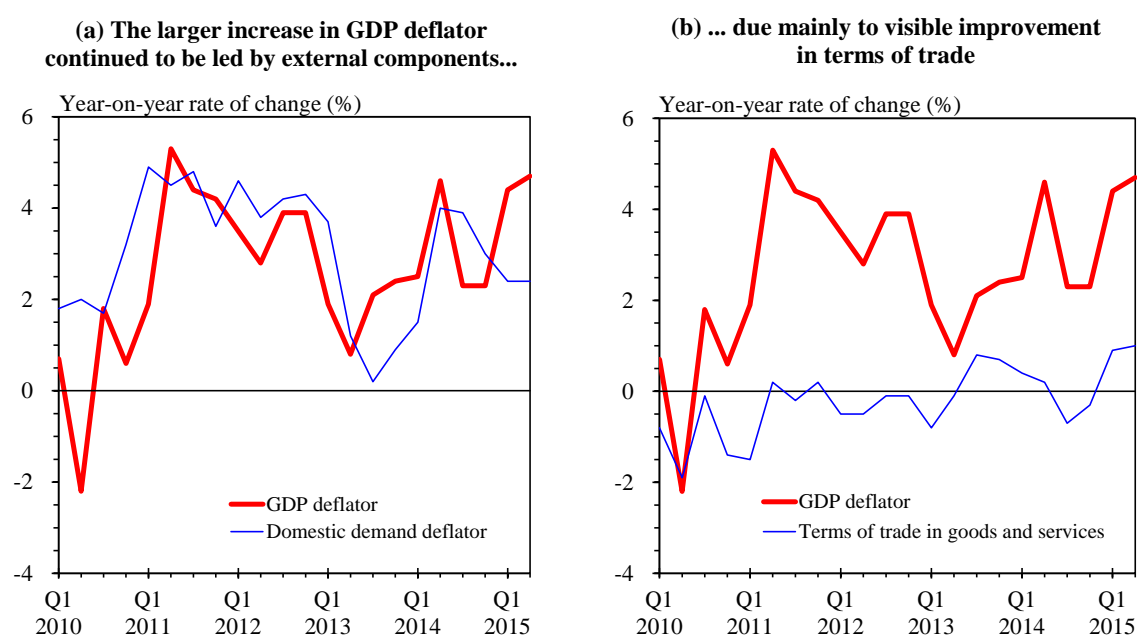
<u>Industry group</u>	<u>Annual</u>	<u>2014</u>				<u>2015</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	-1.7	-6.2	-0.4	1.3	-1.2	-0.6
Selected service sectors <sup>(a)</sup>						
Accommodation services	2.1	2.2	3.9	4.0	-1.3	-1.6
Land transport	2.8	2.5	3.0	2.9	3.0	2.9
Water transport	0.8	-2.9	-0.6	2.5	4.6	-0.2
Air transport	-0.7	-0.6	-1.8	1.9	-2.2	-3.4
Telecommunications	-3.7	-2.9	-3.4	-4.2	-4.2	-3.9
Courier services	1.7	1.9	1.4	0.9	2.5	4.2

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

## GDP deflator

6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*<sup>(4)</sup> rose by 4.7% in the second quarter of 2015 over a year earlier, after a 4.4% increase in the first quarter. Within the GDP deflator, the *terms of trade*<sup>(5)</sup> improved visibly in the second quarter benefiting from the fall in overall import prices. Taking out the external components, the domestic demand deflator rose by 2.4% year-on-year in the second quarter, same as the preceding quarter.

**Diagram 6.7 : GDP deflator**



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

	2013		2014				2015	
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>+</sup></u>
Private consumption expenditure	2.8	2.7	2.7	3.3	3.2	1.8	1.6	1.9
Government consumption expenditure	4.3	4.7	4.0	5.2	4.9	4.8	4.7	4.5
Gross domestic fixed capital formation	-2.8	3.6	-2.3	4.6	5.2	6.0	3.3	3.2
Total exports of goods	-0.3	0.8	-0.1	0.1	1.9	1.0	0.6	0.2
Imports of goods	-0.4	0.9	-0.5	-0.2	2.5	1.5	-0.1	-0.8
Exports of services	0.6	0.8	0.3	0.8	1.5	0.6	*	-1.0
Imports of services	1.1	1.0	0.5	2.6	2.6	-1.2	-3.2	-2.6
<b>Gross Domestic Product</b>	<b>1.9</b>	<b>2.9</b>	<b>2.5</b>	<b>4.6</b>	<b>2.3</b>	<b>2.3</b>	<b>4.4</b>	<b>4.7</b>
			<0.1>	<1.2>	<0.4>	<0.6>	<2.3>	<1.4>
Total final demand	0.4	1.5	0.5	1.4	2.5	1.6	1.1	0.8
Domestic demand	1.5	3.1	1.5	4.0	3.9	3.0	2.4	2.4
Terms of trade in goods and services	0.2	-0.1	0.4	0.2	-0.7	-0.3	0.9	1.0

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

(#) Revised figures.

(+) Preliminary figures.

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

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



## Notes :

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

The expenditure ranges of the households covered in the 2009/10-based CPIs are shown below:

	<u>Approximate proportion of households covered</u> (%)	<u>Average monthly expenditure range during Oct 2009 to Sep 2010</u> (\$)
CPI(A)	50	4,500 to 18,499
CPI(B)	30	18,500 to 32,499
CPI(C)	10	32,500 to 65,999

The weightings of the various components in the 2009/10-based CPIs are as follows:

<u>Expenditure component</u>	<u>Composite CPI</u> (%)	<u>CPI(A)</u> (%)	<u>CPI(B)</u> (%)	<u>CPI(C)</u> (%)
Food	27.45	33.68	27.16	20.87
<i>Meals bought away from     home</i>	<i>17.07</i>	<i>19.23</i>	<i>17.90</i>	<i>13.55</i>
<i>Other foodstuffs</i>	<i>10.38</i>	<i>14.45</i>	<i>9.26</i>	<i>7.32</i>
Housing	31.66	32.19	31.43	31.36
<i>Private dwellings</i>	<i>27.14</i>	<i>24.78</i>	<i>28.13</i>	<i>28.45</i>
<i>Public dwellings</i>	<i>2.05</i>	<i>5.49</i>	<i>0.72</i>	<i>--</i>
<i>Maintenance costs and     other housing charges</i>	<i>2.47</i>	<i>1.92</i>	<i>2.58</i>	<i>2.91</i>
Electricity, gas and water	3.10	4.36	2.84	2.03
Alcoholic drinks and tobacco	0.59	0.91	0.56	0.29
Clothing and footwear	3.45	2.60	3.45	4.39
Durable goods	5.27	3.73	5.73	6.39
Miscellaneous goods	4.17	3.87	4.17	4.49
Transport	8.44	7.22	8.35	9.93
Miscellaneous services	15.87	11.44	16.31	20.25
All items	100.00	100.00	100.00	100.00

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

	<u>2013</u>		<u>2014</u>				<u>2015</u>	
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Selected developed economies								
US	1.5	1.6	1.4	2.1	1.8	1.2	-0.1	*
Canada	0.9	2.0	1.4	2.2	2.1	1.9	1.1	0.9
EU	1.5	0.6	0.8	0.7	0.5	0.2	-0.3	0.1
Japan	0.4	2.7	1.5	3.6	3.4	2.5	2.3	0.5
Major emerging economies								
Mainland China	2.6	2.0	2.3	2.2	2.0	1.5	1.2	1.4
Russia	6.8	7.8	6.4	7.6	7.7	9.6	16.2	15.8
India <sup>#</sup>	10.1	6.6	8.2	7.8	6.7	4.1	5.3	5.1
Brazil	6.2	6.3	5.8	6.4	6.6	6.5	7.7	8.5
Selected Asian economies								
Hong Kong	4.3	4.4	4.2	3.6	4.8	5.1	4.4	3.0
Singapore	2.4	1.0	1.0	2.2	1.0	*	-0.3	-0.4
Taiwan	0.8	1.2	0.8	1.6	1.5	0.8	-0.6	-0.7
Korea	1.3	1.3	1.1	1.6	1.4	1.0	0.6	0.5
Malaysia	2.1	3.1	3.5	3.3	3.0	2.8	0.7	2.2
Thailand	2.2	1.9	2.0	2.5	2.0	1.1	-0.5	-1.1
Indonesia	6.4	6.4	7.8	7.1	4.4	6.5	6.5	7.1
Philippines	3.0	4.1	4.1	4.4	4.7	3.6	2.4	1.7
Vietnam	6.6	4.1	4.8	4.7	4.3	2.6	0.7	1.0
Macao	5.5	6.0	6.1	6.2	5.9	6.0	5.1	4.8

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

(#) Figures for 2013 are 2010-based, figures for 2014 onwards are 2012-based.

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



## Statistical Appendix

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

	(\$Mn)					
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Private consumption expenditure	811,654	868,691	982,368	1,026,482	1,013,615	1,090,234
Government consumption expenditure	130,566	131,837	138,967	148,017	152,512	157,371
Gross domestic fixed capital formation	302,152	337,153	340,356	350,796	339,552	386,852
<i>of which:</i>						
Building and construction	105,993	106,268	111,776	127,312	123,746	139,249
Machinery, equipment and intellectual property products	176,269	214,093	204,083	198,633	191,568	209,568
Changes in inventories	-4,761	-2,129	12,841	8,480	22,941	37,522
Total exports of goods <sup>&amp;</sup>	2,251,744	2,467,357	2,698,850	2,843,998	2,500,143	3,068,444
Imports of goods <sup>&amp;</sup>	2,311,091	2,576,340	2,852,522	3,024,089	2,702,966	3,395,057
Exports of services <sup>&amp;</sup>	496,985	566,416	664,100	720,837	672,794	829,044
Imports of services <sup>&amp;</sup>	265,124	289,634	334,204	367,034	339,346	398,078
<b>GDP</b>	<b>1,412,125</b>	<b>1,503,351</b>	<b>1,650,756</b>	<b>1,707,487</b>	<b>1,659,245</b>	<b>1,776,332</b>
<i>Per capita GDP (\$)</i>	<i>207,263</i>	<i>219,240</i>	<i>238,676</i>	<i>245,406</i>	<i>237,960</i>	<i>252,887</i>
<b>GNI</b>	<b>1,419,589</b>	<b>1,538,864</b>	<b>1,703,567</b>	<b>1,807,994</b>	<b>1,709,007</b>	<b>1,813,928</b>
<i>Per capita GNI (\$)</i>	<i>208,359</i>	<i>224,419</i>	<i>246,312</i>	<i>259,851</i>	<i>245,096</i>	<i>258,240</i>
Total final demand	3,988,340	4,369,325	4,837,482	5,098,610	4,701,557	5,569,467
Total final demand excluding re-exports <sup>(a)</sup>	2,243,119	2,436,589	2,697,292	2,836,222	2,687,437	3,058,027
Domestic demand	1,239,611	1,335,552	1,474,532	1,533,775	1,528,620	1,671,979
Private	1,062,587	1,163,262	1,297,607	1,342,889	1,327,688	1,449,592
Public	177,024	172,290	176,925	190,886	200,932	222,387
External demand	2,748,729	3,033,773	3,362,950	3,564,835	3,172,937	3,897,488

Definition of Terms :

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

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

	(\$Mn)							
	<u>2011</u>	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>	<u>2014</u>		<u>2015</u>	
					Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Private consumption expenditure	1,224,402	1,314,969	1,413,515	1,498,453	367,134	394,337	387,990	403,921
Government consumption expenditure	168,517	185,310	199,033	214,758	54,087	54,622	59,096	55,613
Gross domestic fixed capital formation	455,294	517,411	515,901	533,522	131,484	154,854	133,328	139,644
<i>of which:</i>								
Building and construction	179,341	204,860	211,125	237,545	57,632	64,327	62,955	63,938
Machinery, equipment and intellectual property products	239,854	278,477	265,387	252,010	60,268	78,029	56,946	63,175
Changes in inventories	11,739	-3,662	-2,326	7,863	-5,031	1,209	-5,981	-10,130
Total exports of goods <sup>&amp;</sup>	3,420,076	3,591,776	3,816,390	3,877,458	1,026,520	1,031,262	879,271	916,423
Imports of goods <sup>&amp;</sup>	3,848,200	4,116,410	4,394,928	4,471,810	1,148,472	1,183,466	1,028,254	1,066,653
Exports of services <sup>&amp;</sup>	941,178	1,003,047	1,058,289	1,076,435	278,631	287,218	265,844	244,667
Imports of services <sup>&amp;</sup>	438,576	455,382	467,214	481,044	123,564	127,370	117,708	117,258
<b>GDP</b>	<b>1,934,430</b>	<b>2,037,059</b>	<b>2,138,660</b>	<b>2,255,635</b>	<b>580,789</b>	<b>612,666</b>	<b>573,586</b>	<b>566,227</b>
<i>Per capita GDP (\$)</i>	<i>273,549</i>	<i>284,720</i>	<i>297,553</i>	<i>311,479</i>	--	--	--	--
<b>GNI</b>	<b>1,987,256</b>	<b>2,066,514</b>	<b>2,179,179</b>	<b>2,316,409</b>	<b>592,452</b>	<b>626,666</b>	<b>579,176</b>	<b>N.A.</b>
<i>Per capita GNI (\$)</i>	<i>281,019</i>	<i>288,837</i>	<i>303,190</i>	<i>319,871</i>	--	--	--	--
Total final demand	6,221,206	6,608,851	7,000,802	7,208,489	1,852,825	1,923,502	1,719,548	1,750,138
Total final demand excluding re-exports <sup>(a)</sup>	3,433,559	3,655,325	3,861,495	4,014,918	1,006,582	1,073,480	991,543	991,713
Domestic demand	1,859,952	2,014,028	2,126,123	2,254,596	547,674	605,022	574,433	589,048
Private	1,614,010	1,737,274	1,827,874	1,927,050	468,387	518,443	483,835	505,312
Public	245,942	276,754	298,249	327,546	79,287	86,579	90,598	83,736
External demand	4,361,254	4,594,823	4,874,679	4,953,893	1,305,151	1,318,480	1,145,115	1,161,090

- Notes: (a) Re-export margin is nevertheless retained in the total final demand.  
 (#) Figures are subject to revision later on as more data become available.  
 (&) Figures are based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 6a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.  
 (-- ) Not applicable.  
 N.A. Not yet available.

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

(%)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Private consumption expenditure	3.5	6.1	8.6	1.9	0.2	6.1
Government consumption expenditure	-2.6	0.9	3.2	2.0	2.3	3.4
Gross domestic fixed capital formation	4.0	7.1	3.2	1.4	-3.5	7.7
<i>of which:</i>						
Building and construction	-7.6	-7.1	-0.3	6.8	-5.5	5.7
Machinery, equipment and intellectual property products	12.1	18.2	2.5	*	-2.2	6.5
Total exports of goods <sup>&amp;</sup>	10.4	9.3	7.0	1.9	-12.5	17.3
Imports of goods <sup>&amp;</sup>	8.0	9.2	8.8	1.8	-9.5	18.1
Exports of services <sup>&amp;</sup>	11.6	10.0	14.3	5.0	0.4	14.7
Imports of services <sup>&amp;</sup>	7.6	8.4	12.1	5.8	-5.0	11.1
<b>GDP</b>	<b>7.4</b>	<b>7.0</b>	<b>6.5</b>	<b>2.1</b>	<b>-2.5</b>	<b>6.8</b>
<i>Per capita GDP</i>	<b>6.9</b>	<b>6.3</b>	<b>5.6</b>	<b>1.5</b>	<b>-2.7</b>	<b>6.0</b>
<b>RGNI</b>	<b>4.3</b>	<b>6.7</b>	<b>8.2</b>	<b>3.3</b>	<b>-4.6</b>	<b>3.6</b>
<i>Per capita RGNI</i>	<b>3.9</b>	<b>6.0</b>	<b>7.3</b>	<b>2.7</b>	<b>-4.8</b>	<b>2.9</b>
Total final demand	7.8	8.4	8.2	2.2	-6.8	13.6
Total final demand excluding re-exports <sup>(a)</sup>	5.6	7.4	7.9	1.7	-2.6	10.4
Domestic demand	2.0	6.1	7.8	1.4	0.5	7.1
Private	3.4	7.6	8.9	1.2	-0.1	6.6
Public	-5.7	-2.8	0.6	3.2	4.5	10.2
External demand	10.6	9.4	8.4	2.5	-9.9	16.8

- Notes: (a) Re-export margin is nevertheless retained in the total final demand.  
 (#) Figures are subject to revision later on as more data become available.  
 (&) Figures are based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 6a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.  
 (--) Not applicable.  
 (\*) Change within  $\pm 0.05\%$ .  
 N.A. Not yet available.

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

	(%)									
	<u>2011</u>	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>	<u>2014</u>		<u>2015</u>		Average annual rate of change:	
					Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	10 years 2004 to 2014 <sup>#</sup>	5 years 2009 to 2014 <sup>#</sup>
Private consumption expenditure	8.4	4.1	4.6	3.2	4.7	4.1	5.3	6.0	4.6	5.3
Government consumption expenditure	2.5	3.6	3.0	3.0	3.6	3.3	3.4	3.3	2.1	3.1
Gross domestic fixed capital formation	10.2	6.8	2.6	-0.2	-1.7	3.4	7.5	6.5	3.9	5.3
<i>of which:</i>										
Building and construction	15.7	7.2	-4.3	6.5	4.5	7.6	-3.3	12.5	1.5	6.0
Machinery, equipment and intellectual property products	12.3	10.2	11.3	-6.5	-11.2	-0.4	14.4	1.6	6.2	6.5
Total exports of goods <sup>&amp;</sup>	3.5	1.9	6.5	0.8	0.7	0.6	0.4	-3.6	4.3	5.8
Imports of goods <sup>&amp;</sup>	4.7	3.0	7.2	0.9	0.3	1.1	0.1	-3.2	5.0	6.6
Exports of services <sup>&amp;</sup>	5.5	2.2	4.9	0.9	1.3	-0.3	*	1.0	6.8	5.5
Imports of services <sup>&amp;</sup>	3.5	1.9	1.5	1.9	2.0	1.1	6.1	4.3	4.8	3.9
<b>GDP</b>	<b>4.8</b>	<b>1.7</b>	<b>3.1</b>	<b>2.5</b>	<b>2.9</b>	<b>2.4</b>	<b>2.4</b>	<b>2.8</b>	<b>3.9</b>	<b>3.8</b>
<i>Per capita GDP</i>	<b>4.1</b>	<b>0.5</b>	<b>2.6</b>	<b>1.7</b>	--	--	--	--	<b>3.2</b>	<b>3.0</b>
<b>RGNI</b>	<b>4.8</b>	<b>-0.2</b>	<b>4.0</b>	<b>3.1</b>	<b>3.2</b>	<b>1.8</b>	<b>4.1</b>	<b>N.A.</b>	<b>3.3</b>	<b>3.0</b>
<i>Per capita RGNI</i>	<b>4.1</b>	<b>-1.3</b>	<b>3.5</b>	<b>2.3</b>	--	--	--	--	<b>2.6</b>	<b>2.3</b>
Total final demand	4.7	2.5	5.5	1.4	1.2	1.5	1.3	-0.9	4.6	5.5
Total final demand excluding re-exports <sup>(a)</sup>	5.6	3.2	4.5	2.0	1.7	2.4	1.6	0.9	4.5	5.1
Domestic demand	6.5	3.9	4.0	2.8	2.2	4.1	3.2	3.0	4.2	4.9
Private	6.7	3.6	4.1	2.5	2.0	3.6	4.2	2.1	4.4	4.7
Public	5.5	5.8	3.8	4.9	3.0	7.0	-1.7	9.2	2.9	6.0
External demand	3.9	1.9	6.2	0.8	0.8	0.4	0.3	-2.7	4.8	5.8



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

	<u>2009</u>		<u>2010</u>		<u>2011</u>		<u>2012</u>		<u>2013<sup>#</sup></u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture, fishing, mining and quarrying	1,090	0.1	948	0.1	944	*	1,114	0.1	1,225	0.1
Manufacturing	28,714	1.8	30,410	1.8	30,578	1.6	30,600	1.5	30,156	1.4
Electricity, gas and water supply, and waste management	35,032	2.2	34,486	2.0	33,877	1.8	35,382	1.8	35,119	1.7
Construction	50,264	3.2	56,531	3.3	65,484	3.4	73,445	3.6	83,288	4.0
Services	1,466,724	92.7	1,614,922	93.0	1,770,166	93.1	1,872,498	93.0	1,947,670	92.9
<i>Import/export, wholesale and retail trades</i>	370,226	23.4	413,308	23.8	492,900	25.9	511,537	25.4	523,647	25.0
<i>Accommodation<sup>(a)</sup> and food services</i>	48,789	3.1	56,418	3.2	66,421	3.5	72,044	3.6	75,413	3.6
<i>Transportation, storage, postal and courier services</i>	99,208	6.3	137,941	7.9	120,034	6.3	120,609	6.0	125,465	6.0
<i>Information and communications</i>	47,893	3.0	55,024	3.2	62,952	3.3	70,866	3.5	76,145	3.6
<i>Financing and insurance</i>	255,900	16.2	283,752	16.3	305,282	16.1	319,312	15.9	345,952	16.5
<i>Real estate, professional and business services</i>	173,903	11.0	188,476	10.8	213,987	11.3	232,416	11.5	225,667	10.8
<i>Public administration, social and personal services</i>	288,109	18.2	295,257	17.0	313,585	16.5	337,678	16.8	356,215	17.0
<i>Ownership of premises</i>	182,696	11.5	184,745	10.6	195,005	10.3	208,036	10.3	219,166	10.4
<b>GDP at basic prices</b>	<b>1,581,824</b>	<b>100.0</b>	<b>1,737,298</b>	<b>100.0</b>	<b>1,901,049</b>	<b>100.0</b>	<b>2,013,038</b>	<b>100.0</b>	<b>2,097,458</b>	<b>100.0</b>
Taxes on products	54,689	--	68,707	--	69,401	--	63,575	--	75,314	--
Statistical discrepancy (%)	1.4	--	-1.7	--	-1.9	--	-1.9	--	-1.6	--
<b>GDP at current market prices</b>	<b>1,659,245</b>	<b>--</b>	<b>1,776,332</b>	<b>--</b>	<b>1,934,430</b>	<b>--</b>	<b>2,037,059</b>	<b>--</b>	<b>2,138,660</b>	<b>--</b>

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

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

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

(--) Not applicable.

(\*) Less than 0.05%.

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

	(%)									
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>	<u>2014</u>			<u>2015</u>
							Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
Agriculture, fishing, mining and quarrying	-4.6	3.9	0.8	-3.2	4.9	-4.0	-6.3	*	-3.6	-1.0
Manufacturing	-8.2	3.3	0.7	-0.8	0.1	-0.4	2.2	-1.7	-3.6	-1.5
Electricity, gas and water supply, and waste management	1.5	-0.2	0.6	1.4	-2.9	2.5	2.6	4.2	0.6	-0.1
Construction	-7.5	15.6	18.3	8.3	4.2	8.3	4.9	5.4	10.1	-5.1
Services	-1.7	6.9	5.2	1.8	2.7	2.4	2.1	2.9	2.5	2.4
<i>Import/export, wholesale and retail trades</i>	-9.5	16.7	9.1	1.9	3.2	0.9	0.5	2.2	0.7	0.4
<i>Accommodation<sup>(a)</sup> and food services</i>	-11.3	9.5	8.3	1.8	3.6	2.6	2.4	3.6	0.2	-0.7
<i>Transportation, storage, postal and courier services</i>	-5.5	6.0	7.2	0.9	4.1	5.2	7.3	3.9	3.3	2.4
<i>Information and communications</i>	1.3	1.5	2.8	2.8	4.0	3.9	5.7	3.3	3.7	5.9
<i>Financing and insurance</i>	4.1	6.3	6.5	0.8	7.6	4.0	0.6	5.5	6.8	4.5
<i>Real estate, professional and business services</i>	1.6	2.5	2.6	3.1	-4.0	3.2	3.7	3.5	3.7	4.6
<i>Public administration, social and personal services</i>	3.0	2.2	1.8	2.1	2.5	2.3	2.4	2.0	2.0	2.8
<i>Ownership of premises</i>	0.3	0.8	0.7	1.1	0.3	0.8	1.1	0.6	0.6	0.3
Taxes on products	-4.8	6.3	-6.8	-10.4	-6.4	6.7	1.4	22.7	11.4	13.4
<b>GDP in chained (2013) dollars</b>	<b>-2.5</b>	<b>6.8</b>	<b>4.8</b>	<b>1.7</b>	<b>3.1</b>	<b>2.5</b>	<b>2.0</b>	<b>2.9</b>	<b>2.4</b>	<b>2.4</b>

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

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

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

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

	(\$Mn)								
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>		<u>2014</u>		<u>2015</u>
						Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
Current account <sup>(a)</sup>	124,369	107,513	32,151	32,180	42,172	-9,493	39,713	16,701	-913
Goods	25,564	-58,203	-146,729	-216,592	-233,693	-84,958	-23,970	-45,499	-70,853
Services	78,789	132,681	169,760	229,129	234,732	52,408	57,085	53,143	70,006
Primary income	37,596	52,826	29,455	40,519	60,774	27,822	11,663	14,000	5,590
Secondary income	-17,580	-19,791	-20,336	-20,876	-19,642	-4,765	-5,065	-4,943	-5,656
Capital and financial account <sup>(a)</sup>	-88,838	-113,242	-67,664	-86,308	-96,437	-11,997	-69,064	-45,297	-27,600
Capital account	-4,436	-2,021	-1,433	-1,609	-753	-168	-35	-483	-76
Financial account	-84,402	-111,220	-66,231	-84,699	-95,684	-11,829	-69,029	-44,814	-27,524
Financial non-reserve assets	-25,257	-24,437	122,658	-26,810	43,405	392	-1,008	-18,152	8,763
<i>Direct investment</i>	-122,026	1,868	-102,623	-50,250	-305,870	83,000	-230,273	-76,296	181,512
<i>Portfolio investment</i>	-442,460	-10,979	-31,592	-386,077	157,089	-53,545	245,436	-23,327	-282,841
<i>Financial derivatives</i>	18,677	20,884	15,208	54,661	103,939	23,815	12,597	49,475	53,114
<i>Other investment</i>	520,552	-36,210	241,665	354,856	88,247	-52,878	-28,769	31,995	56,979
Reserve assets	-59,145	-86,783	-188,889	-57,890	-139,089	-12,221	-68,021	-26,662	-36,288
Net errors and omissions	-35,530	5,729	35,513	54,128	54,265	21,491	29,351	28,597	28,513
<b>Overall Balance of Payments</b>	<b>59,145</b>	<b>86,783</b>	<b>188,889</b>	<b>57,890</b>	<b>139,089</b>	<b>12,221</b>	<b>68,021</b>	<b>26,662</b>	<b>36,288</b>

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

(a) In accordance with the accounting rules adopted in compiling Balance of Payments, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. In the capital and financial account, a positive value indicates a net financial inflow while a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, a negative value for the reserve assets represents a net increase while a positive value represents a net decrease.

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

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

	(\$Mn)								
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>	<u>2014</u>		<u>2015</u>	
						Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Total exports of goods	3,068,444	3,420,076	3,591,776	3,816,390	3,877,458	1,026,520	1,031,262	879,271	916,423
Imports of goods	3,395,057	3,848,200	4,116,410	4,394,928	4,471,810	1,148,472	1,183,466	1,028,254	1,066,653
<b>Goods trade balance</b>	<b>-326,613</b>	<b>-428,124</b>	<b>-524,634</b>	<b>-578,538</b>	<b>-594,352</b>	<b>-121,952</b>	<b>-152,204</b>	<b>-148,983</b>	<b>-150,230</b>
	<b>(-9.6)</b>	<b>(-11.1)</b>	<b>(-12.7)</b>	<b>(-13.2)</b>	<b>(-13.3)</b>	<b>(-10.6)</b>	<b>(-12.9)</b>	<b>(-14.5)</b>	<b>(-14.1)</b>
Exports of services	829,044	941,178	1,003,047	1,058,289	1,076,435	278,631	287,218	265,844	244,667
Imports of services	398,078	438,576	455,382	467,214	481,044	123,564	127,370	117,708	117,258
<b>Services trade balance</b>	<b>430,966</b>	<b>502,602</b>	<b>547,665</b>	<b>591,075</b>	<b>595,391</b>	<b>155,067</b>	<b>159,848</b>	<b>148,136</b>	<b>127,409</b>
	<b>(108.3)</b>	<b>(114.6)</b>	<b>(120.3)</b>	<b>(126.5)</b>	<b>(123.8)</b>	<b>(125.5)</b>	<b>(125.5)</b>	<b>(125.9)</b>	<b>(108.7)</b>
Exports of goods and services	3,897,488	4,361,254	4,594,823	4,874,679	4,953,893	1,305,151	1,318,480	1,145,115	1,161,090
Imports of goods and services	3,793,135	4,286,776	4,571,792	4,862,142	4,952,854	1,272,036	1,310,836	1,145,962	1,183,911
<b>Goods and services trade balance</b>	<b>104,353</b>	<b>74,478</b>	<b>23,031</b>	<b>12,537</b>	<b>1,039</b>	<b>33,115</b>	<b>7,644</b>	<b>-847</b>	<b>-22,821</b>
	<b>&lt;2.8&gt;</b>	<b>&lt;1.7&gt;</b>	<b>&lt;0.5&gt;</b>	<b>&lt;0.3&gt;</b>	<b>&lt; * &gt;</b>	<b>&lt;2.6&gt;</b>	<b>&lt;0.6&gt;</b>	<b>&lt;-0.1&gt;</b>	<b>&lt;-1.9&gt;</b>

Notes: Figures in this table are reckoned on GDP basis and based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 6a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

- (#) Figures are subject to revision later on as more data become available.
- () As a percentage of the total value of imports of goods/services.
- < > As a percentage of the total value of imports of goods and services.
- (\*) Change within  $\pm 0.05\%$ .

**Table 6a : Goods and services trade based on the change of ownership principle**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>	<u>2014</u>		<u>2015</u>	
						Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
<b><u>At current market prices (\$Mn)</u></b>									
Total exports of goods	3,021,492	3,406,765	3,632,957	3,926,059	4,026,818	1,069,286	1,084,265	914,192	944,506
Imports of goods	2,995,928	3,464,968	3,779,686	4,142,651	4,260,511	1,093,256	1,129,764	985,045	1,019,394
<b>Goods trade balance</b>	<b>25,564</b> <b>(0.9)</b>	<b>-58,203</b> <b>(-1.7)</b>	<b>-146,729</b> <b>(-3.9)</b>	<b>-216,592</b> <b>(-5.2)</b>	<b>-233,693</b> <b>(-5.5)</b>	<b>-23,970</b> <b>(-2.2)</b>	<b>-45,499</b> <b>(-4.0)</b>	<b>-70,853</b> <b>(-7.2)</b>	<b>-74,888</b> <b>(-7.3)</b>
Exports of services	625,719	710,716	764,026	812,345	822,367	209,179	210,323	210,302	192,202
Imports of services	546,930	578,035	594,266	583,216	587,635	152,094	157,180	140,296	140,135
<b>Services trade balance</b>	<b>78,789</b> <b>(14.4)</b>	<b>132,681</b> <b>(23.0)</b>	<b>169,760</b> <b>(28.6)</b>	<b>229,129</b> <b>(39.3)</b>	<b>234,732</b> <b>(39.9)</b>	<b>57,085</b> <b>(37.5)</b>	<b>53,143</b> <b>(33.8)</b>	<b>70,006</b> <b>(49.9)</b>	<b>52,067</b> <b>(37.2)</b>
Exports of goods and services	3,647,211	4,117,481	4,396,983	4,738,404	4,849,185	1,278,465	1,294,588	1,124,494	1,136,708
Imports of goods and services	3,542,858	4,043,003	4,373,952	4,725,867	4,848,146	1,245,350	1,286,944	1,125,341	1,159,529
<b>Goods and services trade balance</b>	<b>104,353</b> <b>&lt;2.9&gt;</b>	<b>74,478</b> <b>&lt;1.8&gt;</b>	<b>23,031</b> <b>&lt;0.5&gt;</b>	<b>12,537</b> <b>&lt;0.3&gt;</b>	<b>1,039</b> <b>&lt; * &gt;</b>	<b>33,115</b> <b>&lt;2.7&gt;</b>	<b>7,644</b> <b>&lt;0.6&gt;</b>	<b>-847</b> <b>&lt;-0.1&gt;</b>	<b>-22,821</b> <b>&lt;-2.0&gt;</b>
<b><u>Rates of change in real terms (%)</u></b>									
Total exports of goods	18.0	4.6	3.3	8.2	1.9	1.2	1.0	1.0	-3.3
Imports of goods	19.9	6.7	4.6	9.9	2.0	0.7	1.7	0.7	-3.0
Exports of services	15.3	5.7	2.7	5.9	0.7	0.8	-0.7	0.3	1.7
Imports of services	10.0	-0.2	2.2	-2.1	0.4	1.5	0.1	4.7	3.4

Notes: Figures in this table are reckoned on GDP basis and based on the System of National Accounts 2008.

Statistics on goods and services trade presented in this table provide supplementary information for analysis of international trade in goods and services, compiled using the change of ownership principle in recording goods sent abroad for processing and merchanting under the *System of National Accounts 2008*. The statistics are consistent with the goods and services statistics in the current account of Hong Kong's Balance of Payments. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

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

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

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

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

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>		<u>2015</u>	
		(% change)			(% change)		Q3	Q4	Q1	Q2
						(\$Mn)	(% change over a year earlier)			
<b>All markets</b>	<b>22.8</b>	<b>10.1</b>	<b>2.9</b>	<b>3.6</b>	<b>3.2</b>	<b>3,672,751</b>	<b>5.8</b>	<b>1.2</b>	<b>2.3</b>	<b>-1.9</b>
Mainland of China	26.5	9.3	6.3	4.9	1.5	1,979,016	4.6	-2.0	1.6	-3.7
United States	16.4	-0.4	2.3	-2.1	3.1	341,456	1.6	6.9	4.8	5.5
Japan	17.2	5.9	6.5	-6.1	-2.8	131,505	-3.2	-8.0	-7.2	-7.1
India	42.4	25.6	-17.5	7.9	13.1	94,224	31.9	7.1	7.5	3.2
Taiwan	25.4	24.3	-5.2	-4.3	2.5	79,297	12.5	3.1	-11.6	-21.0
Germany	1.6	10.7	-12.8	-5.1	-1.7	72,588	-3.3	-5.3	-3.4	-4.5
Vietnam	33.9	37.3	9.9	15.5	14.0	66,803	16.4	17.3	16.9	23.0
Republic of Korea	24.4	14.2	-4.0	9.0	-2.7	62,384	2.2	-13.6	-5.2	-14.0
Singapore	20.7	10.3	-0.5	4.7	2.2	59,850	3.3	3.6	5.6	0.7
United Kingdom	1.9	-3.4	-6.0	-2.0	0.5	54,301	1.0	-2.8	8.8	4.0
Rest of the world	20.9	15.1	0.6	5.7	8.5	731,327	10.9	9.7	4.9	0.7

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

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>		<u>2015</u>	
		(% change)			(% change)		(\$Mn)	Q3	Q4	Q1
							(% change over a year earlier)			
<b>All sources</b>	<b>25.0</b>	<b>11.9</b>	<b>3.9</b>	<b>3.8</b>	<b>3.9</b>	<b>4,219,046</b>	<b>5.7</b>	<b>3.2</b>	<b>1.4</b>	<b>-3.2</b>
Mainland of China	22.4	10.9	8.5	5.5	2.3	1,986,964	5.0	3.1	4.3	0.4
Taiwan	28.0	7.2	1.6	6.9	14.7	300,278	19.7	12.6	-0.1	-12.1
Japan	30.4	3.4	-2.2	-8.1	0.9	288,891	-0.5	-3.7	-2.4	-12.0
Singapore	35.9	7.2	-3.2	*	5.8	260,801	10.3	1.9	-0.7	-5.4
United States	26.0	18.0	-3.3	7.4	*	219,599	-0.7	-4.5	4.9	3.8
Republic of Korea	29.8	12.2	2.4	3.4	10.6	175,537	7.2	15.8	8.9	-0.7
Malaysia	24.5	5.1	-6.0	4.7	16.7	102,191	11.3	3.9	-6.0	-11.0
India	36.5	20.6	-5.5	6.7	10.0	96,088	12.4	28.1	-6.6	-6.5
Thailand	32.5	0.3	-4.8	6.4	13.7	88,132	14.7	10.7	-4.7	-0.4
Switzerland	26.3	51.7	-0.7	-1.7	2.7	79,291	3.4	2.3	-9.9	-24.9
Rest of the world	19.2	20.2	5.8	3.8	0.9	621,274	2.4	-0.6	-1.9	-3.4

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

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

**Table 9 : Retained imports of goods by end-use category  
(in value terms)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>		<u>2015</u>	
		(% change)			(% change)		(\$Mn)	Q3	Q4	Q1
							(% change over a year earlier)			
<b>Overall</b>	<b>27.3</b>	<b>17.3</b>	<b>3.0</b>	<b>4.5</b>	<b>5.1</b>	<b>1,160,441</b>	<b>4.3</b>	<b>7.7</b>	<b>-1.4</b>	<b>-6.9</b>
Foodstuffs	17.0	18.8	5.1	14.7	10.1	145,042	11.9	8.1	9.3	-10.4
Consumer goods	33.8	36.0	5.9	1.0	6.7	285,941	13.1	8.1	-10.8	-8.9
Raw materials and semi-manufactures	32.3	0.2	-6.5	11.4	15.4	393,920	12.1	20.2	-10.5	-8.7
Fuels	33.8	21.9	-4.2	-2.7	-10.8	117,798	-8.4	-21.6	-17.4	-18.6
Capital goods	12.9	27.3	19.0	-1.5	-5.7	217,886	-15.1	7.5	38.2	7.0

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

**Table 10 : Exports and imports of services by component  
(at current market prices)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>		<u>2014</u>		<u>2015</u>	
					(% change)	(\$Mn)	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>23.2</b>	<b>13.5</b>	<b>6.6</b>	<b>5.5</b>	<b>1.7</b>	<b>1,076,435</b>	<b>2.8</b>	<b>0.3</b>	*	*
Transportation	26.3	7.8	-0.6	-2.5	1.2	245,406	3.0	-1.4	-4.5	-7.4
Travel	35.6	28.4	15.8	17.7	-1.5	297,567	-3.4	-2.9	-4.1	-3.6
Trade-related	18.0	11.0	3.9	2.1	3.3	296,611	5.0	3.0	1.0	-0.5
Other services	16.4	10.1	9.0	4.6	4.4	236,851	7.7	2.7	8.0	14.3
<b>Imports of services</b>	<b>17.3</b>	<b>10.2</b>	<b>3.8</b>	<b>2.6</b>	<b>3.0</b>	<b>481,044</b>	<b>4.7</b>	<b>-0.2</b>	<b>2.7</b>	<b>1.5</b>
Transportation	20.7	14.3	2.3	-1.4	1.7	142,987	3.8	-1.8	-1.3	-2.8
Travel	11.9	9.8	5.2	5.7	3.8	170,838	5.8	0.5	6.5	2.4
Trade-related	21.6	1.1	1.7	-2.7	3.0	33,805	4.2	1.1	1.9	1.8
Other services	19.5	8.7	4.6	4.8	3.2	133,414	4.3	0.3	2.5	5.7
<b>Net exports of services</b>	<b>29.2</b>	<b>16.6</b>	<b>9.0</b>	<b>7.9</b>	<b>0.7</b>	<b>595,391</b>	<b>1.4</b>	<b>0.8</b>	<b>-2.0</b>	<b>-1.5</b>

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

Figures are based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 10a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

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

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



**Table 10a : Exports and imports of services based on the change of ownership principle by component (at current market prices)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>		<u>2014</u>		<u>2015</u>	
	(% change)			(% change)		(\$Mn)	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>24.8</b>	<b>13.6</b>	<b>7.5</b>	<b>6.3</b>	<b>1.2</b>	<b>822,367</b>	<b>2.1</b>	<b>-0.6</b>	<b>-0.2</b>	<b>0.1</b>
Transportation	26.3	7.8	-0.6	-2.5	1.2	245,406	3.0	-1.4	-4.5	-7.4
Travel	35.6	28.4	15.8	17.7	-1.5	297,567	-3.4	-2.9	-4.1	-3.6
Other services	16.2	8.1	8.3	3.5	4.3	279,394	7.3	2.7	7.1	12.1
<b>Imports of services</b>	<b>15.5</b>	<b>5.7</b>	<b>2.8</b>	<b>-1.9</b>	<b>0.8</b>	<b>587,635</b>	<b>3.3</b>	<b>-1.5</b>	<b>1.1</b>	<b>0.4</b>
Transportation	20.7	14.3	2.3	-1.4	1.7	142,987	3.8	-1.8	-1.3	-2.8
Travel	11.9	9.8	5.2	5.7	3.8	170,838	5.8	0.5	6.5	2.4
Other services	15.1	0.1	1.9	-6.0	-1.5	273,810	1.4	-2.4	-0.7	0.8

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

Statistics on exports and imports of services presented in this table provide supplementary information for analysis of international trade in goods and services, compiled using the change of ownership principle in recording goods sent abroad for processing and merchanting under the *System of National Accounts 2008*. The statistics are consistent with the goods and services statistics in the current account of Hong Kong's Balance of Payments. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

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

**Table 11 : Incoming visitors by source**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>		<u>2015</u>	
						Q3	Q4	Q1	Q2
<u>('000)</u>									
<b>All sources</b>	<b>36 030.3</b>	<b>41 921.3</b>	<b>48 615.1</b>	<b>54 298.8</b>	<b>60 838.8</b>	<b>16 129.9</b>	<b>16 179.7</b>	<b>15 420.7</b>	<b>13 906.6</b>
Mainland of China	22 684.4	28 100.1	34 911.4	40 745.3	47 247.7	12 839.5	12 585.3	12 283.1	10 563.5
South and Southeast Asia	3 500.9	3 751.1	3 651.8	3 718.0	3 614.8	791.4	1 003.2	737.0	940.3
Taiwan	2 164.8	2 148.7	2 088.7	2 100.1	2 031.9	555.3	484.8	465.9	491.1
Europe	1 757.8	1 801.3	1 867.7	1 893.7	1 863.3	404.1	523.6	450.7	438.3
United States	1 171.4	1 212.3	1 184.8	1 109.8	1 130.6	262.3	307.2	274.5	308.9
Japan	1 316.6	1 283.7	1 254.6	1 057.0	1 078.8	285.7	264.8	248.2	237.5
Others	3 434.5	3 623.9	3 656.1	3 674.9	3 871.9	991.5	1 010.9	961.4	927.0
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>21.8</b>	<b>16.4</b>	<b>16.0</b>	<b>11.7</b>	<b>12.0</b>	<b>11.2</b>	<b>12.1</b>	<b>4.9</b>	<b>0.5</b>
Mainland of China	26.3	23.9	24.2	16.7	16.0	13.8	18.2	7.7	1.4
South and Southeast Asia	21.3	7.1	-2.6	1.8	-2.8	-2.4	-10.1	-12.9	-3.4
Taiwan	7.7	-0.7	-2.8	0.5	-3.2	-2.0	-8.5	-5.1	-1.9
Europe	9.1	2.5	3.7	1.4	-1.6	-0.5	-3.7	-6.4	-3.5
United States	9.5	3.5	-2.3	-6.3	1.9	6.7	-0.5	3.8	4.1
Japan	9.3	-2.5	-2.3	-15.7	2.1	5.4	-5.9	-9.5	-6.5
Others	20.3	5.5	0.9	0.5	5.4	8.6	0.1	3.0	-1.0

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

**Table 12 : Property market**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Completion of new property by the private sector</b>							
('000 m <sup>2</sup> of internal floor area)							
Residential property <sup>(a)</sup> (in units)	17 321	16 579	10 471	8 776	7 157	13 405	9 449
Commercial property	145	291	368	390	235	189	197
<i>of which :</i>							
Office space	34	108	320	341	151	124	155
Other commercial premises <sup>(b)</sup>	111	183	48	49	84	65	42
Industrial property <sup>(c)</sup>	17	27	16	78	3	21	105
<i>of which :</i>							
Industrial-cum-office premises	4	0	0	4	0	0	0
Conventional flatted factory space	0	0	16	70	3	21	32
Storage premises <sup>(d)</sup>	13	27	0	4	0	0	73
<b>Production of public housing</b>							
(in units)							
Rental housing flats <sup>(e)</sup>	24 691	4 430	4 795	22 759	19 021	6 385	17 787
Subsidised sales flats <sup>(e)</sup>	0	0	2 010	2 200	370	1 110	0
<b>Building plans with consent to commence work in the private sector</b>							
('000 m <sup>2</sup> of usable floor area)							
Residential property	550.7	706.7	900.0	530.0	546.8	570.5	580.6
Commercial property	481.9	468.4	327.5	147.7	178.3	158.4	133.6
Industrial property <sup>(f)</sup>	35.1	23.9	103.5	106.6	97.1	34.3	109.3
Other properties	408.0	199.2	207.7	212.8	253.2	459.2	232.7
Total	1 475.8	1 398.2	1 538.6	997.1	1 075.4	1 222.4	1 056.2
<b>Agreements for sale and purchase of property</b>							
(Number)							
Residential property <sup>(g)</sup>	103 362	82 472	123 575	95 931	115 092	135 778	84 462
Primary market	15 994	13 986	20 123	11 046	16 161	13 646	10 880
Secondary market	87 368	68 486	103 452	84 885	98 931	122 132	73 582
Selected types of non-residential properties <sup>(h)</sup>							
Office space	3 431	2 874	4 129	2 845	2 521	3 591	3 071
Other commercial premises	7 143	4 402	5 490	4 149	5 359	7 639	5 980
Flatted factory space	6 560	7 409	9 072	5 741	5 554	8 206	7 619

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

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

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

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

**Table 12 : Property market (Cont'd)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>		<u>2015</u>	
				Q3	Q4	Q1	Q2
<b>Completion of new property by the private sector</b>							
('000 m <sup>2</sup> of internal floor area)							
Residential property <sup>(a)</sup> (in units)	10 149	8 254	15 719	4 652	3 535	853	4 217
Commercial property	226	161	161	7	66	60	93
<i>of which :</i>							
Office space	136	123	104	2	44	43	74
Other commercial premises <sup>(b)</sup>	90	39	57	5	22	17	18
Industrial property <sup>(c)</sup>	170	85	116	11	80	3	0
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	46	85	36	11	0	3	0
Storage premises <sup>(d)</sup>	123	0	80	0	80	0	0
<b>Production of public housing</b>							
(in units)							
Rental housing flats <sup>(e)</sup>	9 778	20 898	5 634	0	1 078	7 870	N.A.
Subsidised sales flats <sup>(e)</sup>	0	0	0	0	0	0	N.A.
<b>Building plans with consent to commence work in the private sector</b>							
('000 m <sup>2</sup> of usable floor area)							
Residential property	796.4	816.0	647.1	161.2	201.4	294.9	N.A.
Commercial property	210.2	309.5	290.3	128.6	18.0	88.3	N.A.
Industrial property <sup>(f)</sup>	70.7	138.1	105.9	0.0	85.1	16.6	N.A.
Other properties	428.9	136.4	217.1	36.1	63.9	134.6	N.A.
Total	1 506.1	1 400.1	1 260.4	325.9	368.5	534.3	N.A.
<b>Agreements for sale and purchase of property</b>							
(Number)							
Residential property <sup>(g)</sup>	81 333	50 676	63 807	19 962	17 046	16 768	15 493
Primary market	12 968	11 046	16 857	5 295	4 615	3 743	4 989
Secondary market	68 365	39 630	46 950	14 667	12 431	13 025	10 504
Selected types of non-residential properties <sup>(h)</sup>							
Office space	3 269	1 685	1 271	467	323	406	497
Other commercial premises	7 282	4 305	3 092	887	696	550	497
Flatted factory space	9 731	4 271	3 016	911	826	938	985

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

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

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

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

N.A. Not yet available.

**Table 13 : Property prices and rentals**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	92.0	92.7	103.5	120.5	121.3	150.9	182.1
Office space	133.0	139.3	165.5	199.0	179.8	230.4	297.9
Shopping space	149.3	153.5	172.5	192.2	193.1	257.2	327.4
Flatted factory space	125.0	158.5	199.5	235.9	216.3	284.4	385.0
Property rental indices <sup>(b)</sup> :							
Residential flats	86.5	91.6	101.8	115.7	100.4	119.7	134.0
Office space	96.4	117.4	131.9	155.5	135.7	147.6	169.9
Shopping space	100.5	104.3	111.8	116.2	110.9	122.9	134.3
Flatted factory space	82.6	91.0	100.5	109.3	99.4	108.9	118.6
<u>(% change)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	17.9	0.8	11.7	16.4	0.7	24.4	20.7
Office space	33.9	4.7	18.8	20.2	-9.6	28.1	29.3
Shopping space	25.1	2.8	12.4	11.4	0.5	33.2	27.3
Flatted factory space	41.1	26.8	25.9	18.2	-8.3	31.5	35.4
Property rental indices <sup>(b)</sup> :							
Residential flats	11.3	5.9	11.1	13.7	-13.2	19.2	11.9
Office space	23.4	21.8	12.4	17.9	-12.7	8.8	15.1
Shopping space	8.3	3.8	7.2	3.9	-4.6	10.8	9.3
Flatted factory space	6.9	10.2	10.4	8.8	-9.1	9.6	8.9

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

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

For residential property, changes in rentals cover only new tenancies for which rentals are freshly determined.

For non-residential property, changes in rentals cover also lease renewals upon which rentals may be revised.

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

(+) Provisional figures.

**Table 13 : Property prices and rentals (Cont'd)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>		<u>2015</u>	
				Q3	Q4	Q1 <sup>#</sup>	Q2 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	206.2	242.4	256.9	261.3	274.3	289.2	298.8
Office space	334.7	409.8	423.0	425.2	428.7	433.7	445.1
Shopping space	420.5	506.8	521.2	524.3	541.3	551.7	560.3
Flatted factory space	489.8	655.4	668.0	672.9	683.5	699.3	721.8
Property rental indices <sup>(b)</sup> :							
Residential flats	142.6	154.5	159.5	160.9	165.3	168.5	172.5
Office space	188.3	204.1	213.7	215.8	217.7	220.3	225.1
Shopping space	151.3	165.5	173.1	174.2	176.4	180.0	182.6
Flatted factory space	131.9	147.3	160.1	162.6	165.8	168.8	172.4
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	13.2	17.6	6.0	6.4	11.9	18.4	20.7
Office space	12.4	22.4	3.2	2.4	3.5	4.0	5.8
Shopping space	28.4	20.5	2.8	2.6	7.0	9.1	9.1
Flatted factory space	27.2	33.8	1.9	0.3	4.2	7.1	9.0
Property rental indices <sup>(b)</sup> :							
Residential flats	6.4	8.3	3.2	3.3	5.4	8.5	10.2
Office space	10.8	8.4	4.7	3.8	4.6	5.4	6.1
Shopping space	12.7	9.4	4.6	3.6	5.1	6.3	5.9
Flatted factory space	11.2	11.7	8.7	7.8	9.2	9.7	9.0

**Table 14 : Monetary aggregates**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	348,248	387,909	454,342	491,115	671,241	730,093	794,726
M2 <sup>(a)</sup>	2,329,669	2,777,679	3,281,017	3,239,857	3,587,717	3,866,788	4,046,216
M3 <sup>(a)</sup>	2,345,838	2,795,545	3,300,500	3,261,306	3,604,843	3,878,193	4,055,404
Total money supply (\$Mn)							
M1	434,684	491,648	616,709	645,833	901,819	1,017,227	1,127,320
M2	4,379,057	5,054,332	6,106,348	6,268,058	6,602,310	7,136,271	8,057,530
M3	4,407,188	5,089,741	6,139,758	6,300,751	6,626,843	7,156,260	8,081,079
Deposit (\$Mn)							
HK\$	2,131,579	2,568,283	3,075,042	3,033,980	3,373,595	3,617,183	3,740,240
Foreign currency	1,936,322	2,188,993	2,793,856	3,024,004	3,007,445	3,245,081	3,851,020
Total	4,067,901	4,757,275	5,868,898	6,057,984	6,381,040	6,862,265	7,591,260
Loans and advances (\$Mn)							
HK\$	1,797,350	1,917,437	2,184,705	2,354,755	2,401,323	2,824,445	3,160,002
Foreign currency	514,637	550,392	776,971	930,883	887,160	1,403,281	1,920,659
Total	2,311,987	2,467,828	2,961,676	3,285,638	3,288,483	4,227,726	5,080,661
Nominal Effective Exchange Rate Indices (Jan 2010 =100) <sup>(b)</sup>							
Trade-weighted	112.6	111.1	106.3	100.7	101.9	99.5	94.6
Import-weighted	114.1	112.6	107.6	101.3	102.2	99.2	93.9
Export-weighted	110.9	109.6	104.8	100.1	101.6	99.8	95.4
<u>(% change)</u>							
Hong Kong dollar money supply							
M1	-15.6	11.4	17.1	8.1	36.7	8.8	8.9
M2 <sup>(a)</sup>	5.5	19.2	18.1	-1.3	10.7	7.8	4.6
M3 <sup>(a)</sup>	5.7	19.2	18.1	-1.2	10.5	7.6	4.6
Total money supply							
M1	-10.3	13.1	25.4	4.7	39.6	12.8	10.8
M2	5.1	15.4	20.8	2.6	5.3	8.1	12.9
M3	5.2	15.5	20.6	2.6	5.2	8.0	12.9
Deposit							
HK\$	5.6	20.5	19.7	-1.3	11.2	7.2	3.4
Foreign currency	4.8	13.0	27.6	8.2	-0.5	7.9	18.7
Total	5.2	16.9	23.4	3.2	5.3	7.5	10.6
Loans and advances							
HK\$	7.8	6.7	13.9	7.8	2.0	17.6	11.9
Foreign currency	5.3	6.9	41.2	19.8	-4.7	58.2	36.9
Total	7.2	6.7	20.0	10.9	0.1	28.6	20.2
Nominal Effective Exchange Rate Indices (Jan 2010 =100) <sup>(b)</sup>							
Trade-weighted	-0.9	-1.3	-4.3	-5.3	1.2	-2.4	-4.9
Import-weighted	-1.1	-1.3	-4.4	-5.9	0.9	-2.9	-5.3
Export-weighted	-0.7	-1.2	-4.4	-4.5	1.5	-1.8	-4.4

**Definition of Terms :**

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

**Total Money Supply:**

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

**Table 14 : Monetary aggregates (Cont'd)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>
				Q3	Q4	Q1	Q2
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	920,920	1,000,344	1,116,675	1,100,139	1,116,675	1,309,831	1,287,541
M2 <sup>(a)</sup>	4,537,384	4,795,130	5,225,773	5,211,895	5,225,773	5,601,317	5,775,051
M3 <sup>(a)</sup>	4,545,590	4,806,012	5,236,188	5,222,564	5,236,188	5,611,764	5,787,815
Total money supply (\$Mn)							
M1	1,377,359	1,510,895	1,708,724	1,677,934	1,708,724	1,941,490	1,916,950
M2	8,950,005	10,056,437	11,014,426	10,911,011	11,014,426	11,348,100	11,436,346
M3	8,970,396	10,085,243	11,051,998	10,947,313	11,051,998	11,381,298	11,469,048
Deposit (\$Mn)							
HK\$	4,176,200	4,390,953	4,800,330	4,785,302	4,800,330	5,157,195	5,337,591
Foreign currency	4,120,234	4,789,109	5,275,858	5,134,316	5,275,858	5,248,899	5,214,198
Total	8,296,434	9,180,062	10,076,188	9,919,618	10,076,188	10,406,095	10,551,789
Loans and advances (\$Mn)							
HK\$	3,333,059	3,606,018	4,000,361	3,915,548	4,000,361	4,285,405	4,264,938
Foreign currency	2,233,751	2,850,795	3,275,910	3,294,478	3,275,910	3,341,972	3,410,978
Total	5,566,810	6,456,813	7,276,271	7,210,026	7,276,271	7,627,377	7,675,917
Nominal Effective Exchange Rate Indices							
<u>(Jan 2010 =100)<sup>(b)</sup></u>							
Trade-weighted	94.9	94.9	96.0	95.7	97.4	100.1	100.0
Import-weighted	94.2	94.7	96.0	95.6	97.7	100.4	100.2
Export-weighted	95.6	95.1	95.9	95.8	97.2	99.7	99.6
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	15.9	8.6	11.6	11.4	11.6	29.2	19.1
M2 <sup>(a)</sup>	12.1	5.7	9.0	9.7	9.0	15.2	12.3
M3 <sup>(a)</sup>	12.1	5.7	9.0	9.7	9.0	15.2	12.4
Total money supply							
M1	22.2	9.7	13.1	13.1	13.1	27.5	17.7
M2	11.1	12.4	9.5	12.2	9.5	11.9	7.9
M3	11.0	12.4	9.6	12.3	9.6	11.8	7.9
Deposit							
HK\$	11.7	5.1	9.3	9.9	9.3	16.0	13.3
Foreign currency	7.0	16.2	10.2	12.8	10.2	10.7	6.4
Total	9.3	10.7	9.8	11.4	9.8	13.2	9.8
Loans and advances							
HK\$	5.5	8.2	10.9	8.9	10.9	14.3	9.7
Foreign currency	16.3	27.6	14.9	17.5	14.9	8.6	7.1
Total	9.6	16.0	12.7	12.7	12.7	11.7	8.5
Nominal Effective Exchange Rate Indices							
<u>(Jan 2010 =100)<sup>(b)</sup></u>							
Trade-weighted	0.3	0.0	1.2	0.4	3.0	5.3	4.4
Import-weighted	0.3	0.5	1.4	0.4	3.3	5.6	4.6
Export-weighted	0.2	-0.5	0.8	0.4	2.6	4.9	3.9

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

(b) Period average.



**Table 15 : Rates of change in business receipts indices for services industries/domains**

	(%)							
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>		<u>2015</u>
					Q2	Q3	Q4	Q1
<b>Services Industry</b>								
Import and export trade	8.9	-1.3	-0.3	0.1	-0.5	0.8	-0.9	0.7
Wholesale	12.7	3.2	4.3	1.5	3.4	-1.7	1.4	0.3
Retail	24.9	9.8	11.0	-0.2	-7.0	1.6	0.2	-2.3
Transportation	4.4	0.9	1.4	6.1	7.2	7.4	4.0	1.8
<i>within which :</i>								
Land transport	7.0	11.9	8.0	6.9	8.0	7.9	3.5	6.3
Water transport	0.6	-2.4	-2.9	6.8	8.7	7.3	6.1	1.7
Air transport	6.7	0.3	2.4	5.3	5.8	7.2	2.9	0.5
Warehousing and storage	9.4	25.2	8.2	11.9	10.0	7.8	18.8	13.1
Courier	17.3	16.1	26.1	5.4	13.8	-15.9	8.3	-3.8
Accommodation services <sup>(a)</sup>	19.6	13.8	5.6	6.5	9.8	9.6	-1.4	-4.8
Food services	6.4	5.0	3.5	3.5	3.8	4.9	1.8	3.7
Information and communications	8.8	9.3	6.0	5.9	-0.4	8.1	15.2	11.0
<i>within which :</i>								
Telecommunications	8.1	14.7	8.0	10.7	5.3	12.9	21.8	24.4
Film entertainment	-5.6	1.9	-4.3	-11.7	-17.8	-13.5	-11.0	-0.5
Banking	10.8	9.4	16.8	5.9	3.8	11.3	3.1	7.2
Financing (except banking)	-2.4	1.6	2.6	6.7	0.7	18.6	14.8	23.2
<i>within which :</i>								
Financial markets and asset management	-3.2	1.7	1.0	8.9	0.4	23.1	19.2	21.6
<i>within which : Asset management</i>	10.6	-5.4	14.9	11.0	4.9	14.4	19.2	17.4
Insurance	9.4	13.6	15.1	18.2	19.0	17.3	14.1	15.3
Real estate	-0.9	11.8	0.1	17.0	22.1	25.7	18.1	15.9
Professional, scientific and technical services	7.3	-0.5	7.2	7.6	6.2	7.9	9.4	9.0
Administrative and support services	10.2	8.2	9.5	7.3	10.2	5.6	2.5	6.9
<b>Services Domain</b>								
Tourism, convention and exhibition services	23.8	15.1	17.8	-0.9 <sup>+</sup>	-7.3 <sup>+</sup>	-2.6 <sup>+</sup>	-2.8 <sup>+</sup>	-5.0 <sup>+</sup>
Computer and information technology services	10.4	15.1	2.1	-1.8	0.7	0.4	-0.6	-4.3

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

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

(+) Provisional figures.

**Table 16 : Labour force characteristics**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>		<u>2015</u>	
						Q3	Q4	Q1	Q2
<u>(%)</u>									
Labour force participation rate	59.6	60.1	60.5	61.2	61.1	61.4	61.3	61.5	61.4
Seasonally adjusted unemployment rate <sup>(a)</sup>	4.3	3.4	3.3	3.4	3.3	3.3	3.3	3.3	3.2
Underemployment rate	2.0	1.7	1.5	1.5	1.5	1.5	1.6	1.4	1.4
<u>('000)</u>									
Population of working age	6 093.8	6 164.4	6 253.4	6 304.6	6 349.2	6 356.8	6 368.2	6 386.2	6 387.2
Labour force	3 631.3	3 703.1	3 785.2	3 858.8	3 876.4	3 903.9	3 904.4	3 928.4	3 921.5
Persons employed	3 474.1	3 576.4	3 660.7	3 728.0	3 749.2	3 769.1	3 781.8	3 801.1	3 791.6
Persons unemployed	157.2	126.7	124.5	130.8	127.2	134.8	122.6	127.3	129.9
Persons underemployed	72.5	63.3	57.6	58.2	56.5	57.0	62.7	53.5	55.6
<u>(% change over a year earlier)</u>									
Population of working age	1.2	1.2	1.4	0.8	0.7	0.7	0.6	0.9	0.6
Labour force	-0.8	2.0	2.2	1.9	0.5	0.8	1.0	2.7	1.6
Persons employed	0.2	2.9	2.4	1.8	0.6	0.9	0.9	2.6	1.6
Persons unemployed	-18.4	-19.4	-1.8	5.1	-2.7	0.4	3.3	7.2	1.8
Persons underemployed	-13.5	-12.7	-9.0	1.1	-3.0	0.3	13.0	10.6	-4.2

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

**Table 17 : Employment in selected major industries**

Selected major industries	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>			<u>2015</u>	(No.)
	(% change)					Jun	Sep	Dec	Mar	
						(% change over a year earlier)				
Manufacturing	-4.5	-5.6	-5.1	-3.0	-1.2	-1.1	-1.2	-2.1	-3.1	100 300
Construction sites (manual workers only)	9.6	13.2	13.8	11.2	4.4	-3.4	12.7	7.8	16.9	91 878
Import and export trade	0.9	-0.3	-1.1	-0.2	0.1	*	0.5	0.8	-0.6	487 717
Wholesale	1.2	*	-0.6	-2.0	-0.3	-0.3	0.8	-0.7	-1.0	61 509
Retail	3.3	4.0	2.5	2.3	2.2	2.7	1.9	1.4	0.6	271 530
Food and beverage services	3.7	6.6	1.6	0.9	2.4	2.1	2.7	3.3	1.1	243 475
Accommodation services <sup>(a)</sup>	1.5	5.8	9.2	5.0	3.2	5.3	1.7	*	-0.4	40 203
Transportation, storage, postal and courier services	1.5	2.0	1.8	2.0	2.7	3.1	2.6	2.9	2.8	176 593
Information and communications	1.3	3.4	5.6	5.1	2.7	2.4	2.2	1.9	1.2	104 049
Financing and insurance	4.8	6.3	1.9	1.0	2.3	3.2	1.8	1.8	2.8	218 747
Real estate	4.1	8.0	4.2	1.6	0.6	0.2	0.6	1.8	2.2	129 770
Professional and business services (excluding cleaning and similar services)	2.2	4.2	3.4	4.5	2.7	3.4	1.8	1.5	2.6	281 599
Cleaning and similar services	13.7	9.5	3.3	1.6	0.2	-0.1	*	0.3	2.9	81 273
Education	3.4	1.5	2.4	2.8	4.4	4.1	4.4	6.0	5.0	190 841
Human health services	3.0	4.1	4.9	5.2	4.3	4.2	3.7	4.6	4.6	114 834
Residential care and social work services	1.8	1.3	2.0	0.5	0.6	0.1	0.9	2.4	2.7	60 324
Arts, entertainment, recreation and other services	5.0	2.8	0.6	1.6	5.9	6.1	5.4	6.4	2.3	128 102
Civil service <sup>(b)</sup>	0.5	0.7	1.1	1.3	1.0	1.2	0.9	0.6	0.5	163 645
Others <sup>(c)</sup>	3.1	-0.6	-5.1	3.5	3.1	3.6	1.6	0.8	-1.3	10 952

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

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

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

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

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

**Table 18 : Number of manual workers engaged at building and construction sites**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>		<u>2015</u>
						Jun	Sep	Dec	Mar
<u>(Number)</u>									
Building sites									
Private sector	28 620	31 780	37 687	41 308	44 024	41 792	45 658	44 971	47 272
Public sector <sup>(a)</sup>	11 463	12 335	10 578	9 860	11 212	9 932	11 911	14 219	15 662
Sub-total	40 083	44 115	48 265	51 168	55 236	51 724	57 569	59 190	62 934
Civil engineering sites									
Private sector	1 544	1 250	1 410	1 322	1 414	1 593	1 416	1 140	1 418
Public sector <sup>(a)</sup>	13 714	17 270	21 621	26 813	26 145	26 417	27 549	26 013	27 526
Sub-total	15 258	18 520	23 030	28 135	27 559	28 010	28 965	27 153	28 944
<b>Total</b>	<b>55 341</b>	<b>62 635</b>	<b>71 295</b>	<b>79 303</b>	<b>82 795</b>	<b>79 734</b>	<b>86 534</b>	<b>86 343</b>	<b>91 878</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-0.5	11.0	18.6	9.6	6.6	-3.3	15.7	5.3	8.2
Public sector <sup>(a)</sup>	11.5	7.6	-14.2	-6.8	13.7	-7.2	40.0	67.5	78.3
Sub-total	2.6	10.1	9.4	6.0	8.0	-4.1	20.0	15.6	20.0
Civil engineering sites									
Private sector	-4.6	-19.0	12.8	-6.2	7.0	38.6	-5.9	-27.8	-5.9
Public sector <sup>(a)</sup>	39.5	25.9	25.2	24.0	-2.5	-3.9	0.8	-4.6	11.9
Sub-total	33.3	21.4	24.4	22.2	-2.0	-2.1	0.4	-5.9	10.9
<b>Total</b>	<b>9.6</b>	<b>13.2</b>	<b>13.8</b>	<b>11.2</b>	<b>4.4</b>	<b>-3.4</b>	<b>12.7</b>	<b>7.8</b>	<b>16.9</b>

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

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

**Table 19 : Rates of change in indices of payroll per person engaged  
by selected industry section**

	(%)								
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>			<u>2015</u>
Selected industry section						Q2	Q3	Q4	Q1
<b>(in nominal terms)</b>									
Manufacturing	2.3	7.7	8.2	3.3	5.3	5.7	5.4	6.5	6.3
Import/export and wholesale trade	2.0	12.8	4.6	3.3	2.8	4.4	3.4	2.6	3.5
Retail trade	3.9	12.0	10.1	6.7	4.2	4.5	2.3	3.0	4.0
Transportation, storage, postal and courier services	4.0	4.1	1.2	5.4	3.3	3.6	3.4	2.3	3.1
Accommodation <sup>(a)</sup> and food service activities	3.4	9.5	6.2	6.7	5.2	5.1	5.1	4.7	5.7
Information and communications	2.5	7.5	8.2	5.4	5.1	3.9	5.2	5.0	5.1
Financial and insurance activities	6.5	12.4	4.7	4.6	6.3	4.8	5.7	4.0	4.3
Real estate activities	1.8	10.8	7.7	5.9	4.7	5.7	3.1	5.4	4.5
Professional and business services	2.2	2.1	4.7	7.1	6.9	6.4	6.1	7.0	6.7
Social and personal services	-2.4	3.2	7.6	3.6	1.6	3.9	-1.3	0.9	8.4
<b>All selected industry sections surveyed</b>	<b>2.1</b>	<b>7.8</b>	<b>6.5</b>	<b>5.4</b>	<b>4.3</b>	<b>4.8</b>	<b>3.4</b>	<b>3.9</b>	<b>4.8</b>
<b>(in real terms)</b>									
Manufacturing	0.1	2.1	3.9	-0.8	0.8	1.9	0.6	1.3	1.8
Import/export and wholesale trade	-0.3	7.2	0.4	-1.0	-1.6	0.7	-1.4	-2.4	-0.9
Retail trade	1.5	6.3	5.7	2.3	-0.2	0.7	-2.4	-1.9	-0.4
Transportation, storage, postal and courier services	1.6	-1.2	-2.7	1.0	-1.1	-0.1	-1.4	-2.6	-1.2
Accommodation <sup>(a)</sup> and food service activities	1.0	4.1	2.0	2.3	0.7	1.3	0.3	-0.3	1.2
Information and communications	0.1	2.2	4.0	1.0	0.6	0.2	0.4	-0.1	0.7
Financial and insurance activities	4.1	7.0	0.5	0.4	1.8	1.0	0.8	-1.0	-0.1
Real estate activities	-0.4	5.2	3.6	1.4	0.2	1.9	-1.6	0.3	0.1
Professional and business services	*	-3.1	0.7	2.6	2.3	2.6	1.2	1.8	2.2
Social and personal services	-4.6	-2.1	3.6	-0.8	-2.7	0.2	-5.9	-3.9	3.8
<b>All selected industry sections surveyed</b>	<b>-0.2</b>	<b>2.4</b>	<b>2.3</b>	<b>1.1</b>	<b>-0.1</b>	<b>1.0</b>	<b>-1.4</b>	<b>-1.1</b>	<b>0.4</b>

Notes: The rates of change in real terms are compiled from the Real Indices of Payroll per Person Engaged. The Indices are derived by deflating the Nominal Indices of Payroll per Person Engaged by the 2009/10-based Composite CPI.

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

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

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

**Table 20 : Rates of change in wage indices  
by selected industry section**

	(%)								
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>		<u>2015</u>
Selected industry section						Jun	Sep	Dec	Mar
<b>(in nominal terms)</b>									
Manufacturing	-1.0	6.7	4.3	4.7	4.9	4.5	4.6	5.6	4.4
Import/export, wholesale and retail trades	2.7	7.7	4.5	2.9	2.5	4.1	2.1	3.0	3.0
Transportation	1.1	4.1	3.3	3.9	4.8	4.9	5.0	4.9	4.9
Accommodation <sup>(a)</sup> and food service activities	2.5	9.4	7.9	5.7	4.7	4.3	5.3	4.4	5.4
Financial and insurance activities <sup>(b)</sup>	2.9	6.7	4.2	4.4	3.2	2.8	3.2	3.8	3.4
Real estate leasing and maintenance management	2.6	8.7	7.6	9.3	4.5	5.2	3.1	2.0	2.2
Professional and business services	3.4	12.9	6.5	5.9	6.7	6.2	5.9	6.2	4.9
Personal services	3.6	10.0	9.2	6.2	7.8	7.9	8.3	7.1	7.9
<b>All industries surveyed</b>	<b>2.5</b>	<b>8.1</b>	<b>5.6</b>	<b>4.7</b>	<b>4.2</b>	<b>4.5</b>	<b>4.0</b>	<b>4.2</b>	<b>4.1</b>
<b>(in real terms)</b>									
Manufacturing	-3.6	0.9	0.6	-0.2	-1.6	0.6	-6.9	-1.2	-2.0
Import/export, wholesale and retail trades	-0.2	2.4	0.6	-1.7	-4.0	0.3	-9.1	-3.7	-3.3
Transportation	-1.6	-1.2	-0.7	-0.6	-2.0	1.0	-6.5	-1.8	-1.6
Accommodation <sup>(a)</sup> and food service activities	-0.4	3.9	3.8	1.1	-1.8	0.5	-6.2	-2.3	-1.1
Financial and insurance activities <sup>(b)</sup>	0.3	1.4	0.1	*	-3.7	-0.9	-8.1	-2.9	-2.9
Real estate leasing and maintenance management	-0.4	3.5	3.4	4.5	-1.9	1.4	-8.2	-4.6	-4.1
Professional and business services	0.6	7.0	2.2	1.4	*	2.3	-5.7	-0.6	-1.5
Personal services	0.7	4.2	5.3	1.5	1.0	4.0	-3.5	0.2	1.3
<b>All industries surveyed</b>	<b>-0.4</b>	<b>2.7</b>	<b>1.6</b>	<b>0.1</b>	<b>-2.4</b>	<b>0.7</b>	<b>-7.4</b>	<b>-2.5</b>	<b>-2.3</b>

Notes: The rates of change in real terms are compiled from the Real Wage Indices. The Indices are derived by deflating the Nominal Wage Indices by the 2009/10-based CPI(A).

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

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

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

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

(HK\$)

Industry Section	May – Jun 2013			May – Jun 2014		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing <sup>(a)</sup>	10,800	13,300	20,000	11,600	14,300	21,600
Electricity and gas supply; sewerage, waste management and remediation activities	16,200	23,500	37,000	18,000	24,500	37,500
Construction	13,800	17,600	22,300	14,500	18,300	23,300
Import and export trade	11,200	15,500	24,000	11,500	16,000	24,800
Wholesale	10,000	12,200	17,300	10,100	13,000	18,000
Retail trade	8,100	10,900	14,900	9,000	11,500	15,400
<i>within which:</i>						
Supermarkets and convenience stores	5,600	9,500	11,900	5,900	10,100	12,200
Other retail stores	8,400	11,100	15,500	9,300	11,600	16,000
Land transport	11,700	15,000	22,500	12,200	16,000	23,800
Other transportation, storage, postal and courier services <sup>(b)</sup>	11,400	14,800	20,700	11,800	15,400	21,000
Restaurants	7,800	10,000	13,100	8,200	10,500	14,000
<i>within which:</i>						
Hong Kong style tea cafes	8,400	9,800	13,000	8,700	10,200	13,500
Chinese restaurants	9,100	11,100	15,100	9,700	11,900	16,000
Restaurants, other than Chinese	8,700	10,400	13,600	9,200	11,000	14,300
Fast food cafes <sup>(c)</sup>	3,800	7,800	9,900	3,600	7,800	10,100
Accommodation <sup>(d)</sup> and other food service activities	10,400	13,000	16,700	10,900	13,600	17,200
Information and communications	13,000	18,200	29,000	13,300	19,400	30,000
Financing and insurance	15,000	22,600	39,600	15,200	23,800	40,300
Real estate activities <sup>(e)</sup>	12,000	18,000	27,000	12,000	19,000	28,000
Estate management, security and cleaning services	7,700	9,700	11,800	8,000	10,000	12,400
<i>within which:</i>						
Real estate maintenance management	9,400	10,800	13,700	9,700	11,100	13,700
Security services <sup>(f)</sup>	8,700	10,000	11,600	8,900	10,500	12,300
Cleaning services	6,200	7,400	8,400	6,500	7,800	8,900
Membership organisations <sup>(g)</sup>	7,100	10,100	16,100	7,800	11,000	17,600
Professional, scientific and technical services	12,000	19,200	29,700	12,600	20,000	30,600
Administrative and support services activities	10,200	14,000	22,000	10,600	14,500	22,600
Travel agency, reservation service and related activities	10,000	12,000	17,000	10,400	12,600	18,000
Education and public administration (excluding the Government)	12,000	24,200	42,300	12,300	24,500	43,100
Human health activities; and beauty and body prettifying treatment	11,400	15,800	40,000	12,000	16,400	41,300
Miscellaneous activities	8,300	9,800	13,000	8,800	10,200	13,500
<i>within which:</i>						
Elderly homes	9,400	10,600	13,100	9,800	11,400	14,000
Laundry and dry cleaning services	6,900	8,900	11,300	7,300	9,800	12,300
Hairdressing and other personal services	8,600	9,400	12,600	8,500	10,000	13,000
Local courier services	7,000	8,100	11,000	7,100	8,600	12,000
Food processing and production	7,900	10,200	14,400	8,300	10,500	15,000
Other activities not classified above	9,400	12,700	20,000	10,100	13,600	21,300
<b>All industry sections above</b>	<b>10,000</b>	<b>14,100</b>	<b>22,000</b>	<b>10,500</b>	<b>14,800</b>	<b>23,000</b>

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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

**Table 22 : Hourly wage level and distribution analysed  
by industry section : all employees**

(HK\$)

Industry Section	May – Jun 2013			May – Jun 2014		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing <sup>(a)</sup>	42.7	54.9	84.4	45.2	58.4	88.0
Electricity and gas supply; sewerage, waste management and remediation activities	63.5	89.2	130.0	65.5	90.0	136.0
Construction	58.1	72.5	92.4	60.2	76.2	96.3
Import and export trade	46.4	64.5	101.3	49.8	68.5	104.7
Wholesale	41.1	51.2	69.0	42.7	53.8	71.8
Retail trade	34.7	40.9	54.4	36.1	44.0	57.8
<i>within which:</i>						
Supermarkets and convenience stores	32.5	35.4	41.6	34.5	37.1	43.5
Other retail stores	35.0	42.1	58.0	37.1	45.4	60.8
Land transport	46.0	65.0	103.1	46.6	67.0	105.1
Other transportation, storage, postal and courier services <sup>(b)</sup>	43.4	56.8	81.7	44.3	58.1	79.1
Restaurants	33.1	37.2	48.2	35.0	39.9	50.9
<i>within which:</i>						
Hong Kong style tea cafes	34.0	37.6	46.9	35.9	39.9	50.0
Chinese restaurants	34.0	40.2	53.0	36.0	42.0	57.0
Restaurants, other than Chinese	35.2	40.0	50.0	37.3	42.5	53.0
Fast food cafes <sup>(c)</sup>	31.0	33.2	37.8	33.0	35.3	39.8
Accommodation <sup>(d)</sup> and other food service activities	37.9	46.8	62.0	39.3	48.3	63.3
Information and communications	51.7	74.1	115.0	53.2	77.2	118.5
Financing and insurance	60.5	89.8	166.7	60.7	93.0	169.4
Real estate activities <sup>(e)</sup>	52.3	72.6	116.4	53.5	75.0	122.6
Estate management, security and cleaning services	30.5	33.3	44.2	32.0	35.4	46.8
<i>within which:</i>						
Real estate maintenance management	31.0	33.9	50.2	32.0	35.7	51.8
Security services <sup>(f)</sup>	30.0	32.9	40.3	32.0	34.6	42.0
Cleaning services	30.0	32.4	38.4	31.0	34.4	39.4
Membership organisations <sup>(g)</sup>	30.6	41.7	74.7	33.0	44.2	73.8
Professional, scientific and technical services	50.3	72.9	122.2	53.4	77.8	130.7
Administrative and support services activities	42.0	56.9	88.6	41.0	59.2	92.6
Travel agency, reservation service and related activities	39.1	51.9	72.6	40.8	54.3	74.1
Education and public administration (excluding the Government)	60.0	114.0	189.4	60.3	114.7	194.3
Human health activities; and beauty and body prettifying treatment	50.5	71.6	170.9	54.0	75.8	177.5
Miscellaneous activities	34.1	40.0	55.0	35.8	42.1	56.7
<i>within which:</i>						
Elderly homes	32.0	38.6	53.2	33.1	41.0	56.0
Laundry and dry cleaning services	32.3	37.5	47.0	34.0	39.2	49.4
Hairdressing and other personal services	35.8	40.3	55.3	38.0	42.6	56.7
Local courier services	32.5	40.4	48.2	34.0	41.6	49.7
Food processing and production	34.0	39.3	56.5	35.0	41.1	58.5
Other activities not classified above	40.8	53.5	83.5	43.4	55.4	86.5
<b>All industry sections above</b>	<b>40.0</b>	<b>57.5</b>	<b>91.9</b>	<b>42.0</b>	<b>60.0</b>	<b>94.7</b>

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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



**Table 23 : Rates of change in prices**

(%)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
GDP deflator	-0.2	-0.5	3.1	1.3	-0.4	0.3	3.9	3.5
Domestic demand deflator	1.1	1.6	2.4	2.6	-0.8	2.2	4.5	4.2
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	1.0	2.0	2.0	4.3	0.5	2.4	5.3	4.1
CPI(A)	1.1	1.7	1.3	3.6	0.4	2.7	5.6	3.6
CPI(B)	1.0	2.1	2.2	4.6	0.5	2.3	5.2	4.3
CPI(C)	0.8	2.2	2.7	4.7	0.6	2.1	5.1	4.1
Unit Value Indices :								
Domestic exports	2.2	-2.1	0.8	5.1	-0.2	5.4	5.7	2.4
Re-exports	1.2	1.1	2.4	3.8	1.2	4.6	8.0	3.4
Total exports of goods	1.3	1.0	2.3	3.8	1.1	4.7	8.0	3.4
Imports of goods	2.7	2.1	2.3	4.4	-0.1	6.4	8.1	3.3
Terms of Trade Index	-1.4	-1.1	0.1	-0.5	1.3	-1.7	-0.1	0.1
Producer Price Index for all manufacturing industries <sup>(b)</sup>	0.8	2.2	3.0	5.6	-1.7	6.0	8.3	0.1
Tender Price Indices :								
Public sector								
building projects	1.4	5.0	20.1	41.9	-15.9	12.5	11.6	8.3
Public housing projects	7.7	11.2	19.7	30.8	-6.8	6.7	10.1	6.4

Notes: (a) The year-on-year rates of change before October 2010 were derived using the index series in the bases periods at that time (for instance the 2004/05-based index series), compared with the index a year earlier in the same base period.

(b) Starting from the first quarter of 2009, the producer price indices for all manufacturing industries are compiled based on the HSIC Version 2.0, and the base period of the indices has been changed to 2008 (i.e. with the quarterly average of the indices in 2008 taken as 100). The new series has also been backcasted to the first quarter of 2005. The rates of change before 2006 presented here are the old series compiled based on the HSIC Version 1.1. The two series are therefore not strictly comparable.

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

(--) Not applicable.

N.A. Not yet available.

**Table 23 : Rates of change in prices (Cont'd)**

(%)

	<u>2013</u>	<u>2014</u>	<u>2014</u>		<u>2015</u>		Average annual rate of change:	
			Q3	Q4	Q1	Q2	10 years	5 years
							2004 to 2014	2009 to 2014
GDP deflator <sup>#</sup>	1.9	2.9	2.3	2.3	4.4	4.7	1.6	2.5
Domestic demand deflator <sup>#</sup>	1.5	3.1	3.9	3.0	2.4	2.4	2.2	3.1
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	4.3	4.4	4.8	5.1	4.4	3.0	3.0	4.1
CPI(A)	5.1	5.6	7.2	7.0	6.5	4.2	3.0	4.5
CPI(B)	4.1	4.2	4.1	4.6	3.9	2.7	3.0	4.0
CPI(C)	3.8	3.5	3.3	3.4	2.6	1.9	2.9	3.7
Unit Value Indices :								
Domestic exports	2.5	0.2	1.3	-0.7	-1.5	-2.7	2.2	3.2
Re-exports	1.3	2.0	2.2	2.3	2.1	1.4	2.9	3.9
Total exports of goods	1.3	2.0	2.2	2.2	2.0	1.3	2.9	3.8
Imports of goods	0.9	1.9	2.4	1.3	0.9	0.6	3.2	4.1
Terms of Trade Index	0.4	0.1	-0.1	0.9	1.1	0.7	-0.3	-0.2
Producer Price Index for all manufacturing industries <sup>(b)</sup>	-3.1	-1.7	1.3	-1.2	-0.6	N.A.	--	1.8
Tender Price Indices :								
Public sector								
building projects	6.6	7.3	7.7	7.1	6.8	N.A.	9.0	9.2
Public housing projects	9.3	8.0	7.6	8.1	8.6	N.A.	9.9	8.1

**Table 24 : Rates of change in Composite Consumer Price Index**

(%)

	Weight	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>All items</b>	<b>100.0</b>	<b>1.0</b> <b>(--)</b>	<b>2.0</b> <b>(--)</b>	<b>2.0</b> <b>(2.8)</b>	<b>4.3</b> <b>(5.6)</b>	<b>0.5</b> <b>(1.0)</b>	<b>2.4</b> <b>(1.7)</b>	<b>5.3</b> <b>(5.3)</b>
Food	27.45	1.8	1.7	4.3	10.1	1.3	2.4	7.0
<i>Meals bought away from home</i>	17.07	0.9	1.3	2.5	5.9	1.6	1.7	5.2
<i>Food, excluding meals bought away from home</i>	10.38	3.2	2.5	7.1	16.8	0.9	3.5	9.9
Housing <sup>(a)</sup>	31.66	0.1	4.7	2.0	4.1	3.7	0.4	7.2
<i>Private housing rent</i>	27.14	-0.1	5.6	4.0	6.8	3.6	0.9	7.2
<i>Public housing rent</i>	2.05	0.2	0.1	-17.7	-27.2	9.5	-7.8	11.9
Electricity, gas and water	3.10	4.1	2.1	-0.7	-6.5	-25.3	43.3	-4.2
Alcoholic drinks and tobacco	0.59	0.4	-3.7	-1.2	0.1	18.7	3.4	17.1
Clothing and footwear	3.45	2.0	1.0	4.1	0.8	2.7	1.8	6.8
Durable goods	5.27	-3.2	-6.4	-4.7	-2.0	-3.0	-2.7	-3.8
Miscellaneous goods	4.17	1.5	1.7	2.5	5.0	2.3	2.4	3.8
Transport	8.44	1.4	0.7	-0.1	2.5	-0.9	2.0	4.4
Miscellaneous services	15.87	1.0	1.9	1.7	0.8	-2.1	2.0	3.5

Notes: The year-on-year rates of change before October 2010 were derived using the index series in the bases periods at that time (for instance the 2004/05-based index series), compared with the index a year earlier in the same base period. The weights quoted in this table correspond to that in the 2009/10-based index series.

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

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

(--) Not applicable.

**Table 24 : Rates of change in Composite Consumer Price Index (Cont'd)**

(%)										
	Weight	2012	2013	2014	2014		2015		Average annual rate of change:	
					Q3	Q4	Q1	Q2	10 years 2004 to 2014	5 years 2009 to 2014
<b>All items</b>	<b>100.0</b>	<b>4.1</b>	<b>4.3</b>	<b>4.4</b>	<b>4.8</b>	<b>5.1</b>	<b>4.4</b>	<b>3.0</b>	<b>3.0</b>	<b>4.1</b>
		<b>(4.7)</b>	<b>(4.0)</b>	<b>(3.5)</b>	<b>(3.3)</b>	<b>(3.3)</b>	<b>(2.7)</b>	<b>(2.5)</b>	<b>(--)</b>	<b>(3.9)</b>
Food	27.45	5.8	4.4	4.1	4.0	4.1	4.0	3.7	4.3	4.7
<i>Meals bought away from home</i>	17.07	5.4	4.4	4.6	4.6	4.6	4.4	4.3	3.3	4.2
<i>Food, excluding meals bought away from home</i>	10.38	6.5	4.4	3.4	3.1	3.5	3.3	2.8	5.7	5.5
Housing <sup>(a)</sup>	31.66	5.6	6.7	6.7	7.6	8.5	8.2	4.2	4.1	5.3
<i>Private housing rent</i>	27.14	6.8	6.3	6.0	4.9	7.1	6.8	3.8	4.7	5.4
<i>Public housing rent</i>	2.05	-7.1	16.0	18.3	101.4	29.0	29.0	10.0	-1.4	5.6
Electricity, gas and water	3.10	-8.2	6.9	14.9	24.9	25.5	21.5	22.8	1.3	9.2
Alcoholic drinks and tobacco	0.59	3.0	1.5	6.5	7.4	7.6	4.3	-0.1	4.3	6.1
Clothing and footwear	3.45	3.1	1.7	0.9	0.8	-1.4	-0.8	-2.7	2.4	2.8
Durable goods	5.27	-1.4	-4.3	-3.4	-3.3	-4.4	-5.5	-5.7	-3.6	-3.2
Miscellaneous goods	4.17	2.2	2.2	2.3	2.4	1.5	1.2	1.3	2.6	2.6
Transport	8.44	3.0	2.3	2.0	2.1	1.6	-0.1	-0.4	1.7	2.7
Miscellaneous services	15.87	2.8	3.7	3.0	2.3	2.1	0.8	1.4	1.8	3.0

**Table 25 : Rates of change in implicit price deflators of GDP  
and its main expenditure components**

(%)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Private consumption expenditure	1.6	0.9	4.1	2.5	-1.4	1.4	3.6
Government consumption expenditure	-1.7	0.1	2.2	4.4	0.7	-0.2	4.5
Gross domestic fixed capital formation	1.1	4.2	-2.1	1.7	0.3	5.8	6.8
Total exports of goods	0.6	0.3	2.2	3.4	0.5	4.6	7.7
Imports of goods	1.9	2.1	1.7	4.1	-1.3	6.3	8.2
Exports of services	3.3	3.6	2.5	3.4	-7.0	7.4	7.6
Imports of services	1.0	0.8	3.0	3.8	-2.7	5.6	6.4
<b>Gross Domestic Product</b>	<b>-0.2</b>	<b>-0.5</b>	<b>3.1</b>	<b>1.3</b>	<b>-0.4</b>	<b>0.3</b>	<b>3.9</b>
Total final demand	1.1	1.1	2.3	3.1	-1.1	4.3	6.7
Domestic demand	1.1	1.6	2.4	2.6	-0.8	2.2	4.5

Notes: (#) Figures are subject to revision later on as more data become available.  
(\*) Change within  $\pm 0.05\%$ .

**Table 25 : Rates of change in implicit price deflators of GDP  
and its main expenditure components (Cont'd)**

(%)

	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>	<u>2014</u>		<u>2015</u>		Average annual rate of change:	
				Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	10 years 2004 to 2014 <sup>#</sup>	5 years 2009 to 2014 <sup>#</sup>
Private consumption expenditure	3.2	2.8	2.7	3.2	1.8	1.6	1.9	2.1	2.7
Government consumption expenditure	6.2	4.3	4.7	4.9	4.8	4.7	4.5	2.5	3.9
Gross domestic fixed capital formation	6.4	-2.8	3.6	5.2	6.0	3.3	3.2	2.4	3.9
Total exports of goods	3.1	-0.3	0.8	1.9	1.0	0.6	0.2	2.3	3.1
Imports of goods	3.8	-0.4	0.9	2.5	1.5	-0.1	-0.8	2.7	3.7
Exports of services	4.3	0.6	0.8	1.5	0.6	*	-1.0	2.6	4.1
Imports of services	1.9	1.1	1.0	2.6	-1.2	-3.2	-2.6	2.2	3.2
<b>Gross Domestic Product</b>	<b>3.5</b>	<b>1.9</b>	<b>2.9</b>	<b>2.3</b>	<b>2.3</b>	<b>4.4</b>	<b>4.7</b>	<b>1.6</b>	<b>2.5</b>
Total final demand	3.6	0.4	1.5	2.5	1.6	1.1	0.8	2.3	3.3
Domestic demand	4.2	1.5	3.1	3.9	3.0	2.4	2.4	2.2	3.1

