



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

The Government released the First Quarter Economic Report 2018 on 11 May. The Economic Report, together with the press release containing the updated economic forecasts for the whole year of 2018, have been furnished to LegCo Members.

This paper analyses Hong Kong's overall economic development in the most recent period, provides some analysis on the outlook for the rest of 2018, and summarises the updated economic forecasts by the Government for 2018 as a whole.

Office of the Government Economist
Financial Secretary's Office
28 May 2018

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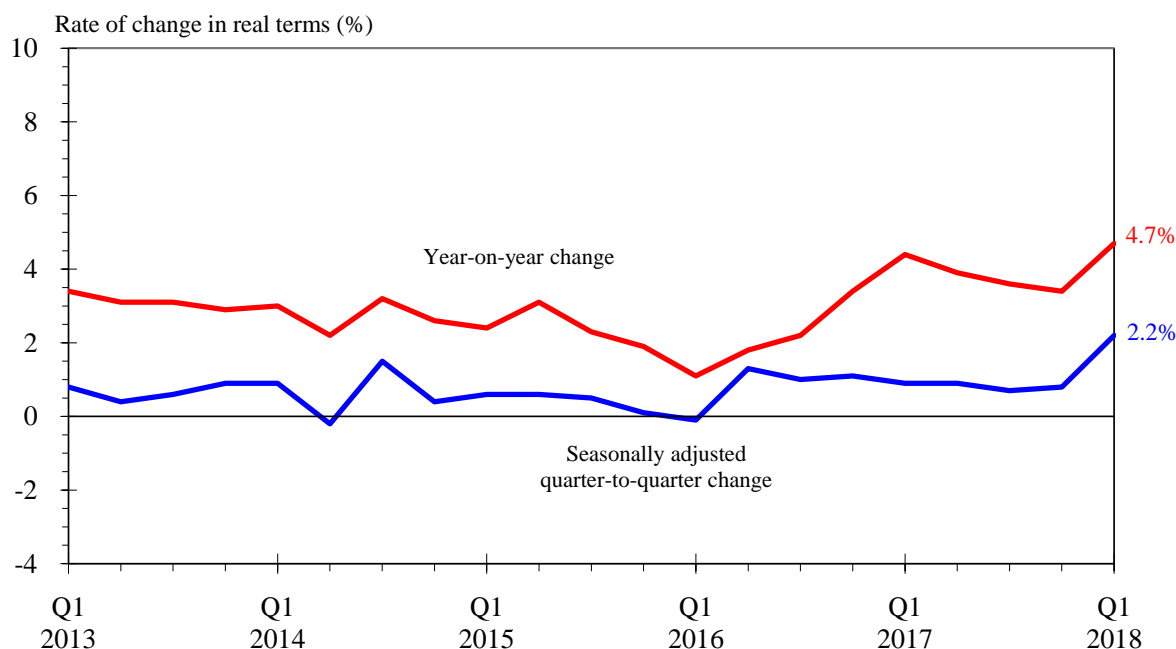
Introduction

This paper analyses the latest development of the Hong Kong economy and briefly discusses the outlook for the rest of 2018, and provides updated economic forecast by the Government for 2018 as a whole.

Recent economic situation

2. The Hong Kong economy turned in a robust growth of 4.7 %⁽¹⁾ over a year earlier in the first quarter of 2018, sustaining the full-fledged upturn in 2017. External demand picked up as the global economy maintained broad-based momentum. Domestic demand also strengthened, buttressed by favourable labour market conditions and positive business sentiment. On a seasonally adjusted quarter-to-quarter comparison, real GDP surged by 2.2% in the first quarter (*Chart 1*).

Chart 1 : The Hong Kong economy stayed vibrant and expanded robustly in the first quarter of 2018



(1) Unless specified, all figures on change in the sections of Recent economic situation, External trade and Domestic sector in this document refer to year-on-year change in real terms.

External trade

3. The expansion of the global economy has become more entrenched in 2018, as reflected in the latest forecasts by the International Monetary Fund (IMF) in mid-April that projected growth to accelerate slightly to 3.9%. All major economies continued to perform well so far. The US economy expanded solidly in the first quarter. The euro-area economy likewise sustained above-trend expansion. The Mainland economy sustained robust growth of 6.8%, underpinned by both vibrant exports and strong consumption spending. Besides, most other Asian economies also registered notable growth amid buoyant manufacturing and trading activities in the region.

4. Nevertheless, uncertainties in the external environment have increased of late. The strength in the US economy, fanned by the US government's tax cuts, saw the Federal Reserve raise the Federal Funds Rate in March, and also firmed up market expectations of further US interest rate hikes going forward. Separately, the future developments in trade relations between the US and other economies also deserve attention. The trade tensions between the US and the Mainland were under the spotlight lately. The US announced restrictive measures on imports and investment from the Mainland in recent months, and the Mainland also proposed corresponding counter measures. The US then announced sanctions against some Chinese technology companies. These have increased the volatility in financial markets worldwide in recent months. The US and the Mainland issued a joint statement after the trade negotiations in mid-May. The two sides agreed to take effective measures to reduce the US trade deficit in goods with the Mainland, strengthen intellectual property protection, encourage bilateral investment, and create fair, level playing field for competition. Yet, the two sides still need to continue dialogue to implement the joint statement and to resolve some other issues. The Government will closely monitor the development.

5. Hong Kong's total exports of goods grew strongly by 5.2% in the first quarter (*Chart 2(a)*), as the upswing in global investment and trade translated into booming production and trading activities in Asia. Hong Kong's exports to Asian markets as a whole continued to show robust growth in the first quarter on the back of buoyant manufacturing activities in the region which generated solid demand for raw materials and semi-manufactures. Exports to the Mainland in particular saw a visible pick-up in growth. In parallel, exports to the US and the EU increased sizably thanks to sustained improvement in final demand in these economies.

6. Hong Kong's exports of services likewise accelerated to show broad-based growth of 7.5% in the first quarter (*Chart 2(b)*). Exports of travel services strengthened to show double-digit growth, reflecting the strong recovery of inbound tourism. In the first four months of this year, total visitor arrivals rose by 10.0% year-on-year to 20.91 million. Notwithstanding the somewhat more volatile financial markets in the first quarter, the solid momentum in the global economy underpinned active financial market activities, resulting in sizable growth in exports of financial services. Exports of transport services expanded solidly amid vibrant regional trade flows, while exports of business and other services grew modestly.

Chart 2(a) : Total exports of goods grew notably

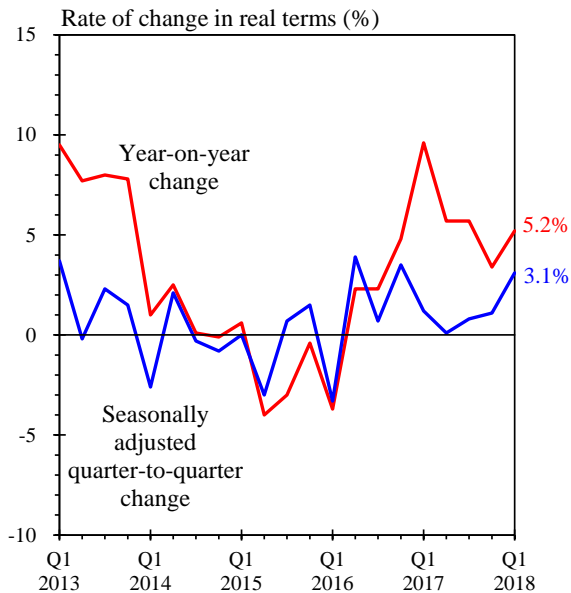
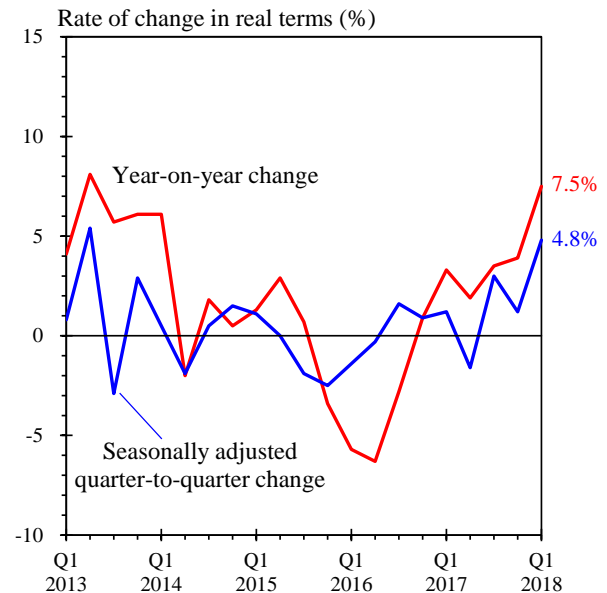


Chart 2(b) : Exports of services saw the fastest growth in nearly five years



Domestic sector

7. The domestic sector continued to strengthen in the first quarter. Private consumption expenditure grew markedly by 8.6% (*Chart 3(a)*), supported by favourable job and income conditions as well as positive wealth effect resulting from strong asset market conditions.

8. Overall investment spending in terms of gross domestic fixed capital formation increased further by 3.8% in the first quarter (*Chart 3(b)*). In particular, machinery and equipment acquisition increased notably, while overall building and construction activity saw some modest growth. Business sentiment was broadly positive thanks to the sustained upturn in the global economy.

Chart 3(a) : Private consumption expenditure accelerated to show notable growth

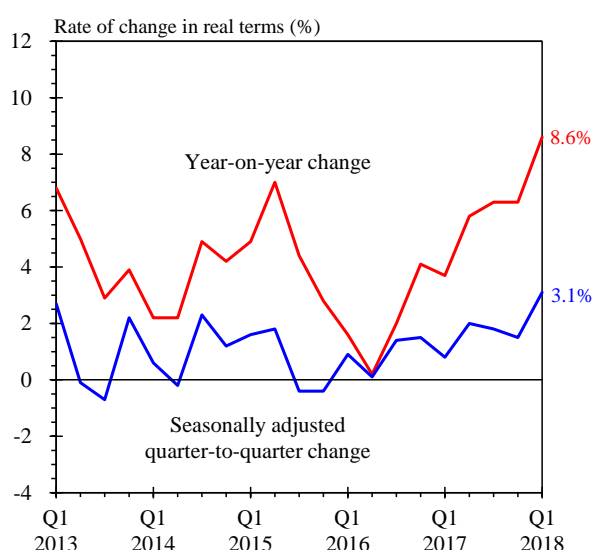
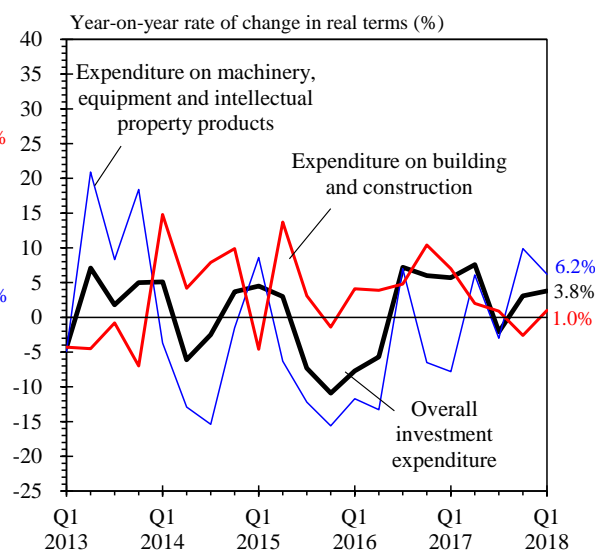


Chart 3(b) : Overall investment spending continued to grow

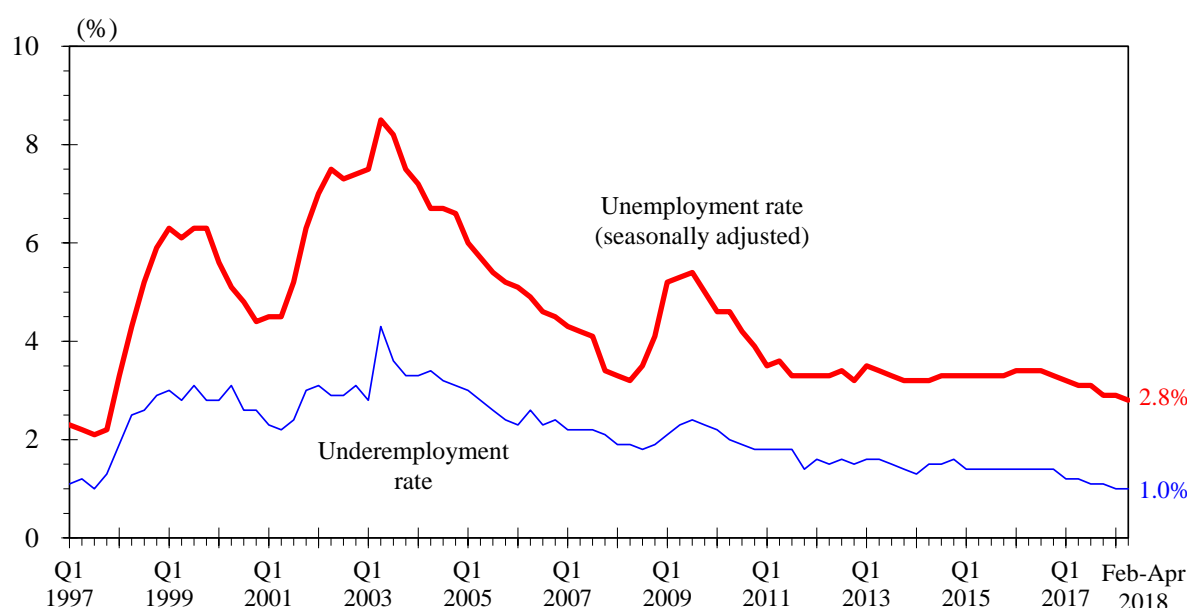


9. As for external direct investment (DI), the total position of external DI liabilities amounted to \$17.2 trillion at end-2017, equivalent to 6.5 times of GDP. The Mainland remained a prominent source, accounting for around 26% of the total position of inward DI at end-2016 (latest available figure), a clear manifestation of our intermediary role between the Mainland and the rest of the world.

Labour Market

10. The local labour market tightened further on entering 2018. In February – April 2018, the seasonally adjusted unemployment rate fell to 2.8% while the underemployment rate stood at 1.0%, both at the lowest levels in 20 years (*Chart 4*). As a result of the sturdy labour demand, total employment continued to record appreciable growth, and the number of private sector vacancies recorded further increases.

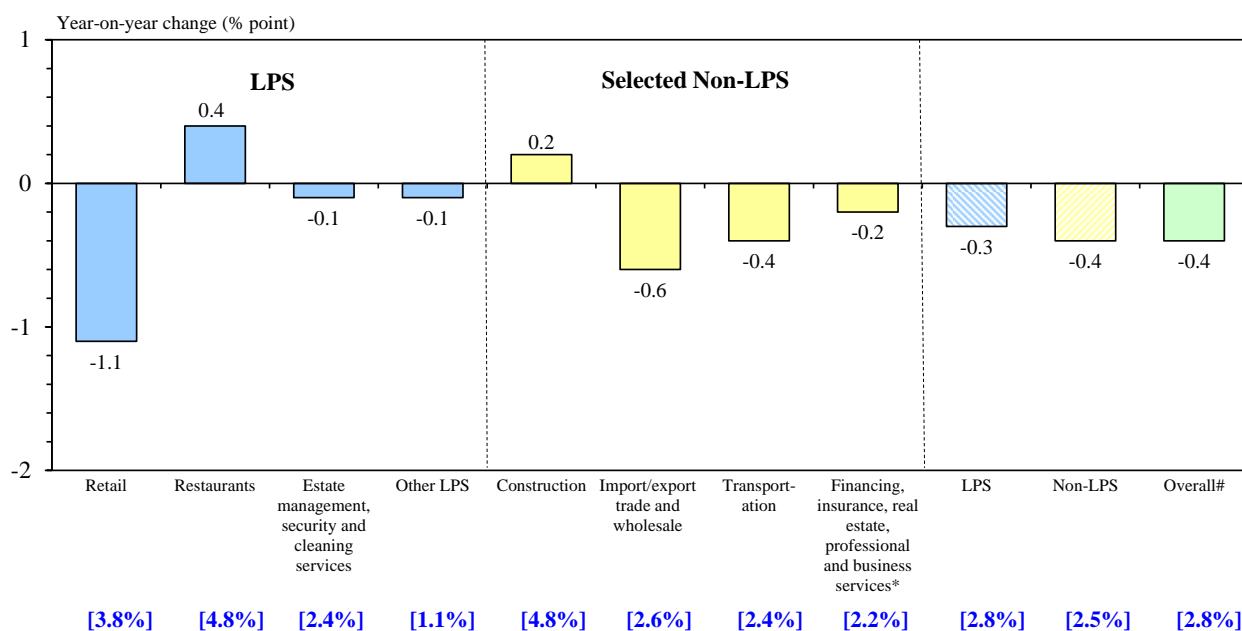
Chart 4 : The labour market tightened further upon entering 2018



11. The Hong Kong economy has witnessed sustained expansion since the implementation of Statutory Minimum Wage (SMW), thereby relieving to a large extent the potential impact on the labour market brought about by SMW. In February – April 2018, the unemployment rate of the low paying sectors (LPS)⁽²⁾ as a whole declined by 0.3 percentage point from a year earlier to 2.8%, and that of the non-LPS also fell by 0.4 percentage point to 2.5% (*Chart 5*). Analysed by skill segment, the unemployment rate of the higher-skilled segment was at 1.7%, little changed from its year-ago level, while that of the lower-skilled segment, at 3.2%, was 0.5 percentage point lower than a year earlier.

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

Chart 5 : Unemployment rates of most sectors declined over a year earlier



Notes: Figures in square brackets refer to the unemployment rate for that sector in Feb-Apr 2018 (provisional figures).

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

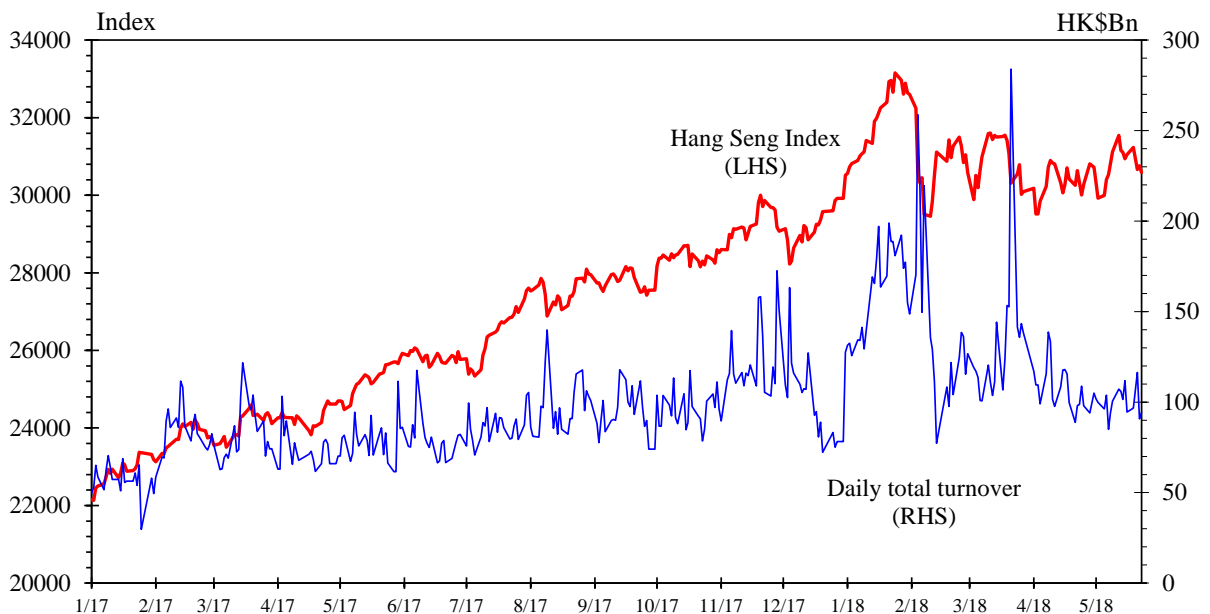
(#) Seasonally adjusted, and including first-time job-seekers and re-entrants into the labour force.

12. Both nominal wages and payroll saw decent gains throughout 2017 on the back of a tight labour market. On a year-on-year comparison, nominal wages increased by 3.8% in December 2017 and nominal payroll rose by 4.2% , both well exceeding the inflation rate over the respective periods and thus leading to marked improvement in labour incomes in real terms. More recent data showed that incomes of lower paid workers continued to fare well, with the average monthly employment earnings of full-time employees in the lowest three income decile groups combined (excluding foreign domestic helpers) rising by 5.3% in nominal terms in the first quarter of 2018, which was much faster than the underlying Consumer Price Index(A) inflation of 2.5% over the same period. In parallel, the median monthly household income (excluding foreign domestic helpers) increased by 7.7% in nominal terms in the first quarter of 2018, considerably faster than the concurrent inflation. (Please refer to *Annex* for details of the recent situation of household income.)

Asset markets

13. The local stock market continued to rally in early 2018 and reached a record high in late January, but experienced corrections thereafter amid market expectation for successive US interest rate hikes and intensified concerns over the global trading environment. The Hang Seng Index closed at 30 588 on 25 May, up by only 2.2% from end-2017 and down 7.7% from its peak in late January (*Chart 6*). Average daily turnover of the stock market rose visibly to \$137.1 billion in the first four months.

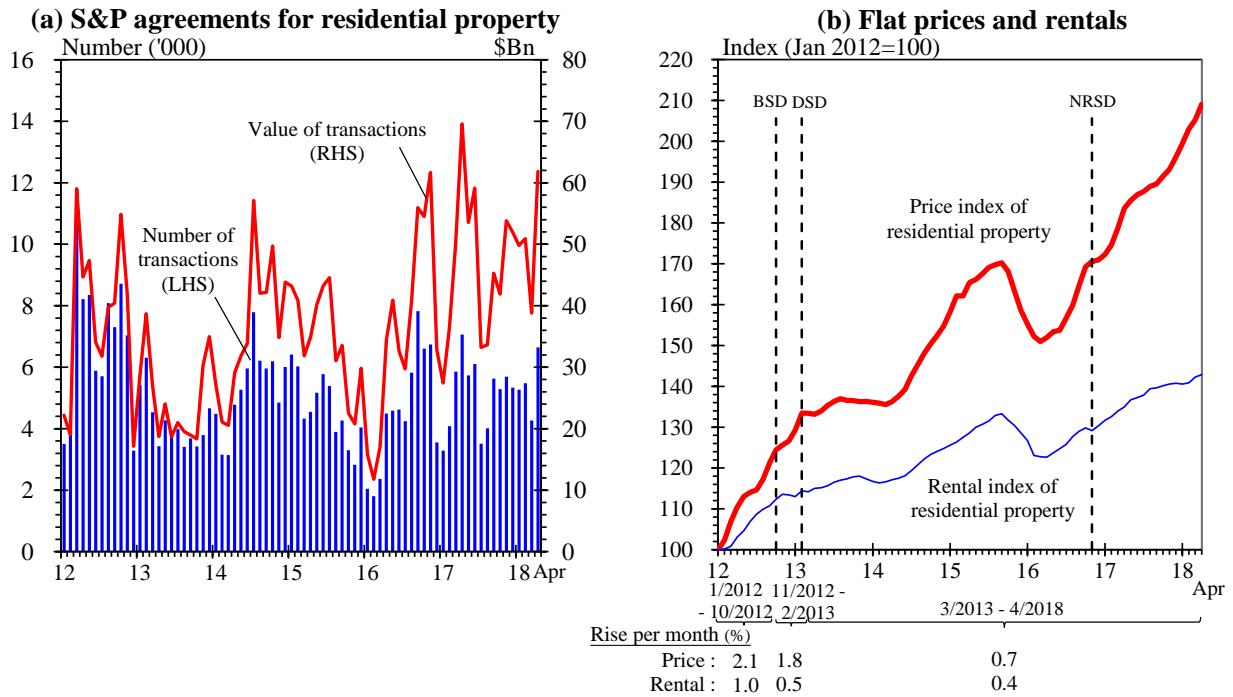
Chart 6 : Local stock market turned more volatile after reaching a record high in late January



14. The residential property market remained active in 2018 so far, supported by a still tight demand-supply balance of flats and generally low local interest rates. The monthly average number of sale and purchase agreements for residential property received by the Land Registry rose by 7% over a year earlier to 5 415 in the first four months of 2018 (*Chart 7(a)*).

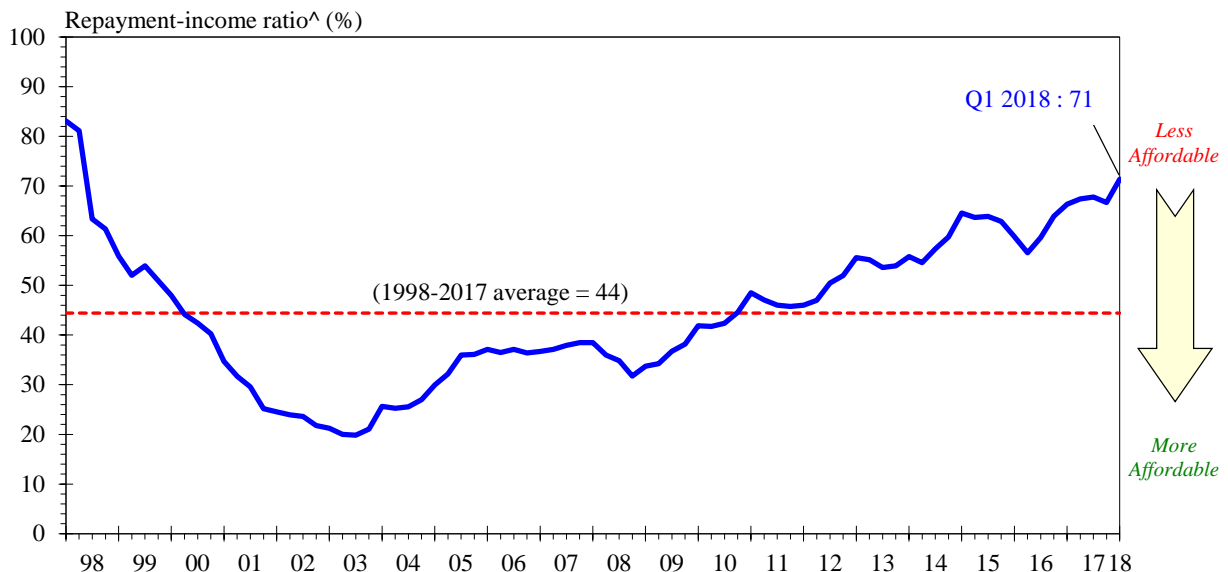
15. Amid the upbeat market sentiment, overall flat prices rose further by 7% between December 2017 and April 2018. Overall flat rentals increased by 1% over the same period (*Chart 7(b)*).

Chart 7 : The residential property market remained active of late



16. As a result of the surge over the past several years, overall flat prices in April 2018 exceeded the peak in 1997 by 117%. In the first quarter, the index of 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) increased to around 71%, significantly above the long-term average of 44% over 1998-2017 (**Chart 8**). Should local interest rates rise by three percentage points to a more normal level, the ratio would soar to 93%.

Chart 8 : The index of home purchase affordability increased

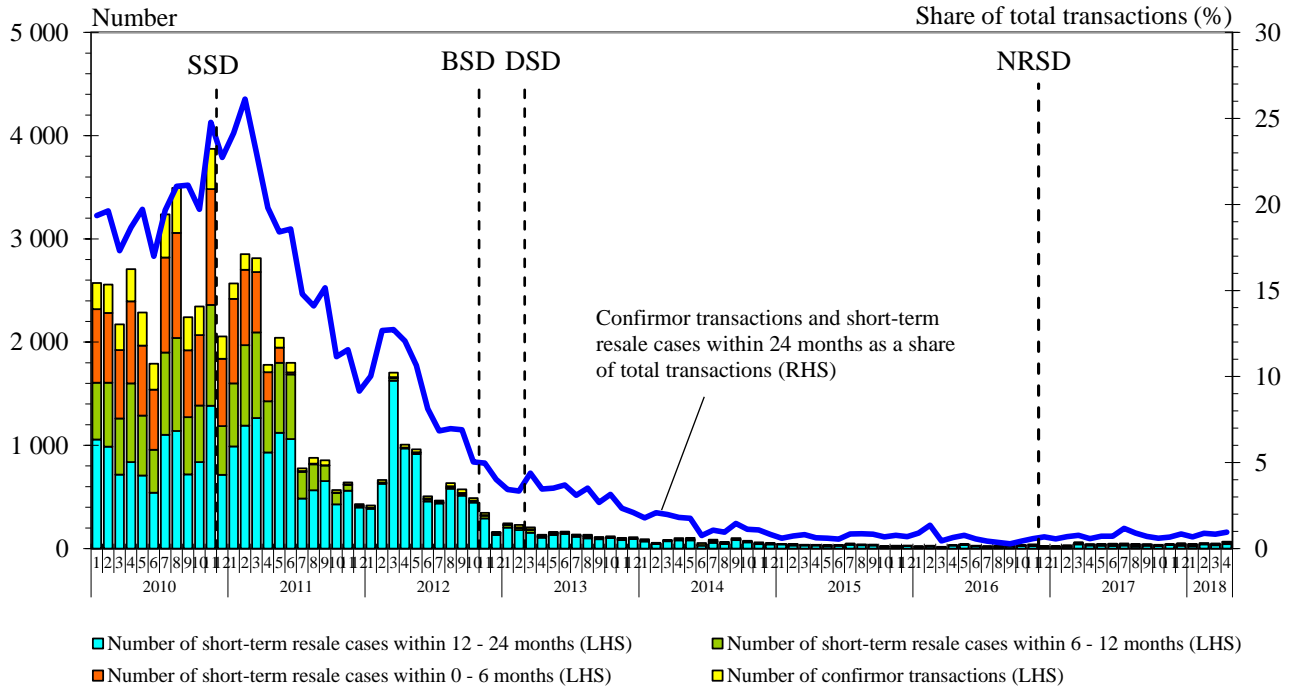


Note : (^) The ratio of mortgage payment for a flat with saleable area of 45 sq m (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing). This ratio is different from the debt servicing ratio published by the HKMA, which is the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

17. Raising flat supply through increasing land supply is the Government's top policy priority in ensuring the healthy development of the property market. In March, the Government announced the 2018-19 Land Sale Programme, which comprises 27 residential sites capable of providing about 15 200 flats in total. Combining the various sources of land supply (including Government land sale, railway property development projects, the Urban Renewal Authority's projects, and private development and redevelopment projects), the total potential private housing land supply in 2018-19 is estimated to have a capacity to produce about 25 500 units. The total supply of flats in the coming three to four 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) stayed at a high level of around 96 000 units as estimated at end-March 2018. The Task Force on Land Supply launched a five-month public engagement exercise in late April. It aims to enhance the public's understanding of the basic information of 18 land supply options, and to discuss the pros and cons, priorities and trade-offs of the options with all sectors of the community, with a view to achieving the broadest consensus in society.

18. The Government has also put in significant efforts to manage demand and reduce the possible risks to financial stability arising from an exuberant property market. These measures have yielded notable results. On speculative activities, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) remained low at 53 cases per month or 0.8% of total transactions in the first four months of 2018, well below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty) (*Chart 9*). Reflecting the effects of the Buyer's Stamp Duty, purchases by non-local individuals and non-local companies also stayed low at 65 cases per month or 1.0% of total transactions in the first four months of 2018, much lower than the monthly average of 365 cases or 4.5% in January to October 2012 (*Chart 10*). As an indicator of investment activities, purchases subject to the New Residential Stamp Duty stayed at a modest level of 692 cases per month or 11.1% of total transactions in the first four months of 2018, sharply below the monthly average of 1 412 cases subject to Double Stamp Duty or 26.5% in January to November 2016 (*Chart 11*). As to mortgage lending, the average LTV ratio of new mortgages was 49% in the first quarter of 2018, likewise considerably 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.

Chart 9 : Short-term speculative activities stayed subdued



Note : Confirmor transactions refer to resale before assignment.

Chart 10 : Purchases by non-local buyers remained low

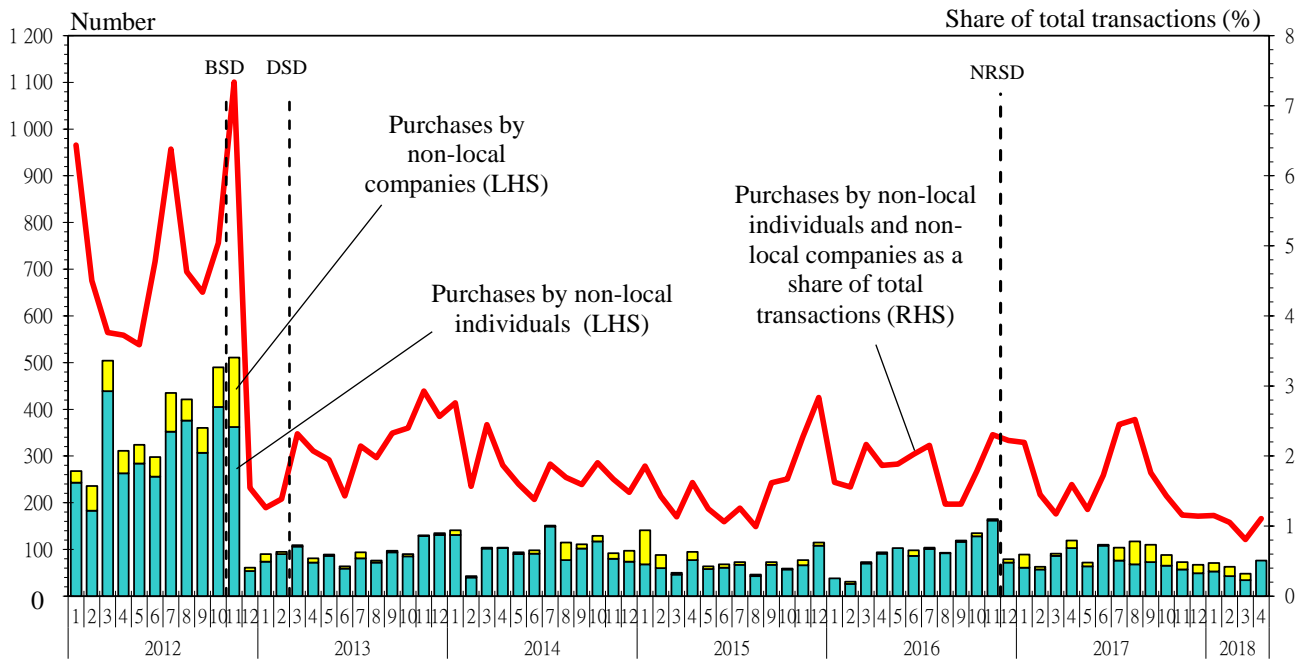
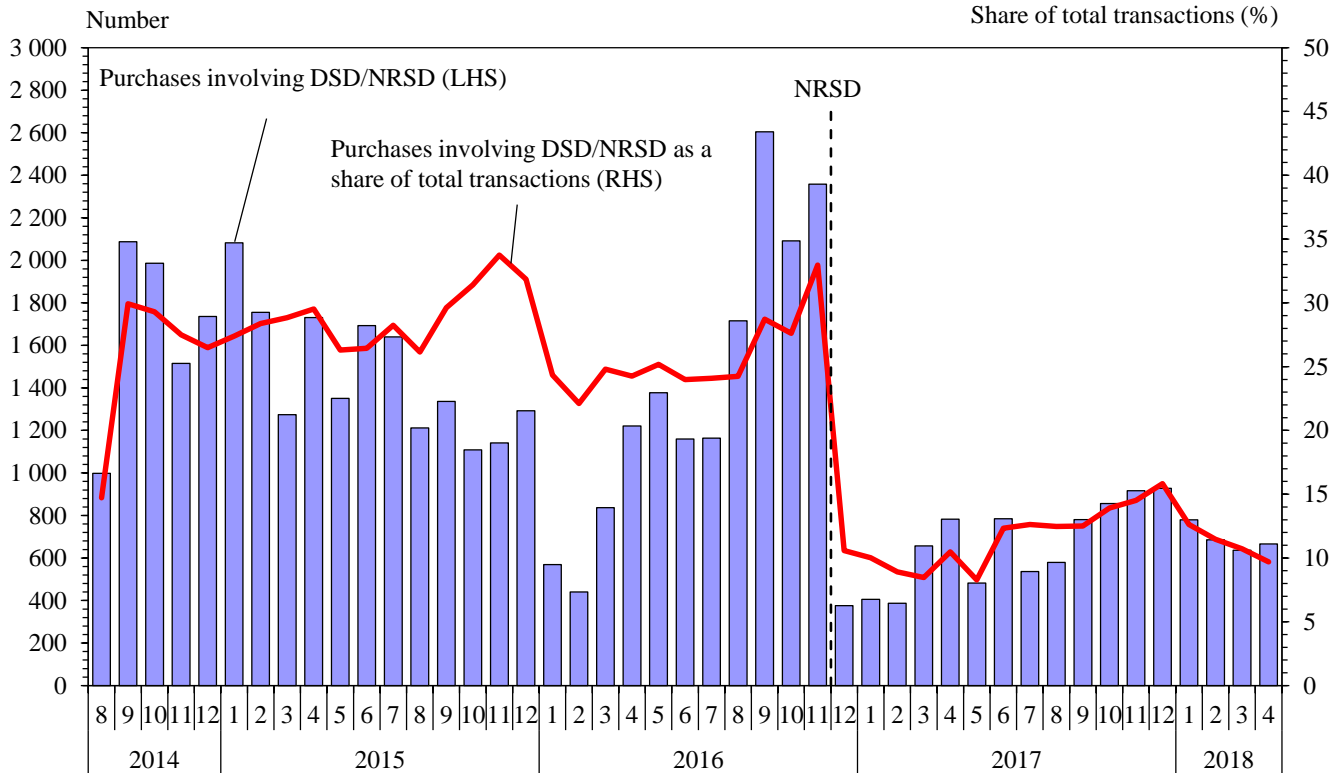


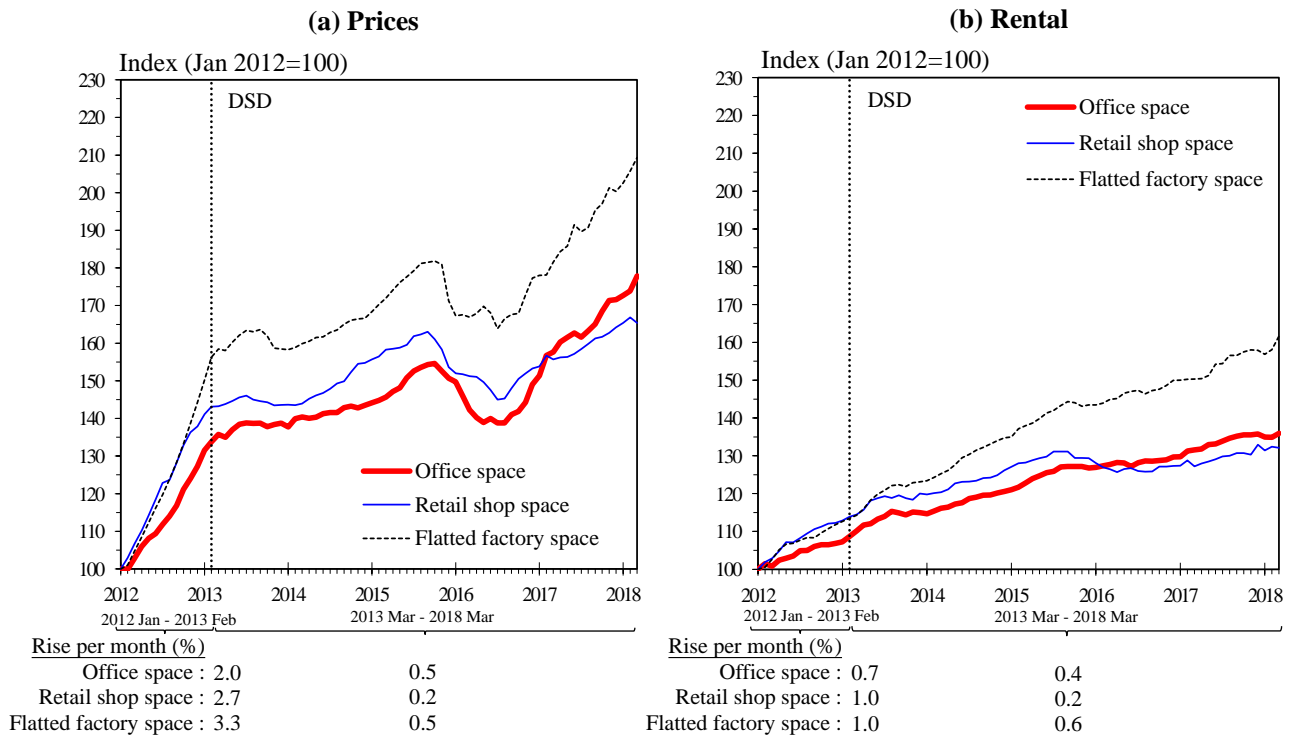
Chart 11 : Investment activities were modest



19. Notwithstanding the current upbeat market sentiment, the changing fundamental factors will gradually pose adjustment pressures on the residential property market. The tight demand-supply balance of flats is expected to ease in due course with the expected increase in flat completions in the coming few years. The annual average completions of private residential flats are projected at around 20 800 units in the next five years, an increase of 50% over the past five years. Also, local interest rates are bound to rise along with the US interest rates under the Linked Exchange Rate System as US monetary policy normalisation continues, with ramifications on local asset prices.

20. For the commercial and industrial property markets, sale prices of office space, retail shop space and flatted factory space all increased during the first quarter of 2018, but their rentals exhibited diverse movements. Overall sale prices of office space went up by 4% between December 2017 and March 2018, while overall rentals stayed virtually unchanged. For retail shop space, sale prices edged up by 1% over the same period, while rentals edged down by 1%. As to flatted factory space, sale prices and rentals rose by 5% and 2% respectively over the same period (*Chart 12*). Meanwhile, trading activities of different market segments showed mixed performance in the first quarter.

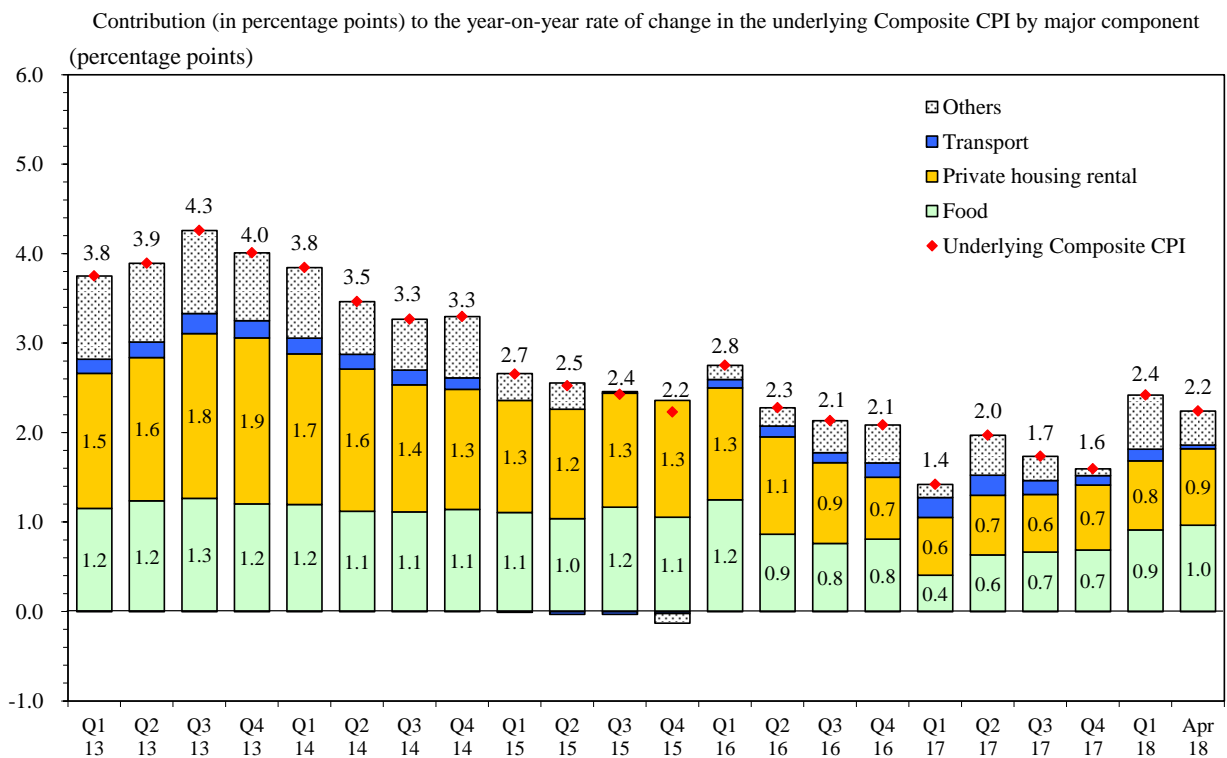
Chart 12 : Prices of non-residential properties rose during the first quarter, while rentals exhibited diverse movements



Inflation

21. Consumer price inflation remained moderate so far this year, though going up somewhat on the back of strong global and local economic conditions as well as some temporary factors. Netting out the effects of the Government’s one-off relief measures to more accurately reflect the underlying inflation trend, underlying consumer price inflation went up to 2.4% in the first four months of 2018 combined, higher than the 1.7% for 2017 as a whole (*Chart 13*).

Chart 13 : Underlying consumer price inflation pressure remained largely moderate



22. Many major components of the underlying Composite Consumer Price Index (Composite CPI) showed somewhat faster rises in the first four months of 2018 combined (*Table 1*). Among the major components, local food inflation (including costs of dining out) went up from 2.5% in the fourth quarter of 2017 to 3.3% in the first four months of 2018, reflecting a faster increase in prices of basic foodstuffs, which was partly attributed to adverse weather conditions in the early part of the year, and a pick-up in prices of meals away from home. The private housing rental component also showed a slightly faster year-on-year increase of 2.6% in the first four months of 2018, as the increases in fresh-letting residential rentals over the past year or so gradually fed through to CPI. The price of electricity, gas and water component also showed an accelerated year-on-year increase, owing to a spike in the increase in electricity charge in the first two months of 2018 due to a low base of comparison resulting from the special fuel rebate in early 2017. Prices of miscellaneous services reverted to a year-on-year increase, mainly driven by a surge in prices of package tours amid robust local demand for outbound tourism and the weak US dollar over the past year. Meanwhile, prices of durable goods continued with their secular downtrend.

Table 1 : Underlying Composite Consumer Price Index by component
(year-on-year rate of change (%))

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2017</u>					<u>2018</u>		
		<u>2017</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Apr</u>	<u>Jan-Apr</u>
Food	27.29	2.2	1.5	2.3	2.4	2.5	3.3	3.5	3.3
<i>Meals bought away from home</i>	17.74	2.7	2.8	2.7	2.7	2.7	3.0	2.9	3.0
<i>Other foodstuffs</i>	9.55	1.1	-1.1	1.4	2.0	2.2	3.8	4.6	4.0
Housing ^(a)	34.29	2.6 (2.0)	2.7 (0.3)	2.7 (2.7)	2.6 (2.6)	2.4 (2.4)	2.5 (2.5)	2.8 (1.8)	2.6 (2.4)
<i>Private housing rent</i>	29.92	2.2 (1.8)	2.1 (0.5)	2.2 (2.2)	2.1 (2.1)	2.4 (2.4)	2.5 (2.5)	2.8 (1.7)	2.6 (2.3)
<i>Public housing rent</i>	1.94	6.3 (3.0)	9.9 (-5.6)	9.6 (11.5)	6.3 (7.5)	0.1 (0.4)	0.1 (0.4)	0.4 (0.4)	0.2 (0.4)
Electricity, gas and water	2.67	-1.7 (-1.7)	-5.5 (-5.5)	-1.0 (-1.0)	-0.3 (-0.3)	0.1 (*)	8.4 (8.3)	3.6 (3.7)	7.2 (7.1)
Alcoholic drinks and tobacco	0.54	0.6	2.3	1.0	-0.2	-0.6	0.3	0.2	0.3
Clothing and footwear	3.21	-0.4	-1.9	-1.4	1.0	0.6	2.3	0.9	1.9
Durable goods	4.65	-3.2	-3.6	-3.6	-3.3	-2.3	-2.1	-2.1	-2.1
Miscellaneous goods	3.56	1.4	2.3	1.8	0.5	0.9	1.1	1.3	1.2
Transport	7.98	2.3	2.9	2.9	2.0	1.4	1.7	0.5	1.4
Miscellaneous services	15.81	0.9	0.6	2.2	0.9	-0.1	1.7	1.1	1.6
All items	100.00	1.7 (1.5)	1.4 (0.5)	2.0 (2.0)	1.7 (1.8)	1.6 (1.6)	2.4 (2.4)	2.2 (1.9)	2.4 (2.3)

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

() Figures in brackets represent the headline rates of change before netting out the effect of Government's one-off relief measures.

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

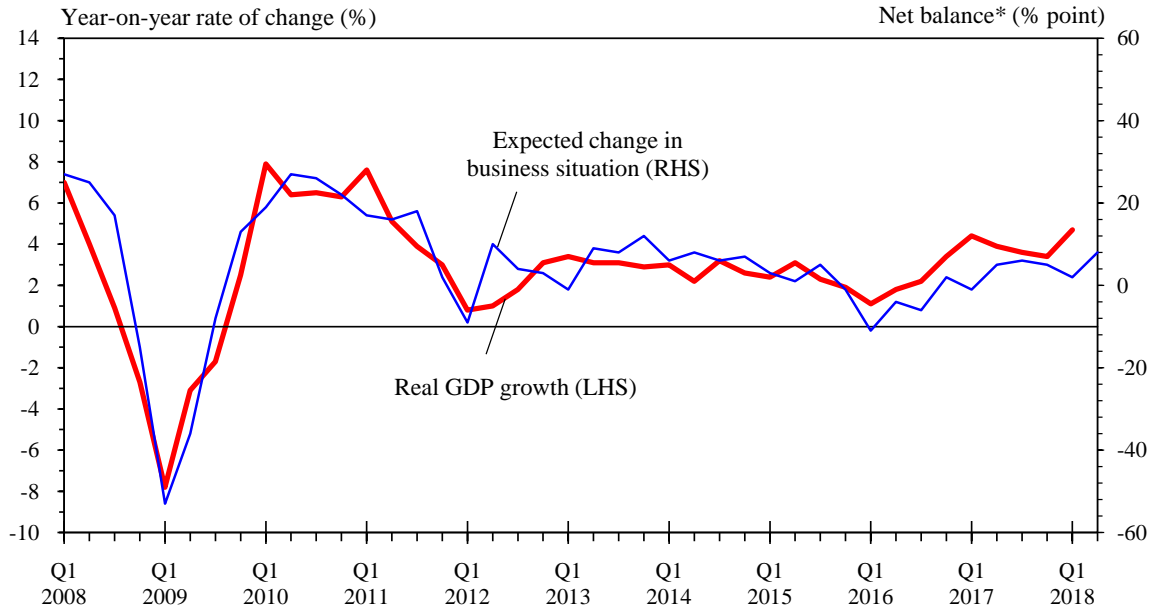
Updated economic forecasts for 2018

23. As for the outlook for the second half of this year, the broad-based momentum in the global economy is likely to continue. The Mainland economy should stay on a robust growth track in 2018 following the strong year-on-year growth of 6.8% in the first quarter. The US economy is also expected to see faster growth this year as the stimulating effect of the expansionary fiscal policy kicks in. In the euro area and Japan, it is generally expected that further moderate economic growth could be attained this year. However, external uncertainties have increased of late. Of particular concern are the trade relations between the US and its trading partners, notably the Mainland. The US and the Mainland are the largest trading and economic entities in the world, with close economic and trade ties between them. Should their trade relations deteriorate, global trading activity would suffer and economic sentiment would also be hit. Besides, global financial conditions could become more volatile amid expectation of further US rate hikes, changing geopolitical situation in certain regions (for example, the political developments in Italy), and increased downward pressures on the currencies of some emerging markets with weak fundamentals in recent months. These risks all warrant close attention.

24. The strengthening global demand should be conducive to manufacturing and trading activities in Asia, to the benefit of Hong Kong's exports. Further improvement in inbound tourism should also render support to Hong Kong's exports of services. Domestic demand should continue to stay resilient. Local consumption sentiment is likely to be well underpinned by favourable job and income conditions. The latest Quarterly Business Tendency Survey indicated that large enterprises have turned more positive about their near-term business outlook (*Chart 14*), though turning slightly more cautious of late amid rising uncertainties in the external trading environment. Ongoing infrastructure works and the measures in the 2018/19 Budget should also provide growth impetus to the economy.

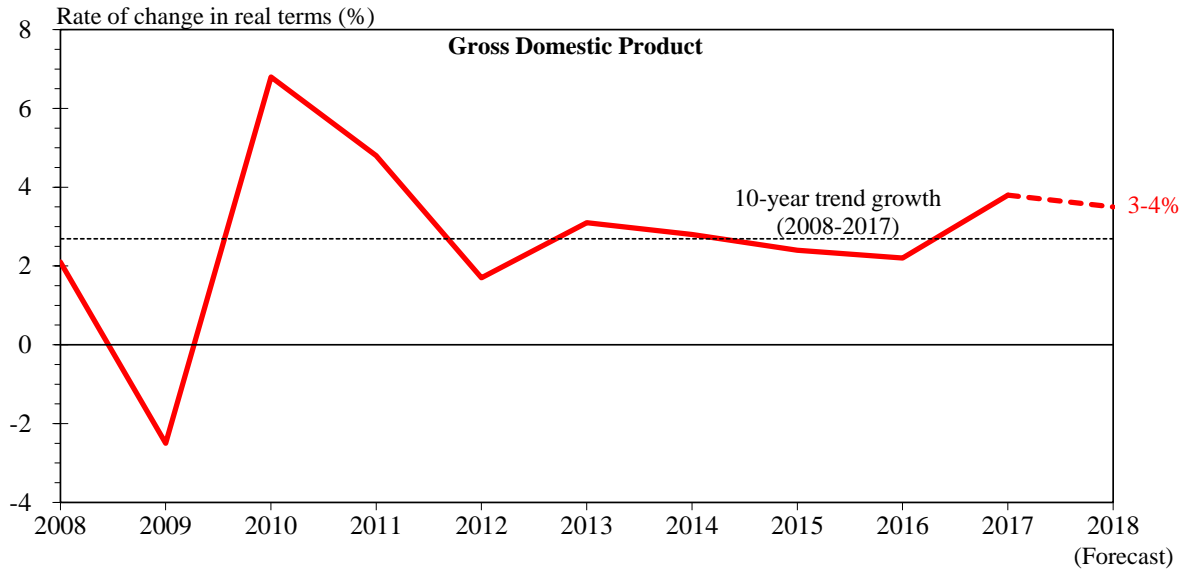
25. While the favourable external and local economic situation continues, the aforementioned uncertainties remain and warrant close monitoring. The Government maintains the forecast real GDP growth of 3-4% for 2018 as announced in the Budget (*Chart 15*). For reference, in April the IMF forecast the Hong Kong economy would grow by 3.6% this year, and the forecasts by private sector analysts in mid-May mostly ranged from 2.9-4%, averaging around 3.3%.

Chart 14 : Large enterprises in Hong Kong turned more positive on their near-term business prospects



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

Chart 15 : Economic growth for 2018 as a whole is forecast at 3-4%



26. On inflation, the robust economic conditions, if continued, are likely to exert some upward pressures over the course of 2018, but the inflation rate for the year as a whole should remain moderate. As the outturn in inflation so far has largely been in line with expectations, and taking into account latest developments on both the external and domestic fronts (*Chart 16*), the Government maintains the forecast rates of underlying and headline consumer price inflation for 2018 as a whole put out in the Budget at 2.5% and 2.2% respectively (*Chart 17*).

Chart 16 : External price pressures were still moderate while local costs remained contained

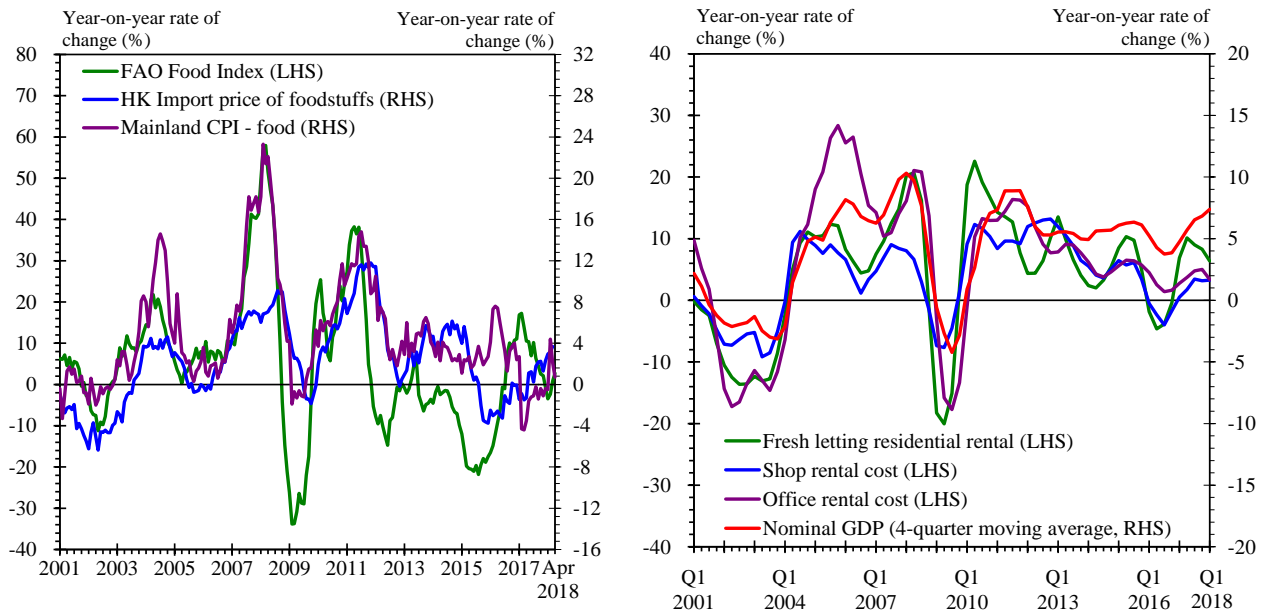
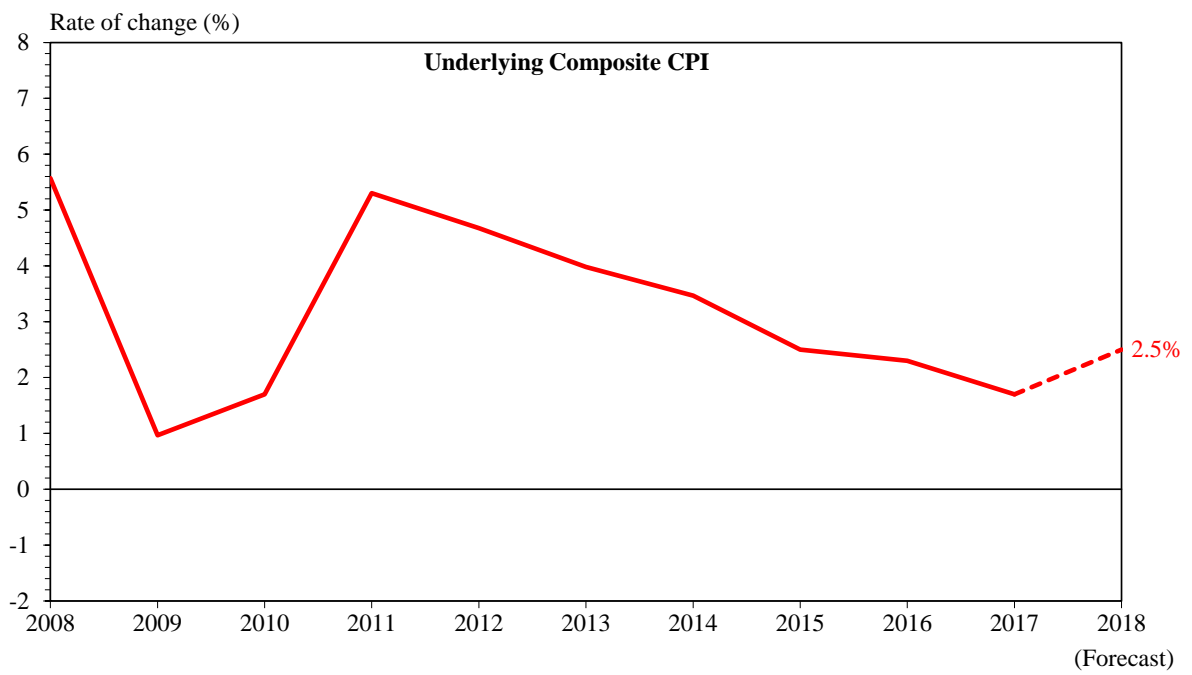


Chart 17 : Inflationary pressure should remain moderate in 2018



Office of the Government Economist
Financial Secretary's Office
28 May 2018

Recent situation of household income⁽¹⁾

Background

This Annex provides a regular update on the latest trends of household income and employment earnings among various groups. As the level of Statutory Minimum Wage (SMW) has been raised from \$32.5 per hour to \$34.5 per hour since May 2017, the benchmark of monthly household income for low-income households is also increased from \$7,600 to \$8,100 (at constant Q2 2017 prices), adjusted by inflation⁽²⁾, so as to reflect the latest circumstance.

Overall situation of household income and employment earnings

2. The labour market tightened further in early 2018. Latest statistics show that the seasonally adjusted unemployment rate fell to 2.8% in February – April, the lowest level in more than 20 years. Meanwhile, total employment registered an appreciable year-on-year growth of 1.3%. Median monthly household income, a reflection of the overall household income situation, rose notably in the first quarter of 2018, by 7.7% year-on-year in nominal terms or 5.1% in real terms after adjusting for inflation.

3. Overall wages and earnings stayed on the rise as labour demand remained robust on the back of the vibrant local economy. In the first quarter of 2018, the average employment earnings of full-time employees (excluding bonus) increased by 6.8% year-on-year in nominal terms, or 4.2% in real terms after netting out inflation. For full-time unskilled employees, their average employment earnings also grew visibly by 4.4% in nominal terms or 1.7% in real terms. For higher-skilled staff, the latest Salary Index for Managerial and Professional Employees indicates that employees in the same company and occupation enjoyed nominal and real year-on-year salaries growth of 4.9% and 3.1% respectively in June 2017 (*Table 1*).

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

(2) Being adjusted based on Consumer Price Index (A).

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

Period	Median monthly household income		Overall employment earnings of employees*		Employment earnings of unskilled employees^		Salaries of managerial and professional employees~		
2014	4.5	(0.1)	5.7	(1.2)	6.6	(0.9)	5.3	(1.8)	
2015	6.5	(3.4)	5.7	(2.6)	6.3	(2.2)	5.7	(3.8)	
2016	2.0	(-0.4)	6.1	(3.6)	5.7	(2.8)	5.2	(2.9)	
2017	Q1	4.0	(3.4)	3.3	(2.8)	5.2	(5.1)		
	Q2	4.0	(2.0)	4.3	(2.2)	5.8	(3.4)	4.9	(3.1)
	Q3	4.9	(3.1)	1.9	(0.1)	5.0	(2.9)		
	Q4	8.2	(6.5)	5.1	(3.4)	6.1	(4.4)		
2018	Q1	7.7	(5.1)	6.8	(4.2)	4.4	(1.7)	n.a	(n.a)

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

Economically active households with monthly household income below \$8,100 in real terms

4. In the first quarter of 2018, the number of economically active households with monthly household income below \$8,100 in real terms (referred to as “low-income households” thereafter) fell to 66 100, down by 3 000 or 4.4% over a year earlier. This constituted 2.6% of total domestic households⁽³⁾.

5. An analysis of the number and proportion of low-income households over the past ten years or so suggests that their changes largely followed economic cycles. During 2000 and 2008, when the economy performed persistently well for most of the period, the proportion of low-income households fell successively from a peak of 4.7% in the first quarter of 2003 to 2.9% in the first quarter of 2008. After the outbreak of the global financial tsunami in late 2008, the corresponding proportion rose back to 4.2% in the first quarter of 2009 as the Hong Kong economy was mired in recession. With economic recovery taking hold afterwards, the figure declined in tandem. At 2.6% in the first quarter of 2018, the proportion was 0.2 percentage point lower than a year ago and 1.6 percentage points below the peak in the first quarter of 2009 (*Table 2 and Chart 1*).

(3) All figures pertaining to low-income households in the first quarter of 2018 are provisional figures.

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

<u>Period</u>	Household type:			Of which:
	<u>Elderly households[#]</u>	<u>Non-elderly households</u>	<u>Total</u>	<u>Economically active persons therein</u>
Q1 2003	3 000 (0.1)	95 800 (4.5)	98 800 (4.7)	116 100 [3.6]
Q1 2008	3 100 (0.1)	62 200 (2.7)	65 300 (2.9)	72 300 [2.1]
Q1 2009	3 600 (0.2)	91 600 (4.0)	95 300 (4.2)	110 700 [3.2]
Q1 2011	3 300 (0.1)	75 200 (3.2)	78 500 (3.4)	85 500 [2.5]
Q1 2013	5 000 (0.2)	68 200 (2.9)	73 200 (3.1)	82 400 [2.3]
Q1 2015	6 500 (0.3)	61 100 (2.5)	67 600 (2.8)	74 000 [2.0]
Q1 2017	8 400 (0.3)	60 800 (2.4)	69 200 (2.8)	77 200 [2.1]
Q1 2018	7 100 (0.3)	59 000 (2.3)	66 100 (2.6)	70 600 [1.9]

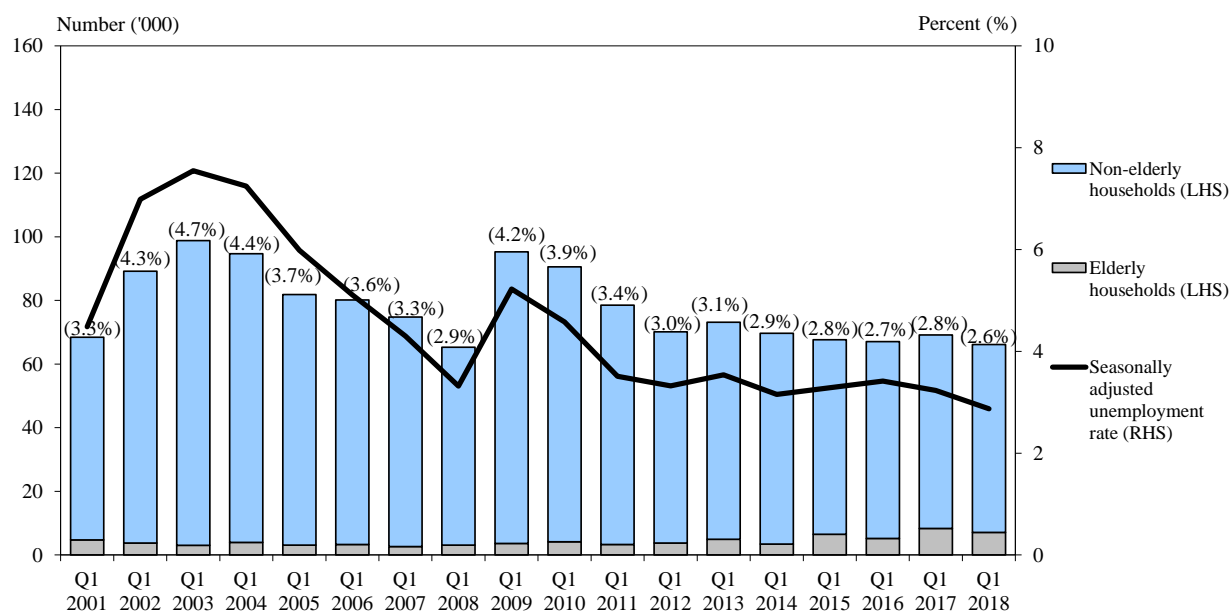
Notes : (*) Low-income households refer to households with monthly household income less than \$8,100 at constant Q2 2017 prices. This does not include households with all members being economically inactive.

(#) Elderly households refer to domestic households with all members aged 65 and above.

() Proportion in all domestic households (%).

[] Proportion in total labour force (%).

Chart 1 : Number of low-income households*



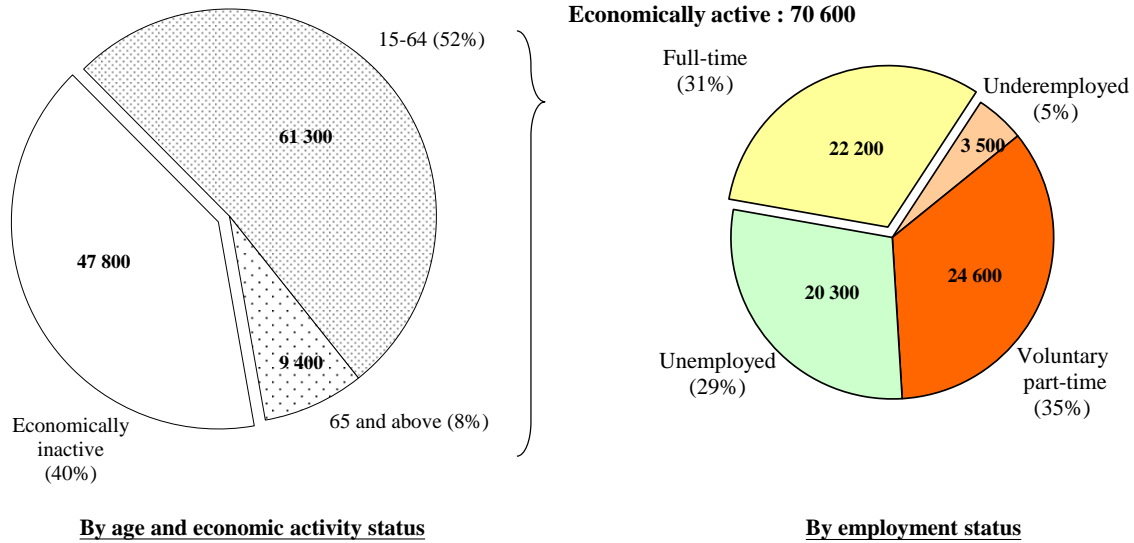
Notes : (*) Low-income households refer to households with monthly household income less than \$8,100 at constant Q2 2017 prices. This does not include households with all members being economically inactive. Figures in brackets are the proportions of low-income households in all domestic households.

Socio-economic characteristics of low-income households

6. Further decomposition of low-income households in the first quarter of 2018 reveals the following observations:

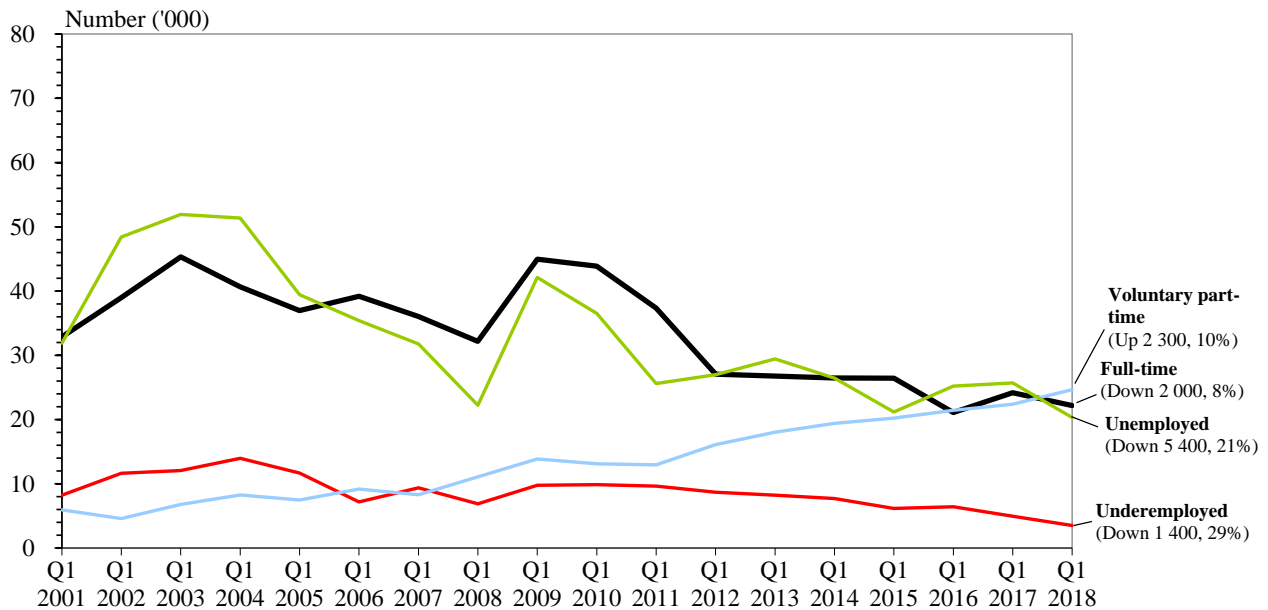
- There were 118 400 persons in the households in question, among whom 70 600 were economically active. Most of these economically active individuals (61 300 or 87%) were aged 15-64, with the majority within the age group of 40-64 (47 300 or 67%), whilst those aged 65 and above amounted to 9 400 (13%).
- The remaining 47 800 persons were economically inactive. 22 600 of them (47%) were either children aged below 15 or elderly persons aged 65 and above.
- A more in-depth analysis by employment status shows that among these 70 600 economically active persons, voluntary part-timers, unemployed and underemployed persons accounted for 35%, 29% and 5% respectively, while the proportion of full-time workers was only 31% (**Chart 2**). Among these, the number of voluntary part-timers rose by 10% over a year ago (**Chart 3**).

Chart 2 : Persons living in low-income households* by age and economic activity status, Q1 2018



Note : (*) Low-income households refer to households with monthly household income less than \$8,100 at constant Q2 2017 prices. This does not include households with all members being economically inactive.

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



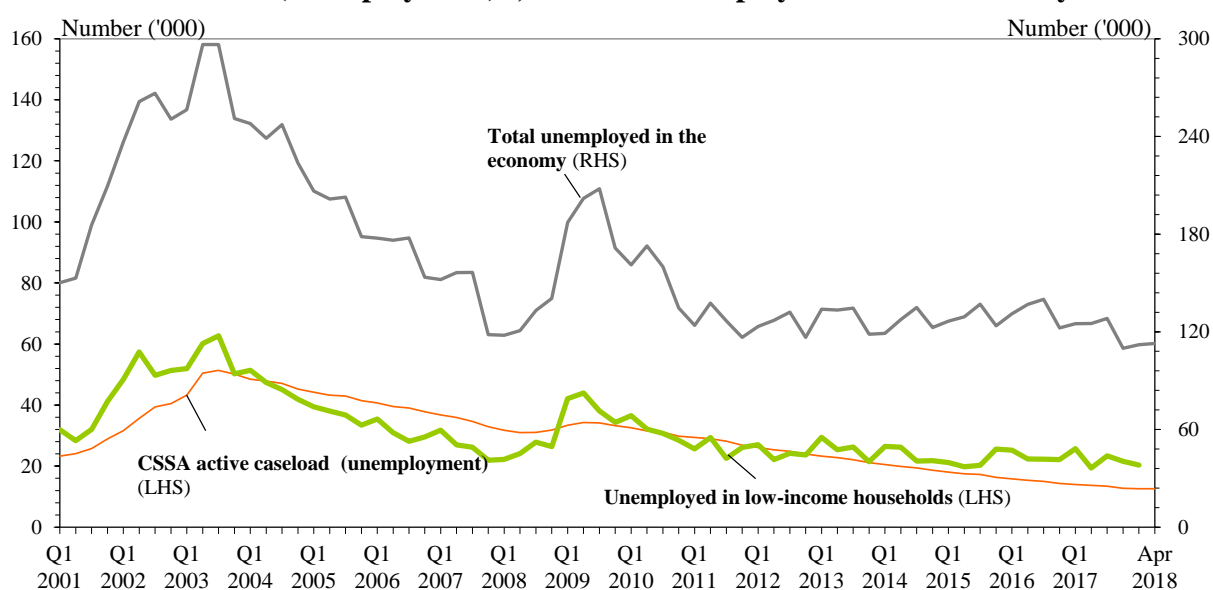
Notes : (*) Low-income households refer to households with monthly household income less than \$8,100 at constant Q2 2017 prices. This does not include households with all members being economically inactive. Figures in brackets are the year-on-year changes in number of economically active persons in Q1 2018.

- Analysed by occupation, the majority of the employed persons living in low-income households (88%) were lower-skilled workers (37% were elementary workers, and 31% were service and sales workers). A breakdown by economic sector reveals that most of them were engaged in the retail, accommodation and food services sector (15 000 or 30%), followed by transportation (5 400 or 11%).

The number of CSSA cases

7. The lower-skilled unemployment rate in February – April 2018 fell by 0.5 percentage point from a year earlier to 3.2%. Meanwhile, the number of overall CSSA caseload declined by 4 646 (or 2.0%) to 231 543 in April 2018 as compared to a year earlier. The decrease in unemployment cases was even more distinct, by 1 256 (or 9.1%) to 12 619 over the same period (*Chart 4*). This indicates that a large number of grassroots workers were able to re-enter the labour market and leave the social security net amid tight labour market conditions over the past year.

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



Notes : (*) Low-income households refer to households with monthly household income less than \$8,100 at constant Q2 2017 prices. This does not include households with all members being economically inactive.

(^) Monthly period-end figures.

Concluding remarks

8. Employment is the best route out of poverty. The Government will continue to strengthen employment / training and retraining services so as to provide support to job-seekers, and assist needy persons who cannot provide for themselves through the social security system on a reasonable and sustainable basis. The Government will also keep on investing substantially in education in order to improve the competitiveness and skills of the workforce in a knowledge-based society, increase social mobility, and reduce the child poverty risk and inter-generational poverty. To improve the livelihood of the grassroots, the fundamental solution is to promote overall economic growth so as to provide more employment and income opportunities.

9. Against the backdrop of the strong local economic performance, the latest earnings situation of the grassroots was buttressed by the further tightening up of the labour market. In April this year, the Government implemented a series of improvement measures to the Working Family Allowance scheme (previously named as the Low-income Working Family Allowance scheme), with an aim to encourage self-reliance and ease inter-generational poverty, so that more working households could benefit from the scheme.

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