



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

The Government released the First Quarter Economic Report 2019 on 17 May. The Economic Report, together with the press release containing the updated economic forecasts for the whole year of 2019, 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 2019, and summarises the updated economic forecasts by the Government for 2019 as a whole.

Office of the Government Economist
Financial Secretary's Office
24 May 2019

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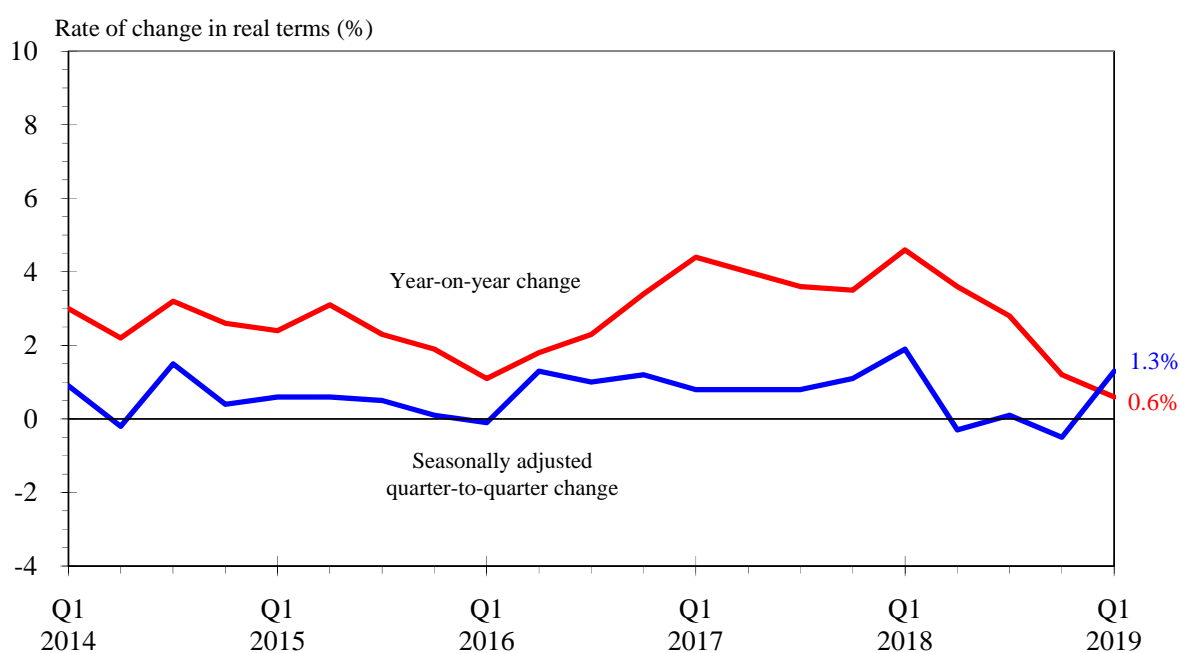
Introduction

This paper analyses the latest development of the Hong Kong economy, and briefly discusses the outlook for the rest of 2019, and provides updated economic forecast by the Government for 2019 as a whole.

Recent economic situation

2. The Hong Kong economy expanded modestly by 0.6%⁽¹⁾ over a year earlier in the first quarter of 2019, slower than its growth of 1.2% in the preceding quarter. Exports were adversely affected by the weaker performance of the global economy and various external headwinds. Domestic demand also lacked momentum, reflecting the cautious local economic sentiment amid a challenging external environment. The modest year-on-year growth was also related to the high base of comparison in the same quarter of last year when the economy grew strongly by 4.6%. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew by 1.3% in the first quarter. The more notable quarter-to-quarter growth was due to the low base of comparison in the fourth quarter of 2018 when a contraction of 0.5% was recorded (*Chart 1*).

Chart 1 : The Hong Kong economy expanded modestly in the first quarter of 2019



(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 weaker performance of the global economy, having become evident in the latter part of 2018, continued in the first quarter of 2019. The Mainland economy held stable despite the external headwinds. The US economy grew solidly due partly to a surge in inventory, but its private consumption and fixed investment actually slowed. Growth in the euro area economy remained modest. In Asia, the Japanese economy expanded slowly, and other high-income Asian economies showed moderated growth. In contrast, developing Asian economies generally stayed resilient thanks to solid domestic demand. In the face of various external headwinds, manufacturing and trading activities in the region remained weak in general.

4. The global trading environment continued to face uncertainties created by the US trade policy. On US-Mainland trade tensions, the additional tariffs already implemented, together with the associated uncertainties, have continued to disrupt manufacturing and trading activities in Asia. In early May, US-Mainland trade tensions escalated again. The US raised the additional tariffs on around US\$200 billion worth of imports from the Mainland and indicated its intention to extend further the scope of additional tariffs. The Mainland also announced its countermeasures. The US-Mainland trade negotiation has been quite bumpy. Meanwhile, trade negotiations between the US and its other major trading partners, including Japan and the EU, have also added uncertainty to the external environment.

5. In view of the weakened economic outlook and subdued inflation, major central banks, including the US Federal Reserve and the European Central Bank, have adopted a more accommodative monetary policy stance. Waning expectations of further monetary policy normalisation by the major central banks, together with the positive expectation on the progress of the US-Mainland trade negotiation in the first quarter of this year, helped fuel investor sentiment, leading to a strong rebound in global stock markets in the first quarter. Nevertheless, the International Monetary Fund (IMF) in early April further revised down its global economic growth forecast for 2019 to 3.3%. This will be the lowest growth rate since 2009 if materialized. Although the IMF envisaged that growth could pick up in the second half of the year after a weak start in the first half, prolonged trade tensions and the associated uncertainty could further weaken global economic growth.

6. Against this background, Hong Kong's total exports of goods weakened further to record a decline of 4.1% in the first quarter, similar to the situations in many other economies in Asia (*Chart 2(a)*). Exports to the US declined noticeably, especially for products directly affected by the additional tariffs imposed by the US

last year. In addition to the tariff measures, the weaker consumption and investment demand there should also be a contributory factor. Exports to many markets in Asia also showed decreases of varying degrees. Specifically, exports to the Mainland and to Japan posted larger year-on-year decreases. On the other hand, exports to Singapore and Korea continued to increase. Exports to the EU, which were less affected by the trade frictions, saw visible growth.

7. Hong Kong's exports of services also decelerated, to 1.1% in the first quarter (*Chart 2(b)*). Underpinned by the increase in visitor arrivals, exports of travel services registered further solid growth, albeit at a somewhat decelerated rate, amid softer per capita visitor spending. Exports of financial services declined modestly amid less active global financial activities. Exports of transport services, and business and other services likewise turned to decrease modestly.

Chart 2(a) : Total exports of goods weakened further

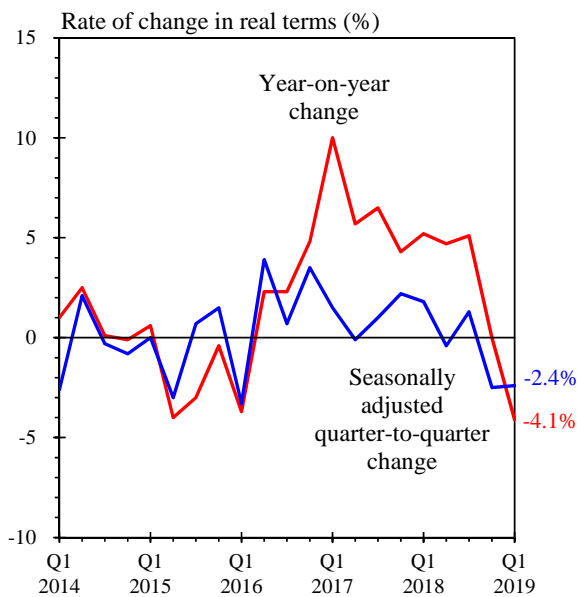
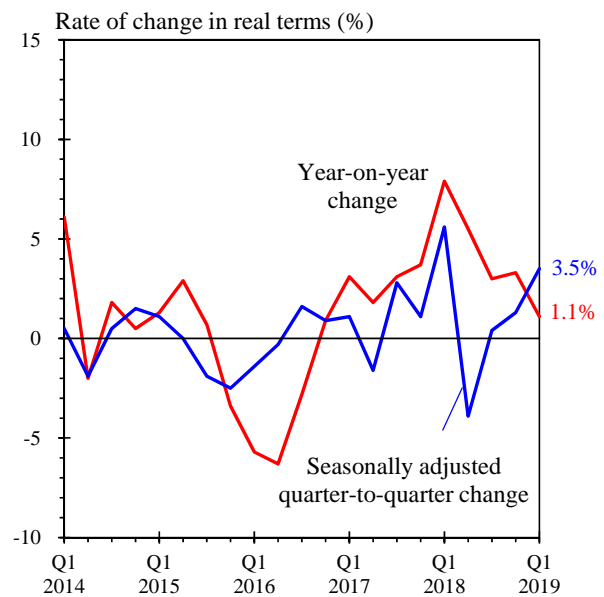


Chart 2(b) : Exports of services also decelerated



Domestic sector

8. Domestic demand weakened in the first quarter compared with a year earlier. Private consumption expenditure expanded by a meagre 0.2% (*Chart 3(a)*). The marginal growth reflected partly the cautious local consumer sentiment and partly the exceptionally high base of comparison in the same quarter last year.

9. Overall investment spending in terms of gross domestic fixed capital formation fell further by 7.1% in the first quarter (*Chart 3(b)*), as business sentiment has turned cautious since the latter part of last year. Within the total, expenditure on acquisitions of machinery, equipment and intellectual property products switched to a decline, dragged down by weakened spending by the private sector. Expenditure on building and construction recorded a further fall, as expenditure in both private and public sector contracted.

Chart 3(a) : Private consumption expenditure expanded meagrely

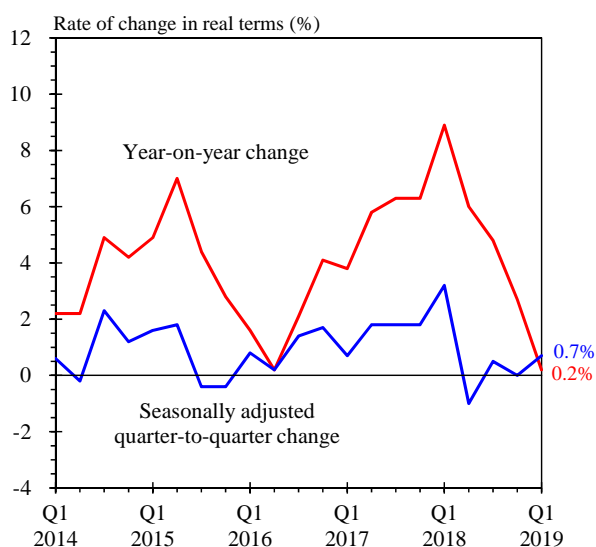
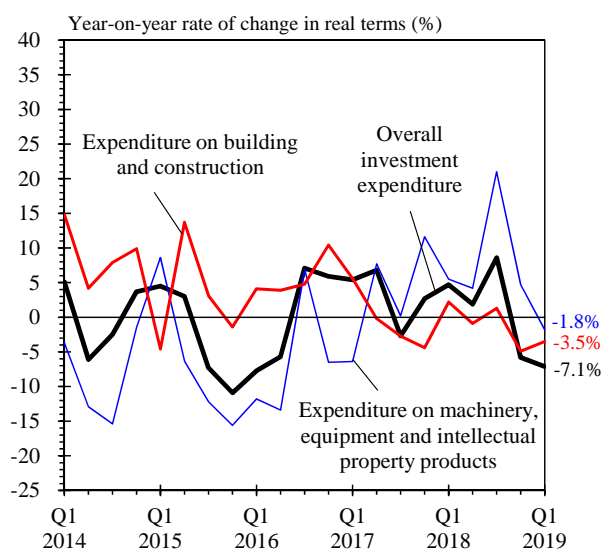


Chart 3(b) : Investment spending fell further

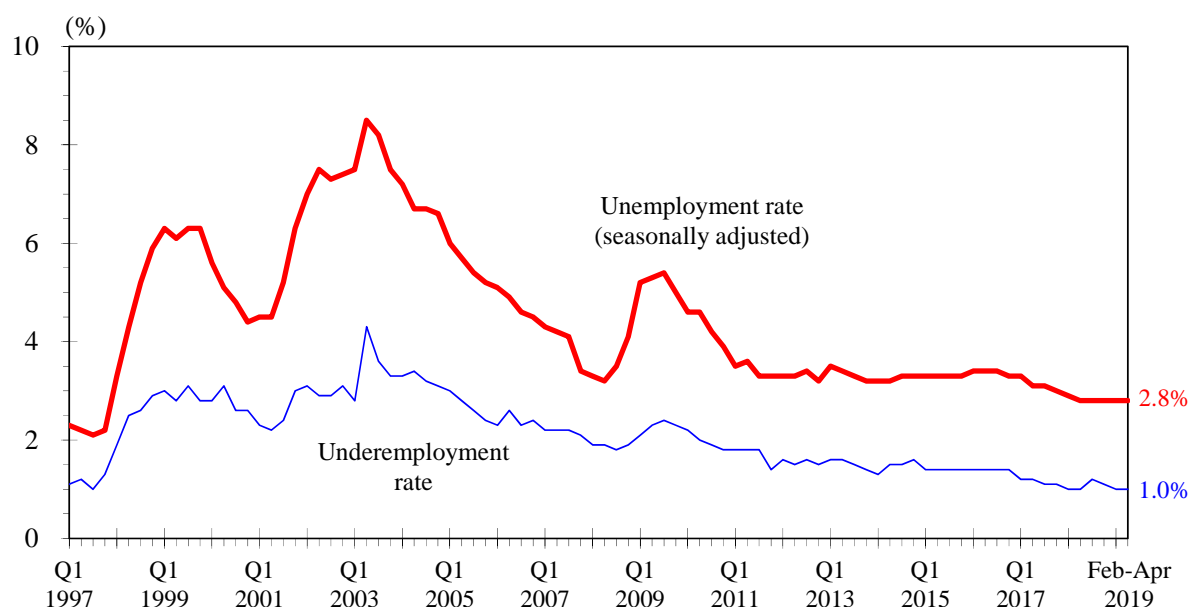


10. As for external direct investment (DI), the total stock of inward DI amounted to \$17.5 trillion at end-2018, equivalent to 6.1 times of GDP. The Mainland remained a prominent source of Hong Kong's inward DI, accounting for around 25% of the total stock of inward DI at end-2017 (latest available figure), a manifestation of our intermediary role between the Mainland and the rest of the world.

Labour Market

11. The labour market remained tight in February – April 2019. The seasonally adjusted unemployment rate stayed low at 2.8%, while the underemployment rate was likewise at a low level of 1.0% (*Chart 4*). Data collected from private sector establishments indicated that labour demand remained sturdy at end-2018, as shown by solid job gains and increases in vacancies across many service sectors.

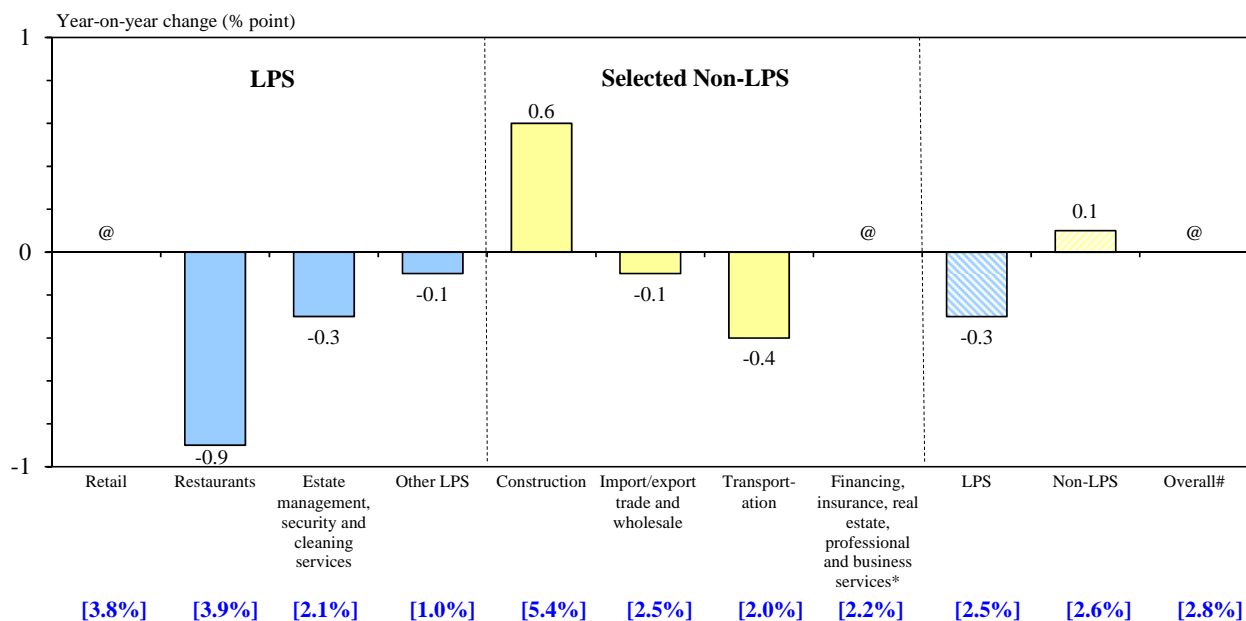
Chart 4 : The labour market remained tight



12. The Hong Kong economy has witnessed sustained expansion since the implementation of Statutory Minimum Wage (SMW), thereby alleviating to a large extent the potential impact on employment brought about by SMW. In February – April 2019, the unemployment rate of the low-paying sectors (LPS)⁽²⁾ as a whole declined by 0.3 percentage point from a year earlier to 2.5%, while that of the non-LPS inched up by 0.1 percentage point to 2.6% (*Chart 5*). Analysed by skill segment, the unemployment rate of the lower-skilled segment decreased by 0.2 percentage point from its year-ago level to 3.0%, whereas that of the higher-skilled segment rose by 0.3 percentage point to 2.0%.

(2) The fourth-term 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 many sectors declined from a year earlier



Notes: Figures in square brackets refer to the unemployment rate for that sector in Feb-Apr 2019 (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.

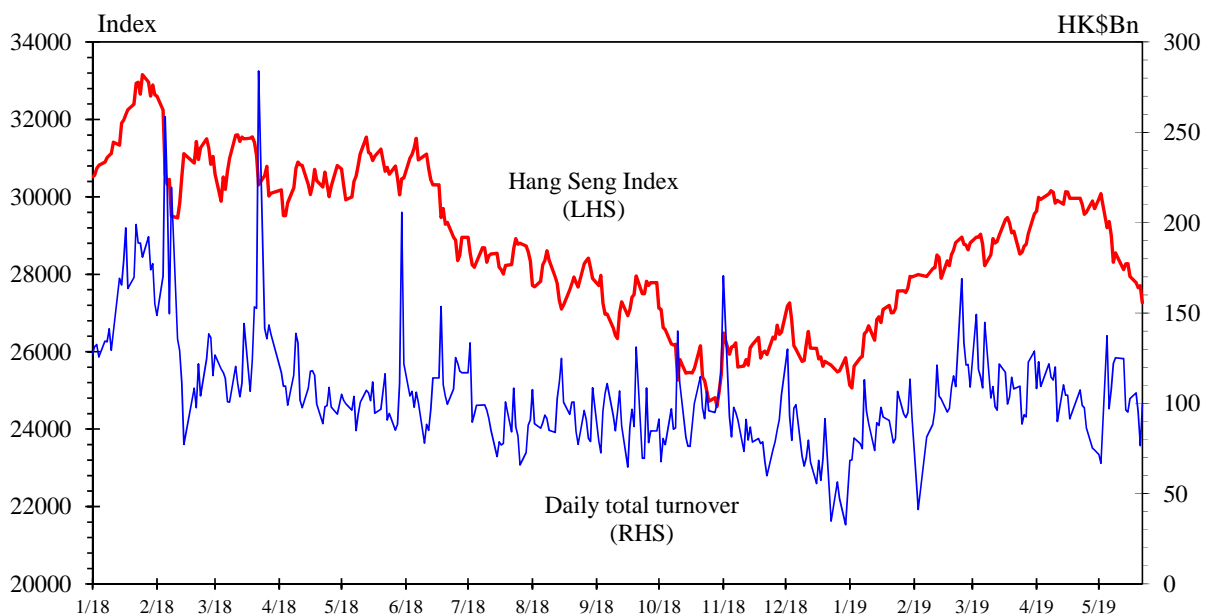
(@) Change less than 0.05 percentage point.

13. Backed by tight labour market conditions, wage and earnings continued to grow solidly, translating into real increases across most of the major sectors. In December 2018, nominal wages rose by 4.1% over a year earlier, while nominal payroll increased by 3.7% in the fourth quarter of 2018, both well exceeding the inflation rate over the same period, indicating real improvement in overall labour earnings. More recent data showed that the average monthly employment earnings of full-time employees (excluding foreign domestic helpers) in the lowest three income-decile groups combined rose by 4.2% year-on-year in nominal terms in the first quarter of 2019, translating into a real increase of 1.6% after discounting inflation. For the overall income situation, the median monthly household income (excluding foreign domestic helpers) increased year-on-year by 4.0% in nominal terms or 1.8% in real terms in the first quarter of 2019. (Please refer to *Annex* for details of the recent situation of household income.)

Asset markets

14. In contrast to the performance of the real economy, the local stock market staged a strong rebound in the first four months of this year after a sharp correction in 2018, as investor sentiment was boosted by the reported progress of the US-Mainland trade talks during the period and receding concerns about further US interest rate hikes. However, the escalation of US-Mainland trade tensions in early May weighed on market sentiment. The Hang Seng Index soared by 14.9% in the first four months of 2019 to 29 699 at end-April before retreating to 27 267 on 23 May (*Chart 6*). Average daily turnover of the stock market surged to \$101.8 billion in the first four months from \$85.7 billion in the fourth quarter of last year.

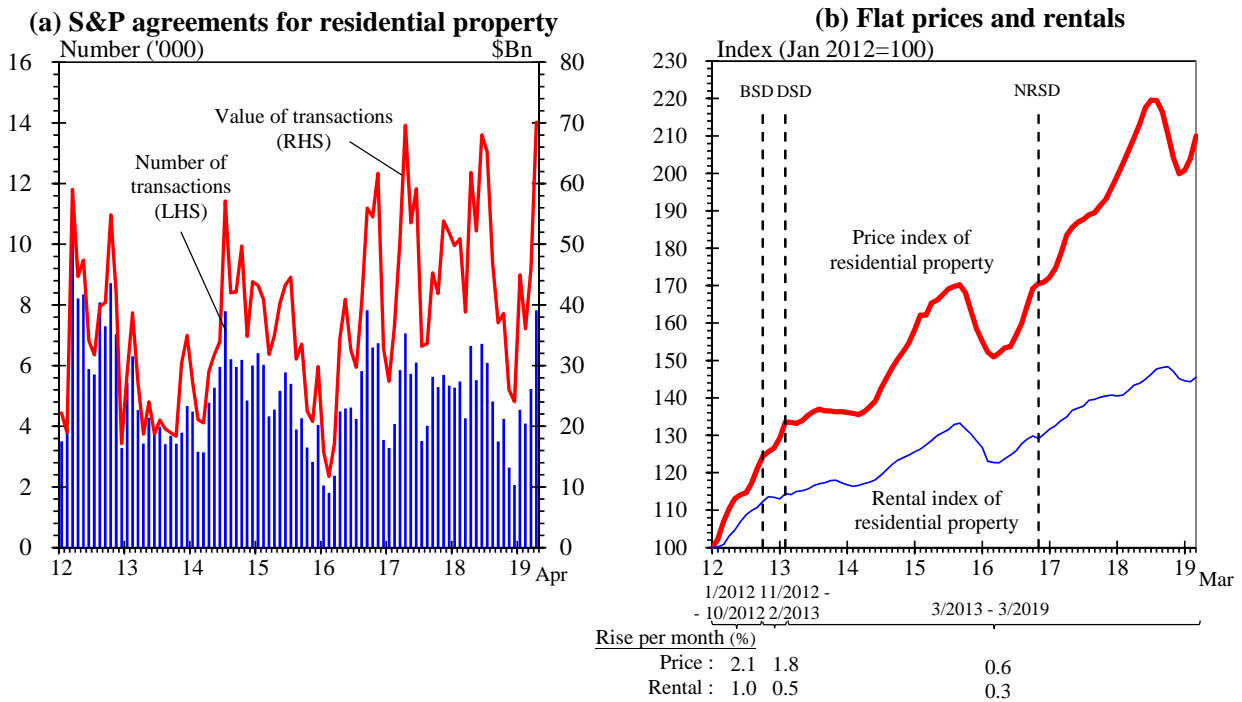
Chart 6 : Local stock market staged a strong rebound in the first four months of 2019



15. The residential property market rebounded since January 2019, after undergoing a consolidation in the second half of 2018. The earlier expectations of a positive outcome of the US-Mainland trade talks, the revival in global stock markets, and dissipated expectations of further interest rate hikes in the US all lent support to market sentiment. The monthly average number of sale and purchase agreements for residential property received by the Land Registry picked up to 5 421 in the first four months of 2019, a sharp rise of 82% over the monthly average in the fourth quarter of 2018 (*Chart 7(a)*).

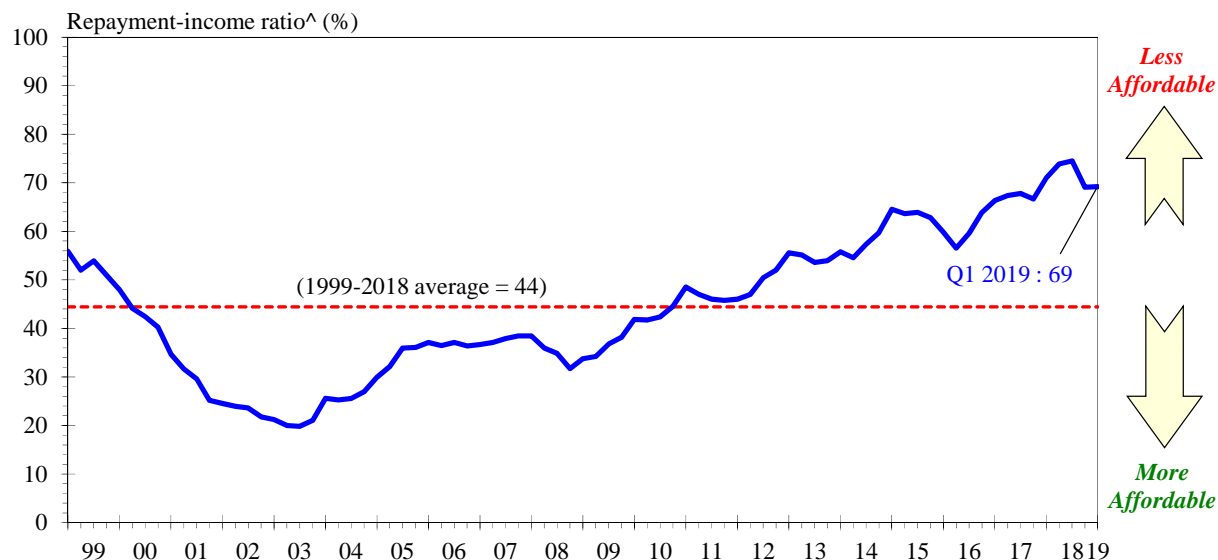
16. Amid the revival in market sentiment, flat prices rebounded strongly by 5% between December 2018 and March 2019, though they were still 4% lower than the recent peak in July 2018. Meanwhile, flat rentals were little changed over the same period (*Chart 7(b)*).

Chart 7 : The residential property market rebounded since January 2019



17. As a result of the general rise over the past several years, flat prices in March 2019 exceeded the 1997 peak by 118%. 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), which reflects the pressure of flat prices on the public, remained elevated at around 69% in the first quarter of 2019, significantly above the long-term average of 44% over 1999-2018 (*Chart 8*).

Chart 8 : The index of home purchase affordability remained elevated



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

18. Raising flat supply through increasing land supply is a key policy of the Government. In February, the Government announced the 2019-20 Land Sale Programme, which comprises 15 residential sites capable of providing about 8 900 flats in total. Combining the various sources (including Government land sale, railway property development projects, the Urban Renewal Authority's projects, and private development and redevelopment projects), the total private housing land supply in 2019-20 has an estimated capacity of providing about 15 500 units. The total supply of flats in the private sector 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) would stay at a high level of 93 000 units as estimated at end-March 2019. Also, the annual average completions of private residential flats are projected at about 18 800 units in 2019-2023, an increase of around 20% over the corresponding average in the past five years.

19. Over the past several years, the Government has also implemented demand-management and macro-prudential measures to dampen speculative, investment and non-local demand, and to 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 58 cases per month or 0.9% of total transactions in the first four months of 2019, 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 effect of the Buyer's Stamp Duty, purchases by non-local

individuals and non-local companies also stayed low at 44 cases per month or 0.7% of total transactions in the first four months of 2019, 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, the number of purchases subject to the New Residential Stamp Duty was 383 cases per month or 6.3% of total transactions in the first four months of 2019, 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 47% in the first quarter of 2019, 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

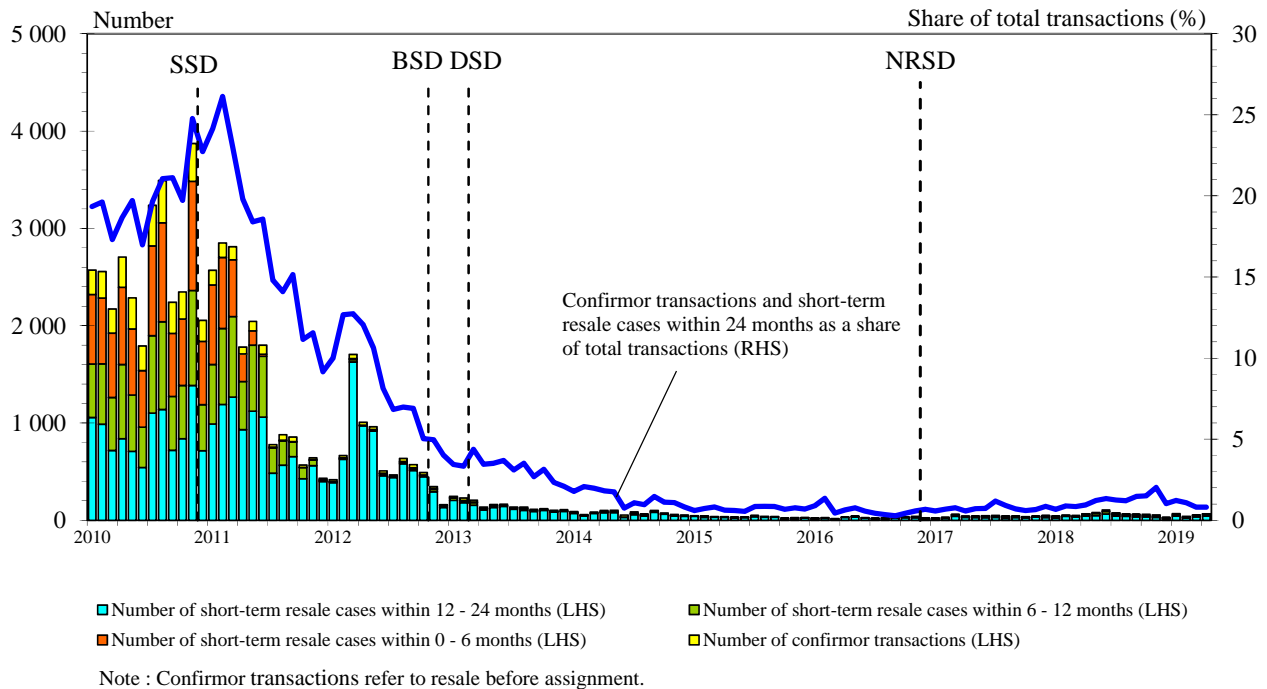


Chart 10 : Purchases by non-local buyers remained low

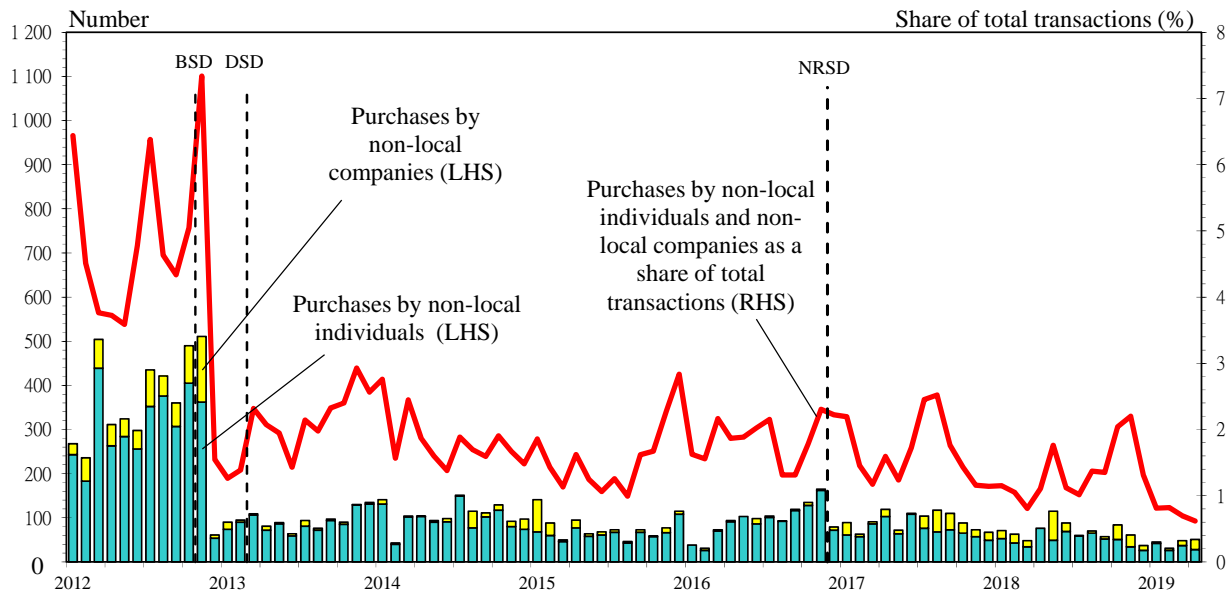
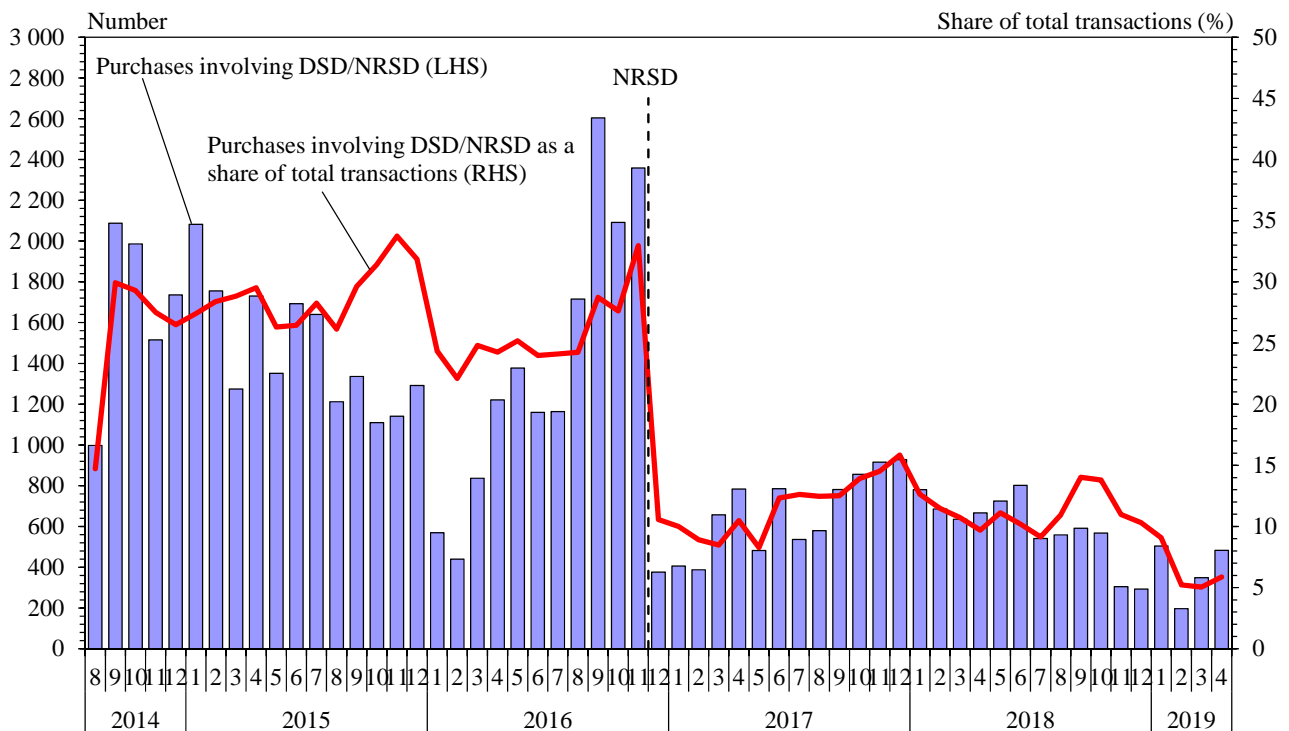


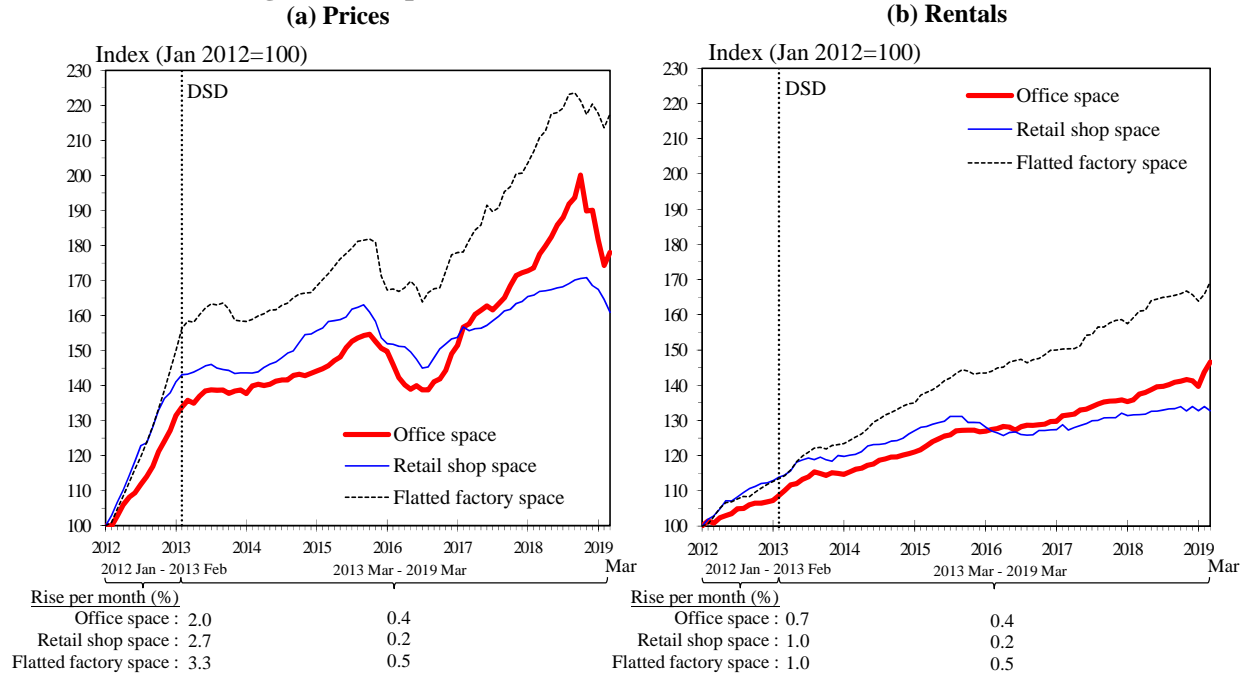
Chart 11 : Investment activities were modest



20. In contrast to the residential property market, the commercial and industrial property markets were generally lacklustre in the first quarter. Sale prices of office space fell by 6% in overall terms between December 2018 and March 2019, while office rentals increased by 4%. For retail shop space, sale prices and rentals declined by 5% and 1% respectively over the same period. As to flatted factory space, sale prices edged down by 1%, while rentals rose by 2% (*Chart 12*).

Trading activities of these market segments remained at low levels in the first quarter.

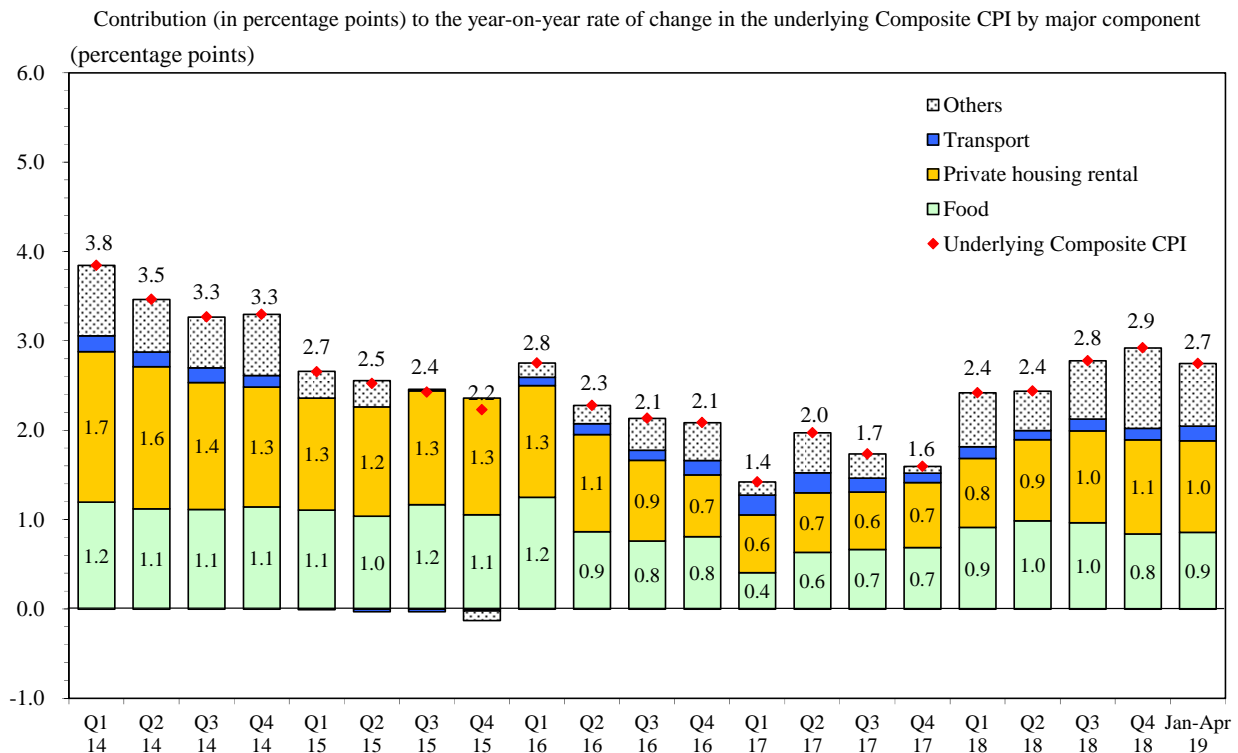
Chart 12 : Prices of non-residential properties saw further declines during the first quarter, while rentals exhibited diverse movements



Inflation

21. Consumer price inflation went down slightly in the first four months of 2019. Netting out the effects of the Government’s one-off relief measures to more accurately reflect the underlying inflation trend, underlying consumer price inflation eased to 2.7% in the first four months combined in 2019 (*Chart 13*), from 2.9% in the fourth quarter of 2018.

Chart 13 : Consumer price inflation went down slightly in the first four months of 2019



22. Analysed by major component of the underlying Composite Consumer Price Index (Composite CPI) (*Table 1*), the private housing rental component edged down to a year-on-year increase of 3.3% in the first four months combined in 2019, as the consolidation of fresh-letting residential rentals earlier on began to feed through. Prices of food, the component with the largest weight other than housing, also rose steadily by 3.1%, with the faster increase in prices of basic foodstuffs largely offset by a smaller increase in prices of meals away from home. As to other components, prices of miscellaneous goods and transport rose moderately further, while those of clothing and footwear declined slightly from the year-ago levels. Prices of miscellaneous services rose at a slower pace on a year-on-year basis, mainly due to the smaller increase in the charges for package tours, as prices of many other components such as school fees and household services continued to post steady increases. Prices of electricity, gas and water also recorded a more moderate increase, reflecting the general year-on-year declines in global energy prices in recent months. Prices of durable goods continued to stay on a 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>2018</u>					<u>2019</u>		
		<u>2018</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	3.4	3.3	3.6	3.5	3.0	3.1	3.0	3.1
<i>Meals bought away from home</i>	17.74	2.9	3.0	3.0	2.9	2.6	2.3	2.2	2.3
<i>Other foodstuffs</i>	9.55	4.3	3.8	4.9	4.8	3.7	4.6	4.6	4.6
Housing ^(a)	34.29	3.2 (2.5)	2.5 (2.5)	2.9 (2.0)	3.4 (2.5)	3.9 (3.0)	3.9 (2.9)	3.7 (4.3)	3.8 (3.3)
<i>Private housing rent</i>	29.92	3.1 (2.2)	2.5 (2.5)	3.0 (1.9)	3.4 (2.3)	3.4 (2.4)	3.4 (2.3)	3.2 (3.9)	3.3 (2.7)
<i>Public housing rent</i>	1.94	3.6 (4.1)	0.1 (0.4)	0.5 (0.4)	3.6 (4.1)	10.1 (11.6)	10.1 (11.6)	9.9 (10.9)	10.0 (11.4)
Electricity, gas and water	2.67	4.7 (4.9)	8.4 (8.3)	3.5 (3.7)	3.6 (3.8)	3.7 (4.0)	1.4 (-4.9)	1.9 (-4.3)	1.5 (-4.7)
Alcoholic drinks and tobacco	0.54	1.3	0.3	0.6	1.7	2.7	2.7	2.3	2.6
Clothing and footwear	3.21	1.6	2.3	2.0	2.3	0.1	-0.2	-1.0	-0.4
Durable goods	4.65	-2.0	-2.1	-2.1	-2.0	-1.9	-2.1	-2.1	-2.2
Miscellaneous goods	3.56	1.3	1.1	1.3	1.5	1.4	1.6	1.9	1.7
Transport	7.98	1.6	1.7	1.3	1.7	1.7	1.9	2.7	2.1
Miscellaneous services	15.81	2.1	1.7	1.4	2.1	3.1	1.9	3.2	2.2
All items	100.00	2.6 (2.4)	2.4 (2.4)	2.4 (2.1)	2.8 (2.5)	2.9 (2.6)	2.7 (2.2)	2.9 (2.9)	2.7 (2.4)

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.

Updated economic forecasts for 2019

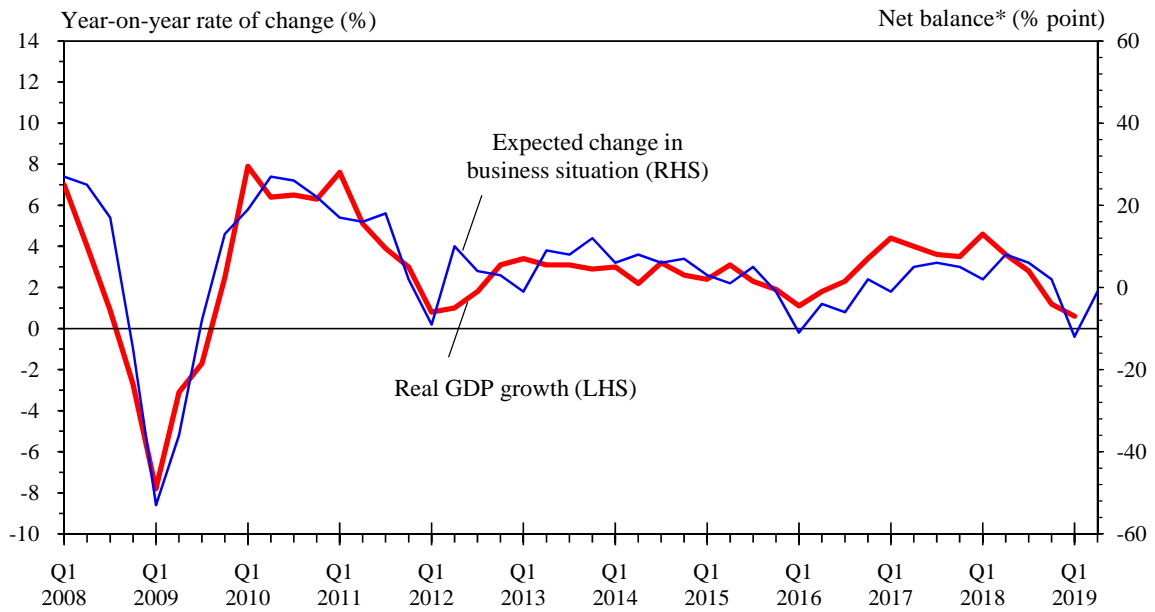
23. The global economy had a weak start in 2019 due to US-Mainland trade tensions and other headwinds. Lately, US-Mainland trade tensions have escalated again, and there were twists in the negotiation between the two sides. These recent developments showed that it would take time to resolve the deep differences between the two sides. On the other hand, there have been some positive developments in the external environment so far this year, including the better-than-expected performance of the Mainland economy, the solid performance of the emerging market economies in Asia and the earlier improvement in global financial market sentiments. Yet, apart from US-Mainland trade tensions, other external uncertainties, such as Brexit, geopolitical tensions, and changes in domestic politics in some advanced economies, also warrant attention.

24. Hong Kong's export performance in the period ahead will, to a large extent, depend on how the US-Mainland trade tensions will evolve. If the two sides can reach a trade agreement shortly, this would help reduce the uncertainties in the external environment and boost the global economic sentiment, thereby rendering solid support to Asia's exports including those of Hong Kong later this year, and providing impetus to other segments of the local economy.

25. Domestic demand would also continue to be affected by various uncertainties in the external environment. Yet, the largely stable labour market should continue to provide support to local consumption. Moreover, various surveys conducted between February and April (including the latest Quarterly Business Tendency Survey, see *Chart 14*) also suggested that business sentiment in Hong Kong, albeit still cautious, displayed some relative improvement.

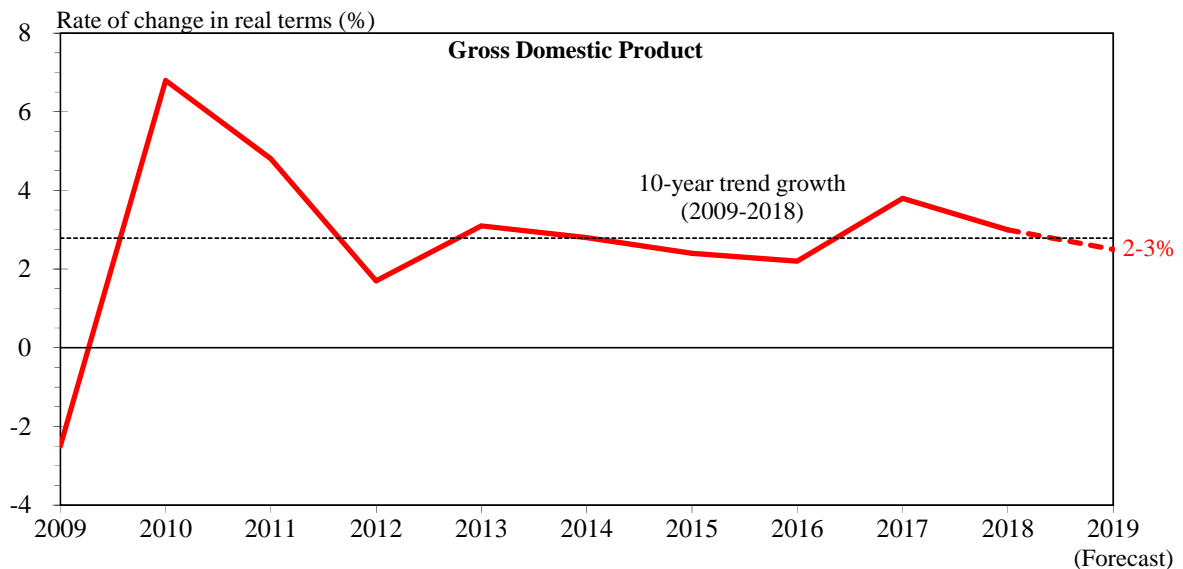
26. With the global economy facing various challenges, the performance of the Hong Kong economy in the first quarter of 2019 was within expectations. As such, the Government maintains the forecast real GDP growth of 2-3% for 2019 as announced in the Budget (*Chart 15*). The near-term economic outlook is subject to a high level of uncertainties. The US-Mainland trade tensions, if do not show any easing in the near term, would pose a drag on the global economy, and the Hong Kong economy would inevitably face larger downward pressures. The Government will continue to closely monitor developments on both the external and local fronts. For reference, the IMF in April forecast the Hong Kong economy would grow by 2.7% this year, and the forecasts by private sector analysts in mid-May mostly ranged from 1.2-2.7%, averaging around 2.2%.

Chart 14 : Business sentiment among large enterprises showed relative improvement



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 2019 as a whole is forecast at 2-3%



27. Inflation will stay moderate in the near term. The earlier moderation in fresh-letting residential rentals should have a mitigating effect in the coming months. External price pressures also showed some easing recently (*Chart 16*). The forecast rates of underlying and headline consumer price inflation for 2019 are thus both maintained at 2.5%, the same as those announced in the Budget (*Chart 17*).

Chart 16 : Local cost pressures were largely steady while external price pressures showed some easing

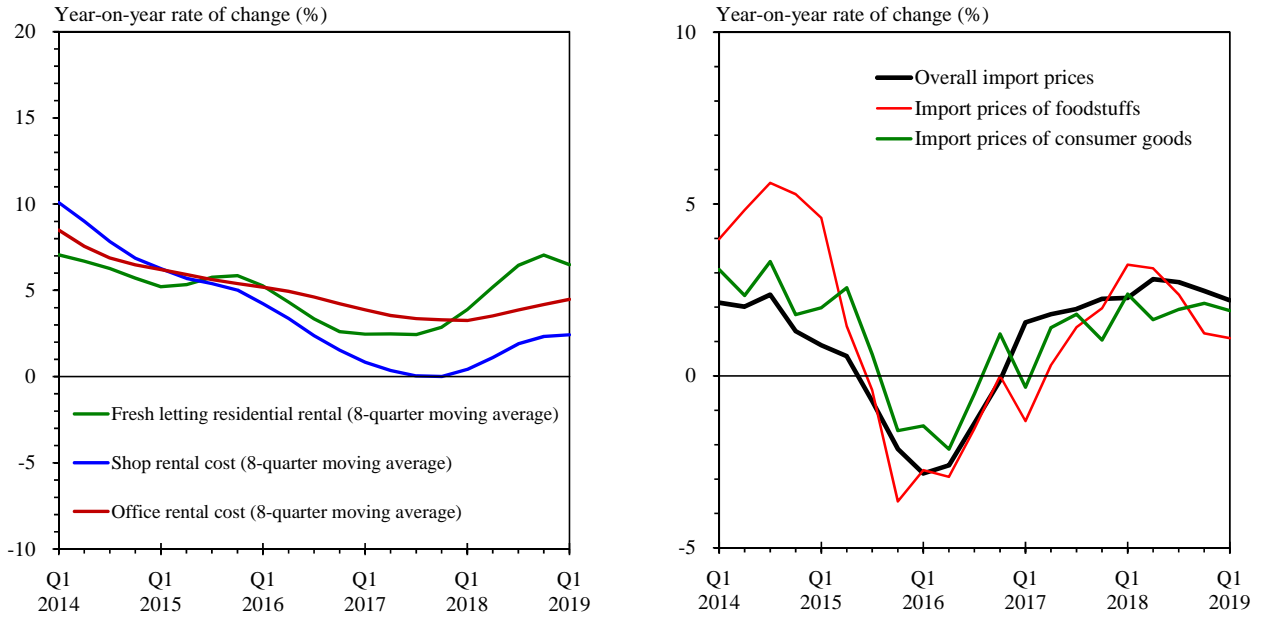
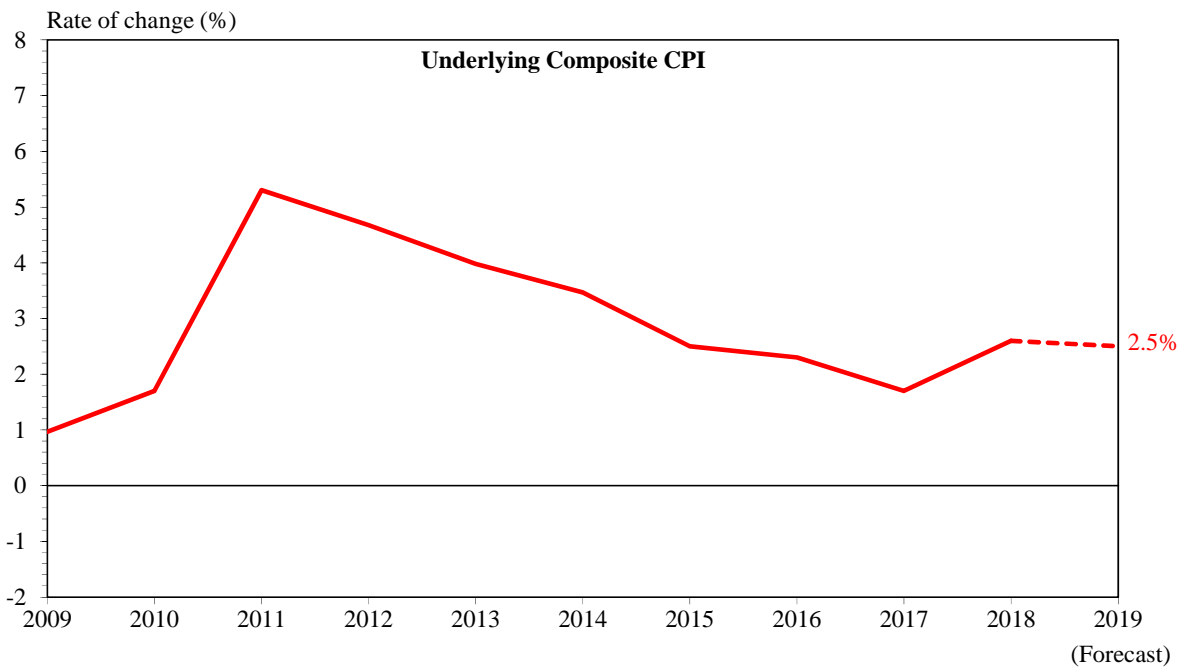


Chart 17 : Inflationary pressure should remain moderate in 2019



Office of the Government Economist
 Financial Secretary's Office
 24 May 2019

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. The benchmark of monthly household income for low-income households is adjusted by inflation⁽²⁾ to increase from \$8,100 (at constant Q2 2017 prices) to \$8,500 (at Q1 2019 prices), so as to reflect the latest circumstance.

Overall situation of household income and employment earnings

2. The local labour market remained tight in early 2019. Latest statistics show that the seasonally adjusted unemployment rate stayed at a low level of 2.8% in February – April. In the first quarter of 2019, median monthly household income, a reflection of the overall household income situation, saw an increase of 4.0% year-on-year in nominal terms or 1.8% in real terms after adjusting for inflation.

3. Overall wages and earnings increased further on the back of the largely stable labour market. In the first quarter of 2019, the average employment earnings of full-time employees (excluding bonus) increased by 3.4% year-on-year in nominal terms or 1.2% in real terms after netting out inflation. For full-time unskilled employees, their average employment earnings also grew appreciably by 7.4% in nominal terms or 4.7% 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 4.8% and 2.6% respectively in June 2018 (*Table 1*).

(1) This annex was originally provided in response to a Member's request at the meeting of the Panel on Financial Affairs on 5 December 2005. It has since been updated regularly for Members' information. 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~		
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	5.0	(3.5)	4.3	(2.8)	5.5	(3.9)	4.9	(3.1)	
2018	Q1	7.7	(5.1)	6.2	(3.7)	4.5	(1.8)		
	Q2	5.9	(3.7)	5.7	(3.5)	6.5	(4.0)	4.8	(2.6)
	Q3	8.7	(6.1)	6.1	(3.6)	4.6	(1.7)		
	Q4	3.7	(1.1)	2.6	(@)	3.6	(0.5)		
2019	Q1	4.0	(1.8)	3.4	(1.2)	7.4	(4.7)	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.
 (@) Less than 0.05%.
 (n.a.) Not available.

Economically active households with monthly household income below \$8,500

4. In the first quarter of 2019, the number of economically active households with monthly household income below \$8,500 (referred to as “low-income households” thereafter) was 76 100. This constituted 2.9% 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 in recession. With economic recovery taking hold afterwards, the figure declined gradually to a low level in 2018. Although the proportion in the first quarter of 2019 (2.9%) was higher than a year ago (by 0.3 percentage point), it was still at a relatively low level. It should also be noted that the proportion of low-income elderly households rose gradually from 0.1% about ten years ago to 0.4% in the first quarter of 2019 (*Table 2 and Chart 1*).

(3) All figures pertaining to low-income households in the first quarter of 2019 are provisional figures.

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

<u>Period</u>	Household type:		<u>Total</u>	Of which:
	<u>Elderly households[#]</u>	<u>Non-elderly households</u>		<u>Economically active persons therein</u>
Q1 2003	3 000 (0.1)	95 800 (4.5)	98 800 (4.7)	116 100 [3.6]
Q1 2007	2 700 (0.1)	72 100 (3.2)	74 800 (3.3)	85 500 [2.5]
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)	60 700 (2.4)	69 100 (2.8)	77 100 [2.1]
Q1 2018	7 100 (0.3)	59 000 (2.3)	66 100 (2.6)	70 600 [1.9]
Q1 2019	9 300 (0.4)	66 800 (2.6)	76 100 (2.9)	83 000 [2.3]

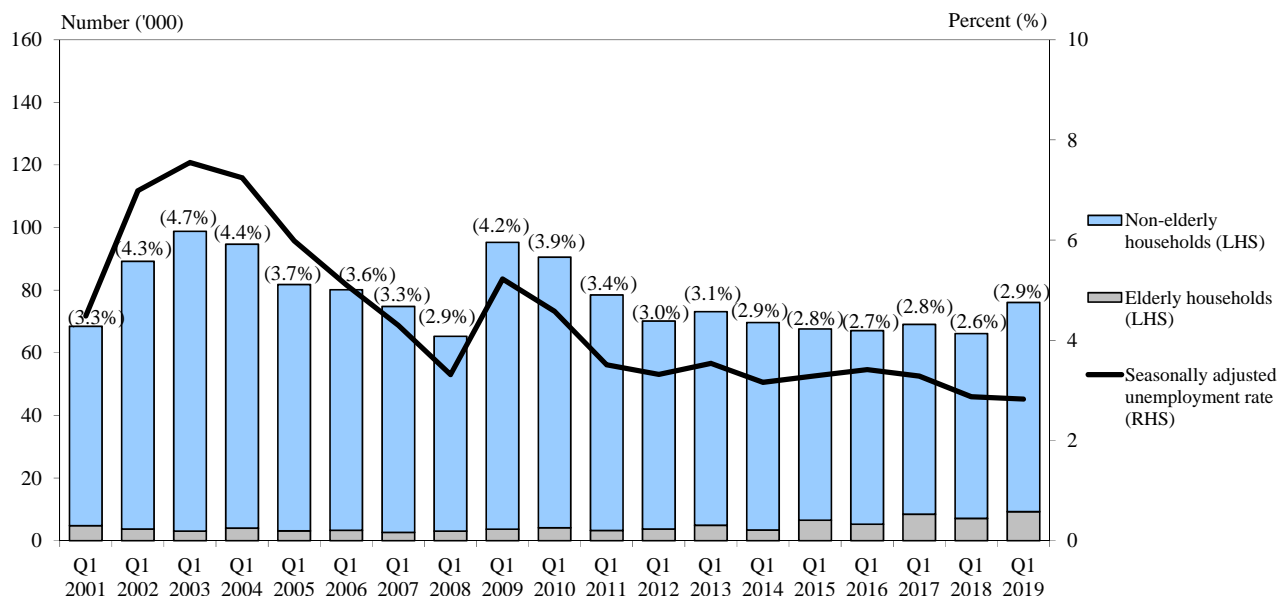
Notes : (*) Low-income households refer to households with monthly household income less than \$8,500. This does not include households with all members being economically inactive.

(#) 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*



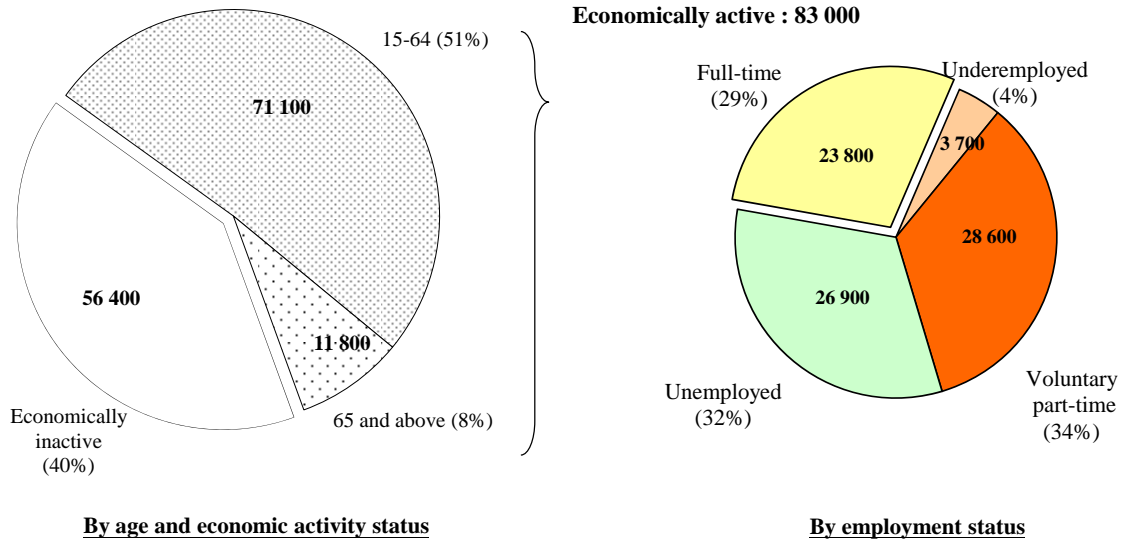
Notes : (*) Low-income households refer to households with monthly household income less than \$8,500. This does not include households with all members being economically inactive. Figures in brackets are the proportions of low-income households in all domestic households.

Socio-economic characteristics of low-income households

6. Further decomposition of low-income households in the first quarter of 2019 reveals the following observations:

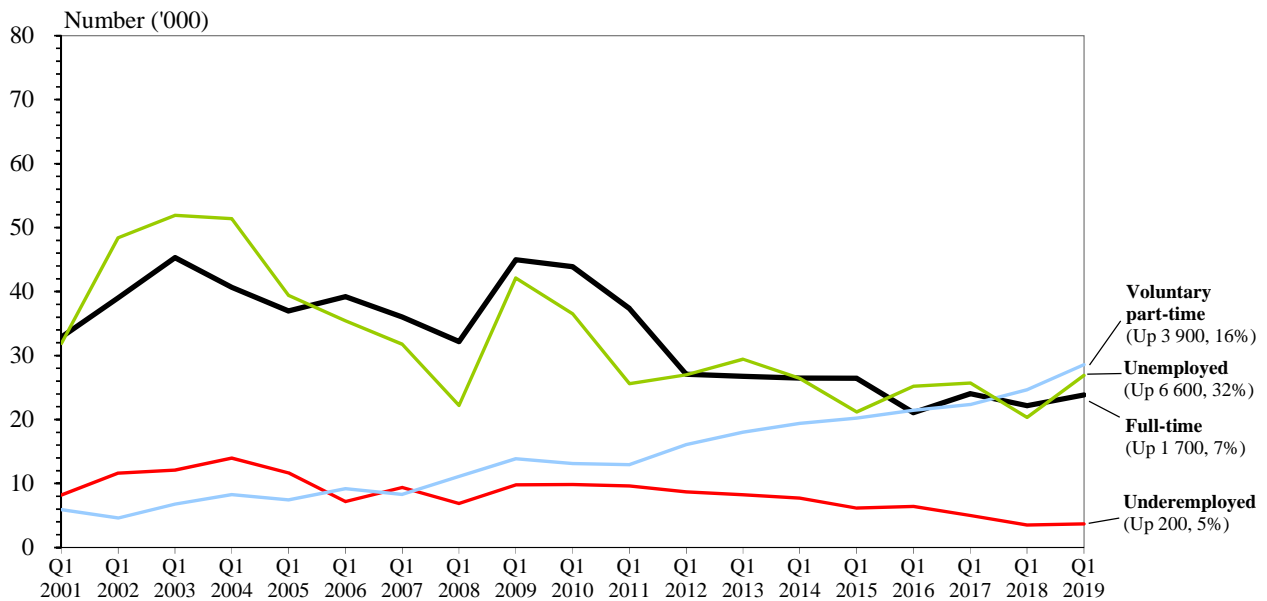
- There were 139 400 persons in the households in question, among whom 83 000 were economically active. Most of these economically active individuals (71 100 or 86%) were aged 15-64, with the majority within the older age group of 40-64 (52 800 or 64%), whilst those aged 65 and above amounted to 14% (11 800).
- The remaining 56 400 persons were economically inactive. 25 200 of them (45%) were either children aged below 15 or elderly persons aged 65 and above.
- Further analysis by employment status shows that among these 83 000 economically active persons, voluntary part-timers, unemployed and underemployed persons accounted for 34%, 32% and 4% respectively, while the proportion of full-time workers was only 29% (**Chart 2**). Among these, the number of unemployed workers and voluntary part-timers rose markedly by 32% and 16% respectively over a year ago (**Chart 3**).

Chart 2 : Persons living in low-income households* by age and economic activity status, Q1 2019



Note : (*) Low-income households refer to households with monthly household income less than \$8,500. This does not include households with all members being economically inactive.

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



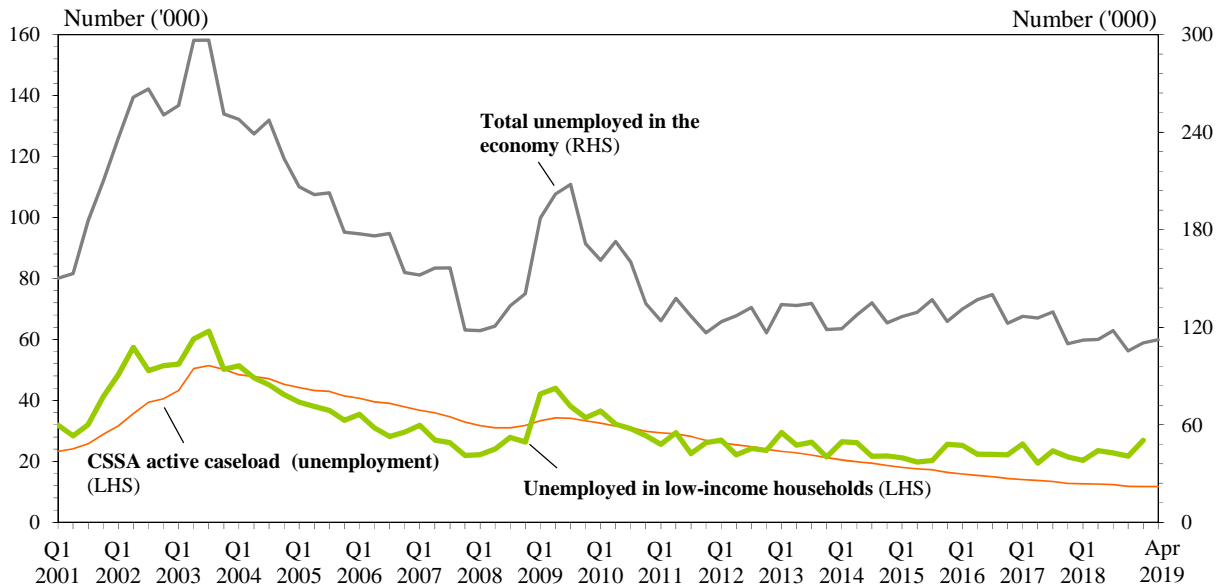
Notes : (*) Low-income households refer to households with monthly household income less than \$8,500. This does not include households with all members being economically inactive. Figures in brackets are the year-on-year changes in number of economically active persons in Q1 2019.

- Analysed by occupation, the majority of the employed persons living in low-income households (81%) were lower-skilled workers (33% were elementary workers, and 27% 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 (16 000 or 29%), followed by the transportation sector (5 100 or 9%).

The number of CSSA cases

7. The lower-skilled unemployment rate in February – April 2019 fell by 0.2 percentage point from a year earlier to 3.0%. Meanwhile, the number of overall CSSA caseload declined by 7 548 (or 3.3%) to 223 995 in April 2019 as compared to a year earlier. The decrease in unemployment cases was even more distinct, by 885 (or 7.0%) to 11 734 over the same period (**Chart 4**). This indicates that some 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 \$8,500. 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 adopt a multi-pronged approach to strengthen employment / training and retraining services so as to provide support to job-seekers and encourage self-reliance, 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, one fundamental solution is to promote overall economic growth so as to provide more employment and income opportunities.

9. The tight labour market and the Statutory Minimum Wage uprating should continue to render support to the earnings situation of the lower-income groups. Yet, in view of the prevailing external uncertainties, the Government will stay vigilant to their potential impacts on the employment and earnings conditions of grassroots workers and low-income households.

Office of the Government Economist
Financial Secretary's Office
24 May 2019