LC Paper No. CB(1)674/19-20(03)

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

The Government released the First Quarter Economic Report 2020 on 15 May. The Economic Report, together with the press release containing the updated economic forecasts for the whole year of 2020, 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 2020, and summarises the updated economic forecasts by the Government for 2020 as a whole.

Office of the Government Economist
Financial Secretary's Office
25 May 2020

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

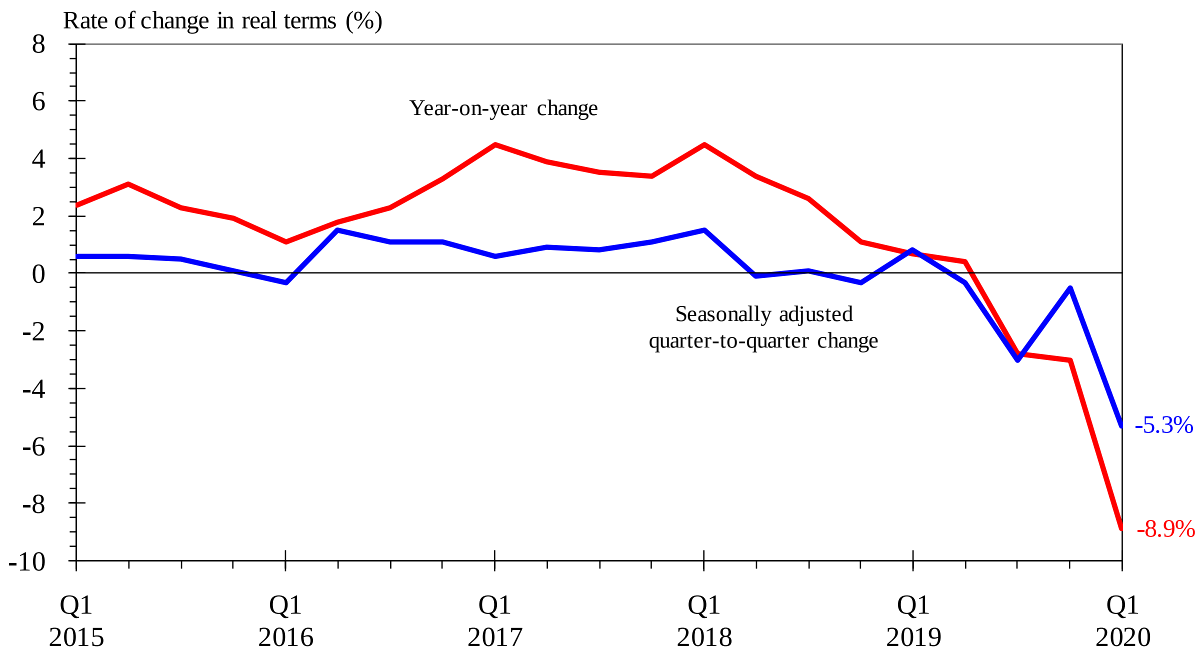
Introduction

This paper analyses the latest development of the Hong Kong economy, and briefly discusses the outlook for the rest of 2020, and provides updated economic forecasts by the Government for 2020 as a whole.

Recent economic situation

2. Since the beginning of 2020, the threat of COVID-19 seriously disrupted a wide range of local economic activities and supply chains in the Asian region. The epidemic even evolved into a pandemic in March, sending a severe shock to the global economy. The economic recession deepened in Hong Kong in the first quarter this year. Real GDP contracted sharply by 8.9%[(1)] from a year earlier, representing a visible worsening from its 3.0% decline in the preceding quarter ***(Chart 1)***. On a seasonally adjusted quarter-to-quarter comparison, real GDP plunged by 5.3% in the first quarter, after a decrease of 0.5% in the preceding quarter. Both rates of decline were the steepest for a single quarter on record.

Chart 1 : Both the year-on-year and quarter-to-quarter rates of decline in real GDP for the first quarter were the steepest on record



---

(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 global economy experienced an unprecedented and severe shock in the first quarter of 2020. In the latter part of the quarter, the COVID-19 epidemic spread at alarming rates to many places in the world. To curb the spread of the disease, many governments progressively implemented travel bans, imposed city and regional lockdowns and closed non-essential businesses and services, leading to sharp moderation or even shuttering of economic activities worldwide. For the first quarter as a whole, the Mainland economy saw its first year-on-year contraction on record, at a rate of 6.8%. The US economy decelerated sharply to record only marginal year-on-year growth, while the euro area economy recorded a sharp contraction. Japan's economic activity retreated further, and growth in many other Asian economies also decelerated visibly with some even recording a fall. In mid-April the International Monetary Fund (IMF) forecast the global economy to shrink by 3.0% in 2020, much worse than the 0.1% contraction in 2009, even assuming that the pandemic would peak in the second quarter. The IMF recently noted that as the impact of the pandemic on most of the economies was more severe than expected, there would be further downward revisions to its global forecasts.

4. Against this background, Hong Kong's total exports of goods saw a visibly enlarged fall of 9.9% in the first quarter ***(Chart 2(a))***. Weighed by the disruptions to the supply chains in Asia arising from the COVID-19 epidemic and also the swift spread of the disease globally, merchandise exports to the US and the EU recorded further sharp fall. Exports to many major markets in Asia also registered declines of varying degrees. Both exports to the Mainland and re-exports of Mainland origin dived in the first two months of the year combined before showing some improvement in March alongside the gradual resumption of economic activities in the Mainland. For the first quarter as a whole, exports to the Mainland fell moderately. Exports to Japan, Korea and Singapore registered noticeable declines. Exports to India and Taiwan were nearly flat, while exports to Vietnam posted a solid increase.

5. Hong Kong's exports of services plummeted by 37.8% in the first quarter, the biggest decline on record ***(Chart 2(b))***. Exports of travel services fell drastically as the COVID-19 pandemic resulted in widespread travel restrictions and border controls across the world, bringing tourism to a standstill in February and March. Exports of business and other services showed a visibly enlarged decrease, dampened by the austere external environment. Exports of transport services took a dive, as cross-boundary passenger flows virtually came to a halt in February and March and cargo flows turned more subdued. Exports of financial services fared relatively better and grew mildly, supported by active financial market trading amid the turbulent market situation.

Chart 2(a) : Total exports of goods registered a noticeable decline in the first quarter

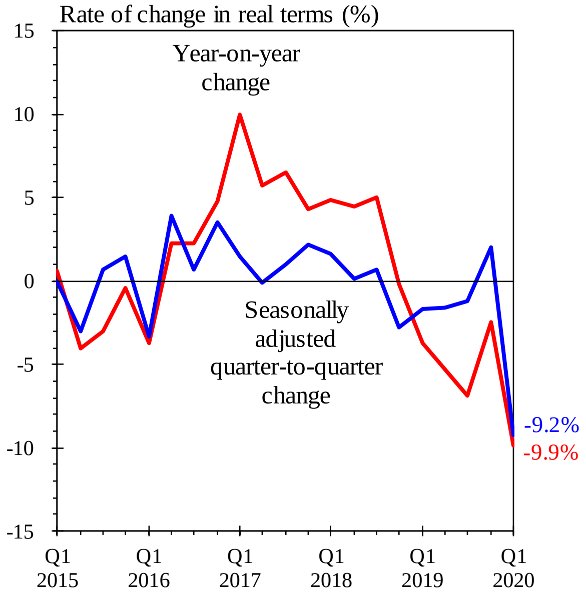
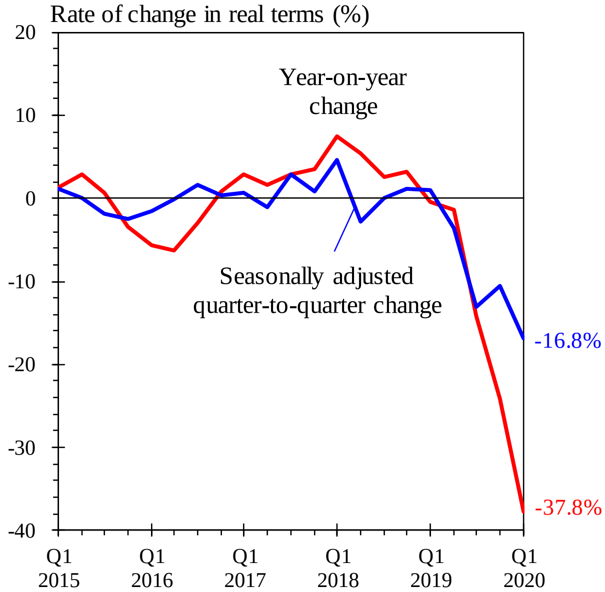


Chart 2(b) : Exports of services saw the worst performance on record in the first quarter



Domestic sector

6. Domestic demand weakened markedly in the first quarter. The fall in private consumption expenditure widened sharply to 10.1%, the largest on record ***(Chart 3(a))***. The COVID-19 pandemic and resulting social distancing measures severely disrupted consumption-related activities, while austere labour market conditions heavily weighed on consumer sentiment. The volume of retail sales fell by 36.9% in the first quarter, and total restaurant receipts also plunged in real terms by 32.3%, both the steepest for a single quarter on record.

7. Overall investment spending in terms of gross domestic fixed capital formation fell significantly by 14.3% in the first quarter ***(Chart 3(b))***. Within the total, expenditure on acquisitions of machinery, equipment and intellectual property products showed a large decline, as business sentiment deteriorated amid the COVID-19 pandemic. Expenditure on building and construction continued to fall visibly, with both private and public sector activities shrinking further.

Chart 3(a) : Private consumption expenditure saw the largest year-on-year contraction on record

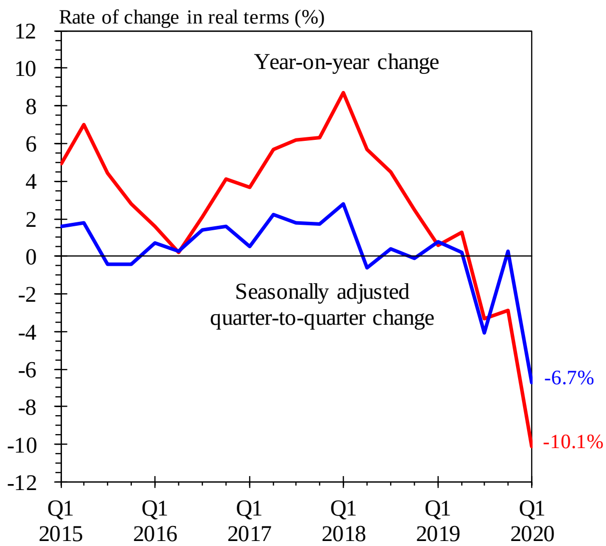
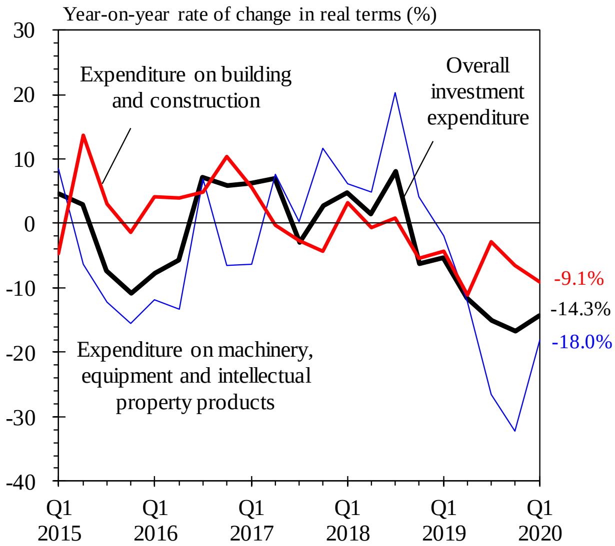


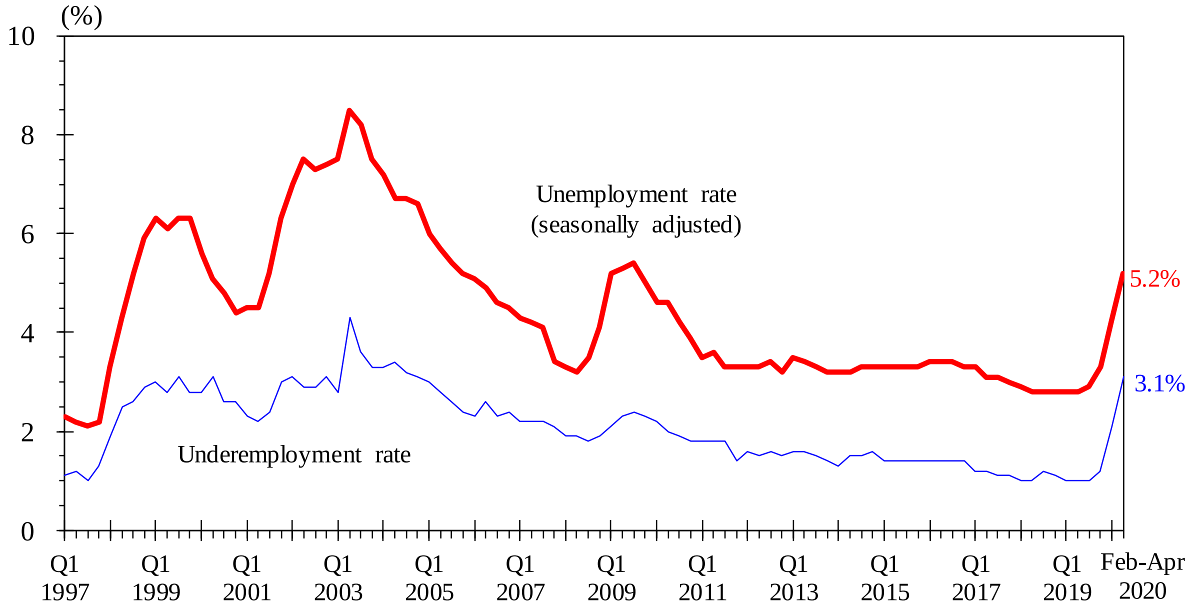
Chart 3(b) : Overall investment expenditure remained in the doldrums



Labour Market

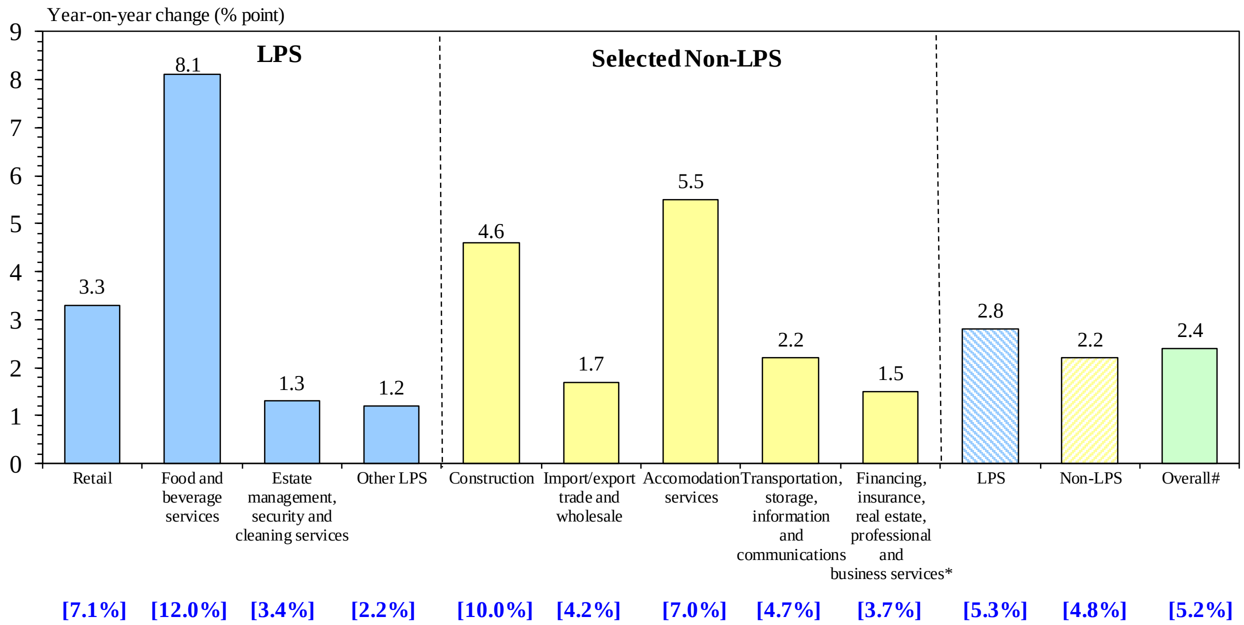
8. The labour market showed further sharp deterioration as the COVID-19 pandemic continued to weigh on a wide range of economic activities. After rising noticeably from 3.3% in the fourth quarter of 2019 to 4.2% in the first quarter of 2020, the seasonally adjusted unemployment rate surged further in the latest period (i.e. in February – April 2020) to 5.2%, the highest in over a decade. The underemployment rate likewise soared from 1.2% in the fourth quarter of 2019 to 3.1% in the latest period, the highest in over 15 years ***(Chart 4)***. The unemployment and underemployment rates of the consumption- and tourism-related sectors (viz., retail, accommodation, and food and beverage services) and the construction sector showed particularly distinct increases. Unemployment and underemployment situations in most other sectors also deteriorated. Overall labour demand slackened. Results of establishment surveys indicated that in December 2019, private sector employment recorded the largest year-on-year decline since September 2003 while the number of vacancies continued to plunge. More recent statistics from the General Household Survey (GHS) suggested that the year-on-year declines in total employment and labour force widened further to 5.4% and 3.0% respectively in February – April 2020, both the largest on record.

Chart 4 : Labour market showed further sharp deterioration



9. In February – April 2020, the unemployment rate of the low-paying sectors (LPS) [2] as a whole surged by 2.8 percentage points over a year earlier to 5.3% ***(Chart 5)***. In particular, as the threat of COVID-19 and resulting social distancing measures dealt a heavy blow to business, the unemployment rate of the food and beverage services sector increased drastically by 8.1 percentage points over a year earlier to 12.0%, a high in over 15 years, and that of the retail sector went up sizably by 3.3 percentage points to 7.1%, a high in over 14 years. Meanwhile, the unemployment rate of the non-LPS surged by 2.2 percentage points to 4.8%. Within the non-LPS, as the COVID-19 epidemic brought inbound tourism to a standstill since February, the unemployment rate of the accommodation services sector soared by 5.5 percentage points to 7.0%. The unemployment rate of the construction sector increased drastically by 4.6 percentage points over a year earlier to 10.0% due to visible slowdown in construction activities. Analysed by skill segment, the unemployment rate of the lower-skilled workers surged by 3.1 percentage points year-on-year to 6.1%, while that of the higher-skilled workers increased by 1.4 percentage points to 3.4%. Thus, the lower-skilled workers have been more hard-hit by the current economic crisis.

Chart 5 : Unemployment rates of the consumption- and tourism-related sectors and the construction sector surged over a year earlier



Notes: Figures in square brackets refer to the unemployment rate for that sector in Feb-Apr 2020 (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.

---

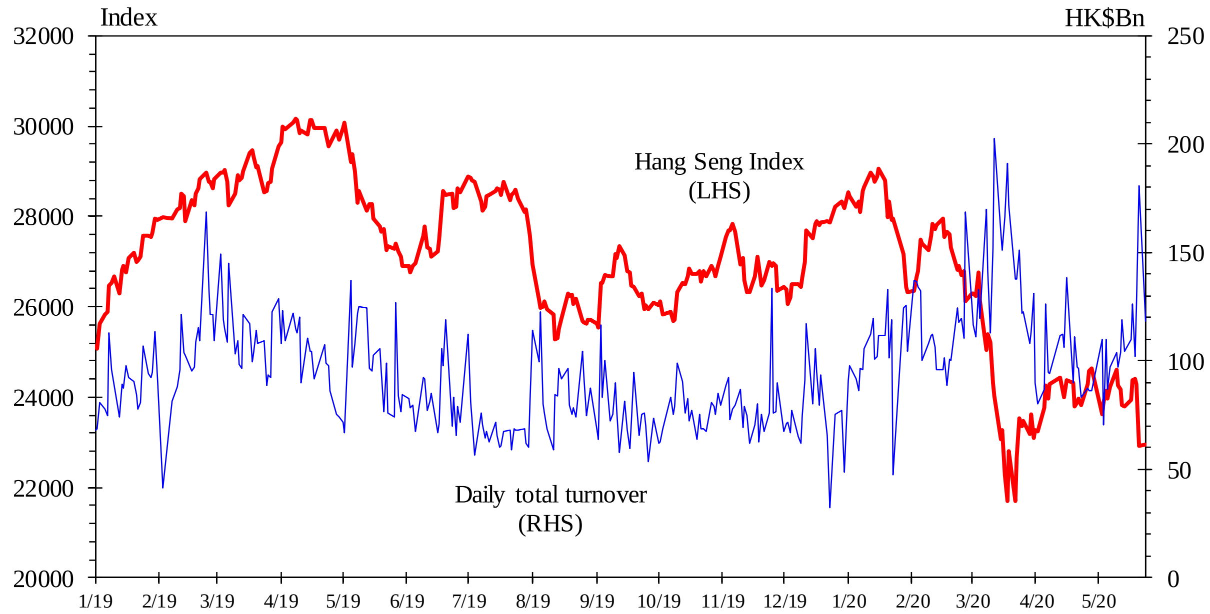
(2) The fifth-term Minimum Wage Commission identified LPS as (i) retail; (ii) food and beverage services; (iii) estate management, security and cleaning services; and (iv) other low-paying sectors, including elderly homes; laundry and dry cleaning services; hairdressing and other personal services; local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

10. Nominal wages and earnings continued to increase in the fourth quarter of 2019, but the year-on-year rates of increase decelerated further. Nominal wages went up by 2.8% in December 2019, and nominal payroll grew by 2.4% in the fourth quarter, both the slowest in more than nine years. Almost all major sectors recorded decelerated growth in both wages and earnings. More recent statistics from the GHS suggested that earnings of low-income workers continued to increase in the first quarter of 2020. Average monthly employment earnings of full-time employees (excluding foreign domestic helpers) of the lowest three decile groups combined increased by 4.4% year-on-year in nominal terms in the first quarter of 2020, faster than the inflation rate of 3.5% as measured by the underlying Consumer Price Index (A) which netted out the effects of Government's one-off relief measures. However, caution should be exercised when interpreting these earnings growth figures, as the job loss over the past year was more concentrated in the lower-paid segment, which distorted the year-on-year comparison of the average monthly employment earnings of the employees therein to some extent. Moreover, the median monthly household income (excluding foreign domestic helpers) decreased further by 3.8% in nominal terms, partly reflecting the decreased number of working members in the households. Please refer to ***Annex*** for details on the recent situation of household income.

Asset markets

11. The local stock market showed a sharp correction in the first quarter, as market sentiment was hard hit by the economic fallout of the COVID-19 pandemic. Yet, as the market tended to anticipate that the pandemic would begin to ease globally, and many governments and central banks across the world rolled out massive economic support measures, the local stock market rose alongside with the global stock market afterwards. The Hang Seng Index closed at 22 952 on 25 May, down by 18.6% from end-2019, though 5.8% higher than the recent low in mid-March ***(Chart 6)***. Average daily turnover of the stock market surged to $116.1 billion in the first four months this year from $77.1 billion in the fourth quarter of last year.

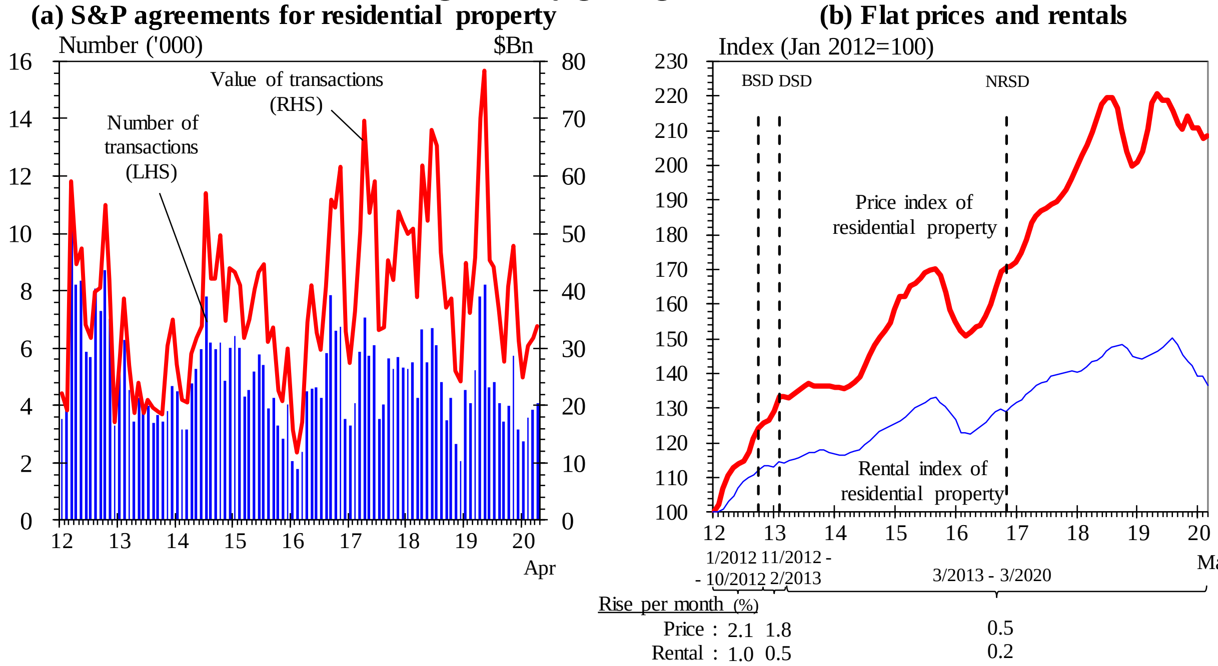
Chart 6 : The local stock market has been volatile



12. The residential property market lacked clear direction in the first quarter of 2020 amid uncertainties about how the strong monetary easing measures by the major central banks in response to the COVID-19 pandemic would affect the economy and the market. Nevertheless, the market revived somewhat since late April as the local epidemic situation was gradually contained. The monthly average number of sale and purchase agreements for residential property received by the Land Registry fell visibly to 3 577 in the first four months of 2020, a decline of 17% from the monthly average in the fourth quarter of 2019 ***(Chart 7(a))***.

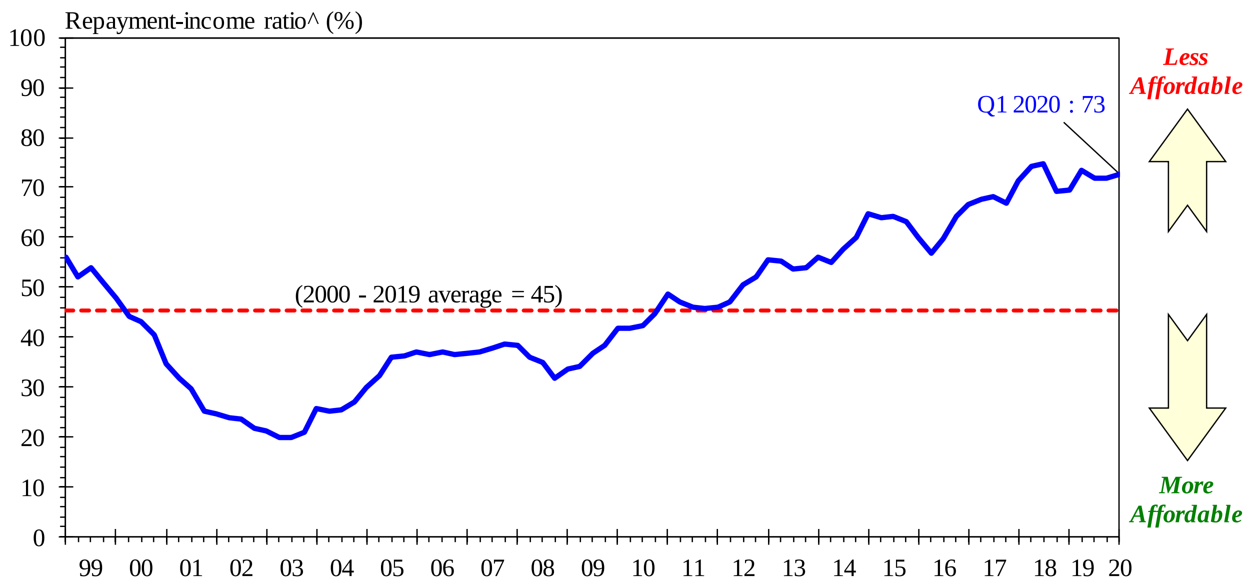
13. Flat prices on average edged down by 1% between December 2019 and March 2020, and were 5% lower than the peak in May 2019. Flat rentals on average fell by 4% during the first quarter ***(Chart 7(b))***. Market intelligence suggested that flat prices showed signs of firming up since late April.

Chart 7 : The residential property market lacked clear direction in the first quarter of 2020, though revived somewhat since late April as the local epidemic situation was gradually getting contained



14. Flat prices in March 2020 exceeded the 1997 peak by 117%. 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) remained elevated at around 73% in the first quarter, significantly above the long-term average of 45% over 2000-2019 ***(Chart 8)***.

Chart 8 : The index of home purchase affordability remained elevated

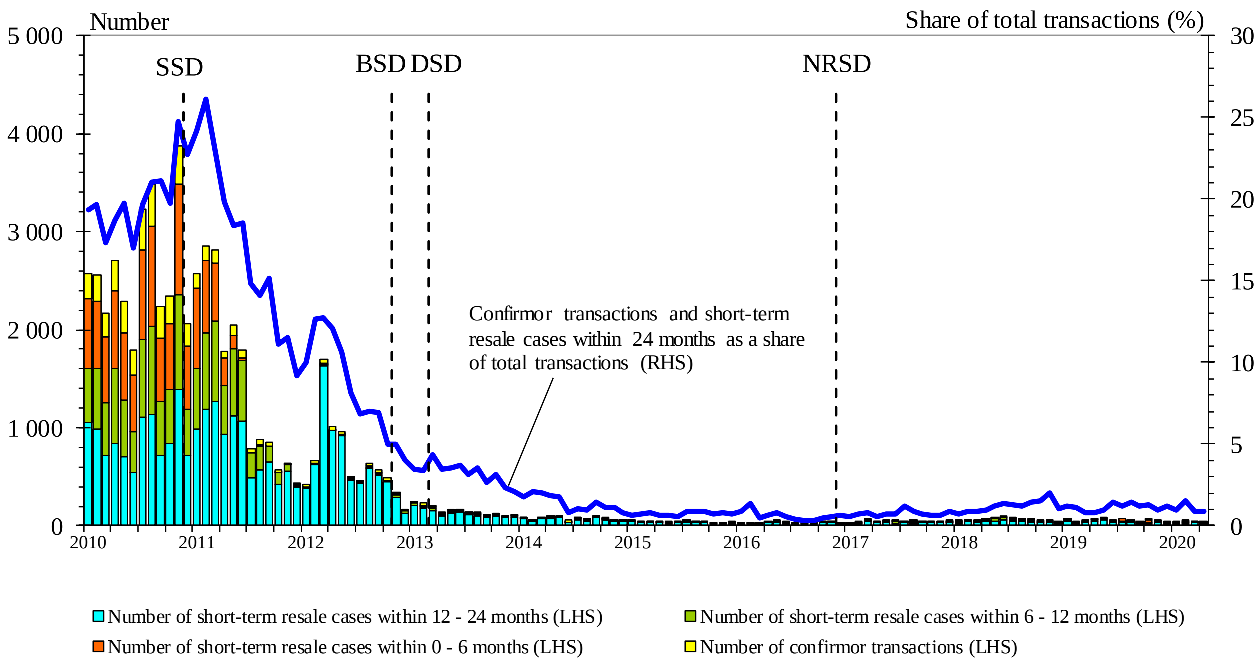


Note : (^) The ratio of the mortgage payment for a flat with saleable area of 45 sq m (assuming 70% loan-to-value ratio and tenor of 20 years) to the median income of households (excluding those living in public housing). This ratio is different from the debt servicing ratio published by the HKMA, which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

15. Raising flat supply through increasing land supply is a policy priority of the Government. In February, the Government announced the 2020-21 Land Sale Programme, which comprises 15 residential sites capable of providing about 7 500 flats in total. Combining the various sources (including Government land sale, railway property development projects, and private development and redevelopment projects), the total potential private housing land supply in 2020-21 is estimated to have a capacity to produce about 15 700 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 reach 95 000 units as estimated at end-March 2020. Also, the annual average completions of private residential flats are projected at about 19 600 units in 2020-2024, an increase of about 25% over the annual average of the past five years.

16. Over the past several years, the Government has also implemented demand-side 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 41 cases per month or 1.0% of total transactions in the first four months of 2020, 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 14 cases per month or 0.4% of total transactions in the first four months of 2020, 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 145 cases per month or 3.6% of total transactions in the first four months of 2020, markedly lower than 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 loan-to-value ratio of new mortgages was 55% in the first quarter, 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

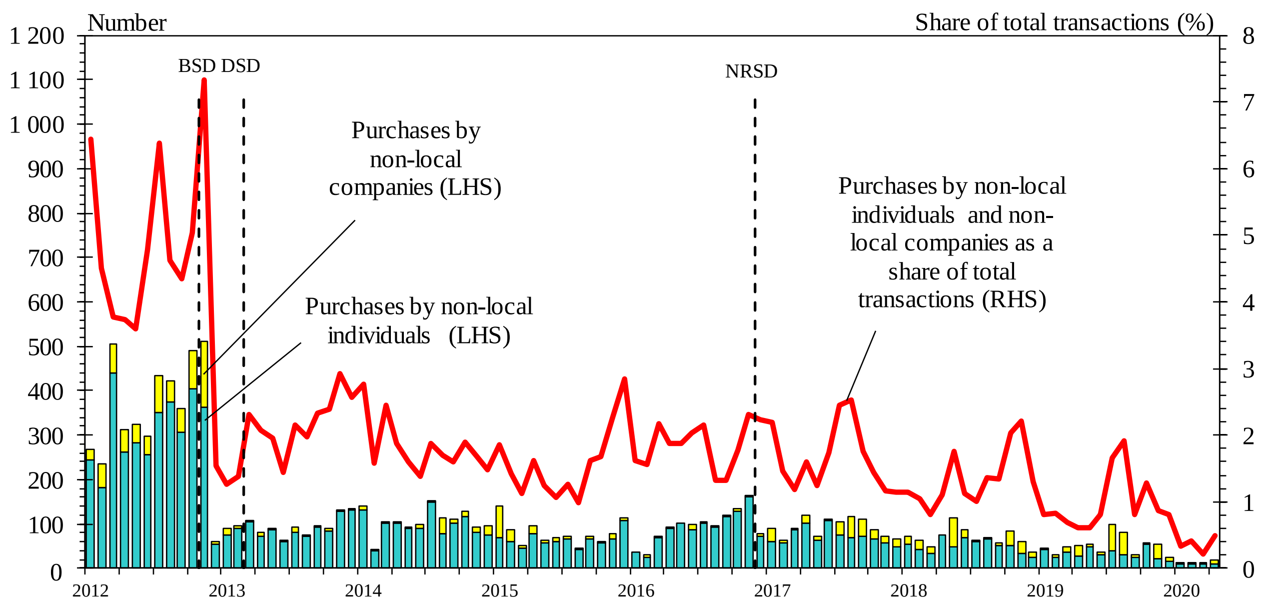
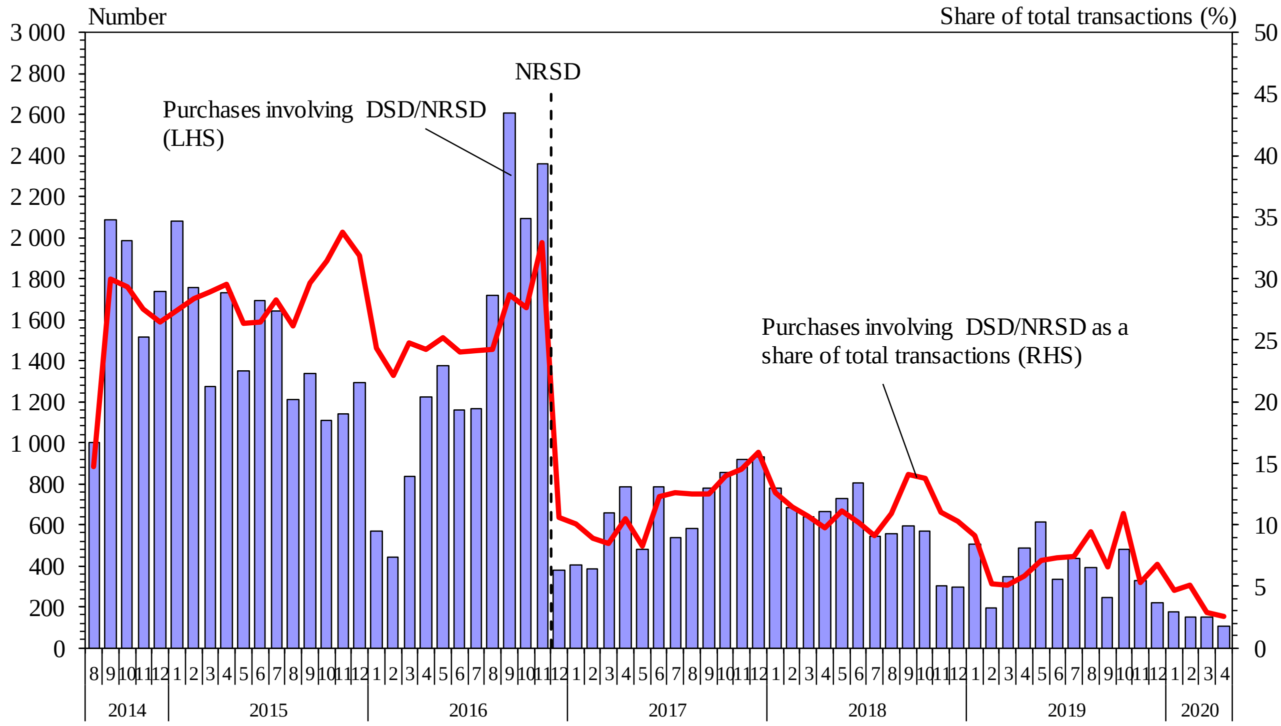


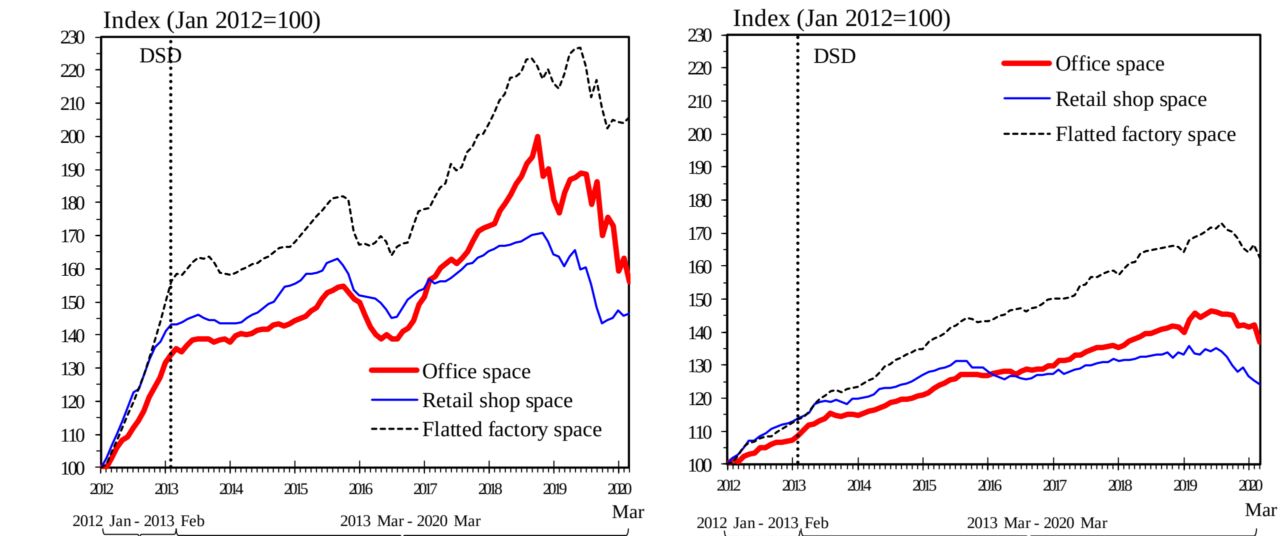
Chart 11 : Investment activities were modest



17. The commercial and industrial property markets quietened further in the first quarter. Prices and rentals of office space on average dropped by 10% and 4% respectively between December 2019 and March 2020. For retail shop space, prices edged up by 1% during the first quarter, while rentals declined by 4%. As to flatted factory space, prices were virtually unchanged, while rentals fell by 2% ***(Chart 12)***. Trading activities for these market segments plunged to record low levels in the first quarter.

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

(a) Prices **(b) Rentals**



(a) Prices

Rise per month (%)	2012 Jan - 2013 Feb	2013 Mar - 2020 Mar
Office space	2.0	0.2
Retail shop space	2.7	*
Flatted factory space	3.3	0.3

(b) Rentals

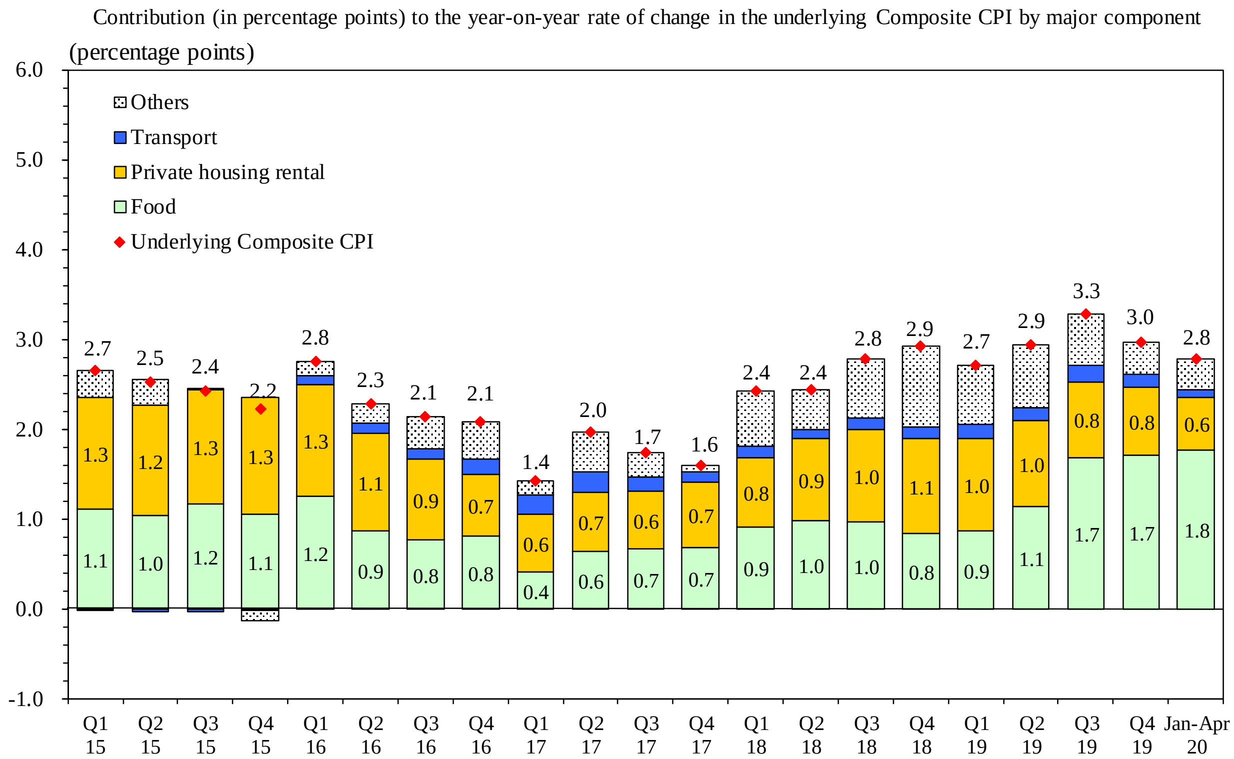
Rise per month (%)	2012 Jan - 2013 Feb	2013 Mar - 2020 Mar
Office space	0.7	0.3
Retail shop space	1.0	0.1
Flatted factory space	1.0	0.4

Note : (*) Change of less than ±0.05%.

Inflation

18. Consumer price inflation remained moderate in the first four months of 2020. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, underlying consumer price inflation in the first four months of 2020 averaged 2.8% ***(Chart 13)***, slightly lower than 3.0% in the fourth quarter of 2019.

Chart 13 : Consumer price inflation remained moderate in recent months



19. Analysed by major component of the underlying Composite Consumer Price Index (Composite CPI) ***(Table 1)***, the year-on-year rate of increase in food prices, the component with the largest weight other than housing, rose to 6.3% in the first four months of 2020. Within food prices, the rise in prices of basic foodstuffs went up further to 14.7%, driven by accelerated increases in prices of pork and fresh vegetables. In contrast, the increase in prices of meals bought away from home eased to 1.8%, mirroring the difficult business environment of the restaurants sector. Meanwhile, the increase in the private housing rental component narrowed further to 1.9%, as the softening fresh-letting residential rentals in the past year or so continued to feed-through. As for other components, prices of electricity, gas and water, and miscellaneous goods recorded faster increases. On the other hand, the rises in prices of transport and miscellaneous services moderated. Prices of clothing and footwear saw an enlarged decline, while those of durable goods stayed on its perennial downtrend.

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

Expenditure component	Weighting (%)	2019	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Apr	2020 Jan-Apr
Food	27.29	4.9	3.1	4.1	6.1	6.2	6.4	6.0	6.3
Meals bought away from home	17.74	2.2	2.3	2.1	2.1	2.1	1.8	1.6	1.8
Other foodstuffs	9.55	9.9	4.6	7.7	13.4	13.7	14.9	14.0	14.7
Housing[(a)]	34.29	3.2 (3.5)	3.9 (2.9)	3.6 (4.2)	3.1 (3.7)	2.4 (3.1)	2.2 (0.7)	1.8 (1.8)	2.1 (1.0)
Private housing rent	29.92	2.9 (3.1)	3.4 (2.3)	3.1 (3.8)	2.7 (3.4)	2.5 (3.1)	2.0 (2.7)	1.7 (1.6)	1.9 (2.4)
Public housing rent	1.94	6.5 (7.1)	10.1 (11.6)	9.8 (10.9)	6.5 (6.9)	0.4 (-0.2)	0.4 (-31.1)	0.2 (0.4)	0.3 (-23.2)
Electricity, gas and water	2.67	1.0 (-5.4)	1.4 (-4.9)	1.5 (-4.8)	0.8 (-5.6)	0.2 (-6.3)	3.7 (-16.0)	0.9 (-18.8)	3.0 (-16.7)
Alcoholic drinks and tobacco	0.54	1.2	2.7	2.4	0.5	-0.7	-0.3	0.7	-0.1
Clothing and footwear	3.21	-1.7	-0.2	-1.7	-1.5	-3.4	-4.2	-4.4	-4.2
Durable goods	4.65	-1.9	-2.1	-2.0	-1.5	-2.0	-2.5	-3.1	-2.6
Miscellaneous goods	3.56	2.5	1.6	2.0	2.9	3.3	3.8	2.9	3.6
Transport	7.98	2.0	1.9	2.0	2.3	1.9	1.2	0.1	1.0
Miscellaneous services	15.81	2.0	1.9	2.5	1.8	1.9	1.5	0.9	1.4
All items	100.00	3.0 (2.9)	2.7 (2.2)	2.9 (3.0)	3.3 (3.3)	3.0 (3.0)	2.9 (2.0)	2.3 (1.9)	2.8 (1.9)

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 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 2020

20. Looking ahead, as many major economies are still facing the serious threat of COVID-19, the global economy may continue to experience sharp contraction in the near term despite the massive monetary and fiscal support measures from central banks and governments worldwide. The progress of reopening the major economies and thus the timing and speed of recovery of the global economy will hinge on the developments of the pandemic and global public health situation, which are subject to huge uncertainties. Besides, persistently tense economic, trade and political relations between the Mainland and the US, geopolitical tensions, and global financial market volatility continue to warrant attention. Amid a still austere external environment, Hong Kong's export performance will remain under pressure in the near term.

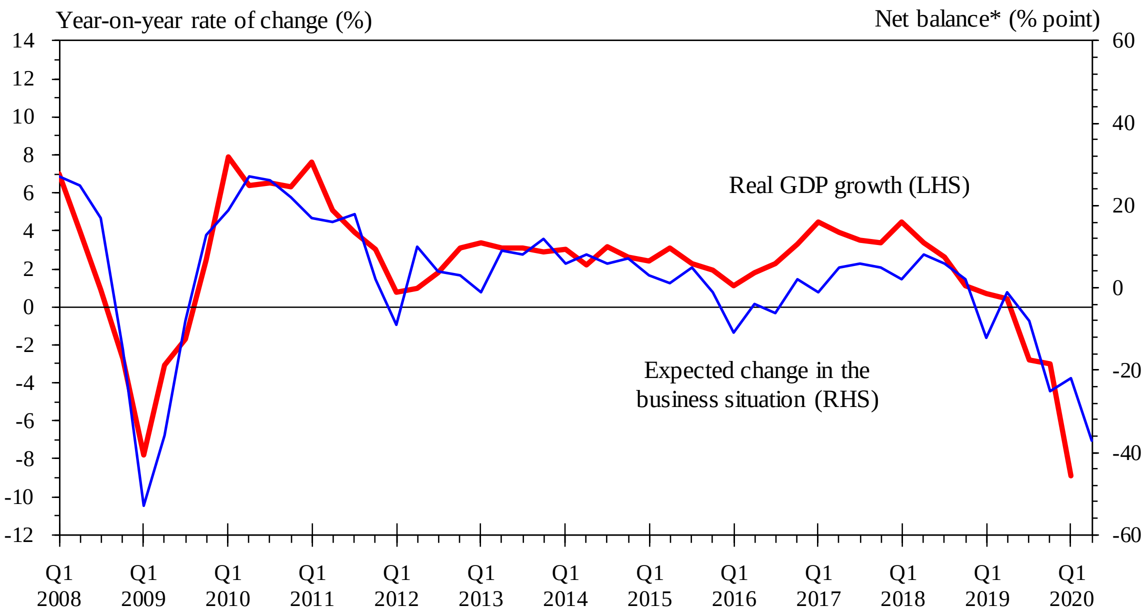
21. Recently there have been signs that the epidemic is getting contained in Hong Kong. Yet, local economic activities will take time to recover. The threat of the epidemic has not been eradicated on a global scale yet. This, together with the global economic recession, will continue to weigh on sentiment. Indeed, latest surveys on both large enterprises and small-and-medium-sized enterprises indicate subdued business sentiment ***(Chart 14)***. As inbound tourism is likely to remain at a standstill until the pandemic is well contained and entry restrictions are gradually eased, the business environment facing the consumption- and tourism-related sectors will remain challenging in the near term.

22. Considering the sharp economic contraction in the first quarter, the high uncertainties surrounding the development of the pandemic, the austere global economic situation, but also the cushioning effects of the massive relief measures rolled out by the Government, the real GDP growth forecast for 2020 as a whole was revised downwards to -4% to -7% at end-April ***(Chart 15)***. If the local epidemic remains well contained and our major trading partners could smoothly proceed with their plans to reopen their economies, Hong Kong's economic performance will hopefully come out of the trough in the second half of the year. For reference, in April the IMF forecast Hong Kong's economic growth to be -4.8% this year, whereas in late May the forecasts by private sector analysts range from -3.0% to -8.7%, averaging around -5.2%.

23. However, a safe and stable social environment is equally essential to local economic recovery. If the epidemic subsides but violent acts re-emerge, the pace of our economic recovery will certainly be hindered. On 22 May, the National People's Congress announced that it would deliberate the draft Decision on establishing and improving the legal system and enforcement mechanisms for the

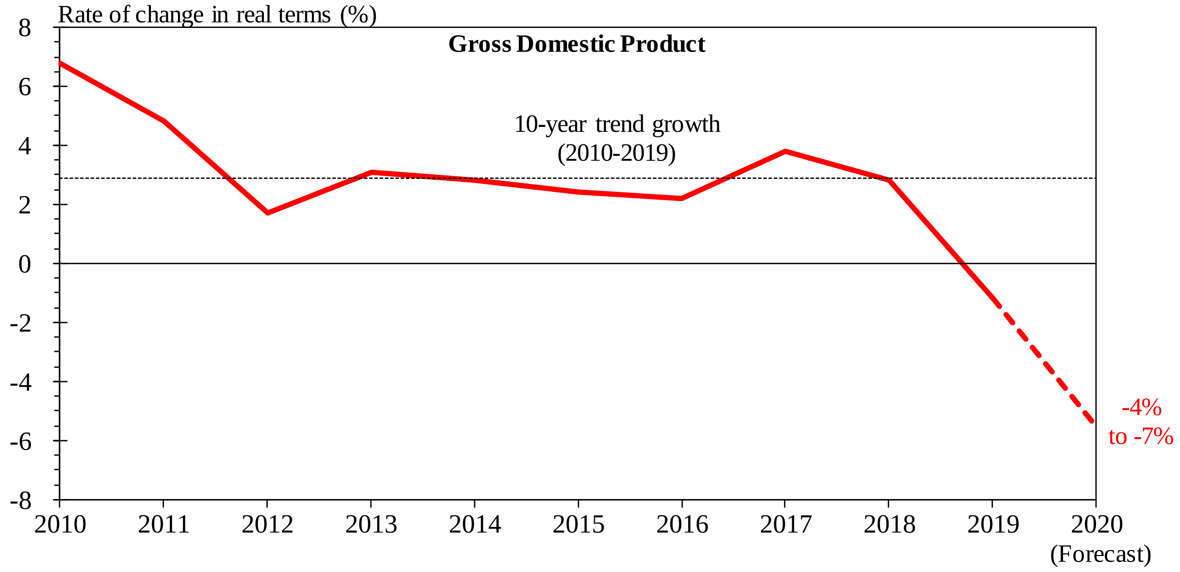
Hong Kong Special Administrative Region to safeguard national security. In the face of the increasing intensity of local violence in the past year, the emerging signs of terrorism as well as many doctrines and acts of separatism, local and foreign investors are worried about the risks of political and social instability in Hong Kong. The relevant legislative work is thus imperative and pressing. As details of the draft are yet to be unveiled, it may take time for the local and international communities to understand and comprehend, and may bring about some uncertainties to the local economy in the near term. Nevertheless, the implementation of the legislation would undoubtedly help reduce risks that would endanger social security and political stability. This would be conducive to maintaining the favourable business and investment environment, and help consolidate Hong Kong's position as an international financial, trade and maritime centre.

Chart 14 : Subdued business sentiment among large enterprises



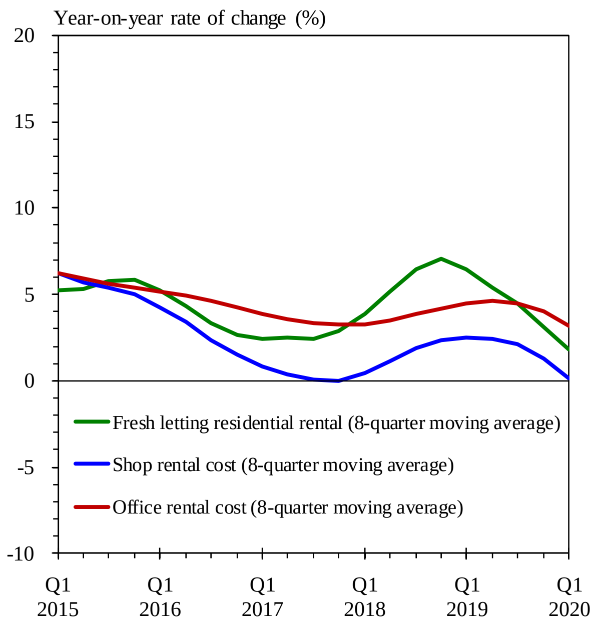
Note : (*) Net balance indicates the direction of expected change in the business situation versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely upward trend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

Chart 15 : Economic growth for 2020 as a whole is forecast at -4% to -7%



24. Inflationary pressure is likely to ease further in the near term. Domestic cost pressures should continue to abate amid the severe economic recession. External price pressures are expected to subside further in view of the plunging global demand and the recent strengthening of the Hong Kong dollar along with the US dollar (***Chart 16***). The forecast rates of underlying and headline consumer price inflation for 2020 are thus revised downwards to 2.2% and 1.4% respectively. ***(Chart 17)***.

Chart 16 : Domestic cost pressures continued to abate; external price pressures subsided further



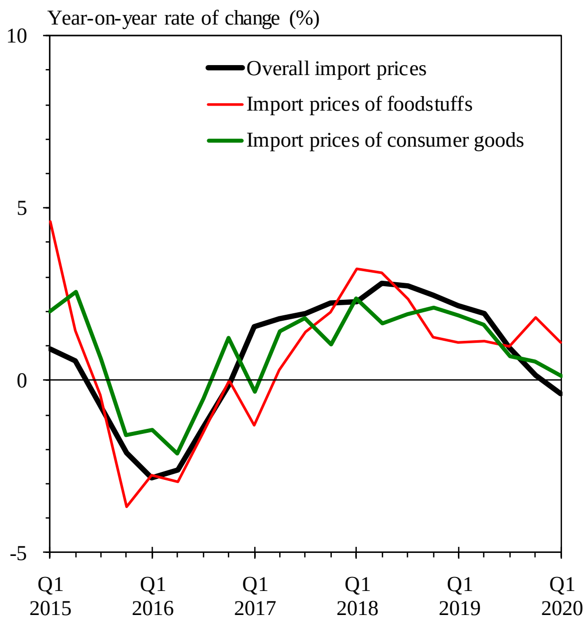
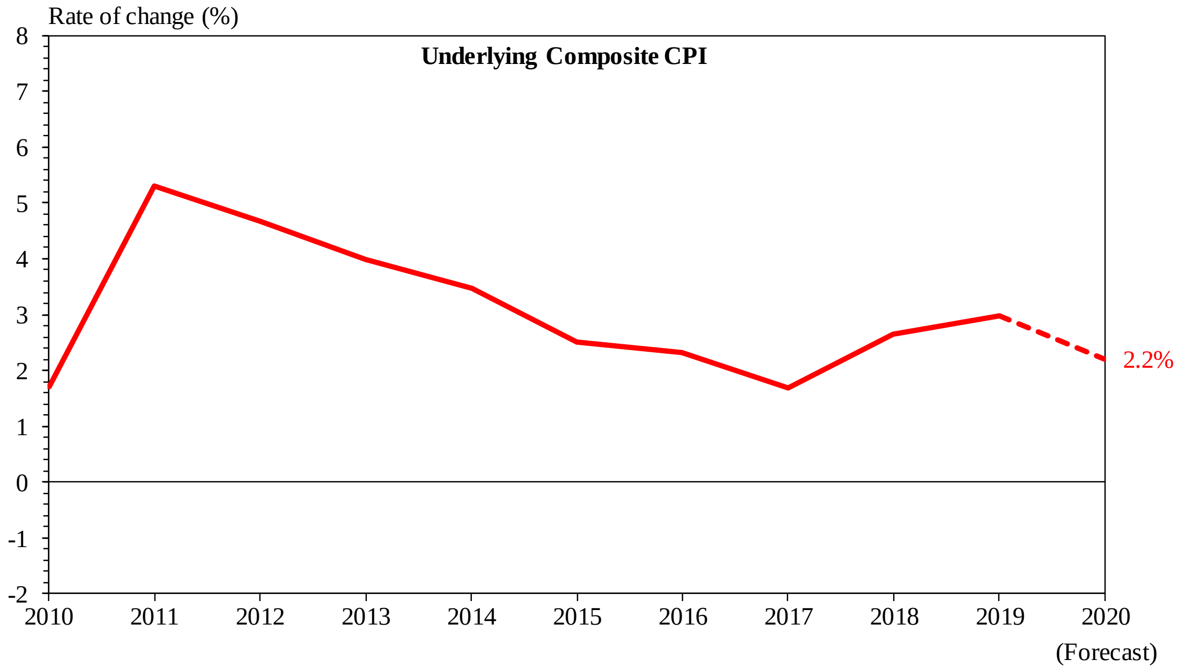


Chart 17 : Inflationary pressure is likely to ease in 2020



Office of the Government Economist
Financial Secretary's Office
25 May 2020

Annex

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 $8,800 (at constant Q2 2019 prices) to $9,000 (at Q1 2020 prices), so as to reflect the latest circumstance.

Overall situation of household income and employment earnings

2. As the local economic recession deepened amid the COVID-19 pandemic in the first quarter of 2020, the labour market showed further sharp deterioration. Latest statistics showed that the seasonally adjusted unemployment rate soared to 5.2% in February – April. Total employment registered an enlarged year-on-year decline of 5.4%, pointing to a slackening overall labour demand.

3. Against such a highly challenging macroeconomic backdrop, median monthly household income, a reflection of the overall household income situation, saw a year-on-year decrease of 3.8% in nominal terms in the first quarter of 2020, or 5.7% in real terms after adjusting for inflation. Average employment earnings of full-time employees (excluding bonus) still increased by 8.4% year-on-year in nominal terms or 6.4% in real terms after netting out inflation, and so did those of full-time unskilled employees (by 2.9% and 1.8% respectively). However, caution should be exercised when interpreting these earnings growth figures. As job losses over the past year were more concentrated in the grassroots segment, this would distort the year-on-year comparison to some extent. Separately for higher-skilled staff, the latest Salary Index for Managerial and Professional Employees indicated that employees in the same company and occupation still saw nominal and real year-on-year salaries growth of 4.7% and 1.7% respectively in June 2019 ***(Table 1)***, bearing in mind the more notable time-lag in such statistic which has yet to reflect the adverse impact of the economic recession on their earnings.

---

(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~	
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		6.7	(4.2)	5.5	(3.0)	4.9	(2.1)	4.8	(2.6)
2019	Q1	4.0	(1.8)	3.3	(1.1)	7.4	(4.6)		
	Q2	5.6	(2.5)	4.8	(1.7)	3.5	(0.1)	4.7	(1.7)
	Q3	-1.0	(-4.2)	4.0	(0.6)	2.3	(-1.5)		
	Q4	-3.3	(-6.1)	4.4	(1.4)	1.9	(-1.4)		
2020	Q1	-3.8	(-5.7)	8.4	(6.4)	2.9	(1.8)	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 $9,000

4. In tandem with the visible deterioration in labour market and household income situations in the first quarter of 2020, the number of economically active households with monthly household income below $9,000 (referred to as "low-income households" thereafter) increased significantly to 105 100. Its proportion in total domestic households also rose to 4.0% in tandem, 1.0 percentage point higher than the year-ago level[3].

5. An analysis of the number and proportion of low-income households over the past decade or so suggests that their changes in general followed economic vicissitudes. During 2000 and 2008, when the economy performed persistently well for most of the period, the proportion of low-income households fell successively from a peak of 4.8% in the first quarter of 2003 to below 4% in the first quarter of 2008. After the outbreak of the global financial tsunami in late 2008, the corresponding proportion rose back to 4.3% in the first quarter of 2009, and then declined afterwards with the economic recovery taking hold. With the COVID-19 evolving into a pandemic which seriously disrupted a wide range of local economic activities, the Hong Kong economy contracted sharply in the first quarter of 2020. The number and proportion of low-income households bounced back to 105 100 and 4.0% respectively in tandem ***(Table 2 and Chart 1)***.

(3) All figures pertaining to low-income households in the first quarter of 2020 are provisional figures.

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

	Household type:			Of which:
Period	Elderly households#	Non-elderly households	**Total**	Economically active persons therein
Q1 2003	3 000	97 400	**100 500**	118 100
	(0.1)	(4.6)	**(4.8)**	[3.6]
Q1 2007	2 800	75 900	**78 600**	89 700
	(0.1)	(3.4)	**(3.5)**	[2.6]
Q1 2008	3 400	78 700	**82 100**	91 100
	(0.2)	(3.5)	**(3.6)**	[2.7]
Q1 2009	3 800	94 200	**98 100**	113 800
	(0.2)	(4.1)	**(4.3)**	[3.3]
Q1 2011	3 800	86 000	**89 800**	98 100
	(0.2)	(3.7)	**(3.8)**	[2.9]
Q1 2013	5 100	71 500	**76 600**	86 200
	(0.2)	(3.0)	**(3.2)**	[2.4]
Q1 2015	6 600	63 400	**70 100**	76 400
	(0.3)	(2.6)	**(2.9)**	[2.1]
Q1 2017	8 800	62 300	**71 200**	79 400
	(0.4)	(2.5)	**(2.8)**	[2.2]
Q1 2018	7 400	61 500	**68 900**	73 500
	(0.3)	(2.4)	**(2.7)**	[2.0]
Q1 2019	9 400	68 000	**77 500**	84 500
	(0.4)	(2.6)	**(3.0)**	[2.3]
Q1 2020	11 000	94 100	**105 100**	117 900
	(0.4)	(3.6)	**(4.0)**	[3.3]

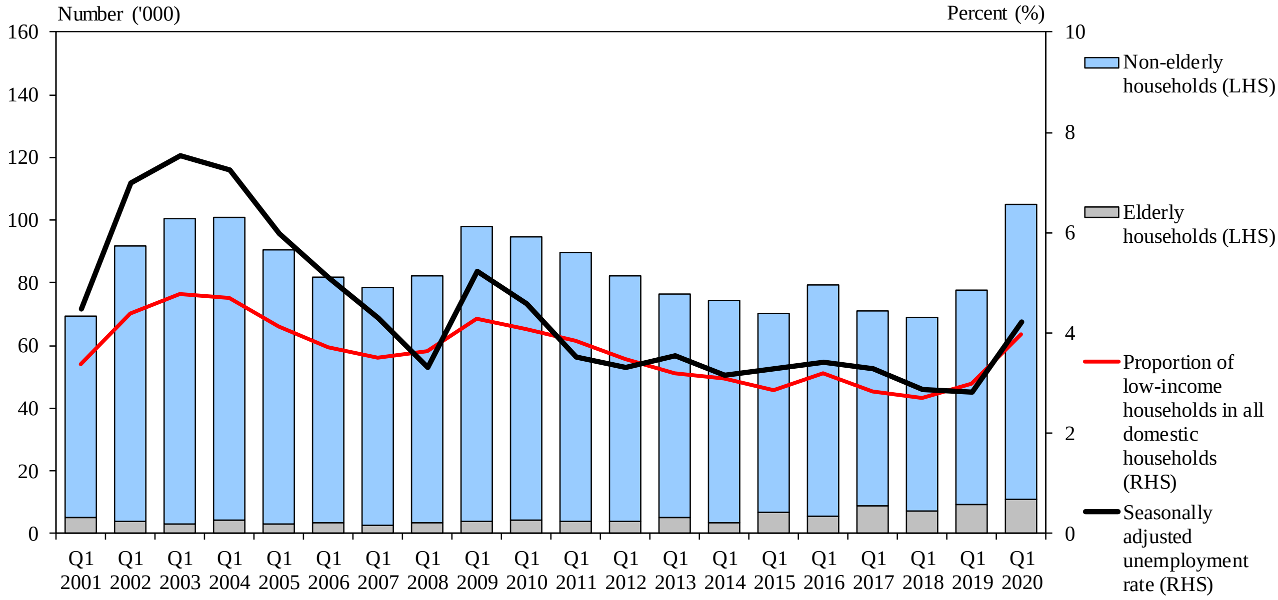
Notes : (*) Low-income households refer to households with monthly household income less than $9,000 (Q1 2020 prices). This does not include households with all members being economically inactive.

(#) 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 and proportion of low-income households*



Note : (*) Low-income households refer to households with monthly household income less than $9,000 (Q1 2020 prices). This does not include households with all members being economically inactive.

Socio-economic characteristics of low-income households

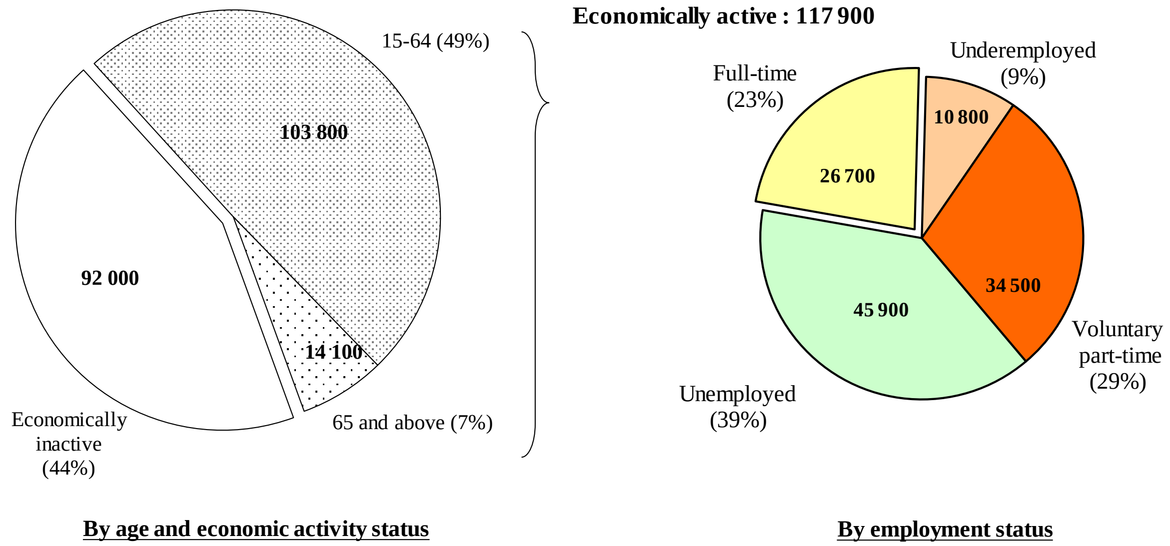
6. Further decomposition of low-income households in the first quarter of 2020 reveals the following observations:

- There were 209 900 persons in the households in question, among whom 117 900 were economically active. Most of these economically active individuals (103 800 or 88%) were aged 15-64, with the majority within the older age group of 40-64 (78 300 or 66%), while those aged 65 and above amounted to 12% (14 100).

- The remaining 92 000 persons were economically inactive. 41 200 of them (45%) were either children aged below 15 or elderly persons aged 65 and above.

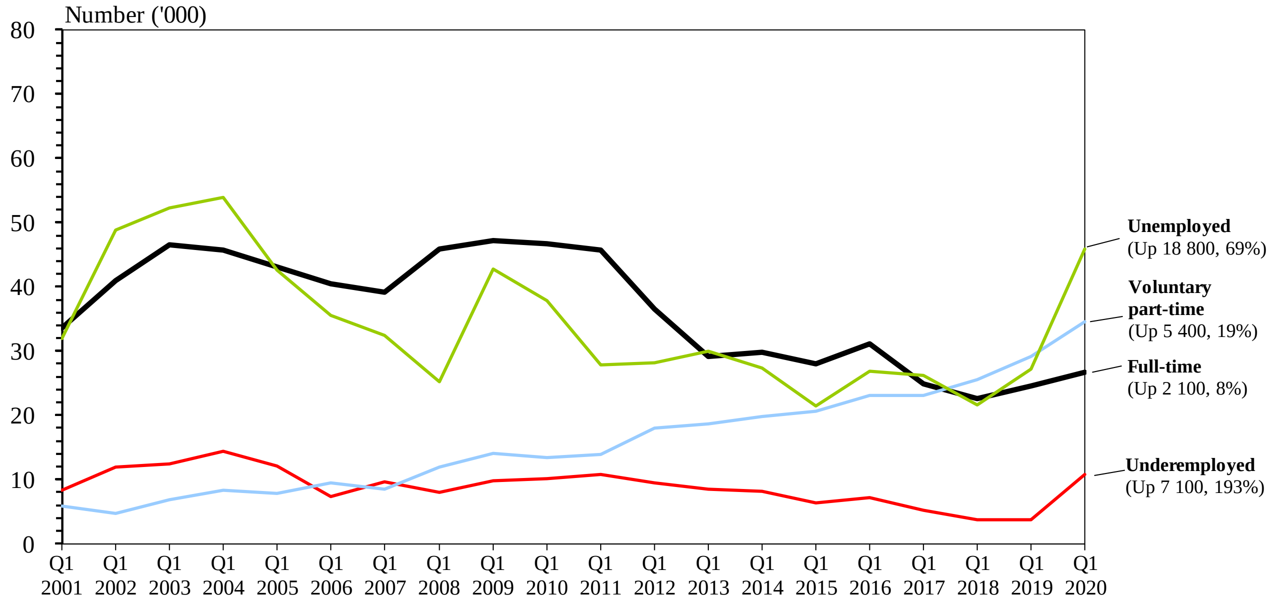
- Further analysis by employment status shows that among these 117 900 economically active persons, unemployed and underemployed persons accounted for 39% and 9% respectively, up from 32% and 4% over a year earlier, signifying the abrupt worsening in the labour market particularly in the lower segment. The number of unemployed and underemployed workers increased distinctly to 45 900 and 10 800 respectively. The corresponding proportion of full-timers was 23%, down from 29% a year earlier ***(Charts 2 and 3)***.

Chart 2 : Persons living in low-income households* by age and economic activity status, Q1 2020



Note : (*) Low-income households refer to households with monthly household income less than $9,000 (Q1 2020 prices). This does not include households with all members being economically inactive.

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



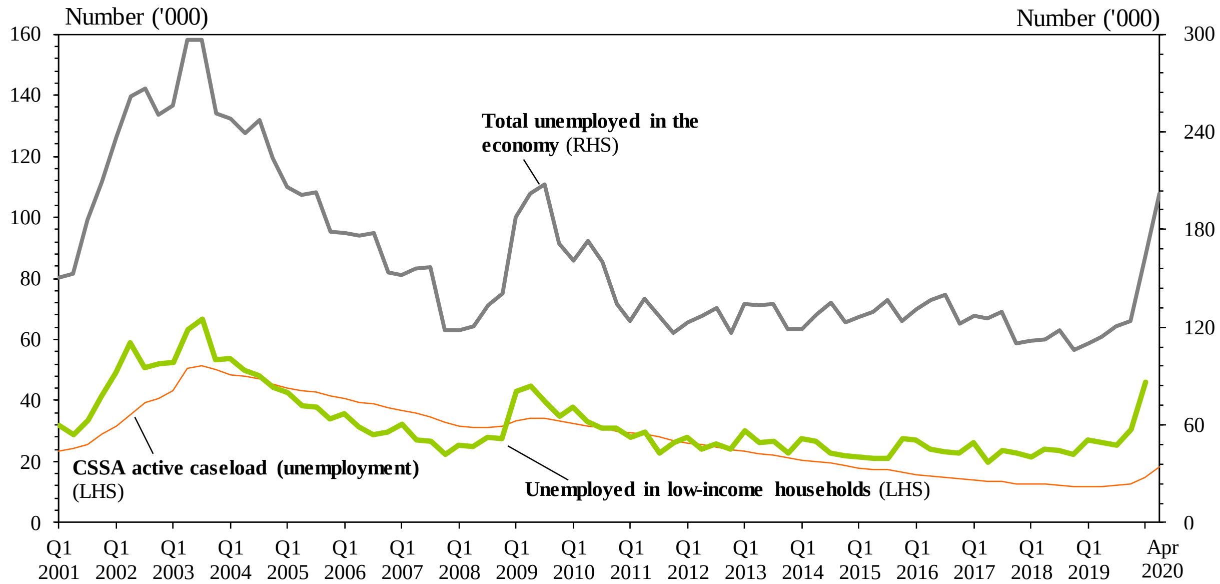
Notes : (*) Low-income households refer to households with monthly household income less than $9,000 (Q1 2020 prices). This does not include households with all members being economically inactive.
Figures in brackets are the year-on-year changes in number of economically active persons in Q1 2020.

- Analysed by occupation, the majority of the employed persons living in low-income households (76%) were lower-skilled workers (27% were elementary workers, and another 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 (19 100 or 27%), followed by the transportation sector (8 300 or 11%).

The number of CSSA cases

7. The lower-skilled unemployment rate in February – April 2020 climbed up further to 6.1%, which was 3.1 percentage points higher than a year earlier. Amid the widespread slackening in labour market, the number of CSSA unemployment cases increased to 18 165 in April 2020, up by 6 431 or 54.8% from its year-ago level ***(Chart 4)***. Meanwhile, the number of overall CSSA caseload also rose back in recent months, up by 7 833 from its trough in January 2020 to 227 510 in April 2020, representing a year-on-year increase of 3 515 cases or 1.6%.

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 $9,000 (Q1 2020 prices). This does not include households with all members being economically inactive.

(^) Monthly period-end figures.

Concluding remarks

8. In the face of the extremely austere economic environment, the Government has rolled out a series of relief measures of unprecedented scale in order to safeguard jobs, support enterprises, stabilise the economy and protect livelihoods.

9. The aforementioned measures included the two rounds of measures under Anti-epidemic Fund as well as the relief package in the 2020-21 Budget, which involved some $290 billion and was equivalent to around 10% of GDP. Such key measures as the $81 billion Employment Support Scheme and various types of financial support for targeted sectors, should help mitigate the recessionary impact on enterprises and keep workers in employment during the current difficult times. Other one-off relief measures, such as $10,000 cash payout for each Hong Kong permanent resident aged 18 or above, reducing salaries tax and tax under personal assessment, additional monthly payment of social security allowances and paying one month's rent for lower income tenants living in public rental units, should also help alleviate somewhat the financial pressures faced by the citizens, in particular the grassroots workers and low-income families.

Office of the Government Economist
Financial Secretary's Office
25 May 2020