



# Third Quarter Economic Report 2015

Government of the Hong Kong  
Special Administrative Region

# ***THIRD QUARTER ECONOMIC REPORT 2015***

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HONG KONG SPECIAL ADMINISTRATIVE REGION

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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

- *Hong Kong's economic growth slowed to 2.3% year-on-year in the third quarter of 2015, from 2.8% in the second quarter. The growth slowdown was part of a region-wide phenomenon amid a lacklustre global economy, and reflected the intensified drag on the economy from weaker external demand. The domestic segment, while staying relatively stable, also expanded at a slower pace.*
- *The global economic environment was highly unsteady in the third quarter, with downside risks on the rise. Recovery in many advanced markets remained fragile, and emerging market economies also generally came under pressure. Amid concerns about the global outlook and rising expectations for an interest rate lift-off in the US, and the ensuing bout of capital outflows from the emerging markets, global financial market volatility heightened notably during the quarter. Against this backdrop, global trade flows were in the doldrums. As a result, Hong Kong's total exports of goods extended the decline in the third quarter. Meanwhile, exports of services also relapsed to a decline, due to continued contraction of inbound tourism and subdued trade and cargo flows.*
- *Domestic demand expanded further in the third quarter, albeit at a slower pace. Private consumption expenditure still increased solidly, thanks to broadly stable job and income conditions in recent quarters. Nevertheless, investment expenditure slackened distinctly to a decline, amid a rather austere external environment. Machinery and equipment acquisition saw a notable fall-off, though building and construction works registered further growth.*
- *The labour market held largely steady. The seasonally adjusted unemployment rate stayed at a low level of 3.3% in the third quarter, following 3.2% in the second quarter. Total employment remained near its record level and labour earnings continued to rise in real terms.*
- *The local stock market underwent a sharp correction during the quarter, alongside the plunge in many stock markets across the globe, being weighed down by the worsening global economic outlook and lingering market worry over the impending US interest rate hike. The Hang Seng Index closed the quarter at its lowest level since June 2013, significantly down by 21% from end-June 2015. The residential property market also turned quieter in the third quarter, with softer increases in flat prices and a plunge in transactions.*

- *Inflation eased slightly further in the third quarter, as local cost pressures remained at bay and imported inflation continued to recede. Looking ahead, the upside risks to inflation should remain well contained in the near term.*

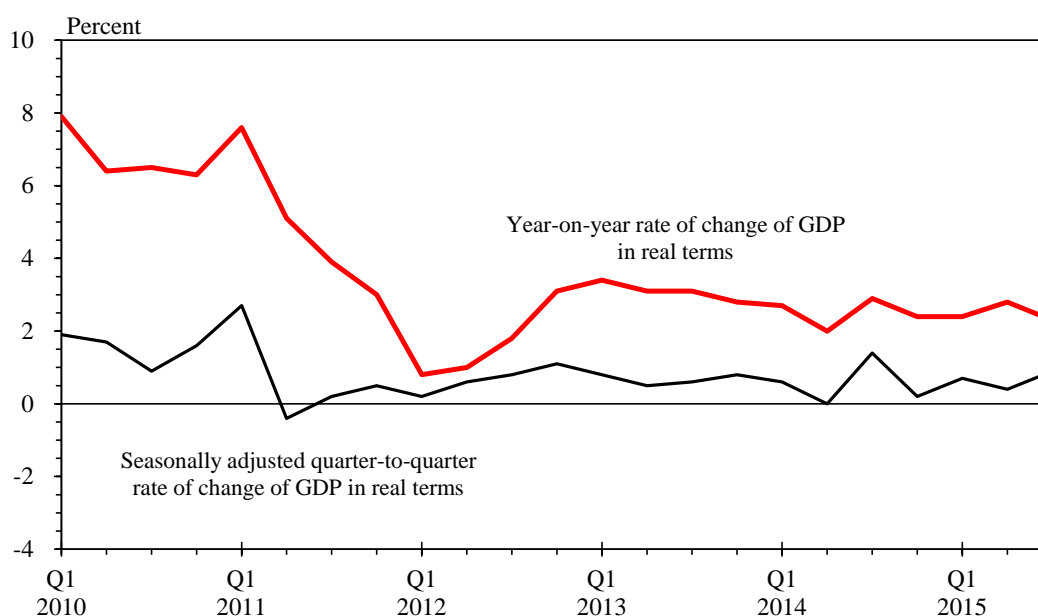
## **Overall situation**

1.1 The Hong Kong economy grew modestly in the third quarter of 2015, continuing to stay below its long-term growth trend. The external sector weakened further, as the global economy was in a fragile state, growing at its slowest pace since the 2008-09 Global Financial Crisis. The US economy lost some momentum in the third quarter, after a notable rebound in the preceding quarter. The economic recovery in the eurozone and Japan remained disappointing and deflation risks re-emerged. Many emerging market economies experienced varying degrees of growth slowdown and increased capital outflows. Shifting market expectations about the timing of the Federal Reserve's interest rate lift-off and increased downside risks to the global economic outlook also instigated sharp stock market corrections and currency depreciations during the quarter. All these unfavourable developments weighed on regional trade flows and production activities.

1.2 As part of a region-wide phenomenon, Hong Kong's external sector worsened in the third quarter. Exports of goods remained on the downtrend. Services exports likewise relapsed to a decline, mainly dragged by the protracted weakness in inbound tourism and the negative impacts on trade-related and transportation services from the anaemic regional trade flows. On the other hand, domestic demand was more stable, and the labour market was still virtually in a state of full employment, both helping to cushion the Hong Kong economy against such an austere external environment. Meanwhile, underlying inflation eased further, amid modest local and external price pressures.

1.3 In the third quarter of 2015, *Gross Domestic Product* (GDP)<sup>(1)</sup> grew by 2.3% in real terms over a year earlier, slightly moderated from the 2.8% growth in the preceding quarter (unchanged from the earlier estimate). On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, real GDP grew by 0.9% in the third quarter, following the 0.4% growth in the preceding quarter (unchanged from the earlier estimate).

**Diagram 1.1 : The Hong Kong economy grew modestly in the third quarter of 2015**



## **The external sector**

1.4 *Total exports of goods* compiled under the GDP accounting framework contracted for the second consecutive quarter, down by 3.2% year-on-year in real terms in the third quarter, further to a 3.6% decline in the preceding quarter. Among the advanced markets, exports to the US slackened to a modest decline, while exports to the EU and Japan trended lower. Exports to major Asian economies, including Taiwan, Korea, Singapore and the Mainland, fell notably. The declines in exports of raw materials and semi-manufactures as well as capital goods reflected the slack in regional production activities in the face of the subdued global demand conditions.

1.5 *Exports of services* slackened again to a decline, falling by 1.3% in real terms in the third quarter over a year earlier. Exports of travel services saw an enlarged decline, marked by a visible drop in visitor arrivals. Likewise, exports of trade-related services and transportation services saw further declines, dragged by the much weaker regional trade and cargo flows under an increasingly difficult external trading environment. The more volatile financial conditions during the quarter also affected cross-border financial and fund-raising activities, leading to a concurrent slowdown in exports of financial and other business services.

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

	<u>2013</u>	<u>2014</u>	<u>2014</u>				<u>2015</u>		
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>+</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
Private consumption expenditure	4.6	3.2	2.1 (0.7)	1.8 (0.3)	4.7 (1.9)	4.1 (1.0)	5.3 (1.8)	6.1 (1.3)	4.3 (0.1)
Government consumption expenditure	3.0	3.0	2.7 (0.7)	2.6 (1.3)	3.6 (1.0)	3.3 (0.4)	3.4 (0.8)	3.3 (1.1)	2.6 (0.2)
Gross domestic fixed capital formation	2.6	-0.2	3.9	-6.0	-1.7	3.4	7.5	5.2	-6.5
<i>of which :</i>									
Building and construction	-4.3	6.5	11.1	2.2	4.5	7.6	-3.3	13.4	4.2
Machinery, equipment and intellectual property products	11.3	-6.5	-2.0	-11.4	-11.2	-0.4	14.4	-1.3	-10.5
Total exports of goods	6.5	0.8	-0.1 (-1.6)	2.1 (1.0)	0.7 (0.1)	0.6 (0.9)	0.4 (-1.4)	-3.6 (-3.2)	-3.2 (0.5)
Imports of goods	7.2	0.9	1.0 (-1.3)	1.2 (0.1)	0.3 (0.2)	1.1 (2.0)	0.1 (-2.1)	-3.2 (-3.1)	-4.1 (-0.9)
Exports of services	4.9	0.9	4.1 (0.6)	-1.5 (-1.7)	1.3 (0.2)	-0.3 (0.7)	* (0.9)	0.9 (-0.8)	-1.3 (-1.9)
Imports of services	1.5	1.9	-0.2 (-4.1)	4.9 (3.8)	2.0 (-0.8)	1.1 (2.1)	6.1 (0.8)	3.6 (1.5)	4.1 (-0.3)
<b>Gross Domestic Product</b>	<b>3.1</b>	<b>2.5</b>	<b>2.7</b> <b>(0.6)</b>	<b>2.0</b> <b>(*)</b>	<b>2.9</b> <b>(1.4)</b>	<b>2.4</b> <b>(0.2)</b>	<b>2.4</b> <b>(0.7)</b>	<b>2.8</b> <b>(0.4)</b>	<b>2.3</b> <b>(0.9)</b>
<i>Change in the main price indicators (%)</i>									
<b>GDP deflator</b>	<b>1.9</b>	<b>2.9</b>	<b>2.5</b> <b>(0.1)</b>	<b>4.6</b> <b>(1.2)</b>	<b>2.3</b> <b>(0.4)</b>	<b>2.3</b> <b>(0.6)</b>	<b>4.4</b> <b>(2.3)</b>	<b>4.6</b> <b>(1.3)</b>	<b>3.6</b> <b>(-0.6)</b>
<b>Composite CPI</b>									
<b>Headline</b>	<b>4.3</b>	<b>4.4</b>	<b>4.2</b> <b>(0.9)</b>	<b>3.6</b> <b>(0.7)</b>	<b>4.8</b> <b>(0.5)</b>	<b>5.1</b> <b>(2.9)</b>	<b>4.4</b> <b>(0.3)</b>	<b>3.0</b> <b>(-0.6)</b>	<b>2.3</b> <b>(-0.2)</b>
<b>Underlying<sup>^</sup></b>	<b>4.0</b>	<b>3.5</b>	<b>3.8</b> <b>(0.9)</b>	<b>3.5</b> <b>(0.7)</b>	<b>3.3</b> <b>(0.7)</b>	<b>3.3</b> <b>(0.9)</b>	<b>2.7</b> <b>(0.3)</b>	<b>2.5</b> <b>(0.6)</b>	<b>2.4</b> <b>(0.6)</b>
<b>Change in nominal GDP (%)</b>	<b>5.0</b>	<b>5.5</b>	<b>5.2</b>	<b>6.7</b>	<b>5.3</b>	<b>4.8</b>	<b>7.0</b>	<b>7.6</b>	<b>6.0</b>

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

(#) Revised figures.

(+) Preliminary figures.

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

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

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



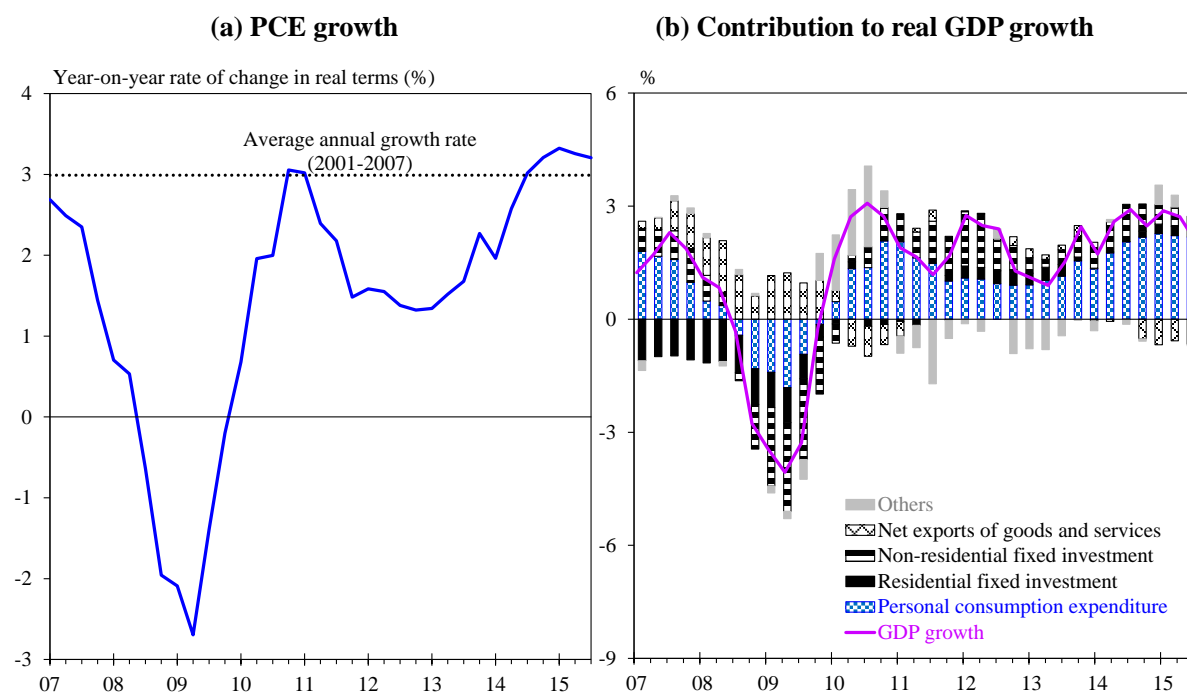
## Box 1.1

### Will personal consumption help sustain economic growth in the United States?

Personal consumption has been the key growth driver of the US economy in the recent past, with personal consumption expenditure (PCE) outpacing exports for four consecutive quarters, as the latter was dragged by the lacklustre international developments and the strength of the US dollar. This note briefly examines the recent personal consumption situation in the US, and how this may affect its near-term economic outlook.

The US economy expanded moderately further by 2.0% in the third quarter of 2015 over a year earlier, after a 2.7% growth in the second quarter. In the first three quarters of 2015, GDP grew by 2.5% year-on-year, slightly faster than the 2.4% growth in 2014. PCE grew notably by 3.3% over the same period, up from 2.7% in 2014, marking the fastest pace of expansion since the Global Financial Crisis (*Chart 1a*). In terms of contribution to the year-on-year GDP growth, PCE contributed 2.2 percentage points in the first three quarters of 2015, in contrast to the negative contribution from net exports (*Chart 1b*).

**Chart 1 : Domestic consumption continued to be the key driver of the US economy**



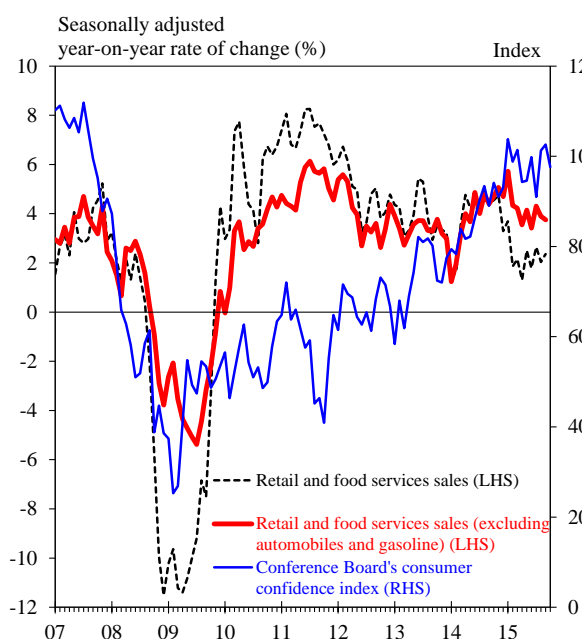
Personal consumption in the US was buoyed by the improving labour market. In the first nine months of 2015, job creation was solid, adding an average of some 198 000 new jobs per month, and the unemployment rate went down to 5.1% in September, falling within the central tendency range of the long-run normal level of 4.9-5.2% as estimated by the Federal Reserve's Federal Open Market Committee (FOMC) participants in September. The favourable effect of improving job and income conditions was also evidenced by the performance of retail and food services sales, which increased by 2.3% year-on-year in value terms in the first nine months of 2015. Excluding the volatile automobile and gasoline sales, the core measure rose even faster, at 4.1% (*Chart 2*).

## Box 1.1 (Cont'd)

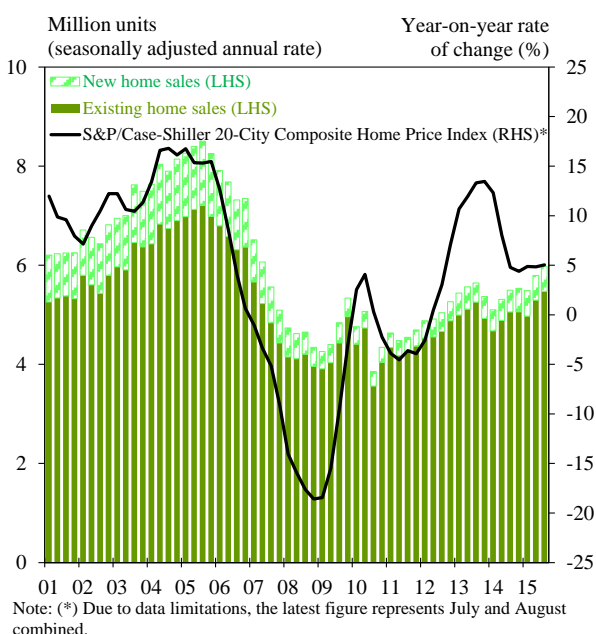
The progressive housing market recovery in the US also helped. Housing market activity not only directly contributed to US economic growth through higher residential investment and trading, but also indirectly bolstered consumption through the wealth channel. Amid a very low interest rate environment, total home sales, comprising existing and new home sales, rose to the highest level since 2008 in recent months, along with steady rises in house prices (*Chart 2*).

**Chart 2 : Improved consumer sentiment and the progressive housing recovery both helped support personal consumption in the US**

**(a) Buoyant consumer sentiment also evidenced by steady core retail sales growth**



**(b) Home sales rose to a multi-year high, and prices increased moderately year-on-year**



On current trends, personal consumption should continue to help support US economic growth in the rest of the year. Consumer confidence, as gauged by the Conference Board's index, trended up successively to reach a multi-year high before easing somewhat in October (*Chart 2*). Indeed, the central tendency of the GDP growth estimates made by the Fed's FOMC participants in September for the fourth quarter of 2015 was 2.0-2.3%, while the IMF in October projected US GDP growth in 2015 to be 2.6%.

Yet, uncertainties still prevail. The pace of job creation in August and September was notably slower than expected, conceivably reflecting the negative feedback from developments in the rest of the global economy. If continued, this could weaken consumer sentiment going forward. Another key source of uncertainty relates to the impending US interest rate lift-off, which would eventually lead to higher borrowing costs for individuals and businesses. How the housing market and business climate will react to higher interest rates could have a significant bearing on household wealth and income prospects and hence on personal consumption behaviour.

With the increased downside risks to the global economy, the volatile financial conditions of late, and the Fed's inclination to normalise monetary policy, a sustained strengthening of the US economy cannot be taken for granted. We have to monitor the situation closely, as this would inevitably impinge on the Hong Kong economy.

## The domestic sector

1.6 Domestic demand expanded at a slower pace in the third quarter, but continued to render the major driver of the economy in the face of stronger external headwinds. *Private consumption expenditure* sustained a solid, albeit somewhat slower, year-on-year growth of 4.3% in real terms in the third quarter, supported by broadly stable job and income conditions. Meanwhile, *government consumption expenditure* also maintained a steady year-on-year growth of 2.6% in the third quarter.

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

		<i>Of which :</i>							
		Total consumer spending in the domestic market <sup>(a)</sup>	Food	Durables	Non-durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure <sup>(b)</sup>
2014	Annual	2.3	3.6	6.7	-0.6	2.4	3.0	-1.5	3.2
	H1	1.6	5.1	1.5	-1.1	2.0	3.0	0.5	2.0
	H2	3.0	2.0	11.9	*	2.8	3.0	-3.3	4.4
	Q1	4.1	4.8	5.4	7.8	2.1	-1.9	11.0	2.1
	Q2	-0.8	5.4	-3.8	-9.0	1.9	8.1	-9.6	1.8
	Q3	3.2	3.5	6.0	1.3	3.2	3.1	-3.8	4.7
	Q4	2.8	0.6	16.5	-1.1	2.4	2.9	-2.9	4.1
2015	H1	3.6	3.3	12.9	0.3	3.2	11.2	-3.1	5.7
	Q1	2.9	4.0	8.5	-0.3	2.6	12.1	-4.4	5.3
	Q2	4.4	2.7	19.6	1.0	3.9	10.3	-1.6	6.1
	Q3	1.7	1.4	5.3	-1.0	2.3	12.5	-5.6	4.3

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

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

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

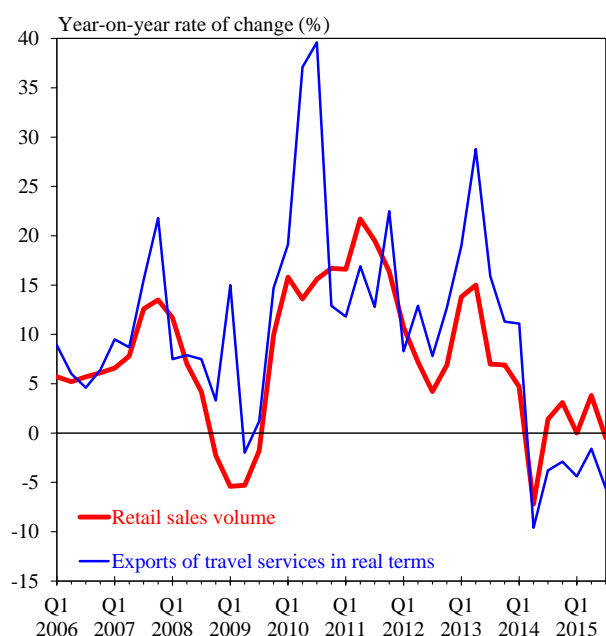
## Box 1.2

### An update on the recent performance of Hong Kong's retail sales

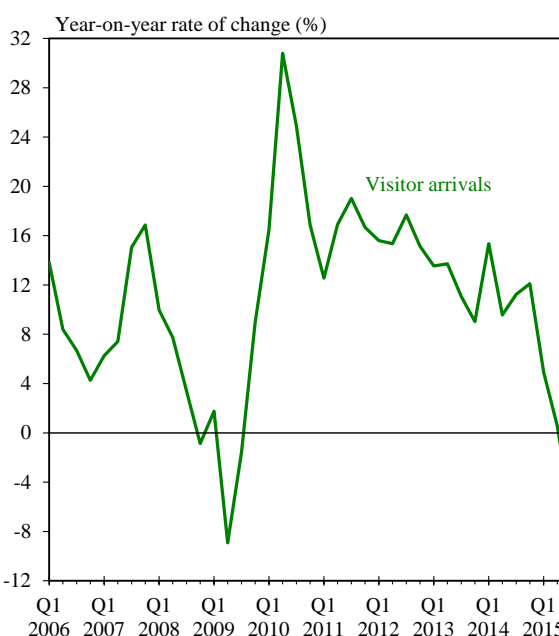
This note provides an update of *Box 1.1* in the *2014 Economic Background and 2015 Prospects* by examining the recent trends of retail sales and the related employment situation.

After registering a notable average annual growth of 12.8% in 2010-2013, retail sales slowed down to a meagre 0.6% growth in volume terms in 2014. Sales weakened to a 0.5% year-on-year decline in the third quarter of 2015, following a 1.7% growth in the first half of the year (*Chart 1*). The lacklustre performance of retail sales raised concerns about the outlook for the sector and the wider implications for the economy.

**Chart 1 : Retail sales remained lacklustre in the first three quarters of 2015, dragged by continued slowdown in inbound tourism**



**Chart 2 : Visitor arrivals recorded the first decline since the third quarter of 2009, adding downward pressure on the retail sector**

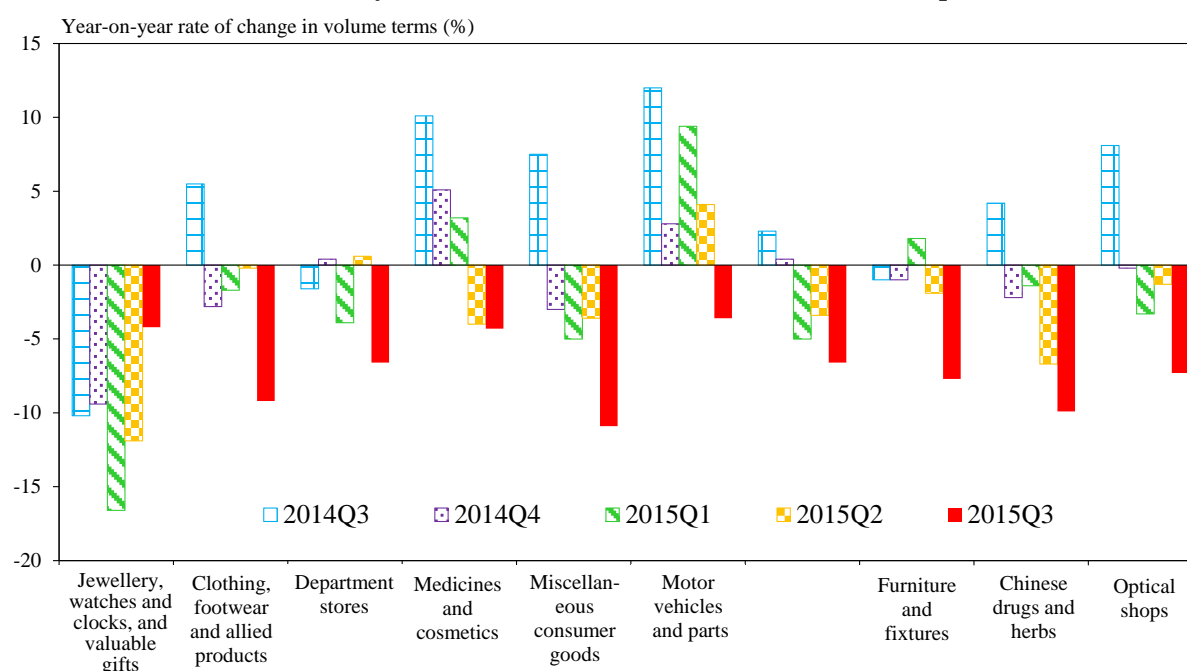


To analyse the possible reasons behind the recent weakness in retail sales, it would be useful to look at inbound tourism performance, as the share of tourists' shopping expenditure in retail sales value has been substantial (around 42% in 2014). The number of visitor arrivals slowed down markedly to a 6.4% year-on-year decline in the third quarter of 2015 (*Chart 2*). Exports of travel services (which cover visitors' spending on shopping, food and beverages, accommodation, entertainment, etc.), likewise slackened in tandem, down 5.6% in real terms in the third quarter. Against this backdrop, our retail sales performance was inevitably affected.

*Chart 3* showed that the sales volume of those retail outlet types that are more related to tourist spending, such as "jewellery, watches and clocks, and valuable gifts", "department stores", "medicines and cosmetics" and "clothing, footwear and allied products", saw visible declines in the third quarter of 2015, mirroring continued contraction in inbound tourism. Meanwhile, retail outlets selling goods that are conceivably more local consumption related, including "books, newspapers, stationery and gifts" and durable goods such as "motor vehicles and parts" and "furniture and fixtures", also saw widened declines, as compared to previous quarters, suggesting that the stock market correction in the quarter, coupled with a more uncertain global economic outlook, have dented local consumer sentiment to some extent.

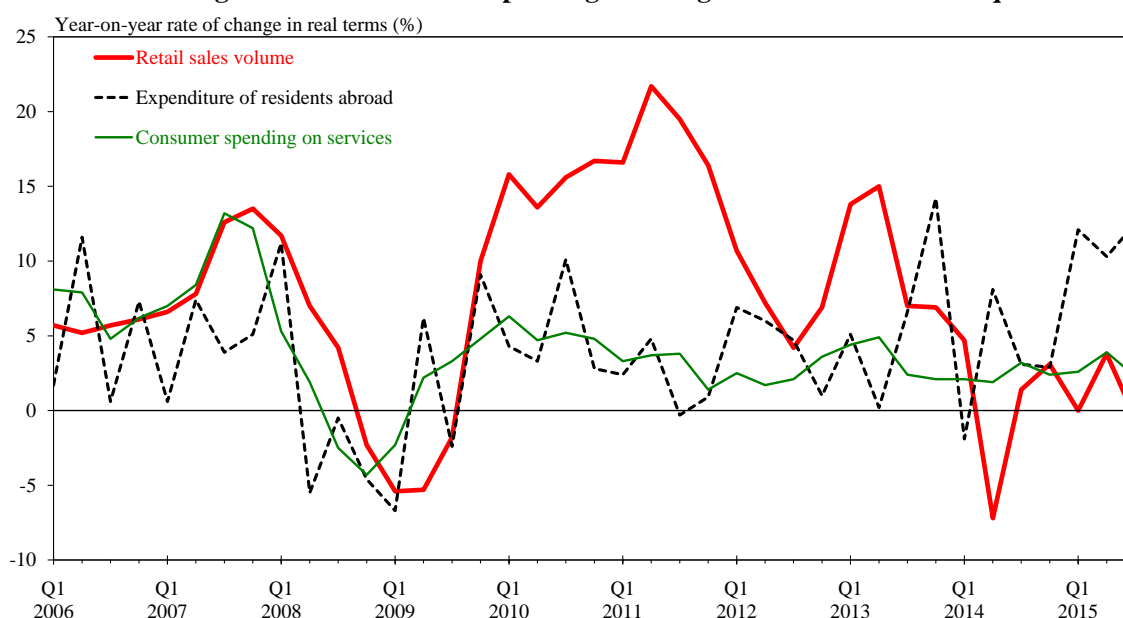
## Box 1.2 (Cont'd)

**Chart 3 : Sales of many retail outlets saw visible declines in the third quarter of 2015**



It should be noted that private consumption expenditure continued to expand solidly in the third quarter, by 4.3% in real terms over a year earlier, underpinned by the further growth of spending on non-goods items, viz. services and outbound travel, which is not captured by the retail sales figures (*Chart 4*).

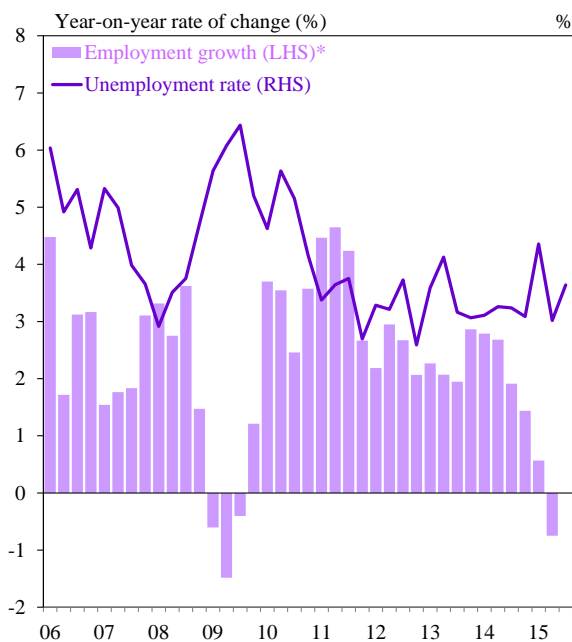
**Chart 4 : Further growth was seen in the spending on non-goods items in the third quarter of 2015**



Protracted slowdown in retail sales would have negative impacts on the labour market conditions in Hong Kong, as the retail sector directly contributed around 9% of total employment (i.e. around 330 000 jobs) in 2014. While the retail sector's unemployment rate continued to stay relatively low, employment actually fell in the second quarter of 2015 over a year earlier, marking the first decline since the 2008-09 Global Financial Crisis (*Chart 5*). Indeed, business sentiment among large enterprises and SMEs in the retail sector turned more cautious recently (*Chart 6*). Hiring intentions among large enterprises in the sector also deteriorated visibly.

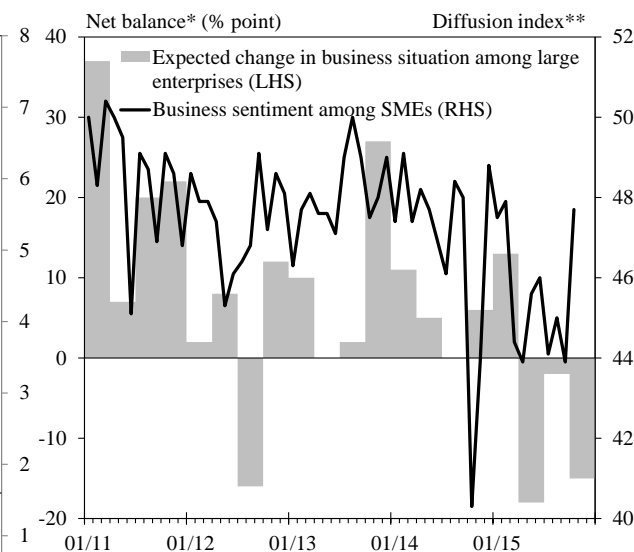
**Box 1.2 (Cont'd)**

**Chart 5 : Employment in the retail sector  
slackened to a decline in the second quarter of  
2015**



Note:  
(\* ) According to the Quarterly Survey of Employment and Vacancies, the latest figure for employment in the retail sector is up to the second quarter of 2015.

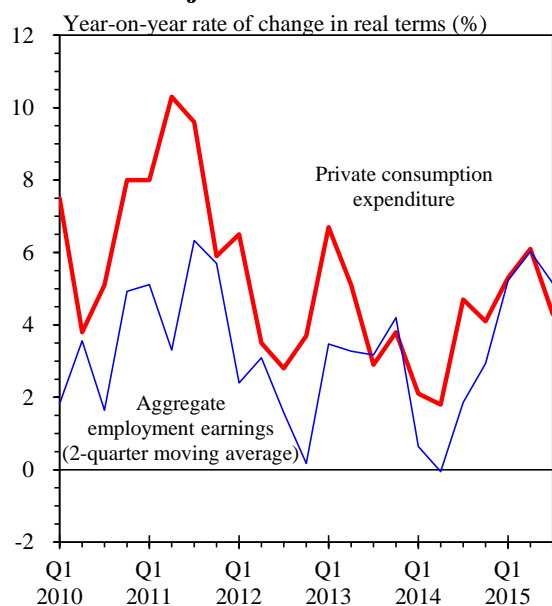
**Chart 6 : Business sentiment in the retail sector  
turned more cautious**



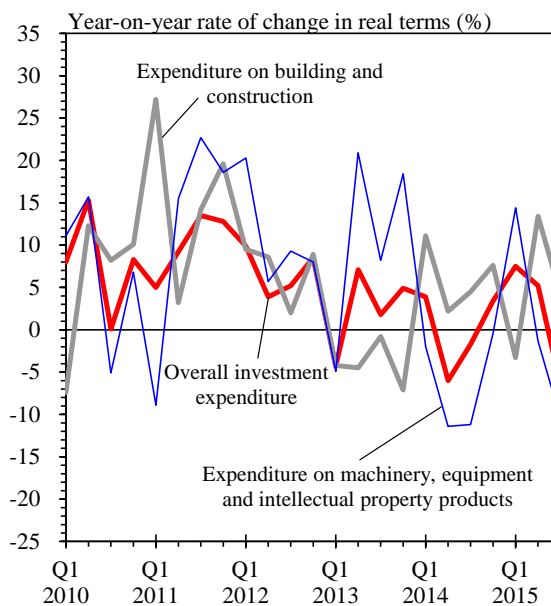
Notes:  
(\* ) Net balance indicates the direction of expected change in business situation versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely upward trend, while a negative sign, a likely downward trend.  
(\*\* ) A diffusion index reading above 50 indicates that the business condition is generally favourable, whereas an index below 50 indicates otherwise.

Looking ahead, the near-term outlook for the retail business hinges much on the inbound tourism performance and on how the external headwinds will affect the overall economy. Persistent weakness in inbound tourism will pose downward pressure on the retail business. Moreover, the difficult external environment, including weaker global growth and heightened financial market volatility amid the uncertainties associated with the US' interest rate lift-off, might also erode consumer confidence. The Government will continue to monitor closely the situation and its potential repercussions on the local economy and job creation.

**Diagram 1.2 : Private consumption expenditure sustained further growth, thanks to stable job and income conditions**



**Diagram 1.3 : Investment spending slackened distinctly**



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* slackened distinctly to a year-on-year decline of 6.5% in real terms in the third quarter, after a 5.2% growth in the preceding quarter. The visible decline largely reflected the plunge in private sector machinery and equipment acquisition, by 13.1% year-on-year. While this GDP component is typically volatile, its weak performance is conceivably due to increasing concerns over business prospects, in the face of a dimmer global economic outlook and heightened financial market volatility during the quarter. Indeed, business sentiment turned more cautious in recent months, as indicated by the results of the latest Quarterly Business Tendency Survey and the diffusion indices on small and medium-sized enterprises (SMEs) (see **Box 1.3** for details of the consultation on SMEs). Overall building and construction expenditure, on the other hand, posted further growth, backed by the ongoing large-scale infrastructure works and the steady expansion of private sector building and construction activity.

### Box 1.3

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

To gain a better understanding of the current situation of business receipts, employment and credit access for small and medium-sized enterprises (SMEs)<sup>(1)</sup>, an ad-hoc consultation exercise has been conducted by the Census and Statistics Department on behalf of the Economic Analysis and Business Facilitation Unit since late November 2008. In the recent past, the exercise has been conducted on a sample panel of around 360 SMEs. This note provides a further update of the results reported in **Box 1.2** in the *Half-yearly Economic Report 2015*.

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

Business receipts of the SMEs consulted, as measured by the set of diffusion indices, suggested that the overall situation remained lacklustre in recent months and enterprises surveyed generally stayed cautious about the outlook (**Table 1**). After falling to 45.3 in August, the overall index stood at 46.1 in October, and was lower than the reading three months ago. With the exception of business services, all other sectors recorded readings below the boom-bust level of 50.0 in October. The diffusion index for real estate slackened quite visibly in recent months compared to July. The still-weak readings for the retail trade and restaurant sectors reflected continued contraction of inbound tourism. The readings for import/export trade and logistics remained subdued, given the drag from sluggish trade performance under the austere external environment. As to the employment situation, the feedback from SMEs suggested broadly stable conditions in recent months (**Table 2**).

For the import/export trade sector in particular, SMEs' views on new export orders were sought separately to help gauge the likely export performance in the near term. The diffusion index on new export orders weakened to 46.9 in October, conceivably reflecting the still-strong external headwinds amid the persistently weak global demand conditions.

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

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



**Box 1.3 (Cont'd)****Table 1 : Diffusion indices<sup>^</sup> on business receipts**

	<u>2014</u>			<u>2015</u>									
	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
<i>Local segments</i>													
Restaurants	38.2	46.1	52.0	50.0	47.7	47.7	48.4	47.6	48.4	49.2	46.8	46.7	42.5
Real estate	40.6	54.7	45.3	48.5	47.1	51.5	45.5	53.2	50.0	50.0	38.3	33.3	41.4
Retail trade	40.3	43.9	48.8	47.5	47.9	44.4	43.9	45.6	46.0	44.1	45.0	43.9	47.7
Wholesale trade	33.3	44.4	44.4	50.0	44.4	44.4	41.7	47.2	50.0	38.9	41.7	38.9	41.7
Business services	45.2	46.8	48.4	45.6	50.0	47.0	48.4	53.2	51.6	46.8	46.8	56.5	50.0
<i>External segments</i>													
Import/export trade	42.6	47.9	50.8	50.0	47.5	49.6	49.6	46.2	50.4	49.6	46.9	47.3	46.0
Logistics	36.1	41.7	41.7	50.0	50.0	44.7	52.8	50.0	52.9	44.1	40.6	46.9	46.9
<b>All the above sectors*</b>	<b>41.0</b>	<b>46.7</b>	<b>48.9</b>	<b>48.8</b>	<b>47.8</b>	<b>47.4</b>	<b>47.3</b>	<b>47.7</b>	<b>49.4</b>	<b>46.9</b>	<b>45.3</b>	<b>46.1</b>	<b>46.1</b>

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

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

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

	<u>2014</u>			<u>2015</u>									
	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
<i>Local segments</i>													
Restaurants	46.1	50.0	49.0	49.2	48.5	50.0	49.2	50.0	49.2	50.0	50.0	50.0	49.2
Real estate	50.0	51.6	50.0	48.5	50.0	51.5	47.0	46.8	50.0	48.3	51.7	45.0	51.7
Retail trade	49.2	50.8	49.6	49.6	50.0	50.0	50.0	49.6	50.4	48.6	49.5	50.0	50.0
Wholesale trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Business services	46.8	50.0	50.0	50.0	50.0	50.0	48.4	50.0	48.4	51.6	51.6	51.6	50.0
<i>External segments</i>													
Import/export trade	49.2	50.0	50.0	50.0	49.2	50.8	50.4	49.2	50.0	49.6	48.2	50.0	50.0
Logistics	50.0	47.2	50.0	47.1	47.1	47.4	50.0	50.0	50.0	52.9	50.0	50.0	50.0
<b>All the above sectors*</b>	<b>48.9</b>	<b>50.2</b>	<b>49.8</b>	<b>49.6</b>	<b>49.5</b>	<b>50.3</b>	<b>49.7</b>	<b>49.4</b>	<b>49.9</b>	<b>49.7</b>	<b>49.5</b>	<b>49.9</b>	<b>50.1</b>

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

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

	<u>2014</u>			<u>2015</u>									
	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
Import/export trade	44.7	46.7	51.3	50.0	48.3	48.3	48.7	45.3	48.7	48.7	47.4	47.3	46.9

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

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

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

## **The labour sector**

1.8 The labour market held broadly stable during the quarter. The *seasonally adjusted unemployment rate* stayed at a low level of 3.3% in the third quarter, only marginally up from 3.2% in the second quarter. Meanwhile, the *underemployment rate* stood at 1.4%. Total employment stayed near its record level in the third quarter and private sector job vacancies remained high in June, both pointing to the still-tight overall labour demand conditions. Labour incomes sustained further growth in the third quarter, with the median monthly household income (excluding foreign domestic helpers) growing by 4.0% year-on-year in real terms.

## **The asset markets**

1.9 After a marked downward adjustment towards the end of June, the *local stock market* underwent another sharp correction in August and remained under pressure in September. Such a phenomenon was widespread in equity markets across the globe, as investor sentiment was dented by worries over the global economic outlook and the uncertainties associated with the timing of the US interest rate lift-off. The Hang Seng Index closed the third quarter at 20 846, notably down by 21% from three months earlier, marking the lowest level since June 2013. Average daily turnover went down to \$101.5 billion in the third quarter of 2015 and total equity fund raised was distinctly lower when compared with the preceding quarter.

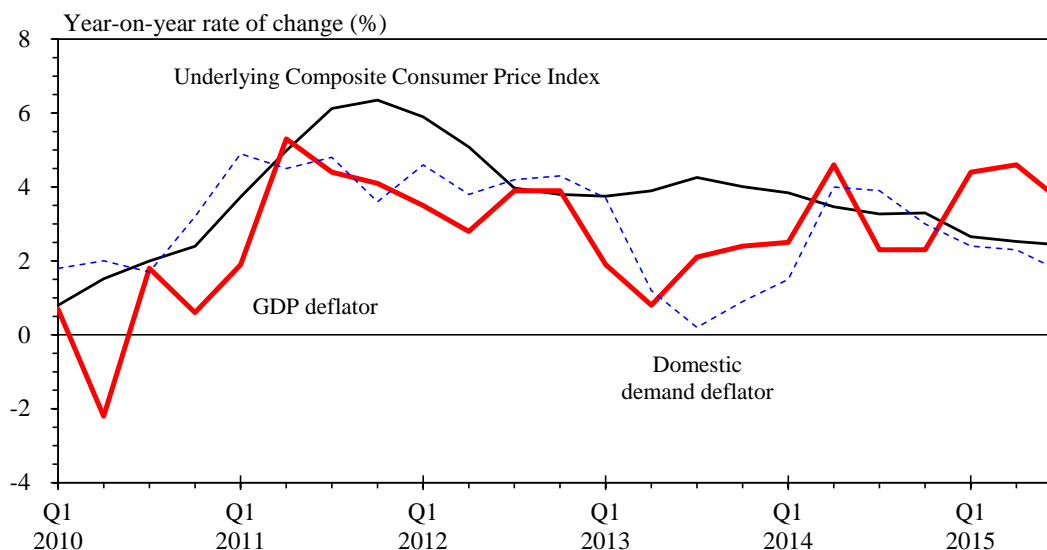
1.10 The *residential property market* turned quieter during the third quarter. Trading volume plunged by 13% over the preceding quarter. Residential property prices rose at a slower pace of 2% during the third quarter. Yet, overall flat prices in September still exceeded the 1997 peak by 77% and the housing affordability ratio stayed elevated at around 64% in the third quarter, indicating that the risks of a housing market bubble remain prominent. During the third quarter, flat rentals rose moderately by 2%, and so did office and shop rentals, both by 1%.

## Inflation

1.11 Underlying consumer price inflation continued to ease in the third quarter. Locally, the growth in labour costs remained steady and the feed-through of the faster year-on-year increases in fresh-letting residential and commercial rentals earlier this year was still initial and gradual. All these helped keep domestic cost pressures contained. Meanwhile, external price pressures continued to recede, on the back of declining international food and commodity prices, lower inflation in Hong Kong's major import partners, and the strength of the US dollar. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, *underlying composite consumer price inflation* edged down to 2.4% in the third quarter, from 2.5% in the second quarter. *Headline consumer price inflation* eased to 2.3% in the third quarter, from 3.0% in the preceding quarter.

1.12 The *GDP deflator* rose by 3.6% in the third quarter over a year earlier, further to a 4.5% increase in the first half of 2015. Within this, the terms of trade continued to improve modestly amid the strength of the US dollar, while the rise in domestic demand deflator moderated somewhat.

**Diagram 1.4 : Consumer price inflation continued to ease in the third quarter**



## **GDP by major economic sector**

1.13 Net output of the services sector as a whole grew by 1.5% in real terms in the second quarter of 2015, slower than the 2.4% increase in the first quarter. Many individual sectors saw varying degrees of growth slowdown. The drag from the sluggish external environment on import and export trade was particularly distinct. Net output of transportation and storage also stayed subdued in tandem. Professional and business services saw moderation in growth, so did information and communications and real estate (mainly reflecting activity of private sector developers and property agency), but to a lesser extent. Accommodation and food services remained on the decline, affected by the further slowdown in inbound tourism. Net output of wholesale and retail trades, on the other hand, reverted to a modest growth, amid an exceptionally low base of comparison in the same period last year. Financing and insurance picked up visibly, conceivably reflecting the rally in the local stock market during the early part of the second quarter and the remarkably strong fund-raising activity. As for the secondary sector, manufacturing activity declined mildly further. Meanwhile, activity in the construction sector rebounded notably, on the back of intensive large-scale public infrastructure works in the quarter.

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

	<u>2014</u>	<u>2014</u>				<u>2015</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Manufacturing	-0.4	2.1	2.2	-1.7	-3.6	-1.5	-1.2
Construction	8.3	12.2	4.9	5.4	10.1	-5.1	13.6
Services <sup>(b)</sup>	2.4	2.3	2.1	2.9	2.5	2.4	1.5
Import/export, wholesale and retail trades	0.9	0.3	0.5	2.2	0.7	0.4	-3.3
Import and export trade	1.2	-0.7	2.3	2.7	0.6	0.6	-4.6
Wholesale and retail trades	-0.1	3.9	-6.1	0.3	1.3	-0.1	1.6
Accommodation <sup>(c)</sup> and food services	2.6	4.5	2.4	3.6	0.2	-0.7	-1.1
Transportation, storage, postal and courier services	5.2	6.6	7.3	3.9	3.3	2.4	1.2
Transportation and storage	5.4	6.3	7.3	4.9	3.2	2.8	1.5
Postal and courier services	2.0	13.6	7.5	-14.1	3.4	-4.6	-4.7
Information and communications	3.9	3.0	5.7	3.3	3.7	5.9	4.0
Financing and insurance	4.0	3.1	0.6	5.5	6.8	4.5	7.5
Real estate, professional and business services	3.2	1.9	3.7	3.5	3.7	4.6	2.4
Real estate	2.7	0.8	3.0	3.2	4.0	4.2	3.2
Professional and business services	3.6	3.0	4.3	3.7	3.4	5.1	1.7
Public administration, social and personal services	2.3	2.9	2.4	2.0	2.0	2.8	2.1

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

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

## **Other economic developments**

1.14 Hong Kong was ranked again as the world's freest economy by the Fraser Institute in September. In particular, Hong Kong attained the top rank in terms of the size of government, freedom to trade internationally and regulation, recognising the Government's steadfast commitment to upholding free market principles and maintaining a free and open business and trade environment.

1.15 The Government constantly strives to enhance the competitive environment of the economy. The Competition Ordinance, which was enacted in June 2012, will become fully operative in December. The full commencement of the Competition Ordinance will help promote sustainable competition and enhance economic efficiency in Hong Kong. Separately, in view of the continued slowdown in inbound tourism in the recent quarters, the Government will allocate an additional HK\$10 million to enhance overseas promotion and support the tourism sector.

1.16 To maintain our competitiveness in the global arena, the Government continues to proactively strengthen economic ties with our economic partners. On deepening our economic integration with the Mainland, the 18th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference was held in September and five co-operation agreements were signed, covering such areas as intellectual property protection and cross-boundary e-commerce enhancement. Directions were set out for future co-operation in various aspects, including trade in services liberalisation, financial co-operation, professional services and innovation and technology. Both sides also exchanged ideas on the "Belt and Road" initiative and the development of the Guangdong Free Trade Zone. Separately, the Government announced in October that Hong Kong and Macao will soon commence negotiations on a Hong Kong and Macao Closer Economic Partnership Arrangement. The free trade agreement, when established, would enhance economic ties between the two places and could provide a platform to advance further liberalisation of trade and investment flows in the Greater China region.

1.17 On strengthening economic ties with overseas markets, Hong Kong and Mexico will launch negotiations on an Investment Promotion and Protection Agreement, which are expected to commence in 2016. Separately, Hong Kong and the Philippines signed a Memorandum of Intent on investment promotion co-operation. These arrangements would facilitate and promote economic and investment relations between Hong Kong and these two economic partners.

**Notes :**

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

## CHAPTER 2 : THE EXTERNAL SECTOR

### *Summary*

- *The external trading environment worsened further in the third quarter. The recoveries of many advanced economies were weak, while the growth slowdown of emerging markets continued. Besides, the fluctuations of the global financial markets intensified amid fears about the US interest rate lift-off and global economic outlook. The subdued global economic landscape took a further toll on Asian exports, with some Asian economies witnessing double-digit declines.*
- *In tandem with the downdraft in Asian trade, Hong Kong's merchandise exports slackened further to show a year-on-year fall of 3.8% in real terms<sup>(1)</sup> in the third quarter of 2015. The performance of most major markets was rather weak.*
- *Exports of services also reverted to drop by 1.3% in the third quarter from a year earlier. Dragged by the subdued global economic climate, the weak performance was evident across most major service groups. The fall in exports of travel services widened again, as visitor arrivals slackened visibly further to show a decline during the period. Exports of trade-related services and transportation services also declined further under the general setback in regional trade and cargo flows. Meanwhile, the global financial market upheaval during the summer put a dent on cross-border financial activity, resulting in moderation in the growth of exports of financial and other business services.*
- *The 18th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference was convened in early September, setting directions for collaboration in the coming year. Five co-operation agreements, including those on intellectual property protection and enhancing cross-boundary e-commerce, were signed. In October, the Government announced that Hong Kong and Macao would commence negotiations on the Hong Kong and Macao Closer Economic Partnership Arrangement (HK-Macao CEPA), a free trade agreement that would further enhance economic co-operation and development of the two cities.*



## Goods trade

### *Total exports of goods*

2.1 Global demand remained rather weak, putting a serious dent on Asian trading and production activity. Its negative spill-overs on Hong Kong's external segment were visible. As part of a region-wide phenomenon, *merchandise exports* (comprising re-exports and domestic exports) declined further by 3.8% in real terms in the third quarter over a year earlier, slightly larger than the 3.0% fall in the second quarter. On a seasonally adjusted quarter-to-quarter basis, merchandise exports held virtually unchanged in the third quarter, following the 1.3% decline in the preceding quarter.

2.2 The global economic environment stayed lacklustre. The US economy wavered again and softened in momentum in the third quarter. Its labour market also saw slower job gains during the quarter, but consumer spending there generally held up. The recoveries in other major advanced economies also failed to gain traction, as the eurozone economy was inflicted by structural issues and still stuck in the slow track. Japan's economy even teetered on the verge of technical recession. Moreover, emerging market economies in general continued to weaken, with those heavily dependent on commodity exports being put under stress. Indeed, Brazil and Russia were already mired in recession. The downward pressure on growth facing the Mainland economy also persisted. During the quarter, international financial markets saw heightened volatility. Global stock markets experienced notable corrections, and some emerging market currencies tested multi-year lows upon capital outflows, further complicating the already austere external environment. In October, the International Monetary Fund lowered its global growth forecast for 2015 for the third time this year to 3.1%, marking the slowest growth since 2009.

2.3 Battered by the choppy international economic and financial situation, Asian exports slid further across the region in the third quarter, with some bracing for the worst retrenchment since the Global Financial Crisis. For example, Korea's, Singapore's and Taiwan's goods exports plunged in the third quarter, down by 9.5% to 17.2% in US dollar terms from a year earlier. The weaker trading and manufacturing activities led to economic growth slowdown in export-dependent Asia, which in turn posed an additional drag on intra-regional trade.

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

	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>
2014 Annual	3.2	1.5	2.0	3.2	1.5	2.0	1.7	2.9	0.2
Q1	0.7	-0.7 (-4.1)	1.7	0.7	-0.7 (-4.2)	1.7	-1.1	0.6 (4.4)	-0.5
Q2	4.8	3.4 (3.8)	1.9	4.8	3.3 (3.8)	1.9	8.3	9.6 (3.4)	0.5
Q3	5.8	4.1 (2.0)	2.2	5.9	4.1 (2.1)	2.2	3.1	3.4 (-4.5)	1.3
Q4	1.2	-0.8 (-3.2)	2.2	1.3	-0.8 (-3.1)	2.3	-3.7	-2.4 (-5.8)	-0.7
2015 Q1	2.3	0.7 (-0.6)	2.0	2.5	0.8 (-0.6)	2.1	-10.1	-8.7 (-0.1)	-1.5
Q2	-1.9	-3.0 (-1.3)	1.3	-1.7	-2.8 (-1.2)	1.4	-15.6	-13.8 (-4.2)	-2.7
Q3	-4.1	-3.8 (*)	-0.4	-3.9	-3.6 (0.1)	-0.4	-18.3	-15.7 (-7.7)	-4.3

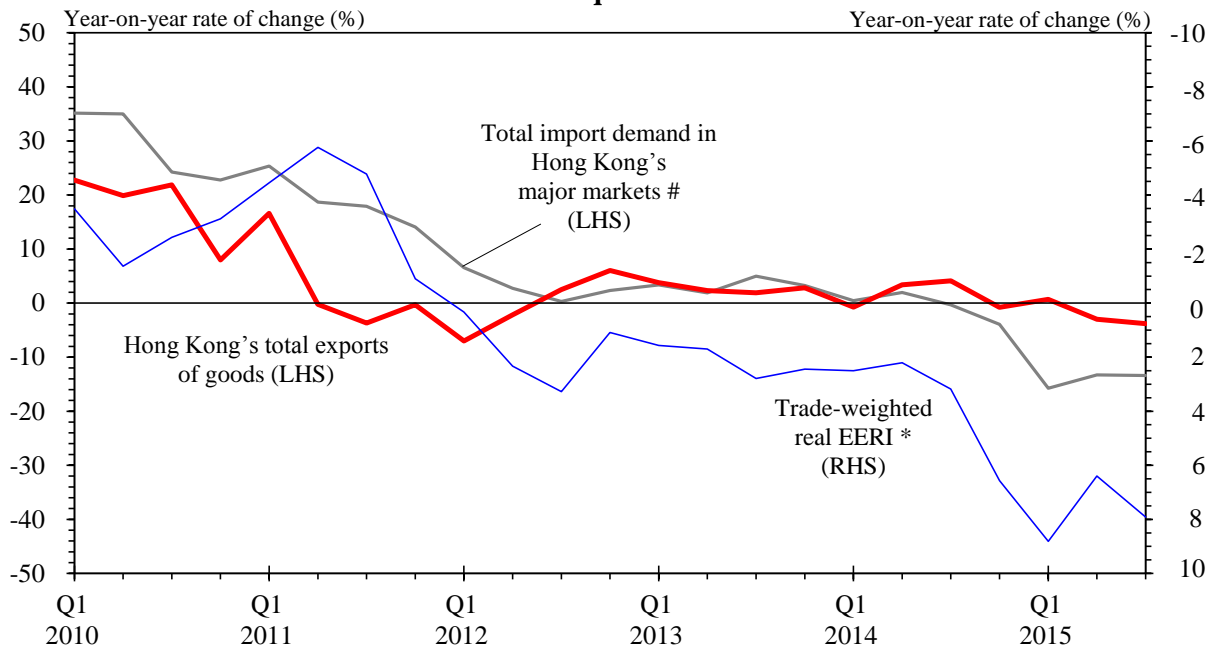
Notes : ( ) Seasonally adjusted quarter-to-quarter rate of change.

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

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

2.4 *Re-exports*<sup>(2)</sup>, the mainstay of overall merchandise exports and accounting for 98.7% of total exports by value, fell by 3.6% year-on-year in real terms in the third quarter of 2015, following the 2.8% decline in the preceding quarter. *Domestic exports*, constituting the remaining 1.3% of total exports, plunged by 15.7% year-on-year in real terms in the third quarter of 2015, further to a notable decline of 13.8% in the second quarter.

**Diagram 2.1 : Merchandise exports worsened further in the third quarter of 2015**

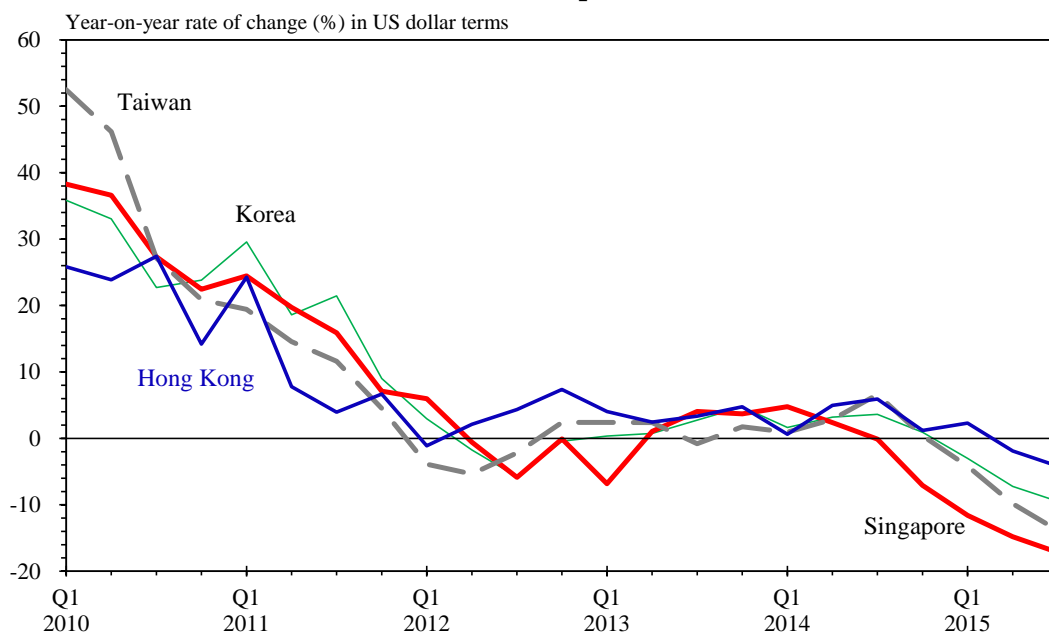


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in Asia, the United States and the European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

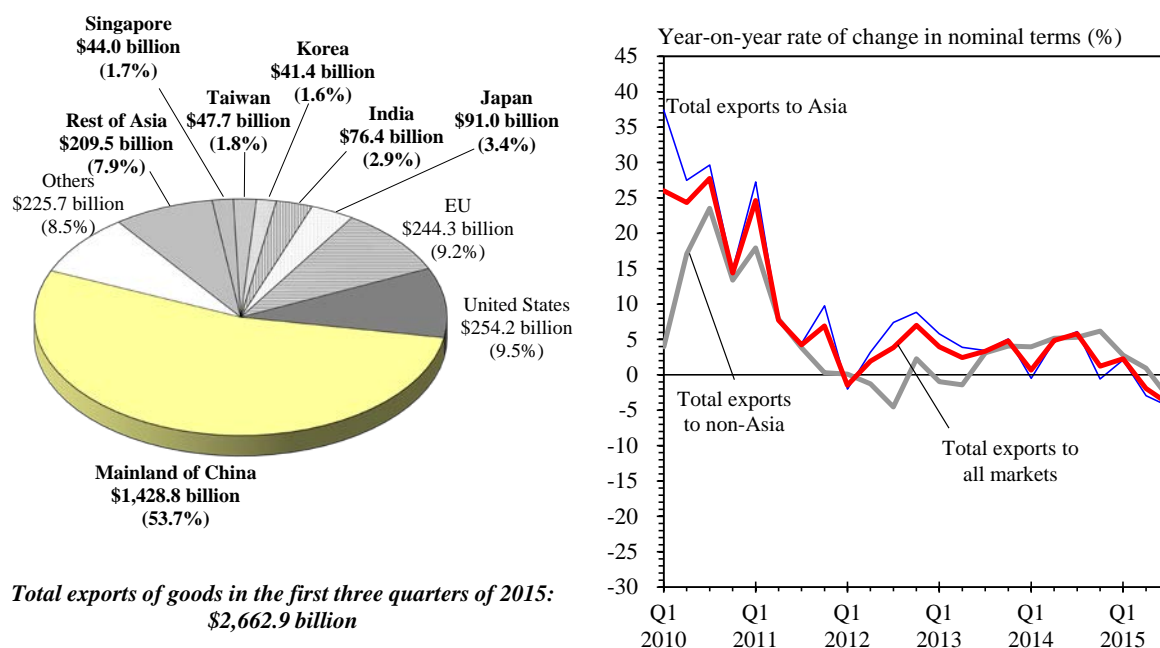
(\*) The real EERI in this graph is inverted in scale for easier comprehension. A positive change denotes real appreciation of the Hong Kong dollar.

(#) Import demand figure for the third quarter of 2015 is based on statistics for July and August 2015.

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



**Diagram 2.3 : Exports to the Asian markets slackened amid sluggish global import demand**



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

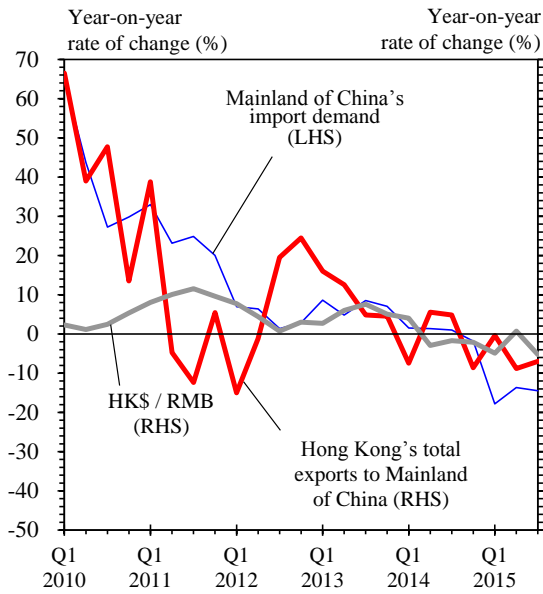
	Annual	2014				2015		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3
Mainland of China	-0.7	-3.7	2.8	2.4	-4.3	-0.2	-4.4	-3.5
United States	2.7	4.2	2.9	0.2	3.8	3.3	3.6	-1.4
European Union	0.6	1.2	4.4	-0.3	-2.3	-3.5	-6.7	-6.0
Japan	-4.5	-2.0	-1.8	-5.2	-8.4	-5.8	-4.0	-1.7
India	16.0	6.8	15.3	35.6	6.1	12.4	-3.1	2.3
Taiwan	2.1	-7.9	1.2	13.6	1.7	-12.8	-20.3	-23.5
Korea	-1.8	0.1	1.3	4.0	-11.5	-5.7	-13.8	-19.1
Singapore	2.1	7.9	0.3	0.3	0.6	0.4	-3.7	-8.7
Overall*	1.5	-0.7	3.4	4.1	-0.8	0.7	-3.0	-3.8

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

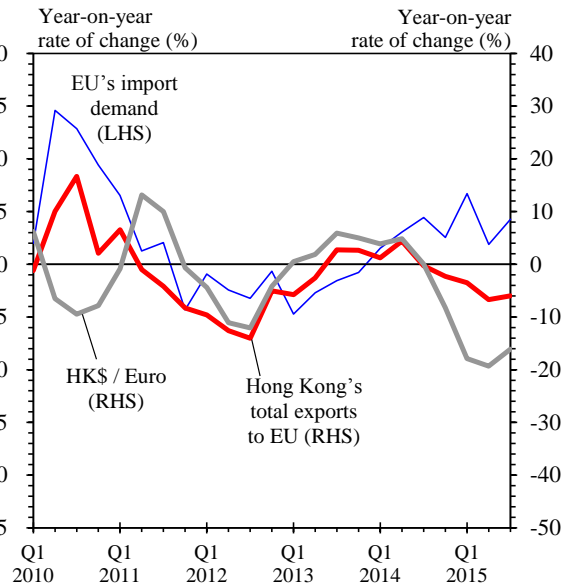
2.5       Analysed by major market on a year-on-year comparison, the US market relapsed to decline slightly in the third quarter, matching the softer growth momentum there during the period. The performance of other major advanced markets was also fairly sluggish, characterised by sustained falls in exports to the EU and Japan, reflecting the fragile recoveries of these economies and the continued feed-through of the negative impacts of earlier euro and yen depreciations on their import demand.

2.6       In Asia, industrial activity was hit by the sustained weakness in final demand from major economies, resulting in notable declines in regional trade flows of raw materials and semi-manufactures as well as capital goods. The concurrent economic slowdown in the region also dampened their import appetite, and the blow extended to their consumer goods imports. In such a harsh trading environment, exports to most Asian markets registered varying degrees of declines in the third quarter. The falls in exports to higher-income Asian markets, including Singapore, Taiwan and Korea, were fairly pronounced, ranging between 8.7% and 23.5%. Exports to the Mainland went down by 3.5% over the same period, and those to some ASEAN emerging markets also reverted to a decline. Exports to India, nevertheless, rebounded to show a modest growth in the third quarter.

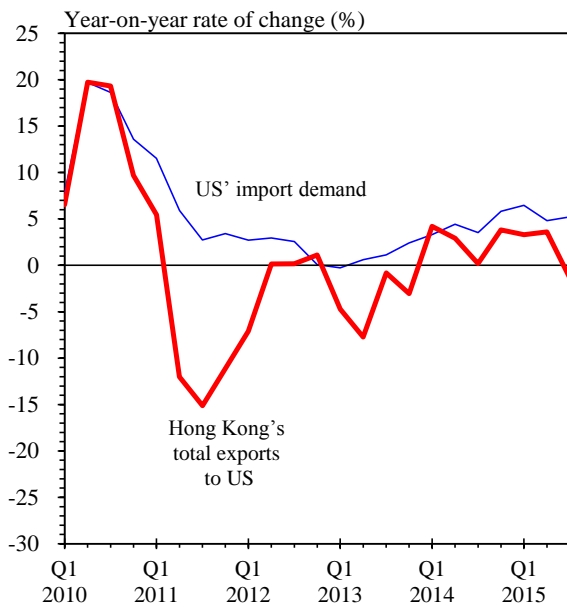
**Diagram 2.4 : Exports to the Mainland remained weak**



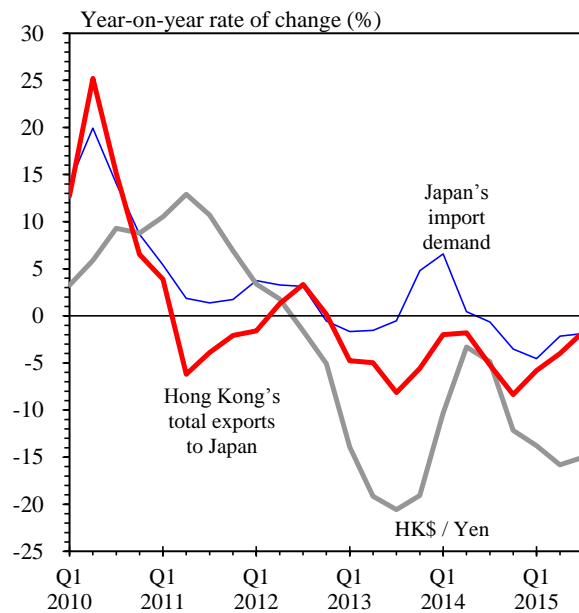
**Diagram 2.5 : Exports to the EU showed no sign of improvement**



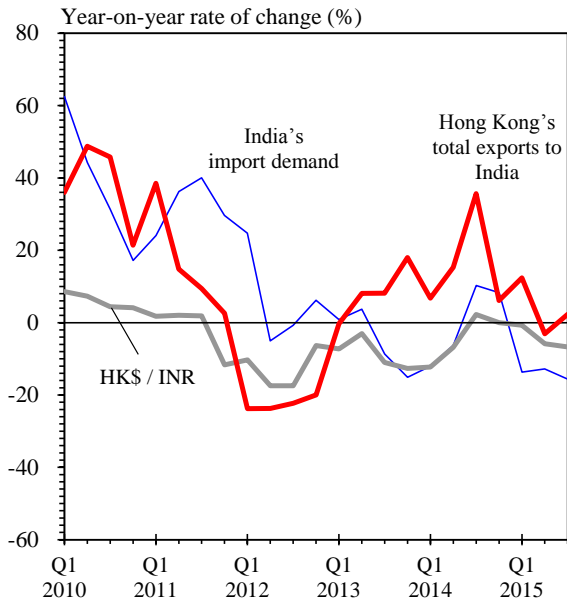
**Diagram 2.6 : Exports to the US related to a slight decline**



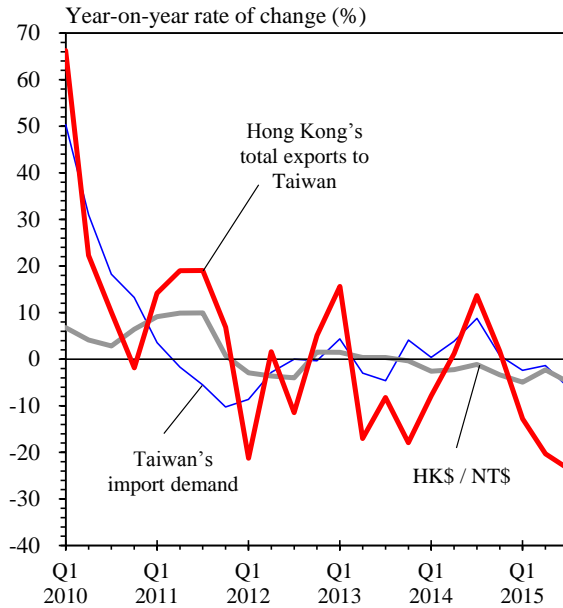
**Diagram 2.7 : Exports to Japan remained sluggish**



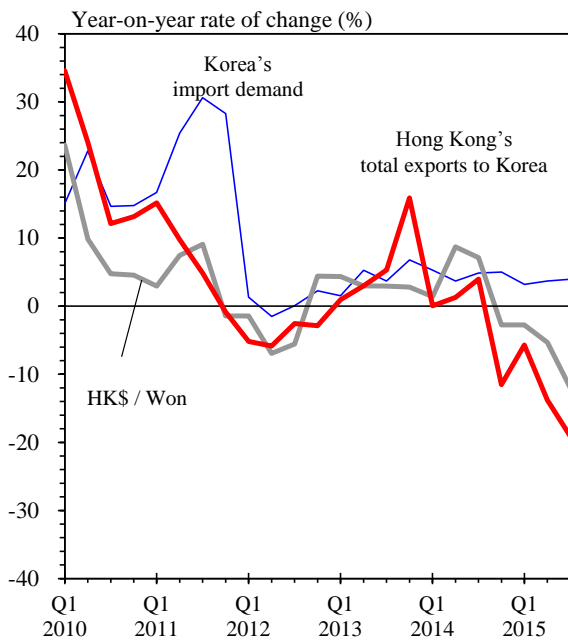
**Diagram 2.8 : Exports to India rebounded**



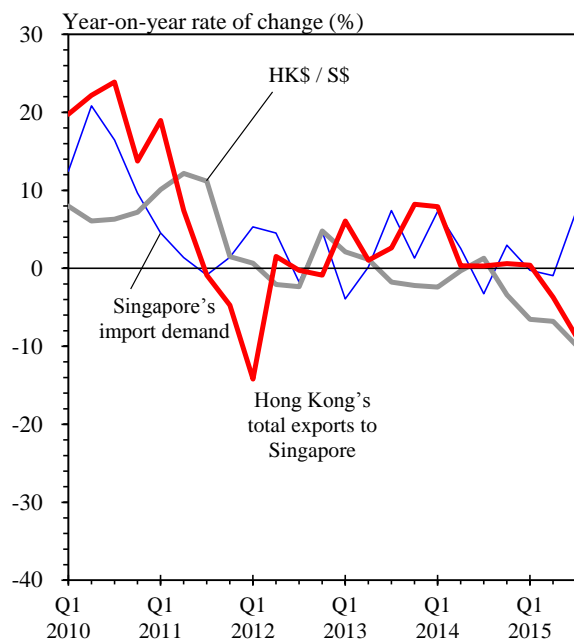
**Diagram 2.9 : Exports to Taiwan remained on a dive**



**Diagram 2.10 : Exports to Korea plummeted further**



**Diagram 2.11 : Exports to Singapore declined further**



## Box 2.1

### The increasing monetary policy divergence between major central banks

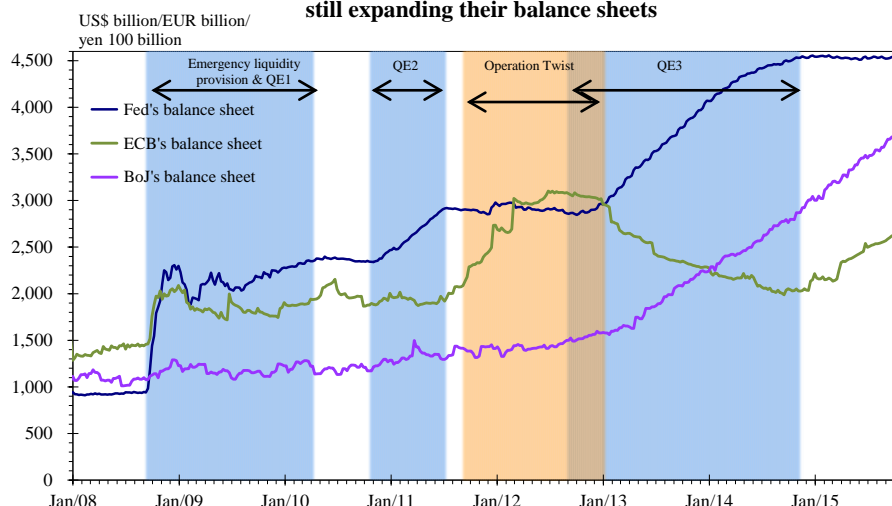
The pronounced divergence of monetary policy stances among major central banks, which has led to a more volatile global financial environment, remains a key source of uncertainty facing the global economy. This note briefly reviews the policy directions signalled by the major central banks.

In the US, the Federal Reserve (Fed) ended its third round of quantitative easing (QE) in October 2014, upon growing signs of economic improvement. Although the US economy hit a soft patch in the first quarter of 2015, the Fed considered the setback to be temporary and removed the reference to “being patient” in beginning to normalise the monetary policy in the Federal Open Market Committee (FOMC) meeting statement in March, signifying that the conditions for an interest rate lift-off were increasingly ripe. US economic growth rebounded as expected and the labour market continued to improve in the second quarter.

The US data, however, turned softer again in the third quarter, with moderated GDP growth and slower job gains, although the unemployment rate, at 5.1% in September, was close to the full-employment rate as estimated by the FOMC participants. Besides, inflation pressure and wage growth stayed low. Thus, the Fed continued to keep interest rate unchanged in the FOMC meeting in October. Yet, the accompanying policy statement hinted that the interest rate lift-off may start in December if the US economic recovery continues as expected. Such a signal increased sharply the market expectations for an interest rate lift-off in December.

In contrast to the US Fed’s preparation for lifting interest rates, the European Central Bank (ECB) and the Bank of Japan (BOJ) took further steps to expand their balance sheets over the past year (**Chart 1**). Faced with growing deflation risks and sluggish economic growth, and with the scope for interest rate cuts almost exhausted, the ECB launched an expanded Asset Purchase Programme in October 2014 to cover the purchase of covered bonds and other asset-backed securities.

**Chart 1 : In contrast to the US Fed's conclusion of its QE programme, the ECB and BoJ are still expanding their balance sheets**



The ECB stepped up asset purchases from March 2015 to include euro-denominated investment-grade securities issued by eurozone governments and agencies and European institutions, with the total monthly purchases of public and private sector securities amounting to €60 billion. Since then, economic growth remained modest. Consumer price inflation stayed below target and the flash reading for October was zero, underscoring the deflation risks. While the asset purchase programme was originally intended to be carried out until end-September 2016, the ECB President in the post-meeting press conference in



### Box 2.1 (Cont'd)

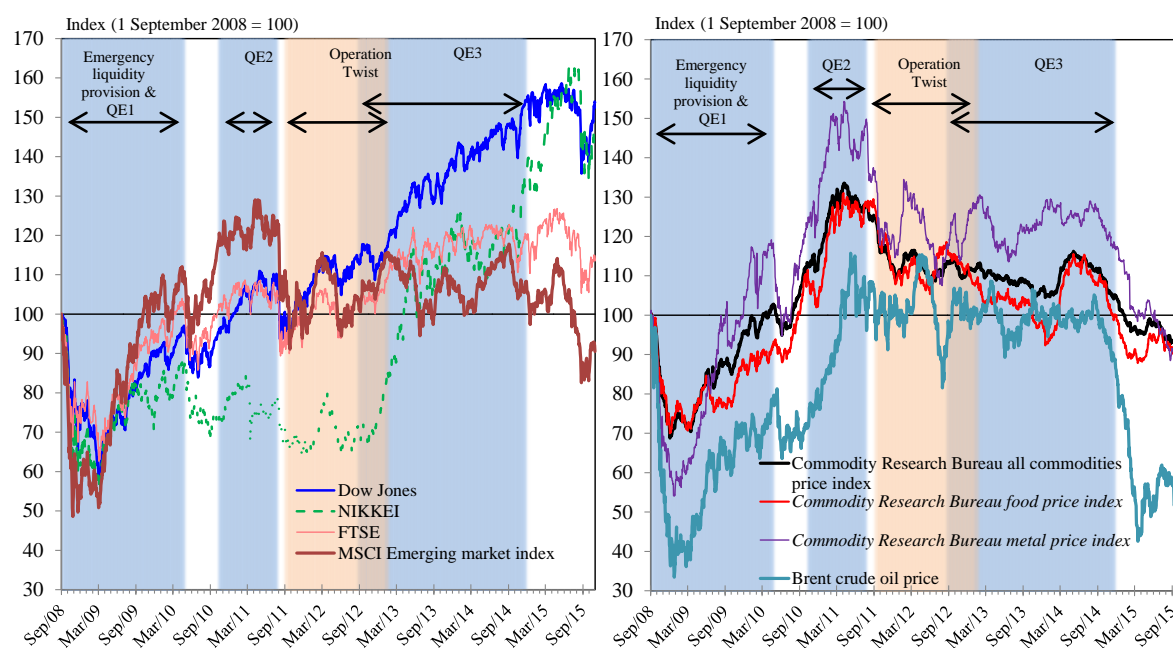
October indicated that the monetary policy stance needed to be re-examined in December. This raised market expectations for further easing measures to come soon. Apart from the possibility of stepping up the asset purchase programme, the ECB stated that it would deliberate all other instruments available within its mandate, including a further reduction of policy interest rates which had already been reduced to negative unprecedentedly in June 2014.

As for the BOJ, it surprised the market in October 2014 by accelerating the monetary base increase from an annual pace of 60-70 trillion yen to about 80 trillion yen. The BOJ contended that economic growth and inflation had not picked up as expected after a sales tax hike in April 2014. To pre-empt deflation risks, the BOJ announced further steps in January 2015 to stimulate bank lending. While the BOJ kept monetary policy unchanged in its latest meeting at the end of October, it cut Japan's economic growth and CPI inflation projections for this and next fiscal year. Given the consistently low inflation and the fragile state of the economic recovery, the BOJ remains under pressure to further ease monetary policy.

Elsewhere, many central banks in different parts of the world successively cut interest rates thus far this year, including those in the Mainland, Thailand, Indonesia, South Korea, Taiwan, Russia, India, Canada and Australia, with more aggressive cuts for some. On the other hand, the Bank of England (BOE) held the policy rate unchanged at 0.5% in November, but the minutes of the Monetary Policy Committee revealed that one member preferred to hike rate given the concerns about rising domestic cost pressures. Amid the increasing monetary policy divergence, the exchange rate fluctuations were unusually large over the past year or so. By end-October, the Japanese yen and euro against the US dollar both had depreciated by some 20% from mid-2014.

The international financial markets have turned exceptionally volatile, particularly during the summer months this year. Global stock and commodity markets came under severe selling pressure, with visible capital outflows from emerging market economies in August (**Chart 2a & 2b**). Currencies of emerging market economies such as Malaysia, Indonesia, Thailand, Brazil, Mexico and Russia all fell to multi-year lows (**Chart 3**).

**Chart 2a: Global stocks plunged in the summer of 2015**    **Chart 2b: Commodities prices fell visibly further in 2015**

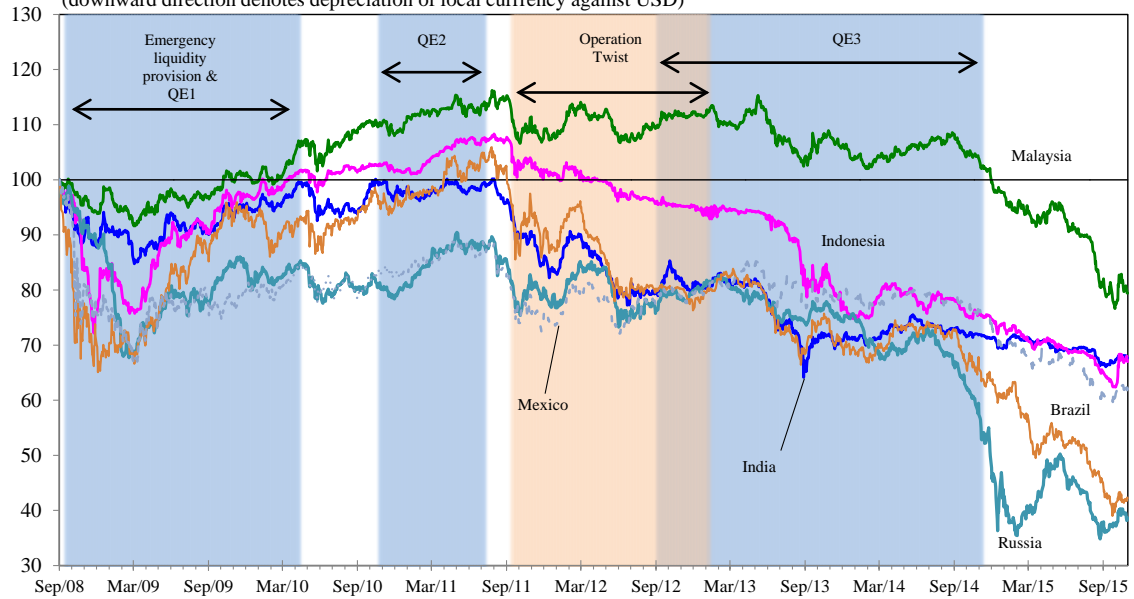


## Box 2.1 (Cont'd)

**Chart 3: Currencies of many emerging market economies came under pressure in 2015**

Index (1 September 2008 = 100)

(downward direction denotes depreciation of local currency against USD)



The monetary policy divergence among central banks is likely to deepen further in the period ahead in the midst of an uneven expansion and shaky recovery of the global economy. The Government will stay vigilant and closely monitor the developments on the international monetary front and their possible impacts on the Hong Kong economy.

## *Imports of goods*

2.7 *Imports of goods* likewise slackened and recorded a year-on-year decline of 5.5% in real terms in the third quarter, larger than the 3.1% contraction in the preceding quarter. Retained imports, referring to the imports for domestic use, which accounted for around one-quarter of total imports, plunged by 11.2% year-on-year in real terms in the third quarter, down further from the 3.9% decline in the preceding quarter. Analysed by end-use category on a year-on-year comparison, the steeper fall was mainly weighed down by the fall-off in retained imports of raw materials and semi-manufactures during the period, reflecting the spill-over arising from sluggish region-wide trading and production activities. Besides, retained imports of consumer goods and foodstuffs both declined notably further amid softer retail sales. On the other hand, intake of capital goods grew visibly further, as demand for telecommunication products was strong during the quarter. Retained imports of fuels also increased further in the third quarter, after registering marked declines in 2014.

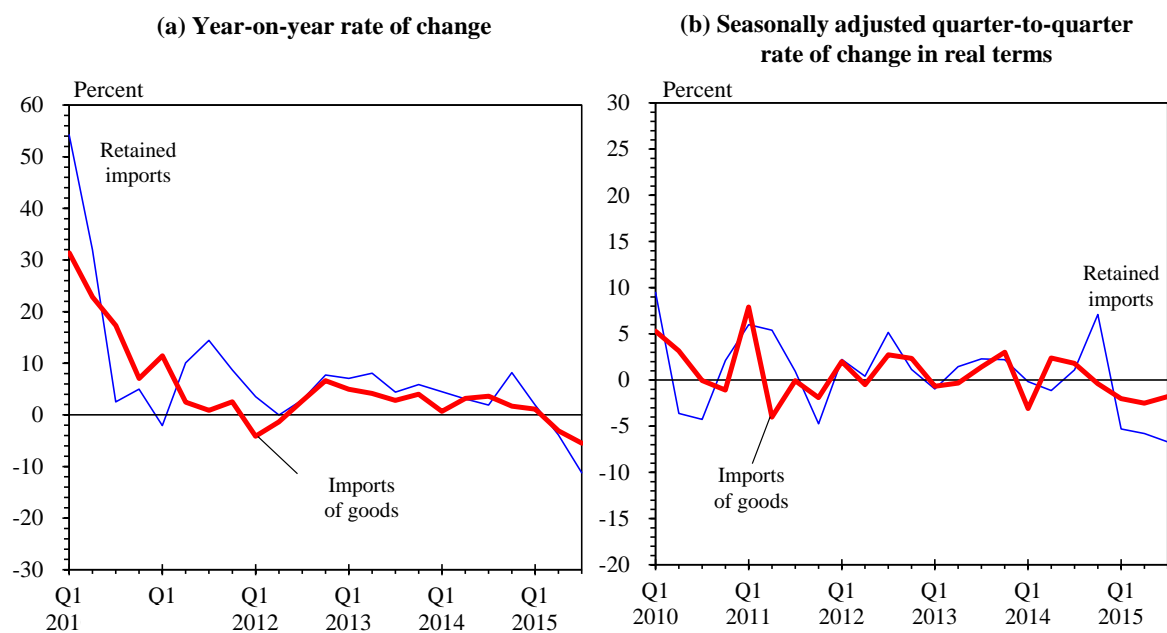
**Table 2.3 : Imports of goods and retained imports  
(year-on-year rate of change (%))**

		<u>Imports of goods</u>			<u>Retained imports</u> <sup>(a)</sup>				
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		
2014	Annual	3.9	2.3	1.9	5.1	4.5	1.0		
	Q1	2.1	0.7	(-3.1)	2.1	5.1	4.5	(-0.2)	2.5
	Q2	4.5	3.2	(2.4)	2.0	3.0	3.1	(-1.1)	1.7
	Q3	5.7	3.6	(1.8)	2.4	4.3	1.9	(1.1)	2.0
	Q4	3.2	1.7	(-0.4)	1.3	7.7	8.2	(7.1)	-1.6
2015	Q1	1.4	1.1	(-2.0)	0.9	-1.4	1.9	(-5.3)	-2.1
	Q2	-3.2	-3.1	(-2.5)	0.6	-6.9	-3.9	(-5.8)	-1.5
	Q3	-6.7	-5.5	(-1.8)	-0.7	-14.5	-11.2	(-6.7)	-1.8

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

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

**Diagram 2.12 : Imports and retained imports both went down further**



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

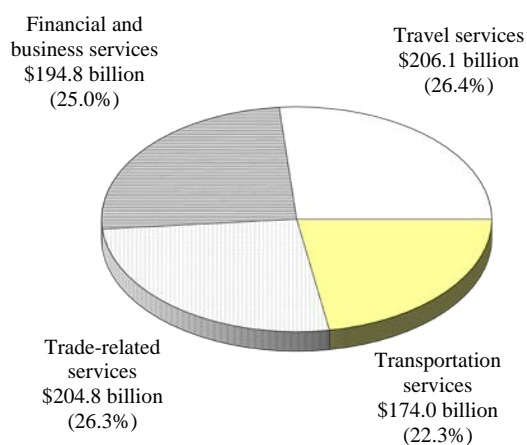
		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2014	Annual	8.2	5.8	-9.9	13.9	-5.9
	Q1	1.8	2.2	-1.6	10.5	-8.8
	Q2	7.6	12.4	-13.2	7.5	-2.6
	Q3	10.9	6.3	-23.5	12.7	-6.6
	Q4	12.4	3.4	-0.4	26.4	-5.2
2015	Q1	-13.0	4.1	44.6	-12.9	22.6
	Q2	-11.2	-11.1	17.0	-14.3	19.7
	Q3	-17.7	-21.1	14.0	-25.2	22.8

## Services trade

### *Exports of services*

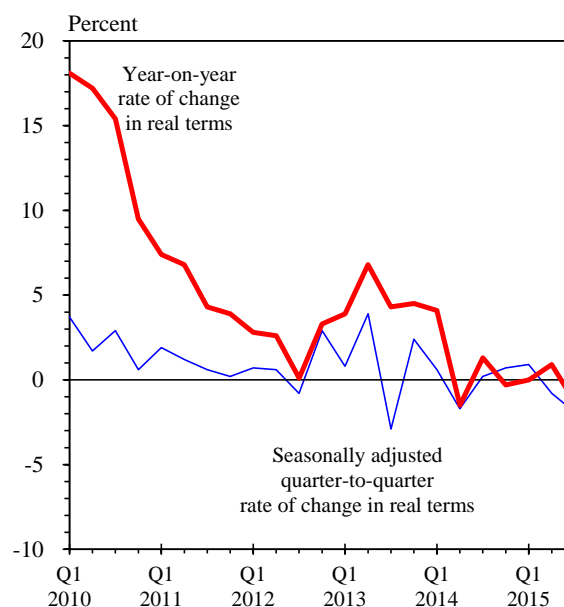
2.8 *Exports of services* relapsed to a year-on-year decline in real terms of 1.3% in the third quarter of 2015, after a modest growth of 0.9% in the second quarter. The weak performance was evident across most major service groups. The decline in exports of travel services widened again, as visitor arrivals slackened further to record its first decline since the third quarter of 2009. Apart from the mediocre global economic performance, depreciations of many currencies against the US dollar conceivably led some visitors to reduce travel and possibly diverted some to other popular travel destinations. Meanwhile, exports of trade-related services (comprising mainly offshore trade) and transportation services slid further as regional trade and cargo flows shrank. Moreover, the growth in exports of financial and other business services moderated visibly, as cross-border financial activities slowed upon global economic and US interest rate uncertainties.

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



*Exports of services in the first three quarters of 2015: \$779.8 billion*

**Diagram 2.14 : Exports of services relapsed to a decline in the third quarter**



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

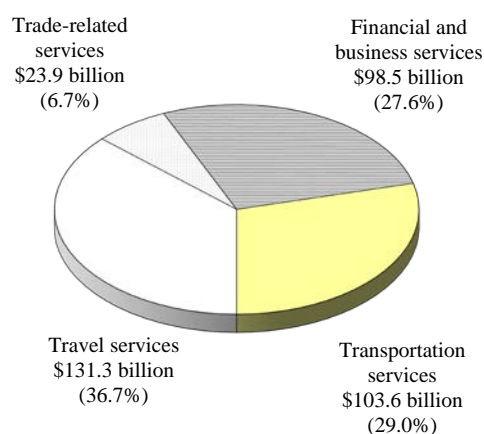
		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Trade-related services<sup>(a)</sup></u>	<u>Transportation services</u>	<u>Travel services<sup>(b)</sup></u>	<u>Financial and business services</u>
2014	Annual	0.9	1.3	2.6	-1.5	1.7
	Q1	4.1 (0.6)	-0.2	1.5	11.1	2.5
	Q2	-1.5 (-1.7)	1.5	3.9	-9.6	0.5
	Q3	1.3 (0.2)	2.7	2.9	-3.8	4.2
	Q4	-0.3 (0.7)	0.8	1.9	-2.9	-0.5
2015	Q1	* (0.9)	-1.0	1.0	-4.4	5.4
	Q2	0.9 (-0.8)	-1.9	-1.8	-1.6	11.1
	Q3	-1.3 (-1.9)	-2.4	-1.6	-5.6	6.2

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

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

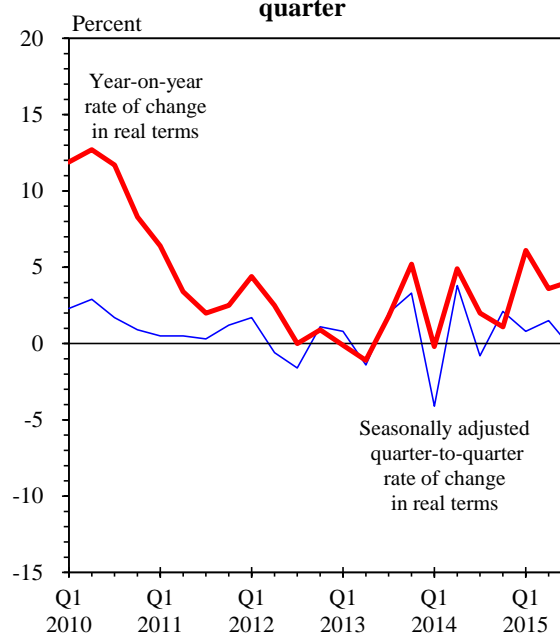
2.9 *Imports of services* were more steady in performance, with growth at 4.1% year-on-year in real terms in the third quarter of 2015, following a 3.6% increase in the preceding quarter. Imports of travel services maintained notable growth amid strong travel interest among local residents. Apart from stable local income and job conditions, the enthusiasm to travel abroad might have been fuelled by the increase in purchasing power of local residents following the depreciation of major currencies against the US dollar in the recent past. Meanwhile, imports of financial and other business services slowed down somewhat in growth amid the volatile global financial markets. Against the unfavourable external backdrop, both imports of transportation services and imports of trade-related services registered declines.

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



*Imports of services in the first three quarters of 2015: \$357.4 billion*

**Diagram 2.16 : Imports of services continued to grow moderately in the third quarter**



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

*Of which :*

		<i>Of which :</i>				
		<u>Imports of services</u>	<u>Travel services<sup>(+)</sup></u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Financial and business services</u>
2014	Annual	1.9	3.7	0.1	1.1	1.6
	Q1	-0.2 (-4.1)	-2.7	-0.8	0.8	2.9
	Q2	4.9 (3.8)	10.5	1.8	2.5	1.7
	Q3	2.0 (-0.8)	4.0	0.4	1.7	1.4
	Q4	1.1 (2.1)	3.3	-0.9	-0.2	0.6
2015	Q1	6.1 (0.8)	12.6	0.5	1.0	5.3
	Q2	3.6 (1.5)	8.6	-3.1	1.1	5.5
	Q3	4.1 (-0.3)	10.9	-2.7	-0.9	4.0

Notes : (+) Comprising mainly outbound travel spending.

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

## Goods and services balance

2.10 The goods deficit narrowed further in the third quarter of 2015 compared with the same period last year, as goods imports continued to fall at a faster pace than exports amid lower import prices and slower local economic growth. With the services surplus more than offsetting the goods deficit, the combined goods and services account registered a surplus of \$51 billion in the third quarter, equivalent to 4.3% of total import value, which was larger than the surplus of \$33 billion (2.6% of total import value) in the same quarter last year.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			<u>As % of imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2014	Annual	3,877	1,076	4,472	481	-594	595	1	#
	Q1	870	266	1,029	115	-158	151	-7	-0.6
	Q2	949	245	1,111	115	-162	129	-33	-2.7
	Q3	1,027	279	1,148	124	-122	155	33	2.6
	Q4	1,031	287	1,183	127	-152	160	8	0.6
2015	Q1	879	266	1,028	118	-149	148	-1	-0.1
	Q2	916	245	1,067	117	-150	128	-22	-1.9
	Q3	982	269	1,078	123	-95	146	51	4.3

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

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

## Other developments

2.11 The 18th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference was held in September, setting directions for collaboration of the two places in the coming year. Five co-operation agreements were signed after the meeting, including, among others, the Agreement on Guangdong/Hong Kong Co-operation on Intellectual Property Protection (2015-16) and Co-operation Agreement on Enhancing Cross-Boundary E-commerce. The two sides also agreed to strengthen liaison in the future to seize the immense opportunities from the “Belt and Road” initiatives and the development of the Guangdong Free Trade Zone.

2.12 In the same month, the establishment of a Hong Kong Economic and Trade Office (ETO) in Jakarta was announced, marking the 12th ETO in a foreign country. Its establishment should help enhance economic ties between



Hong Kong and Indonesia in a wide range of areas such as trade and commerce, investment, professional services and tourism. Separately, Hong Kong and the Philippines signed a Memorandum of Intent on investment promotion co-operation, which will facilitate mutual investment.

2.13 Twelve economies, including Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam, concluded their negotiation over the Trans-Pacific Strategic Economic Partnership Agreement (TPP). Apart from tariffs and quotas on goods trade, the TPP also covers a wide range of areas such as services trade, cross-border investment, electronic commerce, intellectual property, labour market protection and environmental protection. To-date, many complicated details of the TPP have yet to be fully unveiled. Besides, its implementation will take time as it is still subject to the legislative approval by each of the signatory members. As a staunch supporter of free trade, Hong Kong welcomes any agreement that would promote international trade facilitation, and will strive to enhance the co-operation with our major trading partners.

2.14 For example, the Government announced in October to commence negotiations on the Hong Kong and Macao Closer Economic Partnership Arrangement (HK-Macao CEPA). At present, Hong Kong and Macao have each entered into a separate Closer Economic Partnership Arrangement (CEPA) with the Mainland. The proposed HK-Macao CEPA allows the three places to build upon those CEPAs to establish a new, common platform to advance further liberalisation and facilitation of trade and investment in the Greater China region.

## **Notes :**

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the external trade quantum index series compiled using the chain linking approach, which were first released in March 2015 to replace the previous trade index numbers compiled using the Laspeyres method with a fixed base year. Under the new approach, the series are comparable with the real trade aggregates under GDP (reported in Chapter 1) which are based on the same measures. However, non-monetary gold is recorded as a separate item in the statistics of merchandise trade and not included in the trade aggregates reported in Chapter 2, but is included in the trade aggregates under GDP in accordance to the international compilation standard.

- (2) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

### *Summary*

- *The residential property market quietened down visibly in the third quarter of 2015, amid concerns over an imminent US interest rate uplift and the marked corrections in the Mainland and Hong Kong stock markets. Trading activities fell, while overall flat prices rose by a decelerated 2% during the quarter.*
- *Raising flat supply through increasing land supply is the Government's top policy priority in ensuring the healthy and stable development of the property market. Reflecting the Government's sustained efforts, projected total flat supply in the coming three to four years rose to 86 000 units.*
- *The commercial and industrial property markets generally stayed steady in the third quarter. Prices and rentals continued to record moderate increases, while trading activities for most market segments quietened down.*
- *Inbound tourism slackened further in the third quarter, conceivably weighed by the subpar global economic growth and currency factor. Overall visitor arrivals fell by 6.4% to 15.1 million, the first decline since the third quarter of 2009.*
- *In tandem with the sluggish external trade performance, the logistics sector continued to record tepid performance in the third quarter. Total container throughput declined by a sharp 7.1%, and air freight throughput by 0.7%.*

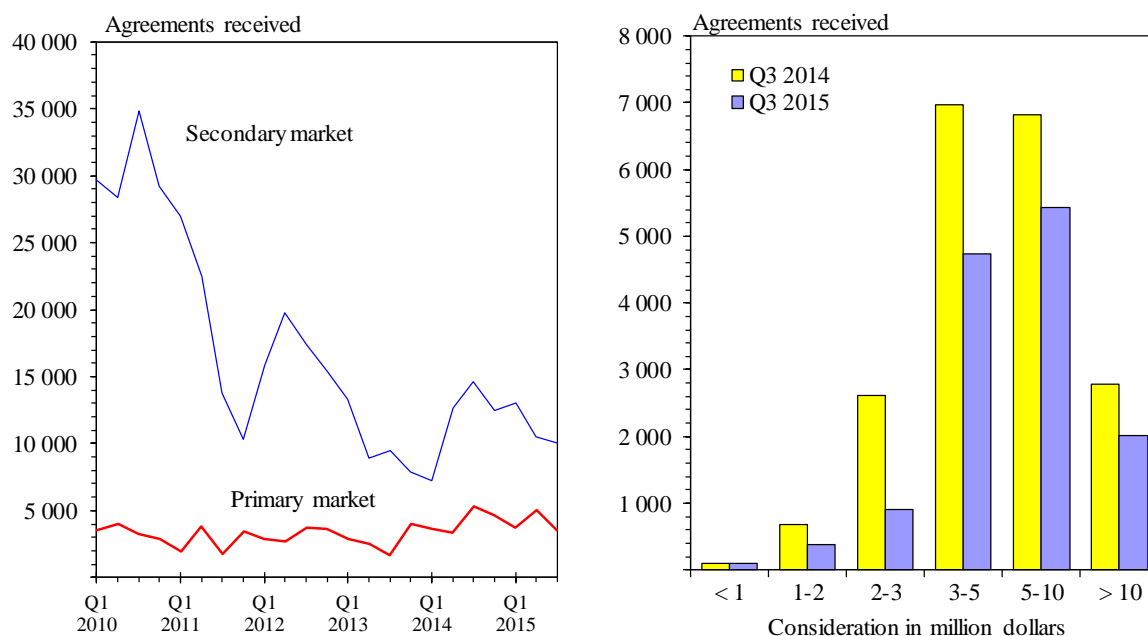
### **Property**

3.1 The residential property market quietened down visibly in the third quarter of 2015. Potential buyers became increasingly cautious amid concerns that the US interest rate uplift was drawing closer. Market sentiment was also affected by the marked corrections in the Mainland and Hong Kong stock markets. Trading in both the primary and secondary markets fell, while the rise in flat prices decelerated.

3.2 The total number of sale and purchase agreements for residential property received by the Land Registry fell by 13% from the preceding quarter to 13 552 in the third quarter, and there was an even sharper 32% fall when

compared with a year earlier. Primary market transactions plunged by 30% from the relatively high base in the preceding quarter, while secondary market transactions fell further by 4% with more potential buyers sitting on the side-line. In parallel, total consideration declined by 8% to \$109.1 billion.

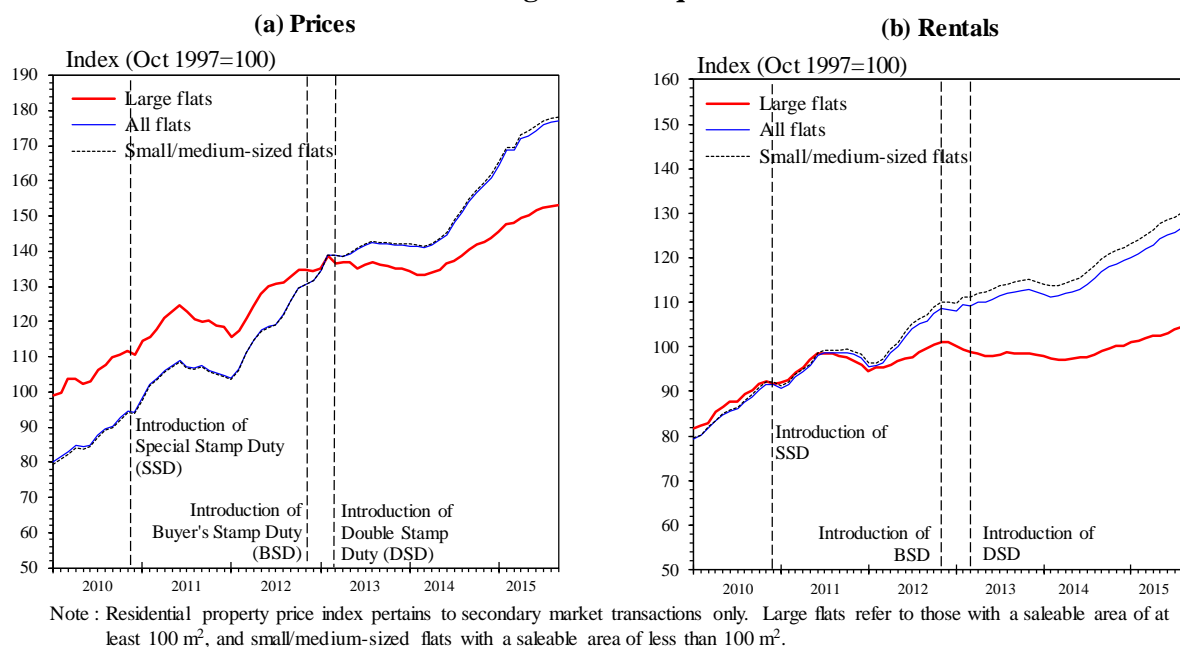
**Diagram 3.1 : Trading activities quietened down visibly in the third quarter**



3.3 Overall flat prices rose by a decelerated 2% between June and September 2015. The monthly increase in flat prices moderated from 0.9% in July to 0.2% in September amid concerns about an imminent US interest rate hike. Analysed by size, prices of small/medium-sized flats went up by 2% during the third quarter, and those of large flats by 1%. During the first nine months of 2015, overall flat prices rose by a cumulative 10%, led by a 10% rise in the prices of small/medium-sized flats.

3.4 Meanwhile, the leasing market held steady. Overall flat rentals in September 2015 rose by 2% over June, and were 6% higher than in December 2014. Analysed by size, rentals of small/medium-sized flats and large flats rose by 2% and 1% respectively during the third quarter. The average rental yield for residential property edged down from 2.7% in June to 2.6% in September.

**Diagram 3.2 : Flat prices and rentals showed moderate increases during the third quarter**

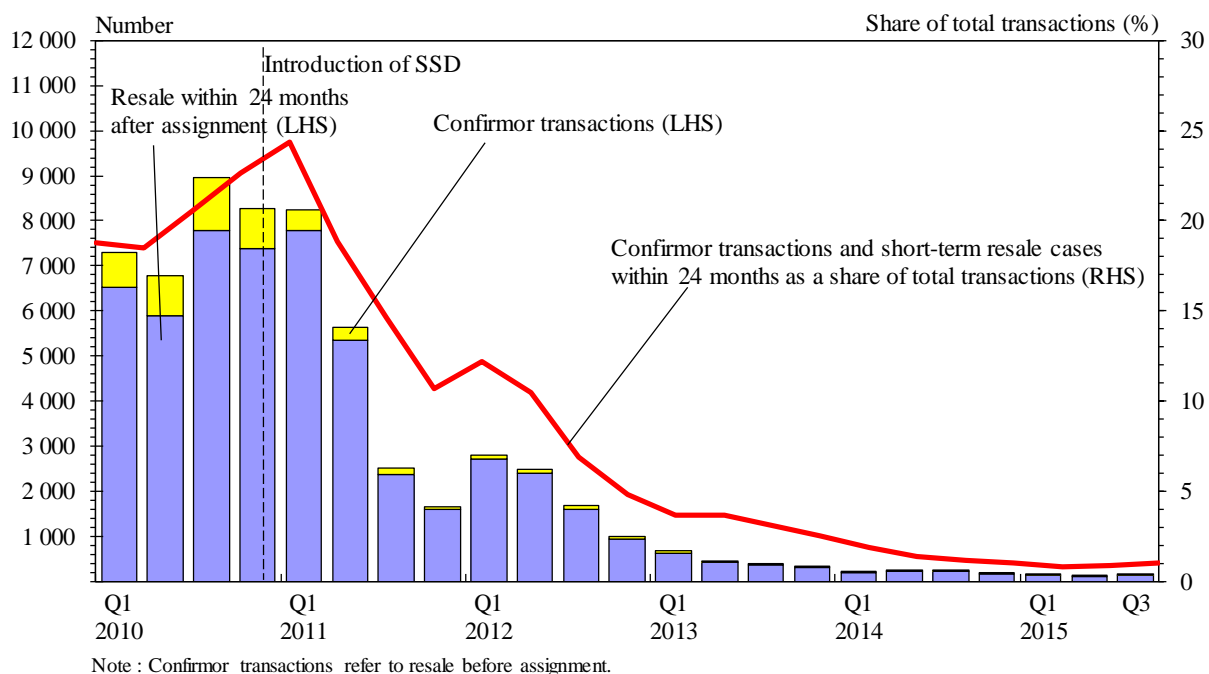


3.5 Raising flat supply through increasing land supply is the Government's top policy priority in ensuring the healthy and stable development of the property market. Reflecting the Government's efforts on this front, the number of private domestic units commencing work surged by more than two folds (252%) over a year earlier to 14 000 in the first three quarters of 2015. Completions nevertheless declined by 35% to 7 900. As announced in September 2015, the Government will put up for sale a total of four residential sites in the fourth quarter, capable of providing about 2 850 flats. Combining the various sources (including Government land sale, railway property development projects, the Urban Renewal Authority's projects and private re-development/development projects), the private housing land supply for the first three quarters of financial year 2015/16 (i.e. from the second to the fourth quarter of 2015) is estimated to be able to provide about 16 700 units, representing 88% of the 2015/16 private housing land supply target of providing 19 000 units. Over the medium term, the *total supply of flats* in the coming few years (comprising unsold flats of completed projects, flats under construction but not yet sold and flats on disposed sites where construction can start any time) rose further from 83 000 units as estimated at end-June to 86 000 units as estimated at end-September. In addition, another 10 300 units could be added to the total supply after the conversion of a number of residential sites into "disposed sites".

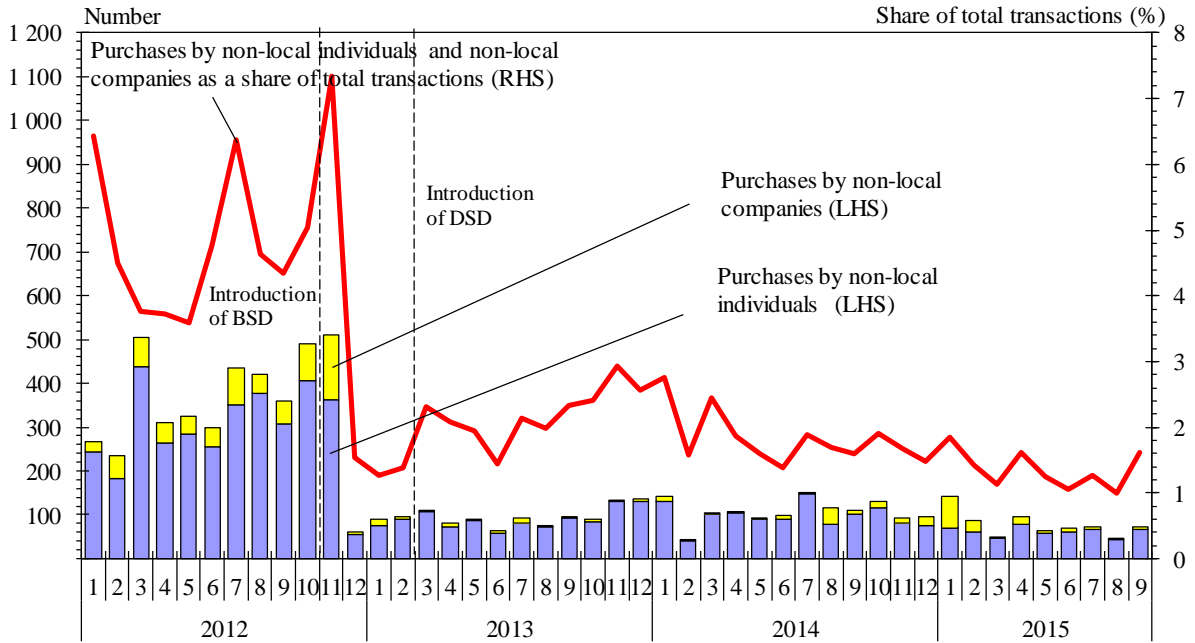
3.6 As it takes time to increase supply, the Government has also put in significant efforts to manage demand and reduce the possible risks to financial stability arising from an exuberant property market<sup>(1)</sup>. These measures have

yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) stayed low at 50 cases per month or 1.0% of total transactions in the third quarter, compared with 84 cases per month or 1.2% a year earlier and 2 661 cases per month or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer's Stamp Duty, *purchases by non-local individuals and non-local companies* also declined from 126 cases per month or 1.7% of total transactions a year earlier to 64 cases per month or 1.3% in the third quarter, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As to *mortgage lending*, the average loan-to-value ratio of new mortgages notched down from 56% a year earlier to 51% in the third quarter of 2015, below the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority.

**Diagram 3.3 : Speculative activities stayed subdued**

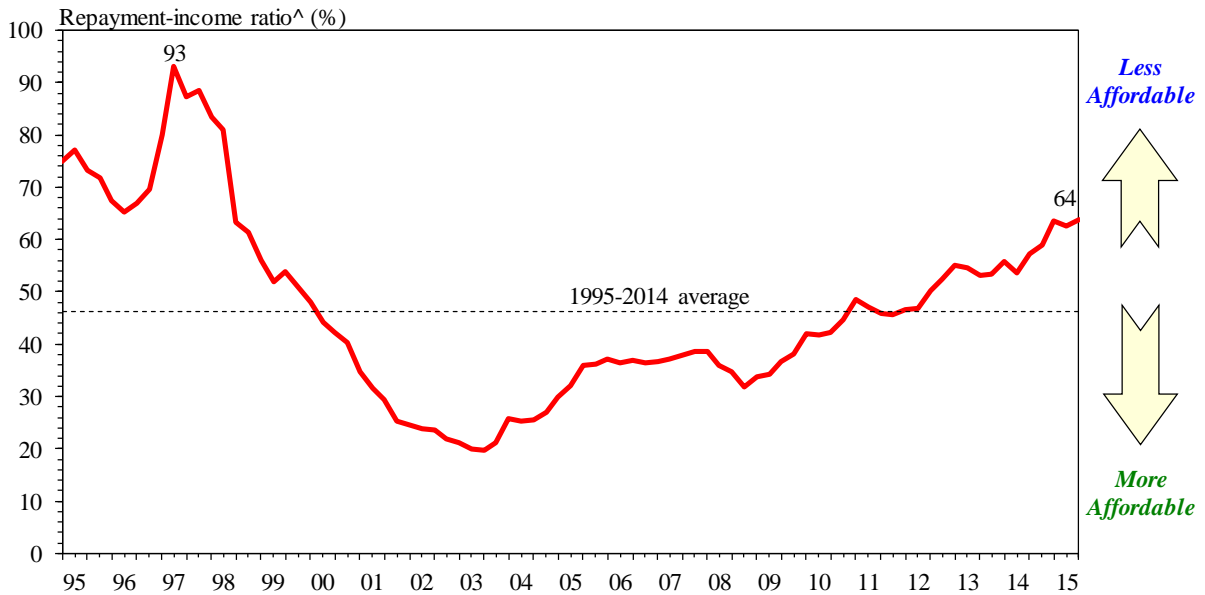


**Diagram 3.4 : Purchases by non-local buyers remained low**



3.7 With the further increase during the quarter, overall flat prices in September 2015 have surpassed the 1997 peak by a rampant 77%. 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) rose to around 64% in the third quarter, exceeding the long-term average of 46% over 1995-2014. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 83%.

**Diagram 3.5 : The mortgage payment to income ratio rose**



Note : (^) The ratio of mortgage payment for a 45m<sup>2</sup> flat (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing).

3.8 Looking ahead, the residential property market will be subject to considerable uncertainties. Externally, there is increasing market expectation that the US Federal Reserve will raise interest rate over the next few months, though it is difficult to predict the exact timing and pace of the interest rate hike. Domestically, following the Government's sustained efforts in providing enough residential land, the medium-term supply of flats has increased noticeably. With these various forces simultaneously exerting their effects, the residential property market might show sharp fluctuations in the period ahead. The Government would continue to monitor the situation closely and respond in a prompt manner.

3.9 The *commercial* and *industrial property markets* generally stayed steady in the third quarter of 2015. Prices and rentals continued to record moderate increases, though trading activities for most market segments quietened down.

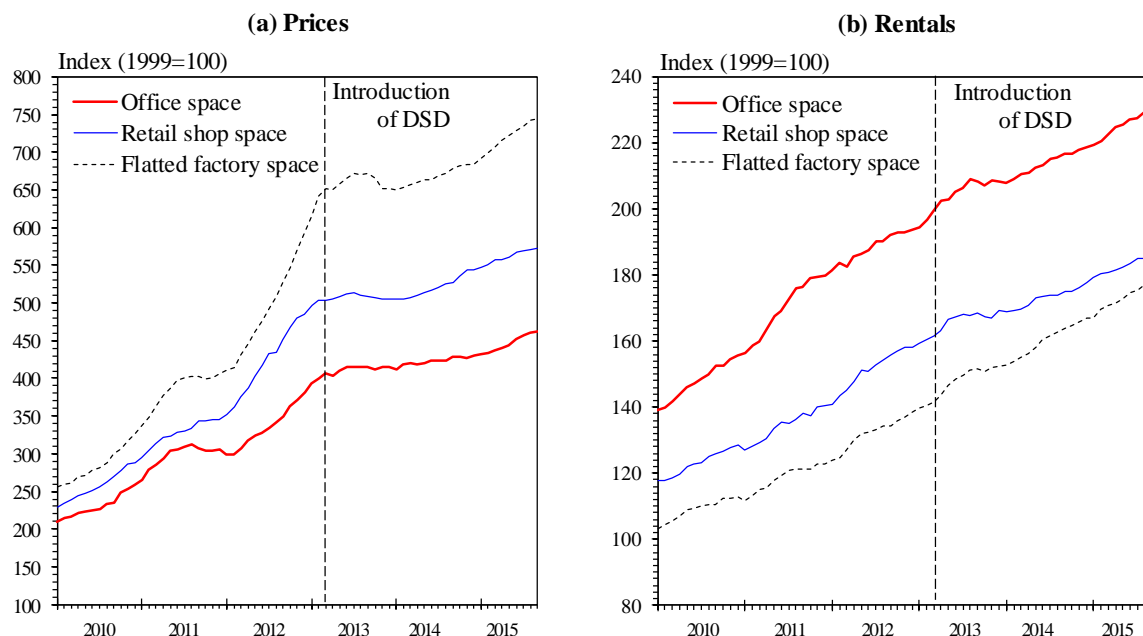
3.10 Overall sale prices of *office space* in September rose by 2% over June. Within the total, prices of Grade A, B and C office space went up by 3%, 3% and 2% respectively. Overall office space rentals increased by 1%, with rentals of Grade A, B and C office space all rising by 1%. Compared with December 2014, overall sale prices and overall rentals in September 2015 were 8% and 5% higher. The average rental yields for Grade A, B and C office space were 2.8%, 2.9% and 2.9% respectively in September, compared with 2.9%, 3.0% and 2.9% in June. Transactions for office space dwindled by 35% from the preceding quarter or 30% from a year earlier to 330 cases in the third quarter.

3.11 Both sale prices and rentals of *retail shop space* rose by 1% between June and September. Comparing September 2015 with December 2014, sale prices and rentals were higher by 5% and 4% respectively. Reflecting the movements in prices and rentals, the average rental yield for retail shop space stayed low at 2.4% in September, unchanged from June. Meanwhile, transactions rebounded by 19% over the low base in the preceding quarter to 600 cases in the third quarter, but were still 33% lower than a year earlier<sup>(2)</sup>.

3.12 As to *flatted factory space*, both sale prices and rentals in September rose by 2% over June. During the first nine months of 2015, sale prices and rentals rose by 9% and 7% respectively. The average rental yield hovered at a low level of 2.9% in September, same as in June. Transactions declined by 22% from the preceding quarter or 15% from a year earlier to 780 cases in the third quarter.



**Diagram 3.6 : Prices and rentals of non-residential properties continued to record moderate increases**



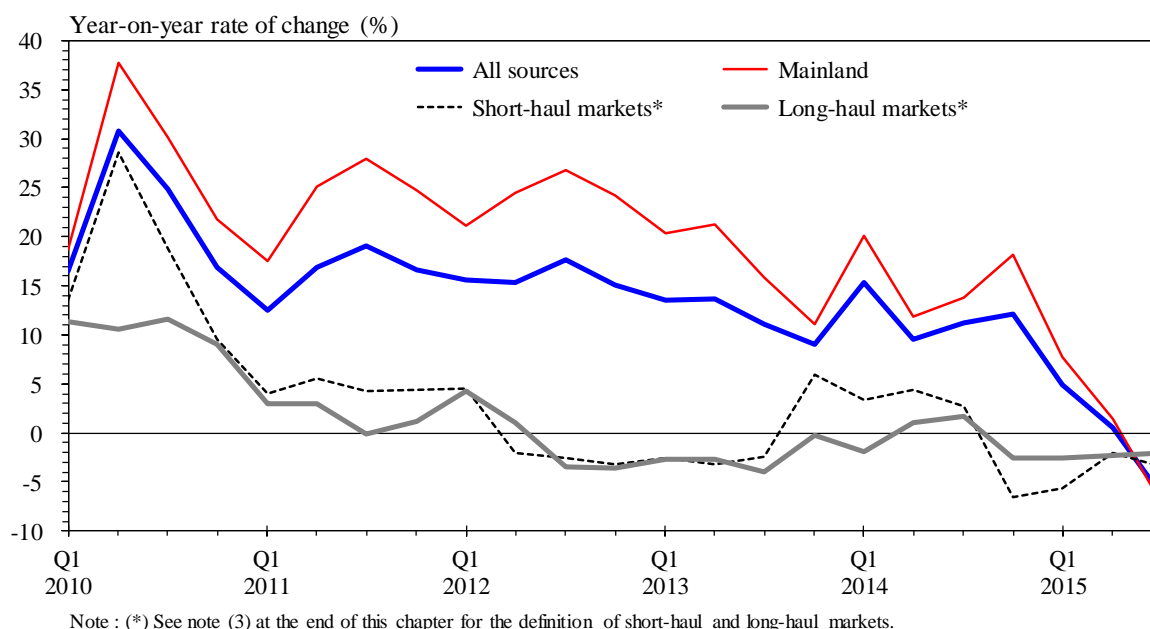
## Land

3.13 Five residential sites, with a total area of about 8.1 hectares, were disposed in the third quarter, fetching a land premium of about \$16.2 billion. The tender exercises for two business sites in Sha Tin and Yuen Long, and one residential site in Tsing Yi also commenced in the quarter. As to land exchange, there was one land exchange approved in the third quarter. Meanwhile, 13 sites were approved for lease modifications.

## Tourism

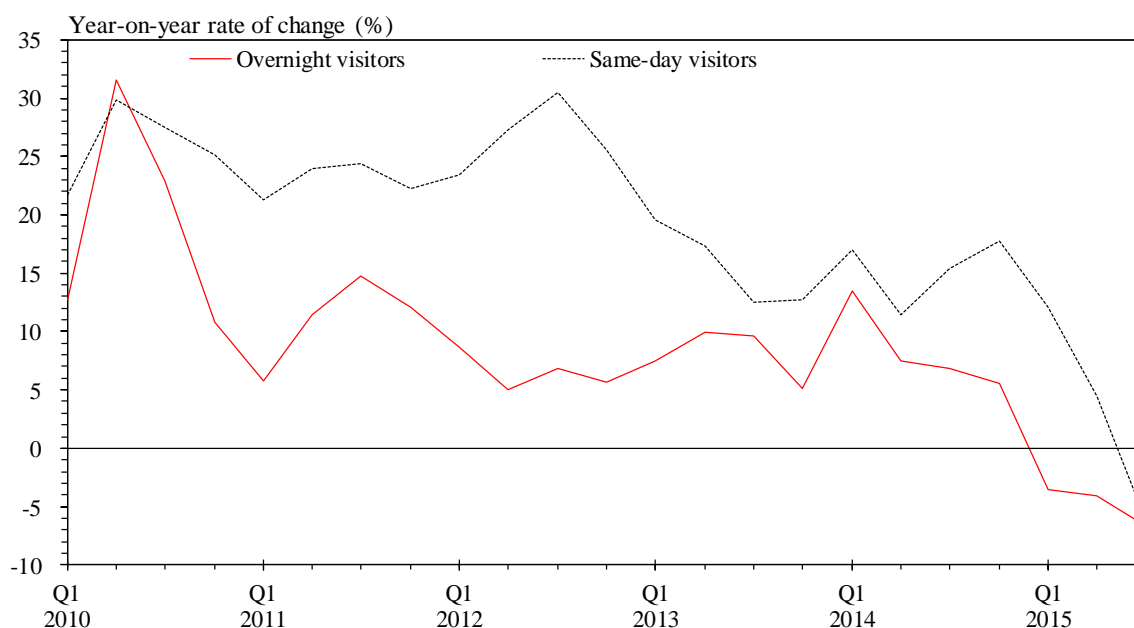
3.14 Inbound tourism slackened further in the third quarter of 2015, conceivably weighed by the subpar global economic growth and currency factor. Overall *visitor arrivals* fell by 6.4% from a year earlier to 15.1 million, the first decline since the third quarter of 2009 when the tourism sector was hard hit by the Global Financial Tsunami and the spread of human swine flu. Visitors from the Mainland, which constituted 79% of the total, plunged by 7.3%. Visitors from the short-haul markets and long-haul markets<sup>(3)</sup> also fell, by 3.4% and 2.1% respectively.

**Diagram 3.7 : Inbound tourism slackened further in the third quarter**



3.15 Analysed by the length of stay, overnight visitor arrivals fell further by 6.7% from a year earlier while same-day visitor arrivals also switched to a decrease of 6.1%. Reflecting these movements, the share of overnight visitors declined further from 46.6% a year earlier to 46.4% in the third quarter, while that of same-day visitors rose further from 53.4% to 53.6%.

**Diagram 3.8 : Both same-day and overnight visitors recorded declines in the third quarter**

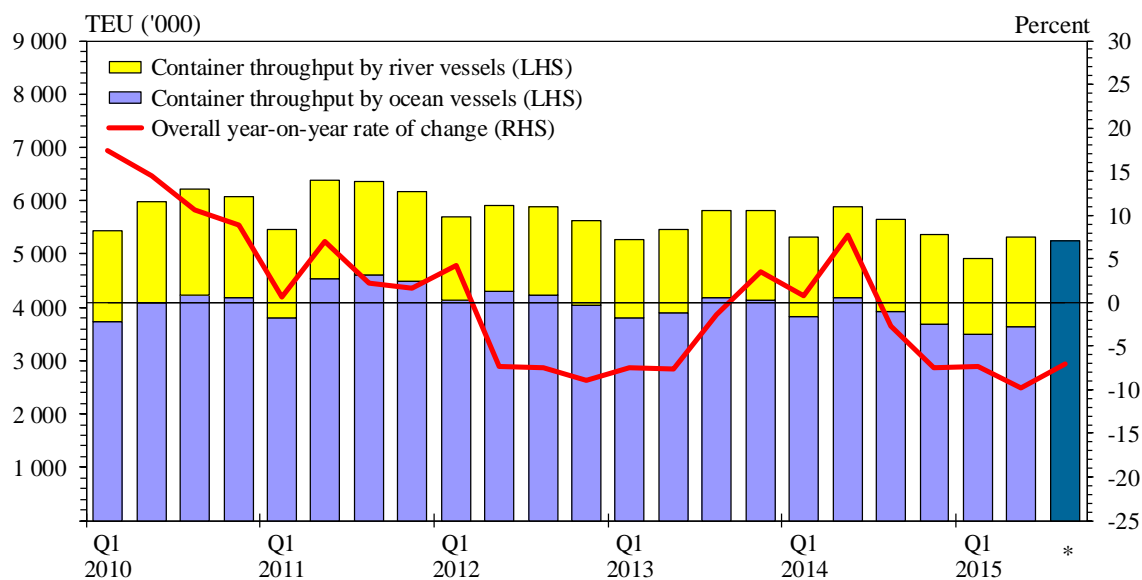


3.16 The hotel sector also suffered a setback upon the further slowdown in inbound tourism. The average hotel room occupancy rate declined from 90% a year earlier to 86%. The average achieved hotel room rate dropped by 13.1% from a year earlier to \$1,227<sup>(4)</sup>.

## Logistics

3.17 In tandem with the sluggish external trade performance, the logistics sector continued to record tepid performance in the third quarter. *Total container throughput* plunged further by 7.1% from a year earlier to 5.25 million twenty-foot equivalent units (TEUs). In parallel, the value of trade handled at the Hong Kong port plummeted by 11.4%, and its share in total trade declined from 21.7% to 20.4%.

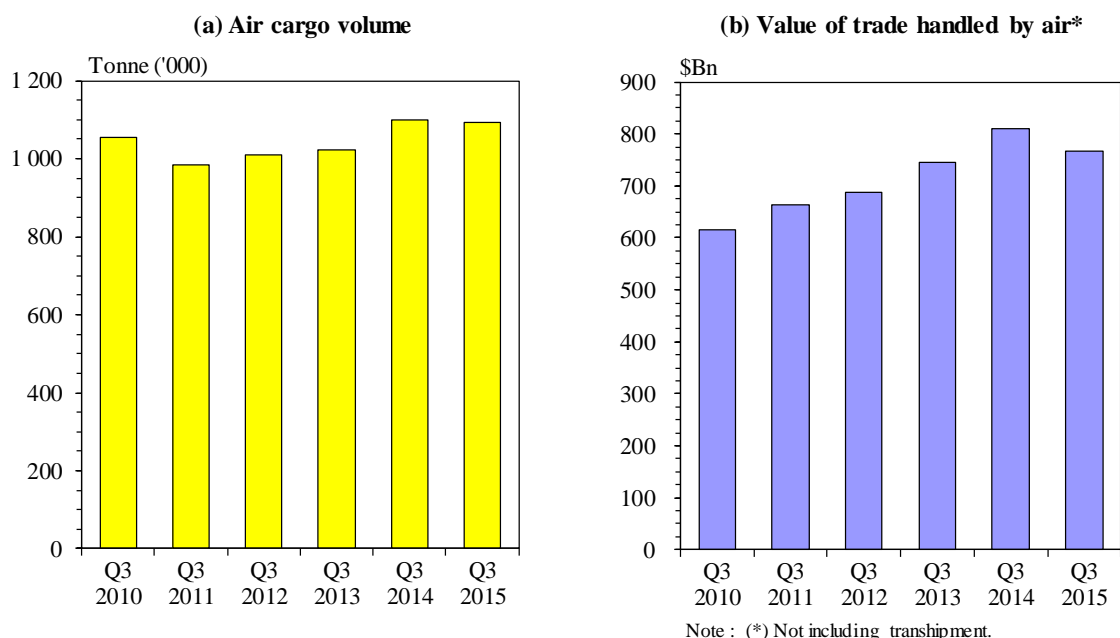
**Diagram 3.9 : Container throughput continued to fall during the third quarter**



Note : (\*) The container throughput figure for the latest quarter is the preliminary estimate by the Hong Kong Port Development Council, for which a breakdown by ocean and river vessels is not yet available.

3.18 *Air freight throughput* also edged down by another 0.7% from a year earlier to 1.09 million tonnes in the third quarter. The total value of trade by air fell more sharply by 5.3% from a year earlier, though its share in overall trade value edged up from 38.7% to 38.8%.

**Diagram 3.10 : Air cargo throughput and value of trade handled by air continued to decline in the third quarter**



## Transport

3.19 Traffic flows for the different modes of transport recorded varied performance in the third quarter. Air passenger traffic continued to rise, by 7.1% over a year earlier to 17.6 million, while water-borne passenger trips decreased by 3.2% to 7.3 million. As to land-based cross-boundary traffic movements, passenger trips declined by a marginal 1.0% to 55.4 million, and average daily vehicular movements by 1.2% to 42 400.

## Testing and certification

3.20 In July, the Certification and Accreditation Administration of the People's Republic of China promulgated the implementation details that essentially allow staff employed by certification bodies in Hong Kong to provide certification services to export enterprises on the Mainland. The introduction of this measure under Supplement X to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) would help the testing and certification industry in Hong Kong to better seize the business opportunities in the Mainland market.

## Environment

3.21 The Hong Kong/Guangdong Joint Liaison Group on Combating Climate Change held its fourth meeting in Hong Kong in August, reviewing the progress of cooperation in the past year and agreeing on a work plan for 2015-16. In the coming year, the two Governments will carry out further exchanges on urban drainage system design and slope safety management, as well as low-carbon products certification and carbon labelling for construction materials, on top of other initiatives to further strengthen their co-operation in combating climate change.

### Notes :

- (1) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 in the 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 in the 2012 Economic Background and 2013 Prospects and Box 3.1 in the First Quarter Economic Report 2013. For details of the measures promulgated in 2014, see Box 4.1 in the 2013 Economic Background and 2014 Prospects. For details of the measures promulgated in 2015, see Box 3.1 of the First Quarter Economic Report 2015.
- (2) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (3) Short-haul markets refer to North Asia, South and Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In the third quarter of 2015, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 79%, 14% and 7% of total visitors.
- (4) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.

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

### *Summary*

- *The low interest rate environment in Hong Kong continued in the third quarter of 2015 amid the ongoing accommodative monetary policy in the United States.*
- *The Hong Kong dollar spot exchange rate stayed close to 7.75 per US dollar in the third quarter. The strong-side Convertibility Undertaking was triggered intermittently in September, prompting the Hong Kong Monetary Authority (HKMA) to passively purchase a total of US\$8.7 billion from banks with \$67.3 billion.*
- *As the US dollar strengthened against most Asian currencies, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices rose during the third quarter.*
- *Total loans and advances switched to a mild decline of 1.5% during the third quarter, partly reflecting the weaker credit demand amid heightened uncertainties in the economic and financial environment. Within the total, loans for use in Hong Kong and outside Hong Kong fell by 1.3% and 2.0% respectively.*
- *The local stock market underwent a sharp correction in third quarter. Investment sentiment was hard hit by the slide in the global and Mainland stock markets amid growing concern about the slowdown of the Mainland economy and depreciation of the renminbi. The Hang Seng Index (HSI) fell by 20.6% from end-June to 20 846 at end-September. In parallel, trading activities cooled off, and fund raising activities turned very quiet.*

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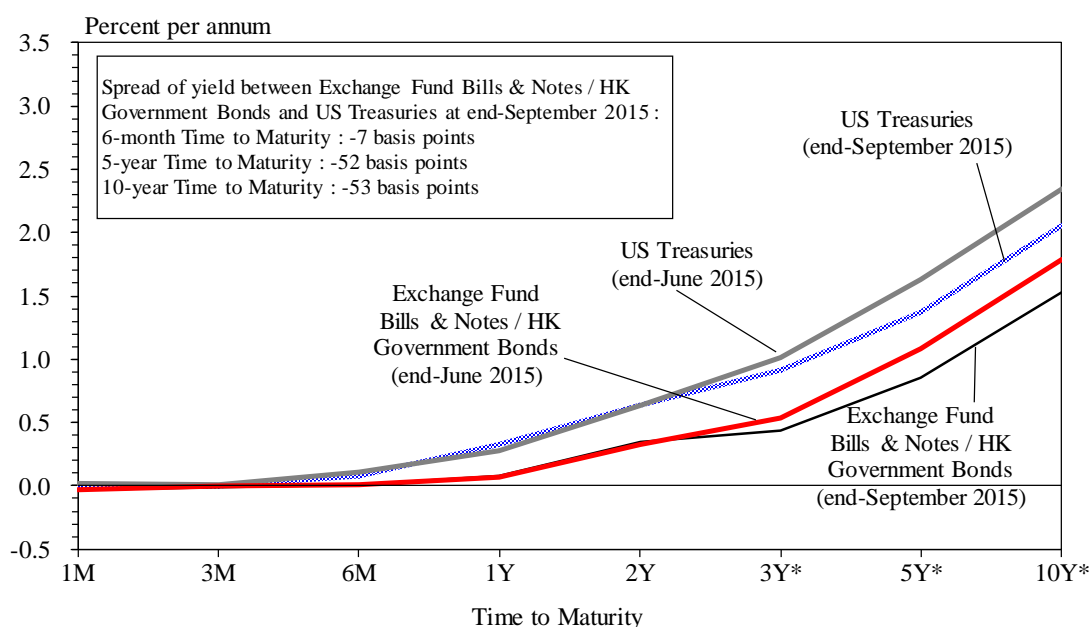
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

## Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the third quarter of 2015 amid the ongoing accommodative monetary policy in the United States. With the Federal Funds Target Rate staying at 0-0.25%, the Base Rate under the Discount Window operated by the HKMA held unchanged at 0.5% during the quarter<sup>(1)</sup>. The *Hong Kong dollar interbank interest rates* (HIBOR) remained at low levels. The overnight HIBOR declined from 0.11% at end-June to 0.08% at end-September. The 3-month HIBOR was 0.40% at end-September, little changed from the 0.39% at end-June.

4.2 Both the *Hong Kong dollar* and *US dollar yield curves* flattened in the third quarter. Reflecting the smaller decline in Hong Kong dollar yields, the negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes narrowed slightly from 56 basis points at end-June to 53 basis points at end-September. The negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills also declined from 10 basis points to seven basis points.

**Diagram 4.1 : Both the Hong Kong dollar and US dollar yield curves flattened in the third quarter**

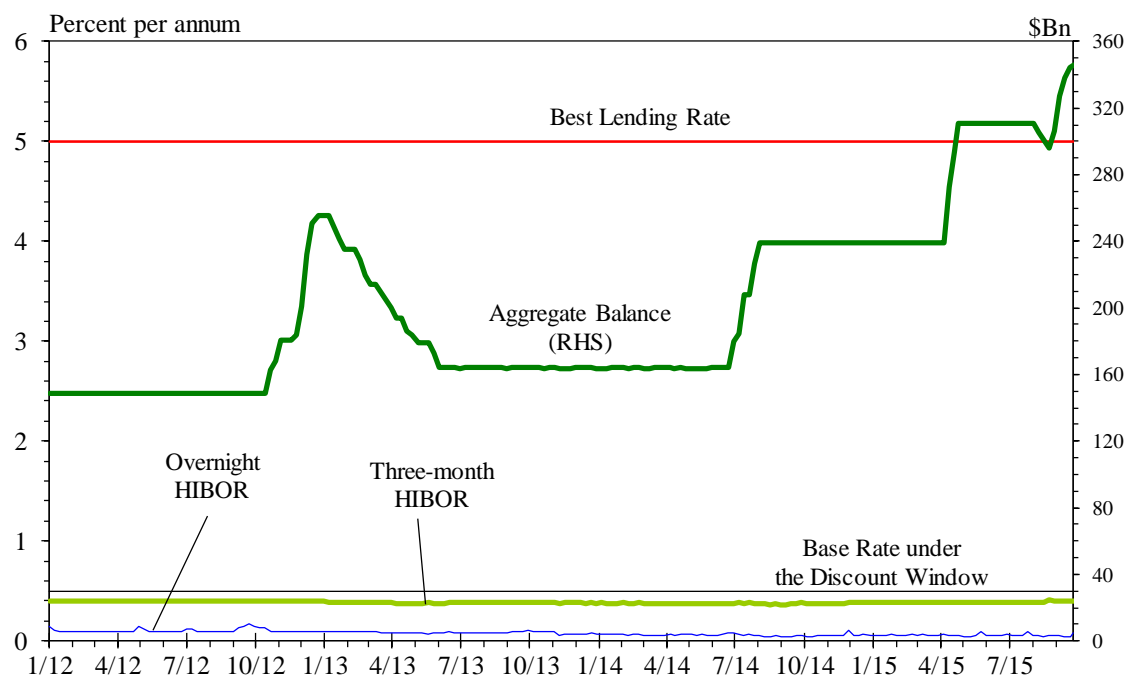


Note : (\*) With the HKMA stopping new issuance of Exchange Fund Notes of tenors of three years or above since January 2015, the Hong Kong dollar yields for tenor of 3 years and above refer to those for Hong Kong Government Bonds.

4.3 Interest rates on the retail front continued to stay at low levels. The *Best Lending Rates* remained unchanged at 5.00% or 5.25% during the third quarter. The *savings deposit rate* quoted by the major banks stayed unchanged at an average of 0.01%, while the one-year time deposit rate (for deposits of less

than \$100,000) quoted by the major banks edged down from 0.15% in June to 0.14% in September. Meanwhile, the *composite interest rate*<sup>(2)</sup>, which indicates the average cost of funds for retail banks, notched down from 0.29% at end-June to 0.26% at end-September.

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



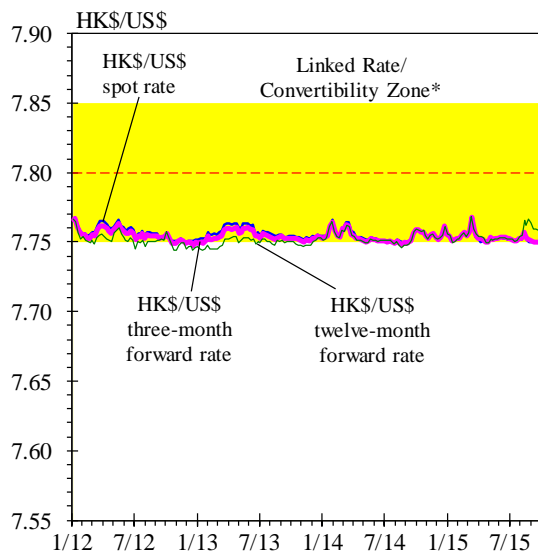
4.4 The *Hong Kong dollar spot exchange rate* stayed close to 7.75 per US dollar in the third quarter. Mainly driven by the conversion of offshore renminbi (RMB) into Hong Kong dollar, the strong-side Convertibility Undertaking was triggered intermittently in September, prompting the HKMA to passively purchase a total of US\$8.7 billion from banks with \$67.3 billion. As a result, the Aggregate Balance rose further from \$310.7 billion at end-June to \$345.9 billion at end-September. The spot exchange rate closed the quarter at 7.750, compared with 7.752 at end-June. The 3-month *Hong Kong dollar forward premium* edged down from six pips (each pip equivalent to HK\$0.0001) to four pips. Meanwhile, the 12-month Hong Kong dollar forward premium rose from zero pips at end-June to as high as 345 pips in late August, before declining to 80 pips at end-September.

4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar strengthened against most Asian currencies including the RMB, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*<sup>(3)</sup> rose by 2.9% and 3.3% respectively during



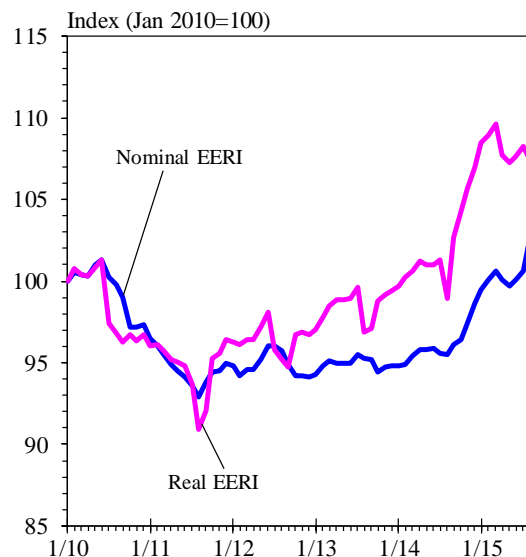
the third quarter.

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



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

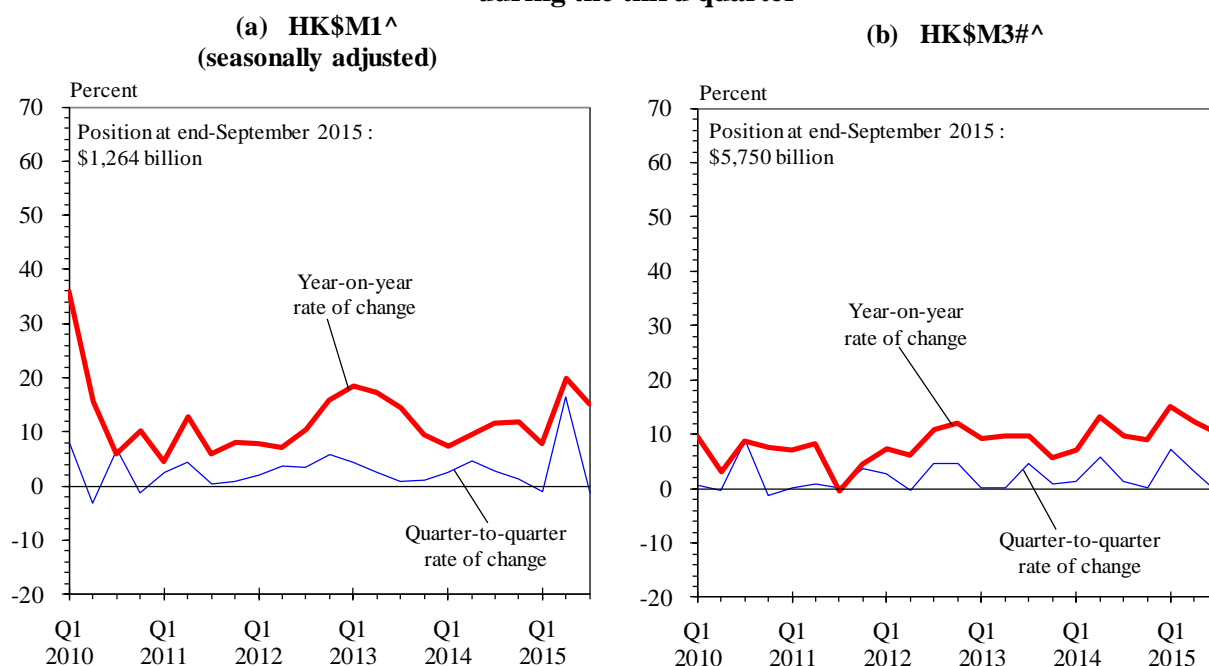
**Diagram 4.4 : The trade-weighted nominal and real EERIs rose during the third quarter (average for the month)**



## Money supply and banking sector

4.6 After a jump during the preceding quarter, the seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) declined by 1.3% from end-June to \$1,264 billion at end-September. The broad money supply (HK\$M3) also decreased by 0.7% to \$5,750 billion<sup>(4)</sup>. Meanwhile, *total deposits* with authorized institutions (AIs)<sup>(5)</sup> increased by 1.0% to \$10,659 billion. Within the total, Hong Kong dollar deposits declined by 0.6%, while foreign currency deposits increased by 2.7%.

**Diagram 4.5 : Both narrow and broad money supply declined during the third quarter**



Notes : (^) Figures refer to the positions at end of period.  
(#) Adjusted to include foreign currency swap deposits.

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

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
<u>% change during the quarter</u>		<u>HK\$<sup>^</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>
2014	Q1	2.5	0.8	1.4	0.9	1.4	0.9
	Q2	4.7	6.9	5.7	4.5	5.7	4.5
	Q3	2.8	3.1	1.4	2.9	1.4	3.0
	Q4	1.3	1.8	0.3	0.9	0.3	0.9
2015	Q1	-1.1	13.6	7.2	3.0	7.2	3.0
	Q2	16.5	-1.3	3.1	0.8	3.1	0.8
	Q3	-1.3	5.3	-0.6	0.1	-0.7	0.1
Total amount at end-September 2015 (\$Bn)		1,264	2,019	5,738	11,446	5,750	11,482
<u>% change over a year earlier</u>		15.1	20.3	10.1	4.9	10.1	4.9

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 *Total loans and advances* switched to a mild decline during the third quarter, partly reflecting the weaker credit demand amid heightened uncertainties in the economic and financial environment. Total loans and advances fell by 1.5% from end-June to \$7,560 billion at end-September, within which Hong Kong dollar loans and foreign currency loans fell by 2.6% and

0.2% respectively. Reflecting the relative movements in deposits and loans, the loan-to-deposit ratio for the Hong Kong dollar decreased from 79.9% at end-June to 78.4% at end-September, and the loan-to-deposit ratio for foreign currencies from 65.4% to 63.6%.

4.8 Loans for use in Hong Kong (including trade finance) declined for the second consecutive quarter, by 1.3% from end-June to \$5,242 billion at end-September. Loans for use outside Hong Kong also fell by 2.0% to \$2,318 billion. Within the former, loans to different economic sectors fared a mixed performance. Trade finance plunged by 11.6%, in part reflecting the sluggish external trade. Loans to the wholesale and retail trade decreased by 2.0%, conceivably dragged by the weak retail sales. Loans to stockbrokers plunged by another 53.4% along with the stock market corrections, while loans to financial concerns edged up by 0.3%. On the other hand, loans for purchase of residential property went up by 3.0% and loans to building, construction, property development and investment by 2.4%.

**Table 4.2 : Loans and advances**

All loans and advances for use in Hong Kong											
		Loans to :									
		Trade	Manu-	Wholesale	Building,	Purchase	Financial	Stock-	All loans		
		finance	facturing	and	construction,	of	concerns	brokers	and advances	Total	
				retail	property	residential			for use	loans	
				trade	and	of			outside	and	
					investment	property <sup>(a)</sup>			Hong Kong <sup>(c)</sup>	advances	
%											
change											
during											
the											
quarter											
2014	Q1	12.4	7.4	5.5	2.7	1.0	11.9	39.4	6.6	3.7	5.7
	Q2	2.4	6.6	5.4	1.6	2.1	3.4	66.7	4.4	1.7	3.6
	Q3	0.2	7.2	7.9	0.8	2.3	1.2	-38.9	1.4	3.3	1.9
	Q4	-14.5	0.0	-5.8	1.5	2.8	1.4	16.8	-1.0	5.6	0.9
2015	Q1	4.2	-3.8	1.0	1.3	2.7	-0.5	338.7	5.6	3.2	4.8
	Q2	0.7	-0.2	-1.5	4.1	1.7	4.8	-55.2	-0.5	3.4	0.6
	Q3	-11.6	0.0	-2.0	2.4	3.0	0.3	-53.4	-1.3	-2.0	-1.5
Total amount at end-September 2015 (\$Bn)		503	255	461	1,145	1,108	406	47	5,242	2,318	7,560
% change over a year earlier		-20.7	-4.0	-8.2	9.5	10.6	6.1	7.0	2.6	10.4	4.9

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

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

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

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

4.9 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 17.5% at end-June 2015. So far no AIs have encountered difficulties in complying with the statutory minimum ratios required by the HKMA under Basel III<sup>(6)</sup>.

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

4.11 Asset quality of the local banking sector remained sound. The ratio of classified loans to total loans stayed at a low level of 0.49% at end-June, though edging up from 0.46% at end-March. The delinquency ratio for credit card lending decreased from 0.26% to 0.23%. Meanwhile, the delinquency ratio for residential mortgage loans stayed at 0.03% at end-September, unchanged from end-June.

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

(as % of total loans)

<u>As at end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2014	Q1	98.42	1.12	0.46
	Q2	98.50	1.05	0.46
	Q3	98.53	1.04	0.43
	Q4	98.44	1.10	0.47
2015	Q1	98.39	1.14	0.46
	Q2	98.25	1.25	0.49

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

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

4.12 Different segments of the *offshore RMB business* showed a mixed performance in the third quarter. With the conversion of some offshore RMB into Hong Kong dollar, total RMB deposits (including customer deposits and outstanding certificates of deposit) dropped by 9.7% from end-June to RMB1,000.9 billion at end-September. Yet RMB trade settlement transactions handled by banks in Hong Kong surged by 30.6% over the preceding quarter to RMB2,050.1 billion in the third quarter.

4.13 Total RMB bond issuance plunged from RMB35.5 billion in the preceding quarter to RMB9.2 billion in the third quarter. Nonetheless, outstanding RMB bank loans surged by 20.8% over end-June to RMB285.4 billion at end-September.

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

<u>As at end of period</u>		<u>Interest rates on<sup>(a)</sup></u>					<u>Number of AIs engaged in RMB business</u>	<u>Amount of cross-border RMB trade settlement<sup>(c)</sup></u> (RMB Mn)
		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Savings deposits<sup>(b)</sup></u> (%)	<u>Three-month time deposits<sup>(b)</sup></u> (%)		
2014	Q1	167,082	777,828	944,910	0.25	0.53	147	1,488,813
	Q2	150,696	775,218	925,914	0.25	0.53	148	1,437,291
	Q3	144,306	800,168	944,473	0.25	0.53	149	1,609,298
	Q4	176,967	826,590	1,003,557	0.25	0.53	149	1,722,857
2015	Q1	157,444	794,550	951,994	0.25	0.53	147	1,626,122
	Q2	180,445	812,479	992,924	0.25	0.53	146	1,569,670
	Q3	165,849	729,516	895,365	0.25	0.53	145	2,050,107
% change in 2015 Q3 over 2014 Q3		14.9	-8.8	-5.2	N.A.	N.A.	N.A.	27.4
% change in 2015 Q3 over 2015 Q2		-8.1	-10.2	-9.8	N.A.	N.A.	N.A.	30.6

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

## The debt market

4.14 Issuance of *Hong Kong dollar debt* picked up in the third quarter of 2015. With the solid increase in public sector issuance more than offsetting the decline in private sector issuance<sup>(8)</sup>, total gross issuance of Hong Kong dollar debt increased by 8.5% over the preceding quarter to \$641.0 billion, of which 94% was attributable to Exchange Fund papers. In parallel, the total outstanding amount of Hong Kong dollar debt securities rose by 1.4% over end-June to \$1,450.5 billion at end-September 2015, equivalent to 25.2% of HK\$M3 or 21.8% of Hong Kong dollar-denominated assets of the banking sector<sup>(9)</sup>.

4.15 At end-September, the total outstanding Hong Kong dollar bonds under the Government Bond (“GB”) Programme amounted to \$103.2 billion. This comprised 13 institutional issues totaling \$73.2 billion and three retail issues (iBonds) totaling \$30 billion. In addition, there were two US dollar sukuks outstanding, each with an issuance size of US\$1 billion. In the third quarter, a total of \$0.6 billion institutional GBs were issued through tenders. Also, another batch of iBond totalling \$10 billion was successfully issued in August 2015. The issuance was greeted with positive market responses, receiving around 600 000 valid applications.

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

	Exchange Fund paper	Statutory bodies/govern- ment-owned corporations	Govern- ment	Public sector total	AIs <sup>(a)</sup>	Local corporations	Non-MDBs overseas borrowers <sup>(b)</sup>	Private sector total	MDBs <sup>(b)</sup>	Total
<b>New Issuance</b>										
2014 Annual	2,177.3	9.6	30.8	2,217.7	127.1	33.3	50.5	210.9	1.3	2,430.0
Q1	525.4	2.5	7.5	535.4	33.3	9.8	13.3	56.4	1.3	593.1
Q2	539.5	0.2	3.8	543.5	23.2	6.5	20.6	50.3	0.0	593.8
Q3	533.6	4.9	16.5	555.1	32.2	8.3	5.6	46.2	0.0	601.3
Q4	578.7	2.1	3.0	583.8	38.4	8.7	10.9	58.0	0.0	641.8
2015 Q1	491.9	4.3	7.9	504.1	54.4	4.4	10.6	69.4	0.0	573.5
Q2	541.2	4.0	4.7	550.0	23.2	2.1	15.5	40.8	0.0	590.7
Q3	599.9	0.8	10.6	611.3	14.8	2.8	12.0	29.6	0.0	641.0
% change in 2015 Q3 over 2014 Q3	12.4	-83.4	-35.8	10.1	-54.2	-65.9	113.8	-35.9	N.A.	6.6
% change in 2015 Q3 over 2015 Q2	10.8	-79.6	125.5	11.2	-36.4	35.6	-22.3	-27.4	N.A.	8.5
<b>Outstanding (as at end of period)<sup>(c)</sup></b>										
2014 Q1	751.5	40.1	95.5	887.1	249.0	130.4	150.9	530.3	11.1	1,428.4
Q2	752.0	37.1	98.5	887.6	228.9	124.4	148.1	501.5	6.9	1,395.9
Q3	752.2	41.5	105.0	898.7	223.0	132.3	142.5	497.8	6.9	1,403.4
Q4	752.6	41.0	98.0	891.6	232.8	137.6	141.7	512.1	6.1	1,409.8
2015 Q1	752.8	43.5	105.9	902.2	249.7	140.3	142.4	532.4	6.1	1,440.7
Q2	753.0	43.2	94.1	890.3	245.9	140.1	148.5	534.5	5.3	1,430.1
Q3	773.2	43.2	104.7	921.1	230.7	141.1	152.2	524.1	5.3	1,450.5
% change in 2015 Q3 over 2014 Q3	2.8	4.1	-0.3	2.5	3.5	6.6	6.9	5.3	-22.6	3.4
% change in 2015 Q3 over 2015 Q2	2.7	0.0	11.3	3.5	-6.2	0.7	2.5	-1.9	0.0	1.4

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

N.A. Not available.

(a) AIs : Authorised institutions.

(b) MDBs : Multilateral Development Banks.

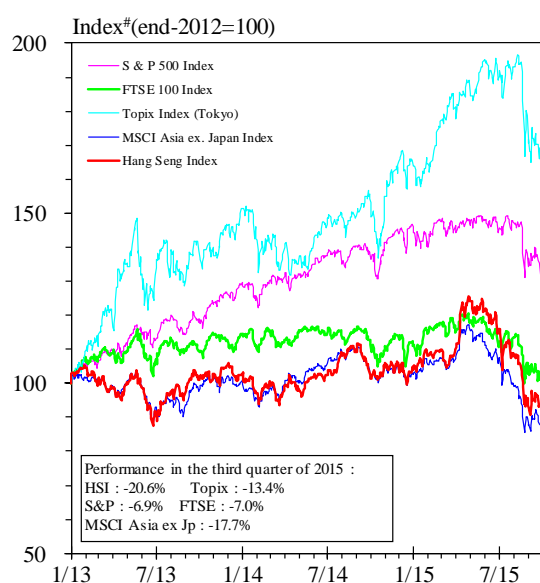
(c) Figures on AIs and hence the total have been revised downwards since more early redemption data have recently been available.

## The stock and derivatives markets

4.16 The *local stock market* underwent a sharp correction in the third quarter of 2015. Investment sentiment was hard hit by the slide in the global and Mainland stock markets amid growing concern about the slowdown of the Mainland economy and depreciation of the RMB. The Hang Seng Index (HSI) fell by 20.6% from end-June to 20 846 at end-September. In parallel, the *market capitalisation* shrank by 20.3% to \$23.2 trillion. According to the World Federation of Exchanges, the local stock market was the seventh largest in the world and third largest in Asia<sup>(10)</sup> as at end-September.

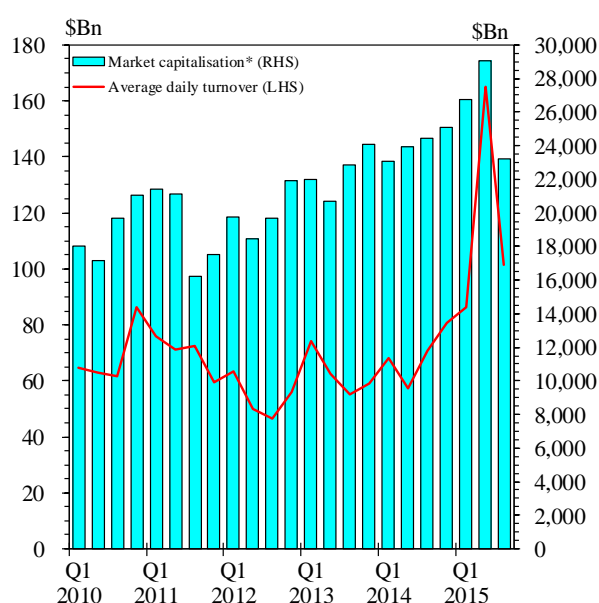
4.17 Trading activities also cooled off. *Average daily turnover* in the securities market plunged by 38.4% from the preceding quarter to \$101.5 billion in the third quarter, though it was 43.2% higher than a year earlier. As to *derivatives products*<sup>(11)</sup>, the average daily trading volume of futures and options declined by 13.4% from the preceding quarter. Within the total, trading of stock options, HSI options and H-shares Index futures declined by 28.3%, 5.4% and 1.6% respectively, though that of HSI futures edged up by 1.5%. Likewise, the average daily trading value of securitised derivatives products dropped significantly by 28.8% from the preceding quarter. Within the total, while trading of derivative warrants plunged by 39.7%, that of callable bull/bear contracts recorded a 14.2% increase.

**Diagram 4.6 : The local stock market underwent a sharp correction in the third quarter**



Note : (#) Position at end of month.

**Diagram 4.7 : Market capitalisation shrank, and trading activities cooled off**



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



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

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	H-shares Index <u>futures</u>	Stock <u>options</u>	Total futures and options traded*	Derivative warrants (\$Mn)	Callable bull/bear contracts (\$Mn)	Total securitised derivatives traded (\$Mn)^
2014	Annual	69 098	30 440	89 005	301 797	576 676	8,277	4,980	13,257
	Q1	71 607	28 842	92 576	274 757	554 700	7,077	5,090	12,167
	Q2	64 897	28 810	77 613	251 375	496 449	6,404	4,074	10,478
	Q3	66 730	29 887	79 181	304 098	556 968	9,791	5,290	15,081
	Q4	73 141	34 162	106 657	374 821	696 281	9,709	5,426	15,135
2015	Q1	64 351	27 727	108 774	363 322	672 678	14,715	6,226	20,941
	Q2	81 541	35 129	154 553	523 860	946 336	28,693	7,228	35,921
	Q3	82 744	33 238	152 006	375 780	819 085	17,312	8,255	25,567
% change in 2015 Q3 over 2014 Q3		24.0	11.2	92.0	23.6	47.1	76.8	56.0	69.5
% change in 2015 Q3 over 2015 Q2		1.5	-5.4	-1.6	-28.3	-13.4	-39.7	14.2	-28.8

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

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

4.18 In tandem with the stock market correction, fund raising activities turned very quiet in the third quarter. *Total equity capital* raised, comprising new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)<sup>(12)</sup>, plunged by 78% from the preceding quarter or 65% from a year earlier to \$139.4 billion. Yet reflecting the strong performance in the first half, total equity capital raised in the first three quarters still soared by 39% over a year earlier to \$851.1 billion. Within the total, the amount of funds raised through IPOs dwindled by 75% from the preceding quarter to \$26.9 billion in the third quarter. Nonetheless, Hong Kong still ranked the first globally in terms of the amount of funds raised through IPO in the first three quarters of 2015 combined, raising a total of \$156.4 billion.

4.19 Mainland enterprises continued to play a prominent role in the Hong Kong stock market. At end-September 2015, a total of 920 Mainland enterprises (including 212 H-share companies, 144 “Red Chips” companies and 564 private enterprises) were listed on the Main Board and GEM, accounting for 51% of the total number of listed companies and 62% of total market capitalisation. In the third quarter, Mainland-related stocks accounted for 72%

of equity turnover and 61% of total equity fund raised on the Hong Kong stock exchange.

4.20 Having received substantial market support in the earlier consultation, in July the Hong Kong Exchange and Clearing Limited announced the introduction of Volatility Control Mechanism (VCM) in its securities and derivatives markets and Closing Auction Session (CAS) in its securities market. The VCM<sup>(13)</sup> is designed to safeguard market integrity from extreme price volatility arising from automated trading and to contain systemic risks caused by inter-connectedness of Hong Kong's securities and derivatives markets, particularly with respect to benchmark index products. On the other hand, the CAS<sup>(14)</sup> is to meet the needs of investors by enabling trade execution at the securities' closing prices, which is a key investment mandate of certain funds and commonly adopted in developed securities markets. Subject to rule amendments and market readiness, the CAS and the VCM are tentatively scheduled to roll out in the securities market in sequence from mid-2016, while the VCM is tentatively targeted to roll out in the derivatives market in the last quarter of 2016.

4.21 To further enhance the transparency of the over-the-counter (OTC) derivatives market, in late September the HKMA and the Securities and Futures Commission jointly launched a consultation on introducing the first phase of mandatory clearing and the second phase of mandatory reporting under the OTC derivatives regime. The first phase of mandatory clearing aims to mandate the clearing of certain standardised interest rate swaps entered into between major dealers. Meanwhile, the second phase of mandatory reporting is to expand the existing reporting regime through requiring the reporting of transactions of all OTC derivative products and widening the scope of information to be reported.

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

4.22 Dragged by the stock market correction, the fund management business recorded a lacklustre performance in the third quarter. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*<sup>(15)</sup> declined by 9.5% from end-June to \$561 billion at end-September. The monthly average gross retail sales of *mutual funds* plunged by 35.9% from the preceding quarter to US\$5.5 billion in July-August<sup>(16)</sup>. The amount of net assets managed by *retail hedge funds* fell further during the quarter<sup>(17)</sup>.

## Insurance sector

4.23 The *insurance sector*<sup>(18)</sup> continued to record notable growth in the second quarter of 2015. Gross premium income from long-term business rose distinctly, by 17.3% over a year earlier. Within the total, premium income from non-investment linked plans soared by 24.7%, though that from investment-linked plans declined by 23.8%. Meanwhile, gross and net premium from general business continued to record moderate increase of 2.8% and 2.5% respectively.

4.24 The Insurance Companies (Amendment) Bill 2014 was passed by the Legislative Council in July 2015. The Bill provides for, among other things, the establishment of the Independent Insurance Authority (IIA) and a statutory licensing regime for insurance intermediaries. The set-up of the IIA would help modernise the regulatory infrastructure for the stable development of the industry, provide better protection for policyholders, and comply with the relevant international requirements of a regulator that is financially and operationally independent of the Government and industry. Also, the statutory licensing regime would replace the existing self-regulatory system, and help ensure a robust regulatory regime for the intermediaries and strengthen public confidence in the industry.

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

		General business			Premium for long-term business <sup>^</sup>					Gross premium from long-term business and general business
		Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	
2014	Annual	43,896	30,299	3,010	97,357	16,052	176	451	114,036	157,932
	Q1	12,551	8,668	902	23,770	3,387	39	180	27,376	39,927
	Q2	10,642	7,697	636	23,191	4,210	40	53	27,494	38,136
	Q3	11,534	7,936	853	24,652	4,317	47	120	29,136	40,670
	Q4	9,169	5,998	619	25,744	4,138	50	98	30,030	39,199
2015	Q1	12,939	9,053	645	32,060	4,249	52	121	36,482	49,421
	Q2	10,943	7,888	58	28,909	3,210	42	80	32,241	43,184
% change in 2015 Q2 over 2014 Q2		2.8	2.5	-90.9	24.7	-23.8	5.0	50.9	17.3	13.2

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

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

## Highlights of policy and market developments

4.25 The profits tax exemption for offshore funds has been extended to private equity funds since 17 July 2015. Under the arrangement, transactions conducted by eligible offshore private equity funds in respect of securities of eligible overseas portfolio companies would be able to enjoy profits tax exemption. The exemption would help attract private equity fund managers to expand their business in Hong Kong and hire related professional services, thereby conducive to the further development of the asset management industry.

### Notes :

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

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

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

M1 : Notes and coins with the public, plus customers' demand deposits with licensed banks.

M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks, held outside the monetary sector as well as short-term Exchange Fund placements of less than one month.

M3 : M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.

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

- (5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-September 2015, there were 157 licensed banks, 24 restricted licence banks and 18 deposit-taking companies in Hong Kong. Altogether, 199 AIs (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (6) Basel III was introduced by the Basel Committee in December 2010 (and subsequently revised in June 2011) to strengthen the resilience of banks and banking systems in the light of lessons drawn from the global financial crisis. It tightens the definition of regulatory capital and increases the minimum common equity requirement from 2% to 4.5% of risk-weighted assets and the Tier 1 capital from 4% to 6% (with the total capital ratio remaining at 8%); requires banks to hold a Capital Conservation Buffer of 2.5% during good times and a Countercyclical Capital Buffer in the range of 0% to 2.5% (or higher at national discretion) at times of excessive credit growth, and for banks classified as systemically important (either globally or domestically), a Higher Loss Absorbency requirement ranging from 1% to 3.5%, all to be met by common equity. In addition, Basel III introduces a supplementary leverage ratio as a backstop to risk-weighted capital measures and the two liquidity standards, i.e. the Liquidity Coverage Ratio (LCR) to promote short term liquidity resilience and the Net Stable Funding Ratio (NSFR) to encourage more stable funding structures.
- (7) The Basel III standards have started being phased in since 1 January 2013 and are scheduled to be fully implemented on 1 January 2019 according to the Basel III implementation timeline. The first phase of Basel III standards, which covers revised minimum capital requirements calculated based on a stricter definition of capital base and a wider risk coverage, took effect in Hong Kong with the amendments to the Banking (Capital) Rules (by way of the Banking (Capital) (Amendment) Rules 2012) coming into operation since 1 January 2013. To implement the Basel Committee's disclosure requirements associated with these standards, amendments were introduced in the Banking (Disclosure) Rules (by way of the Banking (Disclosure) (Amendment) Rules 2013) which took effect from 30 June 2013.
- (8) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (9) Assets of the banking sector include notes and coins, amount due from AIs in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposit (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.
- (10) The ranking is made by the World Federation of Exchanges, a global trade association for the securities exchange industry. Its membership comprises 64 securities exchanges, covering almost all globally recognised stock exchanges.
- (11) At end-September 2015, there were 82 classes of stock options contracts and 40 classes of stock futures contracts.

- (12) At end-September 2015, there were 1 065 and 211 companies listed on the Main Board and GEM respectively.
- (13) The VCM is applicable during Continuous Trading Session (CTS) except the first 15 minutes of the morning and afternoon CTS and the last 15 minutes of the afternoon CTS. It is applicable to the 81 Hang Seng Index and Hang Seng China Enterprise Index constituent stocks and the eight related index futures contracts. If the market tries to trade these stocks / contracts at a price of more than 10% / 5% away from its last traded price 5 minutes ago, a 5-minute cooling-off period will be triggered. During the cooling-off period, the affected stock / contract will be only allowed to trade within a fixed band. Normal continuous trading will resume when the 5-minute cooling off period ends and the stock / contract cannot be subject to the VCM again in the same trading session.
- (14) The CAS works as follows:
- Blocking Period : In the first period (4:00-4:01 pm), a reference price, which sets the allowable price limit of the CAS ( $\pm 5\%$  from the reference price), is calculated for each CAS security.
  - Order Input Period : In the second period (4:01-4:06 pm), at-auction orders and at-auction limit orders within the  $\pm 5\%$  price limit can be entered, amended or cancelled.
  - No-Cancellation Period : In the third period (4:06-4:08 pm), prices of new at-auction limit orders must be between the lowest ask and highest bid of the order book, and no orders can be amended or cancelled.
  - Random Closing Period : In the last period (4:08-4:10 pm), the order rules from the No-Cancellation period apply and the market closes randomly within two minutes. After the period, there's order matching for all CAS securities.
- (15) At end-September 2015, there were 19 approved trustees. On MPF products, 35 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 457 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 277 000 employers, 2.55 million employees and 206 000 self-employed persons have participated in MPF schemes.
- (16) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-August 2015, the survey covered a total of 1 165 active authorised funds.
- (17) At end-September 2015, there were three SFC-authorised retail hedge funds with combined net asset size of US\$114 million. The amount of net assets under management dropped by 13% from the end-June 2015 level, and represented a decrease of 29% from that at end-2002, the year when the hedge funds guidelines were first issued.
- (18) At end-September 2015, there were 157 authorised insurers in Hong Kong. Within this total, 44 were engaged in long-term insurance business, 94 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 23 countries and territories (including Hong Kong).

## CHAPTER 5 : THE LABOUR SECTOR

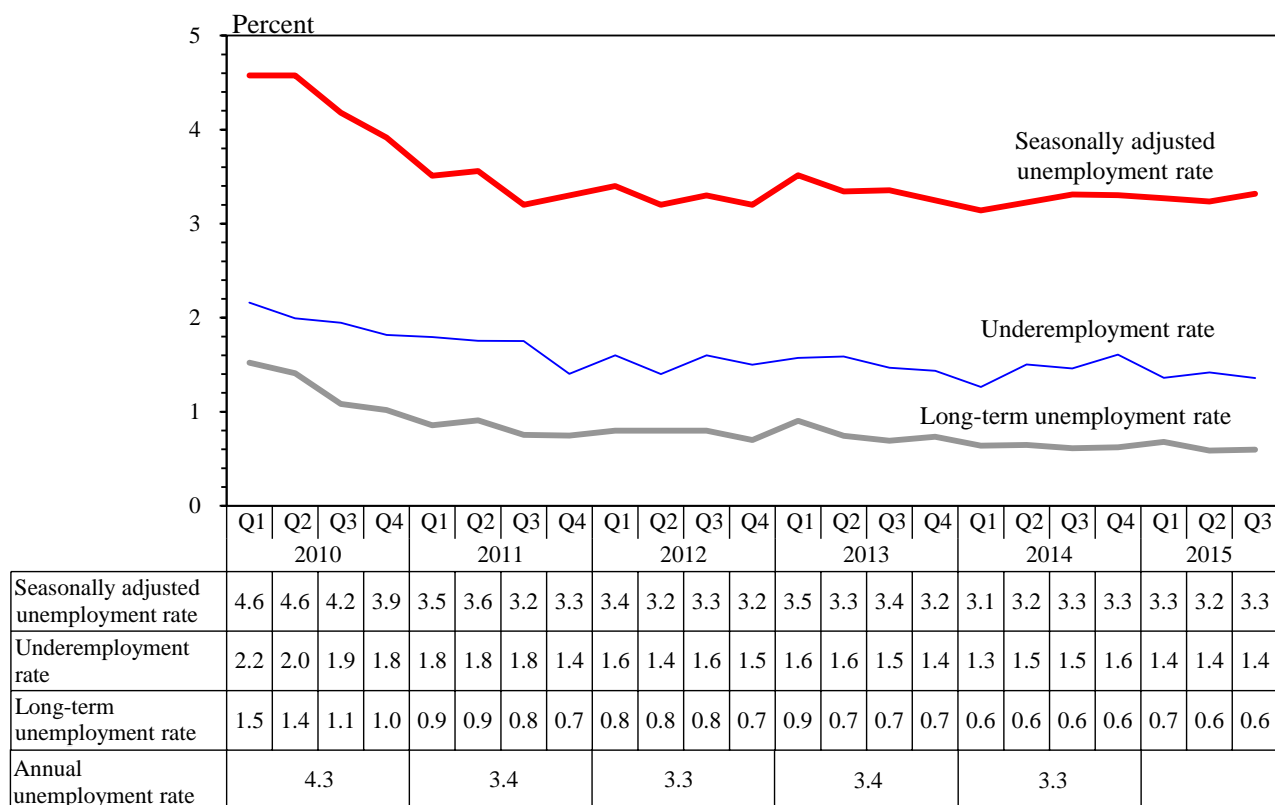
### *Summary*

- *The labour market held largely stable in the third quarter of 2015. Both total employment and the labour force sustained moderate year-on-year growth in overall terms. Yet labour demand weakened in some segments amid the sluggish trade performance and the slowdown in inbound tourism.*
- *The seasonally adjusted unemployment rate edged up by 0.1 percentage point over the preceding quarter to a still low level of 3.3% in the third quarter, while the underemployment rate stayed low at 1.4%. Different economic segments saw diverse movements.*
- *Wages and earnings registered further broad-based increases in June 2015. Low-paid workers enjoyed more appreciable wage growth, thanks to the upward adjustment of the Statutory Minimum Wage (SMW) rate since May 2015.*

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

5.1 The labour market held broadly stable in the third quarter of 2015. The seasonally adjusted *unemployment rate*<sup>(2)</sup> rose slightly by 0.1 percentage point over the preceding quarter to 3.3%, while the *underemployment rate*<sup>(3)</sup> stayed at 1.4%, both still at relatively low levels. Yet while labour force growth was largely matched by the pace of job creation in overall terms, data collected from private sector establishments pointed to some easing in labour demand, as manifested by slower employment growth and a modest decline in job vacancies, particularly in sectors that were more affected by the unsteady external trade environment and slackening inbound tourism. Nonetheless, wages and earnings continued to see broad-based increases in June 2015. In particular, the upward adjustment of the SMW rate since May 2015 has rendered additional support to the employment earnings of low-paid workers, resulting in more appreciable income gain at the grassroots level.

**Diagram 5.1 : The labour market held largely stable in the third quarter of 2015**



## Labour force and total employment

5.2 On the supply side, the *labour force*<sup>(4)</sup> grew moderately further by 0.7% year-on-year to reach 3 932 100 in the third quarter of 2015, marginally slower than the concurrent increase of 0.8% in the working-age population (i.e. land-based non-institutional population aged 15 and above). The labour force participation rate showed little change from both the preceding quarter and a year earlier, at 61.4%. The labour force growth was matched on the demand side by a 0.7% year-on-year rise in *total employment*<sup>(5)</sup> to 3 796 200 over the same period.



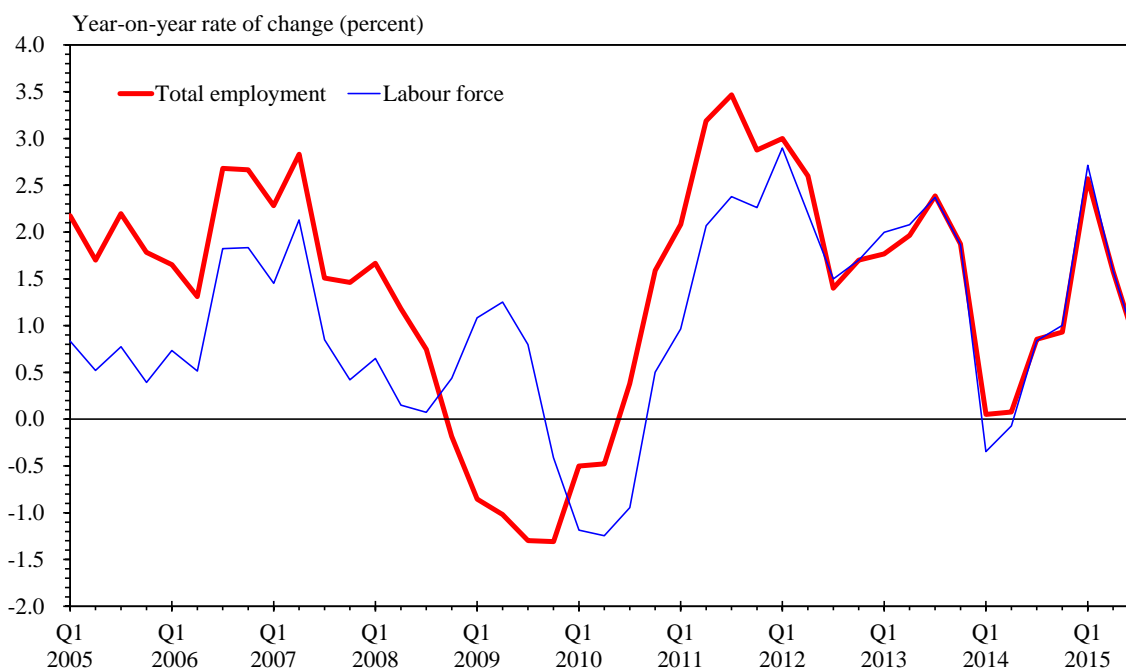
**Table 5.1 : The labour force, and persons employed, unemployed and underemployed**

	<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed<sup>(a)</sup></u>	<u>Persons underemployed</u>
2014 Annual	3 876 400 (0.5)	3 749 200 (0.6)	127 200	56 500
Q1	3 824 700 (-0.3)	3 705 900 (0.1)	118 800	48 400
Q2	3 860 400 (-0.1)	3 732 700 (0.1)	127 600	58 000
Q3	3 903 900 (0.8)	3 769 100 (0.9)	134 800	57 000
Q4	3 904 400 (1.0)	3 781 800 (0.9)	122 600	62 700
2015 Q1	3 928 400 (2.7)	3 801 100 (2.6)	127 300	53 500
Q2	3 921 500 (1.6)	3 791 600 (1.6)	129 900	55 600
<i>Three months ending</i>				
2015 Jul	3 931 900 (1.2)	3 797 800 (1.2)	134 100	56 400
Aug	3 946 000 (1.0)	3 808 500 (1.0)	137 400	55 100
Sep	3 932 100 (0.7)	3 796 200 (0.7)	135 800	53 400
	<-0.1>	<-0.1>		

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

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Total employment and the labour force grew further at a broadly similar pace in the third quarter**



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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015 Q1</u>	<u>2015 Q2</u>	<u>2015 Q3</u>
<u>Male</u>								
15-24	35.4	35.7	36.4	37.8	37.8	38.8	39.7	41.4
<i>of which:</i>								
15-19	10.2	9.9	10.5	11.0	11.1	10.7	12.2	13.9
20-24	60.6	61.1	61.1	62.5	61.5	63.1	63.2	64.9
25-29	94.0	93.9	94.5	93.8	93.4	94.1	93.5	93.9
30-39	96.5	96.5	96.8	96.9	96.5	96.3	96.3	96.5
40-49	95.0	95.1	95.3	95.5	94.7	95.7	95.1	95.1
50-59	84.4	84.9	85.1	86.8	86.7	86.7	86.8	87.0
≥ 60	22.0	23.4	25.6	26.9	27.8	28.1	28.3	28.3
Overall	68.5	68.4	68.7	69.1	68.8	69.0	69.0	69.2
<u>Female</u>								
15-24	36.7	37.0	37.5	40.0	39.3	41.1	41.9	42.4
<i>of which:</i>								
15-19	9.2	9.1	9.7	11.5	12.5	12.5	13.1	12.8
20-24	61.4	62.1	62.0	64.2	61.4	64.9	64.5	67.0
25-29	86.6	87.5	87.2	86.6	86.3	86.4	86.2	86.1
30-39	75.6	76.8	77.5	78.5	79.0	79.0	79.4	78.5
40-49	68.2	69.9	70.8	72.8	73.1	74.5	74.5	73.1
50-59	49.0	51.6	53.8	56.1	57.1	59.0	57.9	57.9
≥ 60	6.8	8.1	8.8	9.6	10.6	11.3	10.4	11.9
Overall	51.9	53.0	53.6	54.5	54.6	55.3	55.0	54.9
<u>Both genders combined</u>								
15-24	36.0	36.4	37.0	38.9	38.6	39.9	40.8	41.9
<i>of which:</i>								
15-19	9.7	9.5	10.1	11.2	11.8	11.6	12.6	13.4
20-24	61.0	61.6	61.6	63.4	61.4	64.0	63.8	66.0
25-29	89.8	90.2	90.3	89.7	89.4	89.8	89.4	89.5
30-39	84.3	84.9	85.4	85.9	86.0	85.9	86.2	85.7
40-49	80.2	81.0	81.4	82.5	82.3	83.5	83.2	82.3
50-59	66.5	68.0	69.2	71.0	71.4	72.2	71.7	71.8
≥ 60	14.1	15.5	16.9	17.9	18.9	19.4	19.0	19.8
Overall	59.6	60.1	60.5	61.2	61.1	61.5	61.4	61.4

Source : General Household Survey, Census and Statistics Department.

## Profile of unemployment

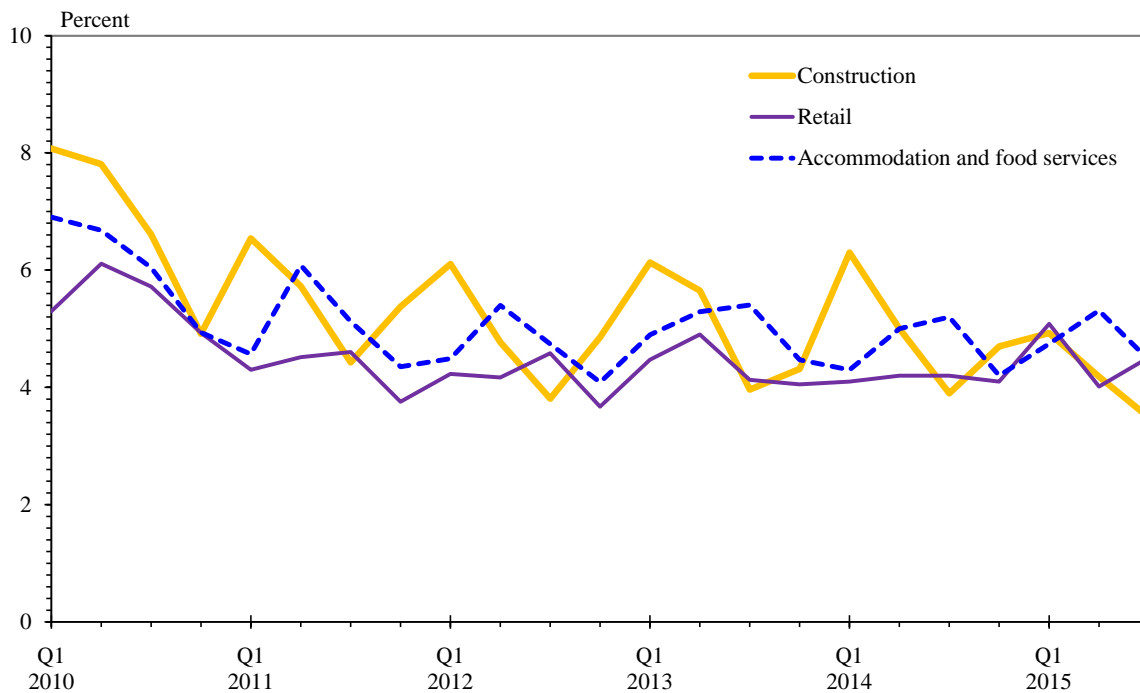
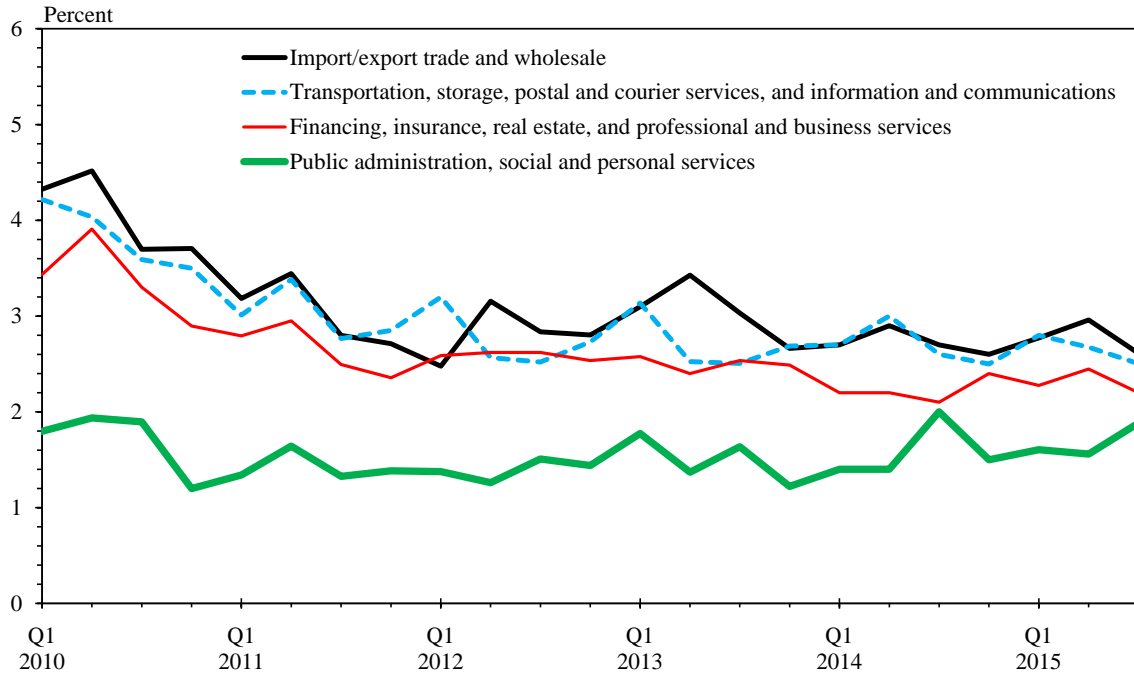
5.3 The number of unemployed persons (not seasonally adjusted) increased by 5 900 over the preceding quarter to 135 800 in the third quarter. After discounting for seasonal factors, the seasonally adjusted unemployment rate edged up by 0.1 percentage point to 3.3%, still a relatively low level and broadly the same as its year-ago level.

5.4 The unemployment situation varied across different economic sectors. Compared to the previous quarter, while more visible declines in unemployment rate (not seasonally adjusted) were observed in the construction, and information and communications sectors, more notable rises were found in the arts, entertainment and recreation, and education sectors. Specifically for the consumption and tourism-related sectors which were more affected by the slackening inbound tourism, the unemployment rate of the retail sector, at 4.5% in the third quarter, was higher on both a quarter-to-quarter and year-on-year comparison, by 0.5 percentage point and 0.3 percentage point respectively. That of accommodation services, at 4.2%, though down marginally by 0.1 percentage point from the preceding quarter, was visibly higher than a year ago by 1.7 percentage points. The unemployment situation of the food and beverage service activities sector was however lesser affected by the weakness in inbound tourism. Its unemployment rate fell by 1.0 percentage point from the preceding quarter and by 1.2 percentage points from a year earlier to 4.5% in the third quarter. For the *low paying sectors*<sup>(6)</sup> as a whole, the unemployment rate fell by 0.2 percentage point from the preceding quarter to 3.1%, and was 0.1 percentage point lower than its year-ago level.

5.5 Analysed by skill segment, the unemployment rate of higher-skilled workers went up by 0.2 percentage point quarter-to-quarter to 1.8%, with a more noticeable increase seen among professionals. That of lower-skilled workers nevertheless dropped by 0.3 percentage point to 3.3%, more visibly among craft and related workers. On a year-on-year comparison, the unemployment rate of higher-skilled workers edged up by 0.1 percentage point in the third quarter, while that of lower-skilled workers inched down by 0.2 percentage point.

5.6 Analysed by other socio-economic attributes, more notable year-on-year improvements in the unemployment rate were noted among workers aged 60 and above, and with lower secondary education and below, while more discernible rises were seen among those aged 15-24, and with post-secondary education.

**Diagram 5.3 : Different economic sectors saw diverse movements in unemployment rate**



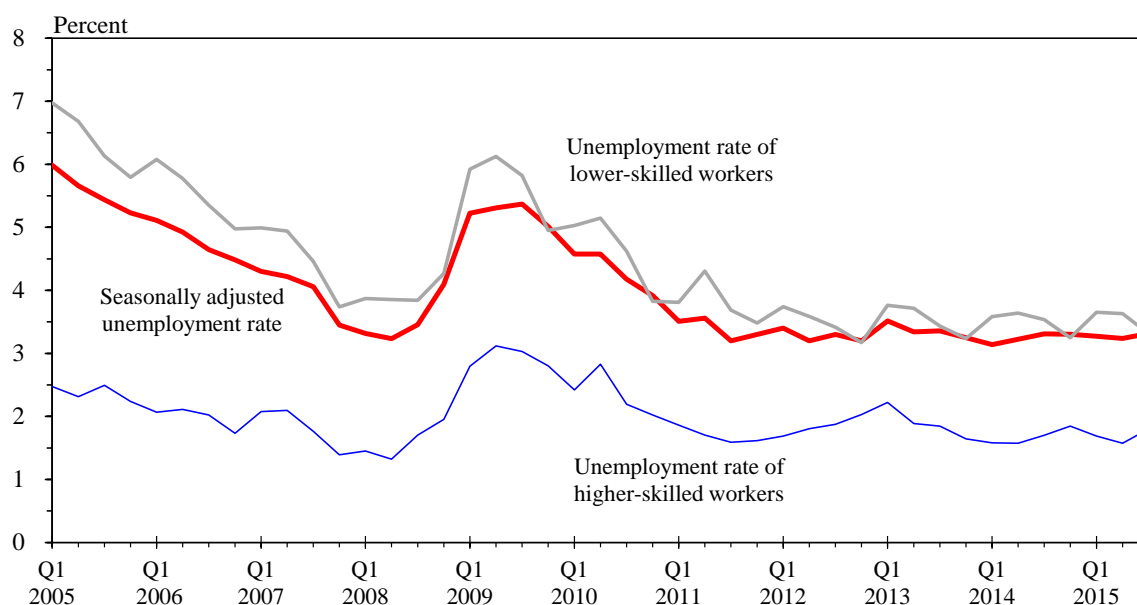
**Table 5.3 : Unemployment rates by major economic sector**

	<u>2014</u>				<u>2015</u>		
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Import/export trade and wholesale	2.7	2.9	2.7	2.6	2.8	3.0	2.6
Retail	4.1	4.2	4.2	4.1	5.1	4.0	4.5
Accommodation and food services	4.3	5.0	5.2	4.2	4.7	5.3	4.5
Transportation, storage, postal and courier services	2.9	3.2	2.5	2.1	2.9	2.7	2.7
Information and communications	2.0	2.3	2.9	3.7	2.4	2.6	2.0
Financing and insurance	1.5	1.5	1.8	1.5	1.8	1.4	1.7
Real estate	2.8	3.0	2.0	2.6	1.8	2.8	2.5
Professional and business services	2.5	2.4	2.4	2.9	2.8	3.0	2.5
Public administration, social and personal services	1.4	1.4	2.0	1.5	1.6	1.6	1.9
Manufacturing	3.2	3.7	3.2	3.1	3.1	3.4	3.9
Construction	6.3	5.0	3.9	4.7	4.9	4.2	3.5
Overall	3.1 (3.1)	3.3 (3.2)	3.5 (3.3)	3.1 (3.3)	3.2 (3.3)	3.3 (3.2)	3.5 (3.3)

Note : ( ) Seasonally adjusted unemployment figures.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.4 : Unemployment rate of the higher-skilled segment rose while that of the lower-skilled segment fell during the third quarter**



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

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

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

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

Source : General Household Survey, Census and Statistics Department.

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

	<u>2014</u>				<u>2015</u>		
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
<u>Age</u>							
15-24	7.5	9.1	11.3	8.9	9.0	11.1	12.3
<i>of which:</i>							
15-19	10.0	14.5	12.3	11.8	13.9	17.7	14.0
20-24	7.1	8.2	11.2	8.4	8.2	10.1	12.0
25-29	3.1	3.5	3.8	3.4	2.9	3.5	3.8
30-39	2.2	2.1	2.4	1.8	2.0	2.1	2.3
40-49	2.7	2.9	2.5	2.6	3.2	2.6	2.6
50-59	3.1	3.0	2.7	2.9	2.8	2.8	2.7
≥ 60	2.9	2.8	2.6	3.0	3.0	2.4	2.0
<u>Educational attainment</u>							
Primary education and below	3.7	3.6	2.9	3.6	3.8	3.0	2.3
Lower secondary education	4.2	4.8	4.0	3.7	4.5	4.3	3.7
Upper secondary education <sup>^</sup>	3.2	3.2	3.3	3.1	3.2	3.2	3.2
Post-secondary education	2.4	2.7	3.5	2.9	2.7	3.2	3.9

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

^ Including craft courses.

Source : General Household Survey, Census and Statistics Department.

5.7 Other indicators measuring the intensity of unemployment also suggested that labour market conditions remained generally stable in the third quarter. The number of long-term unemployed persons (i.e. unemployed for six months or longer) showed little change from the preceding quarter at 23 500, while the long-term unemployment rate held stable at 0.6%, the lowest level since the first quarter of 1998. The share of long-term unemployment in total unemployment also dropped from 17.7% in the second quarter to 17.3% in the third quarter. The proportion of dismissal or lay-offs among the total number of unemployed persons however rose marginally from 40.6% to 40.9%, while the median duration of unemployment lengthened somewhat from 57 days to 60 days during the quarter.

## **Profile of underemployment**

5.8 The underemployment situation likewise held steady in the third quarter. The number of underemployed persons decreased by 2 100 over the preceding quarter to 53 400, and the underemployment rate stayed at a low level of 1.4% for the third consecutive quarter. Compared to a year earlier, the underemployment rate was 0.1 percentage point lower, with diverse movements across economic sectors. A more prominent decline in the underemployment rate was found in the professional and business services sector, while a more noticeable increase was seen in the accommodation and food services sector. As for occupational category, an appreciable decline in underemployment rate was observed for elementary occupations, while a more visible rise was seen among plant and machine operators and assemblers. For the lower-skilled segment as a whole, which comprised the majority of underemployed persons, the underemployment rate edged down by 0.1 percentage point from a year earlier.



## **Profile of employment in establishments**

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

5.10 Total employment in private sector establishments grew further by 1.3% year-on-year in June 2015 to 2 790 500, but the pace was slower than that seen in the past few quarters. While solid employment growth was seen in such sectors as construction sites (covering manual workers only) (up 16.4% year-on-year), human health services (up 4.5%), education (up 3.5%), professional and business services (including cleaning and similar services) (up 2.8%), and financing and insurance (up 2.7%), the consumption and tourism-related sectors, including retail (down 0.7%) and accommodation and food services (down 0.1%), showed further signs of weakening amid the slowdown in inbound tourism. Employment in import/export trade and wholesale also fell (down 1.5%), while that in transportation, storage, postal and courier services moderated in growth (up 1.1%) amid the sluggish trade flows. Meanwhile, employment in the manufacturing sector continued with its secular downtrend (down 2.6%). Analysed by establishment size, while headcounts in large enterprises increased by 2.6% year-on-year in June 2015, those in small and medium-sized enterprises (SMEs)<sup>(7)</sup> shrank marginally by 0.1% for the first time since 2009. As for the civil service, employment grew modestly further by 0.6% year-on-year in June 2015.

### **Vacancies**

5.11 Job vacancies in the private sector relapsed to a modest year-on-year decline of 1.7% in June 2015, though still settling at a relatively high level of 78 380. Mixed movements were seen across major economic sectors.

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

	<u>2014</u>					<u>2015</u>	
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>
Import/export trade and wholesale	554 400 (\$)	552 900 (-0.9)	554 100 (-0.1)	554 400 (0.5)	556 200 (0.6)	549 200 (-0.7)	545 700 (-1.5)
Retail	270 800 (2.2)	270 000 (2.8)	271 900 (2.7)	269 800 (1.9)	271 600 (1.4)	271 500 (0.6)	269 900 (-0.7)
Accommodation <sup>(a)</sup> and food services	283 200 (2.5)	281 200 (2.0)	283 200 (2.5)	283 000 (2.6)	285 600 (2.8)	283 700 (0.9)	282 700 (-0.1)
Transportation, storage, postal and courier services	174 600 (2.7)	171 700 (2.1)	174 500 (3.1)	175 400 (2.6)	176 600 (2.9)	176 600 (2.8)	176 500 (1.1)
Information and communications	104 100 (2.7)	102 900 (4.6)	103 500 (2.4)	104 800 (2.2)	105 200 (1.9)	104 000 (1.2)	104 900 (1.4)
Financing, insurance, real estate, professional and business services	696 500 (1.9)	693 300 (2.5)	694 000 (2.3)	694 600 (1.4)	704 200 (1.5)	711 400 (2.6)	712 300 (2.6)
Social and personal services	482 200 (4.3)	475 600 (3.7)	480 000 (4.1)	482 500 (4.0)	491 000 (5.3)	494 100 (3.9)	495 200 (3.2)
Manufacturing	102 500 (-1.2)	103 500 (-0.5)	102 200 (-1.1)	102 600 (-1.2)	101 500 (-2.1)	100 300 (-3.1)	99 600 (-2.6)
Construction sites (manual workers only)	82 800 (4.4)	78 600 (1.0)	79 700 (-3.4)	86 500 (12.7)	86 300 (7.8)	91 900 (16.9)	92 800 (16.4)
<i>All establishments surveyed in the private sector<sup>(b)</sup></i>	2 762 200 (2.1)	2 740 700 (1.9)	2 754 200 (1.9)	2 764 700 (2.2)	2 789 200 (2.2)	2 793 700 (1.9)	2 790 500 (1.3)
		<0.5>	<0.6>	<0.5>	<0.6>	<0.2>	<\$>
<i>Civil service<sup>(c)</sup></i>	163 000 (1.0)	162 800 (1.4)	162 800 (1.2)	163 000 (0.9)	163 400 (0.6)	163 600 (0.5)	163 800 (0.6)

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

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

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

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

( ) % change over a year earlier.

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

\$ Change less than 0.05%.

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

5.12 Analysed by economic sector, more visible increases in vacancies were observed in real estate (up 11.0% year-on-year), residential care and social work services (up 7.9%), and financing and insurance (up 6.1%) in June 2015. On the other hand, after the noticeable year-on-year declines in the preceding quarter, vacancies in the retail trade (down 4.2%) and accommodation and food services (down 4.1%) sectors fell further alongside the lull in inbound tourism. Vacancies in construction sites (covering manual workers only) likewise plunged (down 39.1%), but when viewed in conjunction with the concurrent notable employment gain, suggested that some vacancies had been gradually filled. Mirroring the sectoral profile, lower-skilled vacancies, the majority of which being service and sales workers and elementary occupations, decreased visibly further by 6.9% year-on-year, while higher-skilled vacancies rose by 13.0%, driven by demand for managers and administrators, and professionals. Analysed by the size of establishments, vacancies in large enterprises increased by 2.9%, whereas those in SMEs fell by 8.1%. As for the civil service, the number of unfilled job openings grew considerably further by 10.4% year-on-year to 8 030.

5.13 Reflecting some slight easing in overall labour demand, the ratio of job vacancies per 100 unemployed persons edged down from 61 in March to 60 in June. This was attributable entirely to the lower-skilled segment, while the ratio for the higher-skilled segment actually rose. On a year-on-year comparison, the vacancy-to-unemployed ratio also edged lower, dragged mainly by service and sales workers, and plant and machine operators and assemblers in the lower-skilled segment. Analysed by economic sector, although the manpower resource balances in such sectors as accommodation and food services eased back somewhat, manpower shortages were still apparent in sectors like human health services, financing and insurance, residential care and social work services, arts, entertainment and recreation, and education in June 2015, with the respective ratios far exceeding 100.

5.14 The vacancy rate for private sector establishments, expressed as the percentage of job vacancies to total employment opportunities, was 2.7% in June 2015, unchanged from March but down 0.1 percentage point from a year ago. More visible year-on-year declines in vacancy rate were seen in the construction sites (covering manual workers only), arts, entertainment and recreation, accommodation and food services, and information and communications sectors.

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

	<u>Number of vacancies</u>							Vacancy rate in <u>Jun 2015</u> (%)	
	<u>Annual Average</u>	<u>2014</u>					<u>2015</u>		
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>		
Import/export trade and wholesale	8 460 (-13.7)	9 210 (-11.8)	8 150 (-19.4)	8 450 (-16.7)	8 040 (-5.9)	9 000 (-2.3)	8 200 (0.6)	1.5	
Retail	9 110 (4.0)	9 680 (2.9)	8 810 (8.4)	9 240 (0.6)	8 710 (4.9)	8 550 (-11.7)	8 440 (-4.2)	3.0	
Accommodation <sup>(a)</sup> and food services	16 060 (11.1)	17 600 (13.2)	15 800 (21.8)	15 550 (8.2)	15 300 (2.3)	15 470 (-12.1)	15 150 (-4.1)	5.1	
Transportation, storage, postal and courier services	3 680 (-1.8)	4 180 (15.7)	4 040 (-1.6)	3 380 (-7.1)	3 120 (-14.2)	3 960 (-5.4)	4 060 (0.6)	2.2	
Information and communications	2 560 (-4.6)	2 570 (-4.2)	2 650 (-13.1)	2 360 (-21.8)	2 670 (33.9)	2 930 (14.3)	2 480 (-6.5)	2.3	
Financing, insurance, real estate, professional and business services	17 910 (1.2)	17 820 (1.8)	18 210 (1.4)	17 810 (-3.5)	17 800 (5.3)	18 360 (3.0)	18 780 (3.1)	2.6	
Social and personal services	14 110 (-12.9)	11 620 (-32.9)	16 600 (-6.1)	13 930 (-10.8)	14 280 (1.0)	15 620 (34.3)	17 290 (4.1)	3.4	
Manufacturing	3 040 (17.4)	3 200 (23.2)	3 580 (33.7)	2 880 (6.6)	2 500 (4.9)	2 990 (-6.6)	2 730 (-23.9)	2.7	
Construction sites (manual workers only)	1 390 (32.4)	1 630 (75.1)	1 540 (49.8)	1 530 (73.1)	850 (-37.1)	880 (-45.8)	940 (-39.1)	1.0	
All establishments surveyed in the private sector <sup>(b)</sup>	76 600 (-0.7)	77 790 (-3.0) <-5.2>	79 720 (2.4) <3.6>	75 360 (-3.8) <-2.2>	73 530 (1.6) <5.5>	78 070 (0.4) <-6.2>	78 380 (-1.7) <1.4>	2.7	
Civil service <sup>(c)</sup>	7 160 (9.9)	6 350 (2.0)	7 270 (4.2)	7 430 (11.4)	7 610 (22.8)	7 820 (23.3)	8 030 (10.4)	4.7	

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

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

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

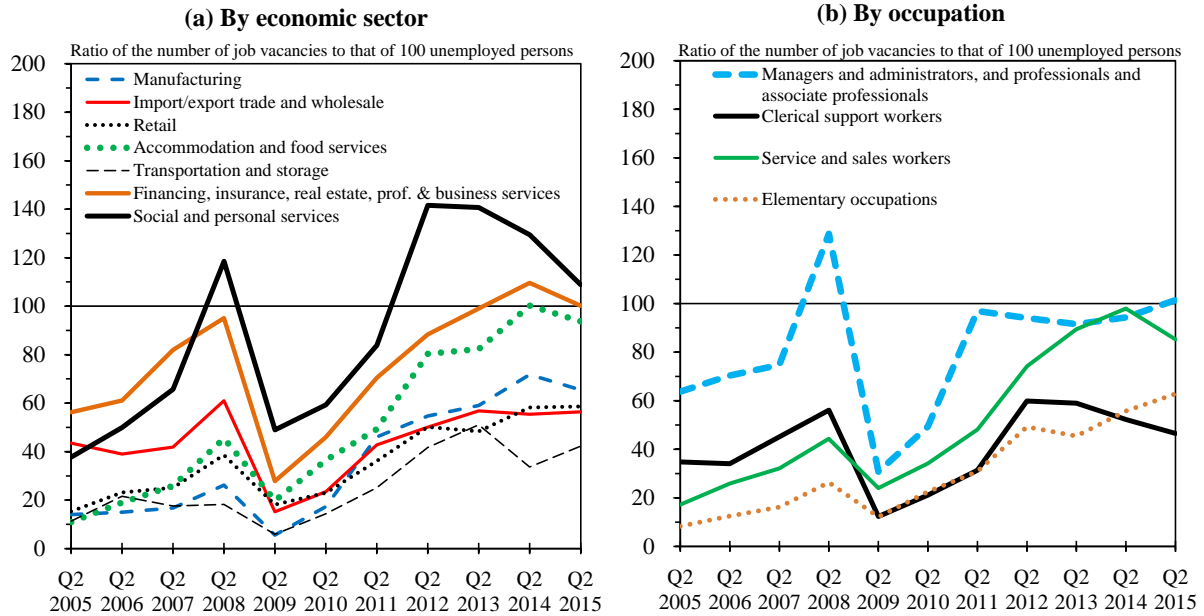
(c) These figures cover only vacancies for those staff to be employed on civil service terms of appointment.

( ) % change over a year earlier.

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

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

**Diagram 5.5 : Manpower resource balance showed signs of easing but remained tight in some segments**



5.15 The vacancy registration figures compiled by the Labour Department (LD), notwithstanding its smaller sample size, may offer some hints on the latest developments in the labour market. In the third quarter of 2015, the average number of private sector job vacancies rose further by 12.2% year-on-year to around 121 900, suggesting that many sectors were still looking for additional manpower up to September 2015.

## Wages and earnings

5.16 Wages and earnings saw further across-the-board increases in the second quarter of 2015 amid the broadly stable labour market conditions. *Wage index*, which measures the regular payment to employees at the supervisory level or below, rose by 4.6% in June 2015 over a year earlier. After adjusting for inflation<sup>(8)</sup>, real wages grew by 0.1%.

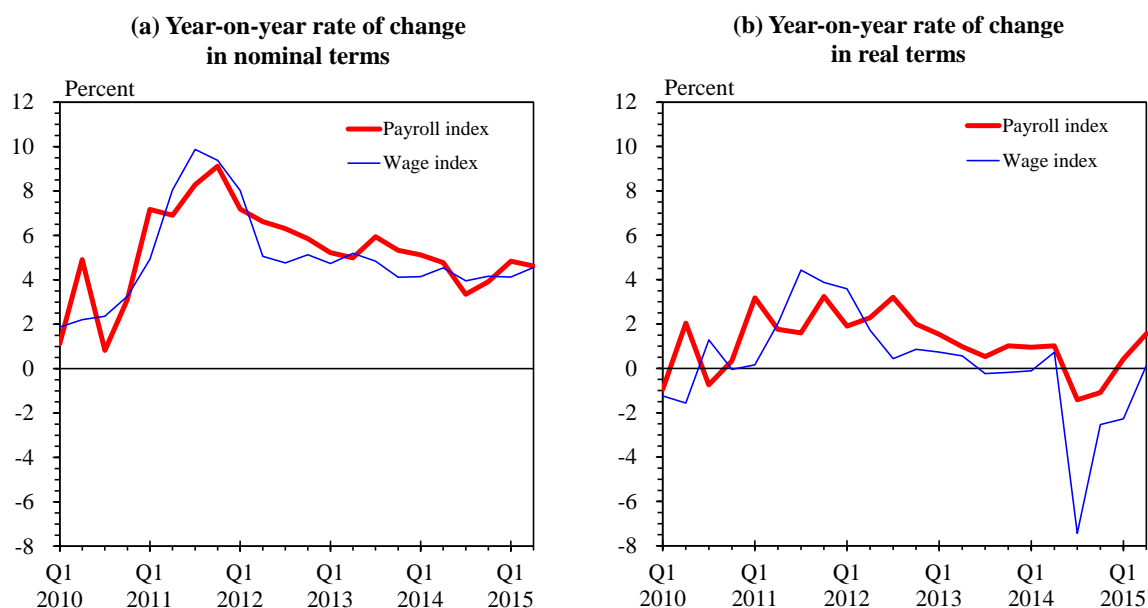
5.17 Increases in nominal wages were observed across all economic sectors and occupations in June 2015, more visibly in professional and business services (up 7.4% year-on-year), and personal services (up 6.3%). Analysed by occupation, wages of lower-skilled workers such as service workers (up 6.8%) and miscellaneous non-production workers (up 6.3%) saw more appreciable growth, thanks to the upward adjustment of the SMW rate since May 2015.

5.18 According to the Salary Indices for Managerial and Professional Employees, compensation among workers at the upper end also witnessed solid growth. The Salary Index covering staff remaining in the same occupation and the same company over the period rose solidly further by 5.7% in nominal terms and by 3.6% in real terms in June 2015 over a year earlier. Including the newly recruited and promoted employees, the broader-based index registered a nominal increase of 4.8%, translating into a gain of 2.7% in real terms.

5.19 *Labour earnings*<sup>(9)</sup>, as measured by the index of payroll per person engaged in the private sector, likewise posted a year-on-year increase of 4.6% in the second quarter of 2015, translating into a real earnings growth at 1.6% after adjusting for inflation.

5.20 Rises in nominal payroll were seen across all major sectors in the second quarter of 2015, with more notable growth in information and communications (up 5.9%), accommodation and food service activities (up 5.8%), professional and business services (up 5.6%), and real estate activities (up 5.5%).

**Diagram 5.6 : Nominal wages and earnings sustained across-the-board increases in the second quarter of 2015**



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

5.21 More recent data compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, revealed that average monthly employment earnings<sup>(10)</sup> of full-time employees (excluding foreign domestic helpers) engaged in elementary occupations leaped further by an appreciable 8.0% year-on-year in the third quarter of 2015, conceivably benefiting from the SMW uprating since May 2015. After discounting inflation, there was an increase of 5.1% in real terms. As for the overall household income situation, the median monthly household income (excluding foreign domestic helpers) likewise recorded a respectable year-on-year growth at 6.4% in the third quarter, or 4.0% in real terms.

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

5.22 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job-seekers on the spot. From January to October 2015, LD organised 15 large-scale job fairs in North District, Mong Kok, Tsuen Wan, Wan Chai, Tuen Mun, Sha Tin and Lok Fu. 469 participating organisations offered over 36 100 vacancies from the retail, catering, property management, transport and other industries. There were also 17 training bodies joining the job fairs to introduce job training courses and receive applications on the spot. Apart from large-scale job fairs, district-based job fairs are organised at LD's Job Centres from time to time to assist job-seekers in finding employment. Recruitment activities are also staged by catering and retail employers at the two industry-based recruitment centres regularly for interviewing job-seekers on the spot.

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

5.24 The Standard Working Hours Committee (SWHC), with reference to the findings of the dedicated working hours survey, and the public engagement and consultation on working hours, agreed in principle to recommend exploring a legislative approach to mandatorily require employers and employees in general to enter into written employment contracts specifying terms related to working hours of employees, and in parallel to explore whether there is a need for other suitable measure(s) to protect grassroots employees with lower income, lower skills and less bargaining power. In contemplating a working hours policy, SWHC will carefully consider various factors including employees' overtime work situation, as well as the possible impacts of different scenarios on employees, employers, enterprises (particularly small and medium-sized enterprises), trades, the overall economy and the labour market with a view to building community consensus and formulating appropriate and feasible working hours policy options. SWHC aims to submit its report to the Government by March 2016.



## Notes :

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

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

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

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

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

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

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

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

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

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

## CHAPTER 6 : PRICES

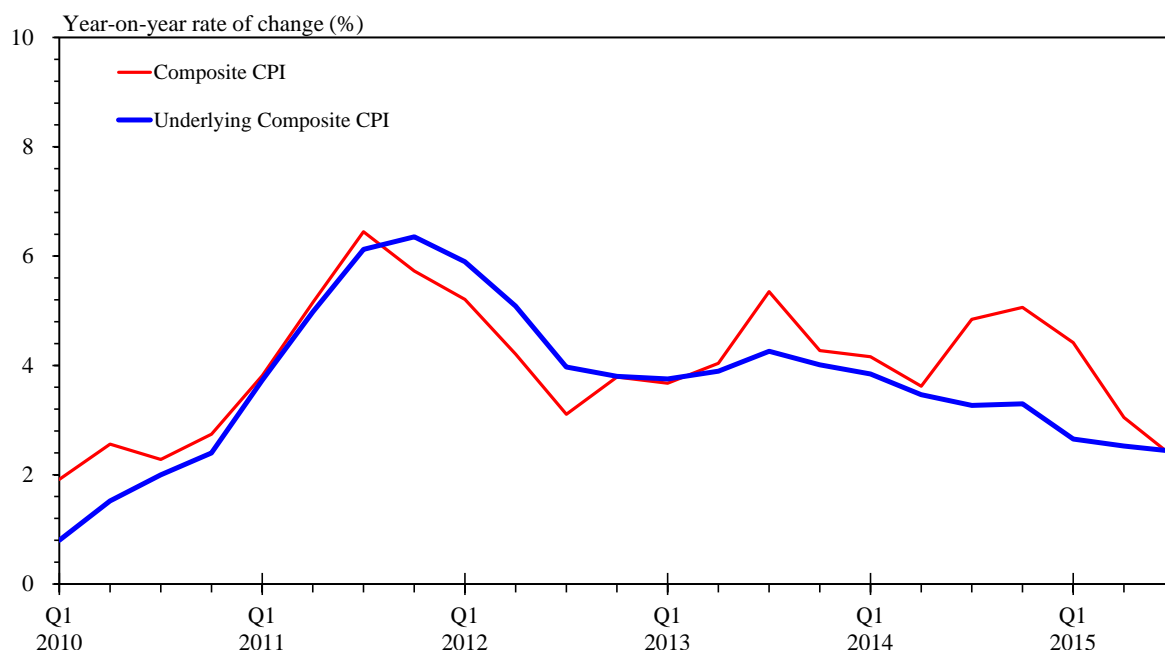
### *Summary*

- *Inflation eased slightly further in the third quarter of 2015, as the rises in domestic costs stayed contained and imported inflation pressures were muted. The Composite Consumer Price Index (Composite CPI)<sup>(1)</sup> rose by 2.3% in the third quarter over a year earlier, down from the 3.0% increase in the second quarter. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, underlying Composite CPI inflation was 2.4%, down by 0.1 percentage point from the preceding quarter.*
- *Domestic cost pressures remained generally in check. Increases in labour costs were largely steady under a modest economic growth scenario, while the passing-through of the faster increases in fresh-letting private residential and commercial rentals this year into the CPIs was still rather modest and gradual in the third quarter. Meanwhile, the pricing power of retailers was generally constrained by the slower retail sales. The special fuel rebate since mid-August also drove the electricity prices distinctly lower over the period.*
- *External price pressures receded further in the third quarter, thanks to the continued fall-off in international commodity prices, the rather benign inflation in our major import sources, and the strength of the US dollar.*
- *Looking ahead, the upside risks to consumer price inflation should remain limited in the near term, in view of the moderate cost pressures from both domestic and external fronts.*

### **Consumer prices**

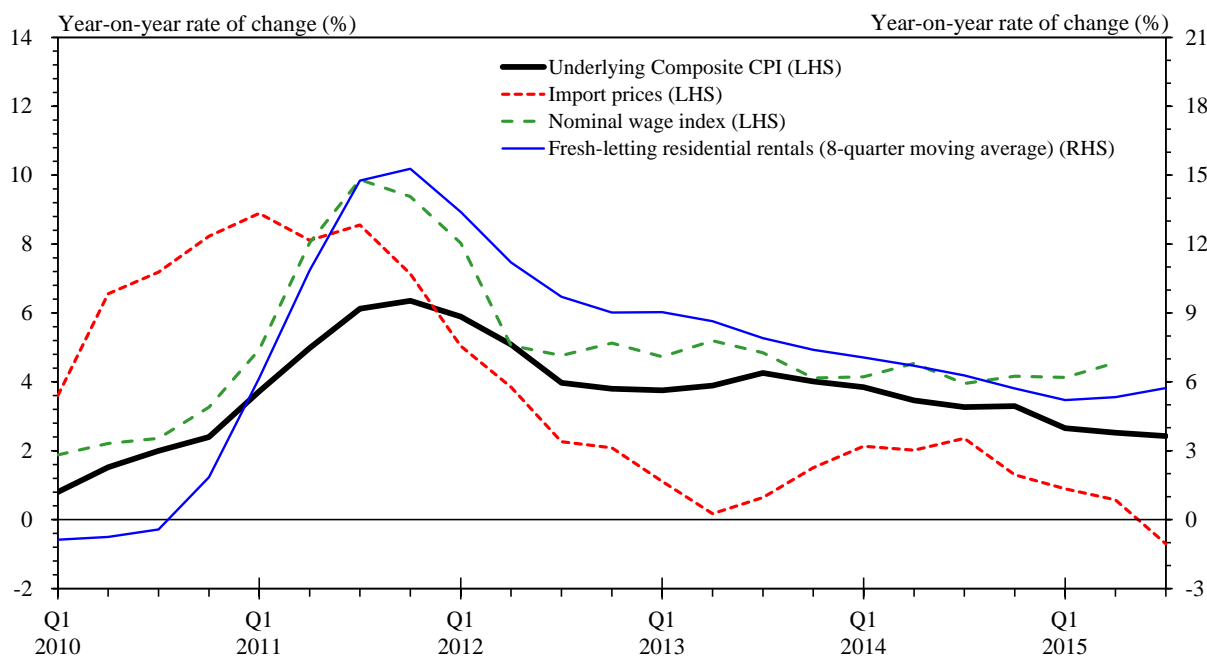
6.1 Underlying inflation eased slightly further in the third quarter of 2015, as local cost pressures remained moderate and imported price pressures subsided. Locally, wages continued to increase at a steady pace, supported by the broadly stable labour market conditions. While fresh-letting residential rentals saw faster increases this year, the passing-through effect to the private housing component in the CPI in the third quarter was still modest. The continued slowdown in inbound tourism and related segments also weakened the pricing power of retailers and other operators. Meanwhile, external price pressures were muted against the backdrop of the fall-off in energy and raw material prices over a year earlier, lower inflation in many of Hong Kong's major import sources<sup>(2)</sup>, and the strength of US dollar.

**Diagram 6.1 : Underlying inflation eased slightly further in the third quarter of 2015**



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

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



6.2 Underlying consumer price inflation, in terms of the year-on-year rate of change in the underlying Composite CPI, which nets out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, went down slightly to 2.4% in the third quarter of 2015, from 2.5% in the second quarter. Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, eased to 2.3% in the third quarter of 2015, from 3.0% in the preceding quarter. The larger decline in headline inflation mainly reflected the end of the temporarily lower base of comparison in the third quarter of 2014, when the effect of the Government's one-off electricity subsidy waned. For the first three quarters of 2015 as a whole, the headline and underlying consumer price inflation rates averaged 3.3% and 2.5% respectively, both lower than those of 4.4% and 3.5% for 2014 as a whole.

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

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying<sup>(a)</sup></u>	<u>Headline</u>			
2014	Annual	3.5	4.4	5.6	4.2	3.5
	H1	3.7	3.9	4.0	4.0	3.7
	H2	3.3	5.0	7.1	4.4	3.4
	Q1	3.8	4.2	4.3	4.3	3.9
	Q2	3.5	3.6	3.8	3.8	3.5
	Q3	3.3	4.8	7.2	4.1	3.3
	Q4	3.3	5.1	7.0	4.6	3.4
2015	H1	2.6	3.7	5.3	3.3	2.3
	Q1	2.7	4.4	6.5	3.9	2.6
	Q2	2.5	3.0	4.2	2.7	1.9
	Q3	2.4	2.3	2.8	2.3	1.8

**(seasonally adjusted quarter-to-quarter rate of change (%))**

2014	Q1	0.9	0.9	1.1	0.9	0.8
	Q2	0.7	0.7	0.7	0.7	0.7
	Q3	0.7	0.5	-0.2	0.9	0.8
	Q4	0.9	2.9	5.4	2.0	1.1
2015	Q1	0.3	0.3	0.5	0.3	0.1
	Q2	0.6	-0.6	-1.4	-0.5	*
	Q3	0.6	-0.2	-1.5	0.4	0.5

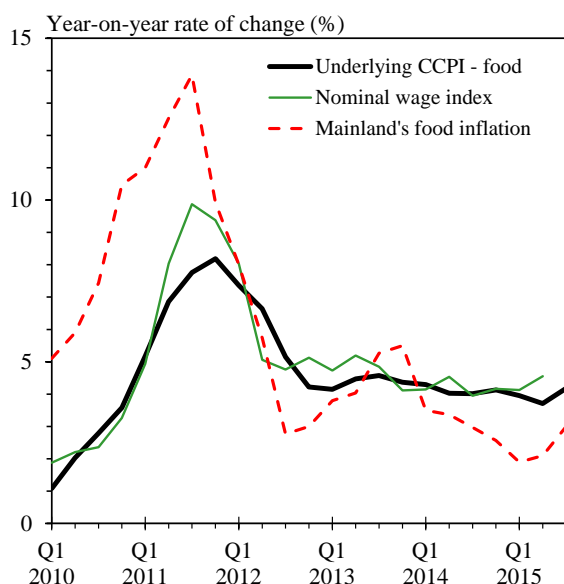
Notes : (a) Underlying consumer price inflation is calculated by netting out the effects of all relevant one-off measures introduced since 2007, including the waiver and Government's payment of public housing rentals, rates concession, suspension and subsequent abolition of Employees Retraining Levy,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

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

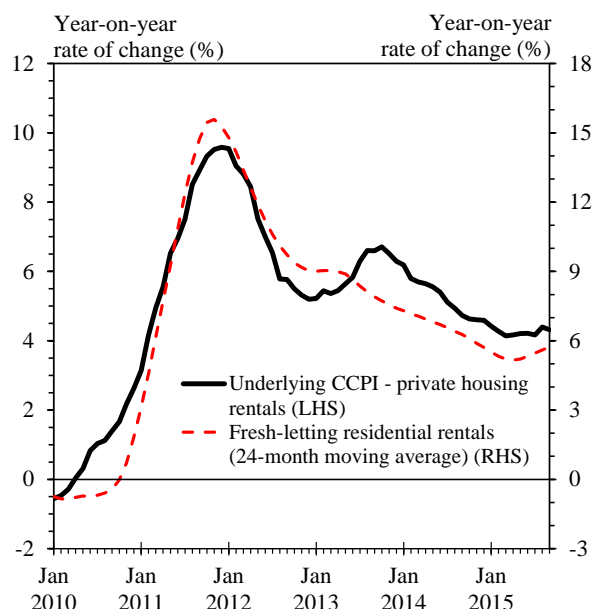
6.3 Analysing inflation by major components of the underlying Composite CPI showed that the abatement of price pressures was still generally widespread. On the two largest components by weight, food inflation in the first three quarters of 2015 combined remained modest, notwithstanding fluctuations in the monthly prices of some basic foodstuffs. Rental inflation likewise stayed contained, as the private housing rental component held very stable in latest quarters. As to other components, prices of clothing and footwear continued to decline, reflecting subdued imported inflation, and the pressure to cut prices in a bid to boost sales. The still-low international oil prices, plummeted from year-ago levels, also contributed to a visible fall in prices of motor fuel within the transport component. The price fall-off in the electricity, gas and water component was particularly distinct, from 0.7% year-on-year in the second quarter to 6.1% in the third quarter, thanks to the special fuel rebate in electricity starting from mid-August. Meanwhile, the secular downtrend in durable goods prices continued with a faster pace of decline, conceivably due to a distinctly lower yen and euro. Price pressures on miscellaneous goods and services also eased further on a broad front amid muted import price pressures and modest economic expansion locally.

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

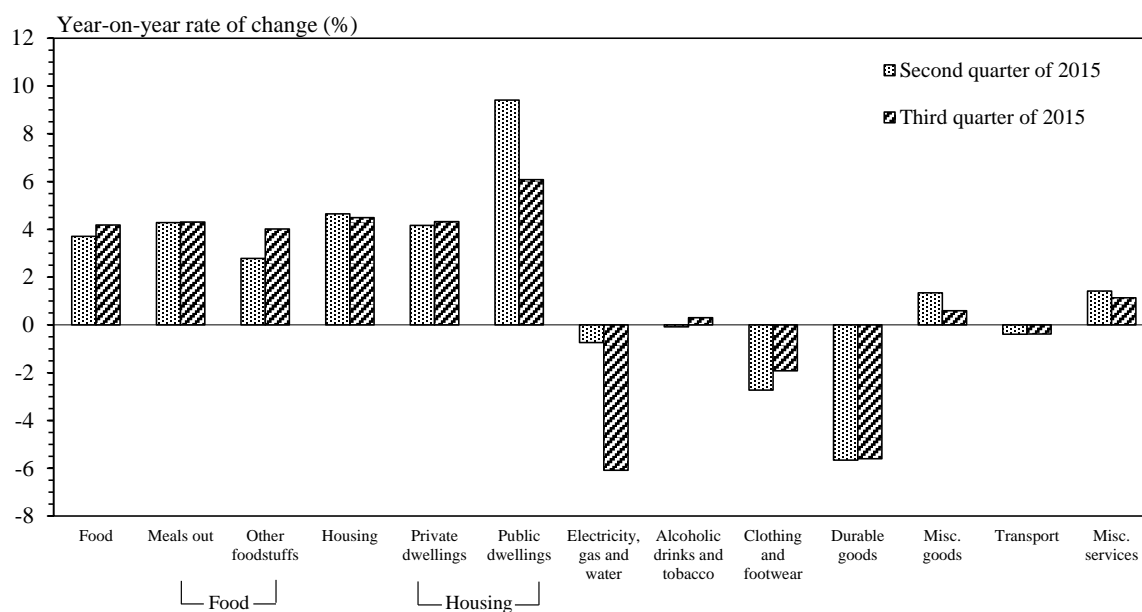
**(a) Food inflation remained moderate in the third quarter of 2015**



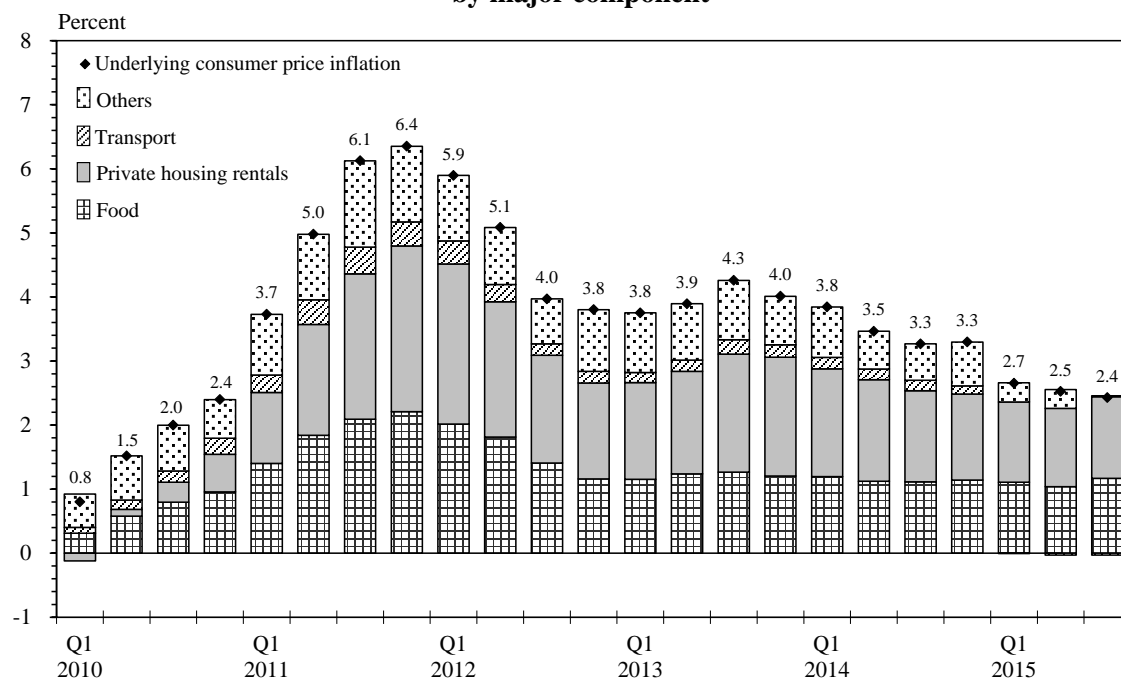
**(b) Rental inflation has been stable in recent period**



**Diagram 6.4 (a) : The price changes in major components in the underlying Composite CPI showed mixed movements**



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



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



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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>Annual</u>	<u>2014</u>				<u>2015</u>		
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Food	27.45	4.1	4.3	4.0	4.0	4.1	4.0	3.7	4.2
<i>Meals bought away from home</i>	17.07	4.6	4.5	4.7	4.6	4.6	4.4	4.3	4.3
<i>Other foodstuffs</i>	10.38	3.4	4.0	3.1	3.1	3.5	3.3	2.8	4.0
Housing <sup>(a)</sup>	31.66	6.7 (5.0)	5.6 (5.3)	5.0 (5.0)	7.6 (4.8)	8.5 (5.0)	8.2 (4.7)	4.2 (4.7)	4.1 (4.5)
<i>Private dwellings</i>	27.14	6.0 (5.2)	6.4 (5.9)	5.6 (5.5)	4.9 (4.9)	7.1 (4.6)	6.8 (4.3)	3.8 (4.2)	3.9 (4.3)
<i>Public dwellings</i>	2.05	18.3 (3.4)	-1.8 (-0.1)	-0.9 (0.4)	101.4 (3.6)	29.0 (9.8)	29.0 (9.8)	10.0 (9.4)	6.4 (6.1)
Electricity, gas and water	3.10	14.9 (2.5)	5.5 (4.4)	3.4 (2.7)	24.9 (1.6)	25.5 (1.3)	21.5 (-1.4)	22.8 (-0.7)	-4.6 (-6.1)
Alcoholic drinks and tobacco	0.59	6.5	3.3	7.6	7.4	7.6	4.3	-0.1	0.3
Clothing and footwear	3.45	0.9	2.1	2.2	0.8	-1.4	-0.8	-2.7	-1.9
Durable goods	5.27	-3.4	-3.3	-2.7	-3.3	-4.4	-5.5	-5.7	-5.6
Miscellaneous goods	4.17	2.3	3.1	2.0	2.4	1.5	1.2	1.3	0.6
Transport	8.44	2.0	2.2	2.1	2.1	1.6	-0.1	-0.4	-0.4
Miscellaneous services	15.87	3.0 (2.3)	4.4 (3.1)	3.2 (2.0)	2.3 (1.9)	2.1 (2.1)	0.8 (0.8)	1.4 (1.4)	1.1 (1.1)
All items	100.00	4.4 (3.5)	4.2 (3.8)	3.6 (3.5)	4.8 (3.3)	5.1 (3.3)	4.4 (2.7)	3.0 (2.5)	2.3 (2.4)

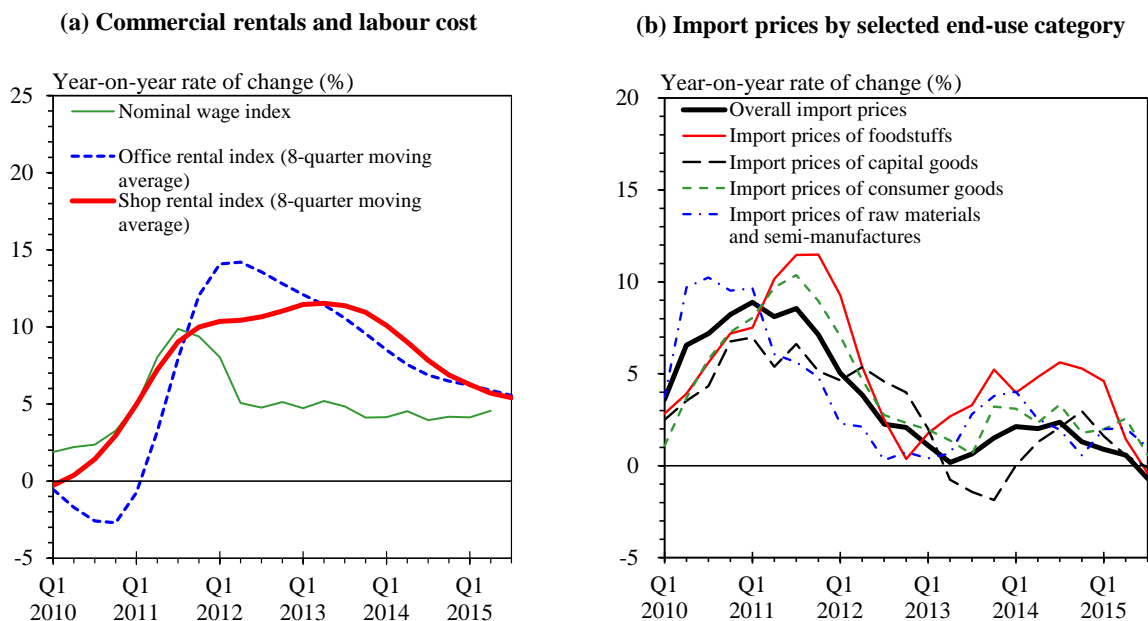
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings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

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

## Costs of factor inputs and import prices

6.4 Domestic cost pressures were generally in check in the third quarter. On labour costs, nominal wage growth held largely steady in the past few quarters. On rental costs, although office and shop rentals rose somewhat faster in recent months, their year-on-year increases, when analysed on an eight-quarter-moving-average basis, were still on a moderating trend.

**Diagram 6.5 : Domestic cost pressures were largely in check, while imported inflation abated further**



6.5 Imported inflation pressures receded faster in the third quarter, on the back of the fall-off in international commodity prices, tame inflation in major import sources, and strength of the US dollar. Overall import prices declined by 0.7% over a year earlier in the third quarter, down from the 0.6% rise in the second quarter, and marking the fourth consecutive quarter of deceleration. Analysed by end-use category, the easing of import price pressures was generally broad-based.

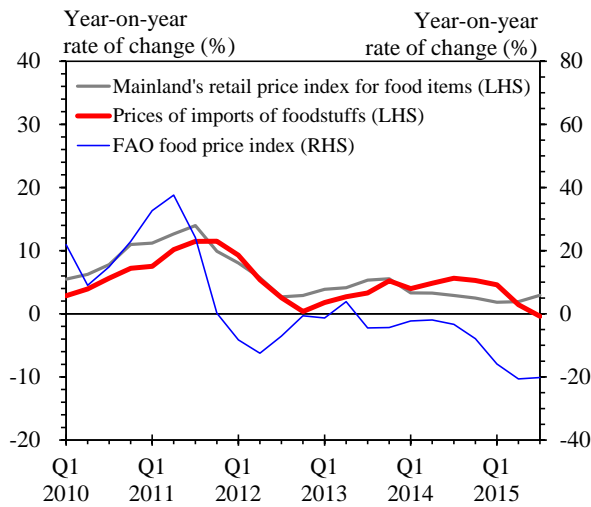
**Table 6.3 : Prices of imports by end-use category  
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2014	Annual	4.9	2.6	2.2	-6.1	1.7	1.9
	H1	4.4	2.7	3.2	-2.2	0.7	2.1
	H2	5.4	2.6	1.3	-9.9	2.5	1.8
	Q1	4.0	3.1	4.0	-3.1	*	2.1
	Q2	4.8	2.3	2.5	-1.2	1.3	2.0
	Q3	5.6	3.3	2.0	-1.4	2.1	2.4
	Q4	5.3	1.8	0.6	-17.4	3.0	1.3
2015	H1	3.0	2.3	2.0	-32.0	1.1	0.7
	Q1	4.6	2.0	2.0	-32.8	1.6	0.9
	Q2	1.4	2.6	2.0	-31.2	0.6	0.6
	Q3	-0.4	0.6	1.0	-39.2	-0.1	-0.7

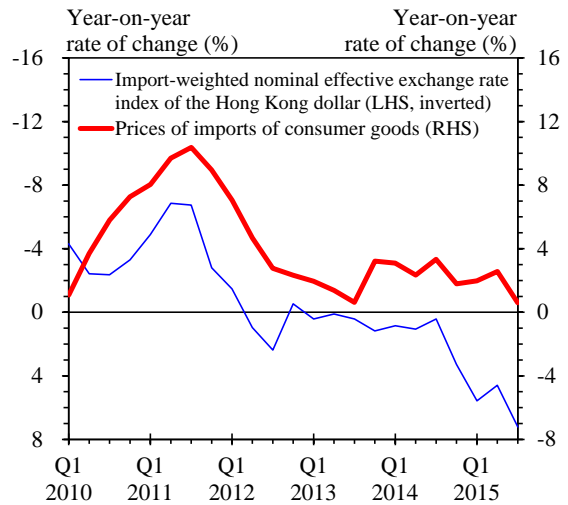
Note : (\*) Change within  $\pm 0.05\%$ .

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

(a) Import prices of food declined slightly

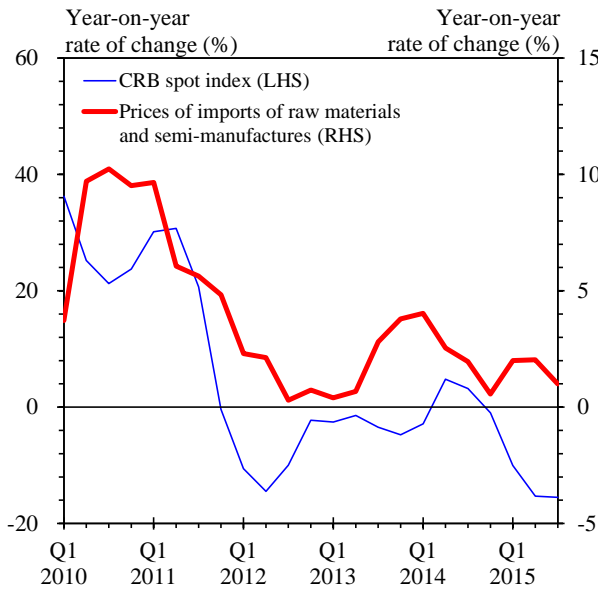


(b) Rise in import prices of consumer goods slowed

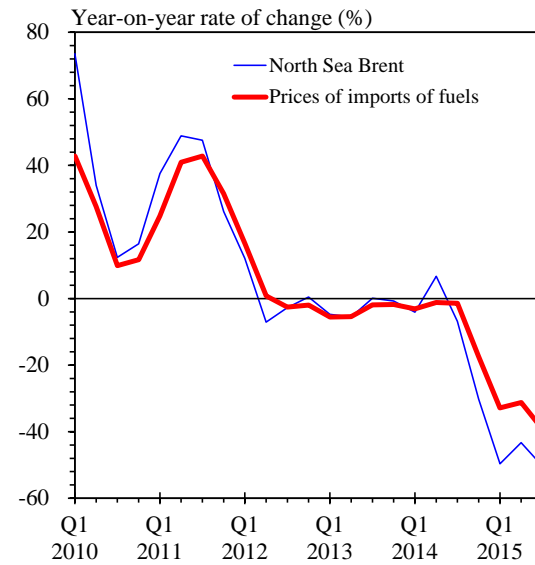


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Import prices of raw materials and semi-manufactures also decelerated



(d) Import prices of fuels continued to fall visibly



## Output prices

6.6 Output prices, as measured by the *Producer Price Indices*<sup>(3)</sup>, showed varied movements in the second quarter of 2015. For the manufacturing sector, the year-on-year decline in output prices widened to 2.8%. As for the selected service sectors, the output prices for accommodation services fell more notably by 5.4% over a year earlier, conceivably due to a more competitive pricing strategy adopted amid the slowdown in inbound tourism. Alongside the subdued regional trade flows and the recent faltering of our merchandise trade, the year-on-year declines in output prices for water and air transport accelerated and land transport also saw a slower increase in output prices. Separately, the output prices for courier services rose somewhat faster, possibly reflecting the increasing popularity of internet purchases. Meanwhile, the output prices for telecommunications services continued to stay on its secular downtrend, due to cost reduction from technological advancement and intense competition in the sector.

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

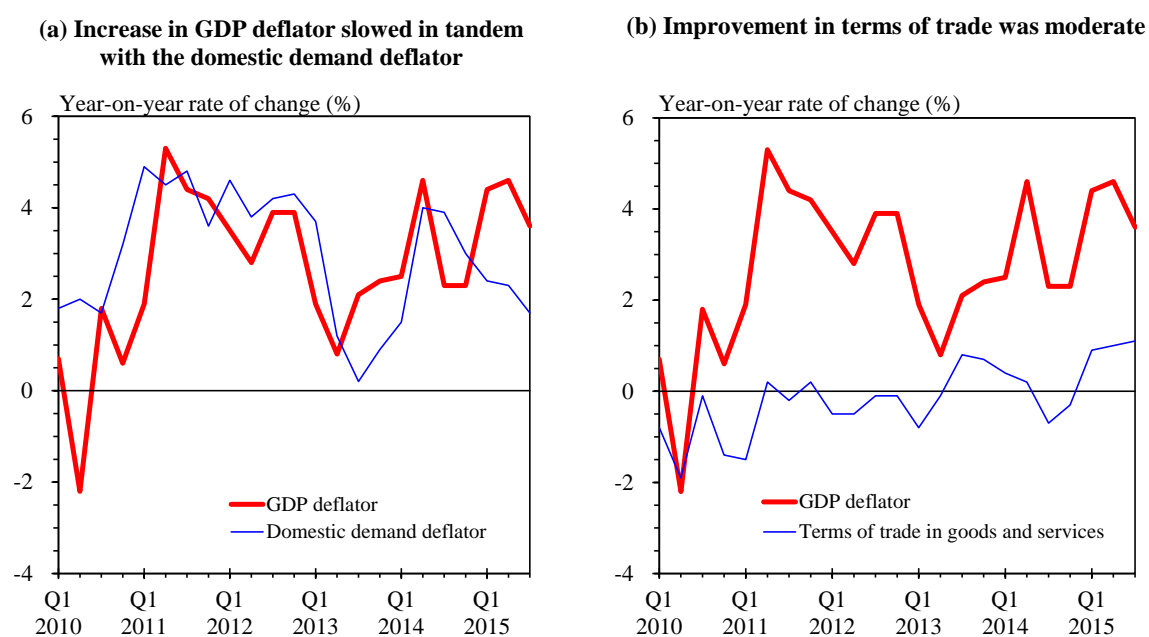
<u>Industry group</u>	<u>Annual</u>	<u>2014</u>				<u>2015</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Manufacturing	-1.7	-6.2	-0.4	1.3	-1.2	-0.6	-2.8
Selected service sectors <sup>(a)</sup>							
Accommodation services	2.1	2.2	3.9	4.0	-1.3	-1.6	-5.4
Land transport	2.8	2.5	3.0	2.9	3.0	2.9	2.3
Water transport	0.8	-2.9	-0.6	2.5	4.6	-0.2	-3.5
Air transport	-0.7	-0.6	-1.8	1.9	-2.2	-3.4	-7.9
Telecommunications	-3.7	-2.9	-3.4	-4.2	-4.2	-3.9	-4.4
Courier services	1.7	1.9	1.4	0.9	2.5	4.2	4.8

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

## GDP deflator

6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*<sup>(4)</sup> rose by 3.6% in the third quarter of 2015 over a year earlier, having increased by 4.5% in the first half of 2015. Within the GDP deflator, the *terms of trade*<sup>(5)</sup> continued to improve modestly amid the strength of the US dollar. Taken out the external components, the domestic demand deflator increased mildly by 1.7% year-on-year, moderated from 2.3% in the previous quarter.

Diagram 6.7 : GDP deflator



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

	<u>2013</u>		<u>2014</u>				<u>2015</u>		
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>+</sup></u>
Private consumption expenditure	2.8	2.7	2.7	3.3	3.2	1.8	1.6	1.8	0.7
Government consumption expenditure	4.3	4.7	4.0	5.2	4.9	4.8	4.7	4.5	4.3
Gross domestic fixed capital formation	-2.8	3.6	-2.3	4.6	5.2	6.0	3.3	3.3	4.2
Total exports of goods	-0.3	0.8	-0.1	0.1	1.9	1.0	0.6	0.2	-1.1
Imports of goods	-0.4	0.9	-0.5	-0.2	2.5	1.5	-0.1	-0.8	-2.1
Exports of services	0.6	0.8	0.3	0.8	1.5	0.6	*	-0.9	-2.2
Imports of services	1.1	1.0	0.5	2.6	2.6	-1.2	-3.2	-2.3	-4.6
<b>Gross Domestic Product</b>	<b>1.9</b>	<b>2.9</b>	<b>2.5</b> <0.1>	<b>4.6</b> <1.2>	<b>2.3</b> <0.4>	<b>2.3</b> <0.6>	<b>4.4</b> <2.3>	<b>4.6</b> <1.3>	<b>3.6</b> <-0.6>
Total final demand	0.4	1.5	0.5	1.4	2.5	1.6	1.1	0.8	-0.4
Domestic demand	1.5	3.1	1.5	4.0	3.9	3.0	2.4	2.3	1.7
Terms of trade in goods and services	0.2	-0.1	0.4	0.2	-0.7	-0.3	0.9	1.0	1.1

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

(#) Revised figures.

(+) Preliminary figures.

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

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

## Notes :

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

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

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

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

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



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

	<u>2013</u>		<u>2014</u>				<u>2015</u>		
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Selected developed economies									
US	1.5	1.6	1.4	2.1	1.8	1.2	-0.1	*	0.1
Canada	0.9	2.0	1.4	2.2	2.1	1.9	1.1	0.9	1.2
EU	1.5	0.6	0.8	0.7	0.5	0.2	-0.3	0.1	*
Japan	0.4	2.7	1.5	3.6	3.4	2.5	2.3	0.5	0.2
Major emerging economies									
Mainland China	2.6	2.0	2.3	2.2	2.0	1.5	1.2	1.4	1.7
Russia	6.8	7.8	6.4	7.6	7.7	9.6	16.2	15.8	15.7
India <sup>#</sup>	10.1	6.6	8.2	7.8	6.7	4.1	5.3	5.1	3.9
Brazil	6.2	6.3	5.8	6.4	6.6	6.5	7.7	8.5	9.5
Selected Asian economies									
Hong Kong	4.3	4.4	4.2	3.6	4.8	5.1	4.4	3.0	2.3
Singapore	2.4	1.0	1.0	2.2	1.0	*	-0.3	-0.4	-0.6
Taiwan	0.8	1.2	0.8	1.6	1.5	0.8	-0.6	-0.7	-0.3
Korea	1.3	1.3	1.1	1.6	1.4	1.0	0.6	0.5	0.7
Malaysia	2.1	3.1	3.5	3.3	3.0	2.8	0.7	2.2	3.0
Thailand	2.2	1.9	2.0	2.5	2.0	1.1	-0.5	-1.1	-1.1
Indonesia	6.4	6.4	7.8	7.1	4.4	6.5	6.5	7.1	7.1
Philippines	3.0	4.1	4.1	4.4	4.7	3.6	2.4	1.7	0.6
Vietnam	6.6	4.1	4.8	4.7	4.3	2.6	0.7	1.0	0.5
Macao	5.5	6.0	6.1	6.2	5.9	6.0	5.1	4.8	4.5

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

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

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



## Statistical Appendix

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

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

Definition of Terms :

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

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

	(\$Mn)							
	<u>2011</u>	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>	<u>2014</u> Q4 <sup>#</sup>	Q1 <sup>#</sup>	<u>2015</u> Q2 <sup>#</sup>	Q3 <sup>#</sup>
Private consumption expenditure	1,224,402	1,314,969	1,413,515	1,498,453	394,337	387,990	403,866	385,343
Government consumption expenditure	168,517	185,310	199,033	214,758	54,622	59,096	55,584	57,847
Gross domestic fixed capital formation	455,294	517,411	515,901	533,522	154,854	133,328	138,063	128,069
<i>of which:</i>								
Building and construction	179,341	204,860	211,125	237,545	64,327	62,955	64,114	63,440
Machinery, equipment and intellectual property products	239,854	278,477	265,387	252,010	78,029	56,946	61,440	53,926
Changes in inventories	11,739	-3,662	-2,326	7,863	1,209	-5,981	-9,407	-6,836
Total exports of goods <sup>&amp;</sup>	3,420,076	3,591,776	3,816,390	3,877,458	1,031,262	879,271	916,423	982,454
Imports of goods <sup>&amp;</sup>	3,848,200	4,116,410	4,394,928	4,471,810	1,183,466	1,028,254	1,066,653	1,077,763
Exports of services <sup>&amp;</sup>	941,178	1,003,047	1,058,289	1,076,435	287,218	265,844	244,859	269,061
Imports of services <sup>&amp;</sup>	438,576	455,382	467,214	481,044	127,370	117,708	116,933	122,725
<b>GDP</b>	<b>1,934,430</b>	<b>2,037,059</b>	<b>2,138,660</b>	<b>2,255,635</b>	<b>612,666</b>	<b>573,586</b>	<b>565,802</b>	<b>615,450</b>
<i>Per capita GDP (\$)</i>	<i>273,549</i>	<i>284,720</i>	<i>297,553</i>	<i>311,479</i>	--	--	--	--
<b>GNI</b>	<b>1,987,256</b>	<b>2,066,514</b>	<b>2,179,179</b>	<b>2,316,409</b>	<b>626,666</b>	<b>579,176</b>	<b>594,905</b>	<b>N.A.</b>
<i>Per capita GNI (\$)</i>	<i>281,019</i>	<i>288,837</i>	<i>303,190</i>	<i>319,871</i>	--	--	--	--
Total final demand	6,221,206	6,608,851	7,000,802	7,208,489	1,923,502	1,719,548	1,749,388	1,815,938
Total final demand excluding re-exports <sup>(a)</sup>	3,433,559	3,655,325	3,861,495	4,014,918	1,073,480	991,543	990,963	1,002,733
Domestic demand	1,859,952	2,014,028	2,126,123	2,254,596	605,022	574,433	588,106	564,423
Private	1,614,010	1,737,274	1,827,874	1,927,050	518,443	483,835	504,426	478,819
Public	245,942	276,754	298,249	327,546	86,579	90,598	83,680	85,604
External demand	4,361,254	4,594,823	4,874,679	4,953,893	1,318,480	1,145,115	1,161,282	1,251,515

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

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

(%)

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

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

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

(%)

	<u>2011</u>	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>	<u>2014</u>				<u>2015</u>		Average annual rate of change:	
					Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	10 years 2004 to 2014 <sup>#</sup>	5 years 2009 to 2014 <sup>#</sup>		
Private consumption expenditure	8.4	4.1	4.6	3.2	4.1	5.3	6.1	4.3	4.6	5.3		
Government consumption expenditure	2.5	3.6	3.0	3.0	3.3	3.4	3.3	2.6	2.1	3.1		
Gross domestic fixed capital formation	10.2	6.8	2.6	-0.2	3.4	7.5	5.2	-6.5	3.9	5.3		
<i>of which:</i>												
Building and construction	15.7	7.2	-4.3	6.5	7.6	-3.3	13.4	4.2	1.5	6.0		
Machinery, equipment and intellectual property products	12.3	10.2	11.3	-6.5	-0.4	14.4	-1.3	-10.5	6.2	6.5		
Total exports of goods <sup>&amp;</sup>	3.5	1.9	6.5	0.8	0.6	0.4	-3.6	-3.2	4.3	5.8		
Imports of goods <sup>&amp;</sup>	4.7	3.0	7.2	0.9	1.1	0.1	-3.2	-4.1	5.0	6.6		
Exports of services <sup>&amp;</sup>	5.5	2.2	4.9	0.9	-0.3	*	0.9	-1.3	6.8	5.5		
Imports of services <sup>&amp;</sup>	3.5	1.9	1.5	1.9	1.1	6.1	3.6	4.1	4.8	3.9		
<b>GDP</b>	<b>4.8</b>	<b>1.7</b>	<b>3.1</b>	<b>2.5</b>	<b>2.4</b>	<b>2.4</b>	<b>2.8</b>	<b>2.3</b>	<b>3.9</b>	<b>3.8</b>		
<i>Per capita GDP</i>	<i>4.1</i>	<i>0.5</i>	<i>2.6</i>	<i>1.7</i>	--	--	--	--	<b>3.2</b>	<b>3.0</b>		
<b>RGNI</b>	<b>4.8</b>	<b>-0.2</b>	<b>4.0</b>	<b>3.1</b>	<b>1.8</b>	<b>4.1</b>	<b>4.9</b>	<b>N.A.</b>	<b>3.3</b>	<b>3.0</b>		
<i>Per capita RGNI</i>	<i>4.1</i>	<i>-1.3</i>	<i>3.5</i>	<i>2.3</i>	--	--	--	--	<b>2.6</b>	<b>2.3</b>		
Total final demand	4.7	2.5	5.5	1.4	1.5	1.3	-0.9	-1.6	4.6	5.5		
Total final demand excluding re-exports <sup>(a)</sup>	5.6	3.2	4.5	2.0	2.4	1.6	0.9	-0.4	4.5	5.1		
Domestic demand	6.5	3.9	4.0	2.8	4.1	3.2	2.9	1.4	4.2	4.9		
Private	6.7	3.6	4.1	2.5	3.6	4.2	2.0	1.0	4.4	4.7		
Public	5.5	5.8	3.8	4.9	7.0	-1.7	9.3	3.6	2.9	6.0		
External demand	3.9	1.9	6.2	0.8	0.4	0.3	-2.7	-2.8	4.8	5.8		

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

	<u>2010</u>		<u>2011</u>		<u>2012</u>		<u>2013</u> <sup>#</sup>		<u>2014</u> <sup>#</sup>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture, fishing, mining and quarrying	948	0.1	944	*	1,114	0.1	1,225	0.1	1,496	0.1
Manufacturing	30,410	1.8	30,578	1.6	30,600	1.5	30,156	1.4	28,061	1.3
Electricity, gas and water supply, and waste management	34,486	2.0	33,877	1.8	35,382	1.8	35,119	1.7	35,595	1.6
Construction	56,531	3.3	65,484	3.4	73,445	3.6	83,288	4.0	94,104	4.3
Services	1,614,922	93.0	1,770,166	93.1	1,872,498	93.0	1,947,670	92.9	2,044,746	92.8
<i>Import/export, wholesale and retail trades</i>	413,308	23.8	492,900	25.9	511,537	25.4	523,647	25.0	534,696	24.3
<i>Accommodation<sup>(a)</sup> and food services</i>	56,418	3.2	66,421	3.5	72,044	3.6	75,413	3.6	78,697	3.6
<i>Transportation, storage, postal and courier services</i>	137,941	7.9	120,034	6.3	120,609	6.0	125,465	6.0	138,084	6.3
<i>Information and communications</i>	55,024	3.2	62,952	3.3	70,866	3.5	76,145	3.6	77,697	3.5
<i>Financing and insurance</i>	283,752	16.3	305,282	16.1	319,312	15.9	345,952	16.5	366,108	16.6
<i>Real estate, professional and business services</i>	188,476	10.8	213,987	11.3	232,416	11.5	225,667	10.8	239,395	10.9
<i>Public administration, social and personal services</i>	295,257	17.0	313,585	16.5	337,678	16.8	356,215	17.0	378,203	17.2
<i>Ownership of premises</i>	184,745	10.6	195,005	10.3	208,036	10.3	219,166	10.4	231,865	10.5
<b>GDP at basic prices</b>	<b>1,737,298</b>	<b>100.0</b>	<b>1,901,049</b>	<b>100.0</b>	<b>2,013,038</b>	<b>100.0</b>	<b>2,097,458</b>	<b>100.0</b>	<b>2,204,002</b>	<b>100.0</b>
Taxes on products	68,707	--	69,401	--	63,575	--	75,314	--	83,574	--
Statistical discrepancy (%)	-1.7	--	-1.9	--	-1.9	--	-1.6	--	-1.4	--
<b>GDP at current market prices</b>	<b>1,776,332</b>	<b>--</b>	<b>1,934,430</b>	<b>--</b>	<b>2,037,059</b>	<b>--</b>	<b>2,138,660</b>	<b>--</b>	<b>2,255,635</b>	<b>--</b>

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

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

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

(--) Not applicable.

(\*) Less than 0.05%.



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

	(%)									
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>	<u>2014</u>		<u>2015</u>	
							Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Agriculture, fishing, mining and quarrying	-4.6	3.9	0.8	-3.2	4.9	-4.0	*	-3.6	-1.0	-0.4
Manufacturing	-8.2	3.3	0.7	-0.8	0.1	-0.4	-1.7	-3.6	-1.5	-1.2
Electricity, gas and water supply, and waste management	1.5	-0.2	0.6	1.4	-2.9	2.5	4.2	0.6	-0.1	2.1
Construction	-7.5	15.6	18.3	8.3	4.2	8.3	5.4	10.1	-5.1	13.6
Services	-1.7	6.9	5.2	1.8	2.7	2.4	2.9	2.5	2.4	1.5
<i>Import/export, wholesale and retail trades</i>	-9.5	16.7	9.1	1.9	3.2	0.9	2.2	0.7	0.4	-3.3
<i>Accommodation<sup>(a)</sup> and food services</i>	-11.3	9.5	8.3	1.8	3.6	2.6	3.6	0.2	-0.7	-1.1
<i>Transportation, storage, postal and courier services</i>	-5.5	6.0	7.2	0.9	4.1	5.2	3.9	3.3	2.4	1.2
<i>Information and communications</i>	1.3	1.5	2.8	2.8	4.0	3.9	3.3	3.7	5.9	4.0
<i>Financing and insurance</i>	4.1	6.3	6.5	0.8	7.6	4.0	5.5	6.8	4.5	7.5
<i>Real estate, professional and business services</i>	1.6	2.5	2.6	3.1	-4.0	3.2	3.5	3.7	4.6	2.4
<i>Public administration, social and personal services</i>	3.0	2.2	1.8	2.1	2.5	2.3	2.0	2.0	2.8	2.1
<i>Ownership of premises</i>	0.3	0.8	0.7	1.1	0.3	0.8	0.6	0.6	0.3	0.3
Taxes on products	-4.8	6.3	-6.8	-10.4	-6.4	6.7	22.7	11.4	13.4	30.7
<b>GDP in chained (2013) dollars</b>	<b>-2.5</b>	<b>6.8</b>	<b>4.8</b>	<b>1.7</b>	<b>3.1</b>	<b>2.5</b>	<b>2.9</b>	<b>2.4</b>	<b>2.4</b>	<b>2.8</b>

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

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

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

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

	(\$Mn)								
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>	<u>2014</u>		<u>2015</u>	
						Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Current account <sup>(a)</sup>	124,369	107,513	32,151	32,180	42,172	39,713	16,701	-913	2,000
Goods	25,564	-58,203	-146,729	-216,592	-233,693	-23,970	-45,499	-70,853	-74,332
Services	78,789	132,681	169,760	229,129	234,732	57,085	53,143	70,006	52,028
Primary income	37,596	52,826	29,455	40,519	60,774	11,663	14,000	5,590	29,103
Secondary income	-17,580	-19,791	-20,336	-20,876	-19,642	-5,065	-4,943	-5,656	-4,799
Capital and financial account <sup>(a)</sup>	-88,838	-113,242	-67,664	-86,308	-96,437	-69,064	-45,297	-27,600	-28,538
Capital account	-4,436	-2,021	-1,433	-1,609	-753	-35	-483	-76	176
Financial account	-84,402	-111,220	-66,231	-84,699	-95,684	-69,029	-44,814	-27,524	-28,714
Financial non-reserve assets	-25,257	-24,437	122,658	-26,810	43,405	-1,008	-18,152	8,763	47,941
<i>Direct investment</i>	-122,026	1,868	-102,623	-50,250	-305,870	-230,273	-76,296	181,512	560,529
<i>Portfolio investment</i>	-442,460	-10,979	-31,592	-386,077	157,089	245,436	-23,327	-282,841	-395,165
<i>Financial derivatives</i>	18,677	20,884	15,208	54,661	103,939	12,597	49,475	53,114	33,548
<i>Other investment</i>	520,552	-36,210	241,665	354,856	88,247	-28,769	31,995	56,979	-150,971
Reserve assets	-59,145	-86,783	-188,889	-57,890	-139,089	-68,021	-26,662	-36,288	-76,655
Net errors and omissions	-35,530	5,729	35,513	54,128	54,265	29,351	28,597	28,513	26,538
<b>Overall Balance of Payments</b>	<b>59,145</b>	<b>86,783</b>	<b>188,889</b>	<b>57,890</b>	<b>139,089</b>	<b>68,021</b>	<b>26,662</b>	<b>36,288</b>	<b>76,655</b>

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

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

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

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

	(\$Mn)								
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>	<u>2014</u>	<u>2015</u>	<u>2015</u>	<u>2015</u>
						Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
Total exports of goods	3,068,444	3,420,076	3,591,776	3,816,390	3,877,458	1,031,262	879,271	916,423	982,454
Imports of goods	3,395,057	3,848,200	4,116,410	4,394,928	4,471,810	1,183,466	1,028,254	1,066,653	1,077,763
<b>Goods trade balance</b>	<b>-326,613</b>	<b>-428,124</b>	<b>-524,634</b>	<b>-578,538</b>	<b>-594,352</b>	<b>-152,204</b>	<b>-148,983</b>	<b>-150,230</b>	<b>-95,309</b>
	<b>&lt;-9.6&gt;</b>	<b>&lt;-11.1&gt;</b>	<b>&lt;-12.7&gt;</b>	<b>&lt;-13.2&gt;</b>	<b>&lt;-13.3&gt;</b>	<b>&lt;-12.9&gt;</b>	<b>&lt;-14.5&gt;</b>	<b>&lt;-14.1&gt;</b>	<b>&lt;-8.8&gt;</b>
Exports of services	829,044	941,178	1,003,047	1,058,289	1,076,435	287,218	265,844	244,859	269,061
Imports of services	398,078	438,576	455,382	467,214	481,044	127,370	117,708	116,933	122,725
<b>Services trade balance</b>	<b>430,966</b>	<b>502,602</b>	<b>547,665</b>	<b>591,075</b>	<b>595,391</b>	<b>159,848</b>	<b>148,136</b>	<b>127,926</b>	<b>146,336</b>
	<b>&lt;108.3&gt;</b>	<b>&lt;114.6&gt;</b>	<b>&lt;120.3&gt;</b>	<b>&lt;126.5&gt;</b>	<b>&lt;123.8&gt;</b>	<b>&lt;125.5&gt;</b>	<b>&lt;125.9&gt;</b>	<b>&lt;109.4&gt;</b>	<b>&lt;119.2&gt;</b>
Exports of goods and services	3,897,488	4,361,254	4,594,823	4,874,679	4,953,893	1,318,480	1,145,115	1,161,282	1,251,515
Imports of goods and services	3,793,135	4,286,776	4,571,792	4,862,142	4,952,854	1,310,836	1,145,962	1,183,586	1,200,488
<b>Goods and services trade balance</b>	<b>104,353</b>	<b>74,478</b>	<b>23,031</b>	<b>12,537</b>	<b>1,039</b>	<b>7,644</b>	<b>-847</b>	<b>-22,304</b>	<b>51,027</b>
	<b>&lt;2.8&gt;</b>	<b>&lt;1.7&gt;</b>	<b>&lt;0.5&gt;</b>	<b>&lt;0.3&gt;</b>	<b>&lt; * &gt;</b>	<b>&lt;0.6&gt;</b>	<b>&lt;-0.1&gt;</b>	<b>&lt;-1.9&gt;</b>	<b>&lt;4.3&gt;</b>

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

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

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>	<u>2014</u>	<u>2015</u>		
						Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
<b><u>At current market prices (\$Mn)</u></b>									
Total exports of goods	3,021,492	3,406,765	3,632,957	3,926,059	4,026,818	1,084,265	914,192	942,470	1,025,274
Imports of goods	2,995,928	3,464,968	3,779,686	4,142,651	4,260,511	1,129,764	985,045	1,016,802	1,025,737
<b>Goods trade balance</b>	<b>25,564</b> <b>(0.9)</b>	<b>-58,203</b> <b>(-1.7)</b>	<b>-146,729</b> <b>(-3.9)</b>	<b>-216,592</b> <b>(-5.2)</b>	<b>-233,693</b> <b>(-5.5)</b>	<b>-45,499</b> <b>(-4.0)</b>	<b>-70,853</b> <b>(-7.2)</b>	<b>-74,332</b> <b>(-7.3)</b>	<b>-463</b> <b>&lt; * &gt;</b>
Exports of services	625,719	710,716	764,026	812,345	822,367	210,323	210,302	192,446	201,553
Imports of services	546,930	578,035	594,266	583,216	587,635	157,180	140,296	140,418	150,063
<b>Services trade balance</b>	<b>78,789</b> <b>(14.4)</b>	<b>132,681</b> <b>(23.0)</b>	<b>169,760</b> <b>(28.6)</b>	<b>229,129</b> <b>(39.3)</b>	<b>234,732</b> <b>(39.9)</b>	<b>53,143</b> <b>(33.8)</b>	<b>70,006</b> <b>(49.9)</b>	<b>52,028</b> <b>(37.1)</b>	<b>51,490</b> <b>(34.3)</b>
Exports of goods and services	3,647,211	4,117,481	4,396,983	4,738,404	4,849,185	1,294,588	1,124,494	1,134,916	1,226,827
Imports of goods and services	3,542,858	4,043,003	4,373,952	4,725,867	4,848,146	1,286,944	1,125,341	1,157,220	1,175,800
<b>Goods and services trade balance</b>	<b>104,353</b> <b>&lt;2.9&gt;</b>	<b>74,478</b> <b>&lt;1.8&gt;</b>	<b>23,031</b> <b>&lt;0.5&gt;</b>	<b>12,537</b> <b>&lt;0.3&gt;</b>	<b>1,039</b> <b>&lt; * &gt;</b>	<b>7,644</b> <b>&lt;0.6&gt;</b>	<b>-847</b> <b>&lt;-0.1&gt;</b>	<b>-22,304</b> <b>&lt;-1.9&gt;</b>	<b>51,027</b> <b>&lt;4.3&gt;</b>
<b><u>Rates of change in real terms (%)</u></b>									
Total exports of goods	18.0	4.6	3.3	8.2	1.9	1.0	1.0	-3.5	-3.1
Imports of goods	19.9	6.7	4.6	9.9	2.0	1.7	0.7	-3.3	-4.2
Exports of services	15.3	5.7	2.7	5.9	0.7	-0.7	0.3	1.7	-0.9
Imports of services	10.0	-0.2	2.2	-2.1	0.4	0.1	4.7	3.3	3.5

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

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

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

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

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

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

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>	<u>2015</u>		
	(% change)				(% change)		Q4	Q1	Q2	Q3
					(\$Mn)		(% change over a year earlier)			
<b>All markets</b>	<b>22.8</b>	<b>10.1</b>	<b>2.9</b>	<b>3.6</b>	<b>3.2</b>	<b>3,672,751</b>	<b>1.2</b>	<b>2.3</b>	<b>-1.9</b>	<b>-4.1</b>
Mainland of China	26.5	9.3	6.3	4.9	1.5	1,979,016	-2.0	1.6	-3.7	-4.2
United States	16.4	-0.4	2.3	-2.1	3.1	341,456	6.9	4.8	5.5	-2.3
Japan	17.2	5.9	6.5	-6.1	-2.8	131,505	-8.0	-7.2	-7.1	-6.0
India	42.4	25.6	-17.5	7.9	13.1	94,224	7.1	7.5	3.2	5.2
Taiwan	25.4	24.3	-5.2	-4.3	2.5	79,297	3.1	-11.6	-21.0	-25.5
Germany	1.6	10.7	-12.8	-5.1	-1.7	72,588	-5.3	-3.4	-4.5	-1.2
Vietnam	33.9	37.3	9.9	15.5	14.0	66,803	17.3	16.9	23.0	16.7
Republic of Korea	24.4	14.2	-4.0	9.0	-2.7	62,384	-13.6	-5.2	-14.0	-17.7
Singapore	20.7	10.3	-0.5	4.7	2.2	59,850	3.6	5.6	0.7	-7.7
United Kingdom	1.9	-3.4	-6.0	-2.0	0.5	54,301	-2.8	8.8	4.0	-5.0
Rest of the world	20.9	15.1	0.6	5.7	8.5	731,327	9.7	4.9	0.7	-4.2

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

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>	<u>2015</u>		
	(% change)			(% change)		(\$Mn)	Q4	Q1	Q2	Q3
							(% change over a year earlier)			
<b>All sources</b>	<b>25.0</b>	<b>11.9</b>	<b>3.9</b>	<b>3.8</b>	<b>3.9</b>	<b>4,219,046</b>	<b>3.2</b>	<b>1.4</b>	<b>-3.2</b>	<b>-6.7</b>
Mainland of China	22.4	10.9	8.5	5.5	2.3	1,986,964	3.1	4.3	0.4	-2.3
Taiwan	28.0	7.2	1.6	6.9	14.7	300,278	12.6	-0.1	-12.1	-12.1
Japan	30.4	3.4	-2.2	-8.1	0.9	288,891	-3.7	-2.4	-12.0	-10.9
Singapore	35.9	7.2	-3.2	*	5.8	260,801	1.9	-0.7	-5.4	-8.7
United States	26.0	18.0	-3.3	7.4	*	219,599	-4.5	4.9	3.8	-7.9
Republic of Korea	29.8	12.2	2.4	3.4	10.6	175,537	15.8	8.9	-0.7	-0.6
Malaysia	24.5	5.1	-6.0	4.7	16.7	102,191	3.9	-6.0	-11.0	-4.8
India	36.5	20.6	-5.5	6.7	10.0	96,088	28.1	-6.6	-6.5	-17.8
Thailand	32.5	0.3	-4.8	6.4	13.7	88,132	10.7	-4.7	-0.4	-4.2
Switzerland	26.3	51.7	-0.7	-1.7	2.7	79,291	2.3	-9.9	-24.9	-21.1
Rest of the world	19.2	20.2	5.8	3.8	0.9	621,274	-0.6	-1.9	-3.4	-14.2

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

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

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>	<u>2015</u>		
	(% change)			(% change)		(\$Mn)	Q4	Q1	Q2	Q3
							(% change over a year earlier)			
<b>Overall</b>	<b>27.3</b>	<b>17.3</b>	<b>3.0</b>	<b>4.5</b>	<b>5.1</b>	<b>1,160,441</b>	<b>7.7</b>	<b>-1.4</b>	<b>-6.9</b>	<b>-14.5</b>
Foodstuffs	17.0	18.8	5.1	14.7	10.1	145,042	8.1	9.3	-10.4	-22.0
Consumer goods	33.8	36.0	5.9	1.0	6.7	285,941	8.1	-10.8	-8.9	-18.1
Raw materials and semi-manufactures	32.3	0.2	-6.5	11.4	15.4	393,920	20.2	-10.5	-8.7	-19.6
Fuels	33.8	21.9	-4.2	-2.7	-10.8	117,798	-21.6	-17.4	-18.6	-24.6
Capital goods	12.9	27.3	19.0	-1.5	-5.7	217,886	7.5	38.2	7.0	10.9

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

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>		<u>2014</u>	<u>2015</u>		
	(% change)			(% change)		(\$Mn)	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>23.2</b>	<b>13.5</b>	<b>6.6</b>	<b>5.5</b>	<b>1.7</b>	<b>1,076,435</b>	<b>0.3</b>	*	*	-3.4
Transportation	26.3	7.8	-0.6	-2.5	1.2	245,406	-1.4	-4.5	-7.9	-8.1
Travel	35.6	28.4	15.8	17.7	-1.5	297,567	-2.9	-4.1	-3.3	-8.6
Trade-related	18.0	11.0	3.9	2.1	3.3	296,611	3.0	1.0	-0.6	-2.8
Other services	16.4	10.1	9.0	4.6	4.4	236,851	2.7	8.0	15.0	6.9
<b>Imports of services</b>	<b>17.3</b>	<b>10.2</b>	<b>3.8</b>	<b>2.6</b>	<b>3.0</b>	<b>481,044</b>	<b>-0.2</b>	<b>2.7</b>	<b>1.3</b>	<b>-0.7</b>
Transportation	20.7	14.3	2.3	-1.4	1.7	142,987	-1.8	-1.3	-2.8	-6.5
Travel	11.9	9.8	5.2	5.7	3.8	170,838	0.5	6.5	1.7	2.6
Trade-related	21.6	1.1	1.7	-2.7	3.0	33,805	1.1	1.9	1.7	-1.5
Other services	19.5	8.7	4.6	4.8	3.2	133,414	0.3	2.5	5.6	1.9
<b>Net exports of services</b>	<b>29.2</b>	<b>16.6</b>	<b>9.0</b>	<b>7.9</b>	<b>0.7</b>	<b>595,391</b>	<b>0.8</b>	<b>-2.0</b>	<b>-1.1</b>	<b>-5.6</b>

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

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

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

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

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>		<u>2014</u>	<u>2015</u>		
	(% change)			(% change)		(\$Mn)	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>24.8</b>	<b>13.6</b>	<b>7.5</b>	<b>6.3</b>	<b>1.2</b>	<b>822,367</b>	<b>-0.6</b>	<b>-0.2</b>	<b>0.2</b>	<b>-3.6</b>
Transportation	26.3	7.8	-0.6	-2.5	1.2	245,406	-1.4	-4.5	-7.9	-8.1
Travel	35.6	28.4	15.8	17.7	-1.5	297,567	-2.9	-4.1	-3.3	-8.6
Other services	16.2	8.1	8.3	3.5	4.3	279,394	2.7	7.1	12.7	5.3
<b>Imports of services</b>	<b>15.5</b>	<b>5.7</b>	<b>2.8</b>	<b>-1.9</b>	<b>0.8</b>	<b>587,635</b>	<b>-1.5</b>	<b>1.1</b>	<b>0.6</b>	<b>-1.3</b>
Transportation	20.7	14.3	2.3	-1.4	1.7	142,987	-1.8	-1.3	-2.8	-6.5
Travel	11.9	9.8	5.2	5.7	3.8	170,838	0.5	6.5	1.7	2.6
Other services	15.1	0.1	1.9	-6.0	-1.5	273,810	-2.4	-0.7	1.8	-1.1

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

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

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



**Table 11 : Incoming visitors by source**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u> Q4	Q1	<u>2015</u> Q2	Q3
<u>('000)</u>									
<b>All sources</b>	<b>36 030.3</b>	<b>41 921.3</b>	<b>48 615.1</b>	<b>54 298.8</b>	<b>60 838.8</b>	<b>16 179.7</b>	<b>15 420.7</b>	<b>13 906.6</b>	<b>15 097.1</b>
Mainland of China	22 684.4	28 100.1	34 911.4	40 745.3	47 247.7	12 585.3	12 283.1	10 563.5	11 904.9
South and Southeast Asia	3 500.9	3 751.1	3 651.8	3 718.0	3 614.8	1 003.2	737.0	940.3	795.4
Taiwan	2 164.8	2 148.7	2 088.7	2 100.1	2 031.9	484.8	465.9	491.1	543.2
Europe	1 757.8	1 801.3	1 867.7	1 893.7	1 863.3	523.6	450.7	438.3	396.7
United States	1 171.4	1 212.3	1 184.8	1 109.8	1 130.6	307.2	274.5	308.9	263.9
Japan	1 316.6	1 283.7	1 254.6	1 057.0	1 078.8	264.8	248.2	237.5	279.4
Others	3 434.5	3 623.9	3 656.1	3 674.9	3 871.9	1 010.9	961.4	927.0	913.7
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>21.8</b>	<b>16.4</b>	<b>16.0</b>	<b>11.7</b>	<b>12.0</b>	<b>12.1</b>	<b>4.9</b>	<b>0.5</b>	<b>-6.4</b>
Mainland of China	26.3	23.9	24.2	16.7	16.0	18.2	7.7	1.4	-7.3
South and Southeast Asia	21.3	7.1	-2.6	1.8	-2.8	-10.1	-12.9	-3.4	0.5
Taiwan	7.7	-0.7	-2.8	0.5	-3.2	-8.5	-5.1	-1.9	-2.2
Europe	9.1	2.5	3.7	1.4	-1.6	-3.7	-6.4	-3.5	-1.9
United States	9.5	3.5	-2.3	-6.3	1.9	-0.5	3.8	4.1	0.6
Japan	9.3	-2.5	-2.3	-15.7	2.1	-5.9	-9.5	-6.5	-2.2
Others	20.3	5.5	0.9	0.5	5.4	0.1	3.0	-1.0	-7.9

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

**Table 12 : Property market**

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

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

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

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

(b) These include retail premises and other premises designed or adapted for commercial use, with the exception of purpose-built offices. Car-parking space and commercial premises built by the Hong Kong Housing Authority and the Hong Kong Housing Society are excluded.

(c) These include industrial-cum-office premises, but exclude specialised factory buildings which are developed mainly for own use.

(d) These include storage premises at the container terminals and the airport.

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u> Q4	Q1	<u>2015</u> Q2	Q3
<b>Completion of new property by the private sector</b>							
('000 m <sup>2</sup> of internal floor area)							
Residential property <sup>(a)</sup> (in units)	10 149	8 254	15 719	3 535	853	4 217	2 862
Commercial property	226	161	161	66	60	93	20
<i>of which :</i>							
Office space	136	123	104	44	43	74	5
Other commercial premises <sup>(b)</sup>	90	39	57	22	17	18	16
Industrial property <sup>(c)</sup>	170	85	116	80	3	0	24
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	46	85	36	0	3	0	24
Storage premises <sup>(d)</sup>	123	0	80	80	0	0	0
<b>Production of public housing</b>							
(in units)							
Rental housing flats <sup>(e)</sup>	9 778	20 898	5 634	1 078	7 870	1 710	N.A.
Subsidised sales flats <sup>(e)</sup>	0	0	0	0	0	988	N.A.
<b>Building plans with consent to commence work in the private sector</b>							
('000 m <sup>2</sup> of usable floor area)							
Residential property	796.4	816.0	647.1	201.4	294.9	193.5	N.A.
Commercial property	210.2	309.5	290.3	18.0	88.3	45.5	N.A.
Industrial property <sup>(f)</sup>	70.7	138.1	105.9	85.1	16.6	27.3	N.A.
Other properties	428.9	136.4	217.1	63.9	134.6	120.9	N.A.
Total	1 506.1	1 400.1	1 260.4	368.5	534.3	387.3	N.A.
<b>Agreements for sale and purchase of property</b>							
(Number)							
Residential property <sup>(g)</sup>	81 333	50 676	63 807	17 046	16 768	15 493	13 552
Primary market	12 968	11 046	16 857	4 615	3 743	4 989	3 488
Secondary market	68 365	39 630	46 950	12 431	13 025	10 504	10 064
Selected types of non-residential properties <sup>(h)</sup>							
Office space	3 269	1 685	1 271	323	413	501	326
Other commercial premises	7 282	4 305	3 092	696	557	501	598
Flatted factory space	9 731	4 271	3 016	826	934	990	776

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

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

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

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

N.A. Not yet available.

**Table 13 : Property prices and rentals**

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

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

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

For residential property, changes in rentals cover only new tenancies for which rentals are freshly determined. For non-residential property, changes in rentals cover also lease renewals upon which rentals may be revised.

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

(+) Provisional figures.

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u> Q4	Q1	<u>2015</u> Q2 <sup>#</sup>	Q3 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	206.2	242.4	256.9	274.3	289.2	299.2	305.0
Office space	334.7	409.8	423.0	428.7	433.8	445.2	460.0
Shopping space	420.5	506.8	521.2	541.3	551.7	562.1	571.2
Flatted factory space	489.8	655.4	668.0	683.5	699.2	722.7	740.8
Property rental indices <sup>(b)</sup> :							
Residential flats	142.6	154.5	159.5	165.3	168.5	172.8	176.2
Office space	188.3	204.1	213.7	217.7	220.8	225.7	228.8
Shopping space	151.3	165.5	173.1	176.4	180.2	182.4	185.1
Flatted factory space	131.9	147.3	160.1	165.8	169.2	173.0	177.1
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	13.2	17.6	6.0	11.9	18.4	20.8	16.7
Office space	12.4	22.4	3.2	3.5	4.0	5.8	8.2
Shopping space	28.4	20.5	2.8	7.0	9.1	9.4	8.9
Flatted factory space	27.2	33.8	1.9	4.2	7.0	9.1	10.1
Property rental indices <sup>(b)</sup> :							
Residential flats	6.4	8.3	3.2	5.4	8.5	10.3	9.5
Office space	10.8	8.4	4.7	4.6	5.6	6.4	6.0
Shopping space	12.7	9.4	4.6	5.1	6.4	5.7	6.3
Flatted factory space	11.2	11.7	8.7	9.2	9.9	9.4	8.9

**Table 14 : Monetary aggregates**

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

**Definition of Terms :**

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

**Total Money Supply:**

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

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u> Q4	Q1	<u>2015</u> Q2	Q3
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	920,920	1,000,344	1,116,675	1,116,675	1,309,831	1,287,541	1,265,500
M2 <sup>(a)</sup>	4,537,384	4,795,130	5,225,773	5,225,773	5,601,316	5,775,051	5,737,756
M3 <sup>(a)</sup>	4,545,590	4,806,012	5,236,188	5,236,188	5,611,762	5,787,815	5,749,793
Total money supply (\$Mn)							
M1	1,377,359	1,510,895	1,708,724	1,708,724	1,941,490	1,916,960	2,018,828
M2	8,950,005	10,056,437	11,011,372	11,011,372	11,345,002	11,436,355	11,446,308
M3	8,970,396	10,085,243	11,048,944	11,048,944	11,378,200	11,469,057	11,482,065
Deposit (\$Mn)							
HK\$	4,176,200	4,390,953	4,800,330	4,800,330	5,157,194	5,337,591	5,303,602
Foreign currency	4,120,234	4,789,109	5,272,804	5,272,804	5,245,803	5,214,208	5,355,677
Total	8,296,434	9,180,062	10,073,135	10,073,135	10,402,997	10,551,799	10,659,279
Loans and advances (\$Mn)							
HK\$	3,333,059	3,606,018	4,000,361	4,000,361	4,285,405	4,264,938	4,156,159
Foreign currency	2,233,751	2,850,795	3,275,910	3,275,910	3,341,972	3,410,819	3,403,881
Total	5,566,810	6,456,813	7,276,271	7,276,271	7,627,377	7,675,757	7,560,040
Nominal Effective Exchange Rate Indices							
<u>(Jan 2010 =100)<sup>(b)</sup></u>							
Trade-weighted	94.9	94.9	96.0	97.4	100.1	100.0	102.0
Import-weighted	94.2	94.7	96.0	97.7	100.4	100.2	102.5
Export-weighted	95.6	95.1	95.9	97.2	99.7	99.6	101.4
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	15.9	8.6	11.6	11.6	29.2	19.1	15.0
M2 <sup>(a)</sup>	12.1	5.7	9.0	9.0	15.2	12.3	10.1
M3 <sup>(a)</sup>	12.1	5.7	9.0	9.0	15.2	12.4	10.1
Total money supply							
M1	22.2	9.7	13.1	13.1	27.5	17.7	20.3
M2	11.1	12.4	9.5	9.5	11.8	7.9	4.9
M3	11.0	12.4	9.6	9.6	11.8	7.9	4.9
Deposit							
HK\$	11.7	5.1	9.3	9.3	16.0	13.3	10.8
Foreign currency	7.0	16.2	10.1	10.1	10.6	6.4	4.3
Total	9.3	10.7	9.7	9.7	13.2	9.8	7.5
Loans and advances							
HK\$	5.5	8.2	10.9	10.9	14.3	9.7	6.1
Foreign currency	16.3	27.6	14.9	14.9	8.6	7.1	3.3
Total	9.6	16.0	12.7	12.7	11.7	8.5	4.9
Nominal Effective Exchange Rate Indices							
<u>(Jan 2010 =100)<sup>(b)</sup></u>							
Trade-weighted	0.3	0.0	1.2	3.0	5.3	4.4	6.6
Import-weighted	0.3	0.5	1.4	3.3	5.6	4.6	7.2
Export-weighted	0.2	-0.5	0.8	2.6	4.9	3.9	5.8

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

(b) Period average.

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

(%)

	2011	2012	2013	2014	2014		2015	
					Q3	Q4	Q1	Q2
<b>Services Industry</b>								
Import and export trade	8.9	-1.3	-0.3	0.1	0.8	-0.9	0.7	-3.9
Wholesale	12.7	3.2	4.3	1.5	-1.7	1.4	0.3	-2.9
Retail	24.9	9.8	11.0	-0.2	1.6	0.2	-2.3	-0.9
Transportation	4.4	0.9	1.4	6.1	7.4	4.0	1.8	-3.8
<i>within which :</i>								
Land transport	7.0	11.9	8.0	6.9	7.9	3.5	6.3	5.0
Water transport	0.6	-2.4	-2.9	6.8	7.3	6.1	1.7	-4.6
Air transport	6.7	0.3	2.4	5.3	7.2	2.9	0.5	-6.1
Warehousing and storage	9.4	25.2	8.2	11.9	7.8	18.8	13.1	12.8
Courier	17.3	16.1	26.1	5.4	-15.9	8.3	-3.8	-3.3
Accommodation services <sup>(a)</sup>	19.6	13.8	5.6	6.5	9.6	-1.4	-4.8	-10.9
Food services	6.4	5.0	3.5	3.5	4.9	1.8	3.7	4.9
Information and communications	8.8	9.3	6.0	5.9	8.1	15.2	11.0	12.2
<i>within which :</i>								
Telecommunications	8.1	14.7	8.0	10.7	12.9	21.8	24.4	23.7
Film entertainment	-5.6	1.9	-4.3	-11.7	-13.5	-11.0	-0.5	-3.2
Banking	10.8	9.4	16.8	5.9	11.3	3.1	7.2	27.8
Financing (except banking)	-2.4	1.6	2.6	6.7	18.6	14.8	23.2	44.7
<i>within which :</i>								
Financial markets and asset management	-3.2	1.7	1.0	8.9	23.1	19.2	21.6	48.6
<i>within which : Asset management</i>	10.6	-5.4	14.9	11.0	14.4	19.2	17.4	16.0
Insurance	9.4	13.6	15.1	18.2	17.3	14.1	15.3	10.9
Real estate	-0.9	11.8	0.1	17.0	25.7	18.1	15.9	13.4
Professional, scientific and technical services	7.3	-0.5	7.2	7.6	7.9	9.4	9.0	3.8
Administrative and support services	10.2	8.2	9.5	7.3	5.6	2.5	6.9	7.7
<b>Services Domain</b>								
Tourism, convention and exhibition services	23.8	15.1	17.8	-0.9	-2.6	-2.8	-5.0 <sup>+</sup>	-4.2 <sup>+</sup>
Computer and information technology services	10.4	15.1	2.1	-1.8	0.4	-0.6	-4.3	-6.6

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

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

(+) Provisional figures.



**Table 16 : Labour force characteristics**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>		<u>2015</u>	
						Q4	Q1	Q2	Q3
<u>(%)</u>									
Labour force participation rate	59.6	60.1	60.5	61.2	61.1	61.3	61.5	61.4	61.4
Seasonally adjusted unemployment rate <sup>(a)</sup>	4.3	3.4	3.3	3.4	3.3	3.3	3.3	3.2	3.3
Underemployment rate	2.0	1.7	1.5	1.5	1.5	1.6	1.4	1.4	1.4
<u>('000)</u>									
Population of working age	6 093.8	6 164.4	6 253.4	6 304.6	6 349.2	6 368.2	6 386.2	6 387.2	6 407.8
Labour force	3 631.3	3 703.1	3 785.2	3 858.8	3 876.4	3 904.4	3 928.4	3 921.5	3 932.1
Persons employed	3 474.1	3 576.4	3 660.7	3 728.0	3 749.2	3 781.8	3 801.1	3 791.6	3 796.2
Persons unemployed	157.2	126.7	124.5	130.8	127.2	122.6	127.3	129.9	135.8
Persons underemployed	72.5	63.3	57.6	58.2	56.5	62.7	53.5	55.6	53.4
<u>(% change over a year earlier)</u>									
Population of working age	1.2	1.2	1.4	0.8	0.7	0.6	0.9	0.6	0.8
Labour force	-0.8	2.0	2.2	1.9	0.5	1.0	2.7	1.6	0.7
Persons employed	0.2	2.9	2.4	1.8	0.6	0.9	2.6	1.6	0.7
Persons unemployed	-18.4	-19.4	-1.8	5.1	-2.7	3.3	7.2	1.8	0.8
Persons underemployed	-13.5	-12.7	-9.0	1.1	-3.0	13.0	10.6	-4.2	-6.2

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

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

Selected major industries	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>			<u>2015</u>	(No.)
	(% change)					Sep	Dec	Mar	Jun	
						(% change over a year earlier)				
Manufacturing	-4.5	-5.6	-5.1	-3.0	-1.2	-1.2	-2.1	-3.1	-2.6	99 601
Construction sites (manual workers only)	9.6	13.2	13.8	11.2	4.4	12.7	7.8	16.9	16.4	92 808
Import and export trade	0.9	-0.3	-1.1	-0.2	0.1	0.5	0.8	-0.6	-1.5	484 416
Wholesale	1.2	*	-0.6	-2.0	-0.3	0.8	-0.7	-1.0	-1.9	61 303
Retail	3.3	4.0	2.5	2.3	2.2	1.9	1.4	0.6	-0.7	269 868
Food and beverage services	3.7	6.6	1.6	0.9	2.4	2.7	3.3	1.1	0.1	243 124
Accommodation services <sup>(a)</sup>	1.5	5.8	9.2	5.0	3.2	1.7	*	-0.4	-1.7	39 625
Transportation, storage, postal and courier services	1.5	2.0	1.8	2.0	2.7	2.6	2.9	2.8	1.1	176 508
Information and communications	1.3	3.4	5.6	5.1	2.7	2.2	1.9	1.2	1.4	104 941
Financing and insurance	4.8	6.3	1.9	1.0	2.3	1.8	1.8	2.8	2.7	219 678
Real estate	4.1	8.0	4.2	1.6	0.6	0.6	1.8	2.2	2.2	129 461
Professional and business services (excluding cleaning and similar services)	2.2	4.2	3.4	4.5	2.7	1.8	1.5	2.6	2.7	281 898
Cleaning and similar services	13.7	9.5	3.3	1.6	0.2	*	0.3	2.9	2.8	81 233
Education	3.4	1.5	2.4	2.8	4.4	4.4	6.0	5.0	3.5	190 701
Human health services	3.0	4.1	4.9	5.2	4.3	3.7	4.6	4.6	4.5	115 216
Residential care and social work services	1.8	1.3	2.0	0.5	0.6	0.9	2.4	2.7	2.4	60 583
Arts, entertainment, recreation and other services	5.0	2.8	0.6	1.6	5.9	5.4	6.4	2.3	1.9	128 695
Civil service <sup>(b)</sup>	0.5	0.7	1.1	1.3	1.0	0.9	0.6	0.5	0.6	163 787
Others <sup>(c)</sup>	3.1	-0.6	-5.1	3.5	3.1	1.6	0.8	-1.3	-1.6	10 871

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

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

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

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

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

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>		<u>2015</u>	
						Sep	Dec	Mar	Jun
<u>(Number)</u>									
Building sites									
Private sector	28 620	31 780	37 687	41 308	44 024	45 658	44 971	47 272	48 769
Public sector <sup>(a)</sup>	11 463	12 335	10 578	9 860	11 212	11 911	14 219	15 662	15 275
Sub-total	40 083	44 115	48 265	51 168	55 236	57 569	59 190	62 934	64 044
Civil engineering sites									
Private sector	1 544	1 250	1 410	1 322	1 414	1 416	1 140	1 418	2 117
Public sector <sup>(a)</sup>	13 714	17 270	21 621	26 813	26 145	27 549	26 013	27 526	26 647
Sub-total	15 258	18 520	23 030	28 135	27 559	28 965	27 153	28 944	28 764
<b>Total</b>	<b>55 341</b>	<b>62 635</b>	<b>71 295</b>	<b>79 303</b>	<b>82 795</b>	<b>86 534</b>	<b>86 343</b>	<b>91 878</b>	<b>92 808</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-0.5	11.0	18.6	9.6	6.6	15.7	5.3	8.2	16.7
Public sector <sup>(a)</sup>	11.5	7.6	-14.2	-6.8	13.7	40.0	67.5	78.3	53.8
Sub-total	2.6	10.1	9.4	6.0	8.0	20.0	15.6	20.0	23.8
Civil engineering sites									
Private sector	-4.6	-19.0	12.8	-6.2	7.0	-5.9	-27.8	-5.9	32.9
Public sector <sup>(a)</sup>	39.5	25.9	25.2	24.0	-2.5	0.8	-4.6	11.9	0.9
Sub-total	33.3	21.4	24.4	22.2	-2.0	0.4	-5.9	10.9	2.7
<b>Total</b>	<b>9.6</b>	<b>13.2</b>	<b>13.8</b>	<b>11.2</b>	<b>4.4</b>	<b>12.7</b>	<b>7.8</b>	<b>16.9</b>	<b>16.4</b>

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

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

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

(%)

Selected industry section	2010	2011	2012	2013	2014	2014		2015	
						Q3	Q4	Q1	Q2
<b>(in nominal terms)</b>									
Manufacturing	2.3	7.7	8.2	3.3	5.3	5.4	6.5	6.3	5.0
Import/export and wholesale trade	2.0	12.8	4.6	3.3	2.8	3.4	2.6	3.5	4.6
Retail trade	3.9	12.0	10.1	6.7	4.2	2.3	3.0	4.0	3.7
Transportation, storage, postal and courier services	4.0	4.1	1.2	5.4	3.3	3.4	2.3	3.1	4.8
Accommodation <sup>(a)</sup> and food service activities	3.4	9.5	6.2	6.7	5.2	5.1	4.7	5.7	5.8
Information and communications	2.5	7.5	8.2	5.4	5.1	5.2	5.0	5.1	5.9
Financial and insurance activities	6.5	12.4	4.7	4.6	6.3	5.7	4.0	4.3	5.1
Real estate activities	1.8	10.8	7.7	5.9	4.7	3.1	5.4	4.5	5.5
Professional and business services	2.2	2.1	4.7	7.1	6.9	6.1	7.0	6.7	5.6
Social and personal services	-2.4	3.2	7.6	3.6	1.6	-1.3	0.9	8.4	4.0
<b>All selected industry sections surveyed</b>	<b>2.1</b>	<b>7.8</b>	<b>6.5</b>	<b>5.4</b>	<b>4.3</b>	<b>3.4</b>	<b>3.9</b>	<b>4.8</b>	<b>4.6</b>
<b>(in real terms)</b>									
Manufacturing	0.1	2.1	3.9	-0.8	0.8	0.6	1.3	1.8	2.0
Import/export and wholesale trade	-0.3	7.2	0.4	-1.0	-1.6	-1.4	-2.4	-0.9	1.5
Retail trade	1.5	6.3	5.7	2.3	-0.2	-2.4	-1.9	-0.4	0.7
Transportation, storage, postal and courier services	1.6	-1.2	-2.7	1.0	-1.1	-1.4	-2.6	-1.2	1.7
Accommodation <sup>(a)</sup> and food service activities	1.0	4.1	2.0	2.3	0.7	0.3	-0.3	1.2	2.7
Information and communications	0.1	2.2	4.0	1.0	0.6	0.4	-0.1	0.7	2.8
Financial and insurance activities	4.1	7.0	0.5	0.4	1.8	0.8	-1.0	-0.1	2.0
Real estate activities	-0.4	5.2	3.6	1.4	0.2	-1.6	0.3	0.1	2.4
Professional and business services	*	-3.1	0.7	2.6	2.3	1.2	1.8	2.2	2.5
Social and personal services	-4.6	-2.1	3.6	-0.8	-2.7	-5.9	-3.9	3.8	1.0
<b>All selected industry sections surveyed</b>	<b>-0.2</b>	<b>2.4</b>	<b>2.3</b>	<b>1.1</b>	<b>-0.1</b>	<b>-1.4</b>	<b>-1.1</b>	<b>0.4</b>	<b>1.6</b>

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

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

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

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

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

	(%)								
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>		<u>2015</u>	
Selected industry section						Sep	Dec	Mar	Jun
<b>(in nominal terms)</b>									
Manufacturing	-1.0	6.7	4.3	4.7	4.9	4.6	5.6	4.4	3.6
Import/export, wholesale and retail trades	2.7	7.7	4.5	2.9	2.5	2.1	3.0	3.0	3.3
Transportation	1.1	4.1	3.3	3.9	4.8	5.0	4.9	4.9	4.6
Accommodation <sup>(a)</sup> and food service activities	2.5	9.4	7.9	5.7	4.7	5.3	4.4	5.4	5.5
Financial and insurance activities <sup>(b)</sup>	2.9	6.7	4.2	4.4	3.2	3.2	3.8	3.4	3.0
Real estate leasing and maintenance management	2.6	8.7	7.6	9.3	4.5	3.1	2.0	2.2	3.9
Professional and business services	3.4	12.9	6.5	5.9	6.7	5.9	6.2	4.9	7.4
Personal services	3.6	10.0	9.2	6.2	7.8	8.3	7.1	7.9	6.3
<b>All industries surveyed</b>	<b>2.5</b>	<b>8.1</b>	<b>5.6</b>	<b>4.7</b>	<b>4.2</b>	<b>4.0</b>	<b>4.2</b>	<b>4.1</b>	<b>4.6</b>
<b>(in real terms)</b>									
Manufacturing	-3.6	0.9	0.6	-0.2	-1.6	-6.9	-1.2	-2.0	-0.7
Import/export, wholesale and retail trades	-0.2	2.4	0.6	-1.7	-4.0	-9.1	-3.7	-3.3	-1.1
Transportation	-1.6	-1.2	-0.7	-0.6	-2.0	-6.5	-1.8	-1.6	0.2
Accommodation <sup>(a)</sup> and food service activities	-0.4	3.9	3.8	1.1	-1.8	-6.2	-2.3	-1.1	1.1
Financial and insurance activities <sup>(b)</sup>	0.3	1.4	0.1	*	-3.7	-8.1	-2.9	-2.9	-1.4
Real estate leasing and maintenance management	-0.4	3.5	3.4	4.5	-1.9	-8.2	-4.6	-4.1	-0.5
Professional and business services	0.6	7.0	2.2	1.4	*	-5.7	-0.6	-1.5	2.9
Personal services	0.7	4.2	5.3	1.5	1.0	-3.5	0.2	1.3	1.8
<b>All industries surveyed</b>	<b>-0.4</b>	<b>2.7</b>	<b>1.6</b>	<b>0.1</b>	<b>-2.4</b>	<b>-7.4</b>	<b>-2.5</b>	<b>-2.3</b>	<b>0.1</b>

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

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

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

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

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

(HK\$)

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

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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

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

(HK\$)

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

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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

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

(%)

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

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

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

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

(--) Not applicable.

N.A. Not yet available.



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

(%)

	<u>2013</u>	<u>2014</u>	<u>2014</u>				<u>Average annual rate of change:</u>		
			Q4	Q1	Q2	Q3	10 years		5 years
							2004 to 2014	2009 to 2014	
GDP deflator <sup>#</sup>	1.9	2.9	2.3	4.4	4.6	3.6	1.6	2.5	
Domestic demand deflator <sup>#</sup>	1.5	3.1	3.0	2.4	2.3	1.7	2.2	3.1	
Consumer Price Indices <sup>(a)</sup> :									
Composite CPI	4.3	4.4	5.1	4.4	3.0	2.3	3.0	4.1	
CPI(A)	5.1	5.6	7.0	6.5	4.2	2.8	3.0	4.5	
CPI(B)	4.1	4.2	4.6	3.9	2.7	2.3	3.0	4.0	
CPI(C)	3.8	3.5	3.4	2.6	1.9	1.8	2.9	3.7	
Unit Value Indices :									
Domestic exports	2.5	0.2	-0.7	-1.5	-2.7	-4.3	2.2	3.2	
Re-exports	1.3	2.0	2.3	2.1	1.4	-0.4	2.9	3.9	
Total exports of goods	1.3	2.0	2.2	2.0	1.3	-0.4	2.9	3.8	
Imports of goods	0.9	1.9	1.3	0.9	0.6	-0.7	3.2	4.1	
Terms of Trade Index	0.4	0.1	0.9	1.1	0.7	0.3	-0.3	-0.2	
Producer Price Index for all manufacturing industries <sup>(b)</sup>	-3.1	-1.7	-1.2	-0.6	-2.7	N.A.	--	1.8	
Tender Price Indices :									
Public sector									
building projects	6.6	7.3	7.1	6.8	6.9	N.A.	9.0	9.2	
Public housing projects	9.3	8.0	8.1	8.6	6.8	N.A.	9.9	8.1	

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

(%)

	Weight	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>All items</b>	<b>100.00</b>	<b>1.0</b> <b>(--)</b>	<b>2.0</b> <b>(--)</b>	<b>2.0</b> <b>(2.8)</b>	<b>4.3</b> <b>(5.6)</b>	<b>0.5</b> <b>(1.0)</b>	<b>2.4</b> <b>(1.7)</b>	<b>5.3</b> <b>(5.3)</b>
Food	27.45	1.8	1.7	4.3	10.1	1.3	2.4	7.0
<i>Meals bought away from home</i>	17.07	0.9	1.3	2.5	5.9	1.6	1.7	5.2
<i>Food, excluding meals bought away from home</i>	10.38	3.2	2.5	7.1	16.8	0.9	3.5	9.9
Housing <sup>(a)</sup>	31.66	0.1	4.7	2.0	4.1	3.7	0.4	7.2
<i>Private housing rent</i>	27.14	-0.1	5.6	4.0	6.8	3.6	0.9	7.2
<i>Public housing rent</i>	2.05	0.2	0.1	-17.7	-27.2	9.5	-7.8	11.9
Electricity, gas and water	3.10	4.1	2.1	-0.7	-6.5	-25.3	43.3	-4.2
Alcoholic drinks and tobacco	0.59	0.4	-3.7	-1.2	0.1	18.7	3.4	17.1
Clothing and footwear	3.45	2.0	1.0	4.1	0.8	2.7	1.8	6.8
Durable goods	5.27	-3.2	-6.4	-4.7	-2.0	-3.0	-2.7	-3.8
Miscellaneous goods	4.17	1.5	1.7	2.5	5.0	2.3	2.4	3.8
Transport	8.44	1.4	0.7	-0.1	2.5	-0.9	2.0	4.4
Miscellaneous services	15.87	1.0	1.9	1.7	0.8	-2.1	2.0	3.5

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

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

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

(--) Not applicable.

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

(%)										
	Weight	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>	<u>2015</u>			Average annual rate of change:	
					Q4	Q1	Q2	Q3	10 years 2004 to 2014	5 years 2009 to 2014
<b>All items</b>	<b>100.00</b>	<b>4.1</b>	<b>4.3</b>	<b>4.4</b>	<b>5.1</b>	<b>4.4</b>	<b>3.0</b>	<b>2.3</b>	<b>3.0</b>	<b>4.1</b>
		<b>(4.7)</b>	<b>(4.0)</b>	<b>(3.5)</b>	<b>(3.3)</b>	<b>(2.7)</b>	<b>(2.5)</b>	<b>(2.4)</b>	<b>(--)</b>	<b>(3.9)</b>
Food	27.45	5.8	4.4	4.1	4.1	4.0	3.7	4.2	4.3	4.7
<i>Meals bought away from home</i>	17.07	5.4	4.4	4.6	4.6	4.4	4.3	4.3	3.3	4.2
<i>Food, excluding meals bought away from home</i>	10.38	6.5	4.4	3.4	3.5	3.3	2.8	4.0	5.7	5.5
Housing <sup>(a)</sup>	31.66	5.6	6.7	6.7	8.5	8.2	4.2	4.1	4.1	5.3
<i>Private housing rent</i>	27.14	6.8	6.3	6.0	7.1	6.8	3.8	3.9	4.7	5.4
<i>Public housing rent</i>	2.05	-7.1	16.0	18.3	29.0	29.0	10.0	6.4	-1.4	5.6
Electricity, gas and water	3.10	-8.2	6.9	14.9	25.5	21.5	22.8	-4.6	1.3	9.2
Alcoholic drinks and tobacco	0.59	3.0	1.5	6.5	7.6	4.3	-0.1	0.3	4.3	6.1
Clothing and footwear	3.45	3.1	1.7	0.9	-1.4	-0.8	-2.7	-1.9	2.4	2.8
Durable goods	5.27	-1.4	-4.3	-3.4	-4.4	-5.5	-5.7	-5.6	-3.6	-3.2
Miscellaneous goods	4.17	2.2	2.2	2.3	1.5	1.2	1.3	0.6	2.6	2.6
Transport	8.44	3.0	2.3	2.0	1.6	-0.1	-0.4	-0.4	1.7	2.7
Miscellaneous services	15.87	2.8	3.7	3.0	2.1	0.8	1.4	1.1	1.8	3.0

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

(%)

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

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

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

(%)

	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>	<u>2014</u>		<u>2015</u>			Average annual rate of change:	
				Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	10 years 2004 to 2014 <sup>#</sup>	5 years 2009 to 2014 <sup>#</sup>	
Private consumption expenditure	3.2	2.8	2.7	1.8	1.6	1.8	0.7	2.1	2.7	
Government consumption expenditure	6.2	4.3	4.7	4.8	4.7	4.5	4.3	2.5	3.9	
Gross domestic fixed capital formation	6.4	-2.8	3.6	6.0	3.3	3.3	4.2	2.4	3.9	
Total exports of goods	3.1	-0.3	0.8	1.0	0.6	0.2	-1.1	2.3	3.1	
Imports of goods	3.8	-0.4	0.9	1.5	-0.1	-0.8	-2.1	2.7	3.7	
Exports of services	4.3	0.6	0.8	0.6	*	-0.9	-2.2	2.6	4.1	
Imports of services	1.9	1.1	1.0	-1.2	-3.2	-2.3	-4.6	2.2	3.2	
<b>Gross Domestic Product</b>	<b>3.5</b>	<b>1.9</b>	<b>2.9</b>	<b>2.3</b>	<b>4.4</b>	<b>4.6</b>	<b>3.6</b>	<b>1.6</b>	<b>2.5</b>	
Total final demand	3.6	0.4	1.5	1.6	1.1	0.8	-0.4	2.3	3.3	
Domestic demand	4.2	1.5	3.1	3.0	2.4	2.3	1.7	2.2	3.1	

