



# 2015 Economic Background and 2016 Prospects

Government of the Hong Kong  
Special Administrative Region

***2015 ECONOMIC BACKGROUND  
AND  
2016 PROSPECTS***

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HONG KONG SPECIAL ADMINISTRATIVE REGION

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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE IN 2015

### *Summary*

- *The Hong Kong economy grew modestly by 2.4% in 2015, slightly slower than the 2.6% growth in 2014. The global economy, which experienced the slowest growth since 2009 amid heightened financial volatility, posed a severe drag on global trade, thereby dampening Hong Kong's exports. The slowdown in inbound tourism also added pressures. Domestic demand remained the key force propelling economic growth to keep labour market in full employment through the year. As external headwinds grew stronger, domestic demand softened in tandem, causing the economy to ease in the latter part of 2015.*
- *As with other Asian economies, Hong Kong's total exports of goods suffered a setback in 2015, similarly affected by the protracted sluggishness in demand from the advanced markets and its spillovers on Asia's trade flows and production activity.*
- *Exports of services also slackened further to show a marginal decline in 2015. The decline in exports of travel services saw an enlarged fall in the second half of the year, as visitor arrivals weakened distinctly and tourist spending on big-ticket items shrank further. Added to this was the sluggishness in exports of both trade-related and transportation services alongside the lacklustre cargo and trade flows. Partially offsetting these developments, exports of financial and other business services grew solidly, thanks to hectic fund-raising and cross-border financial activities.*
- *The domestic sector expanded further in 2015. However, the growth momentum also eased back somewhat in the second half, following increasing expectation of an imminent interest rate hike and heightened financial market volatility. Private consumption expenditure still grew solidly for 2015 as a whole, underpinned by the broadly stable job and income conditions. Yet, investment expenditure dropped for the second consecutive year, reflecting more cautious investment sentiment during the year.*
- *The labour market remained largely stable, with the unemployment rate staying low at 3.3% in 2015. Wages and earnings attained real improvements. Thanks to the upward adjustment of the Statutory Minimum Wage (SMW) rate since May 2015, low-paid workers enjoyed more appreciable wage growth.*
- *Local stock prices went on a global roller-coaster ride, showing sharp fluctuations during 2015. The Hang Seng Index climbed up to reach a seven-year high in April. Upon the spike in Greek debt crisis, trepidation*

*about the negative spillovers of US interest rate hikes and dimmer global economic outlook, it lost ground subsequently, finishing the year somewhat lower from a year earlier. The local property market was rather active in early 2015, but came under pressure in the latter part of the year, with both trading volume and flat prices coming down in the fourth quarter.*

- *Inflation subsided further, thanks to softer import prices and tamed domestic cost pressures. For 2015 as a whole, underlying inflation averaged 2.5%, marking the fourth consecutive year of easing.*

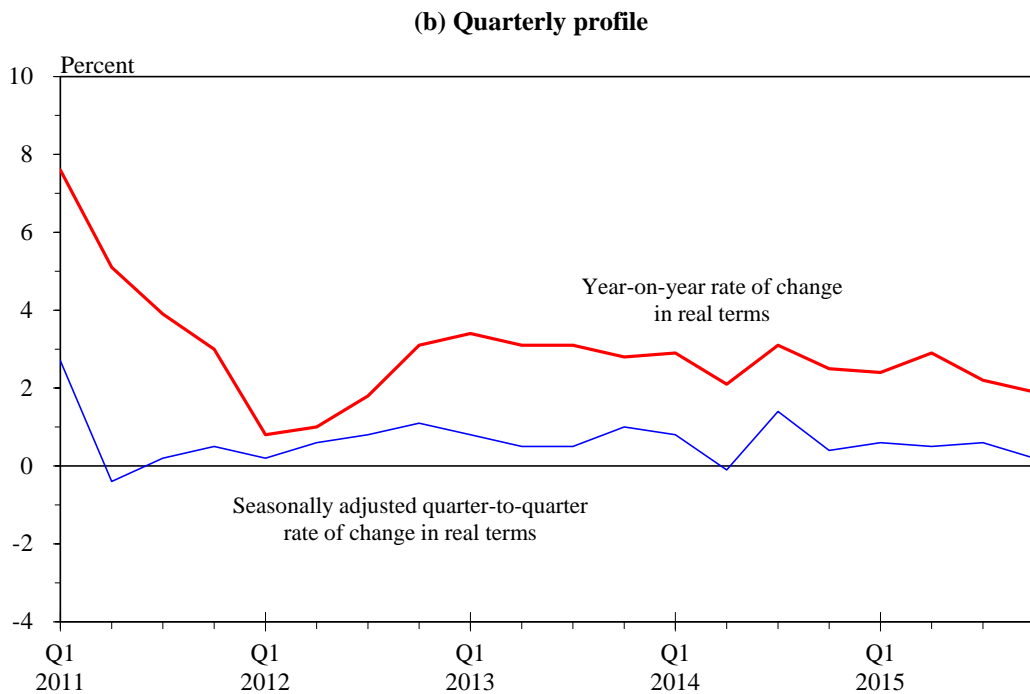
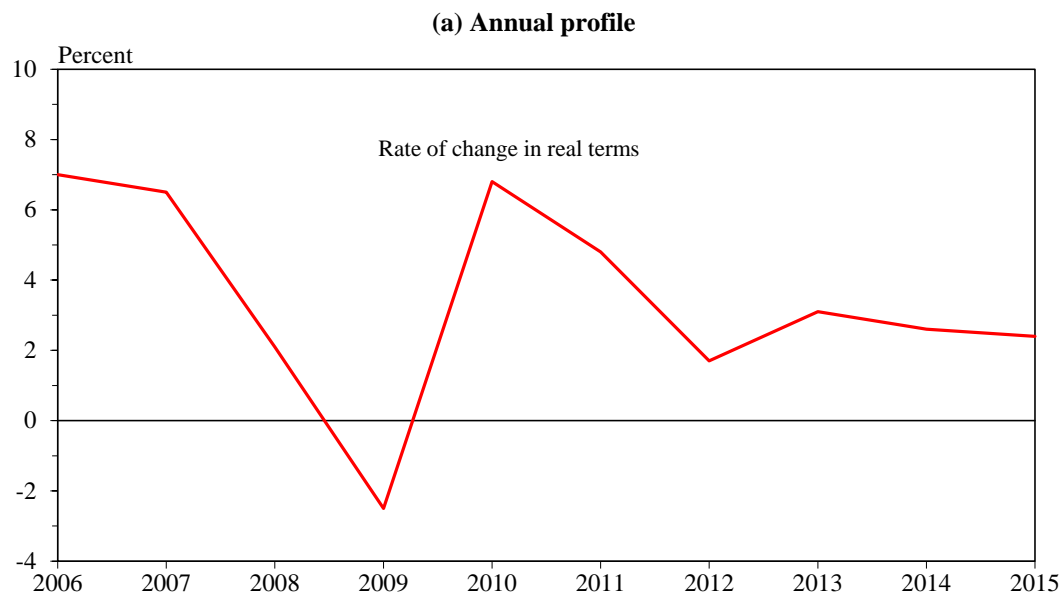
## **Overall situation**

1.1 The Hong Kong economy remained on a modest growth path in 2015, mainly confined by the austere external environment. The global economy decelerated during the year and grew at its slowest pace since the Global Financial Crisis, featured by the slow and uneven recovery of advanced economies, notable downward pressures on emerging market economies and sharp declines in commodity prices. Of particular note were the highly volatile global financial conditions. Following the spike of the Greek debt crisis in the middle of the year, shifting expectations about the timing of US interest rate lift-off amid a subdued global economic picture sparked gyrations in financial and foreign exchange markets in the third quarter, with notable strains on some emerging markets. All these further weighed on global trade flows. Asia's exports generally took a hit in the face of lethargic global demand, with some suffering the worst falls since 2009. Hong Kong's goods exports also weakened in 2015. Likewise, exports of services slackened to decline slightly, dragged mainly by the downdraft in inbound tourism and subdued regional trade and cargo flows. On the other hand, amid stable job and income conditions and sustained rise in private building and construction activity, domestic demand grew further in 2015 and remained the key growth engine, but its momentum also slowed somewhat in the second half of the year due to lingering economic uncertainties. Price pressures receded further on a broad front, with underlying inflation easing in 2015 for the fourth consecutive year.

1.2 For 2015 as a whole, *Gross Domestic Product (GDP)*<sup>(1)</sup> expanded by 2.4% in real terms, following the 2.6% growth in 2014, representing the fourth consecutive year of sub-par growth. In terms of the quarterly profile, the year-on-year growth rate of real GDP picked up from 2.4% in the first quarter to 2.9% in the second quarter, before moderating to 2.2% and 1.9% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter

comparison<sup>(2)</sup>, real GDP grew by 0.6%, 0.5% and 0.6% in the first, second and third quarters respectively, but weakened to a marginal increase of 0.2% in the fourth quarter.

**Diagram 1.1 : The Hong Kong economy continued to expand modestly in 2015**



## **The external sector**

1.3 *Total exports of goods* compiled under the GDP accounting framework slackened visibly, falling by 1.7% in real terms in 2015, after a scant growth of 0.8% in 2014. This was the first annual decline since 2009. The performance of major advanced markets remained subdued. Exports to Japan and the EU were on the decline, alongside the subdued economic activity in both places. The continued feed-through of earlier euro and yen depreciations against the US dollar had to some extent also dampened the import appetite in these markets. Exports to the US, though faring better, registered only a meagre growth for 2015 as a whole, as the market weakened in the second half of the year amid softer economic growth and sagging industrial production. Amid the sluggish global demand, the performance of most other Asian markets also worsened. Apart from the plunge in capital goods intake caused by faltering production activities in Asia, the concurrent economic slowdown and currency depreciations in the region also severely curtailed their import appetite. Exports to higher-income newly industrialised economies (Korea, Taiwan and Singapore combined) saw particularly sharp declines. Exports to the Mainland went down in tandem, and those to some ASEAN emerging markets also lost stream. The exceptions were the Indian and Vietnamese markets, which held up well for the year as a whole despite large quarterly fluctuations for the former.

1.4 In terms of quarterly profile, total exports of goods registered a meagre year-on-year growth of 0.4% in real terms in the first quarter and relapsed to fall in the following quarters, by 3.6%, 3.2% and 0.3% respectively. On a seasonally adjusted quarter-to-quarter comparison, goods exports declined in the first and second quarters, yet resumed growth in the third and fourth quarters.

1.5 *Exports of services* fell slightly by 0.6% in real terms in 2015, marking the first yearly decline since 1998. The key drag stemmed from the enlarged decline in exports of travel services, as visitor arrivals weakened to show the first annual decline since 2003 and as the slack in tourist spending on big-ticket items continued. Meanwhile, exports of trade-related and transportation services were both subdued, dampened by the sluggish regional trade and cargo flows. On the other hand, exports of financial and other business services showed solid growth, supported by hectic fund-raising and cross-border financial activities. In 2015, Hong Kong again resumed the top position as the largest IPO centre in the world.



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

	<u>2014</u> <sup>#</sup>	<u>2015</u> <sup>+</sup>	<u>2014</u>				<u>2015</u>			
			<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>#</sup>	<u>Q3</u> <sup>#</sup>	<u>Q4</u> <sup>#</sup>	<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>#</sup>	<u>Q3</u> <sup>#</sup>	<u>Q4</u> <sup>+</sup>
<i>Change in real terms of GDP and its main expenditure components (%)</i>										
Private consumption expenditure	3.3	4.8	2.2 (0.5)	2.2 (0.3)	4.9 (2.0)	4.1 (1.4)	5.4 (1.5)	6.2 (1.2)	4.3 (0.2)	3.2 (0.3)
Government consumption expenditure	3.0	3.4	2.5 (0.7)	2.6 (1.2)	3.6 (1.2)	3.5 (0.4)	3.9 (1.1)	3.6 (0.7)	2.8 (0.5)	3.5 (1.1)
Gross domestic fixed capital formation	-0.1	-2.2	5.1	-6.1	-2.5	3.8	5.3	3.9	-6.4	-9.7
<i>of which :</i>										
Building and construction	9.3	2.8	14.8	4.2	7.9	9.9	-3.8	14.2	4.1	-1.5
Machinery, equipment and intellectual property products	-8.6	-5.8	-3.6	-12.8	-15.3	-1.4	10.4	-4.8	-10.7	-13.0
Total exports of goods	0.8	-1.7	-0.1 (-1.6)	2.1 (1.0)	0.7 (0.1)	0.6 (0.9)	0.4 (-1.8)	-3.6 (-2.4)	-3.2 (0.4)	-0.3 (2.7)
Imports of goods	0.9	-2.5	1.0 (-1.3)	1.2 (0.1)	0.3 (0.2)	1.1 (2.0)	0.1 (-2.4)	-3.2 (-2.5)	-4.1 (-0.8)	-2.6 (2.3)
Exports of services	1.1	-0.6	4.4 (0.4)	-1.8 (-1.8)	1.6 (0.7)	0.1 (0.9)	0.4 (0.4)	1.0 (-1.0)	-0.9 (-1.2)	-2.7 (-0.9)
Imports of services	2.0	5.1	0.1 (-4.0)	5.4 (3.9)	2.2 (-0.6)	0.4 (1.3)	6.3 (1.6)	3.9 (1.5)	4.7 (0.4)	5.4 (1.8)
<b>Gross Domestic Product</b>	<b>2.6</b>	<b>2.4</b>	<b>2.9</b> <b>(0.8)</b>	<b>2.1</b> <b>(-0.1)</b>	<b>3.1</b> <b>(1.4)</b>	<b>2.5</b> <b>(0.4)</b>	<b>2.4</b> <b>(0.6)</b>	<b>2.9</b> <b>(0.5)</b>	<b>2.2</b> <b>(0.6)</b>	<b>1.9</b> <b>(0.2)</b>
<i>Change in the main price indicators (%)</i>										
<b>GDP deflator</b>	<b>2.9</b>	<b>3.9</b>	<b>2.2</b> <b>(-0.5)</b>	<b>4.7</b> <b>(1.3)</b>	<b>2.2</b> <b>(0.8)</b>	<b>2.6</b> <b>(1.1)</b>	<b>4.5</b> <b>(1.4)</b>	<b>4.6</b> <b>(1.1)</b>	<b>3.7</b> <b>(0.1)</b>	<b>3.0</b> <b>(0.4)</b>
<b>Composite CPI</b>										
<b>Headline</b>	<b>4.4</b>	<b>3.0</b>	<b>4.2</b> <b>(1.0)</b>	<b>3.6</b> <b>(0.8)</b>	<b>4.8</b> <b>(0.4)</b>	<b>5.1</b> <b>(2.8)</b>	<b>4.4</b> <b>(0.4)</b>	<b>3.0</b> <b>(-0.6)</b>	<b>2.3</b> <b>(-0.2)</b>	<b>2.4</b> <b>(2.9)</b>
<b>Underlying<sup>^</sup></b>	<b>3.5</b>	<b>2.5</b>	<b>3.8</b> <b>(1.0)</b>	<b>3.5</b> <b>(0.8)</b>	<b>3.3</b> <b>(0.6)</b>	<b>3.3</b> <b>(0.8)</b>	<b>2.7</b> <b>(0.4)</b>	<b>2.5</b> <b>(0.7)</b>	<b>2.4</b> <b>(0.6)</b>	<b>2.4</b> <b>(0.8)</b>
<b>Change in nominal GDP (%)</b>	<b>5.6</b>	<b>6.4</b>	<b>5.2</b>	<b>6.9</b>	<b>5.4</b>	<b>5.2</b>	<b>7.1</b>	<b>7.7</b>	<b>6.0</b>	<b>5.0</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.

## The domestic sector

1.6 Domestic demand grew further in 2015, rendering the key impetus to overall economic growth. Supported by the stable labour market conditions, *private consumption expenditure* (PCE) grew solidly by 4.8% in real terms in 2015, after the 3.3% growth in 2014. Yet, growth momentum eased back somewhat in the second half of 2015, conceivably reflecting the negative repercussions on local consumer sentiment from local asset price corrections and increased uncertainties over the economic outlook. The deceleration in PCE growth in the second half was more visible on a seasonally adjusted quarter-to-quarter comparison. Meanwhile, *government consumption expenditure* grew steadily by 3.4% in real terms in 2015, slightly faster than the 3.0% growth in 2014.

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

*Of which :*

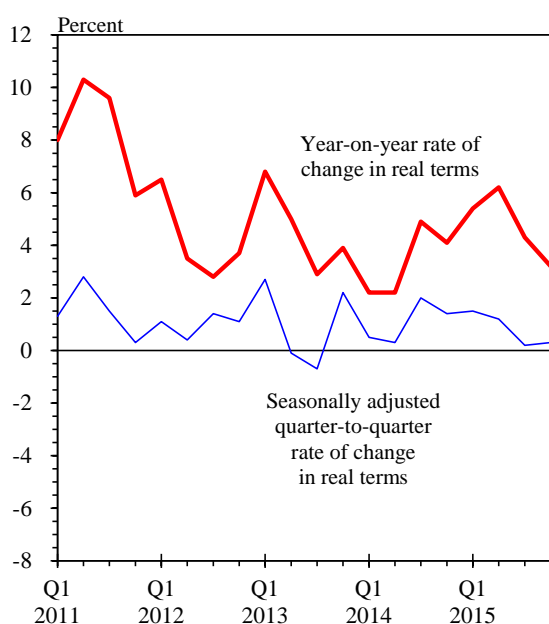
		Total consumer spending in the domestic market <sup>(a)</sup>	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure <sup>(b)</sup>
2014	Annual	2.4	3.5	4.8	-0.5	2.9	3.9	-1.6	3.3
	H1	1.6	5.1	-0.4	-1.3	2.5	5.1	0.4	2.2
	H2	3.0	1.9	9.9	0.2	3.3	2.8	-3.4	4.5
	Q1	3.9	4.8	3.6	6.9	2.6	0.7	10.7	2.2
	Q2	-0.6	5.3	-5.8	-8.5	2.5	9.6	-9.5	2.2
	Q3	3.3	3.4	3.3	2.0	3.7	2.8	-4.1	4.9
	Q4	2.8	0.4	15.1	-1.3	2.8	2.9	-2.8	4.1
2015	Annual	2.4	2.4	8.8	-1.0	2.6	11.4	-5.0	4.8
	H1	3.8	3.3	14.5	*	3.4	11.2	-2.7	5.8
	H2	1.1	1.4	3.8	-2.0	1.8	11.7	-7.2	3.8
	Q1	3.1	4.0	9.5	-0.3	2.8	12.1	-3.7	5.4
	Q2	4.6	2.7	22.0	0.3	4.1	10.3	-1.5	6.2
	Q3	1.9	1.4	7.6	-0.7	2.2	12.3	-5.0	4.3
	Q4	0.3	1.5	1.1	-3.1	1.4	11.0	-9.1	3.2

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

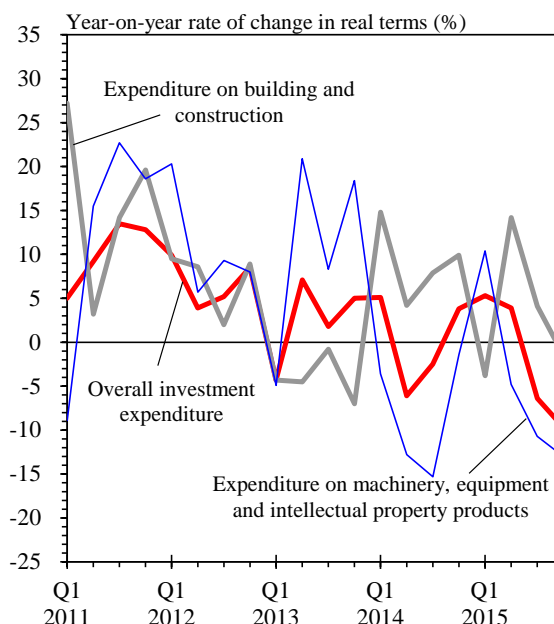
(b) Private consumption expenditure is obtained by deducting visitor spending from the total consumer spending in the domestic market, and adding back residents' expenditure abroad.

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

**Diagram 1.2 : Private consumption grew solidly in 2015**



**Diagram 1.3 : Investment spending remained weak in 2015**



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* remained weak, down 2.2% in real terms in 2015, representing the second year of decline after the 0.1% dip in 2014. Machinery and equipment acquisition was the key drag, down further by 5.8% in 2015, with more visible declines in the second half of the year, conceivably reflecting increasing worry over the dimmer global economic outlook and impending interest rate lift-off. Indeed, business sentiment turned visibly more cautious, as indicated by the latest Quarterly Business Tendency Survey as well as the diffusion indices on small and medium-sized enterprises (SMEs) (see **Box 1.1** for details of the consultation on SMEs). On the other hand, overall building and construction expenditure posted moderate growth of 2.8%, driven by the steady expansion of private sector building and construction activity.

## Box 1.1

### 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 350 SMEs. This note provides a further update of the results reported in *Box 1.3* in the *Third Quarter Economic Report 2015*.

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

Business receipts of the SMEs consulted, as measured by the set of diffusion indices, suggested that the surveyed companies continued to take a more cautious view on business situation, with the overall diffusion index falling to 44.2 in January 2016, well below the boom-bust threshold of 50 (*Table 1*). After reaching a recent high of 49.4 in June 2015, the diffusion index has become more lacklustre in the second half of 2015, and the situation deteriorated further recently. Analysing the sectoral breakdown shows that, apart from the logistics sector, all other sectors registered readings below 50 in January 2016. In particular, the retail trade and restaurant sectors reported worsening business situation amid the sustained weakness in inbound tourism. The recent local asset market corrections may also have dampened consumption sentiment. Business situation of wholesale trade also deteriorated visibly. Moreover, the reading of the real estate sector hovered at low levels, as the local property market consolidated and turned quiet in the recent past. Meanwhile, the reading for import/export trade was still rather sluggish, reflecting the weak external demand conditions and slow regional trade flows. As regards the employment situation, the feedback from SMEs suggested a broadly stable development in recent months across most selected sectors, except that the real estate sector saw a visible slackening (*Table 2*).

Specifically for the import/export trade sector, 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 fell further below the neutral mark of 50, to 46.8 in January 2016, indicating that external demand remained rather lacklustre.

The proportion of SMEs reporting tight credit access still hovered at very low levels, at 0.2% in January 2016, thanks mainly to the continued 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 1.1 (Cont'd)****Table 1 : Diffusion indices<sup>^</sup> on business receipts**

	<u>2015</u>												<u>2016</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>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>
<i>Local segments</i>													
Restaurants	50.0	47.7	47.7	48.4	47.6	48.4	49.2	46.8	46.7	42.5	43.3	48.3	41.5
Real estate	48.5	47.1	51.5	45.5	53.2	50.0	50.0	38.3	33.3	41.4	36.2	43.1	41.4
Retail trade	47.5	47.9	44.4	43.9	45.6	46.0	44.1	45.0	43.9	47.7	41.9	44.7	42.2
Wholesale trade	50.0	44.4	44.4	41.7	47.2	50.0	38.9	41.7	38.9	41.7	50.0	47.2	38.9
Business services	45.6	50.0	47.0	48.4	53.2	51.6	46.8	46.8	56.5	50.0	48.4	48.4	45.2
<i>External segments</i>													
Import/export trade	50.0	47.5	49.6	49.6	46.2	50.4	49.6	46.9	47.3	46.0	46.0	46.9	46.4
Logistics	50.0	50.0	44.7	52.8	50.0	52.9	44.1	40.6	46.9	46.9	50.0	50.0	50.0
<b>All the above sectors*</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>	<b>45.0</b>	<b>46.5</b>	<b>44.2</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>2015</u>												<u>2016</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>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>
<i>Local segments</i>													
Restaurants	49.2	48.5	50.0	49.2	50.0	49.2	50.0	50.0	50.0	49.2	49.2	50.8	50.0
Real estate	48.5	50.0	51.5	47.0	46.8	50.0	48.3	51.7	45.0	51.7	46.6	46.6	43.1
Retail trade	49.6	50.0	50.0	50.0	49.6	50.4	48.6	49.5	50.0	50.0	50.0	50.0	51.0
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	50.0	50.0	50.0	48.4	50.0	48.4	51.6	51.6	51.6	50.0	48.4	54.8	48.4
<i>External segments</i>													
Import/export trade	50.0	49.2	50.8	50.4	49.2	50.0	49.6	48.2	50.0	50.0	48.2	49.1	49.1
Logistics	47.1	47.1	47.4	50.0	50.0	50.0	52.9	50.0	50.0	50.0	50.0	50.0	50.0
<b>All the above sectors*</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>	<b>48.8</b>	<b>50.1</b>	<b>49.2</b>

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

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

	<u>2015</u>												<u>2016</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>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>
Import/export trade	50.0	48.3	48.3	48.7	45.3	48.7	48.7	47.4	47.3	46.9	47.3	49.1	46.8

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

	<u>2015</u>												<u>2016</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>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>
All selected sectors*	0.8	0.7	0.7	0.7	0.9	0.2	0.2	0.2	0.2	0.2	1.0	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 in 2015. Supported by further expansion of domestic demand, the *seasonally adjusted unemployment rate* hovered at a low level of 3.2-3.3% during the year. The *underemployment rate* likewise stayed low throughout the year, averaging at 1.4% for the year as a whole, the lowest since 1997. Total employment grew moderately by 1.3% in 2015, though with visible signs of slowdown in tourism-related and trade sectors. With the labour market staying in full employment, wages and earnings attained real improvements. In particular, thanks to the upward adjustment of the SMW rate since May 2015, employment earnings of low-paid workers enjoyed more appreciable rises.

## **The asset markets**

1.9 The *local stock market* fluctuated with sharp swings over the course of 2015. The Hang Seng Index went successively higher in the first few months of the year alongside Mainland and other major markets worldwide upon improved investment sentiment, reaching a seven-year high of 28 443 on 28 April 2015. The Hang Seng Index then slipped towards the end of the second quarter in tandem with the global stock market rout, unnerved by the escalation of the Greek debt crisis, concerns over US interest rate hikes and dimmer global economic outlook. It fell to a low of 20 557 on 29 September 2015, down by over 7 000 points from the peak in April, before recovering some lost ground to finish the year at 21 914, 7% lower than at end-2014. Average daily turnover rose markedly to \$105.6 billion in 2015, from \$69.5 billion in 2014. Despite escalated financial market volatility, total IPO funds raised still reached \$261.3 billion in 2015, up from \$232.5 billion in 2014. With such stellar performance, Hong Kong regained its position as the world's largest IPO centre in 2015, having ranked second in the preceding two years.

1.10 The *residential property market* cooled down with thinner trading volume after the seventh round of macro-prudential measures on tightening mortgage loans in late February 2015. Overall flat prices increased at a moderated pace in subsequent months. Then as concerns about US interest rate normalisation grew, overall flat prices finally turned south and shed 7% between September and December 2015. Transaction volume fell back by 12% in 2015. However, given the earlier rises, overall flat prices in December 2015 were still 2% higher than a year earlier and exceeded the 1997 peak by 65%. The housing affordability ratio stayed elevated at around 62% in the fourth quarter of 2015, well above the long-term average of 46% over 1995 to 2014. Likewise, flat rentals also reversed the moderate uptrend during the first

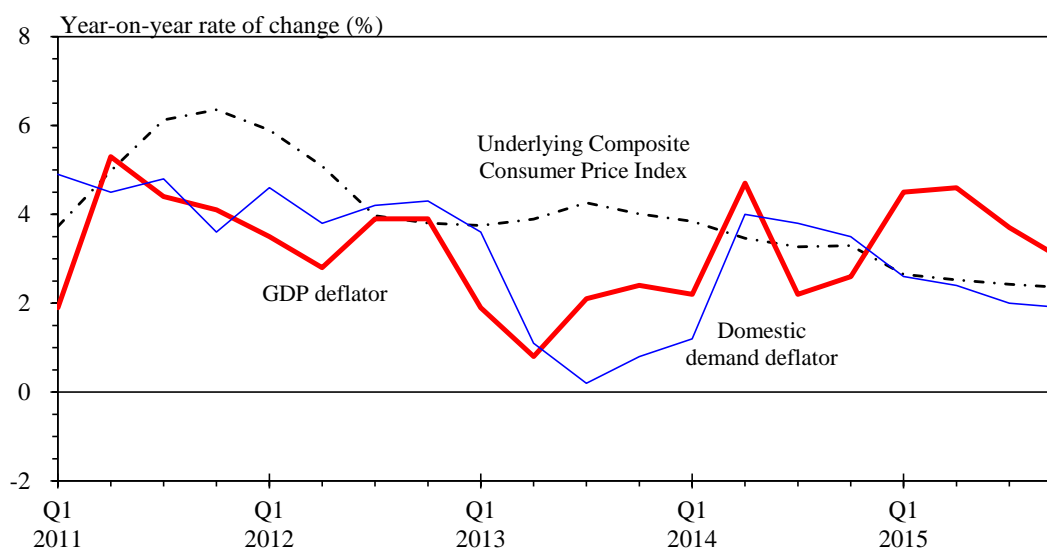
three quarters of the year and fell during the fourth quarter, leading to a cumulative gain of 3% during 2015. As regards commercial property, both shop and office rentals dropped in the fourth quarter after rising continuously in the first three quarters, in tandem with the weakening retail market, concluding 2015 with increases of 1% and 5% respectively.

## **Inflation**

1.11 Consumer price inflation receded further in 2015. Netting out the effects of the Government's one-off relief measures, *underlying consumer price inflation* retreated to 2.5% in 2015 from 3.5% in 2014, marking the fourth consecutive year of falling underlying inflation. The easing trend was attributed to the further moderation in imported inflation, thanks to the still-weak international food and commodity prices as well as the strength of the US dollar. Domestic cost pressures also remained moderate in the midst of economic slowdown. The rises in labour costs were broadly steady. Rental inflation held generally stable during most of 2015 amid continued feed-through of a slower increase in fresh-letting rentals in 2014, with some easing towards the end of the year given the setback in retail market and the concurrent consolidation of the property market. The weakness in retail sales, largely impaired by the slowdown of inbound tourism, also restrained the pricing power of retailers and other related businesses. *Headline consumer price inflation*, which is under the influence of the Government's one-off relief measures, likewise moderated to 3.0% in 2015 from 4.4% in 2014.

1.12 The *GDP deflator* increased by 3.9% in 2015, up from the 2.9% increase in 2014, mainly reflecting the notable improvement in the terms of trade as import prices benefitted from falling commodity prices and a strong US dollar. But the rise in domestic demand deflator actually moderated during the year, largely mirroring the trend in CPI inflation.

**Diagram 1.4 : Underlying consumer price inflation followed an easing trend in 2015**



### **GDP by major economic sector**

1.13 The services sector grew modestly in the first three quarters of 2015, matching the modest overall economic performance during the period. Net output in real terms grew by 2.3%, 1.4% and 1.9% respectively in the first three quarters of 2015 over a year earlier.

1.14 Among the major services sectors, those related to external trade and inbound tourism generally weakened and posted declines in the first three quarters of 2015. In particular, net output of import/export showed year-on-year declines in the second and third quarters, after a slight growth in the first quarter. Wholesale and retail trades relapsed to a decline in the third quarter after a rebound in the second quarter, while the fall in accommodation and food services widened. Other major services sectors saw varying degrees of growth in the first three quarters of 2015. Financing and insurance showed rather solid growth, supported by buoyant stock market turnovers and hectic fund-raising activity. Information and communications grew solidly, while professional and business services and public administration, social and personal services also registered moderate growth. Transportation, storage, postal and courier services as a whole rose modestly. Real estate (mainly reflecting activity of private sector developers and property agency) grew only moderately, with easing growth pace in line with the cool-off of the property market during the year. As for the secondary sector, activity in the manufacturing sector continued to fall, alongside the weak trading and production activities in the region. Construction grew moderately for the first three quarters as a whole, but with fluctuating performance from quarter to quarter.



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

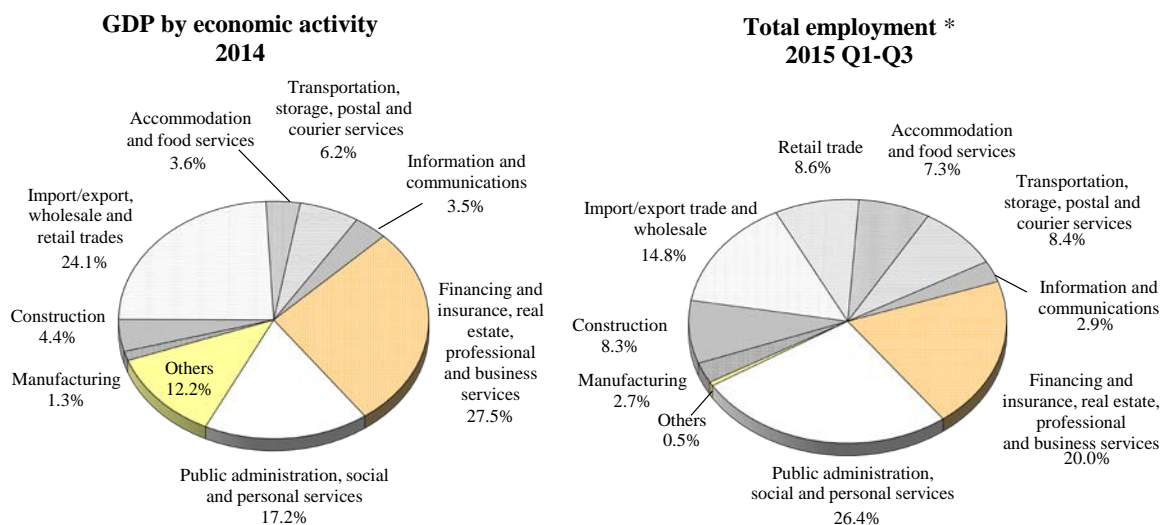
	<u>2014</u>	<u>2015</u>	<u>2014</u>				<u>2015</u>		
		<u>Q1-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Manufacturing	-0.4	-1.6	2.1	2.2	-1.7	-3.6	-1.5	-1.2	-2.1
Construction	13.0	3.5	17.3	8.3	11.2	14.5	-5.3	14.8	2.8
Services <sup>(b)</sup>	2.4	1.9	2.2	2.0	2.9	2.4	2.3	1.4	1.9
Import/export, wholesale and retail trades	1.2	-1.2	0.5	0.9	2.6	0.8	0.4	-3.3	-0.7
Import and export trade	1.3	-1.4	-0.8	2.5	2.9	0.4	0.5	-4.6	-0.2
Wholesale and retail trades	1.2	-0.5	5.0	-4.8	1.7	2.4	-0.2	1.5	-2.5
Accommodation <sup>(c)</sup> and food services	2.2	-1.4	3.9	1.6	3.7	-0.1	-0.7	-1.1	-2.5
Transportation, storage, postal and courier services	2.9	1.6	4.3	4.8	1.4	1.3	2.5	1.2	1.1
Transportation and storage	3.0	2.0	4.0	4.7	2.3	1.2	2.9	1.5	1.5
Postal and courier services	1.2	-5.3	12.8	6.5	-14.8	2.6	-4.6	-4.7	-6.8
Information and communications	3.9	4.5	3.0	5.6	3.3	3.8	5.5	3.8	4.2
Financing and insurance	4.8	6.0	3.9	1.3	6.4	7.6	4.6	7.3	6.0
Real estate, professional and business services	1.9	2.9	1.1	2.4	2.1	2.2	4.4	2.3	1.9
Real estate	1.2	2.9	-0.1	1.8	1.6	1.7	3.8	3.0	1.9
Professional and business services	2.6	2.9	2.2	3.0	2.5	2.5	5.1	1.7	1.9
Public administration, social and personal services	2.5	2.5	2.9	2.6	2.3	2.2	2.3	2.0	3.2

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 services 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.

1.15 The services sector remained the mainstay of the Hong Kong economy, accounting for 92.7% of GDP in 2014 and providing 88.4% of total employment in the first three quarters of 2015. In the midst of the growth rebalancing of Mainland’s economy towards consumption and services, further opening-up under the National 13th Five-Year Plan, and significant opportunities offered by the “Belt and Road” Initiative, Hong Kong’s services sector, with its competitive edge, should have plenty of room for growth and a vital role to play in contributing to the nation’s economic development. The expansion of commercial activity in the rest of Asia, which still outperforms many other parts of the world, will also give additional opportunities. Hong Kong will continue to enhance its competitiveness as an international financial and business hub, by consolidating strength of the traditional pillar industries, developing new industries and markets with promising potential, increasing land supply, and upgrading its infrastructure and human capital. On the latter, it is worth noting that the proportion of the local workforce with tertiary education attainment increased steadily from 32.0% in 2010 to 37.5% in 2015.

**Diagram 1.5 : The services sector remains the key driver of the economy**



Note : (\*) Figures refer to the Composite Employment Estimates, which are compiled based on results of the General Household Survey and the Quarterly Survey of Employment and Vacancies. Figures for 2015 are averages for the first three quarters of the year.

## **Other economic developments**

1.16 In anticipation of the austere external environment in 2015, the Government included a package of relief measures amounting to some \$34 billion in the 2015-16 Budget. These measures helped stabilise the economy and rendered cushion to the overall economy against the external headwinds and the slowdown in inbound tourism.

1.17 In May 2015, a memorandum of regulatory co-operation related to the mutual recognition of funds arrangement was signed between the Hong Kong Securities and Futures Commission and the China Securities Regulatory Commission, marking Mainland's first mutual recognition of funds arrangement with a market outside. The arrangement took effect in July 2015, and the first batch of authorised funds was announced in December. The arrangement not only expands the distribution network for the industry, but also attracts more funds to domicile in Hong Kong, which help build up the city's fund manufacturing capabilities and develop it into a full-fledged fund service centre.

1.18 Strengthening the trading and investment relations with our economic partners is another important pillar of our economic development strategy. For example, in October 2015, the Government announced that Hong Kong and Macao would soon commence negotiations on the Hong Kong and Macao Closer Economic Partnership Arrangement. In November, the Agreement on Trade in Services (the Agreement) under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed. The implementation of the Agreement enables basic liberalisation of trade in services between the Mainland and Hong Kong and represents a new milestone after the continuous liberalisation of trade in services through CEPA over the years.

1.19 Indeed, our institutional advantages continue to win international recognitions. Hong Kong was ranked by the Heritage Foundation as the world's freest economy for 22 years in a row. Also, Hong Kong was ranked as the second most competitive economy in the world in the International Institute for Management Development World Competitiveness Yearbook 2015, up from the fourth place in the preceding year. In addition, according to the World Bank's Doing Business 2016 Report, Hong Kong remains one of the world's easiest places to do business, being ranked fifth in the report. According to the United Nations Conference on Trade and Development World Investment Report 2015, Hong Kong was the second largest recipient and provider of foreign direct investment flows in the world, underscoring the attractiveness of Hong Kong as an international business hub and our role as a key conduit for

investment flows.

1.20 To prepare for the long-term challenges from an ageing population and slower economic growth to public finance, the Government followed the recommendation by the Working Group on Long-Term Fiscal Planning and announced the establishment of the Future Fund in December 2015. The Future Fund, with an initial endowment of \$219.7 billion, is a long-term saving scheme. It will be established administratively and will remain an integral part of the fiscal reserves, but its withdrawal before 31 December 2025 is not allowed except in emergencies, with a view to bringing about higher returns through long-term investment. Also in December, a six-month public engagement exercise on retirement protection was launched, aiming at gauging public views on how to improve Hong Kong's retirement protection system.

1.21 The Chief Executive delivered the 2016 Policy Address in January 2016, putting forward a broad range of initiatives to develop the economy, support innovation and technology, enhance education and improve health care.

- The Government will continue to promote the development of financial services, transportation services and logistics industry, trade and professional services and tourism to move up the value chain. Hong Kong will consolidate and expand its role as an international financial centre, including infrastructure financing and risk management, and deepen Renminbi-related financial services and products. The city is well-positioned to leverage on its “One Country, Two Systems” advantages and serves as the “super-connector” to pursue the abundant opportunities brought by the National 13th Five-Year Plan.
- The “Belt and Road” Initiative raised by the Central Government is a promising area bringing significant opportunities to Hong Kong. The Government will set up a high-level steering committee, chaired by the Chief Executive, responsible for formulating strategies and policies for Hong Kong's participation in the “Belt and Road” Initiative. A “Belt and Road” Office will be set up to co-ordinate efforts between government departments and other organisations and liaise with the central ministries and authorities at provincial and municipal levels, as well as various sectors, professional bodies and community organisations in Hong Kong.
- To forge closer ties with major trading partners, six additional liaison offices will be set up on the Mainland, a new Economic and Trade Office (ETO) in Indonesia will be set up and another ETO in Korea is also forthcoming. The negotiation with ASEAN on a free-trade agreement will

continue in full swing and is expected to be concluded in 2016.

- Nearly \$5 billion in funding is set aside for various innovation and technology initiatives. The Government will allocate resources to encourage investment from venture capital funds in local innovation and technology start-ups, and to facilitate the commercialisation of research and encourage local universities to carry out more mid-stream applied research projects.

### **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 : ECONOMIC OUTLOOK FOR 2016 AND THE MEDIUM TERM

### *Summary*

- *The global economy, having experienced the slowest growth since 2009, is still struggling to gather pace in a post-crisis era, some seven years after the Global Financial Crisis. Growth momentum in 2016 is expected to remain slow and uneven with considerable downside risks, giving only a slim chance for a notable turnaround in global trade. Among the advanced economies, whether the widely-expected moderate growth for the US economy would stand the impact of the Federal Reserve (Fed)'s interest rate normalisation has yet to be seen. The recovery in the eurozone and Japan would likely be lacklustre. As for major emerging market economies, the growth outlook for Russia and Brazil remains bleak. While growth in the Mainland economy and other Asian emerging market economies should stay relatively resilient in 2016, their paces of expansion may also slow.*
- *How the complicated global monetary environment will evolve is critical to the global economy in 2016. The biggest source of uncertainty will stem from the Fed's pace of subsequent interest rate hikes, particularly against the backdrop of the more pronounced monetary policy divergence among major central banks and the fragile recovery of many other advanced economies. The renewed volatility in global financial and foreign exchange markets that has triggered notable asset market corrections in early 2016, if protracted, might derail the already weak global economic recovery. Emerging markets with weaker fundamentals could be vulnerable to capital outflows and currency pressures. The plunge in commodity and energy prices, as another manifestation of financial market stress, would unavoidably weigh on the growth outlook and fiscal positions of commodity-exporting economies. Furthermore, heightened geopolitical tensions in various parts of the world remain a cause of concern.*
- *With the strong headwinds in the external environment likely persisting into 2016 and global demand conditions remaining sluggish, the outlook for Hong Kong's exports of goods in 2016 remains bleak. The current strength of the US dollar against many other currencies also would not bode well for our goods exports. After the dismal performance in 2015, Hong Kong's exports of services this year may still come under the pressure of sluggish trade and cargo flows, heightened volatility in global financial markets, and the slack in inbound tourism.*

- *Locally, domestic demand, which was relatively resilient in 2015, may lose some growth momentum this year. While a stable labour market would continue to render some support to private consumption, downside risks to the global economic prospects could rattle global financial conditions and spark fluctuations in global and local asset prices, thereby weighing on consumer sentiment. The outlook for investment is subject to larger uncertainties, with machinery and equipment acquisition being more susceptible to swings in the global environment. Yet, building and construction should hopefully grow further, underpinned by intensive public construction works and ongoing private sector building activity.*
- *The Hong Kong economy is projected to grow by 1-2% in 2016, compared to the 2.4% growth in 2015 and the average annual growth of 3.4% in the past ten years. The less sanguine economic growth forecast mainly reflects the notable and rising downside risks in the external environment. There could be some upside potential if the world's economic growth is stronger than expected, creating a more supportive environment for global trade flows, and if Asian economies hold up better than envisaged.*
- *On inflation, consumer price pressures will likely remain tame this year. Imported inflation is expected to stay muted, amid the rather modest global inflation and the still-low international commodity prices. Local cost pressures look set to lessen further, due partly to the sub-par economic growth and partly to lower rental cost pressures from a quieter property market. Overall, underlying Composite CPI is forecast to increase by an average of 2% in 2016, lower than that of 2.5% in 2015, signifying the fifth consecutive year of easing.*
- *The medium-term outlook for the Hong Kong economy will still be restrained by the below-trend growth of the global economy under the “new normal” after the Global Financial Crisis. Against this backdrop, deepening economic integration with the Mainland will present us with extensive growth opportunities, via the trade, investment and financial channels, particularly in view of the National 13th Five-Year Plan and the “Belt and Road” Initiative. At the same time, the Government's commitment to upgrading infrastructure and raising human capital quality through training and education will uphold Hong Kong's competitiveness. Yet, the demographic challenges, with an expected dwindling workforce after 2018, will become an imminent threat to our medium- to longer-term growth. The trend GDP growth rate in real terms is forecast at 3% per annum from 2017 to 2020. The trend rate of underlying consumer price inflation is forecast at 2.5% per annum.*

## Major external developments

2.1 Seven years after the Global Financial Crisis of 2008, the global economy is still struggling to gather pace under the “new normal”. Global growth in 2015 was in fact the slowest since 2009. The headwinds in the external environment, characterised by subdued global trade, sluggish growth in many advanced economies, recessions in some key emerging market economies, and highly volatile global financial and commodity markets, led to the disappointing global economic performance in 2015 and have yet to show signs of abatement. The global outlook, which is subject to notable downside risks, remains worrying. Several key external developments will be crucial to Hong Kong’s growth and inflation prospects in 2016.

2.2 *First and foremost*, global monetary conditions will likely stay volatile in 2016, amid deep concerns about global growth prospects, uncertain pace of the US Fed’s monetary policy tightening, and widening policy divergence among central banks. The financial turmoil at the start of 2016 could only mark the beginning of a more unstable era for economic and financial developments. The wilder exchange rate and asset price fluctuations, further pressures on commodity prices, and possible abrupt changes in capital flows, could disrupt global trade, transmit shocks to emerging market economies with weaker fundamentals, and retard global growth.

2.3 *Second*, the performance of advanced economies as a whole will still be sub-par and uneven, continuing to restrain international trading and manufacturing activities. Whether the US economy, currently the bright spot among the advanced economies, will sustain its moderate growth momentum amid the Fed’s monetary policy normalisation remains to be seen. The recovery paces of many other advanced economies are likely to stay slow and fragile. *Third*, amid a volatile monetary environment, it will be an uphill battle for many emerging market economies to maintain or regain growth and to overcome structural problems. The declines in oil and commodity prices, if protracted, will further hamper the growth outlook for commodity-exporting economies. *Fourth*, the intensification of geopolitical tensions in many regions of the world over the recent past has also increased the downside risks to the global economy.



## *Global economic outlook*

2.4 The US economy stood out among the advanced economies in 2015, with GDP growth of 2.4%, supported by consumer spending and its housing market recovery. In view of the solid improvements in the labour market, the Fed in December last year raised interest rates for the first time since 2006. However, the timing and pace of future monetary policy tightening, still data-dependent, have become a key source of uncertainty and downside risk, not just for the US economy but also for the global economy. Any surprising future interest rate actions, or any misjudgements, by the Fed in a still-fragile international economic environment, can easily swing market sentiments and dampen consumption and investment, with destabilising repercussions to be felt around the world. Also, while the US economy is projected by many forecasters to attain further moderate growth in 2016, its industrial sector has already been under pressure and the strength of the US dollar may further hurt its exports and manufacturing activity in the period ahead.

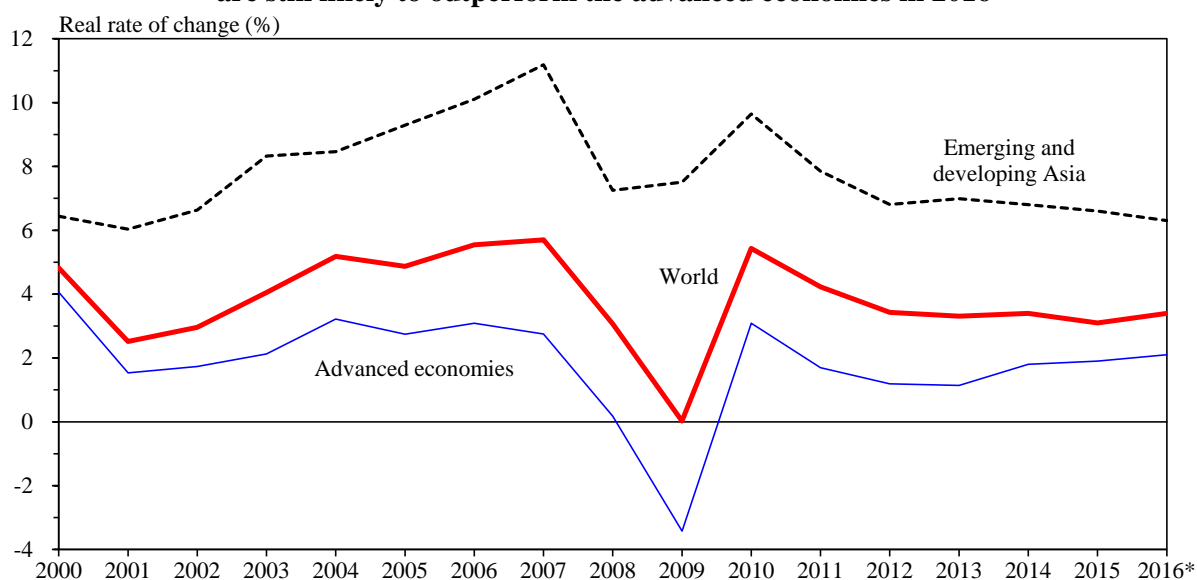
2.5 The eurozone economy improved somewhat in 2015, growing by 1.5%, but its momentum slowed over the course of the year. Its outlook is still wrought with uncertainties. The European Central Bank (ECB) eased monetary policy further in December, underscoring the fluidity and fragility of the region's recovery, which is characterised by persistently low inflation. Deep-seated structural issues of some weaker eurozone members, including elevated debt levels, unsustainable fiscal positions and market rigidities, could curb the region's growth for an extended period (see **Box 2.1** for details). While Greece's debt situation has largely subsided, the problem is far from being fully resolved. Intensified geopolitical tensions in Eastern Europe and the Middle East, and the influx of refugees have also clouded the region's outlook.

2.6 Japan's economic performance has been rather unsteady, and went into a quarter-to-quarter contraction again in the fourth quarter of 2015. The Japanese economy has yet to fend off the threat of deflation. Its domestic demand remains weak, and the boost to exports from a weaker yen also seems to be fading. In view of the faltering economy, the Bank of Japan (BOJ) unexpectedly adopted a negative interest rate policy, but it remains uncertain whether this could stimulate growth momentum or whether the central bank needs to introduce further monetary easing measures down the road. Also, the problems of fiscal sustainability, ageing population and market rigidities, if not properly addressed by structural reforms, would continue to limit Japan's growth potential. Economic growth in 2016 will at best be tepid.

2.7 In 2016, the advanced economies as a whole is likely to expand at a modest pace, with the support mainly coming from the US economy, on the benign premise that the Fed’s interest rate hikes would be gradual without causing significant disruptive impacts on global financial markets and economic sentiments. In January 2016, the International Monetary Fund (IMF) projected the real GDP growth of the advanced economies at 2.1% in 2016, after a mere 1.9% growth in 2015.

2.8 As for the emerging market economies, the year 2015 saw most of them suffering growth slowdown. Russia and Brazil, the two major emerging market economies, were even mired in recession. Although the Asian emerging market economies stayed relatively resilient in 2015, their growth was also hampered by subdued global trade, which resulted in weaker production and exports, as well as by a volatile global monetary environment, marked by sharp stock market corrections, massive capital outflows and substantial currency depreciations. Some were also hurt by the plunge in commodity prices. Looking ahead, the external headwinds facing emerging market economies are likely to persist in 2016. The Fed’s future interest rate moves, and its deepening policy divergence from other central banks, are bound to remain a key threat to the macro-financial stability of these economies going forward, particularly so for those with weaker fundamentals. Nonetheless, on balance, Asian emerging market economies, buttressed by their relatively sound fundamentals and more resilient domestic demand, can still outpace their peers in other regions as well as the advanced economies (see **Box 2.2** for details).

**Diagram 2.1 : Asian emerging market economies, while facing notable challenges, are still likely to outperform the advanced economies in 2016**



Source : IMF World Economic Outlook Update, January 2016.  
 Note : (\*) Forecasts from the IMF.

2.9 The Mainland's economy, though faced with downward pressures from the external front and the challenges from ongoing rebalancing of its structure, was able to attain a solid growth of 6.9% in 2015, virtually achieving the official target set for the year. The accomplishment was mainly underpinned by the resilience of its domestic demand, especially consumption, which helped offset the setback in external trade amid anaemic global demand. As the global trading environment will remain difficult, domestic demand should continue to be the key driver of the economy in 2016. Meanwhile, 2016 marks the first year of implementing the National 13th Five-Year Plan. The Mainland will continue to rebalance towards a sustainable and medium-to-high growth path under the "new normal". While the trend growth in the coming years is likely to be somewhat slower than before, continuing reforms will help promote innovation-driven growth potential, move the economy up the value chain, make the better use of market forces, and address the issues of population-ageing. All these, together with the "Belt and Road" Initiative, will unleash growth potential and present new business opportunities. Thus, the Mainland's economic growth in 2016 is still expected to outperform other major economies. In January, the IMF projected the Mainland economy to grow by 6.3% in 2016. For emerging and developing Asia as a whole, the IMF projected an economic growth of 6.3% in 2016, somewhat slower than that of 6.6% in 2015.

2.10 Overall, the IMF in January projected that global economic growth would remain modest, at 3.4% in 2016, only a notch higher than that of 3.1% in 2015. Indeed, the IMF highlighted that risks to the global outlook remain tilted to the downside and relate to the ongoing adjustments in the global economy, including a generalised slowdown in emerging market economies, the Mainland's growth rebalancing process, lower commodity prices, and the gradual exit from extraordinarily accommodative monetary conditions in the US. The IMF warned that if these key challenges are not successfully managed, global growth could be derailed.

**Table 2.1 : Growth forecasts for major economies in 2016**

	<b>2016</b>		
	<b><u>2015</u><sup>*</sup></b> (%)	<b><u>IMF</u><sup>*</sup></b> (%)	<b><u>Private sector</u> <u>forecast</u><sup>^</sup></b> (%)
World (PPP <sup>##</sup> weighted)	3.1	3.4	-
Advanced economies	1.9	2.1	-
US	2.4 <sup>#</sup>	2.6	2.2
Eurozone	1.5 <sup>#</sup>	1.7	1.6
Japan	0.4 <sup>#</sup>	1.0	1.0
Emerging market and developing economies	4.0	4.3	-
Emerging and developing Asia	6.6	6.3	-
Mainland China	6.9 <sup>#</sup>	6.3	6.5
India	7.3 <sup>#</sup>	7.5	7.7
Middle East and North Africa	2.5	3.6	-

Notes : (\*) World Economic Outlook Update, IMF, January 2016.  
 (^) Average forecast as at February 2016.  
 (-) Not available.  
 (#) Actual figures.  
 (##) PPP refers to purchasing power parity.

## Box 2.1

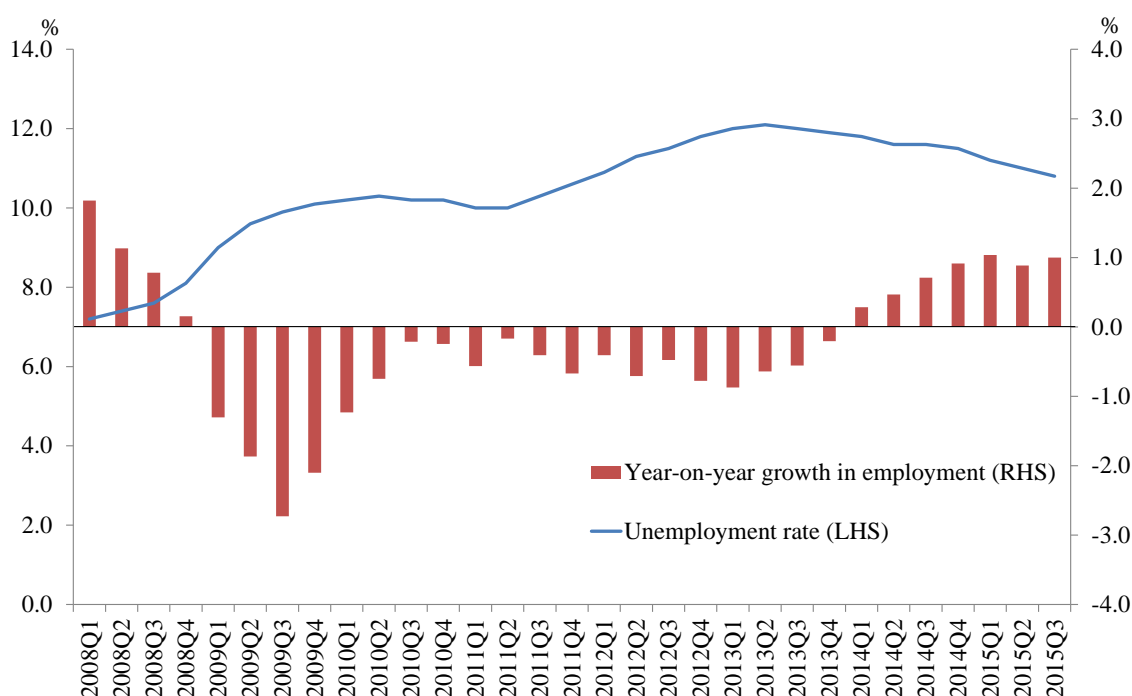
### Recent labour market conditions in the eurozone

Unemployment rate in the eurozone as a whole stayed high, despite some slight improvement in the recent past. The situation also varied across member states. This note provides a brief analysis on the recent labour market conditions of the eurozone and implications on the region's economic recovery.

The Global Financial Crisis and the ensuing euro debt crisis severely hit the eurozone's economy, pulling it twice into recession between 2008 and 2013. During this period, the labour market in the region deteriorated significantly. The unemployment rate<sup>(1)</sup> climbed up from 7.2% in the first quarter of 2008 to an acme of 12.1% in the second quarter of 2013, marking the highest level since eurozone's establishment (*Chart 1*). Some five million jobs were lost during this period.

As the acute risks of the euro debt crisis retreated, the eurozone's economy emerged from recession since the second quarter of 2013, bringing job gains subsequently. The unemployment rate fell since mid-2013. Employment in the region also resumed year-on-year growth since the first quarter of 2014, but the pace was only modest. As such, the unemployment rate still stood at an elevated level of 10.4% in December 2015.

**Chart 1: Unemployment rate in the eurozone stayed high, despite some declines in the recent past**

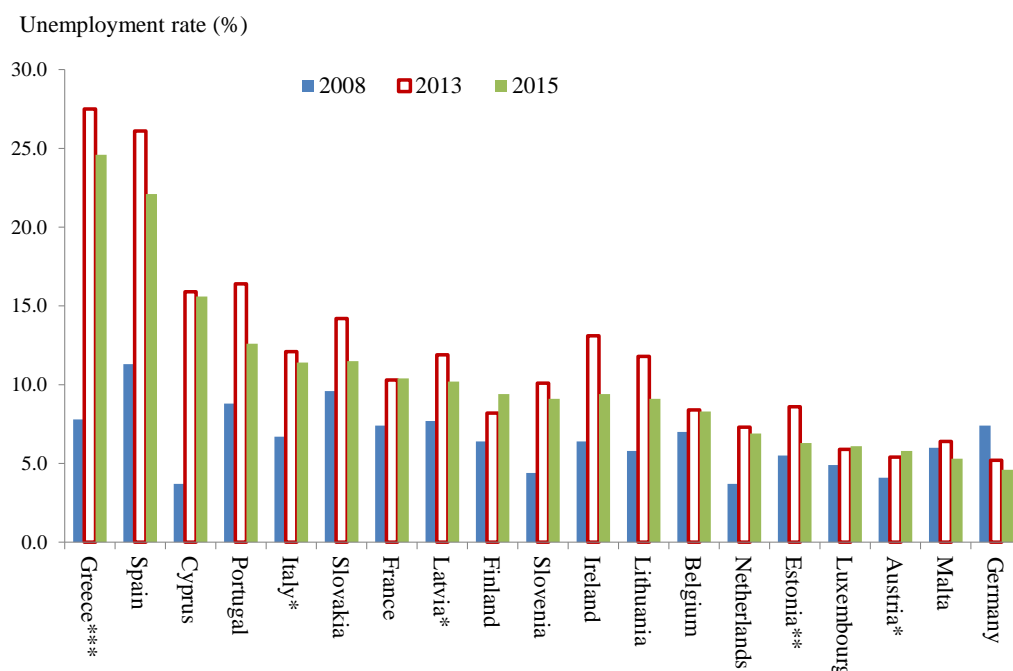


The labour market conditions varied across member states. A few have performed fairly well in the recent past, with Germany as a striking example. Unemployment rate there fell to a record low of 4.5% in December 2015, thanks to stronger employment growth than labour supply growth. According to the latest detailed figures available, Malta, Austria, Luxembourg, Estonia and the Netherlands had unemployment rates below 7%. Yet, they are the minority. Unemployment rates in the rest of the region were still high. Eight member states, including France, Italy and Spain, had double-digit unemployment rates. Most member states still had unemployment rates higher than in 2008, with those in Cyprus and Greece more than two times higher (*Chart 2*).

(1) Unemployment rate in this Box refers to the seasonally adjusted unemployment rate.

**Box 2.1 (Cont'd)**

**Chart 2: Unemployment situation varied across member states in the eurozone**



Notes: (\*) Figure for 2015 is not yet available. It refers to December 2015 position.  
 (\*\*) Figure for 2015 is not yet available. It refers to November 2015 position.  
 (\*\*\*) Figure for 2015 is not yet available. It refers to October 2015 position.

There were also visible variations in the recovery of employment within the eurozone. On the one hand, Germany’s labour market led the pack again and saw visible cumulative gains in employment between 2008 and the third quarter of 2015. Besides, Austria, Belgium, Luxembourg, Malta and France also registered marginal job gains during this period. Yet, most member states still had employment lower than the pre-crisis level, with Spain and Greece at the end of the spectrum suffering the most severe job losses (*Chart 3*).

**Chart 3: Recovery of employment within the eurozone varied**



## **Box 2.1 (Cont'd)**

The substantial slacks in the labour market partly reveal the severity of the blows brought by the previous financial crises, particularly to the economies of debt-ridden states. In addition, they also reflect the entrenched structural issues afflicting the region's labour markets. For example, long-term unemployment, defined as those who have been out of work for more than one year, accounted for half of overall unemployment in the third quarter of 2015.

The high proportion of long-term unemployment is worrying, as the longer people are out of work, the more difficult it is for them to be hired again, and their skills would be gradually eroded. Indeed, a fifth of them stop trying to find another job, according to the European Commission.

The high youth unemployment rate in the region, at 22.0% in December 2015, is another thorny issue. In Spain, Italy and Portugal, youth unemployment rates reached as high as 46.0%, 37.9% and 31.0% respectively. This problem is partly cyclical, as young workers with less experience and skills are understandably more affected by the current weak economic situation. The problem is further exacerbated by structural issues in the labour market, such as the mismatch between the demand and supply of skills possessed by the youth and high proportion of workers under temporary employment contracts with weaker job protection in some member states.

To tackle the structural issues, the European Council in 2011 recommended comprehensive labour market reforms, including review of wage setting mechanisms, labour taxations, employment protection legislations and education and training. Many member states in the eurozone, especially those had accepted the bailout programmes from international creditors, have already taken actions. In the long term, the reforms should help increase flexibility of labour markets there. Given the sluggish economic environment, the stress on public finance and possible resistance from the vested interests, however, the implementation of the reform is likely to be a long and bumpy process and requires continuous efforts to bear fruit.

In February 2016, the European Commission forecast that the eurozone's unemployment rate will ease from 11.0% in 2015 to 10.5% in 2016 and still stay at a double-digit level of 10.2% in 2017. In other words, high unemployment rate is expected to stay for a while in the eurozone, which will likely continue to confine the recovery of consumer spending and economic growth in the region in the period ahead.

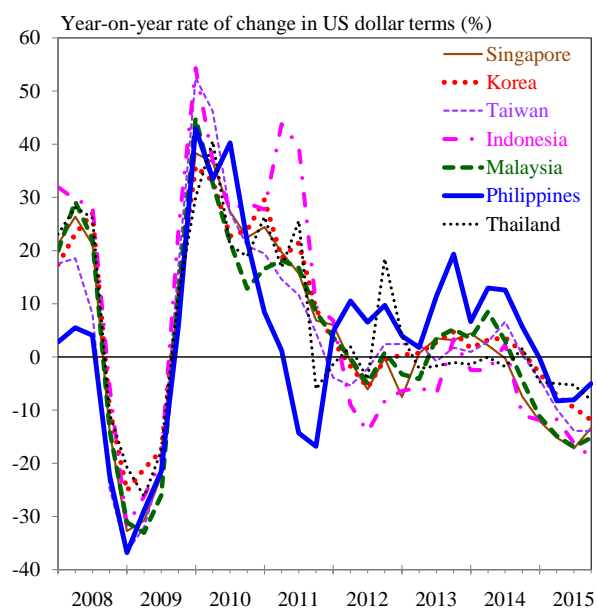
## Box 2.2

### Can domestic demand of selected Asian economies provide support to growth?

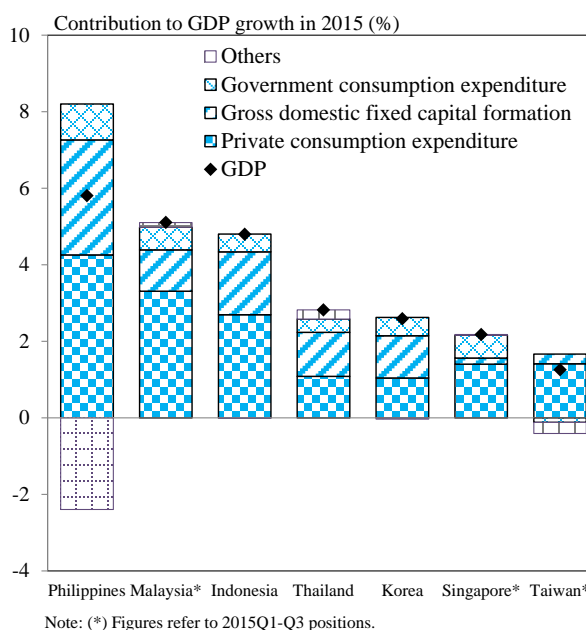
After the Global Financial Crisis of 2008, many Asian economies faced growth moderations of varying degrees. Demand conditions in the advanced economies have remained sluggish, adding downward pressures to the merchandise trade performance of these Asian economies, most of which are externally-oriented. Over the last few years, these Asian economies have strived to rebalance their growth model by strengthening domestic demand, so as to cushion the adverse impacts arising from the external headwinds. This note briefly examines the latest domestic demand performance of selected Asian economies<sup>(1)</sup>, with an attempt to shed some light on the region's growth prospects.

Growth in emerging and developing Asia moderated from an average of 9.5% per annum in 2003-2007 to 7.6% per annum in 2009-2014. In 2015, emerging and developing Asia slowed further to register an estimated 6.6% growth, and their production activities and goods exports slackened sharply to notable year-on-year declines, marking the poorest performance since 2009 (*Chart 1*). But on the other hand, their domestic demand exhibited remarkable resilience, which helped cushion the visible setback from external demand, thereby sustaining a moderate economic performance (*Chart 2*).

**Chart 1 : Asia's exports of goods weakened further in 2015, dragged by sluggish demand conditions in advanced economies**



**Chart 2 : Resilient domestic demand helped cushion export-dependent Asian economies**



*Table 1* shows that domestic demand in the selected Asian economies generally expanded steadily or saw pick-ups in growth in 2015, notwithstanding the concomitant GDP growth slowdown. Within the components of domestic demand, private consumption expenditure (PCE) has been a key growth engine. In fact, PCE grew at a faster year-on-year rate than overall economic growth during 2015 in such economies as Singapore, Taiwan, Malaysia, the Philippines and Indonesia. The relatively solid PCE growth reflected the interplay of various favourable factors, including steady labour market conditions with low or falling unemployment rates (*Table 2*); lower borrowing costs under the ultra-low global interest rate environment; and lower oil prices in the past year or so, which were tantamount to terms of trade improvement and an increase in consumer spending power.

(1) The Asian economies covered in this article include Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand.



## Box 2.2 (Cont'd)

As for gross domestic fixed capital formation, although this component is typically volatile, investment spending in the Philippines, Indonesia, Thailand and Malaysia still registered visible growth during 2015, conceivably reflecting the support from higher infrastructure investments amid growing urbanisation in these economies. Meanwhile, many economies saw accelerated growth in their government spending, which should have also provided an important buffer against external shocks.

**Table 1 : Year-on-year rates of change in domestic demand components (%)**

	GDP		Domestic demand <sup>(^)</sup>		Private consumption expenditure		Gross domestic fixed capital formation		Government consumption expenditure	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Philippines	6.1	5.8	5.3	8.2	5.4	6.2	6.8	14.0	1.7	9.4
Malaysia <sup>(*)</sup>	6.0	5.1	5.9	5.5	7.0	6.3	4.8	4.1	4.4	4.8
Indonesia	5.0	4.8	4.6	5.0	5.2	5.0	4.6	5.1	1.2	5.4
Thailand	0.8	2.8	#	2.8	0.6	2.1	-2.4	4.7	2.1	2.2
Korea	3.3	2.6	2.4	2.9	1.8	2.1	3.1	3.8	2.8	3.3
Singapore <sup>(*)</sup>	2.9	2.2	0.5	3.2	2.5	4.1	-1.9	0.7	0.1	6.4
Taiwan <sup>(*)</sup>	3.9	1.3	3.0	1.7	3.3	2.6	1.8	1.1	3.6	-0.8

Notes: (^) Excluding change in inventories.

(\*) As full-year detailed data are not yet available, figures in 2015 refer to Q1-Q3 positions.

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

**Table 2 : Favourable labour market conditions are conducive to consumption spending**

	Unemployment rate		
	Average (2003-2007)	Average (2009-2014)	Latest available figure
Philippines	10.0%	7.1%	5.7% (3-month ending October 2015)
Malaysia	3.5%	3.2%	3.3% (November 2015)
Indonesia	10.0%	6.7%	6.2% (August 2015)
Thailand	1.8%	0.9%	0.7% (December 2015)
Korea	3.5%	3.4%	3.4% (December 2015)
Singapore	3.0%	2.2%	1.9% (Q4 2015)
Taiwan	4.3%	4.6%	3.9% (December 2015)

Looking ahead, domestic demand, led by consumption spending, should continue to play a key role in buttressing Asia's economic growth. This is further complemented by the plans and reforms set forth by many Asian economies to bolster growth, on the back of accommodative monetary and fiscal policies. Indeed, the IMF in January projected GDP growth in emerging and developing Asia in 2016 to expand steadily by 6.3%, which if attained would represent a key stabilising force to the global economy, contributing around 60% of the world's GDP growth.

Nonetheless, various external uncertainties would add downside risks to the economic outlook for Asia as a whole. This includes, amongst others, the possible repercussions of the US future interest rate moves on consumption and investment sentiments; businesses' concerns on the still-bleak global economic prospects; as well as the potential strains on households' financial positions from more volatile global financial conditions amid a substantial build-up of household debt in Asian economies over the past years. Needless to say, any sizable negative external shocks to the Asian region would not bode well to the Hong Kong economy, given our close economic ties with neighbouring economies. We will monitor closely Asia's economic situation and stay vigilant to any potential adverse impacts on the Hong Kong economy.

## ***Monetary conditions***

2.11 The complicated global monetary environment amid policy divergence among major central banks will pose the most prominent threat to the stability of emerging market economies and to global growth in 2016. The Fed started the interest rate lift-off in December last year, in stark contrast to the further easing of monetary policies by the ECB and the BOJ, reflecting the uneven economic growth in these places. While the Fed may raise interest rates gradually further, the timing and pace of which are data-dependent, hence there are still considerable uncertainties, and the central banks in Europe and Japan may need to step up their stimulus measures to support growth and reduce deflation risks. How global monetary conditions will evolve in 2016, and how they will interact dynamically with the unbalanced global economic scene, are difficult to predict. Downward pressures on world inflation from the continued declines in oil and commodity prices would also complicate the global monetary policy outlook further.

2.12 The renewed volatility in global financial markets and increased capital flight to safe havens, as seen in early 2016, have been rather disruptive and may have already hurt consumption and investment sentiments worldwide. What happened in the recent past could just be the harbinger of an extended period of financial volatility. The impact on emerging market economies, including those in Asia, could be destabilising. Accelerated capital outflows could exert painful strains on those with high levels of dollar-denominated debts, feebler financial structure and shakier fundamentals, as well as those with asset markets facing prominent bubble risks. The consequential tighter credit conditions and asset market downturns could worsen consumption and investment sentiments further. There is a strong need to stay vigilant to the rapidly changing global monetary conditions and the potential negative spill-overs on the global economic landscape.

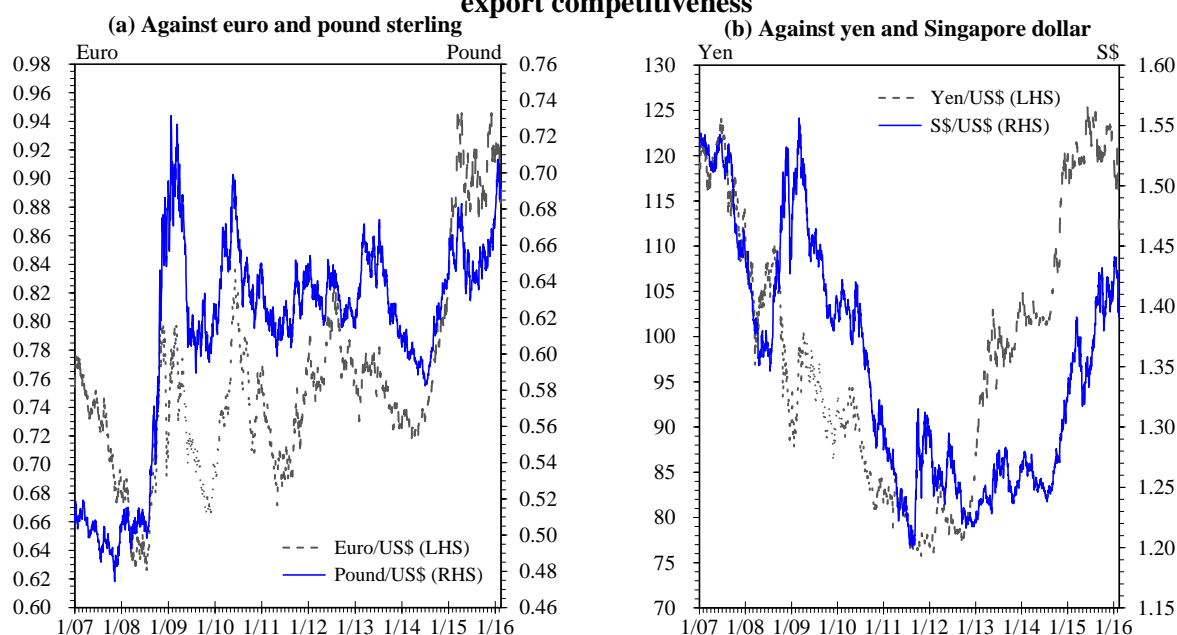
## ***Exchange rates and price competitiveness***

2.13 The US dollar strengthened substantially in 2015, underpinned by the US' economic recovery and the anticipation of the Fed's eventual monetary policy normalisation. The appreciations against such currencies as the euro, the Japanese yen and many emerging market currencies were particularly notable. The Hong Kong dollar, which mirrors closely the movements of the US dollar, also appreciated visibly against many other currencies. In 2015, the nominal trade-weighted effective exchange rate index of the Hong Kong dollar rose by an average of 6% over 2014. This, while helping to lower imported inflation,

may hurt the price competitiveness of Hong Kong's exports to a certain extent and deter some tourists from visiting Hong Kong.

2.14 The direction of exchange rate movements will, as always, be subject to uncertainties in 2016, complicated further by the conflicting monetary policy stances in major economies and the downside risks facing the global economy on both economic and geopolitical fronts. The movements of the US dollar in the period ahead would depend on a number of factors, including any disparity between market expectations and the Fed's actual interest rate moves, as well as global economic and monetary situations. In general, a stronger US dollar and hence the Hong Kong dollar against other major currencies would not bode well for the price competitiveness of Hong Kong's exports of goods and services. Yet, against the backdrop of persistently weak global trade flows, the key factor determining Hong Kong's export performance in 2016 would still be whether the recovery in our major export markets could be translated into stronger import demand.

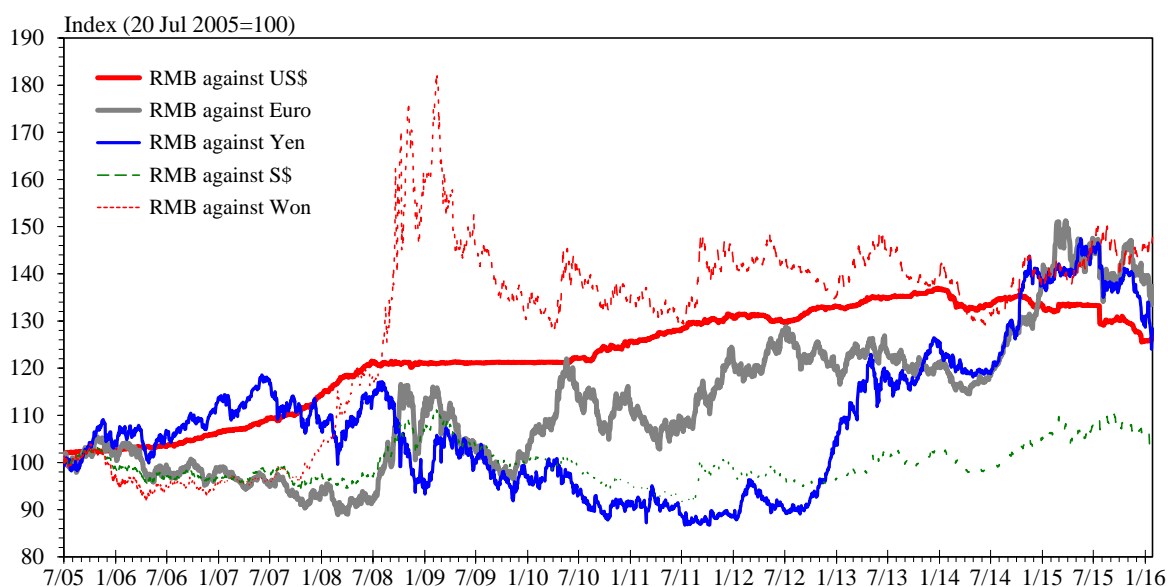
**Diagram 2.2 : US dollar strength, if persisted, will not bode well for Hong Kong's export competitiveness**



2.15 Given Hong Kong's close economic relations with the Mainland, the movement of the renminbi (RMB) is also an important factor affecting the performance of Hong Kong's external sector. In contrast to the notable currency depreciations of many Asian and emerging market economies last year, the RMB remained relatively stable against the US dollar and hence the Hong Kong dollar. In 2015, the RMB depreciated by an average of only 2% against the Hong Kong dollar, compared to the more notable depreciations of such currencies as the euro (16%), Japanese yen (13%), Singapore dollar (8%),

Korean won (7%), and New Taiwan dollar (5%). After the adoption of a more market-determined exchange rate mechanism in mid-August last year, greater exchange rate flexibility would be conducive to the continued internationalisation of the RMB, in particular after its inclusion into the IMF's Special Drawing Rights, effective from October 2016. Judging from the relatively stable growth of the Mainland economy, the RMB should have no basis to depreciate notably in the long run. The Central Government is widely expected to proceed with the exchange rate regime reform in a controlled and gradual manner in 2016. A relatively stable RMB could help reduce the exchange rate uncertainty facing Hong Kong companies, given the Mainland's important role in the regional supply chains and the increasing use of the RMB for settling cross-border trade and investment activities.

**Diagram 2.3 : Greater flexibility of the RMB would be conducive to the steady expansion of the Mainland economy**



Note : An increase in the index represents an appreciation of the RMB against the currency concerned.

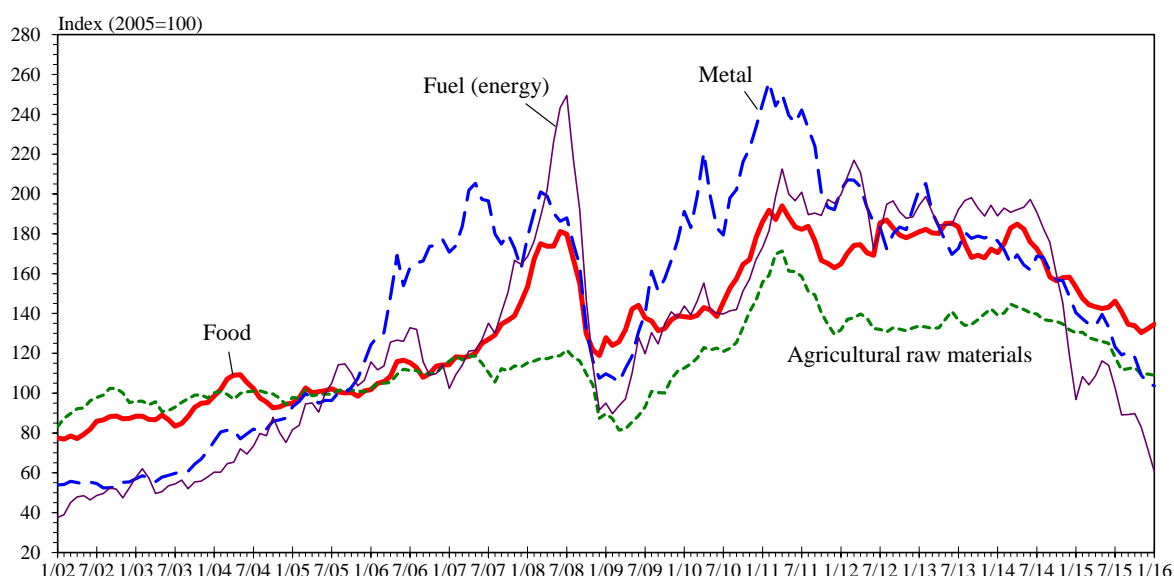
### ***World inflation and global commodity prices***

2.16 Inflation stayed low across most economies in the past year, held down by weaker-than-expected global economic growth and double-digit declines in international oil and other commodity prices. This was notwithstanding those emerging market economies that underwent sizeable currency depreciations and thus were concurrently plagued by the by-product of significantly higher imported inflation. Overall speaking, given the slow global economic growth and soft international commodity and energy prices, global inflation is likely to remain low in the near term.

2.17 The movement of international commodity prices is a key factor affecting the global inflation outlook. The plunge in oil prices since mid-2014 remained notable over the course of 2015. Oil prices were still under pressure on entering 2016 amid the global supply glut. The international prices of other non-petroleum commodities also saw visible declines in 2015. Global food prices fell by 19% in 2015, according to the Food and Agriculture Organization (FAO) of the United Nations. The prices of many manufacturing-related commodities, such as agricultural raw materials, industrial materials and metals, scaled back notably during 2015, mirroring the sluggish production and trading activities across the globe. Protracted commodity price declines would put downward pressures on headline inflation in net commodity importers, prolonging the deflation risks in some economies, including the eurozone and Japan. Asian economies such as Singapore, Taiwan and Thailand already experienced negative headline inflation in 2015. The real impact on net commodity exporters also warrants a close watch, as commodity price declines could weaken their external and fiscal positions and hurt their growth momentum, posing a threat to global economic recovery.

2.18 The risks of large commodity price fluctuations remain. An abrupt worsening of the geopolitical situation in the Middle East could possibly cause disruptions to global oil supplies, resulting in an oil price rebound. Likewise, international food prices could be sensitive to short-term adverse supply shocks arising from unfavourable extreme weather conditions.

**Diagram 2.4 : International commodity prices plunged last year, and further sharp swings in the period ahead cannot be ruled out**



Note : Indices as depicted refer to IMF's commodity price indices.

## *Major sources of uncertainty*

2.19 2016 is likely to be another challenging year fraught with notable downside risks for the global economy. *First and foremost*, the Fed's pace of subsequent interest rate hikes and the potential impacts on global macro-financial stability remain the biggest source of uncertainty (see **Box 2.3** for details). Under the adverse scenario that the US' growth momentum is derailed by the rate hikes or unfavourable international developments, the Fed would refrain from further increases in interest rates, but this would also imply a relapse in global growth. On the other hand, if the US' economic expansion continues apace with a more rapid build-up of inflationary pressures, the Fed may normalise rates faster and more aggressively than expected. Both scenarios may induce sharp financial market volatility. *Second*, the ECB and the BOJ may set forth further easing measures, hinging on their growth and inflation developments. Dimmer global growth prospects, coupled with the widening divergence in monetary policy stances of major central banks, could ignite international financial and asset market gyrations and cause abrupt changes to capital flows. *Third*, the fragility and fluidity of economic conditions in some major advanced economies could restrain global economic recovery. *Fourth*, emerging market economies with weak fundamentals could be vulnerable to volatile global financial conditions. Commodity-exporters, faced with the double-blow of subdued demand conditions in the advanced economies and continued declines in commodity and energy prices, may see further setback in growth. They may also run into fiscal and debt crises, with spillover effects on the rest of the world. *Fifth*, elevated geopolitical tensions in various regions remain a notable concern.

2.20 On the positive side, if the Fed could communicate effectively to the markets and give clarity about its policy intentions amid a sustained moderate growth in the US, global economic and financial conditions should hopefully be more stable during the course of its interest rate normalisation. If some breakthrough can be made in implementing structural reforms in Europe and Japan, this would help strengthen economic sentiment and bolster growth in these economies. Also, there could be some upside potential if the economic performance of the Mainland and other emerging Asian economies turns out to be better than expected, benefitting Asia's and Hong Kong's exports.

### Box 2.3

#### What can we learn from the previous US interest rate upcycles?

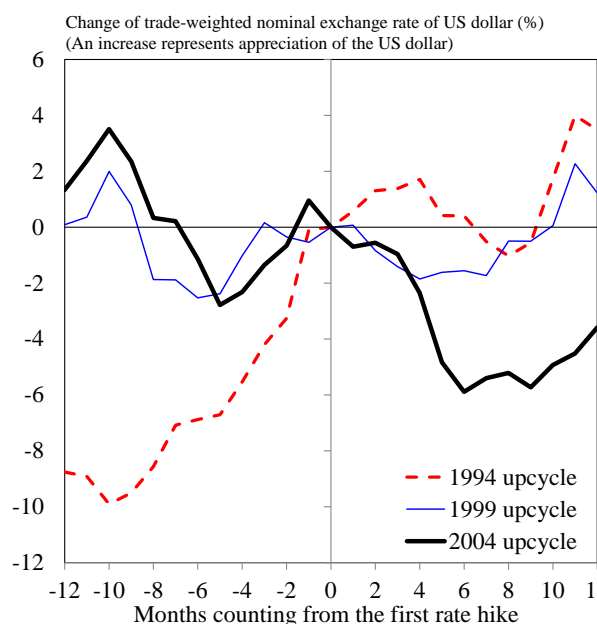
The US Federal Reserve (Fed) raised the range of its target federal funds rate by 25 basis points to 0.25%-0.50% in December 2015, marking a turning point of its super-low interest rate policy. Given the sheer importance of the US economy, the change in its monetary policy direction would not only affect its own economy, but inevitably also have significant implications for Hong Kong and the rest of the world. It would therefore be useful to examine what can be learned from the previous US interest rate upcycles.

This note covers the previous three US interest rate upcycles since 1990s. The first US interest rate upcycle took place between February 1994 and February 1995, when the Fed successively raised interest rates by 3 percentage points to 6%. The second one lasted from June 1999 to May 2000, with the US federal funds rate going up six times by a total of 1.75 percentage points to 6.5%. The most recent one occurred during June 2004 to June 2006, when the Fed increased interest rate 17 times from a low level of 1% to 5.25%.

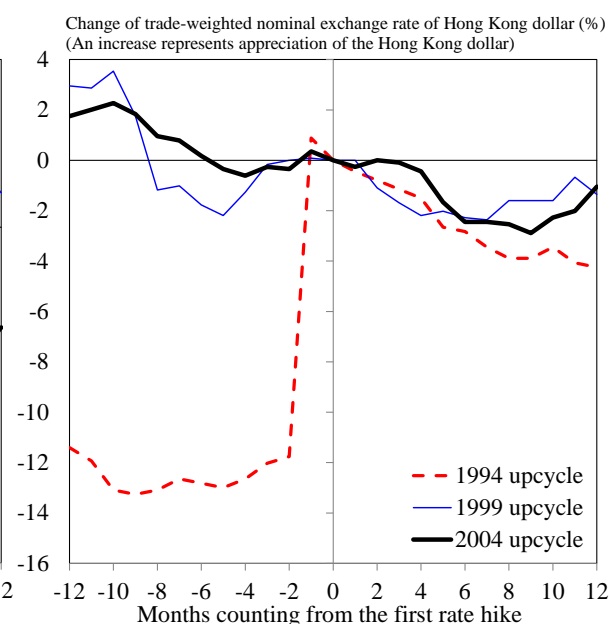
Under the Linked Exchange Rate System, the movements of the Hong Kong dollar against other currencies will follow those of the US dollar. Other things being equal, increases in short-term US interest rates theoretically would lead the US dollar to strengthen. A strong US dollar would potentially reduce the price competitiveness of Hong Kong's exports and hence is a concern for us. However, the actual play-out of the US dollar in the past after US rate hikes varied, as other moving parts also mattered. For example, in anticipation of US interest rate upcycles, the broad trade-weighted US dollar index had already been on an uptrend during the six months before the first rate hike, reflecting that the market had generally priced in the expected effect of the hike (*Chart 1*). In the 2004 upcycle, the US dollar fell visibly after the initial rate hike, due mainly to concerns about widening US current account deficits, while the commodity investment boom and strong global economy generated appreciation pressure on many emerging market currencies.

**Chart 1 : The direction of the currency movements one year after the first rate hike varied in the past interest rate upcycles**

(a) US dollar trade-weighted index



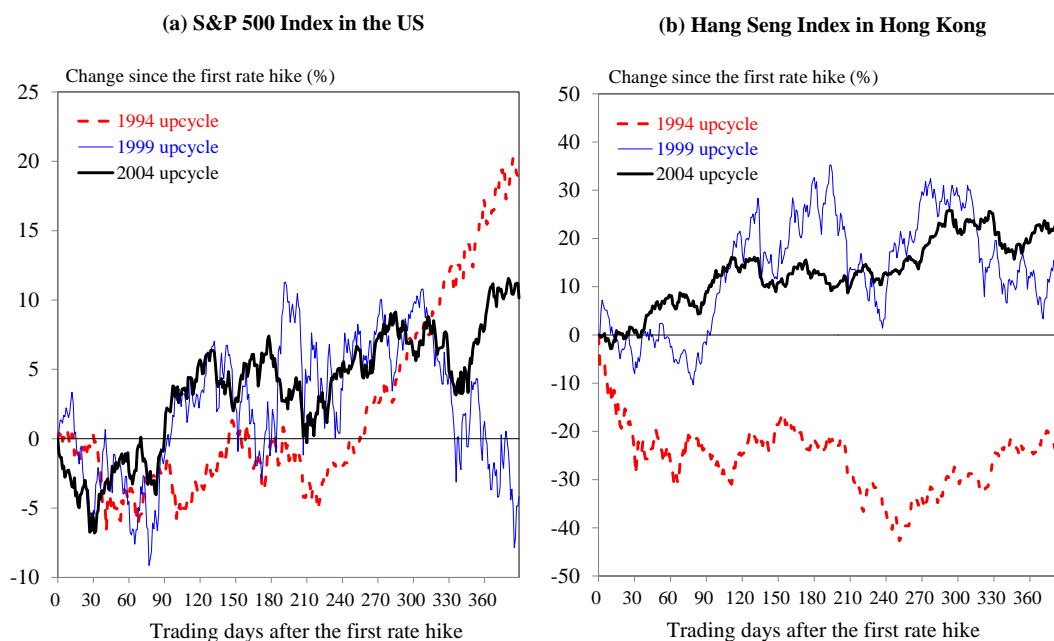
(b) Hong Kong dollar trade-weighted index\*



Note: (\*) The sharp rise in the Hong Kong dollar's trade-weighted nominal exchange rate before the 1994 interest rate upcycle was due mainly to the one-off adjustment of the Renminbi amid the unification of the official Renminbi exchange rate and swap market exchange rate.

## Box 2.3 (Cont'd)

### Chart 2 : Stock markets showed diverged movements in the past three episodes



As for the stock markets, the US interest rate hikes were rather steep and abrupt during the 1994 upcycle, amounting to 300 basis points in 13 months. Aggressive portfolio rebalancing resulted in visible declines in Hong Kong's stock prices (*Chart 2*), with particular pressure on financial and property stocks. In the other two episodes, the US interest rate lift-offs were more gradual, while the global business cycle generally held up. These favourable factors helped contribute to the resilience of corporate earnings and counter the negative impacts on investment sentiment arising from US monetary tightening during the period.

On economic performance, rising interest rates *per se* in theory have adverse impacts on private domestic demand, which could be a troubling concern. Firstly, higher interest rates weaken household and corporate spending directly by raising borrowing costs. The IMF in a recent study found that a 300-basis-point increase in mortgage rates could reduce household consumption by about 7-8 percent, and a 300-basis-point increase in interest rates could trim corporate investment by 0.5-1 percent<sup>(1)</sup>. Besides, there are also indirect channels imparting negative influences. Corrections in local asset prices in response to higher interest rates could dampen private consumption via negative wealth effects. If the US rate lift-off proceeds abruptly and sends shockwave around the world, the resulting global economic and financial headwinds could further undermine local economic performance.

Comparing the past three US interest upcycles, the headwinds to Hong Kong's economy were most visible in the one that began in February 1994. In this occasion, the steep interest rate rises heightened global financial volatility. Growth of major advanced economies also decelerated visibly towards the end of this upcycle, which added a further drag on Hong Kong's economic performance. Significant fluctuations in local asset prices were also seen after the initial rate hike, with bearings on consumption sentiment via wealth effects.

(1) IMF Staff Report of Hong Kong Special Administrative Region, People's Republic of China, "Box 2: The Impact of Rising Interest Rates on Domestic Demand in Hong Kong SAR", January 2016.



### **Box 2.3 (Cont'd)**

On the other hand, the negative impacts in the other two episodes were more muted, being diluted by other positive developments. In the interest rate upcycle that began in June 2004, Hong Kong's real GDP growth managed to stay robust after the rate hike, as the solid global economic growth as well as strong local cyclical economic upturns after a prolonged period of setback prevailed. In the upcycle that began in June 1999, Hong Kong's economic growth actually picked up notably in the year after the rate hike, though this was merely due to the waning of the recessionary pressures from the Asian Financial Crisis. In fact, local mortgage rates actually fell back visibly right before this US interest rate upcycle as the risk premium receded. Moreover, many regional economies also recovered vigorously during 1999 from deep recession. These tailwinds powered Hong Kong's economy to shake off the recession in 1998 and rebound strongly in 1999.

In sum, the past experiences suggest that the impact of US interest rate hikes is not only contingent on the pace and magnitude of the hikes, it also critically hinges on other macroeconomic factors and their dynamic interactions. At this juncture, the pace of US interest rate normalisation is still subject to uncertainties and data-dependent. In late January, the Federal Open Market Committee indicated their concerns about the heightened global financial market volatility, while US economic growth in the fourth quarter of 2015 slowed visibly, greatly reducing expectation for a March rate hike. The uncertain growth momentum of the US, increasing monetary policy divergence among major central banks, and the recent fluctuations in global financial markets would continue to complicate the US interest rate outlook. Any unexpected policy action by the Fed could bring about further ramifications to the global economy via the complex financial channels.

Moreover, the US interest rate lift-off this time began under exceptional global economic circumstances. In particular, the global economy seems to have entered a protracted period of slow growth in the post-crisis period. The US interest rates had hit nearly zero for seven years. Unconventional monetary policies in major advanced economies flooded global financial markets with liquidity glut, buoying asset valuations in different parts of the world. Vulnerabilities in those emerging markets with weaker fundamentals have built up. Besides, the divergence of monetary policies among major central banks is fairly pronounced and the degree of global integration of financial markets is at a historic high.

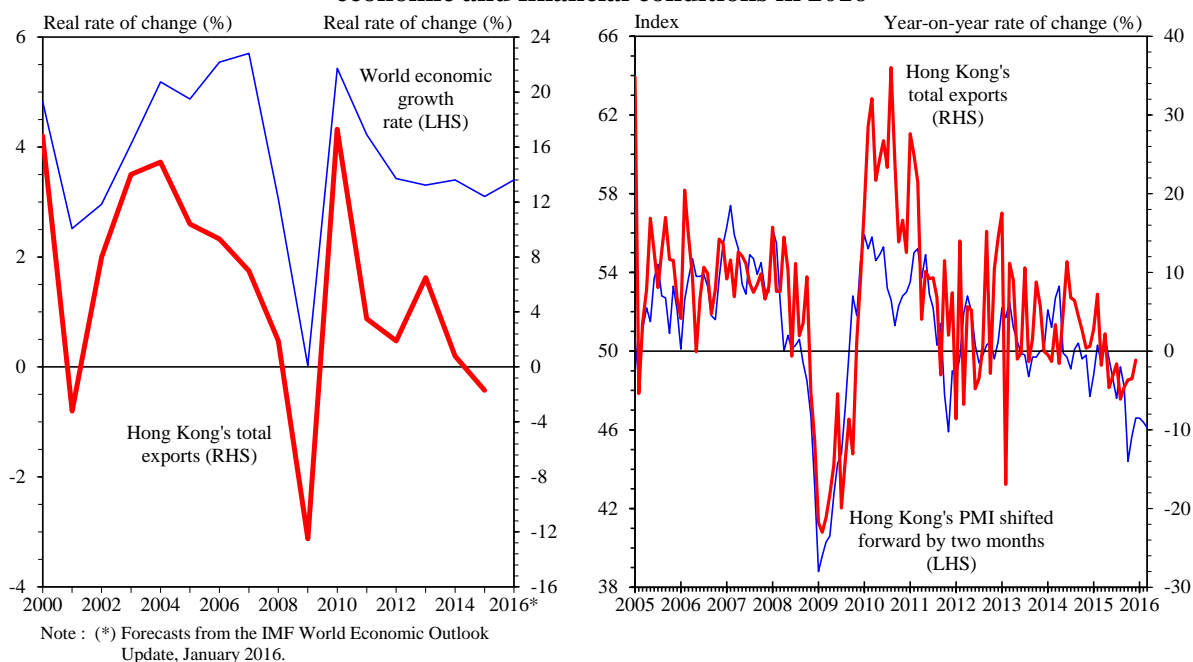
Since mid-2015, the local stock market has followed the global trend and undergone significant corrections. Local housing market has also consolidated of late. Fluctuations in local asset prices, if continued, will likely have dampening effects on consumption demand through negative wealth effects. Besides, the strengthening of the US dollar seen in the past year, if continued, may induce additional downward pressures on Hong Kong's exports and inbound tourism. Yet our main concern stemming from the US interest rate normalisation is that it may interact with the exceptional global circumstances this time in such a vicious way that leads to an acute economic slowdown and financial dislocations around the world, with consequential impacts on Hong Kong's economic performance.

Hong Kong, with a sound financial system and strong fundamentals, is more than capable to handle the abrupt changes in financial conditions and capital flows and navigate through the ups and downs of the global economy. The macro-prudential measures taken in the past few years in preparation of the eventual normalisation of interest rates have also strengthened the resilience of the financial system. The healthy position of current account balance, the absence of external debt by the government, and the strong net external financial asset position would also distinguish Hong Kong from economies with weaker fundamentals in other parts of the world. Yet, given the wide fluctuations of the financial markets since the beginning of this year, an important lesson from the past is to exercise risk management with a view to containing the impacts from any unanticipated adverse developments.

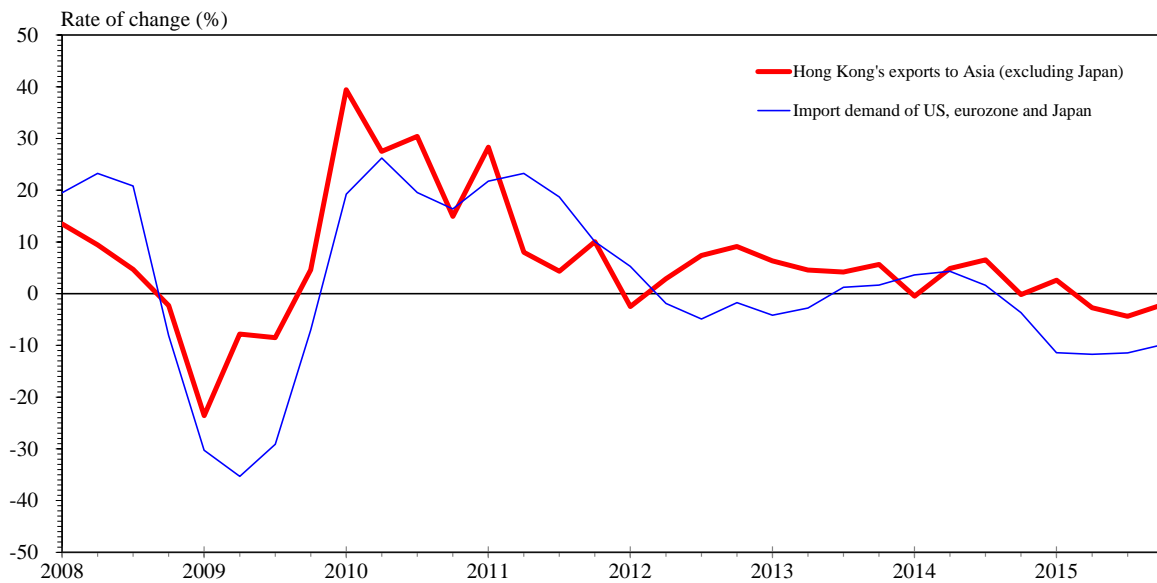
## Outlook for the Hong Kong economy in 2016

2.21 As a small and open economy, Hong Kong's economic outlook for 2016 will continue to hinge crucially on the vicissitudes of the external environment. The strong external headwinds, which dampened Hong Kong's export performance in 2015, are likely to persist in 2016. The weak global demand may continue to weigh on production and trading activities in Asia, especially if economic growth in advanced economies is to stay slow. Volatile global financial and commodity markets, growth slowdown of many emerging markets, and intensified geopolitical tensions will curtail global trade flows. Also, a strong US dollar will not be favourable to our price competitiveness. As such, Hong Kong's *exports of goods* will likely remain subdued in the near term and the chance of a visible turnaround in 2016 looks slim. Yet, there may be some relative improvement towards the latter part of the year, if the demand conditions in advanced economies pick up and downside risks to the global economy recede.

**Diagram 2.5 : The outlook for Hong Kong's goods exports will hinge crucially on global economic and financial conditions in 2016**



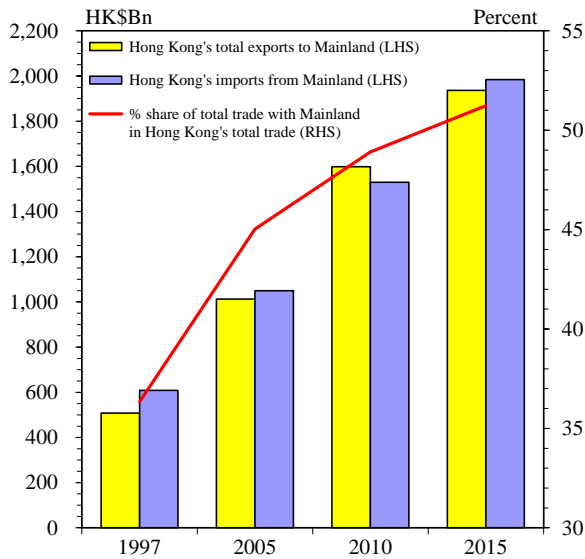
**Diagram 2.6 : Regional trade is closely related to import demand in advanced economies**



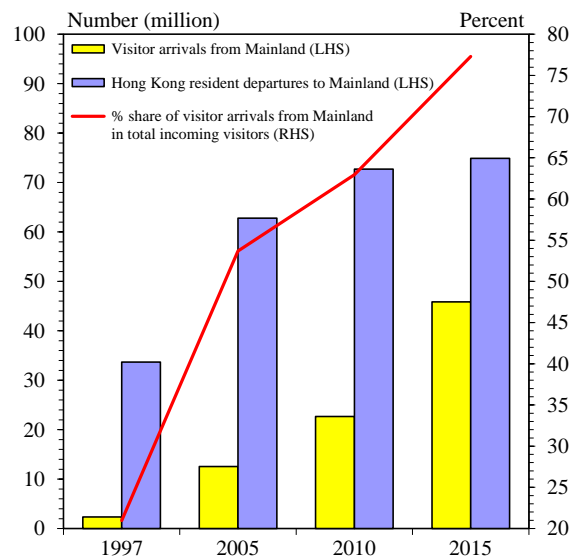
2.22 *Exports of services* deteriorated during 2015 and registered its first annual decline since 1998, battered by a further weakening in inbound tourism and sluggish trade and cargo flows. Looking ahead, the situation is not promising either, as the sluggish trade and cargo flows under the austere external environment may continue to hold back the performance of exports of trade-related services and transportation services. Also, a persistently volatile international financial environment may hamper cross-border financing and fund-raising activities, and dent exports of financial and business services. As for exports of travel services, downward pressures may remain as the consolidation in inbound tourism may still continue for a while, given a further decline in visitor arrivals on entering 2016.

## Diagram 2.7 : Economic links with the Mainland are important for Hong Kong

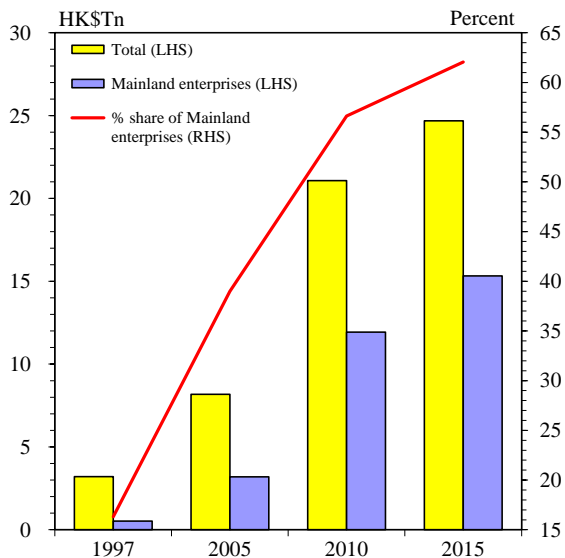
(a) Merchandise trade



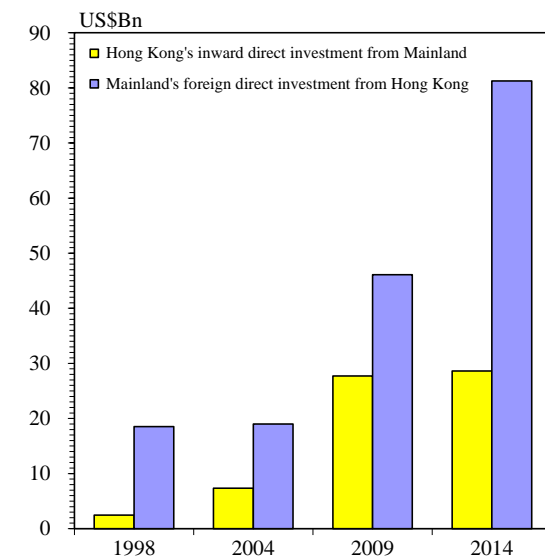
(b) Visitor arrivals from Mainland and Hong Kong resident departures to Mainland



(c) Market capitalisation of Mainland enterprises in the Hong Kong stock market (end-year figures)

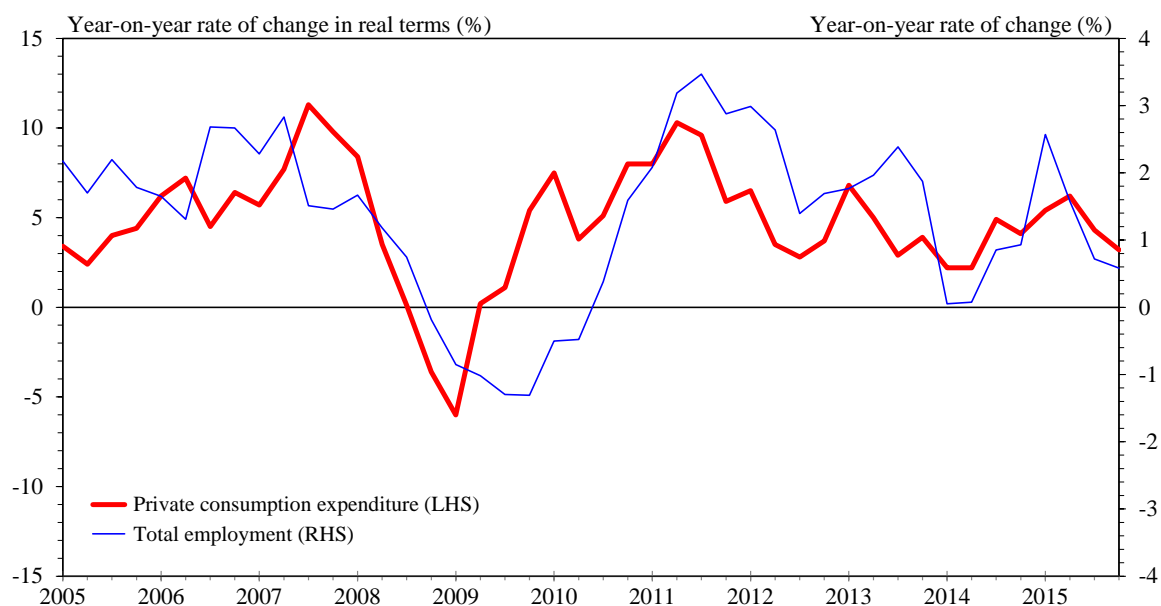


(d) Hong Kong's inward direct investment from Mainland and Mainland's foreign direct investment from Hong Kong

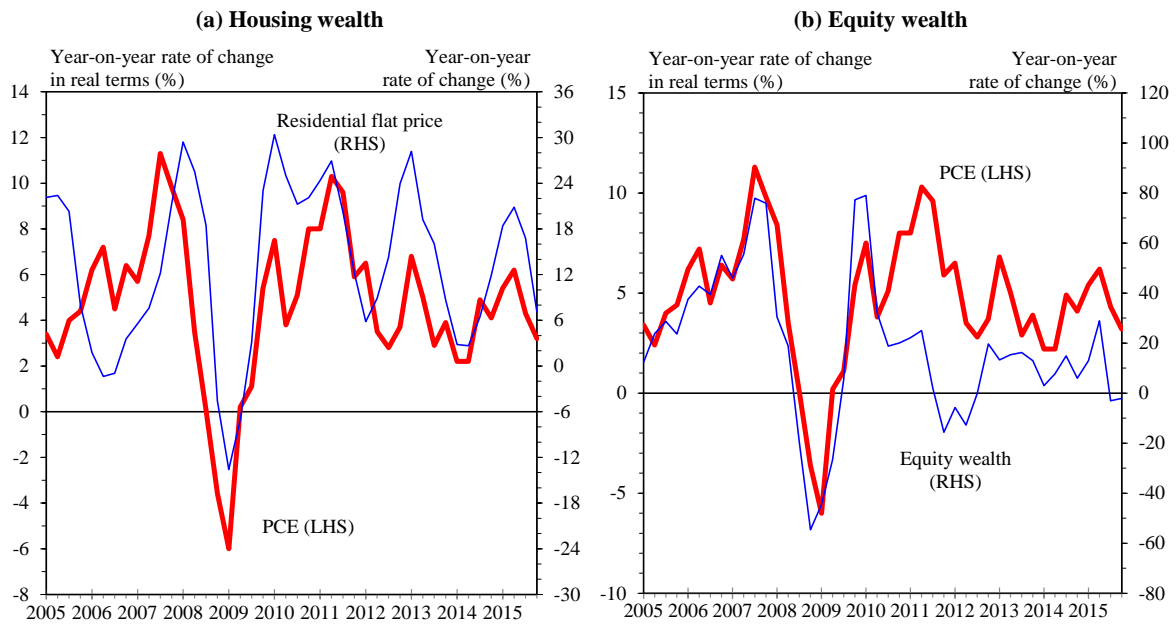


2.23 *Domestic demand* was relatively resilient in 2015, cushioning the economy against the setback of the external sector. Going forward, domestic demand should still see some growth in 2016, but may also come under test given a highly uncertain external environment. While a stable labour market should render some support to private consumption, consumer sentiment could be adversely affected by the subdued global economic prospects and the volatile financial conditions. The corrections in asset prices, especially after the kick-off of the interest rate upcycle in the US, may also have an unfavourable wealth effect on consumption. As for investment demand, external developments may weaken investment sentiment. Indeed, business sentiment of large enterprises and small and medium-sized enterprises have turned somewhat negative about the near-term outlook amid the protracted sluggishness in the global economy and the gloomy global growth prospects. Nonetheless, the building and construction component should provide some buffer for overall investment in 2016, sustained by the ongoing public building and construction works and increasing private sector activities.

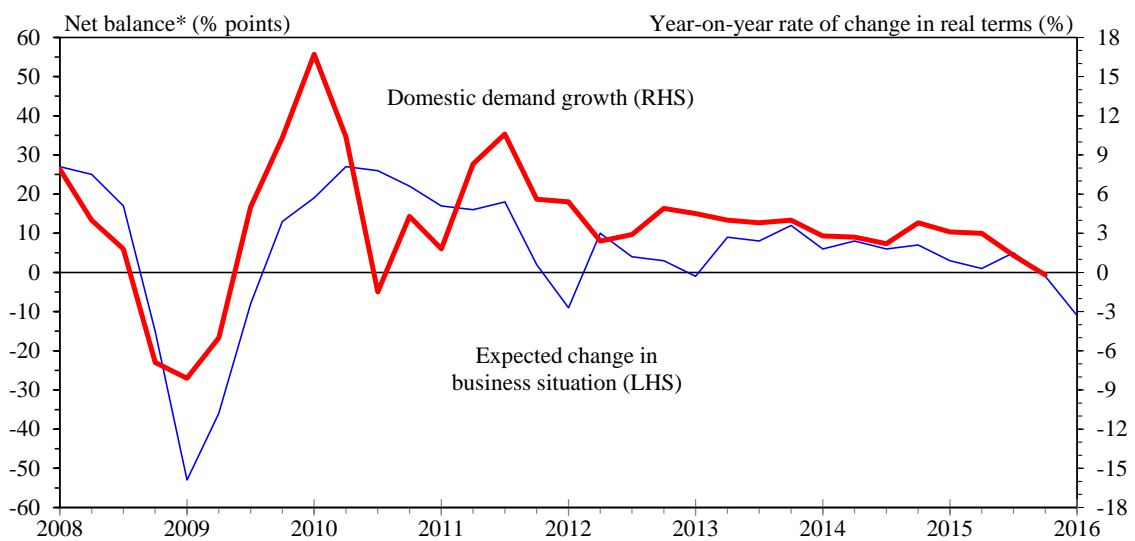
**Diagram 2.8 : Private consumption looks set to moderate in 2016**



**Diagram 2.9 : Consumer sentiment may be affected by asset market performance**

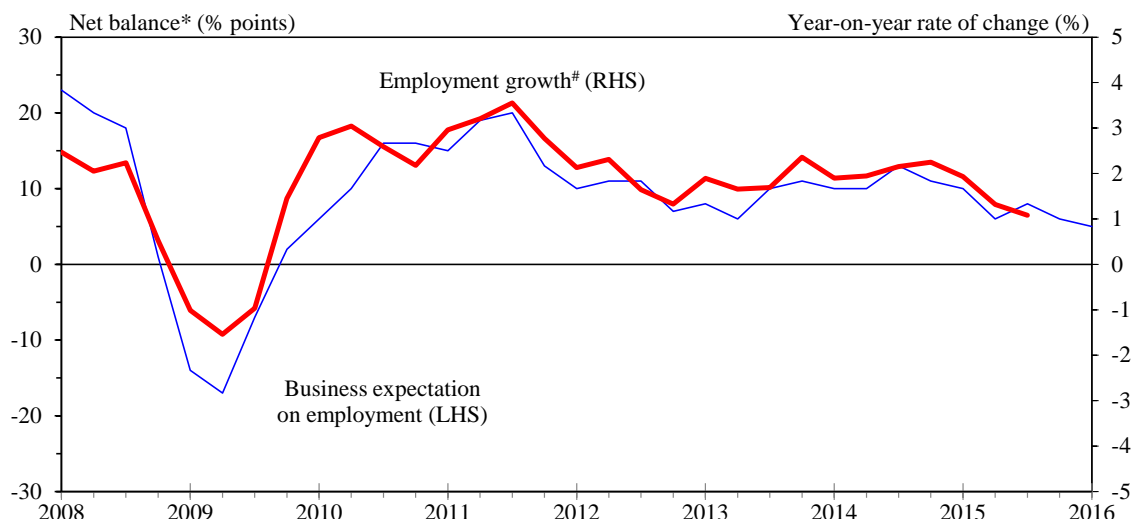


**Diagram 2.10 : Large enterprises turned somewhat negative about the near-term business outlook**



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

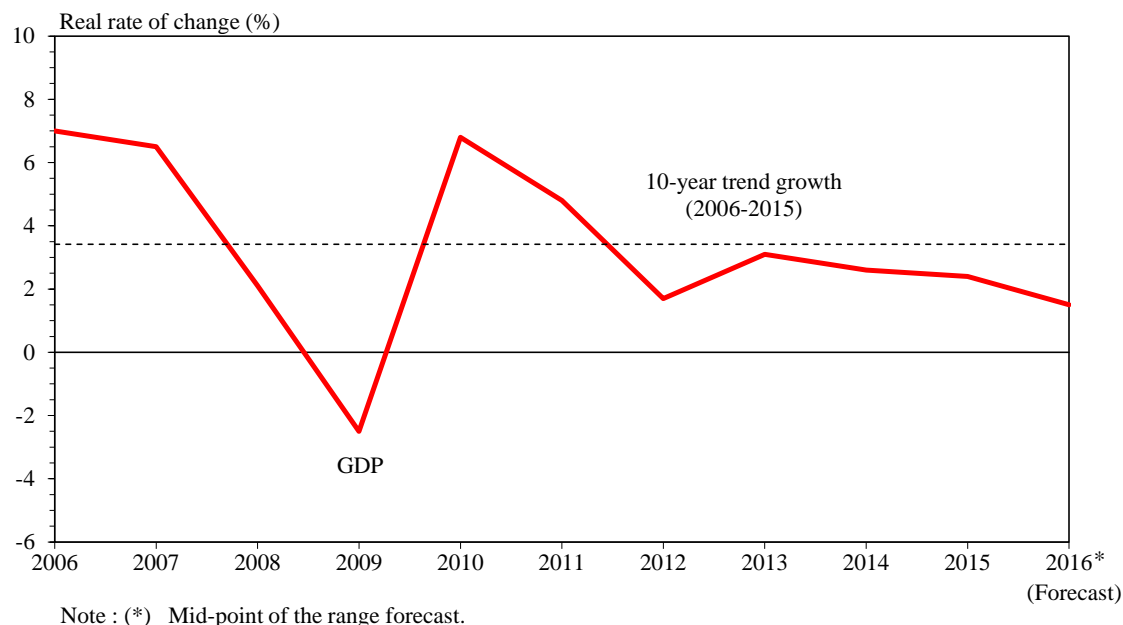
**Diagram 2.11 : Hiring sentiment remained broadly stable**



Notes : (\*) Net balance indicates the direction of expected change in number of persons engaged versus preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "up" over that choosing "down". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.  
 (#) Employment in private sector.

2.24 Taking into account the likely lacklustre performance in external trade and possible moderation in domestic demand, the Hong Kong economy is projected to grow by 1-2% in 2016, after the 2.4% growth in 2015 and compared to the average annual growth of 3.4% in the past ten years. For comparison, the prevailing forecasts by private sector analysts for Hong Kong's economic growth in 2016 mostly fall within the range of 1.0-2.5%, averaging at around 1.9%. The slow growth projected for the Hong Kong economy could exert pressures on job creation and the unemployment situation, which warrant close monitoring. The GDP growth forecast for 2016 is subject to an unusually high degree of uncertainty, much depending on how the complicated global financial conditions will evolve and the repercussions on the world economy, especially when some emerging market economies may be susceptible to financial shocks. Significant shifts in risk sentiment and capital flows, if come about, may trigger deeper-than-expected asset market corrections, and the ensuing negative wealth effect would accentuate the downward pressures on our domestic economy. In this regard, the developments in the local property market amid an interest rate upcycle need to be watched over. On the other hand, there could be some upside potential to the forecast if the world's economic growth is stronger than expected, creating a more supportive environment for global trade flows, and if Asian and emerging market economies, with relatively resilient domestic demand, hold up better than envisaged.

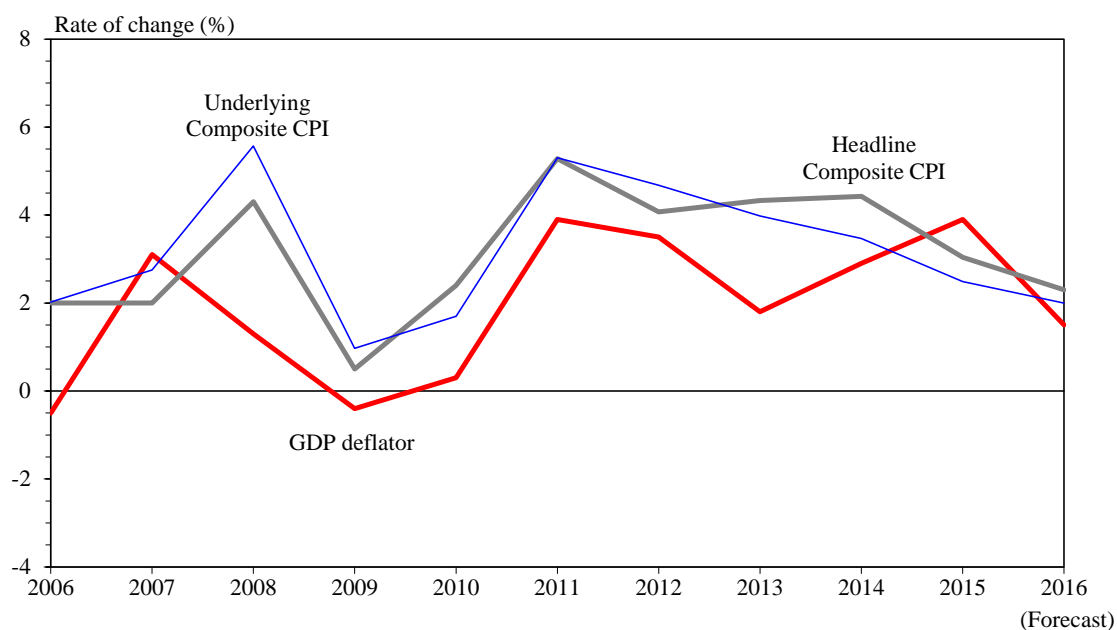
**Diagram 2.12 : Hong Kong economy is expected to expand at a slower pace in 2016, under an austere external environment**



2.25 Underlying inflation in Hong Kong eased further from 3.5% in 2014 to 2.5% in 2015. Externally, declining international commodity prices and tame inflation outlook for Hong Kong’s major trading partners should help keep imported inflation low. Thus, barring any unexpected rebound in international commodity prices, external price pressures will likely remain soft in 2016. Local cost pressures also look set to lessen, in tandem with the sub-par economic growth and with the consolidation in the property market that in turn will likely dampen rental costs. Taking all the factors into consideration, the *underlying Composite CPI* is forecast to increase by 2% for 2016 as a whole, easing further for the fifth consecutive year, from the 2.5% increase in 2015. Taking into account the effects of the Government’s one-off measures, *headline Composite CPI* is forecast to increase by 2.3% in 2016, compared to 3.0% in 2015. The *GDP deflator* is forecast to rise by 1.5%, on account of the expected slower increases in prices from both the local and external fronts.



**Diagram 2.13 : Inflation poised for further easing in 2016**



**Forecast rate of change in 2016 (%)**

**Gross Domestic Product (GDP)**

<i>Real GDP</i>	<b>1 to 2</b>
<i>Nominal GDP</i>	2.5 to 3.5
<i>Per capita GDP in real terms</i>	0.2 to 1.2
<i>Per capita GDP at current market prices</i>	HK\$334,500 – 337,800 (US\$42,900 – 43,300)

**Composite Consumer Price Index**

<i>Underlying</i>	<b>2</b>
<i>Headline</i>	<b>2.3</b>

<b>GDP Deflator</b>	<b>1.5</b>
---------------------	------------

**Forecast on Hong Kong's GDP growth in 2016  
recently made by other selected parties**

The University of Hong Kong	(%) Below 2
Average forecast by private sector analysts <sup>#</sup>	1.9

Note : (#) Forecast GDP growth rates by private sector analysts mostly fall between 1.0% and 2.5%.

## **Medium-term outlook for the Hong Kong economy**

2.26 Over the medium term, the Hong Kong economy will still likely be confronted with a challenging and unsteady external environment. After the Global Financial Crisis of 2008, the world economy has entered an era of underinvestment and high unemployment, which coupled with the challenges of population ageing, have lowered the growth potential of many advanced economies. In the absence of a strong recovery from the demand side, global growth is likely to remain sub-par for an extended period under the “new normal”. For instance, growth in the eurozone and Japan would stay slow, with potential risks of setbacks, amid unresolved structural problems such as high debt levels, fiscal sustainability and certain market rigidities. While the economic performance of the US fares relatively better, there remains notable policy risks associated with its interest rate normalisation and the possible adverse repercussions to global economic and financial conditions. Also, the problem of population ageing in advanced economies would intensify over time, pulling a rein on their growth in the longer term.

2.27 While emerging market economies are likely to remain the key drivers of the global economy, they may see growth at a more moderate pace in the coming years. Aside from adjustments to past years of exceptionally brisk expansion, the protracted slow growth in the advanced economies may continue to affect those economies that are export-oriented. In addition, economies with a build-up of domestic and external vulnerabilities over the years and less resilient financial systems may be more susceptible to potential negative shocks from sharp asset price fluctuations and capital flow reversals triggered by the monetary policy normalisation in the US. Nonetheless, Asian economies, generally with stronger economic fundamentals and resilient domestic demand, should continue to be the bright spots in the global economic arena.

2.28 With the shift in the gravity of global economic activities towards the East, deepening economic linkages with the Mainland will continue to be an integral part of our growth strategy. The Mainland is moving towards a lower but more sustainable growth path under the National 13th Five-Year Plan for 2016-2020. In the coming years, the Mainland’s increasing emphasis on its services sector and domestic consumption should offer ample opportunities for Hong Kong, as our companies have a competitive edge in providing higher-end services. In addition, the further opening up of the Mainland market, closer integration with the Mainland’s financial markets, the internationalisation of the RMB and the “going out” of Mainland enterprises will likely increase the demand for high value-added services, particularly financial and professional services. Against this, the Government will continue to forge closer economic

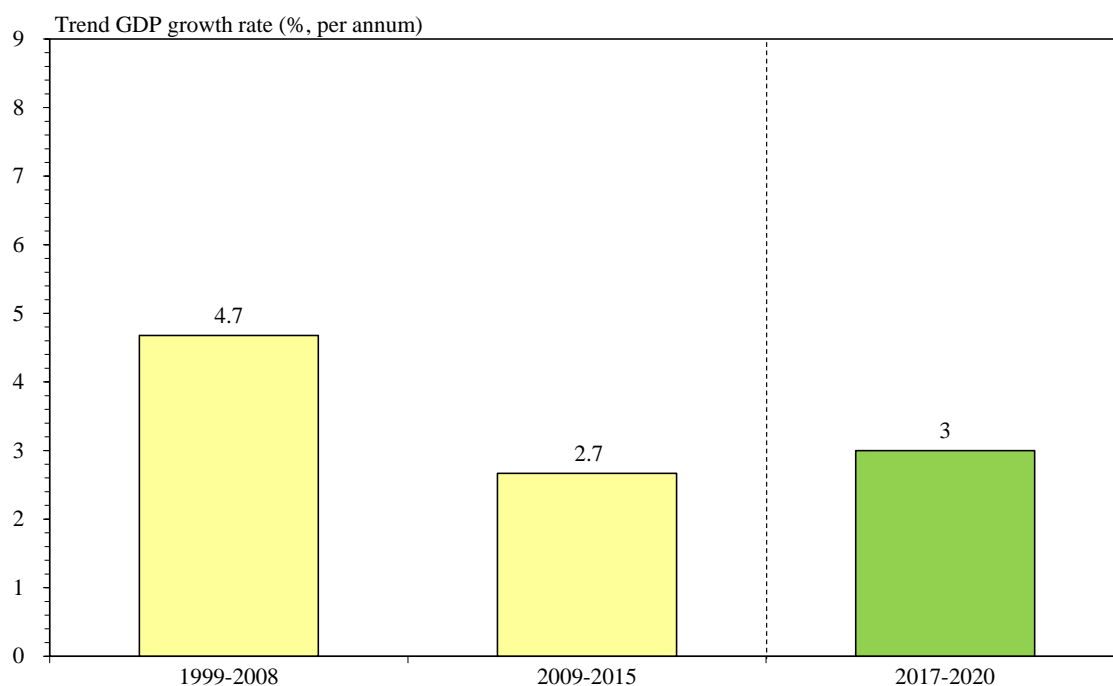
ties with the Mainland through CEPA and other regional co-operation platforms. Further efforts will be made to reinforce Hong Kong's status as the leading offshore RMB business centre and premier asset management hub. Separately, the Government will strive to strengthen economic co-operation with new and emerging markets. In particular, the Mainland's "Belt and Road" Initiative, which encompasses over 60 economies (including many emerging market economies in Southeast and Central Asia, Central and Eastern Europe, as well as Africa), will bring forth extensive business opportunities stemming from infrastructural investments, deepening of financial linkages, trade expansion and people-to-people connectivity. Hong Kong is well-positioned to serve as a fund-raising and financial management platform, a trade and logistics hub, as well as an investment springboard when tapping into these markets with huge growth potential.

2.29 On the domestic front, the Government is committed to uplifting Hong Kong's competitiveness and promoting sustainable and diversified economic development. In order to lay a solid foundation for our longer-term development, the Government constantly strives to enhance our strengths in pillar industries, while exploring and promoting new growth areas. Efforts in upgrading human capital and infrastructure will continue to uphold Hong Kong's productivity and competitiveness. Ongoing large-scale infrastructure works should render support to domestic demand beyond the near term.

2.30 Meanwhile, the Government is mindful of the key challenges that could limit our economic growth potential going forward. Population ageing, a common phenomenon across advanced economies, will pose a key constraint to Hong Kong's medium to longer-term economic growth. The Government is proactively adopting a multi-pronged population policy including unleashing the potential of the local workforce, enhancing the quality of home-grown talent, attracting foreign investors and talent, fostering a family-friendly environment and embracing opportunities in an ageing society. Notwithstanding the Government's efforts in boosting labour force at source, the demographic shift makes it all the more important for the Government to exercise fiscal prudence, in view of the profound impacts on our public expenses from an ageing population, especially on healthcare and social welfare. Also, we need to preserve our ability in meeting the upcoming various challenges to our economy. Sufficient public resources must be ensured for infrastructure and human capital investment to increase growth potential of our economy and also to tackle social issues through various programmes. Taking into account the challenges in the external environment and on the domestic front, the economy is expected to attain a trend growth of 3% per annum from 2017 to 2020.

2.31 Over the medium term, inflationary pressures are expected to remain moderate. Externally, slow global growth under the “new normal” will likely keep global inflation low. Locally, the Government’s continuous efforts to increase land and housing supply will be conducive to keeping rental cost pressures contained in the years ahead amid a better demand-supply balance in the property market. Also, productivity gains should help lessen some of the local cost pressures. Taking all these developments into account, the trend rate of change in the underlying Composite CPI in Hong Kong from 2017 to 2020 is forecast at 2.5% per annum. However, there are upside risks to Hong Kong’s inflation outlook, if global growth is stronger than expected, and if major central banks delay their monetary policy responses to faster-than-expected increases in inflationary pressures, or if commodity prices rise sharply due to adverse supply shocks.

**Diagram 2.14 : Medium-term trend growth likely to be moderate**



## CHAPTER 3 : THE EXTERNAL SECTOR

### *Summary*

- *The external trading environment worsened in 2015, as the global economy shifted to a lower gear and registered the slowest growth since the Global Financial Crisis. Moreover, the uncertainties associated with US interest rate normalisation and diverging monetary policies among major central banks provoked global financial volatility, which further deterred international trade flows. The slack in global demand dealt a serious blow to exports in Asia.*
- *Hong Kong's merchandise exports slackened, as with other Asian economies, and declined year-on-year since the second quarter of 2015, falling by 1.7% in real terms<sup>(1)</sup> for the year as a whole. Except for India and Vietnam, which registered further notable growth, the performance across major markets was subdued.*
- *Exports of services also worsened to a decline in 2015. Exports of travel services were particularly weak, seeing a widened fall in the second half of the year. While the distinct slackening of visitor arrivals was the key factor, enduring weakness in tourist spending on big-ticket items added to the woes. Exports of trade-related services and transportation services both slackened upon the plunge in regional trade and cargo flows. In contrast, exports of financial and other business services grew solidly and rendered some cushion, thanks to hectic fund-raising and cross-border financial activities.*
- *Hong Kong continued to strengthen economic ties with its trading and investment partners. In November 2015, the Agreement on Trade in Services was signed as a stand-alone, subsidiary agreement on trade in services under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), whose implementation enables basic liberalisation of trade in services between the Mainland and Hong Kong. In light of the "Belt and Road" Initiative of the nation, the Government will strengthen economic relations with entities in the involved areas so as to tap the vast opportunities.*
- *Separately, Hong Kong's foreign direct investment inflows and outflows both ranked the second among the world economies in 2014, signifying our significant role as an international business hub.*

## Goods trade

### *Total exports of goods*

3.1 External demand deteriorated visibly in 2015, with the slowdown of the global economy putting a serious dent on regional trade flows and manufacturing activity. Amid the general downdraft of Asia's exports, Hong Kong's *merchandise exports* (comprising re-exports and domestic exports) weakened to register a decline of 1.7% in real terms in 2015 as a whole, marking the worst performance since 2009. This followed a 1.5% growth in the preceding year. Except for a modest year-on-year growth of 0.7% in the first quarter, merchandise exports declined in the rest of the year, by 3.0%, 3.8% and 0.5% respectively in the second, third and fourth quarters. On a seasonally adjusted quarter-to-quarter basis, merchandise exports fell by 0.3%, 1.2% and 0.1% respectively in the first three quarters, before resuming a 1.1% growth in the fourth quarter.

3.2 Global economic growth was uneven and slow in 2015, estimated by the International Monetary Fund in January 2016 at 3.1%, the slowest since the "Great Recession" of 2008-2009. The US economy fared slightly better among the advanced economies and grew moderately, with the slack in the labour market diminishing visibly, prompting the Federal Reserve (Fed) to start the rate hikes in mid-December. Growth in other major advanced economies, held back by deep-seated structural issues, was modest and faltered at times. To reinvigorate their economies and achieve inflation targets, the central banks in the eurozone and Japan stepped up their easing measures during the year, which further complicated the global monetary environment. Meanwhile, downward pressures on emerging market economies persisted. Russia and Brazil were mired in recession, while many developing Asian economies, including the Mainland, also grew at slower paces. Amid concerns over US interest rate hikes and conflicting monetary policies among major central banks and the once-escalated Greek debt crisis in the middle of the year, global financial and foreign exchange volatility intensified and some emerging market currencies tested multi-year lows during the third quarter, dealing a further blow to international trade flows.

3.3 Under the severe common shock from the lacklustre global demand, Asian exports generally plunged in 2015, with many witnessing the worst falls in US dollar terms since 2009. The weaker exports and manufacturing activities in Asia translated into visibly slower economic growth in many economies in the region, which in turn exerted an additional downward pressure

on intra-regional trade. In particular, in US dollar terms, exports of Taiwan, Singapore, Malaysia and Indonesia all recorded double-digit declines of 11-15% in 2015. Exports of Thailand and Korea also fell notably by 6% and 8% respectively. By comparison, the decline in Mainland's exports, at 3% for the whole year, was somewhat smaller. In general, while the strength of the US dollar was not conducive to the price competitiveness of Hong Kong's exports, our export performance still fared better than many other Asian economies.

**Table 3.1 : 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 (-3.8)	1.7	0.7	-0.7 (-4.0)	1.7	-1.1	0.6 (3.3)	-0.5
Q2	4.8	3.4 (3.8)	1.9	4.8	3.3 (3.7)	1.9	8.3	9.6 (4.5)	0.5
Q3	5.8	4.1 (1.9)	2.2	5.9	4.1 (2.1)	2.2	3.1	3.4 (-4.2)	1.3
Q4	1.2	-0.8 (-3.4)	2.2	1.3	-0.8 (-3.4)	2.3	-3.7	-2.4 (-5.9)	-0.7
2015 Annual	-1.8	-1.7	0.1	-1.6	-1.6	0.1	-15.2	-12.8	-3.0
Q1	2.3	0.7 (-0.3)	2.0	2.5	0.8 (-0.3)	2.1	-10.1	-8.7 (-2.3)	-1.5
Q2	-1.9	-3.0 (-1.2)	1.3	-1.7	-2.8 (-1.2)	1.4	-15.6	-13.8 (-2.8)	-2.7
Q3	-4.1	-3.8 (-0.1)	-0.4	-3.9	-3.6 (*)	-0.4	-18.3	-15.7 (-6.9)	-4.3
Q4	-2.9	-0.5 (1.1)	-2.1	-2.7	-0.3 (1.1)	-2.1	-16.4	-12.6 (-0.4)	-3.3

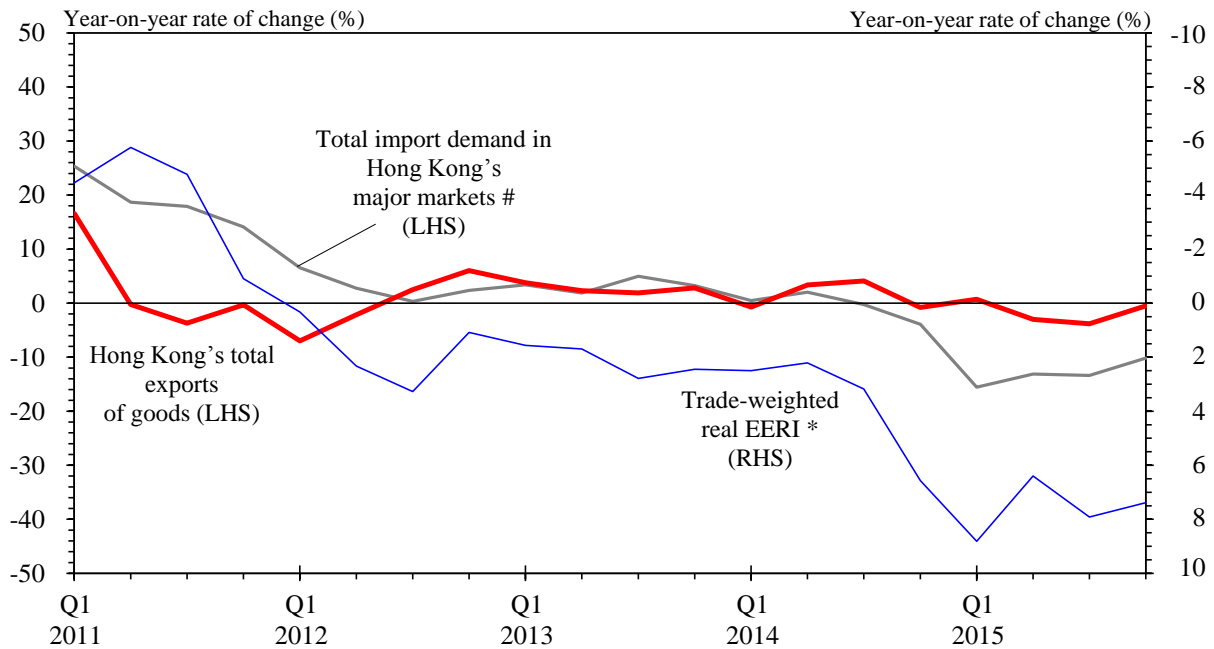
Notes : ( ) Seasonally adjusted quarter-to-quarter rate of change.

(\*) 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.

3.4 *Re-exports*<sup>(2)</sup>, the mainstay of overall merchandise exports and accounting for 98.7% of total exports by value, fell by 1.6% in real terms in 2015, reverting from the 1.5% growth in 2014. *Domestic exports*, constituting the remaining 1.3% of total exports, declined visibly by 12.8% in real terms in 2015, following the 2.9% increase in 2014.

**Diagram 3.1 : Merchandise exports slackened to show an annual decline in 2015, the first time since 2009**

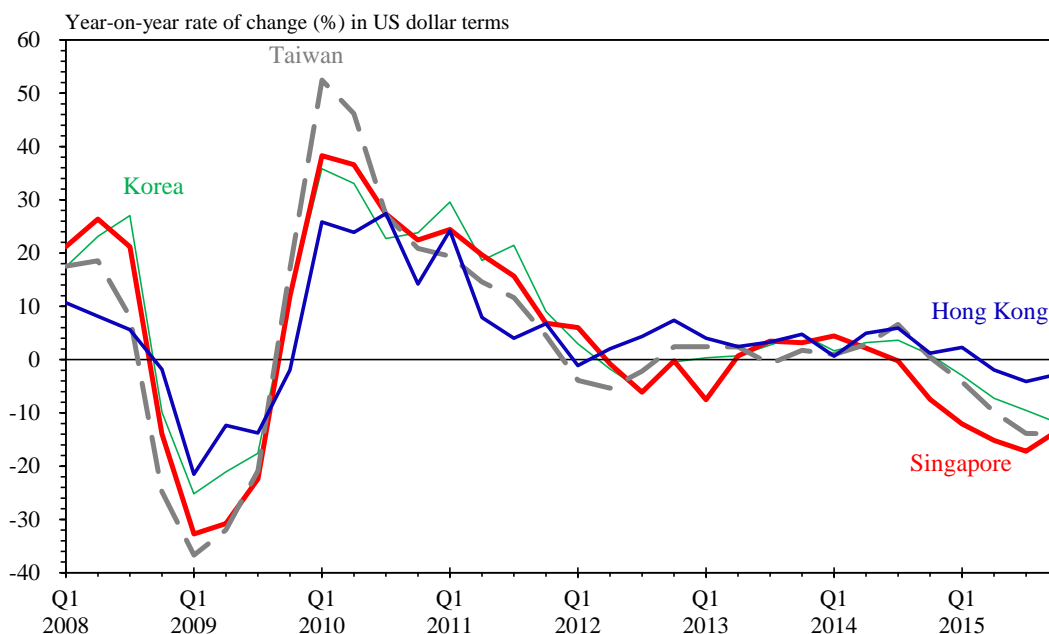


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in Asia, the United States and the European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

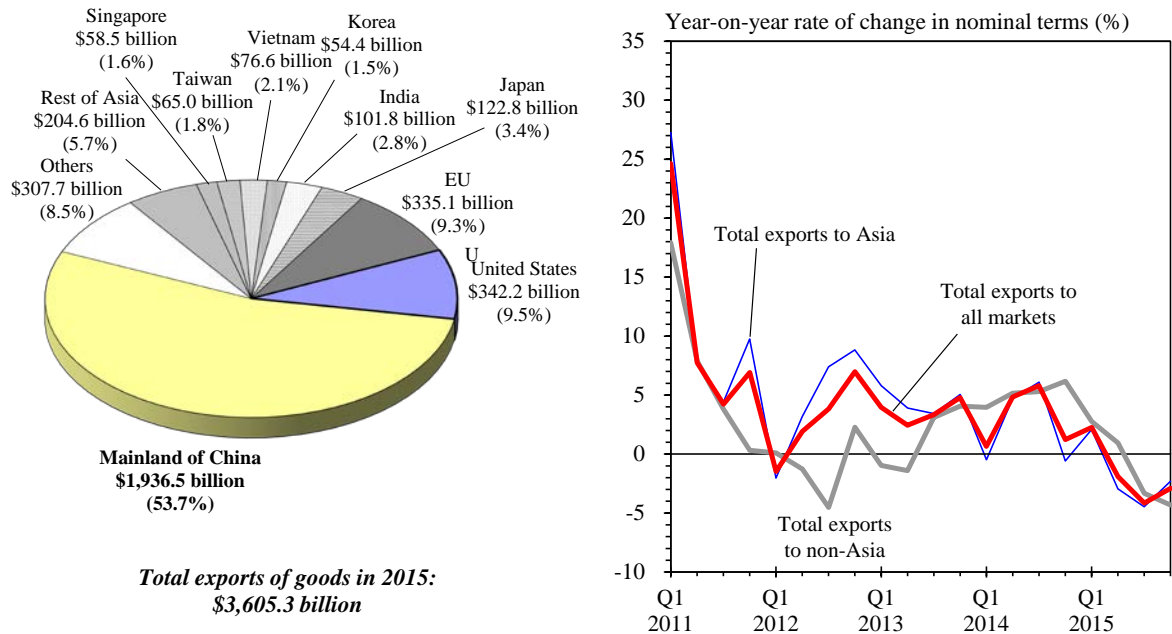
(#) Import demand figure for the fourth quarter of 2015 is based on statistics for October and November 2015.

**Diagram 3.2 : Asian NIEs suffered the worst setback in exports since 2009**





**Diagram 3.3 : Exports to the Asian markets slackened amid sluggish global demand**



**Table 3.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))**

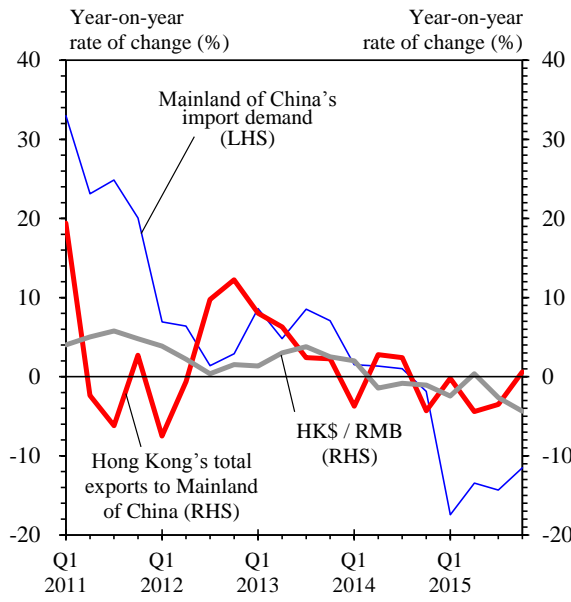
	Annual	2014				Annual	2015			
		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
Mainland of China	-0.7	-3.7	2.8	2.4	-4.3	-2.0	-0.2	-4.4	-3.5	0.6
United States	2.7	4.2	2.9	0.2	3.8	1.0	3.3	3.6	-1.4	-0.6
European Union	0.6	1.2	4.4	-0.3	-2.3	-4.1	-3.5	-6.7	-6.0	-0.2
Japan	-4.5	-2.0	-1.8	-5.2	-8.4	-3.6	-5.8	-4.0	-1.7	-2.8
India	16.0	6.8	15.3	35.6	6.1	7.9	12.4	-3.1	2.3	22.8
Vietnam	11.6	7.8	9.5	14.1	14.3	12.1	14.0	18.0	12.9	5.2
Taiwan	2.1	-7.9	1.2	13.6	1.7	-15.0	-12.8	-20.3	-23.5	-2.1
Korea	-1.8	0.1	1.3	4.0	-11.5	-13.4	-5.7	-13.8	-19.1	-14.2
Singapore	2.1	7.9	0.3	0.3	0.6	-4.3	0.4	-3.7	-8.7	-4.9
Overall*	1.5	-0.7	3.4	4.1	-0.8	-1.7	0.7	-3.0	-3.8	-0.5

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

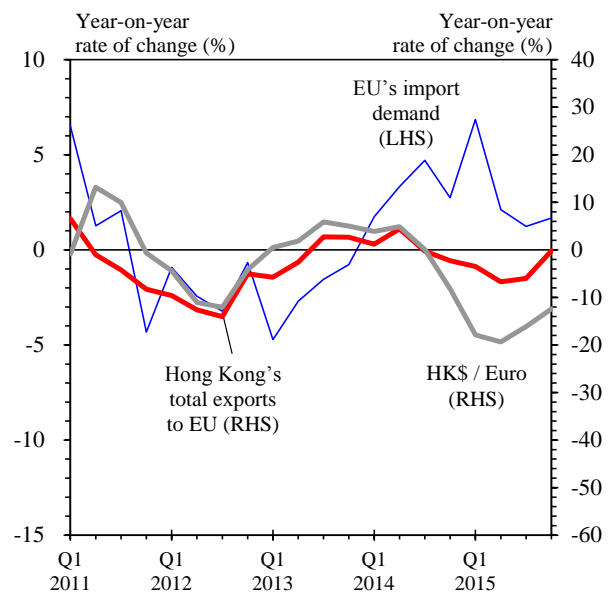
3.5 Analysed by major market, merchandise exports to the advanced economies in overall terms were still in the doldrums in 2015. Exports to the EU relapsed to a decrease in real terms in the year as a whole, despite the much narrowed decline in the fourth quarter, being constrained by the slow economic growth there, while the much-weaker euro discouraged its import demand. Exports to Japan stayed lacklustre and declined for the third consecutive year, due mainly to the fragile economic recovery and weak consumer spending in Japan, while the negative effects of earlier yen depreciation might not have completely faded. Exports to the US, though holding up relatively better among the advanced economies, registered only a slight overall growth, as the performance faltered in the second half of the year amid the slower economic growth and the weakening in industrial production there.

3.6 Amid the sluggish global demand, merchandise exports to most Asian markets worsened in 2015, showing varying degrees of declines. Apart from the plunge in capital goods intake caused by faltering production activities in Asia, the concurrent economic slowdown and currency depreciations in the region also severely curtailed their import appetite. The declines in exports to higher-income Asian markets, including Korea and Taiwan, were particularly pronounced. Exports to the Mainland went down in tandem, and those to some ASEAN emerging markets also lost steam. Exports to India and Vietnam, nevertheless, posted notable growth for 2015 as a whole, despite large fluctuations for the former during the year.

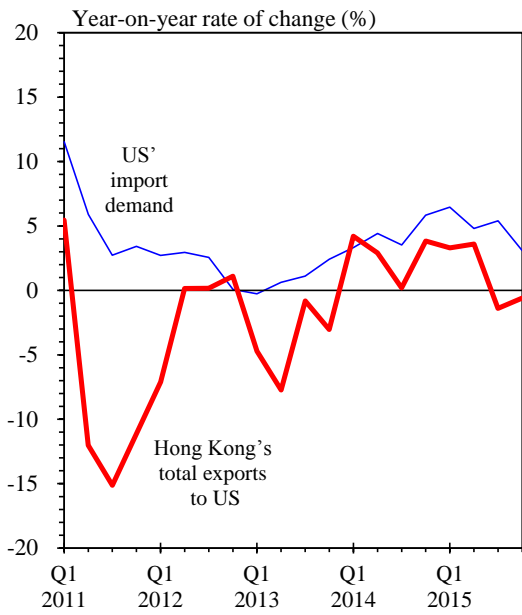
**Diagram 3.4 : Exports to the Mainland fell in 2015**



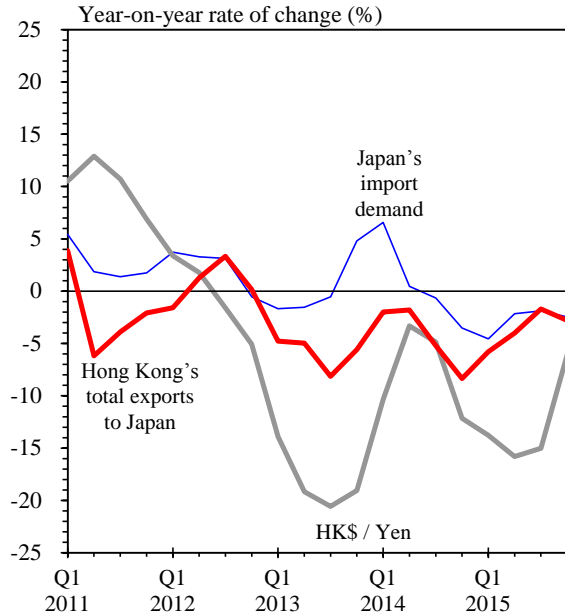
**Diagram 3.5 : Exports to the EU worsened and registered a decline**



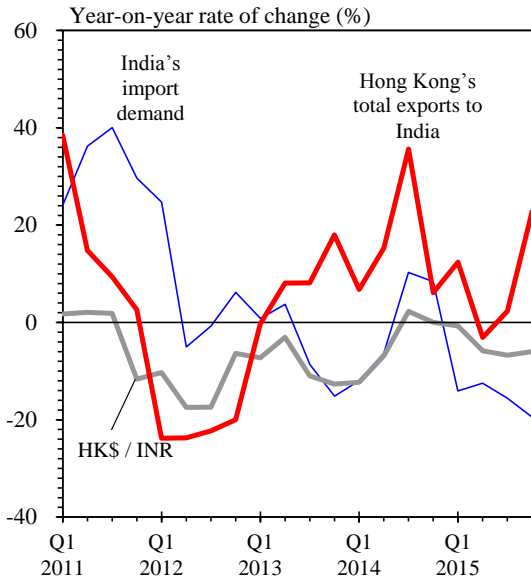
**Diagram 3.6 : Exports to the US relapsed to a decline in the second half of 2015**



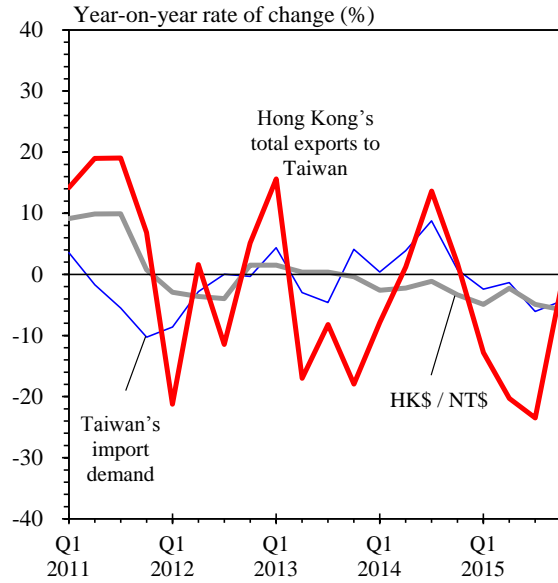
**Diagram 3.7 : Exports to Japan contracted for three years in a row**



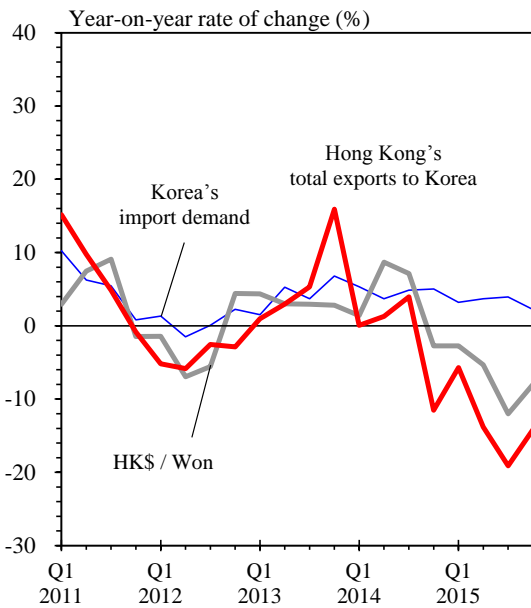
**Diagram 3.8 : Exports to India grew notably in full year despite fluctuations**



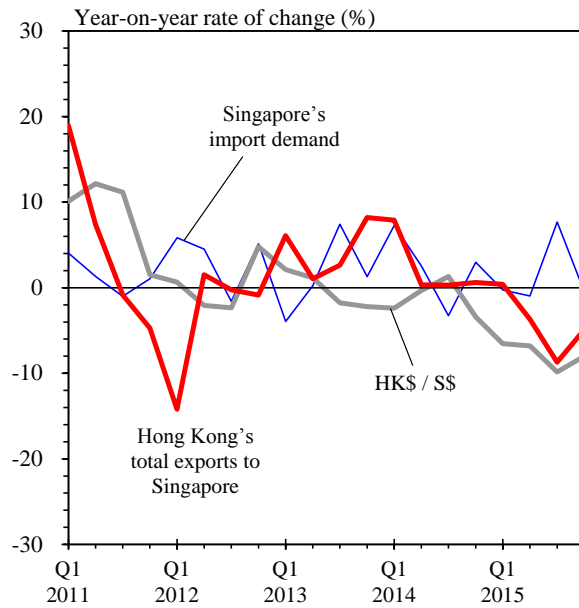
**Diagram 3.9 : Exports to Taiwan slackened considerably**



**Diagram 3.10 : Exports to Korea fell off**



**Diagram 3.11 : Exports to Singapore faltered over the course of 2015**



### Box 3.1

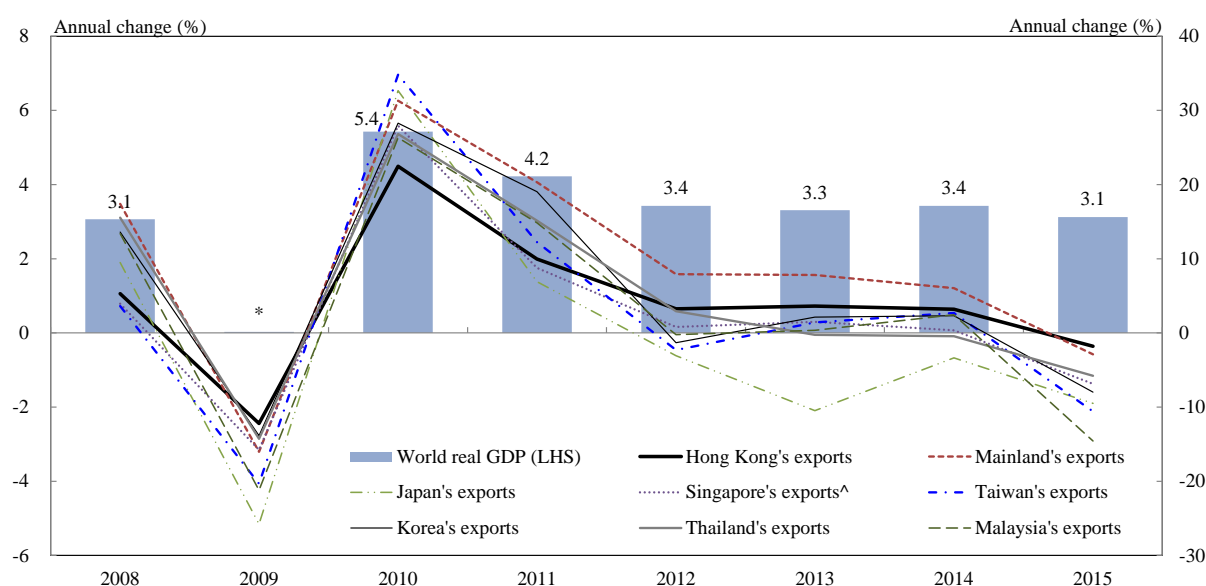
#### The cyclical and secular forces behind Hong Kong's merchandise export performance

The performance of Hong Kong's merchandise exports was lacklustre in the recent past, in tandem with those of many other export-dependent economies in Asia. While cyclical factors such as flagging global demand and heightened financial volatility could be the key determinants, the persistently subdued global trade performance in the recent years in contrast with the buoyancy in the period before the 2008 Global Financial Crisis may suggest the influence of secular or structural factors. This box article reviews the major cyclical and structural developments in the external trading environment.

For 2015 as a whole, Hong Kong's merchandise exports relapsed to shrink by 1.8% in value terms, following the 3.2% growth in 2014, representing the first annual decline since 2009. In volume terms, merchandise exports fell by 1.7% in 2015, after the 1.5% growth in 2014. The key drag stemmed from cyclical factors including the sluggish external demand amid slower global economic growth and more volatile financial conditions, and to a lesser extent the strength of the US dollar. Yet, some secular structural forces seemed also to have been at play.

Latest estimates from the IMF suggest that global economic growth slowed to 3.1% in 2015 from 3.4% in 2014, marking the slowest growth since the Global Financial Crisis. The resultant blow to Asia's exports from the weak global demand, in particular from the advanced economies, was rather severe. As illustrated in *Chart 1*, exports of many major Asian economies took a turn and worsened in 2015, registering declines ranging from 3% to 15% in US dollar terms. Indeed, many of them suffered the worst setback in export performance since 2009. By such comparison, Hong Kong's export performance, with merchandise exports falling by 1.8% in US dollar terms, still fared relatively better than many major Asian economies in 2015.

**Chart 1 : Merchandise export growth in US dollar terms and world economic growth**



Notes: (\*) Less than 0.05%.

(^) Singapore exports denote non-oil domestic exports.

Sources: National statistics offices; IMF World Economic Outlook, October 2015; and Census and Statistics Department.

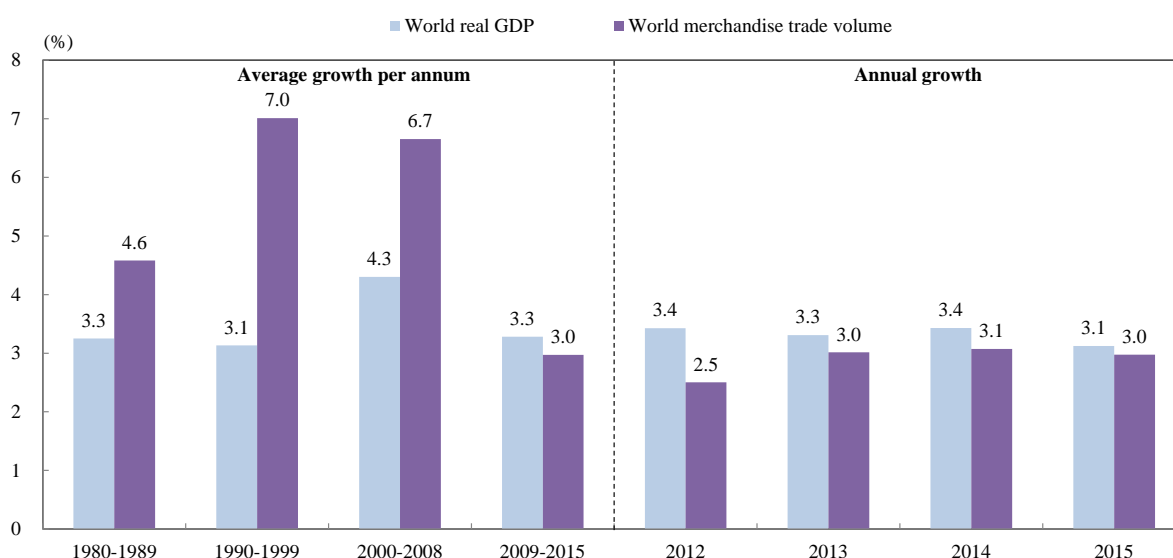
### Box 3.1 (Cont'd)

Taking a longer-term perspective at the macro-level, the expansion pace of global merchandise trade volume slowed notably in the period after the Global Financial Crisis, as compared to the past decades. Specifically, world trade volume growth averaged about 3% per annum during 2009-15. This was visibly slower than the average growth of around 7% per annum in both the period before the crisis, i.e. 2000-08, and the 1990s, and also that of about 5% per annum during the 1980s (*Chart 2*). A comparison between the world trade growth and economic growth reveals that structural factors could be at play.

Firstly, the slowdown in global economic growth, with average growth rates moderating from 4.3% per annum during 2000-08 to 3.3% per annum during 2009-15, could partly be under structural influences, and would in turn weigh on global trade growth. While recent growth rates of the global economy were similar to the averages recorded for the 1980s and 1990s, recent research by international institutions such as the IMF suggested that global potential growth had declined, reflecting the legacies of Global Financial Crisis as well as demographic and idiosyncratic structural issues pertaining to various major economies. For example, the US Federal Reserve forecast the US economy to grow by 2% per annum in the long run, which would be slower than the average of 2.8% per annum in the 20-year period before the crisis, i.e. 1989-2008. Besides, major emerging market economies are also expected to expand at a slower pace.

Secondly, the global trade elasticity with respect to output, which measures the responsiveness of trade volume growth with respect to real GDP growth, declined successively in the past decades. Broadly speaking, based on the world economic data of the IMF, global trade growth was around 1.4 times of the world economic growth on average in the 1980s, and such ratio increased drastically to about 2.2 times in the 1990s. On entering the millennium, it fell to 1.5 during 2000-08, and declined further to only around one in the post-crisis period, i.e. 2009-15. This suggests that some other structural factors may be in force aside from the Global Financial Crisis, including shifts in trade pattern over time.

**Chart 2 : World economic growth and world merchandise trade volume growth**



Sources: IMF World Economic Outlook Update, January 2016, and World Economic Outlook, October 2015.

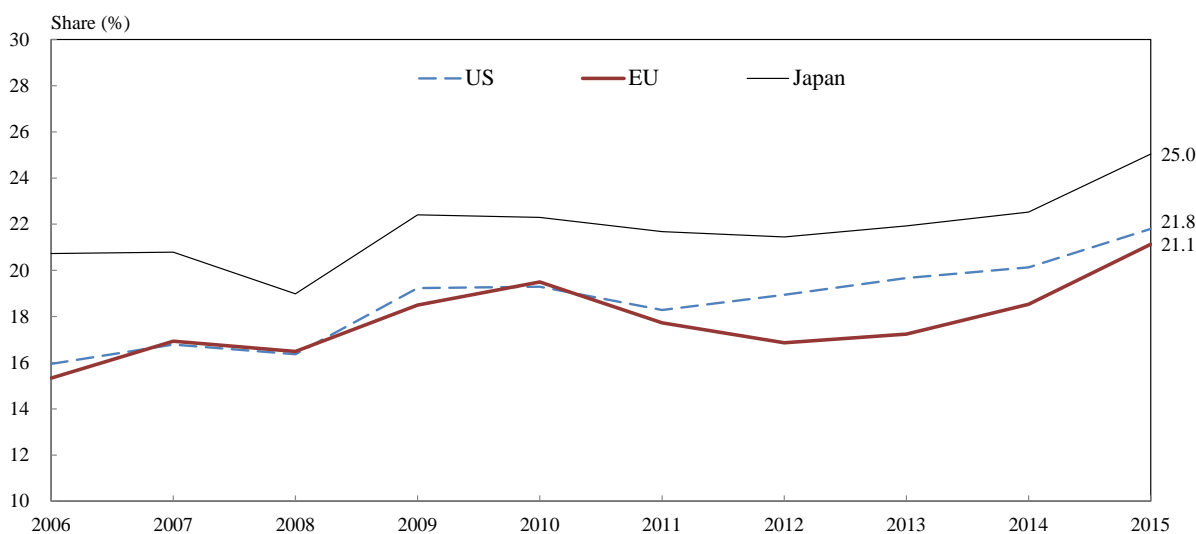
### Box 3.1 (Cont'd)

Such a “stylised fact” has stimulated a growing body of discussions and debates in the trade literature. One widely-quoted reason to the higher global trade elasticity in the past is related to the proliferation of the global value chains (GVC) in the 1990s, when production lines were fragmented internationally and, in particular, trading in parts and components surged in the Asian region. The accession of the Mainland to the World Trade Organisation in 2001 gave a further boost. These developments increased the global trade elasticity, which subsequently fell off as the GVC process matured and other one-off boosts diminished.

Another factor may be related to the structural changes within some emerging market economies, especially those in Asia. Many Asian economies, as they turned more mature, would gradually climb up the value chains of trade, focusing more on trade in services and higher-end products. Moreover, the rebalancing of growth towards consumption and services in some of these economies would imply slower trade growth due to slowdown in investment, a component of GDP that some economists considered as more trade-intensive.

Fortunately, the shares of the Mainland and Hong Kong in merchandise imports of the US, EU and Japan continued to climb up, reaching record highs in 2015 (*Chart 3*). In 2015, more than one-fifth of the imports of the US, EU and Japan were sourced from the Mainland and Hong Kong combined (at 21.8%, 21.1% and 25.0% respectively). This indicated that despite the challenging external trading environment, exports of the Mainland and Hong Kong still somewhat outperformed, in relative terms, the other exporting economies.

**Chart 3 : Share of imports from the Mainland and Hong Kong in overall import values**



In sum, the recent slackening in Hong Kong’s export performance was a region-wide phenomenon, mainly dragged by cyclical forces of the sluggish global economic growth and the ensuing setback in external demand. However, some secular developments which may become more influential over the longer term also warrant attention. Slower global trade growth, underpinned by weaker long-term world potential GDP growth and changing trade patterns, could shape a “new normal” in the global trading environment. Yet, Hong Kong’s overall economic performance in future will critically depend on our ability to tap new markets, leverage on the opening up and rebalancing of the Mainland economy, explore innovations, and climb up the value chains. The Government will continue to step up efforts to enhance the competitiveness and productivity of our economy.

## Box 3.2

### Hong Kong's trade with selected regions along the Belt and Road

Profound changes have taken place in the global economy since the Global Financial Crisis. World economic growth has become slow and uneven, with attendant shifts in international trade and investment landscape. Against this backdrop, the Central Government spearheaded the initiative of building the Silk Road Economic Belt and 21st-Century Maritime Silk Road (“Belt and Road”), which could become a key driving force of the global economy in the coming decades. This short note outlines some characteristics of the selected regions along the “Belt and Road” and gives an overview of Hong Kong’s latest trade positions with these regions in both goods and services.

The “Belt and Road” Initiative aims to promote the connectivity of Asian, European and African continents and their adjacent seas. Many economies along the “Belt and Road” Initiative are emerging and developing ones, with vast appetite for infrastructure and with different endowments ready for mutually beneficial collaborations. There are five proposed areas of connectivity<sup>(1)</sup> – policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bond, altogether promoting all-dimension co-operation among entailed economies.

The “Belt and Road” Initiative encompasses, but is not limited to, the area of the ancient Silk Road. It is open to all countries, and international and regional organisations for engagement, so that the results of the concerted efforts will benefit wider areas. In this note, the selected regions, which are not meant to be exhaustive, cover the emerging and developing Asia, Commonwealth of Independent States (CIS), emerging and developing Europe, Middle East, North Africa, and Afghanistan and Pakistan, as defined in the World Economic Outlook Database of the International Monetary Fund (IMF), alongside with a few additions which are deemed to be relevant<sup>(2)</sup>.

**Table 1** summarises some characteristics of the selected regions. Several features stand out. *Firstly*, the selected regions generally demonstrate strong market potentials, given that many regions, particularly Asia, showed sustained economic growth above world average in the past decade. Also, South Asia has population size larger than the Mainland, and ASEAN together has an economic size of around one quarter of the Mainland’s. *Secondly*, most regions showed visible growth in goods trade during 2005-2014, surpassing those of major advanced economies, notwithstanding the setback in 2008 and 2009. The degree of openness in these regions, measured by the ratio of goods trade to GDP at current market value in 2014, is generally above those in major advanced economies, suggesting that they are receptive to new trade and investment opportunities. Given the large economic size, vast population, sustained economic growth and strong trade growth, there exists ample scope for Hong Kong to leverage on the market potentials in these regions to develop our economy.

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(1) “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road”, issued jointly by the National Development and Reform Commission, the Ministry of Foreign Affairs and the Ministry of Commerce of the People’s Republic of China, with State Council authorisation, March 2015.

(2) Singapore and Israel from the advanced economies as well as Estonia, Latvia, Lithuania, Slovakia and Slovenia from the eurozone are added.



**Box 3.2 (Cont'd)**
**Table 1 : Characteristics of the selected regions**

Countries / regions	Population in 2014		Real GDP growth 2005-2014	Nominal GDP in 2014 <sup>^</sup>		Total goods trade		
	Number (Mn)	Share of world total (%)	(% p.a.)	(US\$ Bn)	Share of world total (%)	Value in 2014 (US\$ Bn)	Ratio to GDP in 2014 <sup>^</sup> (%)	Cumulative growth 2005-14 (%)
Mainland China	1,368	19.2	10.0	10,357	13.4	4,302	42	273
ASEAN	621	8.7	5.4	2,518	3.3	2,530	100	134
South Asia <sup>(a)</sup>	1,484	20.8	7.5	2,335	3.0	900	39	319
Other emerging and developing Asia <sup>(b)</sup>	14	0.2	6.8	42	0.1	29	69	201
Middle East <sup>(c)</sup>	646	9.1	4.5	3,763	4.9	2,537	67	190
CIS	286	4.0	3.9	2,521	3.3	1,242	49	183
Central and Eastern Europe <sup>(d)</sup>	186	2.6	3.4	2,150	2.8	1,748	82	144
World	7,122	100.0	3.9	77,269	100.0			

Sources : The IMF, The World Trade Organisation and The United Nations.

- Notes : (a) South Asia includes India, Sri Lanka, Bangladesh, Bhutan, Maldives and Nepal.  
(b) Other emerging and developing Asia is the emerging and developing Asia as defined by the IMF after excluding Mainland China, members of ASEAN within it and South Asia.  
(c) Middle East is the "Middle East, North Africa, Afghanistan, Pakistan" as defined by the IMF with the addition of Israel.  
(d) Central and Eastern Europe includes "Emerging and developing Europe" in the country grouping by the IMF, together with Estonia, Latvia, Lithuania, Slovak Republic, Slovenia, which are categorised as part of the euro area by the IMF.  
(^) Nominal GDP for Syria is not available in 2014 as per data from IMF's World Economic Outlook Database. Syria is therefore also excluded in the calculations of share of world total nominal GDP and ratio of goods trade to GDP in 2014 of Middle East.

In terms of goods trade in 2015 (*Table 2*), the Mainland was Hong Kong's most important goods trading partner, accounting for 54% of our total goods exports and 49% of total goods imports in 2015. ASEAN, as a whole, was Hong Kong's second largest goods trading partner, even surpassing the European Union. Vietnam and Singapore were the largest markets for Hong Kong's goods exports within ASEAN. In South Asia, if ranked by individual economies, India was our fourth largest goods export market in 2015. Indeed, our goods exports to India registered phenomenal growth in the recent past. As to the other selected regions, the values of Hong Kong's goods trade with them were not as significant, but the cumulative growth for goods trade with these regions during 2006-2015 were generally visible and higher than that of our trade with the major advanced economies over the same period.

**Box 3.2 (Cont'd)****Table 2 : Value of goods trade between Hong Kong and the selected regions**

	<b>Goods trade in 2015</b> (HK\$ Bn)	<b>Cumulative growth in the 10 years to 2015</b> (%)	<b>Share of Hong Kong's total goods trade</b> (%)
Mainland China	3,921	90	51.2
ASEAN	823	92	10.8
South Asia	204	206	2.7
Other emerging and developing Asia	1	131	*
Middle East	158	131	2.1
CIS	22	163	0.3
Central and Eastern Europe	48	134	0.6
World	7,652	67	100.0

Source : Hong Kong Merchandise Trade Statistics, Census and Statistics Department.

Note : (\*) Share of less than 0.05%.

**Table 3** shows Hong Kong's trade in services with these selected regions in 2014. The patterns broadly resembled that of goods trade. The Mainland again topped the list and was our largest services trading partner in 2014. ASEAN was also a prominent services trade partner, accounting for 9% of our total services trade. South Asia accounted for around 1% of our total services trade, but the growth pace was rapid during 2005-2014. Our services trade with the other selected regions was again not as significant, but the cumulative growth for some of them in the ten years to 2014 was spectacular, indicative of the low base as well as their potential.

**Table 3 : Value of services trade between Hong Kong and the selected regions<sup>(+)</sup>**

	<b>Services trade value in 2014</b> (HK\$ Bn)	<b>Cumulative growth in the 10 years to 2014</b> (%)	<b>Share</b> (%)
Mainland China	538	84	39.3
ASEAN	123	145	9.0
South Asia	19	219	1.4
Other emerging and developing Asia	1	321	0.1
Middle East	14	95	1.1
CIS	4	451	0.3
Central and Eastern Europe	3	65	0.2
All regions	1,368	94	100.0

Source : Hong Kong Trade in Services Statistics, Census and Statistics Department.

Note : (+) Financial intermediation services indirectly measured (FISIM) have no geographical breakdowns. Hence, figures by country/region breakdown do not include FISIM, and the percentage shares of individual countries/regions are calculated based on figures with the exclusion of FISIM.

**Box 3.2 (Cont'd)**

Hong Kong is a world-class business and financial hub along the “Belt and Road”, enjoying distinctive advantages under “One Country, Two Systems”. The city will no doubt benefit significantly from the opportunities arising from the “Belt and Road” Initiative in the years to come. As outlined in the 2016 Policy Address by the Chief Executive, Hong Kong could serve as an important platform to complement the “Belt and Road” Initiative in a wide range of areas, including capital formation and financing, trade and logistics and professional and infrastructure services.

The Government will play a proactive role to facilitate the implementation of the “Belt and Road” Initiative and seize the opportunities. A steering committee for the “Belt and Road” chaired by the Chief Executive will be set up for formulating strategies and policies for Hong Kong’s participation in the “Belt and Road” Initiative. A “Belt and Road” Office will be established to coordinate work between government departments and with other organisations, and will take forward related studies. The Government will also strive to strengthen trading and investment ties and people-to-people bond with the economies along the “Belt and Road”.

## *Imports of goods*

3.7 *Imports of goods* likewise fell by 3.2% in real terms in 2015, following the 2.3% growth in the preceding year. Apart from the slide in those imports for subsequent re-exporting, retained imports also weakened considerably. *Retained imports*, referring to the imports for domestic use, which accounted for around one-quarter of total imports, relapsed to a 7.4% decline in real terms in 2015, after a moderate increase of 4.5% in 2014. The decline partly reflected the fall-off in retained imports of raw materials and semi-manufactures amid sluggish region-wide trading and production activities, and also partly reflected reduced intake of the relevant retained imports upon the setback in the retail market as well as the fall-off in machinery and equipment acquisition during the year.

**Table 3.3 : Imports of goods and retained imports  
(year-on-year rate of change (%))**

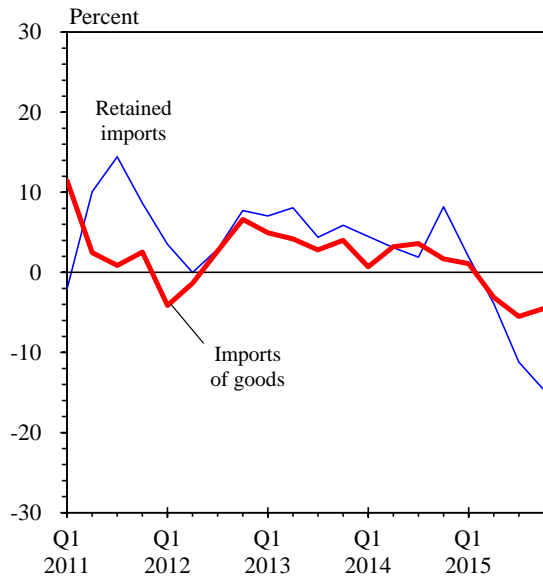
		<u>Imports of goods</u>			<u>Retained imports</u> <sup>(a)</sup>				
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		
2014	Annual	3.9	2.3	1.9	5.1	4.5		1.0	
	Q1	2.1	0.7	(-2.6)	2.1	5.1	4.5	(1.0)	2.5
	Q2	4.5	3.2	(2.4)	2.0	3.0	3.1	(-1.1)	1.7
	Q3	5.7	3.6	(1.9)	2.4	4.3	1.9	(1.3)	2.0
	Q4	3.2	1.7	(-1.0)	1.3	7.7	8.2	(5.3)	-1.6
2015	Annual	-4.1	-3.2	-0.4	-10.6	-7.4			-2.0
	Q1	1.4	1.1	(-1.6)	0.9	-1.4	1.9	(-4.7)	-2.1
	Q2	-3.2	-3.1	(-2.3)	0.6	-6.9	-3.9	(-5.2)	-1.5
	Q3	-6.7	-5.5	(-1.7)	-0.7	-14.5	-11.2	(-6.4)	-1.8
	Q4	-7.0	-4.5	(0.9)	-2.1	-17.8	-14.7	(0.5)	-2.6

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.

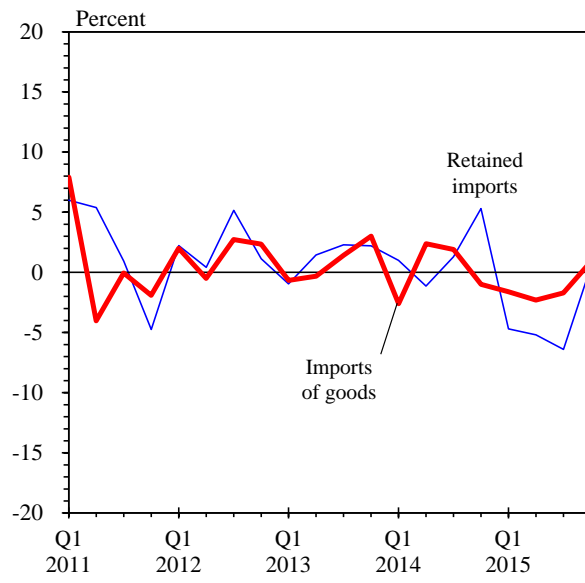
( ) Seasonally adjusted quarter-to-quarter rate of change.

**Diagram 3.12 : Imports and retained imports both fell in 2015**

**(a) Year-on-year rate of change in real terms**



**(b) Seasonally adjusted quarter-to-quarter rate of change in real terms**

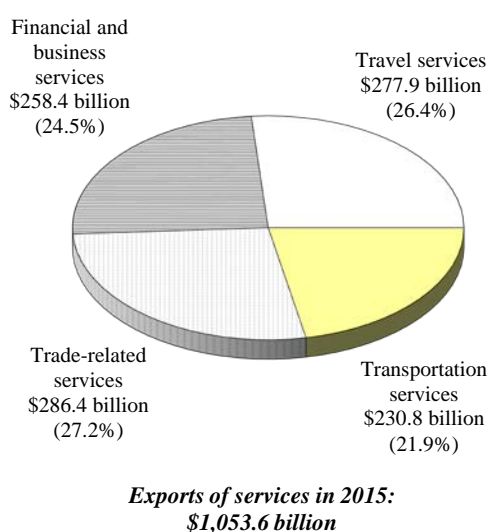


## Services trade

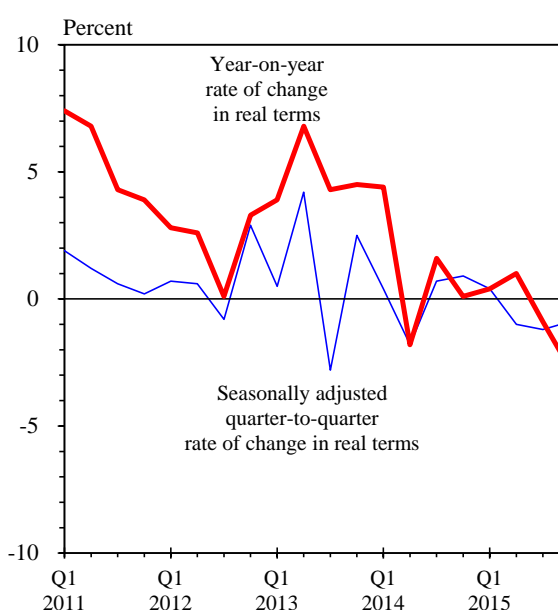
### *Exports of services*

3.8 *Exports of services* slackened to a slight decline of 0.6% in real terms in 2015 as a whole, compared with the 1.1% growth in 2014. The fall in exports of travel services widened and remained the main drag, as visitor arrivals decelerated further to record the first annual decline since 2003, while tourist spending on big-ticket items continued to retreat. The implementation of the “one trip per week” Individual Visit Endorsement for permanent residents of Shenzhen in April 2015 also led to some declines in same-day visitor arrivals. Moreover, the slow global economic recovery and depreciations of many currencies against the US dollar have conceivably induced some visitors to shift to other popular travelling destinations and dampened visitors’ consumption sentiment. Exports of trade-related services (comprising mainly offshore trade activities) and transportation services registered year-on-year declines during most of the year amid sluggish trade and cargo flows. On the contrary, thanks to hectic fund-raising and cross-border financing activities, exports of financial and other business services grew by 5.5%, thereby rendering some cushion to overall services exports.

**Diagram 3.13 : Major service groups accounted for similar shares of Hong Kong’s services exports, reflecting a diversified base**



**Diagram 3.14 : Exports of services also fell slightly in 2015**



**Table 3.4 : Exports of services by major service group  
(year-on-year rate of change in real terms (%))**

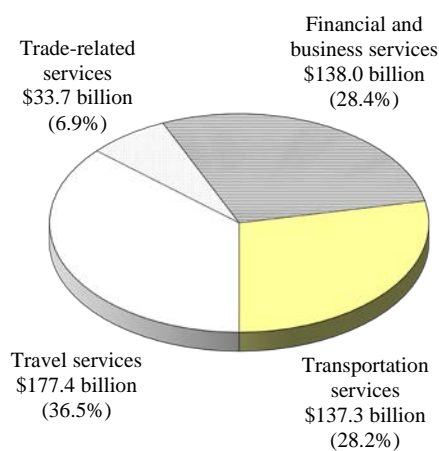
		<i>Of which :</i>					
		<u>Exports of services</u>	<u>Trade-related services<sup>(a)</sup></u>	<u>Transportation services</u>	<u>Travel services<sup>(b)</sup></u>	<u>Financial and business services</u>	
2014	Annual	1.1	-0.1	3.4	-1.7	3.7	
	Q1	4.4	(0.4)	-1.5	10.7	5.2	
	Q2	-1.8	(-1.8)	0.1	-9.5	-0.1	
	Q3	1.6	(0.7)	1.4	-4.2	7.2	
	Q4	0.1	(0.9)	-0.6	-2.9	2.0	
2015	Annual	-0.6	-1.8	0.1	-5.0	5.5	
	Q1	0.4	(0.4)	-1.4	-3.7	5.6	
	Q2	1.0	(-1.0)	-0.8	-1.5	10.8	
	Q3	-0.9	(-1.2)	-0.2	-5.1	6.1	
	Q4	-2.7	(-0.9)	-0.2	-9.2	0.3	

- Notes :
- (a) Comprising mainly offshore trade.
  - (b) Comprising mainly inbound tourism receipts.
  - ( ) Seasonally adjusted quarter-to-quarter rate of change.

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

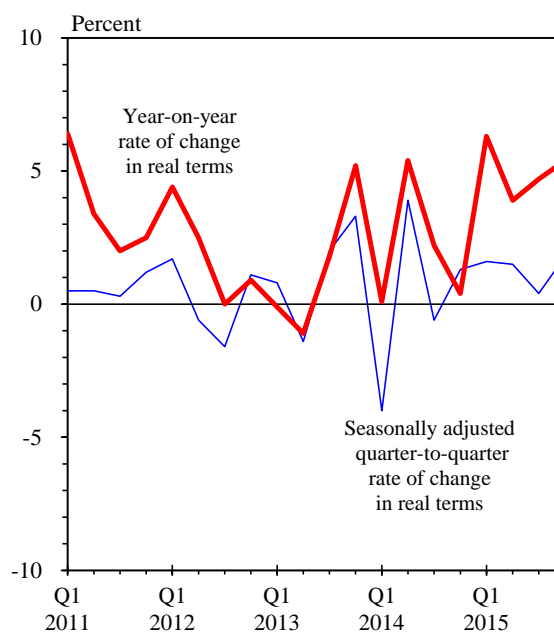
3.9 *Imports of services* grew moderately by 5.1% in real terms in 2015, after a 2.0% growth in 2014. The pick-up in growth was mainly buttressed by the notable growth in imports of travel services throughout the year, reflecting strong interest among local residents to travel abroad. Apart from stable local job and income conditions, the higher purchasing power of local residents following depreciations of many currencies against the US dollar conceivably also fostered overseas travel interest of local residents. Meanwhile, imports of financial and other business services also grew moderately. On the other hand, imports of trade-related services weakened to show only a meagre increase in the midst of an austere external trading environment, while imports of transportation services likewise relapsed and showed a decline.

**Diagram 3.15 : Travel services had the largest share in imports of services**



**Imports of services in 2015:**  
\$486.4 billion

**Diagram 3.16 : Imports of services grew moderately in 2015**



**Table 3.5 : 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	2.0	3.6	0.4	0.8	1.9
	Q1	0.1	(-4.0)	-2.2	0.5	3.1
	Q2	5.4	(3.9)	11.7	2.3	1.8
	Q3	2.2	(-0.6)	3.9	1.5	1.6
	Q4	0.4	(1.3)	1.3	-1.2	1.2
2015	Annual	5.1	10.9	-0.7	0.3	4.9
	Q1	6.3	(1.6)	12.6	1.3	5.8
	Q2	3.9	(1.5)	8.6	1.4	5.8
	Q3	4.7	(0.4)	11.5	-0.7	5.1
	Q4	5.4	(1.8)	11.2	-0.4	3.2

Notes : (+) Comprising mainly outbound travel spending.

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



## Goods and services balance

3.10 The goods deficit narrowed in 2015, thanks to an improvement in terms of trade and reduced intake of retained imports as the economy slowed. With the services surplus more than offsetting the goods deficit, the combined goods and services account registered a surplus of \$57 billion in 2015, equivalent to 1.2% of total import value, considerably larger than the surplus of only \$3 billion in 2014.

**Table 3.6 : 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	1,078	4,472	481	-594	597	3	0.1
	Q1	870	267	1,029	115	-158	152	-6	-0.5
	Q2	949	244	1,111	116	-162	128	-34	-2.7
	Q3	1,027	279	1,148	124	-122	156	34	2.7
	Q4	1,031	287	1,183	126	-152	161	9	0.7
2015	Annual	3,779	1,054	4,290	486	-510	567	57	1.2
	Q1	879	268	1,028	118	-149	149	*	#
	Q2	916	244	1,067	117	-150	126	-24	-2.0
	Q3	982	270	1,078	124	-95	146	51	4.2
	Q4	1,001	273	1,117	127	-116	146	30	2.4

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

(\*) Within  $\pm$ \$0.5 billion.

(#) Within  $\pm$ 0.05%.

## **Other developments**

3.11 Strengthening economic relations with our trading partners is a principal strategy to develop our economy, particularly in light of the situation of slow and unsteady economic growth of major advanced economies after the Global Financial Crisis. In this regard, the “Belt and Road” Initiative put forward by the Central Government has promising potentials. The Silk Road Economic Belt (“the Belt”) connects the Mainland with Europe via Central and Western Asia, while the Maritime Silk Road (“the Road”) links the Mainland with Southeast Asia, Middle East, Africa and Europe. Since many economies included are developing ones, with keen interest on expanding trade and upgrading their infrastructure, the “Belt and Road” Initiative offers a distinct co-operation network that could help open up new markets with great potential and increase international trade and investment flows in the entailed regions.

3.12 Hong Kong is well positioned to seize the opportunities arising from the “Belt and Road” Initiative and to contribute in a wide range of high-end services. Indeed, according to the United Nations Conference on Trade and Development’s World Investment Report 2015, Hong Kong’s foreign direct investment (FDI) inflows and outflows both ranked the second among the world economies in 2014, signifying our important role as an international business hub. The Government will take the lead in enhancing economic collaboration with Mainland provinces and economies along the “Belt and Road”, with a view to creating more favourable conditions for our companies to gain access to these markets. In light of the establishment of the Asian Infrastructure Investment Bank (AIIB), the Government will proactively discuss with the Central Government the form to participate in the AIIB to leverage on our strength in finance for the regional development.

3.13 Hong Kong made further progress in enhancing economic ties with the Mainland. In November 2015, the Agreement on Trade in Services (The Agreement) was signed under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). The Agreement extends the implementation of the majority of Guangdong pilot liberalisation measures to the whole Mainland, reduces restrictive measures and adds more liberalisation measures. Its implementation enables basic liberalisation of trade in services between the Mainland and Hong Kong and represents a new milestone after the continuous liberalisation of trade in services through CEPA over the years.

3.14 Economic collaborations with the Mainland’s provinces and cities were also stepped up further. In October 2015, the Government announced

that Hong Kong and Macao will soon commence negotiations on a Hong Kong and Macao Closer Economic Partnership Arrangement.

3.15 Separately, twelve economies in the Asia-Pacific region concluded their negotiation over the Trans-Pacific Partnership (TPP) in October 2015, which covers a wide range of areas including goods and services trade, cross-border investment, electronic commerce, intellectual property, labour market protection and environmental protection. However, as the TPP is subject to the legislative ratification by each of the signatory members, which will take time, the timing and details of its implementation are still uncertain. As a staunch supporter of free trade, Hong Kong welcomes any agreement that would promote international trade facilitation, and will continue to seek ways enhancing the co-operation with our major trading partners.

**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 3, 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 4 : DEVELOPMENTS IN SELECTED SECTORS

### *Summary*

- *The residential property market was generally buoyant in the first half of 2015, but quietened down in the second half as sentiment was dented by the downslide in the local stock market during the summer months, and as concerns over US interest rate hike grew. Trading activities slowed down visibly since July. Flat prices turned into a decline in the fourth quarter, though still up by 2% for 2015 as a whole.*
- *The Government's efforts to increase land supply and flat production continued to yield results, with total flat supply in the coming three to four years rising to a new record high of 87 000 units. On the demand side, speculative activities have largely subsided, while non-local demand stayed low, reflecting the notable effects of the various demand-side management measures.*
- *The commercial and industrial property markets also cooled off over the course of the year. Trading activities went generally lower after the third quarter. Prices and rentals fell off towards the year end, and recorded only modest gains or even slight declines for 2015 as a whole.*
- *Inbound tourism slackened visibly in 2015, heavily weighed down by subpar global economic growth, unfavourable currency factor, as well as the emerging impact of the "one trip per week" Individual Visit Endorsements implemented since April. Visitor arrivals fell in all major markets, cumulating to an overall decline of 2.5% to 59.3 million in 2015, the first annual decline since 2003.*
- *The logistics sector likewise suffered a setback in tandem with the fall-off in external trade and regional cargo flows. Total container throughput plunged by 9.7% to 20.1 million twenty-foot equivalent units, while air freight throughput recorded only marginal growth.*

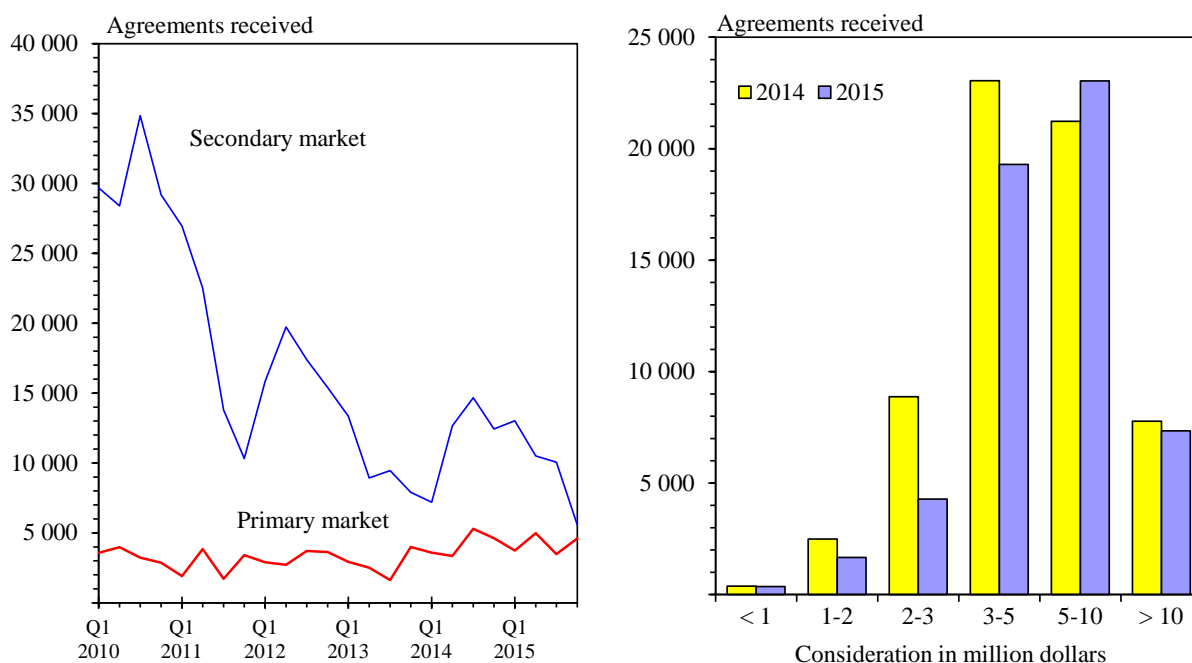
### **Property**

4.1 The residential property market stayed generally buoyant in the first half of 2015, but quietened down in the second half as sentiment was dented by the stock market downslide during the summer months and as concerns over US interest rate hike grew. With buyers adopting a more cautious attitude, trading

activities have quietened down visibly since July. The increase in flat prices decelerated in the third quarter and then turned into a decline in the fourth quarter amid increasing adjustment pressure facing the market.

4.2 The total number of sale and purchase agreements for residential property received by the Land Registry fell by 12% to 55 982 in 2015, sharply below the long-term average of 92 910 over 1995 to 2014. There was a noticeable moderation through the year, from a monthly average of 5 377 in the first half to 4 517 in the third quarter and sharply further to 3 390 in the fourth quarter. Within the total, secondary market transactions plunged by 17% to a record low of 39 156 in 2015. Primary market transactions edged down by 0.2% to 16 826, as developers continued to launch new projects at favourable terms including the provision of cash rebates, tax subsidies and top-up financing schemes. Total consideration declined by a more modest 4% to \$416.5 billion.

**Diagram 4.1 : Trading activities have quietened down visibly since July 2015**

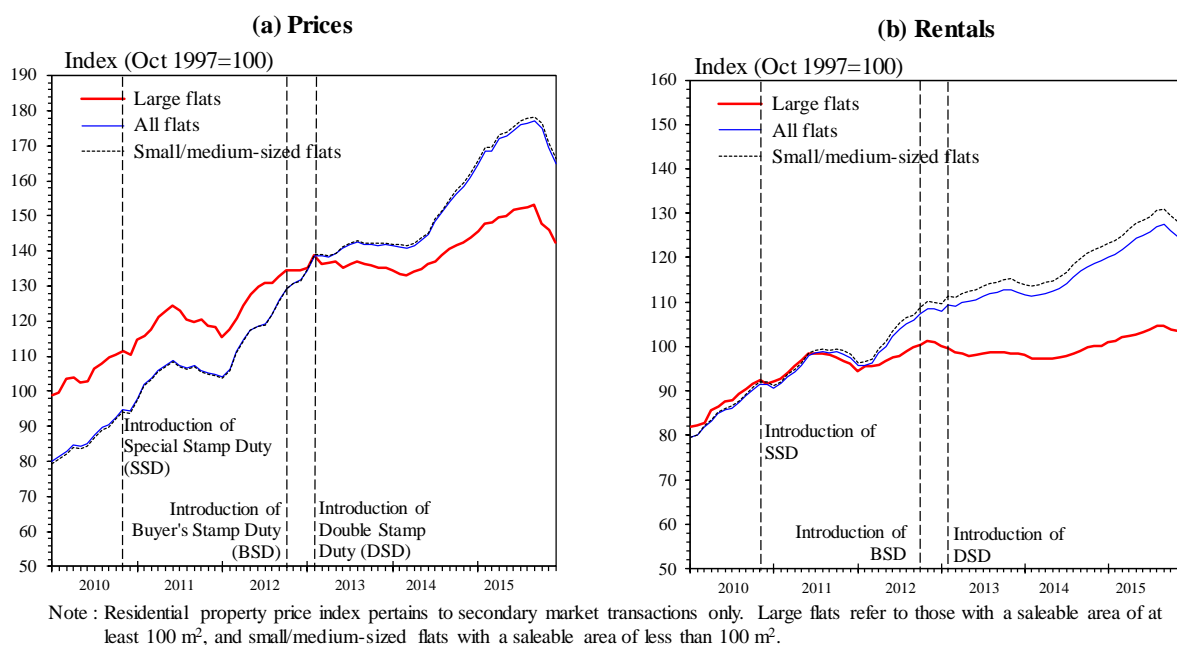


4.3 Having recorded further sharp increases during the first half of 2015, overall flat prices rose at a more modest pace during the third quarter and switched to a sharp fall of 7% during the fourth quarter. For the year as a whole, overall flat prices rose by 2% between December 2014 and December 2015. Analysed by size, large flats came under larger adjustment pressure with prices down by 1% during 2015, while prices of small/medium-sized flats still rose by 3%.

4.4 In parallel, the leasing market also cooled off in the second half of 2015. With the gains during the first three quarters being partially offset by the

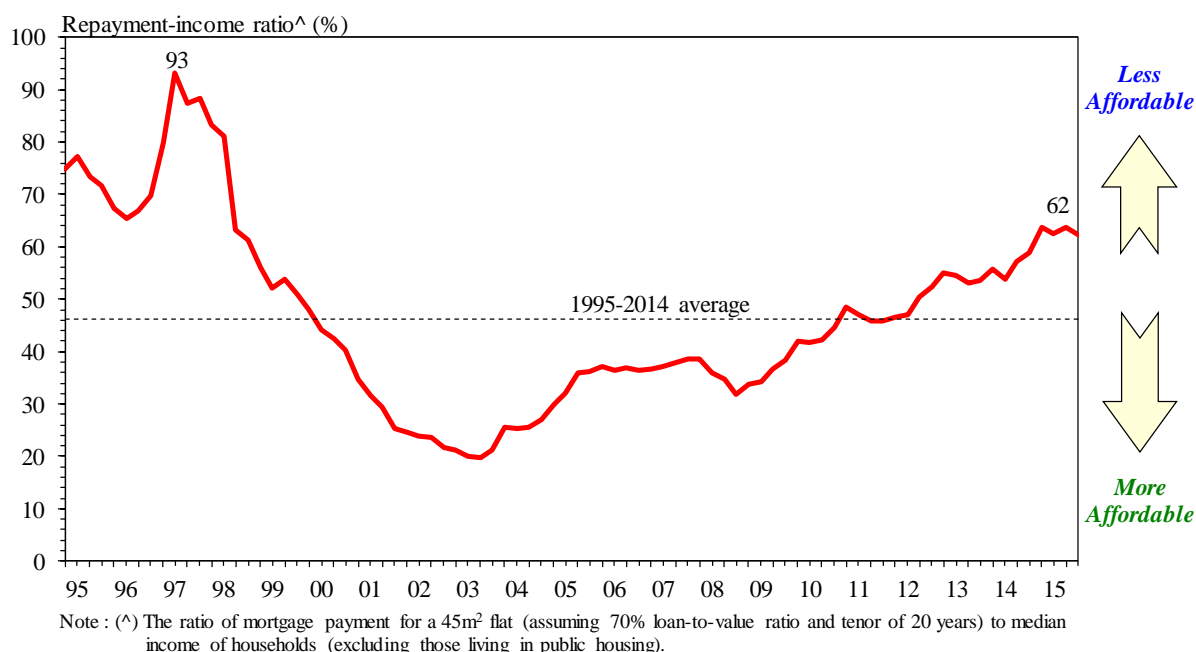
decline during the fourth quarter, overall flat rentals rose by only 3% between December 2014 and December 2015. Analysed by size, rentals of small/medium-sized and large flats increased by 3% and 2% respectively. The average rental yield for residential property edged up from 2.7% a year earlier to 2.8% in December 2015.

**Diagram 4.2 : Flat prices and rentals reverted to a decline in the fourth quarter**



4.5 Notwithstanding the recent consolidation, overall flat prices in December 2015 still exceeded 1997 peak by 65%. 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), at around 62% in the fourth quarter, was still significantly higher than the long-term average of 46% over 1995-2014. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 81%.

**Diagram 4.3 : The mortgage payment to income ratio stayed elevated**

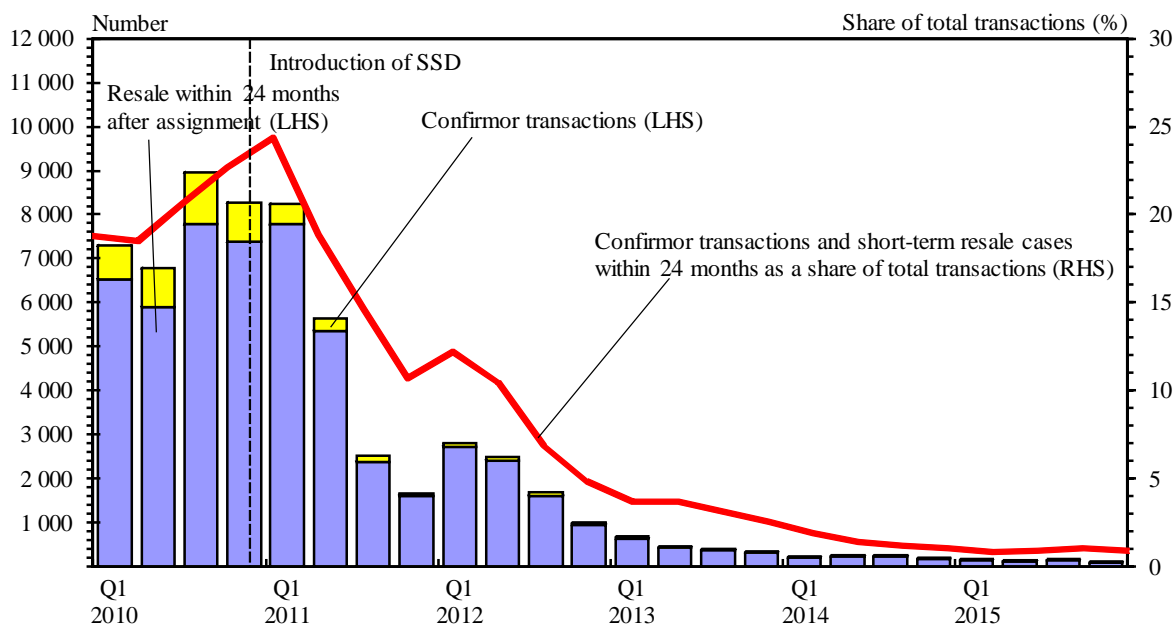


4.6 The demand-supply balance of flats remained tight in overall terms in 2015, yet the tightness looks set to ease in the years ahead. Gross completions of private flats dropped by 28% to 11 300 units in 2015, though still representing the second highest level in the past five years. After netting off the demolition of 2 000 units, the net completions, at 9 300 units, fell short of the take-up of 10 500 units<sup>(1)</sup>. As a result, the vacancy rate edged down from 3.8% at end-2014 to 3.7% at end-2015. For 2016 and 2017, flat supply is expected to increase. Specifically, the Rating and Valuation Department forecasts completions to rise to 18 200 units and 17 900 units respectively<sup>(2)</sup> in 2016 and 2017, compared with the annual average of 18 700 units per annum over 1995-2014.

4.7 Indeed, the aggregate private housing land supply from the various sources (including government land sale, railway property development projects, the Urban Renewal Authority's projects and private re-development/development projects) in the financial year 2015/16 had a capacity to provide about 20 100 flats as estimated at end-January 2016, exceeding the target of making available private housing land for 19 000 flats set for that year. Furthermore, 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 successively from 74 000 units as estimated at end-2014 to 87 000 units as estimated at end-2015, a record high since the statistics were published in September 2004. In addition, another 7 500 units could be added to the total supply after the conversion of a number of residential sites into "disposed sites" and the completion of tendering of some sites in the months ahead.

4.8 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>(3)</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) declined further to an average of 45 cases per month or 0.9 % of total transactions in 2015, well below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer's Stamp Duty, *purchases by non-local individuals and non-local companies* stayed low at an average of 79 cases per month or 1.5% of total transactions in 2015, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As to *mortgage lending*, the average loan-to-value ratio of new mortgages was 52% in 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.

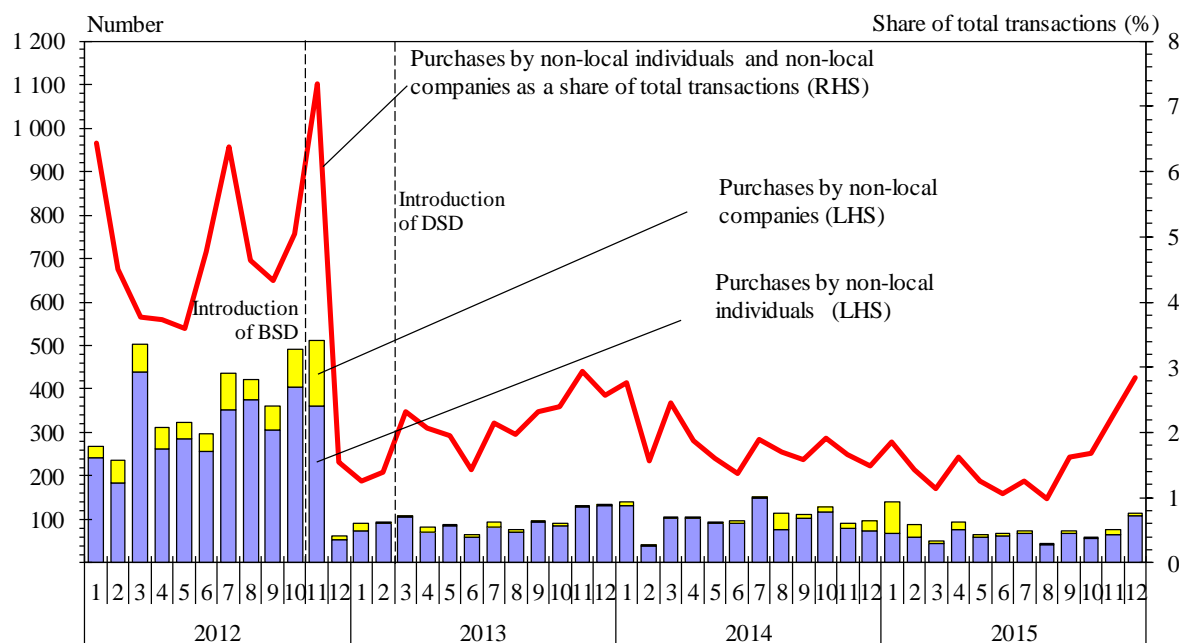
**Diagram 4.4 : Speculative activities stayed subdued**



Note : Confirmor transactions refer to resale before assignment.



**Diagram 4.5 : Purchases by non-local buyers remained low**



4.9 Looking forward, the property market is facing increasing pressure for adjustment. Externally, the US has already started raising interest rates. Hong Kong dollar interest rates would eventually follow the steps of US interest rates under the Linked Exchange Rate System, though the actual pace of adjustment will depend on the pace of the US rate hike and the fund flow situation. Domestically, as a result of the Government's sustained efforts, the medium-term supply of flats has risen significantly. These, coupled with the various risks and uncertainties clouding the economy, could weigh on the property market in the period ahead.

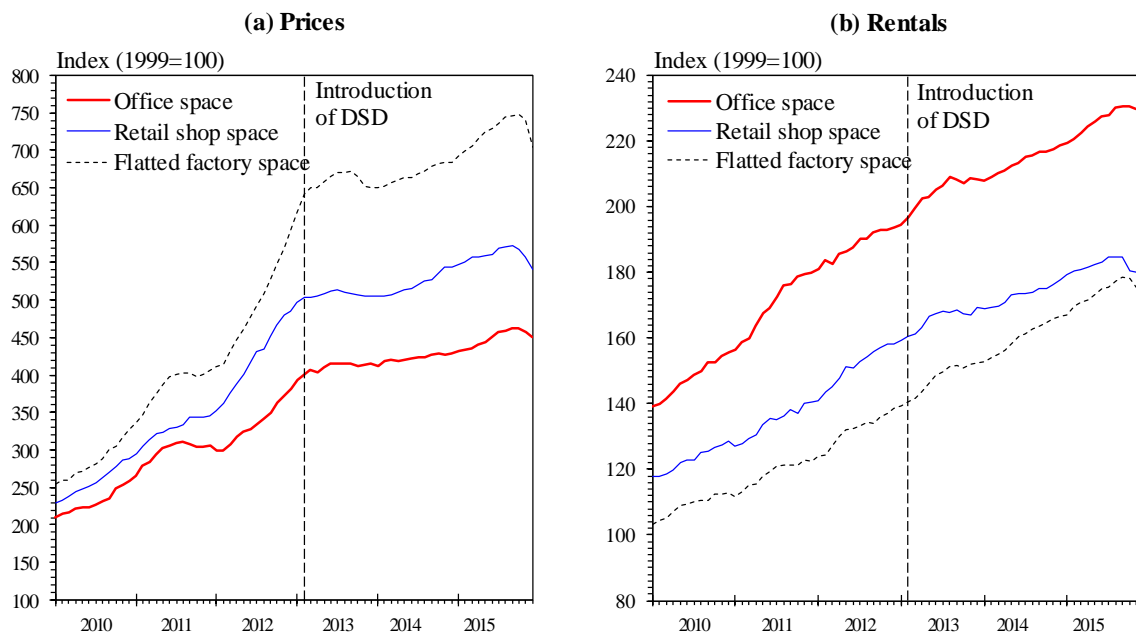
4.10 The *commercial* and *industrial property markets* also cooled off in the second half of 2015. Trading activities have quietened down since the third quarter. Prices and rentals likewise came under pressure towards the year end, and recorded only modest gains or even slight declines for 2015 as a whole.

4.11 Weighed by the tepid retail sales performance, the *retail shop space* market was generally lacklustre in 2015. As the modest gains during the first three quarters were fully offset by the decline during the fourth quarter, sale prices dipped by 1% between December 2014 and December 2015. Meanwhile, rentals edged up by 1%. Reflecting these movements, the average rental yield rose slightly from 2.4% a year earlier to 2.5% in December 2015. Trading activities plunged by another 33% to only 2 100 cases in 2015<sup>(4)</sup>. As to demand-supply balance, there was a negative take-up of 6 600 m<sup>2</sup> and a completion of 68 300 m<sup>2</sup>. The vacancy rate thus rose from 7.3% at end-2014 to 7.7% at end-2015, but still below the long-term average of 8.8% over 1995-2014.

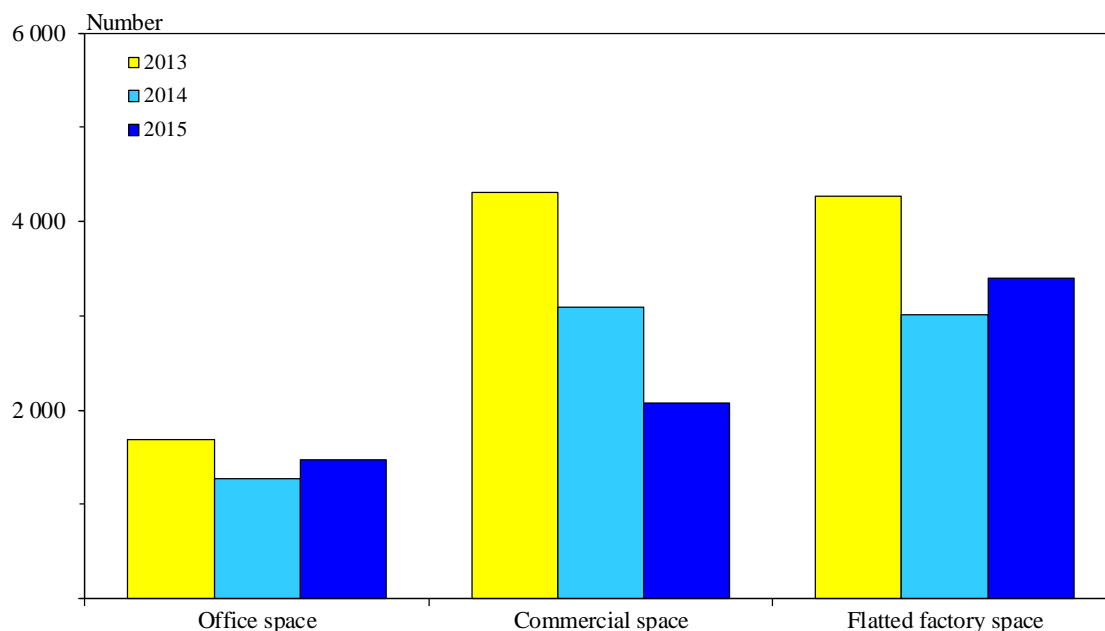
4.12 Overall prices for *office space* recorded a moderate gain of 5% between December 2014 and December 2015. Within the total, prices of Grade A, B and C office space went up by 9%, 6% and 6% respectively. Overall office rentals also rose by 5% over the period, with those of Grade A, B and C office space all increasing by a broadly similar pace. The average rental yield of Grade A, B and C office space was 2.9%, 3.0% and 2.9% respectively in December 2015, virtually unchanged from a year earlier. Transactions rebounded by 16% to 1 500 cases in 2015 against a very low base of comparison, but this was still a low level by historical standards. The take-up for office space was a negative 53 700 m<sup>2</sup>, while the completion was 164 500 m<sup>2</sup>. As a result, the vacancy rate rose from 6.3% at end-2014 to 7.9% at end-2015, still lower than the long-term average of 10.0% over 1995-2014.

4.13 Sale prices and rentals of *flatted factory space* rose by 3% and 5% respectively between December 2014 and December 2015. The average rental yield, at 3.0% in December 2015, was unchanged from a year earlier. While transactions rose by 13% to 3 400 cases in 2015, this was still a very low level by historical standards. As the take-up of 94 300 m<sup>2</sup> was much higher than the completion of 29 700 m<sup>2</sup>, the vacancy rate dropped from 5.6% at end-2014 to 5.0% at end-2015, markedly below the long-term average of 8.2% over 1995-2014.

**Diagram 4.6 : Prices and rentals of non-residential properties declined in the fourth quarter**



**Diagram 4.7 : Trading activities for commercial and industrial properties were generally quiet in 2015**



## Land

4.14 Twenty five sites with a total area of about 20.9 hectares were disposed in 2015, fetching a land premium of about \$44.9 billion. Among these sites, there were 17 residential sites, three business sites, two commercial/office sites, one industrial site and two sites for petrol filling station. The tender exercises for three residential sites in Yuen Long, Tai Po and Sham Shui Po also commenced in the last quarter of the year.

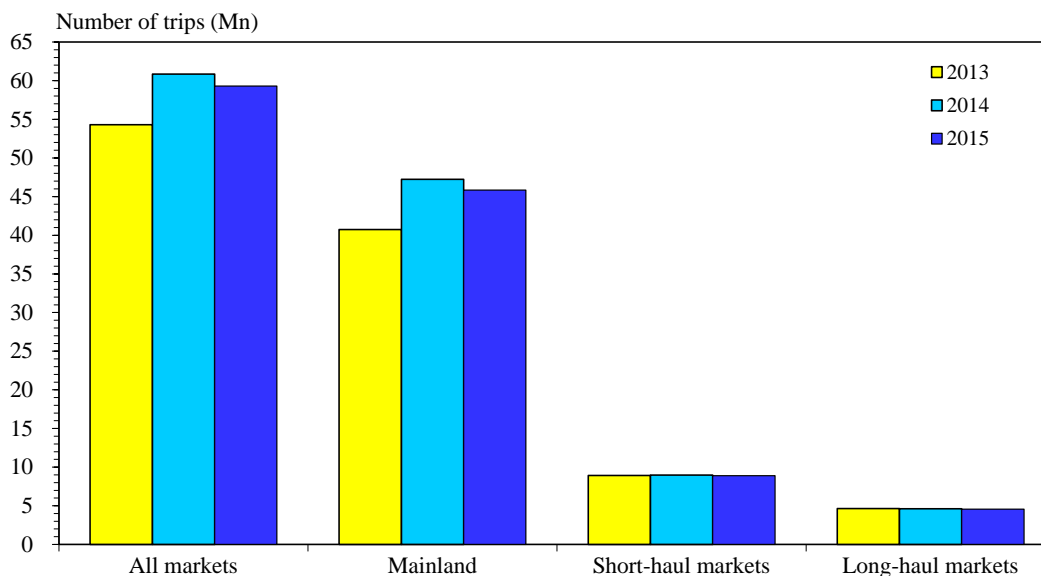
4.15 Regarding exchange of land, seven sites with a total area of about 1.7 hectares were approved in 2015, of which four were residential sites. As to lease modifications, a total of 80 sites were approved.

## Tourism

4.16 Weighed down heavily by subpar global economic growth, unfavourable currency factor, as well as the emerging impact of the “one trip per week” Individual Visit Endorsements implemented since April<sup>(5)</sup>, inbound tourism slackened markedly during 2015. Overall *visitor arrivals* fell by 2.5% to 59.3 million, the first annual decline since 2003. The performance weakened over the course of the year, with visitor arrivals reverting from modest growth of 4.9% and 0.5% in the first and second quarters to notable fall of 6.4% and 8.0% in the third and fourth quarters. Analysed by major market, Mainland visitors, which accounted for 77.3% of the total, fell by 3.0% to 45.8

million in 2015. The performance of other markets remained generally lacklustre. Visitors from the short-haul and long-haul markets declined by 1.0% and 0.8% respectively<sup>(6)</sup>, though showing signs of recovery in the fourth quarter.

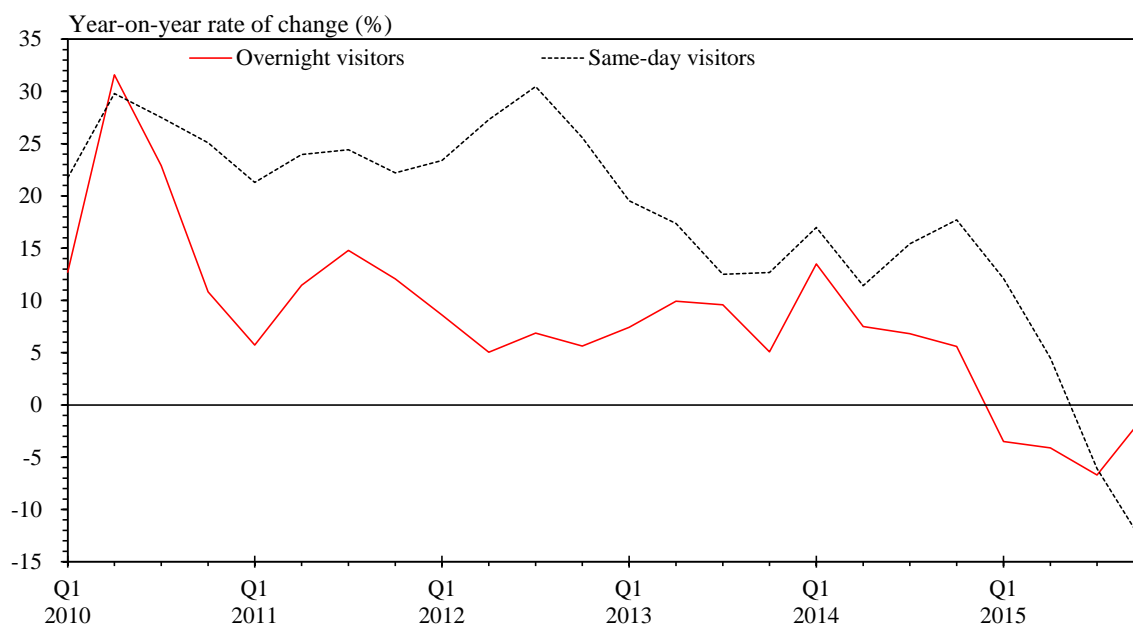
**Diagram 4.8 : Visitor arrivals declined in all major markets in 2015**



Note : See note (6) at the end of this chapter for the definition of short-haul and long-haul markets.

4.17 Analysed by the length of stay, same-day visitor arrivals fell by 1.4% in 2015, dragged by a decline in the second half due to the implementation of the “one trip per week” Individual Visit Endorsements. Meanwhile, overnight visitor arrivals declined by 3.9%, though the decline narrowed in the fourth quarter. Reflecting these movements, the share of same-day visitors rose from 54.4% in 2014 to 55.0% in 2015, while that of overnight visitors retreated from 45.6% to 45.0%.

**Diagram 4.9 : Both same-day and overnight visitor arrivals declined in 2015**

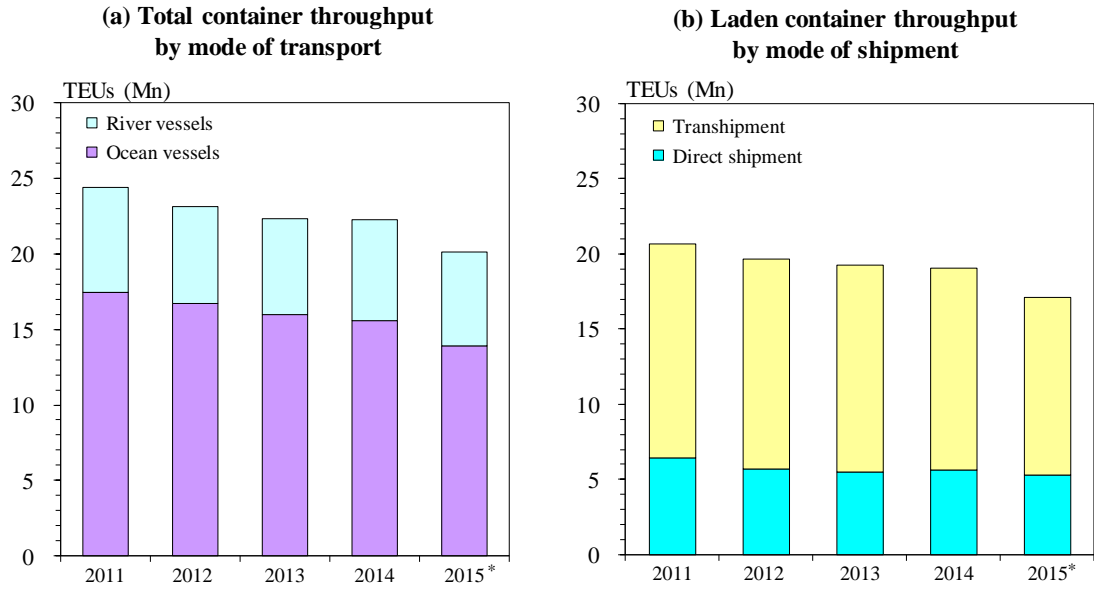


4.18 Much affected by the decline in visitor arrivals, the average hotel room occupancy rate declined from 90% in 2014 to 86% in 2015. The average achieved hotel room rate also fell by 9.2% to \$1,337<sup>(7)</sup>.

## Logistics

4.19 Amid the subdued external trade and regional cargo flows, the logistics sector stayed sluggish throughout 2015. *Total container throughput* plunged by 9.7% from a year earlier to 20.1 million twenty-foot equivalent units (TEUs), with the rate of decline widening from 7.4% in the first quarter to 13.2% in the fourth quarter. Within the laden container throughput, direct shipment fell by 6.0%, and transshipment by a more visible 11.7%. In parallel, the value of trade handled at the Hong Kong port plummeted by 10.5%, and its share in total trade shrank further from 22.2% a year earlier to 20.5% in 2015.

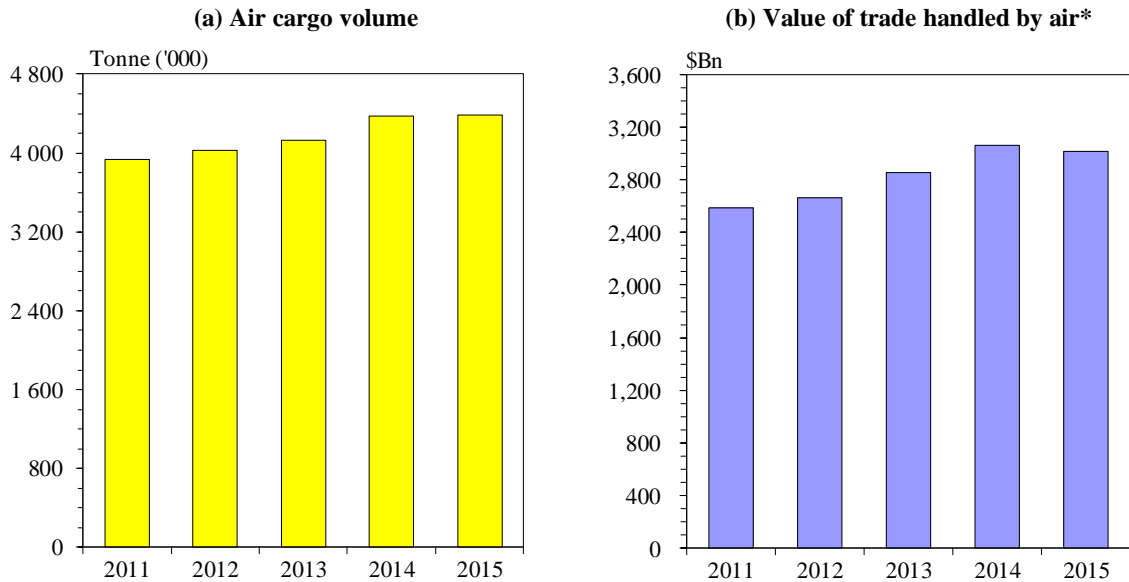
**Diagram 4.10 : Container throughput plunged in 2015**



Note : (\*) Total container throughput for 2015 is the preliminary estimate by Hong Kong Port Development Council. Its breakdown by mode of transport and the laden container throughput by mode of shipment are crudely estimated from the profile in the first eleven months of 2015.

4.20 *Air freight throughput* was also lacklustre, rising marginally by 0.1% to 4.4 million tonnes in 2015. Meanwhile, the value of trade by air edged down by 1.4%, though its share in total trade rose from 38.8% to 39.5%.

**Diagram 4.11 : Air cargo throughput rose marginally in 2015, while the value of trade handled by air edged down**



Note : (\*) Not including transhipment.

## **Transport**

4.21 Traffic flows for the different major modes of transport showed mixed performances in 2015. Air passenger traffic rose by another 8.1% to 68.5 million, while water-borne passenger trips fell by 2.5% to 27.7 million. As to land-based cross-boundary traffic, passenger trips rose slightly by 1.7% to 222.6 million, while average daily vehicle movements edged down by 0.4% to 41 517.

4.22 In December, the Government commenced a three-month consultation on an electronic road pricing pilot scheme for Central and its adjacent areas, with a view to building up community consensus on issues pertinent to the planning of the pilot scheme. Based on the “user pays” principle, the electronic road pricing scheme will levy on vehicles using the roads in targeted areas during designated periods, so as to rationalise traffic flow in those areas where severe traffic congestion occurs almost daily. After collecting views of the public, the Government will appoint a consultant to conduct a feasibility study, so as to develop detailed options for further public engagement.

## **Creativity and innovation**

4.23 The Innovation and Technology Bureau was formally established on 20 November 2015. The bureau is responsible for formulating holistic policies relating to innovation and technology, thereby fostering the development of innovation, technology and related industries in Hong Kong. The bureau would help promote the upgrading and transformation of the economic structure of Hong Kong, with a view to raising its competitiveness and improving the people’s quality of life.

## **Competition**

4.24 The Competition Ordinance (Cap. 619), which was enacted in June 2012, came into full effect on 14 December 2015. The Competition Commission, an independent statutory body established under the ordinance, would investigate conduct that may contravene the competition rules and enforce the provisions of the ordinance, promote public understanding of the ordinance, advise the Government on competition matters and conduct market studies into matters that may affect competition in markets in Hong Kong. The ordinance will ensure Hong Kong remains a competitive, dynamic and free market, bringing the benefits of a level-playing field to Hong Kong consumers,

businesses and the wider economy.

## **Environment**

4.25 To contribute towards the global co-operation in addressing climate change, the Chief Executive pledged to take forward a series of mitigation measures in the 2016 Policy Address. Taking into account views received during the public consultation on the future development of the electricity market conducted in 2015, the Government will discuss with the power companies the new Scheme of Control Agreements to improve the current regulatory arrangements, including enhancing the promotion of energy efficiency and the development of renewable energy. The Government will also expand the coverage of the Mandatory Energy Efficiency Labelling Scheme to include more electrical appliances and encourage the use of electric vehicles in the public transport system, so as to advocate low-carbon living. As to waste management, the Government will press ahead with the two producer responsibility schemes on waste electrical and electronic equipment and glass beverage containers. The Government will also proactively introduce a quantity based charging scheme for municipal solid waste and pursue measures complementary to the charging scheme.

### **Notes :**

- (1) Take-up figures represent the net increase in the number of units occupied. The figures are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures. Take-up should not be confused with the sales of new developments, and it bears no direct relationship to the number of units sold by developers. Negative take-up means that there is a decrease in the number of units occupied (i.e. property previously occupied was released during the year and remained vacant at the year-end). Also, take-up, demolition, completion and vacancy figures on residential and non-residential properties are preliminary figures from the Rating and Valuation Department, and are subject to revision.
- (2) Forecast completions in 2016 and 2017 are preliminary figures only, and are subject to revision upon the availability of more data.
- (3) 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.

- (4) The figures on transaction and vacancy rate refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (5) For details of the change in Individual Visit Endorsements policy in April 2015, see paragraph 3.17 in the Half-yearly Economic Report 2015.
- (6) 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 2015, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 77%, 15% and 8% of total visitors.
- (7) The figures on hotel room occupancy and achieved room rate do not include guesthouses.

## CHAPTER 5 : THE FINANCIAL SECTOR<sup>#</sup>

### *Summary*

- *The low interest rate environment in Hong Kong continued in 2015 amid the accommodative monetary policy in the United States. With the US Fed raising the Federal Funds Rate in December, the Hong Kong Monetary Authority (HKMA) accordingly adjusted upward the Base Rate from 0.5% to 0.75%.*
- *The Hong Kong dollar spot exchange rate moved within a narrow range of 7.750-7.766 per US dollar in 2015. The strong-side Convertibility Undertaking was repeatedly triggered in April, September and October, prompting the HKMA to passively purchase a total of US\$29.3 billion from banks in exchange for \$227.2 billion.*
- *As the US dollar strengthened against most major currencies including the euro, pound sterling and renminbi, the trade-weighted Hong Kong dollar Nominal and Real Effective Rate Indices rose by 5.8% and 7.1% respectively during 2015.*
- *Growth in total loans and advances slowed over the course of 2015, in part reflecting weaker corporate credit demand amid the economic slowdown. For 2015 as a whole, loans for use in Hong Kong and outside Hong Kong increased at a decelerated pace of 3.9% and 2.8% respectively, markedly slower than in 2014.*
- *The local stock market showed a strong pick-up in the first half of 2015, but then underwent a marked correction in the second half. For the year as a whole, the Hang Seng Index dropped by 7.2% from end-2014 to 21 914 at end-2015. Likewise, trading activities and fund raising activities were generally active in the first half, before showing moderation in the second half amid the stock market correction.*

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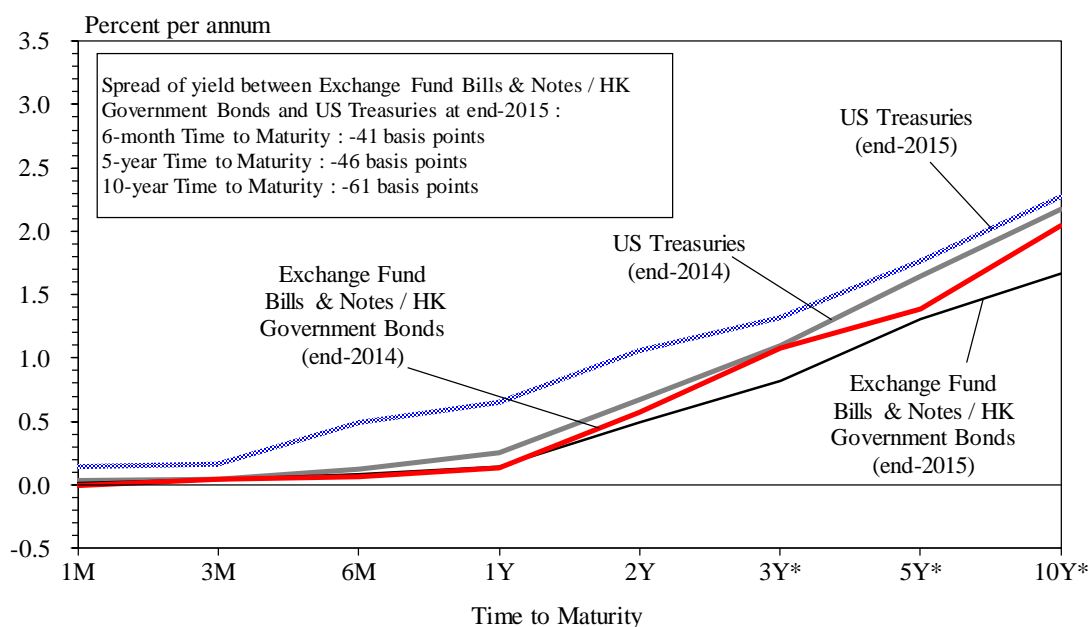
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

## Interest rates and exchange rates

5.1 The low interest rate environment in Hong Kong continued in 2015 amid the accommodative monetary policy in the United States. With the US Federal Open Market Committee raising the target range for the Federal Funds Rate from 0-0.25% to 0.25-0.5% at the December meeting, the HKMA adjusted upward the *Base Rate* under the Discount Window accordingly from 0.5% to 0.75% in December<sup>(1)</sup>. Meanwhile, the *Hong Kong dollar interbank interest rates* (HIBOR) remained at low levels. The three-month HIBOR edged up from 0.38% at end-2014 to 0.39% at end-2015, while the overnight HIBOR remained unchanged at 0.05%.

5.2 The *US dollar yield curve* shifted upward slightly during 2015, while the *Hong Kong dollar yield curve* flattened. As a result, the negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes increased from 12 basis points at end-2014 to 61 basis points at end-2015. The negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills also widened from 6 basis points to 41 basis points.

**Diagram 5.1 : The US dollar yield curve shifted upward slightly while the Hong Kong dollar yield curve flattened during 2015**

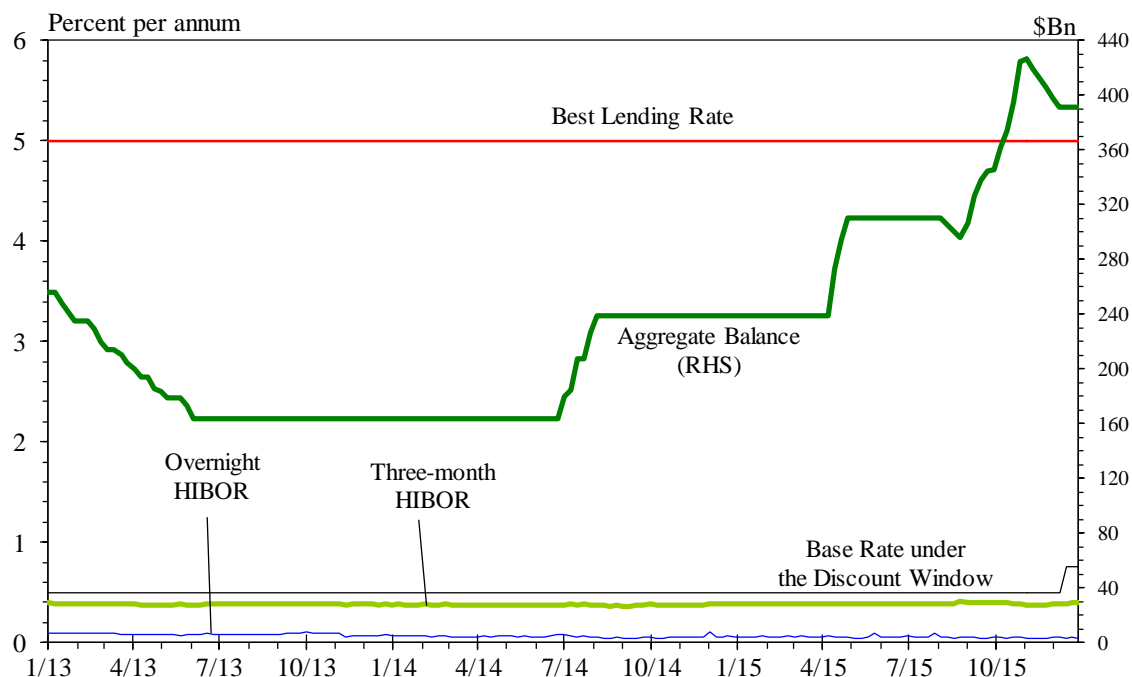


Note : (\*) With the HKMA stopping new issuance of Exchange Fund Notes of tenors of three years or above since January 2015, the Hong Kong dollar yields for tenor of 3 years and above refer to those for Hong Kong Government Bonds.

5.3 Interest rates on the retail front also stayed at low levels. The *Best Lending Rates* remained unchanged at 5.00% or 5.25% throughout 2015, while the *average savings deposit rate* and the *one-year time deposit rate* quoted by

the major banks for deposits of less than \$100,000 stayed low at 0.01% and 0.14% respectively at end-2015. The *composite interest rate*<sup>(2)</sup>, which indicates the average funding cost for retail banks, decreased from 0.39% a year earlier to 0.26% at end-2015.

**Diagram 5.2 : Hong Kong dollar interest rates remained low (end for the week)**



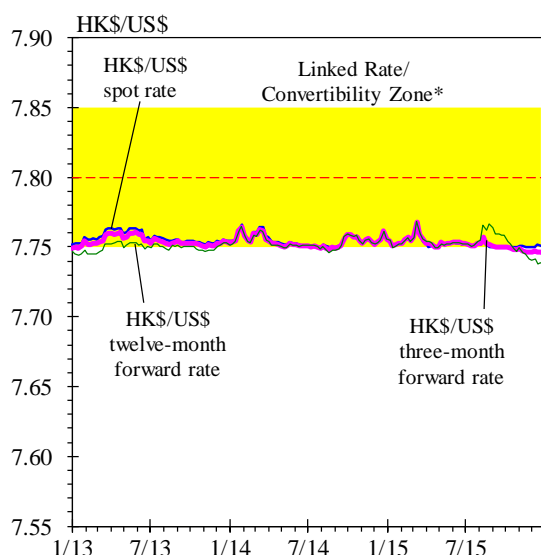
5.4 The *Hong Kong dollar spot exchange rate* moved within a narrow range of 7.750-7.766 per US dollar in 2015. After softening slightly in the first quarter, the Hong Kong dollar exchange rate strengthened against the US dollar and stayed close to 7.750 per US dollar in the rest of the year. The spot exchange rate closed at 7.751 at end-2015, compared with 7.756 at end-2014. The strong-side Convertibility Undertaking was triggered several times during 2015, mainly driven by equity-related demand for the Hong Kong dollar in April, and conversions of the offshore renminbi into the Hong Kong dollar in September and October. As such, the HKMA passively purchased a total of US\$29.3 billion from banks in exchange for \$227.2 billion. The Aggregate Balance rose by a lesser extent, from \$239.2 billion at end-2014 to \$391.3 billion at end-2015, as the increase was partly offset by the HKMA’s additional issuances of Exchange Fund Bills to meet the strong demand by banks for liquidity management.

5.5 The *Hong Kong dollar forward rates* showed some fluctuations during 2015. The differential between the 3-month Hong Kong dollar forward rate and spot rate reverted from +3 pips (each pip is equivalent to HK\$0.0001) at

end-2014 to -51 pips at end-2015, while that between *the 12-month forward rate* and spot rate rose from +5 pips at end-2014 to as high as +345 pips in late August before dipping to -125 pips at end-2015.

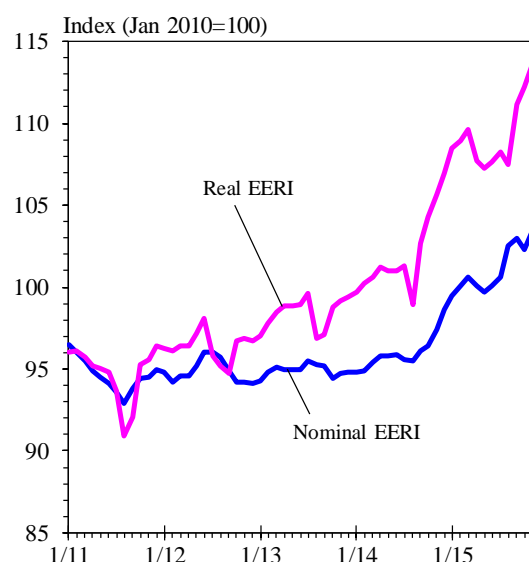
5.6 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed that of the US dollar. As the US dollar strengthened against most major currencies including the euro, pound sterling and renminbi, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*<sup>(3)</sup> rose by 5.8% and 7.1% respectively during 2015.

**Diagram 5.3 : Hong Kong dollar stayed close to 7.75 per US dollar during most of 2015 (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.

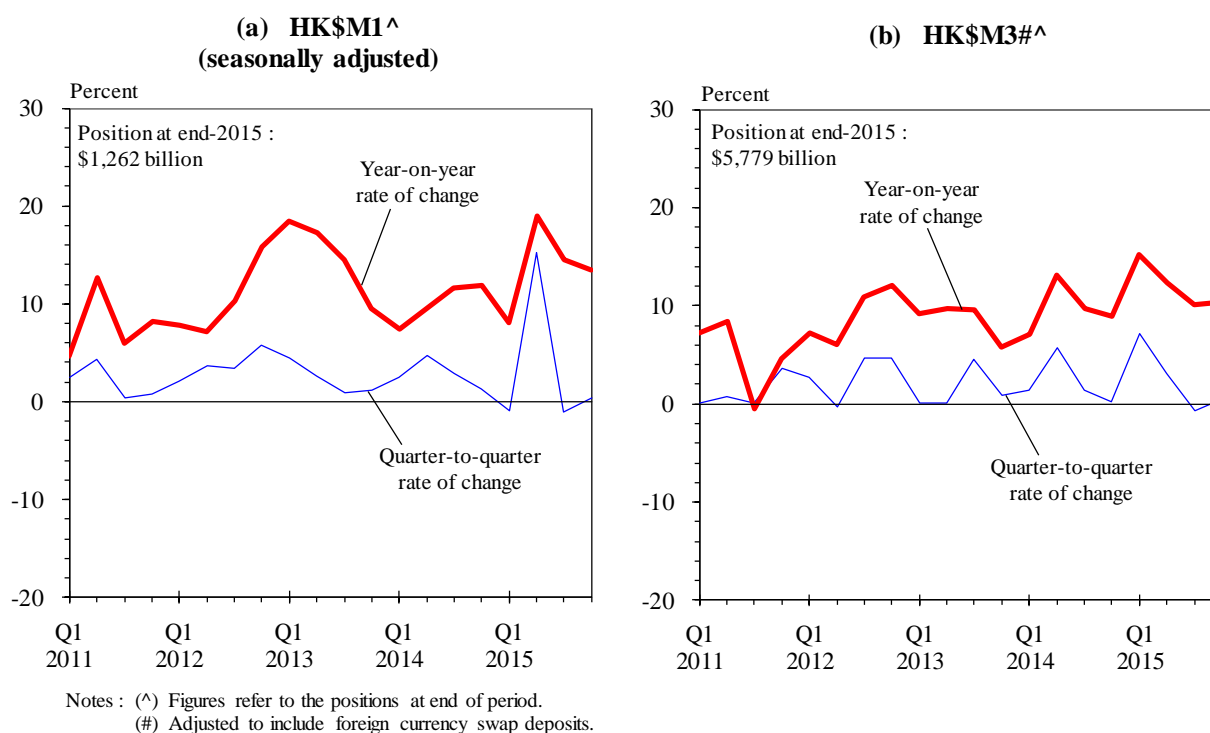
**Diagram 5.4 : The trade-weighted nominal and real EERIs rose during 2015 (average for the month)**



## Money supply and banking sector

5.7 The monetary aggregates expanded further in 2015, though the growth momentum has decelerated visibly over the course of the year. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) still rose by 13.4% over a year earlier to \$1,262 billion at end-2015, and the broad money supply (HK\$M3) grew by 10.4% to \$5,779 billion<sup>(4)</sup>, with most of the growth occurring in the first half. Over the same period, *total deposits* with authorised institutions (AIs)<sup>(5)</sup> expanded by 6.7% to \$10,750 billion, within which Hong Kong dollar deposits and foreign currency deposits increased by 10.7% and 3.1% respectively.

**Diagram 5.5 : The monetary aggregates continued to expand further in 2015, though the momentum decelerated over the course of the year**



**Table 5.1 : 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	-0.9	13.6	7.2	3.0	7.2	3.0
	Q2	15.2	-1.3	3.1	0.8	3.1	0.8
	Q3	-1.1	5.3	-0.6	0.1	-0.7	0.1
	Q4	0.4	-2.4	0.5	1.5	0.5	1.5
Total amount at end-2015 (\$Bn)		1,262	1,971	5,766	11,618	5,779	11,655
<u>% change over a year earlier</u>		13.4	15.4	10.3	5.5	10.4	5.5

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

5.8 Growth in *total loans and advances* slowed down markedly in 2015, in part reflecting weaker corporate credit demand amid the economic slowdown. With the modest growth in the first half turning into a decline in the second half, total loans and advances rose by only 3.5% over a year earlier to \$7,535 billion at end-2015, the slowest growth since 2009 when the economy

was hit hard by the Global Financial Tsunami. Analysed by currency, Hong Kong dollar loans and foreign currency loans increased by 3.8% and 3.2% respectively. With Hong Kong dollar loans growing slower than Hong Kong dollar deposits, the Hong Kong dollar loan-to-deposit ratio decreased from 83.3% a year earlier to 78.2% at end-2015, the lowest level since end-2010. The foreign currency loan-to-deposit ratio stayed at 62.2% at end-2015, little changed from 62.1% at end-2014.

5.9 Loans for use in Hong Kong (including trade finance) increased by a decelerated 3.9% over a year earlier to \$5,254 billion at end-2015, and loans for use outside Hong Kong by 2.8% to \$2,280 billion. Among loans for use in Hong Kong, trade finance plunged by 16.3% amid the sluggish external trade performance, while loans to wholesale and retail trade declined by 6.1%, in tandem with the slack in retail business. On the other hand, loans to financial concerns and stockbrokers rose notably by 16.6% and 8.1% respectively. As for property-related lending, loans to building, construction, property development and investment expanded by 7.4%. Loans for purchase of residential property also grew by 8.7% during the year, yet the pace of increase has slowed in the fourth quarter amid the property market consolidation.

**Table 5.2 : Loans and advances**

All loans and advances for use in Hong Kong

Loans to :									All loans and advances for use outside Hong Kong <sup>(c)</sup>		Total loans and advances
% change during the quarter		Trade finance	Manu- facturing	Wholesale and retail trade	Building, construction, property development and investment	Purchase of residential property <sup>(a)</sup>	Financial concerns	Stock-brokers	Total <sup>(b)</sup>	Hong Kong <sup>(c)</sup>	advances
2014	Q1	12.4	7.4	5.5	2.6	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	-2.1	2.5	3.0	0.3	-53.3	-1.3	-2.0	-1.5
	Q4	-9.8	-4.3	-3.6	-0.6	1.0	11.5	17.8	0.2	-1.6	-0.3
Total amount at end-2015 (\$Bn)		454	244	444	1,139	1,119	453	55	5,254	2,280	7,535
% change over a year earlier		-16.3	-8.2	-6.1	7.4	8.7	16.6	8.1	3.9	2.8	3.5

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

- (a) Figures also include loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme, in addition to those for the purchase of private residential flats.
- (b) Loans to individual sectors may not add up to all loans and advances for use in Hong Kong, as some sectors are not included.
- (c) Also include loans where the place of use is not known.

5.10 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 18.1% at end-September 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>.

5.11 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 in accordance with the Basel III transitional arrangement (starting with 0.625% from 1 January 2016 and increasing to 1.25% from 1 January 2017), and the designation of five authorised institutions



as domestic systemically important authorised institutions on which the higher loss absorbency capital requirement will start to apply from March 2016.

5.12 Asset quality of the local banking sector remained good. The ratio of classified loans to total loans stayed at a low level, though edging up from 0.46% at end-2014 to 0.56% at end-September 2015. While the delinquency ratio for credit card lending also rose marginally from 0.20% to 0.24%, the ratio remained low by historical standards. The delinquency ratio for residential mortgage loans also stayed low at 0.03% at end-2015, unchanged from end-2014.

**Table 5.3 : 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 (gross)</u>
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	0.46
2015	Q1	98.39	1.14	0.46
	Q2	98.23	1.28	0.49
	Q3	98.08	1.36	0.56

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”.

5.13 The development of *offshore renminbi (RMB) business* in Hong Kong during 2015 has been much affected by the contraction of the offshore RMB liquidity pool, particularly in the second half of the year. Reflecting this, total RMB deposits (including customer deposits and outstanding certificates of deposit) dropped from \$1,158 billion a year earlier to RMB1,010 billion at end-2015. RMB bond issuance also fell from RMB197 billion in 2014 to RMB75 billion in 2015.

5.14 Meanwhile, RMB trade settlement and bank lending maintained steady growth during 2015. RMB trade settlement transactions handled by banks in Hong Kong rose by 9.2% over a year earlier to RMB6,833 billion. RMB bank lending jumped by 58.2% to RMB297 billion at end-2015. Average daily turnover in the RMB Real Time Gross Settlement system reached RMB947 billion in 2015, a rise of 29.2% over 2014.

5.15 Hong Kong maintained its status as the global offshore RMB business

hub with a market of considerable depth and breadth. A significant development during the year was the implementation of the Mainland-Hong Kong Mutual Recognition of Funds initiative, which has expanded Hong Kong's RMB product offering (see paragraph 5.27). In November, the International Monetary Fund decided to include the RMB in its Special Drawing Rights currency basket. The decision reaffirmed the status of the RMB as a freely usable currency, and would add impetus to the internationalisation of the RMB as well as the further development of Hong Kong's offshore market.

**Table 5.4 : Renminbi deposits and cross-border renminbi trade settlement in Hong Kong**

As at end of period		<u>Interest rates on<sup>(a)</sup></u>					Number of AIs engaged in RMB business	Amount of cross-border RMB trade settlement <sup>(c)</sup> (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
	Q4	160,908	690,198	851,106	0.25	0.53	145	1,587,184
% change over a year earlier		-9.1	-16.5	-15.2	N.A.	N.A.	N.A.	-7.8

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

5.16 The Hong Kong dollar *debt market* expanded further in 2015 on the back of a steady growth in public sector issuance. With the modest increase in new debts issued by the public sector more than offsetting the slight decline in private sector debt issuance<sup>(8)</sup>, total gross issuance increased by 2.6% over a year earlier to \$2,494.0 billion, of which 89.9% was Exchange Fund papers. In parallel, the outstanding Hong Kong dollar debt securities grew considerably by 8.1% to a record level of \$1,524.6 billion at end-2015, equivalent to 26.4% of HK\$M3 or 22.2% of Hong Kong dollar-denominated assets of the entire

banking sector<sup>(9)</sup>.

5.17 As to the Government Bond (“GB”) programme, a total of \$20.4 billion institutional GBs with tenors ranging from three to fifteen years were issued through tenders during 2015. Separately, in June a sukuk with an issuance size of US\$1 billion and a tenor of five years was issued. In August, \$10 billion inflation-linked retail bonds (i.e. iBonds) were issued as announced in the 2015-16 Budget. At end-2015, the total outstanding amount of Hong Kong dollar bonds under the GB programme was \$98.9 billion, comprising 13 institutional issues totaling \$68.9 billion and three retail issues (iBonds) totaling \$30 billion. In addition, there were two outstanding US dollar sukuks under the programme, each with the issuance size of US\$1 billion.

**Table 5.5 : New issuance and outstanding value of  
Hong Kong dollar debt securities (\$Bn)**

		<u>Exchange Fund paper</u>	<u>Statutory bodies/govern ment-owned corporations</u>	<u>Govern -ment</u>	<u>Public sector total</u>	<u>AIs<sup>(a)</sup></u>	<u>Local corporations</u>	<u>Non-MDBs overseas borrowers<sup>(b)</sup></u>	<u>Private sector total</u>	<u>MDBs<sup>(b)</sup></u>	<u>Total</u>
<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	Annual	2,242.2	12.0	30.4	2,284.6	136.4	14.2	58.9	209.4	0.0	2,494.0
	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
	Q4	609.1	2.9	7.2	619.2	44.0	4.9	20.7	69.6	0.0	688.8
% change in 2015 over 2014		3.0	24.5	-1.3	3.0	7.3	-57.4	16.5	-0.7	-100.0	2.6
<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
	Q4	828.4	44.1	100.4	972.9	242.6	141.7	162.1	546.4	5.3	1,524.6
% change in 2015 over 2014		10.1	7.5	2.4	9.1	4.2	2.9	14.4	6.7	-13.1	8.1

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.

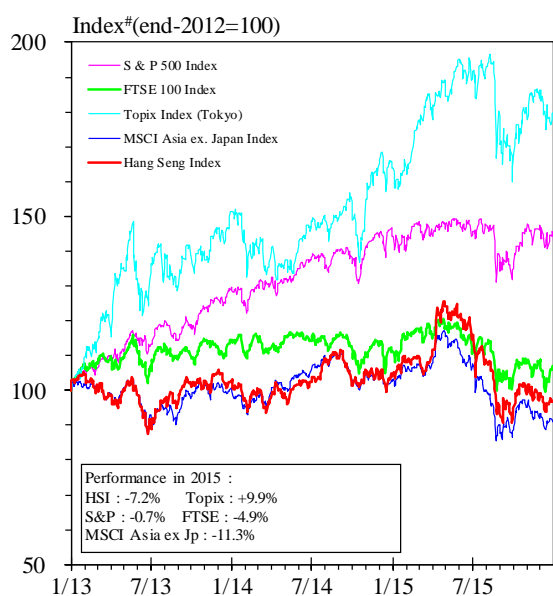
(c) Figures on AIs and hence the total have been revised downwards since more early redemption data have recently been available.

## The stock and derivatives markets

5.18 The *local stock market* staged a strong rally in the first few months of 2015, but underwent a marked correction in the second half. Mainly driven by further monetary easing and stock market boom in the Mainland, the Hang Seng Index (HSI) went successively higher during the first four months, reaching a 7-year high of 28 443 on 28 April. It lost most of the gains in June and July and plunged further in the ensuing months in face of increasing concerns over a US interest rate hike and the slide in the Mainland stock market. For the year as a whole, the HSI dropped by 7.2% from end-2014 to 21 914 at end-2015. In parallel, the *market capitalisation* declined by 1.5% to \$24.7 trillion. The local stock market was the eighth largest stock exchange in the world and fourth largest in Asia<sup>(10)</sup>.

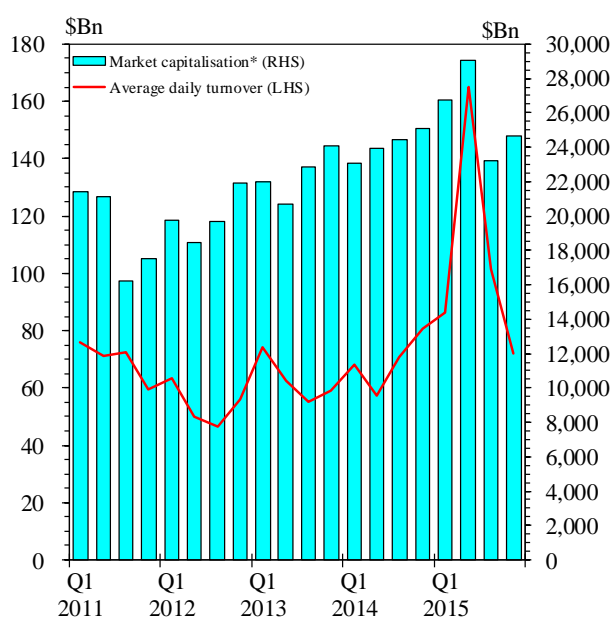
5.19 Trading was very active in the first half of 2015, before showing a visible moderation in the second half. *Turnover* in the securities market reached an all-time high of \$293.9 billion on 9 April. Notwithstanding the quieter trading in the second half, average daily turnover for 2015 as a whole still amounted to \$105.6 billion, a rampant 52.1% higher than in 2014. As to *derivatives products*<sup>(11)</sup>, the average daily trading volume of futures and options soared by 33.3% in 2015, within which trading of H-shares Index futures, HSI futures and stock options grew by 51.8%, 24.4% and 24.0% respectively, while trading of HSI options recorded little change. In parallel, the average daily trading value of securitised derivatives products soared by 93.6%, within which trading of derivative warrants and callable bull/bear contracts surged by 120.3% and 49.3% respectively.

**Diagram 5.6 : The local stock market underwent a marked correction in the second half of 2015**



Note : (#) Position at end of month.

**Diagram 5.7 : Market capitalisation edged down, while trading activities were generally active**



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

**Table 5.6 : Average daily turnover of derivatives products of the Hong Kong market**

		Hang Seng Index futures	Hang Seng Index options	H-shares Index futures	Stock options	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	Annual	85 991	30 427	135 139	374 346	768 520	18,235	7,437	25,672
	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
	Q4	114 430	25 752	125 310	241 192	641 404	12,607	7,990	20,597
% change in 2015 Q4 over 2014 Q4		56.5	-24.6	17.5	-35.7	-7.9	29.9	47.2	36.1
% change in 2015 over 2014		24.4	#	51.8	24.0	33.3	120.3	49.3	93.6

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.

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

5.20 Similarly, tracking closely the change in the market situation, fund raising activities were likewise buoyant in the first half of 2015, but also cooled off in the second half amid the stock market correction. For the year as a whole, *total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)<sup>(12)</sup>, rose by another 18.3% to a record-high of \$1,116 billion. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) went up by 13.1% to \$263.1 billion. Hong Kong regained its top global ranking in the amount of funds raised through IPOs in 2015.

5.21 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-2015, a total of 951 Mainland enterprises (including 229 H-share companies, 145 “Red Chips” companies and 577 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. Mainland-related stocks accounted for 73% of equity turnover and 59% of total equity fund raised in the Hong Kong stock exchange in 2015.

5.22 In October, Hong Kong Futures Exchange Limited (HKFE), HKFE Clearing Corporation Limited (HKCC), the London Metal Exchange (LME) and LME Clear Limited (LME Clear) signed a non-binding memorandum of understanding for the proposed development of a trading link between HKFE and the LME and a clearing link between HKCC and LME Clear, to be named “London-Hong Kong Connect”. The “London-Hong Kong Connect” would enable HKFE’s eligible Exchange Participants to trade LME products, and HKCC’s eligible Clearing Participants to clear those trades. It would help enhance the market access of the Hong Kong’s securities market and support the development of Hong Kong as a commodities trading centre. Subject to regulatory approval and discussion over the operational details (e.g. involved products, operational model), the “London-Hong Kong Connect” will be implemented at a later stage.

5.23 In November, the Securities and Futures Commission (SFC) launched a one-month consultation on the proposal to expand the scope of short position reporting. The existing short position reporting regime, introduced in June 2012, applied only to constituents of HSI and Hang Seng China Enterprises Index and other financial stocks specified by the SFC. The SFC proposed to extend the reporting requirement to all securities that can be short sold under the rules of The Stock Exchange of Hong Kong Limited and to collective investment schemes. The expanded regime would help improve monitoring and enhance market transparency, and thus be conducive to the long-term development of the financial industry.

5.24 The Hong Kong Exchanges and Clearing Limited (HKEx) introduced three more London Metal Mini Futures, namely London Nickel Mini Futures, London Tin Mini Futures and London Lead Mini Futures contracts, for trading in its derivatives market in December 2015. The new contracts are denominated in RMB, which complemented the RMB-traded London Aluminium Mini Futures, London Zinc Mini Futures and London Copper Mini Futures contracts HKEx introduced in December 2014. These commodity contracts would help enhance the range of RMB products in the Hong Kong financial market.

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

5.25 The fund management business made a good start in the early part of 2015, and was likewise affected by the slide of the local stock market in the latter part of the year. The monthly average gross retail sales of *mutual funds* in January-November 2015 fell by 6.0% from a year earlier to US\$6.3 billion<sup>(13)</sup>. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*<sup>(14)</sup> rose to \$620.0 billion at end-June before declining to \$591.3 billion at end-2015, still a gain of 4.6% over a year earlier. The amount of net assets managed by *retail hedge funds* shrank further<sup>(15)</sup>.

### **Insurance sector**

5.26 Following a few years of continued growth since 2012, the *insurance sector*<sup>(16)</sup> turned quieter in the third quarter of 2015. Gross premium income from long-term business edged down by 0.9% from a year earlier, as the plunge in premium income from investment-linked plans more than offset the rise in premium income from non-investment linked plans. As to general business, gross premium edged up by 0.5% while net premium edged down by 0.5%.



**Table 5.7 : 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
	Q3	11,592	7,900	803	27,356	1,328	43	145	28,872	40,464
% change in 2015 Q3 over 2014 Q3		0.5	-0.5	-5.9	11.0	-69.2	-8.5	20.8	-0.9	-0.5

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

5.27 The Mainland-Hong Kong Mutual Recognition of Funds (MRF) initiative was implemented in July, allowing Mainland and Hong Kong funds that met the eligibility requirements to follow streamlined procedures to obtain authorisation or approval for offering to retail investors in each other's market. The MRF opened up a new frontier for the Mainland and Hong Kong asset management industries and made available a wider selection of fund products to investors in both markets. The first batch of authorised funds under the MRF was announced in December<sup>(17)</sup>.

## 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-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 based on the figures compiled by the World Federation of Exchanges and the London Stock Exchanges Group.
- (11) At end-2015, there were 84 classes of stock options contracts and 74 classes of stock futures contracts.
- (12) At end-2015, there were 1 644 and 222 companies listed on the Main Board and GEM respectively.
- (13) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-November 2015, the survey covered a total of 1 166 active authorised funds.
- (14) At end-2015, there were 19 approved trustees. On MPF products, 35 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 459 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 276 000 employers, 2.55 million employees and 205 000 self-employed persons have participated in MPF schemes.
- (15) At end-2015, there were three SFC-authorised retail hedge funds with combined net asset size of US\$85 million. The amount of net assets under management represented

a 47.9% decrease over a year earlier, and a 46.9% decrease from end-2002, the year when the hedge funds guidelines were first issued.

- (16) At end-2015, there were 157 authorised insurers in Hong Kong. Within this total, 45 were engaged in long-term insurance business, 93 in general insurance business, and 19 in composite insurance business. These authorised insurers came from 23 countries and territories (including Hong Kong).
- (17) Four Mainland funds and three Hong Kong funds were approved by the SFC and the China Securities Regulatory Commission respectively on 18 December 2015 as the first batch of authorised funds for public sale under the Mainland-Hong Kong Mutual Recognition of Funds initiative.

## CHAPTER 6 : THE LABOUR SECTOR

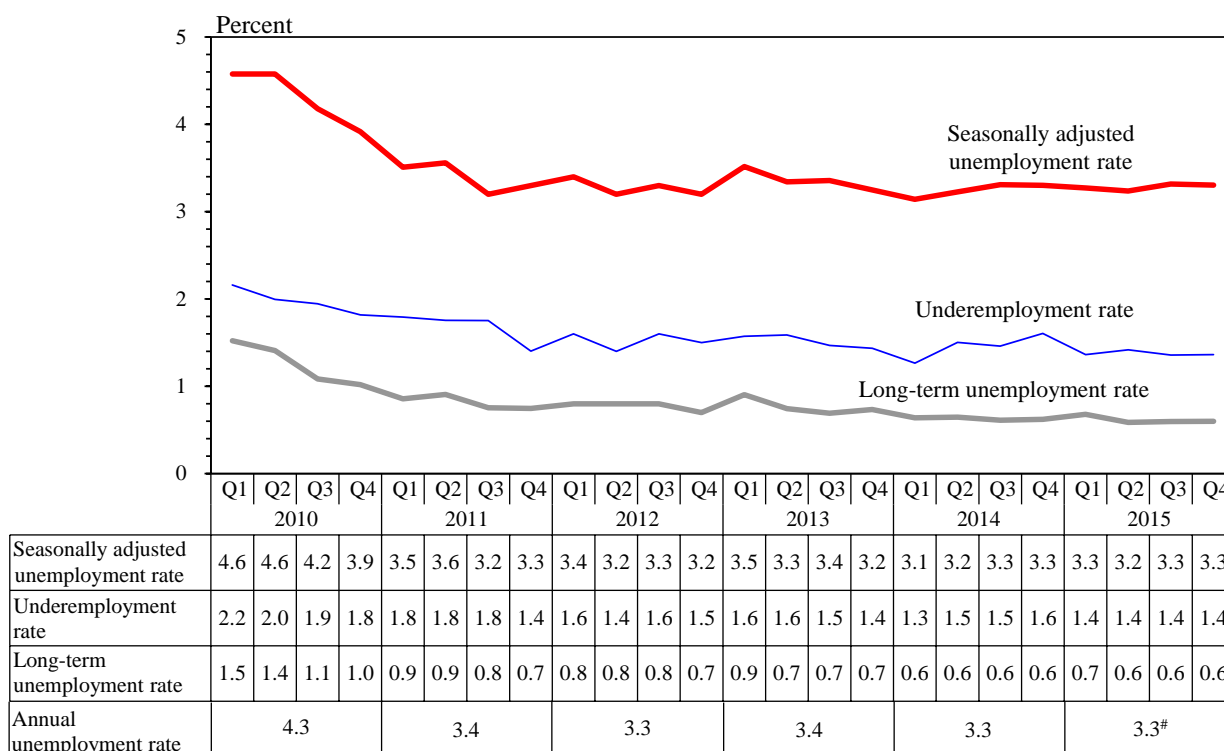
### *Summary*

- *The labour market remained largely stable in overall terms in 2015. Both total employment and the labour force registered moderate growth, while the unemployment rate stayed low throughout the year. Yet labour demand showed some signs of easing, particularly in segments more affected by the sluggish trade performance and the sustained weak trend in inbound tourism.*
- *Both the labour force and total employment grew moderately further at a broadly similar pace in 2015. As such, the unemployment rate hovered at a low level of 3.2-3.3% during the year, averaging at 3.3% for the year as a whole, signifying another year of full employment situation.*
- *Nominal wages and earnings continued to see broad-based increase in 2015. Grassroots workers enjoyed more visible income growth, thanks to the upward adjustment of the Statutory Minimum Wage (SMW) rate since May 2015.*

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

6.1 The labour market stayed broadly stable in 2015. For 2015 as a whole, the labour force and total employment expanded in sync at a largely similar pace. The *unemployment rate*<sup>(2)</sup> thus held steady at 3.3%, while the *underemployment rate*<sup>(3)</sup> inched down by 0.1 percentage point to 1.4%, the lowest since 1997. Yet data collected from private sector establishments pointed to some easing in labour demand. In the first three quarters of 2015 combined, private sector employment posted slower year-on-year growth, while the number of vacancies declined slightly further, mainly due to the weaker labour demand in the trade- and tourism-related sectors. Nonetheless, overall wages and earnings continued to see across-the-board increases, with low-paid workers enjoying more appreciable income growth alongside the SMW uprating since May 2015.

**Diagram 6.1 : The labour market held largely stable in 2015**



Note : # Provisional figure.

## Labour force and total employment

6.2 The *labour force*<sup>(4)</sup> expanded by 1.3% in 2015 to 3 926 900. While the working-age population (i.e. land-based non-institutional population aged 15 and above) continued to grow at a mild and steady pace of 0.8%, the labour force participation rate rose back to 61.4% in 2015 after a marginal dip in 2014, thereby contributing to the moderate labour force growth.

6.3 On the demand side, *total employment*<sup>(5)</sup> likewise grew by 1.3% to 3 798 200 in 2015. The quarterly pattern largely matched with that of the labour force, with more distinct growth in the first half of the year but slower growth in the second half. With employment growth keeping pace with labour supply growth, the labour market held stable in overall terms throughout the four quarters of 2015.

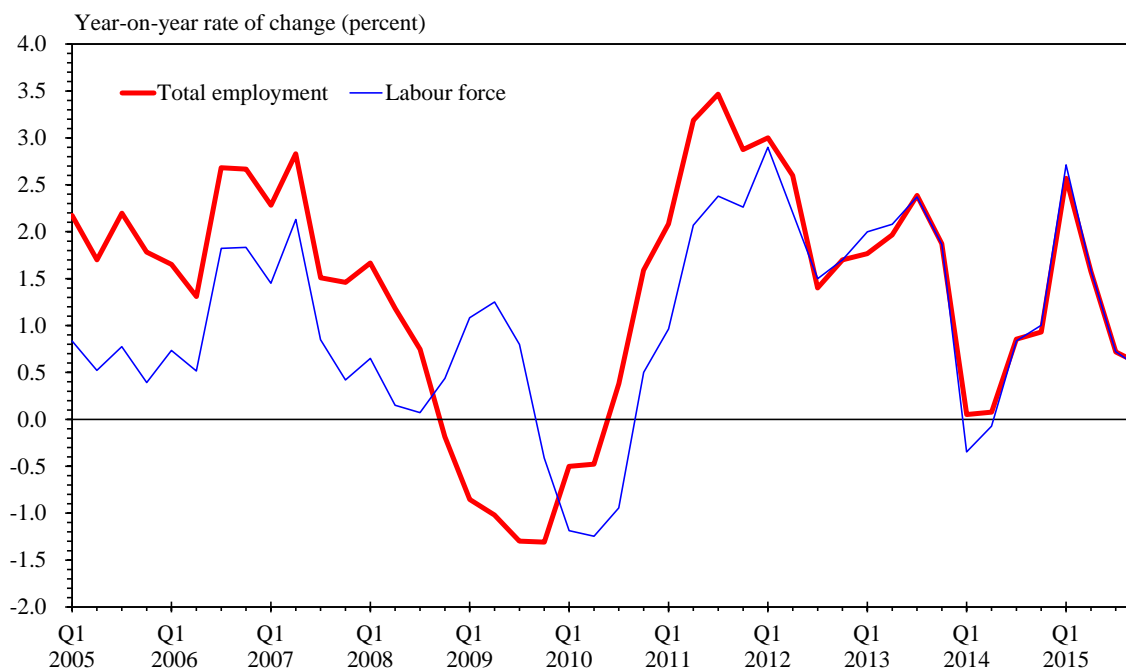
**Table 6.1 : The labour force, and persons employed, unemployed and underemployed**

	<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 Annual <sup>#</sup>	3 926 900 (1.3)	3 798 200 (1.3)	128 700	54 000
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
Q3	3 932 100 (0.7)	3 796 200 (0.7)	135 800	53 400
Q4	3 925 500 (0.5)	3 803 900 (0.6)	121 600	53 500
	<0.2>	<0.2>		

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 fourth quarter of 2015.  
 # Provisional figures.

Source : General Household Survey, Census and Statistics Department.

**Diagram 6.2 : Both the labour force and total employment grew moderately further in 2015**



**Table 6.2 : 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</u> <sup>#</sup>
<u>Male</u>						
15-24	35.4	35.7	36.4	37.8	37.8	39.7
<i>of which:</i>						
15-19	10.2	9.9	10.5	11.0	11.1	12.1
20-24	60.6	61.1	61.1	62.5	61.5	63.2
25-29	94.0	93.9	94.5	93.8	93.4	93.9
30-39	96.5	96.5	96.8	96.9	96.5	96.4
40-49	95.0	95.1	95.3	95.5	94.7	95.2
50-59	84.4	84.9	85.1	86.8	86.7	86.8
≥ 60	22.0	23.4	25.6	26.9	27.8	28.3
Overall	68.5	68.4	68.7	69.1	68.8	69.0
<u>Female</u>						
15-24	36.7	37.0	37.5	40.0	39.3	41.1
<i>of which:</i>						
15-19	9.2	9.1	9.7	11.5	12.5	12.3
20-24	61.4	62.1	62.0	64.2	61.4	64.6
25-29	86.6	87.5	87.2	86.6	86.3	86.1
30-39	75.6	76.8	77.5	78.5	79.0	78.9
40-49	68.2	69.9	70.8	72.8	73.1	74.3
50-59	49.0	51.6	53.8	56.1	57.1	58.4
≥ 60	6.8	8.1	8.8	9.6	10.6	11.3
Overall	51.9	53.0	53.6	54.5	54.6	55.0
<u>Both genders combined</u>						
15-24	36.0	36.4	37.0	38.9	38.6	40.4
<i>of which:</i>						
15-19	9.7	9.5	10.1	11.2	11.8	12.2
20-24	61.0	61.6	61.6	63.4	61.4	63.9
25-29	89.8	90.2	90.3	89.7	89.4	89.5
30-39	84.3	84.9	85.4	85.9	86.0	85.9
40-49	80.2	81.0	81.4	82.5	82.3	83.1
50-59	66.5	68.0	69.2	71.0	71.4	72.0
≥ 60	14.1	15.5	16.9	17.9	18.9	19.5
Overall	59.6	60.1	60.5	61.2	61.1	61.4

Note : # Provisional figures.

Source : General Household Survey, Census and Statistics Department.

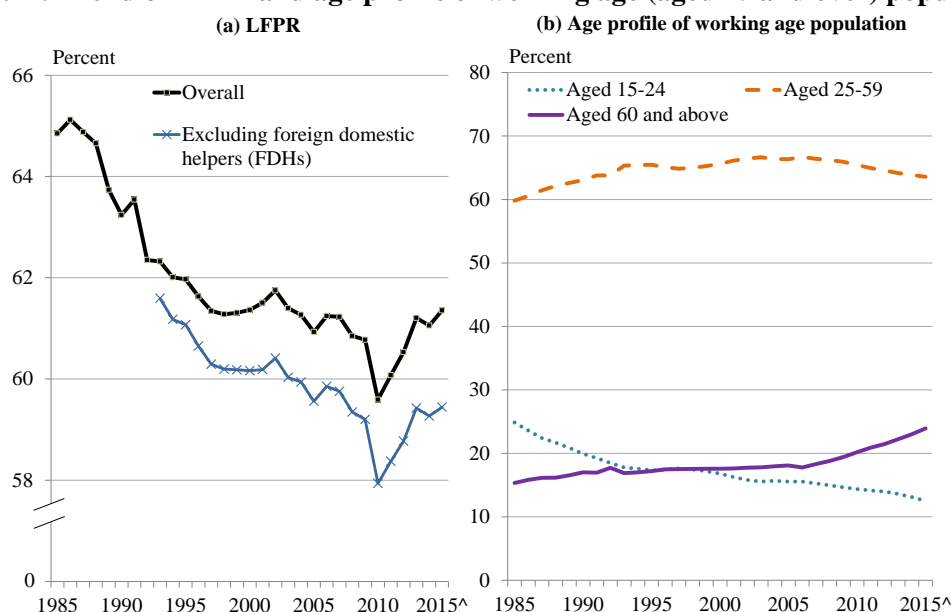


## Box 6.1

### Salient observations on the trends of labour force participation rate

The labour force participation rate (LFPR), measuring the proportion of working age population participating in the labour market either by working or looking for work<sup>(1)</sup>, is a crucial indicator of the size of workforce available to engage in economic activities. While short-term changes in LFPR may be affected by cyclical factors like job availability, longer-term trends hinge more substantially on structural factors, such as demographics and labour market institutions. *Chart 1a* showed that the overall LFPR in Hong Kong over the past three decades exhibited a general downtrend from 64.8% in 1985 to its trough at 59.6% in 2010, before rising back moderately to 61.4% in 2015. Intuitively, one may suspect that the general downtrend was the direct result of ageing population, as the increasing share of older-aged population and their generally lower LFPR posed a drag on the overall figure.

**Chart 1 : Trend of LFPR and age profile of working age (aged 15 and over) population**



Notes: General Household Survey (GHS) has started collecting statistics pertaining to FDHs since 1993.

(^) Figures for 2015 are provisional.

Source: GHS, Census and Statistics Department (C&SD).

### Changing age profile of working age population

Undeniably, our population showed a continuing dejuvenation and ageing trend (*Chart 1b*), but it is worth noting that the proportion of prime age population (i.e. persons aged 25-59, who typically had higher LFPRs than other age groups) was actually on an uptrend during 1986-2005. In fact, the prime age labour force grew rapidly at an average of 2.9% per annum during 1986-1995 and at around 2.1% in the next decade, before slowing to a modest pace of 0.9% from 2006 onwards. Even after netting out the impact of FDHs, the prime age labour force still grew rapidly at an average rate of 2.2% per annum from 1994-2005, yet decelerated markedly to 0.5% afterwards. The rapid growth of prime age workforce in the 1980-90s was largely the combined impacts of post-War baby boomers (i.e. those who were born between 1945 and 1965) being in their prime age, an influx of young entrants from the Mainland during 1970-80s and the return of many Hong Kong emigrants in the mid-1990s.

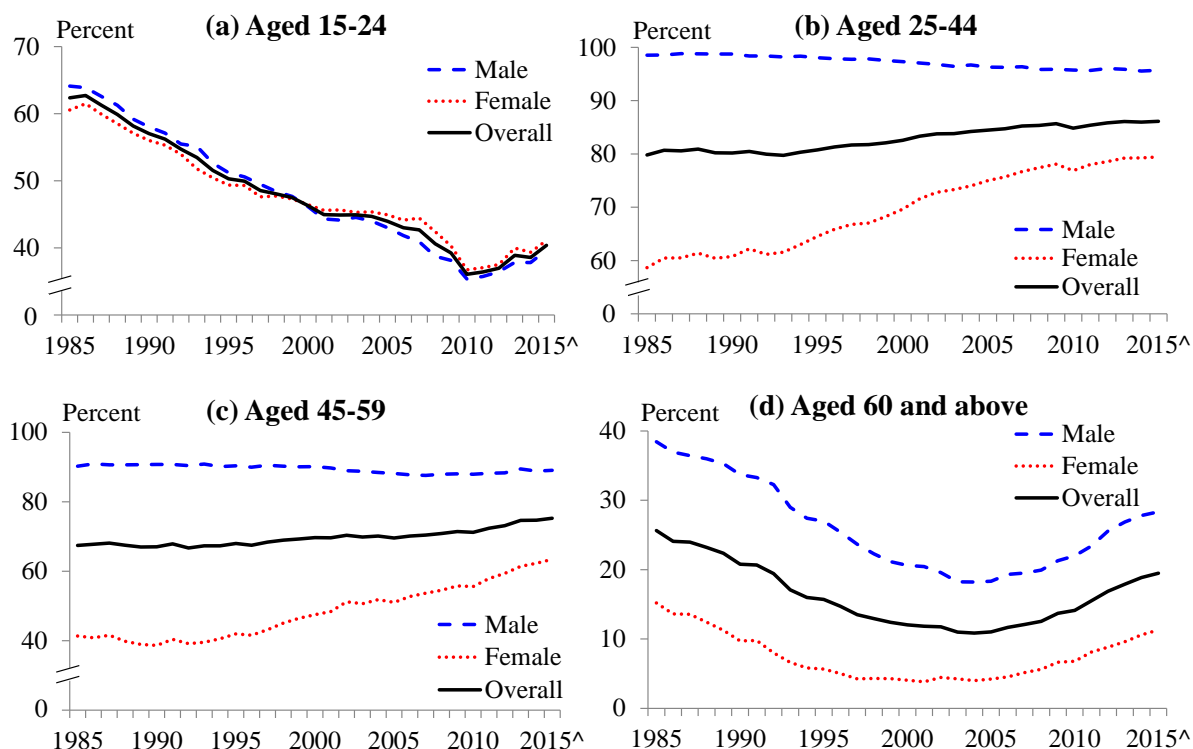
(1) In this article, LFPR refers to the proportion of labour force in the total land-based non-institutional population aged 15 and over. The figures from 1985 to 1995 were compiled based on the “extended de facto” method and those from 1996 onwards were compiled based on the “resident population” method. As a result, these two series of figures may not be strictly comparable. Figures for 2015 are provisional.

## Box 6.1 (Cont'd)

### Changing LFPRs by age group

Apart from the age profile of population, the downward trajectory of the overall LFPR was also attributable to the fact that LFPRs of various age groups, better understood by examining the trends for males and females separately, changed dramatically in Hong Kong in tandem with our economic and social development.

Chart 2 : LFPR by gender and age group



Note: (^) Figures for 2015 are provisional.  
Source: GHS, C&SD.

Over the past three decades or so, the LFPR of the youth (i.e. persons aged 15-24), for both genders, was on a sustained downtrend from 1986 to its low in 2010 (*Chart 2a*), translating into a cumulative drop of over 20 percentage points. Conceivably, enhanced educational pathways inevitably postponed the timing of the youths' entry into the labour force. Noteworthy though, their LFPRs rose back slightly in the past few years amidst the largely favourable labour market. The implementation of the Statutory Minimum Wage (SMW) in 2011, rendering an immediate boost to the pay of lower-paid jobs, also to some extent enticed more people to take part in work at the lower-end of the skill spectrum. In particular, youth employment (excluding FDHs) grew by 6.8% during the period of 2011-2015, with those engaged as service and sales workers up even more notably by 9.5%.

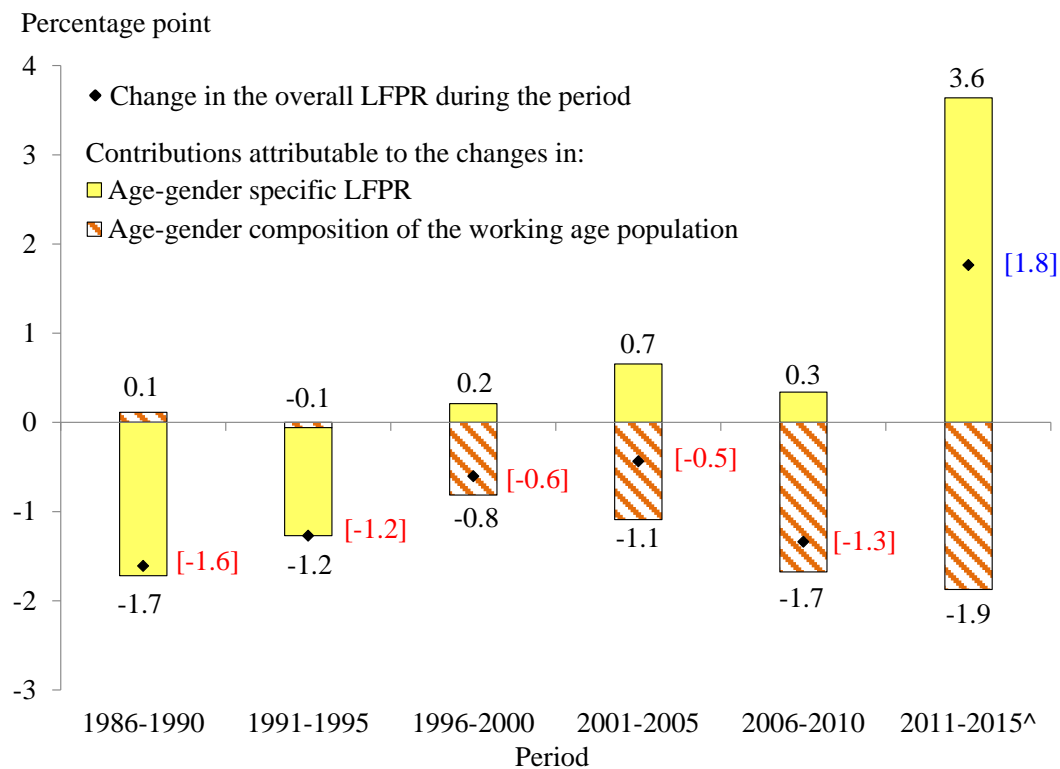
As for the prime age workforce (*Chart 2b-c*), LFPRs of prime age females saw a dramatic uptrend, while those of their male counterparts stayed high at over 90% throughout the period. The former observation reflected improved access to education for most women and the changing social perception on female employment, marriage and childrearing decisions in the past decades. In addition, the increased prevalence of FDHs in Hong Kong also contributed significantly towards unleashing the local women workforce.

### Box 6.1 (Cont'd)

As regards the older age group (aged 60 and above), its LFPR bottomed out from its dwindling path in around 2004-05 (*Chart 2d*), a period when the first batch of baby boomers reached 60. The gradual pickup in the LFPR thereafter might suggest that this group had chosen to stay longer in the workforce. It could be partly attributable to their improved educational profile as compared to the previous generations, which conceivably had enabled them to remain engaged in some higher-skilled jobs for which knowledge and experience, instead of physical strength, matter more. To illustrate, over 60% of the older-aged workforce (excluding FDHs) had attained secondary school or above in 2015, more than double as compared to 28% in 1995. In a similar vein, around 30% of the older-aged employed persons (excluding FDHs) were engaged in the higher-skilled occupations in 2015, as compared to only some 16% in 1995.

### Decomposition of changes in overall LFPR<sup>(2)</sup>

**Chart 3 : Decomposition of changes in overall LFPR - Contributions of age-gender compositional changes in the working age population vs. changes in age-gender specific LFPR**



Notes: The contributions of the individual items were computed based on unrounded figures. The sum of the individual items may not be equal to the totals due to rounding. Bracketed figures were computed based on rounded figures. (^) Figures for 2015 are provisional.  
Source: GHS, C&SD.

(2) The following decomposition method was adopted:

$$LFPR^{t_1} - LFPR^{t_2} = \sum_i \sum_j \overline{LFPR}_{ij} (S_{ij}^{t_1} - S_{ij}^{t_2}) + \sum_i \sum_j \bar{S}_{ij} (LFPR_{ij}^{t_1} - LFPR_{ij}^{t_2})$$

where  $LFPR^t$  denotes the overall LFPR in year  $t$ ,  $LFPR_{ij}^t$  denotes the LFPR of gender  $i$  and age group  $j$  in year  $t$ ,  $S_{ij}^t$  denotes the percentage share of gender  $i$  and age group  $j$  in the working age population in year  $t$ , and a bar over a variable denotes the average of the variable during year  $t_1$  to year  $t_2$ . Hence, on the right hand side of the equation, the first term captures the contributions of age-gender compositional changes in the working age population to the change in the overall LFPR, while the second term captures the contributions of the changes in the age-gender specific LFPR. The same decomposition method was also applied to LFPR data (excluding FDHs) between 1993 and 2015, and the general observations remained largely similar.

**Box 6.1 (Cont'd)**

To better examine the aforesaid underlying driving forces that affected the changes in the overall LFPR over time, such changes were decomposed into two components (viz. the demographic composition of the population and the LFPRs of individual age-gender group) (*Chart 3*). As shown, the declines in the overall LFPR during both the periods of 1986-1990 and 1991-1995 were predominantly contributed by the falls in age-gender specific LFPRs, especially among the youth and older-aged, whereas the effect of demographic compositional changes in the working age population was minimal.

In the next three consecutive 5-year periods (1996-2010), however, the ageing population became an overwhelming source of the decline in the overall LFPR. Although the appreciable boost in LFPR of the prime age females, coupled with the visible pick-up seen among the older age group since 2006, provided some upward impetus to the overall LFPR, it was outweighed by the negative impacts brought by the ageing population and the declines in LFPR among other age groups.

Over the period of 2011-2015, the LFPR had seen broad increases across almost all age groups, most notably among older age group and females aged 45 and above, conceivably boosted by the implementation of SMW in 2011. As a result, the overall LFPR went up by 1.8 percentage points during the period. It is, however, noteworthy that the drag from population ageing had remained notable and continued to enlarge over the period.

**Concluding remarks**

The above decomposition purports to analyse into the driving forces behind the movements of the overall LFPR over the past three decades. Looking ahead, the drag arising from ageing population on the overall LFPR looks set to turn even more apparent. In view of this, the Government has adopted a multi-pronged approach to boost labour force participation as set out in the latest Policy Address, such as attracting global talents to work in Hong Kong, encouraging employers to build an age-friendly working environment and other targeted supportive measures to address the needs and aspirations of the locals with different attributes. All these initiatives will take time to bear fruit and hopefully bring far-reaching structural changes to the benefit of Hong Kong's long term economic development and well-being of the community.

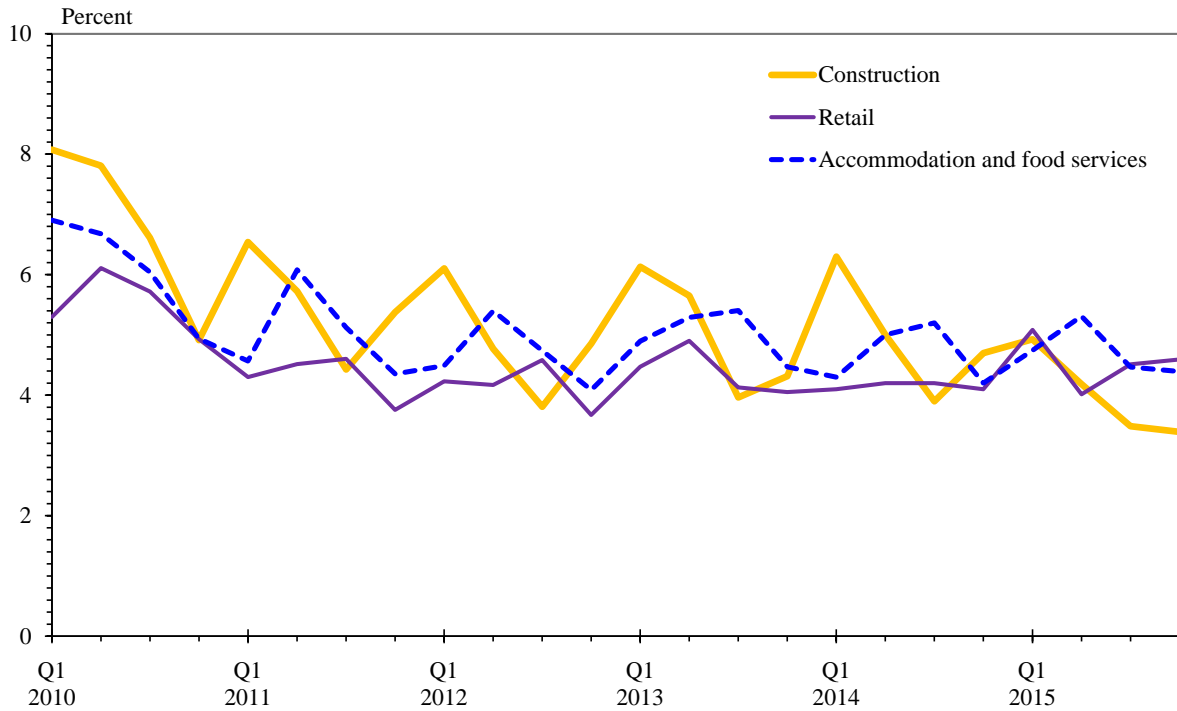
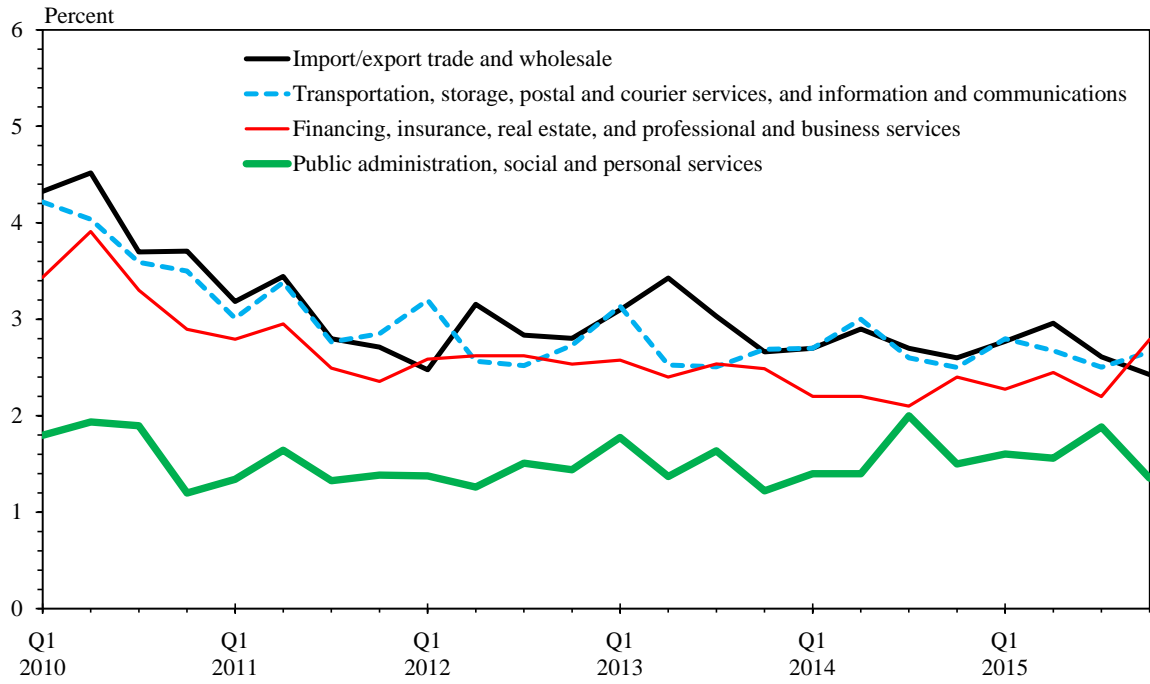
## Profile of unemployment

6.4 Amid a largely stable labour market, the unemployment rate held at a low level of 3.3% for 2015 as a whole. The average number of unemployed persons rose slightly by 1 500 over 2014 to 128 700 in 2015. These suggested that the labour market remained in a state of full employment in 2015.

6.5 Diverse movements in unemployment rate were seen across the major economic sectors. Comparing 2015 with 2014, more notable declines were observed in construction (down 1.0 percentage point), social work activities (down 0.6 percentage point), and warehousing and support activities for transportation (down 0.6 percentage point), while more apparent increases were seen in wholesale (up 1.4 percentage points), and such tourism-related sectors as accommodation services (up 1.1 percentage points), and retail (up 0.5 percentage point). The food and beverage service activities sector was seemingly lesser affected by the protracted weak trend in inbound tourism, with its unemployment rate down by 0.2 percentage point. For the *low paying sectors*<sup>(6)</sup> as a whole, the unemployment rate edged up from 3.1% in 2014 to 3.2% in 2015, still a relatively low level. Analysed by skill segment, the unemployment rate for the higher-skilled segment rose marginally by 0.1 percentage point to 1.8%, while that of the lower-skilled segment inched down by 0.1 percentage point to 3.4%. Analysed by age, a more notable rise in unemployment rate was found among persons aged 15-24, while that of persons aged 60 and above fell visibly.

6.6 In terms of the quarterly profile, the seasonally adjusted unemployment rate hovered in a narrow range of 3.2-3.3% during the year. The unemployment rates of the higher- and lower-skilled segments, though showing different quarterly movements, both stayed at relatively low levels throughout the year. For the latest trend, comparing the fourth quarter of 2015 with a year earlier, more visible declines in the unemployment rate were noted in the social work activities, construction, and arts, entertainment and recreation sectors, while more noticeable increases were seen in transportation, financing and insurance, professional and business services, and retail. Analysed by occupational category, a more discernible increase in the unemployment rate was seen among plant and machine operators and assemblers, while a more notable decrease was observed among craft and related workers, the latter mirroring the tight manpower situation in the construction sector. As for other socio-economic attributes, more visible rises in the unemployment rate were observed among persons aged 20-24, and those with post-secondary education, offsetting the declines seen among workers aged 60 and above, and those with primary education and below.

**Diagram 6.3 : Unemployment rates in major economic sectors saw diverse movements in 2015**



**Table 6.3 : Unemployment rate by major economic sector**

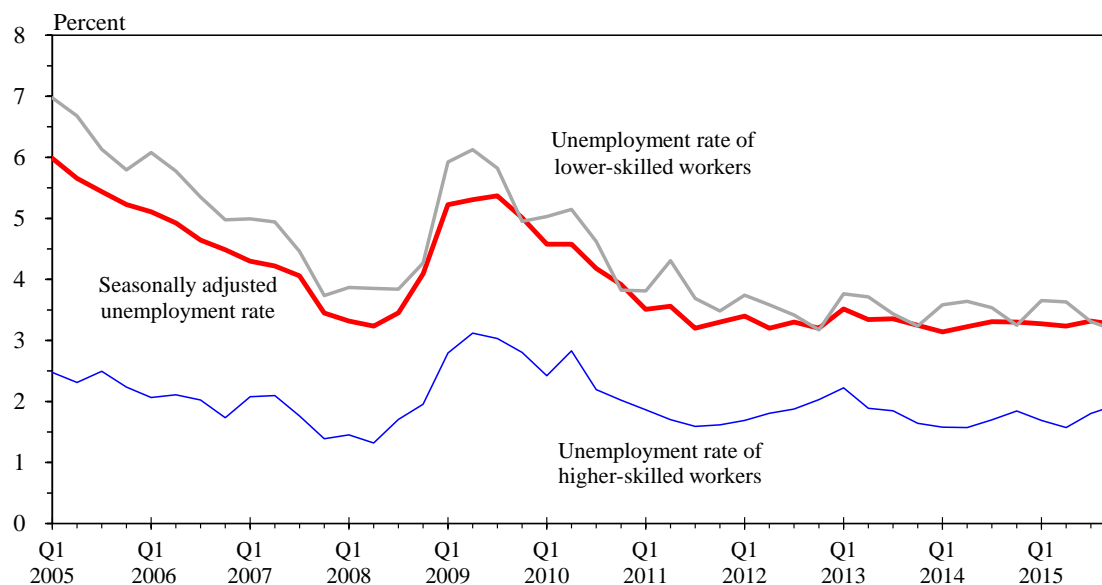
	<u>2014</u>					<u>2015</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual<sup>#</sup></u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Import/export trade and wholesale	2.8	2.7	2.9	2.7	2.6	2.7	2.8	3.0	2.6	2.4
Retail	4.1	4.1	4.2	4.2	4.1	4.6	5.1	4.0	4.5	4.6
Accommodation and food services	4.7	4.3	5.0	5.2	4.2	4.7	4.7	5.3	4.5	4.4
Transportation, storage, postal and courier services	2.7	2.9	3.2	2.5	2.1	2.7	2.9	2.7	2.7	2.5
Information and communications	2.7	2.0	2.3	2.9	3.7	2.5	2.4	2.6	2.0	3.1
Financing and insurance	1.6	1.5	1.5	1.8	1.5	1.8	1.8	1.4	1.7	2.2
Real estate	2.6	2.8	3.0	2.0	2.6	2.3	1.8	2.8	2.5	2.2
Professional and business services	2.6	2.5	2.4	2.4	2.9	2.9	2.8	3.0	2.5	3.4
Public administration, social and personal services	1.6	1.4	1.4	2.0	1.5	1.6	1.6	1.6	1.9	1.4
Manufacturing	3.2	3.2	3.7	3.2	3.1	3.4	3.1	3.4	3.9	3.2
Construction	5.0	6.3	5.0	3.9	4.7	4.0	4.9	4.2	3.5	3.4
Overall	3.3	3.1 (3.1)	3.3 (3.2)	3.5 (3.3)	3.1 (3.3)	3.3	3.2 (3.3)	3.3 (3.2)	3.5 (3.3)	3.1 (3.3)

Notes : ( ) Seasonally adjusted unemployment figures.

# Provisional figures.

Source : General Household Survey, Census and Statistics Department.

**Diagram 6.4 : The annual unemployment rate of higher-skilled workers edged up while that of the lower-skilled segment fell marginally in 2015**



**Table 6.4 : Unemployment rate\* by skill segment**

	Annual	2014				Annual <sup>#</sup>	2015			
		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
<u>Higher-skilled segment</u>	1.7	1.6	1.6	1.7	1.8	1.8	1.7	1.6	1.8	1.9
Managers and administrators	1.3	1.5	0.8	1.2	1.3	1.4	1.2	1.1	1.7	1.4
Professionals	1.4	1.1	0.9	1.7	1.7	1.6	1.5	1.2	1.9	1.7
Associate professionals	2.0	1.8	2.2	2.0	2.2	2.0	2.0	2.0	1.8	2.4
<u>Lower-skilled segment<sup>^</sup></u>	3.5	3.6	3.6	3.5	3.2	3.4	3.7	3.6	3.3	3.2
Clerical support workers	3.0	2.7	3.3	3.3	2.6	3.2	2.8	3.7	3.3	3.0
Service and sales workers	4.3	4.1	4.3	4.8	3.9	4.5	4.9	4.7	4.3	4.1
Craft and related workers	4.7	5.9	4.1	3.9	4.8	3.6	4.3	4.0	3.0	3.0
Plant and machine operators and assemblers	1.8	2.6	1.9	1.4	1.4	2.4	1.9	2.2	2.6	2.8
Elementary occupations	3.3	3.2	3.6	3.0	3.0	2.9	3.3	2.9	2.8	2.6

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

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

<sup>#</sup> Provisional figures.

Source : General Household Survey, Census and Statistics Department.



**Table 6.5 : Unemployment rate\* by age and educational attainment**

<u>Age</u>	<u>2014</u>					<u>2015</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual<sup>#</sup></u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
15-24	9.2	7.5	9.1	11.3	8.9	10.4	9.0	11.1	12.3	8.9
<i>of which:</i>										
15-19	12.5	10.0	14.5	12.3	11.8	13.8	13.9	17.7	14.0	9.0
20-24	8.7	7.1	8.2	11.2	8.4	9.8	8.2	10.1	12.0	8.9
25-29	3.4	3.1	3.5	3.8	3.4	3.5	2.9	3.5	3.8	3.6
30-39	2.2	2.2	2.1	2.4	1.8	2.1	2.0	2.1	2.3	2.1
40-49	2.7	2.7	2.9	2.5	2.6	2.7	3.2	2.6	2.6	2.5
50-59	3.0	3.1	3.0	2.7	2.9	2.8	2.8	2.8	2.7	2.8
≥ 60	2.9	2.9	2.8	2.6	3.0	2.4	3.0	2.4	2.0	2.4
<u>Educational attainment</u>										
Primary education and below	3.4	3.7	3.6	2.9	3.6	3.0	3.8	3.0	2.3	2.7
Lower secondary education	4.2	4.2	4.8	4.0	3.7	4.1	4.5	4.3	3.7	3.9
Upper secondary education <sup>^</sup>	3.3	3.2	3.2	3.3	3.1	3.1	3.2	3.2	3.2	2.7
Post-secondary education	2.9	2.4	2.7	3.5	2.9	3.3	2.7	3.2	3.9	3.3

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

^ Including craft courses.

# Provisional figures.

Source : General Household Survey, Census and Statistics Department.

6.7 Other indicators measuring the intensity of unemployment remained generally favourable in 2015. With the number of long-term unemployed persons (i.e. unemployed for six months or longer) showing little change at 24 100 in 2015, the long-term unemployment rate stayed at 0.6%, while the share of long-term unemployment in total unemployment dropped further to 18.7%, both being post-1997 lows. The proportion of dismissal or lay-offs among the total number of unemployed persons also went down by 5.2 percentage points to 42.0%. However, the median duration of unemployment lengthened somewhat from 60 days in 2014 to 63 days in 2015, having fallen for four years in a row.

## Box 6.2

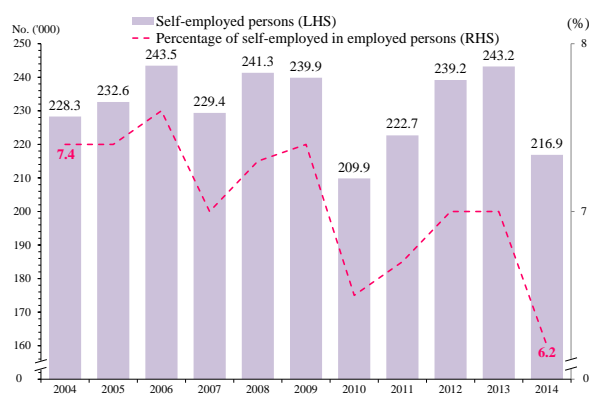
### An update on the self-employment situation<sup>(1)</sup>

The prevalence of the internet has provided a platform for peer-to-peer exchange and facilitated on-demand service provision. Recently there has been growing attention in some advanced economies including the US and the UK about the phenomenon of a sharing (or “gig”) economy and what it entails for employment. One aspect of a gig economy is the potential rise in self-employment, as workers are more mobile and contract flexibly as freelancers on short-term work engagements. This article looks at the trends in self-employment to see if there is any evidence of an emerging gig economy.

#### Recent trends in self-employment

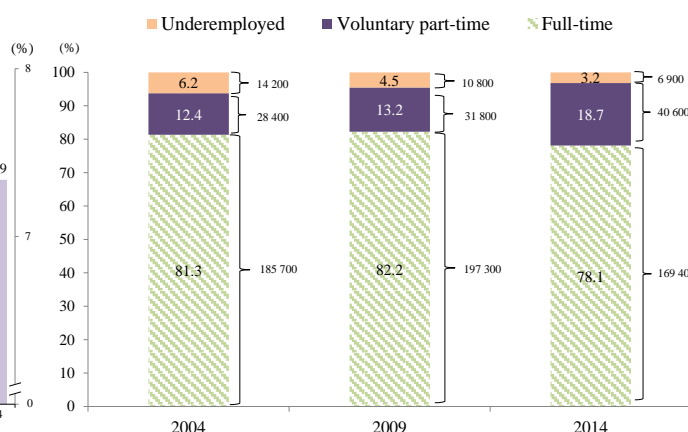
During the period 2004-2014, the number of self-employed persons hovered between 209 900 and 243 500. Its share in total employment likewise moved up and down, reaching a low of 6.2% in 2014 (*Chart 1a*). Around 80% of self-employed worked on a full-time basis, though both the number and share of self-employed full-timers have declined somewhat over the past ten years (*Chart 1b*). This conceivably suggests that some previously self-employed persons might have been re-absorbed into conventional employment as the economy recovered. Meanwhile, the number of self-employed persons working voluntarily on a part-time basis went up from 28 400 in 2004 to 40 600 in 2014, while also taking up a visibly higher share among all the self-employed, hinting that more individuals might have opted for self-employment as a voluntary choice between flexibility and job security.

**Chart 1a: Trend in self-employment**



Note: The percentages may not add up to 100 due to rounding.

**Chart 1b: Self-employment by employment status**



#### Factors affecting self-employment situation

The impact of economic cycles on self-employment is mixed. While self-employment may turn more prevalent during a down-cycle due to redundancy or the need to share family’s financial burden, it may also increase in an up-cycle alongside more vibrant economic activities and increased business opportunities, including for instance those opened by a gig economy. *Chart 1a* seems to hint a higher incidence of self-employment during the early phase of recovery from SARS and the Global Financial Tsunami in 2008-09. There were also views that upon the implementation of Statutory Minimum Wage (SMW), some employers might see the incentive to ask their employees to change the mode of service provision to self-employment, for the purpose of mitigating the wage bills. This is further investigated by looking into the socio-economic characteristics of the self-employed persons and how these characteristics have evolved in the past decade.

(1) Unless otherwise specified, the data quoted in this article exclude foreign domestic helpers.

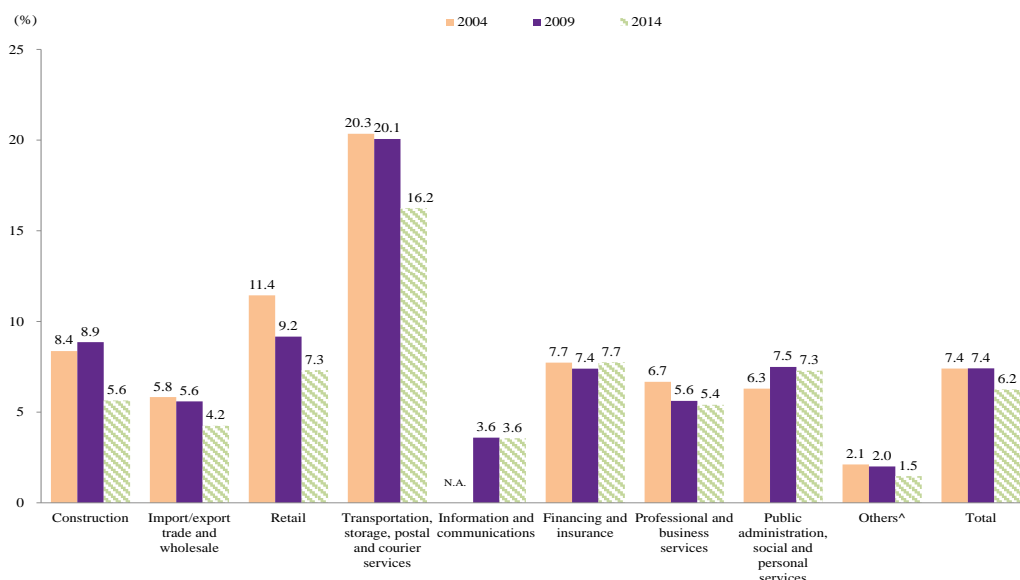
## Box 6.2 (Cont'd)

### Self-employment by sector

In 2014, self-employment was more prevalent in such sectors as transportation, storage, postal and courier services, retail, financing and insurance, and public administration, social and personal services (*Chart 2*). Many of the self-employed persons worked as drivers and mobile machine operators for road transport, personal service workers in domestic household activities and beauty and body prettifying treatment, salespersons and models, insurance and pension funding agents, as well as teaching associate professionals. The self-employed ratios in the transportation and retail sectors went down somewhat over the years, while those in financing and insurance, public administration, social and personal services held up or increased. In so far as the low paying sectors (LPS)<sup>(2)</sup> as identified by the Minimum Wage Commission (MWC) are concerned, the self-employed ratios of most individual LPS (excluding government employees and live-in domestic workers) remained broadly unchanged at their respective pre-SMW levels during 2011-2013. Yet a marked increase was seen in hairdressing and other personal services (up from 26.2% in 2010 to 32.5% in 2013), before falling back somewhat together with many other sectors in 2014.

Meanwhile, the self-employed ratio in information and communications held stable at a relatively low level in recent years, but this figure conceivably had not fully reflected the scope of self-employment among IT professionals, who might also be engaged by enterprises in other sectors on a freelance basis to design and build up sophisticated and innovative IT applications for the sake of productivity enhancement.

**Chart 2: Self-employed ratio by sector<sup>(#)</sup>**



Notes: (#) Due to the adoption of Hong Kong Standard Industrial Classification (HSIC) Version 2.0 in 2009, data before 2008 are not strictly comparable with those in later years, more so for the Information and Communications sector and hence not shown here.

(<sup>^</sup>) Manufacturing, accommodation, food and beverage activities, real estate and other sectors have only a low incidence of self-employment and are grouped in "Others".

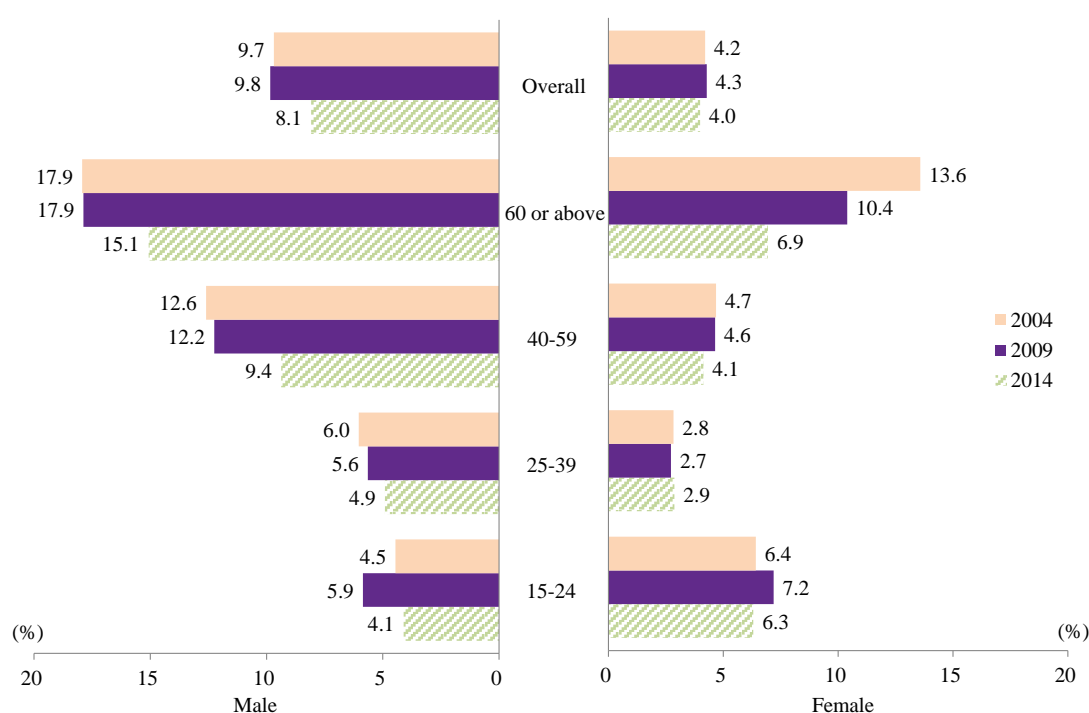
(2) These include: (i) retail; (ii) restaurants; (iii) estate management, security and cleaning services; as well as other LPS (including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production).

## Box 6.2 (Cont'd)

### Self-employment by gender and age

In terms of gender, self-employment was more prevalent among males over the past ten years, especially those aged 40 or above, though the respective incidence rate has fallen somewhat in recent years. Meanwhile, the self-employed ratio of females, who were conceivably those preferring more flexibility and chose to be voluntarily self-employed in order to achieve a better work-family balance, has held relatively steady<sup>(3)</sup> (*Chart 3*). On the other hand, self-employment among the younger workers who were conceivably the ones most likely to ride on the innovation tide with technological know-how and entrepreneurship, has been relatively steady in the past ten years.

**Chart 3: Self-employed ratio by gender and age**



### Self-employment by educational attainment and occupation

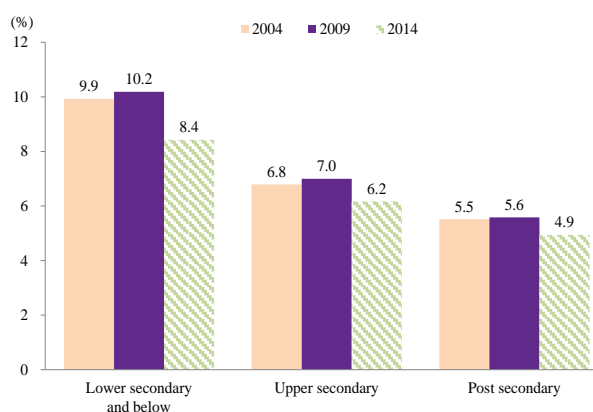
Analysed by educational attainment, the lesser educated generally had a higher incidence of self-employment, with a self-employed ratio of 8.4% among those with lower secondary education or below in 2014, compared to 6.2% for those with upper secondary education and 4.9% for those with post-secondary education (*Chart 4a*). Yet the self-employed ratios across different education levels in 2014 were lower when compared to 2004, more so among those with lower secondary education or below.

(3) The sharp decline in the self-employed ratio of females aged 60 or above had to be viewed in conjunction with the notable increase in employed older age females. Indeed, the number of self-employed in this age-sex cohort almost doubled from 2 800 to 5 400 in the past decade.

## Box 6.2 (Cont'd)

Mirroring the education and sectoral profile, self-employment remained most prevalent in such lower-skilled occupations as plant and machine operators and assemblers in 2014 (*Chart 4b*). However, comparing 2014 with 2004, an almost across-the-board decline in self-employed ratio was witnessed in the lower-skilled segment. On the contrary, the self-employed ratio in the higher-skilled segment held more or less steady, surpassing that of the lower-skilled segment in 2014. In particular, the self-employed ratio among professionals rose visibly by 1.3 percentage points from 3.3% in 2004 to 4.6% in 2014. Most of them worked in health services, creative and performing arts, specialised design, information technology service, and legal activities. Although they only accounted for 5.9% of all self-employed persons in 2014, considering their major work nature, the rising prominence of this segment appeared to conform to the idea of an emerging gig economy.

**Chart 4a: Self-employed ratio by educational attainment**



**Chart 4b: Self-employed ratio by occupation**



## Concluding remarks

The above review of the socio-economic characteristics of self-employed persons in the past decade shows no strong evidence as yet of a growing gig economy. While self-employment has not become more widespread after the implementation of SMW, it remained most prevalent in some lower-skilled jobs such as drivers and mobile machine operators for road transport, salespersons etc., as well as among the older age groups and the lesser educated. However, the self-employed ratio in these “conventional” groups has fallen somewhat in the more recent years, while that in the higher-skilled segment rose, particularly in areas such as the health, legal, creative and technical industries. That there is only weak data support for an emerging gig economy is in line with the observation in the West, and may suggest that gig economy is still at an infant stage. Although self-employment is but one aspect of a gig economy, in view of the potential new work paradigm and the social implications that an emerging gig economy might bring, such as employment benefits and worker protections, it would be meaningful to keep monitoring the self-employment situation from time to time for any sign of a new structural trend in employment.

## **Profile of underemployment**

6.8 The underemployment situation improved slightly in 2015. The number of underemployed persons decreased by 2 500 over 2014 to 54 000, while the underemployment rate inched down by 0.1 percentage point to 1.4%, the lowest annual level since 1997. On the quarterly profile, the underemployment rate held stable at 1.4% throughout the four quarters of 2015. For the latest trend, in the fourth quarter of 2015, apart from the trade-related sectors such as import/export trade and wholesale, as well as cleaning and similar activities, the underemployment rates of almost all major sectors recorded year-on-year declines. Analysed by occupational category, the underemployment rate for the higher-skilled segment edged up year-on-year to still a low level of 0.5% in the fourth quarter, while that of the lower-skilled segment went down by 0.4 percentage point to 1.9%, with a more visible decrease seen among craft and related workers.

## **Profile of employment in establishments**

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

6.10 Total employment in private sector establishments grew modestly by 1.1% over a year earlier to 2 794 600 in September 2015, representing a further deceleration in the growth pace when compared to the past few years and pointing to softened labour demand. While more visible job gains were seen in construction sites (covering manual workers only) (up 8.3% year-on-year), human health services (up 4.7%), education (up 4.1%), and professional and business services (including cleaning and similar services) (up 2.8%), employment in import/export trade and wholesale, accommodation services, retail, and food and beverage services all declined, by 1.6%, 0.8%, 0.3% and 0.1% respectively, amid the tepid trade performance and the sustained weakness in inbound tourism. Meanwhile, employment in the manufacturing sector continued its secular decline (down 3.0%). Analysed by establishment size, employment in large enterprises and small and medium-sized enterprises (SMEs)<sup>(7)</sup> grew by 1.5% and 0.7% year-on-year respectively, with the former contributing about 72% of the total job gain. Taking the first nine months of 2015 together, total employment in private sector establishments increased by 1.4% year-on-year, slower than the 2.1% growth for 2014 as a whole. As for the civil service, employment increased by 0.6% in both September and the first nine months of 2015 over the same periods a year earlier.

**Table 6.6 : 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>	<u>Sep</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)	545 400 (-1.6)
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)	268 900 (-0.3)
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)	282 300 (-0.2)
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)	178 200 (1.6)
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)	105 500 (0.7)
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)	712 500 (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)	497 400 (3.1)
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)	99 600 (-3.0)
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)	93 700 (8.3)
<i>All establishments surveyed in the private sector<sup>(b)</sup></i>	<i>2 762 200 (2.1)</i>	<i>2 740 700 (1.9)</i>	<i>2 754 200 (1.9)</i>	<i>2 764 700 (2.2)</i>	<i>2 789 200 (2.2)</i>	<i>2 793 700 (1.9)</i>	<i>2 790 500 (1.3)</i>	<i>2 794 600 (1.1)</i>
		<0.5>	<0.6>	<0.5>	<0.6>	<0.2>	<§>	<0.3>
<i>Civil service<sup>(c)</sup></i>	<i>163 000 (1.0)</i>	<i>162 800 (1.4)</i>	<i>162 800 (1.2)</i>	<i>163 000 (0.9)</i>	<i>163 400 (0.6)</i>	<i>163 600 (0.5)</i>	<i>163 800 (0.6)</i>	<i>164 000 (0.6)</i>

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.

## Vacancies

6.11 The vacancy situation likewise showed signs of easing labour demand. The number of private sector vacancies went down further by 0.9% in September 2015 over a year earlier to 74 670. Taking the first nine months of 2015 together, job vacancies in the private sector fell modestly by 0.8% year-on-year, after the 0.7% dip in 2014.

6.12 Analysed by economic sector, reflecting the weaker labour demand in the trade- and tourism-related sectors, more noticeable decreases in vacancies were observed in import/export trade and wholesale (down 10.0% year-on-year), retail (down 9.6%), and food and beverage services (down 8.3%) in September 2015. Vacancies in construction sites (covering manual workers only) also plummeted (down 53.7%), but when viewed in conjunction with the marked employment growth over the same period, this signified that some previous vacancies had been gradually filled. Meanwhile, more apparent increases in vacancies were seen in social and personal services (up 13.2%), and information and communications (up 11.3%). Mirroring the sectoral profile, lower-skilled vacancies comprising mainly service and sales workers and elementary occupation jobs decreased by 2.2% year-on-year, while higher-skilled vacancies rose by 2.4%, mainly driven by the increased job openings for managers and administrators. Taking the first nine months of 2015 together, lower-skilled vacancies dropped by 4.1% over a year earlier, while higher-skilled ones went up by 8.8%. Analysed by the size of establishments, vacancies in SMEs and large enterprises both fell year-on-year in September 2015, by 1.9% and 0.2% respectively. As regards the civil service, the number of job openings leaped by 14.9% year-on-year to 8 540 in September 2015, thus helping to cushion the vacancy losses in the private sector.

6.13 Reflecting some easing in overall labour demand, the ratio of job vacancies per 100 unemployed persons went down from 60 in June 2015 and 56 in September 2014 to 55 in September 2015. In terms of skill segment, the ratio for higher-skilled jobs decreased from the year-ago level of 84 to 81, while that for lower-skilled jobs went up from 64 to 66 over the same period. Analysed by economic sector, manpower shortages remained apparent in such sectors as residential care and social work services, human health services, and financing and insurance, for which the corresponding ratios exceeded 100. The vacancy rate for private sector establishments, measured in terms of the percentage of job vacancies to total employment opportunities, inched down by 0.1 percentage point from the year-ago level to 2.6% in September 2015.



More visible decreases were seen in such tourism-related sectors as accommodation and food services, and retail, though their respective vacancy rates were still higher than the overall figure.

**Table 6.7 : Vacancies by major economic sector**

<u>Economic sector</u>	<u>Annual average</u>	<u>Number of vacancies</u>							<u>Vacancy rate in Sep 2015 (%)</u>
		<u>2014</u>	<u>2015</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</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)	7 610 (-10.0)	1.4
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)	8 350 (-9.6)	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)	14 600 (-6.1)	4.9
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)	3 440 (1.7)	1.9
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)	2 620 (11.3)	2.4
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)	18 590 (4.4)	2.5
Social and personal services	14 110 (-12.9)	11 620 (-32.9)	16 600 (-6.1)	13 930 (-10.8)	14 280 (1.0)	15 620 (34.3)	17 290 (4.1)	15 760 (13.2)	3.1
Manufacturing	3 040 (17.4)	3 200 (23.2)	3 580 (33.7)	2 880 (6.6)	2 500 (4.9)	2 990 (-6.6)	2 730 (-23.9)	2 700 (-6.4)	2.6
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)	710 (-53.7)	0.8
All establishments surveyed in the private sector <sup>(b)</sup>	76 600 (-0.7)	77 790 (-3.0)	79 720 (2.4)	75 360 (-3.8)	73 530 (1.6)	78 070 (0.4)	78 380 (-1.7)	74 670 (-0.9)	2.6
		<-5.1>	<3.4>	<-1.8>	<5.2>	<-6.1>	<1.2>	<-0.7>	
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)	8 540 (14.9)	4.9

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.

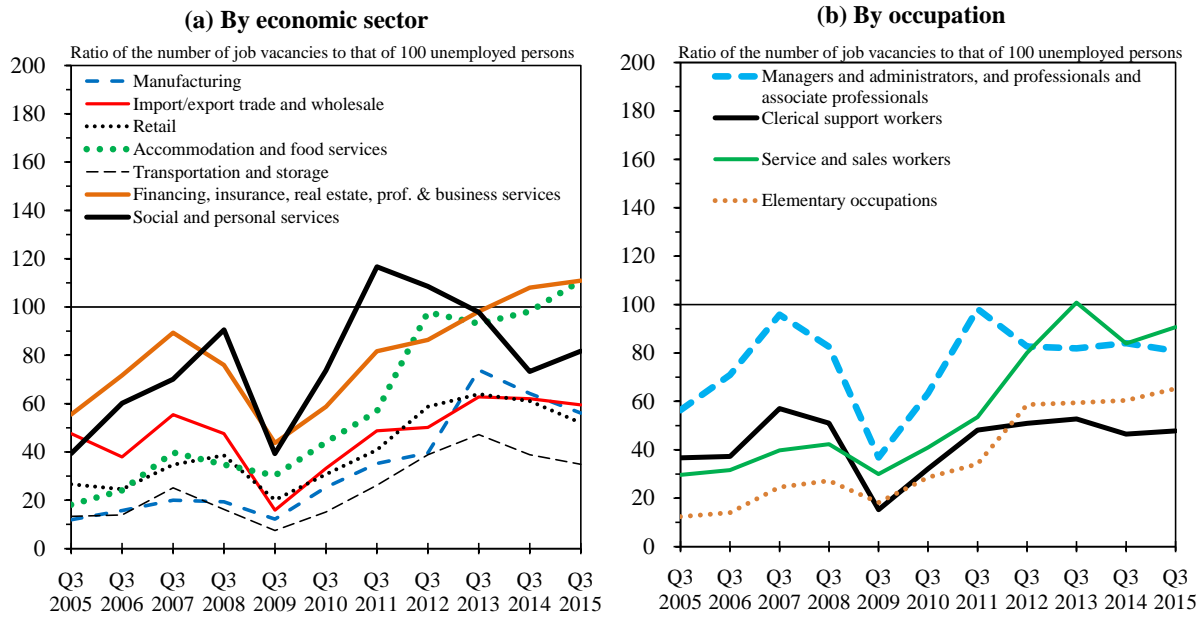
(c) These figures cover only vacancies for those staff to be employed on civil service terms of appointment.

( ) % 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 6.5 : Manpower resource balance showed signs of easing but remained tight in some segments**



6.14 The vacancy registration figures compiled by the Labour Department (LD), notwithstanding its smaller sample size, may provide some hints on the latest developments in the labour market. In the fourth quarter of 2015, the average number of private sector job vacancies posted by LD increased by 12.8% year-on-year to around 118 100 per month. For 2015 as a whole, the monthly average number of private sector vacancies went up by 10.0% to 111 900.

## Wages and earnings

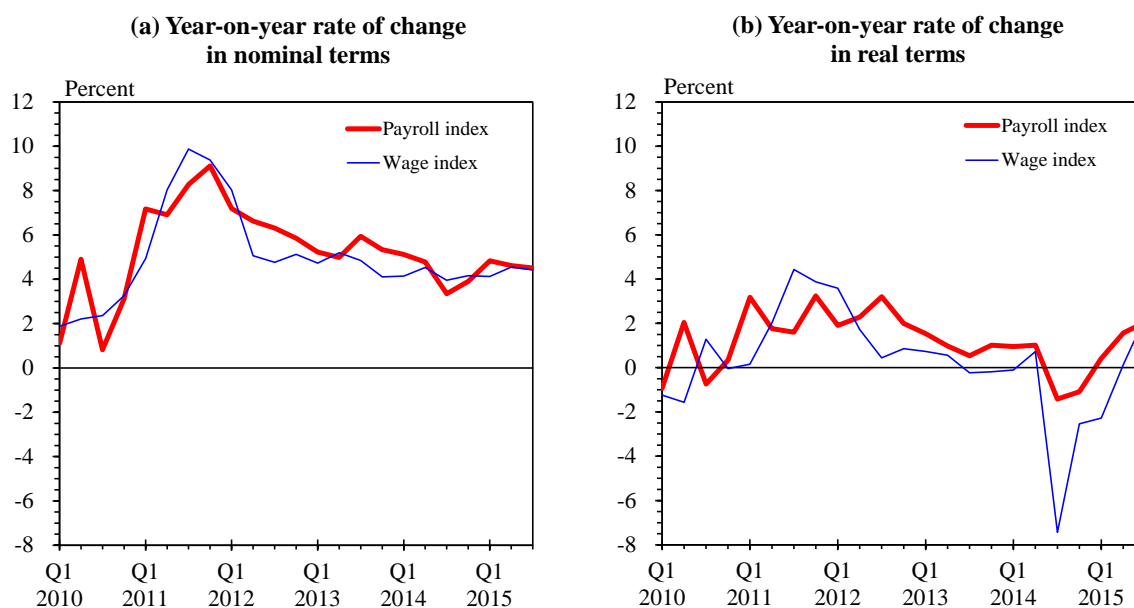
6.15 On the back of broadly stable labour market conditions, wages and earnings remained on the rise in 2015. *Wage index*, which covers regular payment to employees at the supervisory level or below, rose by 4.4% year-on-year in both September and the first nine months of 2015 combined, further to the rise of 4.2% for 2014 as a whole. After adjusting for inflation<sup>(8)</sup>, real wages were virtually unchanged in the first nine months of 2015, yet this was partly distorted by the markedly higher headline inflation in the first half of the year alongside the phasing out of the Government's one-off relief measures.

6.16 Nominal wage index increased across all economic sectors and occupations in September 2015. More notable increases were observed in professional and business services (up 7.4%), personal services (up 5.6%), and accommodation and food service activities (up 5.2%). Thanks to the upward adjustment of the SMW rate since May 2015, lower-skilled workers enjoyed more appreciable wage growth, with wages of service workers and miscellaneous non-production workers up by 7.1% and 5.4% respectively over a year earlier.

6.17 *Labour earnings*<sup>(9)</sup>, as measured by the index of payroll per person engaged in the private sector, likewise went up, by 4.5% in the third quarter of 2015. Taking the first three quarters of 2015 together, nominal labour earnings rose by 4.7% year-on-year, faster than the 4.3% for 2014 as a whole. After discounting inflation, overall payroll saw a real improvement of 1.3% in the first three quarters of 2015 over a year earlier.

6.18 Nominal payroll continued to see across-the-board increases in the third quarter of 2015. More notable increases were seen in the social and personal services (up 8.7%), accommodation and food service activities (up 5.8%), and real estate activities (up 5.1%) sectors. However, some moderation in payroll growth was observed in financial and insurance activities (up 3.6%), conceivably due in part to the sharp correction in the local stock market during the quarter. Meanwhile, payroll growth in retail trade (up 3.5%) was relatively moderate amid the slackening local consumption market.

**Diagram 6.6 : Nominal wages and earnings saw further broad-based growth**



Note : The real wages and earnings in late 2014 to early 2015 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.

6.19 More recent statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, revealed that the average monthly employment earnings<sup>(10)</sup> of full-time employees engaged in elementary occupations (excluding foreign domestic helpers) recorded a year-on-year nominal increase of 6.7% in the fourth quarter of 2015. For 2015 as a whole, preliminary estimates suggested that their average employment earnings rose appreciably further by around 6.5% in nominal terms and 2.4% in real terms, conceivably benefiting from the SMW uprating since May 2015. Average employment earnings of full-time employees (excluding foreign domestic helpers) in the lowest three decile groups likewise grew solidly further by 5-6% in 2015. For the overall income situation, the median monthly household income (excluding foreign domestic helpers) sustained growth in all quarters of 2015, and rose by 7.2% for 2015 as a whole, translating into a real increase of 4.1% after discounting inflation.

## **Highlights of labour-related measures and policy developments in 2015**

6.20 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job-seekers on the spot. In 2015, LD organised 17 large-scale job fairs in North District, Mong Kok, Tsuen Wan, Wan Chai, Tuen Mun, Sha Tin, Lok Fu and Yau Tong. 523 participating organisations offered over 40 900 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.

6.21 Besides, LD continued 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. A total of four new projects were launched in 2015. 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”, aimed 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, provided young people with on-the-job training opportunities on e-Learning. In addition, three projects piloted in 2014 were re-launched in 2015.

6.22 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, has in principle recommended 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 further protect grassroots employees with lower income, lower skills and less bargaining power. SWHC plans to launch a second-stage consultation on its preliminary discussion outcomes and working hours policy directions under exploration as soon as possible, so as to collect views for SWHC's reference in further discussing working hours policy directions and preparing its report to the Government.

6.23 With the revised SMW rate of \$32.5 per hour taking effect from 1 May 2015, LD has organised extensive publicity activities and launched targeted inspection campaigns to enforce the statutory requirement. The revised SMW rate has been implemented smoothly with satisfactory compliance. The employment market has remained generally stable and earnings of low-income workers have continued to improve.

## 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.

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 7 : PRICES

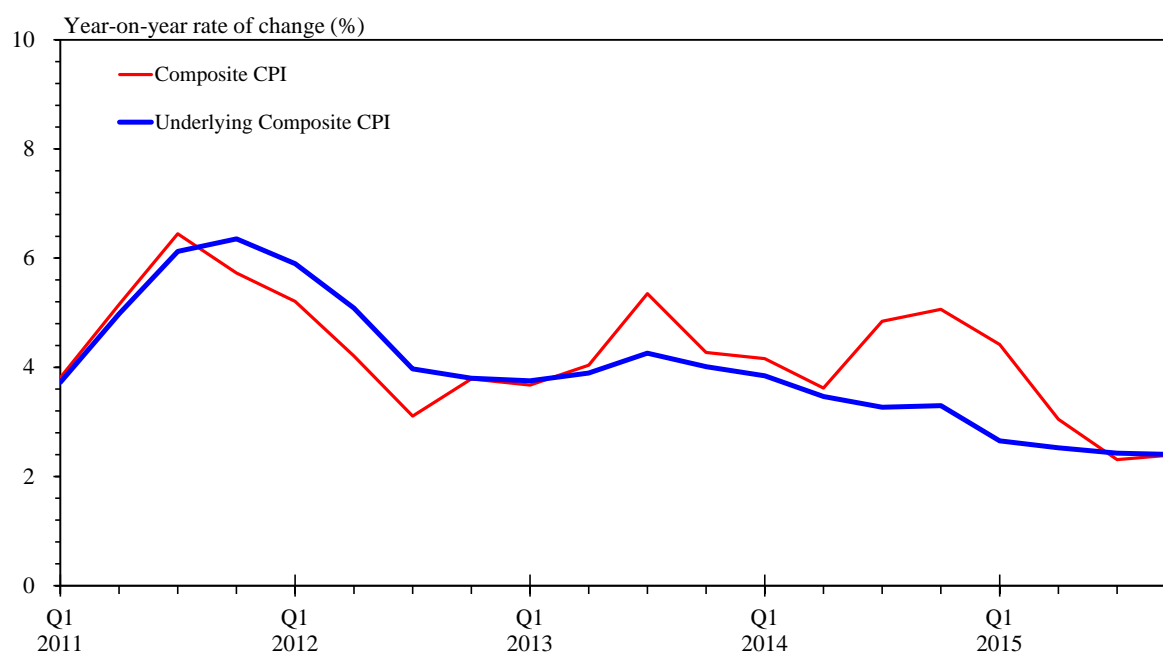
### *Summary*

- *Inflation continued to recede during 2015, amid soft import prices and moderate domestic cost pressures. The increase in underlying Composite Consumer Price Index (Composite CPI)<sup>(1)</sup>, which nets out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, eased to a modest 2.5% in 2015 from 3.5% in 2014. This also marked the fourth consecutive year of falling underlying inflation. Likewise, the headline Composite CPI inflation averaged 3.0% in 2015, down from 4.4% in 2014.*
- *Domestic cost pressures were tame in 2015 against the background of modest pace of local economic expansion. Wages and salaries continued to rise steadily, as the labour market largely maintained full employment, but productivity gains have kept labour cost pressures moderate on a unit cost basis. Rental inflation held generally stable during most of 2015, but tended to ease towards the end of the year given the weakening consumption market and the consolidation of the property market. The weaker consumption market, largely impaired by the slowdown of inbound tourism, also restrained the pricing power of retailers and other related businesses.*
- *Imported inflation was muted in 2015, attributable mainly to the further declines in international food and commodity prices under the weight of subdued global economic growth, the continued fall in inflation in our major import sources, and the strength of the US dollar.*
- *The upside risks to CPI inflation are limited in the near term. The still-austere global economic conditions should keep international commodity prices at bay. Domestic costs will also be contained by a quieter property market and the sub-par performance of the local economy. Nevertheless, the possibility of abrupt changes in international oil and food prices, with implications for the inflation outlook, cannot be entirely ruled out, as supply could be disrupted by geopolitical risks and extreme weather conditions.*

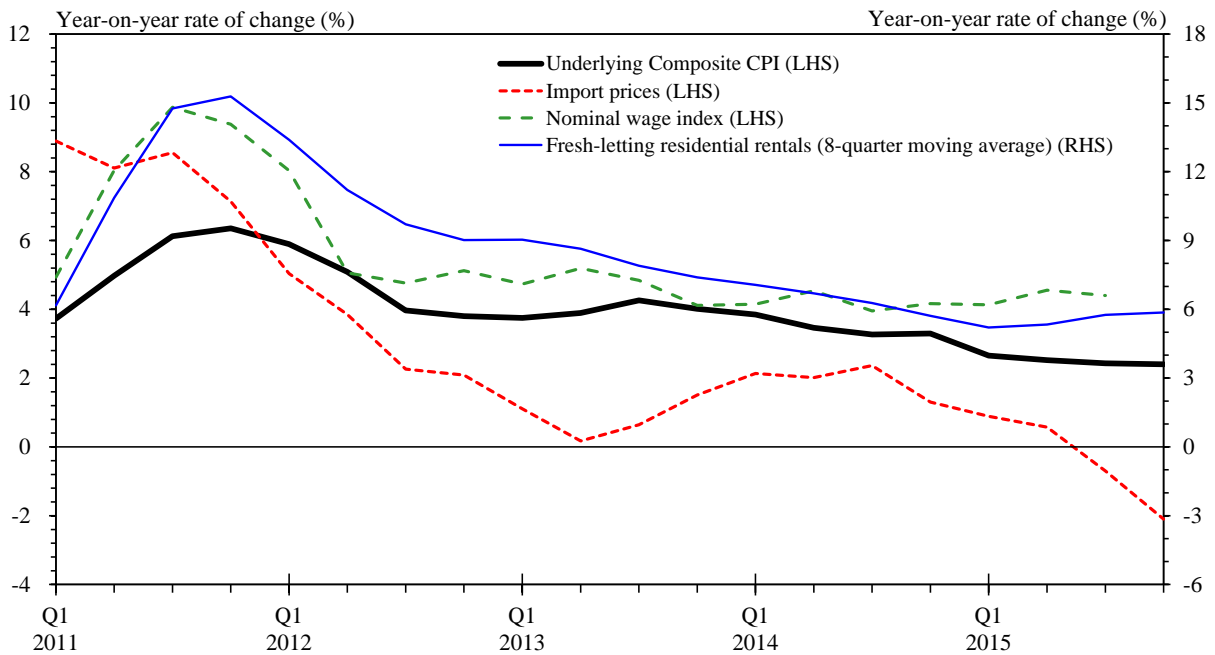
## Consumer prices

7.1 Inflation pressures stayed on an easing trend for the fourth consecutive year in 2015. Locally, labour cost pressures remained largely moderate along with the steady rises in wages and salaries. Meanwhile, rental inflation held largely stable during most of 2015, but tended to moderate in the latter part of the year on account of a weaker consumption market and quieter property market. The slowdown in inbound tourism, with notable adverse impacts on retail and tourism-related businesses, also weakened the pricing power of the operators concerned. Externally, import prices eased further in 2015, thanks to the still-weak international food and commodity prices, the widespread receding of inflationary pressures in Hong Kong's major import sources<sup>(2)</sup>, and the persisted strength of the US dollar.

**Diagram 7.1 : Underlying inflation continued to ease in 2015**



**Diagram 7.2 : Imported inflation abated further and domestic cost pressures remained in check**



7.2 Underlying consumer price inflation, as measured by 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 genuinely reflect the underlying inflation trend, largely followed an easing path during 2015, falling from 2.7% in the first quarter to 2.5% in the second quarter, and slightly further to 2.4% in both the third and fourth quarters. For 2015 as a whole, underlying inflation averaged 2.5%, down from 3.5% in 2014. Headline consumer price inflation, likewise, abated from 4.4% in 2014 to 3.0% in 2015. Headline inflation returned to a level more in line with underlying inflation in the second half of 2015, when the temporarily lower base of comparison caused by the Government’s one-off electricity subsidy ended in the third quarter of 2014.

**Table 7.1 : 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	Annual	2.5	3.0	4.0	2.8	2.1
	H1	2.6	3.7	5.3	3.3	2.3
	H2	2.4	2.4	2.7	2.4	1.9
	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
	Q4	2.4	2.4	2.7	2.4	2.1

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

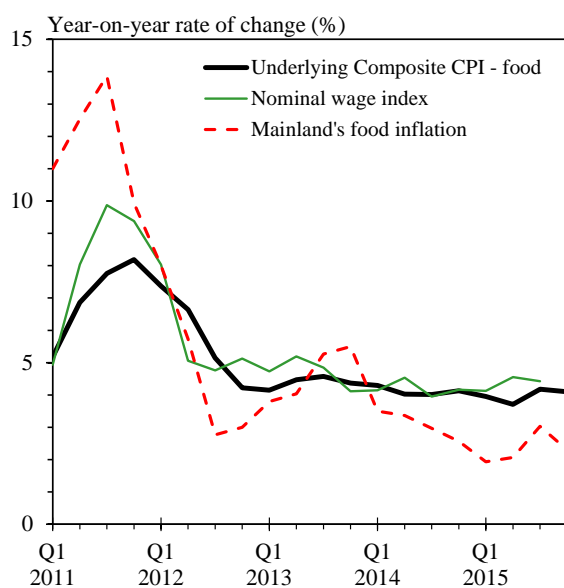
2014	Q1	1.0	1.0	1.1	1.0	0.8
	Q2	0.8	0.8	0.8	0.7	0.8
	Q3	0.6	0.4	-0.2	0.9	0.6
	Q4	0.8	2.8	5.3	2.0	1.2
2015	Q1	0.4	0.4	0.5	0.4	0.1
	Q2	0.7	-0.6	-1.4	-0.5	0.1
	Q3	0.6	-0.2	-1.6	0.3	0.4
	Q4	0.8	2.9	5.1	2.2	1.4

Note : (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.

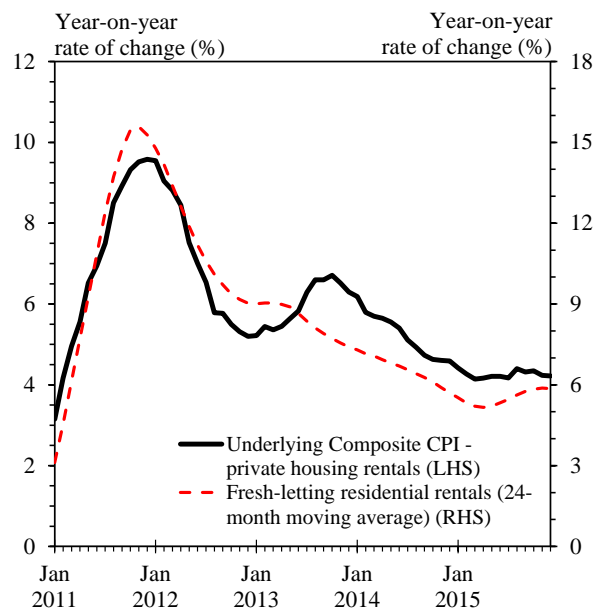
7.3 The abatement of price pressures was generally seen across major components in the underlying Composite CPI. Food and private housing rentals, the main inflation contributors which accounted for over 90% of the increase in the underlying Composite CPI in 2015, both registered milder price increases in 2015 than in the preceding year. Alongside the fall in global food prices, local food inflation (including costs of dining out) eased slightly to 4.0% in 2015 from 4.1% in 2014. The increase in the private housing rental component also moderated to 4.3% from 5.2%, as the feed-through of the increases in fresh-letting residential rentals during most of the 2015 was found to be gradual. Also, the impact of the consolidation of the residential property market in the latter part of the year on fresh-letting rentals had yet to feed through to the CPIs. The prices of many other components likewise saw decelerated increases in 2015, or reverted to declines of varying degrees, largely reflecting the sub-par economic growth and the receding import price pressures. Meanwhile, prices of durable goods stayed on the secular downtrend.

**Diagram 7.3 : Food and private housing rental components of the underlying Composite CPI**

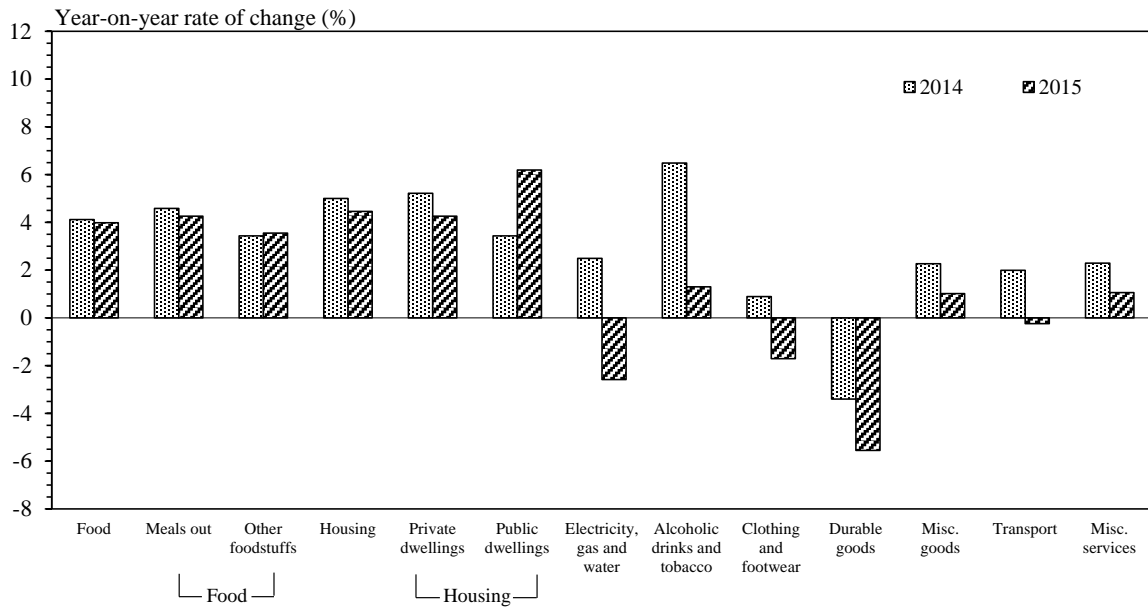
**(a) Food inflation edged down in 2015**



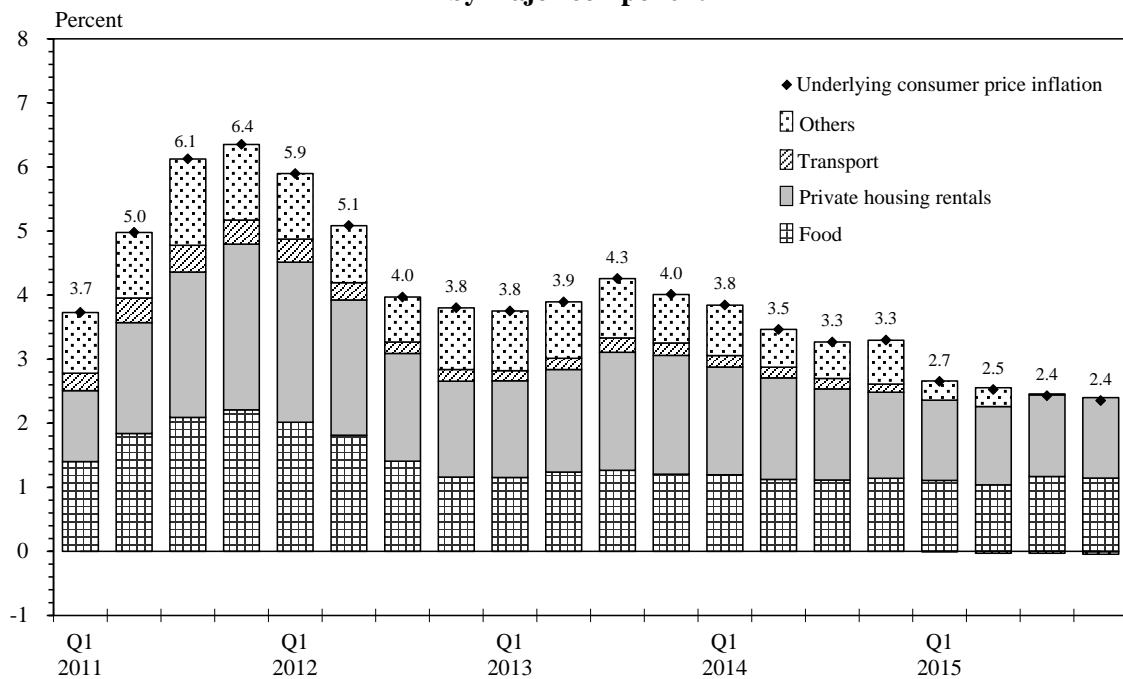
**(b) Rental inflation likewise turned softer**



**Diagram 7.4 (a) : The easing of price pressures was widespread across the underlying Composite CPI components**



**Diagram 7.4 (b) : Contribution to underlying consumer price inflation by major component**



**Table 7.2 : Underlying Composite Consumer Price Index by component  
(year-on-year rate of change (%))**

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2014</u>	<u>Annual</u>	<u>2015</u>			
				<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Food	27.45	4.1	4.0	4.0	3.7	4.2	4.1
<i>Meals bought away from home</i>	17.07	4.6	4.3	4.4	4.3	4.3	4.0
<i>Other foodstuffs</i>	10.38	3.4	3.5	3.3	2.8	4.0	4.1
Housing <sup>(a)</sup>	31.66	5.0 (6.7)	4.5 (5.1)	4.7 (8.2)	4.7 (4.2)	4.5 (4.1)	4.0 (4.0)
<i>Private dwellings</i>	27.14	5.2 (6.0)	4.3 (4.6)	4.3 (6.8)	4.2 (3.8)	4.3 (3.9)	4.3 (4.3)
<i>Public dwellings</i>	2.05	3.4 (18.3)	6.2 (10.9)	9.8 (29.0)	9.4 (10.0)	6.1 (6.4)	0.1 (0.1)
Electricity, gas and water	3.10	2.5 (14.9)	-2.6 (8.5)	-1.4 (21.5)	-0.7 (22.8)	-6.1 (-4.6)	-2.1 (-0.9)
Alcoholic drinks and tobacco	0.59	6.5	1.3	4.3	-0.1	0.3	0.8
Clothing and footwear	3.45	0.9	-1.7	-0.8	-2.7	-1.9	-1.3
Durable goods	5.27	-3.4	-5.6	-5.5	-5.7	-5.6	-5.4
Miscellaneous goods	4.17	2.3	1.0	1.2	1.3	0.6	1.0
Transport	8.44	2.0	-0.2	-0.1	-0.4	-0.4	-0.1
Miscellaneous services	15.87	2.3 (3.0)	1.1 (1.1)	0.8 (0.8)	1.4 (1.4)	1.1 (1.1)	0.9 (0.9)
All items	100.00	3.5 (4.4)	2.5 (3.0)	2.7 (4.4)	2.5 (3.0)	2.4 (2.3)	2.4 (2.4)

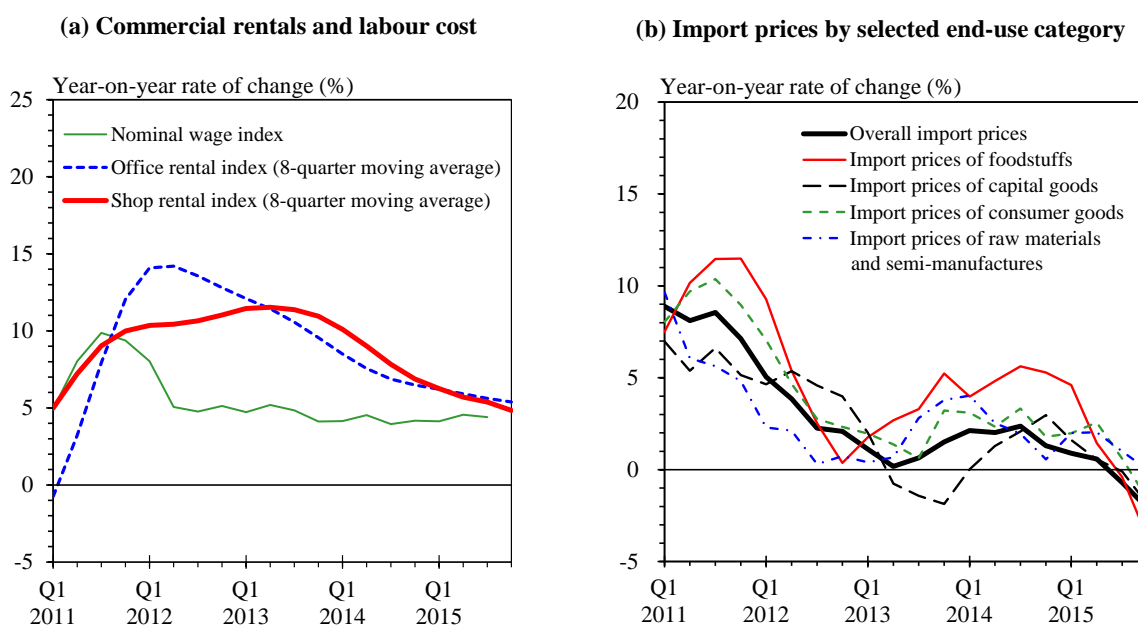
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings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

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

## Costs of factor inputs and import prices

7.4 Domestic cost pressures were largely in check in 2015. Supported by a broadly stable labour market, wages and earnings growth held largely steady throughout the year, at around 4% year-on-year in the past few quarters. The upward adjustment of the Statutory Minimum Wage rate in May 2015 was found to have minimal impact on the cost-push inflation. Continued labour productivity gains should also have helped to keep labour cost pressures moderate on a unit cost basis. Meanwhile, the year-on-year increases in commercial rentals still followed an easing trend on an eight-quarter-moving-average basis. The slowdown in retail sales amid weaker inbound tourism also helped further lessen the price pressures on shop rentals towards the end of 2015.

**Diagram 7.5 : Cost pressures from both domestic and external fronts were moderating**





7.5 Against the backdrop of the continued fall-off in international food and commodity prices, the generally widespread abatement of inflation in our major import sources amid a slow-growing global economy, as well as the strengthening of the US dollar against many other currencies, import price pressures continued to dissipate gradually on a broad front over the course of the year. Overall import prices fell by 1.4% year-on-year in the second half, reversed from the 0.7% increase in the first half. This gave rise to a marginal decline of 0.4% in overall import prices for 2015 as a whole, in contrast to the 1.9% rise in 2014. When analysed by end-use category, the easing of import prices was across-the-board. Import prices of fuels fell significantly by an average of 34.8% in 2015, amid the continued plunge in international oil prices. Import prices of capital goods dipped by 0.1%, while that of foodstuffs rose only marginally by 0.3%, both reflecting the very modest imported inflation. Similarly, the increases in import prices of consumer goods, and raw materials and semi-manufactures moderated by varying degrees, to only 0.8% and 1.2% respectively in 2015.

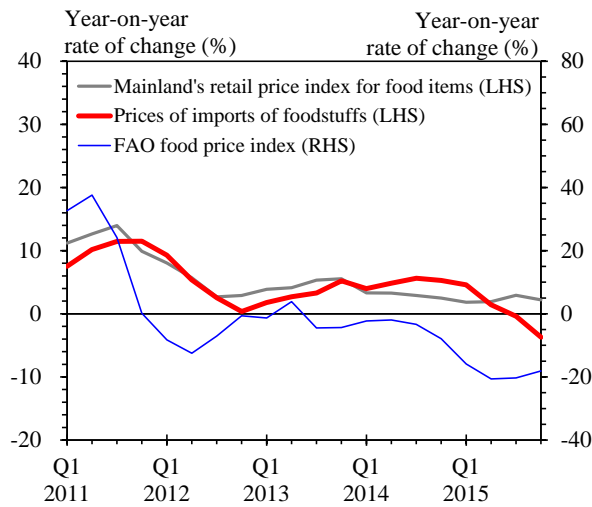
**Table 7.3 : Prices of imports by end-use category  
(year-on-year rate of change (%))**

		<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	Annual	0.3	0.8	1.2	-34.8	-0.1	-0.4
	H1	3.0	2.3	2.0	-32.0	1.1	0.7
	H2	-2.2	-0.5	0.5	-38.0	-1.0	-1.4
	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
	Q4	-3.7	-1.6	*	-37.2	-1.9	-2.1

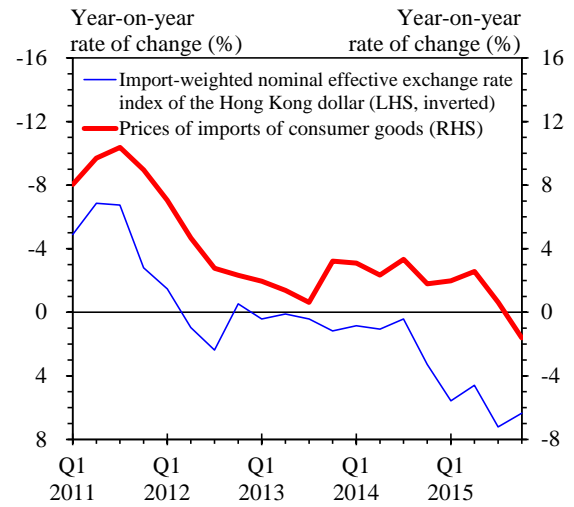
Note : (\*) Change within  $\pm 0.05\%$ .

### Diagram 7.6 : Import prices by end-use category

(a) Import prices of food continued an easing trend

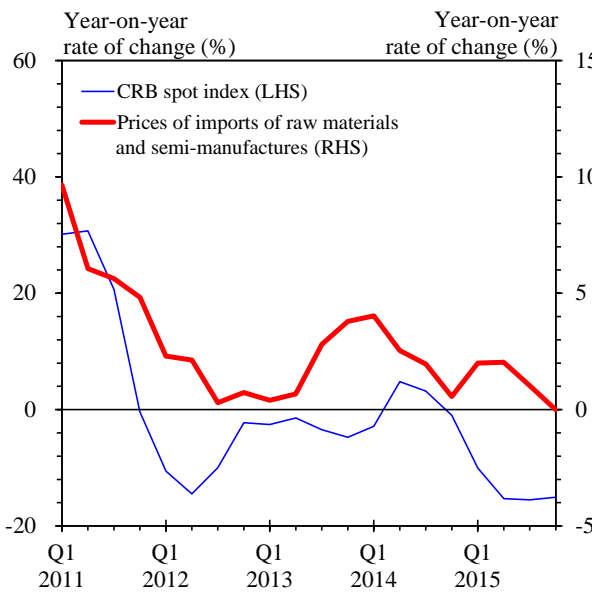


(b) Import prices of consumer goods also fell towards end-2015

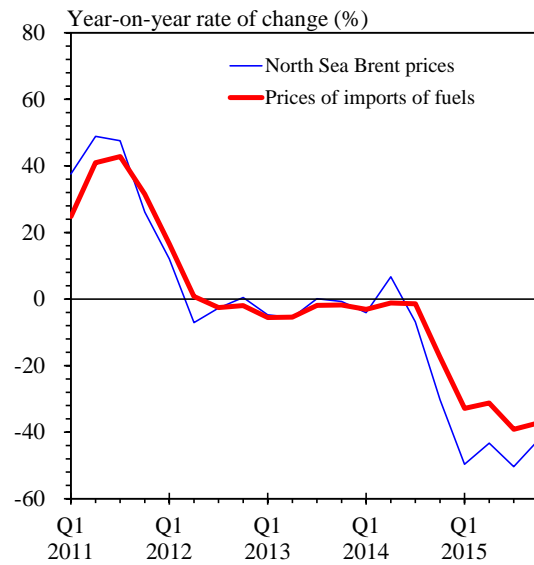


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Increase in import prices of raw materials and semi-manufactures was mild



(d) Import prices of fuels remained on a visible decline in 2015



## Output prices

7.6 Output prices, as measured by the *Producer Price Indices*<sup>(3)</sup>, in most sectors exhibited a moderating trend in the first three quarters of 2015. The year-on-year decline in output prices for the manufacturing sector enlarged to 4.4% in the third quarter of 2015, reflecting the softness in demand for locally produced goods. Among the selected service sectors, output prices for accommodation services continued to decline over the same period, in face of the slowdown in visitor arrivals. Upon the austere external trading environment and lower international oil prices, output prices for different transport services eased by various extents in the third quarter of 2015. While the rise in output prices for land transport softened somewhat to 2.1%, the output prices for water and air transports saw more notable declines of 10.4% and 9.2% respectively. Meanwhile, output prices for telecommunications continued its secular downtrend, given the intense competition and continuous cost reduction from technology advancement.

**Table 7.4 : 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-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Manufacturing	-1.7	-6.2	-0.4	1.3	-1.2	-2.6	-0.6	-2.8	-4.4
Selected service sectors <sup>(a)</sup>									
Accommodation services	2.1	2.2	3.9	4.0	-1.3	-3.9	-1.6	-5.4	-4.8
Land transport	2.8	2.5	3.0	2.9	3.0	2.5	2.9	2.3	2.1
Water transport	0.8	-2.9	-0.6	2.5	4.6	-4.8	-0.2	-3.5	-10.4
Air transport	-0.7	-0.6	-1.8	1.9	-2.2	-6.8	-3.4	-7.9	-9.2
Telecommunications	-3.7	-2.9	-3.4	-4.2	-4.2	-4.4	-3.9	-4.4	-4.7
Courier services	1.7	1.9	1.4	0.9	2.5	4.6	4.2	4.8	4.7

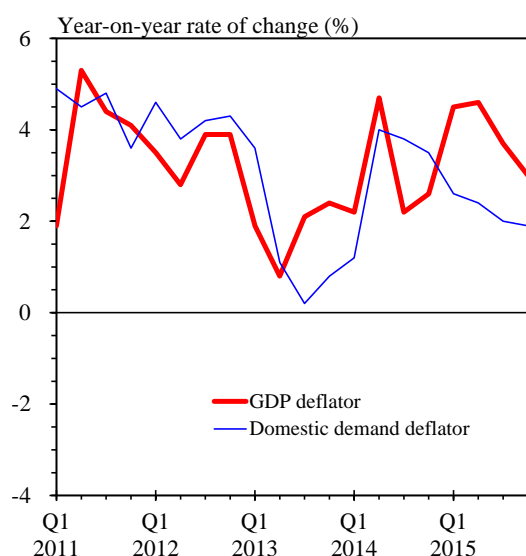
Note : (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the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

## GDP deflator

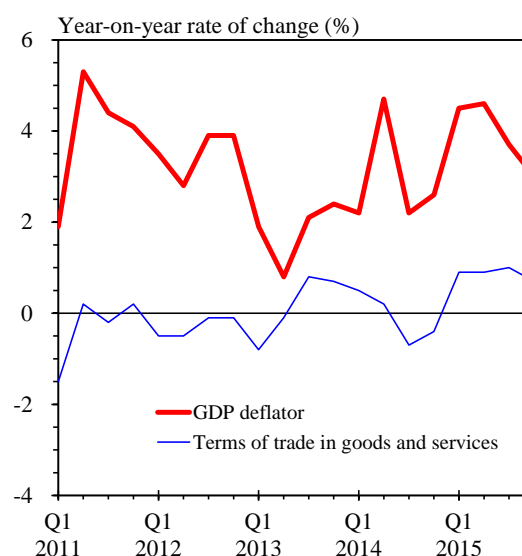
7.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*<sup>(4)</sup> rose by 3.9% in 2015, faster than the 2.9% increase in 2014. This was mainly driven by the improvement in *terms of trade*<sup>(5)</sup>, which was particularly distinct in the first half of 2015. The year-on-year increase in the GDP deflator slowed afterwards, to 3.0% in the fourth quarter, when the gains in terms of trade tapered amid an accelerated decline in export prices. Taking out the external components, the increase in the domestic demand deflator abated from 3.1% in 2014 to 2.2% in 2015.

**Diagram 7.7 : GDP deflator**

**(a) Increase in GDP deflator slowed alongside the domestic demand deflator in the second half of 2015**



**(b) Improvement in terms of trade tapered in the fourth quarter of 2015**



**Table 7.5 : GDP deflator and the main expenditure component deflators**  
(year-on-year rate of change (%))

	<u>2014</u>					<u>2015</u>				
	<u>Annual</u> <sup>#</sup>	<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>#</sup>	<u>Q3</u> <sup>#</sup>	<u>Q4</u> <sup>#</sup>	<u>Annual</u> <sup>+</sup>	<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>#</sup>	<u>Q3</u> <sup>#</sup>	<u>Q4</u> <sup>+</sup>
Private consumption expenditure	2.9	2.5	3.5	3.2	2.4	1.0	1.7	1.3	0.5	0.7
Government consumption expenditure	4.6	3.9	5.1	4.7	4.8	4.4	4.7	4.5	4.4	4.2
Gross domestic fixed capital formation	3.1	-3.7	4.3	5.0	5.8	4.6	5.1	4.8	5.7	3.4
Total exports of goods	0.8	-0.1	0.1	1.9	1.0	-0.8	0.6	0.2	-1.1	-2.6
Imports of goods	0.9	-0.5	-0.2	2.5	1.5	-1.6	-0.1	-0.8	-2.1	-3.1
Exports of services	0.8	0.6	0.7	1.5	0.2	-1.6	-0.2	-1.1	-2.6	-2.5
Imports of services	1.0	0.6	2.3	2.6	-1.3	-3.8	-3.2	-2.4	-4.7	-4.6
<b>Gross Domestic Product</b>	<b>2.9</b>	<b>2.2</b>	<b>4.7</b>	<b>2.2</b>	<b>2.6</b>	<b>3.9</b>	<b>4.5</b>	<b>4.6</b>	<b>3.7</b>	<b>3.0</b>
		<-0.5>	<1.3>	<0.8>	<1.1>		<1.4>	<1.1>	<0.1>	<0.4>
Total final demand	1.5	0.4	1.4	2.4	1.7	*	1.2	0.8	-0.4	-1.2
Domestic demand	3.1	1.2	4.0	3.8	3.5	2.2	2.6	2.4	2.0	1.9
Terms of trade in goods and services	-0.1	0.5	0.2	-0.7	-0.4	0.8	0.9	0.9	1.0	0.7

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>	17.07	19.23	17.90	13.55
<i>Other foodstuffs</i>	10.38	14.45	9.26	7.32
Housing	31.66	32.19	31.43	31.36
<i>Private dwellings</i>	27.14	24.78	28.13	28.45
<i>Public dwellings</i>	2.05	5.49	0.72	--
<i>Maintenance costs and other housing charges</i>	2.47	1.92	2.58	2.91
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>2014</u>					<u>2015</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Selected developed economies										
US	1.6	1.4	2.1	1.8	1.2	0.1	-0.1	*	0.1	0.5
Canada	2.0	1.4	2.2	2.1	1.9	1.1	1.1	0.9	1.2	1.3
EU	0.5	0.8	0.7	0.5	0.2	*	-0.3	0.1	*	0.1
Japan	2.7	1.5	3.6	3.4	2.5	0.8	2.3	0.5	0.2	0.3
Selected major emerging economies										
Mainland China	2.0	2.3	2.2	2.0	1.5	1.4	1.2	1.4	1.7	1.5
Russia	7.8	6.4	7.6	7.7	9.6	15.5	16.2	15.8	15.7	14.5
India	6.6	8.2	7.8	6.7	4.1	4.9	5.3	5.1	3.9	5.3
Brazil	6.3	5.8	6.4	6.6	6.5	9.0	7.7	8.5	9.5	10.4
Selected Asian economies										
Hong Kong	4.4	4.2	3.6	4.8	5.1	3.0	4.4	3.0	2.3	2.4
Singapore	1.0	1.0	2.2	1.0	*	-0.5	-0.3	-0.4	-0.6	-0.7
Taiwan	1.2	0.8	1.6	1.5	0.8	-0.3	-0.6	-0.7	-0.3	0.3
Korea	1.3	1.1	1.6	1.4	1.0	0.7	0.6	0.5	0.7	1.1
Malaysia	3.1	3.5	3.3	3.0	2.8	2.1	0.7	2.2	3.0	2.6
Thailand	1.9	2.0	2.5	2.0	1.1	-0.9	-0.5	-1.1	-1.1	-0.9
Indonesia	6.4	7.8	7.1	4.4	6.5	6.4	6.5	7.1	7.1	4.8
Philippines	4.1	4.1	4.4	4.7	3.6	1.4	2.4	1.7	0.6	1.0
Vietnam	4.1	4.8	4.7	4.3	2.6	0.6	0.7	1.0	0.5	0.3
Macao	6.0	6.1	6.2	5.9	6.0	4.6	5.1	4.8	4.5	3.9

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

- (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.

## **Calendar of Events of Significance for the Hong Kong Economy in 2015**

- 5 Jan The Government announced the tendering of ten-year Government Bonds, totalling \$2 billion, through the re-opening of an existing ten-year Government Bond issue under the Institutional Bond Issuance Programme of the Government Bond Programme.
- 7 Jan The Government officially commenced the “Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030” to update the territorial development strategy, and examine the strategies and feasible options for the overall spatial planning, land and infrastructure developments for Hong Kong in the long run.
- 14 Jan The Chief Executive (CE) presented the 2015 Policy Address, unveiling measures to develop the economy, increase housing supply and harness the potential of Hong Kong people, alongside other initiatives in poverty alleviation, elderly care, environmental protection, health care, education and youth development. They included:
- (a) submitting proposals to complement the National 13th Five-Year Plan and liaising with Guangdong for favourable treatment and opportunities for Hong Kong people and enterprises in the planning and development of Nansha, Qianhai and Hengqin;
  - (b) preparing for establishment of the Insurance Authority (IA) to promote the development of the insurance industry;
  - (c) enhancing the functions of the Hong Kong Maritime Industry Council and supporting the Airport Authority (AA) to implement the three-runway system project;
  - (d) increasing the number of Economic and Trade Offices (ETOs) in Asia to help businesses and investors tap Asian markets;
  - (e) injecting \$5 billion into the Innovation and Technology Fund and setting up an Enterprise Support Scheme to enhance funding support for private sector research and department projects;
  - (f) setting the total housing supply target for the coming decade at 480 000 units;
  - (g) introducing further plans for the Low-income Working Family Allowance, involving annual expenditure of around \$3 billion, and earmarking \$200 million to extend the short-term food assistance service to end-2017;
  - (h) introducing a series of measures to unleash the potential of the local labour force and to recruit talent and professionals from outside Hong Kong;
  - (i) increasing the Statutory Minimum Wage (SMW) rate to \$32.5 per hour; and
  - (j) setting up a \$300 million Youth Development Fund to support innovative youth development activities, including assisting young people to start their own business.
- 16 Jan The Finance Committee of the Legislative Council (LegCo) approved the 2014-15 Civil Service Pay Adjustment. The adjustment rates ranged from 4.71% to 5.96%, and took retrospective effect from 1 April 2014.
- 19 – 20 Jan The Government and the Hong Kong Trade Development Council (HKTDC) co-organised the eighth Asian Financial Forum (AFF), a platform for high-level exchanges over financial and economic issues among professionals in the financial services industry. Carrying the theme “Asia: Sustainable Development in a World of Change”, AFF attracted a record audience of some 2 600 from 39 countries and regions.
- 21 Jan The Mandatory Provident Fund Schemes (Amendment) Bill 2014, which sought to



enhance the Mandatory Provident Fund (MPF) system by providing more flexible arrangements for scheme members to withdraw their accrued benefits and for promoting reduction in MPF fees, partially came into effect. Starting from 1 August 2015, MPF scheme members with terminal illness may choose to withdraw their accrued benefits early; and from 1 February 2016, scheme members may withdraw their accrued benefits in phases upon retirement and early retirement.

- 22 Jan The Chief Secretary for Administration (CS) and the Vice-Governor of Fujian Province co-chaired the First Hong Kong/Fujian Co-operation Conference in Fujian. At the meeting, the two sides reached consensus on enhancing co-operation in the economic, trade and financial areas. An agreement on strengthening economic and trade co-operation and another agreement on strengthening financial co-operation between the two sides were signed.
- 26 Jan The Government announced the tendering of five-year Government Bonds, totalling \$1.5 billion, under the Institutional Bond Issuance Programme of the Government Bond Programme.
- 27 Jan The Heritage Foundation and the Wall Street Journal released the 2015 Index of Economic Freedom. Hong Kong was ranked the freest economy in the world for the 21st consecutive year.
- The Hong Kong Monetary Authority (HKMA) announced the countercyclical capital buffer (CCyB) for Hong Kong, which would be 0.625% with effect from 1 January 2016. The CCyB is part of the Basel III regulatory capital framework and is being implemented in parallel by Basel Committee member jurisdictions worldwide. The CCyB is designed by the Basel Committee to increase the resilience of the banking sector in periods of excess credit growth.
- 6 Feb The Hong Kong Association of Banks and the Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies launched the revised Code of Banking Practice (Code), which is endorsed by the HKMA. The Code provides a wider protection to customers and promotes good banking practices, for better alignment with international standards on financial consumer protection.
- 13 Feb The Stamp Duty (Amendment) Ordinance 2015 was gazetted and came into effect to implement the stamp duty waiver for the transfer of shares or units of all exchange traded funds.
- 25 Feb The Financial Secretary (FS) presented the Budget for the financial year 2015-16 to the LegCo, pledging to promoting the economy, diversifying development, optimising human resources and caring for people's livelihood.

In promoting the economy, FS put forward a series of measures to augment the competitiveness of Hong Kong's four pillar industries, helping enterprises to capitalise on opportunities brought about by Mainland's policy and explore new markets. In the meantime, the Budget reinforced the development of diversified new industries, including the launch of measures to promote the development of start-up companies, cultural and creative industries, as well as social enterprises. Besides, in view of the impacts brought by the Occupy Movement, the Budget proposed a range of targeted measures to support the affected sectors and to step up the promotion of Hong Kong so as to rebuild international investors' and tourists' confidence.

FS proposed to increase investment in people, and to strengthen the manpower training

on retail, construction and financial services industries, as well as providing more internship and exchange opportunities for young people, in order to optimise Hong Kong's overall manpower structure and quality to support social and economic developments.

In caring for people's livelihood, substantial resources were allocated for healthcare services, elderly services and environmental protection. In addition, FS put forward a package of relief measures to assist the grass-root and the middle class families, including extra allowance to recipients of the Comprehensive Social Security Assistance and other social security schemes, paying rent for public housing tenants, and the following measures:

- (a) reducing profits tax, salaries tax and tax under personal assessment for Year of Assessment 2014-15 by 75%, subject to a ceiling of \$20,000 per case;
- (b) waiving rates for the first two quarters of 2015-16, subject to a ceiling of \$2,500 per quarter for each rateable property; and
- (c) increasing the basic and additional child allowances from \$70,000 to \$100,000 from Year of Assessment 2015-16 onwards.

Besides, the Budget proposed measures to support small and medium-sized enterprises (SMEs) to cope with uncertainties in the economic environment.

Based on the Report of the Working Group on Long-Term Fiscal Planning, FS proposed several measures to ensure the sustainability of public finances in three main areas, namely containing expenditure, preserving the revenue base and saving up in a timely manner, in order to tackle the challenges brought by an ageing population and slower economic growth.

The 2014 Economic Background and 2015 Prospects were published along with the 2015-16 Budget. Hong Kong's real Gross Domestic Product (GDP) growth in 2015 was forecast to be 1-3%, while the headline and underlying Composite Consumer Price Index (CCPI) inflation rates were forecast to average 3.5% and 3% respectively.

26 Feb The Government announced the 2015-16 Land Sale Programme, which included 29 residential sites (capable of providing about 16 000 flats), four commercial/business sites and one hotel site.

27 Feb The HKMA introduced the seventh round of supervisory measures on property mortgage to strengthen banks' risk management and resilience.

The Employment (Amendment) Ordinance 2014 came into effect. The new legislation provides paternity leave as a new statutory benefit for working fathers. Eligible male employees are entitled to three days' paternity leave with pay around the time of their children's birth.

1 Mar The liberalisation measures of the Agreement between the Mainland and Hong Kong on Achieving Basic Liberalisation of Trade in Services in Guangdong under the Closer Economic Partnership Arrangement (CEPA) framework were implemented. Under the Agreement, the Mainland opens up 153 services trade sub-sectors to the Hong Kong services industry, accounting for 95.6% of all services trade sub-sectors, in Guangdong. The breadth and depth of liberalisation surpassed the previous measures for early and pilot implementation in Guangdong.

- 2 Mar The Government announced the tendering of three-year Government Bonds, totalling \$4.4 billion, through the re-opening of an existing five-year Government Bond issue under the Institutional Bond Issuance Programme of the Government Bond Programme.
- 11 Mar CS and the Vice-Governor of Guangdong Province co-chaired the 20th Working Meeting of the Hong Kong/Guangdong Co-operation Joint Conference in Guangzhou. The two sides agreed to implement the 2015 Work Plan of the Framework Agreement on Hong Kong/Guangdong Co-operation which covers 90 co-operation items in various areas, including liberalisation of trade in services, finance and professional services.
- 17 Mar The Government affirmed the need for the three-runway system at the Hong Kong International Airport (HKIA).
- 18 Mar The Government launched the revamped public sector information portal, “data.gov.hk”, to make available free online government information in digital formats. More than 5 000 datasets are available on the portal, covering policy areas such as environment, finance, weather and transport.
- 23 Mar The Working Group on Intellectual Property (IP) Trading, led by the Secretary for Commerce and Economic Development (SCED), released a report with 28 recommended measures to position and promote Hong Kong as the premier IP trading hub in the region.
- 27 Mar The Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Ordinance 2015 was gazetted to provide for a legal framework to enable the introduction of an uncertificated securities market regime.
- The Second Hong Kong - Malaysia Private Sector Dialogue on Offshore Renminbi (RMB) Business, facilitated by the HKMA and Bank Negara Malaysia, was held in Johor Bahru, Malaysia to foster closer collaboration between Hong Kong and Malaysia on the development of RMB business.
- 27 – 28 Mar CE attended the Boao Forum for Asia Annual Conference 2015 in Hainan.
- 29 Mar Sai Ying Pun Station of the West Island Line (WIL) was opened. The WIL was fully commissioned.
- 31 Mar The Environment Bureau (ENB) launched a three-month public consultation on the future development of the electricity market.
- 1 Apr The Government established the Steering Group on Financial Technologies (Fintech) with members drawn from the industry, research and development institutions, relevant policy bureaux and departments, as well as regulatory authorities to advise on how to develop and promote Hong Kong as a Fintech hub.
- The Hong Kong Special Administrative Region (HKSAR) Government and the Mainland signed the Fourth Protocol to the Arrangement for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income.
- The Government announced the tendering of five-year Government Bonds, totalling \$3.2 billion, through the re-opening of an existing five-year Government Bond issue under the Institutional Bond Issuance Programme of the Government Bond Programme.

- 8 – 11 Apr CE officiated at the opening ceremony of the ETO of the HKSAR Government in Wuhan. Afterwards, CE and the Mayor of Shanghai Municipal Government co-chaired the Third Plenary Session (the Session) of Hong Kong/Shanghai Economic and Trade Co-operation Conference in Shanghai. The two sides reviewed the outcome of co-operation and reached consensus on 27 co-operation initiatives covering various areas. The two sides also signed three co-operation agreements on finance, commerce and civil service exchange. FS also attended the Session and visited the Shanghai Disneyland project.
- 21 Apr The Government announced its new Industrial Estate policy to help promote smart production, attract high value-added technology industries as well as high value-added manufacturing processes.
- 23 Apr The Government announced the tendering of ten-year Government Bonds, totalling \$1.5 billion, through the re-opening of an existing ten-year Government Bond issue under the Institutional Bond Issuance Programme of the Government Bond Programme.
- 24 Apr The Government launched a two-month consultation exercise to gauge views on proposals to apply, with adaptations for Hong Kong, the new international standard promulgated by the Organisation for Economic Co-operation and Development on automatic exchange of financial account information in tax matters.
- The European Commission published its 17th annual report on Hong Kong, which continued to affirm the co-operation between the European Union (EU) and Hong Kong in areas including trade, investment, and dialogue on issues of mutual interest, as well as recognising Hong Kong’s strategic importance as a trading and investment partner for the EU.
- 25 – 26 Apr CE visited Kuala Lumpur, Malaysia and attended the 12th Association of Southeast Asian Nations (ASEAN) Leadership Forum hosted by the Asian Strategy and Leadership Institute. During the visit, CE conducted bilateral meetings with leaders of ASEAN member countries and met with representatives of Malaysia’s business sector.
- 30 Apr The Bankruptcy (Amendment) Bill 2015 was gazetted to introduce new arrangements under the Bankruptcy Ordinance (Cap. 6) to encourage bankrupts to fulfil their obligations in respect of the administration of bankruptcy estate by trustee-in-bankruptcy and to better protect the interests of creditors, and to address the constitutionality issues of certain provisions under the existing “abscondee regime”.
- The topping out ceremony of Hin Keng Station of the Shatin to Central Link (SCL) was held. Hin Keng Station was the first station under the SCL project with its structural works completed.
- 1 May The SMW rate was increased by 8.3% from \$30 to \$32.5 per hour.
- 4 May The Government implemented the pilot “Admission Scheme for the Second Generation of Chinese Hong Kong Permanent Residents” and various enhancements to the admission arrangements for talent, professionals and entrepreneurs, with a view to recruiting and retaining more talent and professionals from outside Hong Kong.
- 6 May The Housing Authority endorsed the implementation details of the “Green Form Subsidised Home Ownership Pilot Scheme” (GSH). Subsequently, the public rental housing development at San Po Kong was selected for conversion to GSH.

- 14 May The ENB published the Energy Saving Plan for Hong Kong's Built Environment 2015~2025+ which was the first-ever energy saving blueprint for Hong Kong. It analysed energy use in Hong Kong and set a new target of reducing Hong Kong's energy intensity by 40% by 2025.
- The Ministry of Finance of the People's Republic of China announced the tendering in Hong Kong of a total of RMB12 billion RMB Sovereign Bonds of the Central People's Government with tenors ranging from 3 to 30 years.
- 15 May The Government released the preliminary GDP figures for the first quarter of 2015. The Hong Kong economy grew modestly by 2.1% year-on-year in real terms. Domestic demand remained the key source of growth, while external demand was still lacklustre. The slowdown in inbound tourism also posed a drag.
- In the May update of the economic forecast for 2015, the forecast growth rate in real terms of GDP was maintained at 1-3%. The forecast rates of headline and underlying CCPI inflation were revised downward to 3.2% and 2.7% respectively.
- Three pieces of subsidiary legislation made under the Securities and Futures (Amendment) Ordinance 2014 (Amendment Ordinance) were gazetted to implement the first stage of the over-the-counter (OTC) derivatives regulatory regime from 10 July 2015, under which mandatory reporting was introduced for certain interest rate swaps and non-deliverable forwards.
- 23 May Hong Kong and Canada announced the conclusion of negotiations of an Investment Promotion and Protection Agreement. The agreement will facilitate investment flows, benefitting the economic development of both places.
- 28 May Hong Kong was ranked the world's second most competitive economy by the Institute for Management Development World Competitiveness Yearbook 2015, up from the fourth place last year. Hong Kong attained the top rank in terms of government efficiency and business efficiency.
- The Government made a successful offering of its second issuance of sukuk, with an issuance size of US\$1 billion and a tenor of five years, under the Government Bond Programme. The success of the two issuances demonstrated not only the viability of sukuk issuance using Hong Kong's platform, but also the recognition among international investors of Hong Kong's economic fundamentals and financial structure.
- 6 Jun The topping out ceremony of Ho Man Tin Station of the Kwun Tong Line Extension (KTE) was held. After the commissioning of KTE and SCL, Ho Man Tin Station will be an integrated station providing convenient railway and interchange services for passengers travelling on the two railway lines.
- 9 Jun The HKMA conducted a seminar on "RMB Internationalisation: A New Era for Global Trade and Finance" in Toronto, Canada, to promote Hong Kong as a global hub for offshore RMB business.
- 19 Jun CE in Council approved the Kwu Tung North and Fanling North Outline Zoning Plans for the development of the New Development Areas (NDAs). The NDAs will be implemented as an extension of Fanling/Sheung Shui New Town, providing important sources of land supply to meet the medium- and long-term development needs of the territory.

- 25 Jun Hong Kong was ranked the world's second largest recipient of foreign direct investment flows in 2014 for the first time, according to the World Investment Report 2015 released by the United Nations Conference on Trade and Development.
- HKIA was named "Best Airport – Asia" at the "2015 Asian Freight, Logistics and Supply Chain Awards" organised by Asia Cargo News.
- 26 Jun FS visited Foshan to gain a better understanding of its latest developments.
- The Government released the consultation conclusions on the proposals to improve the regulatory regime for listed entity auditors. The proposed initiatives will bring Hong Kong's regime in line with international standards, offering benefits to the audit profession and the investing public, as well as reinforcing Hong Kong's status as an international financial centre and capital market.
- The Hong Kong Mortgage Corporation Limited (HKMC) announced a number of new enhancements to the Microfinance Scheme (MFS), including raising the aggregate lending amount cap from \$100 million to \$200 million, and extending the MFS for a further term of three years.
- 28 – 30 Jun FS attended the Signing Ceremony of the Articles of Agreement of the Asian Infrastructure Investment Bank (AIIB) and AIIB's special ministerial meeting in Beijing, as a member of the delegation of China.
- 1 Jul The Mutual Recognition of Funds (MRF) scheme, which allows qualified Mainland and Hong Kong funds to be offered directly to the public in each other's market after obtaining authorisation or approval under streamlined procedures, was launched. This followed the signing of a memorandum of regulatory co-operation on MRF between the Securities and Futures Commission (SFC) and the China Securities Regulatory Commission (CSRC).
- 9 Jul The Third Hong Kong - Australia Renminbi Trade and Investment Dialogue, facilitated by the HKMA, Australian Treasury and the Reserve Bank of Australia was held in Sydney, Australia to discuss the investment and funding opportunities associated with the internationalisation of the RMB.
- The HKMA announced the launch of a new cross border linkage with the Mainland by the Central Moneymarkets Unit Fund Order Routing and Settlement Service to provide order routing and settlement support to the Mainland - Hong Kong MRF initiative.
- 12 – 13 Jul CE visited Beijing to meet with relevant officials on the development of the "Belt and Road" Initiative.
- 16 Jul The Finance Committee of the LegCo approved the adjustments to the civil service pay scales arising from the 2013 Pay Level Survey on the civil service. The pay adjustments took retrospective effect from 1 October 2014.
- The topping out ceremony of Kai Tak Station of the SCL was held. Kai Tak Station was the second station under the SCL project with its structural works completed.
- 17 Jul FS and the Secretary for Economy and Finance of the Macao Special Administrative Region co-chaired the Eighth Hong Kong Macao Co-operation High Level Meeting in Hong Kong. At the meeting, the two sides reviewed and further discussed the co-operation in various matters including economic, financial and cross-boundary

infrastructure issues.

The Government increased the approved commitment for the SME Export Marketing Fund and the SME Development Fund from \$3.75 billion to \$5.25 billion, and implemented enhancement measures to both schemes by phase, with a view to enhancing the support to SMEs in increasing competitiveness and expanding export markets.

The Inland Revenue (Amendment) (No. 2) Ordinance 2015 was gazetted and came into operation to extend profits tax exemption for offshore funds to private equity funds. Offshore private equity funds are exempted from profits tax in respect of profits derived from specified transactions carried out from 1 April 2015 onwards.

The Insurance Companies (Amendment) Ordinance 2015 (IC(A)O) was gazetted. IC(A)O provides for the establishment of an independent IA to take over the functions of the Office of the Commissioner of Insurance and a statutory licensing regime for insurance intermediaries to replace the existing self-regulatory system. This would be conducive to the modernisation of regulatory infrastructure for the stable development of the insurance industry. To allow for smooth transition from the existing regulatory regime to the new regime to be administered by independent IA, IC(A)O will be implemented by three phases. The first batch of provisions came into force on 7 December 2015.

The Finance Committee of the LegCo approved the 2015-16 Civil Service Pay Adjustment. The adjustment rates ranged from 3.96% to 4.62%, and took retrospective effect from 1 April 2015.

21 – 23 Jul FS visited Fuzhou and Xiamen to strengthen Hong Kong's trade and economic ties with Fujian Province following the setting up of the Hong Kong/Fujian Co-operation Conference.

4 Aug HKIA was named the "Best International Airport for 2015" by Australian Business Traveller.

5 Aug The Government announced the subscription and allocation results of the fifth inflation-linked retail bond, or iBond, under the retail part of the Government Bond Programme with a final issue amount of \$10 billion and a tenor of three years. A total of 597 895 valid applications were received for a total of \$35.7 billion in principal amount of bonds.

12 Aug The pre-sale of the first batch of 2 160 new Home Ownership Scheme flats was completed with all the flats sold out.

14 Aug The Government released the preliminary GDP figures for the second quarter of 2015. The Hong Kong economy expanded by 2.8% year-on-year in real terms. Domestic demand exhibited much resilience, while the external sector remained weak.

In the August update of the economic forecast for 2015, the forecast growth rate in real terms of GDP was revised to 2-3%. The forecast rates of headline and underlying CCPI inflation were revised downward to 3.1% and 2.6% respectively.

23 – 28 Aug SCED visited Chile and Mexico to strengthen trade and investment ties with the emerging markets in Latin America. During the visit, Hong Kong and Mexico announced their shared intent to commence negotiations on an Investment Promotion and Protection Agreement in 2016.

- 9 Sep CE and the Governor of Guangdong Province co-chaired the 18th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference in Hong Kong. At the meeting, the two sides reviewed the progress of Hong Kong/Guangdong co-operation over the past year and set directions for future co-operation, including taking forward the implementation of the “Belt and Road” Initiative and the development of the Guangdong Free Trade Pilot Zone, as well as co-operation in areas including liberalisation of trade in services, innovation and technology, and financial and professional services.
- 9 – 11 Sep FS attended the Asia-Pacific Economic Co-operation (APEC) Finance Ministers’ Meeting in Cebu, the Philippines.
- 14 Sep Hong Kong remained the freest economy in the world, according to the 2015 Annual Report on the Economic Freedom of the World, jointly released by the Fraser Institute of Canada and the CATO Institute in the US.
- 15 Sep The HKMC launched the Premium Loan Insurance Scheme in collaboration with eight banks, to help owners of subsidised housing properties aged 50 or above to settle land premium payment in a bid to promote market circulation of subsidised housing properties.
- 16 – 18 Sep CE visited Jakarta, Indonesia and attended the promotional activities held by the HKTDC and the Hong Kong Tourism Board. During the visit, the establishment of an ETO in Jakarta was announced.
- The Hong Kong - Taiwan Economic and Cultural Co-operation and Promotion Council and its Taiwan counterpart, Taiwan-Hong Kong Economic and Cultural Co-operation Council, held their sixth joint meeting in Hong Kong. The two sides signed the Memorandum of Understanding on Co-operation in Accreditation Technologies. In addition, the AA and the Taoyuan International Airport Corporation signed a memorandum of understanding to enhance exchanges between the two airports.
- 21 – 27 Sep FS led a “Belt and Road” business delegation to Hungary, Poland and Germany to strengthen economic and trade co-operation between Hong Kong and the three countries.
- 22 Sep The Government granted new ten-year franchises to Citybus Limited (in respect of its franchise for the Hong Kong Island and Cross-Harbour bus network) and New Lantao Bus Company (1973) Limited. The new franchises will commence on 1 June 2016 and 1 March 2017 respectively.
- 24 Sep Hong Kong and the Philippines signed a memorandum of intent in Manila, the Philippines pledging mutual co-operation on promoting investment exchanges and best practices.
- The Government announced the tendering of three-year Government Bonds, totalling \$4.2 billion, through the re-opening of an existing five-year Government Bond issue under the Institutional Bond Issuance Programme of the Government Bond Programme.
- 9 Sep The Hong Kong Shipping Register crossed the 100 million gross tonnage mark.
- 29 Sep – 8 Dec The Development Bureau (DEVB) invited Expression of Interest for the development of the Tourism Node site at Kai Tak. A total of 11 submissions were received. The Tourism Node is a major component of “Kai Tak Fantasy” - a planned tourism, leisure and entertainment destination for public enjoyment, which will create synergy with various “Energizing Kowloon East” initiatives, to facilitate the transformation of



Kowloon East into an additional core business district to sustain Hong Kong's long-term economic development.

- 30 Sep The SFC and the HKMA issued a joint consultation on introducing the first phase of mandatory clearing and the second phase of mandatory reporting for OTC derivatives transactions, in order to develop a regulatory regime for the OTC derivatives market in Hong Kong to enhance financial market stability.
- 2 Oct The Companies (Winding Up and Miscellaneous Provisions) (Amendment) Bill 2015 was gazetted. The Bill seeks to improve and modernise Hong Kong's corporate winding-up regime by increasing protection of creditors, streamlining the winding-up process, and further enhancing the integrity of the winding-up process. This will help enhance Hong Kong's business environment.
- 3 – 8 Oct In collaboration with the HKTDC, the DEVB held a trade mission to Yangon, Myanmar, led by the Secretary for Development and comprising 21 members of the professional services sector and government department representatives, to promote the development of professional services and business co-operation between the two places.
- 4 – 14 Oct FS attended the Annual Meetings of the International Monetary Fund (IMF) and the World Bank Group held in Lima, Peru as a member of the delegation of China. He also visited New York and Washington DC to strengthen Hong Kong's economic ties with the US.
- 6 Oct The \$1-billion Recycling Fund was officially launched. The Recycling Fund promotes the recovery and recycling of waste into useful resources and products by facilitating the upgrading of operational capabilities and efficiency in the recycling industry to support its sustainable development.
- 10 Oct The Commission on Poverty announced at the Poverty Summit the updated poverty line and the poverty situation in Hong Kong in 2014. The poverty situation in 2014 stabilised with slight improvement when compared with that of 2013. After recurrent cash policy interventions, the poor population in Hong Kong decreased from 0.97 million in 2013 to 0.96 million in 2014, and the poverty rate fell from 14.5% to 14.3%. Both were at the record-low levels in the last six years covered by the analysis.
- 12 – 14 Oct CE led a delegation comprising related industry leaders and academics from Hong Kong to visit Israel to learn more about the development of innovation and technology there.
- 15 Oct The HKIA was named "Asia Pacific Airport of the Year - Industry Choice" by air cargo publication Payload Asia.
- 23 Oct The Banking (Capital) (Amendment) Rules 2015 to align certain aspects of the Banking (Capital) Rules more closely with the relevant Basel III standards were gazetted. The amended Rules came into operation on 1 January 2016.
- 26 Oct The number of business operations in Hong Kong with parent companies overseas and in the Mainland hit a record high of 7 904 in 2015, up by 4.2% from 2014, according to the "Survey of Companies in Hong Kong Representing Parent Companies Located outside Hong Kong" conducted by Invest Hong Kong and the Census and Statistics Department.

The Government announced the tendering of five-year Government Bonds, totalling \$3 billion, under the Institutional Bond Issuance Programme of the Government Bond Programme.

- 28 Oct The World Bank released Doing Business Report 2016. Hong Kong was rated the first in “protecting minority investors” for the second consecutive year.
- 28 – 31 Oct The ENB and the HKTDC co-organised the “Eco Expo Asia 2015”. The main theme of the Expo was “Embracing a Green and Sustainable Future”. It attracted 320 exhibitors from 18 countries and regions.
- 6 Nov The ENB launched the Hong Kong Climate Change Report 2015, which outlined the work and joint efforts of the Government and the key private-sector stakeholders in responding to climate change. It also provided an account of the actions taken by Hong Kong to combat climate change prior to the 2015 Paris Climate Change Conference.
- 10 Nov Hong Kong and Macao commenced negotiation on a free trade agreement, namely a Hong Kong and Macao Closer Economic Partnership Arrangement (HK-Macao CEPA).
- 11 Nov The Government introduced the Patents (Amendment) Bill 2015 into the LegCo to provide for the legal framework for reforming the patent system, including the introduction of the “original grant” patent system in Hong Kong.
- 13 Nov The Government released the preliminary GDP figures for the third quarter of 2015. Hong Kong’s economic growth slowed to 2.3% year-on-year in real terms. 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.

In the November update of the economic forecast for 2015, the forecast growth rate in real terms of GDP was revised to 2.4%. The forecast rates of headline and underlying CCPI inflation were revised downward to 3% and 2.5% respectively.

The Mandatory Provident Fund Schemes (Amendment) Bill 2015 was gazetted. The Bill mandates each MPF trustee to provide in each MPF scheme a highly standardised and fee-controlled Default Investment Strategy that is consistent with the objective of long-term retirement savings.

The Securities and Futures (Amendment) Ordinance 2015 to enable the SFC to provide supervisory assistance to regulators outside Hong Kong was gazetted and came into operation.

The regulatory regime for stored value facilities and retail payment systems under the Payment Systems and Stored Value Facilities Ordinance commenced operation. The Ordinance empowers the HKMA to implement a mandatory licensing system for multi-purpose stored value facilities and perform relevant supervision and enforcement functions. In addition, the HKMA is empowered to designate retail payment systems to ensure their safe and robust operation under prudential regulation.

The Deposit Protection Scheme (Amendment) Bill 2015 was gazetted to adopt a gross payout approach to determine compensation, in order to achieve faster and effective payouts in case the Deposit Protection Scheme is triggered.

The Inland Revenue (Amendment) (No. 3) Ordinance 2015 was gazetted. The Ordinance seeks to enhance the tax appeal mechanism and improve the efficiency and effectiveness of the Board of Review (Inland Revenue Ordinance).

- 13 – 20 Nov FS attended the G20 Leaders’ Summit held in Antalya, Turkey as a member of the delegation of China. He also visited Bucharest, Romania to strengthen bilateral economic and trade ties. FS signed an agreement on the avoidance of double taxation with Romania on behalf of the HKSAR Government during his visit.
- 15 Nov The Pacific Economic Co-operation Council published its State of the Region Report 2015-2016. The Report recognised Hong Kong as one of the economies most highly integrated with the Asia-Pacific region.
- 17 – 18 Nov The Government and the HKTDC jointly hosted the Fifth Asian Logistics and Maritime Conference, attracting over 2 000 business leaders and industry practitioners from 27 countries and regions.
- 17 – 19 Nov CE attended the APEC 2015 Leaders’ Week and other related meetings in Manila, the Philippines. During his stay in Manila, CE met with APEC leaders to exchange views on issues of mutual concern.
- 20 Nov The Innovation and Technology Bureau was officially established, and is responsible for formulating holistic policies on innovation and technology (I&T), and fostering the development of I&T and related industries in Hong Kong.
- The Financial Institutions (Resolution) Bill was gazetted. The Bill aims to establish in Hong Kong a resolution regime for systemically important financial institutions, with a view to avoiding or mitigating the risks posed by their non-viability to the stability and effective working of the financial system of Hong Kong, including to the continued performance of critical financial functions and to public funds.
- The Ministry of Finance of the People’s Republic of China announced the tendering of a total of RMB10 billion RMB Sovereign Bonds in Hong Kong with tenors ranging from 3 to 20 years.
- 21 – 28 Nov The 31st Plenary Meeting of International Organization for Standardization (ISO)/Technical Committee (TC) 176 was held in Hong Kong. Close to 200 experts from more than 40 economies attended over 80 meetings to discuss quality management and quality assurance, and to exchange ideas for further development of the ISO 9000 family of standards on quality management.
- 24 Nov The Government announced the implementation of the Low-Income Working Family Allowance in May 2016.
- 26 Nov The Second Hong Kong - Thailand RMB Business Forum, facilitated by the HKMA and the Bank of Thailand, was held in Bangkok, Thailand to discuss the recent developments and outlook for RMB internationalisation and the new business opportunities for financial institutions and corporates.
- 27 Nov Hong Kong and the Mainland signed, under the framework of CEPA, the Agreement on Trade in Services to achieve basic liberalisation of trade in services between the Mainland and Hong Kong, enabling both sides to reach a new milestone after the continuous liberalisation of trade in services through CEPA over the years.
- 30 Nov – 5 Dec “Business of Design Week 2015”, the largest annual design event in Asia and one of the leading ones in the world, was held in Hong Kong. Barcelona was the partner city for the event in 2015. Some 100 000 persons participated in the “Business of Design Week” and its concurrent events.

- 4 Dec The Inland Revenue (Amendment) (No. 4) Bill 2015 was gazetted to enhance the existing interest deduction rules for the intra-group financing business of corporations, introduce a concessionary profits tax rate for qualifying corporate treasury centres, and clarify tax treatments in respect of regulatory capital securities issued by banks in compliance with Basel III capital adequacy requirements. This will provide a conducive environment for attracting multi-national and Mainland corporations to centralise their treasury functions in Hong Kong, thereby enhancing the competitiveness of Hong Kong's financial markets.
- 5 Dec The Academy of Sciences of Hong Kong was inaugurated with 27 distinguished scientists as Founding Members. Its objective is to advance the development and promote the education of science and technology in Hong Kong. The first Science and Technology Innovation Summit was held the following day.
- 8 – 10 Dec FS led a government delegation to Beijing to meet with Central Government officials responsible for financial and monetary matters and to discuss issues of mutual concern.
- 10 Dec The fifth meeting of the private-sector led Hong Kong - London Forum was held in Hong Kong to promote co-operation on the development of international RMB business. The HKMA and HM Treasury from the United Kingdom acted as facilitators.
- 11 Dec The 2015 Pan-Pearl River Delta Regional Co-operation Chief Executive Joint Conference was held in Fuzhou, Fujian Province. The Secretary for Constitutional and Mainland Affairs (SCMA) attended the Conference on behalf of the Government.
- The Electronic Cheque service was launched to provide a more convenient way for bank customers to issue and deposit cheques online.
- The development plans of the Tung Chung New Town Extension had been finalised and the relevant statutory plans were agreed by the Town Planning Board as suitable for gazettal. Upon full implementation, the Tung Chung New Town will become a distinct community for accommodating a population of about 268 400 to meet the housing, social, economic, environmental and local needs.
- Electrical and Mechanical Services Department gazetted the 2015 editions of the Code of Practice for Energy Efficiency of Building Services Installation and Code of Practice for Building Energy Audit. The new version, compared with the 2012 edition, required a further 10% improvement in energy efficiency. It was expected that up to 2025, energy savings from all new buildings in Hong Kong would be about five billion kilowatt-hours, equivalent to the total annual electricity consumption by about some one million households.
- 14 Dec The Competition Ordinance (Cap. 619) (CO) fully commenced. The CO provides for a cross-sectoral competition law prohibiting anti-competitive conduct in all sectors.
- 15 Dec An IMF Staff Mission to Hong Kong published the Concluding Statement following the 2015 Article IV Consultation with the Hong Kong SAR. The Statement lauded the HKSAR Government's prudent fiscal management and robust regulatory regime for the financial system.
- 15 – 19 Dec The Hong Kong, China delegation attended the Tenth Ministerial Conference (MC10) of the World Trade Organization held in Nairobi, Kenya. The MC10 concluded the "Nairobi Package", which comprises outcomes in agriculture and development issues. Moreover, 53 members (including Hong Kong, China) reached an agreement to

gradually eliminate the tariffs of more information technology products.

17 Dec The HKMA announced an upward adjustment of the Base Rate by 25 basis points to 0.75%, according to a pre-set formula. The increase in the Base Rate followed the 25-basis-point upward shift in the target range for the US federal funds rate on 16 December in the US.

The SCMA co-chaired the third meeting of the Hong Kong/Guangzhou Co-operation Working Group in Hong Kong with the Vice Mayor of the Guangzhou Municipality. At the meeting, both sides exchanged views on issues including development of the Nansha area of the China (Guangdong) Pilot Free Trade Zone, exchange and co-operation among professionals, cross-boundary e-commerce, airport co-operation and other areas.

18 Dec The SFC granted authorisation for the first batch of four Mainland funds under the MRF scheme for public offering in Hong Kong. The CSRC also approved the first batch of three Hong Kong funds for public offering on the Mainland market.

The Government published the Long Term Housing Strategy Annual Progress Report 2015. The updated total housing supply target for the ten-year period from 2016-17 to 2025-26 is 460 000 units.

22 Dec The Government launched a six-month public engagement exercise on ways to improve the retirement protection system in Hong Kong.

28 Dec The \$10-billion Midfield Concourse in the HKIA as well as its auxiliary facilities were completed on schedule.

31 Dec The number of visitors to Hong Kong in 2015 was 59.31 million.

Hong Kong was the largest market for initial public offering in the stock market in 2015 globally.

HKIA achieved passenger volume record by handling 68.5 million passengers in 2015.



## Statistical Appendix

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

	(\$Mn)					
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Private consumption expenditure	868,691	982,368	1,026,482	1,013,615	1,090,234	1,224,402
Government consumption expenditure	131,837	138,967	148,017	152,512	157,371	168,517
Gross domestic fixed capital formation	337,153	340,356	350,796	339,552	386,852	455,294
<i>of which:</i>						
Building and construction	106,268	111,776	127,312	123,746	139,249	179,341
Machinery, equipment and intellectual property products	214,093	204,083	198,633	191,568	209,568	239,854
Changes in inventories	-2,129	12,841	8,480	22,941	37,522	11,739
Total exports of goods <sup>&amp;</sup>	2,467,357	2,698,850	2,843,998	2,500,143	3,068,444	3,420,076
Imports of goods <sup>&amp;</sup>	2,576,340	2,852,522	3,024,089	2,702,966	3,395,057	3,848,200
Exports of services <sup>&amp;</sup>	566,416	664,100	720,837	672,794	829,044	941,178
Imports of services <sup>&amp;</sup>	289,634	334,204	367,034	339,346	398,078	438,576
<b>GDP</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>	<b>1,934,430</b>
<i>Per capita GDP (\$)</i>	<i>219,240</i>	<i>238,676</i>	<i>245,406</i>	<i>237,960</i>	<i>252,887</i>	<i>273,549</i>
<b>GNI</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>	<b>1,987,256</b>
<i>Per capita GNI (\$)</i>	<i>224,419</i>	<i>246,312</i>	<i>259,851</i>	<i>245,096</i>	<i>258,240</i>	<i>281,019</i>
Total final demand	4,369,325	4,837,482	5,098,610	4,701,557	5,569,467	6,221,206
Total final demand excluding re-exports <sup>(a)</sup>	2,436,589	2,697,292	2,836,222	2,687,437	3,058,027	3,433,559
Domestic demand	1,335,552	1,474,532	1,533,775	1,528,620	1,671,979	1,859,952
Private	1,163,262	1,297,607	1,342,889	1,327,688	1,449,592	1,614,010
Public	172,290	176,925	190,886	200,932	222,387	245,942
External demand	3,033,773	3,362,950	3,564,835	3,172,937	3,897,488	4,361,254

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)							
	2012	2013	2014 <sup>#</sup>	2015 <sup>#</sup>	Q1 <sup>#</sup>	2015		Q4 <sup>#</sup>
						Q2 <sup>#</sup>	Q3 <sup>#</sup>	
Private consumption expenditure	1,314,969	1,413,058	1,503,125	1,590,933	388,566	404,588	385,324	412,455
Government consumption expenditure	185,310	198,572	214,088	231,271	59,099	55,555	57,779	58,838
Gross domestic fixed capital formation	517,411	515,516	530,997	543,430	132,380	137,842	128,540	144,668
<i>of which:</i>								
Building and construction	204,860	211,130	244,036	264,541	64,509	65,765	65,714	68,553
Machinery, equipment and intellectual property products	278,477	264,997	242,994	233,041	54,347	59,550	52,099	67,045
Changes in inventories	-3,662	-1,673	7,473	-19,908	-6,061	-7,669	-6,813	635
Total exports of goods <sup>&amp;</sup>	3,591,776	3,816,390	3,877,458	3,779,245	879,271	916,423	982,454	1,001,097
Imports of goods <sup>&amp;</sup>	4,116,410	4,394,928	4,471,810	4,289,735	1,028,254	1,066,653	1,077,763	1,117,065
Exports of services <sup>&amp;</sup>	1,003,047	1,058,289	1,077,899	1,053,623	267,510	243,789	269,640	272,684
Imports of services <sup>&amp;</sup>	455,382	467,214	481,005	486,353	118,340	117,302	123,564	127,147
<b>GDP</b>	<b>2,037,059</b>	<b>2,138,010</b>	<b>2,258,225</b>	<b>2,402,506</b>	<b>574,171</b>	<b>566,573</b>	<b>615,597</b>	<b>646,165</b>
<i>Per capita GDP (\$)</i>	<i>284,720</i>	<i>297,462</i>	<i>311,836</i>	<i>328,854</i>	--	--	--	--
<b>GNI</b>	<b>2,066,514</b>	<b>2,178,529</b>	<b>2,304,832</b>	<b>N.A.</b>	<b>579,761</b>	<b>595,676</b>	<b>618,362</b>	<b>N.A.</b>
<i>Per capita GNI (\$)</i>	<i>288,837</i>	<i>303,100</i>	<i>318,272</i>	<i>N.A.</i>	--	--	--	--
Total final demand	6,608,851	7,000,152	7,211,040	7,178,594	1,720,765	1,750,528	1,816,924	1,890,377
Total final demand excluding re-exports <sup>(a)</sup>	3,655,325	3,860,845	4,006,104	4,042,392	990,170	989,404	1,000,825	1,061,994
Domestic demand	2,014,028	2,125,473	2,255,683	2,345,726	573,984	590,316	564,830	616,596
Private	1,737,274	1,827,460	1,929,852	1,996,158	483,283	505,949	479,850	527,076
Public	276,754	298,013	325,831	349,568	90,701	84,367	84,980	89,520
External demand	4,594,823	4,874,679	4,955,357	4,832,868	1,146,781	1,160,212	1,252,094	1,273,781

- 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 7a. 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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Private consumption expenditure	6.1	8.6	1.9	0.2	6.1	8.4
Government consumption expenditure	0.9	3.2	2.0	2.3	3.4	2.5
Gross domestic fixed capital formation	7.1	3.2	1.4	-3.5	7.7	10.2
<i>of which:</i>						
Building and construction	-7.1	-0.3	6.8	-5.5	5.7	15.7
Machinery, equipment and intellectual property products	18.2	2.5	*	-2.2	6.5	12.3
Total exports of goods <sup>&amp;</sup>	9.3	7.0	1.9	-12.5	17.3	3.5
Imports of goods <sup>&amp;</sup>	9.2	8.8	1.8	-9.5	18.1	4.7
Exports of services <sup>&amp;</sup>	10.0	14.3	5.0	0.4	14.7	5.5
Imports of services <sup>&amp;</sup>	8.4	12.1	5.8	-5.0	11.1	3.5
<b>GDP</b>	<b>7.0</b>	<b>6.5</b>	<b>2.1</b>	<b>-2.5</b>	<b>6.8</b>	<b>4.8</b>
<b>Per capita GDP</b>	<b>6.3</b>	<b>5.6</b>	<b>1.5</b>	<b>-2.7</b>	<b>6.0</b>	<b>4.1</b>
<b>RGNI</b>	<b>6.7</b>	<b>8.2</b>	<b>3.3</b>	<b>-4.6</b>	<b>3.6</b>	<b>4.8</b>
<b>Per capita RGNI</b>	<b>6.0</b>	<b>7.3</b>	<b>2.7</b>	<b>-4.8</b>	<b>2.9</b>	<b>4.1</b>
Total final demand	8.4	8.2	2.2	-6.8	13.6	4.7
Total final demand excluding re-exports <sup>(a)</sup>	7.4	7.9	1.7	-2.6	10.4	5.6
Domestic demand	6.1	7.8	1.4	0.5	7.1	6.5
Private	7.6	8.9	1.2	-0.1	6.6	6.7
Public	-2.8	0.6	3.2	4.5	10.2	5.5
External demand	9.4	8.4	2.5	-9.9	16.8	3.9

- 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 7a. 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.  
 (^) Average annual rate of change for the 10-year period 2004-2014.  
 (~) Average annual rate of change for the 5-year period 2009-2014.

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

	(%)									
	<u>2012</u>	<u>2013<sup>#</sup></u>	<u>2014<sup>#</sup></u>	<u>2015<sup>#</sup></u>	<u>2015</u>				<u>Average annual rate of change:</u>	
					Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	10 years 2005 to 2015 <sup>#</sup>	5 years 2010 to 2015 <sup>#</sup>
Private consumption expenditure	4.1	4.6	3.3	4.8	5.4	6.2	4.3	3.2	4.8	5.0
Government consumption expenditure	3.6	2.7	3.0	3.4	3.9	3.6	2.8	3.5	2.7	3.0
Gross domestic fixed capital formation	6.8	2.6	-0.1	-2.2	5.3	3.9	-6.4	-9.7	3.2	3.4
<i>of which:</i>										
Building and construction	7.2	-4.3	9.3	2.8	-3.8	14.2	4.1	-1.5	2.8	5.9
Machinery, equipment and intellectual property products	10.2	11.3	-8.6	-5.8	10.4	-4.8	-10.7	-13.0	4.1	3.5
Total exports of goods <sup>&amp;</sup>	1.9	6.5	0.8	-1.7	0.4	-3.6	-3.2	-0.3	3.1	2.2
Imports of goods <sup>&amp;</sup>	3.0	7.2	0.9	-2.5	0.1	-3.2	-4.1	-2.6	3.9	2.6
Exports of services <sup>&amp;</sup>	2.2	4.9	1.1	-0.6	0.4	1.0	-0.9	-2.7	5.6	2.6
Imports of services <sup>&amp;</sup>	1.9	1.5	2.0	5.1	6.3	3.9	4.7	5.4	4.5	2.8
<b>GDP</b>	<b>1.7</b>	<b>3.1</b>	<b>2.6</b>	<b>2.4</b>	<b>2.4</b>	<b>2.9</b>	<b>2.2</b>	<b>1.9</b>	<b>3.4</b>	<b>2.9</b>
<i>Per capita GDP</i>	<i>0.5</i>	<i>2.6</i>	<i>1.9</i>	<i>1.5</i>	--	--	--	--	<i>2.7</i>	<i>2.1</i>
<b>RGNI</b>	<b>-0.2</b>	<b>4.0</b>	<b>2.6</b>	<b>N.A.</b>	<b>3.3</b>	<b>8.6</b>	<b>3.6</b>	<b>N.A.</b>	<b>3.2<sup>^</sup></b>	<b>2.9<sup>~</sup></b>
<i>Per capita RGNI</i>	<i>-1.3</i>	<i>3.5</i>	<i>1.8</i>	<i>N.A.</i>	--	--	--	--	<i>2.5<sup>^</sup></i>	<i>2.2<sup>~</sup></i>
Total final demand	2.5	5.5	1.5	-0.5	1.3	-0.9	-1.6	-0.6	3.8	2.7
Total final demand excluding re-exports <sup>(a)</sup>	3.2	4.5	2.1	0.3	1.6	0.9	-0.4	-0.8	4.0	3.1
Domestic demand	3.9	4.1	2.9	1.7	3.1	3.0	1.3	-0.2	4.2	3.8
Private	3.6	4.1	2.6	1.6	3.9	1.9	1.0	-0.2	4.2	3.7
Public	5.8	3.7	4.6	2.7	-1.3	10.6	3.0	-0.3	3.8	4.5
External demand	1.9	6.2	0.9	-1.5	0.4	-2.7	-2.7	-0.9	3.6	2.2

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

	<u>2010</u>		<u>2011</u>		<u>2012</u>		<u>2013</u>		<u>2014<sup>#</sup></u>	
	\$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	27,885	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	35,636	1.6
Construction	56,531	3.3	65,484	3.4	73,445	3.6	83,288	4.0	96,205	4.4
Services	1,614,922	93.0	1,770,166	93.1	1,872,498	93.0	1,947,996	92.9	2,042,775	92.7
<i>Import/export, wholesale and retail trades</i>	<i>413,308</i>	<i>23.8</i>	<i>492,900</i>	<i>25.9</i>	<i>511,537</i>	<i>25.4</i>	<i>523,741</i>	<i>25.0</i>	<i>531,541</i>	<i>24.1</i>
<i>Accommodation<sup>(a)</sup> and food services</i>	<i>56,418</i>	<i>3.2</i>	<i>66,421</i>	<i>3.5</i>	<i>72,044</i>	<i>3.6</i>	<i>75,413</i>	<i>3.6</i>	<i>78,725</i>	<i>3.6</i>
<i>Transportation, storage, postal and courier services</i>	<i>137,941</i>	<i>7.9</i>	<i>120,034</i>	<i>6.3</i>	<i>120,609</i>	<i>6.0</i>	<i>125,465</i>	<i>6.0</i>	<i>137,658</i>	<i>6.2</i>
<i>Information and communications</i>	<i>55,024</i>	<i>3.2</i>	<i>62,952</i>	<i>3.3</i>	<i>70,866</i>	<i>3.5</i>	<i>76,145</i>	<i>3.6</i>	<i>77,761</i>	<i>3.5</i>
<i>Financing and insurance</i>	<i>283,752</i>	<i>16.3</i>	<i>305,282</i>	<i>16.1</i>	<i>319,312</i>	<i>15.9</i>	<i>345,952</i>	<i>16.5</i>	<i>365,899</i>	<i>16.6</i>
<i>Real estate, professional and business services</i>	<i>188,476</i>	<i>10.8</i>	<i>213,987</i>	<i>11.3</i>	<i>232,416</i>	<i>11.5</i>	<i>225,789</i>	<i>10.8</i>	<i>239,434</i>	<i>10.9</i>
<i>Public administration, social and personal services</i>	<i>295,257</i>	<i>17.0</i>	<i>313,585</i>	<i>16.5</i>	<i>337,678</i>	<i>16.8</i>	<i>356,326</i>	<i>17.0</i>	<i>379,837</i>	<i>17.2</i>
<i>Ownership of premises</i>	<i>184,745</i>	<i>10.6</i>	<i>195,005</i>	<i>10.3</i>	<i>208,036</i>	<i>10.3</i>	<i>219,166</i>	<i>10.4</i>	<i>231,919</i>	<i>10.5</i>
<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>2,097,785</b>	<b>100.0</b>	<b>2,203,996</b>	<b>100.0</b>
Taxes on products	68,707	--	69,401	--	63,575	--	75,314	--	83,236	--
Statistical discrepancy (%)	-1.7	--	-1.9	--	-1.9	--	-1.6	--	-1.3	--
<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>2,138,010</b>	<b>--</b>	<b>2,258,225</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</u>	<u>2014<sup>#</sup></u>	<u>2014</u>	<u>2015</u>		
							Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
Agriculture, fishing, mining and quarrying	-4.6	3.9	0.8	-3.2	4.9	-6.0	-5.6	-1.2	-0.5	-4.7
Manufacturing	-8.2	3.3	0.7	-0.8	0.1	-0.4	-3.6	-1.5	-1.2	-2.1
Electricity, gas and water supply, and waste management	1.5	-0.2	0.6	1.4	-2.9	0.8	-0.9	*	2.2	-2.3
Construction	-7.5	15.6	18.3	8.3	4.2	13.0	14.5	-5.3	14.8	2.8
Services	-1.7	6.9	5.2	1.8	2.7	2.4	2.4	2.3	1.4	1.9
<i>Import/export, wholesale and retail trades</i>	-9.5	16.7	9.1	1.9	3.3	1.2	0.8	0.4	-3.3	-0.7
<i>Accommodation<sup>(a)</sup> and food services</i>	-11.3	9.5	8.3	1.8	3.6	2.2	-0.1	-0.7	-1.1	-2.5
<i>Transportation, storage, postal and courier services</i>	-5.5	6.0	7.2	0.9	4.1	2.9	1.3	2.5	1.2	1.1
<i>Information and communications</i>	1.3	1.5	2.8	2.8	4.0	3.9	3.8	5.5	3.8	4.2
<i>Financing and insurance</i>	4.1	6.3	6.5	0.8	7.6	4.8	7.6	4.6	7.3	6.0
<i>Real estate, professional and business services</i>	1.6	2.5	2.6	3.1	-4.0	1.9	2.2	4.4	2.3	1.9
<i>Public administration, social and personal services</i>	3.0	2.2	1.8	2.1	2.5	2.5	2.2	2.3	2.0	3.2
<i>Ownership of premises</i>	0.3	0.8	0.7	1.1	0.3	0.8	0.6	0.3	0.3	0.6
Taxes on products	-4.8	6.3	-6.8	-10.4	-6.4	6.7	11.5	13.8	30.7	1.4
<b>GDP in chained (2013) dollars</b>	<b>-2.5</b>	<b>6.8</b>	<b>4.8</b>	<b>1.7</b>	<b>3.1</b>	<b>2.6</b>	<b>2.5</b>	<b>2.4</b>	<b>2.9</b>	<b>2.2</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 : Value added and employment statistics of the Four Key Industries and other selected industries**

	2011		2012		2013		2014 <sup>#</sup>		Annual percentage change (%)		
	% share		% share		% share		% share		2012	2013	2014 <sup>#</sup>
	\$Bn in total <sup>(1)</sup>		\$Bn in total <sup>(1)</sup>		\$Bn in total <sup>(1)</sup>		\$Bn in total <sup>(1)</sup>				
<u>Value added at current prices</u>											
<i>Four Key Industries</i>	1,112.8	58.5	1,166.8	58.0	1,212.5	57.8	1,267.2	57.5	4.9	3.9	4.5
Financial services	305.3	16.1	319.3	15.9	346.0	16.5	365.9	16.6	4.6	8.3	5.8
Tourism	86.2	4.5	94.6	4.7	105.9	5.0	112.5	5.1	9.7	11.9	6.2
Trading and logistics	485.4	25.5	495.4	24.6	500.5	23.9	515.7	23.4	2.0	1.0	3.0
Professional services and other producer services <sup>(2)</sup>	235.9	12.4	257.6	12.8	260.2	12.4	273.2	12.4	9.2	1.0	5.0
<i>Other selected industries<sup>(3)</sup></i>	161.2	8.5	175.9	8.7	190.6	9.1	202.1	9.2	9.1	8.3	6.0
Cultural and creative industries	89.6	4.7	97.8	4.9	106.1	5.1	109.7	5.0	9.3	8.4	3.4
Medical services	27.4	1.4	29.5	1.5	32.4	1.5	36.2	1.6	7.5	10.1	11.6
Education services	20.0	1.1	22.6	1.1	24.2	1.2	26.1	1.2	13.1	7.2	7.8
Innovation and technology	12.4	0.7	13.4	0.7	14.7	0.7	15.8	0.7	8.5	9.8	7.1
Testing and certification services	5.4	0.3	5.8	0.3	6.0	0.3	6.5	0.3	8.6	3.2	8.0
Environmental industries	6.5	0.3	6.8	0.3	7.1	0.3	7.8	0.4	3.6	5.2	9.8
<b>Nominal GDP at basic prices</b>	<b>1,901.0</b>	<b>100.0</b>	<b>2,013.0</b>	<b>100.0</b>	<b>2,097.8</b>	<b>100.0</b>	<b>2,204.0</b>	<b>100.0</b>	<b>5.9</b>	<b>4.2</b>	<b>5.1</b>

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

- (1) Refers to percentage share in nominal GDP at basic prices. Such GDP figure is slightly different from the commonly used one, i.e. valued at current market prices, in which taxes on products are included.
- (2) Other producer services refer to producer services other than financial services, tourism, trading and logistics and professional services.
- (3) The other selected industries reflect the direct contribution of these industries in the private sector only. Some of them are service domains straddling across different industries. For example, “innovation and technology” activities may exist in any industry and organisation. The term “industry” is used to denote the aggregate of the economic activities concerned for easy general understanding.
- (4) Since innovation and technology involves significant non-routine activities, persons engaged in these activities are measured by the volume of labour input to innovation and technology in full-time equivalent terms (in terms of man-years).
- (5) Figures refer to Composite Employment Estimates.
- (#) Figures are subject to revision later on as more data become available.

**Table 5 : Value added and employment statistics of the Four Key Industries and other selected industries (Cont'd)**

	<u>2011</u>		<u>2012</u>		<u>2013</u>		<u>2014<sup>#</sup></u>		<u>Annual percentage change (%)</u>		
	Number	% share	Number	% share	Number	% share	Number	% share	2012	2013	2014 <sup>#</sup>
	('000)	in total	('000)	in total	('000)	in total	('000)	in total			
<b><u>Employment</u></b>											
<i>Four Key Industries</i>	1 706.0	47.7	1 727.6	47.2	1 764.2	47.3	1 779.9	47.5	1.3	2.1	0.9
Financial services	226.3	6.3	228.8	6.3	231.7	6.2	236.5	6.3	1.1	1.3	2.1
Tourism	235.9	6.6	250.9	6.9	269.7	7.2	271.8	7.2	6.3	7.5	0.8
Trading and logistics	774.4	21.6	764.9	20.9	767.2	20.6	765.0	20.4	-1.2	0.3	-0.3
Professional services and other producer services <sup>(2)</sup>	469.4	13.1	483.0	13.2	495.6	13.3	506.6	13.5	2.9	2.6	2.2
<i>Other selected industries<sup>(3)</sup></i>	420.7	11.8	435.0	11.9	450.3	12.1	466.6	12.4	3.4	3.5	3.6
Cultural and creative industries	192.9	5.4	200.4	5.5	207.5	5.6	213.1	5.7	3.9	3.6	2.7
Medical services	76.3	2.1	79.0	2.2	82.1	2.2	87.4	2.3	3.5	4.0	6.5
Education services	70.7	2.0	73.1	2.0	74.9	2.0	76.8	2.0	3.4	2.5	2.5
Innovation and technology <sup>(4)</sup>	29.3	0.8	30.2	0.8	32.0	0.9	33.7	0.9	3.3	5.8	5.2
Testing and certification services	13.1	0.4	12.8	0.3	13.1	0.4	13.5	0.4	-2.5	2.4	3.3
Environmental industries	38.4	1.1	39.5	1.1	40.7	1.1	42.1	1.1	3.1	2.9	3.7
<b>Total employment<sup>(5)</sup></b>	<b>3 579.5</b>	<b>100.0</b>	<b>3 657.1</b>	<b>100.0</b>	<b>3 728.5</b>	<b>100.0</b>	<b>3 749.8</b>	<b>100.0</b>	<b>2.2</b>	<b>2.0</b>	<b>0.6</b>

**Table 6 : Balance of Payments by major component  
(at current prices)**

	(\$Mn)								
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014<sup>#</sup></u>	<u>2014</u>		<u>2015</u>	
						Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
Current account <sup>(a)</sup>	124,369	107,513	32,151	32,180	29,363	23,716	121	561	48,184
Goods	25,564	-58,203	-146,729	-216,592	-251,022	-50,818	-74,756	-77,871	-6,346
Services	78,789	132,681	169,760	229,129	253,564	59,530	74,943	54,128	57,113
Primary income	37,596	52,826	29,455	40,519	46,607	19,993	5,590	29,103	2,765
Secondary income	-17,580	-19,791	-20,336	-20,876	-19,786	-4,989	-5,656	-4,799	-5,348
Capital and financial account <sup>(a)</sup>	-88,838	-113,242	-67,664	-86,308	-73,785	-47,881	-27,600	-28,538	-19,769
Capital account	-4,436	-2,021	-1,433	-1,609	-748	-483	-76	176	-78
Financial account	-84,402	-111,220	-66,231	-84,699	-73,037	-47,398	-27,524	-28,714	-19,691
Financial non-reserve assets	-25,257	-24,437	122,658	-26,810	66,052	-20,736	8,763	47,941	51,829
<i>Direct investment</i>	-122,026	1,868	-102,623	-50,250	-85,718	7,721	181,512	560,529	52,962
<i>Portfolio investment</i>	-442,460	-10,979	-31,592	-386,077	-64,384	-92,756	-282,841	-395,165	-145,237
<i>Financial derivatives</i>	18,677	20,884	15,208	54,661	118,359	48,866	53,114	33,548	11,940
<i>Other investment</i>	520,552	-36,210	241,665	354,856	97,795	15,432	56,979	-150,971	132,164
Reserve assets	-59,145	-86,783	-188,889	-57,890	-139,089	-26,662	-36,288	-76,655	-71,520
Net errors and omissions	-35,530	5,729	35,513	54,128	44,422	24,165	27,479	27,977	-28,415
<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>26,662</b>	<b>36,288</b>	<b>76,655</b>	<b>71,520</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 7 : Goods and services trade  
(at current market prices)**

(\$Mn)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014<sup>#</sup></u>	<u>2015<sup>#</sup></u>	<u>2015</u>			
						Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>
Total exports of goods	3,420,076	3,591,776	3,816,390	3,877,458	3,779,245	879,271	916,423	982,454	1,001,097
Imports of goods	3,848,200	4,116,410	4,394,928	4,471,810	4,289,735	1,028,254	1,066,653	1,077,763	1,117,065
<b>Goods trade balance</b>	<b>-428,124</b> (-11.1)	<b>-524,634</b> (-12.7)	<b>-578,538</b> (-13.2)	<b>-594,352</b> (-13.3)	<b>-510,490</b> (-11.9)	<b>-148,983</b> (-14.5)	<b>-150,230</b> (-14.1)	<b>-95,309</b> (-8.8)	<b>-115,968</b> (-10.4)
Exports of services	941,178	1,003,047	1,058,289	1,077,899	1,053,623	267,510	243,789	269,640	272,684
Imports of services	438,576	455,382	467,214	481,005	486,353	118,340	117,302	123,564	127,147
<b>Services trade balance</b>	<b>502,602</b> (114.6)	<b>547,665</b> (120.3)	<b>591,075</b> (126.5)	<b>596,894</b> (124.1)	<b>567,270</b> (116.6)	<b>149,170</b> (126.1)	<b>126,487</b> (107.8)	<b>146,076</b> (118.2)	<b>145,537</b> (114.5)
Exports of goods and services	4,361,254	4,594,823	4,874,679	4,955,357	4,832,868	1,146,781	1,160,212	1,252,094	1,273,781
Imports of goods and services	4,286,776	4,571,792	4,862,142	4,952,815	4,776,088	1,146,594	1,183,955	1,201,327	1,244,212
<b>Goods and services trade balance</b>	<b>74,478</b> <1.7>	<b>23,031</b> <0.5>	<b>12,537</b> <0.3>	<b>2,542</b> <0.1>	<b>56,780</b> <1.2>	<b>187</b> < * >	<b>-23,743</b> <-2.0>	<b>50,767</b> <4.2>	<b>29,569</b> <2.4>

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 7a. 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 7a : Goods and services trade based on the change of ownership principle**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014<sup>#</sup></u>	<u>2015<sup>#</sup></u>	<u>2015</u>			
						Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>
<b><u>At current market prices (\$Mn)</u></b>									
Total exports of goods	3,406,765	3,632,957	3,926,059	3,999,030	3,921,985	909,386	938,147	1,022,546	1,051,906
Imports of goods	3,464,968	3,779,686	4,142,651	4,250,052	4,099,120	984,142	1,016,018	1,028,892	1,070,068
<b>Goods trade balance</b>	<b>-58,203</b> (-1.7)	<b>-146,729</b> (-3.9)	<b>-216,592</b> (-5.2)	<b>-251,022</b> (-5.9)	<b>-177,135</b> (-4.3)	<b>-74,756</b> (-7.6)	<b>-77,871</b> (-7.7)	<b>-6,346</b> (-0.6)	<b>-18,162</b> (-1.7)
Exports of services	710,716	764,026	812,345	826,995	808,057	213,203	192,550	203,659	198,645
Imports of services	578,035	594,266	583,216	573,431	574,142	138,260	138,422	146,546	150,914
<b>Services trade balance</b>	<b>132,681</b> (23.0)	<b>169,760</b> (28.6)	<b>229,129</b> (39.3)	<b>253,564</b> (44.2)	<b>233,915</b> (40.7)	<b>74,943</b> (54.2)	<b>54,128</b> (39.1)	<b>57,113</b> (39.0)	<b>47,731</b> (31.6)
Exports of goods and services	4,117,481	4,396,983	4,738,404	4,826,025	4,730,042	1,122,589	1,130,697	1,226,205	1,250,551
Imports of goods and services	4,043,003	4,373,952	4,725,867	4,823,483	4,673,262	1,122,402	1,154,440	1,175,438	1,220,982
<b>Goods and services trade balance</b>	<b>74,478</b> <1.8>	<b>23,031</b> <0.5>	<b>12,537</b> <0.3>	<b>2,542</b> <0.1>	<b>56,780</b> <1.2>	<b>187</b> < * >	<b>-23,743</b> <-2.1>	<b>50,767</b> <4.3>	<b>29,569</b> <2.4>
<b><u>Rates of change in real terms (%)</u></b>									
Total exports of goods	4.6	3.3	8.2	1.1	-1.2	1.1	-3.4	-2.7	0.2
Imports of goods	6.7	4.6	9.9	1.8	-2.1	0.9	-3.1	-3.7	-2.1
Exports of services	5.7	2.7	5.9	1.4	-0.3	0.8	1.9	-0.2	-3.5
Imports of services	-0.2	2.2	-2.1	-2.0	3.9	4.9	3.5	3.2	4.0

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>			
	(% change)				(% change)	(\$Mn)	Q1	Q2	Q3	Q4
							(% change over a year earlier)			
<b>All markets</b>	<b>10.1</b>	<b>2.9</b>	<b>3.6</b>	<b>3.2</b>	<b>-1.8</b>	<b>3,605,279</b>	<b>2.3</b>	<b>-1.9</b>	<b>-4.1</b>	<b>-2.9</b>
Mainland of China	9.3	6.3	4.9	1.5	-2.1	1,936,515	1.6	-3.7	-4.2	-1.7
United States	-0.4	2.3	-2.1	3.1	0.2	342,193	4.8	5.5	-2.3	-5.4
Japan	5.9	6.5	-6.1	-2.8	-6.6	122,772	-7.2	-7.1	-6.0	-6.3
India	25.6	-17.5	7.9	13.1	8.1	101,831	7.5	3.2	5.2	17.6
Vietnam	37.3	9.9	15.5	14.0	14.7	76,612	16.9	23.0	16.7	4.8
Germany	10.7	-12.8	-5.1	-1.7	-3.2	70,269	-3.4	-4.5	-1.2	-3.8
Taiwan	24.3	-5.2	-4.3	2.5	-18.0	65,029	-11.6	-21.0	-25.5	-12.8
Singapore	10.3	-0.5	4.7	2.2	-2.3	58,451	5.6	0.7	-7.7	-7.0
United Kingdom	-3.4	-6.0	-2.0	0.5	0.8	54,755	8.8	4.0	-5.0	-1.8
Republic of Korea	14.2	-4.0	9.0	-2.7	-12.8	54,380	-5.2	-14.0	-17.7	-13.9
Rest of the world	15.1	0.6	5.7	8.5	-1.2	722,471	4.9	0.7	-4.2	-5.0

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

**Table 9 : Imports of goods by source  
(in value terms)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>			
	(% change)				(% change)	(\$Mn)	Q1	Q2	Q3	Q4
							(% change over a year earlier)			
<b>All sources</b>	<b>11.9</b>	<b>3.9</b>	<b>3.8</b>	<b>3.9</b>	<b>-4.1</b>	<b>4,046,420</b>	<b>1.4</b>	<b>-3.2</b>	<b>-6.7</b>	<b>-7.0</b>
Mainland of China	10.9	8.5	5.5	2.3	-0.1	1,984,048	4.3	0.4	-2.3	-1.9
Taiwan	7.2	1.6	6.9	14.7	-8.6	274,385	-0.1	-12.1	-12.1	-8.6
Japan	3.4	-2.2	-8.1	0.9	-9.9	260,294	-2.4	-12.0	-10.9	-13.2
Singapore	7.2	-3.2	*	5.8	-5.7	245,867	-0.7	-5.4	-8.7	-8.0
United States	18.0	-3.3	7.4	*	-3.9	210,933	4.9	3.8	-7.9	-14.3
Republic of Korea	12.2	2.4	3.4	10.6	-2.0	172,085	8.9	-0.7	-0.6	-13.1
Malaysia	5.1	-6.0	4.7	16.7	-7.9	94,084	-6.0	-11.0	-4.8	-10.0
Thailand	0.3	-4.8	6.4	13.7	-3.7	84,910	-4.7	-0.4	-4.2	-5.3
India	20.6	-5.5	6.7	10.0	-13.7	82,913	-6.6	-6.5	-17.8	-22.9
Switzerland	51.7	-0.7	-1.7	2.7	-22.1	61,802	-9.9	-24.9	-21.1	-31.0
Rest of the world	20.2	5.8	3.8	0.9	-7.4	575,098	-1.9	-3.4	-14.2	-9.7

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

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

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014<sup>#</sup></u>	<u>2015<sup>#</sup></u>		<u>2015</u>			
	(% change)				(% change)		(\$Mn)	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>13.5</b>	<b>6.6</b>	<b>5.5</b>	<b>1.9</b>	<b>-2.3</b>	<b>1,053,623</b>	0.2	-0.1	-3.5	-5.1
Transportation	7.8	-0.6	-2.5	2.2	-6.8	230,839	-3.9	-7.0	-7.6	-8.5
Travel	28.4	15.8	17.7	-1.5	-6.6	277,938	-3.7	-3.4	-8.4	-10.6
Trade-related	11.0	3.9	2.1	1.9	-2.1	286,403	*	-1.6	-3.8	-2.5
Other services	10.1	9.0	4.6	5.8	7.7	258,443	8.2	15.0	6.9	1.7
<b>Imports of services</b>	<b>10.2</b>	<b>3.8</b>	<b>2.6</b>	<b>3.0</b>	<b>1.1</b>	<b>486,353</b>	<b>2.9</b>	<b>1.4</b>	<b>-0.2</b>	<b>0.6</b>
Transportation	14.3	2.3	-1.4	1.5	-3.7	137,281	-1.5	-3.0	-6.6	-3.6
Travel	9.8	5.2	5.7	3.7	3.9	177,394	6.5	1.7	3.1	4.8
Trade-related	1.1	1.7	-2.7	2.8	*	33,716	2.3	2.1	-1.3	-2.1
Other services	8.7	4.6	4.8	3.6	3.0	137,962	3.2	6.1	3.1	0.3
<b>Net exports of services</b>	<b>16.6</b>	<b>9.0</b>	<b>7.9</b>	<b>1.0</b>	<b>-5.0</b>	<b>567,270</b>	<b>-1.9</b>	<b>-1.4</b>	<b>-6.2</b>	<b>-9.6</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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014<sup>#</sup></u>	<u>2015<sup>#</sup></u>		<u>2015</u>			
	(% change)				(% change)		(\$Mn)	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>13.6</b>	<b>7.5</b>	<b>6.3</b>	<b>1.8</b>	<b>-2.3</b>	<b>808,057</b>	<b>0.2</b>	<b>0.3</b>	<b>-3.4</b>	<b>-6.0</b>
Transportation	7.8	-0.6	-2.5	2.2	-6.8	230,839	-3.9	-7.0	-7.6	-8.5
Travel	28.4	15.8	17.7	-1.5	-6.6	277,938	-3.7	-3.4	-8.4	-10.6
Other services	8.1	8.3	3.5	5.1	6.2	299,280	7.3	12.6	5.2	1.0
<b>Imports of services</b>	<b>5.7</b>	<b>2.8</b>	<b>-1.9</b>	<b>-1.7</b>	<b>0.1</b>	<b>574,142</b>	<b>1.6</b>	<b>1.0</b>	<b>-1.3</b>	<b>-0.6</b>
Transportation	14.3	2.3	-1.4	1.5	-3.7	137,281	-1.5	-3.0	-6.6	-3.6
Travel	9.8	5.2	5.7	3.7	3.9	177,394	6.5	1.7	3.1	4.8
Other services	0.1	1.9	-6.0	-6.5	-0.3	259,467	0.3	3.0	-1.2	-2.4

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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>			
						Q1	Q2	Q3	Q4	
<u>('000)</u>										
<b>All sources</b>	<b>41 921.3</b>	<b>48 615.1</b>	<b>54 298.8</b>	<b>60 838.8</b>	<b>59 307.6</b>	<b>15 420.7</b>	<b>13 906.6</b>	<b>15 097.1</b>	<b>14 883.3</b>	
Mainland of China	28 100.1	34 911.4	40 745.3	47 247.7	45 842.4	12 283.1	10 563.5	11 904.9	11 091.0	
South and Southeast Asia	3 751.1	3 651.8	3 718.0	3 614.8	3 559.1	737.0	940.3	795.4	1 086.4	
Taiwan	2 148.7	2 088.7	2 100.1	2 031.9	2 015.8	465.9	491.1	543.2	515.7	
Europe	1 801.3	1 867.7	1 893.7	1 863.3	1 829.4	450.7	438.3	396.7	543.7	
United States	1 212.3	1 184.8	1 109.8	1 130.6	1 181.0	274.5	308.9	263.9	333.7	
Japan	1 283.7	1 254.6	1 057.0	1 078.8	1 049.3	248.2	237.5	279.4	284.2	
Others	3 623.9	3 656.1	3 674.9	3 871.9	3 830.7	961.4	927.0	913.7	1 028.7	
<u>(% change over a year earlier)</u>										
<b>All sources</b>	<b>16.4</b>	<b>16.0</b>	<b>11.7</b>	<b>12.0</b>	<b>-2.5</b>	<b>4.9</b>	<b>0.5</b>	<b>-6.4</b>	<b>-8.0</b>	
Mainland of China	23.9	24.2	16.7	16.0	-3.0	7.7	1.4	-7.3	-11.9	
South and Southeast Asia	7.1	-2.6	1.8	-2.8	-1.5	-12.9	-3.4	0.5	8.3	
Taiwan	-0.7	-2.8	0.5	-3.2	-0.8	-5.1	-1.9	-2.2	6.4	
Europe	2.5	3.7	1.4	-1.6	-1.8	-6.4	-3.5	-1.9	3.8	
United States	3.5	-2.3	-6.3	1.9	4.5	3.8	4.1	0.6	8.6	
Japan	-2.5	-2.3	-15.7	2.1	-2.7	-9.5	-6.5	-2.2	7.3	
Others	5.5	0.9	0.5	5.4	-1.1	3.0	-1.0	-7.9	1.8	

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

**Table 12 : Property market**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</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)	16 579	10 471	8 776	7 157	13 405	9 449	10 149
Commercial property	291	368	390	235	189	197	226
<i>of which :</i>							
Office space	108	320	341	151	124	155	136
Other commercial premises <sup>(b)</sup>	183	48	49	84	65	42	90
Industrial property <sup>(c)</sup>	27	16	78	3	21	105	170
<i>of which :</i>							
Industrial-cum-office premises	0	0	4	0	0	0	0
Conventional flatted factory space	0	16	70	3	21	32	46
Storage premises <sup>(d)</sup>	27	0	4	0	0	73	123
<b>Production of public housing</b>							
(in units)							
Rental housing flats <sup>(e)</sup>	4 430	5 667	22 759	19 021	6 385	17 787	9 778
Subsidised sales flats <sup>(e)</sup>	0	2 010	2 200	370	1 110	0	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	706.7	900.0	530.0	546.8	570.5	580.6	796.4
Commercial property	468.4	327.5	147.7	178.3	158.4	133.6	210.2
Industrial property <sup>(f)</sup>	23.9	103.5	106.6	97.1	34.3	109.3	70.7
Other properties	199.2	207.7	212.8	253.2	459.2	232.7	428.9
Total	1 398.2	1 538.6	997.1	1 075.4	1 222.4	1 056.2	1 506.1
<b>Agreements for sale and purchase of property</b>							
(Number)							
Residential property <sup>(g)</sup>	82 472	123 575	95 931	115 092	135 778	84 462	81 333
Primary market	13 986	20 123	11 046	16 161	13 646	10 880	12 968
Secondary market	68 486	103 452	84 885	98 931	122 132	73 582	68 365
Selected types of non-residential properties <sup>(h)</sup>							
Office space	2 874	4 129	2 845	2 521	3 591	3 071	3 269
Other commercial premises	4 402	5 490	4 149	5 359	7 639	5 980	7 282
Flatted factory space	7 409	9 072	5 741	5 554	8 206	7 619	9 731

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>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>			
				Q1	Q2	Q3	Q4
<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)	8 254	15 719	11 280	853	4 217	2 862	3 348
Commercial property	161	161	233	59	92	20	61
<i>of which :</i>							
Office space	123	104	164	44	74	5	42
Other commercial premises <sup>(b)</sup>	39	57	69	16	18	16	19
Industrial property <sup>(c)</sup>	85	116	30	3	0	24	3
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	85	36	30	3	0	24	3
Storage premises <sup>(d)</sup>	0	80	0	0	0	0	0
<b>Production of public housing</b>							
(in units)							
Rental housing flats <sup>(e)</sup>	20 898	5 634	N.A.	7 870	1 710	567	N.A.
Subsidised sales flats <sup>(e)</sup>	0	0	N.A.	0	988	0	N.A.
<b>Building plans with consent to commence work in the private sector</b>							
('000 m <sup>2</sup> of usable floor area)							
Residential property	816.0	647.1	N.A.	294.9	193.5	286.4	N.A.
Commercial property	309.5	290.3	N.A.	88.3	45.5	89.1	N.A.
Industrial property <sup>(f)</sup>	138.1	105.9	N.A.	16.6	27.3	44.4	N.A.
Other properties	136.4	217.1	N.A.	134.6	120.9	35.6	N.A.
Total	1 400.1	1 260.4	N.A.	534.3	387.3	455.4	N.A.
<b>Agreements for sale and purchase of property</b>							
(Number)							
Residential property <sup>(g)</sup>	50 676	63 807	55 982	16 768	15 493	13 552	10 169
Primary market	11 046	16 857	16 826	3 743	4 989	3 488	4 606
Secondary market	39 630	46 950	39 156	13 025	10 504	10 064	5 563
Selected types of non-residential properties <sup>(h)</sup>							
Office space	1 685	1 271	1 471	413	504	330	224
Other commercial premises	4 305	3 092	2 079	557	501	703	318
Flatted factory space	4 271	3 016	3 403	934	986	778	705

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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	92.7	103.5	120.5	121.3	150.9	182.1	206.2
Office space	139.3	165.5	199.0	179.8	230.4	297.9	334.7
Shopping space	153.5	172.5	192.2	193.1	257.2	327.4	420.5
Flatted factory space	158.5	199.5	235.9	216.3	284.4	385.0	489.8
Property rental indices <sup>(b)</sup> :							
Residential flats	91.6	101.8	115.7	100.4	119.7	134.0	142.6
Office space	117.4	131.9	155.5	135.7	147.6	169.9	188.3
Shopping space	104.3	111.8	116.2	110.9	122.9	134.3	151.3
Flatted factory space	91.0	100.5	109.3	99.4	108.9	118.6	131.9
<u>(% change)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	0.8	11.7	16.4	0.7	24.4	20.7	13.2
Office space	4.7	18.8	20.2	-9.6	28.1	29.3	12.4
Shopping space	2.8	12.4	11.4	0.5	33.2	27.3	28.4
Flatted factory space	26.8	25.9	18.2	-8.3	31.5	35.4	27.2
Property rental indices <sup>(b)</sup> :							
Residential flats	5.9	11.1	13.7	-13.2	19.2	11.9	6.4
Office space	21.8	12.4	17.9	-12.7	8.8	15.1	10.8
Shopping space	3.8	7.2	3.9	-4.6	10.8	9.3	12.7
Flatted factory space	10.2	10.4	8.8	-9.1	9.6	8.9	11.2

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>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>		
				Q1	Q2	Q3 <sup>#</sup>	Q4 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	242.4	256.9	296.8	289.2	299.2	305.2	293.8
Office space	409.8	423.0	448.8	433.8	445.2	459.6	456.7
Shopping space	506.8	521.2	559.2	551.7	559.3	570.9	554.8
Flatted factory space	655.4	668.0	723.8	699.2	722.9	742.1	731.0
Property rental indices <sup>(b)</sup> :							
Residential flats	154.5	159.5	172.9	168.5	172.8	176.6	173.5
Office space	204.1	213.7	226.6	220.8	226.0	229.5	230.0
Shopping space	165.5	173.1	181.9	180.2	182.4	184.8	180.2
Flatted factory space	147.3	160.1	173.9	169.2	173.2	177.1	176.2
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	17.6	6.0	15.5	18.4	20.8	16.8	7.1
Office space	22.4	3.2	6.1	4.0	5.8	8.1	6.5
Shopping space	20.5	2.8	7.3	9.1	8.9	8.9	2.5
Flatted factory space	33.8	1.9	8.4	7.0	9.1	10.3	6.9
Property rental indices <sup>(b)</sup> :							
Residential flats	8.3	3.2	8.4	8.5	10.3	9.8	5.0
Office space	8.4	4.7	6.0	5.6	6.5	6.3	5.6
Shopping space	9.4	4.6	5.1	6.4	5.7	6.1	2.2
Flatted factory space	11.7	8.7	8.6	9.9	9.5	8.9	6.3

**Table 14 : Monetary aggregates**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	387,909	454,342	491,115	671,241	730,093	794,726	920,920
M2 <sup>(a)</sup>	2,777,679	3,281,017	3,239,857	3,587,717	3,866,788	4,046,216	4,537,384
M3 <sup>(a)</sup>	2,795,545	3,300,500	3,261,306	3,604,843	3,878,193	4,055,404	4,545,590
Total money supply (\$Mn)							
M1	491,648	616,709	645,833	901,819	1,017,227	1,127,320	1,377,359
M2	5,054,332	6,106,348	6,268,058	6,602,310	7,136,271	8,057,530	8,950,005
M3	5,089,741	6,139,758	6,300,751	6,626,843	7,156,260	8,081,079	8,970,396
Deposit (\$Mn)							
HK\$	2,568,283	3,075,042	3,033,980	3,373,595	3,617,183	3,740,240	4,176,200
Foreign currency	2,188,993	2,793,856	3,024,004	3,007,445	3,245,081	3,851,020	4,120,234
Total	4,757,275	5,868,898	6,057,984	6,381,040	6,862,265	7,591,260	8,296,434
Loans and advances (\$Mn)							
HK\$	1,917,437	2,184,705	2,354,755	2,401,323	2,824,445	3,160,002	3,333,059
Foreign currency	550,392	776,971	930,883	887,160	1,403,281	1,920,659	2,233,751
Total	2,467,828	2,961,676	3,285,638	3,288,483	4,227,726	5,080,661	5,566,810
Nominal Effective Exchange Rate Indices (Jan 2010 = 100) <sup>(b)</sup>							
Trade-weighted	111.1	106.3	100.7	101.9	99.5	94.6	94.9
Import-weighted	112.6	107.6	101.3	102.2	99.2	93.9	94.2
Export-weighted	109.6	104.8	100.1	101.6	99.8	95.4	95.6
<u>(% change)</u>							
Hong Kong dollar money supply							
M1	11.4	17.1	8.1	36.7	8.8	8.9	15.9
M2 <sup>(a)</sup>	19.2	18.1	-1.3	10.7	7.8	4.6	12.1
M3 <sup>(a)</sup>	19.2	18.1	-1.2	10.5	7.6	4.6	12.1
Total money supply							
M1	13.1	25.4	4.7	39.6	12.8	10.8	22.2
M2	15.4	20.8	2.6	5.3	8.1	12.9	11.1
M3	15.5	20.6	2.6	5.2	8.0	12.9	11.0
Deposit							
HK\$	20.5	19.7	-1.3	11.2	7.2	3.4	11.7
Foreign currency	13.0	27.6	8.2	-0.5	7.9	18.7	7.0
Total	16.9	23.4	3.2	5.3	7.5	10.6	9.3
Loans and advances							
HK\$	6.7	13.9	7.8	2.0	17.6	11.9	5.5
Foreign currency	6.9	41.2	19.8	-4.7	58.2	36.9	16.3
Total	6.7	20.0	10.9	0.1	28.6	20.2	9.6
Nominal Effective Exchange Rate Indices (Jan 2010 = 100) <sup>(b)</sup>							
Trade-weighted	-1.3	-4.3	-5.3	1.2	-2.4	-4.9	0.3
Import-weighted	-1.3	-4.4	-5.9	0.9	-2.9	-5.3	0.3
Export-weighted	-1.2	-4.4	-4.5	1.5	-1.8	-4.4	0.2

**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>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>			
				Q1	Q2	Q3	Q4	
<u>(as at end of period)</u>								
Hong Kong dollar money supply (\$Mn)								
M1	1,000,344	1,116,675	1,253,397	1,309,831	1,287,541	1,265,500	1,253,397	
M2 <sup>(a)</sup>	4,795,130	5,225,773	5,765,566	5,601,316	5,775,051	5,737,756	5,765,566	
M3 <sup>(a)</sup>	4,806,012	5,236,188	5,778,789	5,611,762	5,787,815	5,749,793	5,778,789	
Total money supply (\$Mn)								
M1	1,510,895	1,708,724	1,971,164	1,941,490	1,916,960	2,018,828	1,971,164	
M2	10,056,437	11,011,372	11,618,459	11,345,002	11,436,355	11,446,308	11,618,459	
M3	10,085,243	11,048,944	11,655,037	11,378,200	11,469,057	11,482,065	11,655,037	
Deposit (\$Mn)								
HK\$	4,390,953	4,800,330	5,312,421	5,157,194	5,337,591	5,303,602	5,312,421	
Foreign currency	4,789,109	5,272,804	5,437,347	5,245,803	5,214,208	5,355,677	5,437,347	
Total	9,180,062	10,073,135	10,749,767	10,402,997	10,551,799	10,659,279	10,749,767	
Loans and advances (\$Mn)								
HK\$	3,606,018	4,000,361	4,152,580	4,285,405	4,264,938	4,156,159	4,152,580	
Foreign currency	2,850,795	3,275,910	3,381,924	3,341,972	3,410,819	3,403,881	3,381,924	
Total	6,456,813	7,276,271	7,534,504	7,627,377	7,675,757	7,560,040	7,534,504	
Nominal Effective Exchange Rate Indices								
(Jan 2010 =100) <sup>(b)</sup>								
Trade-weighted	94.9	96.0	101.3	100.1	100.0	102.0	103.3	
Import-weighted	94.7	96.0	101.7	100.4	100.2	102.5	103.9	
Export-weighted	95.1	95.9	100.9	99.7	99.6	101.4	102.7	
<u>(% change over a year earlier)</u>								
Hong Kong dollar money supply								
M1	8.6	11.6	12.2	29.2	19.1	15.0	12.2	
M2 <sup>(a)</sup>	5.7	9.0	10.3	15.2	12.3	10.1	10.3	
M3 <sup>(a)</sup>	5.7	9.0	10.4	15.2	12.4	10.1	10.4	
Total money supply								
M1	9.7	13.1	15.4	27.5	17.7	20.3	15.4	
M2	12.4	9.5	5.5	11.8	7.9	4.9	5.5	
M3	12.4	9.6	5.5	11.8	7.9	4.9	5.5	
Deposit								
HK\$	5.1	9.3	10.7	16.0	13.3	10.8	10.7	
Foreign currency	16.2	10.1	3.1	10.6	6.4	4.3	3.1	
Total	10.7	9.7	6.7	13.2	9.8	7.5	6.7	
Loans and advances								
HK\$	8.2	10.9	3.8	14.3	9.7	6.1	3.8	
Foreign currency	27.6	14.9	3.2	8.6	7.1	3.3	3.2	
Total	16.0	12.7	3.5	11.7	8.5	4.9	3.5	
Nominal Effective Exchange Rate Indices								
(Jan 2010 =100) <sup>(b)</sup>								
Trade-weighted	0.0	1.2	5.5	5.3	4.4	6.6	6.1	
Import-weighted	0.5	1.4	5.9	5.6	4.6	7.2	6.3	
Export-weighted	-0.5	0.8	5.2	4.9	3.9	5.8	5.7	

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

(b) Period average.

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

	(%)							
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>	<u>2015</u>		
					Q4	Q1	Q2	Q3
<b>Services Industry</b>								
Import and export trade	8.9	-1.3	-0.3	0.1	-0.9	0.7	-3.9	-4.5
Wholesale	12.7	3.2	4.3	1.5	1.4	0.3	-2.9	-5.8
Retail	24.9	9.8	11.0	-0.2	0.2	-2.3	-0.9	-4.8
Transportation	4.4	0.9	1.4	6.1	4.0	1.8	-3.8	-7.0
<i>within which :</i>								
Land transport	7.0	11.9	8.0	6.9	3.5	6.3	5.0	1.9
Water transport	0.6	-2.4	-2.9	6.8	6.1	1.7	-4.6	-11.0
Air transport	6.7	0.3	2.4	5.3	2.9	0.5	-6.1	-7.2
Warehousing and storage	9.4	25.2	8.2	11.9	18.8	13.1	12.8	11.4
Courier	17.3	16.1	26.1	5.4	8.3	-3.8	-3.3	-7.0
Accommodation services <sup>(a)</sup>	19.6	13.8	5.6	6.5	-1.4	-4.8	-10.9	-11.1
Food services	6.4	5.0	3.5	3.5	1.8	3.7	4.9	3.5
Information and communications	8.8	9.3	6.0	5.9	15.2	11.0	12.2	11.3
<i>within which :</i>								
Telecommunications	8.1	14.7	8.0	10.7	21.8	24.4	23.7	18.1
Film entertainment	-5.6	1.9	-4.3	-11.7	-11.0	-0.5	-3.1	-3.4
Banking	10.8	9.4	16.8	5.9	3.1	7.2	27.8	0.3
Financing (except banking)	-2.4	1.6	2.6	6.7	14.8	23.2	44.7	4.5
<i>within which :</i>								
Financial markets and asset management	-3.2	1.7	1.0	8.9	19.2	21.6	48.6	5.4
<i>within which : Asset management</i>	10.6	-5.4	14.9	11.0	19.2	17.4	16.0	-0.4
Insurance	9.4	13.6	15.1	18.2	14.1	15.3	10.9	8.4
Real estate	-0.9	11.8	0.1	17.0	18.1	15.9	13.4	4.8
Professional, scientific and technical services	7.3	-0.5	7.2	7.6	9.4	9.0	3.8	4.4
Administrative and support services	10.2	8.2	9.5	7.3	2.5	6.9	7.7	6.6
<b>Services Domain</b>								
Tourism, convention and exhibition services	23.8	15.1	17.8	-0.9	-2.8	-5.0 <sup>+</sup>	-4.2 <sup>+</sup>	-7.1 <sup>+</sup>
Computer and information technology services	10.4	15.1	2.1	-1.8	-0.6	-4.3	-6.6	-4.0

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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>+</sup></u>	<u>2015</u>			
						Q1	Q2	Q3	Q4
<u>(%)</u>									
Labour force participation rate	60.1	60.5	61.2	61.1	61.4	61.5	61.4	61.4	61.1
Seasonally adjusted unemployment rate <sup>(a)</sup>	3.4	3.3	3.4	3.3	3.3	3.3	3.2	3.3	3.3
Underemployment rate	1.7	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.4
<u>('000)</u>									
Population of working age	6 164.4	6 253.4	6 304.6	6 349.2	6 400.5	6 386.2	6 387.2	6 407.8	6 420.9
Labour force	3 703.1	3 785.2	3 858.8	3 876.4	3 926.9	3 928.4	3 921.5	3 932.1	3 925.5
Persons employed	3 576.4	3 660.7	3 728.0	3 749.2	3 798.2	3 801.1	3 791.6	3 796.2	3 803.9
Persons unemployed	126.7	124.5	130.8	127.2	128.7	127.3	129.9	135.8	121.6
Persons underemployed	63.3	57.6	58.2	56.5	54.0	53.5	55.6	53.4	53.5
<u>(% change over a year earlier)</u>									
Population of working age	1.2	1.4	0.8	0.7	0.8	0.9	0.6	0.8	0.8
Labour force	2.0	2.2	1.9	0.5	1.3	2.7	1.6	0.7	0.5
Persons employed	2.9	2.4	1.8	0.6	1.3	2.6	1.6	0.7	0.6
Persons unemployed	-19.4	-1.8	5.1	-2.7	1.2	7.2	1.8	0.8	-0.8
Persons underemployed	-12.7	-9.0	1.1	-3.0	-4.3	10.6	-4.2	-6.2	-14.7

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

(+) Provisional figures.

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

Selected major industries	2010	2011	2012	2013	2014	2014			2015		
	(% change)					Dec	Mar	Jun	Sep		
						(% change over a year earlier)					(No.)
Manufacturing	-4.5	-5.6	-5.1	-3.0	-1.2	-2.1	-3.1	-2.6	-3.0	99 601	
Construction sites (manual workers only)	9.6	13.2	13.8	11.2	4.4	7.8	16.9	16.4	8.3	93 745	
Import and export trade	0.9	-0.3	-1.1	-0.2	0.1	0.8	-0.6	-1.5	-1.6	483 950	
Wholesale	1.2	*	-0.6	-2.0	-0.3	-0.7	-1.0	-1.9	-1.7	61 465	
Retail	3.3	4.0	2.5	2.3	2.2	1.4	0.6	-0.7	-0.3	268 890	
Food and beverage services	3.7	6.6	1.6	0.9	2.4	3.3	1.1	0.1	-0.1	242 790	
Accommodation services <sup>(a)</sup>	1.5	5.8	9.2	5.0	3.2	*	-0.4	-1.7	-0.8	39 514	
Transportation, storage, postal and courier services	1.5	2.0	1.8	2.0	2.7	2.9	2.8	1.1	1.6	178 172	
Information and communications	1.3	3.4	5.6	5.1	2.7	1.9	1.2	1.4	0.7	105 498	
Financing and insurance	4.8	6.3	1.9	1.0	2.3	1.8	2.8	2.7	2.4	219 781	
Real estate	4.1	8.0	4.2	1.6	0.6	1.8	2.2	2.2	2.3	129 688	
Professional and business services (excluding cleaning and similar services)	2.2	4.2	3.4	4.5	2.7	1.5	2.6	2.7	2.8	281 811	
Cleaning and similar services	13.7	9.5	3.3	1.6	0.2	0.3	2.9	2.8	2.8	81 257	
Education	3.4	1.5	2.4	2.8	4.4	6.0	5.0	3.5	4.1	192 504	
Human health services	3.0	4.1	4.9	5.2	4.3	4.6	4.6	4.5	4.7	116 755	
Residential care and social work services	1.8	1.3	2.0	0.5	0.6	2.4	2.7	2.4	2.6	60 500	
Arts, entertainment, recreation and other services	5.0	2.8	0.6	1.6	5.9	6.4	2.3	1.9	0.4	127 638	
Civil service <sup>(b)</sup>	0.5	0.7	1.1	1.3	1.0	0.6	0.5	0.6	0.6	164 044	
Others <sup>(c)</sup>	3.1	-0.6	-5.1	3.5	3.1	0.8	-1.3	-1.6	-0.4	11 036	

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> Dec	Mar	<u>2015</u> Jun	Sep
<u>(Number)</u>									
Building sites									
Private sector	28 620	31 780	37 687	41 308	44 024	44 971	47 272	48 769	50 256
Public sector <sup>(a)</sup>	11 463	12 335	10 578	9 860	11 212	14 219	15 662	15 275	15 110
Sub-total	40 083	44 115	48 265	51 168	55 236	59 190	62 934	64 044	65 366
Civil engineering sites									
Private sector	1 544	1 250	1 410	1 322	1 414	1 140	1 418	2 117	1 505
Public sector <sup>(a)</sup>	13 714	17 270	21 621	26 813	26 145	26 013	27 526	26 647	26 874
Sub-total	15 258	18 520	23 030	28 135	27 559	27 153	28 944	28 764	28 379
<b>Total</b>	<b>55 341</b>	<b>62 635</b>	<b>71 295</b>	<b>79 303</b>	<b>82 795</b>	<b>86 343</b>	<b>91 878</b>	<b>92 808</b>	<b>93 745</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-0.5	11.0	18.6	9.6	6.6	5.3	8.2	16.7	10.1
Public sector <sup>(a)</sup>	11.5	7.6	-14.2	-6.8	13.7	67.5	78.3	53.8	26.9
Sub-total	2.6	10.1	9.4	6.0	8.0	15.6	20.0	23.8	13.5
Civil engineering sites									
Private sector	-4.6	-19.0	12.8	-6.2	7.0	-27.8	-5.9	32.9	6.3
Public sector <sup>(a)</sup>	39.5	25.9	25.2	24.0	-2.5	-4.6	11.9	0.9	-2.5
Sub-total	33.3	21.4	24.4	22.2	-2.0	-5.9	10.9	2.7	-2.0
<b>Total</b>	<b>9.6</b>	<b>13.2</b>	<b>13.8</b>	<b>11.2</b>	<b>4.4</b>	<b>7.8</b>	<b>16.9</b>	<b>16.4</b>	<b>8.3</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		
						Q4	Q1	Q2	Q3
<b>(in nominal terms)</b>									
Manufacturing	2.3	7.7	8.2	3.3	5.3	6.5	6.3	5.0	4.6
Import/export and wholesale trade	2.0	12.8	4.6	3.3	2.8	2.6	3.5	4.6	3.9
Retail trade	3.9	12.0	10.1	6.7	4.2	3.0	4.0	3.7	3.5
Transportation, storage, postal and courier services	4.0	4.1	1.2	5.4	3.3	2.3	3.1	4.8	5.5
Accommodation <sup>(a)</sup> and food service activities	3.4	9.5	6.2	6.7	5.2	4.7	5.7	5.8	5.8
Information and communications	2.5	7.5	8.2	5.4	5.1	5.0	5.1	5.9	4.0
Financial and insurance activities	6.5	12.4	4.7	4.6	6.3	4.0	4.3	5.1	3.6
Real estate activities	1.8	10.8	7.7	5.9	4.7	5.4	4.5	5.5	5.1
Professional and business services	2.2	2.1	4.7	7.1	6.9	7.0	6.7	5.6	4.5
Social and personal services	-2.4	3.2	7.6	3.6	1.6	0.9	8.4	4.0	8.7
<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>3.9</b>	<b>4.8</b>	<b>4.6</b>	<b>4.5</b>
<b>(in real terms)</b>									
Manufacturing	0.1	2.1	3.9	-0.8	0.8	1.3	1.8	2.0	2.2
Import/export and wholesale trade	-0.3	7.2	0.4	-1.0	-1.6	-2.4	-0.9	1.5	1.5
Retail trade	1.5	6.3	5.7	2.3	-0.2	-1.9	-0.4	0.7	1.1
Transportation, storage, postal and courier services	1.6	-1.2	-2.7	1.0	-1.1	-2.6	-1.2	1.7	3.1
Accommodation <sup>(a)</sup> and food service activities	1.0	4.1	2.0	2.3	0.7	-0.3	1.2	2.7	3.3
Information and communications	0.1	2.2	4.0	1.0	0.6	-0.1	0.7	2.8	1.6
Financial and insurance activities	4.1	7.0	0.5	0.4	1.8	-1.0	-0.1	2.0	1.1
Real estate activities	-0.4	5.2	3.6	1.4	0.2	0.3	0.1	2.4	2.6
Professional and business services	*	-3.1	0.7	2.6	2.3	1.8	2.2	2.5	2.1
Social and personal services	-4.6	-2.1	3.6	-0.8	-2.7	-3.9	3.8	1.0	6.1
<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>-1.1</b>	<b>0.4</b>	<b>1.6</b>	<b>2.1</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**

(%)

Selected industry section	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>	<u>2015</u>		
						Dec	Mar	Jun	Sep
<b>(in nominal terms)</b>									
Manufacturing	-1.0	6.7	4.3	4.7	4.9	5.6	4.4	3.6	4.4
Import/export, wholesale and retail trades	2.7	7.7	4.5	2.9	2.5	3.0	3.0	3.3	3.1
Transportation	1.1	4.1	3.3	3.9	4.8	4.9	4.9	4.6	4.1
Accommodation <sup>(a)</sup> and food service activities	2.5	9.4	7.9	5.7	4.7	4.4	5.4	5.5	5.2
Financial and insurance activities <sup>(b)</sup>	2.9	6.7	4.2	4.4	3.2	3.8	3.4	3.0	3.3
Real estate leasing and maintenance management	2.6	8.7	7.6	9.3	4.5	2.0	2.2	3.9	4.1
Professional and business services	3.4	12.9	6.5	5.9	6.7	6.2	4.9	7.4	7.4
Personal services	3.6	10.0	9.2	6.2	7.8	7.1	7.9	6.3	5.6
<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>4.2</b>	<b>4.1</b>	<b>4.6</b>	<b>4.4</b>
<b>(in real terms)</b>									
Manufacturing	-3.6	0.9	0.6	-0.2	-1.6	-1.2	-2.0	-0.7	2.2
Import/export, wholesale and retail trades	-0.2	2.4	0.6	-1.7	-4.0	-3.7	-3.3	-1.1	1.0
Transportation	-1.6	-1.2	-0.7	-0.6	-2.0	-1.8	-1.6	0.2	1.9
Accommodation <sup>(a)</sup> and food service activities	-0.4	3.9	3.8	1.1	-1.8	-2.3	-1.1	1.1	3.1
Financial and insurance activities <sup>(b)</sup>	0.3	1.4	0.1	*	-3.7	-2.9	-2.9	-1.4	1.2
Real estate leasing and maintenance management	-0.4	3.5	3.4	4.5	-1.9	-4.6	-4.1	-0.5	2.0
Professional and business services	0.6	7.0	2.2	1.4	*	-0.6	-1.5	2.9	5.2
Personal services	0.7	4.2	5.3	1.5	1.0	0.2	1.3	1.8	3.4
<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>-2.5</b>	<b>-2.3</b>	<b>0.1</b>	<b>2.3</b>

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

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

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

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

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

(HK\$)

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

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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

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

(HK\$)

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

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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

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

(%)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
GDP deflator	-0.5	3.1	1.3	-0.4	0.3	3.9	3.5	1.8
Domestic demand deflator	1.6	2.4	2.6	-0.8	2.2	4.5	4.2	1.4
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	2.0	2.0	4.3	0.5	2.4	5.3	4.1	4.3
CPI(A)	1.7	1.3	3.6	0.4	2.7	5.6	3.6	5.1
CPI(B)	2.1	2.2	4.6	0.5	2.3	5.2	4.3	4.1
CPI(C)	2.2	2.7	4.7	0.6	2.1	5.1	4.1	3.8
Unit Value Indices :								
Domestic exports	-2.1	0.8	5.1	-0.2	5.4	5.7	2.4	2.5
Re-exports	1.1	2.4	3.8	1.2	4.6	8.0	3.4	1.3
Total exports of goods	1.0	2.3	3.8	1.1	4.7	8.0	3.4	1.3
Imports of goods	2.1	2.3	4.4	-0.1	6.4	8.1	3.3	0.9
Terms of Trade Index	-1.1	0.1	-0.5	1.3	-1.7	-0.1	0.1	0.4
Producer Price Index for all manufacturing industries <sup>(b)</sup>	2.2	3.0	5.6	-1.7	6.0	8.3	0.1	-3.1
Tender Price Indices :								
Public sector building projects	5.0	20.1	41.9	-15.9	12.5	11.6	8.3	6.6
Public housing projects	11.2	19.7	30.8	-6.8	6.7	10.1	6.4	9.3

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.

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

(--) Not applicable.

N.A. Not yet available.

(^) Average annual rate of change for the 10-year period 2004-2014.

(~) Average annual rate of change for the 5-year period 2009-2014.

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

(%)

	<u>2014</u>	<u>2015</u>	<u>2015</u>				Average annual rate of change:	
			Q1	Q2	Q3	Q4	10 years	5 years
							2005 to 2015	2010 to 2015
GDP deflator <sup>#</sup>	2.9	3.9	4.5	4.6	3.7	3.0	2.0	3.2
Domestic demand deflator <sup>#</sup>	3.1	2.2	2.6	2.4	2.0	1.9	2.3	3.1
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	4.4	3.0	4.4	3.0	2.3	2.4	3.2	4.2
CPI(A)	5.6	4.0	6.5	4.2	2.8	2.7	3.3	4.8
CPI(B)	4.2	2.8	3.9	2.7	2.3	2.4	3.2	4.1
CPI(C)	3.5	2.1	2.6	1.9	1.8	2.1	3.1	3.7
Unit Value Indices :								
Domestic exports	0.2	-3.0	-1.5	-2.7	-4.3	-3.3	1.6	1.5
Re-exports	2.0	0.1	2.1	1.4	-0.4	-2.1	2.8	2.9
Total exports of goods	2.0	0.1	2.0	1.3	-0.4	-2.1	2.7	2.9
Imports of goods	1.9	-0.4	0.9	0.6	-0.7	-2.1	2.9	2.7
Terms of Trade Index	0.1	0.5	1.1	0.7	0.3	*	-0.1	0.2
Producer Price Index for all manufacturing industries <sup>(b)</sup>	-1.7	N.A.	-0.6	-2.8	-4.4	N.A.	--	1.8~
Tender Price Indices :								
Public sector								
building projects	7.3	N.A.	6.8	6.9	5.8	N.A.	9.0 <sup>^</sup>	9.2~
Public housing projects	8.0	N.A.	8.6	6.8	N.A.	N.A.	9.9 <sup>^</sup>	8.1~

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

(%)

	Weight	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>All items</b>	<b>100.00</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>	<b>4.1</b> <b>(4.7)</b>
Food	27.45	1.7	4.3	10.1	1.3	2.4	7.0	5.8
<i>Meals bought away from home</i>	17.07	1.3	2.5	5.9	1.6	1.7	5.2	5.4
<i>Food, excluding meals bought away from home</i>	10.38	2.5	7.1	16.8	0.9	3.5	9.9	6.5
Housing <sup>(a)</sup>	31.66	4.7	2.0	4.1	3.7	0.4	7.2	5.6
<i>Private housing rent</i>	27.14	5.6	4.0	6.8	3.6	0.9	7.2	6.8
<i>Public housing rent</i>	2.05	0.1	-17.7	-27.2	9.5	-7.8	11.9	-7.1
Electricity, gas and water	3.10	2.1	-0.7	-6.5	-25.3	43.3	-4.2	-8.2
Alcoholic drinks and tobacco	0.59	-3.7	-1.2	0.1	18.7	3.4	17.1	3.0
Clothing and footwear	3.45	1.0	4.1	0.8	2.7	1.8	6.8	3.1
Durable goods	5.27	-6.4	-4.7	-2.0	-3.0	-2.7	-3.8	-1.4
Miscellaneous goods	4.17	1.7	2.5	5.0	2.3	2.4	3.8	2.2
Transport	8.44	0.7	-0.1	2.5	-0.9	2.0	4.4	3.0
Miscellaneous services	15.87	1.9	1.7	0.8	-2.1	2.0	3.5	2.8

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>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>				Average annual rate of change:	
					Q1	Q2	Q3	Q4	10 years 2005 to 2015	5 years 2010 to 2015
<b>All items</b>	<b>100.00</b>	<b>4.3</b> <b>(4.0)</b>	<b>4.4</b> <b>(3.5)</b>	<b>3.0</b> <b>(2.5)</b>	<b>4.4</b> <b>(2.7)</b>	<b>3.0</b> <b>(2.5)</b>	<b>2.3</b> <b>(2.4)</b>	<b>2.4</b> <b>(2.4)</b>	<b>3.2</b> <b>(-)</b>	<b>4.2</b> <b>(4.0)</b>
Food	27.45	4.4	4.1	4.0	4.0	3.7	4.2	4.1	4.5	5.1
<i>Meals bought away from home</i>	17.07	4.4	4.6	4.3	4.4	4.3	4.3	4.0	3.7	4.8
<i>Food, excluding meals bought away from home</i>	10.38	4.4	3.4	3.5	3.3	2.8	4.0	4.1	5.8	5.5
Housing <sup>(a)</sup>	31.66	6.7	6.7	5.1	8.2	4.2	4.1	4.0	4.6	6.3
<i>Private housing rent</i>	27.14	6.3	6.0	4.6	6.8	3.8	3.9	4.3	5.2	6.2
<i>Public housing rent</i>	2.05	16.0	18.3	10.9	29.0	10.0	6.4	0.1	-0.4	9.6
Electricity, gas and water	3.10	6.9	14.9	8.5	21.5	22.8	-4.6	-0.9	1.7	3.2
Alcoholic drinks and tobacco	0.59	1.5	6.5	1.3	4.3	-0.1	0.3	0.8	4.4	5.7
Clothing and footwear	3.45	1.7	0.9	-1.7	-0.8	-2.7	-1.9	-1.3	2.1	2.1
Durable goods	5.27	-4.3	-3.4	-5.6	-5.5	-5.7	-5.6	-5.4	-3.7	-3.7
Miscellaneous goods	4.17	2.2	2.3	1.0	1.2	1.3	0.6	1.0	2.5	2.3
Transport	8.44	2.3	2.0	-0.2	-0.1	-0.4	-0.4	-0.1	1.5	2.3
Miscellaneous services	15.87	3.7	3.0	1.1	0.8	1.4	1.1	0.9	1.8	2.8

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

(%)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Private consumption expenditure	0.9	4.1	2.5	-1.4	1.4	3.6	3.2
Government consumption expenditure	0.1	2.2	4.4	0.7	-0.2	4.5	6.2
Gross domestic fixed capital formation	4.2	-2.1	1.7	0.3	5.8	6.8	6.4
Total exports of goods	0.3	2.2	3.4	0.5	4.6	7.7	3.1
Imports of goods	2.1	1.7	4.1	-1.3	6.3	8.2	3.8
Exports of services	3.6	2.5	3.4	-7.0	7.4	7.6	4.3
Imports of services	0.8	3.0	3.8	-2.7	5.6	6.4	1.9
<b>Gross Domestic Product</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>	<b>3.5</b>
Total final demand	1.1	2.3	3.1	-1.1	4.3	6.7	3.6
Domestic demand	1.6	2.4	2.6	-0.8	2.2	4.5	4.2

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>2013</u>	<u>2014<sup>#</sup></u>	<u>2015<sup>#</sup></u>	<u>2015</u>				Average annual rate of change:	
				Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	10 years 2005 to 2015 <sup>#</sup>	5 years 2010 to 2015 <sup>#</sup>
Private consumption expenditure	2.7	2.9	1.0	1.7	1.3	0.5	0.7	2.1	2.7
Government consumption expenditure	4.3	4.6	4.4	4.7	4.5	4.4	4.2	3.1	4.8
Gross domestic fixed capital formation	-2.9	3.1	4.6	5.1	4.8	5.7	3.4	2.7	3.5
Total exports of goods	-0.3	0.8	-0.8	0.6	0.2	-1.1	-2.6	2.1	2.1
Imports of goods	-0.4	0.9	-1.6	-0.1	-0.8	-2.1	-3.1	2.3	2.1
Exports of services	0.6	0.8	-1.6	-0.2	-1.1	-2.6	-2.5	2.1	2.3
Imports of services	1.1	1.0	-3.8	-3.2	-2.4	-4.7	-4.6	1.7	1.3
<b>Gross Domestic Product</b>	<b>1.8</b>	<b>2.9</b>	<b>3.9</b>	<b>4.5</b>	<b>4.6</b>	<b>3.7</b>	<b>3.0</b>	<b>2.0</b>	<b>3.2</b>
Total final demand	0.4	1.5	*	1.2	0.8	-0.4	-1.2	2.2	2.4
Domestic demand	1.4	3.1	2.2	2.6	2.4	2.0	1.9	2.3	3.1

