



# Half-yearly Economic Report 2016

Government of the Hong Kong  
Special Administrative Region

# ***HALF-YEARLY ECONOMIC REPORT 2016***

ECONOMIC ANALYSIS DIVISION  
ECONOMIC ANALYSIS AND BUSINESS FACILITATION UNIT  
FINANCIAL SECRETARY'S OFFICE  
GOVERNMENT OF THE  
HONG KONG SPECIAL ADMINISTRATIVE REGION

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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

- *The Hong Kong economy regained some momentum in the second quarter of 2016, growing modestly by 1.7% in real terms over a year earlier, up from 0.8% in the preceding quarter. This was largely underpinned by a pick-up in goods exports. On a seasonally adjusted quarter-to-quarter basis, real GDP rebounded distinctly by 1.6% in the second quarter, reversing the 0.5% decline in the preceding quarter.*
- *Global economic growth was still slow in the second quarter, yet reflected some relative improvement from the disappointing start of the year. Regional trade flows also showed initial signs of stabilisation. The UK vote in late June in favour of leaving the EU caused a temporary large sell-off in the global financial markets and worsened the already subdued global outlook, but had little impact on the wider European and global economy in so far as the second quarter is concerned. Against this background, Hong Kong's total exports of goods resumed modest growth in the second quarter, after declining for four consecutive quarters. Meanwhile, exports of services also saw a slightly narrower decline, reflecting reduced drag from the slowdown in inbound tourism and regional trade and cargo flows.*
- *On the domestic front, private consumption expenditure still grew slightly in the second quarter. Meanwhile, the decline in investment expenditure narrowed notably, thanks to the pick-up in overall building and construction works, though private sector machinery and equipment acquisition was still subdued.*
- *The labour market remained remarkably resilient. The seasonally adjusted unemployment rate held unchanged at 3.4% in the second quarter. Wages and earnings sustained further growth. Total employment grew modestly, but signs of slackening labour demand in the trade- and consumption-related sectors continued to be a cause for concern.*
- *The local stock market remained rather volatile in the second quarter, but the range of fluctuation narrowed compared to the preceding quarter. While the UK vote in favour of leaving the EU surprised global financial markets in late June, equity markets stabilised quickly after a brief jittery period. Residential property market activity also rebounded during the second quarter from its low, with prices showing a small increase.*

- *Underlying inflation eased back in the second quarter, thanks to largely moderate local cost pressure and the absence of imported inflation. Looking ahead, barring any unforeseen fluctuations in international energy and food prices, consumer price inflation is expected to remain benign in the near term.*

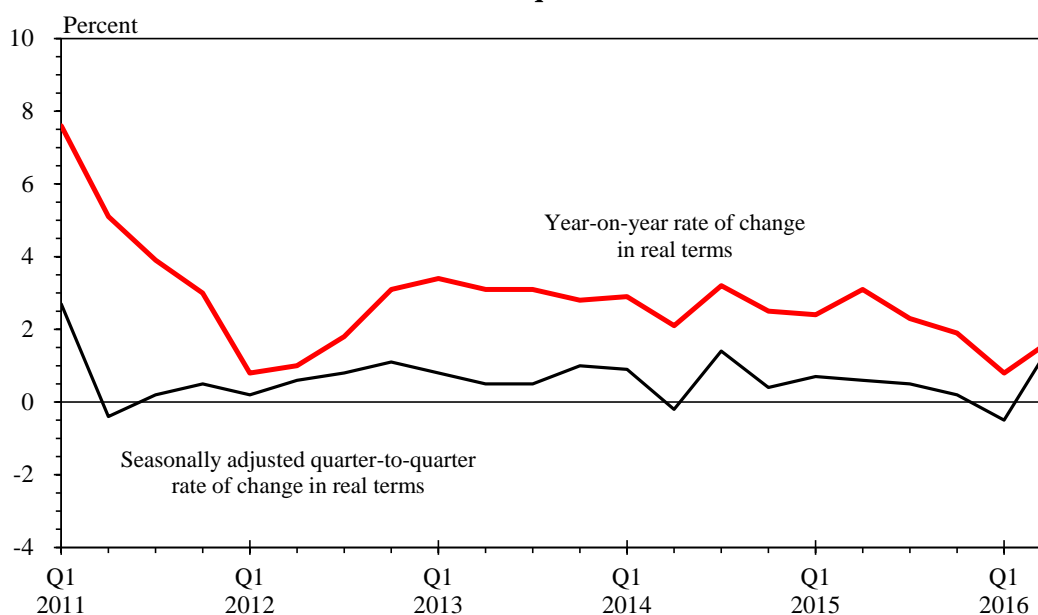
## **Overall situation**

1.1 The Hong Kong economy regained some momentum in the second quarter of 2016, improving from its sluggish performance in the preceding quarter. Global economic activities picked up somewhat relative to the first quarter, notwithstanding the lingering uncertainties associated with the US interest rate normalisation, monetary policy divergence of major central banks, and geopolitical tensions in various parts of the world. The US economy grew slightly faster in the second quarter after a slow start to the year, while the euro area economy expanded moderately. Meanwhile, the Mainland economy sustained steady growth in the second quarter, underpinned by solid domestic demand expansion. The downward pressures on production and trading activities in Asia therefore lessened. Yet, the outcome of the UK vote in favour of leaving the EU in late June surprised global financial markets, causing a brief period of financial jitters. The unexpected event has cast a shadow over the already subdued global outlook, but its impact on the global economy has so far been limited.

1.2 Against this backdrop, Hong Kong's goods exports rebounded modestly in real terms in the second quarter, after experiencing four consecutive quarters of year-on-year decline. Services exports also saw a slightly narrower year-on-year decline, mainly reflecting the stabilisation of regional trade and cargo flows and reduced drag from the slowdown in inbound tourism. Locally, private consumption expenditure still grew slightly notwithstanding relatively cautious economic sentiment, while the decline in investment spending narrowed notably. Labour market conditions also held broadly stable in overall terms, with the unemployment rate staying at a relatively low level. Underlying consumer price inflation eased, alongside modest local cost pressure and the absence of external price pressure.

1.3 In the second quarter of 2016, *Gross Domestic Product (GDP)*<sup>(1)</sup> grew by 1.7% in real terms over a year earlier, up from the 0.8% growth in the preceding quarter (unchanged from the earlier estimate). For the first half of 2016 as a whole, real GDP expanded by 1.2% year-on-year, following the 2.4% growth in 2015. On a seasonally adjusted quarter-to-quarter basis<sup>(2)</sup>, real GDP rebounded more distinctly by 1.6% in the second quarter of 2016, reversing the 0.5% decline in the preceding quarter (revised from the earlier estimate of 0.4%).

**Diagram 1.1 : The Hong Kong economy regained some momentum in the second quarter of 2016**



## **The external sector**

1.4 *Total exports of goods* compiled under the GDP accounting framework reverted to 2.0% growth in real terms in the second quarter over a year earlier, in contrast to the 3.6% decline in the preceding quarter. Among the advanced markets, exports to the EU rebounded, partly offsetting the continued declines in exports to the US and Japan. Exports to the Mainland reverted to modest growth. Exports to some higher-income Asian economies such as Taiwan and Korea picked up, and those to India registered further double-digit growth. On a seasonally adjusted basis, exports of goods bounced back strongly by 3.3% in real terms in the second quarter over the preceding quarter.

1.5 *Exports of services* extended their decline in the second quarter, but fell at a slightly smaller year-on-year rate of 4.6% in real terms, after a 5.0% drop in the preceding quarter. Exports of travel services saw a narrower decline, reflecting a milder drop in visitor arrivals. Meanwhile, exports of trade-related services staged a slight rebound, and exports of transportation services declined at a softer pace, mirroring some relative improvement in regional trade and cargo flows. On the other hand, exports of financial and other business services registered a larger year-on-year decline, affected by the slowdown in cross-border financial and fund-raising activities and the high base of comparison created by the strong double-digit growth in the second quarter of last year. On a seasonally adjusted quarter-to-quarter basis, exports of services recorded a much narrower decline of 0.2% in real terms in the second quarter.



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

	<u>2014</u>	<u>2015</u>	<u>2015</u>				<u>2016</u>	
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>+</sup>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	3.3	4.7	5.0 (1.3)	6.8 (1.6)	4.4 (*)	2.7 (-0.1)	1.2 (-0.2)	0.6 (0.9)
Government consumption expenditure	3.0	3.4	3.9 (1.0)	3.6 (0.8)	2.8 (0.5)	3.3 (1.0)	3.3 (1.0)	3.4 (0.8)
Gross domestic fixed capital formation	-0.1	-2.0	5.6	3.9	-6.2	-9.4	-9.6	-4.9
<i>of which :</i>								
Building and construction	9.3	2.9	-3.9	14.1	4.2	-0.9	0.2	3.9
Machinery, equipment and intellectual property products	-8.6	-5.8	10.4	-4.7	-10.7	-12.9	-11.9	-11.3
Total exports of goods	0.8	-1.9	0.2 (-1.9)	-3.8 (-2.4)	-3.1 (0.5)	-0.5 (2.3)	-3.6 (-3.9)	2.0 (3.3)
Imports of goods	0.9	-2.7	-0.2 (-2.6)	-3.3 (-2.4)	-4.2 (-0.8)	-2.8 (2.0)	-5.4 (-4.2)	0.2 (3.5)
Exports of services	1.1	-0.2	0.7 (0.6)	1.6 (-0.8)	-0.2 (-1.1)	-2.7 (-1.4)	-5.0 (-1.9)	-4.6 (-0.2)
Imports of services	1.8	5.7	6.7 (1.8)	5.1 (1.9)	5.5 (0.2)	5.4 (1.4)	4.9 (1.4)	1.1 (-2.0)
<b>Gross Domestic Product</b>	<b>2.7</b>	<b>2.4</b>	<b>2.4</b> <b>(0.7)</b>	<b>3.1</b> <b>(0.6)</b>	<b>2.3</b> <b>(0.5)</b>	<b>1.9</b> <b>(0.2)</b>	<b>0.8</b> <b>(-0.5)</b>	<b>1.7</b> <b>(1.6)</b>
<i>Change in the main price indicators (%)</i>								
<b>GDP deflator</b>	<b>2.9</b>	<b>3.6</b>	<b>4.3</b> <b>(1.2)</b>	<b>4.2</b> <b>(1.0)</b>	<b>3.4</b> <b>(0.1)</b>	<b>2.8</b> <b>(0.4)</b>	<b>2.3</b> <b>(0.7)</b>	<b>2.0</b> <b>(0.7)</b>
<b>Composite CPI</b>								
<b>Headline</b>	<b>4.4</b>	<b>3.0</b> <sup>@</sup>	<b>4.4</b> <b>(0.3)</b> <sup>@</sup>	<b>3.0</b> <b>(-0.6)</b> <sup>@</sup>	<b>2.3</b> <b>(-0.1)</b> <sup>@</sup>	<b>2.3</b> <sup>@</sup> <b>(2.7)</b> <sup>@</sup>	<b>2.8</b> <sup>@</sup> <b>(0.7)</b> <sup>@</sup>	<b>2.6</b> <sup>@</sup> <b>(-0.7)</b> <sup>@</sup>
<b>Underlying</b> <sup>^</sup>	<b>3.5</b>	<b>2.5</b> <sup>@</sup>	<b>2.7</b> <b>(0.3)</b> <sup>@</sup>	<b>2.5</b> <b>(0.6)</b> <sup>@</sup>	<b>2.4</b> <b>(0.5)</b> <sup>@</sup>	<b>2.2</b> <sup>@</sup> <b>(0.9)</b> <sup>@</sup>	<b>2.8</b> <sup>@</sup> <b>(0.7)</b> <sup>@</sup>	<b>2.3</b> <sup>@</sup> <b>(0.2)</b> <sup>@</sup>
<b>Change in nominal GDP (%)</b>	<b>5.6</b>	<b>6.2</b>	<b>6.8</b>	<b>7.5</b>	<b>5.8</b>	<b>4.8</b>	<b>3.1</b>	<b>3.8</b>

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

(#) Revised figures.

(+) Preliminary figures.

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

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

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

(@) By reference to the new 2014/15-based CPI series.

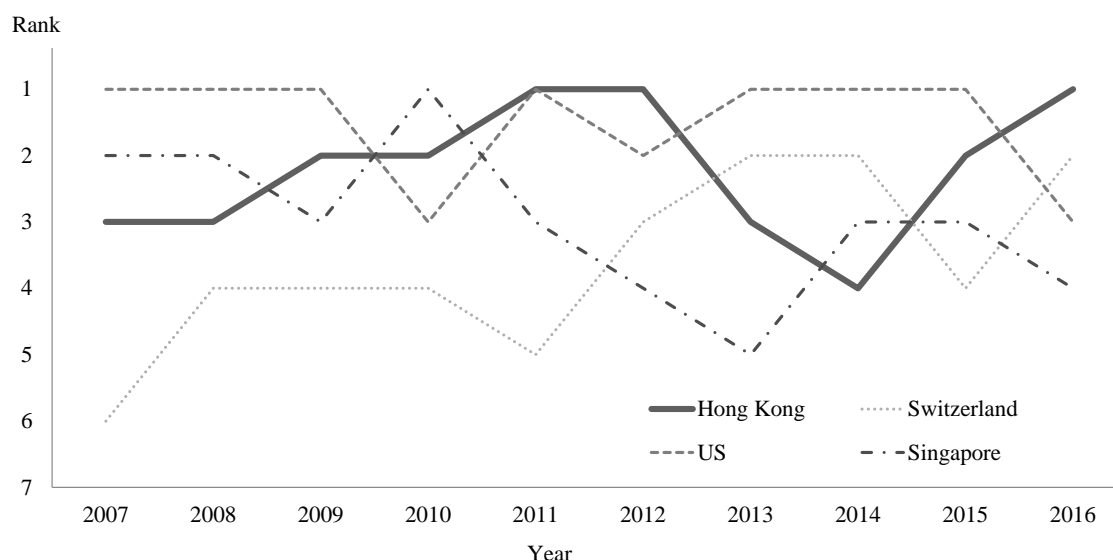
## Box 1.1

### Competitiveness of the Hong Kong economy

On 30 May, the International Institute for Management Development (IMD) published the World Competitiveness Yearbook (WCY) 2016, assessing the competitiveness of 61 economies worldwide. In the report, Hong Kong is again ranked as the world's most competitive economy<sup>(1)</sup>, improving from the fourth place two years ago. Taking advantage of the release of IMD WCY, this article attempts to briefly analyse Hong Kong's competitiveness in the context of the global economy.

Competitiveness can cover many aspects with studies having different foci, but in the broadest sense it is generally considered as the economy's ability to generate prosperity in a sustainable manner. The competitiveness of an economy depends on the interplay of a wide spectrum of factors, including such structural factors as the economy's natural endowment, physical infrastructure, and regulatory regime. Data on actual economic performance such as trade flows and inflation also reflect the competitiveness situation, though the data for individual years could be affected by many cyclical factors. It is hence a natural consequence that, barring some extreme shocks, the competitiveness of an economy should show a steady trend over time, but with some fluctuations in the short term. The performance of the top four economies in IMD WCY 2016 over the past decade is a useful showcase (*Chart 1*). Although the ups and downs in business cycles may have affected these economies' rankings year-to-year, all of them have managed to stay in the top tier over an extended period of time.

Chart 1 : Rankings of selected economies in the past decade in IMD WCY



Source: IMD World Competitiveness Yearbook (2007-2016).

Studying the underlying components of IMD WCY reveals that each of these highly competitive economies has its own receipt to prosperity (*Table 1*). IMD WCY measures four competitiveness factors and each of them in turn consists of five sub-factors, measuring competitiveness in a total of 20 specific areas. Among the four competitiveness factors, Hong Kong fares exceptionally well in “Government efficiency” and “Business efficiency”, thanks mainly to our steadfast adherence to fiscal discipline and persistent effort in building a favourable business environment with robust financial system. Switzerland and Singapore, being small open economies like Hong Kong, likewise feature “Government efficiency” and

(1) Hong Kong was ranked top for the first time in 2011 and 2012, see *Chart 1*.

**Box 1.1 (Cont'd)**

“Business efficiency” as their comparative advantages, but also show some strengths in innovation and technology. On the other hand, the US counts more on the sheer size of its economy as well as its unparalleled edge in scientific infrastructure. Indeed, given the different backgrounds and natural constraints, each of these economies pursues its unique route of economic development, and hence has developed its own distinctive strengths.

**Table 1 : Detailed rankings of selected economies in IMD WCY 2016**

	<u>Hong Kong</u>	<u>Switzerland</u>	<u>US</u>	<u>Singapore</u>
<b>Overall</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
Economic Performance	5	10	1	4
● <i>Domestic Economy</i>	19	9	1	13
● <i>International Trade</i>	2	17	12	1
● <i>International Investment</i>	2	4	1	5
● <i>Employment</i>	13	17	10	4
● <i>Prices</i>	60	51	35	52
Government Efficiency	1	2	25	3
● <i>Public Finance</i>	1	5	49	4
● <i>Fiscal Policy</i>	2	7	29	8
● <i>Institutional Framework</i>	6	1	22	2
● <i>Business Legislation</i>	1	14	13	3
● <i>Societal Framework</i>	25	5	27	19
Business Efficiency	1	3	7	5
● <i>Productivity &amp; Efficiency</i>	7	5	4	10
● <i>Labour Market</i>	1	16	25	8
● <i>Finance</i>	1	3	2	6
● <i>Management Practices</i>	2	3	14	17
● <i>Attitudes and Values</i>	1	8	21	4
Infrastructure	21	3	1	8
● <i>Basic Infrastructure</i>	14	8	5	9
● <i>Technological Infrastructure</i>	14	9	3	1
● <i>Scientific Infrastructure</i>	26	4	1	13
● <i>Health and Environment</i>	17	4	16	25
● <i>Education</i>	13	9	24	4

Note: Each of the sub-factors carries the same weight (i.e. 5%) in the overall results.

Source: IMD World Competitiveness Yearbook 2016.

### **Box 1.1 (Cont'd)**

With the various routes to prosperity, the exact ranking results of different competitiveness league tables could vary due to the differences in emphasis and methodology. For instance, the latest Global Competitiveness Report (GCR) published by the World Economic Forum (WEF) gives a similar assessment that Hong Kong's strengths are the flexible goods and labour markets as well as robust financial system. However, as WEF GCR puts greater emphasis on innovation when measuring competitiveness of the developed economies, Hong Kong only ranked 7<sup>th</sup> in its overall ranking, while Switzerland, Singapore and the US took the first three spots. As a separate matter, the Chinese Academy of Social Sciences has been conducting an annual study that compares the various aspects of competitiveness across Chinese cities for years. In its latest issue, Hong Kong is ranked first in terms of sustainability and second in terms of general economic competitiveness, as the latter focuses on the size and growth pace of economic activities in the cities.

While each of these competitiveness rankings has its own assessment framework and hence different ranking results, reading across these rankings could serve as a first step to understand the strengths and weaknesses of the Hong Kong economy relative to other advanced economies, and in turn provide insights for policy formulation. To this end, the Government would strive to uphold Hong Kong's prevailing competitive edges that have been earned through conscientious efforts over the years, including simple tax regime with low tax rates, free and open markets, rule of law and clean society, as well as a business-friendly environment. Also, in recent years, the Government has already rolled out a series of measures to cultivate a favourable ecosystem for innovative activities and startups to flourish, including the provision of the necessary financial and land resources. In fact, according to figures released by InvestHK, there were 1 558 local startups as of August 2015, representing an increase of 46% over a year ago.

Enhancing competitiveness is always an ongoing task, a part and parcel of the Government's effort in promoting economic development. In the midst of keen competition in an era of globalisation, we must step up our effort to broaden economic base and move our industries up the value chain, so as to maintain Hong Kong's competitiveness in the global arena and our leading position as a key metropolitan city in the world.

## The domestic sector

1.6 The domestic sector saw some improvement in the second quarter. *Private consumption expenditure* grew slightly by 0.6% in real terms in the second quarter over a year earlier, as compared to the 1.2% growth in the preceding quarter. The slower growth mainly reflected the difference in the timing of the Easter holidays between this year and last year, which resulted in a notable deceleration in residents' expenditure abroad in the second quarter. Although consumption sentiment was affected by various economic uncertainties, the broadly stable labour market continued to render support. On a seasonally adjusted basis, private consumption expenditure actually bounced back by 0.9% in the second quarter over the preceding quarter. *Government consumption expenditure* maintained steady growth at 3.4% year-on-year in real terms in the second quarter.

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

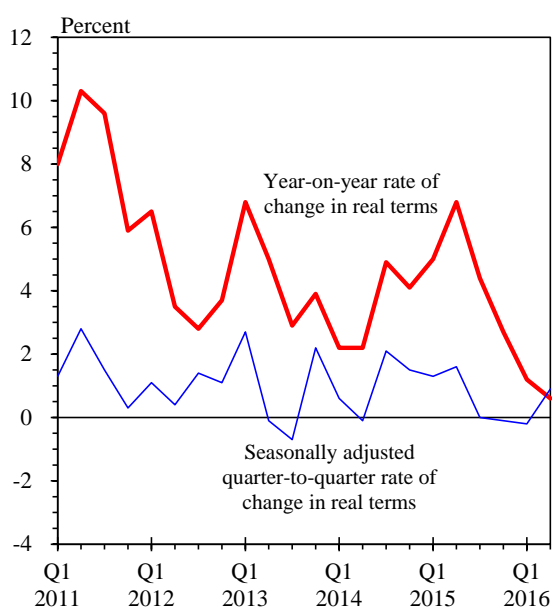
	Total consumer spending in the domestic market <sup>(a)</sup>	<i>Of which :</i>						
		Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure <sup>(b)</sup>
2015 Annual	2.5	2.4	8.8	-1.0	2.8	13.1	-3.8	4.7
H1	3.9	3.3	14.5	*	3.7	12.5	-2.1	5.9
H2	1.1	1.4	3.8	-2.0	1.9	13.6	-5.3	3.5
Q1	2.8	4.0	9.5	-0.3	2.6	11.6	-3.3	5.0
Q2	5.0	2.7	22.0	0.3	4.7	13.4	-0.8	6.8
Q3	2.1	1.4	7.6	-0.7	2.2	14.8	-3.8	4.4
Q4	0.2	1.3	1.1	-3.2	1.6	12.4	-6.7	2.7
2016								
H1	-2.0	0.8	-18.5	-2.5	1.0	9.0	-11.9	0.9
Q1	-2.8	-1.8	-18.7	-3.5	1.2	16.3	-13.9	1.2
Q2	-1.2	2.9	-18.2	-1.5	0.8	2.2	-9.7	0.6

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

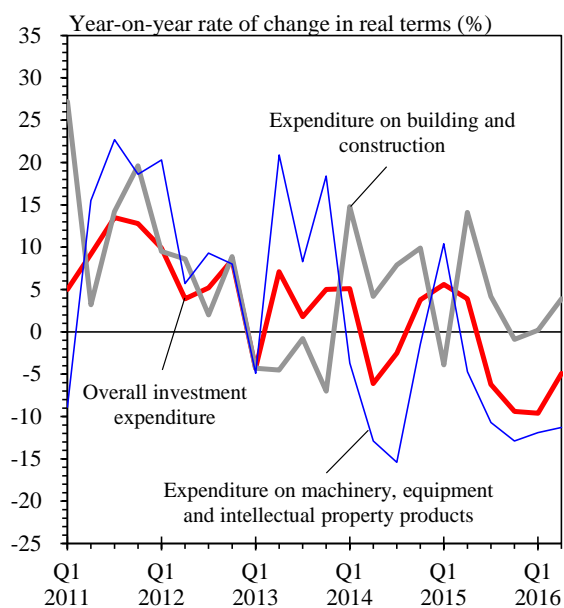
(b) Private consumption expenditure is obtained by deducting visitor spending from the total consumer spending in the domestic market, and adding back residents' expenditure abroad.

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

**Diagram 1.2 : Cautious sentiment still weighed on private consumption expenditure**



**Diagram 1.3 : Investment spending saw a narrower decline**



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* declined by a lesser extent, at 4.9% year-on-year in real terms in the second quarter, representing a visible relative improvement after two quarters of near double-digit decline. This was mainly due to a pick-up in overall building and construction expenditure, which grew by 3.9% year-on-year, as public infrastructure works fell at a notably decelerated pace, while private sector building works sustained visible growth. In contrast, private sector machinery and equipment acquisition remained on the downtrend, plunging by 13.1%, reflecting cautious business sentiment amid subdued global economic outlook. Indeed, the latest Quarterly Business Tendency Survey and the consultation on small and medium-sized enterprises (SMEs) (see **Box 1.2** for details of the consultation on SMEs) both indicated that business sentiment in many economic sectors weakened recently.

## Box 1.2

### 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 400 SMEs. This note provides a further update of the results reported in *Box 1.1* in the *First Quarter Economic Report 2016*.

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. From the June 2016 round onwards, SMEs are asked to report whether they have credit need, in addition to whether the access to credit is tight. While the findings should be interpreted with considerable caution given the coverage and nature of the consultation exercise, they can serve as a rough indicator to enable high frequency monitoring of SMEs' situation.

Business receipts of the SMEs consulted, as measured by the set of diffusion indices, suggested that the overall situation weakened visibly in recent months and enterprises surveyed generally turned more cautious about the outlook (*Table 1*), conceivably reflecting dimmer global economic prospects after the UK vote in favour of leaving the EU in late June. The overall index fell distinctly from 45.9 in May to 41.0 in June, the lowest level since October 2014, before moving up slightly to 43.6 in July. Most sectors registered readings below the boom-bust mark of 50.0. Specifically, the diffusion indices for the import/export trade and logistics sectors declined visibly since April, before stabilising somewhat in July. Meanwhile, the readings for the retail and wholesale trades remained subdued. The reading for real estate displayed large fluctuations in recent months, but bounced back to the 50.0 neutral mark in July, alongside some rebound in property market activity during the second quarter. As to the employment situation, the feedback from SMEs suggested slightly weaker demand for labour in recent months, which warrants close monitoring (*Table 2*).

For the import/export trade sector in particular, SMEs' views on new export orders were sought separately to help gauge the likely export performance in the near term. The diffusion index on new export orders deteriorated distinctly from 47.7 in May to 41.4 in June, before moving somewhat higher to 44.9 in July, partly reflecting the increased uncertainties in the external environment after the UK vote and the still-sluggish external demand conditions (*Table 3*).

Starting in June, as mentioned above, the questions on access to credit have been enhanced for better understanding of the current credit need and credit access situation of SMEs. It is observed that 8.9% of SMEs reported current need for credit in July, among which 69.8% reported easy to fair access to credit, thanks mainly to the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes. Meanwhile, 9.2% of those SMEs having a credit need reported tight credit access, and 20.9% did not apply for credit (*Table 4*).

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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 1.2 (Cont'd)

**Table 1 : Diffusion indices<sup>^</sup> on business receipts**

	2015						2016						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
<i>Local segments</i>													
Restaurants	49.2	46.8	46.7	42.5	43.3	48.3	41.5	45.7	46.6	44.0	41.4	40.2	49.2
Real estate	50.0	38.3	33.3	41.4	36.2	43.1	41.4	50.0	55.2	46.6	53.4	43.8	50.0
Retail trade	44.1	45.0	43.9	47.7	41.9	44.7	42.2	48.5	41.9	38.8	44.2	37.2	39.7
Wholesale trade	38.9	41.7	38.9	41.7	50.0	47.2	38.9	44.4	32.4	32.4	35.3	38.9	41.7
Business services	46.8	46.8	56.5	50.0	48.4	48.4	45.2	51.7	51.7	50.0	51.8	48.5	45.6
<i>External segments</i>													
Import/export trade	49.6	46.9	47.3	46.0	46.0	46.9	46.4	45.0	49.1	50.9	46.3	41.4	44.0
Logistics	44.1	40.6	46.9	46.9	50.0	50.0	50.0	50.0	46.7	46.7	46.4	37.5	39.5
<b>All the above sectors*</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>	<b>47.2</b>	<b>46.8</b>	<b>45.7</b>	<b>45.9</b>	<b>41.0</b>	<b>43.6</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**

	2015						2016						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
<i>Local segments</i>													
Restaurants	50.0	50.0	50.0	49.2	49.2	50.8	50.0	47.4	50.0	50.9	48.3	45.9	50.0
Real estate	48.3	51.7	45.0	51.7	46.6	46.6	43.1	50.0	51.7	50.0	50.0	50.0	46.1
Retail trade	48.6	49.5	50.0	50.0	50.0	50.0	51.0	48.5	50.0	47.4	49.5	48.7	48.3
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	51.6	51.6	51.6	50.0	48.4	54.8	48.4	48.3	50.0	50.0	50.0	48.5	48.5
<i>External segments</i>													
Import/export trade	49.6	48.2	50.0	50.0	48.2	49.1	49.1	48.2	49.5	50.5	49.5	48.8	48.7
Logistics	52.9	50.0	50.0	50.0	50.0	50.0	50.0	50.0	46.7	43.3	50.0	50.0	44.7
<b>All the above sectors*</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>	<b>48.6</b>	<b>49.8</b>	<b>49.4</b>	<b>49.6</b>	<b>48.8</b>	<b>48.4</b>

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

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

	2015						2016						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Import/export trade	48.7	47.4	47.3	46.9	47.3	49.1	46.8	46.8	49.5	48.6	47.7	41.4	44.9

**Table 4 : Percentage of SMEs with current credit need and their views on credit access<sup>&</sup>**

	2016	
	Jun	Jul
All selected sectors* with current credit need	13.0	8.9
<i>Of which:</i>		
Reported easy access to credit	28.0	31.4
Reported fair access to credit	39.7	38.4
Reported tight access to credit	9.6	9.2
Did not apply for credit	22.8	20.9

Notes : (&) The questions on access to credit have been enhanced for better understanding of the current credit need and credit access situation of SMEs. Hence, the results presented in this table are not comparable to those presented in previous reports. It should be noted that the assessment of credit access situation might display great fluctuations from month to month given the small number of SMEs involved, as a great majority of SMEs reported “no credit need” and some did not apply for credit despite having such need; thus the results should be interpreted with caution.

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



## **The labour sector**

1.8 The labour market remained largely stable in overall terms, with the *seasonally adjusted unemployment rate* unchanged at 3.4% in the second quarter. The *underemployment rate* also held steady at 1.4%. Wages and earnings remained on the rise. Total employment sustained a modest year-on-year growth in the second quarter. Yet, the labour demand in the trade- and consumption-related sectors showed further signs of slackening, mirroring the lack of growth in external trade, weakness in inbound tourism and softer local consumer spending.

## **The asset markets**

1.9 The *local stock market* was still rather volatile in the second quarter, but the range of fluctuation was narrower than in the first quarter. In tandem with many overseas stock markets, it saw larger swings immediately after the unexpected outcome of the UK vote in late June. Yet the Hang Seng Index stabilised quickly thereafter and closed the second quarter at 20 794, 0.1% higher than at end-March. Average daily turnover went down to \$62.6 billion in the second quarter, from \$72.7 billion in the preceding quarter. Total equity funds raised also slowed further compared with the preceding quarter amid generally cautious investment sentiment. Nevertheless, Hong Kong still ranked first among the major stock exchanges in the world in terms of the amount of funds raised through initial public offering in the first half of 2016.

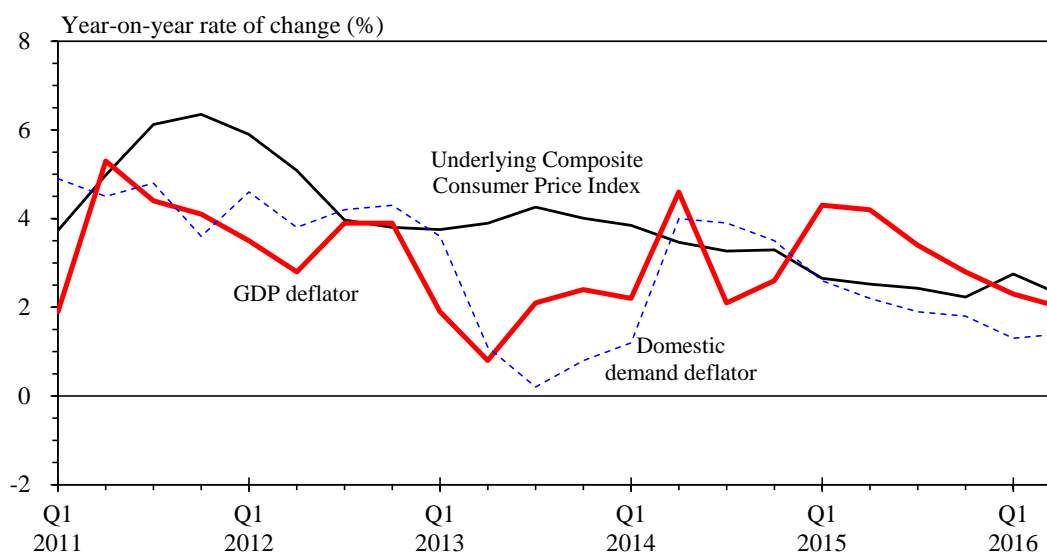
1.10 The *residential property market* rebounded somewhat in the second quarter, especially in terms of trading activity, after undergoing a period of consolidation since the fourth quarter of 2015. Trading turned more active in the second quarter but remained low by historical standards, with the number of residential property transactions at 13 700, up from a low of 6 221 in the preceding quarter. Residential property prices rebounded slightly by 2% between March and June, but were still down by 10% from the peak in 2015. Nonetheless, overall flat prices in June still surpassed the 1997 peak by 59% and the housing affordability ratio stayed elevated at around 56% in the second quarter. During the second quarter, flat rentals went up by 1%, while shop and office rentals showed little change.

## Inflation

1.11 Consumer price inflation eased back in the second quarter. Domestic price pressures were kept at bay amid subpar local economic performance. The private housing rental component of the underlying Composite Consumer Price Index and prices of basic foodstuffs registered milder year-on-year increases. Meanwhile, imported inflation was basically absent, thanks to still-low international food and commodity prices and muted inflation in Hong Kong's major import partners. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, *underlying composite consumer price inflation* eased from 2.8% in the first quarter to 2.3% in the second quarter. For the first half of 2016 as a whole, underlying inflation averaged 2.5%, similar to that in 2015. *Headline consumer price inflation* also edged lower to 2.6% in the second quarter, from 2.8% in the preceding quarter. Headline inflation averaged 2.7% in the first half of 2016, moderating further from 3.0% in 2015.

1.12 The year-on-year rate of increase in the *GDP deflator* also slowed, to 2.0% in the second quarter. Broken down into components, the domestic demand deflator rose modestly, while the terms of trade improved only marginally.

**Diagram 1.4 : Consumer price inflation eased in the second quarter**



Note : The year-on-year rates of change of the Composite Consumer Price Index from the fourth quarter of 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series.

## **GDP by major economic sector**

1.13 Net output of the services sector as a whole expanded in real terms at a slower year-on-year pace of 1.5% in the first quarter of 2016, after the 1.9% growth in the fourth quarter of 2015, largely mirroring the slowdown in the overall economy. Net output of wholesale and retail trades weakened distinctly, while accommodation and food services relapsed to a decline, alongside the protracted slowdown in inbound tourism and weakening local consumption. Import and export trade, as well as transportation and storage, saw moderation in growth in the first quarter, as the external environment deteriorated. Net output of real estate, which mainly reflects activity of private sector developers and property agencies, continued to fall alongside property market consolidation in the first quarter. Financing and insurance, and professional and business services registered slower growth, while information and communications picked up in activity in the first quarter. As for the secondary sector, net manufacturing output remained on the downtrend. Meanwhile, activity in the construction sector fell further in the quarter, amid a notable drop in expenditure on large-scale public infrastructure works.

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

	<u>2015</u>	<u>2015</u>				<u>2016</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	-1.5	-1.5	-1.2	-2.1	-1.3	-0.3
Construction	2.0	-5.3	14.8	3.0	-2.3	-1.4
Services <sup>(b)</sup>	1.9	2.3	1.6	1.9	1.9	1.5
Import/export, wholesale and retail trades	-1.1	*	-3.6	-0.5	-0.7	-2.1
Import and export trade	-0.8	0.1	-4.9	-0.1	0.8	0.3
Wholesale and retail trades	-2.2	-0.4	1.4	-2.5	-6.1	-10.7
Accommodation <sup>(c)</sup> and food services	-0.9	-0.5	-1.1	-2.6	0.4	-0.7
Transportation, storage, postal and courier services	1.9	2.4	1.1	1.1	3.0	2.8
Transportation and storage	2.4	2.8	1.4	1.5	3.7	3.0
Postal and courier services	-6.0	-4.6	-4.7	-6.8	-7.6	-1.3
Information and communications	4.0	5.0	4.6	3.5	2.9	3.3
Financing and insurance	6.3	4.9	7.9	6.1	6.2	5.5
Real estate, professional and business services	2.2	4.3	2.1	1.7	1.0	1.1
Real estate	1.4	3.5	2.6	1.4	-1.8	-0.3
Professional and business services	3.0	5.1	1.7	1.9	3.3	2.5
Public administration, social and personal services	2.6	2.3	2.0	3.3	2.9	2.6

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

- (a) The GDP figures shown in this table are compiled from the production approach, in parallel with those shown in Table 1.1 which are compiled from the expenditure approach. For details, see Note (1) to this chapter.
- (b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity.
- (c) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.
- (\*) Change within  $\pm 0.05\%$ .

## **Other economic developments**

1.14 Hong Kong was ranked as the world's most competitive economy in the International Institute for Management Development World Competitiveness Yearbook 2016, moving up from the second place last year. In particular, Hong Kong continued to rank first in terms of government efficiency and business efficiency, recognising the Government's commitment to upholding a favourable business environment, encouraging innovation through low and simple taxation, and maintaining the free flow of capital. Separately, Hong Kong was ranked second globally for the second consecutive year in terms of foreign direct investment inflows, according to the United Nations Conference on Trade and Development World Investment Report 2016, affirming Hong Kong's role as an international business hub for foreign and Mainland companies.

1.15 In regard to expanding trade ties with new markets along the Belt and Road, the inaugural Belt and Road Summit, jointly organised by the Government and Hong Kong Trade Development Council, was held in Hong Kong in May. Insights into the opportunities brought about by the Belt and Road Initiative were shared. Hong Kong's unique advantages in the areas of professional services and financial services, and its pivotal role in people-to-people exchanges and co-operation with the Mainland in tapping markets were highlighted. In June, the Government announced that a steering committee will be set up to formulate strategies and policies for Hong Kong's participation in the Belt and Road Initiative. A Belt and Road Office will also be established to take forward related studies and co-ordinate work among the Government and other organisations. Besides, the Hong Kong Monetary Authority launched the Infrastructure Financing Facilitation Office (IFFO) in early July, with a view to providing a platform for pooling the efforts of investors, banks and the financial sector to offer comprehensive financial services and facilitate investment in infrastructure projects in countries along the Belt and Road.

1.16 The Government also continued to actively forge economic ties with other overseas markets. In April, Hong Kong and Latvia signed a comprehensive agreement for the avoidance of double taxation. This should offer added incentives for Latvian companies to do business and invest in Hong Kong. In May, the Government announced that Hong Kong will soon commence separate free trade agreement negotiations with Georgia and the Maldives, which will facilitate the tapping of emerging markets with growth potential by Hong Kong companies. A Memorandum of Understanding (MOU) pledging mutual co-operation in investment promotion exchanges and best practices was signed between Hong Kong and Indonesia in the same month, which will help strengthen bilateral economic and trade ties and expand investment flows between the two places. An MOU was also signed with Austria to enhance co-operation in technology start-ups ecosystems.

1.17 On financial development, the Mainland's Ministry of Finance announced in June its plans to issue sovereign bonds totalling RMB28 billion in Hong Kong this year, reinforcing Hong Kong's status as the global RMB offshore business hub. The first batch of RMB14 billion was issued to institutional investors in late June, while the remaining RMB14 billion will be issued in the second half of the year. Separately, the Financial Services Development Council released a report in May, providing recommendations for Hong Kong to consolidate its position as a leading hub for the provision of green finance and investment.

**Notes :**

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

## CHAPTER 2 : THE EXTERNAL SECTOR

### *Summary*

- *Global economic growth was still lacklustre in the second quarter, though improved slightly from the preceding quarter. The US economy, after a disappointing start of the year, gathered some steam in the second quarter, while the moderate expansion in the euro area economy continued. The surprise outcome of the UK referendum heightened the volatility in the global financial markets in late June, but its fallout on the real economy remains to be seen. Economic growth in the Mainland held largely steady, mainly supported by the sustained domestic demand expansion. Against this background, the downward pressures on trading and production activities in Asia eased somewhat.*
- *Hong Kong's merchandise exports fared better in the second quarter, growing modestly year-on-year in real terms<sup>(1)</sup>, having declined in the preceding four quarters. Exports to the Mainland and some major Asian markets reverted to positive growth, and those to the advanced markets also showed some relative improvement.*
- *Exports of services were still weak, though showed a slightly narrower year-on-year decline in the second quarter. The fall in exports of travel services tapered somewhat, helped by a smaller decline in visitor arrivals. Exports of trade-related and transportation services improved slightly, mirroring the relative improvement in trade and cargo flows in the region. However, exports of financial and other business services saw a visibly larger year-on-year decline, due in part to a high base of comparison, while the uncertain global economic outlook was also not conducive to cross-border financial and commercial activities.*
- *The inaugural Belt and Road Summit, jointly organised by the Government and Hong Kong Trade Development Council, was held in May to explore co-operation opportunities and the unique role that Hong Kong could play in the Belt and Road Initiative. In the same month, a memorandum of understanding between Hong Kong and Indonesia was signed, pledging mutual co-operation on investment promotion exchanges and best practices. Separately, Hong Kong's foreign direct investment inflows ranked the second largest among the world economies in 2015, signifying the important status of Hong Kong as a business hub for foreign and Mainland companies.*



## Goods trade

### *Total exports of goods*

2.1 Compared to the rocky start of the year, the external trading environment stabilised somewhat in the second quarter of 2016, putting less downward pressures on Asia's trading and production activities. Hong Kong's *merchandise exports* (comprising re-exports and domestic exports) reverted to a modest growth of 1.4% in real terms in the second quarter over a year earlier, compared with the 4.2% decline in the first quarter. On a seasonally adjusted quarter-to-quarter basis, merchandise exports rebounded distinctly by 6.8% in the second quarter, after falling by 5.9% in the preceding quarter.

2.2 The global economy, though still rather weak, improved slightly in the second quarter. After a soft start early this year, the US economy regained some momentum in the second quarter, driven mainly by the pick-up in consumer spending and exports. Economic activity in the euro area continued to expand moderately, partly supported by the exceptional level of monetary policy accommodation. In contrast, Japan's economy remained lacklustre, in part due to the disruptions from the severe earthquakes in Kyushu. Consumer spending in Japan also stayed weak, prompting its government to postpone the planned consumption tax hike further. Elsewhere in Asia, the Mainland economy was still on track for attaining the official growth target this year in the face of the external headwinds, although the growth pace was slightly lower than in the previous year. Amid the relative stabilisation of the global trading environment, many Asian economies saw narrower year-on-year rates of declines in goods exports in US dollar terms in the second quarter.

2.3 However, export prospects in the near term remain uncertain. The UK voted in favour of leaving the EU (Brexit) in the referendum in late June (see **Box 2.1** for details). Global stock markets, after facing large sell-off immediately after the referendum result, stabilised shortly afterwards. However, its repercussions on the real economy are yet to be seen. As the negotiations between the UK and the EU on their future economic relationship would take time to complete, the associated uncertainties would inevitably cast a shadow over the global economic outlook. In July, the International Monetary Fund lowered its baseline global economic growth forecast for 2016 to 3.1%, the same as that in 2015, mainly in light of the uncertainties related to Brexit.

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

	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>
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
2016 Q1	-6.8	-4.2 (-5.9)	-2.6	-6.7	-4.0 (-6.0)	-2.6	-15.2	-12.1 (-3.9)	-3.2
Q2	-1.2	1.4 (6.8)	-2.2	-0.9	1.6 (7.0)	-2.2	-16.8	-14.7 (-4.2)	-2.1

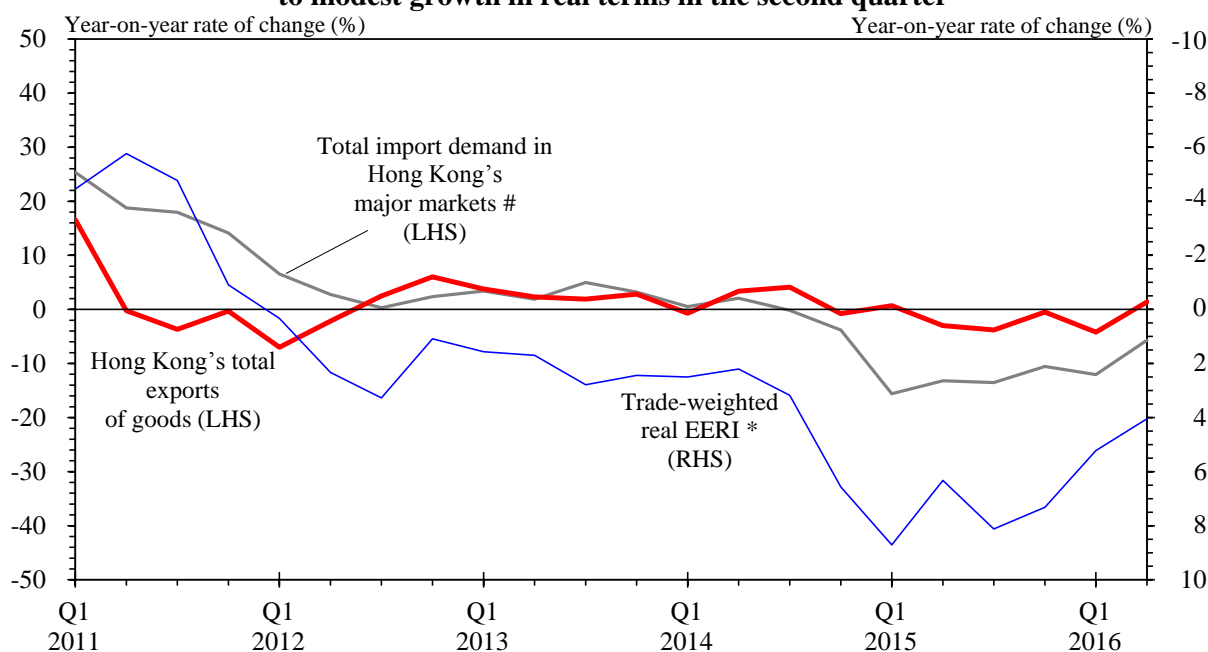
Notes : ( ) Seasonally adjusted quarter-to-quarter rate of change.

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

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

2.4 *Re-exports*<sup>(2)</sup>, the mainstay of overall merchandise exports and accounting for 98.8% of total exports by value, reverted to a slight year-on-year growth of 1.6% in real terms in the second quarter, after a fall of 4.0% in the preceding quarter. *Domestic exports*, constituting the remaining 1.2% of total exports, continued to fall notably by 14.7% year-on-year during the quarter, a widened fall compared with that of 12.1% in the preceding quarter.

**Diagram 2.1 : Merchandise exports fared better and reverted to modest growth in real terms in the second quarter**

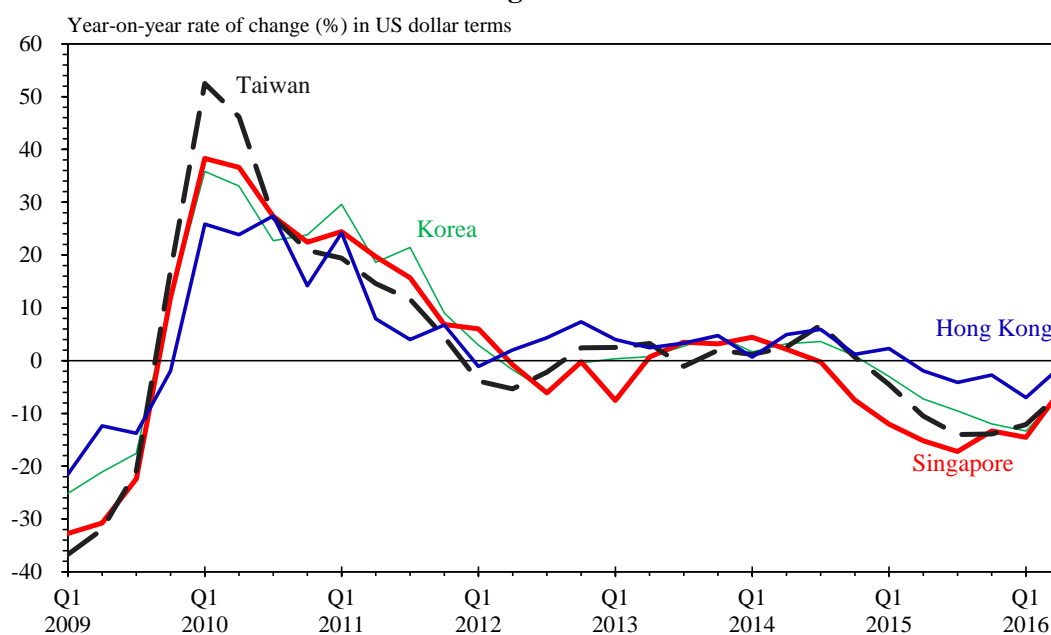


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in Asia, the United States and the European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

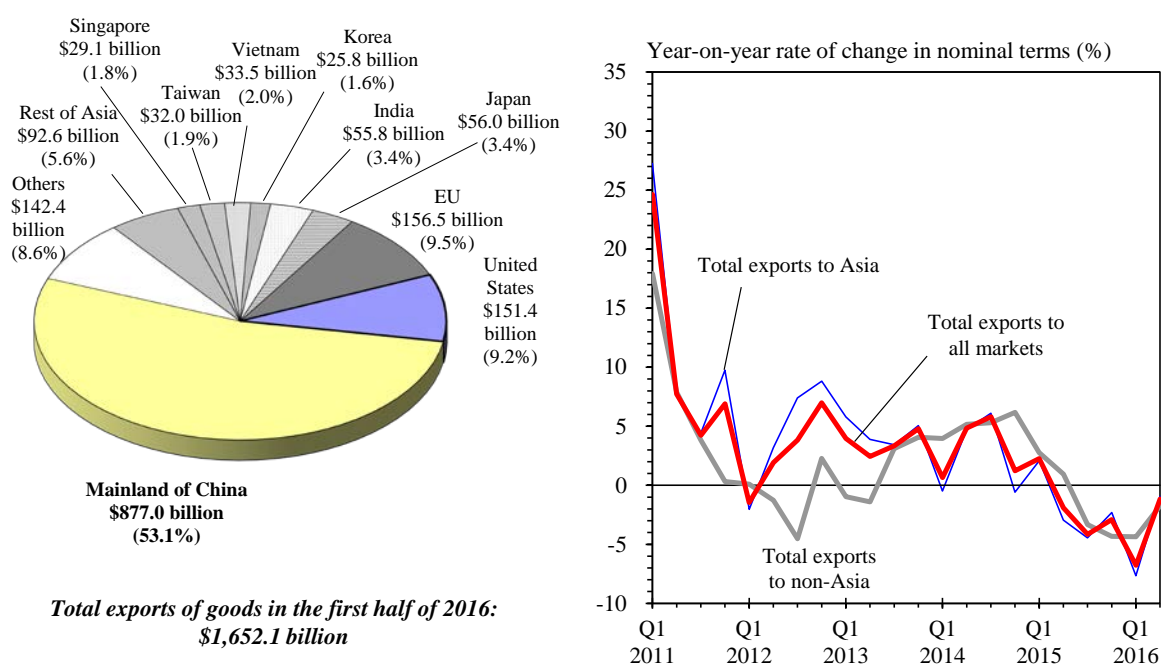
(\*) The real EERI in this graph is inverted in scale for easier comprehension. A positive change denotes real appreciation of the Hong Kong dollar.

(#) Import demand figure for the second quarter of 2016 is based on statistics for April and May 2016.

**Diagram 2.2 : Hong Kong's exports staged a relative improvement in the second quarter, in tandem with other high-income economies in Asia**



**Diagram 2.3 : Exports to the Asian markets also recorded narrower declines in value terms**



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

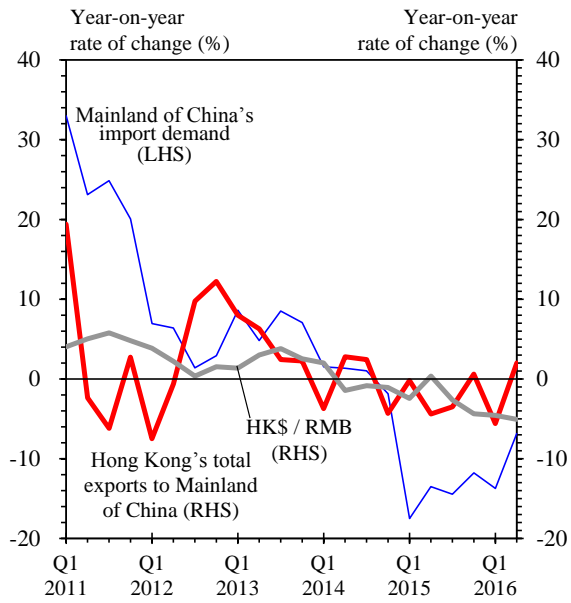
	Annual	2015				2016	
		Q1	Q2	Q3	Q4	Q1	Q2
Mainland of China	-2.0	-0.2	-4.4	-3.5	0.6	-5.6	2.0
United States	1.0	3.3	3.6	-1.4	-0.6	-4.8	-1.4
European Union	-4.1	-3.5	-6.7	-6.0	-0.2	-2.6	3.8
Japan	-3.6	-5.8	-4.0	-1.7	-2.8	-3.3	-6.6
India	7.9	12.4	-3.1	2.3	22.8	15.8	28.0
Vietnam	12.1	14.0	18.0	12.9	5.2	-2.1	-8.0
Taiwan	-15.0	-12.8	-20.3	-23.5	-2.1	-2.9	17.1
Korea	-13.4	-5.7	-13.8	-19.1	-14.2	-14.0	3.2
Singapore	-4.3	0.4	-3.7	-8.7	-4.9	-0.4	-1.6
Overall*	-1.7	0.7	-3.0	-3.8	-0.5	-4.2	1.4

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

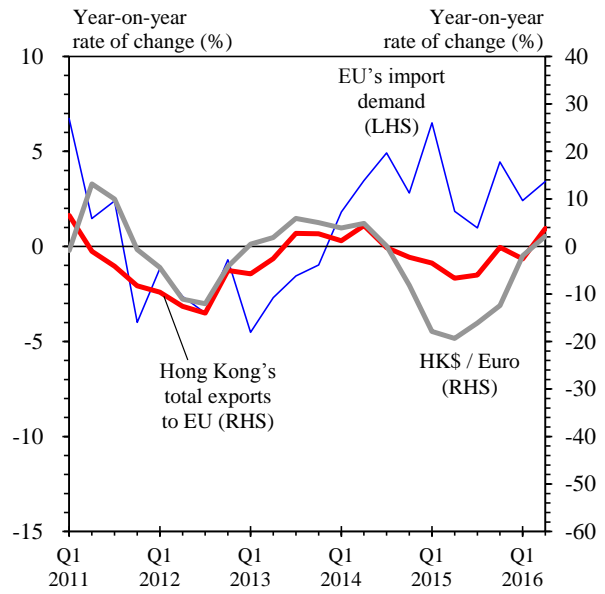
2.5       Analysed by major market on a year-on-year comparison in real terms, exports to the US recorded a narrower decline in the second quarter, in tandem with the improvement in economic activity there. Exports to the EU reverted to show a moderate growth. Exports to Japan showed an enlarged decline, however, reflecting the sluggish economic activity there and the disruptions of the earthquakes in April to the manufacturing sector. The tailwinds from the yen's rebound thus far this year had little help to its import demand.

2.6       Asia's manufacturing and trading activities also saw relative improvement, providing some support to exports of raw materials and semi-manufactures and capital goods to Asia. Exports to Korea improved visibly and reverted to growth, and exports to Taiwan registered a notable growth against a low base of comparison. Exports to the Mainland also showed a modest year-on-year increase. Although the performances of emerging ASEAN markets were mixed, exports to India strengthened to show a remarkable growth.

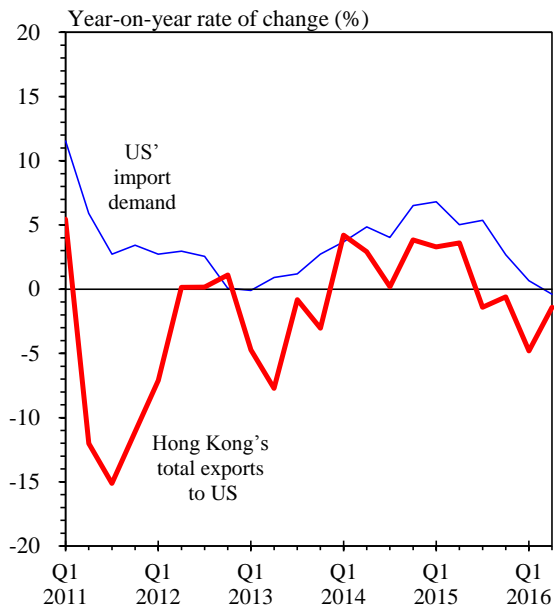
**Diagram 2.4 : Exports to the Mainland showed a modest increase**



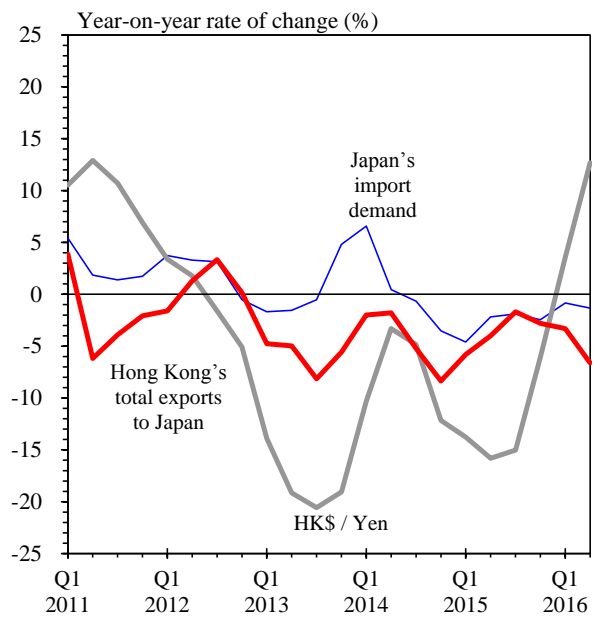
**Diagram 2.5 : Exports to the EU reverted to growth**



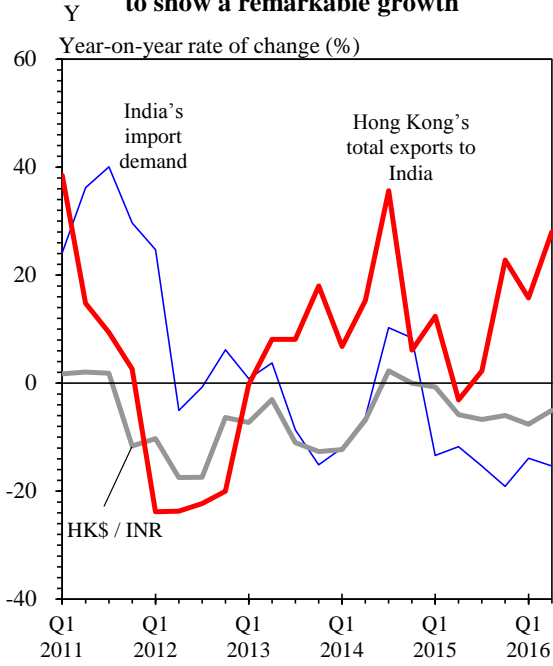
**Diagram 2.6 : Exports to the US recorded a narrower decline**



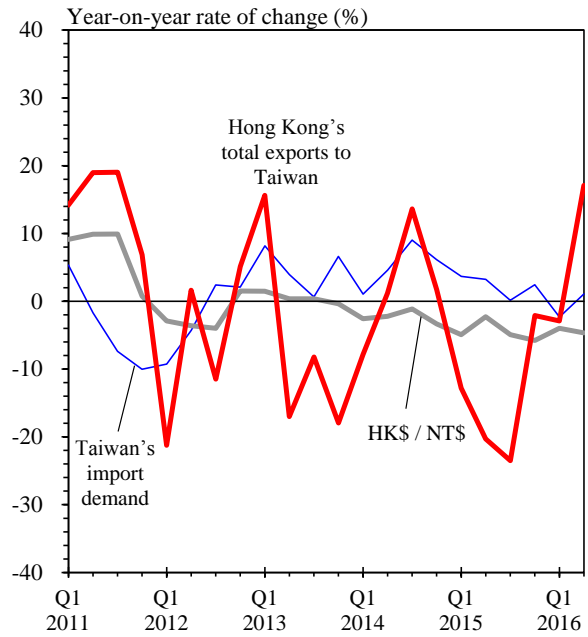
**Diagram 2.7 : Exports to Japan deteriorated to show an enlarged fall**



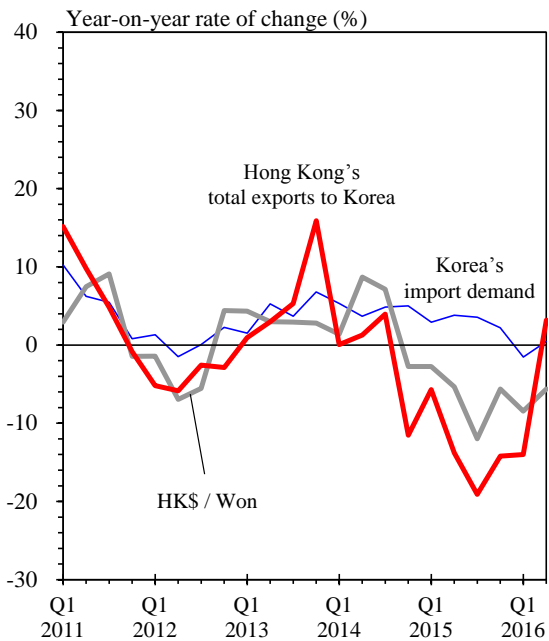
**Diagram 2.8 : Exports to India strengthened to show a remarkable growth**



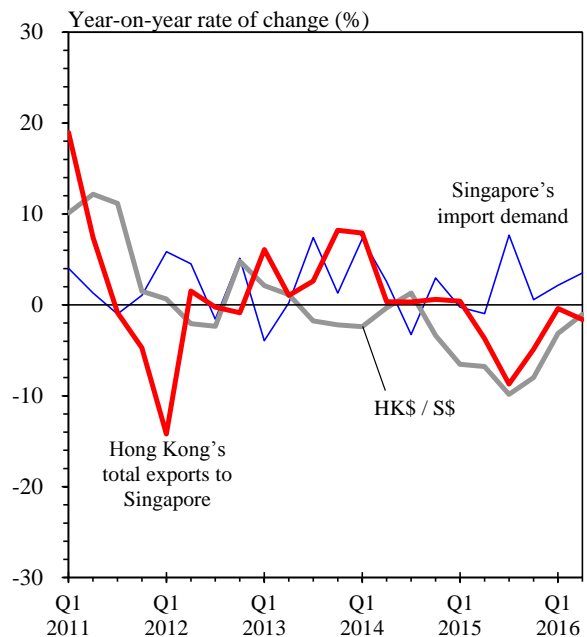
**Diagram 2.9 : Exports to Taiwan rebounded in a robust way**



**Diagram 2.10 : Exports to Korea improved visibly**



**Diagram 2.11 : Exports to Singapore slightly worsened**



## Box 2.1

### **Brexit and its possible impacts on the Hong Kong economy**

In late June, the United Kingdom (UK) voted in favour of leaving the EU (Brexit). The surprise referendum outcome has far-reaching implications for the UK economy. It could also add hurdles to the fragile recovery of Europe, weakening the global economic outlook. This box article gives an overview of the latest developments of Brexit and the possible impacts on the Hong Kong economy.

The UK joined the European Economic Community in 1973, which later evolved into the EU today. As an EU member, the UK is part of the European Single Market, which upholds free movements of goods, services, capital and people between its member states. For years, the access to the vast European market has provided support to the UK's trade and investment expansion. Its access to the market of financial services in the European Economic Area<sup>(1)</sup> (EEA) has been an important pillar for the UK's position as an international financial hub. Besides, the UK also shares the benefits of better terms of market access when the EU reaches trade agreements with the rest of the world on behalf of its member states. On the other hand, the benefits of EU membership come with obligations and reduction in policy autonomy. For example, the UK is required to comply with the EU regulatory framework and contribute to the EU budget.

Hence, if the UK withdraws its membership from the EU, it would be essential for the UK to negotiate with the EU and other global trading partners on the terms of their economic relationships in future.

At this stage, how Brexit will unfold remains highly uncertain. Firstly, the timing for triggering the UK's exit process is still unclear. While the UK's new prime minister reassured that "Brexit means Brexit", she also pointed out that the exit process should not be invoked until the UK's negotiating strategy is established and a UK-wide approach is agreed. Given the division of local opinions on Brexit and the possibility of Scotland rejecting plans to exit the EU, it seems that it would take a while to build up the necessary consensus in the UK.

Secondly, an exit by a member state from the EU is unprecedented in the EU's history. Hence, the time needed and possible results of the negotiations are full of unknowns. The exit arrangements are set out in Article 50 of Treaty on European Union. Accordingly, upon the UK's formal notification to the EU, the UK will have two years to negotiate its future relationship with the EU, unless it is mutually agreed to extend this period. At the same time, the UK will need to negotiate the trading arrangements with other non-EU countries. Prior to the completion of the negotiations with the EU, the UK remains a member in the EU. However, if no agreements are formed within the time limit, the trading relationships between the UK and other economies will by default revert to the basic form provided by the World Trade Organisation (WTO), which could result in marked increases in trade barriers.

Amid uncertainties, the UK economy would bear the brunt of the shock. Indeed, the UK economy has already entered a likely extended period of uncertainty, which could take a toll on its investment and economic sentiment, dampening its output. Worries about the potential increase in economic barriers with the EU would also affect mutual trade and investment flows.

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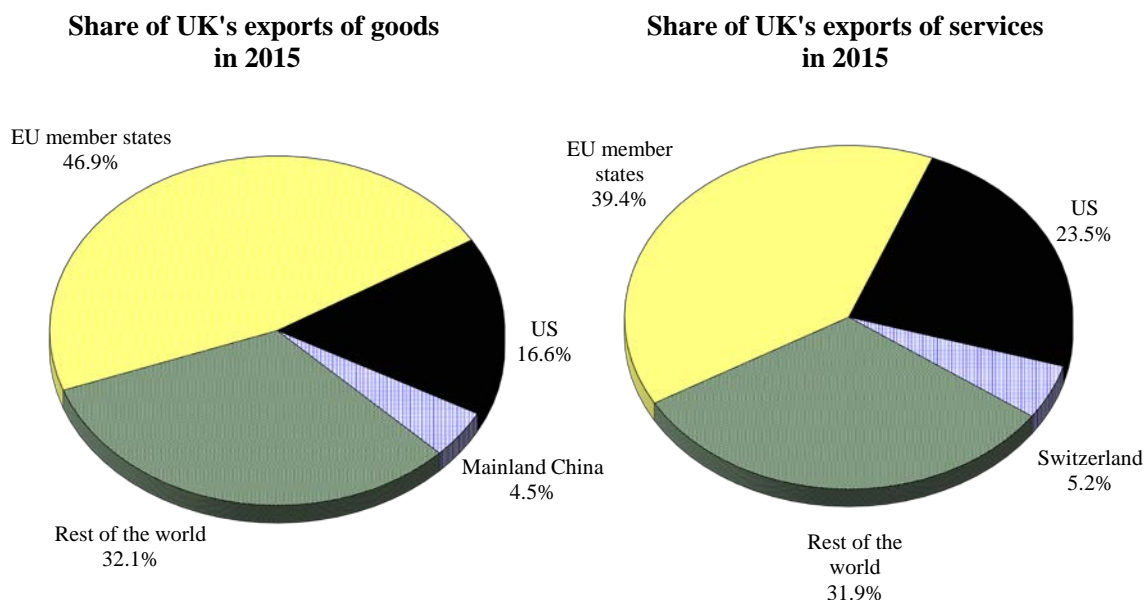
(1) As of July 2016, the European Economic Area includes EU member states plus Norway, Iceland and Liechtenstein.



### Box 2.1 (Cont'd)

The EU market features prominently in the UK's trade. In 2015, 47% of the goods exports and 39% of the services exports in the UK went to the EU (*Chart 1*). These exports together accounted for 12% of the UK's GDP<sup>(2)</sup> in 2015.

**Chart 1 : The EU is the UK's largest export market for both goods and services**



Source: Office for National Statistics, the UK.

Brexit could also have negative effects on some member states of the EU, because of their trade and financial ties with the UK. For instance, the UK took up around 10% of intra-EU goods exports in 2015. Given the slow and fragile recovery of the euro area economy, the uncertainties associated with Brexit may further dim its economic outlook.

The extent of the adverse economic impacts on the UK and the EU would partly hinge on their post-exit trading arrangements. According to the International Monetary Fund (IMF) in June<sup>(3)</sup>, the economic impacts on the UK would be milder if it could maintain an EEA-type relationship with the EU, which allows considerable access to the European Single Market after Brexit.

Apart from the above, the extent of the impacts would also depend on policy responses of UK authorities and global policy makers. Immediately after the referendum, the Bank of England (BoE) pledged to provide £250 billion in liquidity. In early July, it eased capital requirements for banks by reducing their countercyclical capital buffer rate to zero, reversing a decision to raise it to 0.5% taken in March, in order to support banks' lending to companies and households. In August, the BoE loosened monetary policy by a package of measures, including cutting Bank Rate to 0.25%, launching a new scheme that will provide funding for banks at close to Bank Rate to reinforce the pass-through of the rate cut, increasing the stock of purchases of UK government bonds by £60 billion to £435 billion and purchasing up to £10 billion of corporate bonds.

(2) "HM Treasury analysis: the long-term economic impact of EU membership and the alternatives", April 2016.

(3) "United Kingdom : Selected Issues", IMF Country Report No. 16/169, June 2016.

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

Major central banks also vowed to secure adequate liquidity and guard against systemic risks. The pledges thus far have helped underpin market confidence. The sell-offs in global stock markets, though severe immediately after the referendum, were reversed quickly. Comparatively, the foreign exchange market turned more volatile, with the British pound depreciated by around 10% against the US dollar at end-July from that before the referendum.

As Brexit is still unfolding, its impacts on the real economy have not been fully reflected in the latest economic data yet. The preliminary GDP estimate for the UK and the preliminary flash estimate of the GDP in the euro area showed that the two regions still registered moderate growth in the second quarter. The composite purchasing managers' index (PMI) of the euro area rose slightly and stayed above 50 in July, indicating continued activity expansion. However, in July, the composite PMI in the UK worsened markedly to the lowest level in more than seven years and slid below the boom-bust level of 50, indicating contraction in economic activities. Consumer confidence in the UK also weakened notably.

In light of the possible negative impacts of Brexit, granting that the EU and the UK would settle with a post-Brexit arrangement that would avoid a large increase in economic barrier, and barring major financial market disruptions and severe political fallout, the IMF in July marked down the euro area's growth forecasts for 2016 and 2017 by 0.1 and 0.3 percentage point, to 1.6% and 1.4% respectively. The UK's economic growth forecasts were revised down more visibly, by 0.2 and 0.9 percentage point, to 1.7% and 1.3% respectively in 2016 and 2017. In this relatively benign scenario, the economic impacts outside Europe are relatively muted. Overall, the IMF lowered the global economic growth forecast only by 0.1 percentage point in both 2016 and 2017, to 3.1% and 3.4% respectively.

As a small open economy, Hong Kong will inevitably be affected by the headwinds associated with Brexit through trade and financial channels. Negative spillovers to the European economies, if materialised, would also hurt Asia's trading and tourism sectors, including Hong Kong's. The recent weakening of British pound might dent import demand from the UK and their visitors' spending power in the near term.

In terms of trade, the UK only accounted for 1.5% of our total merchandise exports in 2015 and 6.6% of our total services exports in 2014 (*Table 1*). Thus, the direct impacts from Brexit through the trade channel would likely be not very large. In the second quarter, our goods exports to the UK fell by 7.5% year-on-year in real terms, but our exports to the EU including the UK grew moderately. Hong Kong's total exports also reverted to modest growth in volume terms over the same period. As the data through June have not fully reflected the impacts of Brexit on trade flows, the situation needs to be closely monitored.

**Box 2.1 (Cont'd)****Table 1 : Hong Kong's economic relations with the EU and the UK**

	<b>Share</b>		<b>Share</b>	
	<b>EU</b>	<b>in total</b>	<b>UK</b>	<b>in total</b>
<b>Goods and services trade</b>	(\$Bn)	(%)	(\$Bn)	(%)
Merchandise exports (2015)	335.1	9.3	54.8	1.5
Services exports (2014)	119.3	14.9	52.5	6.6
<b>External Direct Investment (DI)</b>	(\$Bn)	(%)	(\$Bn)	(%)
<b>(from Hong Kong's perspective)</b>				
Inward DI position (at end-2014)	1,019.2	8.8	131.9	1.1
Outward DI position (at end-2014)	374.1	3.3	242.0	2.2
<b>Number of offices in Hong Kong</b>	(Number)	(%)	(Number)	(%)
<b>(as of June 2015)</b>				
Number of regional headquarters (RH)	452	32.3	126	9.0
Number of regional offices (RO)	693	28.9	220	9.2
Number of RH + RO	1 145	30.1	346	9.1
	(Number)	(%)	(Number)	(%)
<b>Visitor arrivals (2015)</b>	1.53 million	2.6	0.53 million	0.9

The UK has a prominent position in international finance. The possible impacts of Brexit on the Hong Kong economy through the financial channel are harder to assess. In early July, several commercial-property funds in the UK suspended redemptions as the investors rushed for withdrawals upon heightened risk aversion towards the UK property market. Fortunately, this had not generated notable ripple effects. While the global financial markets have also stabilised shortly after the Brexit vote, the uncertainties associated with the exit process will still linger on for an extended period and could trigger further shockwaves in future. Moreover, there are also market worries about another referendum on Scotland's independence and the potential rise in anti-EU sentiment in other EU members, which could have implications for market sentiment and expose vulnerabilities in certain weak links in European economies, generating knock-on impacts on the global economy and financial markets. The possibility of these adverse developments happening could not be ruled out at this stage.

Hong Kong is equipped with a sound financial system and resilient fundamentals. It 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. Our regulatory bodies had already reminded financial institutions to guard against the risks in the case of the UK's vote to leave the EU. The healthy position of current account balance, the absence of external debt by the government, and the strong net external financial asset position altogether point to the solid fundamentals of our economy. Yet, there is no room for complacency. In the face of increased uncertainty due to Brexit, exercising prudent risk management is of great importance in safeguarding our financial and macroeconomic stability. The Government will closely monitor the developments and their impacts on the Hong Kong economy.

## Box 2.2

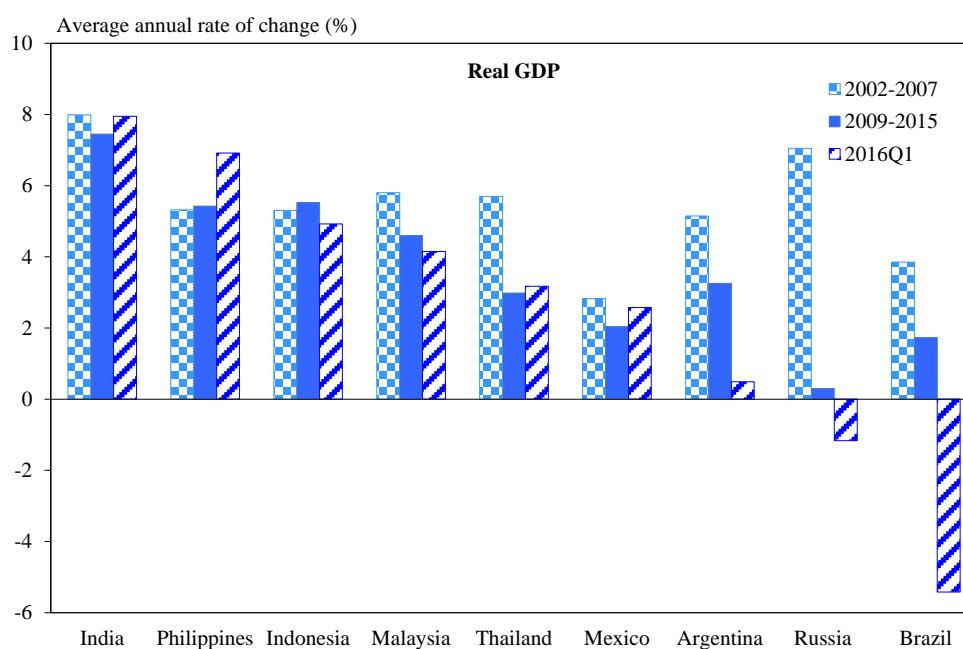
### Recent economic performance of emerging market economies

The global economy has been stuck in low gear after the 2008 Global Financial Crisis (GFC), as many advanced economies are still struggling to gain traction. While emerging market economies (EMEs) remain the bright spot, they have also experienced varying degrees of growth slowdown since 2010. This note briefly reviews the recent economic performance of selected EMEs<sup>(1)</sup>. The performance of the Mainland economy is separately discussed in **Box 2.3**.

For EMEs as a whole, economic growth, while still notable, averaged 5.1% per annum in 2009-2015, and was visibly slower than the expansion pace of 7.2% per annum in the pre-crisis period (2002-2007). A key drag stemmed from the persistently weak external demand, amid the sluggish growth in the advanced economies. This was evident in the notable moderation in the growth of EMEs' merchandise exports to 3.7% per annum in volume terms in 2009-2015, from 10.8% per annum in 2002-2007. Also, EMEs' investment spending expanded at a much softer pace, as compared to the investment boom in the pre-crisis period. As a percentage share of GDP, investment spending in EMEs increased markedly from 24% in 2001 to 30% in 2008, but had barely changed since then, only edging up to 31% in 2015.

Nevertheless, the economic performance of individual EMEs varied greatly. **Chart 1** shows that the slowdown in growth after the GFC was not particularly apparent in some EMEs, with some even expanding at faster paces in the first quarter of 2016. These were mainly Asian EMEs, which generally held up well, thanks to their better fundamentals and resilient domestic demand. Their consumption spending growth was particularly impressive, helping to cushion against the lull in external trade. On the other hand, many EMEs in other regions slackened markedly after the GFC, and showed little improvement in the latest period.

**Chart 1 : Asian EMEs fared relatively better as compared to their counterparts**



(1) EMEs covered in this box article include Argentina, Brazil, India, Indonesia, Malaysia, Mexico, the Philippines, Russia and Thailand.

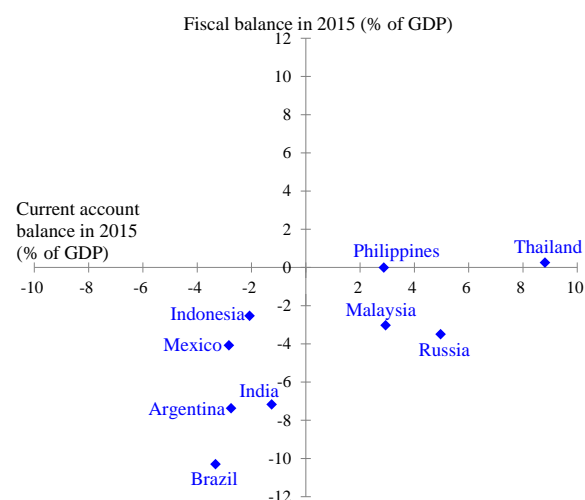
## Box 2.2 (Cont'd)

Among Asian EMEs, India saw exceptional growth, expanding briskly by 7.5% per annum in 2009-2015, and its growth picked up further to 7.9% year-on-year in the first quarter of 2016. Meanwhile, Indonesia and the Philippines also performed well, helped by robust investment spending amid higher infrastructure investments.

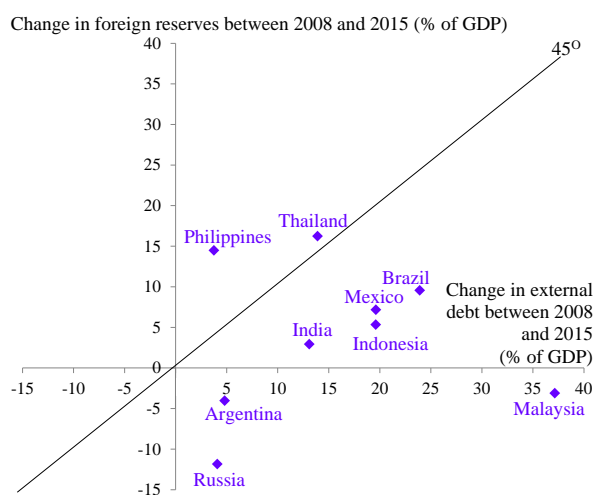
In contrast, economic activities in Russia and Brazil have slowed sharply and experienced contraction since 2015, mainly dampened by the sharply lower energy and commodity prices. In the case of Russia, economic sanctions from the West, which have been extended till January 2017, posed an additional downward pressure on its exports. As for Brazil, the increasing political instability and worries about the sustainability of its public finances have eroded consumption and investment confidence. In addition, the currencies of these two economies weakened significantly against the US dollar alongside capital outflows, leading to a surge in imported inflation. Russia's central bank increased policy rates sharply in late 2014, while Brazil's central bank raised interest rates successively since end-October 2014. But monetary tightening dealt a further blow to their economic activities.

Looking ahead, while the sustained growth of EMEs in Asia would continue to help shift the gravity of the global economy towards the East, we still need to be mindful of any sudden increase in risk aversion under the still-challenging external environment, as this could trigger abrupt shifts in capital flows and exert downward pressures on those EMEs with weaker economic fundamentals and less resilient financial systems. Therefore, it is useful to examine the latest state of fiscal and financial health of these economies. *Charts 2a and b* present an update to *Box 1.1 in the Half-yearly Economic Report 2015*.

**Chart 2a : Current account and fiscal balances are important indicators of an economy's financial health**



**Chart 2b : Sudden shifts in capital flows would exert more pressure on economies with a visible build-up of external debt**



It can be seen from the two charts that some of the EMEs are still faced with external and/or internal imbalances, i.e. current account and/or fiscal deficits. Hence, they may be more prone to sudden capital reversals and sharp currency fluctuations, especially if they have also accumulated sizeable external debts, as already experienced during mid-2013 and August 2015. Nonetheless, should these EMEs have an ample amount of foreign reserves, it would hopefully help stabilise their currencies against a sharp rise in capital outflows.

**Box 2.2 (Cont'd)**

In July, the IMF maintained its GDP growth projection for EMEs as a whole at 4.1% in 2016, which if attained, would contribute around three-quarters of the world's economic growth. In particular, EMEs in Asia were projected to grow by 6.4% in 2016, faster than EMEs in other regions. These projections, however, were made under the benign assumption of a gradual reduction in the uncertainties related to the UK vote to leave the EU.

In view of the various downside risks to the global economy, the IMF warned that the scope for short-run demand support may be limited in some EMEs during periods of heightened global risk aversion and policymakers in EMEs should strengthen defences against increased global financial volatility for an extended period of time, while continuing to bolster medium-term growth prospects through structural reforms. Hence, we will need to keep a close watch on the economic situation in EMEs and stay vigilant to any potential adverse impacts on Hong Kong's near-term economic growth and prospects.

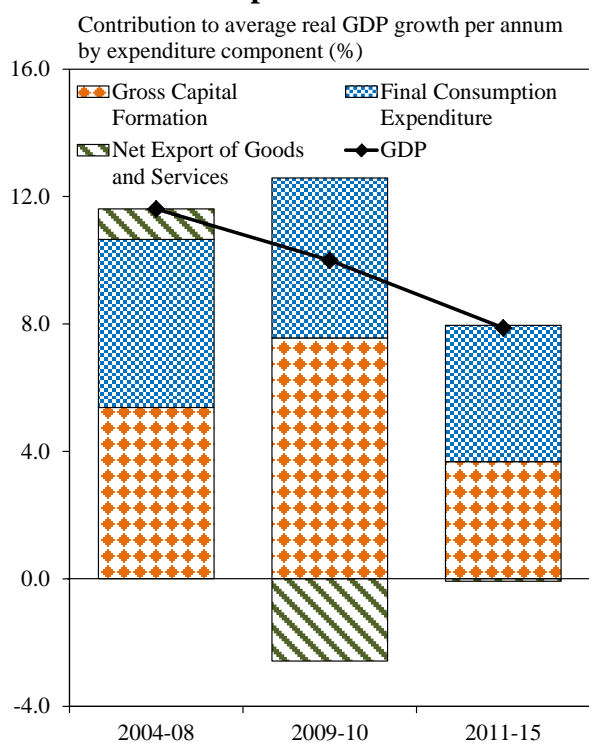
### Box 2.3

#### Structural transformation of the Mainland economy

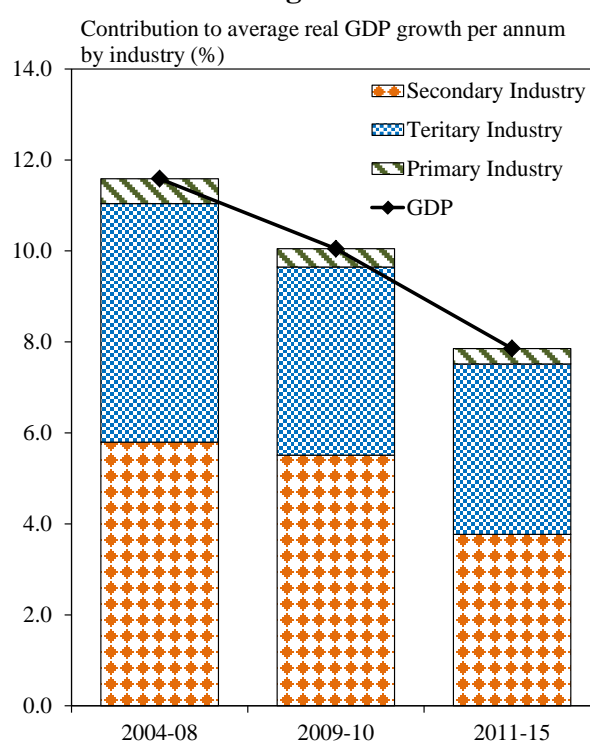
With the Mainland economy entering a state of “new normal”, all eyes are on the direction and pace of its restructuring, which is considered as the key driving force for the Mainland’s sustainable and steady growth. This note outlines the structural transformation of the Mainland economy since 2004 and its implications for the development of Hong Kong economy.

The composition of aggregate demand in the Mainland economy has been evolving over the past decade or so. During 2004-08, the Mainland economy was growing apace at an average rate of 11.6% per annum, with the external sector developing rapidly to support the overall economy. During the Global Financial Crisis, the demand for the Mainland’s exports, however, shrank remarkably as the global economy slackened distinctly. In response, the Central Government launched a massive investment programme to boost domestic demand. As a result, the contribution to economic growth from investment expenditure increased notably in 2009-10, and the overall economy also maintained an average growth of 10.0% per annum over the same period. In the subsequent period from 2011 to 2015, the contribution to growth from investment expenditure declined. Meanwhile, with domestic consumption continuing to fare well, final consumption expenditure remained a solid anchor to the overall economy. Its contribution to economic growth rose progressively from 46% during 2004-08 to 55% during 2011-15. In the first half of 2016, the contribution even surged to 73%, becoming the key driver and stabiliser of economic growth under the “new normal” (*Chart 1*).

**Chart 1: Mainland’s economic growth gradually led by consumption expenditure**



**Chart 2: Growing significance of services sector in the contribution to economic growth**

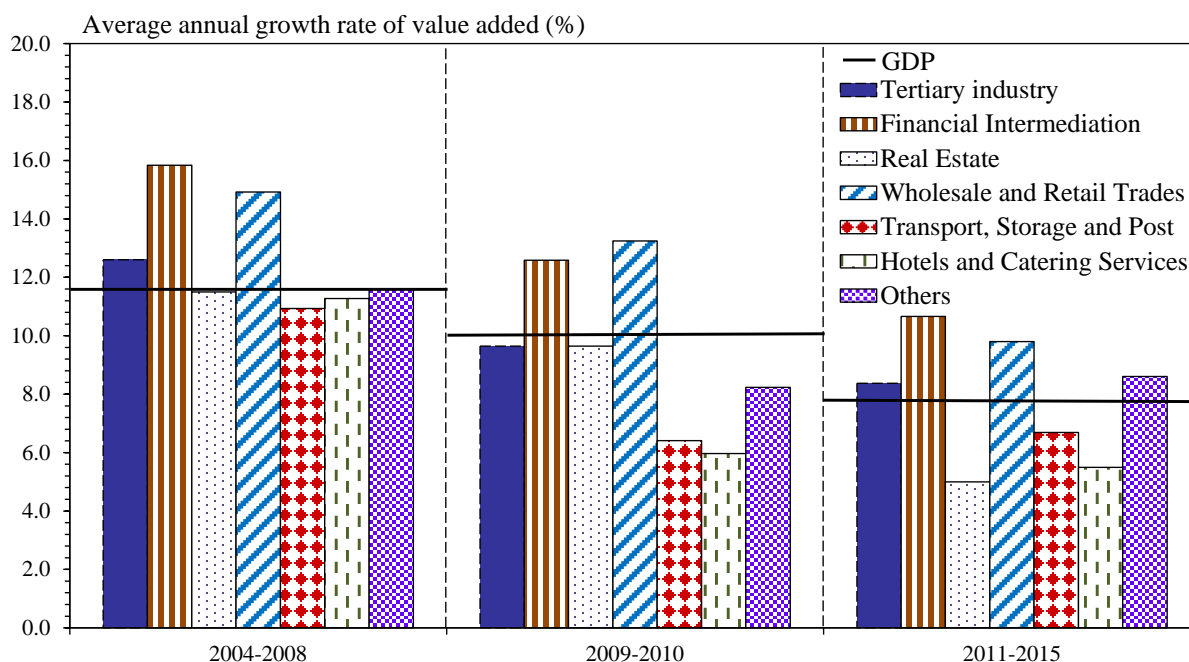


### Box 2.3 (Cont'd)

The Mainland's sectoral structure also shows notable changes. Despite the prominence of the secondary industry in the Mainland economy all along, the Mainland's industrial sector slackened in the more recent years, dragged by overcapacity in certain sectors, weak export demand and rising labour costs, etc. Hence, the contribution to economic growth from secondary industry moderated from 55% in 2009-10 to 48% during 2011-15. On the other hand, the general increase in income of Mainland residents pushed up the demand for consumption services, whereas the industrial upgrading and restructuring drove the development of high-end services sector. Therefore, the tertiary industry remained relatively resilient, with its contribution to economic growth rising from 41% in 2009-10 to 48% during 2011-15 (*Chart 2*). As the Mainland's sectoral restructuring continued, the share of tertiary industry's value added in GDP had exceeded that of the secondary industry since 2013, and went beyond half of the overall GDP at 50.2% last year. This development trend was even more notable in the first half of 2016, with the contribution of tertiary industry to economic growth soaring further to 60% and the share of its value added in GDP reaching 54%.

As illustrated in *Chart 3*, the tertiary industry posted appreciable growth. Except for certain brief periods, the services sector expanded steadily over the past decade or so, at a rate faster than the overall economic growth. Financial intermediation and wholesale and retail trades industries were the key drivers of growth. The rapid growth of financial intermediation industry was conceivably related to the Mainland's ongoing financial reform as well as its opening up, while the wholesale and retail trades industry was mainly underpinned by the solid growth in domestic consumption.

**Chart 3: Solid growth was seen in the tertiary industry, particularly in financial intermediation and the wholesale and retail trades industries**





**Box 2.3 (Cont'd)**

The compositional changes in the Mainland's economic growth since 2004 have shed light on the rebalancing of the Mainland economy towards a more consumption-driven and service-oriented growth model. This helps achieve a more balanced and sustainable development of the Mainland economy and cushion the impacts from the volatile external sector, boding well for the long-term economic development of Hong Kong as well as the world. Meanwhile, the structural transformation of the Mainland economy has also offered numerous development opportunities to Hong Kong. Indeed, after years of strengthening in economic and trade co-operation between the Mainland and Hong Kong under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), the basic liberalisation of trade in services was in effect starting from June this year, allowing Hong Kong services providers to leverage their own experience and strengths to expand their presence in the Mainland market while assisting sectoral upgrading in the Mainland. This will create more development and employment opportunities, bringing about mutual benefits to both places.

Looking ahead, the Mainland is bound to continue with the structural transformation on its way to become a high-income economy. Given the continuous income growth of Mainland residents, coupled with various policies to encourage consumption, domestic consumption looks set to sustain its growth momentum. On the production front, services sector has become the mainstay of the Mainland economy, and its development will be further aided by various initiatives under the National 13th Five-year Plan, such as the promotion of industrial upgrading as well as innovation and entrepreneurship. The sustained expansion of the Mainland's services sector and its domestic consumption market will surely create more development opportunities for various sectors of Hong Kong.

## *Imports of goods*

2.7 *Imports of goods* declined at a moderated year-on-year rate of 0.5% in real terms in the second quarter, compared with the fall of 5.4% in the first quarter. The smaller decline was mainly due to the rebound in imports for subsequent re-exports. *Retained imports*, referring to the imports for domestic use, which accounted for around one-quarter of total imports, declined by 6.0% year-on-year in real terms in the second quarter, after a drop of 8.9% in the first quarter. The continued decline in retained imports, albeit at a narrower pace, reflected the weaknesses in local investment spending and retail sales, which reduced the related intake of imports.

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

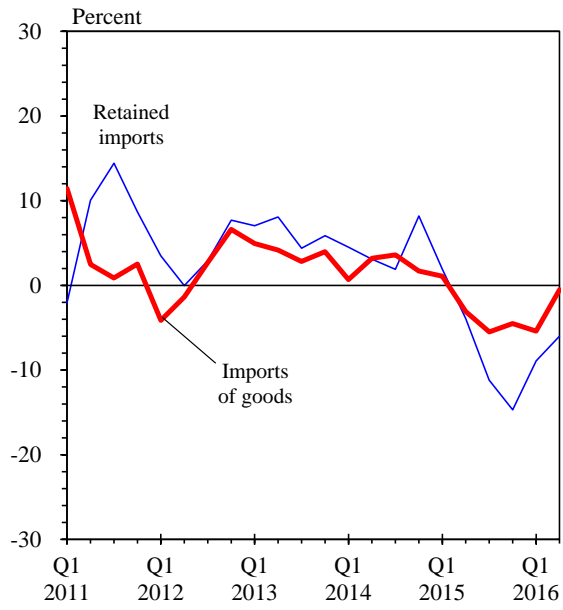
		<u>Imports of goods</u>			<u>Retained imports</u> <sup>(a)</sup>				
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		
2015	Annual	-4.1	-3.2	-0.4	-10.4	-7.4	-1.8		
	Q1	1.4	1.1	(-1.6)	0.9	-1.2	1.9	(-4.7)	-1.9
	Q2	-3.2	-3.1	(-2.3)	0.6	-6.8	-3.9	(-5.2)	-1.3
	Q3	-6.7	-5.5	(-1.7)	-0.7	-14.3	-11.2	(-6.4)	-1.6
	Q4	-7.0	-4.5	(0.9)	-2.1	-17.6	-14.7	(0.5)	-2.4
2016	Q1	-8.2	-5.4	(-4.2)	-2.8	-12.2	-8.9	(0.9)	-3.6
	Q2	-3.2	-0.5	(4.8)	-2.6	-9.2	-6.0	(-1.1)	-3.7

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

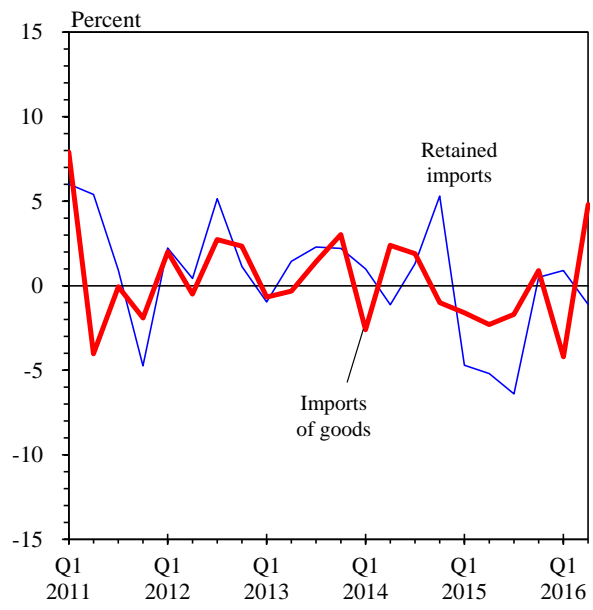
( ) Seasonally adjusted quarter-to-quarter rate of change.

**Diagram 2.12 : The year-on-year declines in imports and retained imports narrowed**

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



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

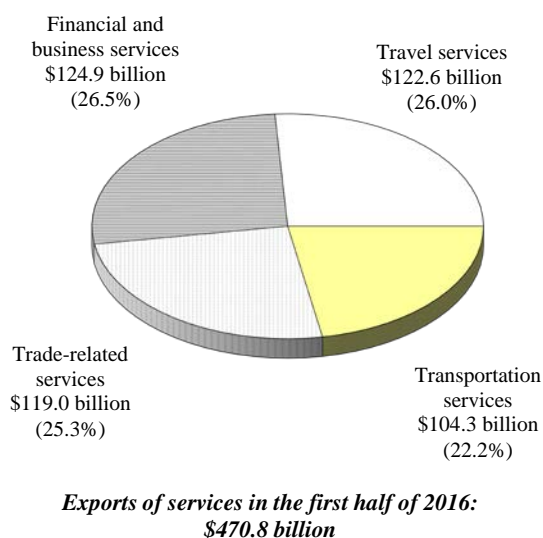


## Services trade

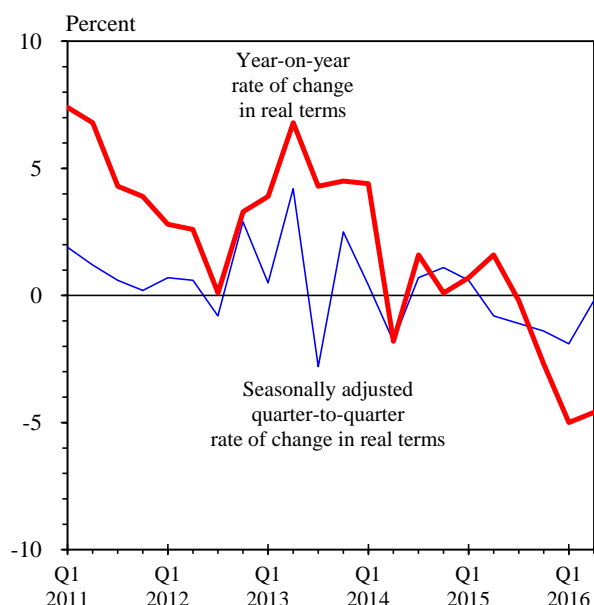
### *Exports of services*

2.8 *Exports of services* showed a slightly narrower decline in the second quarter, falling by 4.6% in real terms from a year earlier, compared with the 5.0% fall in the first quarter. The decline in exports of travel services tapered somewhat, as the fall in visitor arrivals eased in the second quarter and partly offset the weakness in per capita spending of visitors. Meanwhile, exports of trade-related services (comprising mainly offshore trade activities) reverted to slight growth and those of transportation services fell only marginally, thanks to the relative improvement in trade and cargo flows in the region during the quarter. However, exports of financial and other business services saw a visibly larger year-on-year fall and reduced the extent of overall services exports improvement. This was partly due to a high base of comparison in the same period last year when fund-raising and cross-border financial activities were rather buoyant, while the uncertain global economic outlook was also not conducive to cross-border financial and commercial activities.

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



**Diagram 2.14 : Exports of services showed a slightly narrower decline in the second quarter**



**Table 2.4 : Exports of services by major service group  
(year-on-year rate of change in real terms (%))**

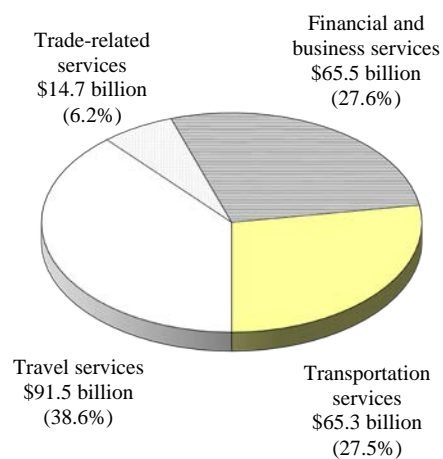
		<i>Of which :</i>					
		<u>Exports of services</u>	<u>Trade-related services<sup>(a)</sup></u>	<u>Transportation services</u>	<u>Travel services<sup>(b)</sup></u>	<u>Financial and business services</u>	
2015	Annual	-0.2	-1.8	0.2	-3.8	5.6	
	Q1	0.7 (0.6)	-1.4	1.8	-3.3	6.2	
	Q2	1.6 (-0.8)	-2.3	0.8	-0.8	11.1	
	Q3	-0.2 (-1.1)	-3.0	0.8	-3.8	6.5	
	Q4	-2.7 (-1.4)	-0.5	-2.7	-6.7	-1.0	
2016	Q1	-5.0 (-1.9)	-2.2	-1.8	-13.9	-0.6	
	Q2	-4.6 (-0.2)	0.4	-0.5	-9.7	-8.7	

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

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

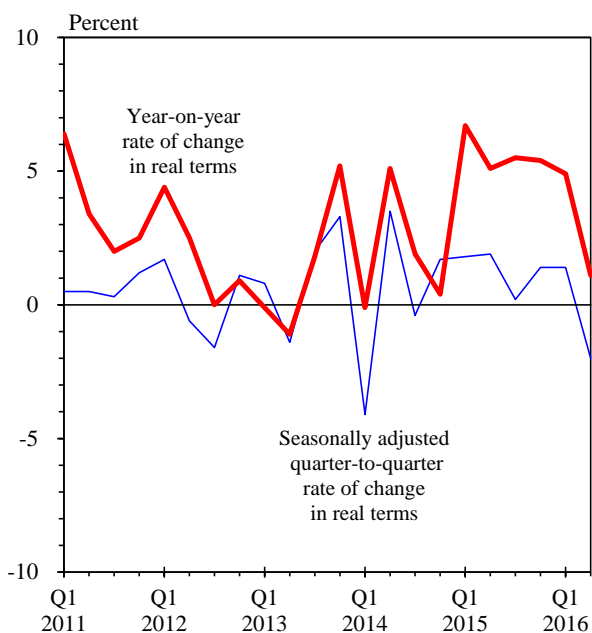
2.9 *Imports of services* grew by 1.1% year-on-year in real terms in the second quarter, slower than the 4.9% growth in the first quarter. The year-on-year growth in imports of travel services slowed visibly in the second quarter, after showing notable growth in the previous few quarters. Apart from the distortions from the difference in timing of the Easter holidays, which fell in late March 2016 but in early April 2015, the boost to travel interest of local residents from the earlier depreciations of many major currencies against the US dollar might have also faded. Indeed, the strengthening of the yen over the past year conceivably had some dampening impact on local residents' interest in traveling to Japan. Imports of trade-related services reverted to marginal growth while those of transportation services fell slightly, amid the relative stabilisation in trade and cargo flows in the region. Meanwhile, imports of financial and other business services grew only modestly over a year earlier amid subpar global economic environment.

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



**Imports of services in the first half of 2016:**  
\$237.1 billion

**Diagram 2.16 : Imports of services grew at a slower year-on-year pace**



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

		<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>
2015	Annual	5.7	12.4	-0.9	0.6	5.4
	Q1	6.7 (1.8)	13.3	0.5	1.5	6.5
	Q2	5.1 (1.9)	11.2	-2.8	1.5	6.8
	Q3	5.5 (0.2)	13.0	-1.9	-0.5	5.9
	Q4	5.4 (1.4)	12.2	1.1	0.3	2.6
2016	Q1	4.9 (1.4)	12.8	-0.3	-1.0	1.6
	Q2	1.1 (-2.0)	2.6	-1.1	0.4	1.4

Notes : (+) Comprising mainly outbound travel spending.

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

## Goods and services balance

2.10 The goods deficit narrowed in the second quarter from a year earlier, as goods exports showed some improvement while retained imports continued to fall amid subpar economic growth. Adding the services surplus, the combined goods and services account registered a deficit of \$18 billion, equivalent to 1.6% of total import value, in the second quarter. This represented an improvement from the same period last year, when the deficit amounted to \$24 billion or 2.0% of total import value.

**Table 2.6 : 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>	
2015	Annual	3,779	1,053	4,290	487	-511	567	56	1.2
	Q1	879	267	1,028	118	-149	149	*	#
	Q2	916	244	1,067	118	-150	126	-24	-2.0
	Q3	982	270	1,078	124	-95	146	51	4.2
	Q4	1,001	272	1,117	127	-116	145	29	2.3
2016	Q1	823	245	938	120	-114	125	11	1.0
	Q2	912	226	1,039	117	-127	109	-18	-1.6

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

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

(#) Within  $\pm$ 0.05%.

## **Other developments**

2.11 Hong Kong strives to forge closer economic relations with its major economic partners and explore new markets. In June, an agreement between Hong Kong and Shanghai was signed, to further co-operation between the two places on various fronts including financial markets, institutions, operation and products, talents, regulation and financial technologies. In light of the Belt and Road Initiative and the vast market potential of the emerging market economies along the route, an inaugural Belt and Road Summit was jointly organised by the Government and Hong Kong Trade Development Council in May, in order to explore co-operation opportunities and the unique role Hong Kong could play.

2.12 Along the Belt and Road, ASEAN is a rapidly growing market, and Indonesia is the largest in terms of size of the economy and the most populous economy within it. In May, a memorandum of understanding (MOU) was signed with Indonesia, pledging mutual co-operation on investment promotion exchanges and best practices. The MOU should help induce more investment flows, exchange of information on potential investment opportunities, as well as investment co-operation between the two economies. Moreover, a new Economic and Trade Office (ETO) was established in Jakarta, Indonesia, with its temporary office commencing operation in June. Together with the existing ETO in Singapore, the two ETOs will strengthen our ties with the ASEAN countries.

2.13 As a responsible member of the international community, Hong Kong has all along been supportive of international efforts to promote tax transparency and combat tax evasion. With this in mind, the Government in June accepted the invitation of the Organisation for Economic Co-operation and Development to join as an Associate in the inclusive framework for implementation of the package of measures against base erosion and profit shifting (BEPS). The BEPS Package seeks to ensure that multinational corporations pay a fair share of taxes in respect of their profits, and to plug the loophole of “double non-taxation” among jurisdictions. Hong Kong will work with other members of the BEPS to implement the BEPS Package and to develop standards. The Government is conducting analysis on the BEPS Package, and will consult the industry on the strategy for implementing the relevant proposals at an appropriate juncture and prepare for taking forward the necessary legislative amendment. The commitment to BEPS Package is instrumental in maintaining our reputation and fulfilling our obligations as an international financial and business centre.



2.14 According to the United Nations Conference on Trade and Development's World Investment Report 2016, Hong Kong's foreign direct investment (FDI) inflows ranked the second largest among the world economies in 2015. Hong Kong has stayed at the second highest position for two years in a row, signifying our important status as an international business hub for foreign and Mainland companies.

**Notes :**

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the external trade quantum index series compiled using the chain linking approach, which were first released in March 2015 to replace the previous trade index numbers compiled using the Laspeyres method with a fixed base year. Under the new approach, the series are comparable with the real trade aggregates under GDP (reported in Chapter 1) which are based on the same measures. However, non-monetary gold is recorded as a separate item in the statistics of merchandise trade and not included in the trade aggregates reported in Chapter 2, but is included in the trade aggregates under GDP in accordance to the international compilation standard.
- (2) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

### *Summary*

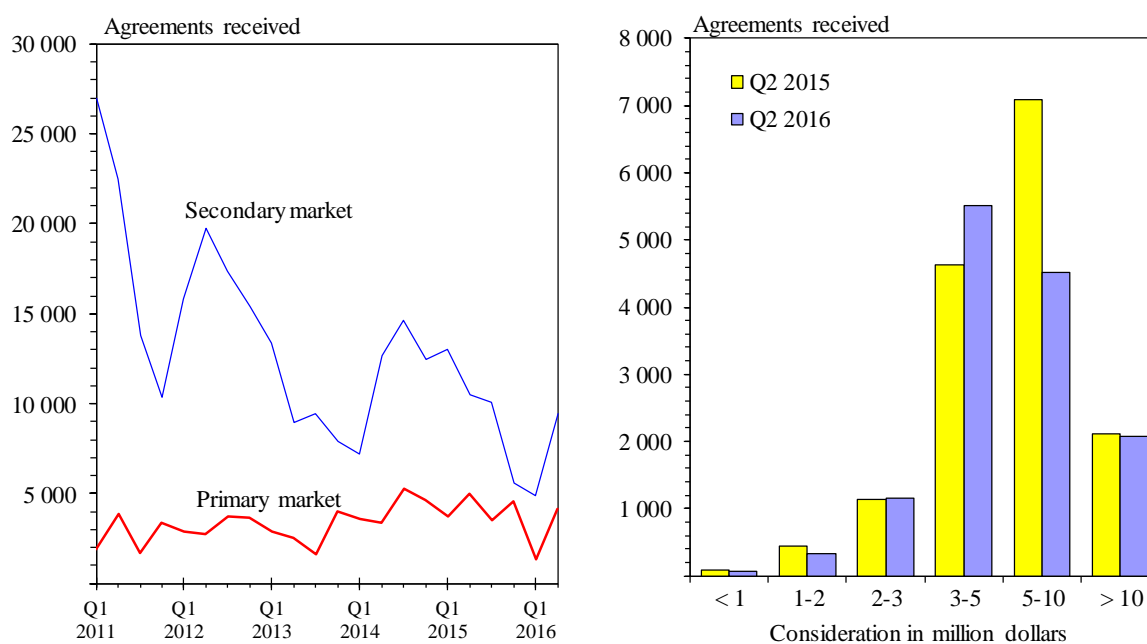
- *The residential property market showed some stabilisation in the second quarter of 2016, supported by the release of pent-up demand and easing concerns about further rate hike in the US. Trading activities rebounded sharply from the very low level in the preceding quarter, though were still lower than year-ago levels. Transacted prices recorded an increase of 2% during the quarter.*
- *Reflecting the Government's sustained efforts to increase land and flat supply, total flat supply in the coming three to four years rose to another record high of 93 000 units.*
- *The commercial and industrial property markets lacked apparent direction in the second quarter. Prices and rentals for different market segments exhibited a mixed performance. Trading activities remained quiet by historical standards, though showing some rebound from the low levels in the preceding quarter.*
- *Inbound tourism continued to consolidate in the second quarter, though there was some relative improvement over the first quarter due to a narrowed rate of decline in Mainland visitor arrivals. Overall visitor arrivals fell by a decelerated 3.5% from a year earlier to 13.4 million.*
- *The logistics sector stayed generally lacklustre in the second quarter. Total container throughput dropped further by 8.9% year-on-year, while air freight throughput reverted to a small increase of 1.8%.*

## Property

3.1 The *residential property market* showed some stabilisation in the second quarter of 2016. Following the quiet trading and noticeable fall in flat prices during the preceding two quarters, the developers' accelerated pace of launching new projects has helped unleash some of the pent-up demand. Easing concerns about further rate hike in the US also lent support to market sentiment. Trading activities rebounded sharply from a very low level, while transacted prices recorded a small increase.

3.2 The total number of sale and purchase (S&P) agreements for residential property received by the Land Registry rebounded sharply by 120% from the record low in the preceding quarter to 13 700 in the second quarter, though it was still 12% lower than a year earlier. Within the total, primary market transactions surged by 225% over the preceding quarter with developers accelerating the launch of new projects, while secondary market transactions soared by 92%. Total consideration also leapt by 142% to \$108.0 billion. Yet dragged by the subdued trading in the first quarter, both the number of S&P agreements and total consideration still fell by 16% between the second half of 2015 and the first half of 2016, to 19 921 and \$152.7 billion respectively.

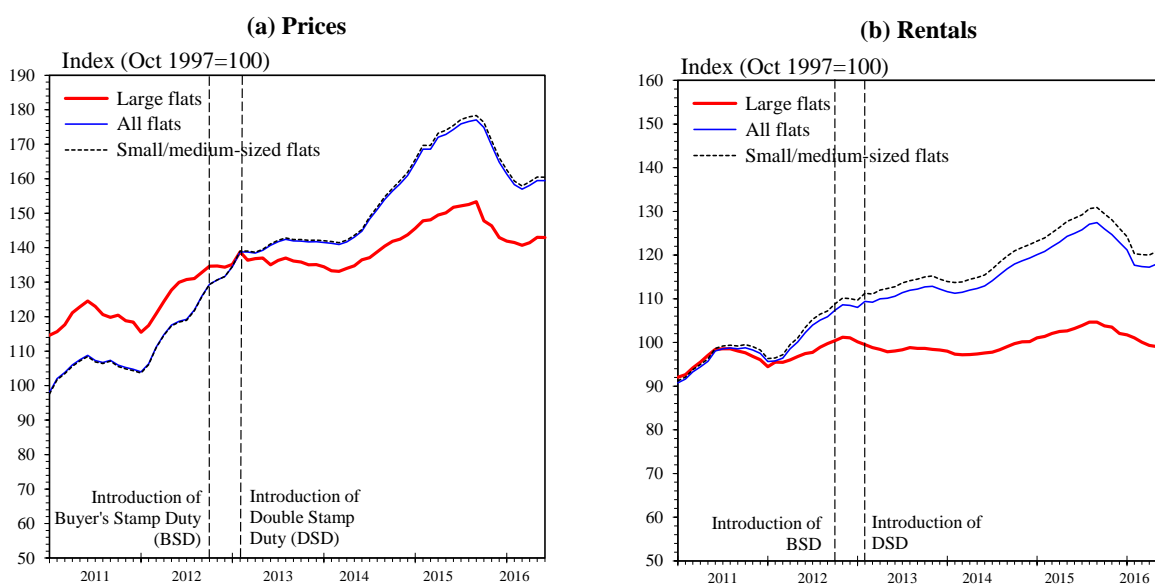
**Diagram 3.1 : Trading activities rebounded sharply in the second quarter from a low base**



3.3 Following the noticeable fall during the preceding two quarters, overall flat prices rose by 2% during the second quarter. Analysed by size, prices of small/medium-sized flats and large flats both rose by 2%. Yet overall flat prices in June were still 3% lower than in December 2015, and 10% lower than the peak in September 2015.

3.4 The leasing market also stabilised somewhat in the second quarter, with overall flat rentals edging up by 1% between March and June. Analysed by size, rentals of small/medium-sized flats rose by 1%, while those of large flats dropped by another 2%. Overall flat rentals in June 2016 dropped by a cumulative 4% from December 2015, and were 7% down from the peak in September 2015. Reflecting the relative movements of flat prices and rentals, the average rental yield for residential property edged down from 2.8% in March to 2.7% in June.

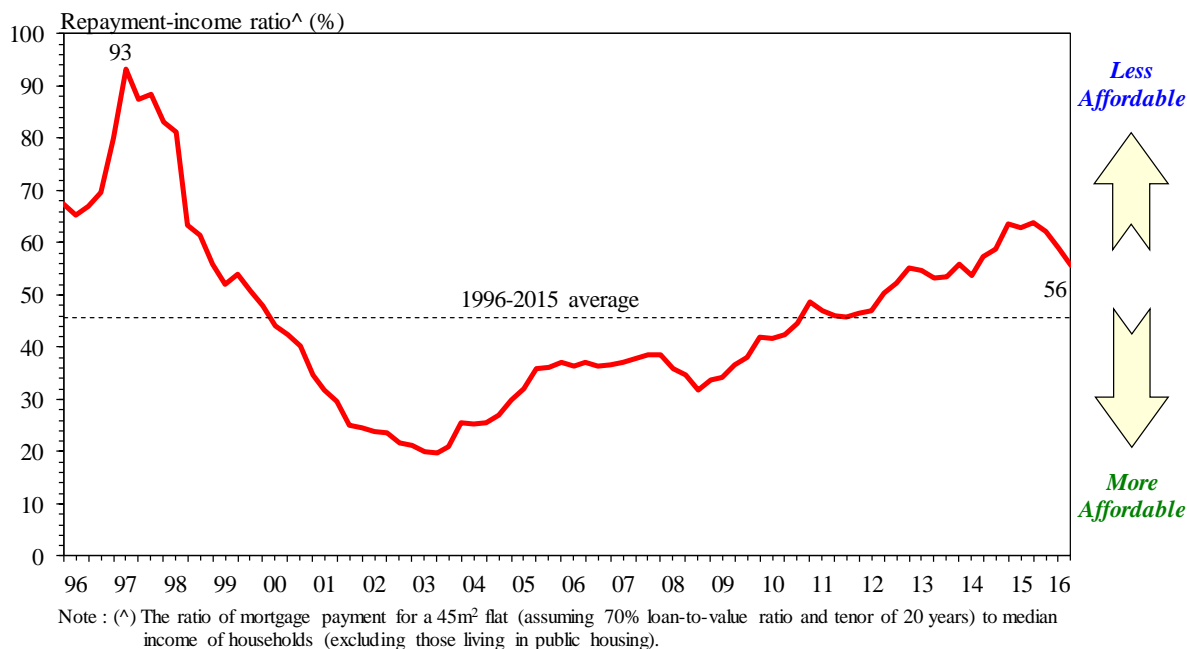
**Diagram 3.2 : Both flat prices and rentals rose during the second quarter**



Note : Residential property price index pertains to secondary market transactions only. Large flats refer to those with a saleable area of at least 100 m<sup>2</sup>, and small/medium-sized flats with a saleable area of less than 100 m<sup>2</sup>.

3.5 As a result of the surge over the past several years, overall flat prices remained elevated in June 2016, exceeding the 1997 peak by 59%. While the 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) declined further to around 56% in the second quarter, it was still significantly above the long-term average of 46% over 1996-2015. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 72%.

**Diagram 3.3 : The mortgage payment to income ratio stayed elevated**



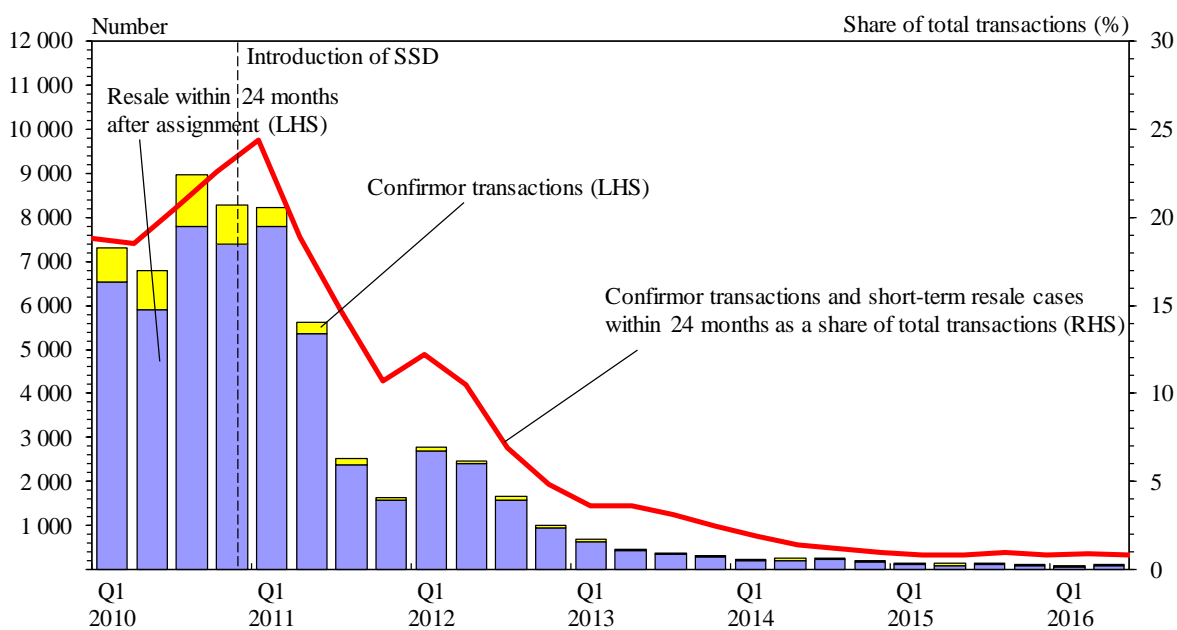
3.6 Raising flat supply through increasing land supply is the Government’s top policy priority in ensuring a healthy and stable development of the property market. As announced in June 2016, in the third quarter the Government will put up for sale a total of seven residential sites capable of providing about 4 760 flats. The private housing land supply (including Government land sale, railway property development projects, and the Urban Renewal Authority’s projects, without counting private development and redevelopment projects) in the first half of 2016-17 is estimated to have a capacity of providing about 9 580 flats, compared with the 2016-17 private housing land supply target of providing 18 000 flats.

3.7 Reflecting the Government’s sustained efforts in raising land supply, the number of private domestic units commencing work rose further by 22% over a year earlier to 10 900 in the first half of 2016. Completions also surged by 46% to 7 400 units. The *total supply of flats* in the coming three to four years (comprising unsold flats of completed projects, flats under construction but not yet sold and flats on disposed sites where construction can start any time) rose further from 92 000 units as estimated at end-March to another record high of 93 000 units as estimated at end-June. In addition, another 12 000 units could be added to the total supply after the conversion of a number of residential sites into “disposed sites”.

3.8 The Government has also put in significant efforts to manage demand and reduce the possible risks to financial stability arising from an exuberant

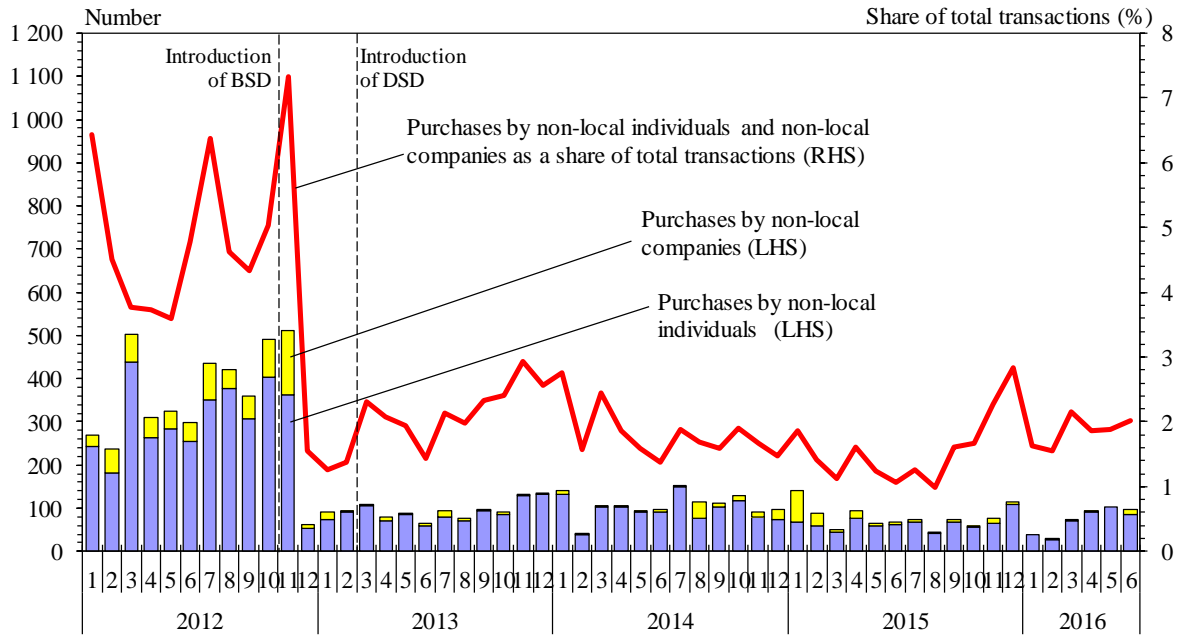
property market<sup>(1)</sup>. These measures have yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) remained subdued at 42 cases per month or 0.8% of total transactions in the second quarter, 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* also stayed low at 98 cases per month or 1.9% of total transactions in the second quarter, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As to *mortgage lending*, the average loan-to-value ratio of new mortgages was 52% in the quarter, also below the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority.

**Diagram 3.4 : Speculative activities stayed subdued**



Note : Confirmor transactions refer to resale before assignment.

**Diagram 3.5 : Purchases by non-local buyers remained low**



3.9 Looking forward, the residential property market will still be subject to considerable pressure and uncertainties. On the domestic front, the medium-term supply of flats has risen significantly, while demand may be affected by the uncertain economic outlook. On the external front, the UK’s vote to leave the European Union in late June has brought a new source of uncertainty to the global economic outlook and financial market stability, which may have impact on local asset prices not only through changing international fund flows but also through stirring market expectations.

3.10 The *commercial and industrial property markets* lacked apparent direction in the second quarter of 2016. Prices and rentals for different market segments exhibited a mixed performance. Trading activities remained quiet by historical standards, though showing some rebound from the low levels in the preceding quarter.

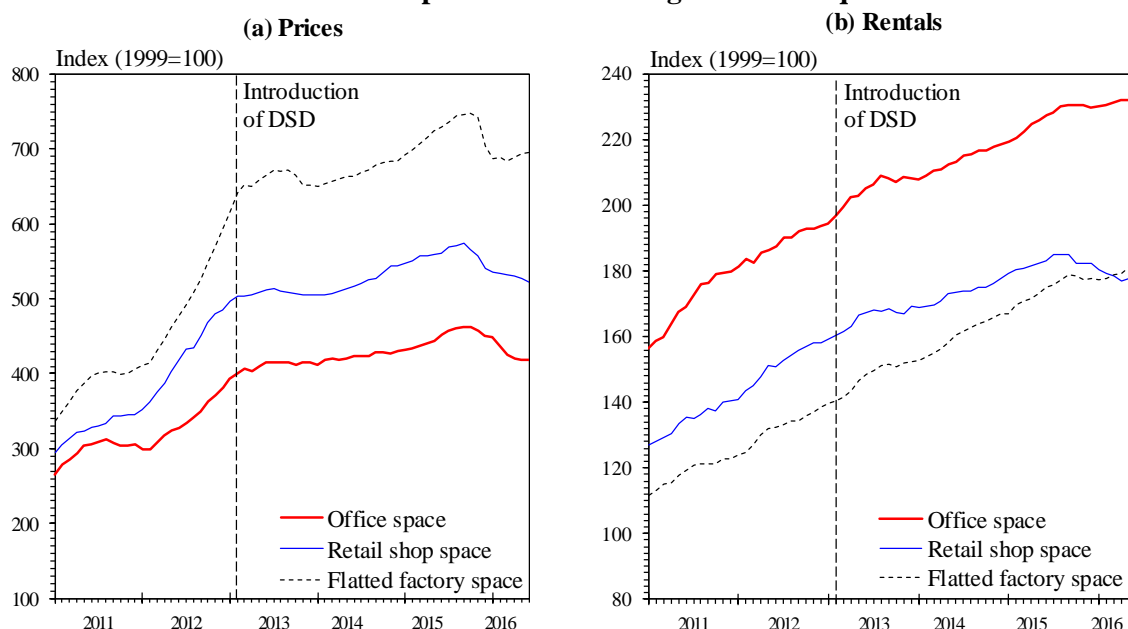
3.11 Overall sale prices of *office space* declined by 2% between March and June. Within the total, prices of Grade B and C office space fell by 5% and 3% respectively, while prices of grade A office space edged up by 1%. Meanwhile, overall rentals were virtually unchanged. Within the total, rentals of Grade A office space edged up by 1%, while rentals of Grade B and C office space both declined slightly by 1%. As a result, the average rental yields for Grade A, B and C office space were 3.0%, 3.3%, and 3.2% respectively in June, compared with 3.0%, 3.2% and 3.2% in March. Transactions for office space rebounded sharply by 74% over the record low in the first quarter to 250 cases in the

second quarter, though still plummeting by 51% from a year earlier.

3.12 Clouded by the tepid retail sales performance, sale prices of *retail shop space* fell by 2% during the second quarter. Meanwhile, rentals of retail shop space were little changed. Reflecting these movements, the average rental yield stayed at 2.6% in June, unchanged from March. Transactions fell by 19% from the preceding quarter or a sharper 49% from a year earlier to a record low of 260 cases<sup>(2)</sup> in the second quarter.

3.13 Comparing June with March, sale prices and rentals of *flatted factory space* rose by 2% and 3% respectively. Reflecting the relative movement of prices and rentals, the average rental yield stayed unchanged at 3.2% over the period. As for trading activities, transactions soared by 31% over the preceding quarter to 590 cases in the second quarter, but were still 40% below a year earlier.

**Diagram 3.6 : Prices and rentals of non-residential properties showed a mixed performance during the second quarter**



## Land

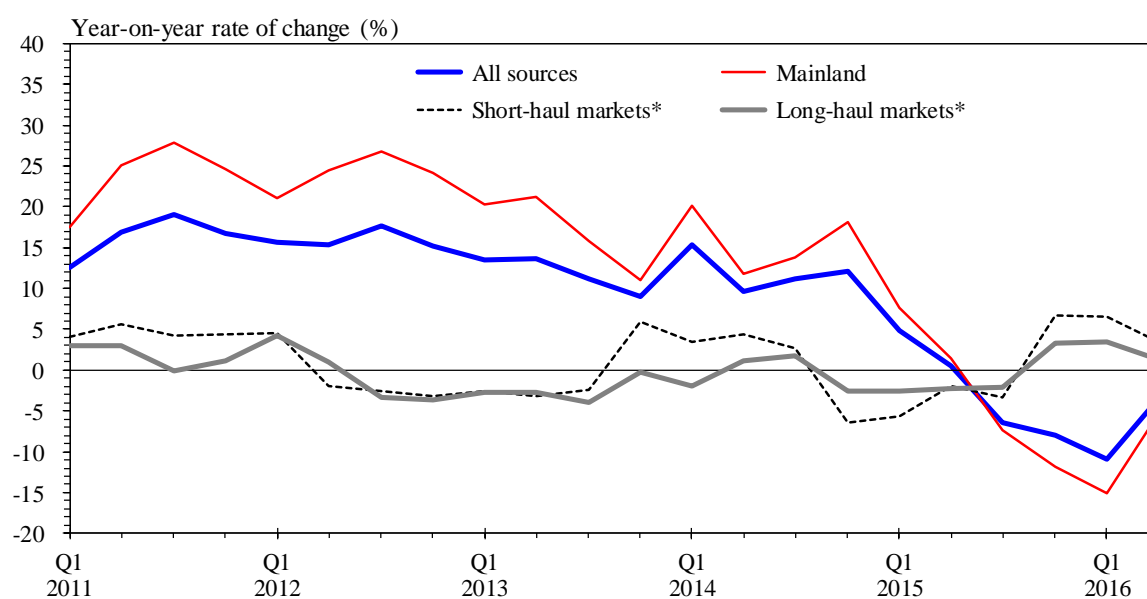
3.14 Reflecting the Government's efforts to increase land supply, three residential sites and one business site, with a total area of about 4.3 hectares, were disposed of in the second quarter, fetching a land premium of about \$6.3 billion. The tender exercises for four residential sites in Tai Po, Yau Tong and Sha Tin, one commercial site in Kwai Chung, one industrial site in Kwai Chung and two sites for petrol filling station in Sai Kung and Yuen Long also commenced in the quarter. There was no land exchange approved in the second quarter, while lease modifications of nine sites were approved.



## Tourism

3.15 Inbound tourism continued to consolidate in the second quarter of 2016, though there was some relative improvement over the first quarter due to a narrowed rate of decline in Mainland visitor arrivals. Overall *visitor arrivals* fell by a decelerated 3.5% from a year earlier to 13.4 million. Analysed by major market, there were 10.0 million Mainland visitors in the second quarter, representing a 5.4% fall from a year earlier. Meanwhile, short-haul and long-haul visitors<sup>(3)</sup> continued to record modest increases of 3.5% and 1.5% respectively.

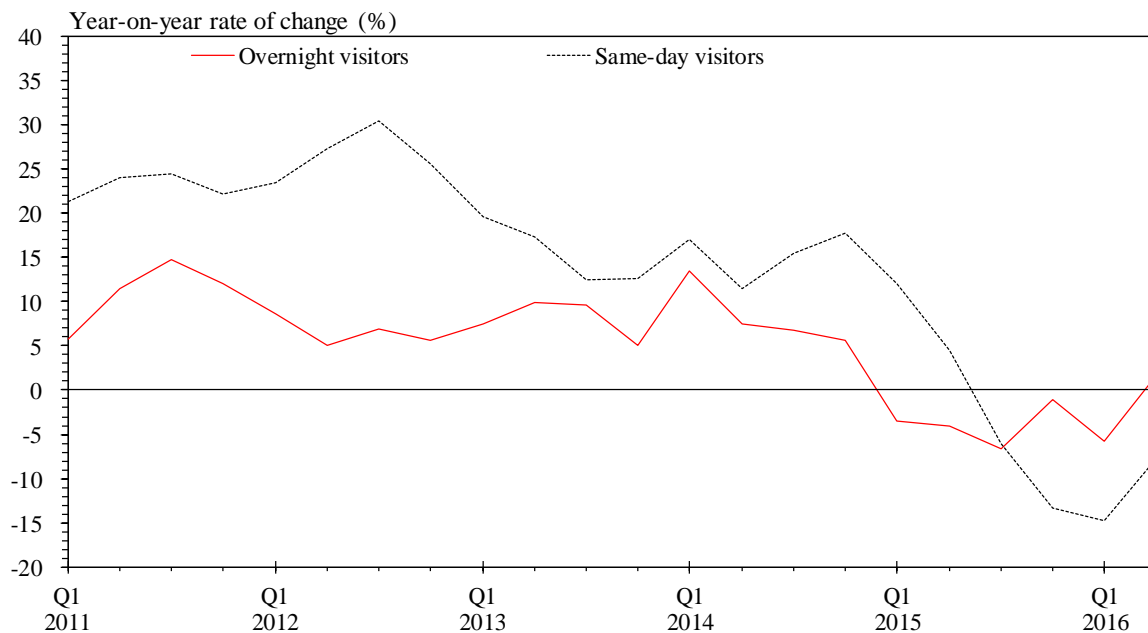
**Diagram 3.7 : Inbound tourism continued to consolidate in the second quarter**



Note : (\*) See note (3) at the end of this chapter for the definition of short-haul and long-haul markets.

3.16 Analysed by the length of stay, overnight visitors reverted to an increase of 1.8% over a year earlier. Meanwhile, same-day visitors fell further by 7.6%, partly due to the lingering impact of the “one trip per week” Individual Visit Endorsements<sup>(4)</sup>. Reflecting these movements, the share of overnight visitors rose from 44.3% a year earlier to 46.6% in the second quarter, while that of same-day visitors declined from 55.7% to 53.4%.

**Diagram 3.8 : Overnight visitors reverted to an increase while same-day visitors continued to fall**

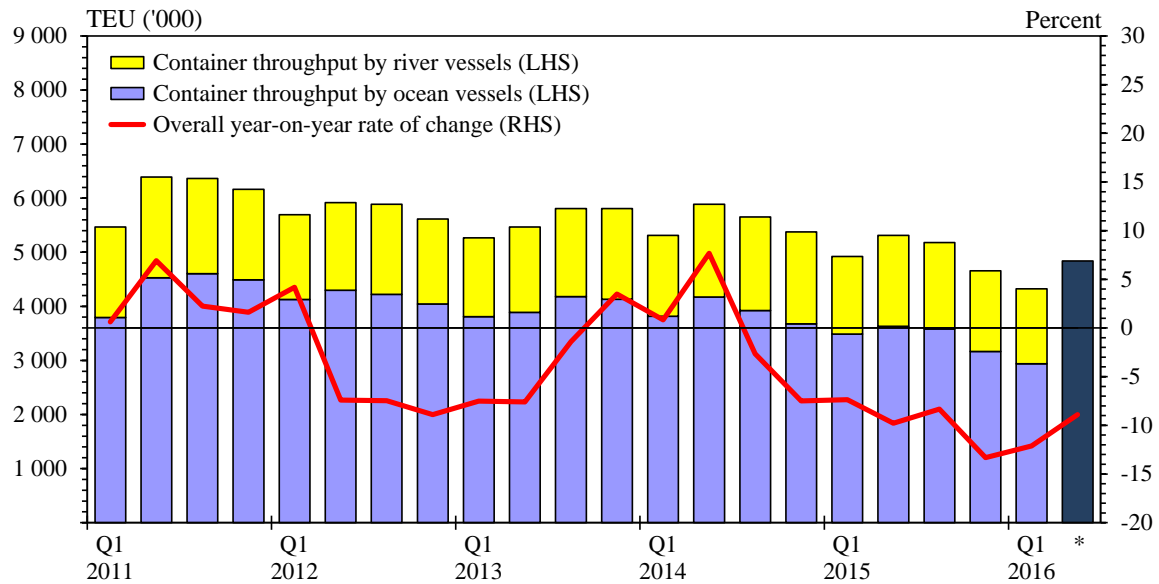


3.17 Along with the increase in overnight visitors, the average hotel room occupancy rate edged up from 84% a year earlier to 85% in the second quarter. The average achieved hotel room rate also recorded a smaller decline of 2.6% to \$1,217<sup>(5)</sup>.

## Logistics

3.18 The logistics sector stayed generally lacklustre in the second quarter of 2016, amid subdued global trade and cargo flows. *Total container throughput* dropped further, by 8.9% from a year earlier to 4.8 million twenty-foot equivalent units (TEUs). In parallel, the value of trade handled at the Hong Kong port dropped by 11.3%, and its share in total trade shrank further from 21.2% to 19.2%.

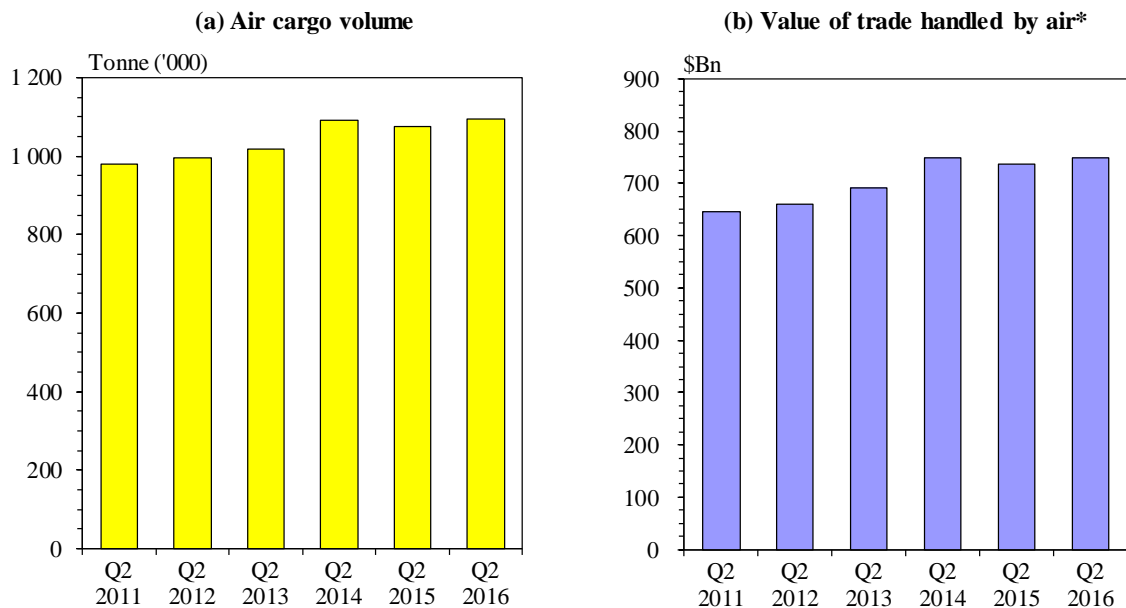
**Diagram 3.9 : Container throughput fell further in the second quarter**



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

3.19 Having declined for four consecutive quarters, *air freight throughput* reverted to a small year-on-year increase of 1.8% to 1.1 million tonnes in the second quarter. The total value of trade by air also increased by 1.6%, with its share in overall trade value rising from 39.0% a year earlier to 40.5%.

**Diagram 3.10 : Air cargo throughput and value of trade handled by air rose in the second quarter**



Note : (\*) Not including transshipment.

3.20 In April, the Government launched a three-month public consultation to gather views on the development of a Trade Single Window (SW) in Hong Kong, which will serve as a single information technology platform for the one-stop lodging of all business-to-government documents for trade declaration and customs clearance purposes. The trading community may lodge trade documents through the SW round the clock and track their submissions electronically, and will no longer need to approach different government agencies separately. The SW is expected to bring about time and cost savings for the trade.

## **Transport**

3.21 Traffic flows for the different modes of transport continued to record varied performance in the second quarter of 2016. Air passenger traffic rose further by 2.7% over a year earlier to 17.6 million, while water-borne passenger trips decreased by another 8.2% to 6.3 million. As to land-based cross-boundary traffic movements, passenger trips edged down by 0.8% to 54.3 million, while average daily vehicular movements rose by 1.5% to 42 329.

## **Environment**

3.22 In accordance with the polluter-pays and cost recovery principles, in April the Government proposed to raise the charges under the Construction Waste Disposal Charging Scheme. The revised charges, to be effective from 7 April 2017, would provide greater incentive for the construction industry to reduce, reuse or recycle construction waste and also help ease the pressure on the landfills.

## Notes :

- (1) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 in the 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 in the 2012 Economic Background and 2013 Prospects and Box 3.1 in the First Quarter Economic Report 2013. For details of the measures promulgated in 2014, see Box 4.1 in the 2013 Economic Background and 2014 Prospects. For details of the measures promulgated in 2015, see Box 3.1 of the First Quarter Economic Report 2015.
- (2) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (3) Short-haul markets refer to North Asia, South and Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In the second quarter of 2016, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 74%, 17% and 9% of total visitor arrivals.
- (4) For details of the change in Individual Visit Endorsements policy in April 2015, see paragraph 3.17 in the Half-yearly Economic Report 2015.
- (5) The figures on hotel room occupancy and achieved room rate do not include guesthouses.

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

### *Summary*

- *The low interest rate environment in Hong Kong continued in the second quarter of 2016 amid the accommodative monetary policy in the United States. The Hong Kong dollar interbank interest rates stayed at low levels.*
- *The Hong Kong dollar spot exchange rate moved within a narrow range against the US dollar during the second quarter. Meanwhile, the trade-weighted Hong Kong dollar Nominal Effective Exchange Rate Index edged up while the Real Effective Exchange Rate Index declined.*
- *After three consecutive quarters of decline, total loans and advances rebounded by 2.4% during the second quarter. Within the total, loans for use in Hong Kong increased by an accelerated 3.1% while loans for use outside Hong Kong rebounded by 0.7%.*
- *The local stock market remained rather volatile in the second quarter, as sentiment swung along the various developments in the global economy and financial markets. The Hang Seng Index moved within a range of 19 694 to 21 622, and closed the quarter at 20 794, only 0.1% above end-March. The range of fluctuation was nevertheless narrower than in the first quarter. Trading activities quietened down, and fund raising activities were subdued.*

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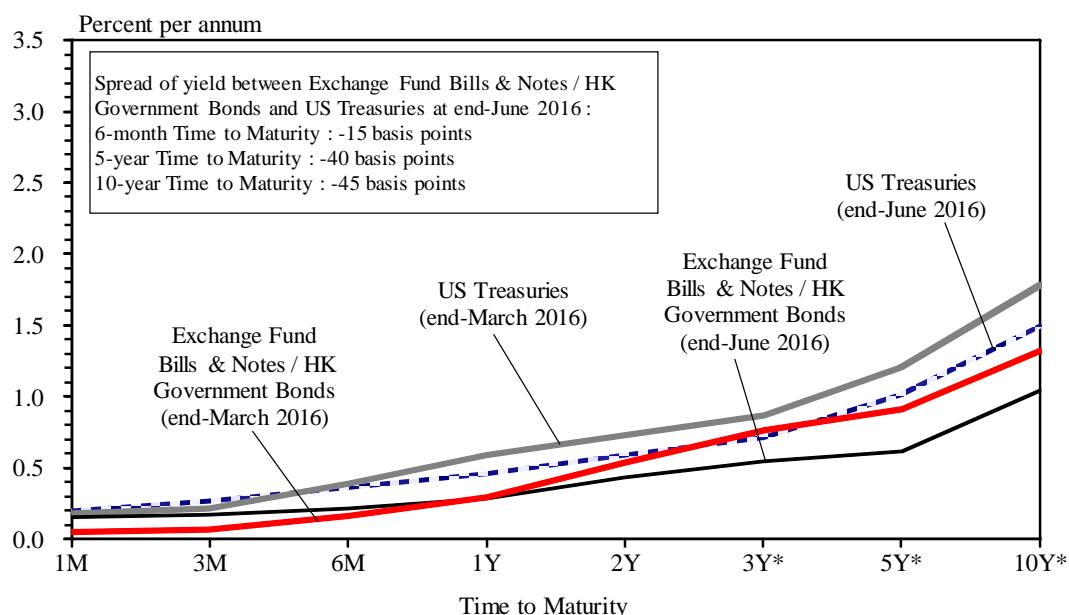
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

## Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the second quarter of 2016 amid the ongoing accommodative monetary policy in the United States. With the target range for the Federal Funds Rate staying at 0.25-0.50%, the *Base Rate* under the Discount Window operated by the HKMA held unchanged at 0.75% during the quarter<sup>(1)</sup>. As for the *Hong Kong dollar interbank interest rates* (HIBORs), the overnight HIBOR edged up from 0.09% at end-March to 0.12% at end-June, and the three-month HIBOR from 0.56% to 0.57%, but these were still low levels by historical standards.

4.2 *Hong Kong dollar yields* declined at the long tenure but edged up at the short tenure in the second quarter, while the *US dollar yield curve* generally flattened. Reflecting these movements, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills narrowed from 23 basis points at end-March to 15 basis points at end-June. That between the 10-year Hong Kong Government Bonds and 10-year US Treasury Notes also edged down from 46 basis points to 45 basis points.

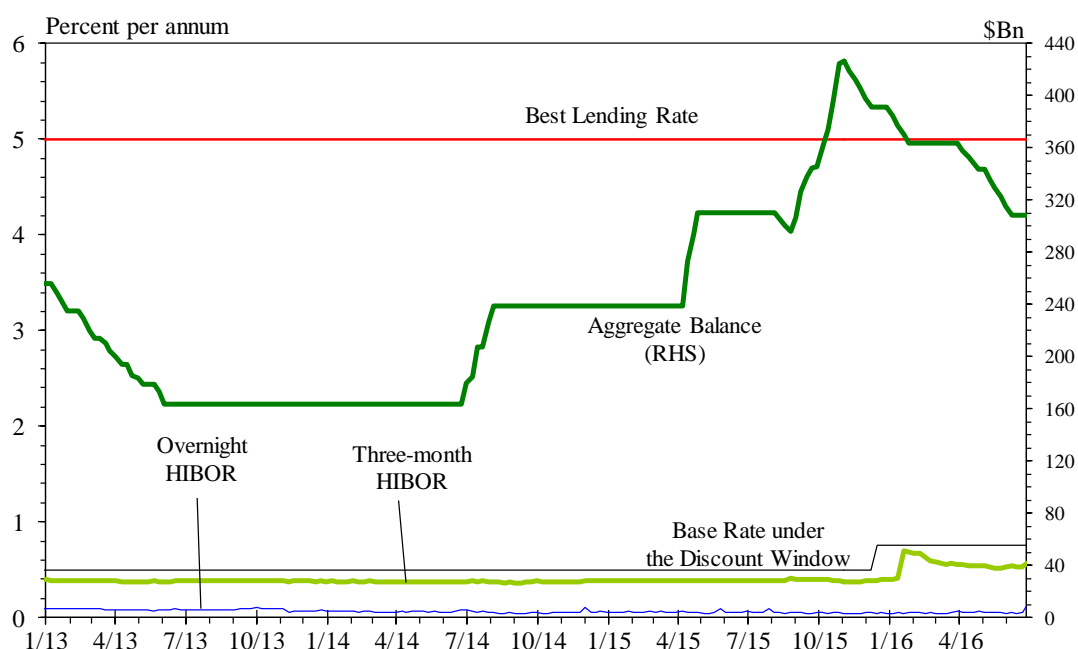
**Diagram 4.1 : Hong Kong dollar yields declined at the long tenure but edged up at the short tenure, while the US dollar yield curve flattened**



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

4.3 Interest rates on the retail front stayed low. The *Best Lending Rates* stayed unchanged at 5.00% or 5.25% during the second quarter. The *average savings deposit rate* quoted by the major banks and the *one-year time deposit rate* (for deposits of less than \$100,000) remained unchanged at 0.01% and 0.15% respectively at end-June. The *composite interest rate*<sup>(2)</sup>, which indicates the average cost of funds for retail banks, also stayed unchanged at 0.26% at end-June.

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



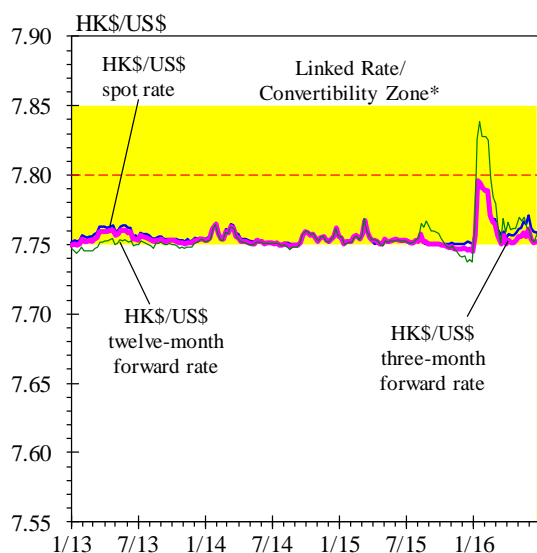
4.4 During the second quarter, the *Hong Kong dollar spot exchange rate* moved within a narrow range of 7.755-7.771 against the US dollar. After softening in April and May along with the weakness of most Asian currencies, the Hong Kong dollar strengthened against the US dollar in June on the back of dividend-related Hong Kong dollar demand. The Hong Kong dollar spot exchange rate closed at 7.759 at end-June, compared with 7.754 at end-March. As regards the *Hong Kong dollar forward rates*, the 12-month forward rate turned from a premium of 20 pips (each pip equivalent to HK\$0.0001) at end-March to a discount of 50 pips at end-June while the discount for 3-month Hong Kong dollar forward rate widened from 43 pips to 85 pips.

4.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. During the second quarter, the US dollar strengthened against most major currencies including pound sterling, Australian dollar and renminbi but weakened against the Japanese yen. As a result, the *trade-weighted Hong*



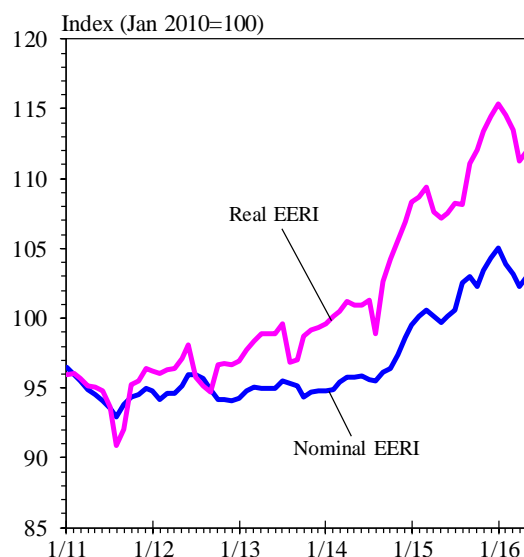
Kong dollar Nominal Effective Exchange Rate Index<sup>(3)</sup> edged up by 0.1% during the second quarter. Meanwhile, the Real Effective Exchange Rate Index declined by 1.2%.

**Diagram 4.3 : Hong Kong dollar moved within a narrow range against the US dollar (end for the week)**



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

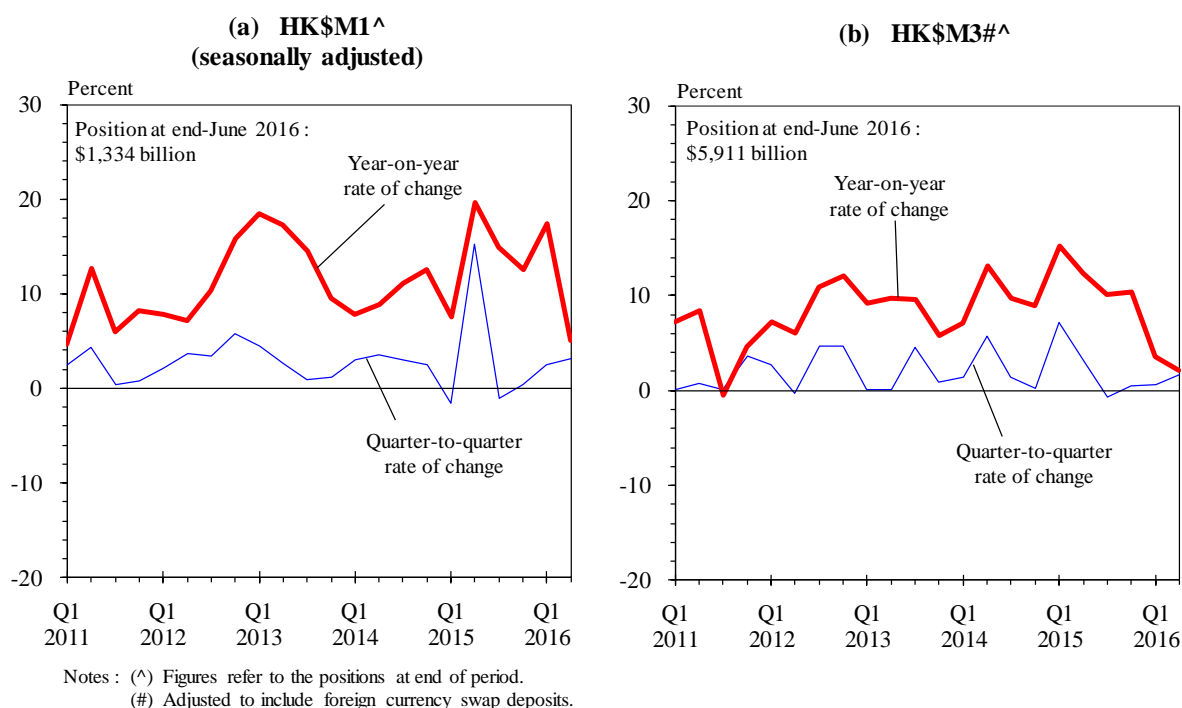
**Diagram 4.4 : The trade-weighted nominal EERI edged up while real EERIs declined (average for the month)**



## Money supply and banking sector

4.6 The monetary aggregates continued to expand in the second quarter of 2016. The Hong Kong dollar broad *money supply* (HK\$M3) increased by 1.7% over end-March to \$5,911 billion<sup>(4)</sup> at end-June, and the seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1) by 3.2% to \$1,334 billion. Meanwhile, *total deposits* with authorized institutions (AIs)<sup>(5)</sup> grew by 0.7% to \$11,048 billion, within which Hong Kong dollar deposits rose by 1.8% while foreign currency deposits edged down by 0.4%.

**Diagram 4.5 : The monetary aggregates continued to expand in the second quarter of 2016**



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

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
<u>% change during the quarter</u>		<u>HK\$<sup>^</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>
2015	Q1	-1.6	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
2016	Q1	2.5	5.4	0.6	1.1	0.6	1.1
	Q2	3.2	0.6	1.7	0.4	1.7	0.4
Total amount at end-June 2016 (\$Bn)		1,334	2,090	5,899	11,791	5,911	11,828
% change over a year earlier		5.1	9.0	2.2	3.1	2.1	3.1

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 After three consecutive quarters of decline, *total loans and advances* rebounded by 2.4% over end-March to \$7,700 billion at end-June. Both Hong Kong dollar loans and foreign currency loans picked up, by 1.8% and 3.0% respectively. Reflecting the relative movements in deposits and loans, the loan-to-deposit ratio for Hong Kong dollar stayed unchanged at 78.2% at end-June, while that for foreign currencies rose from 59.4% at end-March to 61.4% at end-June.

4.8 Loans for use in Hong Kong (including trade finance) recorded an accelerated increase of 3.1% over end-March to \$5,421 billion at end-June. Over the period loans for use outside Hong Kong rebounded by 0.7% to \$2,279 billion. Within the loans for use in Hong Kong, loans to manufacturing, trade finance, and loans to wholesale and retail trade rose by 8.8%, 5.7% and 0.7% respectively after noticeable declines in the previous quarters. Loans to financial concerns and stockbrokers rose by 13.7% and 6.8% respectively. As for property-related lending, loans for purchase of residential properties rose by a modest 0.5% notwithstanding the rebound in property market transactions, while loans to building, construction, property development and investment expanded by 1.5%.

**Table 4.2 : Loans and advances**

All loans and advances for use in Hong Kong

% change during the quarter		Loans to :								All loans and advances for use outside Hong Kong <sup>(c)</sup>	Total loans and advances
		Trade finance	Manu- facturing	Whole- sale and retail trade	Building, construction, property development and investment	Purchase of residential property <sup>(a)</sup>	Financial concerns	Stock- brokers	Total <sup>(b)</sup>		
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
2016	Q1	-1.5	-2.9	-6.3	2.7	0.5	-3.6	7.8	0.1	-0.8	-0.2
	Q2	5.7	8.8	0.7	1.5	0.5	13.7	6.8	3.1	0.7	2.4
Total amount at end-June 2016 (\$Bn)		473	258	419	1,187	1,130	496	64	5,421	2,279	7,700
% change over a year earlier		-17.0	1.0	-11.0	6.2	5.0	22.6	-36.7	2.1	-3.7	0.3

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

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

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

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

4.9 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 18.2% at end-March 2016. Asset quality of the local banking sector remained sound despite some marginal deterioration. The ratio of classified loans to total loans increased from 0.70% at end-2015 to 0.78% at

end-March 2016, and the delinquency ratio for credit card lending edged up from 0.25% to 0.27%. Yet these ratios were still low by historical standards. Meanwhile, the delinquency ratio for residential mortgage loans stayed low at 0.04% at end-June 2016.

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

(as % of total loans)

<u>As at end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2015	Q1	98.39	1.14	0.46
	Q2	98.23	1.28	0.49
	Q3	98.08	1.36	0.56
	Q4 <sup>^</sup>	97.86	1.44	0.70
2016	Q1	97.77	1.45	0.78

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”.

(<sup>^</sup>) Figures prior to December 2015 cover retail banks’ Hong Kong offices and overseas branches. Starting from December 2015, the coverage was expanded to include the banks’ major overseas subsidiaries.

4.10 *Offshore renminbi (RMB) business* remained generally lacklustre in the second quarter. Total RMB deposits (including customer deposits and outstanding certificates of deposit) declined by 10.4% from end-March to RMB796.2 billion at end-June. RMB trade settlement transactions handled by banks in Hong Kong plunged by 21.3% from a year earlier to RMB1,234.6 billion in the second quarter. As to RMB-related financing, RMB bank lending increased by 2.0% over end-March to RMB287.3 billion at end-June. Meanwhile, RMB bond issuance (not including RMB14 billion issuance by the Ministry of Finance) expanded from RMB4.3 billion in the first quarter to RMB6.7 billion in the second quarter.

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

<u>As at end of period</u>		<u>Interest rates on<sup>(a)</sup></u>					<u>Number of AIs engaged in RMB business</u>	<u>Amount of cross-border RMB trade settlement<sup>(c)</sup></u> (RMB Mn)
		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Savings deposits<sup>(b)</sup></u> (%)	<u>Three-month time deposits<sup>(b)</sup></u> (%)		
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
2016	Q1	187,124	572,302	759,425	0.25	0.53	145	1,130,645
	Q2	204,282	507,266	711,549	0.25	0.53	146	1,234,587
% change in 2016 Q2 over 2015 Q2		13.2%	-37.6%	-28.3%	N.A.	N.A.	N.A.	-21.3%
% change in 2016 Q2 over 2016 Q1		9.2%	-11.4%	-6.3%	N.A.	N.A.	N.A.	9.2%

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

## The debt market

4.11 The Hong Kong dollar *debt market* expanded further in the second quarter of 2016 on the back of a notable increase in issuance by both the public and private sectors. Total gross issuance of Hong Kong dollar debt securities jumped by 13.0% over the preceding quarter to \$800.9 billion in the second quarter, of which 84.6% was Exchange Fund papers issuance. Within the total, debt issuance by the public and private sectors surged by 12.6% and 12.9% respectively, with the latter mainly driven by a significant growth in issuance by non-Multilateral Development Banks overseas borrowers<sup>(6)</sup>. Against this backdrop, the total outstanding balance of Hong Kong dollar debt securities went up by 6.3% over end-March to \$1,654.4 billion at end-June, equivalent to 28.0% of HK\$M3 or 22.8% of Hong Kong dollar-denominated assets of the banking sector<sup>(7)</sup>.

4.12 As to the Government Bond (“GB”) Programme, a total of \$6.5 billion institutional GBs and a batch of iBonds with a size of \$10 billion were issued in the second quarter. At end-June, the total outstanding amount of Hong Kong dollar bonds under the GB Programme was \$100.5 billion. This comprised 13 institutional issues totaling \$70.5 billion and three retail issues (iBonds)

totalling \$30 billion. In addition, there were two outstanding US dollar sukuks, each with an issuance size of US\$1 billion.

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

	Exchange Fund paper	Statutory bodies/govern ment-owned corporations	Govern -ment	Public sector total	AIs <sup>(a)</sup>	Local corporations	Non-MDBs overseas borrowers <sup>(b)</sup>	Private sector total	MDBs <sup>(b)</sup>	Total
<b>New Issuance</b>										
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
2016 Q1	622.4	4.4	1.6	628.4	53.8	4.7	21.4	79.9	0.8	709.1
Q2	677.3	14.1	16.5	707.8	56.1	3.3	30.8	90.3	2.8	800.9
% change in 2016 Q2 over 2015 Q2	25.1	249.1	251.1	28.7	141.7	58.2	99.3	121.3	N.A.	35.6
% change in 2016 Q2 over 2016 Q1	8.8	219.7	931.3	12.6	4.4	-29.9	43.9	12.9	259.4	13.0
<b>Outstanding (as at end of period)</b>										
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
2016 Q1	856.9	47.3	102.0	1,006.2	232.5	142.1	169.7	544.4	6.0	1,556.5
Q2	912.4	56.3	102.0	1,070.6	256.7	143.2	175.0	574.9	8.8	1,654.4
% change in 2016 Q2 over 2015 Q2	21.2	30.2	8.4	20.2	4.4	2.2	17.8	7.6	66.1	15.7
% change in 2016 Q2 over 2016 Q1	6.5	18.9	0.0	6.4	10.4	0.8	3.1	5.6	47.7	6.3

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.

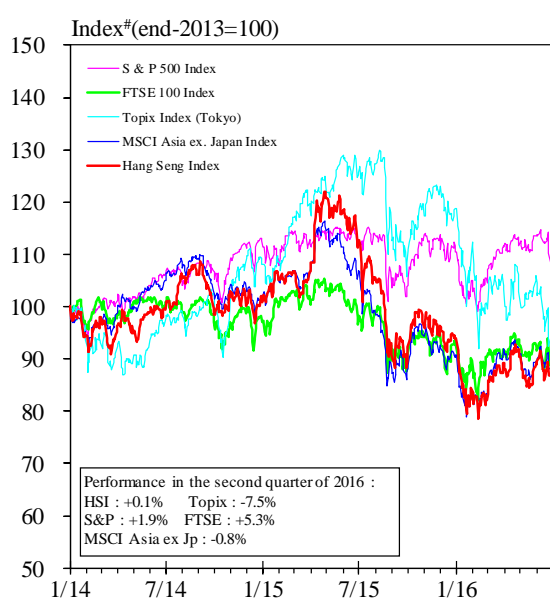
(b) MDBs : Multilateral Development Banks.

## The stock and derivatives markets

4.13 The *local stock market* was still rather volatile in the second quarter of 2016. As sentiment swung along the various developments in the global economy and financial markets, including easing concerns over further rate hike in the US, weak performance of the Mainland stock market and more recently the referendum result of the UK to leave the European Union, the Hang Seng Index (HSI) fluctuated between 19 694 and 21 622 in the quarter. Yet the range of fluctuation was narrower than in the first quarter. It closed at 20 794 at end-June, only 0.1% above end-March. The *market capitalisation* of the Hong Kong stock market declined by 1.6% to \$23.1 trillion over the period. The local stock market was the eighth largest in the world and fourth largest in Asia<sup>(8)</sup>.

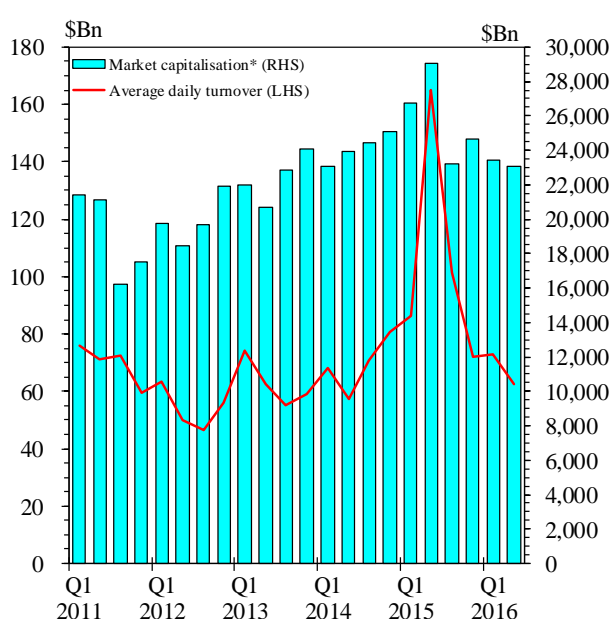
4.14 Trading activities quietened down in face of the highly uncertain outlook. *Average daily turnover* in the securities market contracted by 13.9% from the preceding quarter or 62.0% from a year earlier to \$62.6 billion in the second quarter. The average daily trading value of derivative warrants, unit trusts (including Exchange-Traded Funds), callable bull/bear contracts and equities<sup>(9)</sup> all fell, by 29.5%, 25.5%, 13.1% and 7.3% respectively. As to futures and options<sup>(10)</sup>, the average daily trading volume shrank by 5.8% from the preceding quarter. Within the total, trading of H-shares Index futures, HSI futures and stock options went down by 10.3%, 4.1% and 0.1% respectively, while that of HSI options recorded a modest increase of 1.5%.

**Diagram 4.6 : The local stock market was still rather volatile in the second quarter of 2016**



Note : (#) Position at end of month.

**Diagram 4.7 : Market capitalisation declined, while trading activities quietened down**



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

**Table 4.6 : Average daily turnover of futures and options of the Hong Kong market**

		Hang Seng Index futures	Hang Seng Index options	H-shares Index futures	Stock options	Total futures and options traded*
2015	Annual	85 991	30 427	135 139	374 346	768 520
	Q1	64 351	27 727	108 774	363 322	672 678
	Q2	81 541	35 129	154 553	523 860	946 336
	Q3	82 744	33 238	152 006	375 780	819 085
	Q4	114 430	25 752	125 310	241 192	641 404
2016	Q1	141 439	38 235	154 053	293 047	805 276
	Q2	135 572	38 802	138 127	292 684	758 733
	% change in 2016 Q2 over 2015 Q2	66.3	10.5	-10.6	-44.1	-19.8
	% change in 2016 Q2 over 2016 Q1	-4.1	1.5	-10.3	-0.1	-5.8

Note : (\*) 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.

4.15 Fund raising activities turned very quiet in the first half of 2016 amid the volatile stock market. *Total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)<sup>(11)</sup>, tumbled by 80.2% from a year earlier to \$140.7 billion in the first half. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) shrank by 66.4% to \$43.6 billion. Nonetheless, Hong Kong still ranked the first globally in terms of the amount of funds raised through IPOs in the first half.

4.16 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-June 2016, a total of 966 Mainland enterprises (including 231 H-share companies, 152 “Red Chips” companies and 583 private enterprises) were listed on the Main Board and GEM, accounting for 51% of the total number of listed companies and 63% of total market capitalisation. In the second quarter, Mainland-related stocks accounted for 70% of equity turnover and 62% of total equity fund raised in the Hong Kong stock exchange.

## **Fund management and investment funds**

4.17 Different segments of the fund management business showed a mixed



performance in the second quarter of 2016. The monthly average gross retail sales of *mutual funds* expanded by 23.6% over the preceding quarter to US\$5.4 billion in April – May<sup>(12)</sup>, yet this represented a plunge of 42.1% from a year earlier. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*<sup>(13)</sup> rose by 2.5% over end-March to \$607.3 billion at end-June. Meanwhile, the amount of net assets managed by *retail hedge funds* recorded a sharp fall<sup>(14)</sup>.

4.18 In June, the Government gazetted the MPF Schemes (Amendment) Ordinance 2016 to mandate each MPF trustee to provide a highly standardised and fee-controlled Default Investment Strategy (DIS) in each MPF scheme. Specifically, the DIS involves gradual reduction of exposure to higher risk assets after the scheme member reaches the age of 50. There is also a fee cap of 0.75% and an out-of-pocket expenses cap of 0.2% of the net asset value of the Constituent Funds. The DIS is expected to help drive down fees and improve cost efficiency in the wider MPF system and to address public concerns over high fees and difficulty of making investment choices. Upon completion of preparatory work by the MPF Authority and the industry, the Government would stipulate a specific date of DIS implementation and would review the fee cap in three years.

4.19 The Government also gazetted the Securities and Futures (Amendment) Ordinance 2016 in June to provide for a legal framework for the registration and incorporation of open-ended fund companies (OFCs) and the regulation of such companies and their businesses. Currently, an open-ended investment fund may be established under the laws of Hong Kong in the form of a unit trust, but not in corporate form. The new OFC structure would help diversify the fund domiciliation platform in Hong Kong and create a more flexible business environment for fund managers. This would attract more funds to choose to domicile in Hong Kong, thereby promoting the further development as an international asset management hub.

## **Insurance sector**

4.20 The *insurance sector*<sup>(15)</sup> continued to expand in the first quarter of 2016. Gross premium income from long-term business rose by 5.9% over a year earlier, yet performance of different underlying business segments varied. While premium income from non-investment linked plans leapt by 16.2%, that from investment-linked plans plummeted by 70.8%. As to general business, gross premium edged up by 1.1% while net premium declined by 2.1%.

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

	General business			Premium for long-term business <sup>^</sup>					Gross premium from long-term business and general business
	Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	
2015 Annual	45,961	32,085	1,697	120,435	10,243	178	417	131,273	177,234
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
Q4	10,487	7,244	191	32,110	1,456	41	71	33,678	44,165
2016 Q1	13,078	8,864	574	37,256	1,239	50	92	38,637	51,715
% change in 2016 Q1 over 2015 Q1	1.1	-2.1	-11.0	16.2	-70.8	-3.8	-24.0	5.9	4.6

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

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

## Highlights of policy and market developments

4.21 Following two rounds of consultation, the Government gazetted the Financial Institutions (Resolution) Ordinance in June to establish a resolution regime in Hong Kong. Under the Ordinance, the Monetary Authority, the Insurance Authority and the Securities and Futures Commission are designated as resolution authorities and vested with a range of necessary powers to effect orderly resolution of a failed systematically important financial institution. This would help mitigate the risks posed by the non-viability of systemically important financial institutions to the stability and effective working of the financial system of Hong Kong.

4.22 The Inland Revenue (Amendment) (No. 2) Ordinance 2016 was gazetted in June. The Amendment Ordinance enables the deduction of interest payable on money borrowed by a corporation carrying on an intra-group financing business in Hong Kong, and provides for a concessionary profits tax rate of 8.25% for qualifying corporate treasury centres, both effective from April 1 2016. This would provide a conducive environment for attracting multinational and Mainland corporations to centralise their treasury functions in Hong Kong, thereby enhancing the competitiveness of the financial markets and contributing to the development of a headquarters economy.

## 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-June 2016, there were 156 licensed banks, 24 restricted licence banks and 18 deposit-taking companies in Hong Kong. Altogether, 198 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.

- (6) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (7) 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.
- (8) The ranking is based on the figures compiled by the World Federation of Exchanges and the London Stock Exchanges Group.
- (9) Given the relatively small share (less than 0.5% of the daily turnover in the securities market), trading of debt securities and its movements were not analysed.
- (10) At end-June 2016, there were 84 classes of stock options contracts and 74 classes of stock futures contracts.
- (11) At end-June 2016, there were 1 666 and 236 companies listed on the Main Board and GEM respectively.
- (12) 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-May 2016, the survey covered a total of 1 149 active authorised funds.
- (13) At end-June 2016, there were 18 approved trustees. On MPF products, 35 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 462 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 276 000 employers, 2.57 million employees and 204 000 self-employed persons have participated in MPF schemes.
- (14) At end-June 2016, there were two SFC-authorised retail hedge funds with combined net asset size of US\$49 million. The amount of net assets under management represented a 55.5% decrease from the end-March 2016 level, and a 69.4% decrease from end-2002, the year when the hedge funds guidelines were first issued.
- (15) At end-June 2016, there were 161 authorised insurers in Hong Kong. Within this total, 48 were engaged in long-term insurance business, 94 in general insurance business, and 19 in composite insurance business. These authorised insurers came from 24 countries and territories (including Hong Kong).

## CHAPTER 5 : THE LABOUR SECTOR

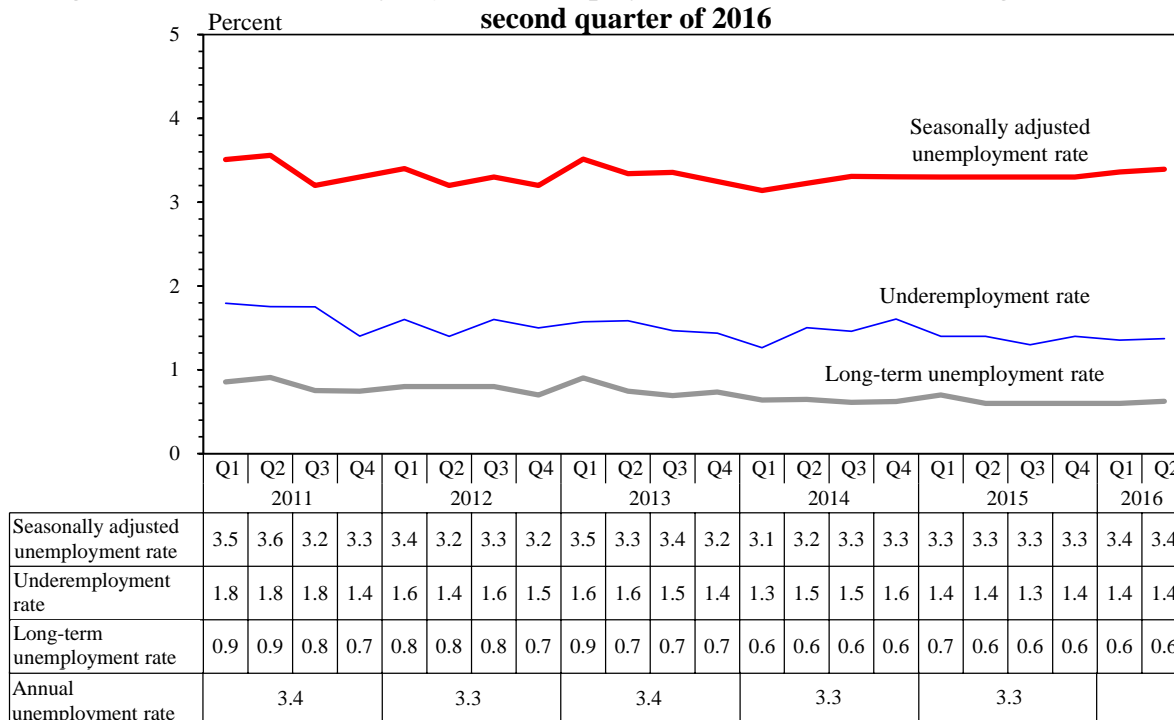
### *Summary*

- *The labour market held broadly stable in overall terms in the second quarter of 2016, displaying much resilience in the face of the concurrent slowdown in inbound tourism and local consumption market as well as the persisting external headwinds.*
- *Both total employment and the labour force grew further over a year earlier. Yet labour demand showed further easing, with job vacancies in the private sector falling visibly further over a year earlier, thereby remaining a cause for concern.*
- *The seasonally adjusted unemployment rate remained unchanged at 3.4% during the second quarter, with mixed movements in different sectors. In particular, employment situation in consumption- and tourism-related sectors weakened noticeably amid the sustained slack in inbound tourism.*
- *On the back of a largely stable labour market, nominal wages and payroll kept rising on entering 2016, though at a moderated pace. Meanwhile, earnings of grassroots workers sustained solid improvement, thanks in part to the carry-over effect from the upward adjustment of the Statutory Minimum Wage (SMW) rate since May 2015.*

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

5.1 The labour market stayed largely stable in the second quarter of 2016, though with further signs of easing amid the subpar growth in local consumption as well as the sustained weakness in inbound tourism and external trade. The seasonally adjusted *unemployment rate*<sup>(2)</sup> and the *underemployment rate*<sup>(3)</sup> remained unchanged at 3.4% and 1.4% respectively, while total employment and the labour force grew modestly further over a year earlier. However, job vacancies in the private sector showed an enlarged year-on-year decline, especially in the trade- and tourism-related sectors. Amid the broadly stable labour market conditions, wages and earnings stayed on the rise, though at a moderated pace.

**Diagram 5.1 : The seasonally adjusted unemployment rate remained unchanged at 3.4% in the second quarter of 2016**



## Labour force and total employment

5.2 On the supply side, the *labour force*<sup>(4)</sup> expanded by 1.1% year-on-year to 3 943 200 in the second quarter of 2016. This was slightly faster than the concurrent increase of 0.9% in the working-age population (i.e. land-based non-institutional population aged 15 and above). Labour force participation rate hence rose marginally by 0.1 percentage point to 61.2% over the period.

5.3 On the demand side, *total employment*<sup>(5)</sup> increased by 0.9% year-on-year to 3 807 100 in the second quarter. Employment of the consumption and tourism-related sectors, viz. retail, accommodation and food services as a whole, posted the fifth consecutive quarter of year-on-year decline amid the slowdown in inbound tourism and local consumption market.

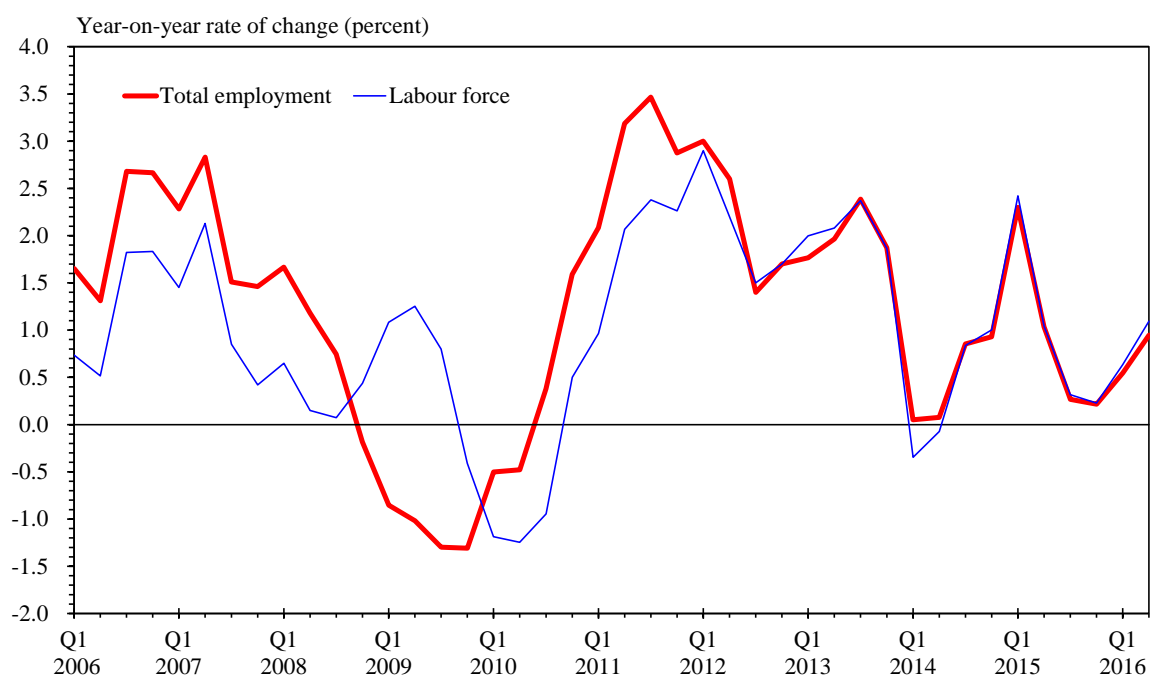
**Table 5.1 : The labour force, and persons employed, unemployed and underemployed**

	<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed<sup>(a)</sup></u>	<u>Persons underemployed</u>
2015 Annual	3 909 800 (0.9)	3 780 900 (0.8)	128 900	53 000
Q1	3 917 300 (2.4)	3 791 100 (2.3)	126 200	53 500
Q2	3 900 500 (1.0)	3 771 400 (1.0)	129 100	55 200
Q3	3 916 300 (0.3)	3 779 200 (0.3)	137 100	52 800
Q4	3 913 300 (0.2)	3 790 000 (0.2)	123 300	52 900
2016 Q1	3 942 200 (0.6)	3 811 800 (0.5)	130 400	53 400
<i>Three months ending</i>				
2016 Apr	3 940 800 (1.0)	3 806 600 (0.8)	134 200	53 300
May	3 935 500 (1.2)	3 800 900 (1.0)	134 600	55 900
Jun	3 943 200 (1.1)	3 807 100 (0.9)	136 100	54 100
	<§>	<-0.1>		

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.  
 ( ) % change over a year earlier.  
 < > Seasonally adjusted quarter-to-quarter % change for the second quarter of 2016.  
 § Change less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Both the labour force and total employment grew further in the second quarter**



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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 Q1</u>	<u>2016 Q2</u>
<u>Male</u>							
15-24	35.7	36.4	37.8	37.8	39.0	38.8	38.7
<i>of which:</i>							
15-19	9.9	10.5	11.0	11.1	11.6	12.1	12.5
20-24	61.1	61.1	62.5	61.5	61.9	60.8	61.4
25-29	93.9	94.5	93.8	93.4	93.6	93.3	91.6
30-39	96.5	96.8	96.9	96.5	96.5	96.1	96.0
40-49	95.1	95.3	95.5	94.7	95.0	95.0	95.1
50-59	84.9	85.1	86.8	86.7	86.7	86.9	86.9
≥ 60	23.4	25.6	26.9	27.8	28.4	29.8	29.9
Overall	68.4	68.7	69.1	68.8	68.8	68.9	68.6
<u>Female</u>							
15-24	37.0	37.5	40.0	39.3	41.5	40.0	41.0
<i>of which:</i>							
15-19	9.1	9.7	11.5	12.5	12.8	12.0	11.8
20-24	62.1	62.0	64.2	61.4	63.7	61.2	62.9
25-29	87.5	87.2	86.6	86.3	85.8	85.7	86.0
30-39	76.8	77.5	78.5	79.0	78.5	79.3	78.7
40-49	69.9	70.8	72.8	73.1	73.8	75.1	74.2
50-59	51.6	53.8	56.1	57.1	58.2	59.8	59.6
≥ 60	8.1	8.8	9.6	10.6	11.4	11.7	12.1
Overall	53.0	53.6	54.5	54.6	54.8	55.2	55.0
<u>Both genders combined</u>							
15-24	36.4	37.0	38.9	38.6	40.2	39.4	39.8
<i>of which:</i>							
15-19	9.5	10.1	11.2	11.8	12.2	12.0	12.2
20-24	61.6	61.6	63.4	61.4	62.8	61.0	62.2
25-29	90.2	90.3	89.7	89.4	89.2	89.1	88.5
30-39	84.9	85.4	85.9	86.0	85.7	86.0	85.6
40-49	81.0	81.4	82.5	82.3	82.7	83.4	82.9
50-59	68.0	69.2	71.0	71.4	71.8	72.6	72.5
≥ 60	15.5	16.9	17.9	18.9	19.6	20.4	20.6
Overall	60.1	60.5	61.2	61.1	61.2	61.4	61.2

Source : General Household Survey, Census and Statistics Department.



## Profile of unemployment

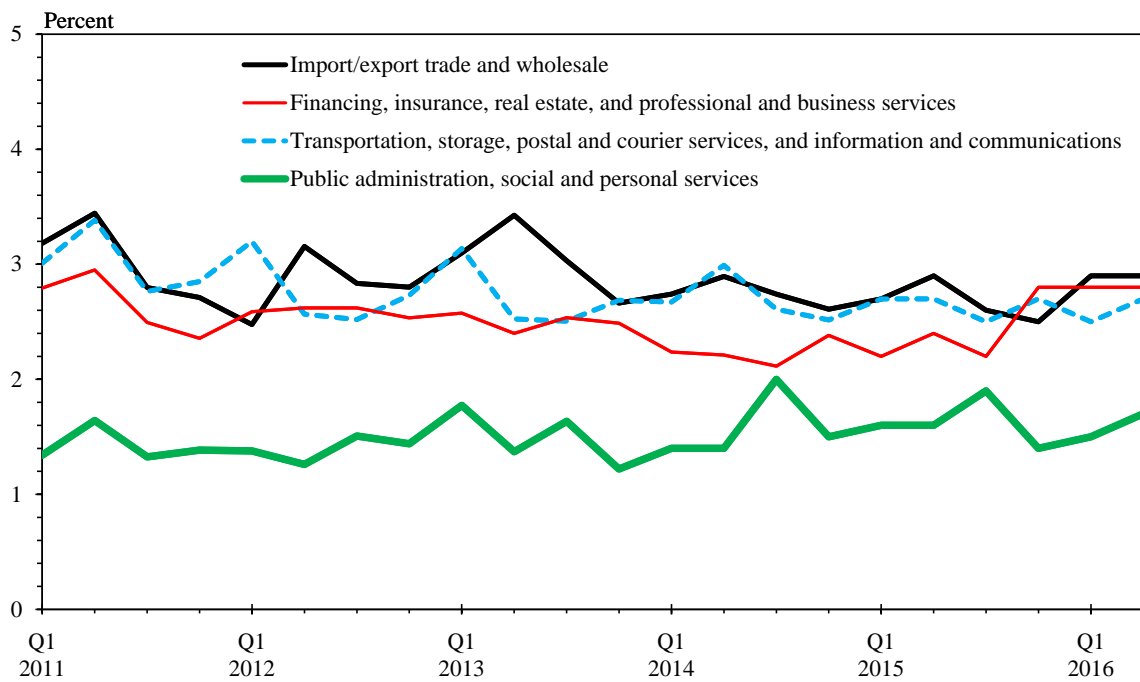
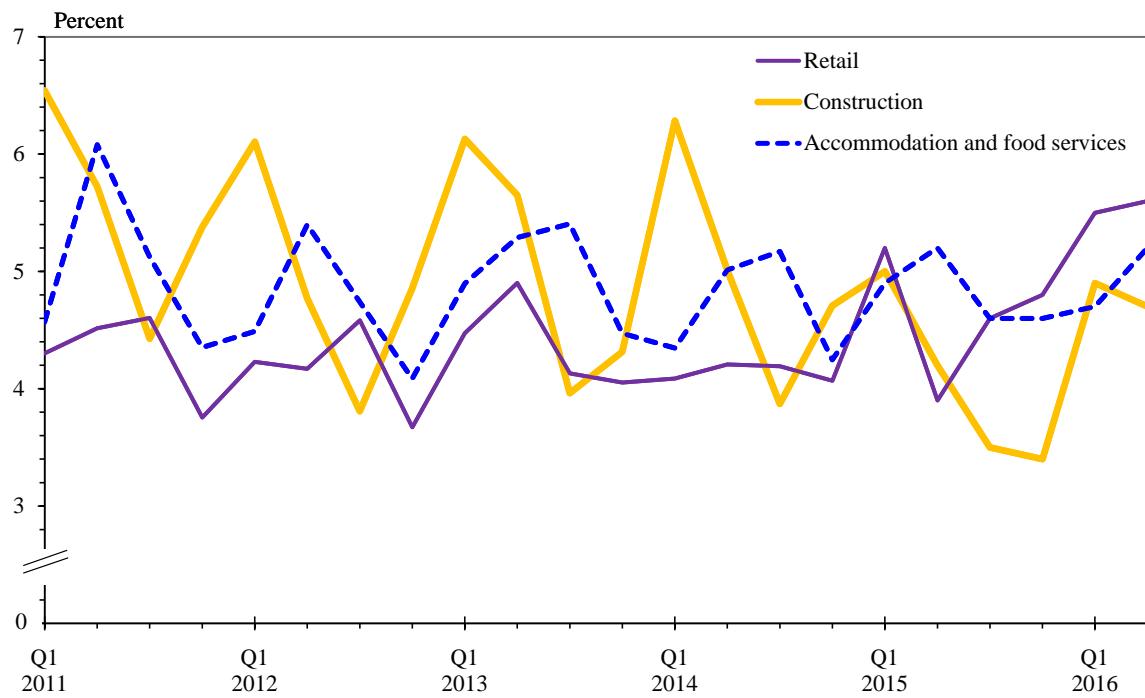
5.4 With the labour force growth outpacing employment growth, the number of unemployed persons increased by 5 700 over the preceding quarter to 136 100 in the second quarter. After netting out seasonal fluctuations, the seasonally adjusted unemployment rate was unchanged at 3.4%.

5.5 Compared to the previous quarter, more noticeable increases in the unemployment rate (not seasonally adjusted) were observed in the real estate (up 0.8 percentage point) and food and beverage service activities (up 0.7 percentage point) sectors, with the increase in the former conceivably due partly to the property market consolidation in the preceding quarters. For the consumption- and tourism-related segment as a whole (viz. retail, accommodation and food services), its unemployment rate rose by 0.3 percentage point to 5.4%, which was 0.9 percentage point higher than its year-ago level and far above the economy-wide figure. On a year-on-year comparison to net out seasonal influences, the unemployment rate of the retail sector, which was more affected by the lull in inbound tourism and slackening local consumption, rose noticeably by 1.7 percentage points to 5.6%. Meanwhile, the unemployment rate of import/export trade and wholesale stayed at 2.9%. Regarding the *low paying sectors*<sup>(6)</sup> as a whole, its unemployment rate rose by 0.1 percentage point over the preceding quarter to 3.5%, and was 0.2 percentage point above its year-ago level.

5.6 Analysed by skill segment, the unemployment rate of lower-skilled workers edged up by 0.1 percentage point over the preceding quarter to 3.8%, mainly dragged by service and sales workers. That of higher-skilled workers likewise rose, by 0.2 percentage point to 2.1%. On a year-on-year comparison, the unemployment rate of both lower-skilled and higher-skilled workers rose, by 0.2 percentage point and 0.5 percentage point respectively.

5.7 As regards other socio-economic attributes, more discernible year-on-year rises in the unemployment rate were observed among persons aged 25-29 and 60 and above (up 0.5 and 0.4 percentage point respectively), and those with upper secondary education, and primary education and below (up 0.5 and 0.4 percentage point respectively). On the other hand, those aged 15-24 (down by 0.8 percentage point) and those with tertiary education (down 0.2 percentage point) saw more discernible declines.

**Diagram 5.3 : Unemployment rates showed diverse movements across different economic sectors**



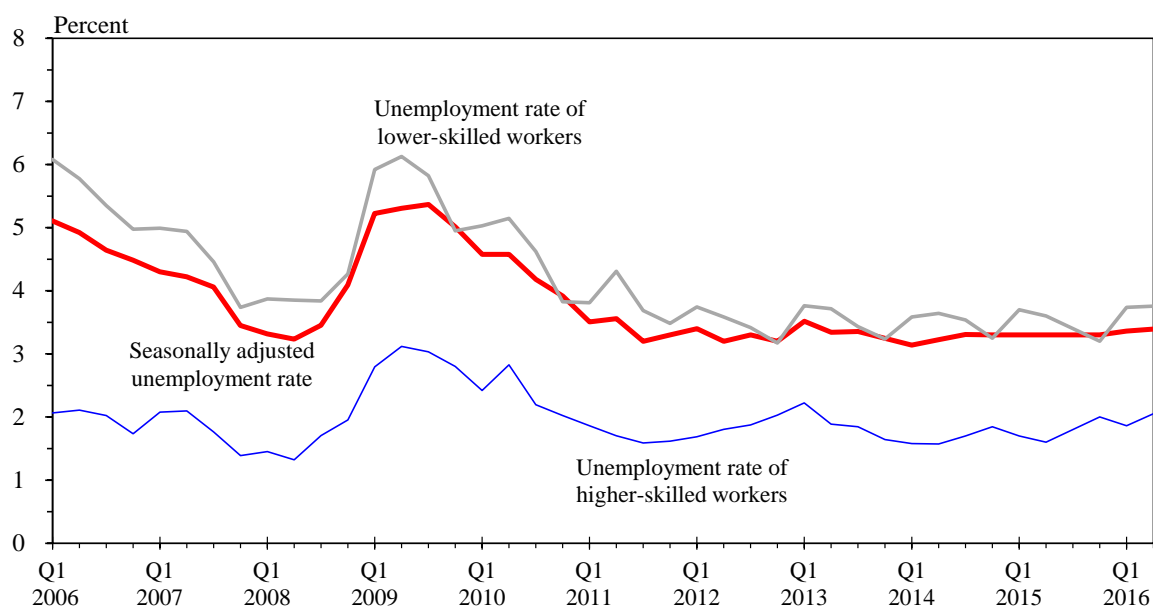
**Table 5.3 : Unemployment rates by major economic sector**

	<u>2015</u>				<u>2016</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Import/export trade and wholesale	2.7	2.9	2.6	2.5	2.9	2.9
Retail	5.2	3.9	4.6	4.8	5.5	5.6
Accommodation and food services	4.9	5.2	4.6	4.6	4.7	5.2
Transportation, storage, postal and courier services	2.8	2.8	2.7	2.6	2.5	2.8
Information and communications	2.4	2.6	2.1	3.1	2.4	2.5
Financing and insurance	1.7	1.4	1.7	2.1	2.0	2.0
Real estate	1.7	2.9	2.4	2.3	2.2	3.0
Professional and business services	2.8	2.9	2.5	3.5	3.5	3.2
Public administration, social and personal services	1.6	1.6	1.9	1.4	1.5	1.7
Manufacturing	3.0	3.4	4.0	3.2	4.1	3.8
Construction	5.0	4.2	3.5	3.4	4.9	4.7
Overall	3.2 (3.3)	3.3 (3.3)	3.5 (3.3)	3.2 (3.3)	3.3 (3.4)	3.5 (3.4)

Note : ( ) Seasonally adjusted unemployment rates.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.4 : Unemployment rates of both the higher- and lower-skilled segments inched up in the second quarter**



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

	<u>2015</u>				<u>2016</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
<u>Higher-skilled segment</u>	1.7	1.6	1.8	2.0	1.9	2.1
Managers and administrators	1.1	1.2	1.7	1.5	1.6	1.7
Professionals	1.4	1.2	1.9	1.7	1.3	1.6
Associate professionals	2.0	2.0	1.8	2.4	2.2	2.4
<u>Lower-skilled segment</u> <sup>^</sup>	3.7	3.6	3.4	3.2	3.7	3.8
Clerical support workers	2.7	3.7	3.4	3.0	3.4	3.4
Service and sales workers	5.1	4.6	4.4	4.2	4.8	5.0
Craft and related workers	4.4	4.0	3.1	3.0	4.6	4.3
Plant and machine operators and assemblers	1.9	2.3	2.6	3.0	2.3	2.4
Elementary occupations	3.3	2.9	2.8	2.6	3.1	3.2

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

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

Source : General Household Survey, Census and Statistics Department.

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

	<u>2015</u>				<u>2016</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
<u>Age</u>						
15-24	9.0	11.1	12.4	8.8	8.9	10.3
<i>of which:</i>						
15-19	13.9	17.3	14.1	9.1	15.1	17.4
20-24	8.3	10.1	12.1	8.8	8.0	9.2
25-29	2.9	3.4	3.8	3.5	4.0	3.9
30-39	1.9	2.1	2.2	2.2	2.0	2.2
40-49	3.2	2.6	2.7	2.7	2.8	2.9
50-59	2.8	2.8	2.8	2.8	3.4	3.1
≥ 60	3.0	2.4	2.0	2.5	2.1	2.8
<u>Educational attainment</u>						
Primary education and below	3.7	3.0	2.4	2.8	3.2	3.4
Lower secondary education	4.6	4.3	3.8	4.0	4.3	4.3
Upper secondary education <sup>^</sup>	3.2	3.1	3.2	2.8	3.1	3.6
Post-secondary education	2.6	3.2	3.9	3.3	3.2	3.0

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

^ Including craft courses.

Source : General Household Survey, Census and Statistics Department.

5.8 Other indicators measuring the intensity of unemployment appeared to largely echo the weaker pace of job creation in the economy. The number of long-term unemployed persons (i.e. unemployed for six months or longer) increased to 24 600 in the second quarter from 23 600 in the preceding quarter, though the long-term unemployment rate stayed at 0.6%. The proportion of dismissal or lay-offs among the total number of unemployed persons (not including first-time job-seekers and re-entrants into the labour force), at 45.6%, was 5.1 percentage points higher than its year-ago level. The median duration of unemployment also lengthened slightly from 70 days to 71 days.

## **Profile of underemployment**

5.9 The underemployment situation held largely stable in the second quarter. While the number of underemployed persons increased marginally by 800 over the preceding quarter to 54 100, the underemployment rate remained unchanged at a low level of 1.4% for the third straight quarter. On a year-on-year comparison, a more noticeable increase in the underemployment rate was seen in the information and communications sector. On the other hand, more notable declines were observed in the construction, and arts, entertainment and recreation sectors. Analysed by occupational category, the underemployment rate of the higher-skilled segment remained unchanged at 0.5%, while that of the lower-skilled segment inched down by 0.1 percentage point to 1.9%.

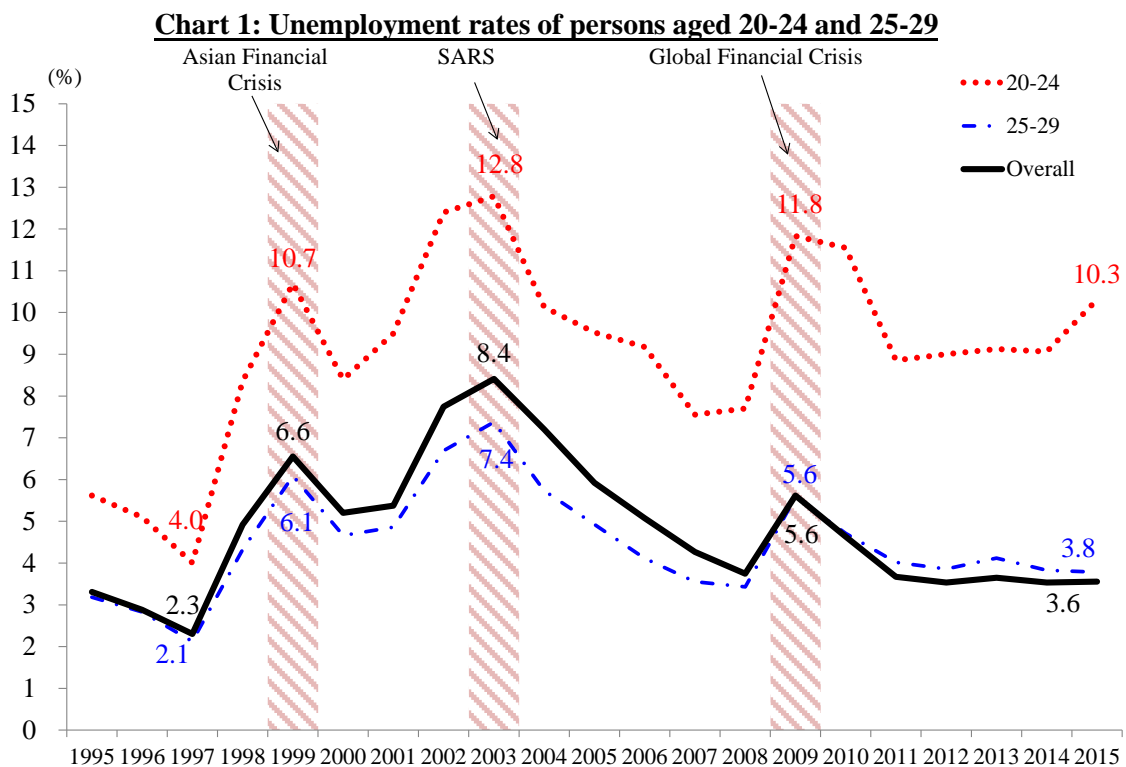
## Box 5.1

### Earnings of youths in Hong Kong

The employment situation of youths and recent graduates is often of prime concern. This is understandable as young people are usually more affected by the changes in economic situation, with higher risks of being dismissed and more difficulties in finding jobs in times of economic downturn. Employment opportunities and job stability in turn also affect their earnings potential over a longer period of time. In this article, we examine how different factors interplayed to determine the earnings profile of youths (i.e. those aged 20-24 and 25-29)<sup>(1)</sup> in Hong Kong over time.

#### Economic Cycles and Earnings

Statistics showed that youth unemployment rate in Hong Kong<sup>(2)</sup> was more sensitive to economic vicissitudes than that of other age groups over the past two decades (*Chart 1*). This was particularly apparent for the group aged 20-24, understandably most of them being new graduates. The unemployment rate for those aged 25-29, who possibly had more education and better experience, was notably lower and also weathered better in economic downturns, viz. Asian Financial Crisis in 1998-1999, outbreak of Severe Acute Respiratory Syndrome (SARS) in 2003 and Global Financial Crisis (GFC) in 2008-2009.



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

As for those who secured employment, their earnings likewise depended crucially on the prevailing macroeconomic conditions. Comparing the average monthly employment earnings of full-time young employees across different birth cohorts (*Table 1*), it is apparent that real earnings of recent cohorts, namely those born after 1980 generally compared a bit less favourably at the start of their career than those born in the 1970s irrespective of

(1) People aged 15-19 only constituted around 1% of the labour force as against 7.1% and 11.2% for those aged 20-24 and 25-29 respectively (Q2 2016 figures). Given such a small proportion of the youngest group, this particular group will not be discussed in detail in this article.

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

### Box 5.1 (Cont'd)

educational attainment. In particular, for those born in the early to mid-1980s and with upper secondary education, their average employment earnings in real terms were notably lower than the earlier cohorts of similar educational attainment, due in part to the less favourable macroeconomic environment in 2004 and 2009.

**Table 1: Average monthly employment earnings (at constant 2014 dollars) of different cohorts by selected educational attainment**

#### (i) Upper secondary educated

Cohorts born in	Year in which the cohort aged 20-24	Earnings of the cohort concerned when their ages reached		
		20-24	25-29	30-34
1970 - 1974	1994	\$10,700	\$12,500 (+16.5%)	\$15,100 (+20.6%)
1975 - 1979	1999	\$10,200	\$12,100 (+19.0%)	\$13,000 (+7.8%)
1980 - 1984	2004	\$9,100	\$10,400 (+14.4%)	\$11,500 (+10.7%)
1985 - 1989	2009	\$9,200	\$10,600 (+14.3%)	--
1990 - 1994	2014	\$10,200	--	--

#### (ii) Post-secondary non-degree educated

Cohorts born in	Year in which the cohort aged 20-24	Earnings of the cohort concerned when their ages reached		
		20-24	25-29	30-34
1970 - 1974	1994	\$13,300	\$17,600 (+32.9%)	\$22,000 (+24.5%)
1975 - 1979	1999	\$12,800	\$16,200 (+26.7%)	\$19,500 (+19.8%)
1980 - 1984	2004	\$10,500	\$14,100 (+34.2%)	\$17,200 (+21.7%)
1985 - 1989	2009	\$10,500	\$13,700 (+30.0%)	--
1990 - 1994	2014	\$11,100	--	--

#### (iii) Degree educated

Cohorts born in	Year in which the cohort aged 20-24	Earnings of the cohort concerned when their ages reached		
		20-24	25-29	30-34
1970 - 1974	1994	\$17,000	\$24,000 (+41.2%)	\$35,000 (+45.5%)
1975 - 1979	1999	\$15,200	\$22,200 (+46.0%)	\$35,000 (+57.3%)
1980 - 1984	2004	\$13,000	\$22,100 (+69.8%)	\$29,600 (+33.8%)
1985 - 1989	2009	\$15,500	\$20,300 (+31.1%)	--
1990 - 1994	2014	\$14,900	--	--

Note: ( ) Figures refer to average monthly earnings of full-time employees and figures in brackets denote the percentage increases over the preceding five-year period. The percentages are calculated based on full figures.

Source: GHS, C&SD.

### Education, Working Experience and Earnings

As pointed out in the literature, education and years of experience have significant effect on one's earnings<sup>(3)</sup>. Indeed, across all birth cohorts in *Table 1*, better educated youths earned more than their less educated counterparts. For the 1990-94 cohort, for instance, youngsters with degree education earned around 46% and 34% more than their counterparts with upper secondary education and post-secondary non-degree education only. Meanwhile, for all young people shifting from the early 20s to the late 20s, irrespective of the educational attainment, their real average employment earnings improved notably, conceivably benefiting in part from the accumulation of working experience.

(3) For example, in Mincer (1974), the author argued that years of schoolings and accumulated labour market experiences would affect one's wages. See "The Human Capital Earnings Function", cited in "Schooling, Experience, and Earnings" (pp. 83-96), National Bureau of Economic Research, United States. Available from: <http://www.nber.org/chapters/c1767.pdf>.



### Box 5.1 (Cont'd)

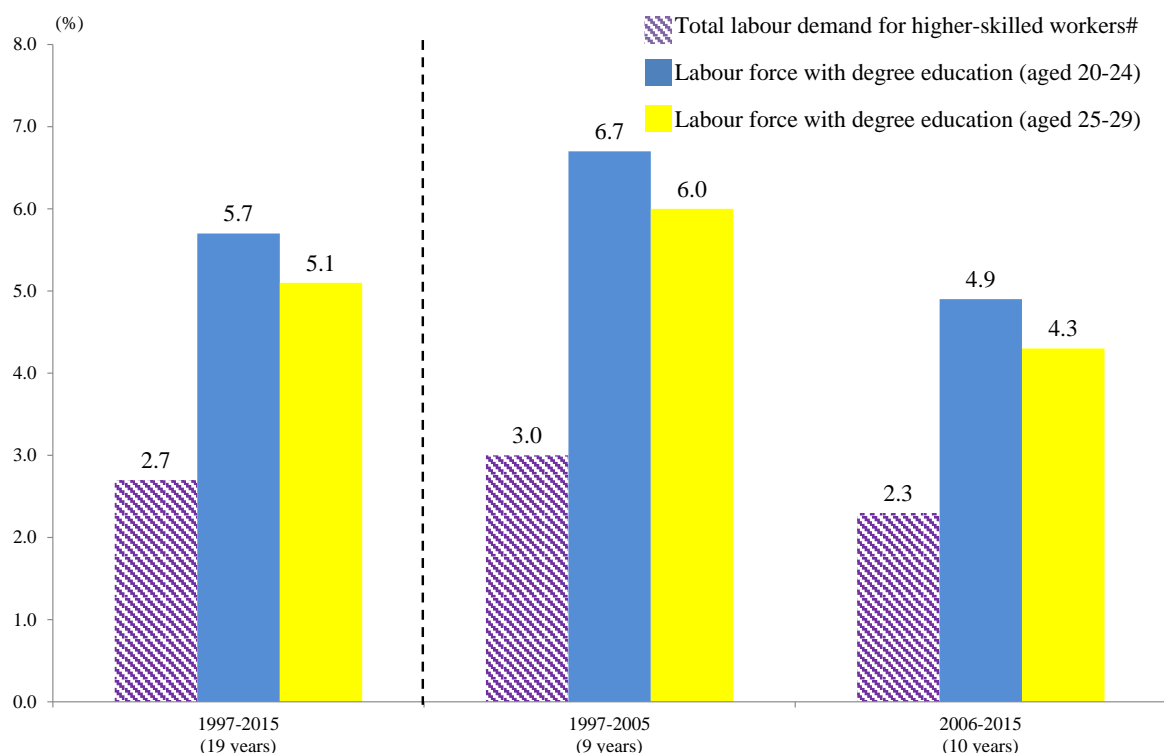
It is worth noting that, in general, real earnings of youths with better education also grew faster over time than the less educated ones. For example, for the 1980-1984 and 1985-1989 cohorts, the real average employment earnings of those with first degree or above increased, on average, by around 70% and 31% respectively from their early 20s to late 20s, as compared to 34% and 30% respectively of their counterparts with post-secondary non-degree education only.

### Manpower Balance and Earnings

That the real earnings of the youngest working cohort (i.e. cohort born in 1990-1994) did not compare very favourably with their previous generations does cause some concern, especially when viewed together with the fact that this cohort is generally better educated. By way of comparison, of youths aged 20-29 in our workforce in 1995, only 12.9% had first degree or above, and the respective proportion had risen considerably to 45.9% in 2015.

One possible reason for such cohort income differences is the evolving balance between the demand for higher-skilled workers and the supply of better educated youths in the labour force. As illustrated by **Chart 2**, the labour supply of youths aged 20-24 with degree or above rose rapidly by 6.7% per annum during 1997-2005 and 4.9% during 2006-2015, while total labour demand for higher-skilled jobs (as proxied by total higher-skilled employment and vacancies) increased by 3.0% and 2.3% per annum respectively during that two periods. The picture for the well-educated youths aged 25-29 is largely similar.

**Chart 2: Average annual growth of total labour demand for higher-skilled workers and labour supply with degree education by age groups**



Note: (#) Total labour demand for higher-skilled workers is proxied by the sum of the higher-skilled employment and the vacancy statistics, of which the latter were only collected since 1996.

Sources: GHS and Survey of Employment and Vacancies, C&SD.

### **Box 5.1 (Cont'd)**

With the rapid increase in the supply of better educated youths over the past two decades, it is perhaps not surprising to see that the starting salary of fresh graduates in the more recent cohorts compare somewhat less favourably with those born in the 1970s and 1980s. Indeed, when graduates of the latter cohorts just started their career, the prevailing manpower resource balance at the higher-skilled level was extremely acute amid the rapid economic transformation towards service-based activities.

Nevertheless, a more important question is whether the prevailing younger generations can still enjoy substantial upward mobility over time alongside the accumulation of working experience. The key results of “the 2015 Study on Earnings Mobility” released in May 2016 appear to point to the brighter side. Taking the 2001/02 cohort as an example, 91% of graduates were in a higher earnings decile in 2013/14 than they were in 2003/04, regardless of degree level. Over 80% of graduates in the 2006/07 cohort had also experienced upward earnings mobility during their first five working years. The study also indicates that the more educated graduates enjoyed better chances to reach the top 20% of the income distribution, though the pace of upward earnings mobility still hinges crucially on the prevailing macroeconomic environment. For instance, until 2004, Hong Kong was still experiencing deflation brought about by the Asian financial crisis, the subsequent economic downturn, followed by another major shock from the SARS outbreak. As a result, the starting salary of many graduates in the 2001/02 cohort was disappointingly low. Nonetheless, with the strong economic recovery during 2004-2007, earnings of these 2001/2002 graduates were able to catch up promptly and ultimately did not fare worse than the graduates in 2006/07 cohort.

### **Final remarks**

Past data suggest that as long as the economy keeps growing, the majority of youngsters will be able to enjoy substantial upward earnings mobility over time alongside the accumulation of working experience, more so for those better educated graduates. In the near term, to what extent the weaker pace of job creation amid a slow-growing local economy would affect the job prospects of youths and recent graduates warrants close monitoring.

Hong Kong has been moving towards a knowledge-based, higher value-added economy. The proportion of higher-skilled workers in total employment increased markedly from 27.9% in 1995 to 36.9% in 2005 and further to 41.8% in 2015. Still, given the rapid increase in the number of youths with higher educational attainment, it is of utmost importance that the Hong Kong economy could continue to go up the value chain with new growth areas, in order to provide more development opportunities to meet the aspirations of our younger generation.

## **Profile of employment in establishments**

5.10 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only up to March 2016. To bring the analysis more up-to-date, attempts have been made wherever possible by drawing reference to information from supplementary sources.

5.11 The pace of job creation slowed further in March 2016. Total employment in private sector establishments grew only mildly by 0.5% over a year earlier to 2 807 200, representing growth moderation for the fifth consecutive quarter. Apart from the secular downtrend in manufacturing (down 2.5% year-on-year), more noticeable declines in employment were seen in such trade- and tourism-related sectors as accommodation services (down 3.5%), retail (down 1.9%), import/export trade and wholesale (down 1.1%), and food and beverage services (down 0.7%), as well as the real estate sector (down 1.0%), amid the sluggish trade flows, slackened inbound tourism and local consumption, and property market consolidation. Meanwhile, employment growth also eased in many sectors such as education (up 2.7%), financing and insurance (up 1.1%), and professional and business services (including cleaning services) (up 0.4%). On a positive note, construction sites (covering manual workers only) continued to see visible job growth (up 14.1%). Analysed by establishment size, employment in large enterprises grew by 2.1% year-on-year, more than offsetting the 1.4% decline in the small and medium-sized enterprises (SMEs)<sup>(7)</sup>. As for the civil service, employment grew by 1.5% year-on-year in March 2016.

### **Vacancies**

5.12 The vacancy situation slackened visibly further. The number of job vacancies in private sector establishments fell further by 10.0% year-on-year to 70 300 in March 2016, representing an enlarged decline from that of 3.1% in December 2015.

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

	<u>2015</u>					<u>2016</u>
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>
Import/export trade and wholesale	546 500 (-1.4)	549 200 (-0.7)	545 700 (-1.5)	545 400 (-1.6)	545 500 (-1.9)	542 900 (-1.1)
Retail	269 600 (-0.5)	271 500 (0.6)	269 900 (-0.7)	268 900 (-0.3)	268 100 (-1.3)	266 200 (-1.9)
Accommodation <sup>(a)</sup> and food services	283 000 (-0.1)	283 700 (0.9)	282 700 (-0.1)	282 300 (-0.2)	283 300 (-0.8)	280 600 (-1.1)
Transportation, storage, postal and courier services	177 400 (1.6)	176 600 (2.8)	176 500 (1.1)	178 200 (1.6)	178 500 (1.1)	178 600 (1.2)
Information and communications	105 300 (1.1)	104 000 (1.2)	104 900 (1.4)	105 500 (0.7)	106 500 (1.2)	105 700 (1.6)
Financing, insurance, real estate, professional and business services	712 100 (2.2)	711 400 (2.6)	712 300 (2.6)	712 500 (2.6)	712 400 (1.2)	714 100 (0.4)
Social and personal services	497 200 (3.1)	494 100 (3.9)	495 200 (3.2)	497 400 (3.1)	501 900 (2.2)	505 500 (2.3)
Manufacturing	99 600 (-2.8)	100 300 (-3.1)	99 600 (-2.6)	99 600 (-3.0)	98 900 (-2.6)	97 800 (-2.5)
Construction sites (manual workers only)	95 100 (14.9)	91 900 (16.9)	92 800 (16.4)	93 700 (8.3)	102 000 (18.1)	104 800 (14.1)
<i>All establishments surveyed in the private sector<sup>(b)</sup></i>	<i>2 796 700 (1.2)</i>	<i>2 793 700 (1.9)</i>	<i>2 790 500 (1.3)</i>	<i>2 794 600 (1.1)</i>	<i>2 808 000 (0.7)</i>	<i>2 807 200 (0.5)</i>
		<0.2>	<§>	<0.3>	<0.2>	<0.1>
<i>Civil service<sup>(c)</sup></i>	<i>164 100 (0.7)</i>	<i>163 600 (0.5)</i>	<i>163 800 (0.6)</i>	<i>164 000 (0.6)</i>	<i>164 900 (0.9)</i>	<i>166 200 (1.5)</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 the difference in sectoral coverage: while the former survey covers selected major sectors, the latter survey covers all sectors in the economy.

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

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

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

( ) % change over a year earlier.

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

§ Change less than 0.05%.

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

5.13 Analysed by economic sector, noticeable declines in vacancies were seen across most sectors in March 2016, in particular import/export trade and wholesale (down 23.1% year-on-year), accommodation and food services (down 16.4%), transportation, storage, postal and courier services (down 13.2%), information and communications (down 13.0%) and retail (down 10.5%). On the other hand, visible vacancy increases were observed in the education (up 13.7%), and financing and insurance sectors (up 11.4%). In addition, reversing the downtrend over the course of 2015, vacancies in construction sites (covering manual workers only) registered solid growth (up 8.8%). In terms of occupational category, higher-skilled vacancies relapsed to a visible year-on-year decline of 12.1%, dragged by associate professionals, while that in the lower-skilled segment fell further by 9.2%, due mainly to the double-digit declines in vacancies of service and sales workers as well as plant and machine operators and assemblers. Analysed by the size of establishments, vacancies in large enterprises and SMEs fell by 8.2% and 12.3% respectively over a year earlier. As for the civil service, the number of job openings went up further by 3.3% year-on-year to 8 090 in March 2016.

5.14 Reflecting further easing in overall labour demand, the ratio of job vacancies per 100 unemployed persons went down to 54 in March 2016 from 62 a year earlier. The ratio for the higher-skilled segment decreased to 68 from its year-ago level of 86, and that of the lower-skilled segment likewise went down from 64 to 56 over the same period. Analysed by economic sector, manpower shortages were still apparent in residential care and social work services, human health services, real estate, financing and insurance, and cleaning and similar activities sectors in March 2016, for which the corresponding ratios exceeded 100.

5.15 The vacancy rate for private sector establishments, measured in terms of the percentage of job vacancies to total employment opportunities, edged down by 0.1 percentage point to 2.4% in March 2016 from 2.5% in December 2015 and down by 0.3 percentage point from 2.7% a year earlier. Year-on-year decreases in the vacancy rate were observed in many sectors, including notably the food and beverage services, social and personal services, import/export trade and wholesale, and retail sectors.

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

	<u>Number of vacancies</u>						<u>Vacancy rate in Mar 2016 (%)</u>	
	<u>Annual average</u>	<u>2015</u>						<u>2016</u>
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>		
Import/export trade and wholesale	7 810 (-7.7)	9 000 (-2.3)	8 200 (0.6)	7 610 (-10.0)	6 450 (-19.8)	6 920 (-23.1)	1.3	
Retail	8 320 (-8.6)	8 550 (-11.7)	8 440 (-4.2)	8 350 (-9.6)	7 950 (-8.7)	7 660 (-10.5)	2.8	
Accommodation <sup>(a)</sup> and food services	14 610 (-9.1)	15 470 (-12.1)	15 150 (-4.1)	14 600 (-6.1)	13 200 (-13.7)	12 930 (-16.4)	4.4	
Transportation, storage, postal and courier services	3 640 (-1.1)	3 960 (-5.4)	4 060 (0.6)	3 440 (1.7)	3 100 (-0.4)	3 440 (-13.2)	1.9	
Information and communications	2 800 (9.3)	2 930 (14.3)	2 480 (-6.5)	2 620 (11.3)	3 160 (18.3)	2 550 (-13.0)	2.4	
Financing, insurance, real estate, professional and business services	18 790 (4.9)	18 360 (3.0)	18 780 (3.1)	18 590 (4.4)	19 440 (9.2)	18 400 (0.2)	2.5	
Social and personal services	15 800 (12.0)	15 620 (34.3)	17 290 (4.1)	15 760 (13.2)	14 540 (1.9)	14 280 (-8.6)	2.7	
Manufacturing	2 720 (-10.6)	2 990 (-6.6)	2 730 (-23.9)	2 700 (-6.4)	2 470 (-1.2)	2 880 (-3.5)	2.9	
Construction sites (manual workers only)	800 (-42.6)	880 (-45.8)	940 (-39.1)	710 (-53.7)	650 (-22.7)	960 (8.8)	0.9	
<i>All establishments surveyed in the private sector<sup>(b)</sup></i>	<i>75 590 (-1.3)</i>	<i>78 070 (0.4)</i>	<i>78 380 (-1.7)</i>	<i>74 670 (-0.9)</i>	<i>71 240 (-3.1)</i>	<i>70 300 (-10.0)</i>	<i>2.4</i>	
		<-2.6>	<-0.9>	<-0.3>	<0.2>	<-8.7>		
<i>Civil service<sup>(c)</sup></i>	<i>8 250 (15.1)</i>	<i>7 820 (23.3)</i>	<i>8 030 (10.4)</i>	<i>8 540 (14.9)</i>	<i>8 590 (13.0)</i>	<i>8 090 (3.3)</i>	<i>4.6</i>	

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

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

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

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

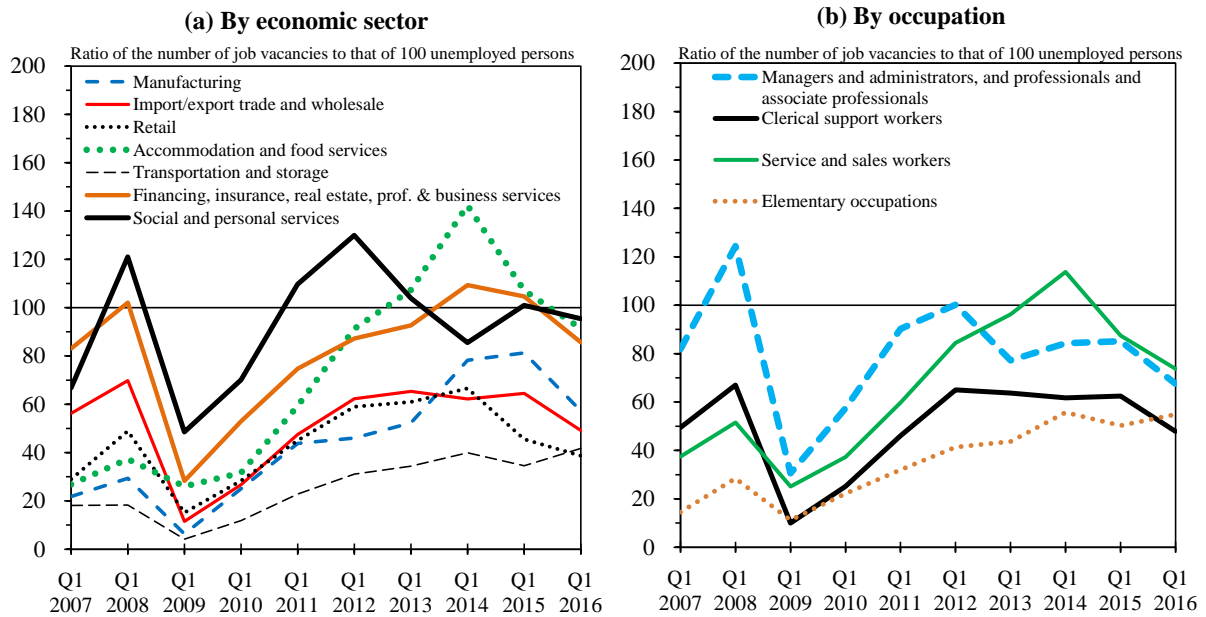
( ) % change over a year earlier.

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

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

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

**Diagram 5.5 : Manpower resource balance showed signs of broad-based easing**



5.16 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. The number of private sector job vacancies still averaged at a relatively high level of around 113 800 per month in the second quarter of 2016, suggesting that the overall hiring sentiment showed no further marked deterioration.

## Wages and earnings

5.17 Wages stayed on the rise on entering 2016, amid the largely stable labour market situation. *Wage index*, which covers regular payment to employees at the supervisory level or below, rose by 3.9% year-on-year in March 2016, though moderating somewhat from the growth pace in 2015. After adjusting for inflation<sup>(8)</sup>, real wages increased by 0.9%.

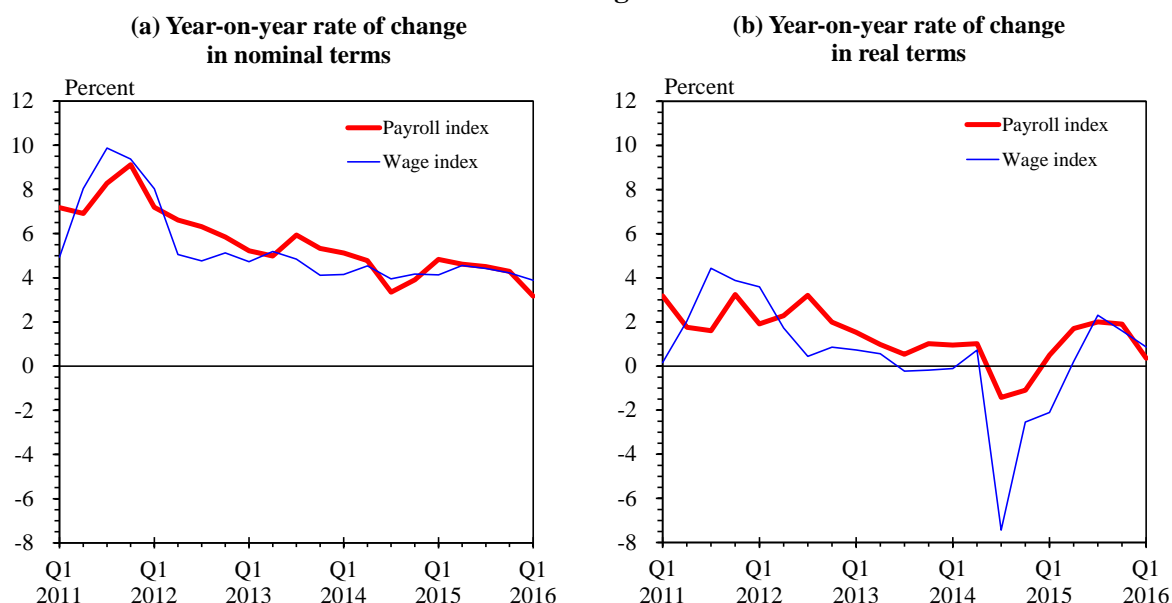
5.18 Nominal wages continued to see broad-based year-on-year rises in March 2016, more notably in personal services (up 6.3%), and professional and business services (up 5.4%). Accommodation and food service activities, with a higher proportion of lower-skilled workers, also saw relatively higher wage growth (up 5.0%), due in part to the carry-over effect from the upward adjustment of the SMW rate since May 2015. Analysed by occupation, more visible wage gains were found in operatives (up 6.2%) and service workers (up 5.8%).

5.19 *Labour earnings*<sup>(9)</sup>, as measured by the index of payroll per person engaged in the private sector, including overtime pay, discretionary bonuses and other irregular payments, moderated more visibly to a year-on-year increase of 3.2% in the first quarter of 2016. After adjusting for inflation, real earnings improved only mildly by 0.4%.

5.20 Notwithstanding the almost across-the-board deceleration, more appreciable nominal earnings rises were still observed in professional and business services (up 5.8%), and accommodation and food service activities (up 5.0%) in the first quarter of 2016. On the other hand, import/export and wholesale trades (up 2.6%), and retail trade (up 2.0%) continued to post relatively modest earnings growth, amid the subdued regional trade flows and weaker local consumption market.



**Diagram 5.6 : Nominal wages and earnings saw moderated growth on entering 2016**



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.

5.21 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 (excluding foreign domestic helpers) engaged in elementary occupations grew solidly further by 5.1% in the second quarter of 2016 over a year earlier, translating into a real improvement of 2.3% after discounting inflation. For the overall income situation, the median monthly household income (excluding foreign domestic helpers) went up by 3.7% in nominal terms in the second quarter of 2016 over a year earlier, following the increase of 2.0% in the preceding quarter.

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

5.22 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job-seekers on the spot. From January to July 2016, LD organised 10 large-scale job fairs in North District, Cheung Sha Wan, Wan Chai, Tsuen Wan and Sha Tin. 326 participating organisations offered over 21 800 vacancies from the retail, catering, property management, transport and other industries. There were also 15 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, retail and construction employers at the three industry-based recruitment centres regularly for interviewing job-seekers on the spot.

5.23 LD completed a review of the Work Incentive Transport Subsidy (WITS) Scheme and the findings were reported to the Panel on Manpower of the Legislative Council at its meeting held on 21 June 2016. LD is launching enhancement measures as proposed in the review to improve services for WITS applicants. As at end-July 2016, a total subsidy payment of \$1,337.4 million was made to 103 522 applicants under the Scheme.

5.24 The Minimum Wage Commission (MWC) completed a six-week public consultation in May 2016 and conducted 19 consultation meeting sessions with stakeholders in June. After collecting the views of the community, MWC is undertaking an evidence-based approach in reviewing the SMW rate, and is tasked by the Chief Executive to submit the recommendation report on the next SMW rate review on or before 31 October 2016.

5.25 The Standard Working Hours Committee (SWHC) on 24 July 2016 completed a three-month second-stage consultation on its preliminary discussion outcomes and working hours policy directions under exploration. The independent consultant commissioned by SWHC is collating and analysing the views received for SWHC's reference in further discussing working hours policy directions and preparing its report to the Government.

## 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 2014 – January 2015 to October – December 2015 have been revised to take into account the final end-2015 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 6 : PRICES

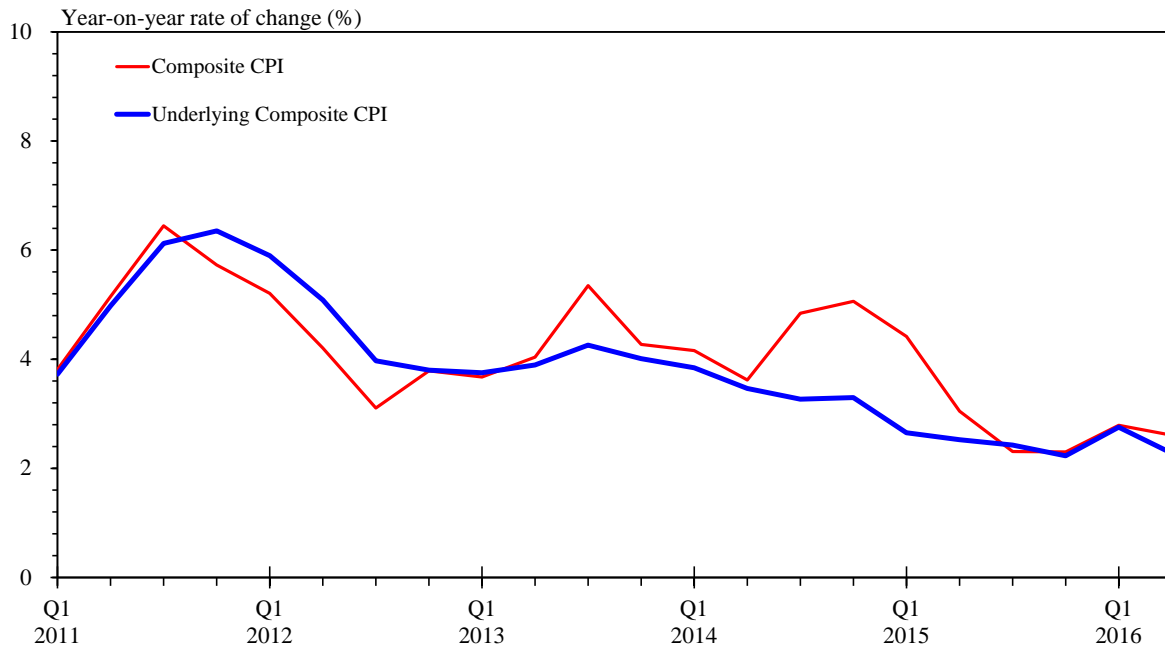
### *Summary*

- *Inflation pressure was largely moderate in the first half of 2016, in the face of a slow-growing economy. The 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, rose by 2.3% in the second quarter over a year earlier, easing back from the 2.8% increase in the first quarter. Over the same period, the headline Composite CPI inflation likewise moderated from 2.8% to 2.6%.*
- *The cost pressures from domestic sources tended to ease further. In the midst of a below-trend economic expansion, wages and earnings saw slightly slower increases. Although the property market stabilised somewhat in the second quarter, the feed-through of the earlier declines in fresh-letting residential and commercial rentals helped contain the rental inflation. The persistent weakness of the retail market also directly softened some of the related price items in the CPI.*
- *Meanwhile, external cost pressures were kept at bay, thanks to the still relatively low international energy and commodity prices, and the tame inflation in our major import sources. The relative strength of the Hong Kong dollar against many other currencies, to some extent, also contributed to lower import prices over the period.*
- *Looking ahead, given the subdued global inflation, moderate local cost pressures and weakness in import prices, consumer price inflation in Hong Kong should remain modest in the near term.*

### **Consumer prices**

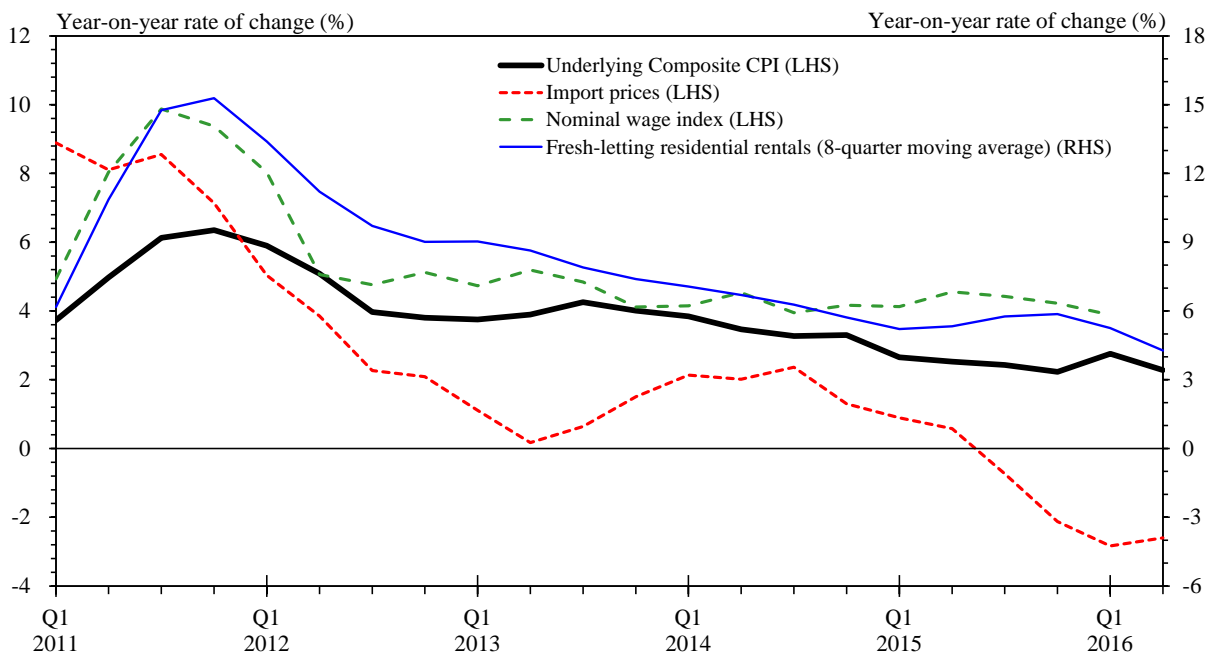
6.1 Inflation held largely moderate during the first half of 2016. On the domestic front, the increases in labour costs slowed slightly in the midst of a below-trend economic growth. Notwithstanding some signs of stabilisation in the property market in the second quarter, the earlier declines in fresh-letting residential and commercial rentals helped stabilise the rental inflation. On the external front, the still relatively low international energy and commodity prices, modest inflation in many of Hong Kong's major import sources<sup>(2)</sup>, and to a certain extent, the relative strength of the Hong Kong dollar against many other currencies, helped keep external price pressures at bay.

**Diagram 6.1 : Underlying inflation stayed moderate in the first half of 2016**



Note : The year-on-year rates of change of the CPIs from the fourth quarter of 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series.

**Diagram 6.2 : External price pressures remained absent, while domestic cost pressures eased further**



Note : The year-on-year rates of change of the CPI from the fourth quarter of 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series.

6.2 Underlying consumer price inflation, in terms of the year-on-year rate of change in the underlying Composite CPI, which nets out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, eased back to 2.3% in the second quarter, having risen to 2.8% in the first quarter mainly on account of higher basic food prices amid the bad weather conditions in early 2016. Over the same period, headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, likewise turned softer, easing from 2.8% to 2.6%. For the first half of 2016 as a whole, underlying and headline consumer price inflation averaged 2.5% and 2.7% respectively, somewhat higher than in the second half of 2015, when both measures averaged 2.3%.

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

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying<sup>(a)</sup></u>	<u>Headline</u>			
2015	Annual	2.5 <sup>(b)</sup>	3.0 <sup>(b)</sup>	4.0 <sup>(b)</sup>	2.9 <sup>(b)</sup>	2.1 <sup>(b)</sup>
	H1	2.6	3.7	5.3	3.3	2.3
	H2	2.3 <sup>(b)</sup>	2.3 <sup>(b)</sup>	2.7 <sup>(b)</sup>	2.3 <sup>(b)</sup>	1.9 <sup>(b)</sup>
	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	2.2	2.3	2.5	2.4	2.0
2016	H1	2.5	2.7	2.9	2.7	2.5
	Q1	2.8	2.8	3.1	2.8	2.5
	Q2	2.3	2.6	2.7	2.7	2.4
<b>(seasonally adjusted quarter-to-quarter rate of change (%))</b>						
2015	Q1	0.3	0.3	0.4	0.3	0.1
	Q2	0.6	-0.6	-1.1	-0.5	-0.1
	Q3	0.5	-0.1	-1.1	0.5	0.5
	Q4	0.9	2.7	4.4	2.1	1.5
2016	Q1	0.7	0.7	1.0	0.6	0.6
	Q2	0.2	-0.7	-1.4	-0.5	-0.2

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

(b) The year-on-year rates of change of the CPIs from the fourth quarter of 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series. Splicing has been applied to the indices in order to obtain better estimates of the rates of change for the year 2015 and H2 of 2015.

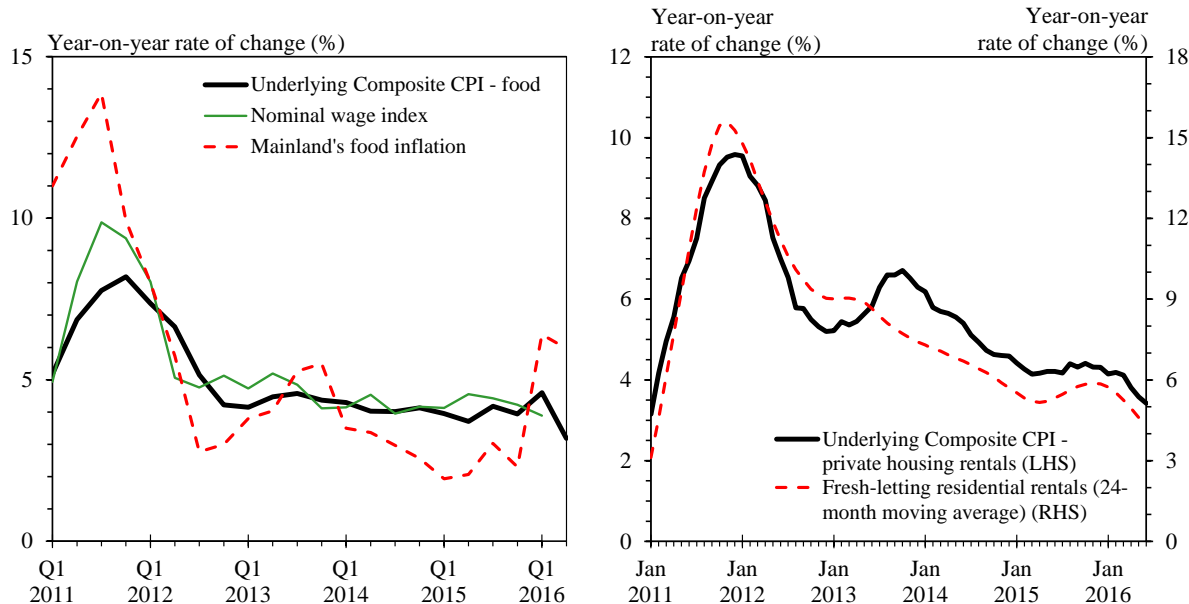


6.3 Analysed by major component of the underlying Composite CPI, the abatement in inflationary pressures was observed on a broad front. Food and private housing rentals, the two largest components by weight in the average household consumption basket, both saw decelerated year-on-year price increases in the first half of 2016. After rising to 4.6% in the first quarter, local food inflation (including costs of dining out) eased back to 3.2% in the second quarter as prices of fresh vegetables softened after the unusual upsurge in the first quarter. While the property market stabilised somewhat in the second quarter, the earlier declines in fresh-letting residential rentals continued to feed through into the private housing rental component of the CPI, the price increase of which eased further from 4.2% in the first quarter to 3.6% in the second quarter. Reflecting the sluggishness of the retail market, the prices of clothing and footwear declined rather visibly over a year ago. Meanwhile, the prices of durable goods continued their secular downtrend, while the price pressures of other components were also muted in the face of modest economic growth.

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

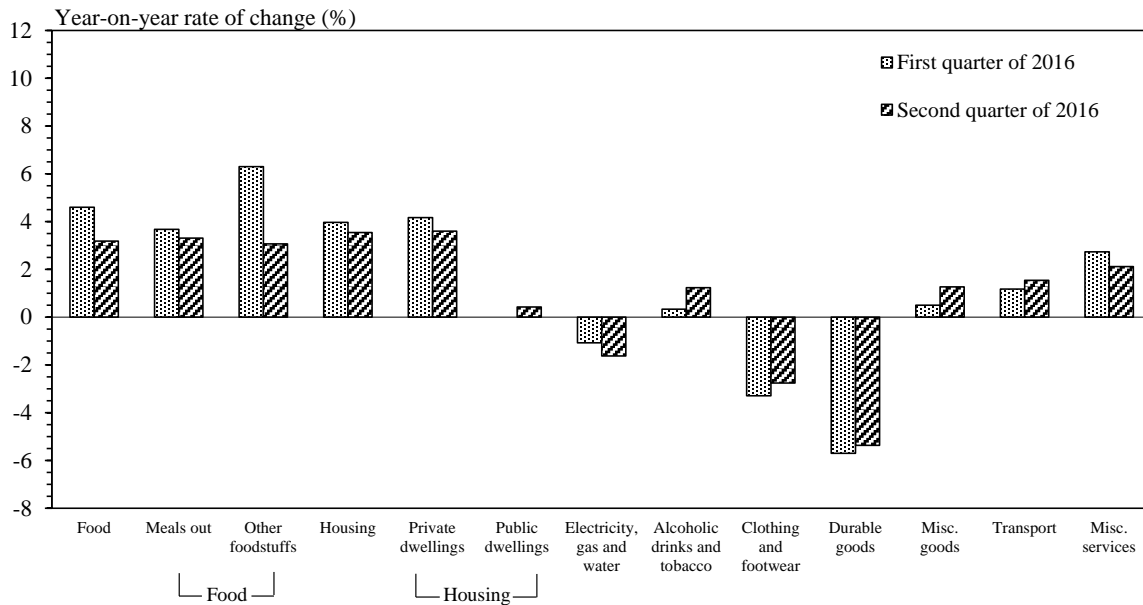
**(a) Food inflation softened again in the second quarter**

**(b) Rental inflation eased further**

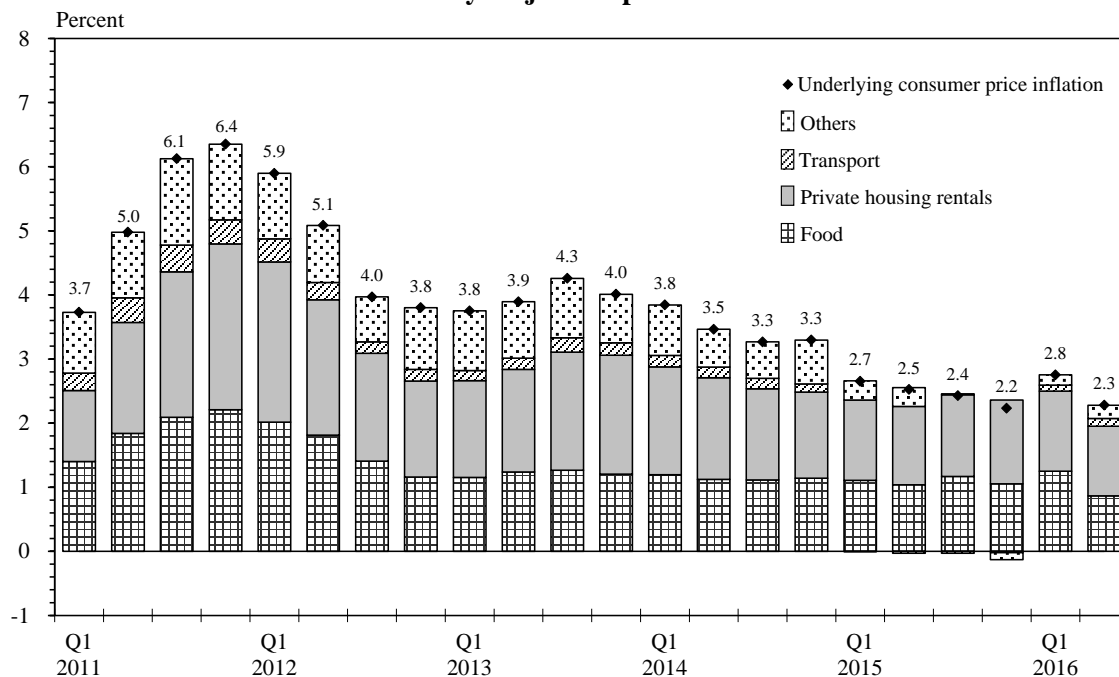


Note : The year-on-year rates of change of the CPIs from October 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series.

**Diagram 6.4 (a) : Price pressures in many of the underlying Composite CPI components were subdued**



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



Note : The year-on-year rates of change of the Composite CPIs from the fourth quarter of 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series.

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>Annual</u>	<u>2015</u>				<u>2016</u>	
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Food	27.29	4.0 <sup>(b)</sup>	4.0	3.7	4.2	3.9	4.6	3.2
<i>Meals bought away from home</i>	17.74	4.2 <sup>(b)</sup>	4.4	4.3	4.3	4.0	3.7	3.3
<i>Other foodstuffs</i>	9.55	3.4 <sup>(b)</sup>	3.3	2.8	4.0	3.7	6.3	3.1
Housing <sup>(a)</sup>	34.29	4.5 <sup>(b)</sup> (5.1) <sup>(b)</sup>	4.7 (8.2)	4.7 (4.2)	4.5 (4.1)	4.1 (4.1)	4.0 (4.0)	3.5 (4.6)
<i>Private dwellings</i>	29.92	4.3 <sup>(b)</sup> (4.7) <sup>(b)</sup>	4.3 (6.8)	4.2 (3.8)	4.3 (3.9)	4.4 (4.4)	4.2 (4.2)	3.6 (4.8)
<i>Public dwellings</i>	1.94	6.2 <sup>(b)</sup> (10.9) <sup>(b)</sup>	9.8 (29.0)	9.4 (10.0)	6.1 (6.4)	* (* )	* (* )	0.4 (0.5)
Electricity, gas and water	2.67	-2.6 <sup>(b)</sup> (8.4) <sup>(b)</sup>	-1.4 (21.5)	-0.7 (22.8)	-6.1 (-4.6)	-2.2 (-1.1)	-1.1 (* )	-1.6 (-1.1)
Alcoholic drinks and tobacco	0.54	1.3 <sup>(b)</sup>	4.3	-0.1	0.3	1.0	0.3	1.2
Clothing and footwear	3.21	-1.8 <sup>(b)</sup>	-0.8	-2.7	-1.9	-1.6	-3.3	-2.8
Durable goods	4.65	-5.6 <sup>(b)</sup>	-5.5	-5.7	-5.6	-5.8	-5.7	-5.4
Miscellaneous goods	3.56	0.9 <sup>(b)</sup>	1.2	1.3	0.6	0.5	0.5	1.3
Transport	7.98	-0.3 <sup>(b)</sup>	-0.1	-0.4	-0.4	-0.3	1.2	1.5
Miscellaneous services	15.81	1.1 <sup>(b)</sup> (1.1) <sup>(b)</sup>	0.8 (0.8)	1.4 (1.4)	1.1 (1.1)	1.2 (1.2)	2.7 (2.7)	2.1 (2.1)
All items	100.00	2.5 <sup>(b)</sup> (3.0) <sup>(b)</sup>	2.7 (4.4)	2.5 (3.0)	2.4 (2.3)	2.2 (2.3)	2.8 (2.8)	2.3 (2.6)

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.

(b) The year-on-year rates of change of the CPIs from the fourth quarter of 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series. Splicing has been applied to the indices in order to obtain better estimates of the rates of change for the year 2015.

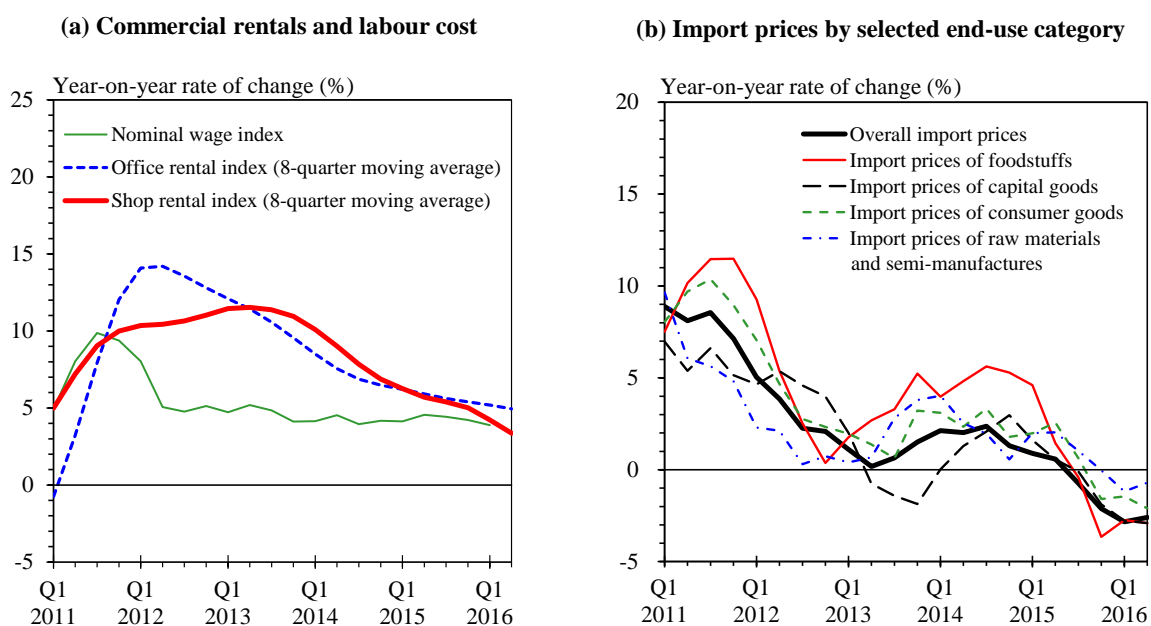
( ) Figures in brackets represent the headline rates of change before netting out the effect of Government's one-off relief measures.

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

## Costs of factor inputs and import prices

6.4 The upward pressures on domestic costs weakened somewhat in the first half of 2016. Labour costs continued to increase moderately, but decelerated more recently given that labour demand in some economic sectors showed signs of easing. Alongside the below-trend economic expansion and the weakness in retail sales, the increases in office and shop rentals remained on a moderating trend when analysed on an eight-quarter-moving-average basis.

**Diagram 6.5 : Both domestic and external cost pressures were trending down**



6.5 External price pressures remained largely in check, conceivably helped by the tame inflation in major import sources, the still relatively low international energy and commodity prices, as well as the relative strength of the Hong Kong dollar against many other currencies. Overall import prices fell for the fourth consecutive quarter, by 2.6% from a year earlier in the second quarter, giving an average decrease of 2.7% for the first half of 2016 as a whole. Import price pressures were muted across all end-use categories in the second quarter. The import prices of fuels continued to plunge year-on-year. The import prices of capital goods, and raw materials and semi-manufactures dropped by 2.9% and 0.7% respectively, in the midst of the sluggish global demand. Meanwhile, the import prices of consumer goods and foodstuffs fell by 2.1% and 2.9% respectively.

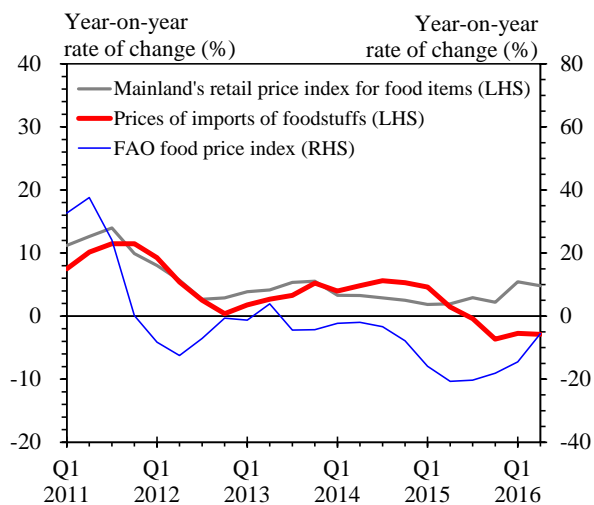
**Table 6.3 : Prices of imports by end-use category  
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
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
2016	H1	-2.9	-1.8	-0.9	-33.7	-2.8	-2.7
	Q1	-2.7	-1.4	-1.2	-39.2	-2.8	-2.8
	Q2	-2.9	-2.1	-0.7	-28.5	-2.9	-2.6

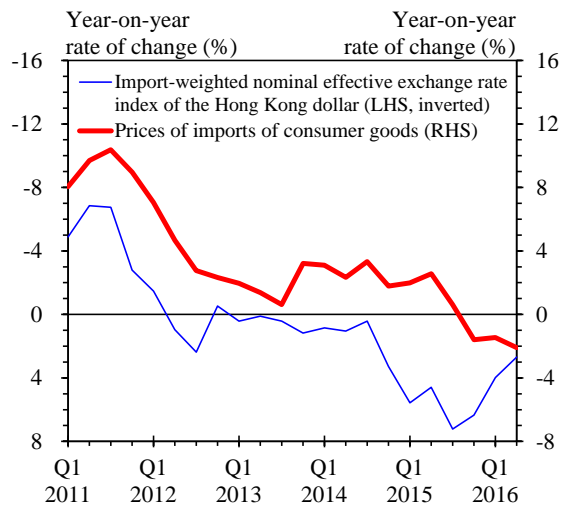
Note : (\*) Change within  $\pm 0.05\%$ .

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

**(a) Import prices of food fell**

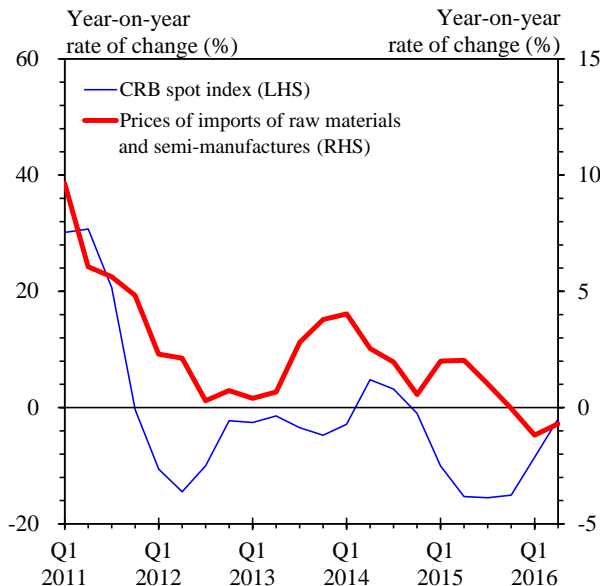


**(b) Import prices of consumer goods stayed soft**

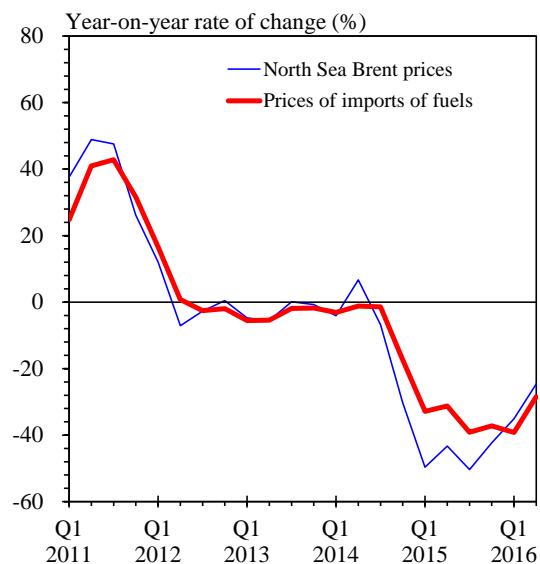


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

**(c) Import prices of raw materials and semi-manufactures continued to decline**



**(d) Import prices of fuels were still notably lower than a year ago**



## Output prices

6.6 The movement of output prices, as measured by the *Producer Price Indices*<sup>(3)</sup>, remained generally on a downtrend across sectors in the first quarter of 2016. Output prices for the manufacturing sector registered a further year-on-year decline, albeit narrowed somewhat from the preceding quarter. As for the selected service sectors, output prices for accommodation services extended its year-on-year decrease, alongside a double-digit decline in visitor arrivals over the same period. Mirroring the unsteady external environment and the still-subdued regional trade flows, output prices for water transport and air transport plummeted, while increase in output prices for courier services decelerated. Meanwhile, the increase in output prices for land transport held broadly stable, and output prices for telecommunications services stayed on its secular downtrend.

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

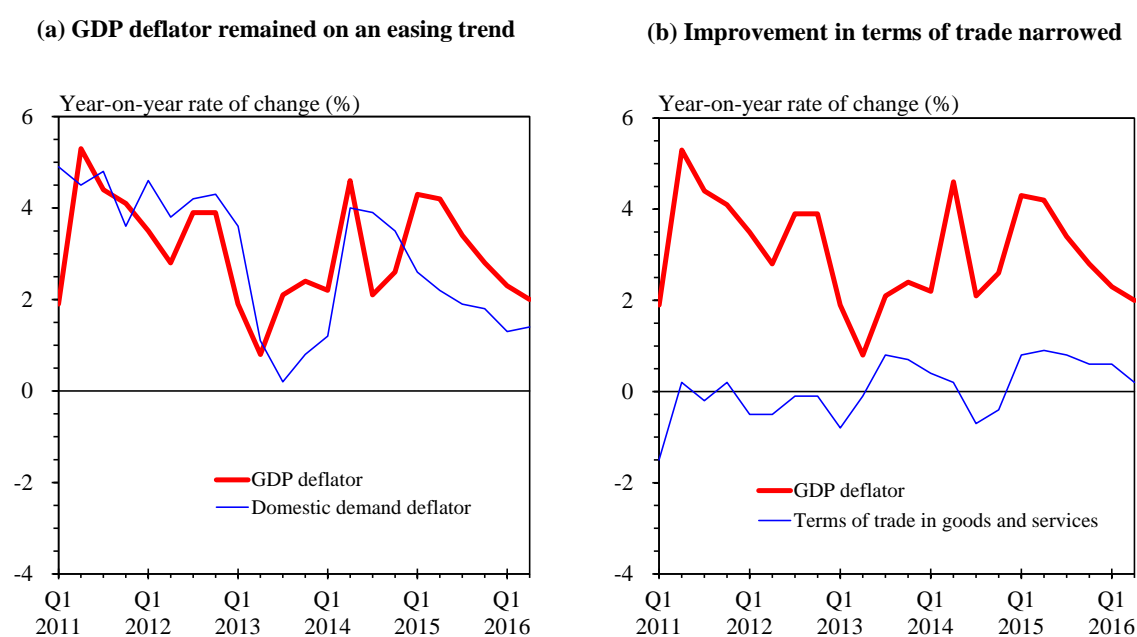
<u>Industry group</u>	<u>Annual</u>	<u>2015</u>				<u>2016</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	-2.7	-0.6	-2.8	-4.4	-3.2	-2.8
Selected service sectors <sup>(a)</sup>						
Accommodation services	-3.6	-1.6	-5.4	-4.8	-2.6	-4.7
Land transport	2.3	2.9	2.3	2.1	2.0	2.6
Water transport	-7.0	-0.2	-3.5	-10.4	-13.5	-15.8
Air transport	-7.8	-3.4	-7.9	-9.2	-10.8	-12.1
Telecommunications	-4.3	-3.9	-4.4	-4.7	-4.2	-3.6
Courier services	4.5	4.2	4.8	4.7	4.3	1.8

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

## GDP deflator

6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*<sup>(4)</sup> rose at a slower year-on-year rate of 2.0% in the second quarter of 2016, following a 2.3% increase in the first quarter. Within the GDP deflator, the improvement in *terms of trade*<sup>(5)</sup> tapered in the second quarter. Taking out the external trade components, the year-on-year increase in domestic demand deflator was 1.4% in the second quarter, somewhat faster than the 1.3% in the first quarter.

**Diagram 6.7 : GDP deflator**





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

	<u>2014</u>		<u>2015</u>				<u>2016</u>	
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>+</sup></u>
Private consumption expenditure	2.9	1.0	1.7	1.1	0.4	1.0	1.2	1.6
Government consumption expenditure	4.7	4.5	4.8	4.6	4.6	4.2	4.0	4.0
Gross domestic fixed capital formation	3.1	4.5	4.8	4.8	5.5	3.2	0.5	0.1
Total exports of goods	0.8	-0.7	0.8	0.4	-1.2	-2.4	-2.8	-2.4
Imports of goods	0.9	-1.4	0.1	-0.7	-2.1	-2.8	-3.6	-2.8
Exports of services	0.8	-2.0	-0.6	-1.6	-3.1	-2.7	-3.7	-2.7
Imports of services	1.2	-4.3	-3.7	-3.0	-5.3	-4.8	-3.4	-1.5
<b>Gross Domestic Product</b>	<b>2.9</b>	<b>3.6</b>	<b>4.3</b>	<b>4.2</b>	<b>3.4</b>	<b>2.8</b>	<b>2.3</b>	<b>2.0</b>
			< <b>1.2</b> >	< <b>1.0</b> >	< <b>0.1</b> >	< <b>0.4</b> >	< <b>0.7</b> >	< <b>0.7</b> >
Total final demand	1.5	*	1.2	0.7	-0.5	-1.1	-1.5	-1.1
Domestic demand	3.1	2.1	2.6	2.2	1.9	1.8	1.3	1.4
Terms of trade in goods and services	-0.1	0.7	0.8	0.9	0.8	0.6	0.6	0.2

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 2014/15-based CPIs are shown below:

	<u>Approximate proportion of households covered</u> (%)	<u>Average monthly expenditure range during Oct 2014 to Sep 2015</u> (\$)
CPI(A)	50	5,500 to 24,499
CPI(B)	30	24,500 to 44,499
CPI(C)	10	44,500 to 89,999

The weightings of the various components in the 2014/15-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	27.29	34.37	26.26	20.85
<i>Meals bought away from home</i>	17.74	20.99	17.88	13.98
<i>Other foodstuffs</i>	9.55	13.38	8.38	6.87
Housing	34.29	33.77	35.24	33.60
<i>Private dwellings</i>	29.92	26.51	32.15	30.72
<i>Public dwellings</i>	1.94	5.44	0.49	--
<i>Maintenance costs and other housing charges</i>	2.43	1.82	2.60	2.88
Electricity, gas and water	2.67	3.85	2.38	1.76
Alcoholic drinks and tobacco	0.54	0.75	0.57	0.26
Clothing and footwear	3.21	2.57	3.26	3.88
Durable goods	4.65	3.41	5.03	5.53
Miscellaneous goods	3.56	3.28	3.64	3.77
Transport	7.98	6.75	7.60	9.84
Miscellaneous services	15.81	11.25	16.02	20.51
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>2016</u>	
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Selected developed economies								
US	1.6	0.1	-0.1	*	0.1	0.5	1.1	1.1
Canada	2.0	1.1	1.1	0.9	1.2	1.3	1.5	1.6
EU	0.5	*	-0.3	0.1	*	0.1	*	-0.1
Japan	2.7	0.8	2.3	0.5	0.2	0.3	0.1	-0.4
Major emerging economies								
Mainland China	2.0	1.4	1.2	1.4	1.7	1.5	2.1	2.1
Russia	7.8	15.5	16.2	15.8	15.7	14.5	8.3	7.4
India	6.6	4.9	5.3	5.1	3.9	5.3	5.3	5.7
Brazil	6.3	9.0	7.7	8.5	9.5	10.4	10.1	9.1
Selected Asian economies								
Hong Kong	4.4	3.0	4.4	3.0	2.3	2.3 <sup>^</sup>	2.8 <sup>^</sup>	2.6 <sup>^</sup>
Singapore	1.0	-0.5	-0.3	-0.4	-0.6	-0.7	-0.8	-0.9
Taiwan	1.2	-0.3	-0.6	-0.7	-0.3	0.3	1.7	1.3
Korea	1.3	0.7	0.6	0.5	0.7	1.1	1.0	0.9
Malaysia	3.1	2.1	0.7	2.2	3.0	2.6	3.4	1.9
Thailand	1.9	-0.9	-0.5	-1.1	-1.1	-0.9	-0.5	0.3
Indonesia	6.4	6.4	6.5	7.1	7.1	4.8	4.3	3.5
Philippines	4.1	1.4	2.4	1.7	0.6	1.0	1.1	1.5
Vietnam	4.1	0.6	0.7	1.0	0.5	0.3	1.3	2.2
Macao	6.0	4.6	5.1	4.8	4.5	3.9	3.7	2.6

Notes : (\*) Change within  $\pm 0.05\%$ .  
 (^) By reference to the new 2014/15-based CPI series.

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



## Statistical Appendix

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

	(\$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>	2015		2016	
					Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Private consumption expenditure	1,314,969	1,413,058	1,503,093	1,589,451	385,085	411,314	396,873	414,490
Government consumption expenditure	185,310	198,572	214,122	231,424	57,879	58,804	63,554	59,837
Gross domestic fixed capital formation	517,411	515,516	530,985	543,589	128,543	144,872	120,140	131,252
<i>of which:</i>								
Building and construction	204,860	211,130	244,036	264,513	65,686	68,675	66,669	70,257
Machinery, equipment and intellectual property products	278,477	264,997	242,982	233,230	52,130	67,129	47,122	51,717
Changes in inventories	-3,662	-1,673	7,473	-23,377	-8,444	949	-1,017	-536
Total exports of goods <sup>&amp;</sup>	3,591,776	3,816,390	3,877,458	3,779,263	982,454	1,001,115	823,429	912,362
Imports of goods <sup>&amp;</sup>	4,116,410	4,394,928	4,471,810	4,289,991	1,077,763	1,117,321	937,677	1,039,442
Exports of services <sup>&amp;</sup>	1,003,047	1,058,289	1,077,899	1,053,474	270,095	271,941	244,592	226,248
Imports of services <sup>&amp;</sup>	455,382	467,214	481,005	486,709	123,743	126,883	119,762	117,317
<b>GDP</b>	<b>2,037,059</b>	<b>2,138,010</b>	<b>2,258,215</b>	<b>2,397,124</b>	<b>614,106</b>	<b>644,791</b>	<b>590,132</b>	<b>586,894</b>
<i>Per capita GDP (\$)</i>	<i>284,720</i>	<i>297,462</i>	<i>311,835</i>	<i>328,117</i>	--	--	--	--
<b>GNI</b>	<b>2,066,514</b>	<b>2,178,529</b>	<b>2,304,822</b>	<b>2,436,622</b>	<b>616,871</b>	<b>646,830</b>	<b>601,056</b>	<b>N.A.</b>
<i>Per capita GNI (\$)</i>	<i>288,837</i>	<i>303,100</i>	<i>318,271</i>	<i>333,523</i>	--	--	--	--
Total final demand	6,608,851	7,000,152	7,211,030	7,173,824	1,815,612	1,888,995	1,647,571	1,743,653
Total final demand excluding re-exports <sup>(a)</sup>	3,655,325	3,860,845	4,006,094	4,037,607	999,513	1,060,597	973,197	987,984
Domestic demand	2,014,028	2,125,473	2,255,673	2,341,087	563,063	615,939	579,550	605,043
Private	1,737,274	1,827,460	1,929,820	1,991,551	477,985	526,725	485,673	515,451
Public	276,754	298,013	325,853	349,536	85,078	89,214	93,877	89,592
External demand	4,594,823	4,874,679	4,955,357	4,832,737	1,252,549	1,273,056	1,068,021	1,138,610

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

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

(%)

	<u>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 6a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.  
 (--) Not applicable.  
 (\*) Change within  $\pm 0.05\%$ .  
 N.A. Not yet available.



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

	<u>2012</u>	<u>2013</u>	<u>2014<sup>#</sup></u>	<u>2015<sup>#</sup></u>	<u>2015</u>		<u>2016</u>		Average annual rate of change:	
					Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <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	4.7	4.4	2.7	1.2	0.6	4.8	5.0
Government consumption expenditure	3.6	2.7	3.0	3.4	2.8	3.3	3.3	3.4	2.7	3.0
Gross domestic fixed capital formation	6.8	2.6	-0.1	-2.0	-6.2	-9.4	-9.6	-4.9	3.2	3.4
<i>of which:</i>										
Building and construction	7.2	-4.3	9.3	2.9	4.2	-0.9	0.2	3.9	2.8	6.0
Machinery, equipment and intellectual property products	10.2	11.3	-8.6	-5.8	-10.7	-12.9	-11.9	-11.3	4.1	3.5
Total exports of goods <sup>&amp;</sup>	1.9	6.5	0.8	-1.9	-3.1	-0.5	-3.6	2.0	3.1	2.1
Imports of goods <sup>&amp;</sup>	3.0	7.2	0.9	-2.7	-4.2	-2.8	-5.4	0.2	3.9	2.6
Exports of services <sup>&amp;</sup>	2.2	4.9	1.1	-0.2	-0.2	-2.7	-5.0	-4.6	5.7	2.6
Imports of services <sup>&amp;</sup>	1.9	1.5	1.8	5.7	5.5	5.4	4.9	1.1	4.6	2.9
<b>GDP</b>	<b>1.7</b>	<b>3.1</b>	<b>2.7</b>	<b>2.4</b>	<b>2.3</b>	<b>1.9</b>	<b>0.8</b>	<b>1.7</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>3.7</b>	<b>3.2</b>	<b>0.2</b>	<b>2.8</b>	<b>N.A.</b>	<b>3.2</b>	<b>2.9</b>
<i>Per capita RGNI</i>	<i>-1.3</i>	<i>3.5</i>	<i>1.8</i>	<i>2.8</i>	--	--	--	--	<i>2.4</i>	<i>2.1</i>
Total final demand	2.5	5.5	1.5	-0.5	-1.5	-0.8	-2.7	0.8	3.8	2.7
Total final demand excluding re-exports <sup>(a)</sup>	3.2	4.5	2.1	0.3	-0.4	-0.9	-0.6	*	4.0	3.1
Domestic demand	3.9	4.1	2.9	1.6	1.0	-0.3	*	1.2	4.2	3.8
Private	3.6	4.1	2.6	1.5	0.7	-0.2	*	1.0	4.2	3.7
Public	5.8	3.7	4.6	2.6	2.9	-0.7	-0.2	2.1	3.7	4.4
External demand	1.9	6.2	0.9	-1.5	-2.5	-1.0	-3.9	0.6	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	2,042,819	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>379,881</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>2,204,041</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>2,258,215</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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014<sup>#</sup></u>	<u>2015<sup>#</sup></u>	<u>2015</u>			<u>2016</u>
							Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
Agriculture, fishing, mining and quarrying	3.9	0.8	-3.2	4.9	-6.0	-2.2	0.5	-4.0	-4.7	-8.9
Manufacturing	3.3	0.7	-0.8	0.1	-0.4	-1.5	-1.2	-2.1	-1.3	-0.3
Electricity, gas and water supply, and waste management	-0.2	0.6	1.4	-2.9	0.8	0.3	2.3	-2.0	1.8	2.0
Construction	15.6	18.3	8.3	4.2	13.0	2.0	14.8	3.0	-2.3	-1.4
Services	6.9	5.2	1.8	2.7	2.4	1.9	1.6	1.9	1.9	1.5
<i>Import/export, wholesale and retail trades</i>	16.7	9.1	1.9	3.3	1.2	-1.1	-3.6	-0.5	-0.7	-2.1
<i>Accommodation<sup>(a)</sup> and food services</i>	9.5	8.3	1.8	3.6	2.2	-0.9	-1.1	-2.6	0.4	-0.7
<i>Transportation, storage, postal and courier services</i>	6.0	7.2	0.9	4.1	2.9	1.9	1.1	1.1	3.0	2.8
<i>Information and communications</i>	1.5	2.8	2.8	4.0	3.9	4.0	4.6	3.5	2.9	3.3
<i>Financing and insurance</i>	6.3	6.5	0.8	7.6	4.8	6.3	7.9	6.1	6.2	5.5
<i>Real estate, professional and business services</i>	2.5	2.6	3.1	-4.0	1.9	2.2	2.1	1.7	1.0	1.1
<i>Public administration, social and personal services</i>	2.2	1.8	2.1	2.5	2.5	2.6	2.0	3.3	2.9	2.6
<i>Ownership of premises</i>	0.8	0.7	1.1	0.3	0.8	0.6	0.6	0.6	0.6	0.7
Taxes on products	6.3	-6.8	-10.4	-6.4	6.7	7.0	30.4	1.3	-14.1	-20.6
<b>GDP in chained (2014) dollars</b>	<b>6.8</b>	<b>4.8</b>	<b>1.7</b>	<b>3.1</b>	<b>2.7</b>	<b>2.4</b>	<b>3.1</b>	<b>2.3</b>	<b>1.9</b>	<b>0.8</b>

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

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

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

	(\$Mn)								
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014<sup>#</sup></u>	<u>2015<sup>#</sup></u>		<u>2015</u>		<u>2016</u>
						Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
Current account <sup>(a)</sup>	107,513	32,151	32,180	29,363	74,658	140	48,460	25,818	16,160
Goods	-58,203	-146,729	-216,592	-251,022	-176,907	-77,871	-6,346	-17,934	-44,623
Services	132,681	169,760	229,129	253,564	232,944	53,707	57,389	46,786	55,205
Primary income	52,826	29,455	40,519	46,607	39,498	29,103	2,765	2,039	10,924
Secondary income	-19,791	-20,336	-20,876	-19,786	-20,877	-4,799	-5,348	-5,074	-5,346
Capital and financial account <sup>(a)</sup>	-113,242	-67,664	-86,308	-73,785	-131,553	-28,538	-19,769	-55,646	10,251
Capital account	-2,021	-1,433	-1,609	-748	-74	176	-78	-96	-72
Financial account	-111,220	-66,231	-84,699	-73,037	-131,479	-28,714	-19,691	-55,550	10,323
Financial non-reserve assets	-24,437	122,658	-26,810	66,052	150,517	47,941	51,829	41,984	15,570
<i>Direct investment</i>	1,868	-102,623	-50,250	-85,718	928,262	560,529	52,962	133,259	-7,598
<i>Portfolio investment</i>	-10,979	-31,592	-386,077	-64,384	-1,094,887	-395,165	-145,237	-271,644	84,715
<i>Financial derivatives</i>	20,884	15,208	54,661	118,359	117,727	33,548	11,940	19,125	11,804
<i>Other investment</i>	-36,210	241,665	354,856	97,795	199,416	-150,971	132,164	161,244	-73,352
Reserve assets	-86,783	-188,889	-57,890	-139,089	-281,996	-76,655	-71,520	-97,535	-5,246
Net errors and omissions	5,729	35,513	54,128	44,422	56,896	28,398	-28,691	29,828	-26,411
<b>Overall Balance of Payments</b>	<b>86,783</b>	<b>188,889</b>	<b>57,890</b>	<b>139,089</b>	<b>281,996</b>	<b>76,655</b>	<b>71,520</b>	<b>97,535</b>	<b>5,246</b>

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

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

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

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

(\$Mn)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014<sup>#</sup></u>	<u>2015<sup>#</sup></u>	<u>2015</u>		<u>2016</u>	
						Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Total exports of goods	3,420,076	3,591,776	3,816,390	3,877,458	3,779,263	982,454	1,001,115	823,429	912,362
Imports of goods	3,848,200	4,116,410	4,394,928	4,471,810	4,289,991	1,077,763	1,117,321	937,677	1,039,442
<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>-510,728</b> (-11.9)	<b>-95,309</b> (-8.8)	<b>-116,206</b> (-10.4)	<b>-114,248</b> (-12.2)	<b>-127,080</b> (-12.2)
Exports of services	941,178	1,003,047	1,058,289	1,077,899	1,053,474	270,095	271,941	244,592	226,248
Imports of services	438,576	455,382	467,214	481,005	486,709	123,743	126,883	119,762	117,317
<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>566,765</b> (116.4)	<b>146,352</b> (118.3)	<b>145,058</b> (114.3)	<b>124,830</b> (104.2)	<b>108,931</b> (92.9)
Exports of goods and services	4,361,254	4,594,823	4,874,679	4,955,357	4,832,737	1,252,549	1,273,056	1,068,021	1,138,610
Imports of goods and services	4,286,776	4,571,792	4,862,142	4,952,815	4,776,700	1,201,506	1,244,204	1,057,439	1,156,759
<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>56,037</b> <1.2>	<b>51,043</b> <4.2>	<b>28,852</b> <2.3>	<b>10,582</b> <1.0>	<b>-18,149</b> <-1.6>

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

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

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

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

**Table 6a : 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>		<u>2016</u>	
						Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <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	3,920,322	1,022,546	1,050,243	855,326	937,466
Imports of goods	3,464,968	3,779,686	4,142,651	4,250,052	4,097,229	1,028,892	1,068,177	899,949	994,803
<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>-176,907</b> (-4.3)	<b>-6,346</b> (-0.6)	<b>-17,934</b> (-1.7)	<b>-44,623</b> (-5.0)	<b>-57,337</b> (-5.8)
Exports of services	710,716	764,026	812,345	826,995	807,984	204,114	197,978	192,838	175,932
Imports of services	578,035	594,266	583,216	573,431	575,040	146,725	151,192	137,633	136,744
<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>232,944</b> (40.5)	<b>57,389</b> (39.1)	<b>46,786</b> (30.9)	<b>55,205</b> (40.1)	<b>39,188</b> (28.7)
Exports of goods and services	4,117,481	4,396,983	4,738,404	4,826,025	4,728,306	1,226,660	1,248,221	1,048,164	1,113,398
Imports of goods and services	4,043,003	4,373,952	4,725,867	4,823,483	4,672,269	1,175,617	1,219,369	1,037,582	1,131,547
<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>56,037</b> <1.2>	<b>51,043</b> <4.3>	<b>28,852</b> <2.4>	<b>10,582</b> <1.0>	<b>-18,149</b> <-1.6>
<b><u>Rates of change in real terms (%)</u></b>									
Total exports of goods	4.6	3.3	8.2	1.1	-1.2	-2.5	*	-3.2	2.3
Imports of goods	6.7	4.6	9.9	1.8	-2.2	-3.7	-2.5	-5.2	0.7
Exports of services	5.7	2.7	5.9	1.4	0.2	0.6	-3.6	-5.7	-6.0
Imports of services	-0.2	2.2	-2.1	-2.2	5.0	4.3	4.8	3.5	*

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

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

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

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

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

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

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>		<u>2016</u>	
	(% change)				(% change)	(\$Mn)	Q3	Q4	Q1	Q2
							(% 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>-4.1</b>	<b>-2.9</b>	<b>-6.8</b>	<b>-1.2</b>
Mainland of China	9.3	6.3	4.9	1.5	-2.1	1,936,515	-4.2	-1.7	-8.7	-0.7
United States	-0.4	2.3	-2.1	3.1	0.2	342,193	-2.3	-5.4	-7.7	-5.2
Japan	5.9	6.5	-6.1	-2.8	-6.6	122,772	-6.0	-6.3	-5.3	-7.5
India	25.6	-17.5	7.9	13.1	8.1	101,831	5.2	17.6	12.7	20.9
Vietnam	37.3	9.9	15.5	14.0	14.7	76,612	16.7	4.8	-3.7	-10.1
Germany	10.7	-12.8	-5.1	-1.7	-3.2	70,269	-1.2	-3.8	-4.9	4.4
Taiwan	24.3	-5.2	-4.3	2.5	-18.0	65,029	-25.5	-12.8	-9.7	11.0
Singapore	10.3	-0.5	4.7	2.2	-2.3	58,451	-7.7	-7.0	-2.1	-2.0
United Kingdom	-3.4	-6.0	-2.0	0.5	0.8	54,755	-5.0	-1.8	-6.1	-8.7
Republic of Korea	14.2	-4.0	9.0	-2.7	-12.8	54,380	-17.7	-13.9	-15.2	1.5
Rest of the world	15.1	0.6	5.7	8.5	-1.2	722,471	-4.2	-5.0	-4.4	-2.6

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

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>		<u>2016</u>	
	(% change)				(% change)	(\$Mn)	Q3	Q4	Q1	Q2
	(% 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>-6.7</b>	<b>-7.0</b>	<b>-8.2</b>	<b>-3.2</b>
Mainland of China	10.9	8.5	5.5	2.3	-0.1	1,984,048	-2.3	-1.9	-8.4	-3.1
Taiwan	7.2	1.6	6.9	14.7	-8.6	274,385	-12.1	-8.6	-3.4	0.2
Japan	3.4	-2.2	-8.1	0.9	-9.9	260,294	-10.9	-13.2	-15.1	-5.7
Singapore	7.2	-3.2	*	5.8	-5.7	245,867	-8.7	-8.0	-10.2	1.1
United States	18.0	-3.3	7.4	*	-3.9	210,933	-7.9	-14.3	-7.0	-13.2
Republic of Korea	12.2	2.4	3.4	10.6	-2.0	172,085	-0.6	-13.1	-5.5	3.3
Malaysia	5.1	-6.0	4.7	16.7	-7.9	94,084	-4.8	-10.0	-3.6	-6.2
Thailand	0.3	-4.8	6.4	13.7	-3.7	84,910	-4.2	-5.3	-3.9	-5.0
India	20.6	-5.5	6.7	10.0	-13.7	82,913	-17.8	-22.9	-0.6	15.5
Switzerland	51.7	-0.7	-1.7	2.7	-22.1	61,802	-21.1	-31.0	-17.2	-5.8
Rest of the world	20.2	5.8	3.8	0.9	-7.4	575,098	-14.2	-9.7	-8.2	-5.5

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

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



**Table 9 : 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>		<u>2016</u>	
	(% change)				(% change)		(\$Mn)	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <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>1,053,474</b>	<b>-3.4</b>	<b>-5.4</b>	<b>-8.6</b>	<b>-7.3</b>
Transportation	7.8	-0.6	-2.5	2.2	-7.4	229,428	-7.8	-10.9	-11.1	-8.3
Travel	28.4	15.8	17.7	-1.5	-5.8	280,227	-7.6	-8.4	-15.7	-10.2
Trade-related	11.0	3.9	2.1	1.9	-2.2	286,314	-3.8	-2.6	-4.7	-1.8
Other services	10.1	9.0	4.6	5.8	7.3	257,505	6.9	0.1	-2.6	-8.4
<b>Imports of services</b>	<b>10.2</b>	<b>3.8</b>	<b>2.6</b>	<b>3.0</b>	<b>1.2</b>	<b>486,709</b>	*	<b>0.3</b>	<b>1.3</b>	<b>-0.5</b>
Transportation	14.3	2.3	-1.4	1.5	-5.2	135,177	-7.6	-5.7	-2.9	-2.5
Travel	9.8	5.2	5.7	3.7	4.7	178,751	3.8	5.3	9.4	1.6
Trade-related	1.1	1.7	-2.7	2.8	0.1	33,764	-1.2	-1.8	-3.8	-2.2
Other services	8.7	4.6	4.8	3.6	3.7	139,017	3.9	1.0	-3.0	-1.0
<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>566,765</b>	<b>-6.0</b>	<b>-9.9</b>	<b>-16.4</b>	<b>-13.6</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 9a. 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 9a : 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>		<u>2016</u>	
	(% change)				(% change)		(\$Mn)	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <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>807,984</b>	<b>-3.2</b>	<b>-6.4</b>	<b>-9.5</b>	<b>-8.7</b>
Transportation	7.8	-0.6	-2.5	2.2	-7.4	229,428	-7.8	-10.9	-11.1	-8.3
Travel	28.4	15.8	17.7	-1.5	-5.8	280,227	-7.6	-8.4	-15.7	-10.2
Other services	8.1	8.3	3.5	5.1	5.9	298,329	5.2	-0.4	-2.9	-7.6
<b>Imports of services</b>	<b>5.7</b>	<b>2.8</b>	<b>-1.9</b>	<b>-1.7</b>	<b>0.3</b>	<b>575,040</b>	<b>-1.1</b>	<b>-0.5</b>	<b>-0.4</b>	<b>-1.6</b>
Transportation	14.3	2.3	-1.4	1.5	-5.2	135,177	-7.6	-5.7	-2.9	-2.5
Travel	9.8	5.2	5.7	3.7	4.7	178,751	3.8	5.3	9.4	1.6
Other services	0.1	1.9	-6.0	-6.5	0.4	261,112	-0.8	-1.3	-5.3	-3.7

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 10 : Incoming visitors by source**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>		<u>2016</u>	
						Q3	Q4	Q1	Q2
<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>15 097.1</b>	<b>14 883.3</b>	<b>13 735.1</b>	<b>13 425.2</b>
Mainland of China	28 100.1	34 911.4	40 745.3	47 247.7	45 842.4	11 904.9	11 091.0	10 427.9	9 987.8
South and Southeast Asia	3 751.1	3 651.8	3 718.0	3 614.8	3 559.1	795.4	1 086.4	828.4	992.4
Taiwan	2 148.7	2 088.7	2 100.1	2 031.9	2 015.8	543.2	515.7	484.2	502.8
Europe	1 801.3	1 867.7	1 893.7	1 863.3	1 829.4	396.7	543.7	481.4	451.6
United States	1 212.3	1 184.8	1 109.8	1 130.6	1 181.0	263.9	333.7	279.3	312.3
Japan	1 283.7	1 254.6	1 057.0	1 078.8	1 049.3	279.4	284.2	264.4	235.1
Others	3 623.9	3 656.1	3 674.9	3 871.9	3 830.7	913.7	1 028.7	969.5	943.3
<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>-6.4</b>	<b>-8.0</b>	<b>-10.9</b>	<b>-3.5</b>
Mainland of China	23.9	24.2	16.7	16.0	-3.0	-7.3	-11.9	-15.1	-5.4
South and Southeast Asia	7.1	-2.6	1.8	-2.8	-1.5	0.5	8.3	12.4	5.5
Taiwan	-0.7	-2.8	0.5	-3.2	-0.8	-2.2	6.4	3.9	2.4
Europe	2.5	3.7	1.4	-1.6	-1.8	-1.9	3.8	6.8	3.0
United States	3.5	-2.3	-6.3	1.9	4.5	0.6	8.6	1.8	1.1
Japan	-2.5	-2.3	-15.7	2.1	-2.7	-2.2	7.3	6.5	-1.0
Others	5.5	0.9	0.5	5.4	-1.1	-7.9	1.8	0.8	1.8

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

**Table 11 : 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 11 : Property market (Cont'd)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>		<u>2016</u>	
				Q3	Q4	Q1	Q2
<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	2 862	3 348	1 803	5 614
Commercial property	161	161	233	20	61	85	76
<i>of which :</i>							
Office space	123	104	164	5	42	49	56
Other commercial premises <sup>(b)</sup>	39	57	69	16	19	36	20
Industrial property <sup>(c)</sup>	85	116	30	24	3	0	0
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	85	36	30	24	3	0	0
Storage premises <sup>(d)</sup>	0	80	0	0	0	73	0
<b>Production of public housing</b>							
(in units)							
Rental housing flats <sup>(e)</sup>	20 898	5 634	10 147	567	0	11 987	N.A.
Subsidised sales flats <sup>(e)</sup>	0	0	1 326	0	338	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	893.3	286.4	118.5	211.1	N.A.
Commercial property	309.5	290.3	319.0	89.1	96.2	115.4	N.A.
Industrial property <sup>(f)</sup>	138.1	105.9	225.3	44.4	137.1	15.1	N.A.
Other properties	136.4	217.1	555.4	35.6	264.2	57.7	N.A.
Total	1 400.1	1 260.4	1 993.0	455.4	615.9	399.2	N.A.
<b>Agreements for sale and purchase of property</b>							
(Number)							
Residential property <sup>(g)</sup>	50 676	63 807	55 982	13 552	10 169	6 221	13 700
Primary market	11 046	16 857	16 826	3 488	4 606	1 325	4 308
Secondary market	39 630	46 950	39 156	10 064	5 563	4 896	9 392
Selected types of non-residential properties <sup>(h)</sup>							
Office space	1 685	1 271	1 470	330	223	141	246
Other commercial premises	4 305	3 092	2 067	699	310	320	258
Flatted factory space	4 271	3 016	3 407	778	709	449	589

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 12 : 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 12 : Property prices and rentals (Cont'd)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>		<u>2016</u>
				Q3	Q4	Q1 <sup>#</sup>	Q2 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	242.4	256.9	296.8	305.2	293.6	274.7	274.9
Office space	409.8	423.0	448.9	459.6	457.0	437.1	419.0
Shopping space	506.8	521.2	559.2	571.4	554.7	533.5	525.9
Flatted factory space	655.4	668.0	723.9	742.1	731.2	686.2	692.8
Property rental indices <sup>(b)</sup> :							
Residential flats	154.5	159.5	172.8	176.6	173.5	165.4	164.2
Office space	204.1	213.7	226.7	229.6	230.2	230.7	231.7
Shopping space	165.5	173.1	182.5	184.9	182.5	179.3	177.8
Flatted factory space	147.3	160.1	174.4	177.3	177.7	178.0	181.4
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	17.6	6.0	15.5	16.8	7.0	-5.0	-8.1
Office space	22.4	3.2	6.1	8.1	6.6	0.8	-5.9
Shopping space	20.5	2.8	7.3	9.0	2.5	-3.3	-6.0
Flatted factory space	33.8	1.9	8.4	10.3	7.0	-1.9	-4.2
Property rental indices <sup>(b)</sup> :							
Residential flats	8.3	3.2	8.3	9.8	5.0	-1.8	-5.0
Office space	8.4	4.7	6.1	6.4	5.7	4.5	2.5
Shopping space	9.4	4.6	5.4	6.1	3.5	-0.5	-2.5
Flatted factory space	11.7	8.7	8.9	9.0	7.2	5.2	4.7

**Table 13 : 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 13 : Monetary aggregates (Cont'd)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>		<u>2016</u>	
				Q3	Q4	Q1	Q2
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	1,000,344	1,116,675	1,253,380	1,265,500	1,253,380	1,306,062	1,329,267
M2 <sup>(a)</sup>	4,795,130	5,225,773	5,765,549	5,737,756	5,765,549	5,801,800	5,899,348
M3 <sup>(a)</sup>	4,806,012	5,236,188	5,778,772	5,749,793	5,778,772	5,814,479	5,911,089
Total money supply (\$Mn)							
M1	1,510,895	1,708,724	1,971,146	2,018,828	1,971,146	2,076,634	2,089,932
M2	10,056,437	11,011,372	11,618,441	11,445,509	11,618,441	11,747,635	11,791,318
M3	10,085,243	11,048,944	11,655,019	11,481,267	11,655,019	11,783,190	11,828,214
Deposit (\$Mn)							
HK\$	4,390,953	4,800,330	5,312,403	5,303,602	5,312,403	5,353,361	5,450,475
Foreign currency	4,789,109	5,272,804	5,437,346	5,354,879	5,437,346	5,617,954	5,597,236
Total	9,180,062	10,073,135	10,749,749	10,658,480	10,749,749	10,971,315	11,047,711
Loans and advances (\$Mn)							
HK\$	3,606,018	4,000,361	4,152,589	4,156,159	4,152,589	4,187,120	4,264,170
Foreign currency	2,850,795	3,275,910	3,381,951	3,403,881	3,381,951	3,335,255	3,435,335
Total	6,456,813	7,276,271	7,534,540	7,560,040	7,534,540	7,522,375	7,699,505
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) <sup>(b)</sup>							
Trade-weighted	94.9	96.0	101.3	102.0	103.3	104.0	102.8
Import-weighted	94.7	96.0	101.7	102.5	103.9	104.4	102.9
Export-weighted	95.1	95.9	100.9	101.4	102.7	103.6	102.7
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	8.6	11.6	12.2	15.0	12.2	-0.3	3.2
M2 <sup>(a)</sup>	5.7	9.0	10.3	10.1	10.3	3.6	2.2
M3 <sup>(a)</sup>	5.7	9.0	10.4	10.1	10.4	3.6	2.1
Total money supply							
M1	9.7	13.1	15.4	20.3	15.4	7.0	9.0
M2	12.4	9.5	5.5	4.9	5.5	3.5	3.1
M3	12.4	9.6	5.5	4.9	5.5	3.6	3.1
Deposit							
HK\$	5.1	9.3	10.7	10.8	10.7	3.8	2.1
Foreign currency	16.2	10.1	3.1	4.3	3.1	7.1	7.3
Total	10.7	9.7	6.7	7.4	6.7	5.5	4.7
Loans and advances							
HK\$	8.2	10.9	3.8	6.1	3.8	-2.3	*
Foreign currency	27.6	14.9	3.2	3.3	3.2	-0.2	0.7
Total	16.0	12.7	3.5	4.9	3.5	-1.4	0.3
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) <sup>(b)</sup>							
Trade-weighted	0.0	1.2	5.5	6.6	6.1	3.9	2.8
Import-weighted	0.5	1.4	5.9	7.2	6.3	4.0	2.7
Export-weighted	-0.5	0.8	5.2	5.8	5.7	3.9	3.1

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

(b) Period average.

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

**Table 14 : Rates of change in business receipts indices for services industries/domains**

	(%)							
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>			<u>2016</u>
					Q2	Q3	Q4	Q1
<b>Services Industry</b>								
Import and export trade	-1.3	-0.3	0.1	-3.9	-3.9	-4.5	-7.3	-10.7
Wholesale	3.2	4.3	1.5	-4.9	-2.9	-5.8	-10.5	-7.8
Retail	9.8	11.0	-0.2	-3.7	-0.9	-4.8	-6.6	-12.5
Transportation	0.9	1.4	6.1	-4.3	-3.8	-7.0	-7.3	-8.5
<i>within which :</i>								
Land transport	11.9	8.0	6.9	5.4	5.0	1.9	8.4	5.9
Water transport	-2.4	-2.9	6.8	-7.7	-4.6	-11.0	-15.6	-16.3
Air transport	0.3	2.4	5.3	-5.1	-6.1	-7.2	-6.9	-8.2
Warehousing and storage	25.2	8.2	11.9	12.7	12.8	11.4	13.4	14.8
Courier	16.1	26.1	5.4	-5.9	-3.3	-7.0	-8.9	-3.1
Accommodation services <sup>(a)</sup>	13.8	5.6	6.5	-6.6	-10.9	-11.1	-0.3	-4.6
Food services	5.0	3.5	3.5	3.9	4.9	3.5	3.6	1.9
Information and communications	9.3	6.0	5.9	10.8	12.2	11.3	9.0	6.9
<i>within which :</i>								
Telecommunications	14.7	8.0	10.7	19.6	23.7	18.1	14.4	8.6
Film entertainment	1.9	-4.3	-11.7	-3.1	-3.1	-3.4	-5.0	3.0
Banking	9.4	16.8	5.9	8.3	27.8	0.3	-2.0	-9.6
Financing (except banking)	1.6	2.6	6.7	19.0	44.7	4.5	6.5	-10.7
<i>within which :</i>								
Financial markets and asset management	1.7	1.0	8.9	19.0	48.6	5.4	3.8	-12.5
<i>within which : Asset management</i>	-5.4	14.9	11.0	7.0	16.0	-0.4	-2.1	*
Insurance	13.6	15.1	18.2	11.7	10.9	8.4	12.2	10.5
Real estate	11.8	0.1	17.0	8.1	13.4	4.8	0.1	6.9
Professional, scientific and technical services	-0.5	7.2	7.6	5.3	3.8	4.4	4.3	2.1
Administrative and support services	8.2	9.5	7.3	7.4	7.7	6.6	8.4	2.9
<b>Services Domain</b>								
Tourism, convention and exhibition services	15.1	17.8	-0.9	-5.0	-3.3	-6.1	-7.1	-13.3 <sup>+</sup>
Computer and information technology services	15.1	2.1	-1.8	-4.2	-6.6	-4.0	-1.9	-4.7

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.

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

**Table 15 : Labour force characteristics**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>		<u>2016</u>	
						Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1	Q2
<u>(%)</u>									
Labour force participation rate	60.1	60.5	61.2	61.1	61.2	61.2	61.0	61.4	61.2
Seasonally adjusted unemployment rate <sup>(a)</sup>	3.4	3.3	3.4	3.3	3.3	3.3	3.3	3.4	3.4
Underemployment rate	1.7	1.5	1.5	1.5	1.4	1.3	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	6 392.2	6 403.6	6 417.3	6 421.4	6 444.7
Labour force	3 703.1	3 785.2	3 858.8	3 876.4	3 909.8	3 916.3	3 913.3	3 942.2	3 943.2
Persons employed	3 576.4	3 660.7	3 728.0	3 749.2	3 780.9	3 779.2	3 790.0	3 811.8	3 807.1
Persons unemployed	126.7	124.5	130.8	127.2	128.9	137.1	123.3	130.4	136.1
Persons underemployed	63.3	57.6	58.2	56.5	53.0	52.8	52.9	53.4	54.1
<u>(% change over a year earlier)</u>									
Population of working age	1.2	1.4	0.8	0.7	0.7	0.7	0.8	0.6	0.9
Labour force	2.0	2.2	1.9	0.5	0.9	0.3	0.2	0.6	1.1
Persons employed	2.9	2.4	1.8	0.6	0.8	0.3	0.2	0.5	0.9
Persons unemployed	-19.4	-1.8	5.1	-2.7	1.3	1.7	0.6	3.3	5.4
Persons underemployed	-12.7	-9.0	1.1	-3.0	-6.1	-7.3	-15.6	-0.2	-2.0

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

(#) Figures have been revised to take into account the final 2015 population estimates.

**Table 16 : Employment in selected major industries**

Selected major industries	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>			<u>2016</u>	(No.)
	(% change)					Jun	Sep	Dec	Mar	
						(% change over a year earlier)				
Manufacturing	-5.6	-5.1	-3.0	-1.2	-2.8	-2.6	-3.0	-2.6	-2.5	97 827
Construction sites (manual workers only)	13.2	13.8	11.2	4.4	14.9	16.4	8.3	18.1	14.1	104 813
Import and export trade	-0.3	-1.1	-0.2	0.1	-1.4	-1.5	-1.6	-2.0	-1.2	481 653
Wholesale	*	-0.6	-2.0	-0.3	-1.4	-1.9	-1.7	-1.1	-0.4	61 275
Retail	4.0	2.5	2.3	2.2	-0.5	-0.7	-0.3	-1.3	-1.9	266 245
Food and beverage services	6.6	1.6	0.9	2.4	0.1	0.1	-0.1	-0.7	-0.7	241 827
Accommodation services <sup>(a)</sup>	5.8	9.2	5.0	3.2	-1.1	-1.7	-0.8	-1.4	-3.5	38 789
Transportation, storage, postal and courier services	2.0	1.8	2.0	2.7	1.6	1.1	1.6	1.1	1.2	178 625
Information and communications	3.4	5.6	5.1	2.7	1.1	1.4	0.7	1.2	1.6	105 694
Financing and insurance	6.3	1.9	1.0	2.3	2.3	2.7	2.4	1.5	1.1	221 229
Real estate	8.0	4.2	1.6	0.6	1.7	2.2	2.3	-0.1	-1.0	128 463
Professional and business services (excluding cleaning and similar services)	4.2	3.4	4.5	2.7	2.4	2.7	2.8	1.6	0.6	283 344
Cleaning and similar services	9.5	3.3	1.6	0.2	2.4	2.8	2.8	0.9	-0.3	81 048
Education	1.5	2.4	2.8	4.4	3.9	3.5	4.1	2.9	2.7	196 033
Human health services	4.1	4.9	5.2	4.3	4.5	4.5	4.7	4.1	4.2	119 630
Residential care and social work services	1.3	2.0	0.5	0.6	2.8	2.4	2.6	3.5	4.3	62 896
Arts, entertainment, recreation and other services	2.8	0.6	1.6	5.9	0.9	1.9	0.4	-1.0	-0.9	126 905
Civil service <sup>(b)</sup>	0.7	1.1	1.3	1.0	0.7	0.6	0.6	0.9	1.5	166 150
Others <sup>(c)</sup>	-0.6	-5.1	3.5	3.1	-1.0	-1.6	-0.4	-0.7	-0.8	10 859

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>		<u>2016</u>
						Jun	Sep	Dec	Mar
<u>(Number)</u>									
Building sites									
Private sector	31 780	37 687	41 308	44 024	50 372	48 769	50 256	55 191	57 069
Public sector <sup>(a)</sup>	12 335	10 578	9 860	11 212	15 470	15 275	15 110	15 833	15 949
Sub-total	44 115	48 265	51 168	55 236	65 842	64 044	65 366	71 024	73 018
Civil engineering sites									
Private sector	1 250	1 410	1 322	1 414	1 609	2 117	1 505	1 397	1 670
Public sector <sup>(a)</sup>	17 270	21 621	26 813	26 145	27 652	26 647	26 874	29 561	30 125
Sub-total	18 520	23 030	28 135	27 559	29 261	28 764	28 379	30 958	31 795
<b>Total</b>	<b>62 635</b>	<b>71 295</b>	<b>79 303</b>	<b>82 795</b>	<b>95 103</b>	<b>92 808</b>	<b>93 745</b>	<b>101 982</b>	<b>104 813</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	11.0	18.6	9.6	6.6	14.4	16.7	10.1	22.7	20.7
Public sector <sup>(a)</sup>	7.6	-14.2	-6.8	13.7	38.0	53.8	26.9	11.4	1.8
Sub-total	10.1	9.4	6.0	8.0	19.2	23.8	13.5	20.0	16.0
Civil engineering sites									
Private sector	-19.0	12.8	-6.2	7.0	13.8	32.9	6.3	22.5	17.8
Public sector <sup>(a)</sup>	25.9	25.2	24.0	-2.5	5.8	0.9	-2.5	13.6	9.4
Sub-total	21.4	24.4	22.2	-2.0	6.2	2.7	-2.0	14.0	9.9
<b>Total</b>	<b>13.2</b>	<b>13.8</b>	<b>11.2</b>	<b>4.4</b>	<b>14.9</b>	<b>16.4</b>	<b>8.3</b>	<b>18.1</b>	<b>14.1</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 18 : Rates of change in indices of payroll per person engaged  
by selected industry section**

	(%)								
Selected industry section	2011	2012	2013	2014	2015	2015		2016	
						Q2	Q3	Q4	Q1
<b>(in nominal terms)</b>									
Manufacturing	7.7	8.2	3.3	5.3	5.2	5.0	4.6	4.2	3.9
Import/export and wholesale trade	12.8	4.6	3.3	2.8	3.7	4.6	3.9	2.9	2.6
Retail trade	12.0	10.1	6.7	4.2	3.5	3.7	3.5	3.3	2.0
Transportation, storage, postal and courier services	4.1	1.2	5.4	3.3	4.3	4.8	5.5	3.9	3.8
Accommodation <sup>(a)</sup> and food service activities	9.5	6.2	6.7	5.2	5.8	5.8	5.8	5.9	5.0
Information and communications	7.5	8.2	5.4	5.1	4.4	5.9	4.0	2.4	3.2
Financial and insurance activities	12.4	4.7	4.6	6.3	4.0	5.1	3.6	3.5	2.5
Real estate activities	10.8	7.7	5.9	4.7	5.1	5.5	5.1	5.1	4.0
Professional and business services	2.1	4.7	7.1	6.9	5.8	5.6	4.5	6.4	5.8
Social and personal services	3.2	7.6	3.6	1.6	6.7	4.0	8.7	5.1	-1.2
<b>All selected industry sections surveyed</b>	<b>7.8</b>	<b>6.5</b>	<b>5.4</b>	<b>4.3</b>	<b>4.6</b>	<b>4.6</b>	<b>4.5</b>	<b>4.3</b>	<b>3.2</b>
<b>(in real terms)</b>									
Manufacturing	2.1	3.9	-0.9	0.9	2.1	2.1	2.1	1.9	1.1
Import/export and wholesale trade	7.2	0.5	-1.0	-1.5	0.7	1.6	1.4	0.6	-0.2
Retail trade	6.3	5.7	2.3	-0.1	0.5	0.8	1.0	0.9	-0.8
Transportation, storage, postal and courier services	-1.2	-2.7	1.0	-1.0	1.3	1.8	3.0	1.5	1.0
Accommodation <sup>(a)</sup> and food service activities	4.0	2.0	2.3	0.8	2.7	2.8	3.2	3.5	2.1
Information and communications	2.2	4.0	1.0	0.7	1.4	2.9	1.5	0.1	0.3
Financial and insurance activities	7.0	0.5	0.4	1.9	0.7	2.1	1.1	1.1	-0.3
Real estate activities	5.2	3.6	1.4	0.2	2.0	2.5	2.6	2.7	1.1
Professional and business services	-3.1	0.7	2.6	2.3	2.8	2.6	2.0	4.0	2.9
Social and personal services	-2.1	3.6	-0.8	-2.7	3.6	1.1	6.1	2.7	-3.9
<b>All selected industry sections surveyed</b>	<b>2.4</b>	<b>2.3</b>	<b>1.1</b>	<b>-0.1</b>	<b>1.5</b>	<b>1.7</b>	<b>2.0</b>	<b>1.9</b>	<b>0.4</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 2014/15-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.

**Table 19 : Rates of change in wage indices  
by selected industry section**

	(%)								
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>		<u>2016</u>
Selected industry section						Jun	Sep	Dec	Mar
<b>(in nominal terms)</b>									
Manufacturing	6.7	4.3	4.7	4.9	4.0	3.6	4.4	4.2	3.5
Import/export, wholesale and retail trades	7.7	4.5	2.9	2.5	3.1	3.3	3.1	2.8	2.9
Transportation	4.1	3.3	3.9	4.8	4.4	4.6	4.1	4.1	3.8
Accommodation <sup>(a)</sup> and food service activities	9.4	7.9	5.7	4.7	5.4	5.5	5.2	5.3	5.0
Financial and insurance activities <sup>(b)</sup>	6.7	4.2	4.4	3.2	3.2	3.0	3.3	3.5	3.5
Real estate leasing and maintenance management	8.7	7.6	9.3	4.5	3.4	3.9	4.1	3.7	3.4
Professional and business services	12.9	6.5	5.9	6.7	6.9	7.4	7.4	7.0	5.4
Personal services	10.0	9.2	6.2	7.8	6.5	6.3	5.6	5.9	6.3
<b>All industries surveyed</b>	<b>8.1</b>	<b>5.6</b>	<b>4.7</b>	<b>4.2</b>	<b>4.4</b>	<b>4.6</b>	<b>4.4</b>	<b>4.2</b>	<b>3.9</b>
<b>(in real terms)</b>									
Manufacturing	0.9	0.6	-0.1	-1.6	0.2	-0.6	2.3	1.6	0.5
Import/export, wholesale and retail trades	2.4	0.6	-1.7	-3.9	-0.6	-1.0	1.1	0.2	-0.1
Transportation	-1.2	-0.7	-0.6	-1.9	0.6	0.3	2.0	1.5	0.7
Accommodation <sup>(a)</sup> and food service activities	3.9	3.8	1.1	-1.8	1.5	1.2	3.1	2.7	1.9
Financial and insurance activities <sup>(b)</sup>	1.4	0.1	0.1	-3.7	-0.5	-1.2	1.3	0.9	0.5
Real estate leasing and maintenance management	3.5	3.4	4.5	-1.9	-0.4	-0.4	2.0	1.1	0.4
Professional and business services	7.0	2.2	1.5	*	2.9	3.0	5.3	4.3	2.3
Personal services	4.1	5.3	1.5	1.1	2.6	1.9	3.5	3.2	3.2
<b>All industries surveyed</b>	<b>2.7</b>	<b>1.6</b>	<b>0.1</b>	<b>-2.4</b>	<b>0.6</b>	<b>0.2</b>	<b>2.3</b>	<b>1.6</b>	<b>0.9</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 2014/15-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 20 : Monthly wage level and distribution analysed  
by industry section : all employees**

(HK\$)

Industry Section	May – Jun 2014			May – Jun 2015		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing <sup>(a)</sup>	11,600	14,300	21,600	12,100	14,900	22,300
Electricity and gas supply; sewerage, waste management and remediation activities	18,000	24,500	37,500	18,800	25,000	39,500
Construction	14,500	18,300	23,300	15,700	20,000	24,700
Import and export trade	11,500	16,000	24,800	12,000	16,500	25,500
Wholesale	10,100	13,000	18,000	10,300	13,300	18,000
Retail trade	9,000	11,500	15,400	9,500	12,000	16,100
<i>within which:</i>						
Supermarkets and convenience stores	5,900	10,100	12,200	6,300	10,300	12,700
Other retail stores	9,300	11,600	16,000	9,700	12,200	16,700
Land transport	12,200	16,000	23,800	13,000	16,800	24,500
Other transportation, storage, postal and courier services <sup>(b)</sup>	11,800	15,400	21,000	12,300	16,200	21,600
Restaurants	8,200	10,500	14,000	9,000	11,100	15,000
<i>within which:</i>						
Hong Kong style tea cafes	8,700	10,200	13,500	9,400	11,000	14,400
Chinese restaurants	9,700	11,900	16,000	10,500	12,600	17,000
Restaurants, other than Chinese	9,200	11,000	14,300	9,900	11,700	15,100
Fast food cafes <sup>(c)</sup>	3,600	7,800	10,100	3,900	8,300	10,800
Accommodation <sup>(d)</sup> and other food service activities	10,900	13,600	17,200	11,000	13,800	18,000
Information and communications	13,300	19,400	30,000	13,600	20,000	30,500
Financing and insurance	15,200	23,800	40,300	16,000	25,100	42,500
Real estate activities <sup>(e)</sup>	12,000	19,000	28,000	12,500	20,000	29,800
Estate management, security and cleaning services	8,000	10,000	12,400	8,500	10,600	13,200
<i>within which:</i>						
Real estate maintenance management	9,700	11,100	13,700	10,600	11,900	14,500
Security services <sup>(f)</sup>	8,900	10,500	12,300	9,800	11,400	13,400
Cleaning services	6,500	7,800	8,900	7,100	8,300	9,300
Membership organisations <sup>(g)</sup>	7,800	11,000	17,600	8,500	11,800	18,300
Professional, scientific and technical services	12,600	20,000	30,600	13,400	20,500	32,000
Administrative and support services activities	10,600	14,500	22,600	11,100	15,100	23,500
Travel agency, reservation service and related activities	10,400	12,600	18,000	10,800	13,100	18,600
Education and public administration (excluding the Government)	12,300	24,500	43,100	13,000	25,400	45,400
Human health activities; and beauty and body prettifying treatment	12,000	16,400	41,300	12,200	16,700	36,200
Miscellaneous activities	8,800	10,200	13,500	9,300	11,000	14,500
<i>within which:</i>						
Elderly homes	9,800	11,400	14,000	10,300	12,000	14,600
Laundry and dry cleaning services	7,300	9,800	12,300	7,800	10,400	13,700
Hairdressing and other personal services	8,500	10,000	13,000	9,000	10,500	14,000
Local courier services	7,100	8,600	12,000	7,600	9,200	13,000
Food processing and production	8,300	10,500	15,000	8,900	11,000	15,900
Other activities not classified above	10,100	13,600	21,300	10,400	14,000	21,600
<b>All industry sections above</b>	<b>10,500</b>	<b>14,800</b>	<b>23,000</b>	<b>11,000</b>	<b>15,500</b>	<b>24,400</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 21 : Hourly wage level and distribution analysed  
by industry section : all employees**

(HK\$)

Industry Section	May – Jun 2014			May – Jun 2015		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing <sup>(a)</sup>	45.2	58.4	88.0	46.9	60.7	90.0
Electricity and gas supply; sewerage, waste management and remediation activities	65.5	90.0	136.0	69.2	96.6	146.1
Construction	60.2	76.2	96.3	65.1	83.0	103.0
Import and export trade	49.8	68.5	104.7	51.1	70.4	108.0
Wholesale	42.7	53.8	71.8	45.3	57.4	76.6
Retail trade	36.1	44.0	57.8	37.8	45.3	60.5
<i>within which:</i>						
Supermarkets and convenience stores	34.5	37.1	43.5	35.8	39.1	45.5
Other retail stores	37.1	45.4	60.8	38.5	46.7	62.5
Land transport	46.6	67.0	105.1	49.5	70.6	108.9
Other transportation, storage, postal and courier services <sup>(b)</sup>	44.3	58.1	79.1	45.5	59.4	81.0
Restaurants	35.0	39.9	50.9	38.0	42.3	53.8
<i>within which:</i>						
Hong Kong style tea cafes	35.9	39.9	50.0	38.7	42.3	52.5
Chinese restaurants	36.0	42.0	57.0	38.6	44.4	60.5
Restaurants, other than Chinese	37.3	42.5	53.0	39.4	45.1	55.6
Fast food cafes <sup>(c)</sup>	33.0	35.3	39.8	35.8	38.1	42.1
Accommodation <sup>(d)</sup> and other food service activities	39.3	48.3	63.3	40.2	49.5	64.9
Information and communications	53.2	77.2	118.5	54.9	78.6	121.0
Financing and insurance	60.7	93.0	169.4	63.9	98.5	167.6
Real estate activities <sup>(e)</sup>	53.5	75.0	122.6	56.8	79.9	128.4
Estate management, security and cleaning services	32.0	35.4	46.8	34.0	38.1	49.3
<i>within which:</i>						
Real estate maintenance management	32.0	35.7	51.8	34.0	37.7	54.4
Security services <sup>(f)</sup>	32.0	34.6	42.0	34.5	37.5	45.1
Cleaning services	31.0	34.4	39.4	33.6	37.4	42.2
Membership organisations <sup>(g)</sup>	33.0	44.2	73.8	36.3	48.4	75.3
Professional, scientific and technical services	53.4	77.8	130.7	56.5	83.1	137.8
Administrative and support services activities	41.0	59.2	92.6	43.0	62.1	96.4
Travel agency, reservation service and related activities	40.8	54.3	74.1	43.4	57.7	78.7
Education and public administration (excluding the Government)	60.3	114.7	194.3	60.9	119.5	200.0
Human health activities; and beauty and body prettifying treatment	54.0	75.8	177.5	55.3	78.2	145.2
Miscellaneous activities	35.8	42.1	56.7	37.5	43.8	58.8
<i>within which:</i>						
Elderly homes	33.1	41.0	56.0	35.6	43.5	58.0
Laundry and dry cleaning services	34.0	39.2	49.4	37.0	42.9	54.1
Hairdressing and other personal services	38.0	42.6	56.7	39.6	45.1	60.7
Local courier services	34.0	41.6	49.7	37.0	44.1	54.0
Food processing and production	35.0	41.1	58.5	37.4	42.8	60.0
Other activities not classified above	43.4	55.4	86.5	45.2	57.8	90.4
<b>All industry sections above</b>	<b>42.0</b>	<b>60.0</b>	<b>94.7</b>	<b>44.2</b>	<b>62.9</b>	<b>100.0</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 22 : 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 2015 were derived using the index series in the base periods at that time (for instance the 2009/10-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  $\pm 0.05\%$ .

N.A. Not yet available.

**Table 22 : Rates of change in prices (Cont'd)**

(%)

	<u>2014</u>	<u>2015</u>	<u>2015</u>		<u>2016</u>		Average annual rate of change:	
			Q3	Q4	Q1	Q2	10 years	5 years
							2005 to 2015	2010 to 2015
GDP deflator <sup>#</sup>	2.9	3.6	3.4	2.8	2.3	2.0	1.9	3.1
Domestic demand deflator <sup>#</sup>	3.1	2.1	1.9	1.8	1.3	1.4	2.3	3.1
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	4.4	3.0	2.3	2.3	2.8	2.6	3.2	4.2
CPI(A)	5.6	4.0	2.8	2.5	3.1	2.7	3.3	4.8
CPI(B)	4.2	2.9	2.3	2.4	2.8	2.7	3.2	4.1
CPI(C)	3.5	2.1	1.8	2.0	2.5	2.4	3.1	3.7
Unit Value Indices :								
Domestic exports	0.2	-3.0	-4.3	-3.3	-3.2	-2.1	1.6	1.5
Re-exports	2.0	0.1	-0.4	-2.1	-2.6	-2.2	2.8	2.9
Total exports of goods	2.0	0.1	-0.4	-2.1	-2.6	-2.2	2.7	2.9
Imports of goods	1.9	-0.4	-0.7	-2.1	-2.8	-2.6	2.9	2.7
Terms of Trade Index	0.1	0.5	0.3	*	0.2	0.4	-0.1	0.2
Producer Price Index for all manufacturing industries <sup>(b)</sup>	-1.7	-2.7	-4.4	-3.2	-2.8	N.A.	1.5	0.1
Tender Price Indices :								
Public sector								
building projects	7.3	5.9	5.8	4.2	2.5	N.A.	9.5	7.9
Public housing projects	8.0	12.5	19.2	15.1	10.3	N.A.	10.4	9.2

**Table 23 : 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	27.29	1.7	4.3	10.1	1.3	2.4	7.0	5.8
<i>Meals bought away from home</i>	17.74	1.3	2.5	5.9	1.6	1.7	5.2	5.4
<i>Food, excluding meals bought away from home</i>	9.55	2.5	7.1	16.8	0.9	3.5	9.9	6.5
Housing <sup>(a)</sup>	34.29	4.7	2.0	4.1	3.7	0.4	7.2	5.6
<i>Private housing rent</i>	29.92	5.6	4.0	6.8	3.6	0.9	7.2	6.8
<i>Public housing rent</i>	1.94	0.1	-17.7	-27.2	9.5	-7.8	11.9	-7.1
Electricity, gas and water	2.67	2.1	-0.7	-6.5	-25.3	43.3	-4.2	-8.2
Alcoholic drinks and tobacco	0.54	-3.7	-1.2	0.1	18.7	3.4	17.1	3.0
Clothing and footwear	3.21	1.0	4.1	0.8	2.7	1.8	6.8	3.1
Durable goods	4.65	-6.4	-4.7	-2.0	-3.0	-2.7	-3.8	-1.4
Miscellaneous goods	3.56	1.7	2.5	5.0	2.3	2.4	3.8	2.2
Transport	7.98	0.7	-0.1	2.5	-0.9	2.0	4.4	3.0
Miscellaneous services	15.81	1.9	1.7	0.8	-2.1	2.0	3.5	2.8

Notes: The year-on-year rates of change before October 2015 were derived using the index series in the base periods at that time (for instance the 2009/10-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 2014/15-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".

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

(--) Not applicable.

**Table 23 : Rates of change in Composite Consumer Price Index (Cont'd)**

(%)										
	Weight	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>		<u>2016</u>		Average annual rate of change:	
					Q3	Q4	Q1	Q2	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>2.3</b> <b>(2.4)</b>	<b>2.3</b> <b>(2.2)</b>	<b>2.8</b> <b>(2.8)</b>	<b>2.6</b> <b>(2.3)</b>	<b>3.2</b> <b>(--)</b>	<b>4.2</b> <b>(3.9)</b>
Food	27.29	4.4	4.1	4.0	4.2	3.9	4.6	3.2	4.5	5.0
<i>Meals bought away from home</i>	17.74	4.4	4.6	4.2	4.3	4.0	3.7	3.3	3.7	4.8
<i>Food, excluding meals bought away from home</i>	9.55	4.4	3.4	3.4	4.0	3.7	6.3	3.1	5.8	5.5
Housing <sup>(a)</sup>	34.29	6.7	6.7	5.1	4.1	4.1	4.0	4.6	4.6	6.3
<i>Private housing rent</i>	29.92	6.3	6.0	4.7	3.9	4.4	4.2	4.8	5.2	6.2
<i>Public housing rent</i>	1.94	16.0	18.3	10.9	6.4	*	*	0.5	-0.4	9.6
Electricity, gas and water	2.67	6.9	14.9	8.4	-4.6	-1.1	*	-1.1	1.7	3.2
Alcoholic drinks and tobacco	0.54	1.5	6.5	1.3	0.3	1.0	0.3	1.2	4.4	5.7
Clothing and footwear	3.21	1.7	0.9	-1.8	-1.9	-1.6	-3.3	-2.8	2.1	2.1
Durable goods	4.65	-4.3	-3.4	-5.6	-5.6	-5.8	-5.7	-5.4	-3.7	-3.7
Miscellaneous goods	3.56	2.2	2.3	0.9	0.6	0.5	0.5	1.3	2.5	2.3
Transport	7.98	2.3	2.0	-0.3	-0.4	-0.3	1.2	1.5	1.5	2.3
Miscellaneous services	15.81	3.7	3.0	1.1	1.1	1.2	2.7	2.1	1.8	2.8

**Table 24 : 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 24 : 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>		<u>2016</u>		Average annual rate of change:	
				Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <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	0.4	1.0	1.2	1.6	2.1	2.7
Government consumption expenditure	4.3	4.7	4.5	4.6	4.2	4.0	4.0	3.1	4.8
Gross domestic fixed capital formation	-2.9	3.1	4.5	5.5	3.2	0.5	0.1	2.7	3.5
Total exports of goods	-0.3	0.8	-0.7	-1.2	-2.4	-2.8	-2.4	2.1	2.1
Imports of goods	-0.4	0.9	-1.4	-2.1	-2.8	-3.6	-2.8	2.4	2.2
Exports of services	0.6	0.8	-2.0	-3.1	-2.7	-3.7	-2.7	2.0	2.2
Imports of services	1.1	1.2	-4.3	-5.3	-4.8	-3.4	-1.5	1.6	1.2
<b>Gross Domestic Product</b>	<b>1.8</b>	<b>2.9</b>	<b>3.6</b>	<b>3.4</b>	<b>2.8</b>	<b>2.3</b>	<b>2.0</b>	<b>1.9</b>	<b>3.1</b>
Total final demand	0.4	1.5	*	-0.5	-1.1	-1.5	-1.1	2.2	2.4
Domestic demand	1.4	3.1	2.1	1.9	1.8	1.3	1.4	2.3	3.1

