



# Third Quarter Economic Report 2017

Government of the Hong Kong  
Special Administrative Region

# ***THIRD QUARTER ECONOMIC REPORT 2017***

ECONOMIC ANALYSIS DIVISION  
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HONG KONG SPECIAL ADMINISTRATIVE REGION

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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

- *The Hong Kong economy continued to expand notably in the third quarter, by 3.6% over a year earlier, following the 4.1% growth in the first half of 2017. This marked the fourth consecutive quarter of above-trend economic expansion. External demand stayed vibrant, supported by the broadly benign global economic conditions. Domestic demand attained further solid growth, mainly underpinned by firm private consumption.*
- *Benefitting from a broad-based global economic upturn, Hong Kong's total exports of goods maintained visible growth in the third quarter, with those to the Asian markets staying as the major propelling force. Meanwhile, exports of services picked up in the third quarter, thanks to vibrant regional trade and cargo flows and the recovery in inbound tourism.*
- *Domestic demand stayed firm in the third quarter. Private consumption expenditure held up particularly well, as local consumer sentiment was well underpinned by the favourable job and income conditions and to a certain extent by stronger wealth effects. Overall investment expenditure, on the other hand, recorded a modest decline, as machinery and equipment acquisition, a volatile component, fell. Nevertheless, building and construction works accelerated to show solid growth. Results of recent surveys also continued to suggest that business sentiment remained positive.*
- *The labour market remained in a state of full employment. In the third quarter, the seasonally adjusted unemployment rate held steady at a low level of 3.1%, and total employment registered further robust growth. Wages and earnings generally sustained gains in real terms, with those of lower-paid workers continuing to register appreciable growth.*
- *The local stock market was largely on the rise in the third quarter, alongside the rallies in major overseas markets. The moderation of the residential property market continued in the third quarter, with visibly lower trading activities and slower increase in prices.*
- *Inflation pressure was largely contained. Underlying consumer price inflation eased in the third quarter, amid subdued import prices and moderate local cost increases. Specifically, labour cost pressures stayed modest when viewed against the sustained expansion of economic output at an above-trend pace, while the feed-through from higher fresh-letting residential rentals into consumer price inflation was only gradual.*

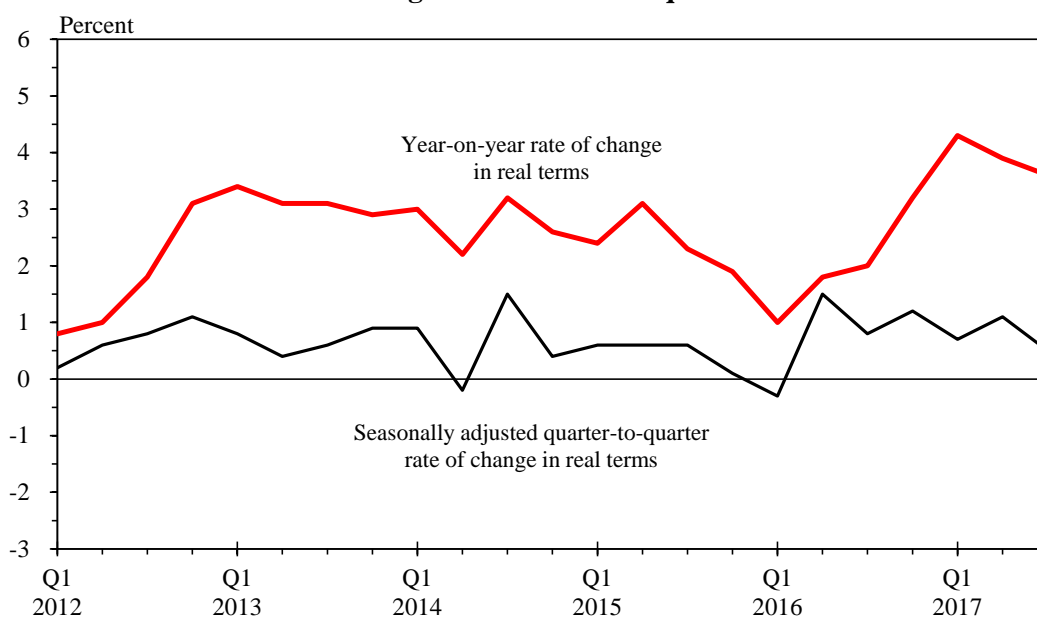
## Overall situation

1.1 The Hong Kong economy grew by 3.6% in the third quarter of 2017 over a year earlier, following the 4.1% growth in the first half of the year. The broad-based global economic upturn seen in the first half of the year extended well into the third quarter. This benign external environment continued to render a firm support to Hong Kong's exports of goods and services. Exports of goods to the Asian markets as a whole outperformed those to the other regions. Exports of services picked up in the third quarter, thanks to vibrant regional trade and cargo flows and the recovery in inbound tourism. On the domestic front, private consumption expenditure fared particularly well, underpinned by the favourable job and income conditions, with added support from a somewhat stronger boost from positive wealth effects. Yet, overall investment expenditure reverted to a small decline. In particular, acquisition of machinery and equipment, a volatile component, fell, while costs of ownership transfer went notably lower as property market transactions slowed visibly compared to year-ago levels. Nevertheless, overall building and construction expenditure accelerated to show solid growth, and recent surveys continued to suggest that business sentiment remained positive. The already-moderate underlying consumer price inflation eased further amid modest imported price pressures and contained increases in domestic costs.

1.2 The global economy sustained moderate growth in the third quarter. The US economy continued to expand at a moderate pace in the third quarter, notwithstanding the temporary hurricane-induced disruptions in some southern states. The ongoing economic recovery in the euro area turned more broad-based, underpinned by solid growth in domestic demand and improved economic sentiment. Against these positive developments, the Federal Reserve began trimming its balance sheet in October, and the European Central Bank also announced to reduce its monthly asset purchases starting from early 2018. Meanwhile, the Mainland economy sustained medium-high speed growth, as domestic demand remained robust and exports grew visibly. Economies elsewhere in Asia demonstrated further strength in the third quarter, as trading and manufacturing activities in the region remained vibrant, notwithstanding the escalated geopolitical tensions in Northeast Asia. Acknowledging the progress made in the global economy so far this year, the International Monetary Fund (IMF) revised its global economic forecast for 2017 upwards to 3.6%, representing a pick-up from the 3.2% growth in 2016<sup>(1)</sup>.

1.3 In the third quarter of 2017, *Gross Domestic Product* (GDP)<sup>(2)</sup> grew by 3.6% in real terms over a year earlier, after the notable growth of 3.9% in the preceding quarter (revised from the earlier estimate of 3.8%). This marked the fourth consecutive quarter of economic growth that stayed above the past-ten-year trend rate of 2.9% per annum. On a seasonally adjusted quarter-to-quarter basis<sup>(3)</sup>, real GDP grew by 0.5% in the third quarter of 2017, after the strong expansion of 1.1% in the preceding quarter (revised from the earlier estimate of 1.0%).

**Diagram 1.1 : The Hong Kong economy continued to show an above-trend growth in the third quarter of 2017**



## **The external sector**

1.4 *Total exports of goods* compiled under the GDP accounting framework grew visibly by 5.5% in real terms in the third quarter over a year earlier, the same growth pace as that in the preceding quarter. Among major markets, with reference to external merchandise trade statistics in the third quarter, exports to Asian markets as a whole outperformed those to the other regions, thanks to sustained growth in demand for raw materials, semi-manufactures and capital goods amid vibrant manufacturing activities in the region. Specifically, on a year-on-year comparison in real terms, exports to the Mainland picked up to show notable growth. Exports to Taiwan, Singapore and Japan all attained double-digit growth, and those to India also grew notably. Exports to the EU picked up somewhat to show a moderate growth for the third quarter as a whole, whereas those to the US continued to lag behind by comparison.

1.5 *Exports of services* picked up to grow by 3.7% year-on-year in real terms in the third quarter, from the 2.6% growth in the preceding quarter. Exports of transport services grew notably alongside vibrant trade and cargo flows. Exports of travel services resumed moderate growth after declining for over three years, signifying the recovery of inbound tourism. Exports of financial services picked up amid supportive global financial conditions, while those of business and other services stayed on a modest expansion path.



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

	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>	<u>2016</u>				<u>2017</u>		
			<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>+</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
Private consumption expenditure	4.8	1.8	1.5 (0.2)	0.4 (0.7)	1.6 (1.1)	3.6 (1.5)	3.9 (0.5)	5.4 (2.1)	6.7 (2.4)
Government consumption expenditure	3.4	3.4	3.2 (0.9)	3.6 (1.0)	3.4 (0.5)	3.4 (0.9)	3.1 (0.6)	3.2 (1.1)	4.1 (1.5)
Gross domestic fixed capital formation	-3.2	-0.3	-8.7	-5.1	7.2	5.6	5.9	7.2	-1.7
Building and construction	2.2	3.9	1.5	2.4	4.3	7.5	8.6	2.4	4.1
Costs of ownership transfer	-8.3	-2.9	-50.9	-19.2	22.5	63.7	77.3	53.2	-12.4
Machinery, equipment and intellectual property products	-7.7	-4.6	-10.8	-10.3	7.6	-4.2	-8.6	4.7	-6.0
Total exports of goods <sup>&amp;</sup>	-1.7	1.8	-3.5 (-2.5)	2.4 (3.0)	2.5 (0.7)	5.1 (3.9)	9.3 (1.6)	5.5 (-0.9)	5.5 (0.7)
Imports of goods <sup>&amp;</sup>	-2.7	1.1	-5.6 (-3.8)	0.6 (3.6)	3.1 (1.9)	5.6 (4.0)	10.0 (0.3)	6.1 (-0.3)	6.1 (1.9)
Exports of services <sup>&amp;</sup>	0.3	-3.2	-5.4 (-1.0)	-6.2 (-0.6)	-2.5 (1.8)	1.2 (1.1)	2.8 (0.6)	2.6 (-1.0)	3.7 (2.8)
Imports of services <sup>&amp;</sup>	5.0	2.0	4.1 (1.7)	1.2 (-1.1)	0.8 (-0.2)	2.0 (1.6)	0.9 (0.5)	3.7 (1.8)	1.5 (-2.3)
<b>Gross Domestic Product</b>	<b>2.4</b>	<b>2.0</b>	<b>1.0</b> <b>(-0.3)</b>	<b>1.8</b> <b>(1.5)</b>	<b>2.0</b> <b>(0.8)</b>	<b>3.2</b> <b>(1.2)</b>	<b>4.3</b> <b>(0.7)</b>	<b>3.9</b> <b>(1.1)</b>	<b>3.6</b> <b>(0.5)</b>
<i>Change in the main price indicators (%)</i>									
<b>GDP deflator</b>	<b>3.6</b>	<b>1.8</b>	<b>2.1</b> <b>(0.5)</b>	<b>1.7</b> <b>(0.5)</b>	<b>1.5</b> <b>(0.2)</b>	<b>1.8</b> <b>(0.6)</b>	<b>2.1</b> <b>(0.8)</b>	<b>3.3</b> <b>(1.6)</b>	<b>3.2</b> <b>(0.2)</b>
<b>Composite CPI</b>									
<b>Headline</b>	<b>3.0<sup>@</sup></b>	<b>2.4</b>	<b>2.8</b> <b>(0.7)</b>	<b>2.6</b> <b>(-0.6)</b>	<b>3.1</b> <b>(0.4)</b>	<b>1.2</b> <b>(0.7)</b>	<b>0.5</b> <b>(0.1)</b>	<b>2.0</b> <b>(0.7)</b>	<b>1.8</b> <b>(0.2)</b>
<b>Underlying<sup>^</sup></b>	<b>2.5<sup>@</sup></b>	<b>2.3</b>	<b>2.8</b> <b>(0.7)</b>	<b>2.3</b> <b>(0.2)</b>	<b>2.1</b> <b>(0.5)</b>	<b>2.1</b> <b>(0.7)</b>	<b>1.4</b> <b>(0.1)</b>	<b>2.0</b> <b>(0.7)</b>	<b>1.7</b> <b>(0.2)</b>
<b>Change in nominal GDP (%)</b>	<b>6.1</b>	<b>3.9</b>	<b>3.2</b>	<b>3.6</b>	<b>3.6</b>	<b>5.0</b>	<b>6.5</b>	<b>7.4</b>	<b>6.9</b>

Notes : Figures are subject to revision later on as more data become available. The 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 this category due to the presence of considerable short term fluctuations.

(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchandising under the standards stipulated in the *System of National Accounts 2008*.

(#) Revised figures.

(+) Preliminary figures.

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

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

(@) The 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.

## The domestic sector

1.6 Domestic demand grew solidly in the third quarter. *Private consumption expenditure* held up particularly well, picking up to show year-on-year growth of 6.7% in real terms in the third quarter, following the notable growth of 4.7% in the first half of this year. Local consumer sentiment continued to be well underpinned by favourable job and income conditions, with added support from a somewhat stronger boost from positive wealth effects. Meanwhile, *government consumption expenditure* grew at a slightly faster pace of 4.1% year-on-year in real terms in the third quarter, after growing by 3.2% in the preceding quarter.

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

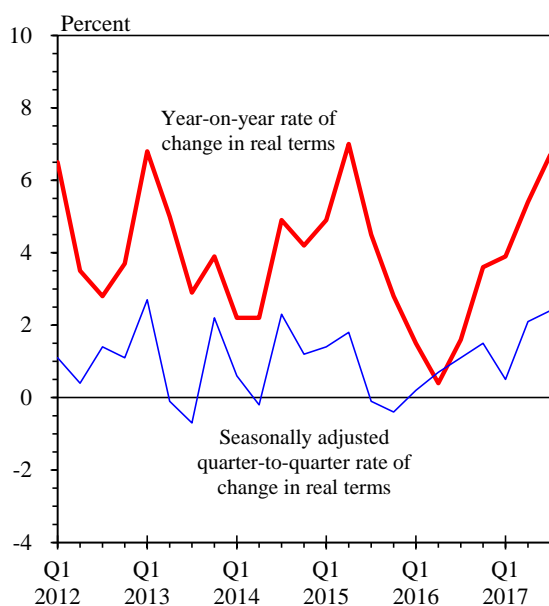
		<i>Of which :</i>							
		Total consumer spending in the domestic market <sup>(a)</sup>	Food	Durables	Non-durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure <sup>(b)</sup>
2016 Annual		-0.2	0.9	-13.3	-0.3	1.9	7.1	-8.1	1.8
	H1	-1.7	0.7	-17.9	-2.5	1.1	9.2	-11.0	1.0
	H2	1.2	1.2	-8.8	1.9	2.8	5.1	-5.3	2.7
	Q1	-2.2	-1.8	-17.8	-3.4	1.8	16.6	-13.0	1.5
	Q2	-1.1	2.7	-18.1	-1.5	0.3	2.4	-8.8	0.4
	Q3	*	0.3	-8.1	-2.9	2.2	4.0	-7.4	1.6
	Q4	2.3	2.0	-9.3	6.1	3.3	6.1	-3.3	3.6
2017	H1	4.0	3.3	-0.5	5.7	4.1	4.0	-0.5	4.7
	Q1	3.6	3.3	-1.1	4.5	4.2	-0.2	-0.2	3.9
	Q2	4.3	3.4	0.3	6.8	4.1	8.4	-0.9	5.4
	Q3	6.2	4.6	8.3	9.4	5.1	4.5	2.1	6.7

Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending.

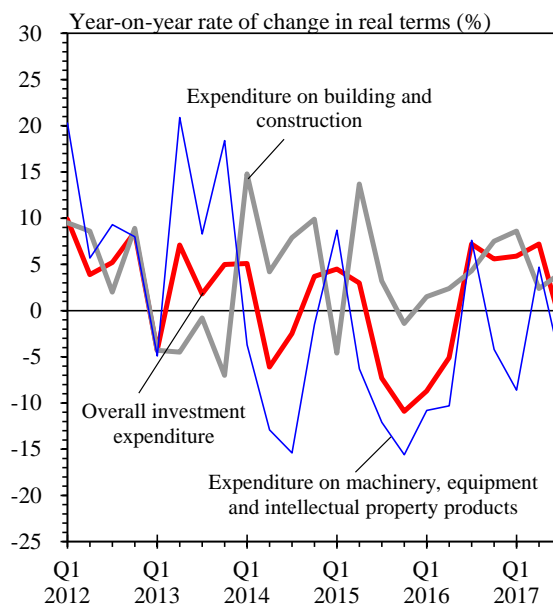
(b) Private consumption expenditure is obtained by deducting visitor spending from total consumer spending in the domestic market, and adding back residents' expenditure abroad.

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

**Diagram 1.2 : Private consumption expenditure held up particularly well**



**Diagram 1.3 : Overall investment spending recorded a modest decline**



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* reverted to a modest decline of 1.7% year-on-year in real terms in the third quarter, following the marked growth of 6.6% in the first half of the year. The decline in the third quarter was due partly to a decrease in machinery and equipment acquisition, a volatile component, and partly to the notable fall in costs of ownership transfer amid a visible slowdown in property market transactions on a year-on-year basis of comparison. Nevertheless, overall building and construction expenditure accelerated to show solid growth, as building and construction works in the public sector accelerated markedly and those in the private sector continued to grow. Also, recent surveys including the latest Quarterly Business Tendency Survey indicated that business sentiment in many economic sectors remained positive (see **Box 1.1** for more detailed analysis of the results of these surveys on business sentiments).

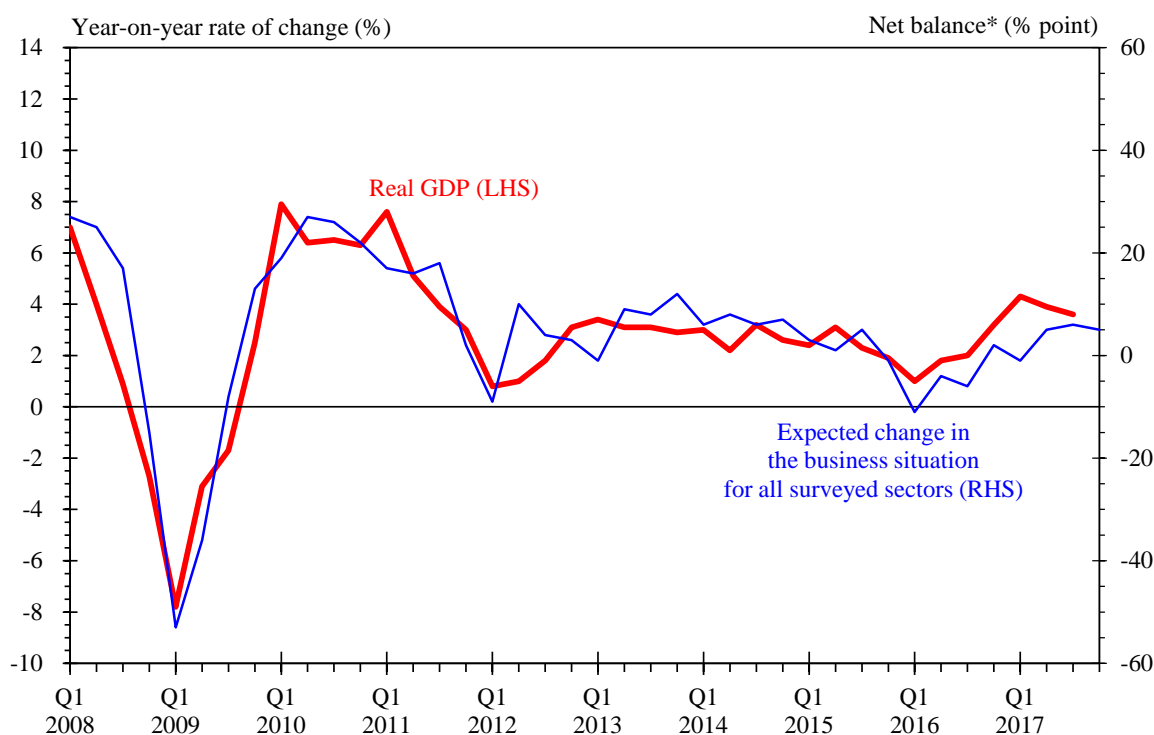
## Box 1.1

### Business sentiment in Hong Kong

This box article intends to give a general overview of the prevailing business sentiment in Hong Kong, based on results from various surveys that are available in the public domain.

According to the latest results from the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)<sup>(1)</sup>, large enterprises in Hong Kong have remained sanguine about their near-term business prospects as the economy sustained above-trend growth in the third quarter of 2017 (*Chart 1*). In particular, the proportion of large enterprises surveyed in early September till mid-October 2017 expecting their business situation to be better in the fourth quarter of 2017 outweighed that of those expecting a weaker business performance by 5 percentage points (i.e. a net balance of +5), broadly similar to the net balances in the preceding two quarters. Among the various sectors, business prospects for large enterprises in “retail” and “accommodation and food services” improved notably and reverted to strong positive net balances (*Table 1*), buttressed by the optimistic local consumer sentiment amid a full-employment situation and the recovery in inbound tourism. Meanwhile, large enterprises in “professional and business services” and “import/export trade and wholesale” turned somewhat more upbeat regarding the near-term outlook, and those in “information and communications”, “financing and insurance” and “real estate” remained optimistic. On the other hand, business sentiment of large enterprises in “manufacturing”, “construction”, “transportation, storage and courier services” weakened somewhat from a quarter earlier. Hiring sentiment of large enterprises in most sectors remained positive (*Table 2*), broadly in line with the prevailing robust growth in employment.

**Chart 1 : Large enterprises in Hong Kong remained positive about their near-term business prospects**



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

(1) The Quarterly Business Tendency Survey collected views from around 560 large establishments on their near-term business outlook. Respondents were asked to exclude seasonal influences in their responses.

## Box 1.1 (Cont'd)

**Table 1 : Business sentiment for large enterprises in consumption- and tourism-related segment improved visibly**

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2016		2017			
	Q3	Q4	Q1	Q2	Q3	Q4
Manufacturing	-2	+2	+18	+14	+18	-1
Construction	-12	-11	-18	-14	-9	-16
Import/export trade and wholesale	-14	-14	-6	-2	0	+1
Retail	-38	-2	-15	-4	-4	+24
Accommodation and food services	-11	+13	-14	-13	-2	+13
Transportation, storage and courier services	+5	+12	+7	-2	+2	-7
Information and communications	+12	+15	0	+19	+17	+16
Financing and insurance	+6	+12	+12	+24	+19	+13
Real estate	-3	+4	-2	0	+6	+6
Professional and business services	-14	+9	-8	0	0	+7

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

**Table 2 : Hiring sentiment among large enterprises remained largely favourable**

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2016		2017			
	Q3	Q4	Q1	Q2	Q3	Q4
Manufacturing	+12	+17	+10	-7	+21	+13
Construction	+11	+4	-8	0	+2	-9
Import/export trade and wholesale	-6	-5	0	+2	-1	+1
Retail	-4	+4	+1	+4	-3	+3
Accommodation and food services	+15	+16	+5	+9	+20	+5
Transportation, storage and courier services	+18	+20	+17	+9	+7	+2
Information and communications	+21	+13	+14	+24	+9	+10
Financing and insurance	+10	+10	+15	+16	+16	+13
Real estate	+6	+27	+28	+18	+14	+18
Professional and business services	-7	+15	0	+6	-3	+5

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

Separately, the C&SD also compiled a set of diffusion indices on a monthly basis<sup>(2)</sup> to gauge the general directions of change in the views of small and medium-sized enterprises (SMEs) on their business situation versus the preceding month. The overall index on business receipts since July 2017, despite still below the 50.0 mark, was generally higher than its levels in late-2016 and the first half of 2017 (*Table 3*). Also, the feedbacks from those SMEs consulted continued to suggest a broadly stable employment situation and highly accommodative credit situation in recent months.

**Table 3 : Selected results from C&SD's Report on Monthly Survey on the Business Situation of SMEs**

	2016			2017									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Diffusion indices <sup>^</sup> for all selected sectors*													
Business receipts	46.3	46.4	45.2	46.0	46.1	47.2	47.0	47.0	46.5	47.8	48.2	48.5	48.0
Employment	49.3	49.8	49.2	49.7	49.5	49.6	49.7	50.0	49.2	49.0	49.0	49.4	49.8
Percentage of SMEs in all selected sectors*													
with current credit need	9.2	9.4	9.8	8.4	8.5	7.8	8.0	8.1	7.9	7.1	7.2	7.1	7.5
reported tight access to credit <sup>&amp;</sup>	0.7	0.6	0.5	0.2	0.1	0.7	0.5	0.1	0.2	0.6	0.1	0.6	0.9

Notes : (<sup>^</sup>) 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 / employment situation 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.

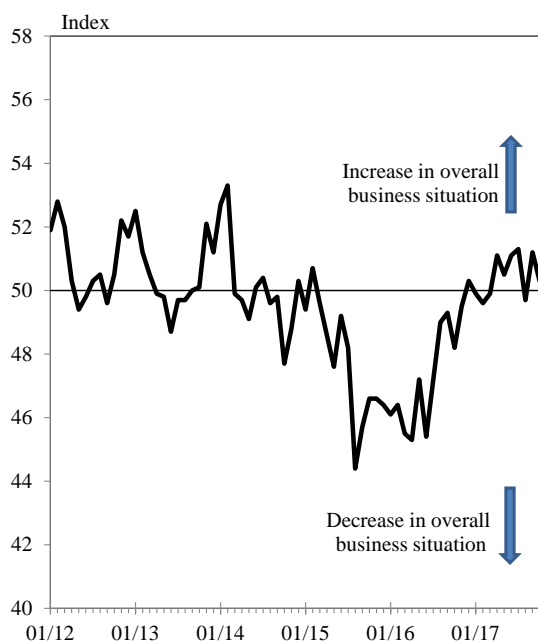
(&) It should be noted that the assessment of credit access situation might display great fluctuations from month to month given the small number of SMEs involved, as a great majority of SMEs reported "no credit need". Thus the results should be interpreted with caution.

(2) It refers to the results from the Monthly Survey on the Business Situation of SMEs that solicits feedbacks from a panel sample of around 600 SMEs each month.

### Box 1.1 (Cont'd)

As for other surveys in the public domain, the Nikkei Purchasing Managers' Index (PMI) of Hong Kong<sup>(3)</sup>, which gauges the performance of the private sector's business activity, has stayed above the 50.0 divide in most of the months since the second quarter of 2017 (*Chart 2*), signalling that the overall business situation generally saw further improvement amid the generally sanguine global economy. Separately, the Hong Kong Trade Development Council (HKTDC)'s Export Index<sup>(4)</sup>, though easing somewhat in the third quarter from its four-year high in the preceding quarter, was still notably higher than the readings reported in 2016 (*Table 4*).

**Chart 2 : Nikkei Hong Kong PMI pointed to stabilised business sentiment**



Sources: Nikkei; IHS Markit.

Note: A reading above 50 indicates an increase in the overall business situation, whereas a reading below 50 indicates a decrease in the overall business situation. The index has been adjusted for seasonality.

**Table 4 : HKTDC's Export Index**

2015	Q1	44.9
	Q2	46.8
	Q3	37.1
	Q4	31.4
2016	Q1	37.3
	Q2	37.2
	Q3	38.8
	Q4	33.7
2017	Q1	47.1
	Q2	50.1
	Q3	46.2

Source: HKTDC.

Note: A reading above 50 indicates that more than half of the surveyed traders incline towards the upside, which can be interpreted as an upward trend and an increase in confidence, and vice versa for a reading below 50.

It is worthwhile to point out that these surveys are essentially opinion-based, thereby unavoidably subject to various limitations (e.g. results are not directly comparable) and hence the results should be interpreted with care. Still, the latest survey findings seem to suggest that business sentiment in Hong Kong has remained positive of late, as the global economy is generally expected to expand moderately further in the near term. That said, with the lingering uncertainties in the external environment, the Government will stay vigilant to the global economic developments and their possible repercussions on the Hong Kong economy.

- (3) According to the press release jointly released by Nikkei and IHS Markit, the Nikkei Hong Kong PMI is compiled according to monthly replies to questionnaires sent to purchasing executives in over 300 companies. It is a composite index based on five individual indices with the following weights: New Orders (0.3); Output (0.25); Employment (0.2); Suppliers' Delivery Times (0.15); and Stock of Items Purchased (0.1), with the Delivery Times index inverted so that it moves in a comparable direction. Survey responses reflect the change, if any, in the prevailing month compared to the previous month.
- (4) The HKTDC Export Index is compiled based on a quarterly survey to collect views from around 500 traders concerning their export performances in the prevailing quarter as well as their outlook for the subsequent quarter and covers six major industries – electronics, clothing, jewellery, timepieces, toys and machinery.

## **The labour sector**

1.8 The labour market remained in a state of full employment. The *seasonally adjusted unemployment rate* held steady at a low level of 3.1% in the third quarter. The *underemployment rate* edged lower to 1.1% in the same quarter. Total employment registered further solid growth in the third quarter. Wages and earnings generally sustained growth in real terms. Benefitting partly from the upward adjustment of the Statutory Minimum Wage rate since May 2017 and partly from a tight labour market, the average monthly employment earnings of full-time employees (excluding foreign domestic helpers) of the lowest decile group continued to increase, by 4.6% year-on-year in real terms in the third quarter.

## **The asset markets**

1.9 The *local stock market* was largely buoyant in the third quarter, alongside rallies in major stock markets overseas. Investor sentiment remained generally upbeat as the global economic outlook improved. The Hang Seng Index closed the third quarter at 27 554, up by 6.9% from the level at the end of the previous quarter. Average daily turnover went visibly higher to \$93.2 billion in the third quarter, from \$77.8 billion in the preceding quarter. Credit growth remained strong. Loans for use in Hong Kong (including trade finance) at end-September increased by 15.2% over a year earlier, compared to that of 13.8% at end-June.

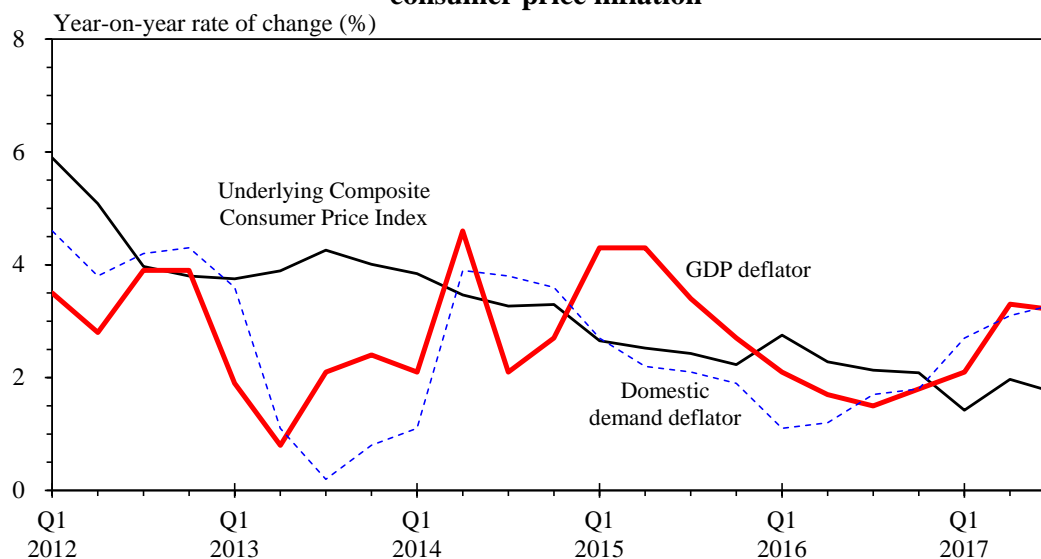
1.10 The *residential property market* continued to show moderation in the third quarter, extending the trend that began in June. Trading activities slowed down visibly from the hectic level in the preceding quarter, with the number of residential property transactions falling from 18 900 in the second quarter to 13 200 in the third quarter. Residential property prices recorded a decelerated increase of 1% between June and September. Yet, compared to the 1997 peak, overall flat prices in September were still 97% higher. Meanwhile, the housing affordability ratio worsened to around 68% in the third quarter. During the third quarter, flat rentals rose by 2%, and shop and office rentals also increased, by 1% and 2% respectively.

## Inflation

1.11 Consumer price inflation eased in the third quarter. 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* was 1.7% in the third quarter, lower than that of 2.0% in the second quarter. Meanwhile, *headline consumer price inflation* also eased to 1.8%. External price pressure remained modest, thanks to the mild inflation in our major import sources. Local cost pressures stayed contained, as the labour cost pressures were modest when viewed against the sustained expansion of economic output at an above-trend pace. Rental cost pressures as reflected in consumer price inflation were broadly moderate as well, as the feed-through from the general uptrend in fresh-letting residential rentals since the second quarter of 2016 was only gradual. The launch of some new government subsidies to education in the 2017-18 academic year, together with dissipation of the effect from upward adjustment in public housing rentals in September last year, also contributed to the more discernible easing of the inflation rate in September 2017.

1.12 The year-on-year rate of increase in the *GDP deflator* was 3.2% in the third quarter, broadly similar to that in the preceding quarter. Analysed by major components, the year-on-year rate of increase of the domestic demand deflator was broadly similar to that in the preceding quarter, while the terms of trade continued to hold virtually unchanged year-on-year.

**Diagram 1.4 : Inflation remained moderate in the third quarter, with some easing in consumer price inflation**



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 The net output of the services sector as a whole expanded solidly by 3.1% year-on-year in real terms in the second quarter of 2017, with various degrees of expansion in all key service industries. Among them, import and export trade as well as transportation and storage registered further visible growth in net output, mirroring the active regional trade and cargo flows. Amid the improvement in inbound tourism, the net output of wholesale and retail trades reverted to growth after seven consecutive quarters of decline, whereas that of the accommodation and food services maintained some modest growth. The net output of real estate sector, which covers activity of private sector developers and property agencies, expanded at a moderated pace. The net output of financing and insurance, and information and communications continued to see solid growth, whereas that of professional and business services grew modestly further. As for the secondary sector, the net output of construction sector expanded solidly amid sustained expansion in infrastructure and building works. Manufacturing continued to see some marginal increase in its net output.

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

	<u>2016</u>	<u>2016</u>				<u>2017</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Manufacturing	-0.4	-0.3	-0.4	-0.1	-1.0	0.2	0.4
Construction	2.6	-1.2	0.8	3.0	7.6	8.6	3.4
Services <sup>(b)</sup>	2.3	1.6	2.7	2.3	2.5	3.5	3.1
Import/export, wholesale and retail trades	0.4	-2.1	0.9	0.8	1.7	3.9	3.5
Import and export trade	2.1	0.1	2.8	2.3	2.9	5.1	4.2
Wholesale and retail trades	-6.0	-10.0	-5.9	-5.9	-2.8	-0.8	0.6
Accommodation <sup>(c)</sup> and food services	0.1	-0.9	1.0	0.1	0.2	1.6	1.2
Transportation, storage, postal and courier services	3.3	2.6	3.4	3.5	3.8	4.7	4.8
Transportation and storage	3.4	2.8	3.5	3.4	3.8	4.5	4.5
Postal and courier services	2.3	-1.4	2.7	5.8	2.5	9.0	9.4
Information and communications	3.7	3.7	4.2	3.7	3.3	3.8	3.4
Financing and insurance	4.7	5.0	4.2	4.7	4.8	5.2	4.9
Real estate, professional and business services	3.0	1.8	3.7	3.2	3.5	4.4	2.1
Real estate	3.7	0.6	2.9	5.5	6.0	8.5	3.7
Professional and business services	2.5	2.6	4.4	1.4	1.7	0.6	0.8
Public administration, social and personal services	2.7	2.5	3.3	2.5	2.3	2.5	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, while those shown in Table 1.1 are compiled from the expenditure approach. For details, see Note (2) to this chapter.
- (b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity.
- (c) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

## **Other economic developments**

1.14 Hong Kong was ranked as the world's freest economy by the Fraser Institute in September. Of the five broad areas of assessment, Hong Kong continued to attain high rankings in "regulation" (first) and "freedom to trade internationally" (second). Hong Kong has maintained the top position since the Institute published its first report in 1996. This is a clear recognition of the Government's unswerving commitment to upholding economic freedom and to sustaining a favourable business environment. Separately, in terms of overall competitiveness, Hong Kong leapt three places to reach the sixth place worldwide in the World Economic Forum's Global Competitiveness Report 2017–2018 released in the same month.

1.15 The Chief Executive delivered the 2017 Policy Address in October 2017, which outlined the current-term Government's vision on various policy areas, and put forward measures with new perspectives to promote economic development and enhance people's livelihood. The more salient points on economic development are highlighted below.

- The Government will seize the opportunities from the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Bay Area development. In particular, for the Belt and Road Initiative, the Government will continue discussion with the Central Authorities with the aim of entering into an agreement of Hong Kong's full participation in the Initiative with the National Development and Reform Commission as soon as possible.
- The Government will introduce two new tax measures to enhance Hong Kong's competitiveness. First, under the proposed two-tier profits tax system to provide tax relief to small and medium-sized enterprises, the profits tax rate will be lowered to 8.25% for the first \$2 million of profits, with standard tax rate at 16.5% for profits exceeding that amount. Second, under a proposal to encourage research and development (R&D) investment by enterprises, a 300% tax deduction for the first \$2 million eligible R&D expenditure will be introduced, with the remainder at 200%.
- In order to meet the needs arising from economic development, the Government will continue to increase the supply of various types of land, including general industrial/commercial sites, sites for logistics use, and sites for convention and exhibition facilities. To tackle the housing problem, the Government will take a multi-pronged approach and make sustained efforts to develop land, build a housing ladder focusing on home-ownership, and facilitate the implementation of short-term community initiatives to increase the supply of transitional housing.

- The Government will continue to devote new resources in education for Hong Kong's sustained development. The Government will also set up task forces to further review eight key areas of education<sup>(4)</sup>. Furthermore, the Government will set up the Commission for the Planning of Human Resources, to ensure that our human resources will cater for the development needs of Hong Kong and keep up with our country's latest developments as well as the evolving trends in the global market.
- The Government will step up its efforts to develop innovation and technology as a new model of development, through various measures such as setting aside no less than \$10 billion as university research funding, kick-starting the \$500 million "Technology Talent Scheme" to train and pool technology talent, injecting \$3 billion into the Research Endowment Fund to provide studentships for local students admitted to research postgraduate programmes funded by the University Grants Committee, and deploying \$2 billion under the Innovation and Technology Venture Fund Scheme to co-invest with venture capital funds in local technology start-ups.

## Notes :

- (1) The table below presents a more detailed comparison between the growth forecasts made by the IMF in October 2017 and those made three months ago.

	<u>2016</u>	<u>July round</u>	<u>2017</u> <u>October round</u>
	(%)	(%)	(%)
World (PPP <sup>##</sup> weighted)	3.2	3.5	3.6
Advanced economies	1.7	2.0	2.2
US	1.5 <sup>#</sup>	2.1	2.2
Euro area	1.8 <sup>#</sup>	1.9	2.1
UK	1.8 <sup>#</sup>	1.7	1.7
Japan	1.0 <sup>#</sup>	1.3	1.5
Emerging market and developing economies	4.3	4.6	4.6
Emerging and developing Asia	6.4	6.5	6.5
Mainland China	6.7 <sup>#</sup>	6.7	6.8
India <sup>^</sup>	7.1 <sup>#</sup>	7.2	6.7

- Notes : (#) Actual figures.  
 (^) Fiscal year.  
 (##) PPP refers to purchasing power parity.

- (2) 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.
- (3) 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 by summing up its main components.
- (4) The eight key areas of education to be reviewed include professional development of teachers, curriculum arrangement, assessment system, vocational and professional education and training, self-financing post-secondary education, school-based management, parent education and University Grants Committee's funding on research and student hostels.

## CHAPTER 2 : THE EXTERNAL SECTOR

### *Summary*

- *Global economic conditions remained largely benign in the third quarter of 2017. The US economy grew moderately further despite disruptions from hurricanes. The recovery in Europe continued to proceed steadily. The Mainland economy sustained its robust momentum, and growth in the rest of Asia was solid. As the near-term global economic outlook continued to brighten, financial markets worldwide were robust in general during the third quarter. Such a supportive external environment helped boost further growth in Hong Kong's exports of goods and services in the third quarter.*
- *Alongside vibrant growth in Asia's trading and manufacturing activities, Hong Kong's merchandise exports continued to grow visibly year-on-year in the third quarter. Exports to various Asian markets, in particular the Mainland and some other major markets in the region such as Taiwan, Singapore, Japan and India, remained the key growth driver. Exports to the EU picked up somewhat to a moderate growth for the third quarter as a whole, whereas those to the US continued to fall behind.*
- *Exports of services accelerated in the third quarter amid a benign global economic environment. Exports of travel services reverted to moderate growth, having experienced a setback for over three years, reflecting the recovery of inbound tourism. The notable growth in exports of transport services continued alongside vibrant regional trade and cargo flows. Exports of financial services picked up to grow solidly amid supportive global financial conditions, and those of business and other services continued to increase modestly.*
- *Hong Kong and ASEAN in September concluded the negotiations on a Free Trade Agreement and a related Investment Agreement, which will further facilitate the flows of trade and investment between the two sides. In the same month, the 2017 Pan-Pearl River Delta Regional Cooperation Chief Executive Joint Conference was held, with continued progress made in economic cooperation.*

## Goods trade

### *Total exports of goods*

2.1 The global economic environment was largely sanguine in the third quarter, rendering support to trading and manufacturing activities in Asia. Many Asian economies continued to see sizeable growth in their merchandise exports in the third quarter. In a similar vein, Hong Kong's *merchandise exports* (comprising re-exports and domestic exports) grew visibly further by 6.0% year-on-year in real terms<sup>(1)</sup> in the third quarter, slightly faster than the 5.8% growth in the preceding quarter.

2.2 The global economy sustained moderate growth in the third quarter. The US economy grew moderately further in the third quarter despite disruptions from hurricanes. In the euro area, the economic recovery sustained. The economic progress attained in these two economies paved the way for their central banks to reduce monetary stimuli. The Federal Reserve announced in September to kick-start the scaling back of its balance sheet. It also kept the approach of gradual interest rate hikes unchanged. Separately, in October, the European Central Bank announced to reduce its monthly pace of net asset purchases (see **Box 2.1** for analysis on the monetary policies in major advanced economies). In Asia, the Mainland economy maintained its strong growth momentum in the third quarter, being on track to exceed its official annual growth target of around 6.5% this year. Meanwhile, many other Asian emerging economies attained notable growth, and the performance of higher-income economies in the region also remained solid. As the near-term outlook for the global economy improved, financial markets worldwide were generally robust during the third quarter, with many overseas stock markets hitting new highs. The International Monetary Fund in October revised up its global economic growth forecast for 2017 to 3.6%, picking up from 3.2% in 2016.

2.3 As global demand continued to strengthen, industrial activities in the Asian region expanded further, thereby boosting trade flows of raw materials, semi-manufactures and capital goods in the region in the third quarter. As a trading and logistics centre in the region, Hong Kong benefitted visibly from this development, with exports to various Asian markets once again providing the main growth impetus.

**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>
2016 Annual	-0.5	1.4	-1.7	-0.4	1.5	-1.7	-8.5	-7.0	-1.4
Q1	-6.8	-4.2 (-4.7)	-2.6	-6.7	-4.0 (-4.7)	-2.6	-15.2	-12.1 (-2.4)	-3.2
Q2	-1.2	1.4 (6.1)	-2.2	-0.9	1.6 (6.3)	-2.2	-16.8	-14.7 (-2.7)	-2.1
Q3	-0.2	1.8 (1.0)	-1.6	-0.2	1.8 (0.9)	-1.6	-2.0	-0.1 (8.2)	-1.1
Q4	5.5	5.9 (3.8)	-0.5	5.6	6.0 (3.9)	-0.5	0.9	-0.7 (-3.8)	0.9
2017 Q1	10.3	8.8 (-0.4)	1.6	10.4	8.8 (-0.4)	1.6	4.9	1.8 (1.9)	3.0
Q2	7.4	5.8 (1.0)	1.6	7.5	5.9 (1.1)	1.6	1.7	-0.6 (-6.3)	2.2
Q3	8.0	6.0 (*)	1.9	8.1	6.1 (*)	1.9	-1.9	-2.7 (4.6)	1.7

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

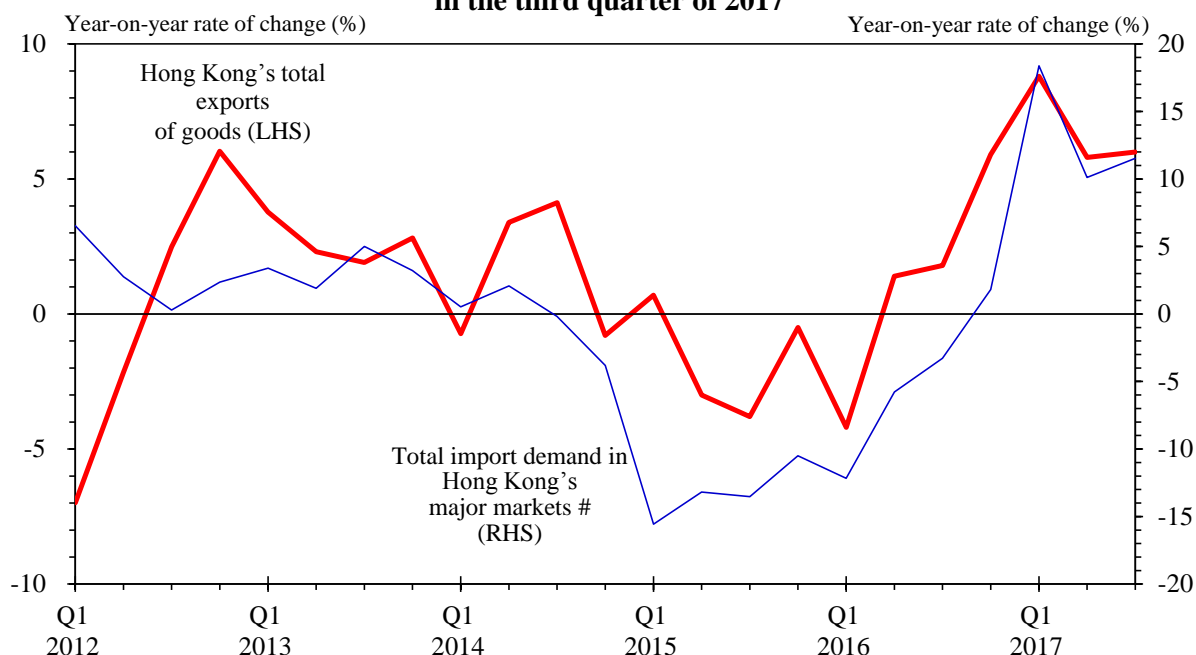
(\*) Change within  $\pm 0.05\%$ .

(a) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1, due to differences in coverage. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

2.4 *Re-exports*<sup>(2)</sup>, the mainstay of overall merchandise exports and accounting for 98.9% of total exports by value, recorded 6.1% year-on-year growth in real terms in the third quarter, picking up somewhat from 5.9% in the preceding quarter. *Domestic exports*, constituting only the remaining 1.1% of total exports, declined by 2.7% year-on-year in real terms in the third quarter, following a slight decline of 0.6% in the preceding quarter.



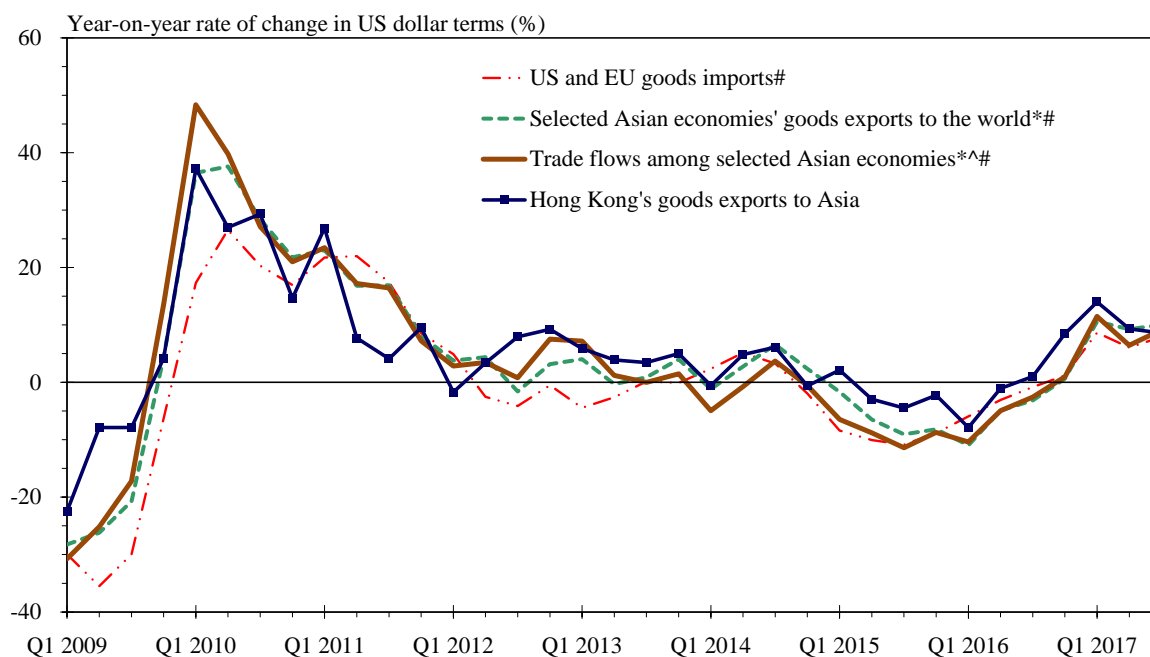
**Diagram 2.1 : Merchandise exports continued to grow visibly from a year earlier in the third quarter of 2017**



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.

(#) Import demand figure for the third quarter of 2017 is based on statistics for July and August 2017.

**Diagram 2.2: Intra-regional trade remained vibrant amid global demand revival**



Notes : (\*) "Selected Asian economies" include the Mainland of China, Hong Kong, Singapore, Korea, Taiwan, Japan, Indonesia, Malaysia, Thailand and the Philippines.

(^) The trade flows were measured by the sum of the individual economies' exports of goods to the other nine economies within the "selected Asian economies".

(#) Trade figures for the United States, the European Union and "selected Asian economies" for the third quarter of 2017 are based on the information available as of early November 2017.

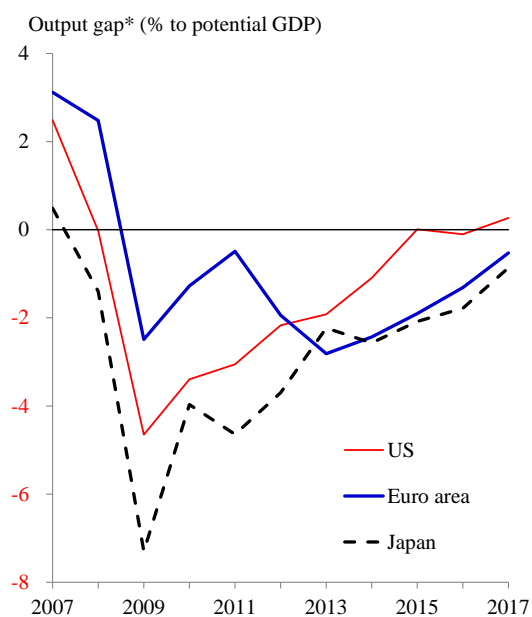
## Box 2.1

### Recent developments in monetary policies in major advanced economies and their implications

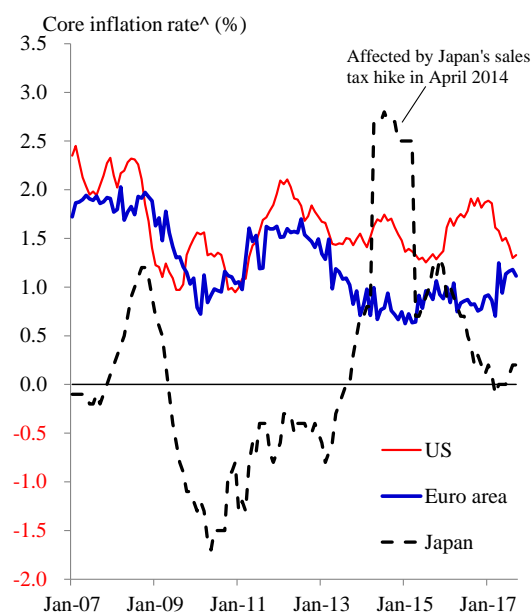
In the wake of the global financial crisis, central banks in major advanced economies cut interest rates aggressively and deployed various unconventional monetary policy tools to support the economy and to fight deflation risks. Among major advanced economies, the US took the lead in returning to a more sustainable recovery path. The improvement in the euro-area economy has also become more entrenched recently. Alongside different degrees of narrowing in output gaps (*Chart 1a*), their central banks have started tapering or unwinding some former monetary policy stimuli. This note briefly reviews recent monetary policy developments in major advanced economies and their implications.

In the US, the output gap narrowed to -1% of potential GDP in 2014. With sustained moderate economic growth, output gap closed and hovered around zero in recent years. More impressively, the labour market showed visible improvement. Cumulatively, over 16 million jobs have been added to the economy since end-2009, bringing down the unemployment rate from a peak of 10.0% in October 2009 to 6.7% in December 2013 and further to 4.2% in September 2017. Yet, core inflation fell in recent months and stayed below the US Federal Reserve's (the Fed) inflation target (*Chart 1b*).

**Chart 1a: Output gaps of major advanced economies are closing, especially in 2016 and 2017**



**Chart 1b: Inflation remained low but deflation risks had generally receded**



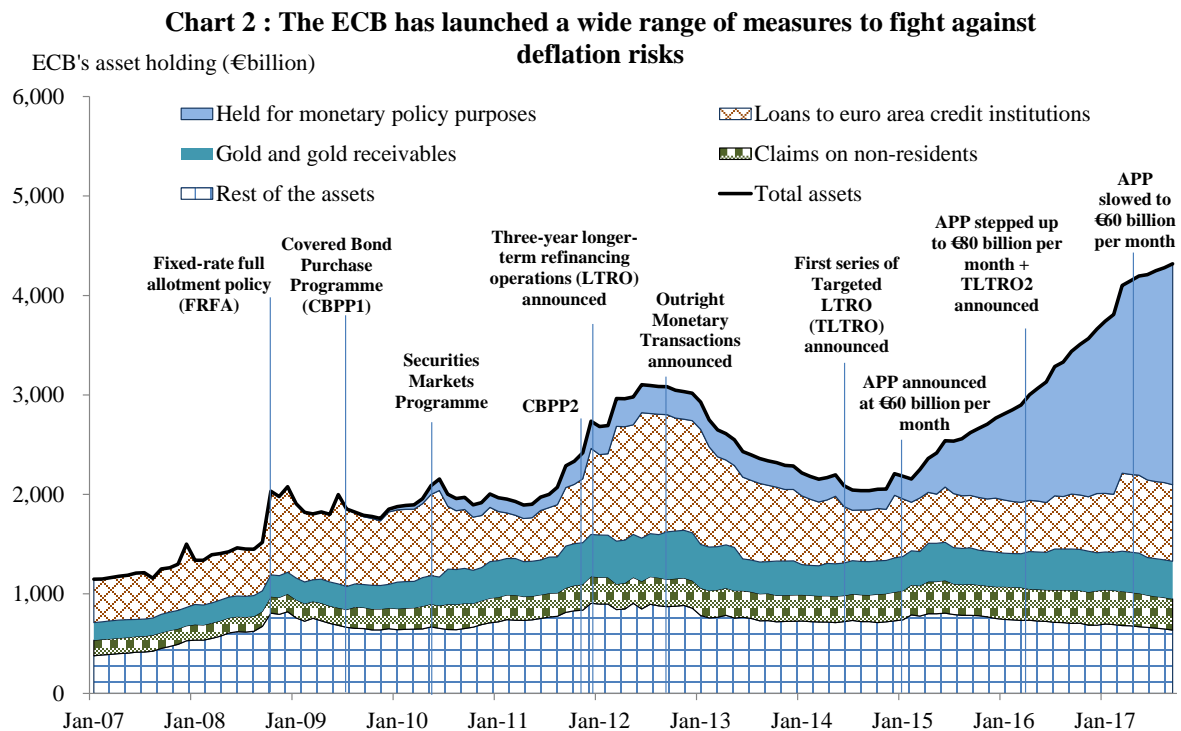
Notes: (\*) The output gaps (the difference between actual output and potential output) were estimated by the International Monetary Fund (IMF) in its World Economic Outlook Database, October 2017.

(^) Core inflation rate in the US refers to the year-on-year change in personal consumption expenditure price index excluding food and energy. In Japan, it refers to CPI inflation excluding energy and fresh food. In the euro area, it refers to CPI inflation excluding energy, food, alcohol and tobacco.

Against this backdrop, the Fed led the monetary policy normalisation process, tapering asset purchases during 2014. After concluding its asset purchase program in October 2014, the Fed started to raise interest rates in December 2015, cumulatively four times of 25 basis points each since then. As the gradual interest rate uplift had been well underway, it began scaling back its balance sheet in October 2017, marking another milestone in its monetary policy normalisation. The previous note “*The US Federal Reserve’s balance sheet normalisation*” published in the *Half-yearly Economic Report 2017* discussed the Fed’s plan announced in June and its implications. The current execution plan is the same as the one announced previously.

## Box 2.1 (Cont'd)

The recovery in the euro-area economy has been bumpier. The economy relapsed into recession during 2012-2013 amid the European debt crisis. Deflation risks loomed large in 2014. Against this backdrop, the European Central Bank (ECB) successively introduced various monetary accommodation measures (*Chart 2*), eventually putting forward negative interest rate policy in June 2014 and announcing the expanded asset purchase programme (APP) in January 2015. The ECB's asset size "held for monetary policy purposes" swelled quickly since 2015.



Sources: The ECB (consolidated balance sheet) and Bloomberg.

In recent quarters, economic recovery in the euro area has become more entrenched, with widespread improvement in the region. Consumer price inflation, though still below ECB's target, stayed positive since June 2016 and went up generally, pointing to largely receded deflation risks. As a result, the ECB moderated the net asset purchases under the APP to €60 billion per month from April 2017. In October 2017, the ECB announced to continue the APP at least until the end of September 2018, but the monthly pace of the net asset purchases will be moderated further to €30 billion from January 2018.

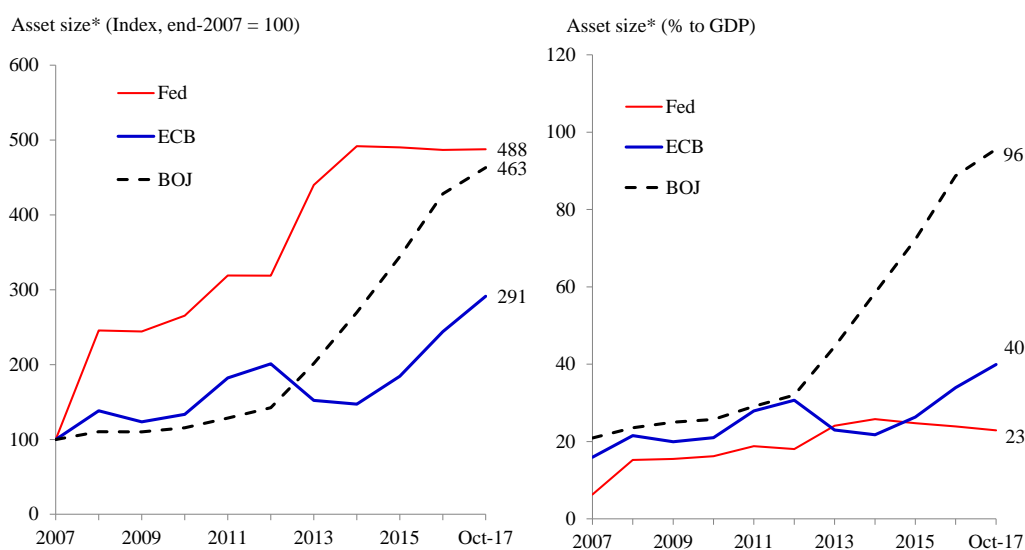
These two central banks are not alone among major advanced economies in reducing former monetary stimuli. The Bank of Canada has raised interest rates twice since July 2017, its first set of moves in seven years. In the UK, the Bank of England (BOE) raised its Bank Rate by 25 basis points to 0.50% in its November 2017 meeting, the first interest rate increase since 2007. This came notwithstanding persistent uncertainties from the ongoing Brexit-related negotiations, as recent inflation indicators overshoot the BOE's target and unemployment rate fell to the lowest in decades.

## Box 2.1 (Cont'd)

Comparatively, the Bank of Japan (BOJ) took a more cautious approach, as recent economic improvement has yet to gain a firm foothold and inflation continued to stay well below target. At the end of October 2017, the BOJ left short-term interest rate target unchanged at -0.1%, and kept 10-year Japanese Government Bond yield target unchanged at more or less zero under the “yield curve control”, thereby sticking to its ultra-loose policy stance. On asset purchase, the accompanying statement indicated that it would be maintained more or less at an annual pace of 80 trillion yen, though the actual pace of balance sheet expansion appeared somewhat slower than that in the recent past<sup>(1)</sup>.

In sum, most central banks in major advanced economies have entered a phase of reducing or unwinding former monetary stimuli. These unconventional monetary policies held their historical significance, by bringing down government bond yields<sup>(2)</sup> and borrowing costs to stimulate demand, and by creating a more favourable economic environment for proceeding structural reforms. Yet, the exact effects of these unconventional tools in boosting real output are hard to quantify<sup>(3)</sup>, and whether they have increased asset market bubble risks is still subject to debate. In any case, the marginal benefits of these monetary stimuli should have diminished, given that policy rates were already extremely low, and balance sheets of many major central banks have ballooned to unprecedented scale (**Chart 3**). Some analysts even worried that the purchase of government bonds by some central banks are approaching upper limits.

**Chart 3: Balance sheets of many major central banks have ballooned to unprecedented scale**



Sources: CEIC, the Fed, the ECB (consolidated balance sheet) and the BOJ.

Note: (\*) The asset sizes of the Fed, ECB and BOJ are denominated in their own currencies. In the case of October 2017, the asset sizes were based on information available as of late October 2017, and the corresponding percentages to GDP were computed by using seasonally-adjusted annualised nominal GDP for the US in the third quarter of 2017, and using the sums of nominal GDP from the third quarter of 2016 to the second quarter of 2017 in the cases of the euro area and Japan.

- (1) On BOJ's balance sheet, asset holding categorised as “Japanese Government Securities: Bonds” amounted to 408.9 trillion yen as of 20 October 2017, around 63 trillion yen higher than that of 345.6 trillion yen as of 20 October 2016. This calculation does not take “treasury discount bills” into account.
- (2) Andrade, Breckenfelder, De Fiore, Karadi and Tristani (2016), “The ECB's asset purchase programme: an early assessment”, ECB working paper, September, summarised evidences of quantitative easing programmes' impacts on 10-year government bond yields there by different researchers.
- (3) Borio, Zabai (2016), “Unconventional monetary policies: a re-appraisal”, Bank for International Settlements Working Papers No 570, July, outlined the debate on large-scale asset purchases' impacts on output and inflation by different researchers.

## Box 2.1 (Cont'd)

Moreover, as reckoned by the IMF in its Global Financial Stability Report in October 2017<sup>(4)</sup>, monetary accommodation by the major central banks, if prolonged, could encourage higher leverage or additional risk taking in search of higher yields, in essence building up higher financial risks for the medium term. The impact could spread beyond advanced economies through capital flows. For example, the IMF's model estimated that the US monetary policy accommodation was the dominant driver of portfolio inflows to emerging markets since 2010, and unwinding of these stimuli could reduce the flows in the years to come<sup>(4)</sup>. In an adverse scenario where capital flows reverse abruptly, emerging market economies with weaker fundamentals could face pressure. Moreover, market concerns about tightening global financial conditions, if heightened, could possibly translate into a re-pricing of risks and asset prices gyrations, undermining the ongoing global economic recovery.

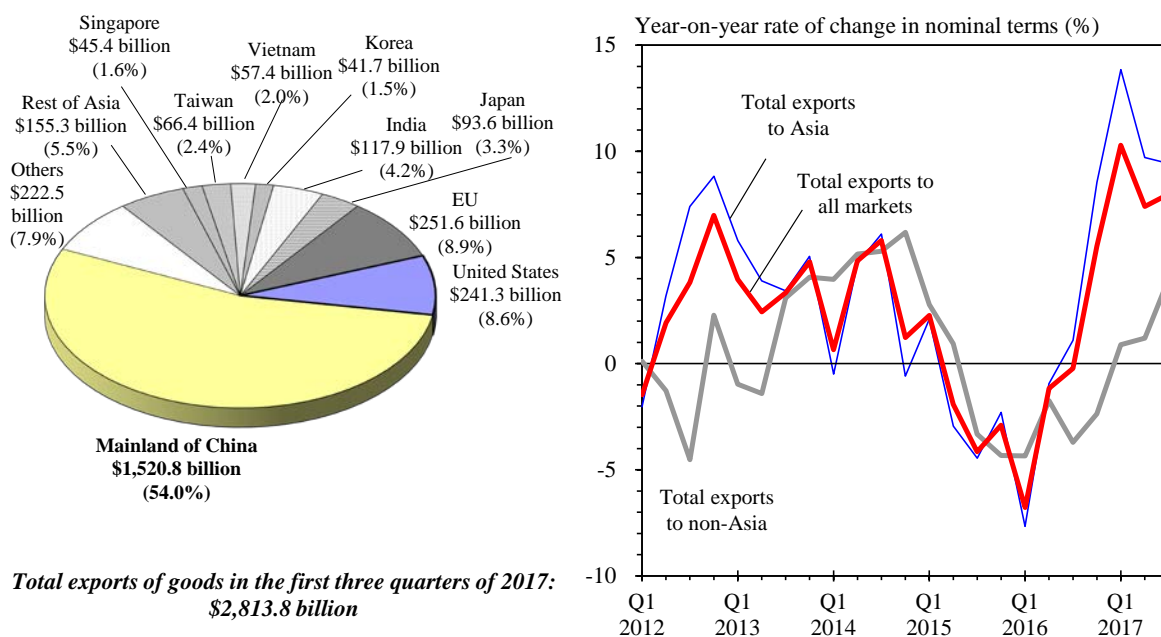
Thus far, the impacts of tapering monetary stimuli on global economic growth have been muted. In part, these actions have taken place at times of strength, where major advanced economies are in synchronised improvement. Moreover, monetary policy normalisation in these economies are widely anticipated to take place only at a gradual pace. In the US, for example, the amount of securities that would be rolled off in the first twelve months has been capped around 7% of the Fed's total securities holdings as of end-September 2017 according to the announced plan. The policy statement in November 2017 indicated that interest rate hikes in the period ahead will remain gradual. In the euro area, the ECB in its policy statement in October 2017 stated that policy rates would remain at their present levels for an extended period of time, well past the horizon of the net asset purchases. Moreover, the principal payments from maturing securities purchased under the APP would be reinvested for an extended period of time after the end of its net asset purchases.

Yet, with possible policy actions by major central banks, the global monetary environment has turned more complicated and could change quickly. From a risk management perspective, it is important to bear in mind that the paces of monetary normalisation in major advanced economies are not on a pre-set course. Any unexpected actions could possibly tip off a less benign scenario. Moreover, under the Linked Exchange Rate System, Hong Kong's interest rates will eventually rise alongside the US counterpart if US rate hikes continue. Hence, although Hong Kong has a sound financial system and strong fundamentals to navigate the ups and downs of the global economy, the Government will continue to closely monitor the global monetary developments and their possible ramifications on the local economy.

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(4) Global Financial Stability Report October 2017 published by the IMF, Link: <https://www.imf.org/en/Publications/GFSR/Issues/2017/09/27/global-financial-stability-report-october-2017>. The IMF's model estimated the impacts of four factors on cumulative portfolio flows to emerging market since 2010, including the change in assets on the Fed's balance sheet size, market expectations of federal funds rates, global risk appetite and emerging market domestic factors. It showed that the former two measuring US monetary policy accommodation were the key drivers during the period.

**Diagram 2.3 : Exports to Asia remained the bright spot and were the key growth driver**



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

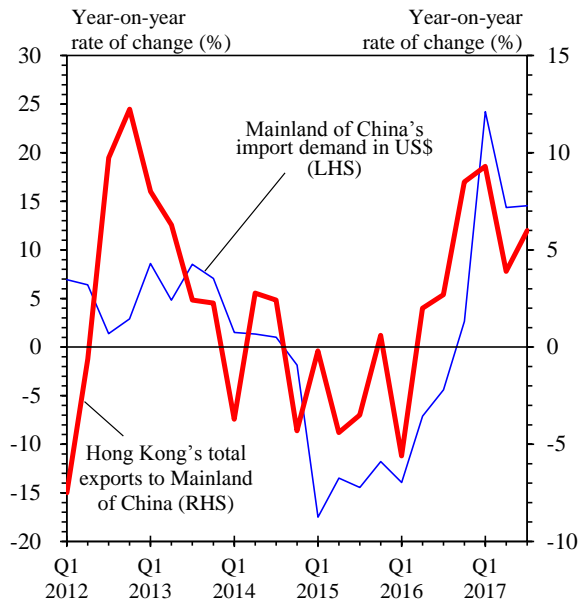
	<u>Annual</u>	<u>Q1</u>	<u>2016</u> <u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>2017</u> <u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Mainland of China	2.2	-5.6	2.0	2.7	8.5	9.3	3.9	6.0
United States	-1.9	-4.8	-1.4	0.2	-1.9	3.4	1.1	-0.5
European Union	-0.7	-2.6	3.8	-0.4	-3.2	3.0	1.3	5.0
Japan	-2.3	-3.3	-6.6	-1.1	1.7	7.5	12.0	10.8
India	17.6	15.8	28.0	15.8	12.1	40.1	53.8	9.9
Vietnam	-4.8	-2.1	-8.0	-9.8	0.7	10.8	11.9	6.8
Taiwan	19.0	-2.9	17.1	27.5	31.5	44.3	23.0	14.7
Singapore	5.9	-0.4	-1.6	7.7	18.3	-1.2	3.9	11.7
Korea	1.5	-14.0	3.2	6.7	11.2	15.3	-2.8	-1.5
Overall*	1.4	-4.2	1.4	1.8	5.9	8.8	5.8	6.0

Note : (\*) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

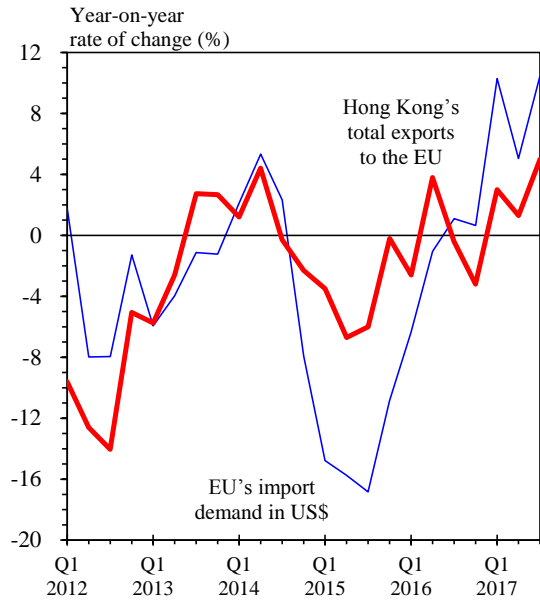
2.5       Analysed by major market on a year-on-year comparison in real terms, the Asian markets continued to provide the major growth impetus to overall merchandise exports in the third quarter, as intra-regional trade in Asia remained vibrant. Specifically, exports to the Mainland picked up to show visible growth. Exports to Taiwan, Singapore and Japan all recorded double-digit growth and those to India also grew notably, while those to Korea fell at a slower pace.

2.6       Exports to other major advanced markets were mixed in performance. Exports to the US continued to lag behind, falling slightly in the third quarter. On the other hand, exports to the EU picked up somewhat to moderate growth for the third quarter as a whole, mainly thanks to a surge in September. In particular, exports to several major markets in the EU such as Germany and the Netherlands showed notable growth, while exports to the UK reverted to a decline amid the lingering Brexit negotiations.

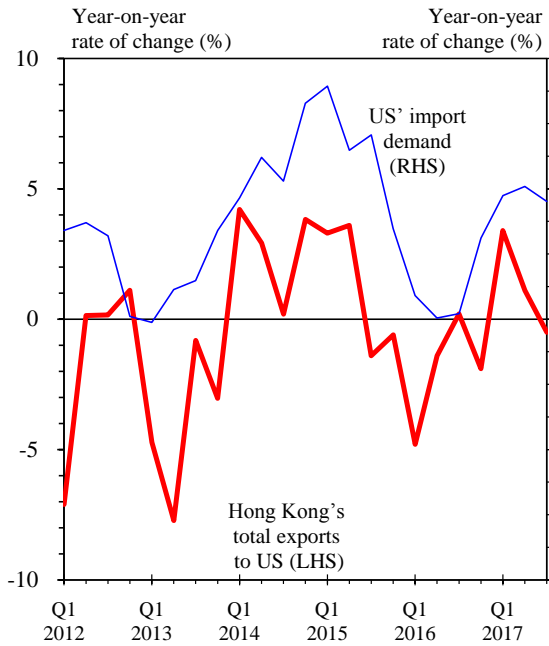
**Diagram 2.4 : Exports to the Mainland picked up to visible growth**



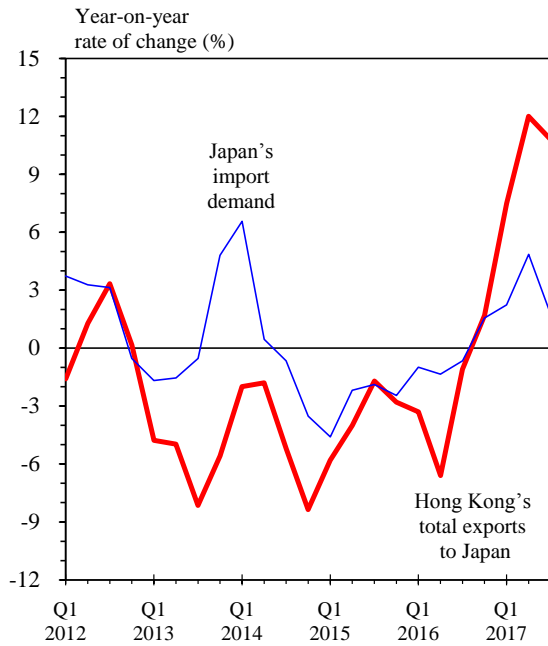
**Diagram 2.5 : Exports to the EU picked up to moderate growth**



**Diagram 2.6 : Exports to the US continued to lag behind**

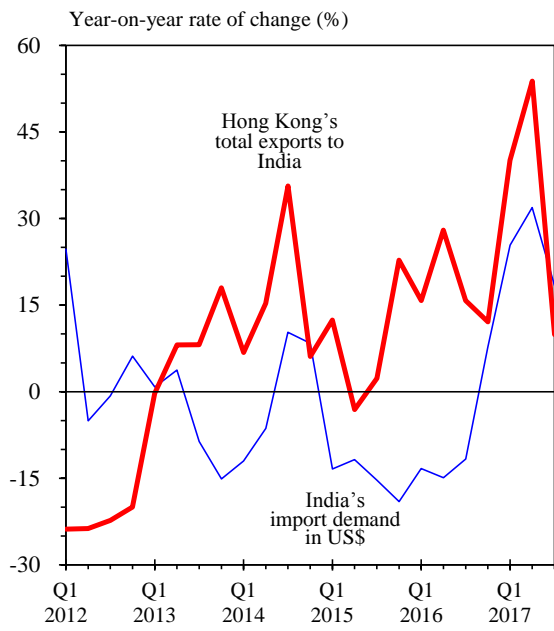


**Diagram 2.7 : Exports to Japan grew sizeably**

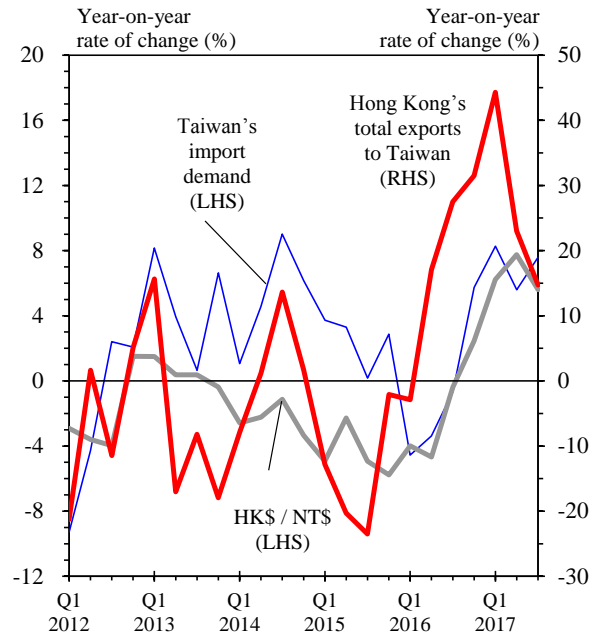




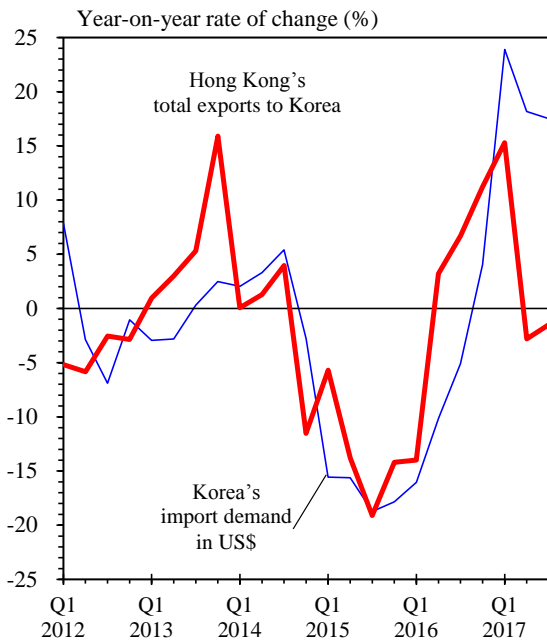
**Diagram 2.8 : Exports to India grew notably**



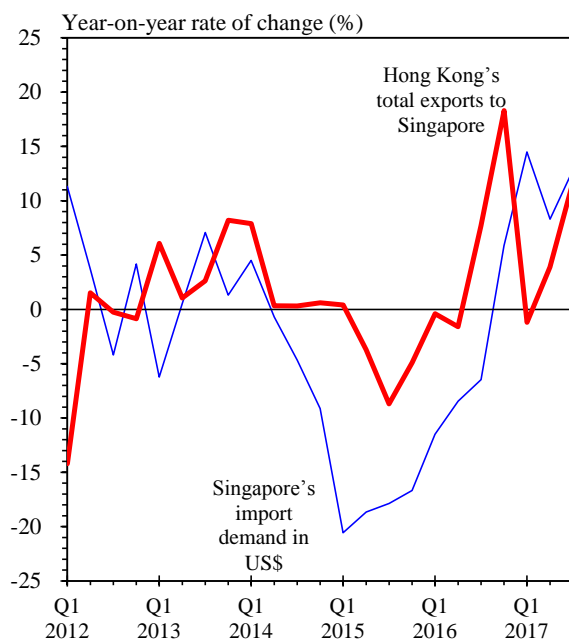
**Diagram 2.9 : Exports to Taiwan grew briskly**



**Diagram 2.10 : Exports to Korea declined at a slower pace**



**Diagram 2.11 : Exports to Singapore picked up visibly**



## Box 2.2

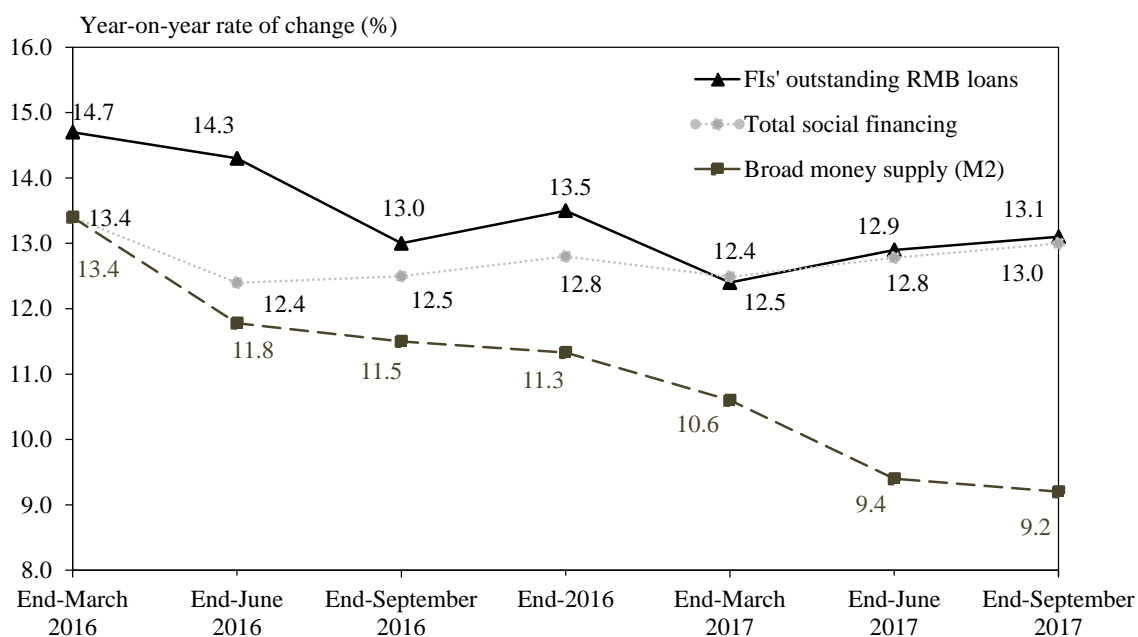
### Recent developments on the Mainland's monetary environment and financial stability

Positioned as the nation's southern gateway, the economic and financial ties between Hong Kong and the Mainland are getting increasingly close. The monetary environment and financial stability in the Mainland hence could have a bearing on our economy. This article briefly analyses a series of selected macroeconomic and monetary indicators, with the aim of giving an overview of the monetary policy pursued by the Mainland authorities and their efforts in containing financial risks so far in 2017.

During the first three quarters of 2017, the pace of expansion of the Mainland's broad money supply (M2) continued to moderate (registering a 9.2% year-on-year growth at end-September, which was 0.2 and 1.4 percentage points lower than that at end-June and end-March respectively), staying below the target of around 12% set at the beginning of the year. Meanwhile, financing and credit grew steadily, with the stock of total social financing<sup>(1)</sup> and the outstanding Renminbi (RMB) loans of financial institutions (FIs) maintaining an annual growth rate of 12-13% (*Chart 1*). The moderation of M2 growth alongside the steady expansion of financing and credit reflected to a certain extent that the Mainland authorities seek to strengthen financial regulation, reduce leverage within the financial system and shorten the capital chain, while addressing the financing demand of the real economy, thereby enhancing the efficiency and quality of the financial sector in serving the real economy.

In fact, since December 2016, the Central Economic Work Conference has clearly indicated that the task of containing financial risks should be elevated to a higher priority. The movements in the Mainland's monetary and financing indicators reflected that the People's Bank of China (PBOC) has been implementing monetary policy along with the prescribed direction, striking a proper balance between maintaining steady economic growth and taking forward supply-side structural reform in the Mainland. Holistically, the monetary policy has remained prudent and neutral, along with the general direction to ensure the stability of market liquidity.

**Chart 1: M2 expanded at a moderated pace while financing and credit posted steady growth amid a prudent and neutral monetary policy pursued by the Mainland**

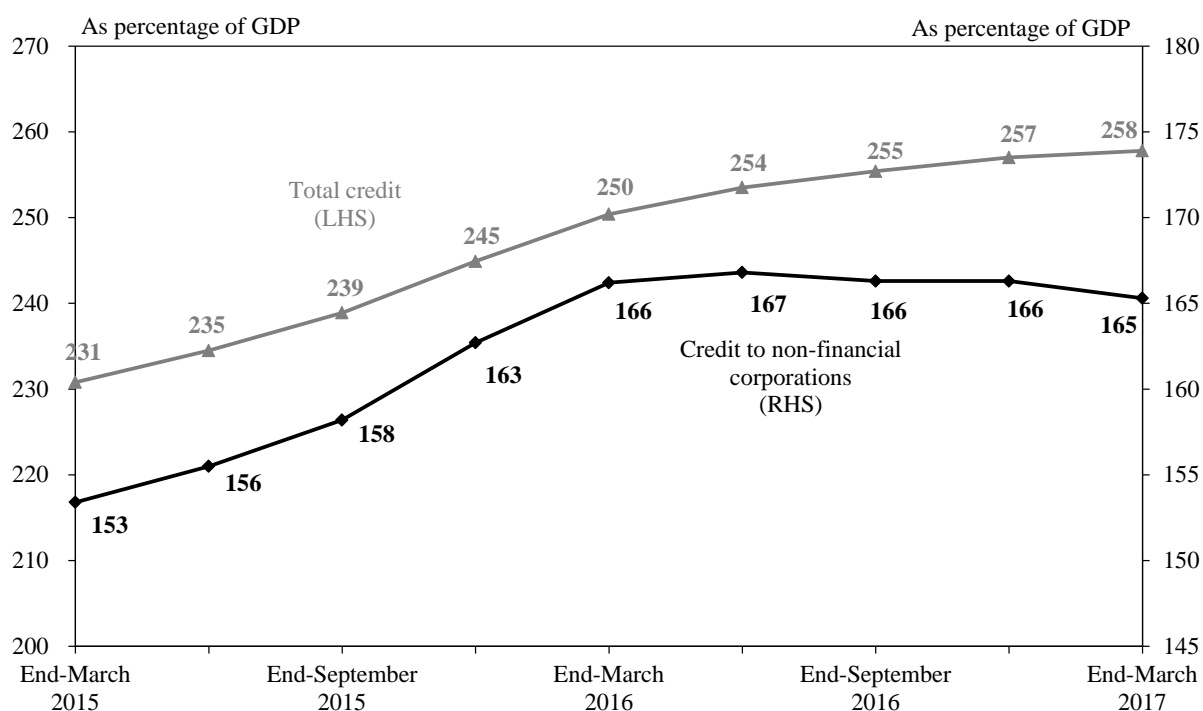


(1) Total social financing refers to the outstanding balance of funds raised by the real economy (domestic non-financial corporations and individuals) from the financial system.

## Box 2.2 (Cont'd)

The prudent and neutral monetary policy plays a pivotal role in enabling the Mainland economy to “stabilise growth and prevent risks”. Since the start of 2017, the Mainland economy has fared well, sustaining a sound and upward momentum with a year-on-year growth of 6.9% in real terms in the first three quarters, higher than the target growth rate of around 6.5% set at the beginning of the year. Foreign exchange reserve has been on the rise during the first three quarters and has stayed above the level of US\$3 trillion, while RMB exchange rate has also remained stable. Meanwhile, according to the estimation of the Bank for International Settlements, the Mainland’s overall leverage ratio is still on the rise, albeit at a tapered pace. The non-financial corporations leverage ratio, which is of particular concern, has even trended downward, reflecting the favourable development in deleveraging the economy (*Chart 2*).

**Chart 2: Mainland’s overall leverage ratio rose at a moderated pace while non-financial corporations leverage ratio reverted to a decline**



The PBOC is making relentless efforts in enhancing the macro-prudential assessment framework this year, with the off-balance-sheet wealth management businesses formally covered within the scope of broad credit indicators since the first quarter. Relevant authorities such as the PBOC, the China Banking Regulatory Commission, the China Securities Regulatory Commission and the China Insurance Regulatory Commission have also been taking responsive measures to curb regulatory arbitrage activities by FIs. In July 2017, the National Financial Work Conference specifically called for the enhancement of the financial sector to better serve the real economy, the strengthened containment of financial risks and the deepening of financial reforms. The Conference also announced the establishment of the Financial Stability and Development Committee under the State Council and the further strengthening of the PBOC’s role in macro-prudential management and systemic risk prevention. All these developments bespoke the importance attached by the Mainland authorities to preempting economic and financial risks. It is envisaged that financial regulators in the Mainland will continue their concerted effort to enhance the financial system and regulatory framework, with a view to maintaining financial stability and facilitating the growth of the real economy.

## **Box 2.2 (Cont'd)**

In September 2017, the PBOC announced the implementation of a targeted reserve requirement ratio (RRR) cut policy<sup>(2)</sup> for FIs with loans reaching a certain proportion in the inclusive finance area. The differentiated required reserve ratios, as enabled by the targeted cut, will encourage FIs to increase credit availability for inclusive finance, so as to step up support for the relatively weak sectors of the Mainland economy and conform with the nation's development direction to encourage entrepreneurship and innovation. This clearly reflects the key support of the monetary policy to economic restructuring, transformation and upgrading. For the rest of 2017, a prudent and neutral monetary policy as well as ongoing enhancements to the regulatory regime will continue to provide an environment conducive to risk prevention. To ensure the stable development of the economy, the Mainland authorities will closely monitor both the domestic and external economic environments, stay vigilant to the financing conditions of the real economy and make use of various monetary policy instruments to ensure the stability of liquidity. With the opportunities brought about by the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Bay Area, as well as the continued sound and stable development of the Mainland's financial system, Hong Kong stands to benefit significantly from its role as the nation's international financial centre and offshore RMB business hub.

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(2) The targeted RRR cut policy will be implemented starting from 2018. For commercial banks with outstanding loans or new loans in the inclusive finance area reaching 1.5% or 10% of the total loans in the previous year, an RRR cut of 0.5 or 1.5 percentage point(s) will be applied respectively. The inclusive finance businesses cover loans to small and micro enterprises with credit line for a single client below RMB 5 million, operating loans to businesses established by self-employed individuals and small and micro enterprise owners, loans to farmer households, guaranteed loans to new businesses, loans to those registered in poverty document, student loans, etc. The PBOC estimated that the policy could cover all of the large- and medium-sized commercial banks, about 90% of city commercial banks and about 95% of non-county rural commercial banks.

## *Imports of goods*

2.7 *Imports of goods* grew further by 5.8% year-on-year in real terms in the third quarter, following the 6.4% growth in the second quarter. Imports for subsequent re-exports also grew at a broadly similar pace in the third quarter. The remaining part, *retained imports*, referring to the imports for local use, which accounted for around one-quarter of total imports, grew by 4.5% year-on-year in real terms in the third quarter, mirroring continued expansion of domestic demand in the same period.

**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> <sup>(+)</sup>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	
2016	Annual	-0.9	1.0	-1.7	-4.1	-0.6	-3.2	
	Q1	-8.2	-5.4	(-2.4)	-2.8	-13.5	-8.9 (4.6)	-5.0
	Q2	-3.2	-0.5	(3.6)	-2.6	-10.6	-6.0 (-3.7)	-5.2
	Q3	1.2	2.9	(2.6)	-1.4	4.1	6.3 (7.6)	-2.1
	Q4	5.6	6.2	(2.4)	-0.1	4.0	6.6 (-1.8)	-0.6
2017	Q1	10.7	9.0	(2.2)	1.6	11.6	9.7 (10.2)	1.5
	Q2	8.2	6.4	(-1.1)	1.8	10.4	8.1 (-7.4)	2.5
	Q3	7.7	5.8	(0.7)	1.9	6.3	4.5 (2.9)	2.3

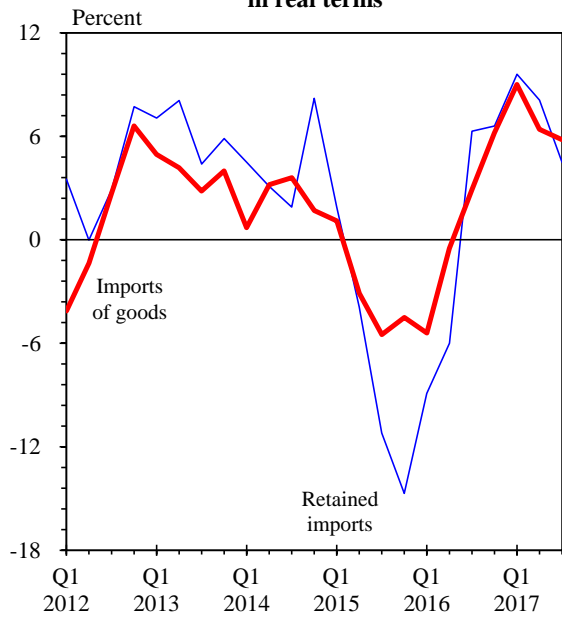
Notes : (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

(+) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

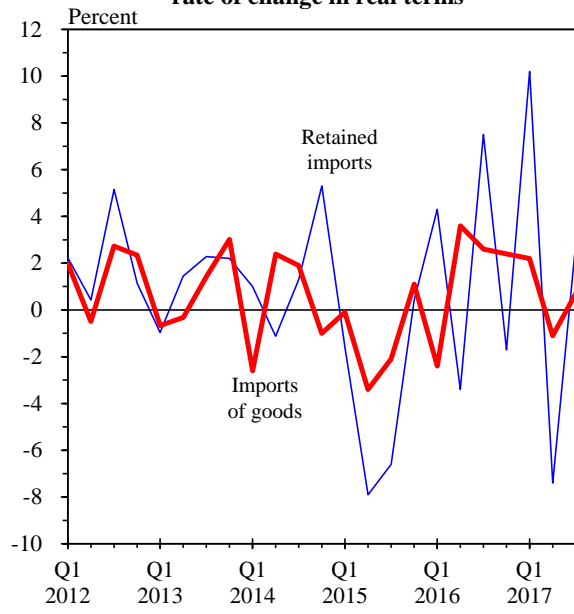
( ) Seasonally adjusted quarter-to-quarter rate of change.

**Diagram 2.12 : Imports and retained imports grew further**

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



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

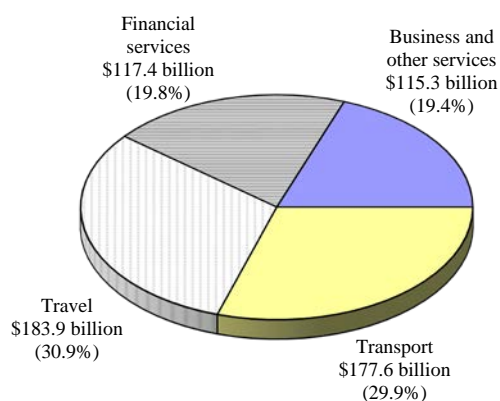


## Services trade

### *Exports of services*

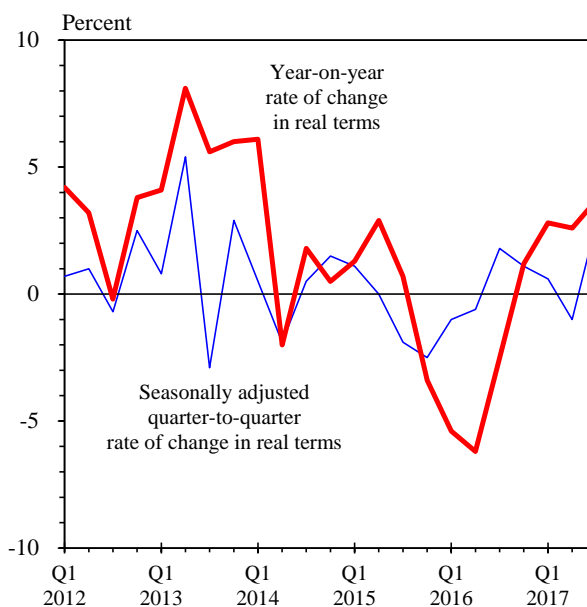
2.8 Amid the benign global economic environment, *exports of services* accelerated to grow by 3.7% year-on-year in real terms in the third quarter, up from the 2.6% growth in the preceding quarter. Exports of travel services reverted to moderate growth after a setback for over three years, reflecting the recovery of inbound tourism. Exports of transport services grew notably alongside vibrant regional trade and cargo flows. Exports of financial services picked up to show solid growth amid supportive global financial conditions, while those of business and other services stayed on a modest expansion path.

**Diagram 2.13 : Travel, transport and financial services are the major service components within exports of services**



*Exports of services in the first three quarters of 2017:*  
\$594.1 billion

**Diagram 2.14 : Exports of services picked up in growth, with a strong quarter-to-quarter rebound**



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

*Of which :*

		<u>Exports of services</u>	<u>Transport</u>	<u>Travel<sup>(a)</sup></u>	<u>Financial services</u>	<u>Business and other services</u>
2016	Annual	-3.2	2.2	-8.6	-3.7	-1.0
	Q1	-5.4 (-1.0)	-2.0	-13.1	0.1	-2.6
	Q2	-6.2 (-0.6)	-1.1	-8.9	-15.1	-0.7
	Q3	-2.5 (1.8)	2.5	-8.1	-1.7	-1.1
	Q4	1.2 (1.1)	9.6	-4.0	-0.2	0.2
2017	Q1	2.8 (0.6)	9.2	-1.1	2.4	0.9
	Q2	2.6 (-1.0)	8.2	-1.9	2.9	0.5
	Q3	3.7 (2.8)	7.0	1.8	4.1	0.6

Notes : Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchandising under the standards stipulated in the *System of National Accounts 2008*.

(a) Comprising mainly inbound tourism receipts.

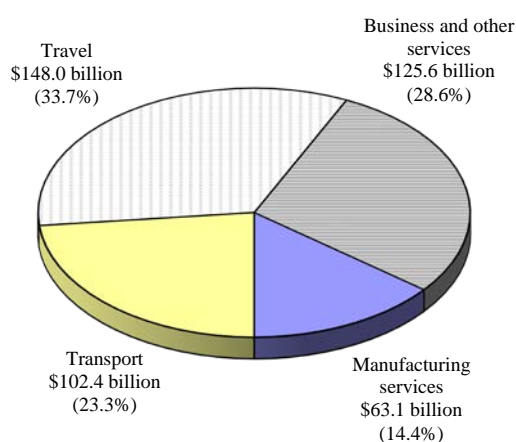
( ) Seasonally adjusted quarter-to-quarter rate of change.

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

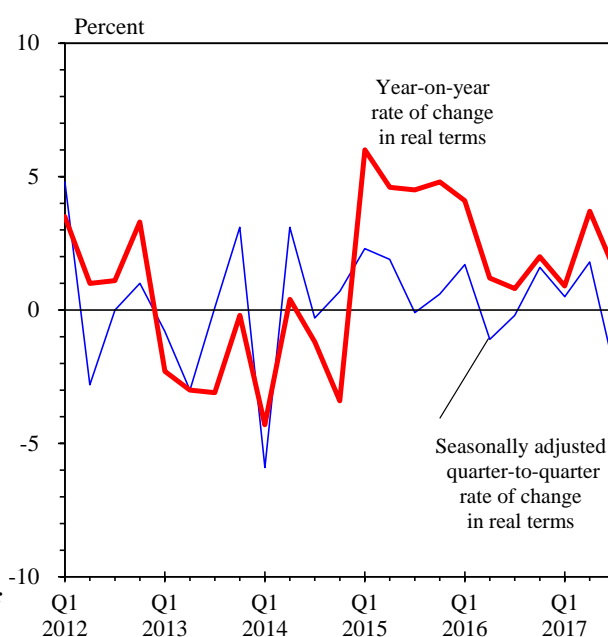
2.9 *Imports of services* grew at a slightly slower pace, by 1.5% year-on-year in real terms in the third quarter, compared to that of 3.7% in the preceding quarter. The major reason behind such a deceleration was the phasing out of the seasonal boost in outbound tourism in the second quarter due to the different timing of the Easter holidays this year and last year. Nevertheless, imports of travel services still grew solidly on a year-on-year basis in the third quarter, as local residents' demand for outbound travel remained underpinned by favourable income conditions and positive wealth effect. Imports of business and other services grew steadily, and those of transport services continued to expand alongside growth in regional trade flows. On the other hand, the decline in imports of manufacturing services continued, mirroring the shrinkage of outward processing activities.



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



**Diagram 2.16 : Imports of services grew slightly over a year earlier**



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

*Of which :*

		Imports of services		Travel <sup>(+)</sup>	Transport	Manufacturing services <sup>(^)</sup>	Business and other services
2016	Annual	2.0		5.9	-0.3	-1.9	1.8
	Q1	4.1	(1.7)	13.0	-0.5	0.9	0.2
	Q2	1.2	(-1.1)	2.9	-1.2	-0.5	2.5
	Q3	0.8	(-0.2)	3.7	-1.0	-2.8	1.6
	Q4	2.0	(1.6)	4.7	1.5	-4.1	2.8
2017	Q1	0.9	(0.5)	0.4	2.0	-4.4	2.5
	Q2	3.7	(1.8)	7.9	3.3	-3.8	3.2
	Q3	1.5	(-2.3)	3.8	2.1	-6.0	2.7

Notes : Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(+) Comprising mainly outbound travel spending.

(^) This includes the value of processing fees paid by Hong Kong to the processing units outside Hong Kong and raw materials / semi-manufactures directly procured by these processing units.

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

## Goods and services balance

2.10 Compiled based on the change of ownership principle, the goods deficit widened somewhat in the third quarter from a year earlier, as the nominal growth of goods imports slightly outpaced that of goods exports. With the services surplus more than offset the goods deficit, the combined goods and services account registered a surplus of \$35 billion in the third quarter, equivalent to 2.7% of total import value, slightly lower than the corresponding figures in the same quarter of 2016.

**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>	
2016	Annual	3,900	767	4,037	578	-136	189	53	1.1
	Q1	849	194	892	138	-44	55	12	1.1
	Q2	929	177	987	138	-57	39	-18	-1.6
	Q3	1,025	196	1,037	148	-12	48	36	3.1
	Q4	1,098	200	1,121	153	-24	47	23	1.8
2017	Q1	942	201	1,000	141	-58	60	2	0.2
	Q2	993	184	1,062	144	-69	41	-28	-2.3
	Q3	1,099	208	1,118	155	-19	54	35	2.7

Notes : Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

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

## **Other developments**

2.11 Hong Kong's economic cooperation and integration with the Mainland continued to deepen. In September, 2017 Pan-Pearl River Delta (PPRD) Regional Cooperation Chief Executive Joint Conference (Joint Conference) was held. During the Joint Conference, the PPRD Regional Customs and Clearance Cooperation Agreement and the PPRD Regional Tourism Union Cooperation Agreement were signed. The Joint Conference provided an interactive platform for government leaders of the PPRD provinces and regions to discuss matters, including taking forward jointly the development of the Guangdong-Hong Kong-Macao Bay Area, Belt and Road Initiative and deepening cooperation in innovation and technology.

2.12 The Government spares no effort in grasping the opportunities arising from the Belt and Road Initiative. In September, the Government and the Hong Kong Trade Development Council jointly organised the Belt and Road Summit, the second in two years, attracting over 3 000 political leaders, policymakers, business leaders and experts in related trades from all over the world. The Government will continue discussion with the Central Authorities, with the aim of entering into an agreement of Hong Kong's full participation in the Initiative with the National Development and Reform Commission as soon as possible.

2.13 Economic ties between Hong Kong and other major economic partners made further progress. In September, after years of negotiations, Hong Kong and ASEAN concluded a Free Trade Agreement (FTA) and a related Investment Agreement, which will be signed in November. ASEAN is an important trading partner of Hong Kong in both goods and services. The Agreements are comprehensive in scope, encompassing trade in goods, trade in services, investment, economic and technical cooperation and dispute settlement mechanisms. Hong Kong stands to benefit from the FTA and the Investment Agreement, which will further facilitate our access to the ASEAN markets, create new business opportunities and enhance trade and investment flows. In October, an agreement with Switzerland for conducting automatic exchange of financial account information in tax matters (AEOI) was signed, bringing the number of Hong Kong's AEOI partners to 15.

2.14 In October, the Policy Address was announced, putting forward to strengthen external promotion work by expanding the network of Economic and Trade Offices (ETOs). The Government is planning to set up an ETO in Thailand, the third ETO in ASEAN, after Singapore and Indonesia. The

addition of an ETO in Thailand will make the ETO network in ASEAN on par with that in the EU. On the enhancement of bilateral ties, the Government will continue to expand our comprehensive avoidance of double taxation agreements network and identify potential negotiation partners, especially countries along the Belt and Road, with a view to expanding the total number of such agreements to 50 over the next few years.

## Box 2.3

### The risk of trade protectionism: recent developments

In view of the political developments in the major advanced economies, there has been heightened concern over a possible escalation of trade protectionism. This note makes use of the statistics compiled by World Trade Organization (WTO) on Group of Twenty (G20<sup>(1)</sup>) trade measures to examine the recent trend on this front and highlight the risks ahead.

In response to the request by G20 Leaders in 2008 to monitor and report publicly on trade measures taken by the G20 member countries, the WTO Monitoring Report on G20 Trade Measures<sup>(2)</sup> was issued, and has been published twice a year in recent years. The focus includes the measures related to merchandise trade by G20 member countries, which together accounts for more than four fifths of gross world output, three quarters of global trade, and are home to almost two thirds of the world's population.

The latest 17th report was published on 30 June 2017, tracing trade and trade-related measures implemented by G20 member countries. Whilst setting the review period from 16 October 2016 to 15 May 2017, comparable time series starting from 2012 are also available to gauge the changes over the years. Three types of measures are of particular interest here. The first type refers to trade restrictive measures, which cover actions such as increases in tariffs, customs procedures and quantitative restrictions. An increase in the number of this type of measures may signal more trade restrictions implemented by G20 member countries. The second type refers to trade-facilitating measures, which include actions such as reduction or elimination in tariffs and simplified customs procedures. A rise in the number of this type of measures may point to less trade restrictions. The third type of measures refers to trade remedy actions<sup>(3)</sup> (including investigations of antidumping and countervailing duties), tracing the number of those initiated and terminated<sup>(4)</sup>. While these investigations do not necessarily lead to the actual implementation of measures, a rise in number of investigations initiated can be an early indicator of potential trade barriers in the period ahead.

During the review period, G20 member countries applied a total of 42 new trade-restrictive measures. Among these, over half were in the form of tariff increases, followed by various customs procedures and quantitative restrictions. On average, this amounted to around 6 new measures per month (*Table 1*). This was higher than that of 4.9 in 2016, though still somewhat below the average of 7 per month between 2012 and 2015. The amount of trade flows affected by these restrictive measures was estimated at US\$47 billion, around 0.37% of the value of G20 merchandise imports.

**Table 1: Summary of trade measures implemented by G20**

	Average per month					
	2012	2013	2014	2015	2016	mid-Oct 16 to mid-May 17
<b>Trade-restrictive measures</b>	6.7	7.2	5.8	7.8	4.9	6.0
<b>Trade-facilitating measures</b>	9.1	6.8	6.9	8.4	6.3	6.0
<b>Trade remedy actions:</b>						
- <b>initiations</b>	16.8	23.2	21.5	17.6	22.0	20.9
- <b>terminations</b>	13.3	12.8	14.3	12.6	10.8	8.9

(1) G20 comprises 19 countries plus the EU. These countries are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Korea, Turkey, the UK and the US.

(2) While the WTO Monitoring Report on G20 Trade Measures neither seeks to pronounce itself on whether a trade measure is protectionist, nor does it question the explicit right of Members to take certain trade measures, and despite its coverage may have limitations, it shed light on the latest trend of trade measures implemented by G20 member countries that facilitate as well as restrict the flow of trade. [https://www.wto.org/english/news\\_e/news17\\_e/g20\\_wto\\_report\\_june17\\_e.pdf](https://www.wto.org/english/news_e/news17_e/g20_wto_report_june17_e.pdf)

### Box 2.3 (Cont'd)

Concurrently, G20 member countries altogether reported 42 new measures implemented in facilitating trade, mostly in the form of eliminated or reduced tariffs, though there are some in the form of simplified customs procedures. On average, 6 new measures were implemented per month during the review period, about the same as the average in 2016. Yet, these facilitating measures were estimated to benefit trade flows valued at US\$163 billion, significantly higher than that of restrictive measures at US\$47 billion.

On trade remedy, 146 initiations were recorded for G20 member countries during the review period, with anti-dumping investigations the most frequent actions. At an average of 20.9 per month, the number of trade remedy initiations declined somewhat compared to the average in 2016. The trade covered by the trade remedy investigations initiated in the review period was estimated to be at US\$25 billion, or 0.20% of G20 merchandise imports value. Meanwhile, the monthly average of trade remedy terminations fell and continued to be lower than that of initiations.

In sum, the latest statistics did not indicate a visible increase in trade barriers among G20 member countries during the review period. This, coupled with the global economic uptake, has orchestrated a visible upturn in world trade flows so far this year. World trade volume picked up to increase 4.2% year-on-year in the first half of 2017, from the 1.3% growth in 2016. The improving global demand boosted regional trade flows in Asia, including those through Hong Kong. Our merchandise exports increased notably by 6.8% in volume terms in the first nine months, a strong pick-up from the 1.4% increase in 2016.

Nevertheless, recent international political developments indicate that the threat of trade protectionism has not dissipated. For example, the renegotiations on North America Free Trade Area (NAFTA) between the US, Canada and Mexico continued, and the target date was extended to the first quarter of 2018 from the end of 2017 as previously scheduled. The US and Korea has also started the process to amend the US-Korea Free Trade Agreement that has been come into force in 2012. Besides, the US Trade Representative in August 2017 formally initiated an investigation of China's trade practice under Section 301 of the Trade Act of 1974. In Europe, the Brexit negotiations are yet to have meaningful progress, and the possibility of a significant increase in trade barriers between the two parties after Brexit cannot be ruled out.

On a positive note, G20 leaders in its communique of Hamburg Summit in July 2017 continued to acknowledge international trade and investment as important engines of world economic growth, productivity and development, and agreed to enhance international cooperation towards inclusive and sustainable global growth. They were committed to keep markets open and fight protectionism, including all "unfair trade practices", and recognised the need for "legitimate trade defence instruments".

Hong Kong has all along been a staunch supporter of free trade. Indeed, Hong Kong, China is the first WTO Member to join the WTO Trade Facilitation Agreement, the first multilateral agreement concluded since the establishment of the WTO. In September 2017, Hong Kong announced the conclusion of negotiations for a Free Trade Agreement and a related Investment Agreement with ASEAN. Hong Kong strongly supports trade liberalisation via deepening and widening regional economic integration and believes the multilateral trading system to be the most effective safeguard against protectionism.

- (3) According to many WTO Members, trade remedy measures are taken to address market distortions resulting from trade practices in another trading partner. WTO Members are permitted to impose duties to offset what is perceived to be injurious dumping or subsidisation of products exported from one Member to another. Termination means either the termination of the investigation (without imposition of a measure) or elimination of the imposed measure.
- (4) WTO Monitoring Report on G20 Trade Measures counted anti-dumping or countervailing investigation involving imports from  $n$  countries/customs territories as  $n$  investigations. Similarly, a termination of an imposed measure on imports from  $n$  countries/customs territories is counted as  $n$  terminations.

## 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. The series are not comparable with the real trade aggregates under GDP (reported in Chapter 1) which are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*. Apart from this, 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 moderation of the residential property market that started in June continued in the third quarter of 2017. Trading activities slowed down visibly from the hectic level in the preceding quarter. Flat prices on average recorded a decelerated increase of 1% 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 stayed at a high level of 97 000 units.*
- *As to the commercial and industrial property markets, prices and rentals increased further during the third quarter while trading activities quietened down.*
- *Inbound tourism continued to recover in the third quarter, with the number of visitor arrivals up by 1.8% over a year earlier to 14.8 million. Growth in Mainland visitors accelerated, while visitors from short-haul and long-haul markets declined.*
- *The logistics sector saw a further pick-up in activity in the third quarter in tandem with strong growth in external trade. Total container throughput went up by 4.9% over a year earlier, while air freight throughput registered a sharp growth of 10.1%.*

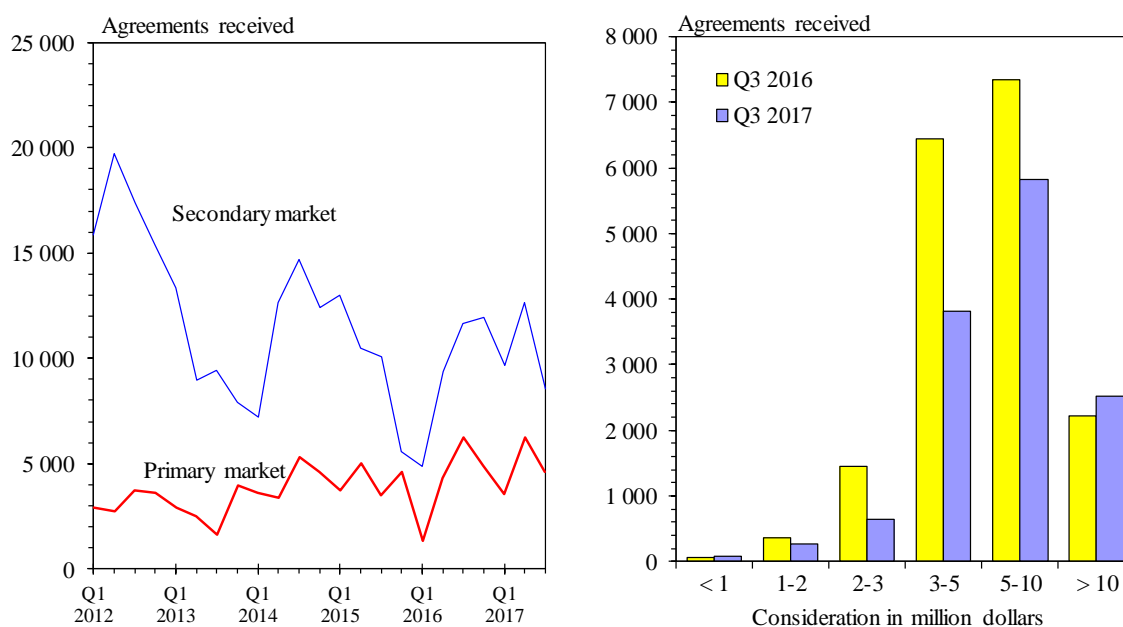


## Property

3.1 The moderation of the *residential property market* that started in June continued in the third quarter of 2017. Trading activities slowed down visibly from the hectic level in the preceding quarter. Flat prices on average recorded a decelerated increase during the quarter.

3.2 Reflecting the quieter trading activities, the total number of sale and purchase agreements for residential property received by the Land Registry fell noticeably by 30% from the preceding quarter or by 26% from a year earlier to 13 158. Within the total, primary and secondary market transactions dropped by 27% and 32% respectively from the preceding quarter. In parallel, total consideration plunged by 38% to \$112.1 billion.

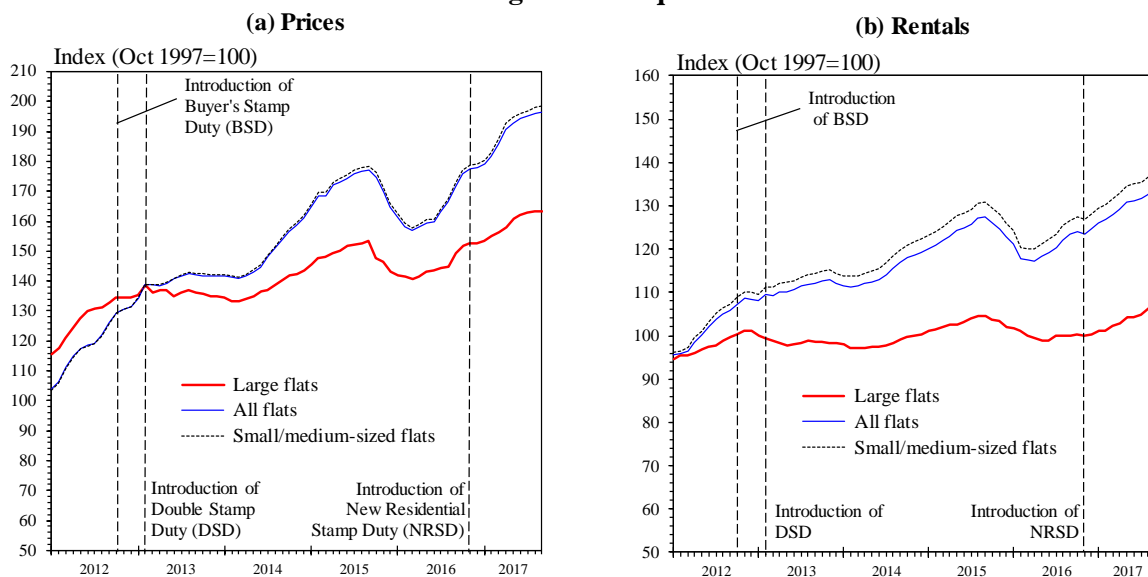
**Diagram 3.1 : Trading activities slowed down visibly in the third quarter**



3.3 The increase in overall flat prices moderated to 1% during the third quarter, compared with the hectic gain of 5% during the second quarter. Analysed by flat size, prices of small/medium-sized flats and large flats both increased by 1%. During the first nine months of 2017, overall flat prices rose by a cumulative 11%.

3.4 Similarly, the increase in overall flat rentals decelerated during the third quarter, though by a lesser extent to 2%. Within the total, rentals of small/medium-sized flats and large flats went up by 2% and 3% respectively. During the first nine months of 2017, overall flat rentals rose by a cumulative 7%. The average rental yield for residential property stayed at 2.6% in September, unchanged from June.

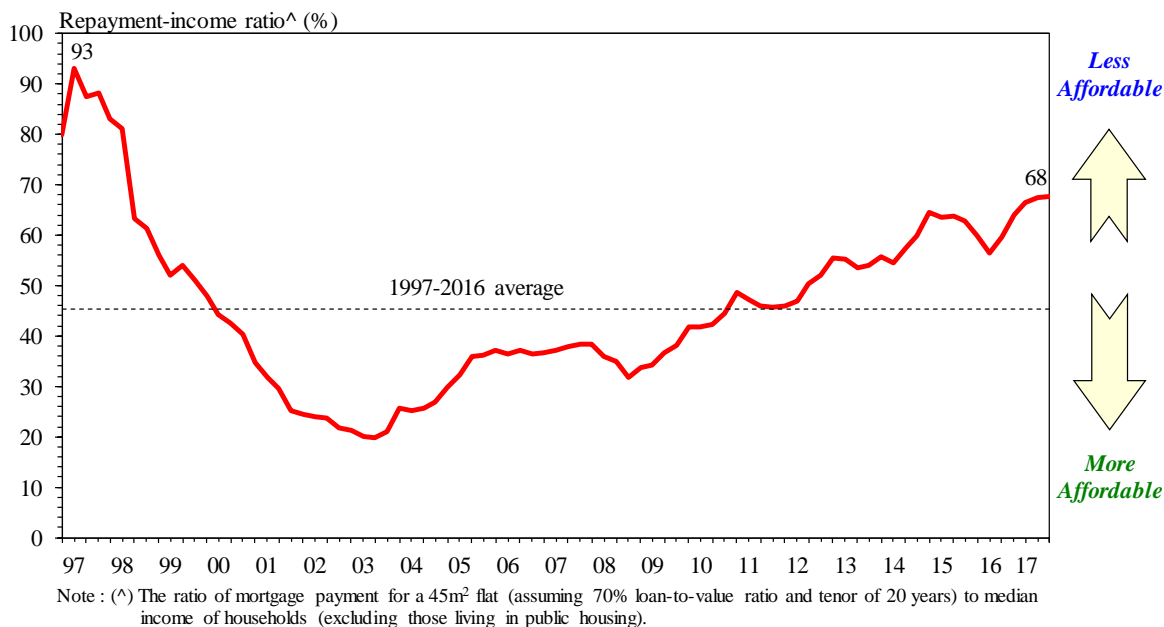
**Diagram 3.2 : Both flat prices and rentals recorded decelerated increases during the third quarter**



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, flat prices in September 2017, on average, exceeded the 1997 peak by a rampant 97%. 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) worsened further to around 68% in the third quarter, significantly above the long-term average of 45% over 1997-2016. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 88%.

**Diagram 3.3 : The mortgage payment to income ratio worsened further**



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 September, the Government would put up three residential sites for sale in the fourth quarter of 2017, which are capable of providing about 1 090 flats. The private housing land supply (including Government land sale, railway property development projects, the Urban Renewal Authority’s projects, and private development and redevelopment projects) in the first three quarters of 2017-18 is estimated to have a capacity to provide over 20 000 flats, already exceeding the annual supply target of 18 000 flats. In October, the Chief Executive announced a series of policies and measures on land supply and housing market in her Policy Address (**Box 3.1**).

### **Box 3.1**

#### **Latest Government measures on land supply and housing (October 2017)**

In the 2017 Policy Address, the Chief Executive announced a range of initiatives on land supply and housing to tackle the issues of difficulty in achieving home ownership and poor living conditions. The policies and measures are summarised below.

#### **(1) Land supply**

To take a macro review of the land supply options, the Task Force on Land Supply (Task Force) was established in September 2017. Serving as an objective and rational forum, the Task Force would lead the community to discuss and make trade-offs on the land supply options and their priorities through analyses of facts and the pros and cons, with a view to building the broadest consensus and mapping out the direction for land supply that would benefit the community as a whole. The Task Force plans to launch a public engagement exercise in the first half of 2018.

#### **(2) Housing Policy**

The Government's housing policy comprises four elements: (i) the Government has an indispensable role in the housing market, while maintaining respect of a free market economy; (ii) the Government would focus on home-ownership and strive to build a housing ladder to rekindle the hopes of families in different income brackets to become home-owners; (iii) the Government would step up the effort in increasing the supply of housing units on the basis of the Long Term Housing Strategy; and (iv) with insufficient land and when new supply is not yet available, the Government would optimise the existing housing resources to meet the housing needs of families that have long been on the waiting list for public rental housing (PRH) and to help residents in poor living conditions. Specific measures in the housing market include :

##### *Green Form Subsidised Home Ownership Scheme (GSH)*

- Propose that the Hong Kong Housing Authority (HKHA) regularises GSH and offers more GSH flats for sale.
- Subject to the outcome of review, convert some 4 000 new PRH units in Fo Tan into GSH units for sale in late 2018.

##### *Interim Scheme to Extend the Home Ownership Scheme (HOS) Secondary Market to White Form Buyers*

- Propose that the HKHA regularises the scheme, thereby allowing White Formers to become home-owners through the HOS Secondary Market and at the same time facilitating the turnover of subsidised sale flats.

### Box 3.1 (Cont'd)

#### *“Starter Homes” Scheme*

- Introduce a “Starter Homes” Scheme for higher-income families who are not eligible for HOS and find it difficult to afford private housing.
- Launch a pilot scheme by the end of 2018 by using a residential site at Kwun Tong on the Government’s Land Sale Programme to provide about 1 000 “Starter Homes” units.

#### *Community Initiatives on Social Housing*

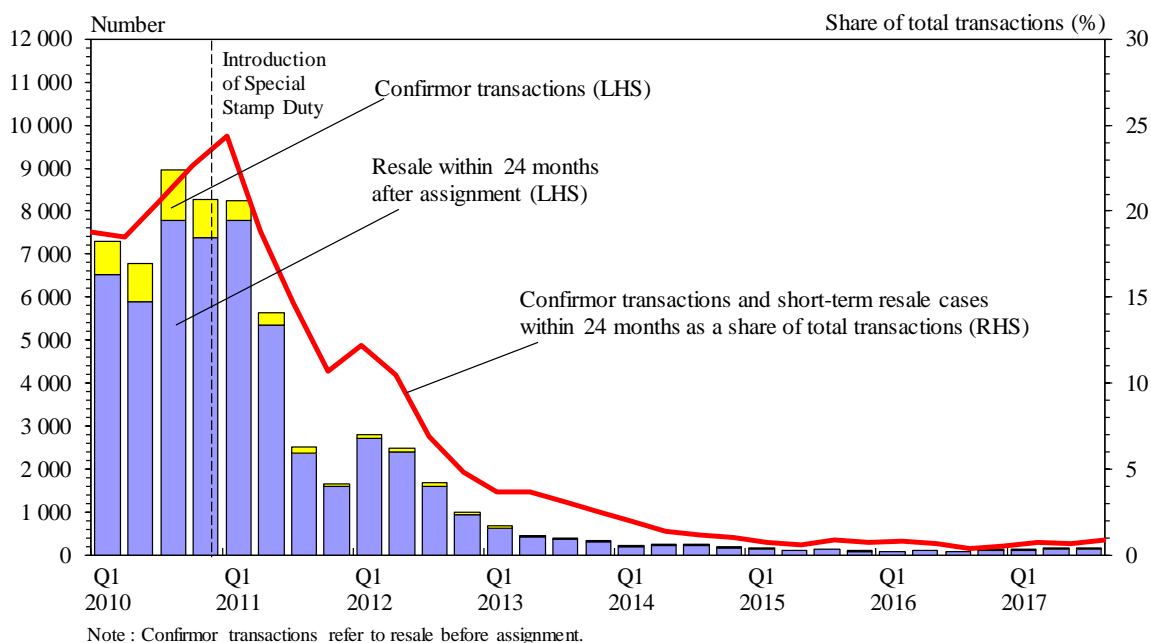
- Facilitate the implementation of various short-term community initiatives to increase the supply of transitional housing, with a view to alleviating the hardship faced by families on the PRH waiting list and the inadequately housed.

3.7 Reflecting the Government’s sustained efforts in raising land supply, the number of private domestic units commencing work stayed at a high level of 16 300 units in the first three quarters of 2017, virtually unchanged from a year earlier. Meanwhile, completions of private domestic units rose 20% over a year earlier to 12 900. 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) stayed at a high level of 97 000 units as estimated at end-September. In addition, 3 200 units could be added to the total supply after the conversion of a number of residential sites into “disposed sites”.

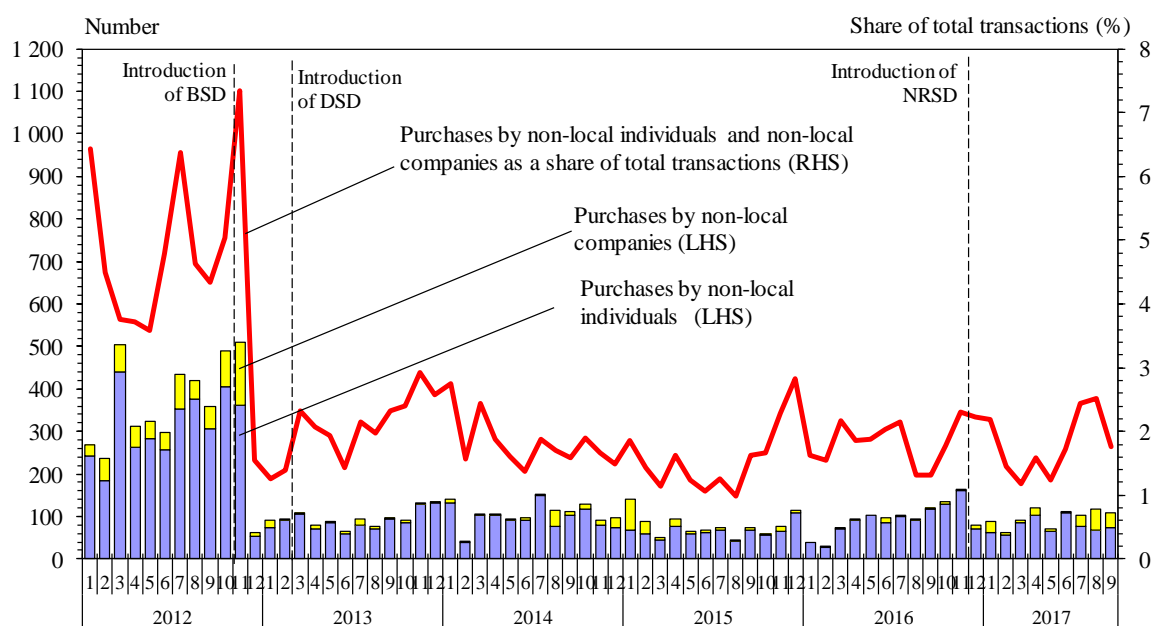
3.8 The Government has also put in significant efforts to manage demand and reduce the possible risks to financial stability arising from an exuberant property market<sup>(1)</sup>. The various demand-side management measures have yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) remained low at 45 cases per month or 0.9% of total transactions in the third 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 110 cases per month or 2.2% of total transactions in the third quarter, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As an indicator of *investment activities*, purchases subject to the New Residential Stamp Duty stayed at a modest level of 632 cases per month or 12.5% of total

transactions in the third quarter, sharply below the monthly average of 1 412 cases subject to Double Stamp Duty or 26.5% in January to November 2016. As to *mortgage lending*, the average loan-to-value ratio of new mortgages approved was 48% in the third quarter, likewise considerably below the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority.

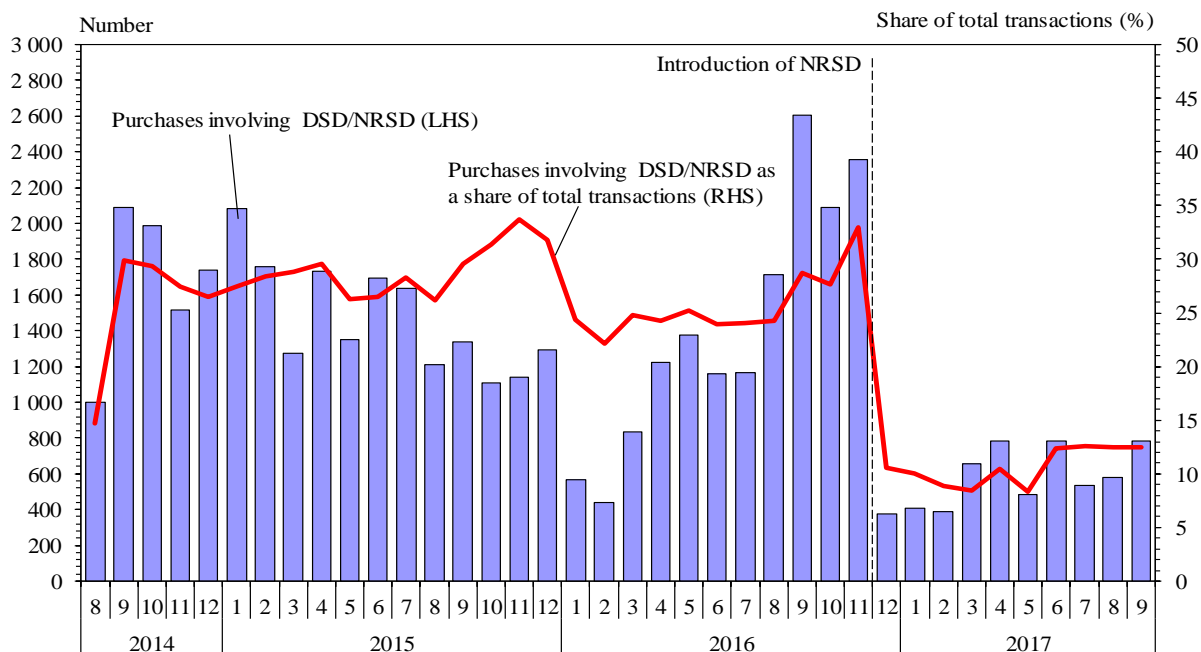
**Diagram 3.4 : Speculative activities stayed subdued**



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



**Diagram 3.6 : Investment activities were modest**



3.9 Looking ahead, the changing fundamental factors would eventually put pressures on the residential property market. In September, the US Federal Reserve announced its preliminary timetable for scaling back its balance sheet. The market also widely anticipates another US interest rate hike before the end of this year. As the US interest rate normalisation process continues, local interest rates are set to rise under the Linked Exchange Rate System. Moreover, the demand-supply balance of flats would eventually ease when the increased residential land supply over the past few years gradually turns into actual flat production.

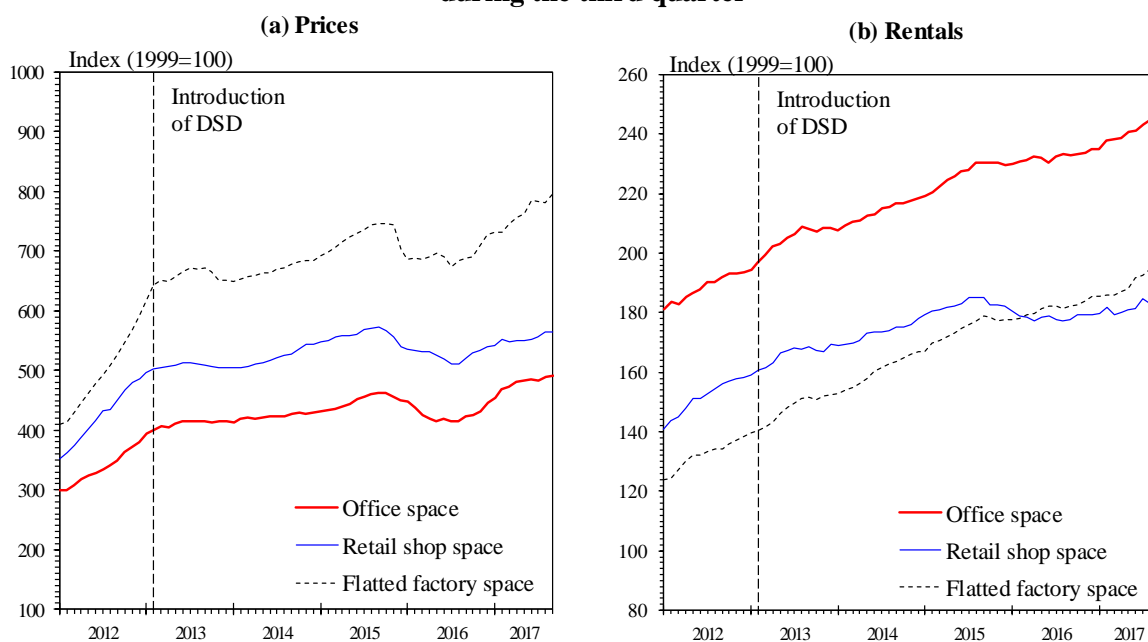
3.10 As to the *commercial* and *industrial property markets*, prices and rentals increased further during the third quarter, though trading activities quietened down from the high levels in the preceding quarter.

3.11 Overall sale prices of *office space* rose by another 1% between June and September. Within the total, prices of Grade A and B office space increased by 3% and 1% respectively, while prices of Grade C office space showed little change. Meanwhile, office rentals on average rose by 2%, with rentals of Grade A, B and C office space increasing by 3%, 1% and 3% respectively. The average rental yields of Grade A and B office space in September, at 2.7% and 2.8% respectively, were unchanged from June, while those of Grade C office space edged up from 2.8% to 2.9%. In the third quarter, transactions for office space fell by 32% from the preceding quarter to 360 cases, though still 23% higher than a year earlier.

3.12 For *retail shop space*, sale prices went up by 2% and rentals by 1% during the third quarter. The average rental yield stayed unchanged at 2.5%. Trading activities fell by 7% from the preceding quarter to 530 cases in the third quarter. This was however still 36% higher than a year earlier<sup>(2)</sup>.

3.13 For *flatted factory space*, sale prices and rentals rose by 1% and 2% respectively between June and September. Reflecting these movements, the average rental yield edged up from 2.9% to 3.0% during the period. Transactions declined by 5% from the very high level in the preceding quarter to 1 270 cases in the third quarter, but still representing a jump of 107% over a year earlier.

**Diagram 3.7 : Prices and rentals of non-residential properties increased further during the third quarter**



## Land

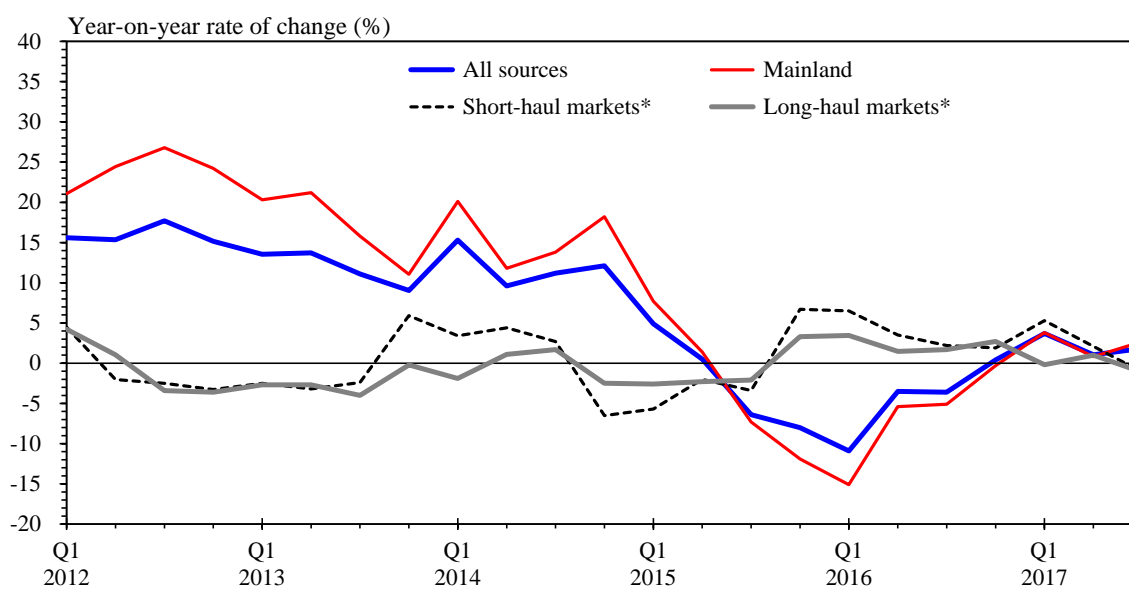
3.14 Three residential sites and one business site, with a total area of about 1.8 hectares, were disposed of in the third quarter, fetching a total land premium of about \$4.9 billion. In addition, the tender exercises for a residential site and a hotel site, both in Cheung Sha Wan, commenced in the quarter. In the third quarter, four land exchange cases and lease modifications of seven sites were approved.



## Tourism

3.15 Inbound tourism continued to recover in the third quarter, with the number of *visitor arrivals* up by 1.8% over a year earlier to 14.8 million. Along with the Mainland's strong economic growth, Mainland visitors, which accounted for 78.3% of the total, increased further by 2.7% to 11.6 million. Yet visitor arrivals from short-haul and long-haul markets both fell by 1.1%<sup>(3)</sup>.

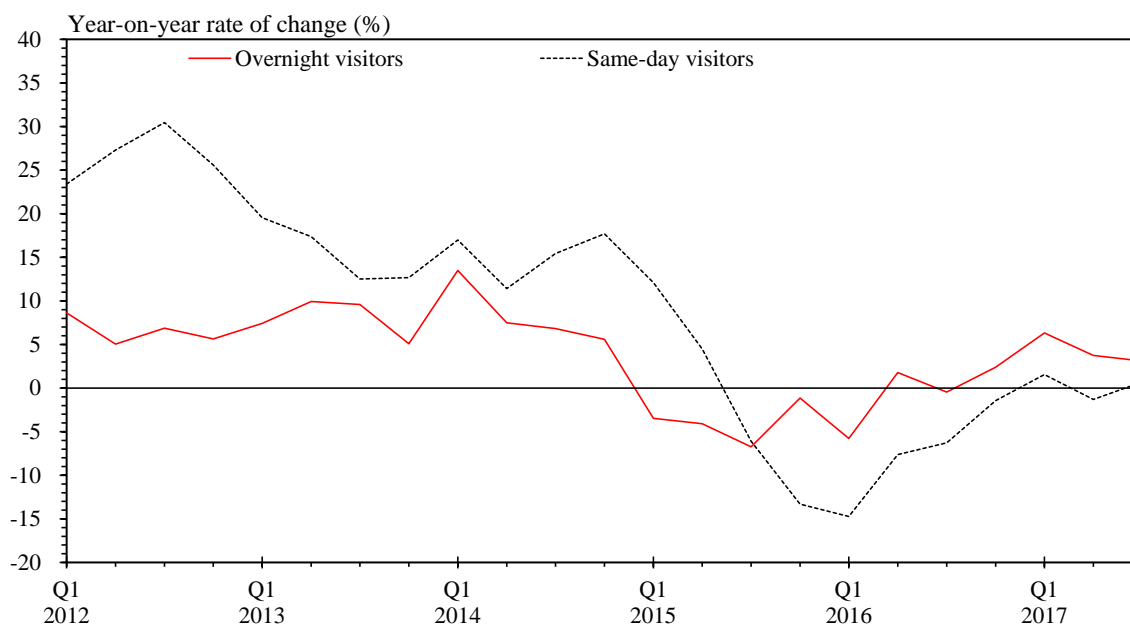
**Diagram 3.8 : Inbound tourism continued to recover in the third quarter**



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 visitor arrivals increased by another 3.1% over a year earlier, while same-day visitor arrivals edged up by 0.7%. Thus, the share of overnight visitors rose further from 47.9% a year earlier to 48.5% in the third quarter, while that of same-day visitors declined from 52.1% to 51.5%.

**Diagram 3.9 : Both overnight and same-day visitors increased**

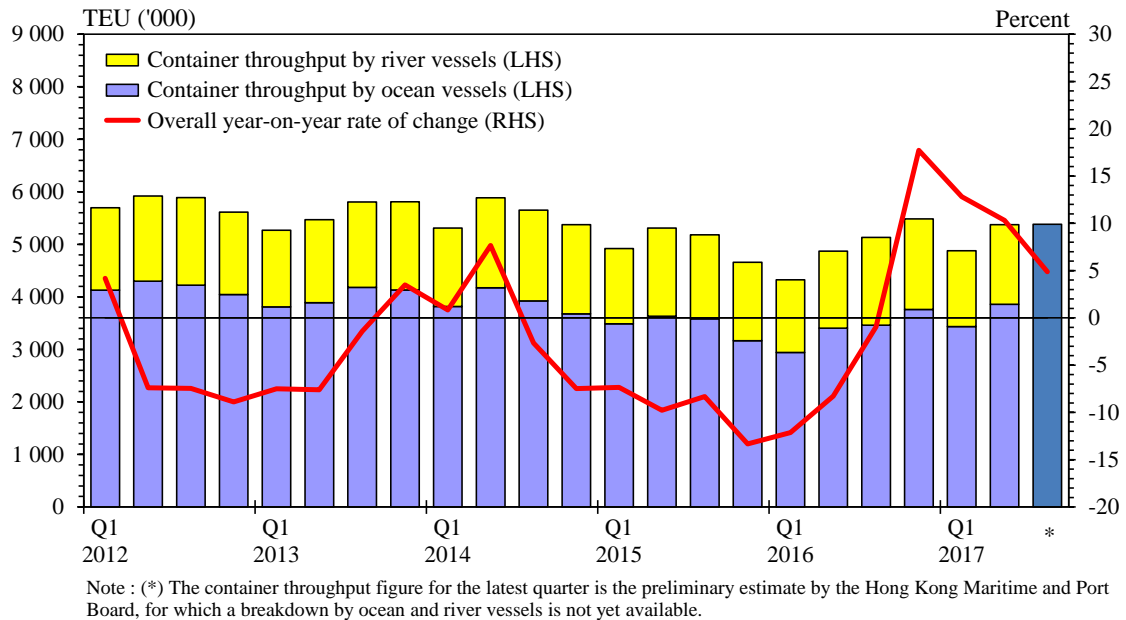


3.17 Along with the increase in overnight visitor arrivals, the average hotel room occupancy rate rose from 88% a year earlier to 90% in the third quarter. The average achieved hotel room rate also edged up by 0.5% to \$1,193<sup>(4)</sup>.

## Logistics

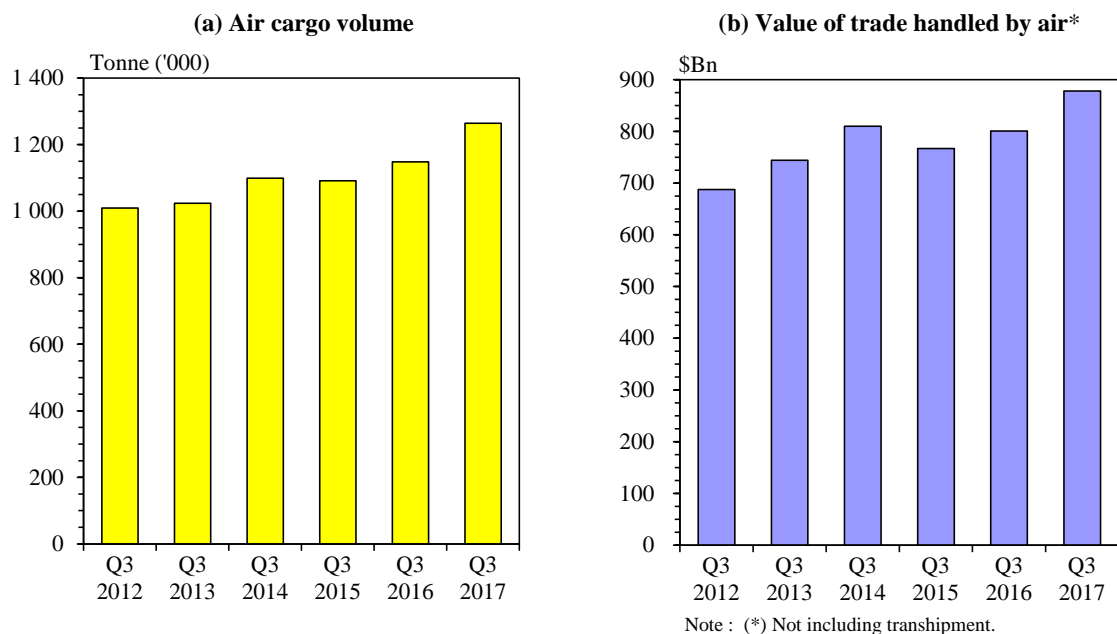
3.18 The logistics sector saw a further pick-up in activity in the third quarter in tandem with strong growth in external trade. *Total container throughput* went up by 4.9% over a year earlier to 5.4 million twenty-foot equivalent units (TEUs), though the rate of increase decelerated somewhat from the high growth rate in the previous quarter. In parallel, the value of trade handled at the Hong Kong port rose by 4.5%, though its share in total trade shrank further from 18.5% a year earlier to 18.0%.

**Diagram 3.10 : Container throughput continued to grow in the third quarter**



3.19 *Air freight throughput* remained buoyant in the third quarter, leaping by 10.1% over a year earlier to 1.3 million tonnes. Likewise, the value of trade by air jumped by 9.7%, with its share in total trade rising from 40.3% a year earlier to 41.0%.

**Diagram 3.11 : Air cargo throughput and value of trade handled by air recorded sharp growth in the third quarter**



## **Transport**

3.20 Traffic flows for different major modes of transport recorded a mixed performance in the third quarter. Air passenger traffic rose by 3.7% over a year earlier to 18.6 million, while water-borne passenger trips fell by 5.4% to 6.7 million. As to land-based cross-boundary traffic, passenger trips declined by 1.5% to 54.6 million, but average daily vehicle movements increased by 4.4% to 45 288.

## **Innovation and technology**

3.21 In her Policy Address, the Chief Executive announced various measures to promote the development of innovation and technology in Hong Kong. No less than \$10 billion has been set aside as funding for university research. Moreover, the Government would kick-start the \$500 million “Technology Talent Scheme” to nurture and bring together more technology talents. Separately, \$3 billion would be injected into the Research Endowment Fund and the generated investment income would be used to provide studentships for local students enrolled in University Grants Committee-funded research postgraduate programmes. The Government would also deploy \$2 billion under the Innovation and Technology Venture Fund Scheme to co-invest with venture capital funds in local innovation and technology start-ups, and deploy \$500 million to encourage Government departments to make good use of technology to enhance service quality.

## **Creative industries**

3.22 The Chief Executive announced a series of measures to support the creative industries in her Policy Address. These include, among other things, injecting \$1 billion into the CreateSmart Initiative to strengthen support for the development of the design and creative industries, and providing more resources for the Hong Kong Design Centre to implement a series of measures to reinforce Hong Kong’s status as a city of design excellence in Asia. A review of the operation of the Film Development Fund would also be undertaken to promote further development of the local film industry and nurture talents.

## Environment

3.23 The Chief Executive pledged in her Policy Address to work further on environment and nature conservation, which includes establishing a Countryside Conservation Office to co-ordinate conservation projects that promote sustainable development of remote countryside.

### 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. For details of the measures promulgated in 2016, see note (1) at the end of Chapter 4 in the 2016 Economic Background and 2017 Prospects. For details of the measures promulgated in 2017, see note (3) at the end of Chapter 3 in the First Quarter Economic Report 2017, note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2017 and Box 3.1 of this report.
- (2) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (3) Short-haul markets refer to North Asia, South and Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In the third quarter of 2017, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 78%, 15% and 7% of total visitors.
- (4) The figures on hotel room occupancy and achieved room rate do not include guesthouses.

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

### *Summary*

- *With the monetary policy normalisation in the US proceeding in a gradual manner, the low interest rate environment in Hong Kong continued in the third quarter of 2017. The Hong Kong dollar interbank interest rates stayed at low levels, despite some seasonal pick-ups at the short-dated end in late September.*
- *The Hong Kong dollar spot exchange rate weakened slightly against the US dollar in July and August, but regained some strength in September. It closed the quarter at 7.810, little changed from end-June. Meanwhile, as the US dollar depreciated against most major currencies, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices declined by 2.8% and 3.2% respectively.*
- *Total loans and advances expanded at a moderated pace of 2.3% during the third quarter, within which loans for use in and outside Hong Kong recorded decelerated growth of 2.7% and 1.4% respectively.*
- *The local stock market continued to rally in the third quarter along with the favourable global economic situation and solid growth of the local economy. The Hang Seng Index rose by 6.9% over end-June to 27 554 at end-September. Trading activities were buoyant, while fund raising activities showed further pick-up.*

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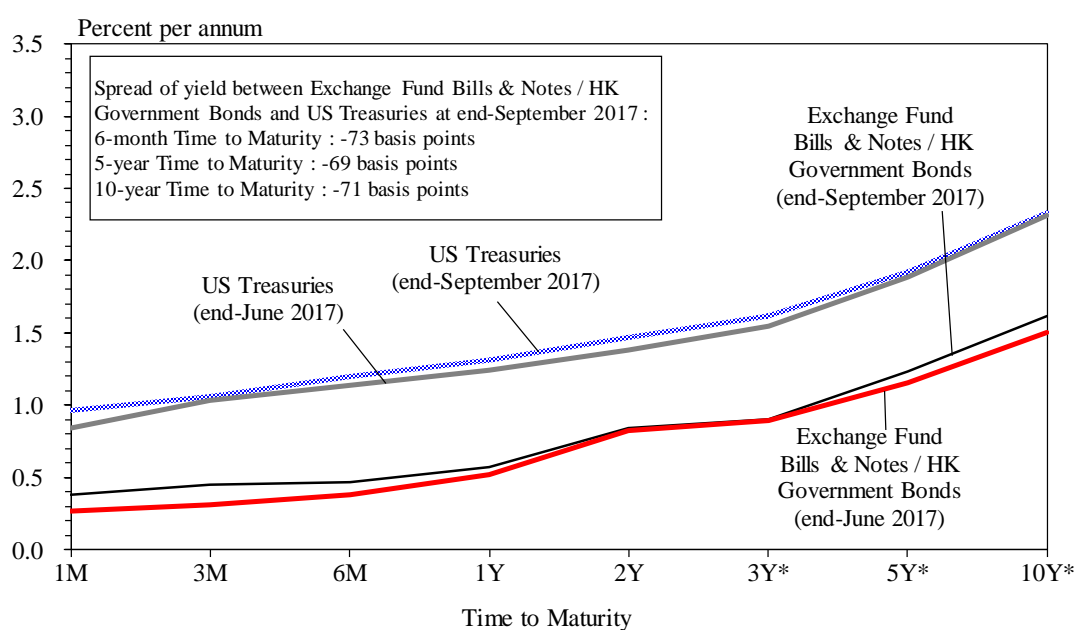
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

## Interest rates and exchange rates

4.1 With the monetary policy normalisation in the US proceeding in a gradual manner, the low interest rate environment in Hong Kong continued in the third quarter of 2017. As the Federal Funds Target Rate stayed at 1.00-1.25% during the quarter, the *Base Rate* under the Discount Window operated by the HKMA remained unchanged at 1.50%<sup>(1)</sup>. The *Hong Kong dollar interbank interest rates* also stayed at low levels, despite some pick-ups at the short-dated end in late September driven by initial public offering (IPO)-related and quarter-end funding demand. The overnight HIBOR rose from 0.34% at end-June to 0.92% at end-September, while the three-month HIBOR stayed unchanged at 0.78%.

4.2 Both *Hong Kong dollar* and *US dollar yields* rose mildly during the third quarter. Reflecting the slightly larger increases in Hong Kong dollar yields, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills narrowed from 76 basis points at end-June to 73 basis points at end-September, and that between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes from 81 basis points to 71 basis points.

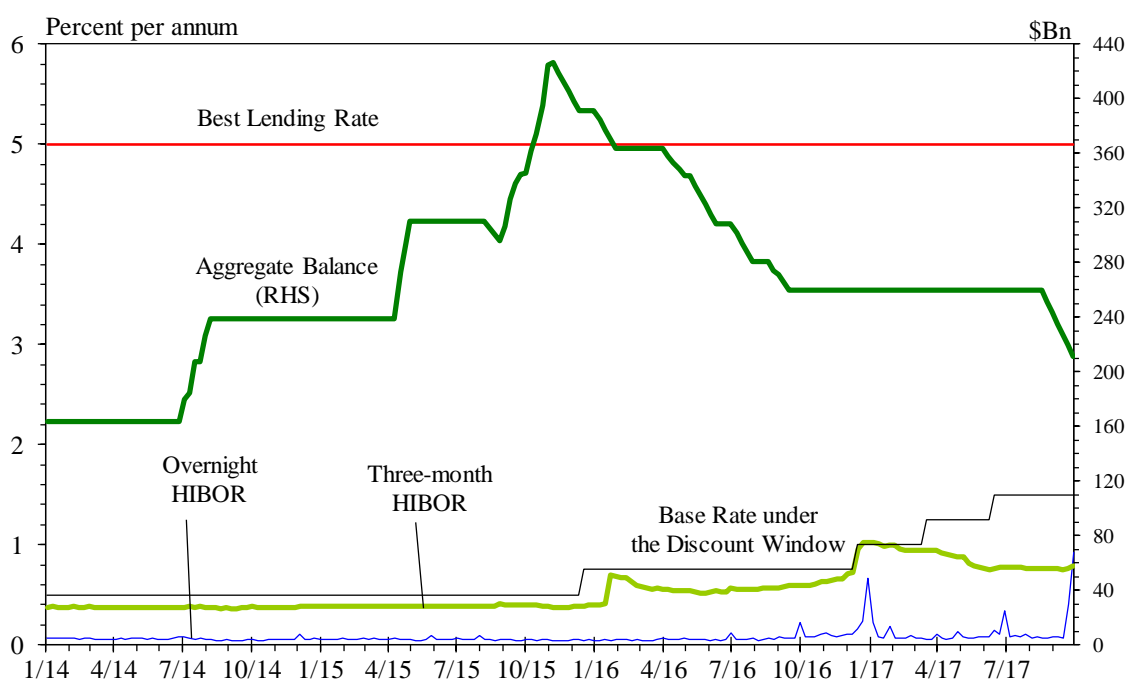
**Diagram 4.1 : Both Hong Kong dollar and US dollar yields rose mildly during the third quarter**



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

4.3 Interest rates on the retail front stayed at low levels. The *Best Lending Rates* remained unchanged at 5.00% or 5.25% during the third quarter. The *average savings deposit rate* and *one-year time deposit rate* quoted by the major banks for deposits of less than \$100,000 also stayed unchanged at 0.01% and 0.15% respectively. The *composite interest rate*<sup>(2)</sup>, which indicates the average cost of funds for retail banks, edged down from 0.31% at end-June to 0.30% at end-September.

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

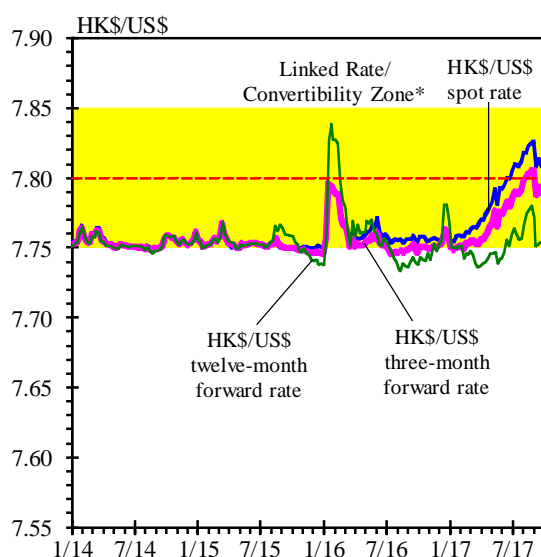


4.4 The *Hong Kong dollar spot exchange rate* weakened slightly against the US dollar in July and August due to carry trade activities amid the negative interest rate spreads between Hong Kong dollar and US dollar, before regaining some strength in September. It closed at 7.810 at end-September, not much different from the 7.807 at end-June. As to the *Hong Kong dollar forward rates*, the discount of 12-month forward rate widened from 460 pips (each pip is equivalent to HK\$0.0001) at end-June to 520 pips at end-September, while that of 3-month forward rate narrowed from 195 pips to 179 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. As the US dollar weakened further against most major currencies, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*<sup>(3)</sup> continued to decline, by 2.8% and 3.2% respectively during the third quarter.

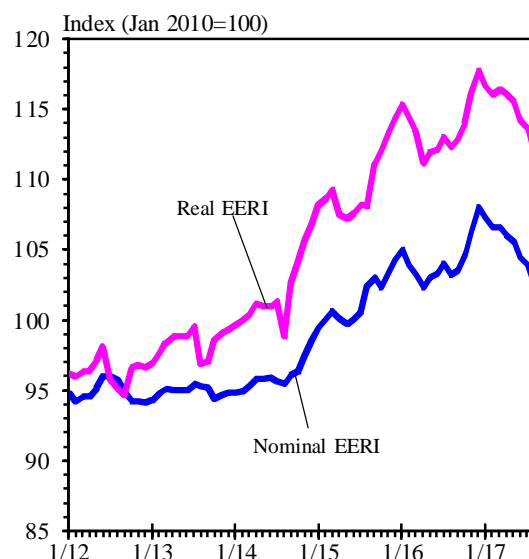


**Diagram 4.3 : Hong Kong dollar weakened against the US dollar in July and August before regaining some strength in September (end for the week)**



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

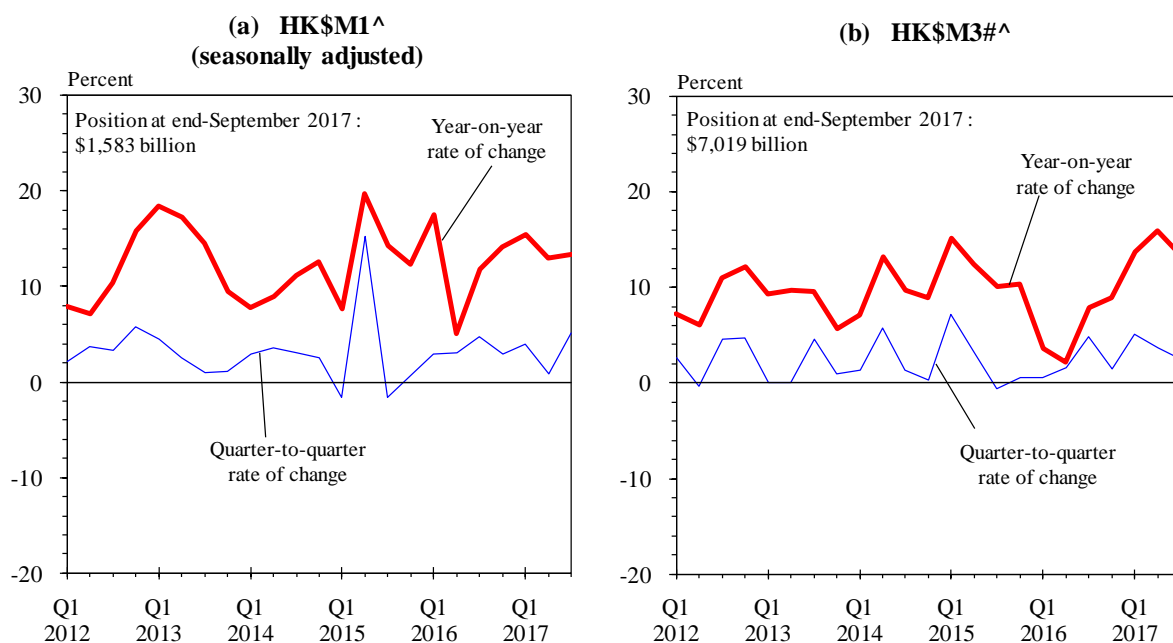
**Diagram 4.4 : The trade-weighted nominal and real EERIs continued to decline (average for the month)**



## Money supply and banking sector

4.6 The monetary aggregates continued to expand during the third quarter. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) rose further by 5.1% over end-June to \$1,583 billion<sup>(4)</sup> at end-September, and the Hong Kong dollar broad money supply (HK\$M3) by 2.5% to \$7,019 billion. Meanwhile, *total deposits* with authorised institutions (AIs)<sup>(5)</sup> grew by 1.0% to \$12,502 billion, with the 2.3% rise in Hong Kong dollar deposits more than offsetting the 0.4% decline in foreign currency deposits.

**Diagram 4.5 : The monetary aggregates continued to expand during the third quarter**



**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>
2016	Q1	2.9	5.4	0.6	1.1	0.6	1.1
	Q2	3.0	0.6	1.7	0.4	1.7	0.4
	Q3	4.7	6.9	4.9	5.1	4.9	5.1
	Q4	2.9	-0.9	1.5	1.0	1.5	1.0
2017	Q1	4.0	0.7	5.1	3.4	5.1	3.4
	Q2	0.8	3.2	3.6	3.0	3.6	3.0
	Q3	5.1	4.1	2.4	1.3	2.5	1.3
Total amount at end-September 2017 (\$Bn)		1,583	2,393	7,004	13,484	7,019	13,534
% change over a year earlier		13.3	7.1	13.2	8.8	13.2	8.9

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 *Total loans and advances* rose by a moderated 2.3% over end-June to \$9,049 billion at end-September. Within the total, Hong Kong dollar loans grew by 4.5%, while foreign currency loans declined by 0.4%. Reflecting the relative movements of deposits and loans, the loan-to-deposit ratio for Hong Kong dollar went up from 77.1% at end-June to 78.8% at end-September, while that for foreign currencies remained unchanged at 65.5%.

4.8 Both loans for use in and outside Hong Kong rose at a decelerated pace. Specifically, loans for use in Hong Kong (including trade finance) increased by 2.7% over end-June to \$6,335 billion at end-September, and loans for use outside Hong Kong by 1.4% to \$2,713 billion. Within the loans for use in Hong Kong, trade finance and loans to manufacturing increased sturdily by 4.1% and 4.7% respectively amid the solid growth in external trade. Yet loans to wholesale and retail trade dropped by 3.0%. On the back of buoyant trading activities in the local stock market, loans to financial concerns expanded by 5.9% and loans to stockbrokers by a sharper 13.1%. As to property-related lending, loans to building, construction, property development and investment, and loans for purchase of residential property rose by 3.4% and 2.3% respectively.

**Table 4.2 : Loans and advances**

All loans and advances for use in Hong Kong

		Loans to :									
		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>	All loans and advances for use outside Hong Kong <sup>(c)</sup>	Total loans and advances
% change during the quarter											
2016	Q1	-1.5	-3.0	-6.3	2.7	0.5	-3.6	7.8	0.1	-0.8	-0.2
	Q2	5.7	8.7	0.7	1.5	0.5	13.7	6.8	3.1	0.7	2.4
	Q3	-1.1	-4.4	0.9	1.4	1.0	4.6	-6.9	1.5	1.9	1.6
	Q4	-2.8	0.2	-2.4	4.7	2.1	5.2	9.9	2.5	2.7	2.5
2017	Q1	2.6	4.6	1.6	4.9	1.6	12.1	9.7	4.0	6.0	4.6
	Q2	4.5	5.3	2.8	4.9	2.4	11.7	-7.6	5.2	5.9	5.4
	Q3	4.1	4.7	-3.0	3.4	2.3	5.9	13.1	2.7	1.4	2.3
Total amount at end-September 2017 (\$Bn)		507	285	418	1,434	1,240	723	75	6,335	2,713	9,049
% change over a year earlier		8.5	15.6	-1.1	19.2	8.6	39.4	26.0	15.2	16.8	15.7

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 18.7% at end-June. Asset quality of the local banking sector

also remained healthy. The ratio of classified loans to total loans for retail banks edged down from 0.70% at end-March to 0.68% at end-June, and the delinquency ratio for credit card lending from 0.27% to 0.25%. The delinquency ratio for residential mortgage loans edged down from 0.03% at end-June to 0.02% at end-September.

**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)
2016	Q1	97.77	1.45	0.78
	Q2	97.80	1.40	0.80
	Q3	97.68	1.51	0.81
	Q4	97.75	1.53	0.72
2017	Q1	97.94	1.35	0.70
	Q2	98.23	1.09	0.68

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

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

4.10 *Offshore renminbi (RMB) business* remained generally lacklustre in the third quarter. RMB trade settlement transactions handled by banks in Hong Kong fell by 16.5% from a year earlier to RMB993.4 billion in the third quarter. Total RMB deposits (including customer deposits and outstanding certificates of deposit) edged up by 0.8% over end-June to RMB593.2 billion at end-September. RMB financing activities slowed down further. RMB bond issuance declined from RMB2.2 billion in the preceding quarter to RMB0.4 billion in the third quarter, and outstanding RMB bank loans dropped by 21.4% from end-June to RMB162.2 billion at end-September.

4.11 Bond Connect commenced operation on 3 July, though only for northbound trading for the time being (i.e. overseas investors can make use of the scheme to invest in the Mainland interbank bond market). Operation of Bond Connect has been smooth since its launch, with over 180 investors participating in the scheme during the first three months.

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

As at end of period		Interest rates on <sup>(a)</sup>					Number of AIs engaged in RMB business	Amount of cross-border RMB trade settlement <sup>(c)</sup> (RMB Mn)
		Demand and savings deposits (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	Savings deposits <sup>(b)</sup> (%)	Three-month time deposits <sup>(b)</sup> (%)		
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
	Q3	201,829	463,671	665,500	0.25	0.53	145	1,189,244
	Q4	135,520	411,187	546,707	0.25	0.53	144	987,651
2017	Q1	131,103	376,169	507,272	0.25	0.53	141	821,390
	Q2	142,517	383,560	526,077	0.25	0.53	140	927,925
	Q3	153,368	382,099	535,468	0.25	0.53	137	993,430
% change in 2017 Q3 over 2016 Q3		-24.0%	-17.6%	-19.5%	N.A.	N.A.	N.A.	-16.5%
% change in 2017 Q3 over 2017 Q2		7.6%	-0.4%	1.8%	N.A.	N.A.	N.A.	7.1%

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

4.12 The Hong Kong dollar *debt market* continued to expand in the third quarter on the back of increased issuance of Exchange Fund papers. Total gross issuance of Hong Kong dollar debt securities rose by 1.7% over the preceding quarter to \$836.3 billion, with the increase of 4.3% in public sector debt issuance more than offsetting the decrease of 19.1% in private sector debt issuance<sup>(6)</sup>. As a result, the total outstanding balance of Hong Kong dollar debt securities grew further by 1.9% over end-June to \$1,785.2 billion at end-September. This was equivalent to 25.4% of HK\$M3 or 21.9% of Hong Kong dollar-denominated assets of the entire banking sector<sup>(7)</sup>.

4.13 As to the Government Bond (“GB”) Programme, a total of \$0.6 billion institutional GBs were issued through tenders in the third quarter. The total outstanding amount of Hong Kong dollar bonds under the GB programme was \$101.3 billion at end-September, comprising 14 institutional issues totaling \$75.4 billion and four retail issues (two iBonds and two Silver Bond) totaling \$25.9 billion. In addition, three US dollar sukuks, each with an issue size of US\$1.0 billion, were outstanding under the Programme.

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

	<u>Exchange Fund paper</u>	<u>Statutory bodies/government-owned corporations</u>	<u>Government</u>	<u>Public sector total</u>	<u>AIs<sup>(a)</sup></u>	<u>Local corporations</u>	<u>Non-MDBs overseas borrowers<sup>(b)</sup></u>	<u>Private sector total</u>	<u>MDBs<sup>(b)</sup></u>	<u>Total</u>
<b>New Issuance</b>										
2016 Annual	2,689.6	20.9	29.4	2,739.9	181.2	25.2	100.7	307.1	5.5	3,052.6
Q1	622.4	4.4	1.6	628.4	53.8	5.2	20.9	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
Q3	677.7	0.3	4.8	682.8	29.0	9.3	21.7	60.1	1.9	744.8
Q4	712.3	2.2	6.5	720.9	42.4	7.3	27.2	76.9	0.0	797.8
2017 Q1	709.7	9.7	1.8	721.3	54.9	4.1	17.4	76.4	1.7	799.3
Q2	718.1	8.6	10.7	737.4	41.6	4.5	37.0	83.1	1.6	822.0
Q3	766.5	2.0	0.6	769.1	43.9	9.7	13.6	67.2	0.0	836.3
% change in 2017 Q3 over 2016 Q3	13.1	570.0	-87.5	12.6	51.5	4.5	-37.7	11.9	-100.0	12.3
% change in 2017 Q3 over 2017 Q2	6.7	-76.6	-94.4	4.3	5.6	115.6	-63.4	-19.1	-100.0	1.7
<b>Outstanding (as at end of period)</b>										
2016 Q1	856.9	46.6	102.0	1,005.5	226.1	142.6	165.1	533.8	6.0	1,545.2
Q2	912.4	56.3	102.0	1,070.6	256.7	143.2	175.0	574.9	8.8	1,654.4
Q3	962.1	53.1	106.8	1,121.9	264.7	150.6	177.8	593.1	10.5	1,725.6
Q4	963.1	50.0	102.8	1,115.9	273.1	153.4	177.6	604.1	10.5	1,730.6
2017 Q1	964.6	54.4	104.6	1,123.7	283.7	153.2	176.5	613.4	11.8	1,748.8
Q2	965.6	52.0	112.3	1,129.9	269.2	154.7	186.4	610.3	11.4	1,751.6
Q3	1,014.6	52.8	102.9	1,170.3	262.7	158.7	182.7	604.2	10.8	1,785.2
% change in 2017 Q3 over 2016 Q3	5.5	-0.5	-3.7	4.3	-0.7	5.4	2.8	1.9	2.3	3.5
% change in 2017 Q3 over 2017 Q2	5.1	1.6	-8.4	3.6	-2.4	2.6	-2.0	-1.0	-5.1	1.9

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

(a) AIs : Authorised institutions.

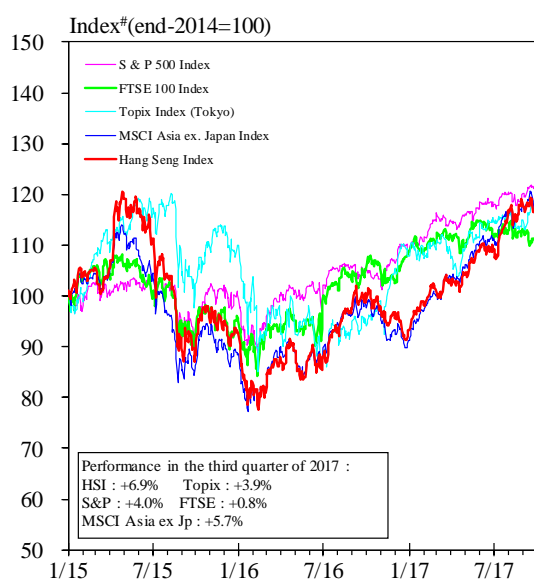
(b) MDBs : Multilateral Development Banks.

## The stock and derivatives markets

4.14 The *local stock market* continued to rally in the third quarter along with the surge in most major overseas markets. The favourable global economic situation generally and in the Mainland in particular, and solid growth of the local economy have provided strong support to share prices so far this year. The Hang Seng Index (HSI) reached 28 160 on 18 September, the highest closing since May 2015, before ending the quarter at 27 554 or 6.9% above end-June. The HSI has risen by a sharp 25.2% during the first nine months of this year. In parallel, the *market capitalisation* expanded by 9.5% over end-June to a record-high of \$31.4 trillion at end-September. The local stock market ranked the sixth largest in the world and the third largest in Asia<sup>(8)</sup>.

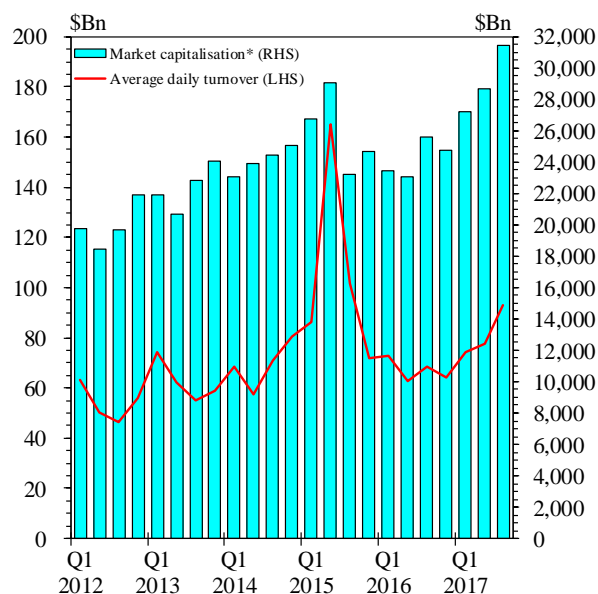
4.15 Trading activities were also buoyant. *Average daily turnover* in the securities market surged by 19.8% over the preceding quarter or 36.4% over a year earlier to \$93.2 billion in the third quarter. Within the total, the average daily trading value of equities, callable bull/bear contracts and derivative warrants<sup>(9)</sup> leapt by 20.8%, 26.1% and 37.2% respectively over the preceding quarter, while that of unit trusts (including Exchange-Traded Funds) fell by 17.9%. As to futures and options<sup>(10)</sup>, the average daily trading volume increased by 13.2% over the preceding quarter. Within the total, trading of HSI futures, HSI options and stock options went up by 3.9%, 18.5% and 27.4% respectively, while that of Hang Seng China Enterprises Index futures went down by 9.4%.

**Diagram 4.6 : The local stock market continued to rally in the third quarter of 2017**



Note : (#) Position at end of month.

**Diagram 4.7 : Market capitalisation expanded, while trading activities were buoyant**



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	Hang Seng China Enterprises Index futures	Stock options	Total futures and options traded*
2016	Annual	130 826	37 869	133 729	297 903	761 744
	Q1	141 439	38 235	154 053	293 047	805 276
	Q2	135 572	38 802	138 127	292 684	758 733
	Q3	127 885	37 186	122 196	304 828	748 269
	Q4	119 016	37 295	121 896	300 596	737 238
2017	Q1	107 376	37 294	117 732	338 771	759 988
	Q2	122 209	36 565	122 975	371 991	800 034
	Q3	126 987	43 317	111 466	473 785	905 293
% change in 2017 Q3 over 2016 Q3		-0.7	16.5	-8.8	55.4	21.0
% change in 2017 Q3 over 2017 Q2		3.9	18.5	-9.4	27.4	13.2

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.

4.16 Amid the continued rally of the equity market, fund raising activities picked up further in the third quarter. However, dragged by the tepid performance in the early part of the year, *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>, still edged down by 1.2% from a year earlier to \$311.9 billion for the first three quarters as a whole. Within the total, the amount of funds raised through IPOs plummeted by 37.0% from a year earlier to \$85.7 billion. Hong Kong ranked the third globally in terms of the amount of funds raised through IPOs in the period.

4.17 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-September, a total of 1 034 Mainland enterprises (including 249 H-share companies, 158 “Red Chip” companies and 627 private enterprises) were listed on the Main Board and the GEM, accounting for 50% of the total number of listed companies and 65% of total market capitalisation. In the third quarter, Mainland-related stocks accounted for 77% of equity turnover and 37% of total equity fund raised in the Hong Kong stock exchange.

4.18 Following an earlier public consultation, in August the Hong Kong Exchanges and Clearing Limited proposed to implement enhancements to the



After-Hours Trading (AHT) in phases in 2017 and 2018, subject to regulatory approval and market readiness. Specifically, the ending time of AHT of index futures would be first extended from 11:45 pm to 1:00 am, and eventually to 3:00 am. Index option contracts and a trading halt mechanism for index options would also be added to the AHT. Through increasing coverage of trading hours of major overseas equity markets, these enhancements would help provide a more comprehensive range of risk management and trading tools for market participants.

4.19 In September, the Stock Exchange of Hong Kong Limited (the Exchange) and the Securities and Futures Commission (SFC) set the way forward for enhancing the Exchange's decision-making and governance structure for listing regulation. Specifically, the way forward has clarified the role of SFC as the statutory regulator which administers the Securities and Futures Ordinance and the Securities and Futures (Stock Market Listing) Rules, and which supervises, monitors and regulates the activities carried on by the Exchange; and the role of the Exchange as the regulator administering the Listing Rules. A series of proposals in respect of policy development, listing decisions, the review of listing decisions, disciplinary matters and oversight of the Exchange would be taken forward. These proposals would help ensure that policy development is more agile, coordinated and responsive to emerging risks and market development imperatives and that listing decisions are made in a transparent, efficient and accountable manner.

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

4.20 Along with the rally of the stock market, the fund management business generally recorded a strong performance in the third quarter. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*<sup>(12)</sup> rose further, by 6.3% over end-June to \$792.8 billion at end-September. For *mutual funds*, the monthly average gross retail sales surged by 23.9% over a year earlier or 21.6% over the second quarter to US\$8.9 billion in July – August<sup>(13)</sup>. Yet the amount of net assets managed by *retail hedge funds* declined further<sup>(14)</sup>.

### **Insurance sector**

4.21 The *insurance sector*<sup>(15)</sup> showed some moderation in the second quarter. Gross premium income from long-term business fell by 13.8% from a

year earlier, with the plunge of 20.1% in premium income from non-investment linked plans offsetting the increase of 281.5% in premium income from investment linked plans. As to general business, gross and net premium recorded modest growth of 5.3% and 4.9% respectively.

**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	
2016	Annual	45,643	31,457	1,606	179,147	5,744	255	343	185,489	231,132
	Q1	13,078	8,864	574	37,256	1,239	50	92	38,637	51,715
	Q2	10,937	7,762	501	42,058	853	68	78	43,057	53,994
	Q3	11,727	8,094	215	49,250	1,422	70	116	50,858	62,585
	Q4	9,901	6,737	316	50,583	2,230	67	57	52,937	62,838
2017	Q1	13,947	9,482	383	41,436	2,161	57	168	43,822	57,769
	Q2	11,516	8,144	-14	33,584	3,254	56	207	37,101	48,617
% change in 2017 Q2 over 2016 Q2		5.3	4.9	N.A.	-20.1	281.5	-17.6	165.4	-13.8	-10.0

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

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

N.A. Not available.

## Highlights of policy and market developments

4.22 In July, the State Council approved an increase in investment quota for Hong Kong's Renminbi Qualified Foreign Institutional Investor (RQFII) scheme, from the previous RMB270 billion to RMB500 billion. The RQFII scheme, which was launched in December 2011, allows qualified Hong Kong financial institutions to use RMB funds raised in Hong Kong to invest in Mainland securities markets under an approved investment quota. The expansion in investment quota for the RQFII scheme would help enhance the cross-border use and circulation of RMB funds between the Mainland and Hong Kong, thereby deepening the connectivity between the two markets and reinforcing Hong Kong's status as the global offshore RMB business hub.

4.23 The HKMA introduced a number of smart banking initiatives for the banking sector of Hong Kong in September. These include, among others, the introduction of the Faster Payment System (i.e. a real-time settlement and transfer system for banks and Stored Value Facilities), enhanced Fintech Supervisory Sandbox 2.0 (i.e. supervisory arrangement for pilot trials of Fintech and other technology initiatives by banks and tech-related firms) and promotion of virtual banking. These initiatives would help promote financial innovations and strengthen the competitiveness and efficiency of the banking sector of Hong Kong.

#### **Notes :**

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

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

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

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

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

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

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

- (5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-September 2017, there were 155 licensed banks, 20 restricted licence banks and 17 deposit-taking companies in Hong Kong. Altogether, 192 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-September 2017, there were 86 classes of stock options contracts and 72 classes of stock futures contracts.
- (11) At end-September 2017, there were 1 765 and 304 companies listed on the Main Board and GEM respectively.
- (12) At end-September 2017, there were 18 approved trustees. On MPF products, 29 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 469 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 279 000 employers, 2.58 million employees and 204 000 self-employed persons have participated in MPF schemes.
- (13) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-August 2017, the survey covered a total of 1 314 active authorised funds.
- (14) At end-September 2017, there was one SFC-authorized retail hedge fund with net asset size of US\$26 million. The amount of net assets under management represented a 3.7% decrease from end-June 2017, and a 83.8% decrease from end-2002, the year when the hedge funds guidelines were first issued.
- (15) At end-September 2017, there were 159 authorised insurers in Hong Kong. Within this total, 47 were engaged in long-term insurance business, 93 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 23 countries and territories (including Hong Kong).

## CHAPTER 5 : THE LABOUR SECTOR

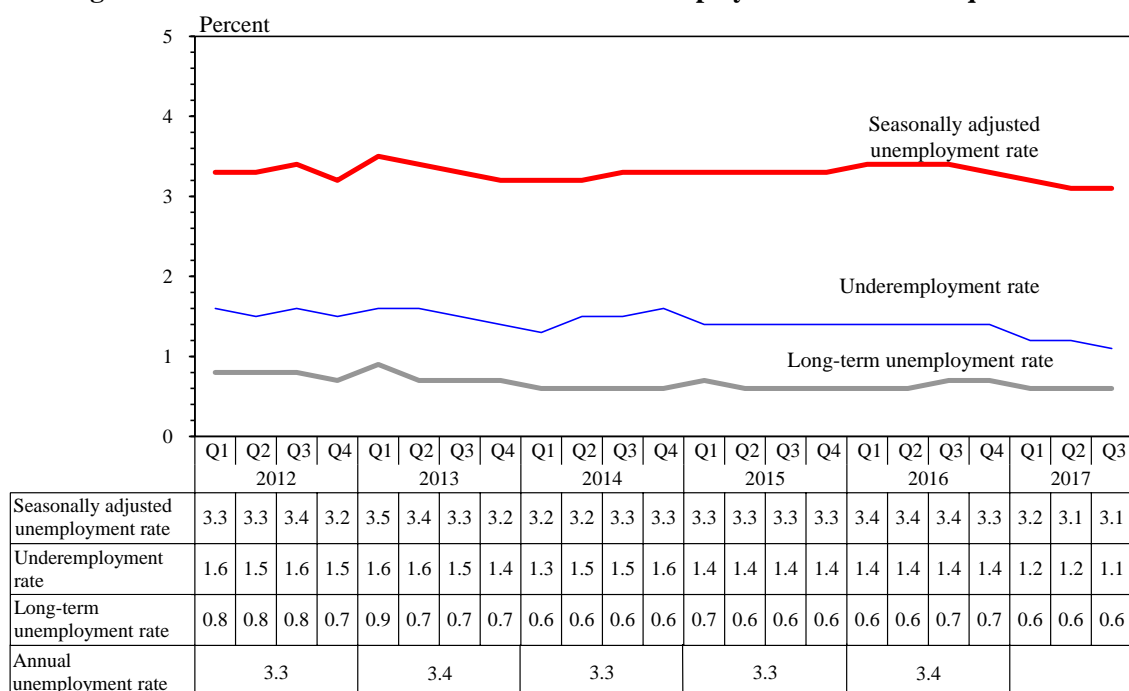
### *Summary*

- *The labour market remained tight in the third quarter of 2017. The seasonally adjusted unemployment rate stayed low at 3.1%, while the underemployment rate edged down to a near 20-year low of 1.1%, signifying a continuation of full employment.*
- *Labour demand stayed robust, thanks to the vibrant economic performance, as manifested by the appreciable growth in total employment and the further increase in the number of private sector vacancies. Alongside the favourable labour market conditions, the labour force sustained visible growth.*
- *Nominal wages and payroll registered broad-based and solid increases in June 2017 amid the persistently tight manpower situation. Earnings of grassroots workers fared particularly well, in tandem with the upward adjustment of the Statutory Minimum Wage (SMW) rate since May 2017.*

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

5.1 The labour market remained tight in the third quarter of 2017. The seasonally adjusted *unemployment rate*<sup>(2)</sup> held low at 3.1%, while the *underemployment rate*<sup>(3)</sup> edged down further by 0.1 percentage point to 1.1%, a low level last seen in late 1997. On the back of the buoyant economic performance and robust labour demand, total employment posted further appreciable year-on-year growth, while the number of private sector vacancies stayed on the rise. With the generally sanguine economic and employment conditions enticing more people to join the labour market, the labour force likewise sustained visible year-on-year growth. Amid the persistently tight manpower situation, wages and earnings went up solidly further and translated into broad-based real improvement after discounting inflation. In tandem with the upward adjustment of the SMW rate since May 2017, earnings of grassroots workers registered particularly remarkable growth.

**Diagram 5.1 : The labour market remained in full employment in the third quarter of 2017**



## Labour force and total employment

5.2 The *labour force*<sup>(4)</sup> expanded by 1.0% year-on-year to 3 965 600 in the third quarter of 2017. This was faster than the concurrent increase of 0.5% in the working-age population (i.e. land-based non-institutional population aged 15 and above), mainly due to a rise in labour force participation rate to 61.3% from 61.0% a year earlier.

5.3 On the demand side, *total employment*<sup>(5)</sup> grew visibly further by 1.4% year-on-year to 3 837 400 in the third quarter amid the continued above-trend economic expansion. Specifically, employment in such sectors as decoration, repair and maintenance for buildings, insurance, social work activities, and real estate registered particularly notable increases. Meanwhile, employment in the consumption- and tourism-related sector, viz. retail, accommodation and food services as a whole, also posted a decent increase amid the resilience in domestic demand and the continued recovery of inbound tourism.

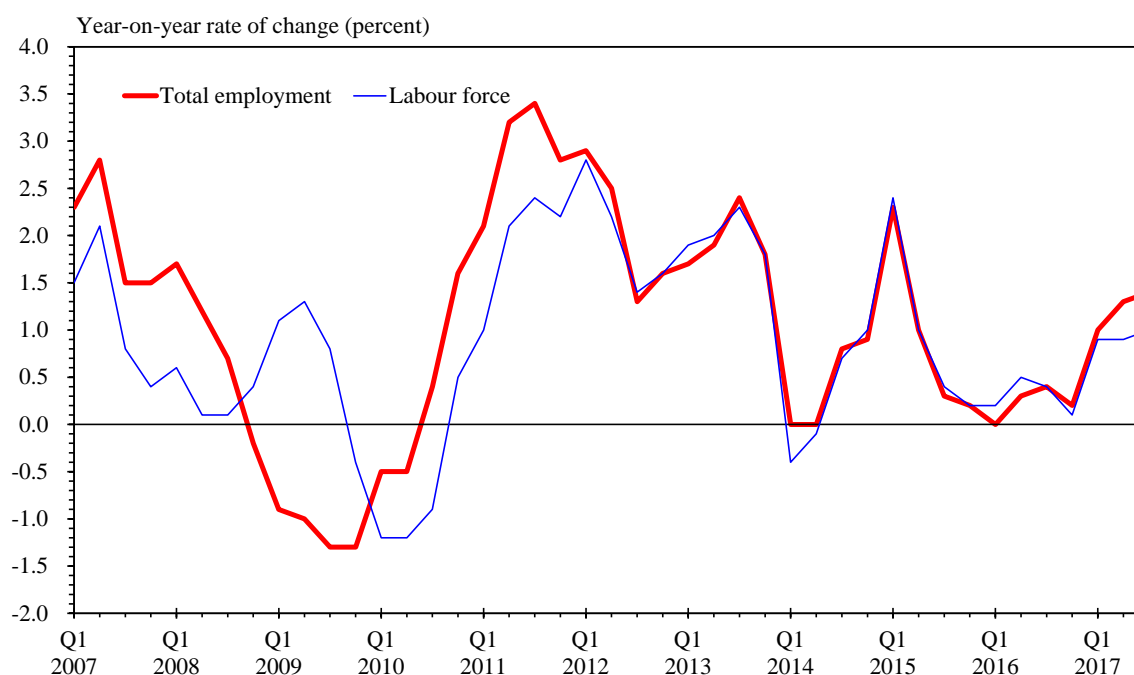
**Table 5.1 : The labour force, and persons employed, unemployed and underemployed**

	<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed<sup>(a)</sup></u>	<u>Persons underemployed</u>
2016 Annual	3 920 100 (0.4)	3 787 100 (0.4)	133 000	54 700
Q1	3 914 100 (0.2)	3 783 000 (§)	131 100	53 500
Q2	3 911 200 (0.5)	3 774 300 (0.3)	136 900	54 500
Q3	3 925 700 (0.4)	3 785 800 (0.4)	140 000	55 800
Q4	3 909 500 (0.1)	3 787 100 (0.2)	122 400	54 600
2017 Q1	3 947 400 (0.9)	3 822 400 (1.0)	125 000	49 000
Q2	3 947 200 (0.9)	3 822 100 (1.3)	125 200	45 500
<i>Three months ending</i>				
2017 Jul	3 961 700 (1.0)	3 833 500 (1.3)	128 200	44 300
Aug	3 971 200 (1.0)	3 841 200 (1.3)	130 000	45 200
Sep	3 965 600 (1.0) <0.2>	3 837 400 (1.4) <0.3>	128 200	43 700

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.  
 ( ) % change over a year earlier.  
 < > Seasonally adjusted quarter-to-quarter % change for the third quarter of 2017.  
 § Change less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Both the labour force and total employment continued to see appreciable year-on-year growth**



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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017 Q1</u>	<u>2017 Q2</u>	<u>2017 Q3</u>
<u>Male</u>								
15-24	36.3	37.8	37.8	39.1	39.5	37.0	37.8	40.8
<i>of which:</i>								
15-19	10.4	11.0	11.1	11.7	12.9	9.6	10.3	11.8
20-24	61.1	62.5	61.4	62.0	60.7	58.0	58.8	63.2
25-29	94.4	93.8	93.4	93.7	92.9	91.8	92.0	93.3
30-39	96.8	96.9	96.5	96.5	96.4	96.8	96.5	96.5
40-49	95.3	95.5	94.7	95.1	95.0	95.1	95.2	95.6
50-59	85.2	86.9	86.7	86.6	86.0	86.5	86.8	86.6
≥ 60	25.5	27.0	28.0	28.5	29.9	30.8	30.0	30.5
Overall	68.7	69.2	68.8	68.8	68.6	68.4	68.3	68.8
<u>Female</u>								
15-24	37.6	40.0	39.3	41.4	41.9	40.6	40.3	43.6
<i>of which:</i>								
15-19	9.7	11.5	12.5	12.8	12.3	10.3	10.7	14.3
20-24	62.2	64.2	61.4	63.6	63.6	62.0	60.6	64.1
25-29	87.3	86.5	86.3	85.7	86.2	87.3	86.2	86.4
30-39	77.6	78.4	78.9	78.4	78.0	80.3	79.8	78.9
40-49	70.7	72.8	73.0	73.7	73.4	73.7	74.8	73.8
50-59	53.9	56.2	57.2	58.3	59.7	60.0	60.3	59.4
≥ 60	8.8	9.7	10.7	11.4	12.3	13.3	13.1	13.7
Overall	53.5	54.5	54.5	54.7	54.8	55.3	55.2	55.0
<u>Both genders combined</u>								
15-24	36.9	38.9	38.5	40.2	40.7	38.8	39.0	42.2
<i>of which:</i>								
15-19	10.0	11.3	11.8	12.3	12.6	10.0	10.5	13.0
20-24	61.6	63.4	61.4	62.8	62.2	60.0	59.7	63.7
25-29	90.3	89.6	89.4	89.2	89.2	89.3	88.9	89.5
30-39	85.5	85.9	86.0	85.7	85.4	86.9	86.5	85.9
40-49	81.4	82.5	82.3	82.7	82.4	82.6	83.2	82.8
50-59	69.2	71.1	71.4	71.8	72.2	72.5	72.7	72.1
≥ 60	16.9	18.0	19.0	19.6	20.7	21.7	21.2	21.8
Overall	60.5	61.2	61.1	61.1	61.1	61.2	61.1	61.3

Source : General Household Survey, Census and Statistics Department.



## Profile of unemployment

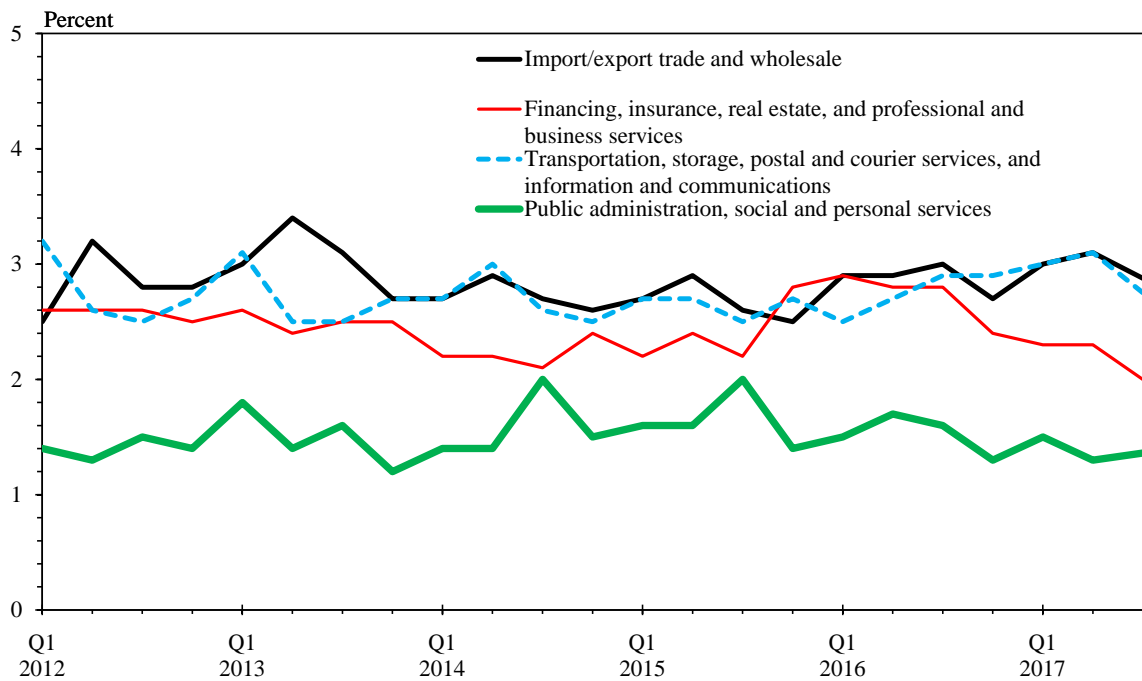
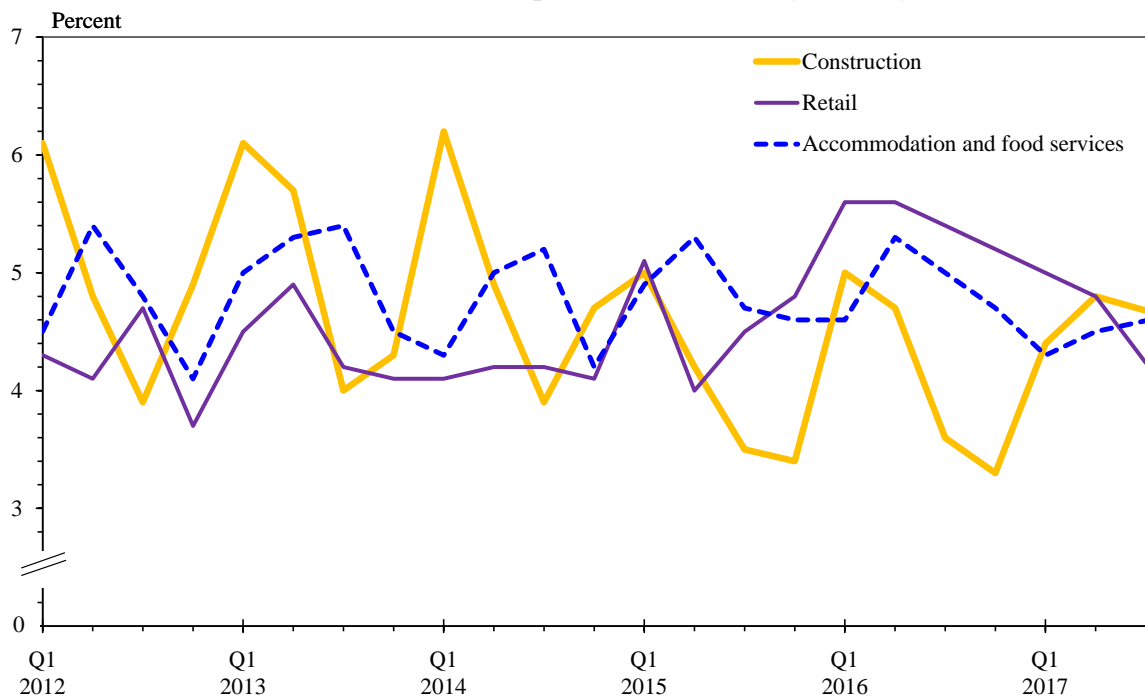
5.4 Amid the seasonal entry of school leavers into the labour market, the number of unemployed persons increased somewhat by 3 100 over the preceding quarter to 128 200 in the third quarter of 2017. Yet the figure was 8.4% or 11 700 lower than a year earlier after netting out seasonal fluctuations. Moreover, the seasonally adjusted unemployment rate held steady at a low level of 3.1% under the sturdy labour demand.

5.5 While there were in general only small changes in the sectoral jobless rates (not seasonally adjusted) when compared to the preceding quarter, more notable decreases were observed in the retail (down 0.6 percentage point), accommodation services, and warehousing and support activities for transportation (both down 0.5 percentage point) sectors. On a year-on-year comparison to net out the effect of seasonality, significant improvement was observed in many economic sectors. Specifically, the unemployment rate of the consumption- and tourism-related segment (viz. retail, accommodation and food services) went down by 0.8 percentage point over a year earlier to 4.4%, thanks to the gradual revival of business activities in tandem with the recovery trend of inbound tourism. The financing, insurance, real estate, professional and business services sector also saw a visible fall in unemployment rate by 0.8 percentage point to 2.0%, alongside the buoyant activities of the related sectors. For the *low paying sectors*<sup>(6)</sup> as a whole, its unemployment rate fell by 0.2 percentage point over the preceding quarter to 2.9%, and was 0.5 percentage point below its year-ago level.

5.6 Analysed by skill segment, the unemployment rate of lower-skilled workers fell by 0.3 percentage point over the preceding quarter to 3.3%, while that of higher-skilled workers was little changed at 1.7%. Compared to a year earlier, the unemployment rates for the two groups went down by 0.3 and 0.4 percentage point respectively, pointing to a general tightening of the labour market.

5.7 As regards other socio-economic attributes, more discernible year-on-year decreases in unemployment rate were observed among persons aged 50-59 (down 0.8 percentage point), and those with upper-secondary education (down 0.6 percentage point).

**Diagram 5.3 : Visible improvements in unemployment situation were seen in many major economic sectors in the third quarter of 2017 on a year-on-year basis**



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

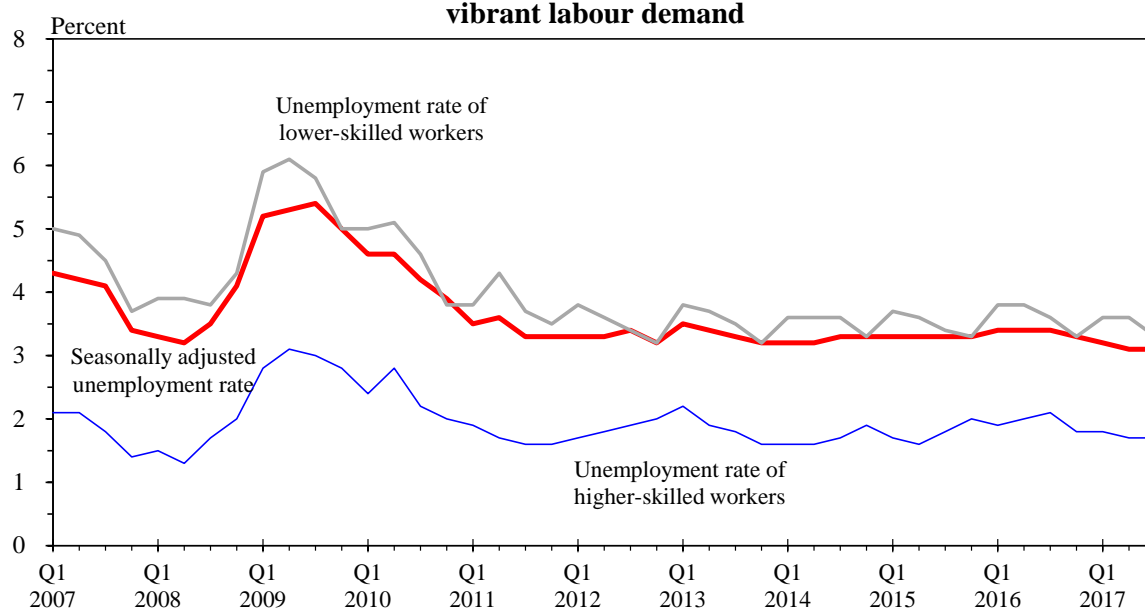
	<u>2016</u>				<u>2017</u>		
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Import/export trade and wholesale	2.9	2.9	3.0	2.7	3.0	3.1	2.9
Retail	5.6	5.6	5.4	5.2	5.0	4.8	4.2
Accommodation and food services	4.6	5.3	5.0	4.7	4.3	4.5	4.6
Transportation, storage, postal and courier services	2.6	2.9	3.0	2.9	3.3	3.0	2.5
Information and communications	2.4	2.4	2.8	2.8	2.5	3.2	3.3
Financing and insurance	2.0	2.1	2.2	1.9	2.0	1.8	1.7
Real estate	2.4	3.0	2.5	2.3	1.9	2.3	2.0
Professional and business services	3.6	3.3	3.4	2.8	2.7	2.6	2.2
Public administration, social and personal services	1.5	1.7	1.6	1.3	1.5	1.3	1.4
Manufacturing	4.3	3.8	3.0	2.4	2.6	2.4	2.7
Construction	5.0	4.7	3.6	3.3	4.4	4.8	4.7
Overall*	3.3 (3.4)	3.5 (3.4)	3.6 (3.4)	3.1 (3.3)	3.2 (3.2)	3.2 (3.1)	3.2 (3.1)

Notes : \* Including first-time job-seekers and re-entrants into the labour force.

( ) Seasonally adjusted unemployment figures.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.4 : The unemployment rates of both the higher-skilled and lower-skilled segments were lower than their year-ago levels amid vibrant labour demand**



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

	<u>2016</u>				<u>2017</u>		
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
<u>Higher-skilled segment</u>	1.9	2.0	2.1	1.8	1.8	1.7	1.7
Managers and administrators	1.7	1.8	1.2	1.3	1.4	1.0	1.0
Professionals	1.3	1.6	2.1	1.4	1.8	1.4	1.6
Associate professionals	2.3	2.4	2.6	2.2	2.0	2.2	2.1
<u>Lower-skilled segment</u> <sup>^</sup>	3.8	3.8	3.6	3.3	3.6	3.6	3.3
Clerical support workers	3.4	3.5	3.9	3.4	3.2	3.6	3.4
Service and sales workers	4.8	5.0	4.3	4.3	4.3	4.6	4.1
Craft and related workers	4.9	4.3	3.8	3.8	4.5	4.2	4.0
Plant and machine operators and assemblers	2.4	2.5	2.8	1.8	2.8	2.0	1.7
Elementary occupations	3.2	3.3	2.9	2.6	3.1	3.0	2.7

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>2016</u>				<u>2017</u>		
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
<u>Age</u>							
15-24	8.9	10.2	10.8	9.4	8.3	8.0	10.5
<i>of which:</i>							
15-19	15.0	16.9	11.9	11.6	11.7	12.5	10.6
20-24	7.9	9.1	10.6	9.1	7.8	7.5	10.5
25-29	3.9	3.9	4.4	3.6	4.0	4.3	4.7
30-39	2.0	2.2	2.5	2.4	2.1	2.3	2.2
40-49	3.0	3.0	2.8	2.4	2.6	2.8	2.5
50-59	3.4	3.1	3.1	2.8	3.3	2.7	2.3
≥ 60	2.2	3.0	1.9	1.9	2.2	2.4	2.3
<u>Educational attainment</u>							
Primary education and below	3.3	3.5	2.9	2.8	3.2	3.1	2.7
Lower secondary education	4.4	4.4	4.0	4.0	4.5	4.3	3.8
Upper secondary education <sup>^</sup>	3.2	3.7	3.5	3.1	3.0	3.2	2.9
Post-secondary education	3.2	3.0	3.6	2.9	2.9	2.8	3.4

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 also revealed a generally tight labour market of late. Comparing the third quarter of 2017 with a year earlier, the number of long-term unemployed persons (i.e. unemployed for six months or longer) went down by 1 900 to 24 500. The long-term unemployment rate thereby edged down to 0.6%, with the median duration of unemployment shortened from 70 days to 62 days. Meanwhile, the share of long-term unemployment in total unemployment held steady at a relatively low level of 19.1%. Although 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) went up slightly by 0.3 percentage point to 47.7% from a year earlier, it was notably lower than its long-term average of 53.9% recorded over the past 10 years.

## **Profile of underemployment**

5.9 The underemployment rate edged down by 0.1 percentage point to 1.1% in the third quarter of 2017, a low level last seen in late 1997. The number of underemployed persons decreased by 1 800 over the preceding quarter to 43 700. More notable decreases in the underemployment rate were seen in the art, entertainment and recreation, education, and information and communications sectors. Analysed by occupational category, the underemployment rates of both the higher- and lower-skilled segments edged down by 0.1 percentage point, to 0.3% and 1.6% respectively.

## Box 5.1

### Labour force in Hong Kong: trends in older age groups<sup>1</sup>

The Census and Statistics Department (C&SD) released, in early September, an updated (2016-based) set of population and labour force projections covering the 50-year period from 2017 to 2066. Taking into account the latest demographic outlook and the more recent developments in the local labour market, total labour force is expected to rise from 3.62 million in 2016 to reach a plateau in 2019 to 2022 at 3.67 – 3.68 million, before declining gradually as the impact of population ageing turns more apparent. The postponement in the peaking of local labour force as compared to the previous round of projection (2014-based) is mainly attributable to a significant increase in the number of older age persons entering or re-entering into the labour force. Specifically, the labour force aged 55 and above went up notably by 11.9% (or up by 78 000 in number) between 2014 and 2016, vis-à-vis the modest expansion of 0.7% (or up by 26 900 in number) in the total labour force during the period.

Indeed, more active participation of older age groups in the workforce would remain the vital source of manpower over the coming decade. This article discusses the factors contributing to the higher labour force participation among older age groups, and possible implications for the labour market developments.

#### Effect of delayed retirement

In Hong Kong, there is no statutory retirement age for employees in the private sector. In tandem with rising life expectancy and Hong Kong's structural transformation towards a knowledge-based economy, the society's perception on retirement has kept evolving.

First, an increasing number of workers are conceivably more inclined to extend their working lives to, among other considerations, better prepare financially for their retirement. Besides, the implementation of the Statutory Minimum Wage since 2011, coupled with the largely favourable macroeconomic environment in recent years, have resulted in better job and income prospects in particular for lower-skilled workers, thereby enticing more grassroots people, including notably those of higher ages to enter or re-enter the labour market. Meanwhile, employers in general have become more receptive to engage mature workers with the right skill set and relevant experience for less physically demanding jobs.

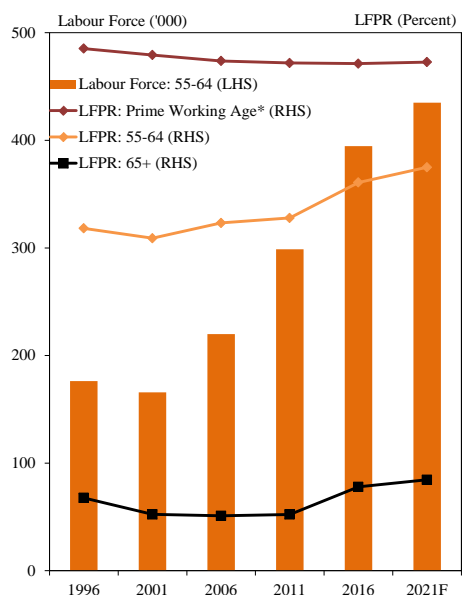
All these developments have boded well for older workers' participation in the workforce. Specifically, the labour force participation rate (LFPR) for persons aged 55-64 posted a substantial gain of 7.3 percentage points between 2011 and 2016, to 56.4% (versus a comparatively modest gain of 2.2 percentage points during the preceding five years), with the LFPR for females in this age group rising by 8.3 percentage points and that for their male counterparts up by 6.6 percentage points (*Charts 1a & 1b*). The LFPRs for female and male workers aged 65+ also recorded significant gains during the past five years, albeit remaining at relatively modest levels of 4.8% and 15.6% respectively in 2016. On the other hand, the LFPR for prime working age (i.e. 25-54) female rose at a more moderate pace of 2.4 percentage points to 71.9% over the same period, while that for prime working age male basically held steady at a high level of around 94%.

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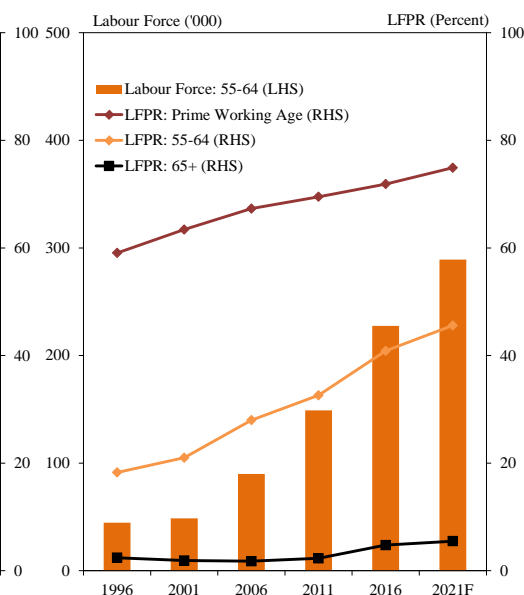
<sup>1</sup> Labour force referred to in this article does not include foreign domestic helpers (FDHs).

## Box 5.1 (Cont'd)

**Chart 1a: Labour force and LFPRs of selected age groups in the male population**



**Chart 1b: Labour force and LFPRs of selected age groups in the female population**

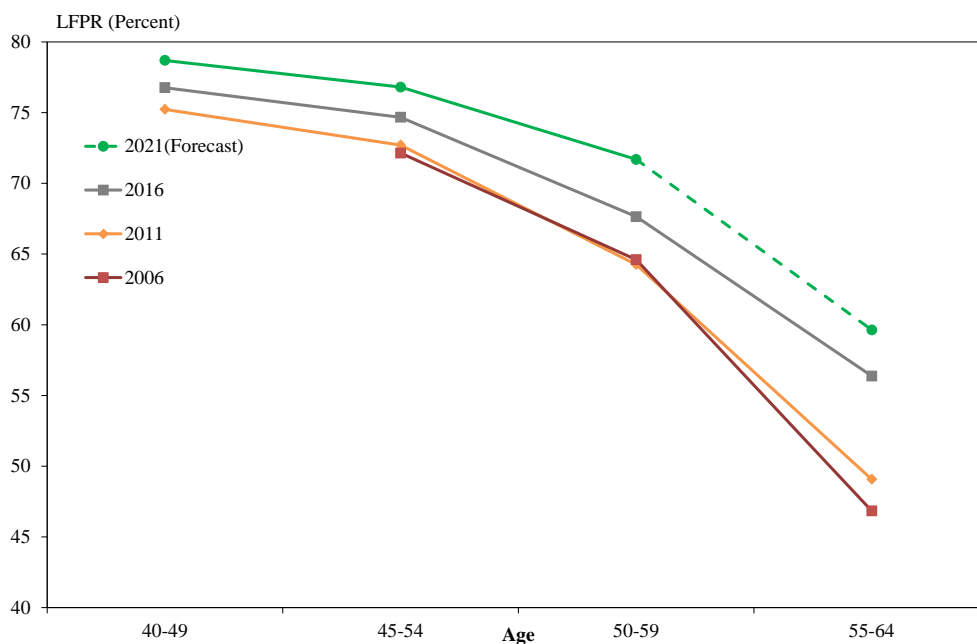


Note: (\*) Prime working age person refers to those aged 25-54.

Sources: General Household Survey and Hong Kong Labour Force Projections for 2017 to 2066, C&SD.

A cohort analysis, particularly on the changes in LFPRs as workers move across age groups over time, may offer further insight on workers' delay in retirement in a more quantified manner.

**Chart 2: The more recent cohorts showed slower declines in LFPRs when their age turned 55 and above compared with the earlier cohorts**



Notes: Year in legend refers to the year when the cohort reaches the age group of 55-64. For instance, the 2016 cohort denotes the 55-64 age group in 2016, which was the 40-49, 45-54 and 50-59 age groups back in 2001, 2006 and 2011 respectively.

Data on LFPRs excluding foreign domestic helpers are only available from 1993 onwards. For the 2006 cohort, its LFPR in 1991 (when the group was aged 40-49) is therefore omitted.

Sources: General Household Survey and Hong Kong Labour Force Projections for 2017 to 2066, C&SD.



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

The LFPR for the 55-64 age group in 2016 (the 2016 cohort) was 56.4%, 11.3 percentage points lower than this cohort's LFPR five years earlier (i.e. LFPR for the age group of 50-59 in 2011). The 2021 cohort is forecast to post a similar decline in LFPR (at 12.1 percentage points) vis-à-vis the situation in 2016. Although falling LFPRs are inevitable when a cohort of workers ages, the declines were notably narrower when compared with those recorded for the 2006 and 2011 cohorts at the same stage of their working lives, at 17.8 and 15.2 percentage points respectively (*Chart 2*). Indeed, the narrower drops in LFPRs in the 2016 cohort vis-à-vis the 2011 cohort contributed about 43 000 extra workers to the market, or around a quarter of the increase in total labour force during 2012-2016.

#### **Flexibility offered by part-time positions**

One key driver for the rise in labour supply from older age groups was the generally more flexible work arrangement provided by the greater availability of part-time employment opportunities. Specifically, workers aged 55 and above who were voluntarily engaged in part-time jobs<sup>2</sup> rose by around 49 000 between 2011 and 2016, which made up about one-fifth of the increase in the number of employed persons in this age group over the period. As part-time positions typically can better accommodate the workers' household responsibilities and other considerations, this is particularly relevant for older persons without any immediate financial needs who thus have greater autonomy in shaping their mode of working to meet their circumstances<sup>3</sup>.

#### **Higher LFPRs for female in prime working age likely to extend into older age groups**

Furthermore, the LFPR for prime working age female in the more recent cohorts was able to keep steady at a higher level through their working lives. Specifically, for the cohort aged 45-54 in 2016, the group's LFPRs had been hovering slightly above two-thirds since they were aged 30-39, whereas the LFPRs for the cohort aged 45-54 in 2011 was range-bounded in the low 60s throughout the same age brackets and the cohort aged 45-54 in 2006 recorded even lower LFPRs (*Chart 3*).

The gains in LFPRs of prime working age female can be attributable to the gradual shift of the local workforce towards attaining post-secondary education. Specifically, the LFPR for prime working age female with post-secondary education, at 82.9% in 2016, was significantly higher than those without such education (at 64.7%). While their male counterparts admittedly experienced similar upgrade in educational attainment, the largely comparable LFPRs between prime working age male with post-secondary education and those without (at 95.9% and 93.0% respectively in 2016) suggested that the enhanced educational attainment had conceivably minimal impact on the overall LFPR of prime working age male, which had remained at an elevated level of over 90% all along. In contrast, the higher LFPRs for female towards the latter part of prime working age, combined with the trend of delaying retirement as mentioned above, can be expected to provide momentum specifically to the further climbs in LFPRs for female older age groups over the coming decade.

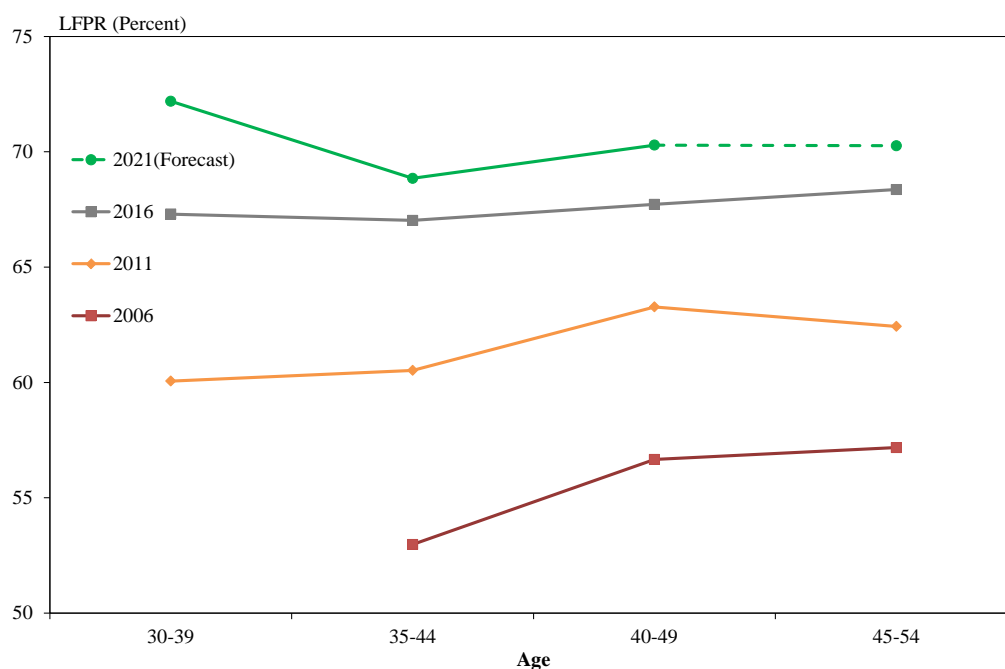
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<sup>2</sup> Voluntary part-time workers are defined here to include persons working less than 35 hours during the seven days before enumeration due to reasons other than underemployment and vacation. For analysis on voluntary part-time workers, please see an article entitled "Part-time employment in Hong Kong" published in the Half-yearly Economic Report 2013. <http://www.hkeconomy.gov.hk/en/pdf/box-13q2-5-1.pdf>.

<sup>3</sup> For further analysis on employment situation of older age persons, please see an article entitled "Elderly employment" published in the 2016 Economic Background and 2017 Prospects. <http://www.hkeconomy.gov.hk/en/pdf/box-16q4-6-1.pdf>.

## Box 5.1 (Cont'd)

**Chart 3: Increasingly active labour force participation among prime working age female is observed in more recent cohorts**



Notes: Year in legend refers to the year when the cohort reaches the age group of 45-54.

For the 2006 cohort, its LFPR (excluding foreign domestic helpers) in 1991 (when the group was aged 30-39) is not available and therefore omitted.

Sources: General Household Survey and Hong Kong Labour Force Projections for 2017 to 2066, C&SD.

## Conclusion

The more active participation of older age groups in the local labour force is a timely development to help alleviate the tight demand-supply balance in the market, as well as an indication of the high degree of flexibility and responsiveness of the local labour market.

Recognising that the older age groups look set to gain further importance in the composition of the labour force, the Labour Department (LD) has adopted a series of on-going measures to promote the employment of older age persons, including setting up special counters at job centres to provide priority registration and job referral services for elderly job seekers, and organising tailor-made employment briefings. In parallel, LD also holds thematic job fairs targeted at older age groups and experience-sharing sessions on employing elderly persons. These job seekers can also benefit from the Employment Programme for the Middle-aged, which encourages employers to take on job-seekers aged 40 or above and offer them on-the-job training. Covering both full-time employment and part-time jobs, employers who engage these job-seekers and provide them with on-the-job training under the programme may apply for a training allowance for a period of three to six months.

Apart from fostering participation of older age groups in the labour force, the Government will spare no efforts in investing in education and training to upgrade our human capital for the next generations of workers, with a view to enhancing the workforce's productivity and supporting businesses in further climbing up the value chain, and thereby sustaining the vibrancy in the local economy.

## **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 June 2017. To bring the analysis more up-to-date, attempts have been made wherever possible by drawing reference to information from supplementary sources.

5.11 On the back of the favourable economic performance, private sector employment grew solidly further by 0.8% in June 2017 over a year earlier to 2 831 400. In terms of sectoral profile, the pace of job creation was more appreciable in such sectors as construction sites (covering manual workers only) (up 6.2% year-on-year), human health services (up 3.3%), education (up 2.0%), and professional and business services (excluding cleaning and similar services) (up 1.9%). Thanks to the resilient local consumer demand and the relative improvement in inbound tourism, employment gains were also observed in the consumption- and tourism-related segment, viz. retail (up 0.6%), and accommodation and food services (up 0.3%). On the other hand, apart from the secular downtrend in manufacturing (down 2.8% year-on-year), declines in employment were also seen in the arts, entertainment and recreation sector (down 1.7%) and the import/export trade and wholesale sector (down 0.4%). Analysed by establishment size, employment in large enterprises and small and medium-sized enterprises (SMEs)<sup>(7)</sup> grew by 1.0% and 0.6% respectively in June 2017 over a year earlier. As for the civil service, employment went up by 1.4%.

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

	<u>2016</u>					<u>2017</u>	
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>
Import/export trade and wholesale	542 400 (-0.7)	542 900 (-1.1)	543 000 (-0.5)	542 000 (-0.6)	541 600 (-0.7)	540 900 (-0.4)	541 000 (-0.4)
Retail	266 600 (-1.1)	266 200 (-1.9)	266 200 (-1.4)	266 500 (-0.9)	267 500 (-0.2)	267 300 (0.4)	267 800 (0.6)
Accommodation <sup>(a)</sup> and food services	281 600 (-0.5)	280 600 (-1.1)	280 800 (-0.7)	282 100 (-0.1)	282 900 (-0.1)	280 900 (0.1)	281 500 (0.3)
Transportation, storage, postal and courier services	178 400 (0.5)	178 600 (1.2)	177 900 (0.8)	178 200 (§)	178 800 (0.2)	178 100 (-0.3)	177 600 (-0.1)
Information and communications	106 000 (0.7)	105 700 (1.6)	105 100 (0.2)	105 700 (0.2)	107 300 (0.8)	107 300 (1.5)	106 600 (1.4)
Financing, insurance, real estate, professional and business services	719 500 (1.0)	714 100 (0.4)	718 000 (0.8)	720 600 (1.1)	725 200 (1.8)	728 300 (2.0)	728 600 (1.5)
Social and personal services	505 500 (1.7)	505 500 (2.3)	503 400 (1.7)	505 200 (1.6)	508 000 (1.2)	510 300 (1.0)	510 800 (1.5)
Manufacturing	96 000 (-3.6)	97 800 (-2.5)	96 100 (-3.5)	95 300 (-4.4)	94 900 (-4.1)	94 500 (-3.4)	93 400 (-2.8)
Construction sites (covering manual workers only)	107 800 (13.3)	104 800 (14.1)	106 200 (14.4)	107 800 (15.0)	112 400 (10.2)	117 600 (12.2)	112 800 (6.2)
<i>All establishments surveyed in the private sector<sup>(b)</sup></i>	<i>2 814 800 (0.6)</i>	<i>2 807 200 (0.5) &lt;§&gt;</i>	<i>2 807 600 (0.6) &lt;0.2&gt;</i>	<i>2 814 500 (0.7) &lt;0.3&gt;</i>	<i>2 829 800 (0.8) &lt;0.2&gt;</i>	<i>2 836 500 (1.0) &lt;0.3&gt;</i>	<i>2 831 400 (0.8) &lt;0.1&gt;</i>
<i>Civil service<sup>(c)</sup></i>	<i>166 100 (1.2)</i>	<i>166 200 (1.5)</i>	<i>165 500 (1.1)</i>	<i>165 900 (1.1)</i>	<i>166 600 (1.0)</i>	<i>167 700 (0.9)</i>	<i>167 900 (1.4)</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.

## Vacancies

5.12 In tandem with buoyant economic growth, the number of job vacancies in private sector establishments grew further by 2.0% year-on-year to 69 590.

5.13 Sectoral variation in vacancy movement was observed in June 2017. Benefiting from a new round of recruitment for large-scale infrastructure projects, vacancies in construction sites (covering manual workers only) surged by 176.2% year-on-year in June 2017. More notable increases were also recorded in accommodation services (up 18.9% year-on-year), cleaning and similar services (up 17.2%), financing and insurance (up 9.8%), information and communications (up 9.6%), and such trade-related sectors as transportation, storage, postal and courier services (up 8.4%) and import and export trade (up 6.7%) on the back of the reviving global demand and robust regional trade flows. On the other hand, decreases in job openings were witnessed in such sectors as human health services (down 10.7% year-on-year), education (down 8.7%), and professional and business services (excluding cleaning and similar services) (down 6.5%), yet the appreciable employment growth in these sectors suggested that labour demand remained robust therein. Analysed by occupational category, higher-skilled vacancies posted a further double-digit year-on-year increase of 11.4%, while the lower-skilled segment recorded a narrowed decline of 2.1%. Analysed by the size of establishment, growth in vacancies in large enterprises picked up to 5.2%, while vacancies of SMEs fell further by 2.5%. As for the civil service, the number of job openings went down by 5.4% year-on-year to 8 420 in June 2017.

5.14 The continued increase in the number of vacancies, alongside the concurrent drop in unemployed persons, both reflecting generally tight labour market, drove up the ratio of job vacancies per 100 unemployed persons to 56 in June 2017 from 50 a year earlier. The ratio for the higher-skilled segment increased more visibly from 69 to 91, the highest level since June 2015, while that of the lower-skilled segment edged up from 51 to 53. In terms of sectoral profile, manpower shortages were still apparent in residential care and social work services, financing and insurance, human health services, and real estate sectors in June 2017, for which the corresponding ratios exceeded 100.

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

	<u>Number of vacancies</u>							Vacancy rate in Jun 2017 (%)	
	<u>Annual Average</u>	<u>2016</u>					<u>2017</u>		
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>		
Import/export trade and wholesale	6 990 (-10.5)	6 920 (-23.1)	6 940 (-15.4)	7 030 (-7.5)	7 070 (9.7)	7 530 (8.8)	7 320 (5.5)	1.3	
Retail	7 600 (-8.7)	7 660 (-10.5)	7 100 (-15.9)	8 280 (-0.9)	7 370 (-7.2)	7 540 (-1.6)	7 080 (-0.2)	2.6	
Accommodation <sup>(a)</sup> and food services	13 140 (-10.0)	12 930 (-16.4)	13 040 (-13.9)	13 230 (-9.4)	13 360 (1.2)	13 670 (5.7)	13 220 (1.4)	4.5	
Transportation, storage, postal and courier services	3 240 (-11.0)	3 440 (-13.2)	3 290 (-19.1)	3 210 (-6.8)	3 040 (-2.0)	3 600 (4.9)	3 560 (8.4)	2.0	
Information and communications	2 640 (-5.7)	2 550 (-13.0)	2 470 (-0.3)	2 830 (7.9)	2 710 (-14.4)	2 720 (6.6)	2 710 (9.6)	2.5	
Financing, insurance, real estate, professional and business services	17 790 (-5.3)	18 400 (0.2)	18 020 (-4.1)	17 670 (-4.9)	17 070 (-12.2)	18 620 (1.2)	18 540 (2.9)	2.5	
Social and personal services	14 040 (-11.1)	14 280 (-8.6)	14 260 (-17.5)	14 210 (-9.9)	13 410 (-7.8)	13 460 (-5.7)	13 130 (-7.9)	2.5	
Manufacturing	2 330 (-14.2)	2 880 (-3.5)	2 280 (-16.2)	2 100 (-22.1)	2 070 (-16.4)	2 570 (-11.0)	2 290 (0.2)	2.4	
Construction sites (covering manual workers only)	740 (-7.4)	960 (8.8)	550 (-41.6)	590 (-16.6)	850 (29.7)	570 (-40.8)	1 510 (176.2)	1.3	
All establishments surveyed in the private sector <sup>(b)</sup>	68 750 (-9.1)	70 300 (-10.0)	68 200 (-13.0)	69 340 (-7.1)	67 140 (-5.8)	70 460 (0.2)	69 590 (2.0)	2.4	
		<-7.2>	<-3.3>	<4.3>	<0.2>	<-0.6>	<-1.7>		
Civil service <sup>(c)</sup>	8 640 (4.7)	8 090 (3.3)	8 900 (10.8)	8 740 (2.4)	8 820 (2.6)	8 660 (7.1)	8 420 (-5.4)	4.8	

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.

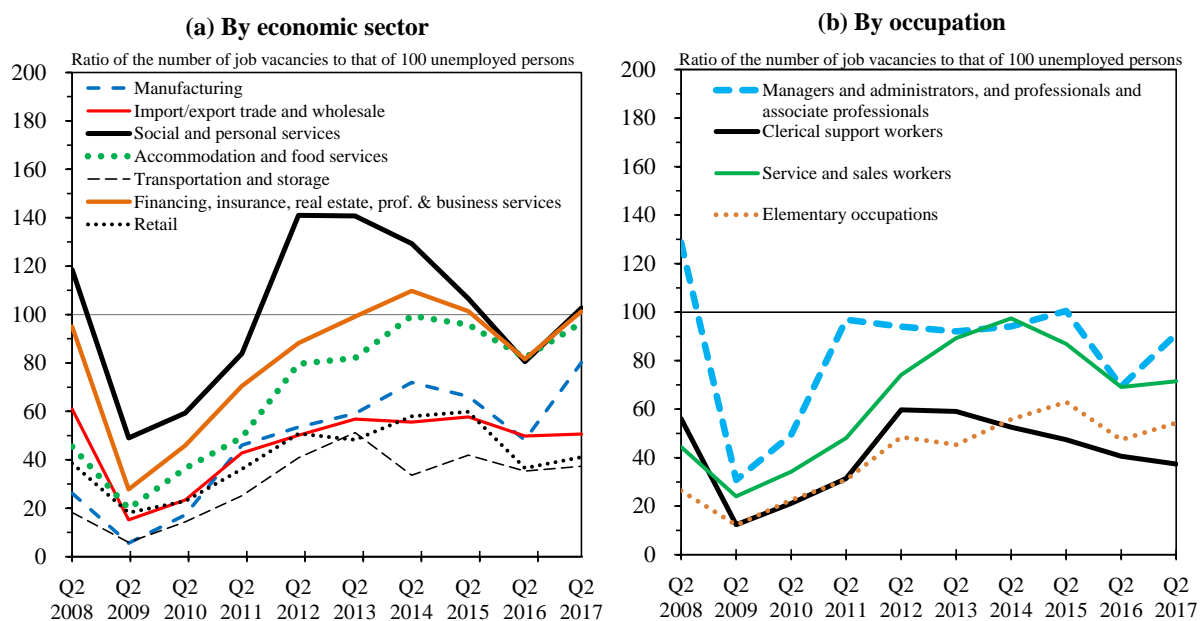
(c) These figures cover only vacancies for those staff to be employed on civil service terms of appointment.

( ) % 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 tightening in the first half of 2017**



5.15 The vacancy rate for private sector establishments, measured in terms of the percentage of job vacancies to total employment opportunities, was 2.4% in June 2017 and thus unchanged from both March 2017 and June 2016. Year-on-year changes in the vacancy rate were benign for most of the economic sectors. Yet, a more apparent increase was seen in construction sites (covering manual workers only), while a more noticeable decrease was seen in residential care and social work services.

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 averaged 128 500 per month in the third quarter of 2017, 9.3% higher than that of a year earlier, echoing a generally positive hiring sentiment of late.

## Wages and earnings

5.17 Wages sustained solid growth, on the back of a persistently tight labour market. *Wage index*, which covers regular payment to employees at the supervisory level or below, rose by 3.8% year-on-year in June 2017, translating into real improvement of 1.5% after adjusting for inflation<sup>(8)</sup>.

5.18 Increases in nominal wages were observed across all economic sectors and occupations in June 2017, with especially appreciable gains in professional and business services (up 5.1% year-on-year), accommodation and food service activities (up 4.9%), and personal services (up 4.6%). Analysed by occupation, more pronounced wage gains were found in such lower-skilled workers as service workers (up 4.9%), miscellaneous non-production workers (up 4.7%), and clerical and secretarial workers (up 4.3%).

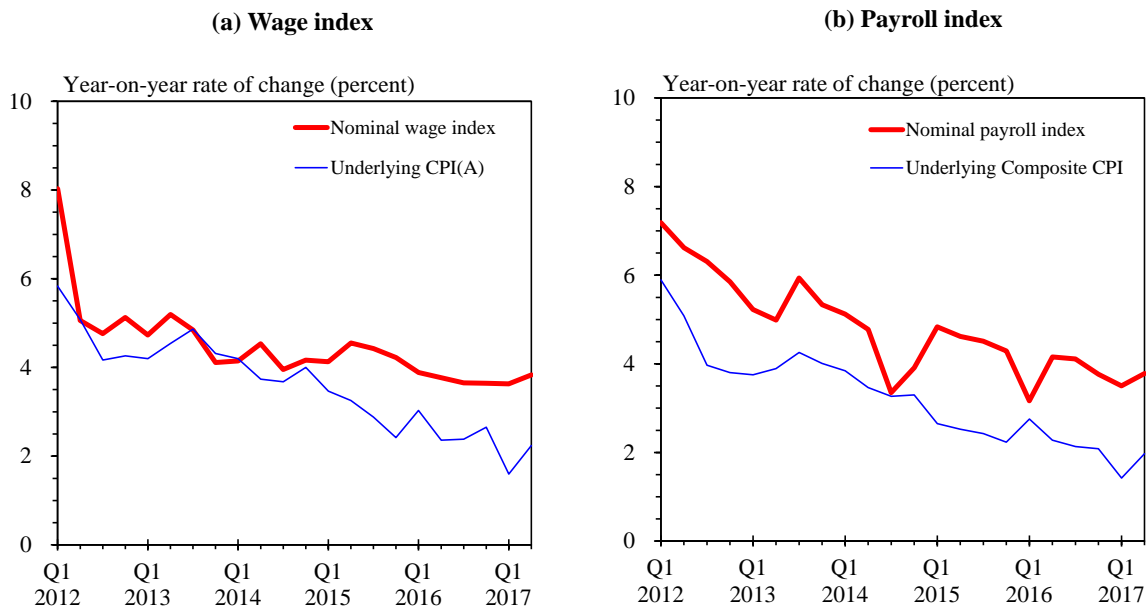
5.19 According to the Salary Indices for Managerial and Professional Employees, compensation among workers at the upper end of the employment spectrum rose solidly further. The Salary Index covering staff remaining in the same occupation and the same company over the period rose further by 4.9% in nominal terms and by 3.1% in real terms in June 2017 over a year earlier. Including the newly recruited and promoted employees, the broader-based index registered a nominal increase of 4.0%, translating into a gain of 2.2% in real terms.

5.20 *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, rose by 3.8% in the second quarter of 2017. After adjusting for inflation, real earnings went up by 1.7%.

5.21 Rises in nominal payroll were likewise broad-based in the second quarter of 2017. Thanks to the relative improvement in inbound tourism and the vibrant regional trade flows, the pace of payroll increases in the second quarter of 2017 picked up in the accommodation and food service activities sector (up 5.3% year-on-year), retail trade sector (up 3.2%), and import/export and wholesale trades sector (up 3.0%). Meanwhile, average payroll in the real estate activities sector continued to record an impressive gain, at 4.7%, amid the generally buoyant residential property market during the second quarter.



**Diagram 5.6 : Nominal wages and earnings sustained solid growth in the second quarter of 2017**



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.

5.22 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) of the lowest decile group grew appreciably further by 6.8% in the third quarter of 2017 over a year earlier, translating into a real improvement of 4.6% after discounting inflation. The upward adjustment of the SMW rate since May 2017 should bode well for earnings prospects of the grassroots workers in the months ahead. For the overall income situation, the year-on-year growth of median monthly household income (excluding foreign domestic helpers) picked up somewhat in the third quarter of 2017, to 4.9% in nominal terms. After discounting inflation, there was an increase of 3.1% in real terms.

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

5.23 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job-seekers on the spot. During January to September 2017, LD organised 14 large-scale job fairs in Wan Chai, Yau Tong, Mong Kok, Tsim Sha Tsui, Sham Shui Po, Tsuen Wan, Tuen Mun and North District. A total of 425 participating organisations offered about 30 400 vacancies from the retail, catering, property management, transport and other industries. There were also 16 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.

5.24 Moreover, LD has started the work on formulating the sector-specific working hours guidelines through the department's industry-based tripartite committees. These committees, comprising representatives from employers, employees and the Government, should serve as useful platforms for the parties concerned to work together in drawing up the guidelines to provide guidance on suggested working hours arrangements, overtime compensation methods and good working hours management measures.

5.25 The increase of the SMW rate by 6.2% from \$32.5 to \$34.5 per hour with effect from 1 May 2017 has been operating smoothly. In September 2017, the Minimum Wage Commission conducted consultation meetings to gauge the views of stakeholders in low paying sectors on the uprating and implementation of SMW.

## 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 May – July 2016 to October – December 2016 have been revised to take into account the final end-2016 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 – March 2011. Starting from the reference quarter of January – 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. The CPI(C), meanwhile, reflects consumer prices for the relatively high expenditure group and is thus used as the price deflator for salary of managerial and professional employees.
- (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

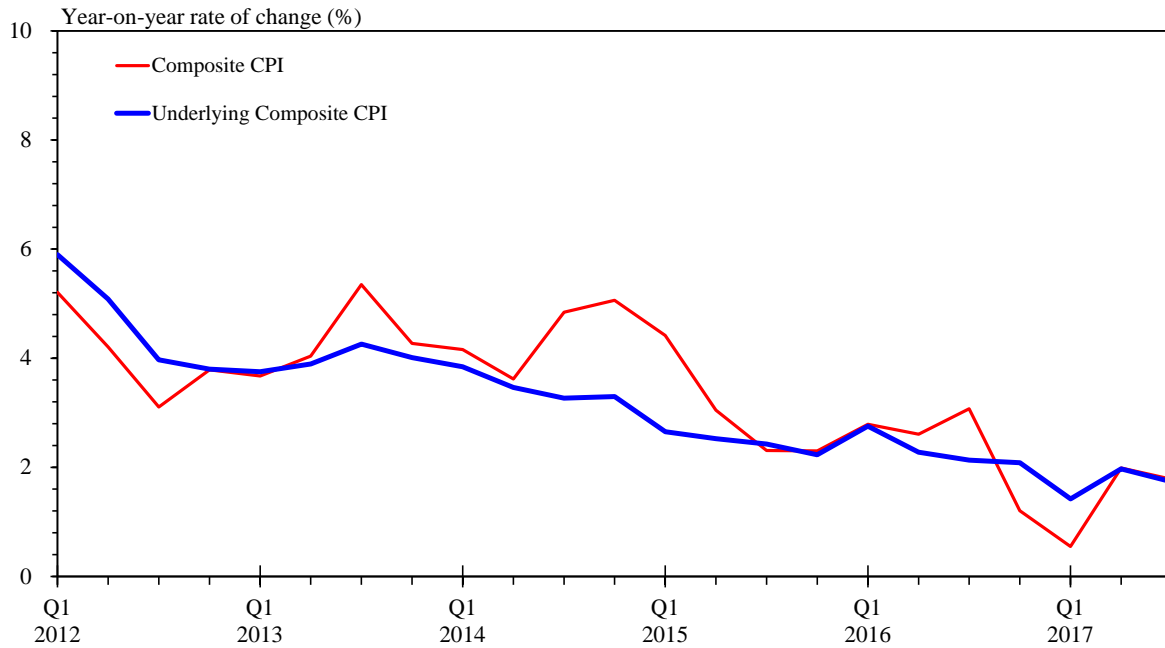
### *Summary*

- *Consumer price inflation eased in the third quarter of 2017, as overall inflationary pressure remained largely contained amid modest external price pressures and moderate local costs increases. The year-on-year increase in the underlying Composite Consumer Price Index (Composite CPI)<sup>(1)</sup>, which nets out the effects of the Government's one-off relief measures, was 1.7% in the third quarter, down from 2.0% in the second quarter. The headline Composite CPI inflation rate likewise went down from 2.0% to 1.8% over the same period.*
- *Local cost pressures stayed contained. Wages and earnings showed moderate growth in recent quarters. Yet when translating into unit labour costs, the cost pressure on businesses should still be quite mild amid successive quarters of above-trend growth in economic output. Fresh-letting residential and commercial rentals remained on the rise, but they were yet to feature in the consumer price inflation in the third quarter given the slow feed-through process.*
- *External price pressures remained modest. Import prices were restrained by the mild inflation in our major import sources against the backdrop of moderate expansion in the global economy.*
- *Looking ahead, the upside risks to consumer price inflation should be limited in the near term, amid tame inflation in our major import sources and moderate local costs increases.*

### **Consumer prices**

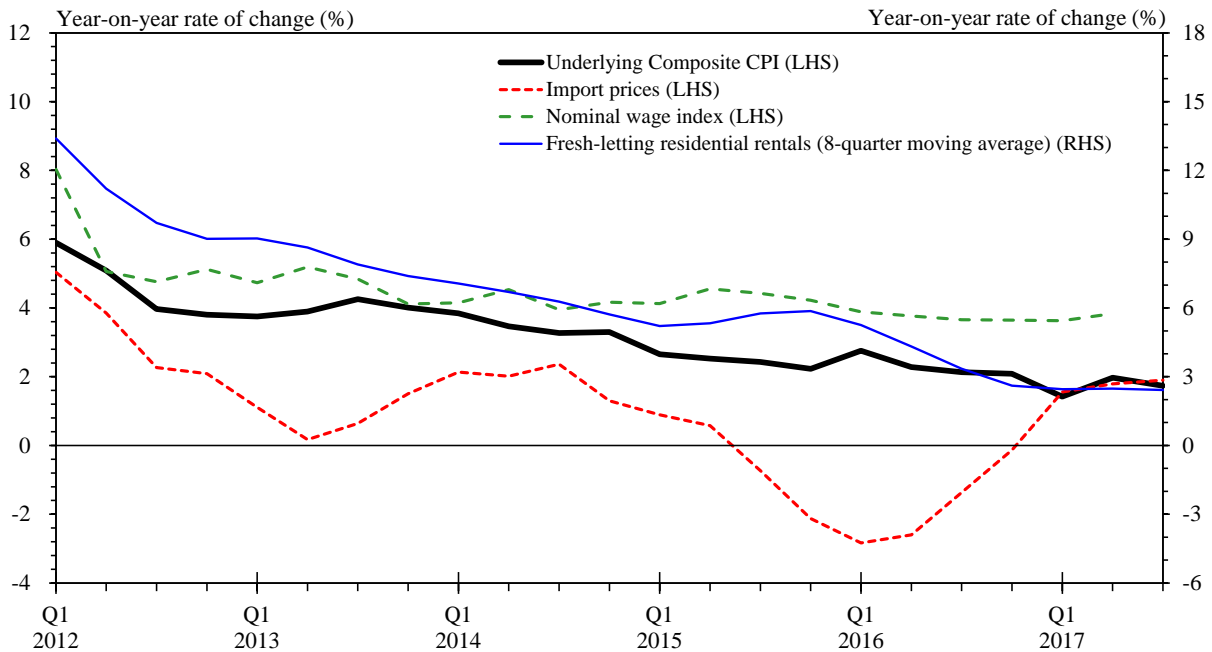
6.1 Inflationary pressure was largely contained in the third quarter of 2017, as local cost increases were moderate and external price pressures remained modest. On the local front, wages and earnings continued to grow steadily in recent quarters. Fresh-letting residential and commercial rentals were still on a general uptrend, but they were yet to feature in the consumer price inflation in the third quarter given the slow feed-through process. Externally, the increases in import prices generally remained timid, thanks to low inflation in many of Hong Kong's major import sources<sup>(2)</sup>.

**Diagram 6.1 : Consumer price inflation eased in the third quarter of 2017**



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 : Domestic cost pressures stayed contained while import price pressures were timid**



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, eased from 2.0% in the second quarter to 1.7% in the third quarter. On top of the largely contained overall inflationary pressure, dissipation of the effect from upward adjustment in public housing rentals in September last year and the decreases in school fees arising from the launch of new government subsidy schemes in the 2017-18 academic year were also the reasons behind the lower rate of inflation in the third quarter. Over the same period, headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, likewise went down from 2.0% to 1.8%. The slightly higher year-on-year increase in the headline Composite CPI than its underlying counterpart in the third quarter was due to a slightly lesser alleviation effect on the headline Composite CPI from the one-off rates waiver in the third quarter this year as compared to the same quarter last year. In the first three quarters of 2017, underlying and headline consumer price inflation averaged 1.7% and 1.4% respectively, both lower than those of 2.3% and 2.4% for 2016 as a whole.

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

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying<sup>(a)</sup></u>	<u>Headline</u>			
2016	Annual	2.3	2.4	2.8	2.3	2.1
	H1	2.5	2.7	2.9	2.7	2.5
	H2	2.1	2.1	2.8	1.9	1.7
	Q1	2.8	2.8	3.1	2.8	2.5
	Q2	2.3	2.6	2.7	2.7	2.4
	Q3	2.1	3.1	4.5	2.6	2.2
	Q4	2.1	1.2	1.1	1.2	1.3
2017	H1	1.7	1.3	1.2	1.2	1.4
	Q1	1.4	0.5	0.1	0.6	0.9
	Q2	2.0	2.0	2.3	1.8	1.9
	Q3	1.7	1.8	2.1	1.6	1.6
<b>(seasonally adjusted quarter-to-quarter rate of change (%))</b>						
2016	Q1	0.7	0.7	0.9	0.6	0.6
	Q2	0.2	-0.6	-1.4	-0.5	-0.1
	Q3	0.5	0.4	0.6	0.5	0.2
	Q4	0.7	0.7	1.0	0.6	0.6
2017	Q1	0.1	0.1	*	0.1	0.2
	Q2	0.7	0.7	0.6	0.6	0.8
	Q3	0.2	0.2	0.4	0.2	*

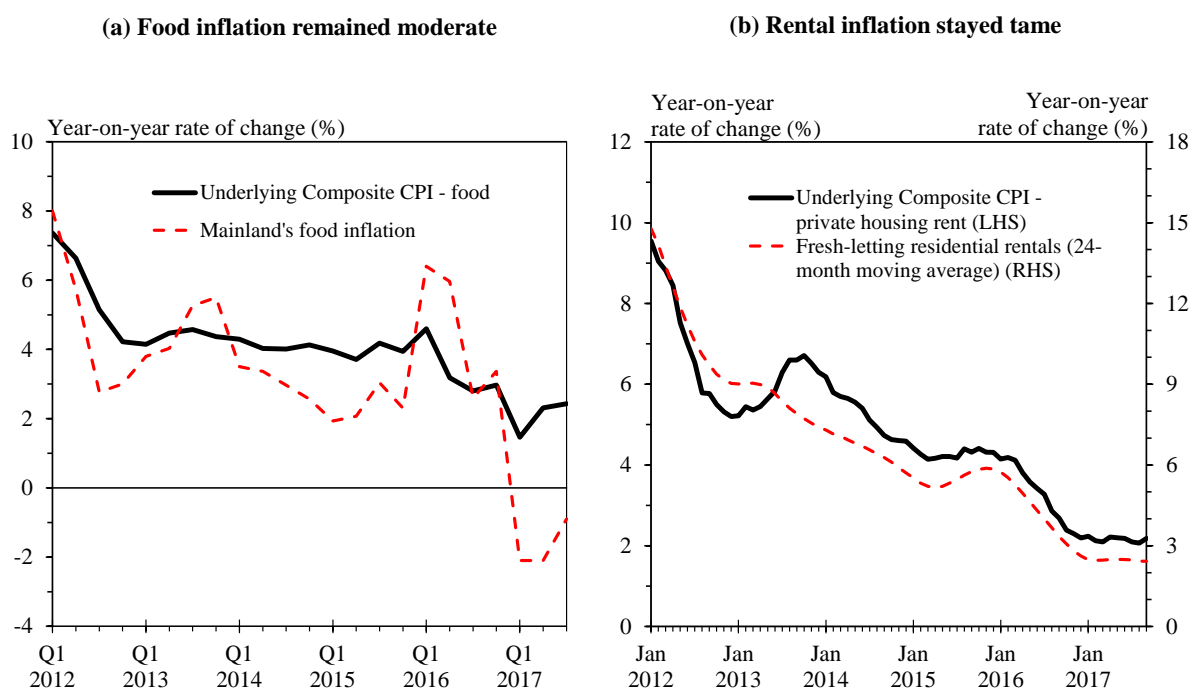
Notes : (a) Underlying consumer price inflation is calculated by netting out the effects of all relevant one-off measures introduced since 2007, including the waiver and Government's payment of public housing rentals, rates concession, suspension and subsequent abolition of Employees Retraining Levy,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

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



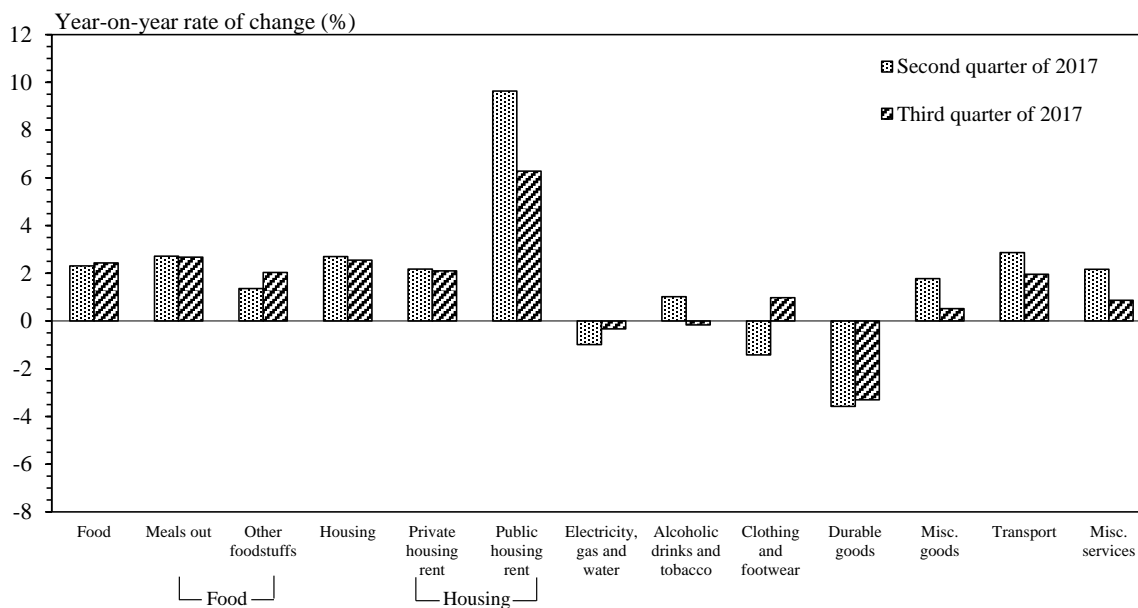
6.3 Price pressures in major components of the underlying Composite CPI were generally benign in the third quarter. Food prices (including costs of dining out) rose moderately by 2.4% year-on-year amid modest import food inflation. The increase in private housing rent remained tame at 2.1% year-on-year, as the feed-through from rising fresh-letting residential rentals over the past year to CPI has been gradual thus far. Public housing rent showed a narrower year-on-year increase of 6.3%, owing to dissipation of the effect from upward adjustment in public housing rentals in September last year. Prices of clothing and footwear reverted to a modest year-on-year increase of 1.0%, after declining for eleven consecutive quarters. Prices for electricity, gas and water showed a narrower rate of decline, as an increase in town gas charges took place in August 2017. Nevertheless, transport, miscellaneous goods, and miscellaneous services all recorded moderated prices increases compared to the preceding quarter. For prices of miscellaneous services in particular, the noticeable year-on-year decline in package tour charges and the decreases in school fees arising from the launch of new government subsidy schemes in the 2017-18 academic year were the key factors contributing to the slower increase in the third quarter. Prices of alcoholic drinks and tobacco turned to a modest year-on-year decline of 0.2%, and prices of durable goods stayed on its secular downtrend.

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

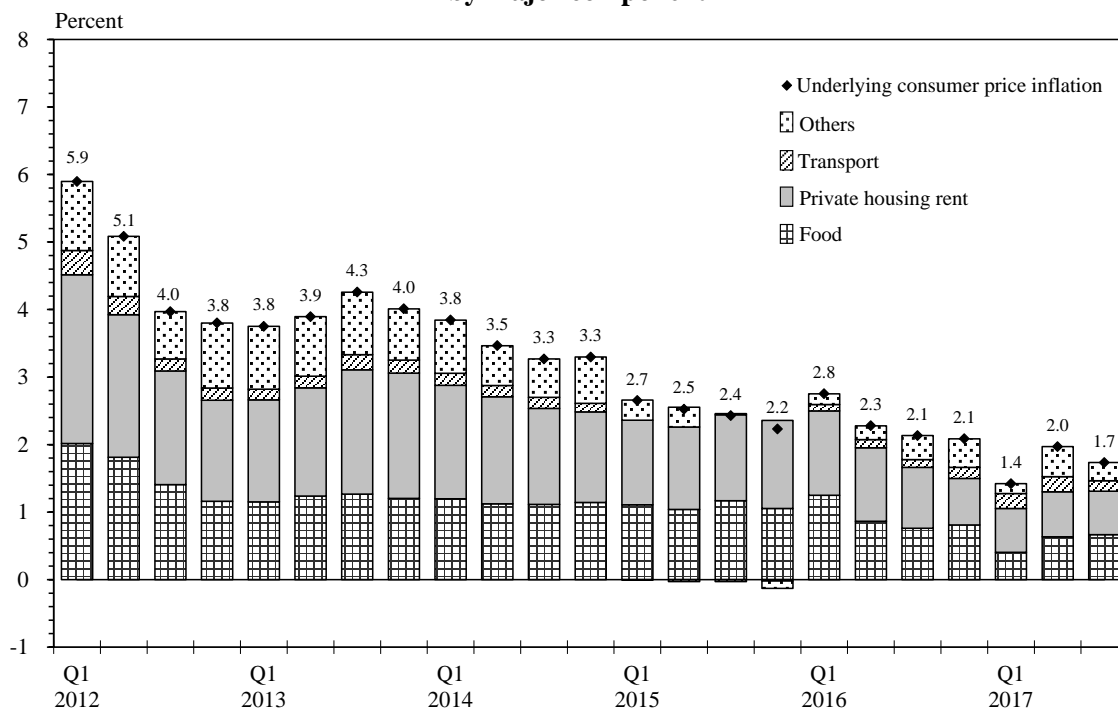


Note : The year-on-year rates of change of the CPIs from October 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series.

**Diagram 6.4 (a) : Price pressures were generally benign in major components of the underlying Composite CPI**



**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>2016</u>				<u>2017</u>		
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Food	27.29	3.4	4.6	3.2	2.8	3.0	1.5	2.3	2.4
<i>Meals bought away from home</i>	17.74	3.3	3.7	3.3	3.1	3.1	2.8	2.7	2.7
<i>Other foodstuffs</i>	9.55	3.6	6.3	3.1	2.1	2.7	-1.1	1.4	2.0
Housing <sup>(a)</sup>	34.29	3.3 (3.7)	4.0 (4.0)	3.5 (4.6)	3.1 (6.0)	2.8 (0.4)	2.7 (0.3)	2.7 (2.7)	2.6 (2.6)
<i>Private housing rent</i>	29.92	3.2 (3.4)	4.2 (4.2)	3.6 (4.8)	3.0 (4.1)	2.3 (0.6)	2.1 (0.5)	2.2 (2.2)	2.1 (2.1)
<i>Public housing rent</i>	1.94	3.5 (7.2)	* (*)	0.4 (0.5)	3.6 (51.3)	9.9 (-5.6)	9.9 (-5.6)	9.6 (11.5)	6.3 (7.5)
Electricity, gas and water	2.67	0.6 (1.0)	-1.1 (*)	-1.6 (-1.1)	4.0 (4.1)	1.4 (1.4)	-5.5 (-5.5)	-1.0 (-1.0)	-0.3 (-0.3)
Alcoholic drinks and tobacco	0.54	1.5	0.3	1.2	2.4	2.1	2.3	1.0	-0.2
Clothing and footwear	3.21	-3.4	-3.3	-2.8	-4.5	-3.0	-1.9	-1.4	1.0
Durable goods	4.65	-5.4	-5.7	-5.4	-5.3	-5.0	-3.6	-3.6	-3.3
Miscellaneous goods	3.56	1.5	0.5	1.3	2.3	2.1	2.3	1.8	0.5
Transport	7.98	1.6	1.2	1.5	1.4	2.1	2.9	2.9	2.0
Miscellaneous services	15.81	2.3	2.7	2.1	2.5	1.9	0.6	2.2	0.9
All items	100.00	2.3 (2.4)	2.8 (2.8)	2.3 (2.6)	2.1 (3.1)	2.1 (1.2)	1.4 (0.5)	2.0 (2.0)	1.7 (1.8)

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

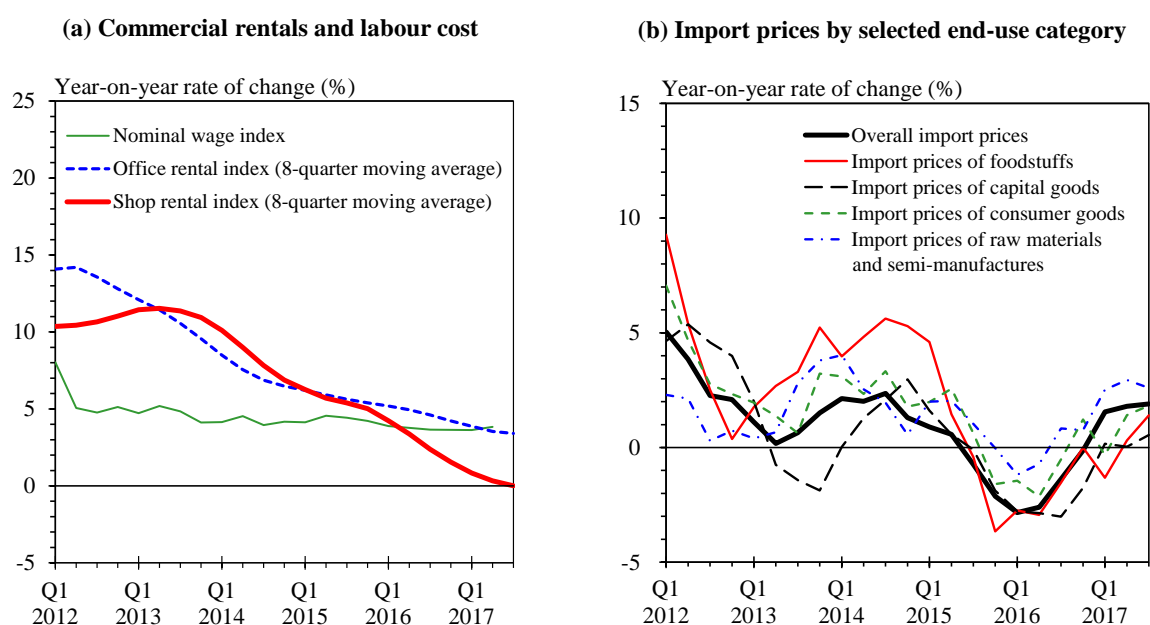
( ) Figures in brackets represent the headline rates of change before netting out the effects of Government's one-off relief measures.

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

## Costs of factor inputs and import prices

6.4 Local cost increases remained moderate in the third quarter of 2017. Wages and earnings rose steadily in recent quarters amid a stable labour market, rendering a moderate increase in labour cost when viewed alongside a sustained period of above-trend expansion of the overall economy. On rental cost, although the rentals for office and retail space showed further year-on-year increases in recent months alongside the sustained expansion in commercial activities, their year-on-year increases when analysed on an eight-quarter moving average basis were still on a moderating trend.

**Diagram 6.5 : Labour and rental costs stayed in check and external price pressures remained modest**



6.5 External price pressures remained modest, thanks to the mild inflation in our major import sources. Despite some relative weakening of the US dollar vis-à-vis other major currencies during the third quarter, the translation of such exchange rate movements into import price pressures had remained rather negligible thus far. Overall import prices rose modestly by 1.9% in the third quarter over a year earlier, with import price pressures largely contained across most end-use categories. In particular, import prices of consumer goods, and raw materials and semi-manufactures rose further by 1.8% and 2.6% respectively over a year earlier. Import prices of foodstuffs posted a small increase of 1.4%, mirroring the modest food and beverage price pressures in our major foodstuffs suppliers, while import prices of capital goods increased slightly by 0.5%. Meanwhile, the year-on-year increase in import prices of fuels remained notable at 17.6%, alongside some renewed increases in global oil prices in the latter part of the third quarter.

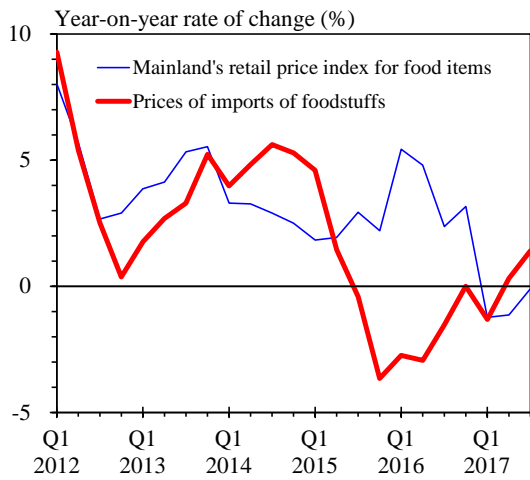
**Table 6.3 : Prices of imports by end-use category  
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2016	Annual	-1.8	-0.7	*	-21.4	-2.6	-1.7
	H1	-2.9	-1.8	-0.9	-33.7	-2.8	-2.7
	H2	-0.7	0.3	0.8	-6.7	-2.4	-0.7
	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
	Q3	-1.5	-0.5	0.8	-15.5	-3.0	-1.4
	Q4	*	1.2	0.8	3.1	-1.8	-0.1
2017	H1	-0.5	0.6	2.7	31.5	0.1	1.7
	Q1	-1.3	-0.3	2.5	46.1	0.2	1.6
	Q2	0.3	1.4	2.9	19.8	*	1.8
	Q3	1.4	1.8	2.6	17.6	0.5	1.9

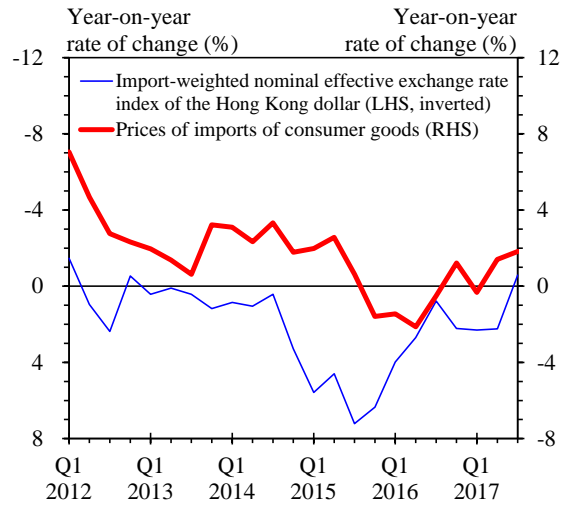
Note : (\*) Change within  $\pm 0.05\%$ .

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

**(a) Import prices of food posted a small increase**

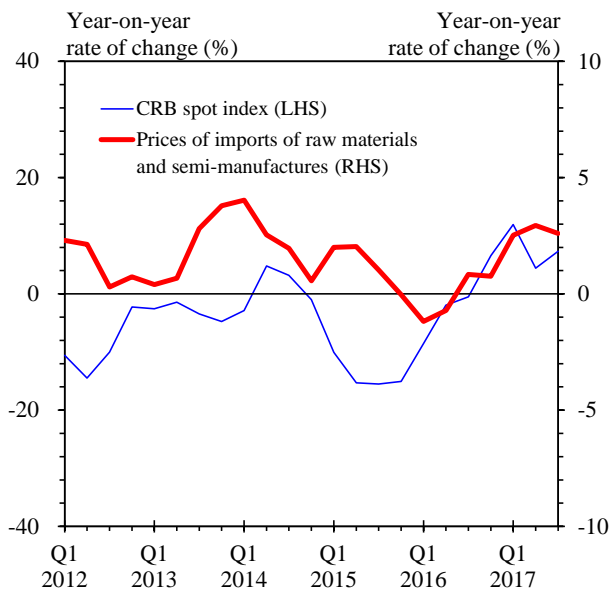


**(b) Increase in import prices of consumer goods remained modest**

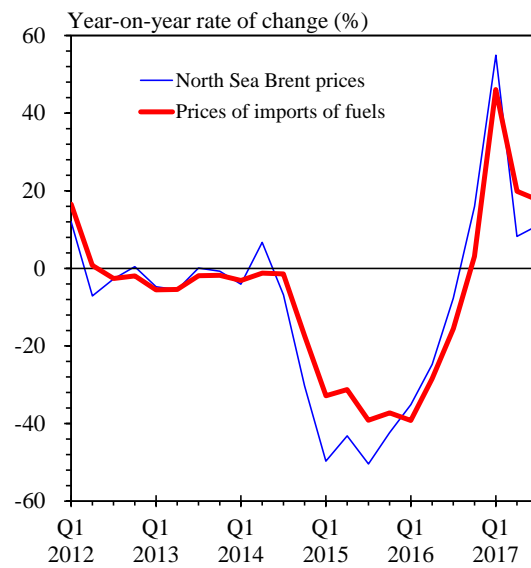


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

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



**(d) Increase in import prices of fuels remained notable**



## Output prices

6.6 Output prices in most sectors, as measured by the *Producer Price Indices*<sup>(3)</sup>, recorded increases by varying degrees in the second quarter amid sustained improvement in overall business situation. For the manufacturing sector, output prices continued to register a steady year-on-year increase. As for the selected service sectors, output prices for accommodation services showed a further increase amid the stabilisation in inbound tourism. Along with the vibrant regional trade flows, output prices for water transport and air transport reverted to year-on-year increases, while those for land transport and courier services continued to increase. Meanwhile, the downtrend of output prices for telecommunications services extended into the second quarter.

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

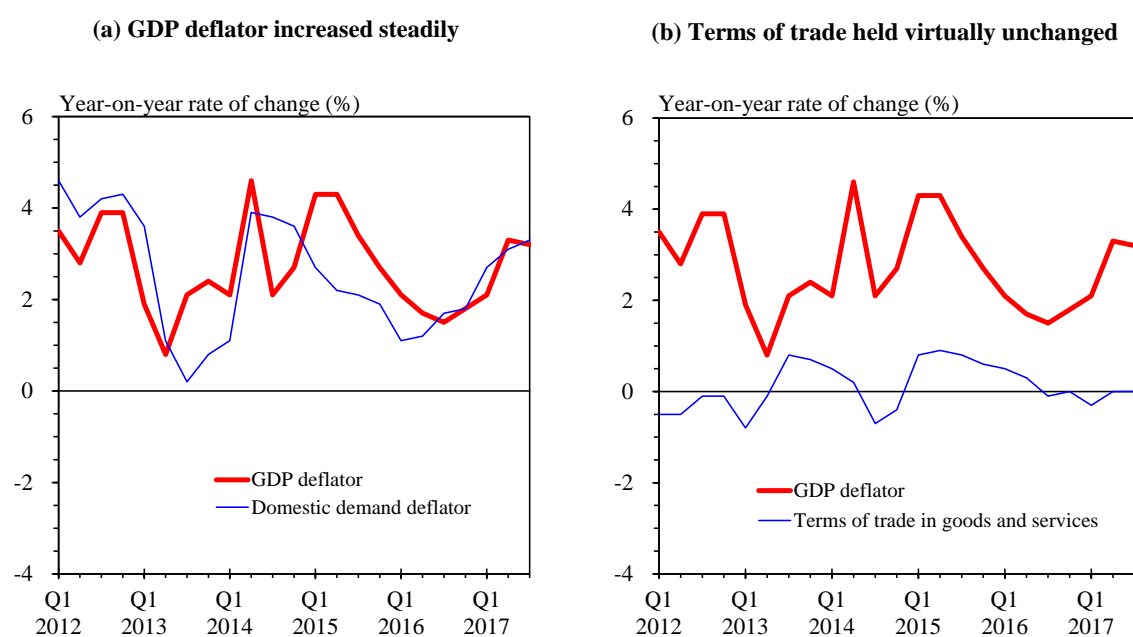
<u>Industry group</u>	<u>Annual</u>	<u>2016</u>				<u>2017</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Manufacturing	1.3	-2.8	0.4	3.9	4.0	4.2	3.7
Selected service sectors <sup>(a)</sup>							
Accommodation services	-2.1	-4.7	-1.9	-2.2	0.2	1.6	1.5
Land transport	1.6	2.6	2.1	0.9	1.0	1.8	1.2
Water transport	-12.4	-15.8	-14.8	-11.6	-7.0	-1.0	5.2
Air transport	-9.9	-12.1	-10.9	-10.9	-5.7	-3.5	3.4
Telecommunications	-2.8	-3.6	-3.1	-2.3	-1.9	-2.9	-2.5
Courier services	2.1	1.8	2.3	2.8	1.5	3.6	2.2

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 year-on-year rate of increase in *GDP deflator*<sup>(4)</sup> was 3.2% in the third quarter, broadly similar to that in the preceding quarter. Within the GDP deflator, the *terms of trade*<sup>(5)</sup> continued to hold virtually unchanged year-on-year in the third quarter. Taking out the external trade components, the year-on-year rate of increase in domestic demand deflator was 3.3% in the third quarter, broadly similar to that in the preceding quarter.

Diagram 6.7 : GDP deflator





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

	2015		2016				2017		
	<u>Annual</u> <sup>#</sup>	<u>Annual</u> <sup>#</sup>	<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>#</sup>	<u>Q3</u> <sup>#</sup>	<u>Q4</u> <sup>#</sup>	<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>#</sup>	<u>Q3</u> <sup>+</sup>
Private consumption expenditure	1.2	1.6	1.1	1.5	2.1	1.8	2.0	2.4	2.9
Government consumption expenditure	4.4	3.8	3.8	3.7	3.9	3.7	3.4	2.3	1.5
Gross domestic fixed capital formation	4.5	0.1	-0.2	-0.8	-0.4	1.3	4.5	5.5	4.8
Total exports of goods <sup>&amp;</sup>	-0.7	-1.4	-2.7	-2.4	-1.3	0.3	1.6	1.4	1.6
Imports of goods <sup>&amp;</sup>	-1.4	-1.8	-3.4	-2.8	-1.4	0.3	1.9	1.5	1.6
Exports of services <sup>&amp;</sup>	-2.8	-2.0	-4.0	-2.3	-1.2	-0.5	1.1	1.5	2.4
Imports of services <sup>&amp;</sup>	-4.6	-1.4	-3.5	-1.6	0.1	-0.7	0.9	0.5	2.8
<b>Gross Domestic Product</b>	<b>3.6</b>	<b>1.8</b>	<b>2.1</b>	<b>1.7</b>	<b>1.5</b>	<b>1.8</b>	<b>2.1</b>	<b>3.3</b>	<b>3.2</b>
			<0.5>	<0.5>	<0.2>	<0.6>	<0.8>	<1.6>	<0.2>
Total final demand <sup>&amp;</sup>	*	-0.5	-1.5	-1.2	-0.3	0.7	1.9	2.0	2.2
Domestic demand	2.2	1.5	1.1	1.2	1.7	1.8	2.7	3.1	3.3
Terms of trade in goods and services <sup>&amp;</sup>	0.7	0.2	0.5	0.3	-0.1	*	-0.3	*	*

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.

(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) 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 housing rent</i>	29.92	26.51	32.15	30.72
<i>Public housing rent</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>2015</u>		<u>2016</u>				<u>2017</u>		
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Selected developed economies									
US	0.1	1.3	1.1	1.0	1.1	1.8	2.5	1.9	2.0
Canada	1.1	1.4	1.5	1.6	1.2	1.4	1.9	1.3	1.4
EU	*	0.3	*	-0.1	0.3	0.8	1.8	1.7	1.7
Japan	0.8	-0.1	*	-0.3	-0.5	0.3	0.3	0.4	0.6
Major emerging economies									
Mainland China	1.4	2.0	2.1	2.1	1.7	2.2	1.4	1.4	1.6
Russia	15.5	7.1	8.3	7.4	6.8	5.8	4.6	4.2	3.4
India	4.9	4.9	5.3	5.7	5.2	3.7	3.6	2.2	3.0
Brazil	9.0	8.7	10.1	9.1	8.7	7.0	4.9	3.6	2.6
Selected Asian economies									
Hong Kong	3.0	2.4	2.8	2.6	3.1	1.2	0.5	2.0	1.8
Singapore	-0.5	-0.5	-0.8	-0.9	-0.4	*	0.6	0.8	0.4
Taiwan	-0.3	1.4	1.7	1.3	0.7	1.8	0.8	0.6	0.7
Korea	0.7	1.0	0.9	0.8	0.7	1.5	2.1	1.9	2.3
Malaysia	2.1	2.1	3.4	1.9	1.3	1.7	4.3	4.0	3.8
Thailand	-0.9	0.2	-0.5	0.3	0.3	0.7	1.3	0.1	0.4
Indonesia	6.4	3.5	4.3	3.5	3.0	3.3	3.6	4.3	3.8
Philippines	1.4	1.8	1.1	1.5	2.0	2.5	3.2	3.1	3.1
Vietnam	0.6	2.7	1.3	2.2	2.8	4.4	5.0	3.3	3.1
Macao	4.6	2.4	3.7	2.6	1.8	1.4	0.9	0.9	1.3

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

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



## Statistical Appendix

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

	(\$Mn)					
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Private consumption expenditure	982,368	1,026,482	1,013,615	1,090,234	1,224,402	1,314,969
Government consumption expenditure	138,967	148,017	152,512	157,371	168,517	185,310
Gross domestic fixed capital formation	340,356	350,796	339,552	386,852	455,294	517,411
Building and construction	111,776	127,312	123,746	139,249	179,341	204,860
Costs of ownership transfer	24,497	24,851	24,238	38,035	36,099	34,074
Machinery, equipment and intellectual property products	204,083	198,633	191,568	209,568	239,854	278,477
Changes in inventories	12,841	8,480	22,941	37,522	11,739	-3,662
Total exports of goods <sup>&amp;</sup>	2,574,439	2,758,181	2,454,394	3,021,492	3,406,765	3,632,957
Imports of goods <sup>&amp;</sup>	2,364,930	2,563,428	2,351,386	2,995,928	3,464,968	3,779,686
Exports of services <sup>&amp;</sup>	502,775	544,358	501,303	625,719	710,716	764,026
Imports of services <sup>&amp;</sup>	536,060	565,399	473,686	546,930	578,035	594,266
<b>GDP</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>	<b>2,037,059</b>
<i>Per capita GDP (\$)</i>	<i>238,676</i>	<i>245,406</i>	<i>237,960</i>	<i>252,887</i>	<i>273,549</i>	<i>284,899</i>
<b>GNI</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>	<b>2,066,514</b>
<i>Per capita GNI (\$)</i>	<i>246,312</i>	<i>259,851</i>	<i>245,096</i>	<i>258,240</i>	<i>281,019</i>	<i>289,019</i>
Total final demand	4,551,746	4,836,314	4,484,317	5,319,190	5,977,433	6,411,011
Total final demand excluding re-exports <sup>(a)</sup>	2,823,914	3,001,538	2,823,844	3,235,971	3,604,705	3,828,055
Domestic demand	1,474,532	1,533,775	1,528,620	1,671,979	1,859,952	2,014,028
Private	1,297,607	1,342,889	1,327,688	1,449,592	1,614,010	1,737,274
Public	176,925	190,886	200,932	222,387	245,942	276,754
External demand	3,077,214	3,302,539	2,955,697	3,647,211	4,117,481	4,396,983

Definition of Terms :

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

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

	(\$Mn)							
	<u>2013</u>	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>	<u>2016</u> Q4 <sup>#</sup>	Q1 <sup>#</sup>	<u>2017</u> Q2 <sup>#</sup>	Q3 <sup>#</sup>
Private consumption expenditure	1,413,058	1,502,768	1,593,227	1,648,082	435,447	421,462	447,266	439,716
Government consumption expenditure	198,572	214,216	231,261	248,085	62,931	67,457	63,033	65,676
Gross domestic fixed capital formation	515,516	530,916	537,228	536,155	152,813	131,942	145,107	139,886
Building and construction	211,130	244,047	262,791	278,550	75,897	74,660	73,293	75,259
Costs of ownership transfer	39,389	43,967	45,846	45,134	17,225	14,171	19,067	14,040
Machinery, equipment and intellectual property products	264,997	242,902	228,591	212,471	59,691	43,111	52,747	50,587
Changes in inventories	-1,673	7,473	-20,580	5,635	4,341	5,549	1,323	-410
Total exports of goods <sup>&amp;</sup>	3,926,059	3,986,769	3,889,225	3,900,462	1,097,702	942,108	993,413	1,098,905
Imports of goods <sup>&amp;</sup>	4,142,651	4,237,700	4,066,527	4,036,909	1,121,390	1,000,454	1,061,967	1,117,819
Exports of services <sup>&amp;</sup>	812,640	829,085	808,948	767,035	200,017	201,261	184,385	208,492
Imports of services <sup>&amp;</sup>	583,216	573,522	574,345	577,544	153,274	140,866	143,509	154,615
<b>GDP</b>	<b>2,138,305</b>	<b>2,260,005</b>	<b>2,398,437</b>	<b>2,491,001</b>	<b>678,587</b>	<b>628,459</b>	<b>629,051</b>	<b>679,831</b>
<i>Per capita GDP (\$)</i>	<i>297,860</i>	<i>312,609</i>	<i>328,945</i>	<i>339,531</i>	--	--	--	--
<b>GNI</b>	<b>2,178,824</b>	<b>2,306,612</b>	<b>2,442,813</b>	<b>2,575,114</b>	<b>698,030</b>	<b>648,259</b>	<b>679,471</b>	<b>N.A.</b>
<i>Per capita GNI (\$)</i>	<i>303,504</i>	<i>319,056</i>	<i>335,031</i>	<i>350,996</i>	--	--	--	--
Total final demand	6,864,172	7,071,227	7,039,309	7,105,454	1,953,251	1,769,779	1,834,527	1,952,265
Total final demand excluding re-exports <sup>(a)</sup>	4,025,243	4,116,670	4,139,943	4,207,530	1,143,539	1,065,550	1,080,984	1,129,554
Domestic demand	2,125,473	2,255,373	2,341,136	2,437,957	655,532	626,410	656,729	644,868
Private	1,827,460	1,929,514	1,991,566	2,066,158	556,673	522,947	562,516	547,395
Public	298,013	325,859	349,570	371,799	98,859	103,463	94,213	97,473
External demand	4,738,699	4,815,854	4,698,173	4,667,497	1,297,719	1,143,369	1,177,798	1,307,397

- 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 compiled based on the change of ownership principle in recording goods sent abroad for processing and merchandising under the standards stipulated in the *System of National Accounts 2008*.  
 (--) 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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Private consumption expenditure	8.6	1.9	0.2	6.1	8.4	4.1
Government consumption expenditure	3.2	2.0	2.3	3.4	2.5	3.6
Gross domestic fixed capital formation	3.2	1.4	-3.5	7.7	10.2	6.8
Building and construction	-0.3	6.8	-5.5	5.7	15.7	7.2
Costs of ownership transfer	32.6	-11.6	-2.9	27.2	-20.9	-17.8
Machinery, equipment and intellectual property products	2.5	*	-2.2	6.5	12.3	10.2
Total exports of goods <sup>&amp;</sup>	6.9	3.2	-11.2	18.0	4.6	3.3
Imports of goods <sup>&amp;</sup>	9.9	3.7	-7.0	19.9	6.7	4.6
Exports of services <sup>&amp;</sup>	15.9	4.9	1.7	15.3	5.7	2.7
Imports of services <sup>&amp;</sup>	5.7	1.1	-12.9	10.0	-0.2	2.2
<b>GDP</b>	<b>6.5</b>	<b>2.1</b>	<b>-2.5</b>	<b>6.8</b>	<b>4.8</b>	<b>1.7</b>
<b>Per capita GDP</b>	<b>5.6</b>	<b>1.5</b>	<b>-2.7</b>	<b>6.0</b>	<b>4.1</b>	<b>0.6</b>
<b>RGNI</b>	<b>8.2</b>	<b>3.3</b>	<b>-4.6</b>	<b>3.7</b>	<b>4.8</b>	<b>-0.2</b>
<b>Per capita RGNI</b>	<b>7.3</b>	<b>2.7</b>	<b>-4.8</b>	<b>2.9</b>	<b>4.1</b>	<b>-1.3</b>
Total final demand	8.1	2.8	-6.1	14.0	5.3	3.4
Total final demand excluding re-exports <sup>(a)</sup>	8.2	2.9	-3.5	11.0	4.7	3.2
Domestic demand	7.8	1.4	0.5	7.1	6.5	3.9
Private	8.9	1.2	-0.1	6.6	6.7	3.6
Public	0.6	3.2	4.5	10.2	5.5	5.8
External demand	8.2	3.5	-9.1	17.6	4.8	3.2

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 compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(--) 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>2013</u>	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>	<u>2016</u>	<u>2017</u>			Average annual rate of change:	
					Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	10 years 2006 to 2016 <sup>#</sup>	5 years 2011 to 2016 <sup>#</sup>
Private consumption expenditure	4.6	3.3	4.8	1.8	3.6	3.9	5.4	6.7	4.4	3.7
Government consumption expenditure	2.7	3.1	3.4	3.4	3.4	3.1	3.2	4.1	2.9	3.2
Gross domestic fixed capital formation	2.6	-0.1	-3.2	-0.3	5.6	5.9	7.2	-1.7	2.4	1.1
Building and construction	-4.3	9.3	2.2	3.9	7.5	8.6	2.4	4.1	3.9	3.6
Costs of ownership transfer	-28.1	6.9	-8.3	-2.9	63.7	77.3	53.2	-12.4	-4.3	-10.9
Machinery, equipment and intellectual property products	11.3	-8.7	-7.7	-4.6	-4.2	-8.6	4.7	-6.0	1.7	-0.3
Total exports of goods <sup>&amp;</sup>	8.2	0.8	-1.7	1.8	5.1	9.3	5.5	5.5	3.1	2.4
Imports of goods <sup>&amp;</sup>	9.9	1.5	-2.7	1.1	5.6	10.0	6.1	6.1	4.5	2.8
Exports of services <sup>&amp;</sup>	6.0	1.6	0.3	-3.2	1.2	2.8	2.6	3.7	4.9	1.4
Imports of services <sup>&amp;</sup>	-2.1	-2.2	5.0	2.0	2.0	0.9	3.7	1.5	0.7	0.9
<b>GDP</b>	<b>3.1</b>	<b>2.8</b>	<b>2.4</b>	<b>2.0</b>	<b>3.2</b>	<b>4.3</b>	<b>3.9</b>	<b>3.6</b>	<b>2.9</b>	<b>2.4</b>
<i>Per capita GDP</i>	<i>2.7</i>	<i>2.0</i>	<i>1.5</i>	<i>1.4</i>	--	--	--	--	<b>2.2</b>	<b>1.6</b>
<b>RGNI</b>	<b>4.0</b>	<b>2.7</b>	<b>3.8</b>	<b>4.0</b>	<b>5.6</b>	<b>4.9</b>	<b>5.4</b>	<b>N.A.</b>	<b>2.9</b>	<b>2.8</b>
<i>Per capita RGNI</i>	<i>3.6</i>	<i>1.9</i>	<i>2.9</i>	<i>3.3</i>	--	--	--	--	<b>2.2</b>	<b>2.1</b>
Total final demand	6.6	1.6	-0.4	1.5	4.5	7.2	5.2	4.9	3.6	2.5
Total final demand excluding re-exports <sup>(a)</sup>	4.2	0.6	0.1	1.5	3.5	4.6	4.6	3.7	3.2	1.9
Domestic demand	4.1	2.9	1.6	2.6	4.5	5.4	5.4	4.1	3.8	3.0
Private	4.1	2.6	1.3	2.6	4.0	5.1	5.9	3.8	3.7	2.8
Public	3.7	4.6	2.9	2.9	7.3	6.9	2.4	6.3	4.4	4.0
External demand	7.8	1.0	-1.4	0.9	4.5	8.1	5.0	5.2	3.4	2.3

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

	<u>2012</u>		<u>2013</u>		<u>2014</u>		<u>2015<sup>#</sup></u>		<u>2016<sup>#</sup></u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture, fishing, mining and quarrying	1,114	0.1	1,225	0.1	1,496	0.1	1,630	0.1	1,898	0.1
Manufacturing	30,600	1.5	30,156	1.4	27,885	1.3	26,716	1.1	26,975	1.1
Electricity, gas and water supply, and waste management	35,382	1.8	35,119	1.7	35,636	1.6	34,653	1.5	34,204	1.4
Construction	73,445	3.6	83,288	4.0	96,205	4.4	107,902	4.6	125,951	5.2
Services	1,872,498	93.0	1,948,292	92.9	2,044,750	92.7	2,154,603	92.7	2,230,289	92.2
<i>Import/export, wholesale and retail trades</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>527,822</i>	<i>22.7</i>	<i>522,680</i>	<i>21.6</i>
<i>Accommodation<sup>(a)</sup> and food services</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>78,134</i>	<i>3.4</i>	<i>79,156</i>	<i>3.3</i>
<i>Transportation, storage, postal and courier services</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>150,073</i>	<i>6.5</i>	<i>149,310</i>	<i>6.2</i>
<i>Information and communications</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>80,813</i>	<i>3.5</i>	<i>84,965</i>	<i>3.5</i>
<i>Financing and insurance</i>	<i>319,312</i>	<i>15.9</i>	<i>346,248</i>	<i>16.5</i>	<i>367,989</i>	<i>16.7</i>	<i>409,933</i>	<i>17.6</i>	<i>429,420</i>	<i>17.7</i>
<i>Real estate, professional and business services</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>252,714</i>	<i>10.9</i>	<i>264,172</i>	<i>10.9</i>
<i>Public administration, social and personal services</i>	<i>337,678</i>	<i>16.8</i>	<i>356,326</i>	<i>17.0</i>	<i>379,588</i>	<i>17.2</i>	<i>407,467</i>	<i>17.5</i>	<i>440,491</i>	<i>18.2</i>
<i>Ownership of premises</i>	<i>208,036</i>	<i>10.3</i>	<i>219,166</i>	<i>10.4</i>	<i>232,053</i>	<i>10.5</i>	<i>247,648</i>	<i>10.6</i>	<i>260,094</i>	<i>10.8</i>
<b>GDP at basic prices</b>	<b>2,013,038</b>	<b>100.0</b>	<b>2,098,080</b>	<b>100.0</b>	<b>2,205,972</b>	<b>100.0</b>	<b>2,325,505</b>	<b>100.0</b>	<b>2,419,316</b>	<b>100.0</b>
Taxes on products	63,575	--	75,314	--	83,236	--	95,433	--	84,604	--
Statistical discrepancy (%)	-1.9	--	-1.6	--	-1.3	--	-0.9	--	-0.5	--
<b>GDP at current market prices</b>	<b>2,037,059</b>	<b>--</b>	<b>2,138,305</b>	<b>--</b>	<b>2,260,005</b>	<b>--</b>	<b>2,398,437</b>	<b>--</b>	<b>2,491,001</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.

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

(%)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>	<u>2016</u>		<u>2017</u>	
							Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Agriculture, fishing, mining and quarrying	0.8	-3.2	4.9	-6.0	-6.8	-2.9	-3.5	-1.3	5.2	-2.5
Manufacturing	0.7	-0.8	0.1	-0.4	-1.5	-0.4	-0.1	-1.0	0.2	0.4
Electricity, gas and water supply, and waste management	0.6	1.4	-2.9	0.8	-2.6	0.3	0.6	-1.5	-3.3	-0.8
Construction	18.3	8.3	4.2	13.0	5.4	2.6	3.0	7.6	8.6	3.4
Services	5.2	1.8	2.7	2.5	1.7	2.3	2.3	2.5	3.5	3.1
<i>Import/export, wholesale and retail trades</i>	9.1	1.9	3.3	1.2	-1.1	0.4	0.8	1.7	3.9	3.5
<i>Accommodation<sup>(a)</sup> and food services</i>	8.3	1.8	3.6	2.2	-1.9	0.1	0.1	0.2	1.6	1.2
<i>Transportation, storage, postal and courier services</i>	7.2	0.9	4.1	2.9	3.3	3.3	3.5	3.8	4.7	4.8
<i>Information and communications</i>	2.8	2.8	4.0	3.9	4.0	3.7	3.7	3.3	3.8	3.4
<i>Financing and insurance</i>	6.5	0.8	7.7	5.3	6.1	4.7	4.7	4.8	5.2	4.9
<i>Real estate, professional and business services</i>	2.6	3.1	-4.0	1.9	0.7	3.0	3.2	3.5	4.4	2.1
<i>Public administration, social and personal services</i>	1.8	2.1	2.5	2.4	2.5	2.7	2.5	2.3	2.5	2.6
<i>Ownership of premises</i>	0.7	1.1	0.3	0.8	0.6	0.6	0.6	0.7	0.9	0.8
Taxes on products	-6.8	-10.4	-6.4	6.7	7.1	-9.0	-6.3	24.2	21.0	20.9
<b>GDP in chained (2015) dollars</b>	<b>4.8</b>	<b>1.7</b>	<b>3.1</b>	<b>2.8</b>	<b>2.4</b>	<b>2.0</b>	<b>2.0</b>	<b>3.2</b>	<b>4.3</b>	<b>3.9</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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>	<u>2016</u>		<u>2017</u>	
						Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Current account <sup>(a)</sup>	32,151	32,475	31,453	79,553	115,519	46,548	36,764	16,930	17,992
Goods	-146,729	-216,592	-250,931	-177,302	-136,447	-11,745	-23,688	-58,346	-68,554
Services	169,760	229,424	255,563	234,603	189,491	48,191	46,743	60,395	40,876
Primary income	29,455	40,519	46,607	44,376	84,113	15,323	19,443	19,800	50,420
Secondary income	-20,336	-20,876	-19,786	-22,124	-21,638	-5,221	-5,734	-4,919	-4,749
Capital and financial account <sup>(a)</sup>	-67,664	-86,308	-73,785	-128,642	-122,822	-75,890	-66,102	12,087	-45,533
Capital account	-1,433	-1,609	-748	-216	-362	-48	-185	-59	-74
Financial account	-66,231	-84,699	-73,037	-128,426	-122,460	-75,842	-65,917	12,146	-45,459
Financial non-reserve assets	122,658	-26,810	66,052	153,570	-113,605	-77,793	-44,265	57,455	30,646
<i>Direct investment</i>	-102,623	-50,250	-85,718	794,800	354,466	157,441	172,885	69,372	-36,922
<i>Portfolio investment</i>	-31,592	-386,077	-64,384	-970,938	-325,571	-213,675	-177,749	103,040	229,086
<i>Financial derivatives</i>	15,208	54,661	118,359	99,178	28,599	6,174	3,909	12,533	-3,570
<i>Other investment</i>	241,665	354,856	97,795	230,531	-171,098	-27,733	-43,310	-127,491	-157,948
Reserve assets	-188,889	-57,890	-139,089	-281,996	-8,856	1,951	-21,651	-45,309	-76,105
Net errors and omissions	35,513	53,833	42,332	49,089	7,303	29,342	29,337	-29,017	27,541
<b>Overall Balance of Payments</b>	<b>188,889</b>	<b>57,890</b>	<b>139,089</b>	<b>281,996</b>	<b>8,856</b>	<b>-1,951</b>	<b>21,651</b>	<b>45,309</b>	<b>76,105</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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>	<u>2016</u>	<u>2017</u>		
						Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
Total exports of goods	3,632,957	3,926,059	3,986,769	3,889,225	3,900,462	1,097,702	942,108	993,413	1,098,905
Imports of goods	3,779,686	4,142,651	4,237,700	4,066,527	4,036,909	1,121,390	1,000,454	1,061,967	1,117,819
<b>Goods trade balance</b>	<b>-146,729</b> (-3.9)	<b>-216,592</b> (-5.2)	<b>-250,931</b> (-5.9)	<b>-177,302</b> (-4.4)	<b>-136,447</b> (-3.4)	<b>-23,688</b> (-2.1)	<b>-58,346</b> (-5.8)	<b>-68,554</b> (-6.5)	<b>-18,914</b> (-1.7)
Exports of services	764,026	812,640	829,085	808,948	767,035	200,017	201,261	184,385	208,492
Imports of services	594,266	583,216	573,522	574,345	577,544	153,274	140,866	143,509	154,615
<b>Services trade balance</b>	<b>169,760</b> (28.6)	<b>229,424</b> (39.3)	<b>255,563</b> (44.6)	<b>234,603</b> (40.8)	<b>189,491</b> (32.8)	<b>46,743</b> (30.5)	<b>60,395</b> (42.9)	<b>40,876</b> (28.5)	<b>53,877</b> (34.8)
Exports of goods and services	4,396,983	4,738,699	4,815,854	4,698,173	4,667,497	1,297,719	1,143,369	1,177,798	1,307,397
Imports of goods and services	4,373,952	4,725,867	4,811,222	4,640,872	4,614,453	1,274,664	1,141,320	1,205,476	1,272,434
<b>Goods and services trade balance</b>	<b>23,031</b> <0.5>	<b>12,832</b> <0.3>	<b>4,632</b> <0.1>	<b>57,301</b> <1.2>	<b>53,044</b> <1.1>	<b>23,055</b> <1.8>	<b>2,049</b> <0.2>	<b>-27,678</b> <-2.3>	<b>34,963</b> <2.7>

Notes: Figures in this table are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) 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 standards stipulated in the *System of National Accounts 2008* , other than the change of ownership principle**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>	<u>2016</u> Q4 <sup>#</sup>	<u>2017</u> Q1 <sup>#</sup>	<u>2017</u> Q2 <sup>#</sup>	<u>2017</u> Q3 <sup>#</sup>
<b><u>At current market prices (\$Mn)</u></b>									
Total exports of goods	3,591,776	3,816,390	3,877,458	3,779,263	3,776,638	1,051,658	915,309	975,059	1,059,892
Imports of goods	4,116,410	4,394,928	4,471,810	4,289,991	4,240,000	1,174,232	1,046,631	1,115,073	1,168,631
<b>Goods trade balance</b>	<b>-524,634</b> <b>(-12.7)</b>	<b>-578,538</b> <b>(-13.2)</b>	<b>-594,352</b> <b>(-13.3)</b>	<b>-510,728</b> <b>(-11.9)</b>	<b>-463,362</b> <b>(-10.9)</b>	<b>-122,574</b> <b>(-10.4)</b>	<b>-131,322</b> <b>(-12.5)</b>	<b>-140,014</b> <b>(-12.6)</b>	<b>-108,739</b> <b>(-9.3)</b>
Exports of services	1,003,047	1,058,584	1,079,989	1,052,355	1,007,273	274,471	254,714	235,088	275,540
Imports of services	455,382	467,214	481,005	484,326	490,867	128,842	121,343	122,752	131,838
<b>Services trade balance</b>	<b>547,665</b> <b>(120.3)</b>	<b>591,370</b> <b>(126.6)</b>	<b>598,984</b> <b>(124.5)</b>	<b>568,029</b> <b>(117.3)</b>	<b>516,406</b> <b>(105.2)</b>	<b>145,629</b> <b>(113.0)</b>	<b>133,371</b> <b>(109.9)</b>	<b>112,336</b> <b>(91.5)</b>	<b>143,702</b> <b>(109.0)</b>
Exports of goods and services	4,594,823	4,874,974	4,957,447	4,831,618	4,783,911	1,326,129	1,170,023	1,210,147	1,335,432
Imports of goods and services	4,571,792	4,862,142	4,952,815	4,774,317	4,730,867	1,303,074	1,167,974	1,237,825	1,300,469
<b>Goods and services trade balance</b>	<b>23,031</b> <b>&lt;0.5&gt;</b>	<b>12,832</b> <b>&lt;0.3&gt;</b>	<b>4,632</b> <b>&lt;0.1&gt;</b>	<b>57,301</b> <b>&lt;1.2&gt;</b>	<b>53,044</b> <b>&lt;1.1&gt;</b>	<b>23,055</b> <b>&lt;1.8&gt;</b>	<b>2,049</b> <b>&lt;0.2&gt;</b>	<b>-27,678</b> <b>&lt;-2.2&gt;</b>	<b>34,963</b> <b>&lt;2.7&gt;</b>
<b><u>Rates of change in real terms (%)</u></b>									
Total exports of goods	1.9	6.5	0.8	-1.9	1.4	4.7	9.3	5.4	5.5
Imports of goods	3.0	7.2	0.9	-2.7	0.6	4.8	9.4	5.6	5.5
Exports of services	2.2	4.9	1.2	-0.3	-2.4	1.3	2.6	2.4	3.1
Imports of services	1.9	1.5	1.8	5.3	2.7	3.2	1.6	5.0	2.9

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>		<u>2016</u>		<u>2017</u>	
	(% change)				(% change)	(\$Mn)	Q4	Q1	Q2	Q3
							(% change over a year earlier)			
<b>All markets</b>	<b>2.9</b>	<b>3.6</b>	<b>3.2</b>	<b>-1.8</b>	<b>-0.5</b>	<b>3,588,247</b>	<b>5.5</b>	<b>10.3</b>	<b>7.4</b>	<b>8.0</b>
Mainland of China	6.3	4.9	1.5	-2.1	0.4	1,943,469	8.6	12.6	6.8	8.9
United States	2.3	-2.1	3.1	0.2	-5.3	324,040	-4.8	2.4	-0.1	-0.7
Japan	6.5	-6.1	-2.8	-6.6	-4.9	116,746	-3.2	4.0	9.7	12.9
India	-17.5	7.9	13.1	8.1	14.6	116,702	15.2	40.1	54.7	12.4
Taiwan	-5.2	-4.3	2.5	-18.0	14.6	74,516	33.3	44.5	27.2	19.6
Vietnam	9.9	15.5	14.0	14.7	-5.8	72,173	0.6	13.1	13.6	7.7
Germany	-12.8	-5.1	-1.7	-3.2	-5.1	66,717	-8.4	3.6	1.1	16.8
Singapore	-0.5	4.7	2.2	-2.3	4.8	61,285	18.2	-2.6	0.9	9.6
Netherlands	-2.0	1.1	12.7	10.2	10.3	57,378	14.5	21.8	16.9	10.6
Korea	-4.0	9.0	-2.7	-12.8	-0.6	54,040	9.1	15.2	-1.7	1.4
Rest of the world	0.2	5.4	7.6	-1.8	-3.3	701,182	-0.4	1.4	2.8	6.1

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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>			
	(% change)				(% change)	(\$Mn)	Q4	Q1	Q2	Q3
							(% change over a year earlier)			
<b>All sources</b>	<b>3.9</b>	<b>3.8</b>	<b>3.9</b>	<b>-4.1</b>	<b>-0.9</b>	<b>4,008,384</b>	<b>5.6</b>	<b>10.7</b>	<b>8.2</b>	<b>7.7</b>
Mainland of China	8.5	5.5	2.3	-0.1	-3.4	1,916,831	-1.1	8.6	4.8	4.9
Taiwan	1.6	6.9	14.7	-8.6	6.4	292,072	16.5	19.6	8.3	8.0
Singapore	-3.2	*	5.8	-5.7	6.4	261,694	20.2	12.9	12.1	16.7
Japan	-2.2	-8.1	0.9	-9.9	-5.2	246,698	5.1	8.9	1.4	1.1
United States	-3.3	7.4	*	-3.9	-2.0	206,645	11.7	3.1	7.9	2.5
Korea	2.4	3.4	10.6	-2.0	14.0	196,228	48.5	46.3	23.2	29.8
India	-5.5	6.7	10.0	-13.7	11.9	92,773	20.9	28.4	32.8	-0.6
Malaysia	-6.0	4.7	16.7	-7.9	-3.7	90,584	1.9	3.8	18.1	20.6
Thailand	-4.8	6.4	13.7	-3.7	-2.7	82,586	1.4	10.6	9.3	6.2
Philippines	0.3	2.5	22.0	10.3	5.8	59,768	20.5	36.4	24.5	30.8
Rest of the world	5.3	3.2	-0.3	-10.6	-3.1	562,507	2.6	1.0	8.3	7.0

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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>		<u>2016</u>		<u>2017</u>	
	(% change)				(% change)	(\$Mn)	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>7.5</b>	<b>6.4</b>	<b>2.0</b>	<b>-2.4</b>	<b>-5.2</b>	<b>767,035</b>	<b>0.7</b>	<b>3.9</b>	<b>4.2</b>	<b>6.2</b>
Transport	-0.6	-2.5	2.2	-6.8	-4.7	219,967	4.7	7.6	8.6	8.0
Travel	15.8	17.7	-1.5	-5.8	-9.0	255,064	-3.4	-0.7	-1.8	1.6
Financial services	7.8	6.1	7.0	8.5	-5.5	140,436	0.9	6.6	9.1	12.8
Other services	8.7	1.4	4.7	1.6	1.6	151,568	2.9	4.0	3.6	3.9
<b>Imports of services</b>	<b>2.8</b>	<b>-1.9</b>	<b>-1.7</b>	<b>0.1</b>	<b>0.6</b>	<b>577,544</b>	<b>1.2</b>	<b>1.8</b>	<b>4.3</b>	<b>4.3</b>
Transport	2.3	-1.4	1.5	-5.9	-1.0	132,906	1.5	1.9	3.1	4.1
Travel	5.2	5.7	3.7	4.7	5.1	187,792	4.1	0.9	7.8	6.7
Manufacturing <sup>^</sup>	-0.4	-16.5	-20.2	-2.7	-3.7	86,677	-2.1	2.3	1.5	0.3
Other services	4.0	3.2	3.5	2.2	-0.7	170,169	*	2.4	2.4	3.9

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

Figures in this table are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchandising under the standards stipulated in the *System of National Accounts 2008*.

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

(^) This includes the value of processing fees paid by Hong Kong to the processing units outside Hong Kong and raw materials / semi-manufactures directly procured by these processing units.

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

**Table 9a : Exports and imports of services by component based on the standards stipulated in the *System of National Accounts 2008* , other than the change of ownership principle  
(at current market prices)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>		<u>2016</u>	<u>2017</u>		
	(% change)			(% change)		(\$Mn)	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>6.6</b>	<b>5.5</b>	<b>2.0</b>	<b>-2.6</b>	<b>-4.3</b>	<b>1,007,273</b>	<b>0.7</b>	<b>3.9</b>	<b>3.9</b>	<b>5.4</b>
Transport	-0.6	-2.5	2.2	-6.8	-4.7	219,967	4.7	7.6	8.6	8.0
Travel	15.8	17.7	-1.5	-5.8	-9.0	255,064	-3.4	-0.7	-1.8	1.6
Trade-related	3.9	2.1	1.9	-3.0	-1.3	280,040	0.7	3.6	3.0	3.2
Other services	9.0	4.7	6.6	6.4	-2.1	252,202	2.3	5.5	6.5	9.2
<b>Imports of services</b>	<b>3.8</b>	<b>2.6</b>	<b>3.0</b>	<b>0.7</b>	<b>1.4</b>	<b>490,867</b>	<b>1.9</b>	<b>1.7</b>	<b>4.7</b>	<b>5.1</b>
Transport	2.3	-1.4	1.5	-5.9	-1.0	132,906	1.5	1.9	3.1	4.1
Travel	5.2	5.7	3.7	4.7	5.1	187,792	4.1	0.9	7.8	6.7
Trade-related	1.7	-2.7	2.8	0.1	-0.5	33,562	1.5	3.5	3.0	3.0
Other services	4.6	4.8	3.6	2.7	-0.7	136,607	-0.4	2.1	2.2	4.1

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

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

**Table 10 : Incoming visitors by source**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u> Q4	Q1	<u>2017</u> Q2	Q3
<u>('000)</u>									
<b>All sources</b>	<b>48 615.1</b>	<b>54 298.8</b>	<b>60 838.8</b>	<b>59 307.6</b>	<b>56 654.9</b>	<b>14 936.7</b>	<b>14 242.8</b>	<b>13 566.1</b>	<b>14 826.3</b>
Mainland of China	34 911.4	40 745.3	47 247.7	45 842.4	42 778.1	11 061.3	10 823.0	10 069.7	11 605.9
South and Southeast Asia	3 651.8	3 718.0	3 614.8	3 559.1	3 701.8	1 087.7	834.5	989.5	751.7
Taiwan	2 088.7	2 100.1	2 031.9	2 015.8	2 011.4	496.8	489.8	497.3	515.6
Europe	1 867.7	1 893.7	1 863.3	1 829.4	1 904.9	560.8	480.4	462.2	405.3
United States	1 184.8	1 109.8	1 130.6	1 181.0	1 211.5	351.5	291.7	316.5	267.1
Japan	1 254.6	1 057.0	1 078.8	1 049.3	1 092.3	309.1	319.8	263.2	324.6
Others	3 656.1	3 674.9	3 871.9	3 830.7	3 954.8	1 069.5	1 003.6	967.8	956.0
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>16.0</b>	<b>11.7</b>	<b>12.0</b>	<b>-2.5</b>	<b>-4.5</b>	<b>0.4</b>	<b>3.7</b>	<b>1.0</b>	<b>1.8</b>
Mainland of China	24.2	16.7	16.0	-3.0	-6.7	-0.3	3.8	0.8	2.7
South and Southeast Asia	-2.6	1.8	-2.8	-1.5	4.0	0.1	0.7	-0.3	-5.3
Taiwan	-2.8	0.5	-3.2	-0.8	-0.2	-3.7	1.2	-1.1	-2.3
Europe	3.7	1.4	-1.6	-1.8	4.1	3.2	-0.2	2.4	-1.4
United States	-2.3	-6.3	1.9	4.5	2.6	5.3	4.4	1.3	-0.5
Japan	-2.3	-15.7	2.1	-2.7	4.1	8.8	20.9	11.9	14.4
Others	0.9	0.5	5.4	-1.1	3.2	4.0	3.5	2.6	-1.7

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

**Table 11 : Property market**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</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)	10 471	8 776	7 157	13 405	9 449	10 149	8 254
Commercial property	368	390	235	189	197	226	161
<i>of which :</i>							
Office space	320	341	151	124	155	136	123
Other commercial premises <sup>(b)</sup>	48	49	84	65	42	90	39
Industrial property <sup>(c)</sup>	16	78	3	21	105	170	85
<i>of which :</i>							
Industrial-cum-office premises	0	4	0	0	0	0	0
Conventional flatted factory space	16	70	3	21	32	46	85
Storage premises <sup>(d)</sup>	0	4	0	0	73	123	0
<b>Production of public housing</b>							
(in units)							
Rental housing flats <sup>(e)</sup>	5 667	22 759	19 021	6 385	17 787	9 778	20 898
Subsidised sales flats <sup>(e)</sup>	2 010	2 200	370	1 110	0	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	900.0	530.0	546.8	570.5	580.6	796.4	816.0
Commercial property	327.5	147.7	178.3	158.4	133.6	210.2	309.5
Industrial property <sup>(f)</sup>	103.5	106.6	97.1	34.3	109.3	70.7	138.1
Other properties	207.7	212.8	253.2	459.2	232.7	428.9	136.4
Total	1 538.6	997.1	1 075.4	1 222.4	1 056.2	1 506.1	1 400.1
<b>Agreements for sale and purchase of property</b>							
(Number)							
Residential property <sup>(g)</sup>	123 575	95 931	115 092	135 778	84 462	81 333	50 676
Primary market	20 123	11 046	16 161	13 646	10 880	12 968	11 046
Secondary market	103 452	84 885	98 931	122 132	73 582	68 365	39 630
Selected types of non-residential properties <sup>(h)</sup>							
Office space	4 129	2 845	2 521	3 591	3 071	3 269	1 685
Other commercial premises	5 490	4 149	5 359	7 639	5 980	7 282	4 305
Flatted factory space	9 072	5 741	5 554	8 206	7 619	9 731	4 271

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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u> Q4	Q1	<u>2017</u> Q2	Q3
<b>Completion of new property by the private sector</b>							
('000 m <sup>2</sup> of internal floor area)							
Residential property <sup>(a)</sup> (in units)	15 719	11 280	14 595	3 839	4 370	4 419	4 128
Commercial property	161	233	276	101	20	22	136
<i>of which :</i>							
Office space	104	164	153	53	12	0	101
Other commercial premises <sup>(b)</sup>	57	69	123	49	7	22	35
Industrial property <sup>(c)</sup>	116	30	78	5	0	23	83
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	36	30	5	5	0	23	0
Storage premises <sup>(d)</sup>	80	0	73	0	0	0	83
<b>Production of public housing</b>							
(in units)							
Rental housing flats <sup>(e)</sup>	5 634	10 147	21 755	4 884	1 648	1 352	N.A.
Subsidised sales flats <sup>(e)</sup>	0	1 326	229	229	2 788	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	647.1	893.3	645.8	106.4	325.2	196.8	N.A.
Commercial property	290.3	319.0	312.4	40.6	274.9	67.0	N.A.
Industrial property <sup>(f)</sup>	105.9	225.3	76.2	16.5	18.0	13.4	N.A.
Other properties	217.1	555.4	235.1	121.7	85.9	39.2	N.A.
Total	1 260.4	1 993.0	1 269.4	285.3	704.0	316.4	N.A.
<b>Agreements for sale and purchase of property</b>							
(Number)							
Residential property <sup>(g)</sup>	63 807	55 982	54 701	16 890	13 221	18 892	13 158
Primary market	16 857	16 826	16 793	4 916	3 573	6 245	4 577
Secondary market	46 950	39 156	37 908	11 974	9 648	12 647	8 581
Selected types of non-residential properties <sup>(h)</sup>							
Office space	1 271	1 470	1 105	412	594	530	361
Other commercial premises	3 092	2 067	1 523	541	490	576	533
Flatted factory space	3 016	3 407	2 727	1 074	963	1 346	1 273

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	103.5	120.5	121.3	150.9	182.1	206.2	242.4
Office space	165.5	199.0	179.8	230.4	297.9	334.7	409.8
Shopping space	172.5	192.2	193.1	257.2	327.4	420.5	506.8
Flatted factory space	199.5	235.9	216.3	284.4	385.0	489.8	655.4
Property rental indices <sup>(b)</sup> :							
Residential flats	101.8	115.7	100.4	119.7	134.0	142.6	154.5
Office space	131.9	155.5	135.7	147.6	169.9	188.3	204.1
Shopping space	111.8	116.2	110.9	122.9	134.3	151.3	165.5
Flatted factory space	100.5	109.3	99.4	108.9	118.6	131.9	147.3
<u>(% change)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	11.7	16.4	0.7	24.4	20.7	13.2	17.6
Office space	18.8	20.2	-9.6	28.1	29.3	12.4	22.4
Shopping space	12.4	11.4	0.5	33.2	27.3	28.4	20.5
Flatted factory space	25.9	18.2	-8.3	31.5	35.4	27.2	33.8
Property rental indices <sup>(b)</sup> :							
Residential flats	11.1	13.7	-13.2	19.2	11.9	6.4	8.3
Office space	12.4	17.9	-12.7	8.8	15.1	10.8	8.4
Shopping space	7.2	3.9	-4.6	10.8	9.3	12.7	9.4
Flatted factory space	10.4	8.8	-9.1	9.6	8.9	11.2	11.7

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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u> Q4	Q1	<u>2017</u> Q2 <sup>#</sup>	Q3 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	256.9	296.8	286.1	306.1	315.0	333.2	338.8
Office space	423.0	448.9	426.9	434.3	464.8	483.2	487.9
Shopping space	521.2	559.2	526.9	534.4	546.7	550.8	561.8
Flatted factory space	668.0	723.9	692.7	709.2	736.3	768.9	786.8
Property rental indices <sup>(b)</sup> :							
Residential flats	159.5	172.8	168.2	172.8	176.8	181.5	184.9
Office space	213.7	226.7	232.3	234.0	237.1	240.2	244.9
Shopping space	173.1	182.5	178.6	179.4	180.2	180.9	183.5
Flatted factory space	160.1	174.4	181.4	184.1	185.9	189.0	194.3
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	6.0	15.5	-3.6	4.3	14.7	21.1	17.5
Office space	3.2	6.1	-4.9	-5.0	6.3	15.5	16.8
Shopping space	2.8	7.3	-5.8	-3.7	2.5	4.8	9.3
Flatted factory space	1.9	8.4	-4.3	-3.0	7.2	11.0	15.4
Property rental indices <sup>(b)</sup> :							
Residential flats	3.2	8.3	-2.7	-0.4	6.9	10.1	8.9
Office space	4.7	6.1	2.5	1.7	2.8	3.7	5.2
Shopping space	4.6	5.4	-2.1	-1.7	0.5	1.6	3.4
Flatted factory space	8.7	8.9	4.0	3.6	4.2	4.4	6.8

**Table 13 : Monetary aggregates**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	454,342	491,115	671,241	730,093	794,726	920,920	1,000,344
M2 <sup>(a)</sup>	3,281,017	3,239,857	3,587,717	3,866,788	4,046,216	4,537,384	4,795,130
M3 <sup>(a)</sup>	3,300,500	3,261,306	3,604,843	3,878,193	4,055,404	4,545,590	4,806,012
Total money supply (\$Mn)							
M1	616,709	645,833	901,819	1,017,227	1,127,320	1,377,359	1,510,895
M2	6,106,348	6,268,058	6,602,310	7,136,271	8,057,530	8,950,005	10,056,437
M3	6,139,758	6,300,751	6,626,843	7,156,260	8,081,079	8,970,396	10,085,243
Deposit (\$Mn)							
HK\$	3,075,042	3,033,980	3,373,595	3,617,183	3,740,240	4,176,200	4,390,953
Foreign currency	2,793,856	3,024,004	3,007,445	3,245,081	3,851,020	4,120,234	4,789,109
Total	5,868,898	6,057,984	6,381,040	6,862,265	7,591,260	8,296,434	9,180,062
Loans and advances (\$Mn)							
HK\$	2,184,705	2,354,755	2,401,323	2,824,445	3,160,002	3,333,059	3,606,018
Foreign currency	776,971	930,883	887,160	1,403,281	1,920,659	2,233,751	2,850,795
Total	2,961,676	3,285,638	3,288,483	4,227,726	5,080,661	5,566,810	6,456,813
Nominal Effective Exchange Rate Indices (Jan 2010 = 100) <sup>(b)</sup>							
Trade-weighted	106.3	100.7	101.9	99.5	94.6	94.9	94.9
Import-weighted	107.6	101.3	102.2	99.2	93.9	94.2	94.7
Export-weighted	104.8	100.1	101.6	99.8	95.4	95.6	95.1
<u>(% change)</u>							
Hong Kong dollar money supply							
M1	17.1	8.1	36.7	8.8	8.9	15.9	8.6
M2 <sup>(a)</sup>	18.1	-1.3	10.7	7.8	4.6	12.1	5.7
M3 <sup>(a)</sup>	18.1	-1.2	10.5	7.6	4.6	12.1	5.7
Total money supply							
M1	25.4	4.7	39.6	12.8	10.8	22.2	9.7
M2	20.8	2.6	5.3	8.1	12.9	11.1	12.4
M3	20.6	2.6	5.2	8.0	12.9	11.0	12.4
Deposit							
HK\$	19.7	-1.3	11.2	7.2	3.4	11.7	5.1
Foreign currency	27.6	8.2	-0.5	7.9	18.7	7.0	16.2
Total	23.4	3.2	5.3	7.5	10.6	9.3	10.7
Loans and advances							
HK\$	13.9	7.8	2.0	17.6	11.9	5.5	8.2
Foreign currency	41.2	19.8	-4.7	58.2	36.9	16.3	27.6
Total	20.0	10.9	0.1	28.6	20.2	9.6	16.0
Nominal Effective Exchange Rate Indices (Jan 2010 = 100) <sup>(b)</sup>							
Trade-weighted	-4.3	-5.3	1.2	-2.4	-4.9	0.3	0.0
Import-weighted	-4.4	-5.9	0.9	-2.9	-5.3	0.3	0.5
Export-weighted	-4.4	-4.5	1.5	-1.8	-4.4	0.2	-0.5

**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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u> Q4	Q1	<u>2017</u> Q2	Q3
<i>(as at end of period)</i>							
Hong Kong dollar money supply (\$Mn)							
M1	1,116,675	1,253,380	1,428,775	1,428,775	1,474,229	1,502,456	1,607,223
M2 <sup>(a)</sup>	5,225,773	5,765,549	6,280,230	6,280,230	6,598,508	6,837,206	7,004,256
M3 <sup>(a)</sup>	5,236,188	5,778,772	6,292,666	6,292,666	6,611,151	6,850,484	7,019,465
Total money supply (\$Mn)							
M1	1,708,724	1,971,146	2,213,970	2,213,970	2,228,810	2,299,020	2,393,467
M2	11,011,372	11,618,441	12,508,127	12,508,127	12,928,850	13,314,695	13,484,438
M3	11,048,944	11,655,019	12,551,331	12,551,331	12,977,811	13,361,692	13,533,592
Deposit (\$Mn)							
HK\$	4,800,330	5,312,403	5,809,060	5,809,060	6,104,834	6,346,347	6,490,502
Foreign currency	5,272,804	5,437,346	5,918,240	5,918,240	5,979,283	6,032,883	6,011,369
Total	10,073,135	10,749,749	11,727,300	11,727,300	12,084,117	12,379,230	12,501,870
Loans and advances (\$Mn)							
HK\$	4,000,361	4,152,589	4,479,107	4,479,107	4,622,401	4,893,757	5,112,454
Foreign currency	3,275,910	3,381,951	3,544,284	3,544,284	3,770,500	3,950,445	3,936,339
Total	7,276,271	7,534,540	8,023,390	8,023,390	8,392,901	8,844,202	9,048,793
Nominal Effective Exchange Rate Indices (Jan 2010 =100) <sup>(b)</sup>							
Trade-weighted	96.0	101.3	104.1	106.3	106.8	105.4	102.7
Import-weighted	96.0	101.7	104.2	106.2	106.8	105.2	102.7
Export-weighted	95.9	100.9	104.1	106.4	106.8	105.6	102.7
<i>(% change over a year earlier)</i>							
Hong Kong dollar money supply							
M1	11.6	12.2	14.0	14.0	12.9	13.0	13.4
M2 <sup>(a)</sup>	9.0	10.3	8.9	8.9	13.7	15.9	13.2
M3 <sup>(a)</sup>	9.0	10.4	8.9	8.9	13.7	15.9	13.2
Total money supply							
M1	13.1	15.4	12.3	12.3	7.3	10.0	7.1
M2	9.5	5.5	7.7	7.7	10.1	12.9	8.8
M3	9.6	5.5	7.7	7.7	10.1	13.0	8.9
Deposit							
HK\$	9.3	10.7	9.3	9.3	14.0	16.4	13.2
Foreign currency	10.1	3.1	8.8	8.8	6.4	7.8	2.0
Total	9.7	6.7	9.1	9.1	10.1	12.1	7.5
Loans and advances							
HK\$	10.9	3.8	7.9	7.9	10.4	14.8	18.0
Foreign currency	14.9	3.2	4.8	4.8	13.0	15.0	12.7
Total	12.7	3.5	6.5	6.5	11.6	14.9	15.7
Nominal Effective Exchange Rate Indices (Jan 2010 =100) <sup>(b)</sup>							
Trade-weighted	1.2	5.5	2.8	2.9	2.7	2.5	-0.8
Import-weighted	1.4	5.9	2.5	2.2	2.3	2.2	-0.6
Export-weighted	0.8	5.2	3.2	3.6	3.1	2.8	-1.1

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

(b) Period average.

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

(%)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>		<u>2017</u>	
					Q3	Q4	Q1	Q2
<b>Services Industry</b>								
Import and export trade	-0.3	0.1	-3.9	-2.5	0.1	3.0	4.2	1.6
Wholesale	4.3	1.5	-4.9	-1.0	3.2	2.6	3.4	1.9
Retail	11.0	-0.2	-3.7	-8.1	-7.5	-3.7	-1.3	0.2
Transportation	1.4	6.1	-4.3	-6.5	-6.8	-1.6	2.3	9.2
<i>within which:</i>								
Land transport	8.0	6.9	5.4	3.6	4.4	0.7	1.5	2.3
Water transport	-2.9	6.8	-7.7	-11.2	-12.7	1.4	2.3	11.7
Air transport	2.4	5.3	-5.1	-7.0	-6.9	-4.3	2.7	10.6
Warehousing and storage	8.2	11.9	12.7	12.1	10.6	7.7	7.1	11.1
Courier	26.1	5.4	-5.9	5.5	12.6	5.6	18.9	17.7
Accommodation services <sup>(a)</sup>	5.6	6.5	-6.6	-1.1	-0.5	0.9	5.0	4.8
Food services	3.5	3.5	3.9	2.9	2.6	4.1	4.2	4.0
Information and communications	6.0	5.9	10.8	0.6	-3.7	-5.3	-0.5	1.0
<i>within which:</i>								
Telecommunications	8.0	10.7	19.6	-0.8	-6.4	-10.0	-7.0	-7.2
Film entertainment	-4.3	-11.7	-3.1	-4.5	-5.2	-7.0	4.8	6.0
Banking	16.8	5.9	8.3	8.1	3.9	5.8	17.6	-28.9
Financing (except banking)	2.6	6.7	19.0	-6.0	5.1	-0.3	8.2	2.2
<i>within which:</i>								
Financial markets and asset management	1.0	8.9	19.0	-8.7	0.8	-1.6	0.4	-4.6
<i>within which: Asset management</i>	14.9	11.0	7.0	4.1	8.7	6.0	1.2	0.1
Insurance	15.1	18.2	11.7	21.8	29.9	25.2	18.1	7.0
Real estate	0.1	17.0	8.1	16.5	21.3	26.5	35.7	14.6
Professional, scientific and technical services	7.2	7.6	5.3	3.3	2.7	4.3	1.9	0.7
Administrative and support services	9.5	7.3	7.4	0.9	0.1	0.2	0.3	0.1
<b>Services Domain</b>								
Tourism, convention and exhibition services	17.8	-0.9	-5.0	-8.1	-6.5	-4.2	-0.3 <sup>+</sup>	-2.5 <sup>+</sup>
Computer and information technology services	2.1	-1.8	-4.2	-3.5	-4.4	0.7	0.9	1.4

Notes: Upon the implementation of the new Hong Kong Standard Industrial Classification (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 sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(+) Provisional figure.

**Table 15 : Labour force characteristics**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>		<u>2017</u>	
						Q4	Q1	Q2	Q3
<u>(%)</u>									
Labour force participation rate	60.5	61.2	61.1	61.1	61.1	60.6	61.2	61.1	61.3
Seasonally adjusted unemployment rate <sup>(a)</sup>	3.3	3.4	3.3	3.3	3.4	3.3	3.2	3.1	3.1
Underemployment rate	1.5	1.5	1.5	1.4	1.4	1.4	1.2	1.2	1.1
<u>('000)</u>									
Population of working age	6 251.5	6 297.5	6 340.1	6 383.7	6 420.9	6 454.0	6 449.8	6 460.8	6 473.2
Labour force	3 782.2	3 855.1	3 871.1	3 903.2	3 920.1	3 909.5	3 947.4	3 947.2	3 965.6
Persons employed	3 658.0	3 724.0	3 743.5	3 773.8	3 787.1	3 787.1	3 822.4	3 822.1	3 837.4
Persons unemployed	124.3	131.1	127.6	129.4	133.0	122.4	125.0	125.2	128.2
Persons underemployed	57.2	58.3	56.8	53.3	54.7	54.6	49.0	45.5	43.7
<u>(% change over a year earlier)</u>									
Population of working age	1.4	0.7	0.7	0.7	0.6	0.7	0.7	0.5	0.5
Labour force	2.1	1.9	0.4	0.8	0.4	0.1	0.9	0.9	1.0
Persons employed	2.3	1.8	0.5	0.8	0.4	0.2	1.0	1.3	1.4
Persons unemployed	-1.9	5.5	-2.7	1.4	2.8	-1.0	-4.7	-8.6	-8.4
Persons underemployed	-9.6	1.9	-2.6	-6.1	2.5	2.9	-8.4	-16.5	-21.6

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

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

Selected major industries	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>			<u>2017</u>		
	(% change)					Sep	Dec	Mar	Jun		
						(% change over a year earlier)					(No.)
Manufacturing	-5.1	-3.0	-1.2	-2.8	-3.6	-4.4	-4.1	-3.4	-2.8	93 413	
Construction sites (covering manual workers only)	13.8	11.2	4.4	14.9	13.3	15.0	10.2	12.2	6.2	112 825	
Import and export trade	-1.1	-0.2	0.1	-1.4	-0.7	-0.6	-0.6	-0.3	-0.3	480 314	
Wholesale	-0.6	-2.0	-0.3	-1.4	-0.8	-1.3	-1.2	-1.0	-0.9	60 667	
Retail	2.5	2.3	2.2	-0.5	-1.1	-0.9	-0.2	0.4	0.6	267 796	
Food and beverage services	1.6	0.9	2.4	0.1	-0.2	0.1	*	0.3	0.2	242 562	
Accommodation services <sup>(a)</sup>	9.2	5.0	3.2	-1.1	-2.1	-1.2	-1.1	-1.0	0.8	38 972	
Transportation, storage, postal and courier services	1.8	2.0	2.7	1.6	0.5	*	0.2	-0.3	-0.1	177 615	
Information and communications	5.6	5.1	2.7	1.1	0.7	0.2	0.8	1.5	1.4	106 581	
Financing and insurance	1.9	1.0	2.3	2.3	0.8	0.5	1.0	0.9	1.4	223 680	
Real estate	4.2	1.6	0.6	1.7	-0.1	*	1.1	1.3	1.2	130 455	
Professional and business services (excluding cleaning and similar services)	3.4	4.5	2.7	2.4	1.9	2.5	2.9	3.2	1.9	292 081	
Cleaning and similar services	3.3	1.6	0.2	2.4	0.5	0.1	1.1	1.8	0.4	82 342	
Education	2.4	2.8	4.4	3.9	2.3	1.8	2.3	1.5	2.0	198 773	
Human health services	4.9	5.2	4.3	4.5	4.3	4.3	4.2	3.9	3.3	124 223	
Residential care and social work services	2.0	0.5	0.6	2.8	3.0	3.2	0.8	0.3	0.6	63 218	
Arts, entertainment, recreation and other services	0.6	1.6	5.9	0.9	-2.2	-2.1	-3.1	-2.4	-0.6	124 553	
Civil service <sup>(b)</sup>	1.1	1.3	1.0	0.7	1.2	1.1	1.0	0.9	1.4	167 857	
Others <sup>(c)</sup>	-5.1	3.5	3.1	-1.0	0.8	1.4	1.9	3.3	3.7	11 374	

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 (HSIC) 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 sector covers 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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>		<u>2017</u>	
						Sep	Dec	Mar	Jun
<u>(Number)</u>									
Building sites									
Private sector	37 687	41 308	44 024	50 372	60 243	61 091	63 255	65 559	63 176
Public sector <sup>(a)</sup>	10 578	9 860	11 212	15 470	16 030	15 152	17 971	21 141	20 189
Sub-total	48 265	51 168	55 236	65 842	76 273	76 243	81 226	86 700	83 365
Civil engineering sites									
Private sector	1 410	1 322	1 414	1 609	1 386	1 334	1 221	1 110	904
Public sector <sup>(a)</sup>	21 621	26 813	26 145	27 652	30 141	30 242	29 923	29 832	28 556
Sub-total	23 030	28 135	27 559	29 261	31 526	31 576	31 144	30 942	29 460
<b>Total</b>	<b>71 295</b>	<b>79 303</b>	<b>82 795</b>	<b>95 103</b>	<b>107 799</b>	<b>107 819</b>	<b>112 370</b>	<b>117 642</b>	<b>112 825</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	18.6	9.6	6.6	14.4	19.6	21.6	14.6	14.9	6.1
Public sector <sup>(a)</sup>	-14.2	-6.8	13.7	38.0	3.6	0.3	13.5	32.6	34.2
Sub-total	9.4	6.0	8.0	19.2	15.8	16.6	14.4	18.7	11.7
Civil engineering sites									
Private sector	12.8	-6.2	7.0	13.8	-13.9	-11.4	-12.6	-33.5	-31.4
Public sector <sup>(a)</sup>	25.2	24.0	-2.5	5.8	9.0	12.5	1.2	-1.0	-5.7
Sub-total	24.4	22.2	-2.0	6.2	7.7	11.3	0.6	-2.7	-6.7
<b>Total</b>	<b>13.8</b>	<b>11.2</b>	<b>4.4</b>	<b>14.9</b>	<b>13.3</b>	<b>15.0</b>	<b>10.2</b>	<b>12.2</b>	<b>6.2</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 sections	2012	2013	2014	2015	2016	2016		2017	
						Q3	Q4	Q1	Q2
<b>(in nominal terms)</b>									
Manufacturing	8.2	3.3	5.3	5.2	3.5	3.9	3.1	3.3	3.8
Import/export and wholesale trade	4.6	3.3	2.8	3.7	2.3	1.9	2.6	2.2	3.0
Retail trade	10.1	6.7	4.2	3.5	2.4	2.8	2.9	2.6	3.2
Transportation, storage, postal and courier services	1.2	5.4	3.3	4.3	3.3	2.4	3.4	3.3	3.6
Accommodation <sup>(a)</sup> and food service activities	6.2	6.7	5.2	5.8	5.1	5.2	5.1	3.9	5.3
Information and communications	8.2	5.4	5.1	4.4	3.4	3.6	4.0	3.2	2.9
Financial and insurance activities	4.7	4.6	6.3	4.0	2.7	2.9	3.6	2.5	3.5
Real estate activities	7.7	5.9	4.7	5.1	4.2	4.5	4.4	4.2	4.7
Professional and business services	4.7	7.1	6.9	5.8	5.1	4.8	4.6	4.1	4.1
Social and personal services	7.6	3.6	1.6	6.7	2.5	4.1	3.3	4.6	3.6
<b>All selected industry sections surveyed</b>	<b>6.5</b>	<b>5.4</b>	<b>4.3</b>	<b>4.6</b>	<b>3.7</b>	<b>4.1</b>	<b>3.8</b>	<b>3.5</b>	<b>3.8</b>
<b>(in real terms)</b>									
Manufacturing	3.9	-0.9	0.9	2.1	1.0	0.7	1.9	2.7	1.8
Import/export and wholesale trade	0.5	-1.0	-1.5	0.7	-0.1	-1.2	1.4	1.6	1.0
Retail trade	5.7	2.3	-0.1	0.5	*	-0.3	1.7	2.1	1.2
Transportation, storage, postal and courier services	-2.7	1.0	-1.0	1.3	0.9	-0.7	2.1	2.8	1.6
Accommodation <sup>(a)</sup> and food service activities	2.0	2.3	0.8	2.7	2.6	2.0	3.8	3.3	3.3
Information and communications	4.0	1.0	0.7	1.4	1.0	0.5	2.7	2.7	0.9
Financial and insurance activities	0.5	0.4	1.9	0.7	0.3	-0.2	2.3	2.0	1.4
Real estate activities	3.6	1.4	0.2	2.0	1.7	1.3	3.1	3.6	2.7
Professional and business services	0.7	2.6	2.3	2.8	2.6	1.6	3.3	3.5	2.1
Social and personal services	3.6	-0.8	-2.7	3.6	0.1	0.9	2.1	4.0	1.6
<b>All selected industry sections surveyed</b>	<b>2.3</b>	<b>1.1</b>	<b>-0.1</b>	<b>1.5</b>	<b>1.3</b>	<b>1.0</b>	<b>2.5</b>	<b>2.9</b>	<b>1.7</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 sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

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

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

	(%)								
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>		<u>2017</u>	
Selected industry sections						Sep	Dec	Mar	Jun
<b>(in nominal terms)</b>									
Manufacturing	4.3	4.7	4.9	4.0	4.0	3.8	3.9	3.6	3.9
Import/export, wholesale and retail trades	4.5	2.9	2.5	3.1	2.7	2.7	2.8	2.9	2.9
Transportation	3.3	3.9	4.8	4.4	3.5	3.3	3.3	3.1	3.0
Accommodation <sup>(a)</sup> and food service activities	7.9	5.7	4.7	5.4	4.9	5.0	4.8	4.5	4.9
Financial and insurance activities <sup>(b)</sup>	4.2	4.4	3.2	3.2	3.4	3.0	3.2	3.3	3.6
Real estate leasing and maintenance management	7.6	9.3	4.5	3.4	3.7	3.7	3.5	3.4	4.0
Professional and business services	6.5	5.9	6.7	6.9	4.7	4.4	4.5	4.9	5.1
Personal services	9.2	6.2	7.8	6.5	5.5	5.3	4.9	4.4	4.6
<b>All industries surveyed</b>	<b>5.6</b>	<b>4.7</b>	<b>4.2</b>	<b>4.4</b>	<b>3.7</b>	<b>3.7</b>	<b>3.6</b>	<b>3.6</b>	<b>3.8</b>
<b>(in real terms)</b>									
Manufacturing	0.6	-0.1	-1.6	0.2	1.4	0.5	2.8	3.4	1.5
Import/export, wholesale and retail trades	0.6	-1.7	-3.9	-0.6	0.3	-0.5	1.7	2.7	0.5
Transportation	-0.7	-0.6	-1.9	0.6	1.0	0.1	2.2	2.9	0.6
Accommodation <sup>(a)</sup> and food service activities	3.8	1.1	-1.8	1.5	2.3	1.6	3.7	4.3	2.5
Financial and insurance activities <sup>(b)</sup>	0.1	0.1	-3.7	-0.5	0.9	-0.3	2.1	3.2	1.3
Real estate leasing and maintenance management	3.4	4.5	-1.9	-0.4	1.1	0.4	2.4	3.3	1.7
Professional and business services	2.2	1.5	*	2.9	2.3	1.1	3.4	4.8	2.7
Personal services	5.3	1.5	1.1	2.6	3.0	2.0	3.8	4.2	2.2
<b>All industries surveyed</b>	<b>1.6</b>	<b>0.1</b>	<b>-2.4</b>	<b>0.6</b>	<b>1.2</b>	<b>0.3</b>	<b>2.5</b>	<b>3.5</b>	<b>1.5</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 sector covers 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 sections	May – Jun 2015			May – Jun 2016		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing <sup>(a)</sup>	12,100	14,900	22,300	12,700	15,600	23,500
Electricity and gas supply; sewerage, waste management and remediation activities	18,800	25,000	39,500	18,900	25,800	40,700
Construction	15,700	20,000	24,700	16,700	21,200	26,000
Import and export trade	12,000	16,500	25,500	12,500	17,100	26,300
Wholesale	10,300	13,300	18,000	10,700	13,800	19,000
Retail trade	9,500	12,000	16,100	10,000	12,400	16,600
<i>within which:</i>						
Supermarkets and convenience stores	6,300	10,300	12,700	6,500	10,600	12,900
Other retail stores	9,700	12,200	16,700	10,100	12,600	17,300
Land transport	13,000	16,800	24,500	13,500	17,500	25,400
Other transportation, storage, postal and courier services <sup>(b)</sup>	12,300	16,200	21,600	12,900	16,800	22,500
Restaurants	9,000	11,100	15,000	9,600	11,800	15,900
<i>within which:</i>						
Hong Kong style tea cafes	9,400	11,000	14,400	10,000	11,700	15,500
Chinese restaurants	10,500	12,600	17,000	11,000	13,200	18,000
Restaurants, other than Chinese	9,900	11,700	15,100	10,400	12,300	16,000
Fast food cafes <sup>(c)</sup>	3,900	8,300	10,800	4,200	8,800	11,400
Accommodation <sup>(d)</sup> and other food service activities	11,000	13,800	18,000	11,500	14,400	18,800
Information and communications	13,600	20,000	30,500	14,200	20,700	31,500
Financing and insurance	16,000	25,100	42,500	16,700	26,000	43,800
Real estate activities <sup>(e)</sup>	12,500	20,000	29,800	13,000	20,700	30,800
Estate management, security and cleaning services	8,500	10,600	13,200	9,100	11,200	13,800
<i>within which:</i>						
Real estate maintenance management	10,600	11,900	14,500	11,000	12,400	15,200
Security services <sup>(f)</sup>	9,800	11,400	13,400	10,300	11,800	14,000
Cleaning services	7,100	8,300	9,300	7,400	8,700	9,800
Membership organisations <sup>(g)</sup>	8,500	11,800	18,300	9,000	12,300	19,000
Professional, scientific and technical services	13,400	20,500	32,000	14,200	21,500	33,500
Administrative and support services activities	11,100	15,100	23,500	11,600	15,800	24,500
Travel agency, reservation service and related activities	10,800	13,100	18,600	11,400	13,800	19,600
Education and public administration (excluding the Government)	13,000	25,400	45,400	13,600	26,800	48,500
Human health activities; and beauty and body prettifying treatment	12,200	16,700	36,200	12,900	17,600	37,700
Miscellaneous activities	9,300	11,000	14,500	9,700	11,500	15,000
<i>within which:</i>						
Elderly homes	10,300	12,000	14,600	10,800	12,600	15,300
Laundry and dry cleaning services	7,800	10,400	13,700	8,000	10,700	14,000
Hairdressing and other personal services	9,000	10,500	14,000	9,300	11,000	14,500
Local courier services	7,600	9,200	13,000	7,800	9,500	13,600
Food processing and production	8,900	11,000	15,900	9,300	11,500	16,500
Other activities not classified above	10,400	14,000	21,600	10,700	14,500	22,600
<b>All industry sections above</b>	<b>11,000</b>	<b>15,500</b>	<b>24,400</b>	<b>11,600</b>	<b>16,200</b>	<b>25,400</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 sector covers 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 sections	May – Jun 2015			May – Jun 2016		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing <sup>(a)</sup>	46.9	60.7	90.0	48.9	63.3	94.9
Electricity and gas supply; sewerage, waste management and remediation activities	69.2	96.6	146.1	71.8	100.0	150.1
Construction	65.1	83.0	103.0	69.6	88.9	110.4
Import and export trade	51.1	70.4	108.0	52.9	73.2	111.2
Wholesale	45.3	57.4	76.6	47.0	58.3	77.8
Retail trade	37.8	45.3	60.5	39.7	47.1	63.2
<i>within which:</i>						
Supermarkets and convenience stores	35.8	39.1	45.5	37.6	42.3	47.0
Other retail stores	38.5	46.7	62.5	40.3	48.9	66.0
Land transport	49.5	70.6	108.9	51.4	73.3	112.8
Other transportation, storage, postal and courier services <sup>(b)</sup>	45.5	59.4	81.0	47.2	62.1	84.4
Restaurants	38.0	42.3	53.8	40.0	44.7	55.6
<i>within which:</i>						
Hong Kong style tea cafes	38.7	42.3	52.5	41.0	45.0	55.5
Chinese restaurants	38.6	44.4	60.5	40.8	47.0	63.5
Restaurants, other than Chinese	39.4	45.1	55.6	41.2	47.3	58.9
Fast food cafes <sup>(c)</sup>	35.8	38.1	42.1	38.0	40.6	44.8
Accommodation <sup>(d)</sup> and other food service activities	40.2	49.5	64.9	41.9	51.7	67.9
Information and communications	54.9	78.6	121.0	56.5	80.8	124.1
Financing and insurance	63.9	98.5	167.6	66.2	101.8	173.6
Real estate activities <sup>(e)</sup>	56.8	79.9	128.4	58.8	83.1	132.4
Estate management, security and cleaning services	34.0	38.1	49.3	35.7	40.0	51.9
<i>within which:</i>						
Real estate maintenance management	34.0	37.7	54.4	35.7	39.7	55.4
Security services <sup>(f)</sup>	34.5	37.5	45.1	35.7	39.4	47.0
Cleaning services	33.6	37.4	42.2	35.1	39.6	44.0
Membership organisations <sup>(g)</sup>	36.3	48.4	75.3	37.9	50.1	77.4
Professional, scientific and technical services	56.5	83.1	137.8	59.0	86.7	144.0
Administrative and support services activities	43.0	62.1	96.4	45.2	65.5	101.0
Travel agency, reservation service and related activities	43.4	57.7	78.7	45.5	60.6	81.7
Education and public administration (excluding the Government)	60.9	119.5	200.0	64.4	124.7	211.4
Human health activities; and beauty and body prettifying treatment	55.3	78.2	145.2	57.4	81.5	153.0
Miscellaneous activities	37.5	43.8	58.8	39.2	46.1	61.1
<i>within which:</i>						
Elderly homes	35.6	43.5	58.0	37.3	45.4	60.6
Laundry and dry cleaning services	37.0	42.9	54.1	38.0	44.2	58.5
Hairdressing and other personal services	39.6	45.1	60.7	42.0	46.9	62.5
Local courier services	37.0	44.1	54.0	38.8	45.8	56.5
Food processing and production	37.4	42.8	60.0	39.4	44.7	62.6
Other activities not classified above	45.2	57.8	90.4	46.8	59.3	93.4
<b>All industry sections above</b>	<b>44.2</b>	<b>62.9</b>	<b>100.0</b>	<b>46.2</b>	<b>65.4</b>	<b>103.9</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 sector covers 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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
GDP deflator	3.1	1.3	-0.4	0.3	3.9	3.5	1.8	2.9
Domestic demand deflator	2.4	2.6	-0.8	2.2	4.5	4.2	1.4	3.1
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	2.0	4.3	0.5	2.4	5.3	4.1	4.3	4.4
CPI(A)	1.3	3.6	0.4	2.7	5.6	3.6	5.1	5.6
CPI(B)	2.2	4.6	0.5	2.3	5.2	4.3	4.1	4.2
CPI(C)	2.7	4.7	0.6	2.1	5.1	4.1	3.8	3.5
Unit Value Indices :								
Domestic exports	0.8	5.1	-0.2	5.4	5.7	2.4	2.5	0.2
Re-exports	2.4	3.8	1.2	4.6	8.0	3.4	1.3	2.0
Total exports of goods	2.3	3.8	1.1	4.7	8.0	3.4	1.3	2.0
Imports of goods	2.3	4.4	-0.1	6.4	8.1	3.3	0.9	1.9
Terms of Trade Index <sup>(b)</sup> :	0.1	-0.5	1.3	-1.7	-0.1	0.1	0.4	0.1
Producer Price Index for all manufacturing industries	3.0	5.6	-1.7	6.0	8.3	0.1	-3.1	-1.7
Tender Price Indices :								
Public sector building projects	20.1	41.9	-15.9	12.5	11.6	8.3	6.6	7.3
Public housing projects	19.7	30.8	-6.8	6.7	10.1	6.4	9.3	8.0

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) Derived from merchandise trade index numbers.

(#) 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>2015</u>	<u>2016</u>	<u>2016</u>				<u>2017</u>			Average annual rate of change:	
			Q4	Q1	Q2	Q3	10 years		5 years		
							2006 to 2016	2011 to 2016			
GDP deflator <sup>#</sup>	3.6	1.8	1.8	2.1	3.3	3.2	2.2	2.7			
Domestic demand deflator <sup>#</sup>	2.2	1.5	1.8	2.7	3.1	3.3	2.3	2.5			
Consumer Price Indices <sup>(a)</sup> :											
Composite CPI	3.0	2.4	1.2	0.5	2.0	1.8	3.3	3.6			
CPI(A)	4.0	2.8	1.1	0.1	2.3	2.1	3.4	4.2			
CPI(B)	2.9	2.3	1.2	0.6	1.8	1.6	3.2	3.5			
CPI(C)	2.1	2.1	1.3	0.9	1.9	1.6	3.1	3.1			
Unit Value Indices :											
Domestic exports	-3.0	-1.4	0.9	3.0	2.2	1.7	1.7	0.1			
Re-exports	0.1	-1.7	-0.5	1.6	1.6	1.9	2.5	1.0			
Total exports of goods	0.1	-1.7	-0.5	1.6	1.6	1.9	2.5	1.0			
Imports of goods	-0.4	-1.7	-0.1	1.6	1.8	1.9	2.5	0.8			
Terms of Trade Index <sup>(b)</sup> :	0.5	*	-0.3	*	-0.2	-0.1	*	0.2			
Producer Price Index for all manufacturing industries	-2.7	1.3	4.0	4.2	3.7	N.A.	1.4	-1.2			
Tender Price Indices :											
Public sector											
building projects	5.9	1.0	0.3	0.2	*	N.A.	9.1	5.8			
Public housing projects	12.5	-0.7	-6.0	-3.5	2.5	N.A.	9.2	7.0			

**Table 23 : Rates of change in Composite Consumer Price Index**

(%)

	Weight	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>All items</b>	<b>100.00</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>	<b>4.3</b> <b>(4.0)</b>
Food	27.29	4.3	10.1	1.3	2.4	7.0	5.8	4.4
<i>Meals bought away from home</i>	17.74	2.5	5.9	1.6	1.7	5.2	5.4	4.4
<i>Food, excluding meals bought away from home</i>	9.55	7.1	16.8	0.9	3.5	9.9	6.5	4.4
Housing <sup>(a)</sup>	34.29	2.0	4.1	3.7	0.4	7.2	5.6	6.7
<i>Private housing rent</i>	29.92	4.0	6.8	3.6	0.9	7.2	6.8	6.3
<i>Public housing rent</i>	1.94	-17.7	-27.2	9.5	-7.8	11.9	-7.1	16.0
Electricity, gas and water	2.67	-0.7	-6.5	-25.3	43.3	-4.2	-8.2	6.9
Alcoholic drinks and tobacco	0.54	-1.2	0.1	18.7	3.4	17.1	3.0	1.5
Clothing and footwear	3.21	4.1	0.8	2.7	1.8	6.8	3.1	1.7
Durable goods	4.65	-4.7	-2.0	-3.0	-2.7	-3.8	-1.4	-4.3
Miscellaneous goods	3.56	2.5	5.0	2.3	2.4	3.8	2.2	2.2
Transport	7.98	-0.1	2.5	-0.9	2.0	4.4	3.0	2.3
Miscellaneous services	15.81	1.7	0.8	-2.1	2.0	3.5	2.8	3.7

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 rates 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".

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

(%)										
	Weight	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>			Average annual rate of change:	
					Q4	Q1	Q2	Q3	10 years 2006 to 2016	5 years 2011 to 2016
<b>All items</b>	<b>100.00</b>	<b>4.4</b>	<b>3.0</b>	<b>2.4</b>	<b>1.2</b>	<b>0.5</b>	<b>2.0</b>	<b>1.8</b>	<b>3.3</b>	<b>3.6</b>
		<b>(3.5)</b>	<b>(2.5)</b>	<b>(2.3)</b>	<b>(2.1)</b>	<b>(1.4)</b>	<b>(2.0)</b>	<b>(1.7)</b>	<b>(3.3)</b>	<b>(3.3)</b>
Food	27.29	4.1	4.0	3.4	3.0	1.5	2.3	2.4	4.6	4.3
<i>Meals bought away from home</i>	17.74	4.6	4.2	3.3	3.1	2.8	2.7	2.7	3.9	4.4
<i>Food, excluding meals bought away from home</i>	9.55	3.4	3.4	3.6	2.7	-1.1	1.4	2.0	5.9	4.3
Housing <sup>(a)</sup>	34.29	6.7	5.1	3.7	0.4	0.3	2.7	2.6	4.5	5.6
<i>Private housing rent</i>	29.92	6.0	4.7	3.4	0.6	0.5	2.2	2.1	4.9	5.4
<i>Public housing rent</i>	1.94	18.3	10.9	7.2	-5.6	-5.6	11.5	7.5	0.3	8.7
Electricity, gas and water	2.67	14.9	8.4	1.0	1.4	-5.5	-1.0	-0.3	1.6	4.3
Alcoholic drinks and tobacco	0.54	6.5	1.3	1.5	2.1	2.3	1.0	-0.2	5.0	2.7
Clothing and footwear	3.21	0.9	-1.8	-3.4	-3.0	-1.9	-1.4	1.0	1.6	0.1
Durable goods	4.65	-3.4	-5.6	-5.4	-5.0	-3.6	-3.6	-3.3	-3.6	-4.0
Miscellaneous goods	3.56	2.3	0.9	1.5	2.1	2.3	1.8	0.5	2.5	1.8
Transport	7.98	2.0	-0.3	1.6	2.1	2.9	2.9	2.0	1.6	1.7
Miscellaneous services	15.81	3.0	1.1	2.3	1.9	0.6	2.2	0.9	1.9	2.6

**Table 24 : Rates of change in implicit price deflators of GDP  
and its main expenditure components**

(%)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Private consumption expenditure	4.1	2.5	-1.4	1.4	3.6	3.2	2.7
Government consumption expenditure	2.2	4.4	0.7	-0.2	4.5	6.2	4.3
Gross domestic fixed capital formation	-2.1	1.7	0.3	5.8	6.8	6.4	-2.9
Total exports of goods	2.0	3.8	0.3	4.3	7.8	3.2	-0.1
Imports of goods	1.5	4.5	-1.4	6.3	8.4	4.3	-0.3
Exports of services	2.6	3.2	-9.4	8.2	7.5	4.7	0.4
Imports of services	2.5	4.3	-3.8	4.9	5.9	0.6	0.3
<b>Gross Domestic Product</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>	<b>1.8</b>
Total final demand	2.2	3.3	-1.3	4.1	6.7	3.7	0.4
Domestic demand	2.4	2.6	-0.8	2.2	4.5	4.2	1.4

Notes: Figures in this table are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) 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>2014</u>	<u>2015<sup>#</sup></u>	<u>2016<sup>#</sup></u>	<u>2016</u>	<u>2017</u>			Average annual rate of change:	
				Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	10 years 2006 to 2016 <sup>#</sup>	5 years 2011 to 2016 <sup>#</sup>
Private consumption expenditure	2.9	1.2	1.6	1.8	2.0	2.4	2.9	2.2	2.3
Government consumption expenditure	4.7	4.4	3.8	3.7	3.4	2.3	1.5	3.5	4.7
Gross domestic fixed capital formation	3.1	4.5	0.1	1.3	4.5	5.5	4.8	2.3	2.2
Total exports of goods	0.7	-0.7	-1.4	0.3	1.6	1.4	1.6	1.9	0.3
Imports of goods	0.8	-1.4	-1.8	0.3	1.9	1.5	1.6	2.0	0.3
Exports of services	0.4	-2.8	-2.0	-0.5	1.1	1.5	2.4	1.1	0.1
Imports of services	0.5	-4.6	-1.4	-0.7	0.9	0.5	2.8	0.9	-0.9
<b>Gross Domestic Product</b>	<b>2.9</b>	<b>3.6</b>	<b>1.8</b>	<b>1.8</b>	<b>2.1</b>	<b>3.3</b>	<b>3.2</b>	<b>2.2</b>	<b>2.7</b>
Total final demand	1.4	*	-0.5	0.7	1.9	2.0	2.2	2.0	1.0
Domestic demand	3.1	2.2	1.5	1.8	2.7	3.1	3.3	2.3	2.5

