



First Quarter Economic Report 2016

Government of the Hong Kong
Special Administrative Region

FIRST QUARTER ECONOMIC REPORT 2016

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GOVERNMENT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION

May 2016

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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

- *The Hong Kong economy slowed further in the first quarter of 2016, growing meagrely by 0.8% over a year earlier. This compared to the 1.9% growth in the preceding quarter. The external environment deteriorated during the quarter, characterised by subdued global growth and sharp gyrations in global financial and monetary conditions, leading to a deeper setback in both goods and services trade. The domestic sector also lost some momentum, as the weak global outlook with rising downside risks hurt local economic sentiment.*
- *Strong headwinds in the external environment persisted in the first quarter, weighing heavily on global trade flows. Many advanced economies were still in a fragile state and their persistently sluggish import demand took a heavy toll on Asia's production and trading activities. Heightened financial market volatility and the uncertainty arising from the monetary policy actions by major central banks also added downward pressures. Against this background, Hong Kong's total exports of goods deteriorated further in the first quarter. Exports of services remained in the doldrums, inflicted by a sharper drop in visitor arrivals and weaker visitor spending, and by sluggish cargo and trade flows.*
- *While the domestic segment exhibited remarkable resilience last year, the prolonged weakness in the external sector, austere global economic environment, and recent asset market corrections, all sapped economic sentiment, pulling in the reins on domestic demand. Private consumption expenditure slowed visibly from the preceding quarter, growing only mildly year-on-year in the first quarter. This, together with the continued slowdown in inbound tourism, posed a severe drag on retail sales, which saw the largest year-on-year decline since the Asian financial crisis in 1998. Meanwhile, investment expenditure extended the decline, mainly dragged by the large fall in machinery and equipment acquisition.*
- *The labour market stayed largely stable in the first quarter, notwithstanding the slowdown in the overall economy, with the seasonally adjusted unemployment rate edging up to a still-low level of 3.4%. Wages and earnings sustained moderate growth. However, total employment grew only slowly and labour demand saw signs of further weakening, particularly in the trade- and tourism-related sectors.*
- *The local stock market underwent another correction at the start of the year, in tandem with many overseas stock markets, reflecting increased risk aversion upon the bleaker global outlook and intensified divergence in*

monetary policy stances among major central banks. Stock prices nevertheless stabilised somewhat in March. The residential property market remained quiet, with flat prices still on the decline alongside a visible slowdown in trading activities.

- *Inflationary pressures remained contained in the first quarter, alongside the weakening of overall economic growth. Looking ahead, the upside risks to inflation should be limited in the near term, given the soft import prices and diminished rental cost pressures.*

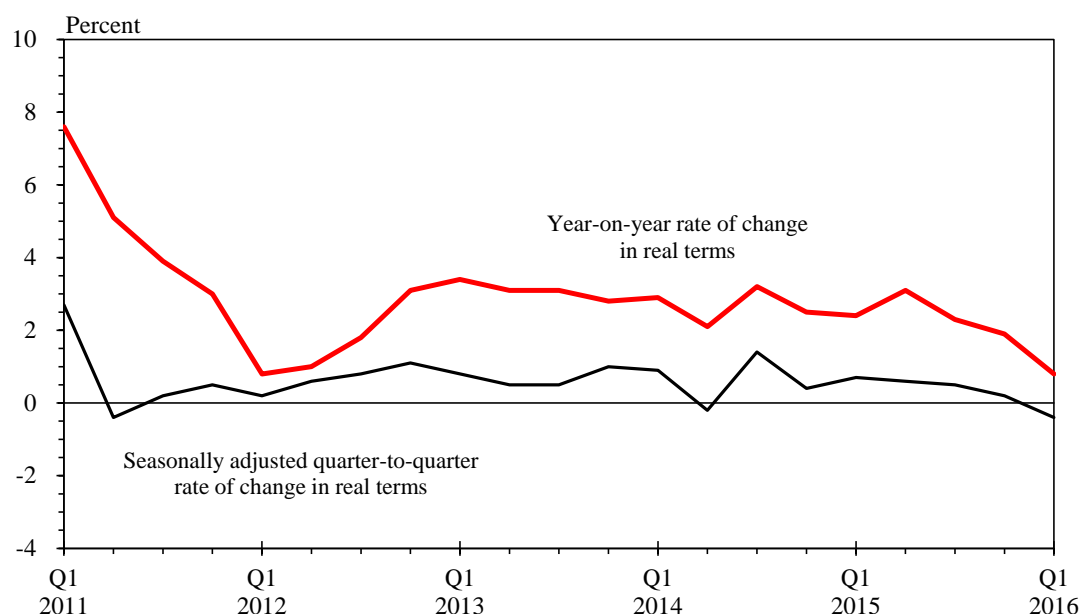
Overall situation

1.1 Hong Kong's economic growth slowed further in the first quarter of 2016, in the face of the intensified drag from an austere external environment. The global economy was stuck in low gear, as many advanced economies were still struggling to gather pace and as many emerging market and commodity-exporting economies slackened further. The global monetary environment also turned more volatile, given the bleaker global outlook, uncertainty about the US Federal Reserve's second interest rate hike, increasing monetary policy divergence among major central banks, and heightened geopolitical tensions. The central banks in Europe and Japan indeed rolled out additional monetary stimulus in the first quarter, underscoring the fragile economic conditions in both places. The weak global demand continued to hit production and trading activities in Asia. Against such a challenging backdrop, the fall in Hong Kong's exports of goods enlarged in the first quarter. Exports of services likewise worsened, attributable to the sharp decline in tourist arrivals along with weaker tourist spending, and to the setback in trade and cargo flows. The notable slowdown in inbound tourism also led to a marked deterioration in retail sales in the first quarter, which saw the largest year-on-year decline since the Asian financial crisis in 1998.

1.2 The weakened global outlook, coupled with the unsteady global monetary environment, heightened investors' risk aversion and triggered massive sell-offs in local and overseas stock markets early this year. Meanwhile, local property prices continued its downward adjustment in the first quarter. The economic uncertainties and asset market corrections apparently also weighed on local consumption and investment sentiments. Thus, the domestic sector lost steam in the first quarter. Nonetheless, the labour market was still broadly stable during the quarter, although the demand for labour showed further signs of weakening, particularly in the trade- and tourism-related sectors. Alongside the slowdown in the global and local economy, external and domestic price pressures largely remained in check.

1.3 In the first quarter of 2016, *Gross Domestic Product* (GDP)⁽¹⁾ grew tepidly by 0.8% in real terms over a year earlier, slower than the 1.9% growth in the preceding quarter (unchanged from the earlier estimate). On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, real GDP fell by 0.4% in the first quarter, after the 0.2% growth in the preceding quarter (unchanged from the earlier estimate).

Diagram 1.1 : The Hong Kong economy slowed further in the first quarter of 2016



The external sector

1.4 *Total exports of goods* compiled under the GDP accounting framework registered a larger year-on-year decline of 3.6% in real terms in the first quarter, after falling by 0.5% in the preceding quarter and 1.9% for 2015 as a whole. The weakness of export performance was actually part of a regional phenomenon, as exports of Asian economies were hard hit by the protracted sluggishness of global demand. Exports to the advanced markets dived further in the first quarter given their fragile economic conditions, while exports to many Asian markets were curbed by subdued intra-regional trade flows. The Indian market was among the few exceptions that still registered notable growth.

1.5 *Exports of services* suffered another setback in the first quarter, down visibly by 4.9% in real terms over a year earlier, after the 2.7% decline in the preceding quarter and the 0.2% fall for 2015 as a whole. Exports of travel services posed a severe drag, amid markedly lower visitor arrivals and weaker visitor spending. Exports of trade-related and transportation services remained

battered by subdued trade and cargo flows. Exports of financial and other business services also weakened to decline slightly, as the more volatile global financial and monetary conditions dampened cross-border financial and commercial activities in the quarter.

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

	<u>2014[#]</u>	<u>2015[#]</u>	<u>2015</u>				<u>2016</u>
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption							
Expenditure	3.3	4.7	5.0 (1.3)	6.8 (1.6)	4.4 (*)	2.7 (-0.1)	1.1 (-0.4)
Government consumption							
Expenditure	3.0	3.4	3.9 (1.0)	3.6 (0.8)	2.8 (0.5)	3.3 (1.0)	3.2 (0.9)
Gross domestic fixed capital formation	-0.1	-2.0	5.6	3.9	-6.2	-9.4	-10.1
<i>of which :</i>							
Building and construction	9.3	2.9	-3.9	14.1	4.2	-0.9	-0.8
Machinery, equipment and intellectual property products	-8.6	-5.8	10.4	-4.7	-10.7	-12.9	-11.9
Total exports of goods	0.8	-1.9	0.2 (-1.9)	-3.8 (-2.4)	-3.1 (0.5)	-0.5 (2.3)	-3.6 (-3.9)
Imports of goods	0.9	-2.7	-0.2 (-2.6)	-3.3 (-2.4)	-4.2 (-0.8)	-2.8 (2.0)	-5.4 (-4.2)
Exports of services	1.1	-0.2	0.7 (0.6)	1.6 (-0.8)	-0.2 (-1.1)	-2.7 (-1.4)	-4.9 (-1.8)
Imports of services	1.8	5.7	6.7 (1.8)	5.1 (1.9)	5.5 (0.2)	5.4 (1.4)	3.8 (0.3)
Gross Domestic Product	2.7	2.4	2.4 (0.7)	3.1 (0.6)	2.3 (0.5)	1.9 (0.2)	0.8 (-0.4)
<i>Change in the main price indicators (%)</i>							
GDP deflator	2.9	3.6	4.3 (1.2)	4.2 (1.0)	3.4 (0.1)	2.8 (0.4)	2.3 (0.7)
Composite CPI							
Headline	4.4	3.0[@]	4.4 (0.3)[@]	3.0 (-0.6)[@]	2.3 (-0.1)[@]	2.3[@] (2.7)[@]	2.8[@] (0.7)[@]
Underlying[^]	3.5	2.5[@]	2.7 (0.3)[@]	2.5 (0.6)[@]	2.4 (0.5)[@]	2.2[@] (0.9)[@]	2.8[@] (0.7)[@]
Change in nominal GDP (%)	5.6	6.2	6.8	7.5	5.8	4.8	3.1

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

(#) Revised figures.

(+) Preliminary figures.

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

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

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

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

The domestic sector

1.6 The domestic sector lost some momentum in the first quarter, as the uncertain global economic outlook apparently dented local economic sentiment. The asset market consolidation amid the volatile financial environment also added woes to local consumption demand, partly offsetting the support from the broadly stable labour market conditions. *Private consumption expenditure* continued to moderate in the first quarter, growing only mildly by 1.1% in real terms over a year earlier, down from the 2.7% growth in the preceding quarter. *Government consumption expenditure*, on the other hand, grew steadily by 3.2% in the first quarter, providing some cushion to domestic demand.

Table 1.2 : Consumer spending by major component^(a)
(year-on-year rate of change in real terms (%))

		Total consumer spending in the domestic market ^(a)	<i>Of which :</i>				Residents' expenditure abroad	Visitor spending	Private consumption expenditure ^(b)
			<u>Food</u>	<u>Durables</u>	<u>Non- durables</u>	<u>Services</u>			
2015 Annual		2.5	2.4	8.8	-1.0	2.8	13.1	-3.8	4.7
	H1	3.9	3.3	14.5	*	3.7	12.5	-2.1	5.9
	H2	1.1	1.4	3.8	-2.0	1.9	13.6	-5.3	3.5
	Q1	2.8	4.0	9.5	-0.3	2.6	11.6	-3.3	5.0
	Q2	5.0	2.7	22.0	0.3	4.7	13.4	-0.8	6.8
	Q3	2.1	1.4	7.6	-0.7	2.2	14.8	-3.8	4.4
	Q4	0.2	1.3	1.1	-3.2	1.6	12.4	-6.7	2.7
2016	Q1	-2.6	-1.5	-18.7	-3.5	1.4	14.3	-13.3	1.1

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

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

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

Diagram 1.2 : Private consumption expenditure continued to moderate

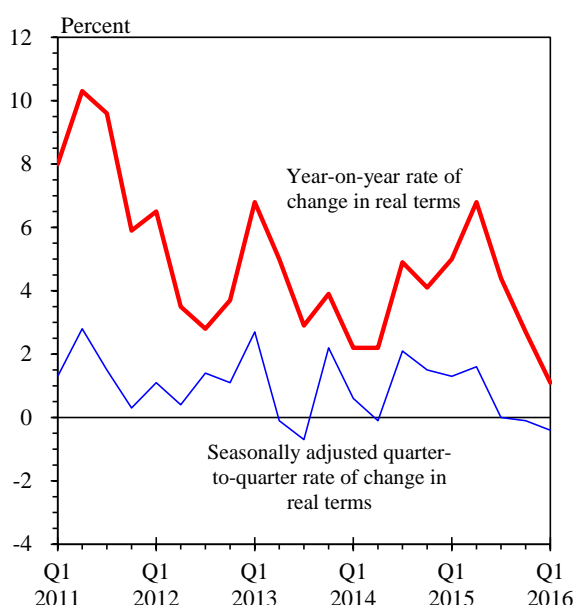
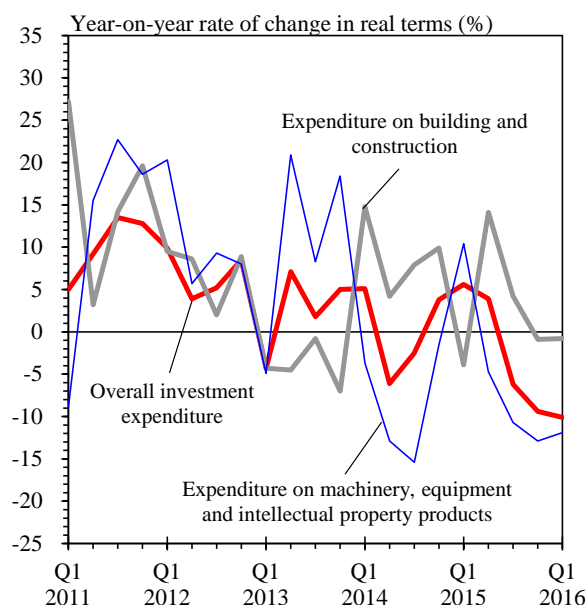


Diagram 1.3 : Investment spending declined further



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* remained on the downtrend, falling by 10.1% year-on-year in real terms in the first quarter, after the 9.4% plunge in the preceding quarter. Machinery and equipment acquisition was a key drag, plummeting by 11.9% over a year earlier, conceivably reflecting the scaling back of investment plans amid growing pessimism over the global economic outlook. Indeed, the results of the latest Quarterly Business Tendency Survey and the diffusion indices on small and medium-sized enterprises (SMEs) (see **Box 1.1** for details of the consultation on SMEs) suggested that business sentiment in many economic sectors remained weak in regard to the near-term business prospects. Overall building and construction activity registered a modest decline, as public infrastructure works decelerated from their peak last year, even though private sector building works still expanded solidly.

Box 1.1

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

To gain a better understanding of the current situation of business receipts, employment and credit access for small and medium-sized enterprises (SMEs)⁽¹⁾, an ad-hoc consultation exercise has been conducted by the Census and Statistics Department on behalf of the Economic Analysis and Business Facilitation Unit since late November 2008. In the recent past, the exercise has been conducted on a sample panel of around 350 SMEs. This note provides a further update of the results reported in *Box 1.1* in the *2015 Economic Background and 2016 Prospects*.

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

Business receipts of the SMEs consulted, as measured by the set of diffusion indices, suggested that the overall situation remained weak in recent months and enterprises surveyed in both local and external segments generally stayed cautious about the outlook (*Table 1*). After a mild relative improvement in February, the overall index moved lower to 45.7 in April, with most sectors registering readings below the boom-bust mark of 50.0. Specifically, the readings for the wholesale and retail sectors deteriorated notably since February, reflecting weaker local consumption spending and the drag from the slowdown in inbound tourism. The reading for real estate also weakened in April along with the property market consolidation, while that for business services fared better, hovering within the range of 50.0 – 51.7 in recent months. As regards the more externally-oriented sectors, the reading for logistics remained sluggish in recent months, mirroring the unsteady external environment. Yet, the reading for import/export trade showed some relative improvement, moving slightly above 50.0 in April. As to the employment situation, the feedback from SMEs suggested a broadly stable development in recent months in most selected sectors. However, the readings for such sectors as retail trade and logistics fell visibly in April, suggesting weaker demand for labour in these sectors (*Table 2*).

For the import/export trade sector in particular, SMEs' views on new export orders were sought separately to help gauge the likely export performance in the near term. The diffusion index on new export orders stayed below the boom-bust mark of 50.0, at 48.6 in April, partly reflecting the still-subdued external demand conditions.

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

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

Box 1.1 (Cont'd)**Table 1 : Diffusion indices[^] on business receipts**

	<u>2015</u>					<u>2016</u>							
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
<i>Local segments</i>													
Restaurants	48.4	47.6	48.4	49.2	46.8	46.7	42.5	43.3	48.3	41.5	45.7	46.6	44.0
Real estate	45.5	53.2	50.0	50.0	38.3	33.3	41.4	36.2	43.1	41.4	50.0	55.2	46.6
Retail trade	43.9	45.6	46.0	44.1	45.0	43.9	47.7	41.9	44.7	42.2	48.5	41.9	38.8
Wholesale trade	41.7	47.2	50.0	38.9	41.7	38.9	41.7	50.0	47.2	38.9	44.4	32.4	32.4
Business services	48.4	53.2	51.6	46.8	46.8	56.5	50.0	48.4	48.4	45.2	51.7	51.7	50.0
<i>External segments</i>													
Import/export trade	49.6	46.2	50.4	49.6	46.9	47.3	46.0	46.0	46.9	46.4	45.0	49.1	50.9
Logistics	52.8	50.0	52.9	44.1	40.6	46.9	46.9	50.0	50.0	50.0	50.0	46.7	46.7
All the above sectors*	47.3	47.7	49.4	46.9	45.3	46.1	46.1	45.0	46.5	44.2	47.2	46.8	45.7

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

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

Table 2 : Diffusion indices on employment situation

	<u>2015</u>					<u>2016</u>							
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
<i>Local segments</i>													
Restaurants	49.2	50.0	49.2	50.0	50.0	50.0	49.2	49.2	50.8	50.0	47.4	50.0	50.9
Real estate	47.0	46.8	50.0	48.3	51.7	45.0	51.7	46.6	46.6	43.1	50.0	51.7	50.0
Retail trade	50.0	49.6	50.4	48.6	49.5	50.0	50.0	50.0	50.0	51.0	48.5	50.0	47.4
Wholesale trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Business services	48.4	50.0	48.4	51.6	51.6	51.6	50.0	48.4	54.8	48.4	48.3	50.0	50.0
<i>External segments</i>													
Import/export trade	50.4	49.2	50.0	49.6	48.2	50.0	50.0	48.2	49.1	49.1	48.2	49.5	50.5
Logistics	50.0	50.0	50.0	52.9	50.0	50.0	50.0	50.0	50.0	50.0	50.0	46.7	43.3
All the above sectors*	49.7	49.4	49.9	49.7	49.5	49.9	50.1	48.8	50.1	49.2	48.6	49.8	49.4

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

Table 3 : Diffusion index on current new export orders

	<u>2015</u>					<u>2016</u>							
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
Import/export trade	48.7	45.3	48.7	48.7	47.4	47.3	46.9	47.3	49.1	46.8	46.8	49.5	48.6

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

	<u>2015</u>					<u>2016</u>							
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
All selected sectors*	0.7	0.9	0.2	0.2	0.2	0.2	0.2	1.0	0.2	0.2	0.2	0.2	0.2

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

The labour sector

1.8 The labour market was largely stable, with the *seasonally adjusted unemployment rate* edging up by 0.1 percentage point from the preceding quarter to 3.4% in the first quarter. The *underemployment rate* stayed unchanged at 1.4%. Wages and earnings remained on the rise. However, total employment saw slower growth in the first quarter. Moreover, there were further signs of slackening in labour demand, particularly in the trade- and tourism-related sectors, reflecting the lustreless external trade, the protracted slowdown in inbound tourism and the growth moderation in private consumption.

The asset markets

1.9 The *local stock market* underwent another correction at the start of 2016, as increasing worries over a slowing global economy and wider monetary policy divergence heightened risk aversion, triggering a new round of global stock market rout and massive sell-offs. The Hang Seng Index came under pressure before stabilising somewhat in March, closing the first quarter at 20 777, 5.2% lower than at end-2015. Average daily turnover of the stock market edged up to \$72.7 billion in the first quarter, from \$71.9 billion in the preceding quarter. Fund-raising activity slowed markedly compared with the preceding quarter. Yet, the amount of funds raised through initial public offering in Hong Kong was still ranked third among the world's stock markets.

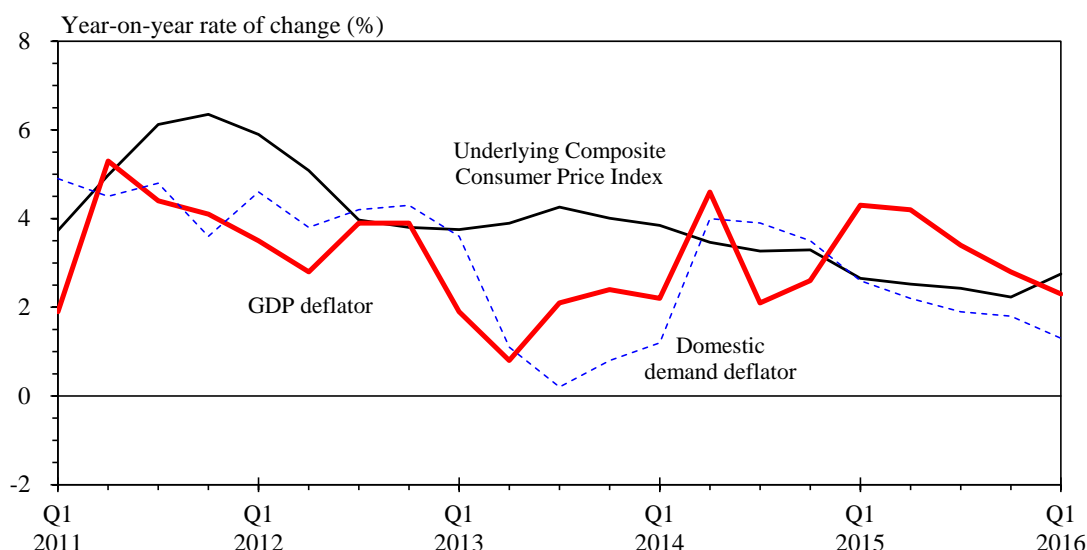
1.10 The *residential property market* remained in the consolidation mode in the first quarter. Trading volume tumbled by 39% from the preceding quarter. Residential property prices shed another 5% between December 2015 and March 2016, cumulating to a 12% decline from the peak in 2015. Notwithstanding the recent correction, overall flat prices in March 2016 still exceeded the 1997 peak by 56%, and the housing affordability ratio remained elevated at around 59% in the first quarter. Similarly, flat and shop rentals went lower by 5% and 2% respectively during the first quarter, while office rentals were little changed.

Inflation

1.11 Consumer price inflation stayed moderate alongside the continued subpar performance of the overall economy. By reference to the new 2014/15-based series and netting out the effects of the Government's one-off relief measures, *underlying consumer price inflation* went up slightly to 2.8% in the first quarter, from 2.2% in the preceding quarter (or from 2.4% to 2.9% by reference to the old 2009/10-based series). The slight pick-up in the underlying inflation in the first quarter was mainly driven by the surge in basic food prices amid bad weather conditions. This factor aside, domestic price pressures generally remained in check, given the weaker consumption demand and the easing rental inflation in tandem with the property market consolidation. Meanwhile, external price pressures were muted, thanks to the rather benign inflation in Hong Kong's major import partners and the still-low international commodity prices. *Headline consumer price inflation* also went up modestly to 2.8% in the first quarter, from 2.3% in the preceding quarter (or from 2.4% to 2.9% by reference to the old 2009/10-based series).

1.12 The year-on-year rate of increase in the *GDP deflator* slowed to 2.3% in the first quarter. Within this, the increase in domestic demand deflator continued its moderating trend, while the terms of trade improved mildly further.

Diagram 1.4 : Consumer price inflation remained moderate in the first quarter



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

GDP by major economic sector

1.13 Net output of the services sector as a whole moderated to grow by 1.9% in real terms in 2015, down from the 2.4% growth in 2014, mirroring the slowdown in overall economic growth amid the difficult external environment. Economic activities related to external trade and inbound tourism decelerated visibly. Net output of import and export trade slackened to a decline in 2015, while transportation and storage also saw moderation in growth, in tandem with the sluggish global trade flows. Wholesale and retail trades, as well as accommodation and food services, were dampened by the protracted slowdown in inbound tourism. Net output of financing and insurance grew solidly in 2015, on the back of buoyant cross-border financial and fund-raising activities. Professional and business services picked up slightly in growth in 2015. The net output of real estate activity, which mainly reflects activity of private sector developers and property agency, slipped in the fourth quarter of 2015, alongside the consolidation of the property market, but still expanded modestly for 2015 as a whole. As for the secondary sector, activity in the manufacturing sector declined for the second consecutive year. Meanwhile, the construction sector posted a mild growth in 2015, notwithstanding an exceptionally high base of comparison, amid intensive large-scale infrastructure works and continued expansion in private sector building activity.

Table 1.3 : GDP by economic activity^(a)
(year-on-year rate of change in real terms (%))

	<u>2014</u>	<u>2015</u>	<u>2014</u>				<u>2015</u>			
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Manufacturing	-0.4	-1.5	2.1	2.2	-1.7	-3.6	-1.5	-1.2	-2.1	-1.3
Construction	13.0	2.0	17.3	8.3	11.2	14.5	-5.3	14.8	3.0	-2.3
Services ^(b)	2.4	1.9	2.2	2.0	2.9	2.4	2.3	1.6	1.9	1.9
Import/export, wholesale and retail trades	1.2	-1.1	0.5	0.9	2.6	0.8	*	-3.6	-0.5	-0.7
Import and export trade	1.3	-0.8	-0.8	2.5	2.9	0.4	0.1	-4.9	-0.1	0.8
Wholesale and retail trades	1.2	-2.2	5.0	-4.8	1.7	2.4	-0.4	1.4	-2.5	-6.1
Accommodation ^(c) and food services	2.2	-0.9	3.9	1.6	3.7	-0.1	-0.5	-1.1	-2.6	0.4
Transportation, storage, postal and courier services	2.9	1.9	4.3	4.8	1.4	1.3	2.4	1.1	1.1	3.0
Transportation and storage	3.0	2.4	4.0	4.7	2.3	1.2	2.8	1.4	1.5	3.7
Postal and courier services	1.2	-6.0	12.8	6.5	-14.8	2.6	-4.6	-4.7	-6.8	-7.6
Information and communications	3.9	4.0	3.0	5.6	3.3	3.8	5.0	4.6	3.5	2.9
Financing and insurance	4.8	6.3	3.9	1.3	6.4	7.6	4.9	7.9	6.1	6.2
Real estate, professional and business services	1.9	2.2	1.1	2.4	2.1	2.2	4.3	2.1	1.7	1.0
Real estate	1.2	1.4	-0.1	1.8	1.6	1.7	3.5	2.6	1.4	-1.8
Professional and business services	2.6	3.0	2.2	3.0	2.5	2.5	5.1	1.7	1.9	3.3
Public administration, social and personal services	2.5	2.6	2.9	2.6	2.3	2.2	2.3	2.0	3.3	2.9

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

(a) The GDP figures shown in this table are compiled from the production approach, in parallel with those shown in Table 1.1 which are compiled from the expenditure approach. For details, see Note (1) to this chapter.

(b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity.

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

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

Other economic developments

1.14 In view of the unsteady global economic climate with increasing downside risks, the economic environment facing Hong Kong on both the domestic and external fronts will remain highly challenging in 2016. Against this backdrop, the 2016-17 Budget (the Budget) proposed a series of relief measures to help alleviate the financial burden of the public, stimulate local consumption, preserve economic stability and safeguard employment. The package of relief measures, amounting to some \$38.8 billion, together with other Budget initiatives, are estimated to have a stimulus effect of boosting GDP by 1.1 percent. The Budget also laid out measures to support SMEs and promote tourism.

1.15 Strategies were proposed in the Budget for Hong Kong to sustain its competitiveness in the global arena under the “new economic order”, characterised by the shifting of global economic gravity towards the East and breakthroughs in information technology development. In the aspect of nurturing innovation, the Government will promote the application of smart production technologies, such as robotics; develop financial technologies; and support business start-ups and creative industries. In the aspect of expanding trade ties with new and emerging markets, the Government will explore co-operation opportunities and the unique role of Hong Kong arising from the Belt and Road Initiative by capitalising on Hong Kong’s strength as the world’s largest offshore Renminbi (RMB) business hub and a major asset management centre and investment platform in the Asia-Pacific region. Also, the Government will continue to actively pursue trade and investment agreements to facilitate Hong Kong enterprises in tapping overseas markets. At the same time, the Government will strengthen commercial connectivity and facilitate e-commerce through upgrading transport and logistic services as well as enhancing our airport’s capacity, while promoting Hong Kong to become the region’s intellectual property trading hub.

1.16 The Budget also provided measures to facilitate Hong Kong’s long-term economic development, through investment in human capital and increasing land supply. To ensure fiscal health, the Government will strive to contain expenditure growth, preserve the revenue base and set aside fiscal reserves to the Future Fund for long-term investments, in preparation for the long-term needs of Hong Kong amid an ageing population and the future pressure on public finances. For the benefit of Hong Kong’s sustainable development, the Economic Development Commission held its tenth meeting in March 2016, providing views on how to balance economic development with social aspirations while ensuring sufficient land supply.

1.17 On economic integration with the Mainland, the National 13th Five-Year Plan (the 13-5 Plan) was promulgated in March (see **Box 1.2** for details). A chapter of the 13-5 Plan is again dedicated to Hong Kong and Macao, acknowledging their significant functions and positioning in the overall development of the country. In addition to consolidating its position as an international financial, transportation and trade centre, Hong Kong will continue to promote its pillar industries towards high-end and high value-added developments (see **Box 1.3** for reference). Furthermore, Hong Kong will continue to develop the innovation and technology industry, nurture emerging industries, and establish itself as a centre for international legal and dispute resolution services in the Asia-Pacific region. The Government's Steering Committee on Co-operation with the Mainland will continue to formulate policies and measures based on the 13-5 Plan. Separately, the sixth working meeting of Hong Kong-Shanghai Financial Co-operation took place in March. Ways to enhance co-operation in the areas of cross-border RMB business, reinsurance business and the securities and futures industry were discussed.

1.18 Hong Kong was ranked by the Heritage Foundation as the world's freest economy for the 22nd year in a row. Free market principles have been the cornerstones of Hong Kong's sustained economic development and prosperity. The Government will continue to enhance Hong Kong's global competitiveness, by providing a favourable business environment, ensuring fair competition and free trade, maintaining a simple tax regime with low tax rates and keeping an efficient public sector, while upholding free market principles and the rule of law.

1.19 On enhancing economic co-operation with overseas markets, a comprehensive agreement for the avoidance of double taxation between Hong Kong and Russia was signed in January 2016. This should offer added incentives for Russian companies to do business and invest in Hong Kong. Separately, an Investment Promotion and Protection Agreement was signed between Hong Kong and Canada in February, which will help strengthen bilateral economic and trade ties and expand investment flows between the two places.

Box 1.2

The “13th Five-Year Plan” and Hong Kong’s economic development

The “Outline of the 13th Five-Year Plan for the National Economic and Social Development of the People’s Republic of China” (the 13-5 Plan) was endorsed in the fourth session of the 12th National People’s Congress in March this year. The 13-5 Plan outlines the blueprint for national economic and social development in the next five years (2016-2020), with specific goals and major missions. A chapter is again dedicated to Hong Kong and Macao (the Dedicated Chapter), which acknowledges the significant functions and positioning of Hong Kong in the national development, as well as the scope and opportunities for development in a number of key areas.

With the primary goal of “building a moderately prosperous society in all respects”, the 13-5 Plan unveils five tenets of development, namely “innovation”, “co-ordination”, “green development”, “opening up” and “sharing”. It aims to maintain a medium-high pace of economic growth at an average annual rate of over 6.5% during the period covered by the 13-5 Plan, having regard to balanced, inclusive and sustainable development.

- (1) “Innovation” is the primary driving force for development, which encompasses theoretical innovation, institutional innovation, technological innovation, cultural innovation, etc., in support of economic development as well as upgrading and restructuring of the economy.
- (2) “Co-ordination” is an inherent requisite for sustained and sound development, with focus on progressing towards balanced development between urban and rural areas and in socio-economic spheres, aiming for greater coherence in development.
- (3) “Green development” is a requisite for sustainable development, stressing the nation’s strong commitment to the policies of resources conservation and environmental protection.
- (4) “Opening up” fosters the nation’s deeper economic integration with the global economy, with emphasis on striving a balance between domestic and external demand, between importing and exporting, and between “attracting foreign investment” and “going global”, in order to facilitate the development of a more sophisticated open economy.
- (5) “Sharing” ensures that the fruits of development are shared by the people, establishing a stronger sense of ownership among them in the course of co-development, and providing impetus to further development.

The Dedicated Chapter: Support Hong Kong’s development for maintaining its long-term prosperity and stability

The Dedicated Chapter of the 13-5 Plan expresses clear support for Hong Kong in leveraging its unique advantages to enhance its role and functions in the nation’s economic development and opening up. Support is also pledged to Hong Kong in enhancing its economic competitiveness, including consolidating and enhancing Hong Kong’s status as an international financial, transportation and trade centre, strengthening its status as a global offshore Renminbi (RMB) business hub and an international asset management centre, and promoting financing services, business and commerce, logistics and professional services, etc. towards high-end and high value-added developments. In addition, the Dedicated Chapter highlights the support for Hong Kong in developing the innovation and technology industry, nurturing emerging industries as well as establishing itself as a centre for international legal and dispute resolution services in the Asia-Pacific region.

Box 1.2 (Cont'd)

To deepen co-operation between the Mainland and Hong Kong, the Dedicated Chapter expresses support for Hong Kong in participating in the nation's two-way opening up and in the Belt and Road Initiative. It also spells out the Mainland's stepped-up efforts to further open up its markets to Hong Kong and Macao, and promotes the upgrading of the closer economic partnership arrangements with Hong Kong and Macao. Financial co-operation between the Mainland and Hong Kong will be strengthened, facilitating mutual access to the markets of both places. In addition, the Dedicated Chapter proposes the promotion of deeper exchanges and co-operation between Hong Kong and the Mainland in various aspects, in particular pushing ahead co-operation in innovation and technology, and supporting small, medium and micro-enterprises as well as young people of Hong Kong in starting and developing businesses in the Mainland. On regional co-operation, the Dedicated Chapter lays out support for expediting development of Guangdong-Hong Kong-Macao co-operation platform with particular regard to Qianhai, Nansha and Hengqin. It also supports Hong Kong in playing an important role in the Pan-Pearl River Delta (PPRD) Region co-operation, and promotes the development of the Guangdong-Hong Kong-Macao Big Bay Area as well as major co-operation platforms among provinces and regions, with a view to opening up more opportunities for co-operation between Hong Kong and the Mainland.

The Dedicated Chapter not only reaffirms the strong support of the Central Authorities for Hong Kong in maintaining long-term prosperity and stability, but also provides a solid foundation and sound platform for further co-operation between Hong Kong and the Mainland. Over the past five years, with the support of the 12-5 Plan, Hong Kong has made remarkable achievements in fostering economic integration and consolidating its competitiveness. On the trade front, the Government signed the Agreement on Trade in Services with the Ministry of Commerce under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement to achieve basic liberalisation of trade in services between the two places. On the financial front, Hong Kong has become a leading international offshore RMB centre. Arrangements such as the Shanghai-Hong Kong Stock Connect and the Mainland-Hong Kong Mutual Recognition of Funds have further enhanced capital market connectivity between Hong Kong and the Mainland. On entering the period covered by the 13-5 Plan, the nation will proceed with the two-way opening up and the Belt and Road Initiative, inducing active inward and outward flows of goods, services, investments and other factors of production. This will in turn drive up the derived demand for financial, logistics, legal and other professional services. Take the offshore RMB business as an example. With the orderly realisation of RMB capital account convertibility and the steady progress of RMB internationalisation, there will be a wider use of RMB in the global arena. This will further expand the respective offshore market and push up the demand for relevant wealth management products and services, bringing substantial development opportunities for related industries in Hong Kong.

The 13-5 Plan holds far-reaching significance for the development of Hong Kong's innovation and technology industry. Along with the nation's on-going efforts in actively promoting innovation as a new economic driver, Hong Kong, with its excellent research and development (R&D) institutes and talent as well as world-class information technology facilities, can work closely with the Mainland in areas such as scientific and technological exchange and R&D results commercialisation, achieving mutual and complementary development. Meanwhile, Hong Kong may act as the "super-connector" in the arena of innovation and technology, serving as a bridge for Mainland enterprises of innovation and technology to enter the international markets.

Box 1.2 (Cont'd)

Regional development serves as an important platform for achieving “co-ordinated development” as stated in the 13-5 Plan, and Hong Kong has a crucial role to play in this aspect. The governments of PPRD provinces/regions, including Hong Kong, signed the “Joint Declaration on Deepening PPRD Regional Co-operation (2015-2025)” to pursue co-operation in areas including infrastructure, commerce and trade, financial services, technology and environmental protection, with a view to bringing the regional comparative advantages into fuller play. At the Plenary of the Hong Kong/Guangdong Co-operation Joint Conference held last year, the two sides reached consensus on the key areas for further co-operation in 2016, which included the Belt and Road Initiative, liberalisation of trade in services, innovation and technology as well as financial services. The Government will continue to maintain close liaison and co-operation with various provinces in pressing ahead with the major initiatives.

With unique advantages under “one country, two systems”, the Government will give full play to its role as the “super-connector” for the nation, in line with the policy of “what the country needs, what Hong Kong is good at”, thereby enabling Hong Kong to capitalise on the new opportunities arising from the 13-5 Plan.

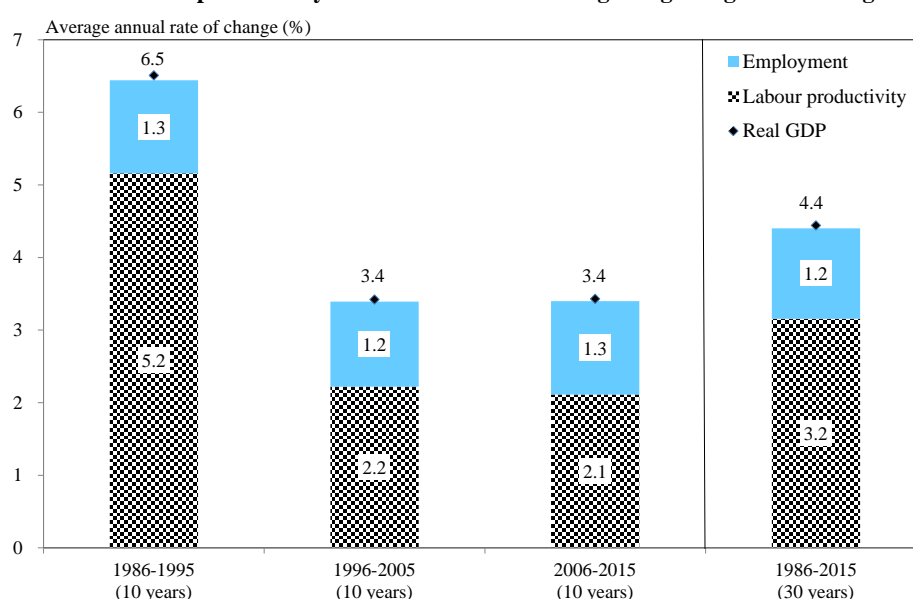
Box 1.3

Labour productivity growth in Hong Kong: a structural perspective

While the short-term growth of an economy is usually subject to cyclical fluctuations from the demand-side, supply-side factors are more crucial in determining its medium and long-term growth trend. Among the supply-side factors, labour productivity⁽¹⁾ has always been the key growth driver of the Hong Kong economy over time. This note attempts to discuss briefly, from a structural perspective, the key elements driving productivity growth.

Over the past three decades, despite undergoing several episodes of ups and downs, the Hong Kong economy grew by 4.4% per annum on average. While employment growth, steady at around an average of 1.2-1.3% per annum in the past decades, made its contribution, a more notable contribution came from labour productivity growth, which averaged 5.2%, 2.2% and 2.1% per annum during 1986-1995, 1996-2005 and 2006-2015 respectively (*Chart 1*).

Chart 1: Labour productivity has been crucial in driving Hong Kong's economic growth



The relatively fast growth in labour productivity over the past three decades was related to the structural transformation of Hong Kong economy, which gradually repositioned itself from a manufacturing hub to an international financial, trading and business centre, focusing more on higher value-added services. The contribution of the services sector to GDP rose from 71% in 1986 to 93% in 2014. Likewise, the share of services employment to total employment climbed up from 55% in 1986 to 88% in 2015. The structural transformation of the Hong Kong economy was particularly rapid during 1986-1995 among the three 10-year periods under study.

The tapering of the transformation pace in the recent past is not surprising as the services sector has already accounted for over 90% of GDP since 2004. Besides the structural shifts among economic sectors, productivity growth could be driven by the skill upgrades of individual sectors. The latter is reflected by the steadily rising proportion of higher-skilled employment in the services sector from around 30% in 1998 to 40% in 2015. This is also a manifestation of the further metamorphosis of Hong Kong into a knowledge-based economy under keen competition in the new era of globalisation and technological advancement.

(1) Labour productivity in this box is defined as the real GDP per employment, which does not account for working hours due to data limitation.

Box 1.3 (Cont'd)

To analyse these effects in more detail, labour productivity growth of Hong Kong during 1986-2015 is further decomposed quantitatively into the two aforementioned components⁽²⁾, i.e. economic restructuring and sectoral upgrading. As shown in **Table 1**, economic restructuring contributed a relatively larger proportion to productivity growth during 1986-1995, i.e. 1.5 percentage points out of the 5.2% average annual growth. Such contribution then narrowed notably, to 0.3 percentage point and 0.1 percentage point respectively during 1996-2005 and 2006-2015. On the other hand, sectoral upgrading has always been the key contributor to productivity growth over the reference period. Notwithstanding its moderation from 3.8 percentage points in 1986-1995 to 2.0 percentage points over the last two decades, it became virtually the sole engine of the overall productivity growth of Hong Kong over the past 10 years.

Table 1: Breakdown of average annual labour productivity growth (%)

	1986-1995	1996-2005	2006-2015
Labour productivity growth	5.2	2.2	2.1
<i>of which due to:</i>			
<i>Economic restructuring</i>	1.5	0.3	0.1
<i>Sectoral upgrading</i>	3.8	1.9	2.0

Note: Figures may not add up due to rounding and/or statistical discrepancy.

Looking ahead, from the supply-side perspective, skills upgrading will remain the key source of Hong Kong's future economic growth. This is particularly so under the threat of population ageing with the labour force being projected to dwindle after 2018, thereby further constraining the economic growth potential originating from demographic dividend.

To enhance labour productivity growth, the Government has strongly committed to investing heavily in human capital and technology and to exploring potential growth areas. In this regard, the 2016-17 Budget has proposed comprehensive measures on nurturing innovation, promoting technology and fostering talent. All in all, the continual improvement in productivity would help build a solid foundation for a more sustainable growth in the future.

On the demand side, the Government will continue to explore new markets and further deepen the economic linkage with the Mainland. The continuous economic reform in the Mainland, its Belt and Road Initiative, and its rebalancing of growth towards services and consumption will unleash massive opportunities for Hong Kong in the decades to come, supporting our move towards a high value-added, knowledge-based economy.

(2) The decomposition formula is:

$$G_t = \sum_i \left[\frac{P_{i,t}}{P_{t-1}} \times (S_{i,t}^L - S_{i,t-1}^L) \right] + \sum_i (S_{i,t-1}^Y \times G_{i,t})$$

where P_t and $P_{i,t}$ denote the labour productivity of the overall economy and sector i in period t respectively, G_t and $G_{i,t}$ denote their respective growth, and $S_{i,t}^Y$ and $S_{i,t}^L$ denote the share of value added and employment of sector i . The first summation on the right hand side represents the productivity growth due to economic restructuring, while the second summation represents the productivity growth due to sectoral upgrading.

Notes :

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

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *Strong external headwinds persisted in the first quarter of 2016. The global economy was stuck on a slow track. While US economic growth remained modest, the fragile conditions in other major advanced economies prompted their central banks to roll out more easing measures. The heightened global financial volatility during the quarter also dented economic sentiment. With global demand remaining weak, global trade flows were subdued, continuing to hit Asian production activities and trade flows, and worsening the performance of Hong Kong's external trade.*
- *Merchandise exports saw a larger year-on-year decline of 4.2% in real terms⁽¹⁾ in the first quarter. Exports to major advanced markets deteriorated across the board. Exports to the Asian markets were also mostly subdued, except those to India which still recorded notable growth.*
- *Exports of services slackened further, falling by 4.9% year-on-year in real terms in the first quarter. The double-digit decline in exports of travel services amid the fall-off in visitor arrivals was the main drag. The unfavourable external environment dealt a further blow. Exports of trade-related services weakened and exports of transportation services remained subdued amid the reduced trade and cargo flows in the region. Exports of financial and other business services also continued to see a slight decline, as financial market strains during the period dragged on cross-border financial and commercial activities.*
- *The 21st Working Meeting of the Hong Kong/Guangdong Co-operation Joint Conference was held in March, which formulated the 2016 Work Plan covering 92 co-operation items based on consensus reached at the 18th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference held last year. Separately, in anticipation of a challenging economic environment, the 2016-17 Budget unveiled a series of measures to ease SMEs' burden and tide over their liquidity needs, while a pilot programme will be launched to encourage their use of technological services to improve productivity.*

Goods trade

Total exports of goods

2.1 Sluggish global demand continued to weigh on Asian trading and production activities and weakened the performance of Hong Kong's external trade. In the first quarter of 2016, Hong Kong's *merchandise exports* (comprising re-exports and domestic exports) continued to decline, by 4.2% year-on-year in real terms, larger than the 0.5% drop in the fourth quarter of 2015. On a seasonally adjusted quarter-to-quarter basis, merchandise exports relapsed to a notable fall of 5.9% in the first quarter, following a 1.1% growth in the preceding quarter.

2.2 The global economic landscape remained lacklustre in the first quarter. Economic growth in the US was modest in the first quarter, being restrained by weak industrial activity and exports, although there was continued improvement in its labour market. The economic recovery in the eurozone was still slow and faced increasing challenges from persistent structural problems, migrant inflows, geopolitical risks and potential exit of the United Kingdom from the European Union. Japan's economy had been likewise struggling for growth. As deflation risks persisted, both the European Central Bank and the Bank of Japan stepped up monetary stimulus in the quarter (see **Box 2.1** for details). Global financial markets saw heightened volatility early this year, in the face of increased global economic uncertainties and monetary policy divergence. All these developments undermined economic sentiment and also generated strong headwinds for emerging market economies. In April, the International Monetary Fund (IMF) lowered its global economic growth forecast for 2016 to 3.2%, indicating that the lacklustre global economic situation would linger on in the near term.

2.3 The sluggish global demand continued to buffet manufacturing and trading activities in Asia. Exports of many Asian economies, measured in US dollar terms, slid notably further from a year earlier in the first quarter. For example, Korea's and Taiwan's exports plummeted by 13% and 12% respectively in the first quarter, and Singapore's non-oil exports also saw an enlarged decline of 10%. The uncertain global economic outlook and accumulated impacts of currency depreciations in many Asian economies dampened import appetite in the region. As a result, there were notable downward pressures on regional trade and cargo flows during the quarter.

**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^(a)</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms^(a)</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms^(a)</u>	<u>Change in prices</u>		
2015	Annual	-1.8	-1.7	0.1	-1.6	-1.6	0.1	-15.2	-12.8	-3.0		
	Q1	2.3	0.7 (-0.3)	2.0	2.5	0.8 (-0.3)	2.1	-10.1	-8.7 (-2.3)	-1.5		
	Q2	-1.9	-3.0 (-1.2)	1.3	-1.7	-2.8 (-1.2)	1.4	-15.6	-13.8 (-2.8)	-2.7		
	Q3	-4.1	-3.8 (-0.1)	-0.4	-3.9	-3.6 (*)	-0.4	-18.3	-15.7 (-6.9)	-4.3		
	Q4	-2.9	-0.5 (1.1)	-2.1	-2.7	-0.3 (1.1)	-2.1	-16.4	-12.6 (-0.4)	-3.3		
2016	Q1	-6.8	-4.2 (-5.9)	-2.6	-6.7	-4.0 (-6.0)	-2.6	-15.2	-12.1 (-3.9)	-3.2		

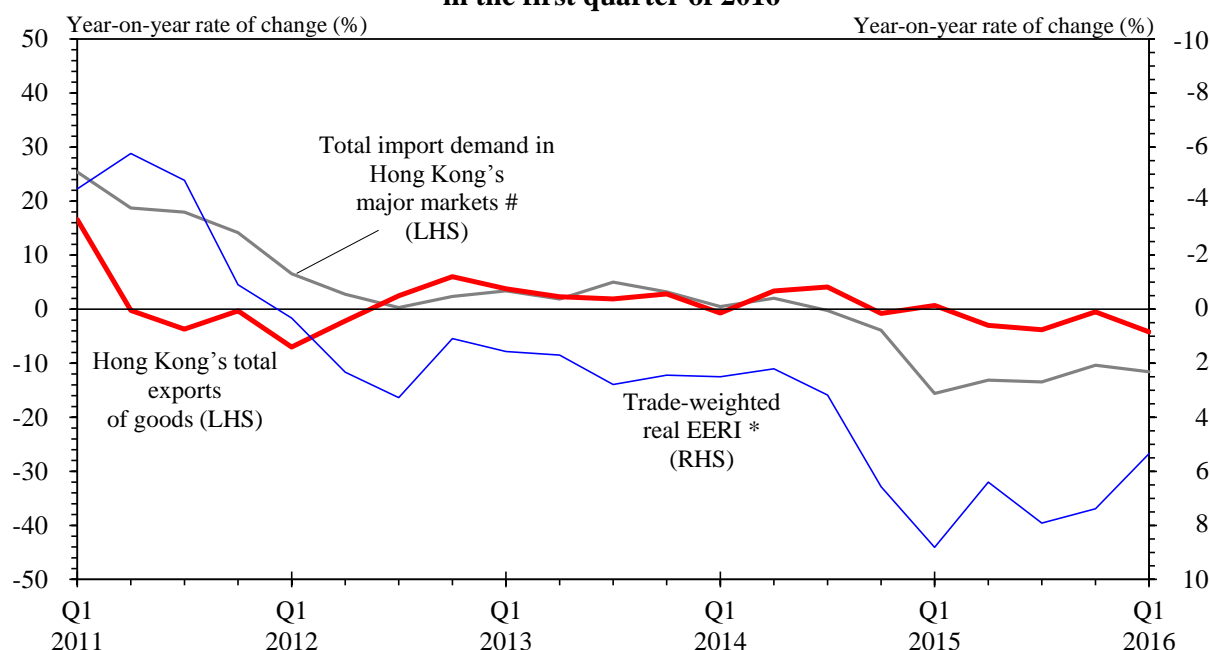
Notes : () Seasonally adjusted quarter-to-quarter rate of change.

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

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

2.4 *Re-exports*⁽²⁾, the mainstay of overall merchandise exports and accounting for 98.8% of total exports by value, fell by 4.0% year-on-year in real terms in the first quarter, after a decline of 0.3% in the preceding quarter. *Domestic exports*, constituting the remaining 1.2% of total exports, fell visibly by 12.1% year-on-year during the quarter, following the 12.6% fall in the preceding quarter.

Diagram 2.1 : Merchandise exports recorded a widened decline in the first quarter of 2016



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

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

(#) Import demand figure for the first quarter of 2016 is based on statistics for January and February 2016.

Diagram 2.2 : Similar to other high-income economies in Asia, Hong Kong also saw a further decline in merchandise exports

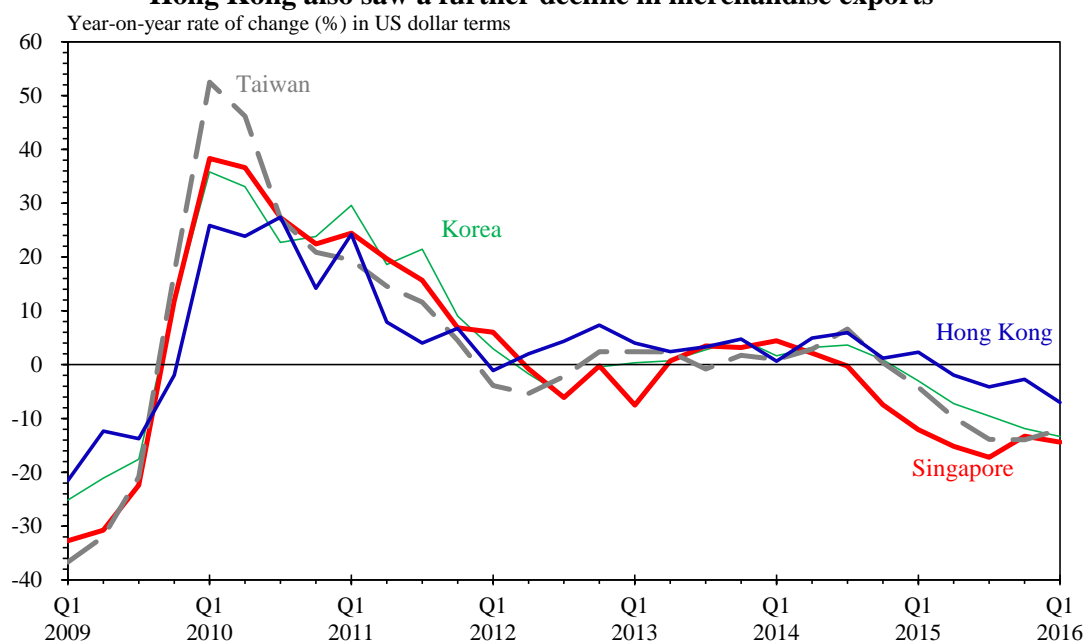
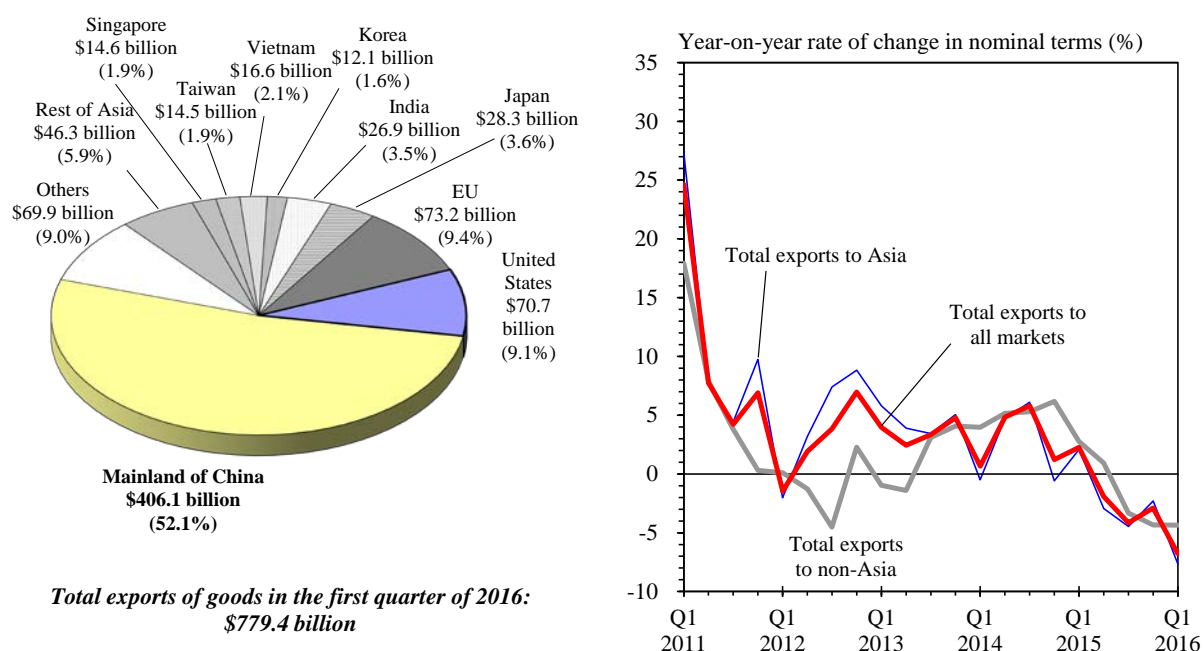


Diagram 2.3 : Exports to the Asian markets fell further amid sluggish global demand



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

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

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

2.5 Analysed by major market, merchandise exports to major advanced economies deteriorated across the board and showed widened declines in the first quarter. Exports to the US weakened to show an enlarged fall, as the setback in industrial activity and softer economic activity there suppressed its import demand. Exports to the EU also turned weaker, in tandem with flagging consumer confidence and sluggish economic activity in the eurozone during the period. Likewise, exports to Japan were still in the doldrums, notwithstanding the tailwinds from the yen's recent rebound, given the continued drag from lacklustre consumer spending.

2.6 Exports to most Asian markets were also weak, as protracted demand sluggishness in advanced markets had serious ramifications on activity in Asian supply chains, and precipitated a general setback in Hong Kong's exports of raw materials and semi-manufactures and capital goods to the region in the first quarter. Moreover, headwinds arising from slower economic growth and currency depreciations in many Asia's economies in the past year or so rendered an additional blow to the region's import demand. Exports to the higher-income Asian economies remained in decline, with the plunge of exports to Korea being particularly notable. Exports to the Mainland reverted to a year-on-year decline. Likewise, those to some major ASEAN markets also relapsed to falls. Exports to India remained the outperformer and registered notable growth during the period.

Diagram 2.4 : Exports to the Mainland relapsed to a fall in the first quarter

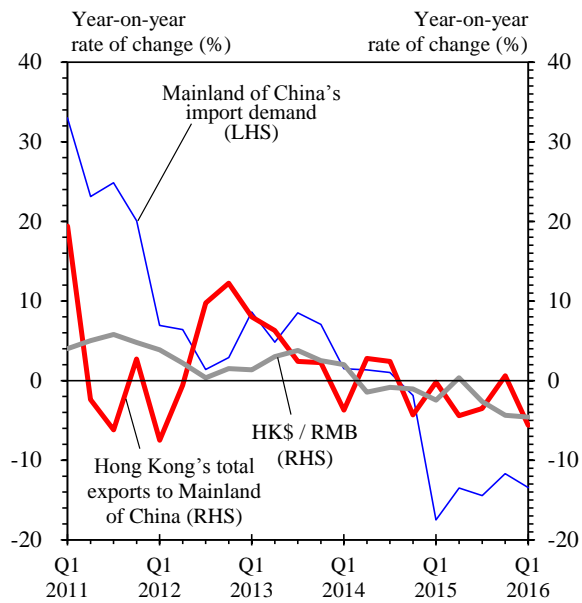


Diagram 2.5 : Exports to the EU showed an enlarged decline

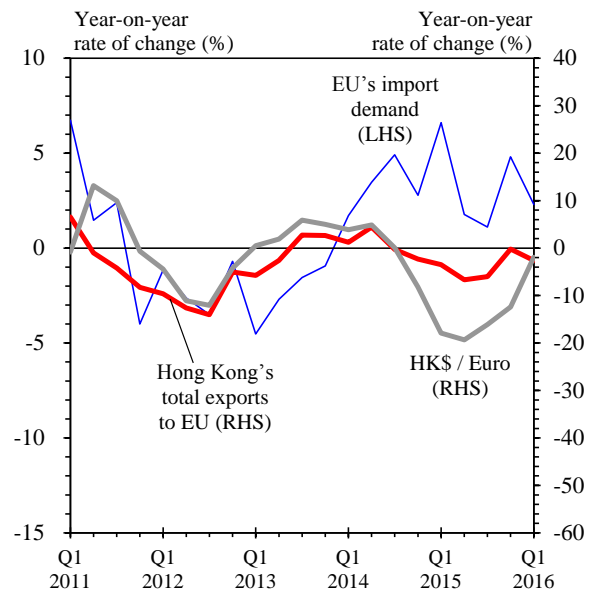


Diagram 2.6 : Exports to the US slackened visibly

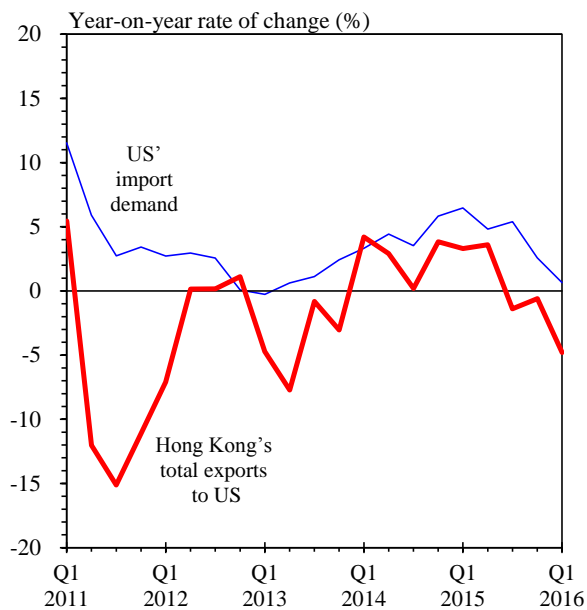
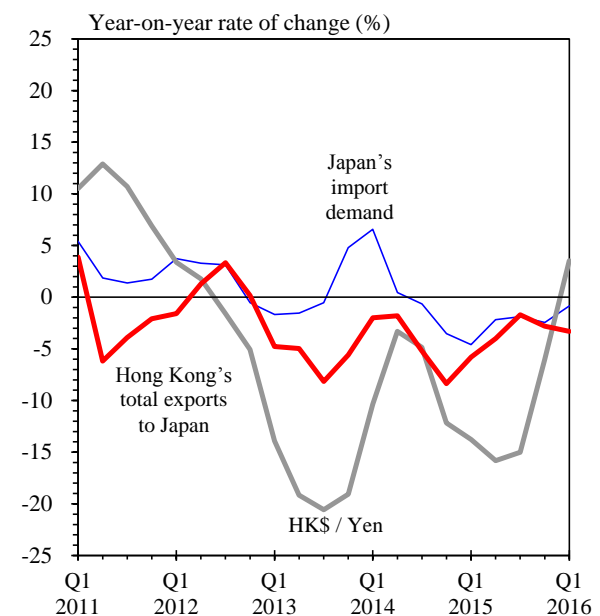
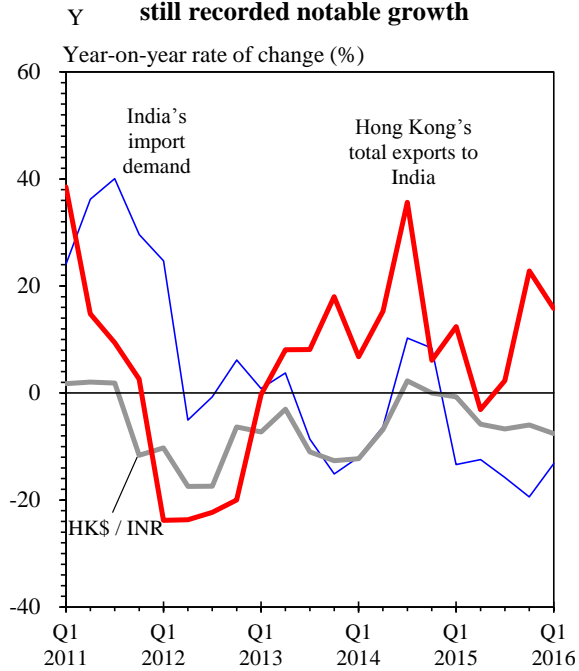


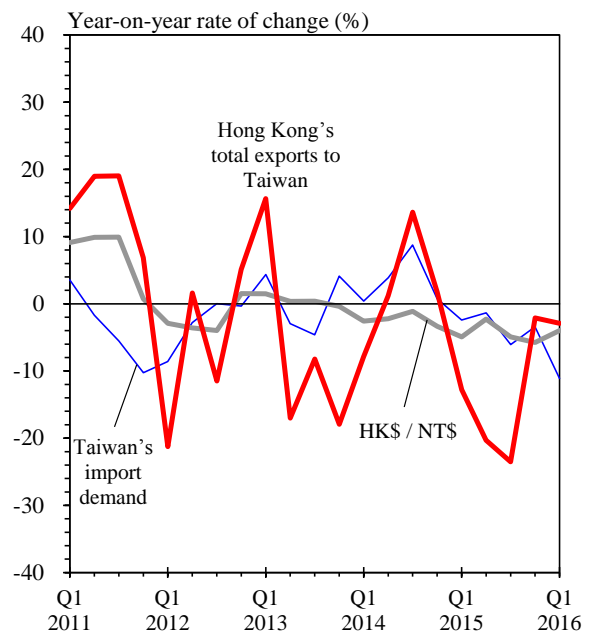
Diagram 2.7 : Exports to Japan were still lacklustre



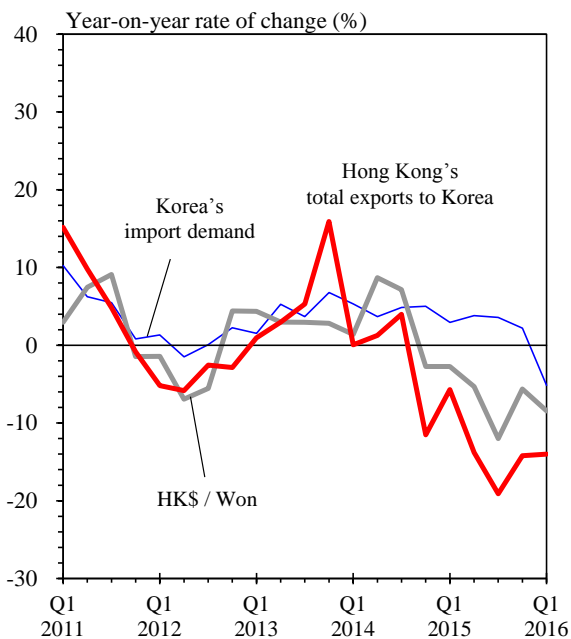
**Diagram 2.8 : Exports to India
still recorded notable growth**



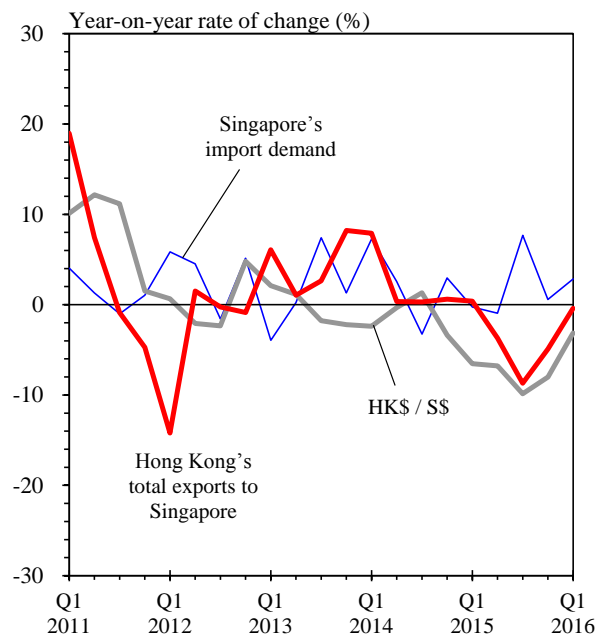
**Diagram 2.9 : Exports to Taiwan
weakened slightly**



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



**Diagram 2.11 : Exports to Singapore
registered a narrower decline**



Box 2.1**Negative interest rates in the eurozone and Japan**

The global monetary environment has become more complicated against the background of the protracted slow growth of the global economy. Several central banks in Europe, led by the European Central Bank (ECB), have set policy rates at negative levels since mid-2014. In January 2016, the Bank of Japan (BOJ) also followed suit and announced to cut its policy rate below zero (**Table 1**). This note briefly reviews the effectiveness of this unconventional monetary policy tool in the eurozone and Japan, based on the evidence available so far, as well as its possible side-effects.

Economic recoveries in the eurozone and Japan remained fragile after the 2008 Global Financial Crisis, and inflation was persistently below their central banks' targets. Given limited fiscal space and political resistance to expansionary fiscal policy, the burden of bolstering economic growth has increasingly shifted to monetary policy. By early 2014, the eurozone's policy interest rates had already fallen to levels close to zero. In June 2014, the ECB began to cut the interest rate on the deposit facility into the negative territory, and further cuts were made in September 2014, December 2015 and March 2016. In parallel, additional easing measures, including targeted longer-term refinancing operations (TLTROs) and the expanded asset purchase programmes and subsequent enhancements, were introduced to reinforce the accommodative monetary policy stance. In Japan, the BOJ embarked on a new phase of monetary easing in April 2013, aiming to double the monetary base in order to achieve its 2% inflation target in two years' time. A number of monetary easing measures had since been added, with the latest move being the introduction of the negative interest rate in January 2016.

Table 1: Timing of policy rate cuts of central banks in Europe and Japan

Central banks	Policy rate	Timing of announcement	Level
European Central Bank	Interest rate on the deposit facility	June 2014	-0.10%
		September 2014	-0.20%
		December 2015	-0.30%
		March 2016	-0.40%
Central bank in Denmark	Certificates of deposit rate	September 2014	-0.05%
		January - February 2015	-0.20%, -0.35%, -0.50% and -0.75%
		January 2016	-0.65%
Central bank in Switzerland	Interest rate on sight deposit account balances	December 2014	-0.25%
		January 2015	-0.75%
Central bank in Sweden	Repo rate	February 2015	-0.10%
		March 2015	-0.25%
		July 2015	-0.35%
		February 2016	-0.50%
Bank of Japan	Interest rate on balances in current accounts	January 2016	-0.10%
Central bank in Hungary	Overnight deposit rate	March 2016	-0.05%

Theoretically, negative policy rates could help boost activity in the real economy through various channels. *First*, by lowering the relevant policy rate below zero, the central bank would be charging, instead of paying, commercial banks for holding excess reserves. This could discourage commercial banks from holding idle cash, but rather, to look for alternative assets, including making loans, and there could be an easing of credit conditions in the

Box 2.1 (Cont'd)

economy. *Second*, when the policy rate cut is translated into lower lending and deposit rates of commercial banks, this could reduce borrowing costs and returns on savings, helping to boost investment and consumption demand. *Third*, the introduction of the TLTROs in the eurozone aimed at providing liquidity to banks at a low cost, as the interest rate applied could be as low as the prevailing deposit facility rate. Thus, the ECB is incentivising banks to lend to the real economy by subsidising their lending to households and non-financial corporations and strengthening the transmission of monetary policy. *Fourth*, lower interest rate could add depreciation pressure on a country's currency, which could help boost the price competitiveness of exports. The consequential increases in import prices could also help mitigate disinflationary forces, facilitating the return of inflation to the central bank's target.

At present, the debate about the effectiveness of negative policy rates on real economic activity is far from conclusive. With negative interest rate policy being carried out in the eurozone for only some 20 months and just implemented in Japan early this year, it is premature to draw a definite conclusion. Moreover, it is difficult to distinguish the standalone influence of the negative interest rate in achieving the central banks' objectives, as it was rolled out alongside other monetary policy measures. Simultaneous developments in the international macroeconomic environment, such as global demand conditions, movements in oil prices and US interest rate normalisation, might also blur the picture.

While the evidence is still tentative at best and the eurozone's overall growth remained slow, it appears that there are some positive developments in the region since mid-2014. By comparing the six quarters after the adoption of negative interest rates (i.e. 2014Q3-2015Q4) with the preceding four quarters (i.e. 2013Q3-2014Q2), seasonally adjusted real GDP growth expanded at a slightly faster quarter-to-quarter pace of 0.4% on average, up from 0.2%, amid some pick-up in the growth of private consumption expenditure, investment spending and exports. The preliminary flash estimate for the eurozone's real GDP growth in the first quarter of 2016 further accelerated to 0.6% quarter-to-quarter. Loans to the private sector reverted to growth since January 2015, and showed a slight year-on-year increase of 1.0% in March 2016 (*Chart 1*). Consumer price inflation, however, remained well below the ECB's 2% target, plagued by further declines in commodity and energy prices, with the latest flash reading at -0.2% in April 2016, as compared to 0.5% in June 2014. Core inflation, excluding food, alcohol and tobacco, and energy, was 0.7% in April 2016, as compared to 0.8% in June 2014 (*Chart 2*).

Chart 1 : Loans to the private sector in the eurozone reverted to growth

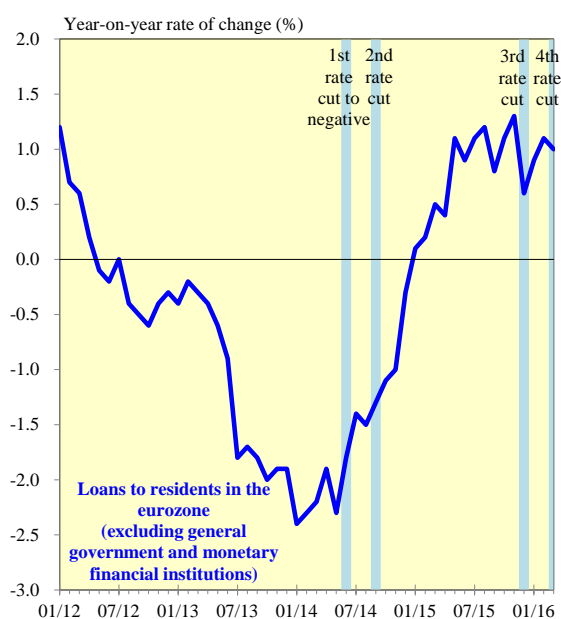
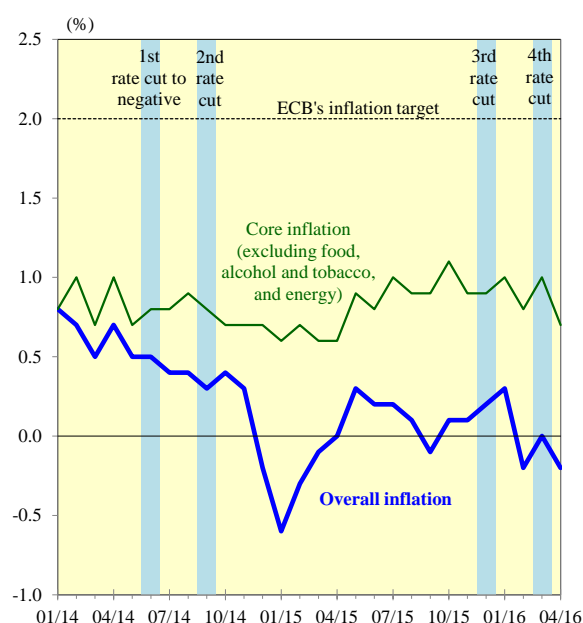


Chart 2 : Inflation in the eurozone remained well below the ECB's target



Box 2.1 (Cont'd)

Nonetheless, there are also widespread concerns about the possible side-effects of negative interest rates. First of all, negative interest rates would squeeze the profitability of banks, as they might not be able to pass these rates to their depositors or augment lending. Banks with weaker capital base could become more vulnerable. Indeed, the recent ECB survey on bank lending in the eurozone⁽¹⁾ indicated that while the negative policy rate so far had a positive impact on banks' lending volume, their interest income and loan margins had been somewhat adversely affected.

Secondly, banks with squeezed margins might undertake excessive risks, if they lend too aggressively to maintain their profit levels. Likewise, some banks may rely more on wholesale funding, the cost of which had fallen alongside lower interest rates. Given the more volatile nature of wholesale funding, this could add risks to the financial system. These potential risks require close monitoring by regulatory bodies.

Also, non-bank financial institutions, such as pension providers and life insurance companies, might find it increasingly difficult to meet their investment return targets, as negative interest rate policy lowers yields on bonds through portfolio rebalancing effects. Besides, if the investment incomes of pensioners' savings are impaired, they may, in turn, cut back consumption.

Apart from the above concerns, the negative interest rate policy may have consequences that are hard to predict. For instance, the movements of the euro and Japanese yen against the US dollar in early 2016 after the recent rate cuts were counter-intuitive. Both the euro and the Japanese yen actually strengthened against the US dollar by around 4% and 7% respectively one month after their recent rate cut announcements in 2016. The surprise movements highlighted the uncertainty associated with exchange rate movements and also cast doubt about the transmission mechanism of this new policy tool in an increasingly complicated global monetary environment.

Thus far, the positive impacts of negative interest rates in the eurozone and Japan on Asia's trade and our exports through the trade channel have been absent amid the still-weak import demand in the two places. The increasing uses of negative interest rate policy have deepened the monetary policy divergence among major central banks, given the US Federal Reserve's normalisation of monetary policy. Under the weak global economic landscape, abrupt changes in investors' risk appetite, interest rate expectations and capital flows could stir up jitters in global financial and foreign exchange markets again, with potential destabilising impacts on the global economy.

Also, with interest rates already at historically low levels in the advanced economies, the International Monetary Fund in April reiterated the need for a more comprehensive strategy to buttress growth. Concerted efforts of structural reforms and stronger fiscal support, subject to the availability of fiscal space, with emphasis on enhancing productive capacity and boosting demand, could complement the highly accommodative monetary policies and help bolster growth.

In the near term, the headwinds arising from a complicated monetary environment will likely persist. Hong Kong, with strong economic fundamentals and a sound and resilient financial system, is capable to sail through sudden changes in financial conditions and handle massive capital inflows and outflows. The Government will stay vigilant and closely monitor the developments on the monetary front and their possible impacts on the Hong Kong economy.

(1) "The euro area bank lending survey for the first quarter of 2016" published by the ECB in April 2016.

Imports of goods

2.7 *Imports of goods* likewise fell, by 5.4% year-on-year in real terms in the first quarter, widening somewhat from the 4.5% decline in the preceding quarter. The larger decline was mainly due to a steeper slide in those imports for subsequent re-exporting, while retained imports remained distinctly weak. *Retained imports*, referring to the imports for domestic use, which accounted for around one-quarter of total imports, dropped by 8.9% year-on-year in real terms, after falling by 14.7% in the previous quarter. The notable drop in retained imports mainly reflected slower local economic growth and reduced intake of retained imports related to the plunge in retail sales during the period.

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

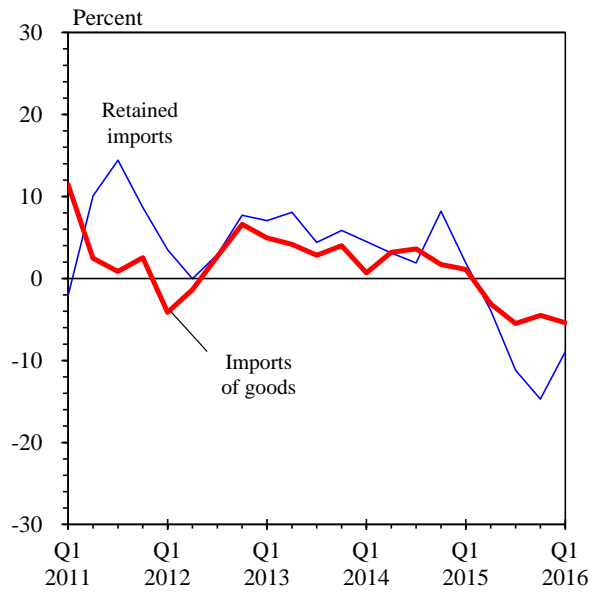
		<u>Imports of goods</u>				<u>Retained imports</u> ^(a)			
		<u>In value terms</u>	<u>In real terms</u>		<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>		<u>Change in prices</u>
2015	Annual	-4.1	-3.2		-0.4	-10.6	-7.4		-2.0
	Q1	1.4	1.1	(-1.6)	0.9	-1.4	1.9	(-4.7)	-2.1
	Q2	-3.2	-3.1	(-2.3)	0.6	-6.9	-3.9	(-5.2)	-1.5
	Q3	-6.7	-5.5	(-1.7)	-0.7	-14.5	-11.2	(-6.4)	-1.8
	Q4	-7.0	-4.5	(0.9)	-2.1	-17.8	-14.7	(0.5)	-2.6
2016	Q1	-8.2	-5.4	(-4.2)	-2.8	-12.2	-8.9	(0.9)	-3.6

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

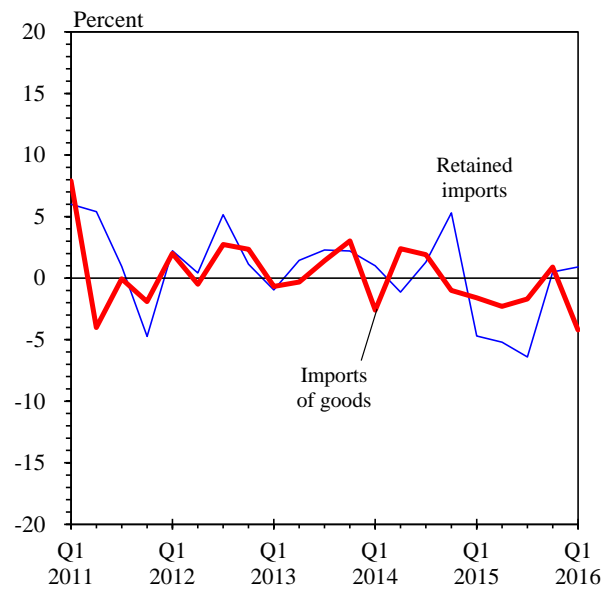
() Seasonally adjusted quarter-to-quarter rate of change.

Diagram 2.12 : Imports fell further while retained imports remained distinctly weak

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



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



Services trade

Exports of services

2.8 *Exports of services* slackened further, showing an enlarged decline of 4.9% year-on-year in real terms in the first quarter, after the 2.7% fall in the preceding quarter. Exports of travel services suffered a double-digit decline and remained the main drag. The weak performance was due mainly to the plunge in visitor arrivals, while the weakness in tourist spending endured. Also, the notable fall in same-day visitor arrivals was partly due to the implementation of “one trip per week” Individual Visit Endorsement for permanent residents of Shenzhen in April 2015. Moreover, the lagged impacts of depreciations of many currencies against the US dollar had conceivably induced some visitors to shift to other popular travelling destinations, and the subdued global economic environment dampened the demand for travelling. Meanwhile, the difficult external environment also undercut other services exports. Exports of trade-related services (comprising mainly offshore trade activities) turned weaker, and those of transportation services remained subdued, given the reduced trade and cargo flows in the region. Exports of financial and other business services continued to see a slight decline, as the heightened volatility in the global financial markets at the start of the year hindered cross-border financial and commercial activities.

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

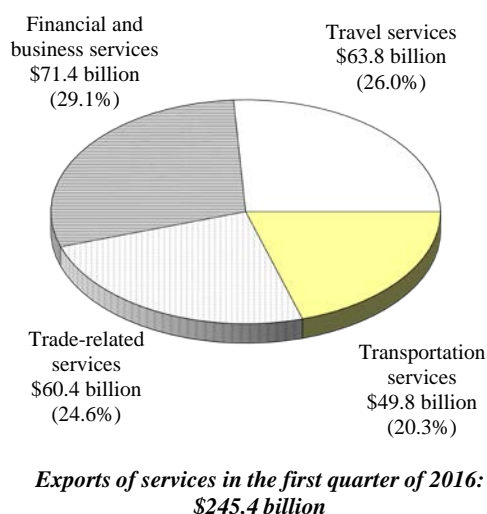
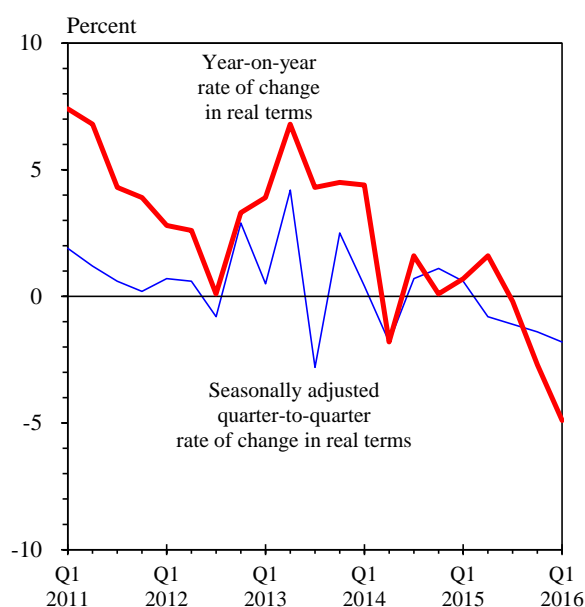


Diagram 2.14 : Exports of services slackened further in the first quarter of 2016



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

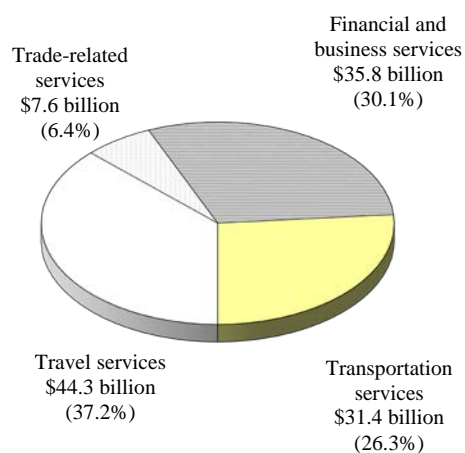
		<i>Of which :</i>					
		<u>Exports of services</u>		<u>Trade-related services^(a)</u>	<u>Transportation services</u>	<u>Travel services^(b)</u>	<u>Financial and business services</u>
2015	Annual	-0.2		-1.8	0.2	-3.8	5.6
	Q1	0.7	(0.6)	-1.4	1.8	-3.3	6.2
	Q2	1.6	(-0.8)	-2.3	0.8	-0.8	11.1
	Q3	-0.2	(-1.1)	-3.0	0.8	-3.8	6.5
	Q4	-2.7	(-1.4)	-0.5	-2.7	-6.7	-1.0
2016	Q1	-4.9	(-1.8)	-2.1	-1.4	-13.3	-1.5

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

Imports of services

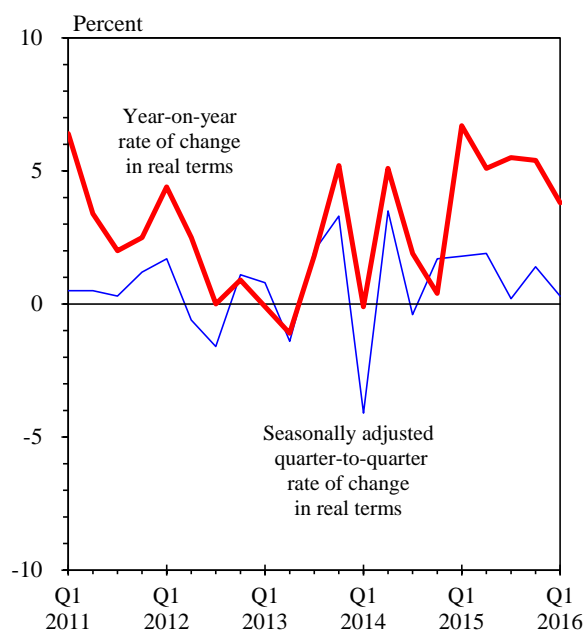
2.9 *Imports of services* decelerated slightly and grew moderately by 3.8% year-on-year in real terms in the first quarter, after a 5.4% growth in the preceding quarter. Imports of travel services maintained a notable growth in the first quarter, helped partly by the boosting effect of the earlier arrival of Easter holidays, which fell in late March 2016 but in early April 2015. Meanwhile, imports of financial and other business services relapsed to a marginal decline, amid the heightened volatility in the global financial markets. Imports of transportation services and trade-related services both weakened and relapsed to slight falls, as the austere external economic environment led to subdued regional trade and cargo flows.

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



Imports of services in the first quarter of 2016: \$119.1 billion

Diagram 2.16 : Imports of services grew moderately



**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 services ⁽⁺⁾	Transportation services	Trade-related services	Financial and business services
2015	Annual	5.7		12.4	-0.9	0.6	5.4
	Q1	6.7	(1.8)	13.3	0.5	1.5	6.5
	Q2	5.1	(1.9)	11.2	-2.8	1.5	6.8
	Q3	5.5	(0.2)	13.0	-1.9	-0.5	5.9
	Q4	5.4	(1.4)	12.2	1.1	0.3	2.6
2016	Q1	3.8	(0.3)	11.2	-0.1	-0.9	-0.3

Notes : (+) Comprising mainly outbound travel spending.

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

Goods and services balance

2.10 The goods deficit narrowed somewhat in the first quarter, compared with the same period last year, mainly reflecting the reduced intake of retained imports amid the slowdown in economic growth and to a lesser extent the modest improvement in the terms of trade. With the services surplus more than offsetting the goods deficit, the combined goods and services account registered a surplus of \$12 billion in the first quarter, equivalent to 1.1% of total import value, representing an improvement from the same period last year, when such an account was broadly balanced.

Table 2.6 : Goods and services balance
(\$ billion at current market prices)

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			<u>As % of imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2015	Annual	3,779	1,053	4,290	487	-511	567	56	1.2
	Q1	879	267	1,028	118	-149	149	*	#
	Q2	916	244	1,067	118	-150	126	-24	-2.0
	Q3	982	270	1,078	124	-95	146	51	4.2
	Q4	1,001	272	1,117	127	-116	145	29	2.3
2016	Q1	823	245	938	119	-114	126	12	1.1

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

(*) Within ±\$0.5 billion.

(#) Within ±0.05%.

Other developments

2.11 In anticipation of the challenging macroeconomic environment, the 2016-17 Budget introduced a number of measures to provide support to the small and medium enterprises (SMEs), including those engaging in trading activity. Apart from the relief measures to ease their burden, the application period for the special concessionary measures under the SME Financing Guarantee Scheme will be extended to February 2017 to help them tide over their liquidity needs. In addition, a Pilot Technology Voucher Programme under the Innovation and Technology Fund will be launched to subsidise SMEs' use of technological services, with an aim to improve their productivity and upgrade business processes.

2.12 Strengthening economic relations with our trading partners, in particular the Mainland, is a principal strategy to develop our economy. In January, the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) Forum on Agreement on Trade in Services was held to familiarise the trade with the services liberalisation measures and the implementation arrangements under the Agreement on Trade in Services signed under the framework of CEPA in November last year. In March, the 21st Working Meeting of the Hong Kong/Guangdong Co-operation Joint Conference was held. The two sides formulated the 2016 Work Plan covering 92 co-operation items. This was based on the consensus reached at the 18th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference last year, which agreed that the co-operation this year should include such areas as the Belt & Road Initiative, innovation and technology, liberalisation of trade in services, and financial services. The deepening economic ties between the two places will enhance competitiveness of the whole region and bring new business opportunities (see **Box 2.2** for reference).

2.13 In addition to the Mainland, Hong Kong also made progress to strengthen investment relations with other economic partners. In February, an Investment Promotion and Protection Agreement with Canada was signed, which will give additional assurance to investors and help expand investment flows between the two places.

Box 2.2

Impact of a regional trade agreement on Hong Kong as a non-signatory: A case in ECFA

Recognising the enormous challenge in reaching a wholesale agreement on trade liberalisation for the global economy (i.e. the Doha round of the World Trade Organization (WTO)), economies have increasingly focused on regional and sectoral trade agreements in recent years. According to the statistics from the WTO, 75 regional trade arrangements (RTAs), either bilateral or multilateral, notified the WTO from 1958 to 1999, while some 340 additional RTAs were formed since 2000, including the ASEAN - China Free Trade Area, Dominican Republic - Central America - United States Free Trade Agreement and EU - Colombia/Peru Free Trade Agreement, vividly reflecting the enthusiasm for RTAs in recent years across the globe.

Unlike a WTO agreement which would entail trade facilitation measures (e.g. lower tariffs, less non-tariff barriers, etc.) applicable to all of the 162 WTO members, a RTA would only lower the barriers for trade flows between the signatories. As a small, open economy and an international trading centre, it would be meaningful to look at the potential implications for Hong Kong when other economies sign a RTA.

Holistically speaking, the implications of a RTA can be categorised into three effects: (1) the trade creation effect, (2) the trade diversion effect, and (3) the spill-over effect.

The first two are usually referred as static effects. Loosely speaking, trade creation effect refers to the increase in trade flows between the signatories that is made possible by the RTA's realisation of each signatory's comparative advantage through lowering tariffs and non-tariff barriers among themselves. As a result, trade creation effect would be beneficial to all the signatories, but irrelevant to the non-signatories. As for trade diversion effect, it refers to the new trade flows between the signatories that are diverted from those between a signatory and a non-signatory, due to the newly introduced preferential treatment for trade between the signatories. As such, trade diversion effect could be beneficial to the signatories, to the detriment of the non-signatories.

The spill-over effect comes in when the impact of a RTA is viewed dynamically. The relaxation of various trade restrictions among those signatories improves the resources allocation efficiency in these economies, thereby improving their income and production capacity. This in turn would lead to strengthening of import demand in these signatory economies and hence boosting trade flows worldwide.

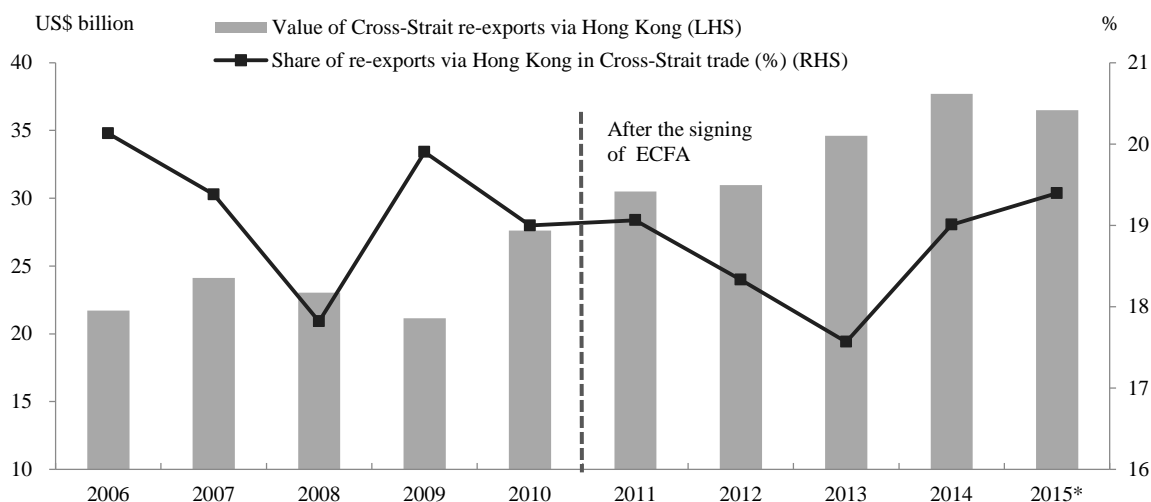
An example to showcase a RTA's impact on Hong Kong as a non-signatory would be the signing of Economic Cooperation Framework Agreement (ECFA) between the Mainland and Taiwan in 2010, the first and the fourth largest trading partner of Hong Kong at that time. Since the implementation of ECFA, both the Mainland and Taiwan have lowered the import tariffs of more than 800 tariff items. Such reduction of tariffs has inevitably affected Hong Kong's re-exports of these goods due to the stronger price incentive for direct trade between the two economies. Specifically, the value of trade in items under the ECFA's tariff reduction list routing through Hong Kong as a share to the total Cross-Strait trade gradually fell from about 10% in 2010 to around 6% in 2014⁽¹⁾.

(1) Crude estimates only, based on the product codes on the ECFA's tariff reduction list.
(Source: http://fta.mofcom.gov.cn/cepa/annex/haixiaeran-xyfj01_cn.pdf)

Box 2.2 (Cont'd)

Despite so, since the signing of ECFA, the closer Cross-Strait economic relationship has benefited the Hong Kong's trade in overall terms. With the bilateral trade between the Mainland and Taiwan expanding notably by 29% from US\$145.4 billion in 2010 to US\$188.2 billion in 2015 (according to the China Customs Statistics), Hong Kong's re-exports between them also grew visibly over the same period, by 32% from US\$27.6 billion to US\$36.5 billion. Consequently, the share of Hong Kong's re-exports in the total Cross-Strait trade rose slightly from 19.0% to 19.4% over this period, despite a small drop in the early years of ECFA implementation. In fact, the 32% cumulative growth in Hong Kong's re-exports between the Mainland and Taiwan from 2010 to 2015 was even higher than the corresponding 20% growth in Hong Kong's overall re-exports. All these suggest that the positive spill-over effect should be even larger than the negative trade diversion effect, thanks to Hong Kong's close economic relations with the two economies and the competitive strength of Hong Kong as a regional trading hub.

Chart 1: Cross-Strait re-export trade via Hong Kong



Note: (*) Provisional figures.

Sources: China Customs Statistics and the Census and Statistics Department of HKSAR Government

The analysis above shows that, while a RTA would unavoidably divert some trade from a non-signatory, the increase in production capacity and demand thus entailed from the liberalisation measures of a RTA could have positive spill-over effect on a non-signatory, depending on its economic relationships with the signatories and the competitive strengths of its businesses. For Hong Kong in particular, this underlines the importance of continuously sharpening the competitiveness in our various services, and actively participating in co-operation projects in the region and beyond (e.g. the Hong Kong-ASEAN Free Trade Agreement and the WTO Trade Facilitation Agreement).

Notes :

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

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

Summary

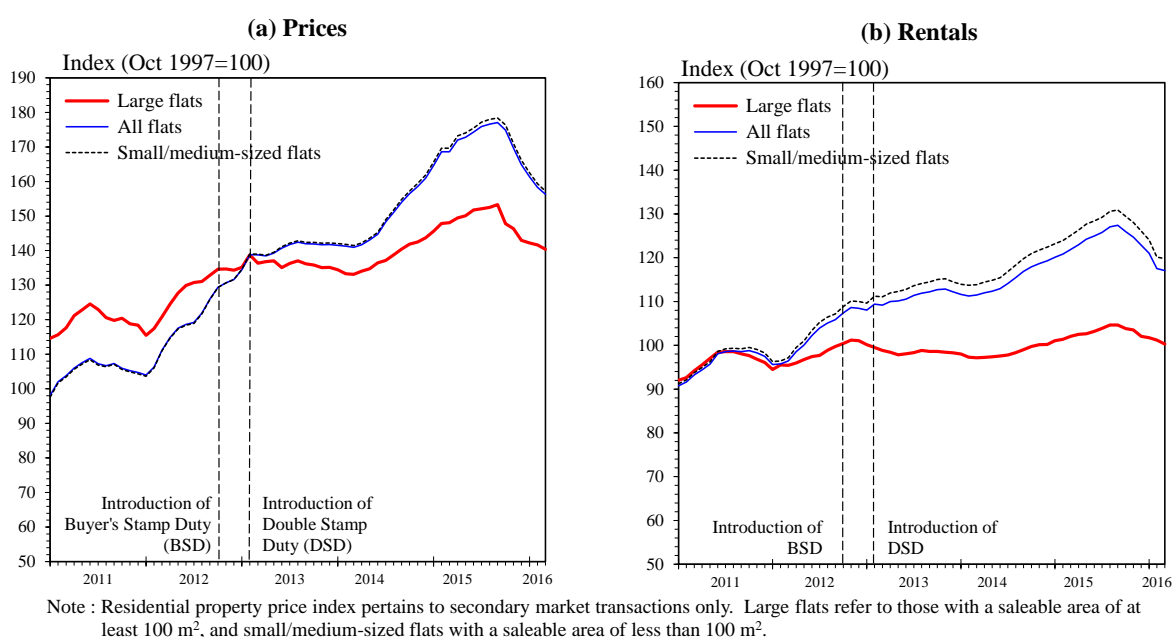
- *The residential property market consolidated further in the first quarter of 2016. Amid concerns over further US interest rate hike and a highly volatile local stock market, flat prices fell by a further 5% during the quarter. Trading activities also shrank to very low levels.*
- *Reflecting the Government's sustained efforts to increase land and flat supply, total flat supply in the coming three to four years rose to another record high of 92 000 units.*
- *The commercial and industrial property markets also remained quiet in the first quarter. Trading activities for most market segments plummeted to record lows. Prices and rentals generally went further lower.*
- *Inbound tourism remained in a consolidation mode under the on-going decline in Mainland visitors. Overall visitor arrivals dropped by 10.9% from a year earlier to 13.7 million in the first quarter.*
- *The subdued performance of external trade continued to put a drag on the logistics sector in the first quarter. Total container throughput dropped by another 10.4%, and air freight throughput by 3.5%.*

Property

3.1 The *residential property market* consolidated further in the first quarter of 2016. Amid concerns over further US interest rate hike and a highly volatile local stock market, flat prices fell further. With buying interests staying weak, trading activities shrank to very low levels.

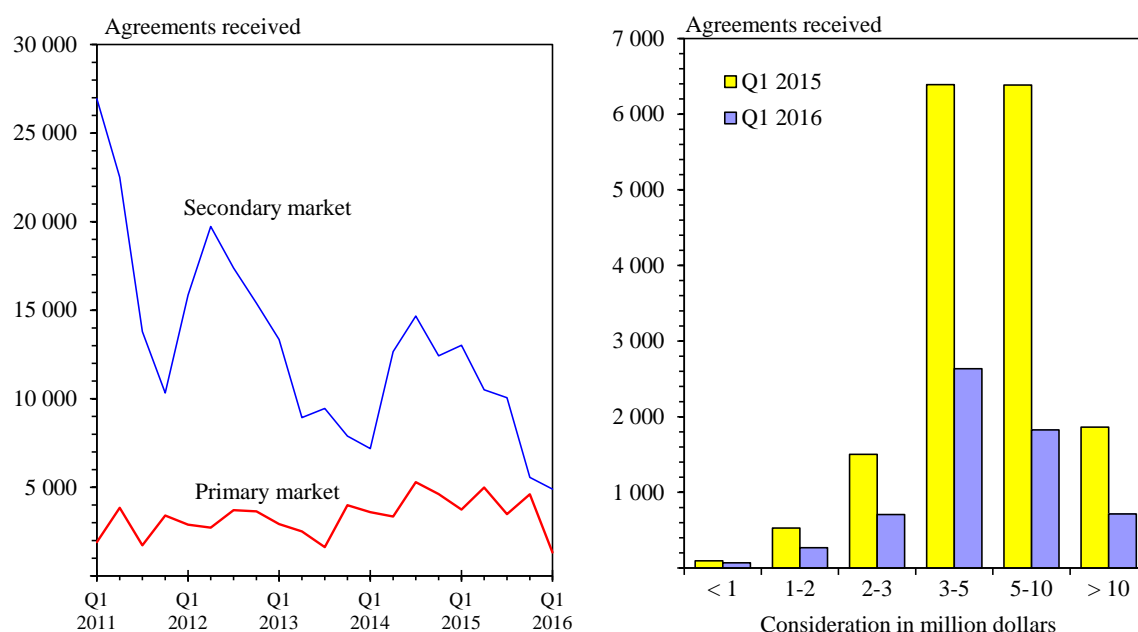
3.2 Overall flat prices fell by 5% between December 2015 and March 2016. Analysed by size, prices of small/medium-sized flats fell by a more rapid 5% during the first quarter, and those of large flats by 2%. Compared with the peak in September 2015, overall flat prices in March 2016 have fallen by a cumulative 12%.

Diagram 3.1 : Flat prices and rentals fell further in the first quarter



3.3 Reflecting the subdued trading, the number of sale and purchase agreements for residential property received by the Land Registry plunged by another 39% from the preceding quarter or 63% from a year earlier to a record low of 6 221 in the first quarter. Within the total, secondary market transactions dropped by 12% from the preceding quarter, while primary market transactions plummeted by 71% as developers slowed down the launch of new projects. In parallel, total consideration shrank by 39% to \$44.7 billion.

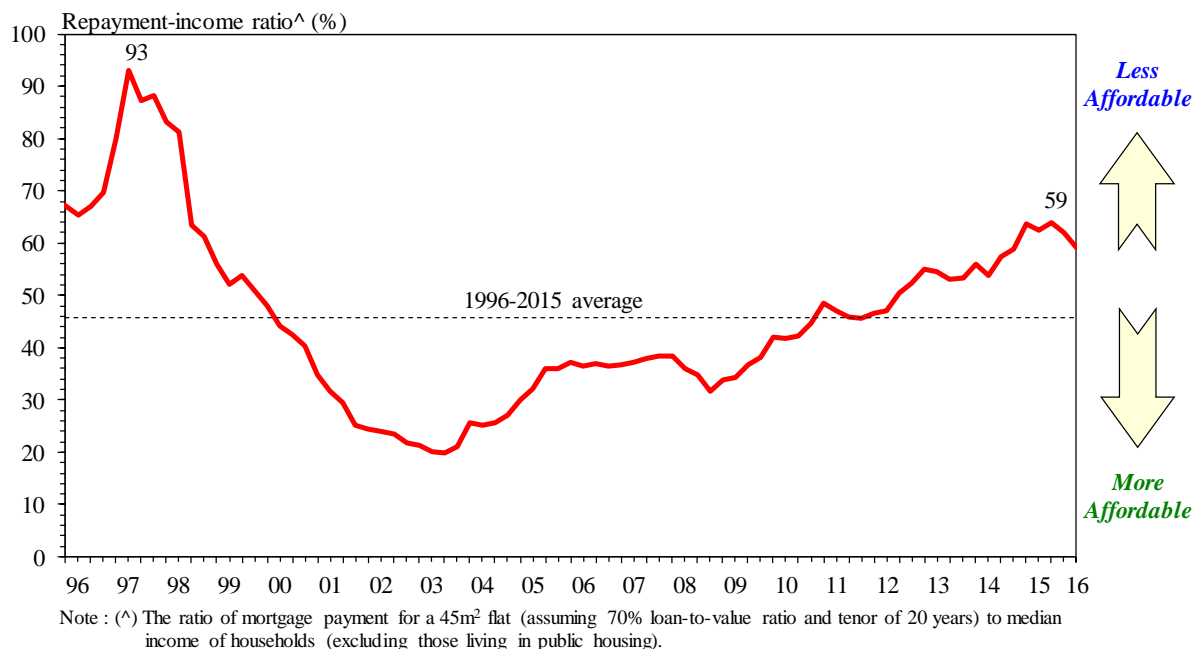
Diagram 3.2 : Trading activities dropped to a record low level in the first quarter



3.4 Likewise, the leasing market was quiet in the first quarter. Overall flat rentals dropped by 5% between December 2015 and March 2016. Within the total, rentals of small/medium-sized and large flats went lower by 5% and 2% respectively. Overall flat rentals in March 2016 were 8% down from the peak in September 2015. Reflecting the relative movements of flat prices and rentals, the average rental yield for residential property stayed at 2.8% in March 2016, unchanged from December 2015.

3.5 Notwithstanding the recent consolidation, overall flat prices in March 2016 still exceeded the 1997 peak by 56%. 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) fell from 62% in the preceding quarter to around 59% in the first quarter, but still significantly higher than the long-term average of 46% over 1996-2015. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 77%.

Diagram 3.3 : The mortgage payment to income ratio stayed elevated



3.6 Raising flat supply through increasing land supply is the Government's top policy priority in ensuring a healthy and stable development of the property market. In February, the Government announced the 2016-17 Land Sale Programme, which includes 29 residential sites capable of providing a total of about 19 200 flats. Combining the various sources (including Government land sale, railway property development projects, the Urban Renewal Authority's projects and private re-development/development projects), it is estimated that the total housing land supply in 2016-17 could provide for around 28 600 private flats, much higher than the annual housing supply target of 18 000 units.

3.7 As a result of the Government's sustained efforts, the *total supply of flats* in the coming three to four years (comprising unsold flats of completed projects, flats under construction but not yet sold and flats on disposed sites where construction can start any time) rose further from 87 000 units as estimated at end-2015 to another record high of 92 000 units as estimated at end-March 2016. In addition, another 6 200 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⁽¹⁾. These measures have yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) declined further to

an average of 24 cases per month or 0.9% of total transactions in the first 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* stayed low at an average of 47 cases per month or 1.8% of total transactions in the first quarter, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As to *mortgage lending*, the average loan-to-value ratio of new mortgages was 50% in the first quarter, 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

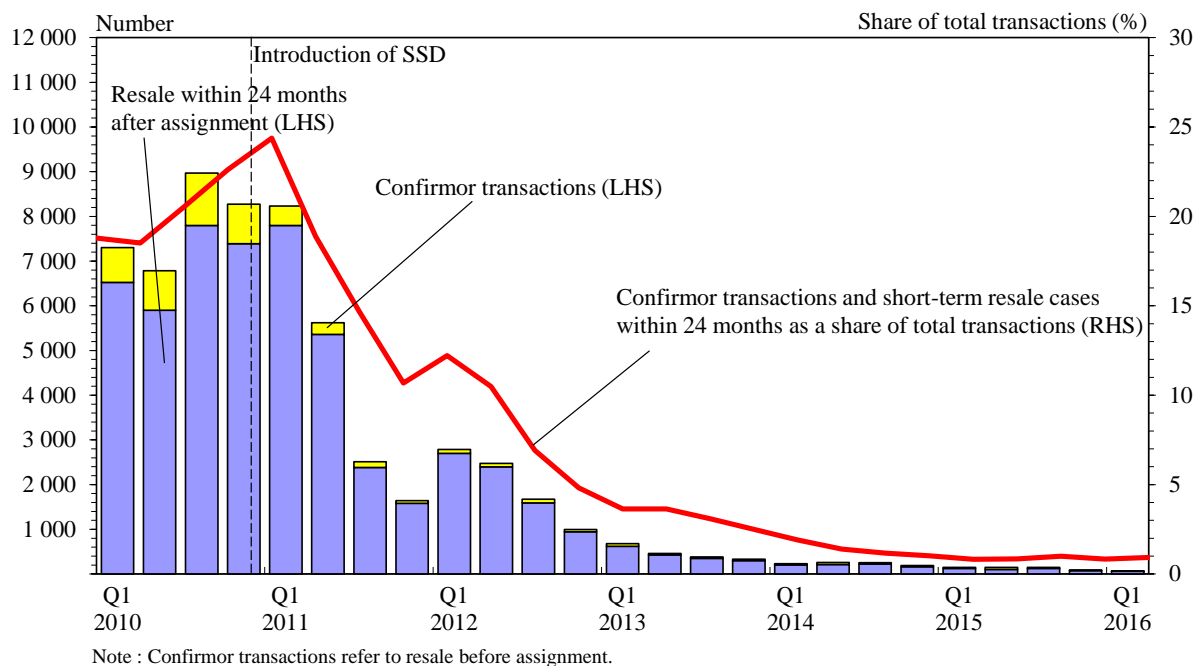
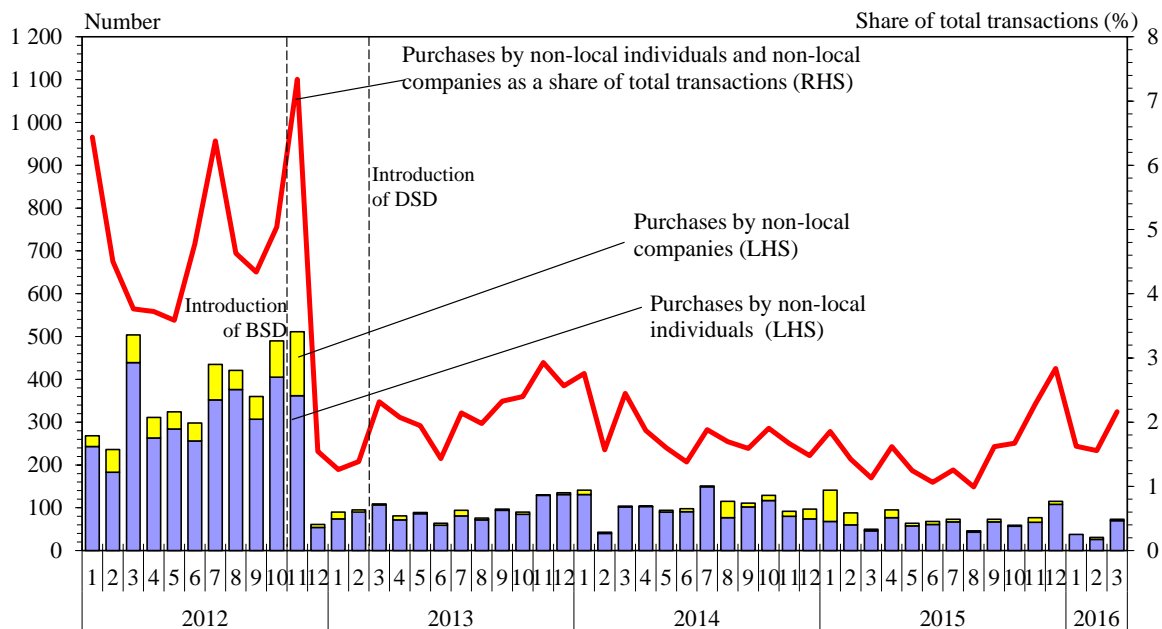


Diagram 3.5 : Purchases by non-local buyers remained low



3.9 Looking forward, the demand-supply balance of flats looks set to ease, putting further pressure on the property market. As a result of the Government's sustained efforts, the medium-term supply of flats has risen significantly. On the other hand, demand for flats will likely moderate given the subdued economic outlook. Externally, it is widely expected that the US Federal Reserve would further raise interest rate during the year, though the pace and magnitude is still uncertain.

3.10 The *commercial* and *industrial property markets* also remained quiet in the first quarter of 2016. Trading activities for most market segments plummeted to record lows. Prices and rentals generally went further lower.

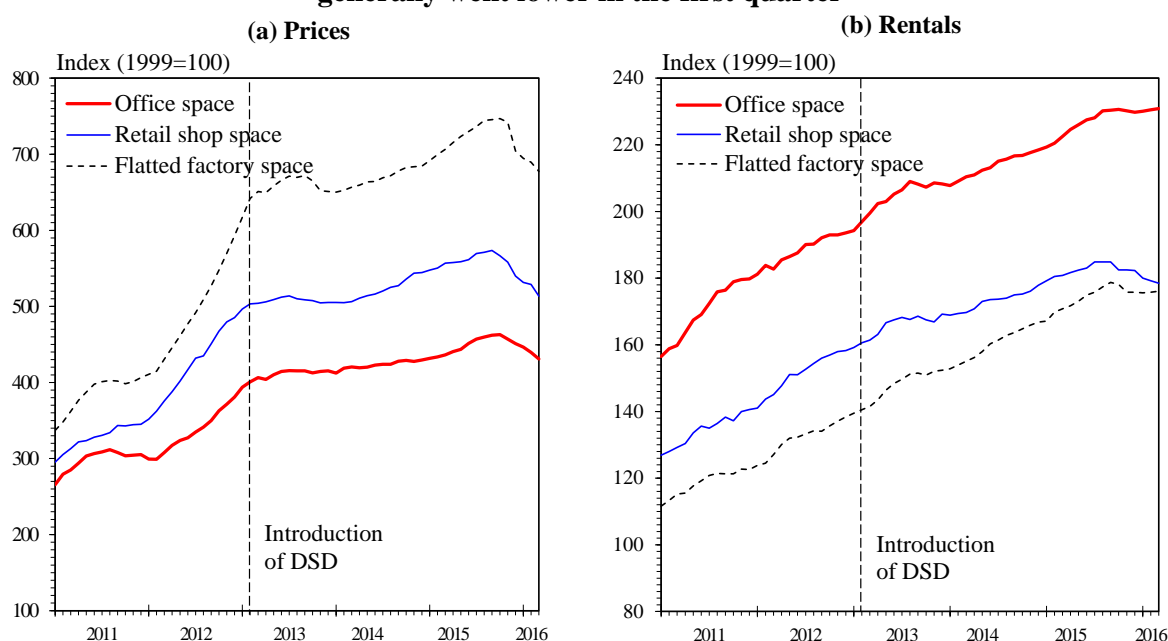
3.11 Comparing March 2016 with December 2015, overall sale prices of *office space* fell by 4%. Within the total, prices of Grade A, B and C office space declined by 2%, 4% and 7% respectively. Meanwhile, overall rentals were little changed. Within the total, rentals of Grade A and C office space were flat, while rentals of Grade B office space edged up by 1%. As a result, the respective average rental yields for Grade A, B and C office space were 2.9%, 3.1%, and 3.2% in March 2016, compared with 2.9%, 3.0% and 2.9% in December 2015. In the first quarter, transactions for office space plunged by 37% from the preceding quarter or 66% from a year earlier to a record low of 140 cases.

3.12 Affected by the weak retail sales performance, sale prices and rentals of *retail shop space* fell by 5% and 2% respectively between December 2015

and March 2016. Reflecting these movements, the average rental yield rose from 2.5% in December 2015 to 2.6% in March 2016. As to trading activities, transactions edged up by 2% over the preceding quarter to 320 cases in the first quarter, yet still representing a plunge of 42% from a year earlier⁽²⁾.

3.13 For *flatted factory space*, sale prices went down by 4% during the first quarter of 2016, while rental were virtually unchanged. Reflecting the relative movement of prices and rentals, the average rental yield went up from 3.0% in December 2015 to 3.1% in March 2016. Transactions for flatted factory space shrank by 44% from the preceding quarter or 58% from a year earlier to 400 cases in the first quarter, the lowest level on record.

Diagram 3.6 : Prices and rentals of non-residential properties generally went lower in the first quarter



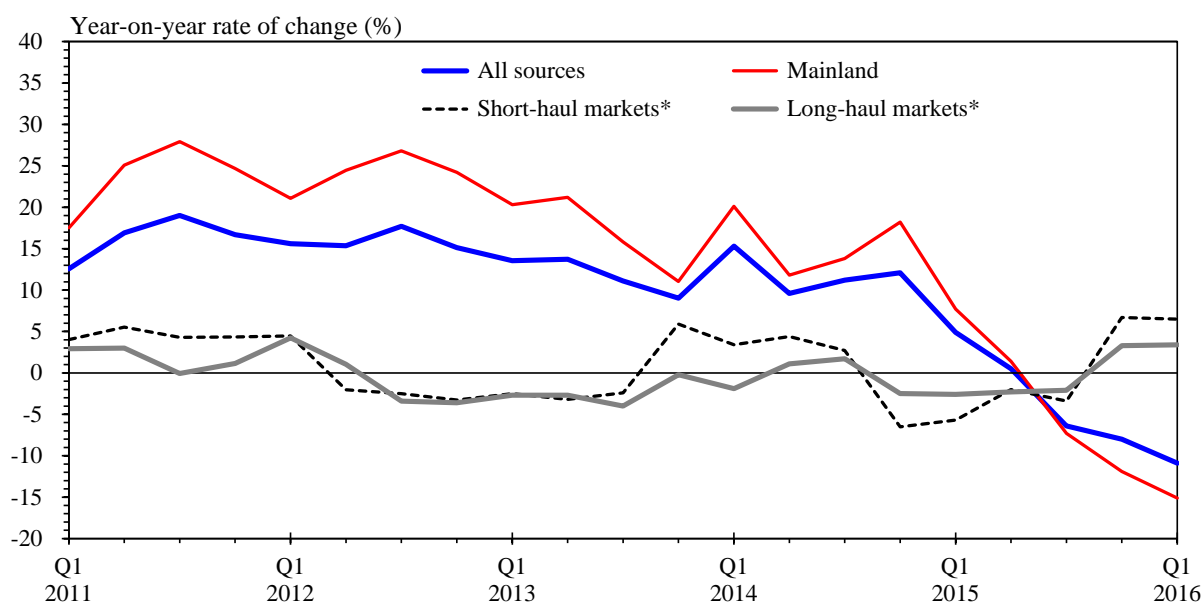
Land

3.14 Reflecting the Government's efforts to increase land supply, five residential sites, with a total area of about 7.9 hectares, were disposed in the first quarter, fetching a land premium of about \$12.9 billion. The tender exercises for one business site in Kwai Chung also commenced in the quarter. There was no land exchange approved in the first quarter, while lease modifications of 12 sites were approved.

Tourism

3.15 Inbound tourism remained in a consolidation mode in the first quarter of 2016 under the on-going decline in Mainland visitors. Overall *visitor arrivals* dropped by another 10.9% from a year earlier to 13.7 million. Mainland visitors plunged by 15.1% to 10.4 million, reflecting the impact of the “one trip per week” Individual Visit Endorsements implemented since last April⁽³⁾ and increased competition from neighbouring destinations. Other markets fared better by comparison. Short-haul and long-haul visitors⁽⁴⁾ rose by 6.5% and 3.4% respectively.

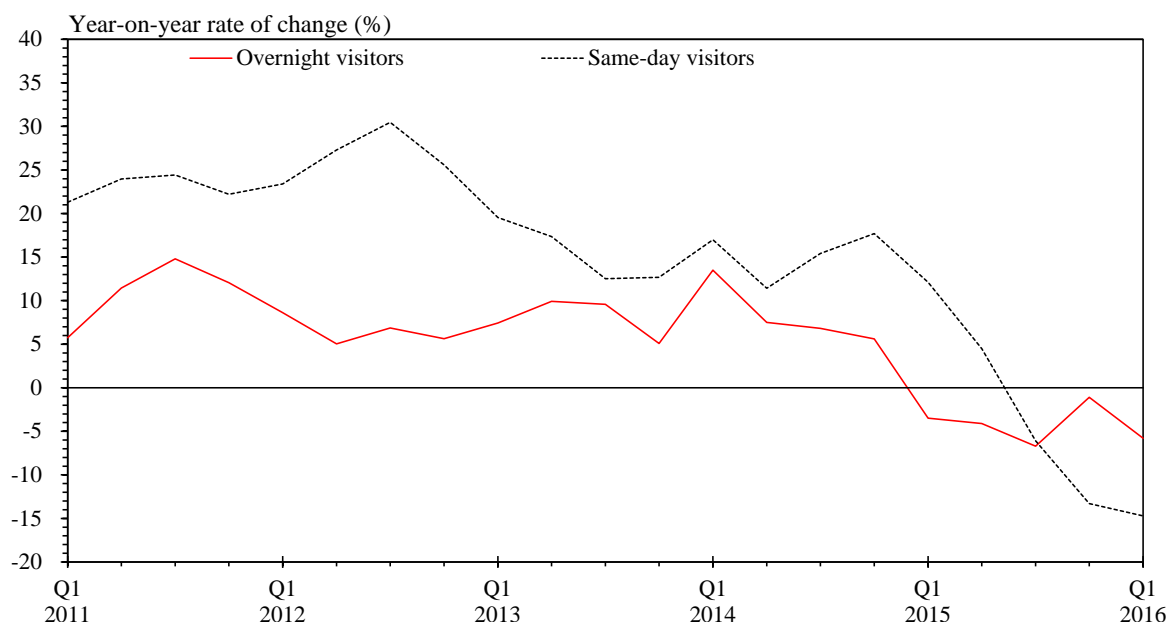
Diagram 3.7 : Inbound tourism remained in a consolidation mode in the first quarter of 2016 under the on-going decline in Mainland visitors



Note : (*) See note (4) at the end of this chapter for the definition of short-haul and long-haul markets.

3.16 Analysed by the length of stay, same-day visitors fell by 14.7% from a year earlier, and overnight visitors by a less rapid 5.8%. Reflecting these movements, the share of same-day visitors declined from 57.6% a year earlier to 55.1% in the first quarter, while that of overnight visitors rose from 42.4% to 44.9%.

Diagram 3.8 : Both same-day and overnight visitor arrivals continued to fall



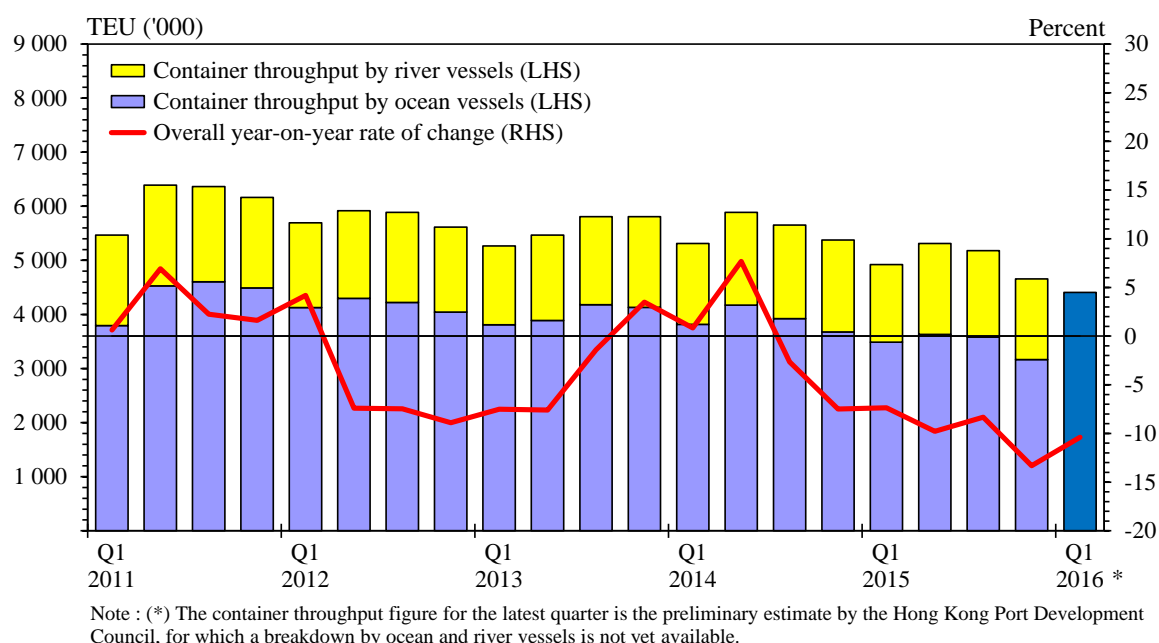
3.17 In parallel to the decline in overnight visitors, the average hotel room occupancy rate declined from 86% a year earlier to 83% in the first quarter. Likewise, the average achieved hotel room rate fell by 9.1% to \$1,292⁽⁵⁾. As to spending by visitors, due to a fall in both visitor arrivals and per-capita spending, total tourism expenditure associated to inbound tourism dropped by 7.5% to \$332.3 billion in 2015, the first annual decline since the sector was hit by the Severe Acute Respiratory Syndrome epidemic in 2003.

3.18 To provide support to the tourism industry and enhance the attractiveness and competitiveness of Hong Kong, a series of short, medium and long-term measures were announced in the 2016-17 Budget. As to short-term measures, a total of some \$140 million of licence fees would be waived for one year for the tourism-related trades and industries (e.g. travel agents, hotels and guesthouses as well as restaurants). In the medium term, the Government would allocate \$240 million to launch five measures, including expanding the scale of this year's major events, re-packaging Hong Kong's tourism image, assisting the industry to open up new visitor sources, subsidising small and medium-sized travel agents to make use of information technology, and continuing to promote Hong Kong's natural scenery as well as unique history and culture. In the long run, the Government would continue to upgrade the tourism infrastructure.

Logistics

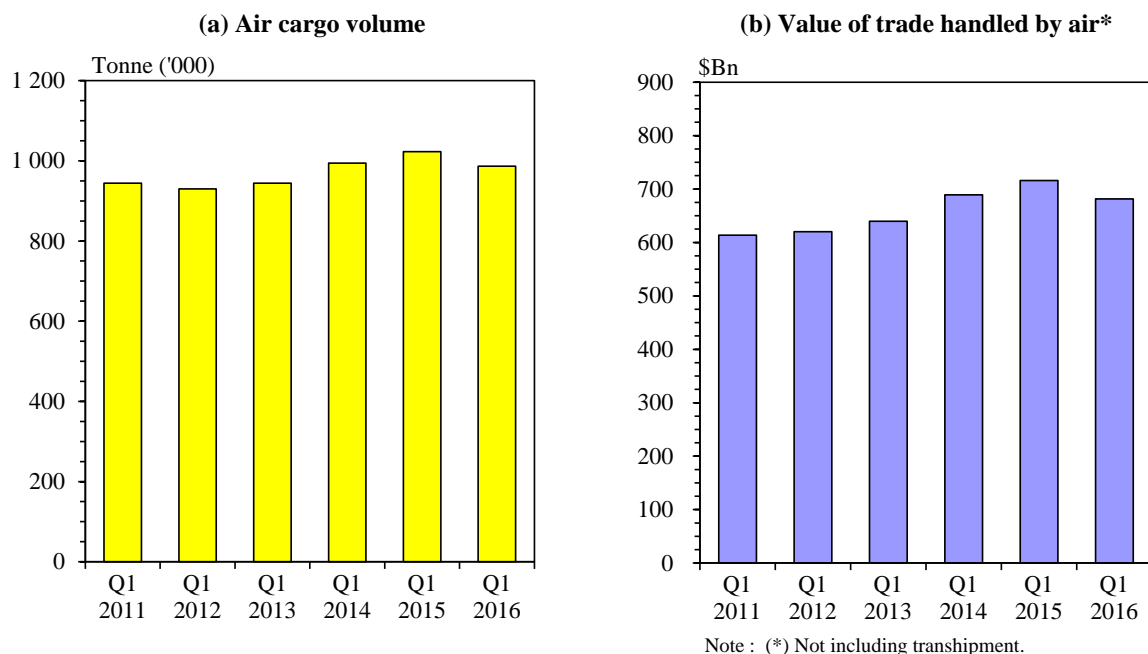
3.19 The subdued performance of external trade continued to put a drag on the logistics sector in the first quarter of 2016. *Total container throughput* plunged by another 10.4% from a year earlier to 4.4 million twenty-foot equivalent units (TEUs). In parallel, the value of trade handled at the Hong Kong port plummeted by 14.5%, and its share in total trade dwindled from 21.7% a year earlier to 20.0%.

Diagram 3.9 : Container throughput continued to fall in the first quarter



3.20 *Air freight throughput* fell by 3.5% from a year earlier to 1.0 million tonnes in the first quarter, the sharpest fall since the fourth quarter of 2011 when the sector was hit by the eurozone sovereign debt crisis. The value of trade by air also declined by 5.9%, though its share in total trade rose from 40.0% a year earlier to 40.7%.

Diagram 3.10 : Air cargo throughput and value of trade handled by air declined in the first quarter



Transport

3.21 Traffic flows for different major modes of transport continued to show a mixed performance in the first quarter of 2016. Air passenger traffic rose by 7.5% over a year earlier to 17.6 million, while water-borne passenger trips fell by 4.7% to 6.3 million. As to land-based cross-boundary traffic, passenger trips dropped by 3.4% to 53.8 million and average daily vehicle movements also declined slightly by 0.8% to 39 233.

Creativity and Innovation

3.22 Various measures were announced in the 2016-17 Budget to nurture innovation and support the creative industries⁽⁶⁾. On application of research and development, the Hong Kong Science and Technology Parks Corporation (HKSTPC) is planning for two pilot high-efficiency multi-storey building projects in the Tseung Kwan O Industrial Estate. Also, the Government would, among others, inject \$2 billion into the Innovation and Technology Fund to launch a Midstream Research Programme for Universities. On promoting start-ups (**Box 3.1**), the Government has earmarked \$2 billion to set up the Innovation and Technology Venture Fund to co-invest with selected private venture capital funds on a matching basis in local innovation and technology start-ups. The Cyberport would also earmark \$200 million to invest in its start-ups. In addition, the HKSTPC plans to expand the Hong Kong Science Park in phases to provide additional floor area for start-ups and other technology companies. The first stage of the expansion programme will

provide some 70 000 square metres of new floor space by 2020. As to creative industries, the Government would inject additional financial resources and launch different events and schemes to support the fashion and design industry, film industry and arts and sports.

Environment

3.23 The Steering Committee on Climate Change, chaired by the Chief Secretary of Administration, held its first meeting on 7 April. A key task of the Steering Committee is to formulate long term climate strategies to meet a new carbon reduction target beyond 2020. To this end, bureaux and departments were asked to review the scope for enhancing their mitigation, adaptation, and resilience actions against climate change. Also, publicity and education effort would be stepped up further to mobilise the society to join hands in combating climate change.

Box 3.1

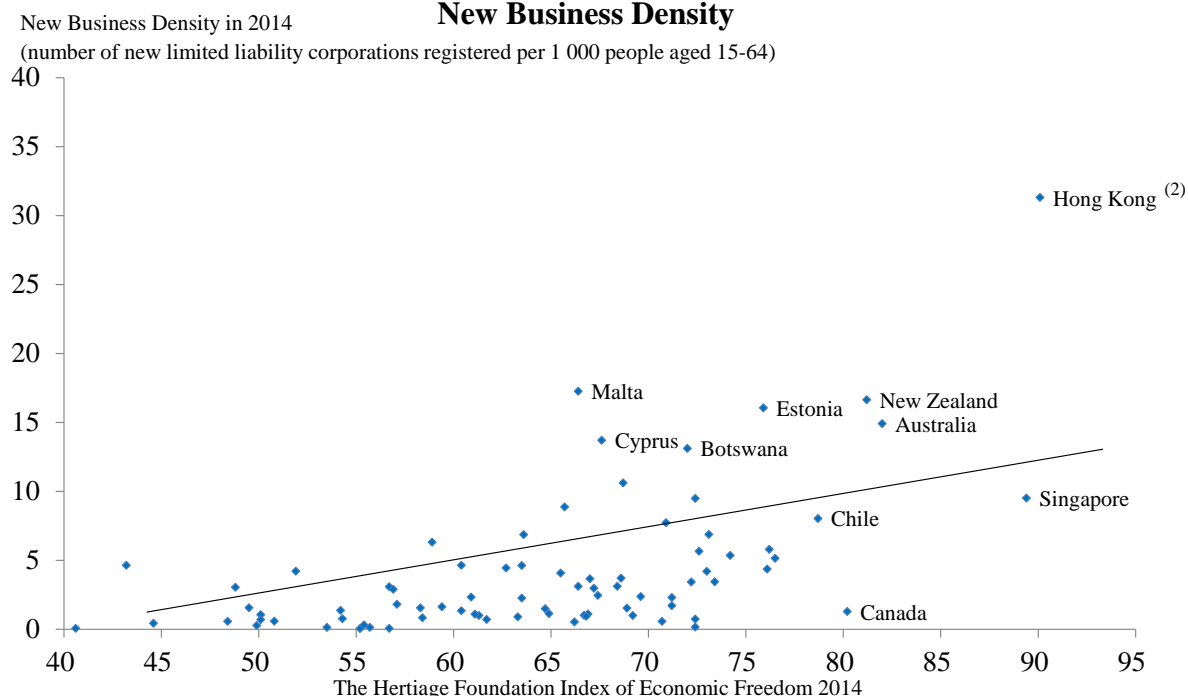
Entrepreneurship and Economic Freedom

Entrepreneurship has always been at the core of Hong Kong's economic development. Decades gone by, entrepreneurs are behind every turn in the Hong Kong economy, adopting new technologies, establishing new practices, tapping into new geographical markets, venturing into new sectors, thereby propelling productivity growth and providing sustained momentum to Hong Kong's drive towards higher value-added activities. This article seeks to establish a statistical link between entrepreneurship activities in economies around the world and a certain set of institutional qualities, as summarised in the Index of Economic Freedom by The Heritage Foundation under four main qualities in the Rule of Law, Government Size, Regulatory Efficiency and Open Market.

To measure entrepreneurship, this article adopts the New Business Density from the World Development Indicators provided by the World Bank. It is defined as the number of newly registered corporations with limited liability per 1 000 people aged 15-64.

A casual scatter plot of the New Business Density in 2014 and Index of Economic Freedom 2014 across 80 economies⁽¹⁾ (**Chart 1**) suggests a positive relationship between entrepreneurship and economic freedom.

Chart 1 : The Heritage Foundation Index of Economic Freedom and New Business Density



Sources: World Development Indicators and Terry Miller and Anthony B. Kim, 2014 Index of Economic Freedom (Washington, DC: The Heritage Foundation and Dow Jones & Company, Inc., 2014), <http://www.heritage.org/index>.

(1) The number of economies for which both sets of data are available.

(2) According to the Study Report on History of Company Incorporation in Hong Kong released by Companies Registry in 2013, the number of new incorporation surged each year after the CEPA signed in 2003 and the introduction of one-member companies in 2004. Hong Kong's New Business Density also increased from 13.1 in 2004 to 31.3 in 2014.

Box 3.1 (Cont'd)

To further investigate the relationship, the following regression model is estimated using country-level data from 2005 to 2014:

$$NBD_{it} = \beta_0 + \beta_1 Freedom_{it} + \varepsilon_{it},$$

where NBD_{it} denotes New Business Density for economy i in year t ;
 $Freedom_{it}$ denotes Index of Economic Freedom for economy i in year t .

Column 1 of **Table 1** reports the key results. The coefficient of Index of Economic Freedom is positive and statistically significant. This is fully understandable. A fine tradition of the rule of law that respects property rights and reduces occasions of corruption into rare cases would encourage individuals to start their businesses. A small and disciplined government sector, together with a sound and light regulatory regime, would also create favourable conditions for entrepreneurship, whereas a highly open market that ensure the free flows of people, goods, capital and information would be conducive to new business opportunities.

Table 1 : Regression results with New Business Density as the dependent variable

Independent variables	(1)	(2)
Intercept	-13.209 ***	-1.162 **
Index of Economic Freedom	0.263 ***	0.027 ***
<i>Dummy variables</i>		
D_M		-7.772 ***
$D_M \times$ Index of Economic Freedom		0.162 ***
D_H		-14.285 ***
$D_H \times$ Index of Economic Freedom		0.272 **
Number of economies	126	126
Sample size	933	933
Adjusted R-square	0.284	0.298

Notes: ** denotes statistical significance at 5% significant level; *** denotes statistical significance at 1% significant level.

To examine how the finding above varies with stages of economic development, the base model is further enriched with dummy variables D_M and D_H , together with their interactions with the Index of Economic Freedom. D_M denotes if the economy is classified as either upper-middle-income economy or lower-middle-income economy by the World Bank, and D_H denotes if the economy is classified as high-income economy by the World Bank.

Box 3.1 (Cont'd)

As shown in *Column 2* of *Table 1*, the coefficients of both interaction terms are positive and statistically significant, suggesting that the extent of boosting effect from the same set of institutional qualities on entrepreneurship in economies would vary in different stages of development. In particular, the coefficient of the interaction term of D_H and Index of Economic Freedom is larger than that of D_M and Index of Economic Freedom, indicating a potentially stronger role by economic freedom in entrepreneurship in the more advanced economies. Differences in motivation and nature of entrepreneurship might be the possible reasons behind. Compared to the low-income economies, entrepreneurship in the high-income economies is relatively opportunity-motivated instead of necessity-motivated⁽³⁾. Hence, it is understandable that a better set of institutional qualities is more relevant in enhancing entrepreneurship in the more advanced economies, considering that there are more viable alternatives to entrepreneurship for individuals.

This article points to one of the channels where good institutions lead to economic growth and sustainable development, through fostering entrepreneurship. The Government will continue to upkeep Hong Kong's institutional strength, in the rule of law, a level playing field for fair competition, an efficient public sector, a simple and low tax regime, and an open market for all. At the same time, noting the rising tide of entrepreneurship in the form of start-ups, the Government has also introduced specific measures in recent years to facilitate start-ups that can span across various industry sectors. All these aim at bringing sustainable, diversified and quality economic development in Hong Kong for the years to come.

(3) According to the Global Entrepreneur Monitor (<http://www.gemconsortium.org>), entrepreneurship is opportunity-motivated when individuals perceive a business opportunity and take it. On the other hand, entrepreneurship is necessity-motivated when individuals become entrepreneurs simply because they have no better choices for work.

Notes :

- (1) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 in the 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 in the 2012 Economic Background and 2013 Prospects and Box 3.1 in the First Quarter Economic Report 2013. For details of the measures promulgated in 2014, see Box 4.1 in the 2013 Economic Background and 2014 Prospects. For details of the measures promulgated in 2015, see Box 3.1 of the First Quarter Economic Report 2015.
- (2) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (3) For details of the change in Individual Visit Endorsements policy in April 2015, see paragraph 3.17 in the Half-yearly Economic Report 2015.
- (4) 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 first quarter of 2016, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 76%, 16% and 8% of total visitors.
- (5) The figures on hotel room occupancy and achieved room rate do not include guesthouses.
- (6) For a full list of the details, see paragraphs 44 to 75 of the 2016-17 Budget.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *The low interest rate environment in Hong Kong continued in the first quarter of 2016 amid the accommodative monetary policy in the United States. The Hong Kong dollar interbank interest rates continued to stay at low levels.*
- *The Hong Kong dollar spot exchange rate weakened visibly against the US dollar in January in face of widened negative interest rate differential against the US dollar and heightened volatilities in the global financial markets. It has then strengthened gradually since February upon improved sentiment in the financial markets.*
- *As the US dollar weakened against most major currencies, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices declined during the first quarter.*
- *Weighed by a weaker economic outlook and a decline in cross-border lending, total loans and advances fell by 0.2% during the first quarter, the third consecutive quarter of decline. Within the total, while loans for use in Hong Kong edged up by 0.1%, loans for use outside Hong Kong declined further by 0.8%.*
- *The local stock market came under further pressure in early 2016, amid concerns over further US interest rate hike and subdued global economic outlook. The Hang Seng Index declined by 5.2% from end-2015 to 20 777 at end-March 2016. Trading activities showed some stabilisation in the first quarter, while fund raising activities cooled off visibly.*

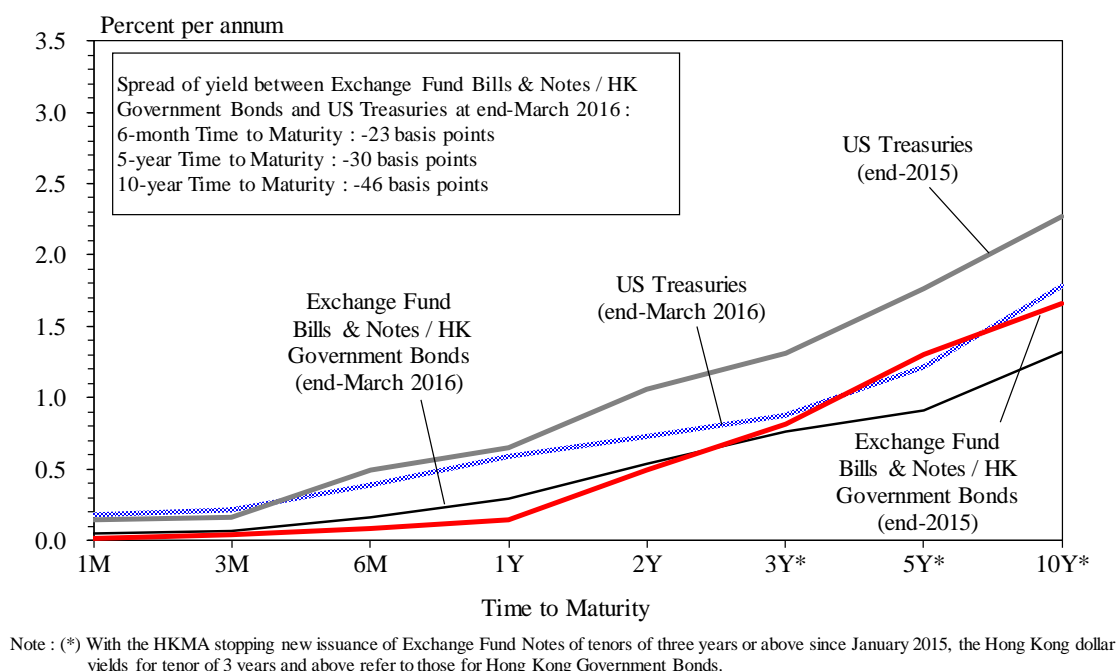
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the first quarter of 2016 amid the ongoing accommodative monetary policy in the United States. With the target range for the Federal Funds Rate staying at 0.25-0.75%, the *Base Rate* under the Discount Window operated by the HKMA held unchanged at 0.75% during the quarter⁽¹⁾. The *Hong Kong dollar interbank interest rates* (HIBORs) remained at low levels. While the overnight HIBOR edged up from 0.05% at end-2015 to 0.09% at end-March 2016, and the three-month HIBOR from 0.39% to 0.56%, these were still low levels by historical standards.

4.2 Both the *Hong Kong dollar* and *US dollar yield curves* flattened in the first quarter of 2016. Reflecting the larger declines in US dollar yields, the negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes narrowed from 61 basis points at end-2015 to 46 basis points at end-March 2016, and the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills also decreased from 41 basis points to 23 basis points.

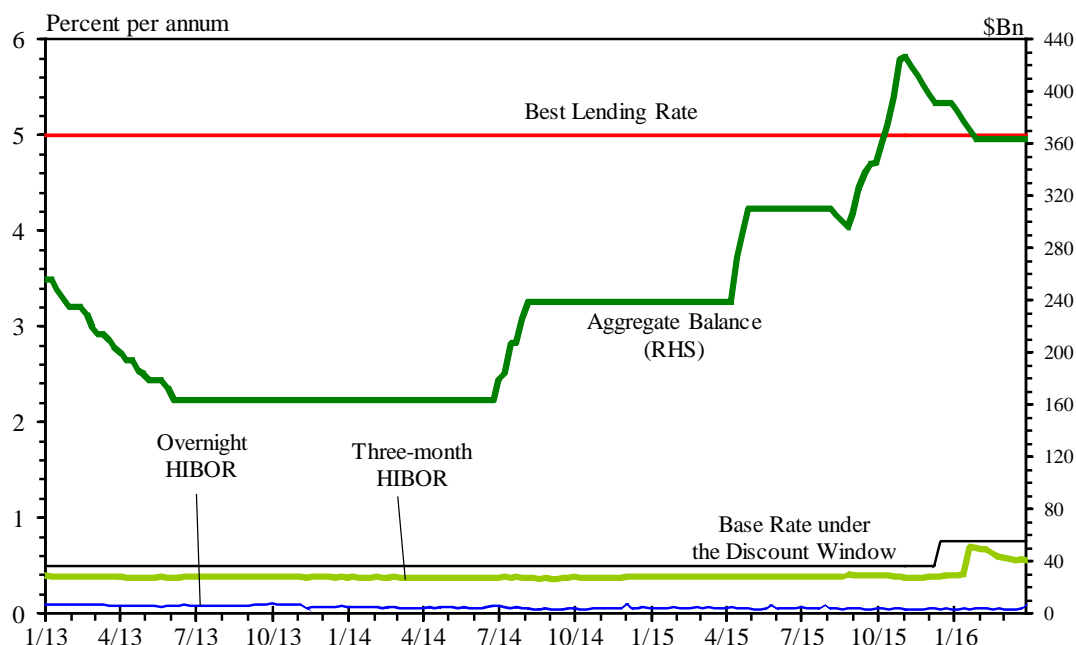
Diagram 4.1 : Both the US dollar and the Hong Kong dollar yield curves flattened in the first quarter of 2016



4.3 Interest rates on the retail front also stayed at low levels. The *Best Lending Rates* remained unchanged at 5.00% or 5.25% in the first quarter. The *average savings deposit rate* stayed low at 0.01% at end-March 2016, while the one-year *time deposit rate* quoted by the major banks for deposits of less

than \$100,000 edged up from 0.14% at end-2015 to 0.15% at end-March 2016. The *composite interest rate*⁽²⁾, which indicates the average cost of funds for retail banks, remained unchanged at 0.26% at end-March 2016.

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



4.4 The *Hong Kong dollar spot exchange rate* moved within 7.750-7.830 against the US dollar during the first quarter. In January, the Hong Kong dollar weakened visibly against the US dollar in face of widened negative Hong Kong dollar-US dollar interest rate spreads and heightened volatilities in the global financial markets. It has then strengthened gradually since February upon improved sentiment in the financial markets. It closed the quarter at 7.754 per US dollar, compared with 7.751 at end-2015.

4.5 The *Hong Kong dollar forward rates* also witnessed noticeable fluctuations during the first quarter. In late January, the 3-month and 12-month Hong Kong dollar forward rates registered large premiums of 85 pips and 650 pips (each pip equivalent to HK\$0.0001) respectively over the Hong Kong dollar spot rates, partly due to investors' currency hedging activities for their Hong Kong equity portfolios. The premiums then narrowed along with the strengthening of the Hong Kong dollar spot exchange rate. The 3-month forward rate reverted to a discount of 43 pips at end-March while the 12-month forward rate closed at a small premium of 20 pips, compared with the respective discounts of 51 pips and 125 pips at end-2015.

4.6 Under the Linked Exchange Rate System, movements of the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar weakened against most major currencies including the Japanese yen, euro and renminbi, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ decreased by 1.1% and 0.7% respectively during the first quarter.

Diagram 4.3 : Hong Kong dollar weakened against US dollar in January before strengthening gradually since February (end for the week)

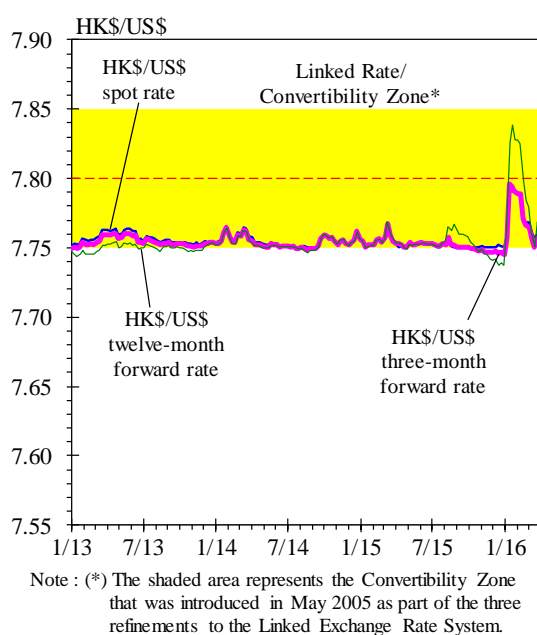
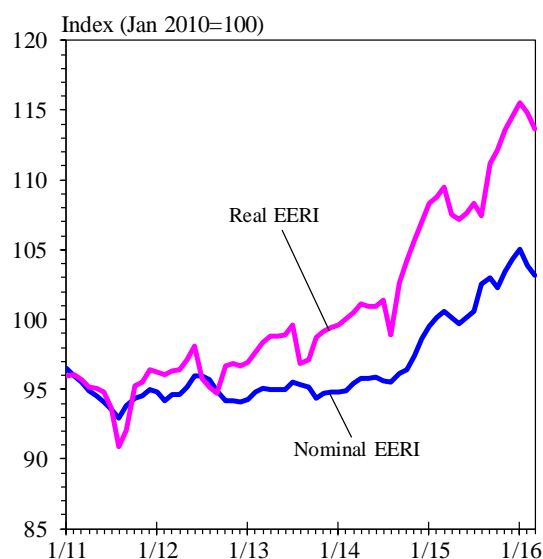


Diagram 4.4 : The trade-weighted nominal and real EERIs declined during the first quarter (average for the month)



Money supply and banking sector

4.7 The monetary aggregates continued to expand at a modest pace in the first quarter of 2016. The Hong Kong dollar broad *money supply* (HK\$M3) increased by 0.6% over end-2015 to \$5,814 billion⁽⁴⁾ at end-March 2016, and the seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1) by 2.5% to \$1,293 billion. Meanwhile, *total deposits* with authorized institutions (AIs)⁽⁵⁾ rose by 2.1% to \$10,971 billion, with Hong Kong dollar and foreign currency deposits increasing by 0.8% and 3.3% respectively.

Diagram 4.5 : The monetary aggregates continued to expand at a modest pace in the first quarter of 2016

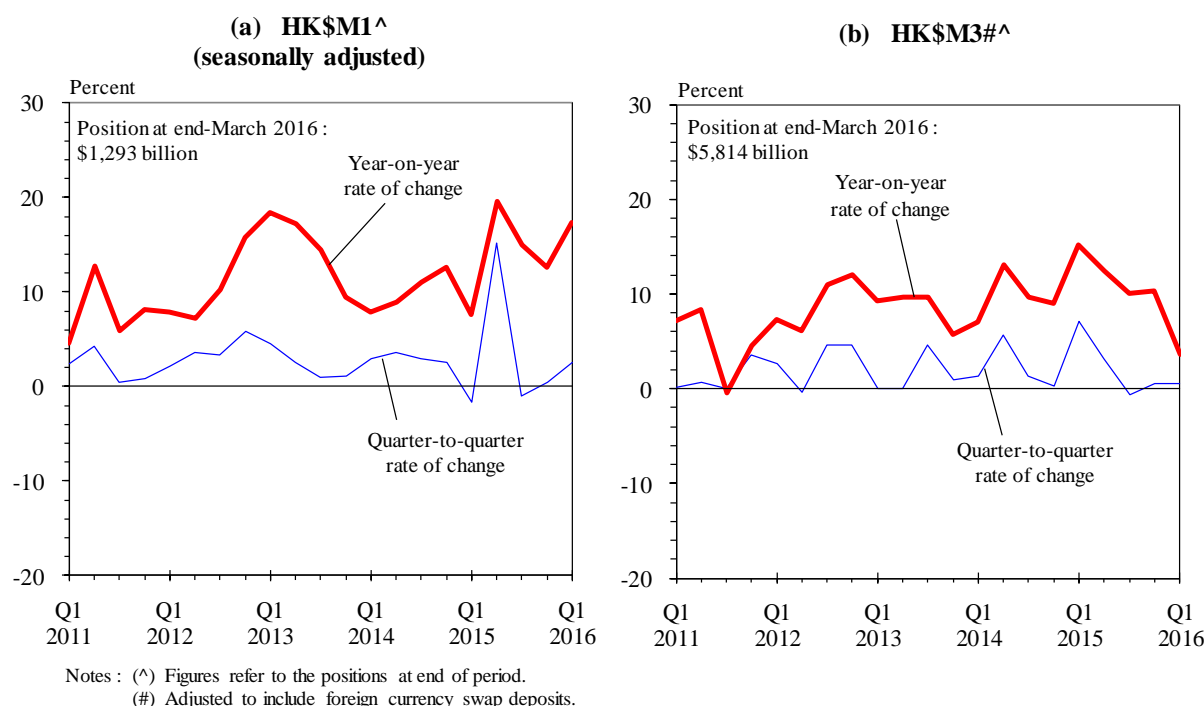


Table 4.1 : Hong Kong dollar money supply and total money supply

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
% change during the quarter		<u>HK\$[^]</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
2015	Q1	-1.6	13.6	7.2	3.0	7.2	3.0
	Q2	15.2	-1.3	3.1	0.8	3.1	0.8
	Q3	-1.1	5.3	-0.6	0.1	-0.7	0.1
	Q4	0.4	-2.4	0.5	1.5	0.5	1.5
2016	Q1	2.5	5.4	0.6	1.1	0.6	1.1
Total amount at end-March 2016 (\$Bn)		1,293	2,077	5,802	11,748	5,814	11,783
% change over a year earlier		17.3	7.0	3.6	3.5	3.6	3.6

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.8 Weighed by a weaker economic outlook and a decline in cross-border lending, *total loans and advances* decreased for the third consecutive quarter, by 0.2% from end-2015 to \$7,522 billion at end-March 2016. Within the total, while Hong Kong dollar loans registered a mild increase of 0.8%, foreign currency loans declined at an accelerated 1.4%. Reflecting the relative movements in deposits and loans, the loan-to-deposit ratio for Hong Kong dollar stayed at 78.2% at end-March 2016, unchanged from end-2015, while the

loan-to-deposit ratio for foreign currencies decreased from 62.2% to 59.4%.

4.9 Loans for use in Hong Kong (including trade finance) edged up by 0.1% over end-2015 to \$5,260 billion at end-March 2016. Meanwhile, loans for use outside Hong Kong decreased further by 0.8% to \$2,263 billion. Within the loans for use in Hong Kong, trade finance fell further by 1.5% amid the continued sluggishness in external trade. Dragged by the weak economic growth, loans to wholesale and retail trade and to manufacturing dropped by 6.3% and 2.9% respectively. Loans to financial concerns decreased by 3.6%, though loans to stockbrokers expanded by 7.8%. As for property-related lending, loans to building, construction, property development and investment rebounded by 2.7%, while the growth in loans for purchase of residential property moderated further to 0.5% amid the property market consolidation.

Table 4.2 : Loans and advances

All loans and advances for use in Hong Kong

		Loans to :									
		Trade	Manu-	Whole-	Building,	Purchase				All loans	Total
		finance	facturing	sale	construction,	of				and advances	loans
				and	property	residential	Financial	Stock-		for use	and
				retail	development	property ^(a)	concerns	brokers		outside	advances
				trade	and				Total ^(b)	Hong Kong ^(c)	
					investment						
% change	during										
	the quarter										
2015	Q1	4.2	-3.8	1.0	1.3	2.7	-0.5	338.7	5.6	3.2	4.8
	Q2	0.7	-0.2	-1.5	4.1	1.7	4.8	-55.2	-0.5	3.4	0.6
	Q3	-11.6	0.0	-2.1	2.5	3.0	0.3	-53.3	-1.3	-2.0	-1.5
	Q4	-9.8	-4.3	-3.6	-0.6	1.0	11.5	17.8	0.2	-1.6	-0.3
2016	Q1	-1.5	-2.9	-6.3	2.7	0.5	-3.6	7.8	0.1	-0.8	-0.2
Total amount at end-March 2016 (\$Bn)		447	237	416	1,169	1,125	436	60	5,260	2,263	7,522
% change over a year earlier		-20.9	-7.4	-12.9	8.9	6.4	13.0	-73.4	-1.5	-1.1	-1.4

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.

4.10 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 18.3% at end-2015. Meanwhile, asset quality of the local banking sector remains generally healthy. While the ratio of classified loans to total loans increased from 0.56% at end-September 2015 to 0.70% at end-2015⁽⁶⁾, this was still a low level by historical standards. The delinquency ratio for credit card lending hovered at a low level of 0.25% at end-2015, though edging up from 0.24% at end-September. The delinquency ratio for residential mortgage loans rose marginally from 0.03% at end-2015 to 0.04% at end-March 2016.

Table 4.3 : Asset quality of retail banks*

(as % of total loans)

<u>As at end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans (gross)</u>
2014	Q1	98.42	1.12	0.46
	Q2	98.50	1.05	0.46
	Q3	98.53	1.04	0.43
	Q4	98.44	1.10	0.46
2015	Q1	98.39	1.14	0.46
	Q2	98.23	1.28	0.49
	Q3	98.08	1.36	0.56
	Q4 [^]	97.86	1.44	0.70

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

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

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

4.11 *Offshore renminbi (RMB) business* showed some consolidation in the first quarter amid some fluctuations in the RMB market and change in expectation for RMB exchange rate. Total RMB deposits (including customer deposits and outstanding certificates of deposit) decreased by 12.1% from end-2015 to RMB888.4 billion at end-March 2016. In the first quarter of 2016, RMB trade settlement transactions handled by banks in Hong Kong plunged by 30.5% from a year earlier or 28.8% from the preceding quarter to RMB1,130.6 billion. RMB financing activities also softened. RMB bond issuance plunged from RMB21.6 billion in the preceding quarter to RMB4.3 billion in the first quarter. RMB bank lending declined by 5.3% from end-2015 to RMB281.6 billion at end-March 2016.

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

As at end of period		Interest rates on ^(a)					Number of AIs engaged in RMB business	Amount of cross-border RMB trade settlement ^(c) (RMB Mn)
		Demand and savings deposits (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	Savings deposits ^(b) (%)	Three-month time deposits ^(b) (%)		
2015	Q1	157,444	794,550	951,994	0.25	0.53	147	1,626,122
	Q2	180,445	812,479	992,924	0.25	0.53	146	1,569,670
	Q3	165,849	729,516	895,365	0.25	0.53	145	2,050,107
	Q4	160,908	690,198	851,106	0.25	0.53	145	1,587,184
2016	Q1	187,124	572,302	759,425	0.25	0.53	145	1,130,645
% change in 2016 Q1 over 2015 Q1		18.9%	-28.0%	-20.2%	N.A.	N.A.	N.A.	-30.5%
% change in 2016 Q1 over 2015 Q4		16.3%	-17.1%	-10.8%	N.A.	N.A.	N.A.	-28.8%

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

The debt market

4.12 The Hong Kong dollar *debt market* expanded further in the first quarter of 2016. Total gross issuance of Hong Kong dollar debt securities rose by 2.9% over the preceding quarter to \$709.1 billion, underpinned by an increase in issuance by both the private and public sectors. Specifically, debt issuance by the private sector expanded by 14.8%, mainly driven by a surge in issuance by AIs⁽⁷⁾. Debt issuance by the public sector recorded a modest growth of 1.5%, with the increase in new debts issued by the Exchange Fund and statutory bodies/government-owned corporations more than offsetting the decrease in government bond issuance. Against this backdrop, the total outstanding balance of Hong Kong dollar debt securities rose by another 2.1% over end-2015 to \$1,556.5 billion at end-March 2016, equivalent to 26.8% of HK\$M3 or 22.4% of Hong Kong dollar-denominated assets of the entire banking sector⁽⁸⁾.

4.13 As to the Government Bond (“GB”) Programme, a total of \$1.6 billion institutional GBs were issued through tenders in the first quarter. At end-March, the total outstanding amount of Hong Kong dollar bonds under the GB programme was \$100.5 billion, comprising 14 institutional issues totaling

\$70.5 billion and three retail issues (iBonds) totaling \$30 billion. In addition, there were two outstanding US dollar sukuks, each with an issuance size of US\$1 billion.

4.14 The Financial Secretary announced in the 2016-17 Budget that the Government would launch another iBond issue of up to \$10 billion with a maturity period of three years, same as the previous issuances. Also, the Government would launch a pilot scheme to issue Silver Bond this year and next year, also an inflation-linked bond but targeting at Hong Kong residents aged 65 or above, with a maturity of three years for the first issuance.

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

		<u>Exchange Fund paper</u>	<u>Statutory bodies/govern- ment-owned corporations</u>	<u>Govern- ment</u>	<u>Public sector total</u>	<u>AIs^(a)</u>	<u>Local corporations</u>	<u>Non-MDBs overseas borrowers^(b)</u>	<u>Private sector total</u>	<u>MDBs^(b)</u>	<u>Total</u>
New Issuance											
2015	Annual	2,242.2	12.0	30.4	2,284.6	136.4	14.2	58.9	209.4	0.0	2,494.0
	Q1	491.9	4.3	7.9	504.1	54.4	4.4	10.6	69.4	0.0	573.5
	Q2	541.2	4.0	4.7	550.0	23.2	2.1	15.5	40.8	0.0	590.7
	Q3	599.9	0.8	10.6	611.3	14.8	2.8	12.0	29.6	0.0	641.0
	Q4	609.1	2.9	7.2	619.2	44.0	4.9	20.7	69.6	0.0	688.8
2016	Q1	622.4	4.4	1.6	628.4	53.8	4.7	21.4	79.9	0.8	709.1
% change in 2016 Q1 over 2015 Q1		26.5	2.2	-79.7	24.6	-1.1	8.3	101.5	15.2	N.A.	23.6
% change in 2016 Q1 over 2015 Q4		2.2	53.1	-77.8	1.5	22.2	-3.5	3.4	14.8	N.A.	2.9
Outstanding (as at end of period)											
2015	Q1	752.8	43.5	105.9	902.2	249.7	140.3	142.4	532.4	6.1	1,440.7
	Q2	753.0	43.2	94.1	890.3	245.9	140.1	148.5	534.5	5.3	1,430.1
	Q3	773.2	43.2	104.7	921.1	230.7	141.1	152.2	524.1	5.3	1,450.5
	Q4	828.4	44.1	100.4	972.9	242.6	141.7	162.1	546.4	5.3	1,524.6
2016	Q1	856.9	47.3	102.0	1,006.2	232.5	142.1	169.7	544.4	6.0	1,556.5
% change in 2016 Q1 over 2015 Q1		13.8	8.6	-3.7	11.5	-6.9	1.3	19.2	2.2	-2.3	8.0
% change in 2016 Q1 over 2015 Q4		3.4	7.4	1.6	3.4	-4.1	0.3	4.7	-0.4	12.5	2.1

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

N.A. Not available.

(a) AIs : Authorised institutions.

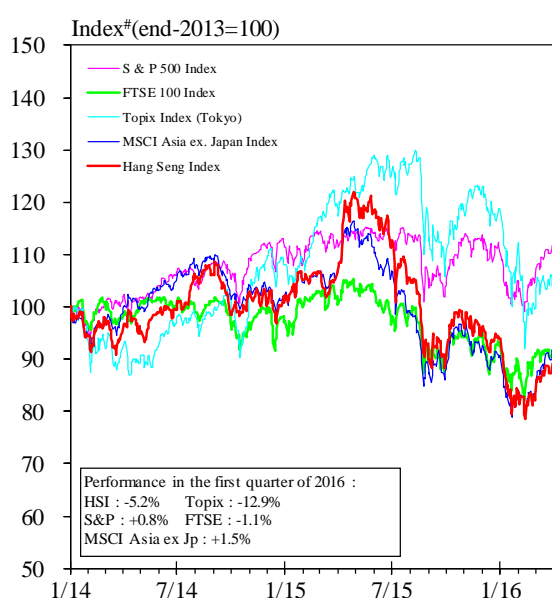
(b) MDBs : Multilateral Development Banks.

The stock and derivatives markets

4.15 After a weak performance in the second half of 2015, the *local stock market* came under further pressure in early 2016. Plagued by concerns over further US interest rate hike and subdued global economic outlook, the Hang Seng Index (HSI) plunged to 18 320 on 12 February, the lowest level since June 2012. While recouping some of the loss in the latter part of the quarter amid easing concerns over US rate hike, the HSI still declined by 5.2% from end-2015 to 20 777 at end-March 2016. In parallel, the *market capitalisation* declined by 5.0% to \$23.4 trillion. The local stock market was the seventh largest stock exchange in the world and third largest in Asia⁽⁹⁾.

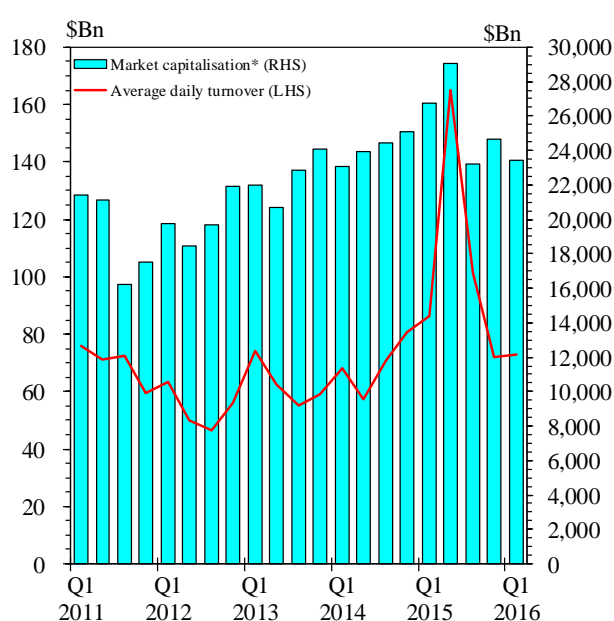
4.16 Following a visible contraction in the two preceding quarters, trading activities showed some stabilisation in the first quarter. *Average daily turnover* in the securities market edged up by 1.1% over the preceding quarter to \$72.7 billion, though representing a decline of 15.9% from a year earlier. Trading for different types of securities showed a mixed performance. Average daily trading value of equities declined by 2.8% from the preceding quarter. Average daily trading value of derivative warrants and unit trusts (including Exchange-Traded Funds) jumped by 23.1% and 15.6% respectively, while that of callable bull/bear contracts declined by 19.6%⁽¹⁰⁾ (**Box 4.1**). As to futures and options⁽¹¹⁾, the average daily trading volume surged by 25.5%. Within the total, the trading of HSI options, HSI futures, H-shares Index futures and stock options all grew notably, by 48.5%, 23.6%, 22.9% and 21.5% respectively.

Diagram 4.6 : The local stock market came under further pressure in early 2016



Note : (#) Position at end of month.

Diagram 4.7 : Market capitalisation declined, while trading activities showed some stabilisation



Note : (*) Position at end of quarter.

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

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	H-shares <u>Index futures</u>	Stock <u>options</u>	Total futures and <u>options traded*</u>
2015	Annual	85 991	30 427	135 139	374 346	768 520
	Q1	64 351	27 727	108 774	363 322	672 678
	Q2	81 541	35 129	154 553	523 860	946 336
	Q3	82 744	33 238	152 006	375 780	819 085
	Q4	114 430	25 752	125 310	241 192	641 404
2016	Q1	141 439	38 235	154 053	293 047	805 276
% change in 2016 Q1 over 2015 Q1		119.8	37.9	41.6	-19.3	19.7
% change in 2016 Q1 over 2015 Q4		23.6	48.5	22.9	21.5	25.5

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

4.17 Due to the nature of business, fund raising activities are inherently volatile. *Total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)⁽¹²⁾, plunged by 69.6% from the high base in the preceding quarter or 4.7% from a year earlier to \$80.2 billion in the first quarter. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) plummeted by 73.8% from the preceding quarter to \$28.0 billion. Nonetheless, Hong Kong still ranked the third globally in terms of the funds raised through IPOs in the first quarter.

Box 4.1

Cash Market Transaction Survey 2014/15

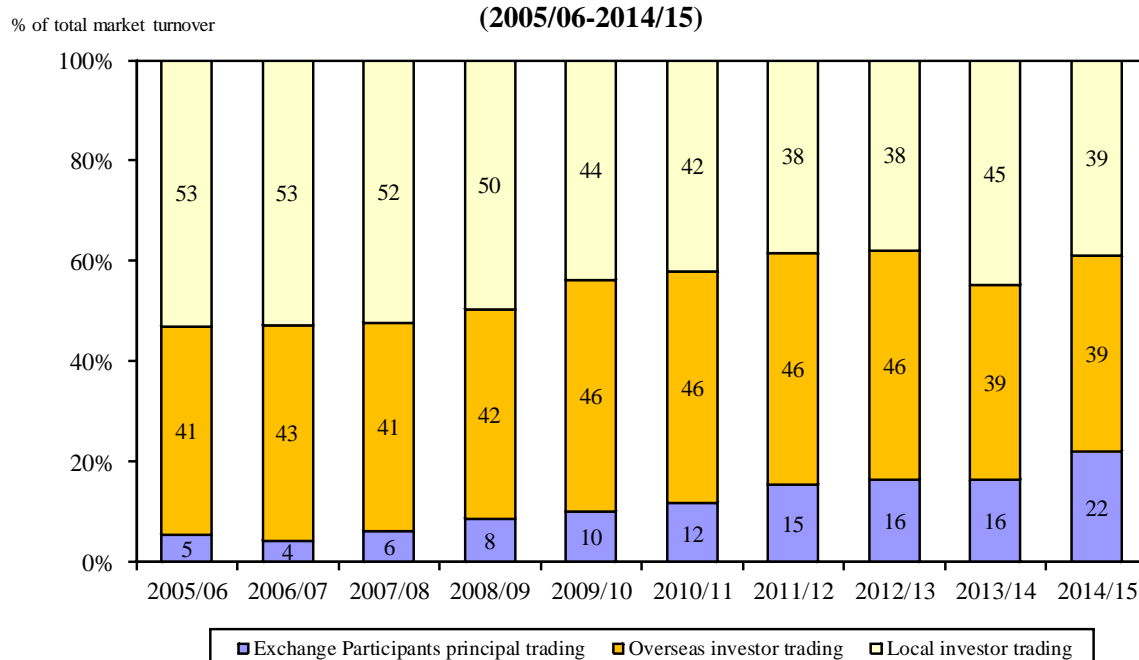
The securities market in Hong Kong is renowned for the active participation of different types of investors from a great variety of origins. To better understand the trading composition, the Hong Kong Exchanges and Clearing Limited (HKEX) has been conducting an annual survey on investor profile since 1991. The latest issue, “Cash Market Transaction Survey 2014/15”, covered HKEX’s securities market turnover from October 2014 to September 2015 and was published in February 2016. The latest survey also included the Southbound trading through Shanghai-Hong Kong Stock Connect (“Stock Connect”), which was launched on 17 November 2014. Some salient observations are summarised below.

(1) Overall trading and trading by investor type

Trading activities in the securities market were very hectic in 2014/15. Total turnover reached a record high of \$26.6 trillion, a surge of 68% over the preceding year and surpassing the peak in 2007/08 by 16%. Trading by all major investor types recorded significant growth, led by a leap of 124% in Exchange Participants (EP) principal trading (i.e. trading of the participant firm’s own account). Overseas and local investor trading also rose sharply, by 71% and 45% respectively.

Indeed, in the past ten years, EP principal trading generally grew faster than trading by the other two types of investors. Between 2005/06 and 2014/15, EP principal trading recorded an average annual growth of 36%, sharply above the respective average annual growth of 16% and 12% for overseas and local investor trading. As a result, the share of EP principal trading rose from a mere 5% in 2005/06 to 22% in 2014/15. Meanwhile, the share of overseas investor trading declined from 41% to 39%, and that of local investor trading from a high of 53% to 39%.

**Chart 1 : Distribution of securities market trading value by investor type
(2005/06-2014/15)**

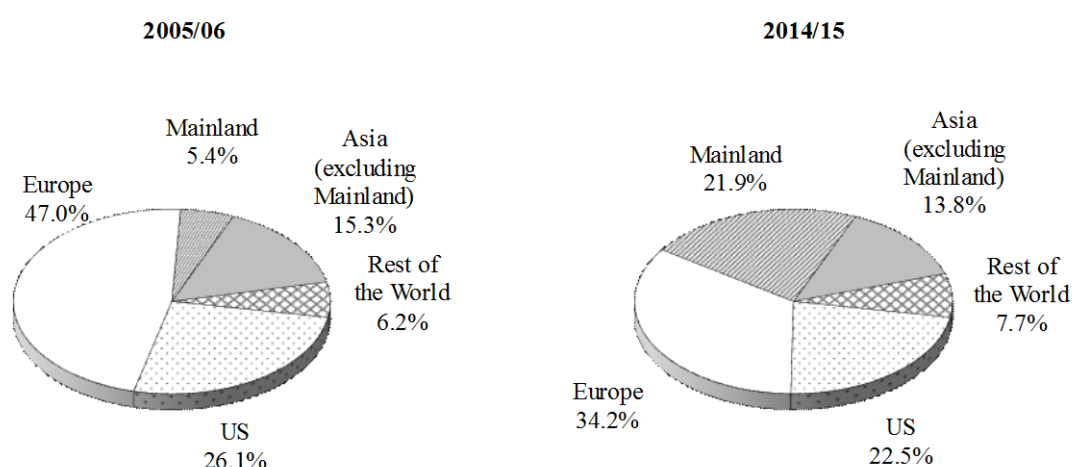


Box 4.1 (Cont'd)

(2) Overseas investors by origin

Mainland investors have been the major growth impetus for overseas investor trading in 2014/15, partly reflecting the launch of the Stock Connect in November 2014. In 2014/15, trading by Mainland investors soared by 185%, while trading by investors from other origins registered diverged growth of 13% to 120%. In tandem with the faster increase in the past ten years, the share of Mainland investors in total overseas investor trading ballooned from 5% in 2005/06 to 22% in 2014/15. While the shares of US and European investors together still accounted for 57% in 2014/15, this represented a visible retreat from the 73% a decade ago.

Chart 2 : Distribution of overseas investor trading in the securities market by origin



Note: Figures may not add up to 100 due to rounding.

(3) Retail online trading

Online trading has become a popular way of trading securities among retail investors in Hong Kong, facilitated by several factors including technological improvement and enhanced cyber-security. Total trading value of retail online trading reached \$3.1 trillion in 2014/15, a spectacular growth of 110% over a year earlier. During the period from 2005/06 to 2014/15, retail online trading recorded an average growth of 31% per annum, much higher than that of 9% for retail non-online trading. It accounted for 44% of total retail investor trading in 2014/15, up from only 13% in 2005/06.

4.18 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-March 2016, a total of 962 Mainland enterprises (including 231 H-share companies, 151 “Red Chips” companies and 580 private enterprises) were listed on the Main Board and GEM, accounting for 51% of the total number of listed companies and 62% of total market capitalisation. In the first quarter, Mainland-related stocks accounted for 70% of equity turnover and 60% of total equity fund raised in the Hong Kong stock exchange.

4.19 Following an earlier public consultation, in February the Securities and Futures Commission (SFC) proposed to expand the scope of short position reporting to all securities that can be short sold under the rules of The Stock Exchange of Hong Kong Limited including collective investment schemes⁽¹³⁾. The new reporting arrangement would help improve market surveillance and transparency, and thus be conducive to the long-term development of the securities market and financial industry. The new reporting arrangement will come into effect in March 2017.

4.20 Separately, in February the HKMA and the SFC announced the revised proposals for introducing the first phase of mandatory clearing and the second phase of mandatory reporting under the over-the-counter derivatives regimes. The revisions are pertinent to the coverage and the commencement dates of the regimes, and are made in response to the comments received during the earlier consultation. The first phase of mandatory clearing will commence on 1 September 2016, and the second phase of mandatory reporting on 1 July 2017.

Fund management and investment funds

4.21 Performance of different segments in the fund management business was mixed in the first quarter. While the monthly average gross retail sales of *mutual funds* rose by 15.7% over the low base in the fourth quarter of 2015 to US\$4.3 billion in January – February 2016⁽¹⁴⁾, this represented a plunge of 38.2% from a year earlier. Meanwhile, the aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹⁵⁾ edged up by 0.2% from end-2015 to \$592.6 billion at end-March 2016. The amount of net assets managed by *retail hedge funds* rebounded⁽¹⁶⁾.

Insurance sector

4.22 The *insurance sector*⁽¹⁷⁾ expanded further in 2015. Gross premium income from long-term business jumped by 15.1%, though the performances varied across different segments. Premium income from non-investment linked plans surged by 23.7%, while that from investment-linked plans plunged by 36.2%, mainly dragged by a contraction in the second half amid the global stock market correction. Meanwhile, gross and net premium for general business rose modestly, by 4.7% and 5.9% respectively.

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

		General business			Premium for long-term business^					Gross premium from long-term business and general business
		Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	
2014	Annual	43,896	30,299	3,010	97,357	16,052	176	451	114,036	157,932
	Q1	12,551	8,668	902	23,770	3,387	39	180	27,376	39,927
	Q2	10,642	7,697	636	23,191	4,210	40	53	27,494	38,136
	Q3	11,534	7,936	853	24,652	4,317	47	120	29,136	40,670
	Q4	9,169	5,998	619	25,744	4,138	50	98	30,030	39,199
2015	Annual	45,961	32,085	1,697	120,435	10,243	178	417	131,273	177,234
	Q1	12,939	9,053	645	32,060	4,249	52	121	36,482	49,421
	Q2	10,943	7,888	58	28,909	3,210	42	80	32,241	43,184
	Q3	11,592	7,900	803	27,356	1,328	43	145	28,872	40,464
	Q4	10,487	7,244	191	32,110	1,456	41	71	33,678	44,165
% change in 2015 Q4 over 2014 Q4		14.4	20.8	-69.1	24.7	-64.8	-18.0	-27.6	12.1	12.7
% change in 2015 over 2014		4.7	5.9	-43.6	23.7	-36.2	1.1	-7.5	15.1	12.2

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

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

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-March 2016, there were 157 licensed banks, 24 restricted licence banks and 18 deposit-taking companies in Hong Kong. Altogether, 199 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.

- (6) Figures prior to December 2015 are related to retail banks' Hong Kong offices and overseas branches. Starting from December 2015, the coverage was expanded to include locally incorporated retail banks' major overseas subsidiaries. Excluding the major overseas subsidiaries, the classified loan ratio of retail banks was 0.63% at end-2015.
- (7) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (8) Assets of the banking sector include notes and coins, amount due from Authorised Institutions 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.
- (9) The ranking is based on the figures compiled by the World Federation of Exchanges and the London Stock Exchanges Group.
- (10) 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.
- (11) At end-March 2016, there were 84 classes of stock options contracts and 74 classes of stock futures contracts.
- (12) At end-March 2016, there were 1 656 and 227 companies listed on the Main Board and GEM respectively.
- (13) The existing short position reporting regime, introduced in June 2012, applied only to constituents of HSI and Hang Seng China Enterprises Index and other financial stocks specified by the SFC.
- (14) 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-February 2016, the survey covered a total of 1 156 active authorised funds.
- (15) At end-March 2016, there were 19 approved trustees. On MPF products, 35 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 462 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 276 000 employers, 2.55 million employees and 205 000 self-employed persons have participated in MPF schemes.
- (16) At end-March 2016, there were three SFC-authorised retail hedge funds with combined net asset size of US\$110 million. The amount of net assets under management represented a 29.4% increase from the end-2015 level, and a 31.3% decrease from end-2002, the year when the hedge funds guidelines were first issued.
- (17) At end-March 2016, there were 157 authorised insurers in Hong Kong. Within this total, 45 were engaged in long-term insurance business, 93 in general insurance business, and 19 in composite insurance business. These authorised insurers came from 23 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

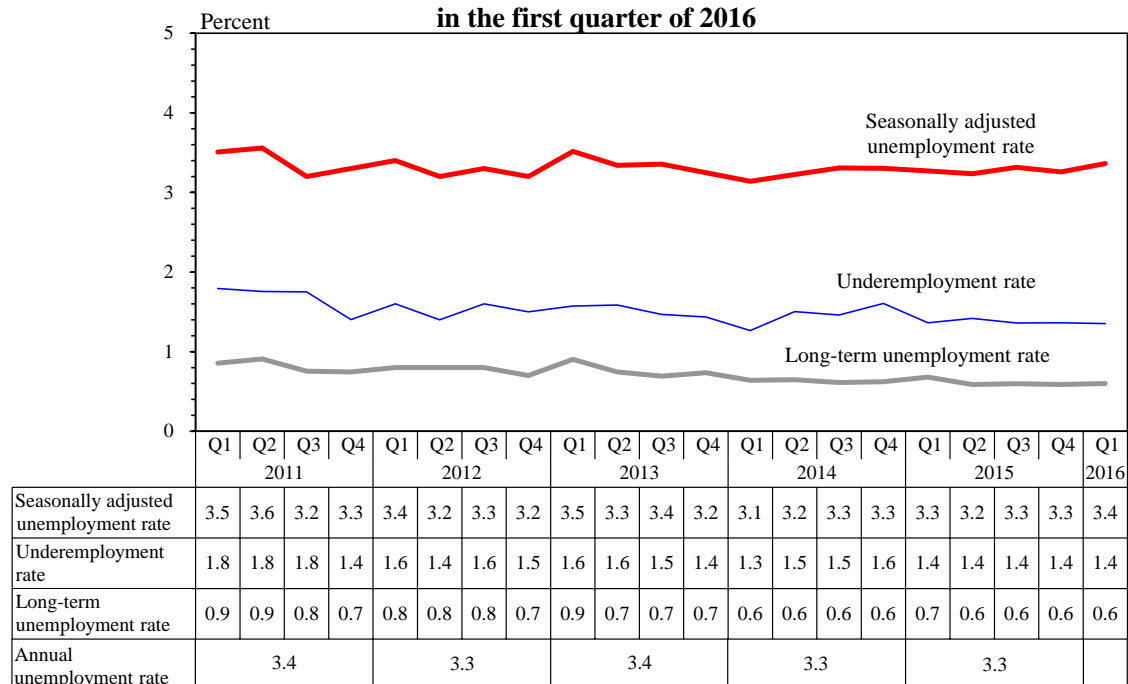
Summary

- *The labour market held largely stable in overall terms on entering 2016. Yet, the impact of sluggish external trade performance, the persistent weakness in inbound tourism as well as the slackened growth momentum of local consumption lately were increasingly felt in the labour market.*
- *Labour demand showed further signs of easing. On a year-on-year comparison, both total employment and the labour force grew only at a meagre pace, while job vacancies in the private sector drifted further lower.*
- *In the first quarter of 2016, the seasonally adjusted unemployment rate edged up by 0.1 percentage point over the preceding quarter to 3.4%, with broad-based increases across many sectors. In particular, employment situation in trade- and tourism-related sectors weakened most noticeably amid the lull in inbound tourism and weaker consumer spending, and in the more recent period, construction sector also saw some visible easing, as property market trading activity quietened.*
- *Both nominal wages and payroll stayed on the rise in 2015 on the back of a broadly stable labour market. Alongside the upward adjustment of the Statutory Minimum Wage (SMW) rate since May 2015, grassroots workers enjoyed more appreciable income growth.*

Overall labour market situation⁽¹⁾

5.1 The sluggish external trade performance, the sustained weak trend in inbound tourism, as well as the tepid local consumption sentiment of late have gradually fed through to the labour market. The seasonally adjusted unemployment rate⁽²⁾ edged up by 0.1 percentage point to 3.4% in the first quarter of 2016, the highest level since late 2013, while the underemployment rate⁽³⁾ held unchanged at 1.4%. Both total employment and the labour force tapered to a meagre year-on-year growth pace of 0.3% and 0.4% respectively. Data collected from private sector establishments up to end-2015 likewise indicated that employment growth continued to slow and overall job vacancies fell, with labour demand for trade- and tourism-related sectors slackening distinctly. Nevertheless, on the back of a still broadly stable labour market in 2015, overall wages and earnings stayed on the rise, with more visible income growth seen among lower paid workers in tandem with the SMW uprating since May 2015.

Diagram 5.1 : The seasonally adjusted unemployment rate edged up to a post-2013 high of 3.4% in the first quarter of 2016



Labour force and total employment

5.2 On the supply side, the *labour force*⁽⁴⁾ expanded further, albeit only at a modest year-on-year pace of 0.4% to 3 942 200 in the first quarter of 2016. Owing to a slight decline in the labour force participation rate by 0.1 percentage point to 61.4%, the labour force growth in the first quarter was slower than the concurrent increase of 0.6% in the working-age population (i.e. land-based non-institutional population aged 15 and above).

5.3 On the demand side, *total employment*⁽⁵⁾ edged up by 0.3% over the same period, reaching 3 811 800 in the first quarter of 2016. Nonetheless, employment of the consumption and tourism-related sectors, viz. retail, accommodation and food services as a whole, posted the fourth consecutive quarter of year-on-year decline amid the protracted slowdown in inbound tourism and the slackened growth momentum of local consumption more recently.

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

		<u>Labour force</u>		<u>Persons employed</u>		<u>Persons unemployed^(a)</u>	<u>Persons underemployed</u>
2015	Annual	3 909 800 (0.9)		3 780 900 (0.8)		128 900	53 000
	Q1	3 928 400 (2.7)		3 801 100 (2.6)		127 300	53 500
	Q2	3 921 500 (1.6)		3 791 600 (1.6)		129 900	55 600
	Q3	3 932 100 (0.7)		3 796 200 (0.7)		135 800	53 400
	Q4	3 925 500 (0.5)		3 803 900 (0.6)		121 600	53 500

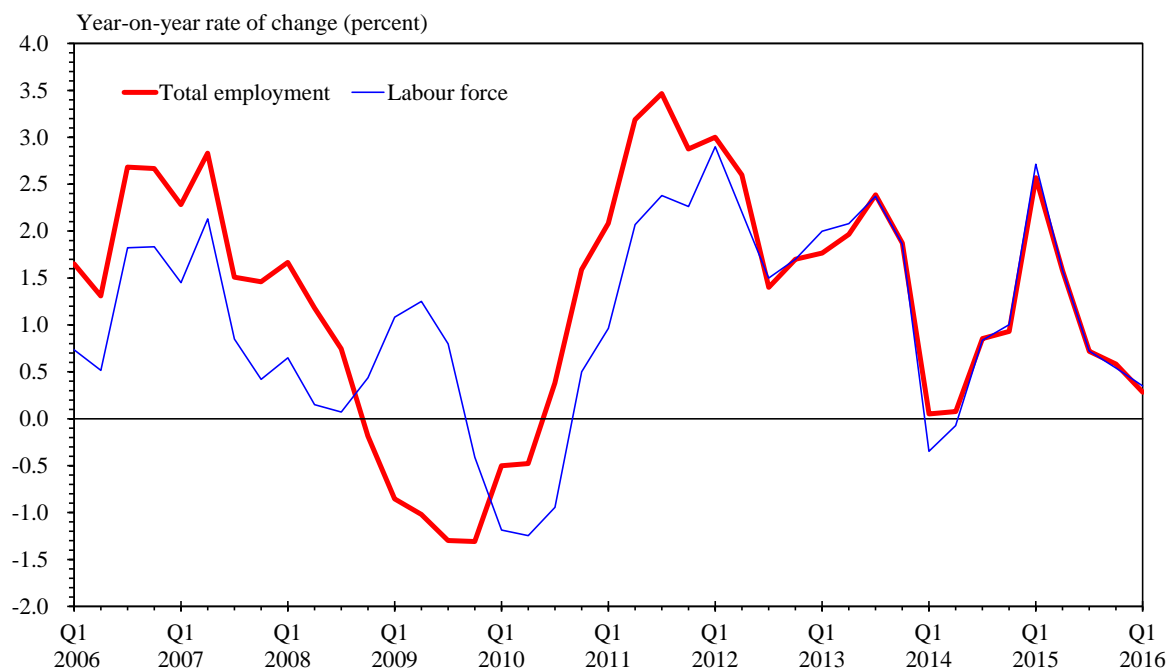
Three months ending

2016	Jan	3 931 800 (0.2)		3 812 000 (0.3)		119 800	53 200
	Feb	3 937 100 (0.2)		3 816 400 (0.2)		120 700	50 800
	Mar	3 942 200 (0.4)		3 811 800 (0.3)		130 400	53 400
		<0.5>		<0.4>			

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 first quarter of 2016.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.2 : Both the labour force and total employment registered meagre growth only in the first quarter of 2016



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

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

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

5.4 With the additional labour supply not being fully absorbed into employment, the number of unemployed persons increased by 8 700 over the preceding quarter to 130 400. After netting out seasonal fluctuations, the seasonally adjusted unemployment rate edged up by 0.1 percentage point to 3.4%, the highest level since late 2013.

5.5 Increases in the unemployment rate were observed in many economic sectors. As compared to the previous quarter, the arts, entertainment and recreation (up 1.7 percentage points), and construction sectors (up 1.5 percentage points) posted noticeable increases in unemployment rate (not seasonally adjusted). As for sectors that were more affected by the lull in inbound tourism, the unemployment rate of accommodation services (up 1.3 percentage points) and retail (up 0.9 percentage point) sectors went up to 5.2% and 5.5% respectively, both much higher than the overall unemployment rate. The food and beverage service activities sector was however lesser affected by the sustained weak trend in inbound tourism, with its unemployment rate only edging up by 0.1 percentage point to 4.6%. On a year-on-year comparison to net out seasonal influences, the unemployment rate of tourism-related sectors as a whole went up by 0.2 percentage point to 5.1%. Meanwhile, the unemployment rate of import/export trade and wholesale rose by 0.5 percentage point and 0.1 percentage point over the preceding quarter and a year earlier respectively to 2.9% amid a weak global economy. Regarding the *low paying sectors*⁽⁶⁾ as a whole, its unemployment rate went higher by 0.3 percentage point over the preceding quarter to 3.4%, though broadly on par with its year-ago level.

5.6 Analysed by skill segment, the unemployment rate of the lower-skilled workers rose visibly by 0.5 percentage point over the preceding quarter to 3.7%, mainly dragged by that of the craft and related workers, and service and sales workers. The former largely mirrored the worsening employment situation of the construction sector, while the latter was attributable to the lull in inbound tourism. Meanwhile, that of the higher-skilled workers stayed at 1.9%. On a year-on-year comparison, the unemployment rate of the higher-skilled workers increased by 0.2 percentage point, while that of the lower-skilled workers remained broadly unchanged.

5.7 As regards other socio-economic attributes, more discernible rises in the unemployment rate from a year ago were observed among persons aged 50-59 (up 0.6 percentage point) and younger ones aged 20-29 (up 0.5 percentage point), and those with tertiary education (up 0.5 percentage point).

On the other hand, those aged 60 and above (down 0.9 percentage point) and those with primary and below education (down 0.6 percentage point) saw the most notable declines in unemployment.

Diagram 5.3 : Increases in the unemployment rate were observed in many economic sectors

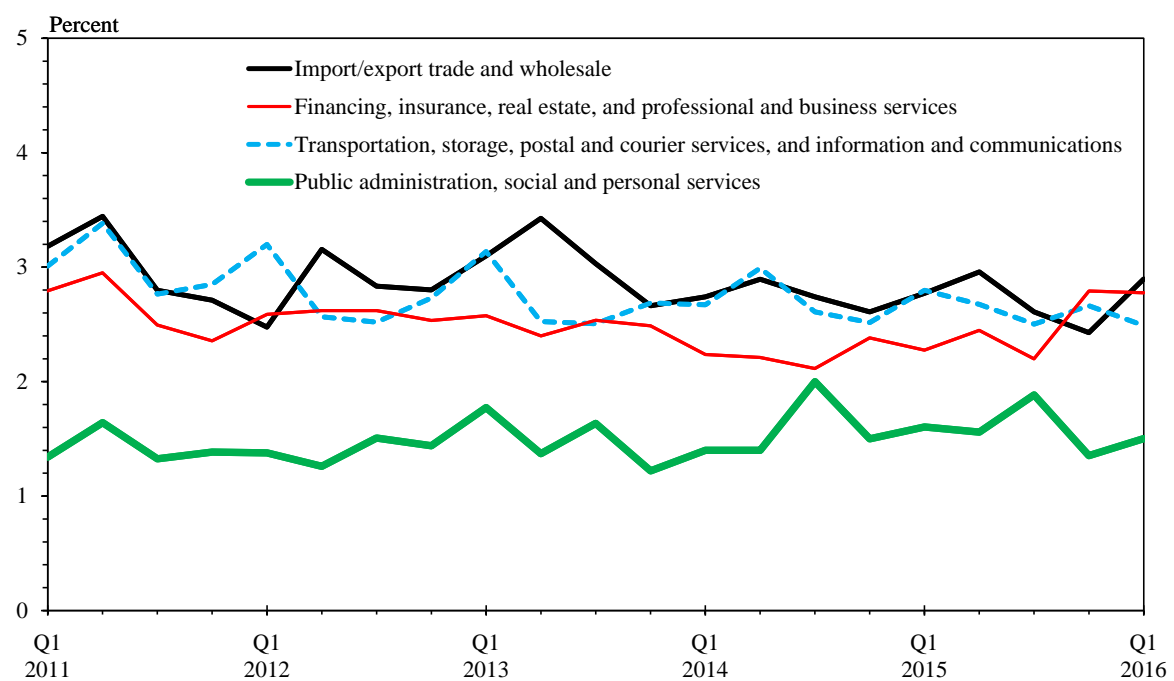
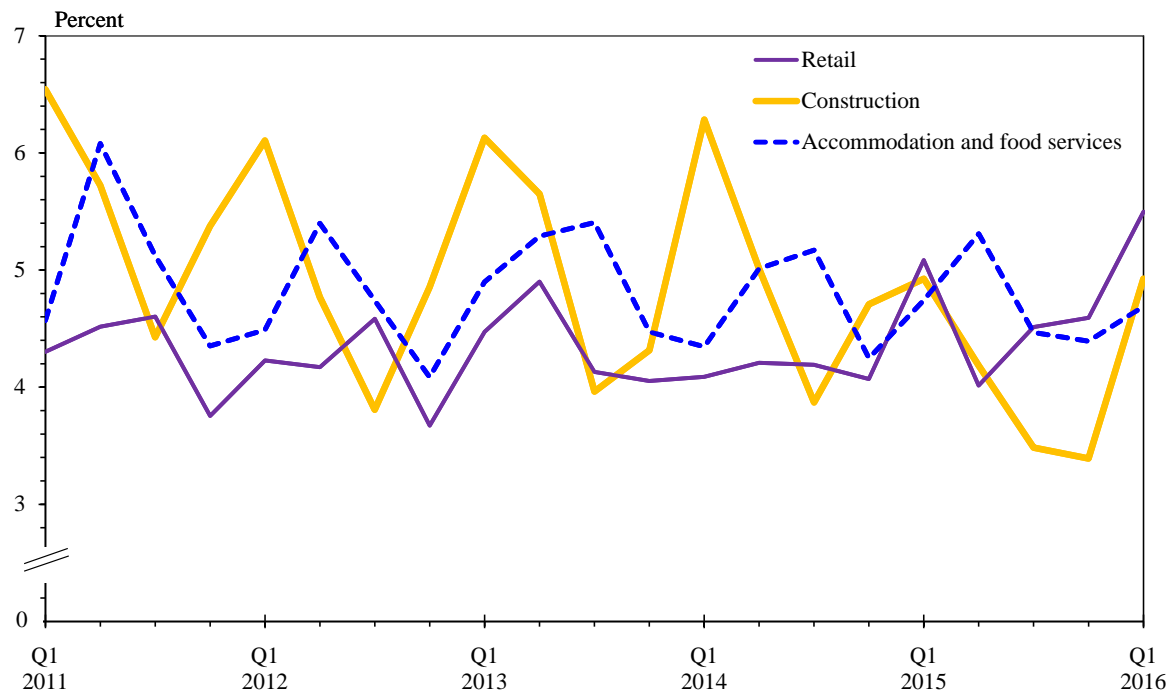


Table 5.3 : Unemployment rates by major economic sector

	<u>2015</u>				<u>2016</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Import/export trade and wholesale	2.8	3.0	2.6	2.4	2.9
Retail	5.1	4.0	4.5	4.6	5.5
Accommodation and food services	4.7	5.3	4.5	4.4	4.7
Transportation, storage, postal and courier services	2.9	2.7	2.7	2.5	2.5
Information and communications	2.4	2.6	2.0	3.1	2.4
Financing and insurance	1.8	1.4	1.7	2.2	2.0
Real estate	1.8	2.8	2.5	2.2	2.2
Professional and business services	2.8	3.0	2.5	3.4	3.5
Public administration, social and personal services	1.6	1.6	1.9	1.4	1.5
Manufacturing	3.1	3.4	3.9	3.2	4.1
Construction	4.9	4.2	3.5	3.4	4.9
Overall	3.2 (3.3)	3.3 (3.2)	3.5 (3.3)	3.1 (3.3)	3.3 (3.4)

Note : () Seasonally adjusted unemployment rates.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.4 : The unemployment rate of higher-skilled workers held unchanged while that of the lower-skilled segment increased

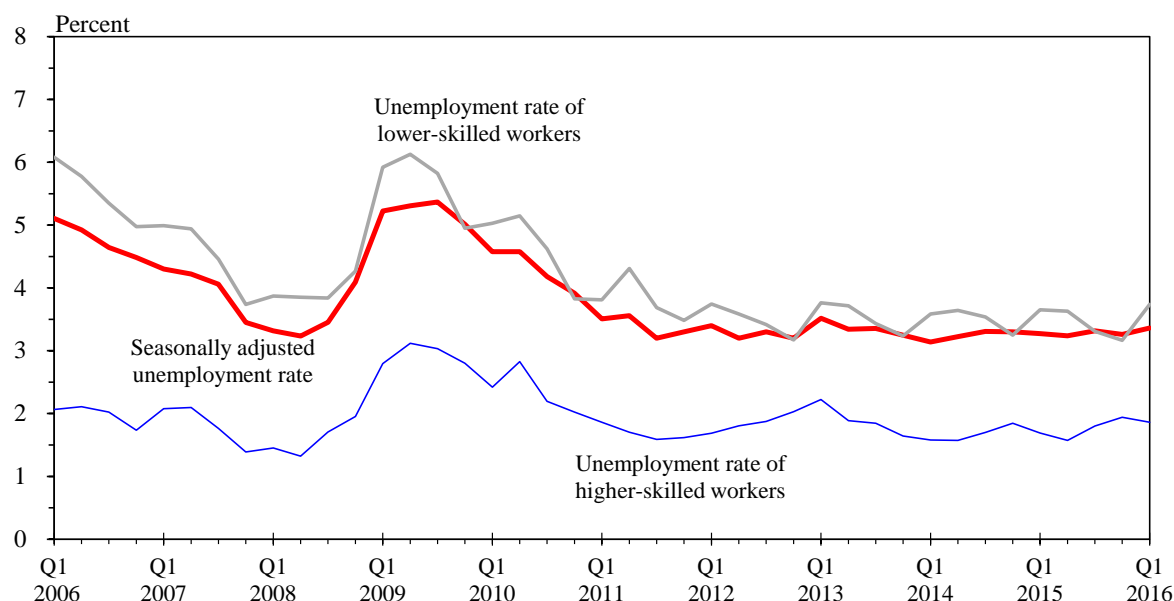


Table 5.4 : Unemployment rates* by skill segment

	<u>2015</u>				<u>2016</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<u>Higher-skilled segment</u>	1.7	1.6	1.8	1.9	1.9
Managers and administrators	1.2	1.1	1.7	1.4	1.6
Professionals	1.5	1.2	1.9	1.7	1.3
Associate professionals	2.0	2.0	1.8	2.4	2.2
<u>Lower-skilled segment^</u>	3.7	3.6	3.3	3.2	3.7
Clerical support workers	2.8	3.7	3.3	3.0	3.4
Service and sales workers	4.9	4.7	4.3	4.1	4.8
Craft and related workers	4.3	4.0	3.0	3.0	4.6
Plant and machine operators and assemblers	1.9	2.2	2.6	2.8	2.3
Elementary occupations	3.3	2.9	2.8	2.6	3.1

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

^ Including other occupations.

Source : General Household Survey, Census and Statistics Department.

Table 5.5 : Unemployment rates* by age and educational attainment

	<u>2015</u>				<u>2016</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<u>Age</u>					
15-24	9.0	11.1	12.3	8.9	8.9
<i>Of which:</i>					
15-19	13.9	17.7	14.0	9.0	15.1
20-24	8.2	10.1	12.0	8.9	8.0
25-29	2.9	3.5	3.8	3.6	4.0
30-39	2.0	2.1	2.3	2.1	2.0
40-49	3.2	2.6	2.6	2.5	2.8
50-59	2.8	2.8	2.7	2.8	3.4
≥ 60	3.0	2.4	2.0	2.4	2.1
<u>Educational attainment</u>					
Primary education and below	3.8	3.0	2.3	2.7	3.2
Lower secondary education	4.5	4.3	3.7	3.9	4.3
Upper secondary education [^]	3.2	3.2	3.2	2.7	3.1
Post-secondary education	2.7	3.2	3.9	3.3	3.2

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 were mixed. The number of long-term unemployed persons (i.e. unemployed for six months or longer) increased slightly from 23 100 in the preceding quarter to 23 600 in the first quarter of 2016, with the long-term unemployment rate staying at 0.6%. The share of long-term unemployment in total unemployment went down from 19.0% to 18.1%, while the median duration of unemployment shortened from 74 days to 70 days. However, 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) rose visibly from 44.5% to 49.0%, which appeared to echo the slackening employment situation.

Profile of underemployment

5.9 The underemployment situation held largely stable in the first quarter of 2016. The underemployment rate remained unchanged at 1.4% for the fifth straight quarter, while the number of underemployed persons showed little change at 53 400. More noticeable increase in underemployment rate was seen in the food and beverage service activities sector. On the other hand, more notable declines were observed in the arts, entertainment and recreation, and transportation sectors, with the latter conceivably due in large part to the winding-down of activities and hence reduced number of part-time and temporary workers around the Lunar New Year. Analysed by occupational category, the underemployment rate of the higher-skilled segment edged down by 0.1 percentage point to 0.4%, mainly contributed by the associate professionals. As for the lower-skilled segment, its underemployment rate stayed at 1.9%.

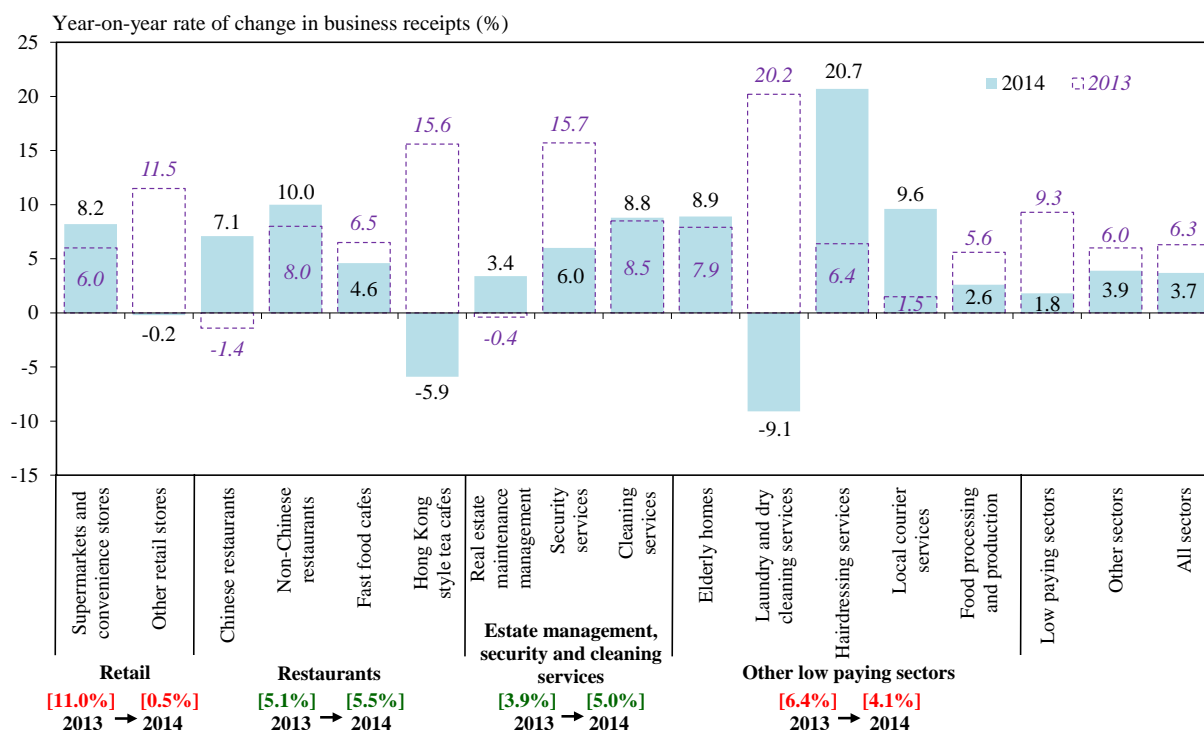
Box 5.1

Business performance and operating situation of low paying sectors in 2014

Employment situation of employees is closely related to the business performance and prospects of enterprises. With a favourable economic environment, even in the face of rising operating costs, enterprises will find it more manageable to absorb extra costs as long as their business receipts grow strongly, thereby entailing a lower risk of downsizing. On the contrary, when the economy turns sour and business turnovers drift lower instead of higher, it will become more difficult for enterprises to raise price for passing on the increase in operating costs to customers. In the absence of other measures to mitigate the additional costs, enterprises may face a profit squeeze, which may in turn pose higher layoff risks and eventually affect the job security of employees, particularly so for those with lower skills and less bargaining power. Using the results of the 2014 Annual Survey of Economic Activities released by the Census and Statistics Department, this article analyses the business performance and operating situation of the low paying sectors (LPS), which engage most low-paid employees, and the small and medium enterprises (SMEs)⁽¹⁾ therein.

In 2014, the tourism industry weakened visibly and growth momentum of the domestic sector also softened. The overall economy grew only modestly by 2.7%. Against this backdrop, notwithstanding the rather solid growth in the business receipts of restaurants, real estate maintenance management, and cleaning services, the business receipts of LPS as a whole were weighed down by the slowdown in the retail business, recording only a 1.8% growth which was far below the 9.3% increase in 2013 (*Chart 1*). Specifically, the growth in business receipts of the retail sector plummeted from 11.0% in 2013 to a mere 0.5% in 2014, ending the double-digit growth trend over the past few years. The business receipts of other retail stores therein, which accounted for around 90% of the overall business receipts of the retail sector, even posted a slight negative growth on the back of a sharp decline in visitor spending on big-ticket items such as jewellery, watches and clocks, and valuable gifts.

Chart 1: Year-on-year rate of change in business receipts of all enterprises in 2013 and 2014



Note: Figures in brackets denote the year-on-year rate of change in business receipts of all enterprises in that sector in the specified year.

Source: Annual Survey of Economic Activities, Census and Statistics Department.

(1) The statistics discussed in this article pertain to enterprises with employees only. SMEs refer to enterprises with fewer than 50 persons engaged.

Box 5.1 (Cont'd)

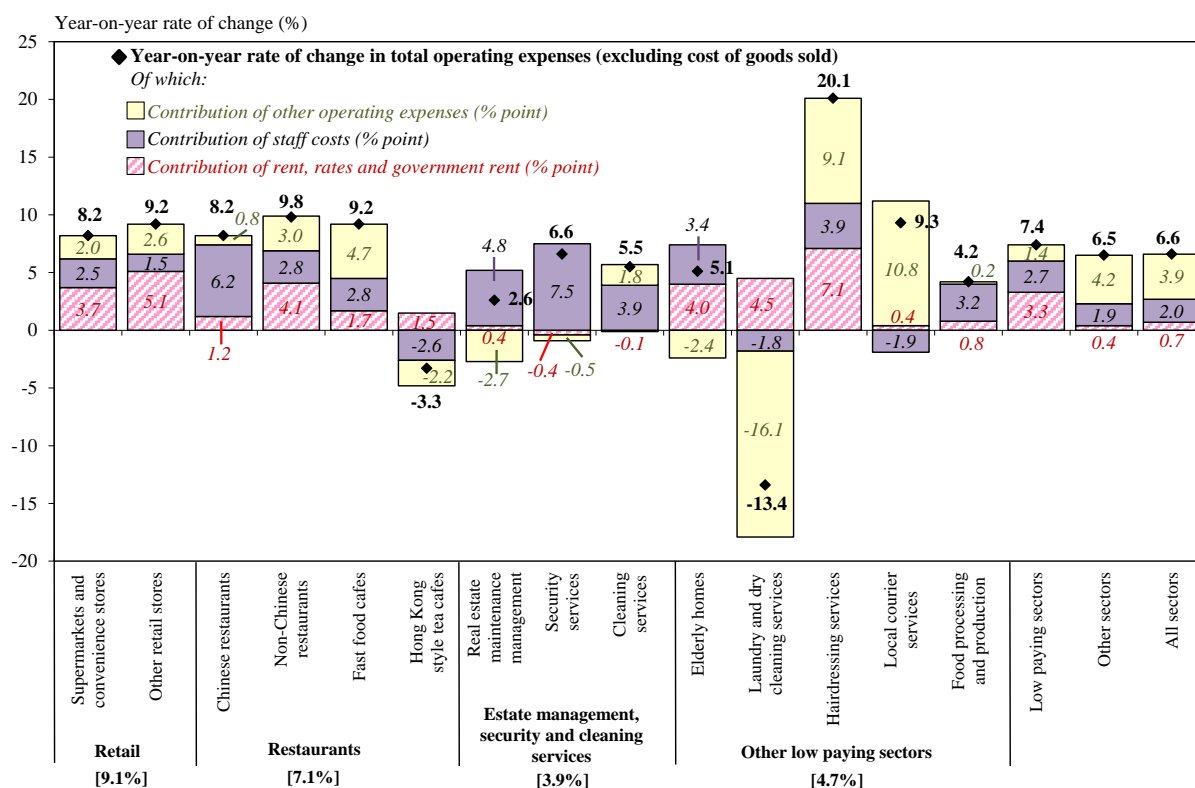
Operating Costs

In 2014, thanks to softer international food and commodity prices, the modest inflation in major import sources and the persistent strength of the US dollar against other major currencies, external price pressure faced by Hong Kong was mild, resulting in a fall in the overall cost of goods sold. For the retail sector, the dip in cost of goods sold mainly reflected the sluggish business performance. In fact, the rises in costs for most LPS were mainly attributable to the changes in total operating expenses, including rent, rates and government rent, staff costs and other operating expenses.

Amid the slow business expansion in some LPS, the increase in the total operating expenses for LPS as a whole moderated from 9.9% in 2013 to 7.4% in 2014, with rent, rates and government rent, and staff costs contributing the largest share of the rise. As **Chart 2** shows, some LPS such as retail and elderly homes were noticeably more susceptible to the continuous rise in rent in the year. Even with the numbers of enterprises of these two sectors dropping by 4.7% and 1.2% respectively in 2014, their rent, rates and government rent still contributed a significant share of the rise in the total operating expenses.

On the other hand, staff costs continued to be the main driver of the increases in the total operating expenses among labour-intensive sectors, especially for Chinese restaurants, and estate management, security and cleaning services. Though there was no uplifting in the Statutory Minimum Wage rate in 2014, labour costs generally went up during the year as the manpower resource balance in the labour market remained tight. For the LPS as a whole, the average staff costs per employee increased by 5.7% over 2013, while the corresponding figures for the two aforementioned sectors were even higher, at 10.2% and 7.8% respectively.

Chart 2: Contribution to the year-on-year rate of change in total operating expenses of all enterprises by component in 2014



Notes: The sum of the individual items may not be equal to the totals due to rounding.

Figures in brackets denote the year-on-year rate of change in total operating expenses of all enterprises in that sector in 2014.

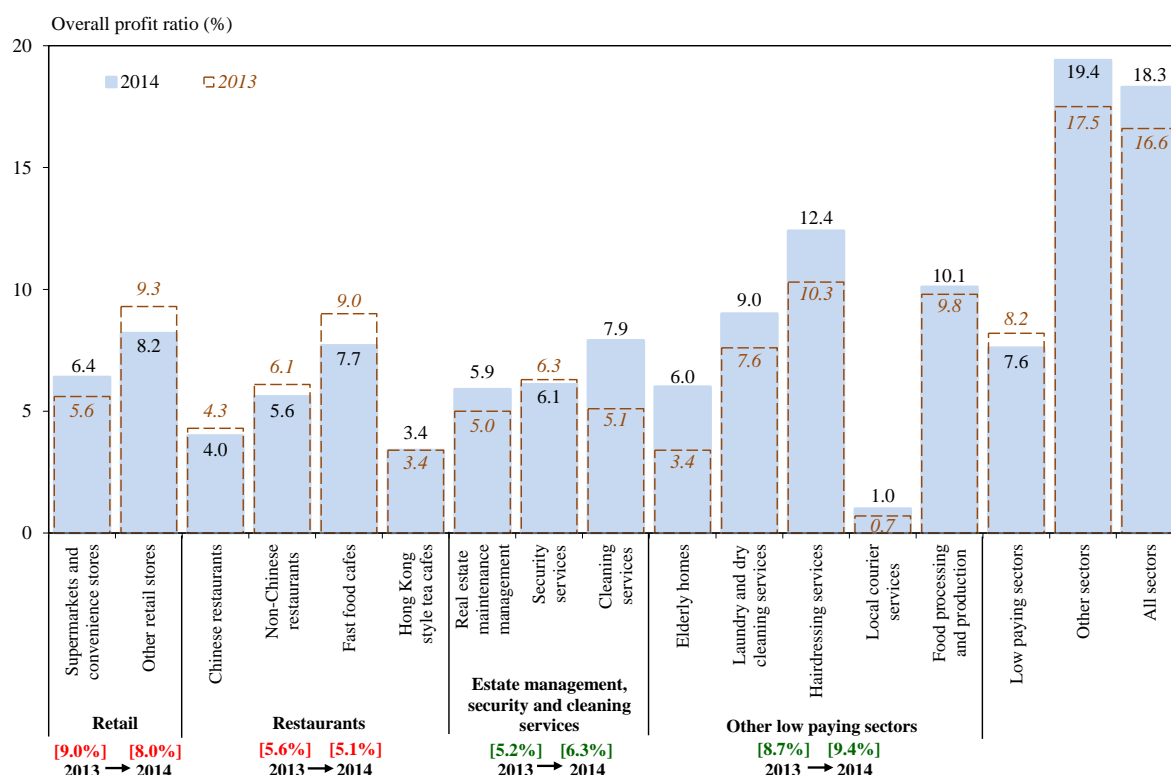
Source: Annual Survey of Economic Activities, Census and Statistics Department.

Box 5.1 (Cont'd)

Profitability

The operating situations of some LPS such as real estate maintenance management and cleaning services were more stable, partly thanks to faster growth in business receipts and partly due to cost control. Their overall profit ratios⁽²⁾ improved in 2014 (*Chart 3*). As a result of the marked deterioration in business situation, the overall profit ratio of the retail sector fell by 1.0 percentage point over 2013 to 8.0% in 2014, the lowest since 2009. As for restaurants, despite some business expansion, rises in rent, rates and government rent as well as staff costs weighed on profits further, with its overall profit ratio down by 0.5 percentage point over 2013 to 5.1%. Since the retail and restaurants sectors altogether employed a large number of lower-skilled employees (over 440 000, or about 60% of the total in LPS)⁽³⁾, weaker profitability might carry implications to the income and employment prospects of grassroots employees therein. This situation warrants concern.

Chart 3: Overall profit ratio of all enterprises in 2013 and 2014



Note: Figures in brackets denote the overall profit ratio of all enterprises in that sector in the specified year.

Source: Annual Survey of Economic Activities, Census and Statistics Department.

SMEs

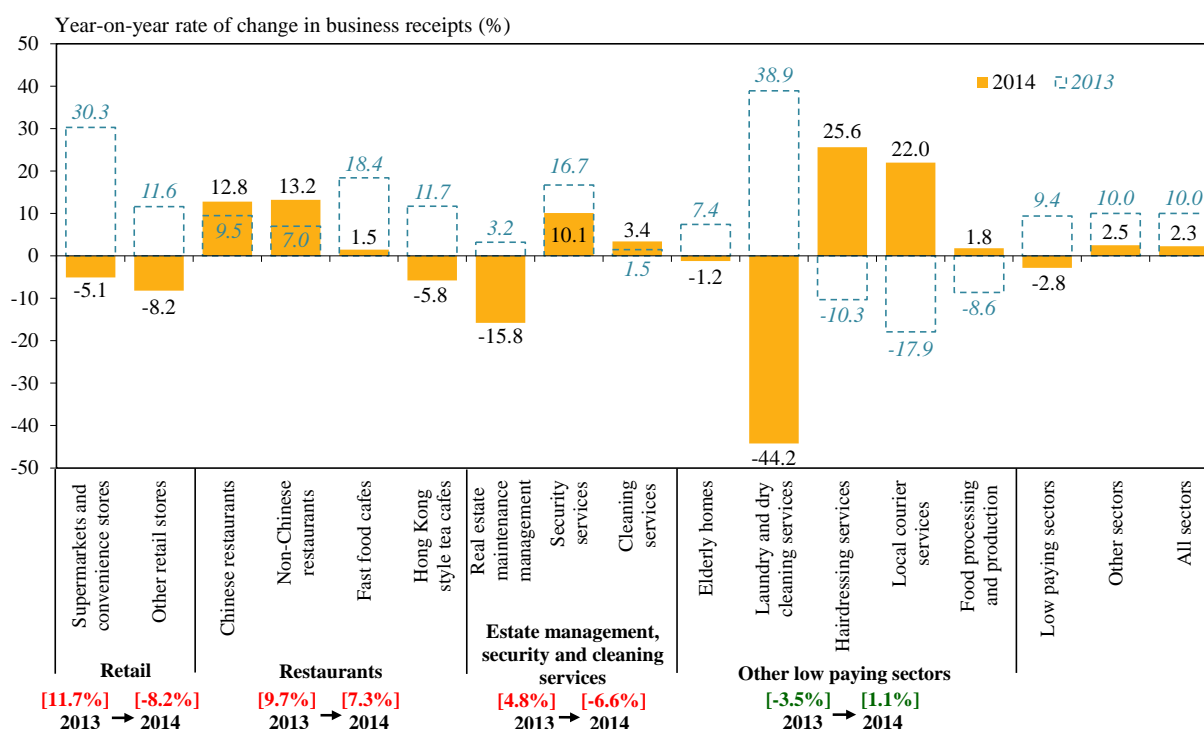
In general, benefiting from economies of scale and more effective management, large enterprises are more capable of absorbing cost pressures. On the contrary, SMEs, constrained by limited resources, are less capable of passing on costs to customers and controlling costs. In fact, the overall business receipts of SMEs in LPS dropped by 2.8% in 2014 amid the austere operating situation, with a number of sub-sectors being more hard hit, as evidenced by their more noticeable slowdown or even decline in business receipts (*Chart 4*).

(2) Earnings before tax ratio (abbreviated as profit ratio) refers to the ratio of profit (before deducting tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off; provisions, etc.) to business receipts.

(3) The figures are compiled from the findings of the 2014 Annual Earnings and Hours Survey conducted by the Census and Statistics Department. Lower-skilled employees include elementary occupations; service and sales workers; craft and related workers, plant and machine operators and assemblers; and clerical support workers.

Box 5.1 (Cont'd)

Chart 4: Year-on-year rate of change in business receipts of SMEs in 2013 and 2014



Note: Figures in brackets denote the year-on-year rate of change in business receipts of SMEs in that sector in the specified year.

Source: Annual Survey of Economic Activities, Census and Statistics Department.

For most LPS, the overall profitability of SMEs fared worse than that of the sector as a whole. For instance, the overall profit ratios of SMEs in the retail and restaurants sectors stayed relatively low at 3.9% and 3.0% respectively. Conceivably, SMEs in LPS with meagre profits would have less room for manoeuvre than large enterprises in times of a deteriorating external environment. With low profits, these SMEs would also be less capable of tiding themselves over in difficult periods by squeezing their profits. Hence, layoffs or even windings-up might occur when enterprises could not withstand external shocks and the mounting operating costs. The 2014 figures showed signs of scaling back in business or downsizing among SMEs in some LPS. Specifically, the number of SMEs in LPS as a whole dropped by about 2% (or around 880 in number), with that of other retail stores down by over 1 000. Moreover, for the Hong Kong style tea cafes, although the number of SMEs increased by about 4% (or about 110 in number), the number of employees engaged therein declined by more than 5%. Nonetheless, thanks to the rather stable labour market and ample job opportunities available in various other sectors for job seekers, the overall employment situation saw no marked deterioration in 2014.

Concluding remarks

While operating environment is somewhat sector-specific, the business situation of enterprises still hinges crucially on the macroeconomic environment. Over the past few years, Hong Kong economy has sustained moderate expansion. A myriad of factors had contributed to the rising business costs, but growing business receipts in tandem helped cushion the operating pressure on enterprises to a large extent, which in turn also helped maintain the job security of employees. However, recent economic data pointed to a slackening local consumption market, a protracted slowdown of inbound tourism and increasing headwinds on the external front. All these would pose challenges to local operators in different sectors. The development so entailed would warrant our close monitoring.

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 December 2015. To bring the analysis more up-to-date, attempts have been made wherever possible by drawing reference to information from supplementary sources.

5.11 The pace of job creation slowed further towards end-2015. Total employment in private sector establishments increased slightly by 0.7% year-on-year to 2 808 000 in December 2015, representing growth moderation for the fourth consecutive quarter and pointing to a more established weakening trend in labour demand. Apart from the secular downtrend in manufacturing (down 2.6% year-on-year), more noticeable declines in employment were seen in such trade- and tourism-related sectors as import/export trade and wholesale (down 1.9%), accommodation services (down 1.4%), retail (down 1.3%), and food and beverage services (down 0.7%) in December 2015, reflecting the lacklustre region-wide trade performance and the sustained weak trend in inbound tourism. Meanwhile, employment growth also eased in many sectors such as social and personal services (up 2.2%), financing and insurance (up 1.5%), and professional and business services (including cleaning services) (up 1.4%). On a positive note, visible job gain was found in construction sites (covering manual workers only) (up 18.1%), thanks to the steady expansion of private sector building and construction activity. Analysed by establishment size, employment in large enterprises grew by 2.6% year-on-year in December 2015, more than offsetting the 1.4% decline in the small and medium-sized enterprises (SMEs)⁽⁷⁾. For 2015 as a whole, total employment in private sector establishments increased by 1.2%, the slowest growth since 2009. As for the civil service, employment growth remained modest at 0.9% year-on-year in December 2015, and 0.7% for 2015 as a whole.

Vacancies

5.12 The vacancy situation likewise slackened. The number of job vacancies in private sector establishments fell further by 3.1% in December 2015 over a year earlier, also representing an enlarged decline from that of 0.9% in September 2015. For 2015 as a whole, the number of job openings dipped for the second straight year, by 1.3% to an average of 75 590.

Table 5.6 : Employment by major economic sector

	<u>2014</u>					<u>2015</u>				
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>
Import/export trade and wholesale	554 400 (§)	552 900 (-0.9)	554 100 (-0.1)	554 400 (0.5)	556 200 (0.6)	546 500 (-1.4)	549 200 (-0.7)	545 700 (-1.5)	545 400 (-1.6)	545 500 (-1.9)
Retail	270 800 (2.2)	270 000 (2.8)	271 900 (2.7)	269 800 (1.9)	271 600 (1.4)	269 600 (-0.5)	271 500 (0.6)	269 900 (-0.7)	268 900 (-0.3)	268 100 (-1.3)
Accommodation ^(a) and food services	283 200 (2.5)	281 200 (2.0)	283 200 (2.5)	283 000 (2.6)	285 600 (2.8)	283 000 (-0.1)	283 700 (0.9)	282 700 (-0.1)	282 300 (-0.2)	283 300 (-0.8)
Transportation, storage, postal and courier services	174 600 (2.7)	171 700 (2.1)	174 500 (3.1)	175 400 (2.6)	176 600 (2.9)	177 400 (1.6)	176 600 (2.8)	176 500 (1.1)	178 200 (1.6)	178 500 (1.1)
Information and communications	104 100 (2.7)	102 900 (4.6)	103 500 (2.4)	104 800 (2.2)	105 200 (1.9)	105 300 (1.1)	104 000 (1.2)	104 900 (1.4)	105 500 (0.7)	106 500 (1.2)
Financing, insurance, real estate, professional and business services	696 500 (1.9)	693 300 (2.5)	694 000 (2.3)	694 600 (1.4)	704 200 (1.5)	712 100 (2.2)	711 400 (2.6)	712 300 (2.6)	712 500 (2.6)	712 400 (1.2)
Social and personal services	482 200 (4.3)	475 600 (3.7)	480 000 (4.1)	482 500 (4.0)	491 000 (5.3)	497 200 (3.1)	494 100 (3.9)	495 200 (3.2)	497 400 (3.1)	501 900 (2.2)
Manufacturing	102 500 (-1.2)	103 500 (-0.5)	102 200 (-1.1)	102 600 (-1.2)	101 500 (-2.1)	99 600 (-2.8)	100 300 (-3.1)	99 600 (-2.6)	99 600 (-3.0)	98 900 (-2.6)
Construction sites (manual workers only)	82 800 (4.4)	78 600 (1.0)	79 700 (-3.4)	86 500 (12.7)	86 300 (7.8)	95 100 (14.9)	91 900 (16.9)	92 800 (16.4)	93 700 (8.3)	102 000 (18.1)
<i>All establishments surveyed in the private sector^(b)</i>	<i>2 762 200 (2.1)</i>	<i>2 740 700 (1.9)</i>	<i>2 754 200 (1.9)</i>	<i>2 764 700 (2.2)</i>	<i>2 789 200 (2.2)</i>	<i>2 796 700 (1.2)</i>	<i>2 793 700 (1.9)</i>	<i>2 790 500 (1.3)</i>	<i>2 794 600 (1.1)</i>	<i>2 808 000 (0.7)</i>
		<0.5>	<0.6>	<0.5>	<0.6>		<0.2>	<§>	<0.3>	<0.2>
<i>Civil service^(c)</i>	<i>163 000 (1.0)</i>	<i>162 800 (1.4)</i>	<i>162 800 (1.2)</i>	<i>163 000 (0.9)</i>	<i>163 400 (0.6)</i>	<i>164 100 (0.7)</i>	<i>163 600 (0.5)</i>	<i>163 800 (0.6)</i>	<i>164 000 (0.6)</i>	<i>164 900 (0.9)</i>

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

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

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

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

() % change over a year earlier.

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

§ Change less than 0.05%.

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

5.13 Analysed by economic sector, vacancies in the import/export trade and wholesale (down 19.8% year-on-year), accommodation and food services (down 13.7%), and retail (down 8.7%) sectors fell noticeably further in December 2015. Vacancies in construction sites (covering manual workers only) also plunged (down 22.7%), but when viewed in conjunction with the marked employment growth over the same period, this might signify that some previous vacancies had been gradually filled. On the other hand, vacancy increases were mainly observed in financing and insurance (up 29.8%), information and communications (up 18.3%), and human health services (up 14.2%). Mirroring the sectoral profile, higher-skilled vacancies saw remarkable year-on-year growth at 13.0%, driven by demand for managers and administrators, and professionals, while that in the lower-skilled segment fell further by 8.8%, due mainly to the double-digit reduction in vacancies of service and sales workers as well as craft and related workers. For 2015 as a whole, higher-skilled vacancies increased by 9.8%. In stark contrast, lower-skilled ones dropped by 5.2%, characterised by the almost across-the-board declines throughout the year. Analysed by the size of establishments, vacancies in large enterprises and SMEs went down by 1.1% and 5.7% respectively in December 2015 over a year earlier. As for the civil service, the number of job openings went up considerably further by 13.0% year-on-year to 8 590 in December 2015, and by 15.1% for 2015 as a whole.

5.14 Reflecting some easing in overall labour demand, the ratio of job vacancies per 100 unemployed persons went down slightly from 60 to 59 in December 2015 over a year earlier. Again, performance varied along the occupational hierarchy. The ratio for the higher-skilled segment increased to 76 in December 2015 from its year-ago level of 70, but that of the lower-skilled segment went down from 70 to 64 over the same period. For 2015 as a whole, the overall vacancy-to-unemployed ratio declined slightly to 59 from 60 in 2014, with the ratio of the lower-skilled segment falling from 66 to 64 and that of the higher-skilled segment up from 81 to 84. Analysed by economic sector, manpower shortages were more apparent in residential care and social work services, arts, entertainment and recreation, human health services, real estate, financing and insurance, and food and beverage services sectors in December 2015, for which the corresponding ratios exceeded 100.

5.15 The vacancy rate for private sector establishments, measured in terms of the percentage of job vacancies to total employment opportunities, edged down by 0.1 percentage point to 2.5% in December 2015 from 2.6% in September 2015 and its year-ago level. More apparent year-on-year declines in vacancy rate were observed in the food and beverage services, construction

sites (manual workers only), import/export and wholesale, and retail sectors, offsetting the increases in the financing and insurance, information and communications, and arts, entertainment and recreation sectors. For 2015 as a whole, the vacancy rate inched down further to 2.6% from 2.7% in 2014.

Table 5.7 : Vacancies by major economic sector

	Number of vacancies										Vacancy rate in Dec 2015 (%)
	2014					2015					
	Annual Average	Mar	Jun	Sep	Dec	Annual average	Mar	Jun	Sep	Dec	
Import/export trade and wholesale	8 460 (-13.7)	9 210 (-11.8)	8 150 (-19.4)	8 450 (-16.7)	8 040 (-5.9)	7 810 (-7.7)	9 000 (-2.3)	8 200 (0.6)	7 610 (-10.0)	6 450 (-19.8)	1.2
Retail	9 110 (4.0)	9 680 (2.9)	8 810 (8.4)	9 240 (0.6)	8 710 (4.9)	8 320 (-8.6)	8 550 (-11.7)	8 440 (-4.2)	8 350 (-9.6)	7 950 (-8.7)	2.9
Accommodation ^(a) and food services	16 060 (11.1)	17 600 (13.2)	15 800 (21.8)	15 550 (8.2)	15 300 (2.3)	14 610 (-9.1)	15 470 (-12.1)	15 150 (-4.1)	14 600 (-6.1)	13 200 (-13.7)	4.5
Transportation, storage, postal and courier services	3 680 (-1.8)	4 180 (15.7)	4 040 (-1.6)	3 380 (-7.1)	3 120 (-14.2)	3 640 (-1.1)	3 960 (-5.4)	4 060 (0.6)	3 440 (1.7)	3 100 (-0.4)	1.7
Information and communications	2 560 (-4.6)	2 570 (-4.2)	2 650 (-13.1)	2 360 (-21.8)	2 670 (33.9)	2 800 (9.3)	2 930 (14.3)	2 480 (-6.5)	2 620 (11.3)	3 160 (18.3)	2.9
Financing, insurance, real estate, professional and business services	17 910 (1.2)	17 820 (1.8)	18 210 (1.4)	17 810 (-3.5)	17 800 (5.3)	18 790 (4.9)	18 360 (3.0)	18 780 (3.1)	18 590 (4.4)	19 440 (9.2)	2.7
Social and personal services	14 110 (-12.9)	11 620 (-32.9)	16 600 (-6.1)	13 930 (-10.8)	14 280 (1.0)	15 800 (12.0)	15 620 (34.3)	17 290 (4.1)	15 760 (13.2)	14 540 (1.9)	2.8
Manufacturing	3 040 (17.4)	3 200 (23.2)	3 580 (33.7)	2 880 (6.6)	2 500 (4.9)	2 720 (-10.6)	2 990 (-6.6)	2 730 (-23.9)	2 700 (-6.4)	2 470 (-1.2)	2.4
Construction sites (manual workers only)	1 390 (32.4)	1 630 (75.1)	1 540 (49.8)	1 530 (73.1)	850 (-37.1)	800 (-42.6)	880 (-45.8)	940 (-39.1)	710 (-53.7)	650 (-22.7)	0.6
All establishments surveyed in the private sector ^(b)	76 600 (-0.7)	77 790 (-3.0)	79 720 (2.4)	75 360 (-3.8)	73 530 (1.6)	75 590 (-1.3)	78 070 (0.4)	78 380 (-1.7)	74 670 (-0.9)	71 240 (-3.1)	2.5
		<-5.3>	<4.0>	<-1.5>	<4.4>		<-6.1>	<1.8>	<-0.5>	<1.6>	
Civil service ^(c)	7 160 (9.9)	6 350 (2.0)	7 270 (4.2)	7 430 (11.4)	7 610 (22.8)	8 250 (15.1)	7 820 (23.3)	8 030 (10.4)	8 540 (14.9)	8 590 (13.0)	5.0

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.

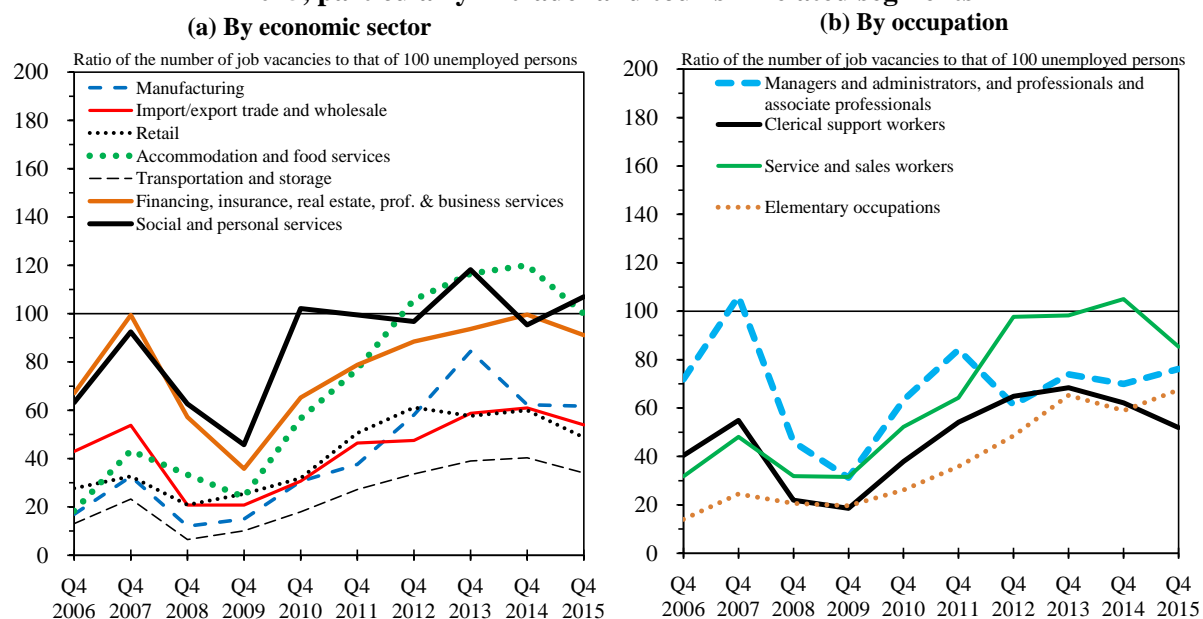
() % change over a year earlier.

< > 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 continued to show signs of easing towards end-2015, particularly in trade- and tourism-related segments



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. For the first quarter of 2016 as a whole, the number of private sector job vacancies averaged at around 107 400 per month, still a relatively high level, suggesting that the overall hiring sentiment had yet to see noticeable deterioration on entering 2016.

Wages and earnings

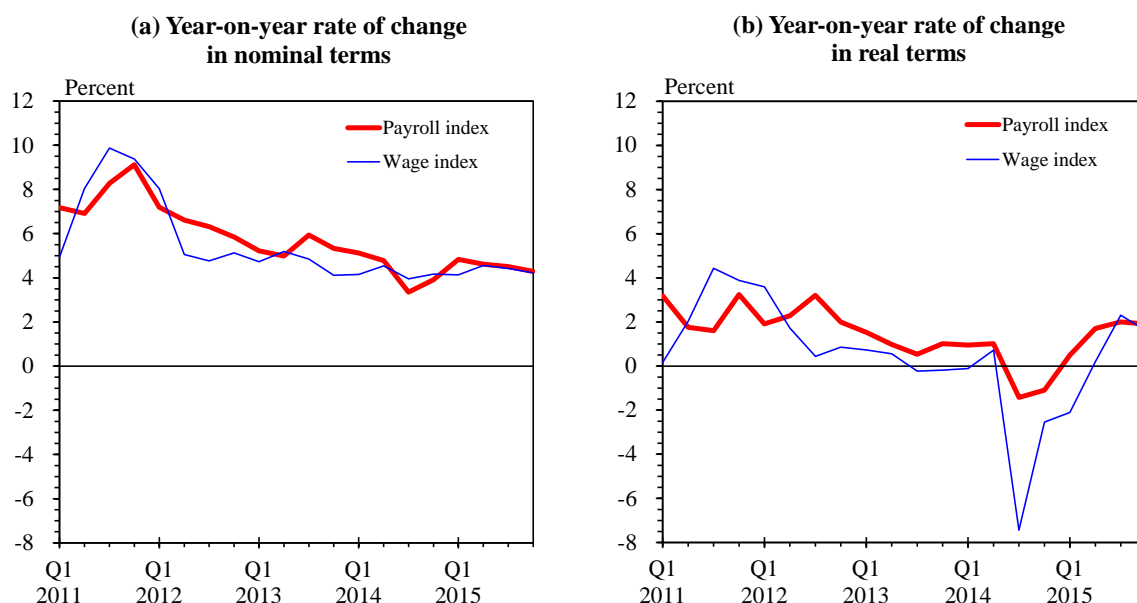
5.17 Both nominal wages and payroll stayed on the rise in 2015 amid a largely stable labour market throughout the year and the SMW uprating in May. *Wage index*, which covers regular payment to employees at the supervisory level or below, rose by 4.2% year-on-year in December 2015. For 2015 as a whole, labour wages went up by 4.4% in nominal terms, or 0.6% in real terms after adjusting for inflation⁽⁸⁾. The improvement in real terms appeared to be mild, though noteworthy was the markedly higher headline inflation in the first half of 2015 alongside the phasing out of the Government's one-off relief measures.

5.18 Nominal wages continued to see broad-based year-on-year increases in December 2015, more notably in professional and business services (up 7.0%), and personal services (up 5.9%). Accommodation and food service activities, with higher proportion of lower-skilled workers, also saw relatively higher wage growth (up 5.3%) in tandem with the upward adjustment of the SMW rate since May 2015. Analysed by occupation, more visible wage gains were found in service workers (up 6.9%) and miscellaneous non-production workers (up 4.8%).

5.19 *Labour earnings*⁽⁹⁾, as measured by the index of payroll per person engaged in the private sector, including overtime pay, discretionary bonuses and other irregular payments, rose at a broadly similar pace of 4.3% in the fourth quarter of 2015 over a year earlier. For 2015 as a whole, nominal earnings posted a solid increase of 4.6%, translating into a real improvement of 1.5%.

5.20 Nominal payroll increased further across major sectors in the fourth quarter of 2015, more notably in professional and business services (up 6.4%), accommodation and food service activities (up 5.9%), and sewerage, waste management and remediation activities (up 5.9%). On the other hand, import/export and wholesale trades (up 2.9%), and retail trade (up 3.3%) saw relatively moderate payroll growth, amid the sluggish external trade performance and the slackening local consumption market.

Diagram 5.6 : Nominal wages and earnings stayed on rise towards end-2015



Note: The real wages and earnings in late 2014 to early 2015 were affected by the larger year-on-year increases in the headline Consumer Price Indices, which in turn reflected the distortion arising from the Government's one-off relief measures.

5.21 More recent statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, revealed that the average monthly employment earnings⁽¹⁰⁾ of full-time employees (excluding foreign domestic helpers) in the lowest three decile groups grew by 6-9% in the first quarter of 2016 over a year earlier, translating into appreciable increases of 3-5% in real terms after discounting inflation. The overall income also saw increases, though with signs of moderation. The median monthly household income (excluding foreign domestic helpers) went up only modestly by 2.0% in nominal terms in the first quarter of 2016 over a year earlier, after the appreciable increase of 7.7% in 2015.

Highlights of labour-related measures and policy developments

5.22 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job-seekers on the spot. From January to March 2016, LD organised four large-scale job fairs in North District, Cheung Sha Wan and Wan Chai. 157 participating organisations offered over 12 500 vacancies from the retail, catering, property management, transport and other industries. There were also 15 training bodies joining the job fairs to introduce job training courses and receive applications on the spot. Apart from large-scale job fairs, district-based job fairs are organised at LD's Job Centres from time to time to assist job-seekers in finding employment. Recruitment activities are also staged by catering and retail employers at the two industry-based recruitment centres regularly for interviewing job-seekers on the spot.

5.23 LD newly launched the Construction Industry Recruitment Centre (CIRC) in January 2016 to facilitate local construction workers to find jobs and employers of the industry to recruit local workers. CIRC provides a venue for employers, contractors and sub-contractors of the trade to organise job fairs and conduct on the spot job interviews with job seekers, enhancing the efficiency in job search and recruitment.

5.24 The Work Incentive Transport Subsidy Scheme aims at helping low-income earners reduce their cost of travelling to and from work and encouraging them to secure or stay in employment. The income and asset limits for the subsidy have been raised again since the claim month of February 2016 under the annual adjustment mechanism.

5.25 The Standard Working Hours Committee (SWHC), with reference to the findings of the dedicated working hours survey, and the public engagement and consultation on working hours conducted in 2014, has in principle recommended exploring a legislative approach to mandatorily require employers and employees to enter into written employment contracts specifying terms related to working hours of employees, and in parallel to explore whether there is a need for other suitable measure(s) to further protect grassroots employees with lower income, lower skills and less bargaining power. SWHC launched a three-month second-stage consultation on its preliminary discussion outcomes and working hours policy directions under exploration on 25 April 2016, so as to collect views for SWHC's reference in further discussing working hours policy directions and preparing its report to the Government.

Notes :

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

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

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

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

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

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

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

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

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

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

CHAPTER 6 : PRICES

Summary

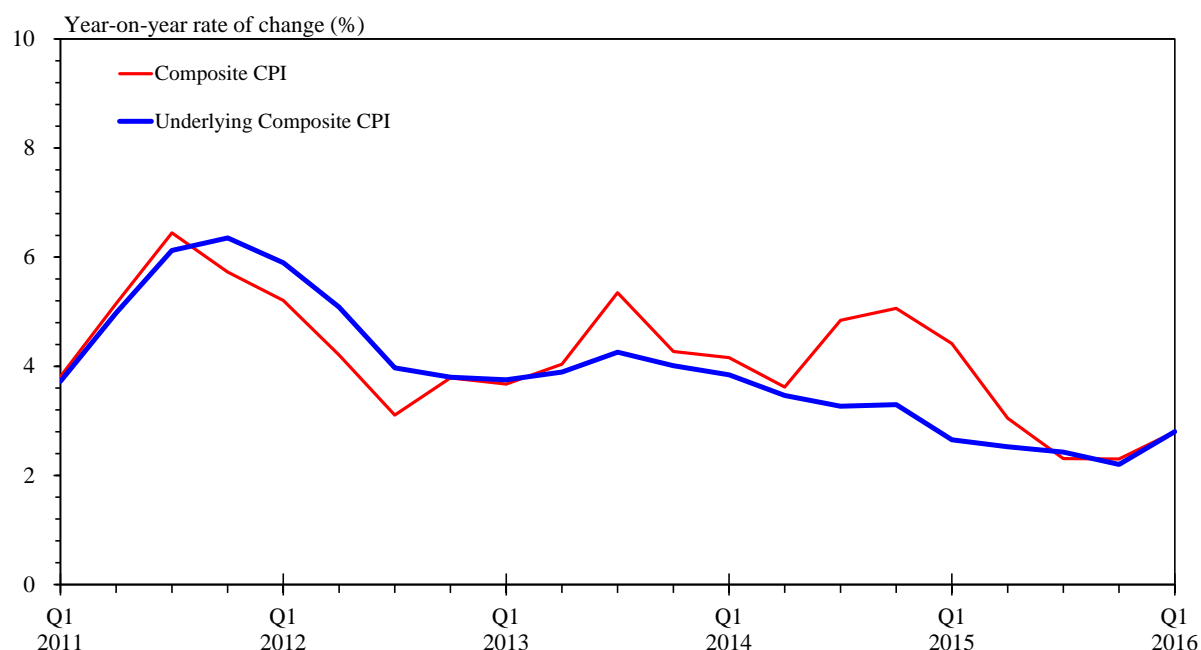
- *Inflationary pressures stayed moderate in the first quarter of 2016 alongside a further slowdown in overall economic growth. Netting out the effects of the Government's one-off measures to more accurately reflect the underlying inflation trend, and by reference to the new 2014/15-based series, the underlying Composite Consumer Price Index (Composite CPI)⁽¹⁾ rose by 2.8% year-on-year (or 2.9% by reference to the old 2009/10-based series). The headline Composite CPI also rose by 2.8% in the new 2014/15-based series (or 2.9% in the old 2009/10-based series).*
- *The edging up of underlying inflation in the first quarter was largely caused by the surge in basic food prices amid bad weather conditions. Apart from that, price pressures from other domestic components remained generally in check, if not moderated further, given the steady growth in labour earnings and also the property market consolidation that led to lower rental inflation. Softer consumption demand, with a protracted slackening of retail sales, also held back the pricing power of the retailers and other related business.*
- *Price pressures from the external front stayed muted, as inflation in the major import sources remained benign, and international food and commodity prices were still low as compared to a year earlier. The relatively strong Hong Kong dollar against many other currencies over the past year or so also helped keep imported inflation at bay.*
- *Looking ahead, barring any abrupt changes in international oil and food prices, the upside risks to inflation should stay limited in the near term. Price pressures from both domestic and external fronts are likely to remain subdued under a slow-growing global economy with notable downside risks.*

Consumer prices

6.1 Overall inflation was moderate in the first quarter of 2016 in the midst of relatively weak local and global economic conditions. Although basic food prices were pushed up rather notably by the exceptionally cold weather in the quarter, domestic cost pressures from other components remained largely modest. Labour earnings growth held steady, and the consolidation in property market helped lessen the residential and commercial rental cost pressures. Also relevant was the prevalence of discount offering in the retail segment amid the continued slackening of inbound tourism and

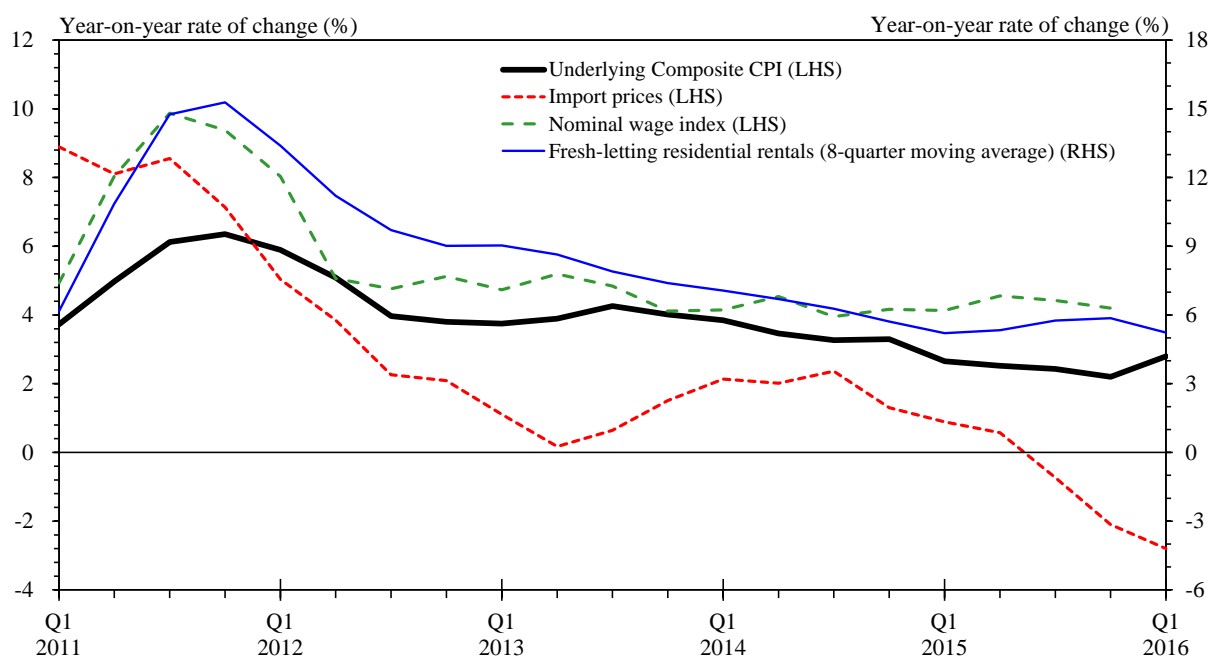
weaker consumption sentiment. As to imported inflation, the benign inflation in Hong Kong's major import sources⁽²⁾, still-low international food and commodity prices, and the relative strength of the Hong Kong dollar all contributed to the muted external price pressures.

Diagram 6.1 : Underlying inflation remained tame in the first quarter of 2016



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

Diagram 6.2 : Domestic cost pressures remained moderate, while import prices fell further



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

6.2 Underlying consumer price inflation, as measured by the year-on-year rate of change in the underlying Composite CPI, which nets out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, ticked up from 2.2% in the fourth quarter of 2015 to 2.8% in the first quarter of 2016 as measured by reference to the new 2014/15-based series (or from 2.4% to 2.9% by reference to the old 2009/10-based series. For details of the rebasing, see **Box 6.1**). Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI of the new 2014/15-based series, also rose from 2.3% to 2.8% over the same period (or from 2.4% to 2.9% by reference to the old 2009/10-based series).

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^(a)</u>	<u>Headline</u>			
2015	Annual	2.5 ^(b) (2.5)	3.0 ^(b) (3.0)	4.0 ^(b) (4.0)	2.9 ^(b) (2.8)	2.1 ^(b) (2.1)
	H1	N.A. (2.6)	N.A. (3.7)	N.A. (5.3)	N.A. (3.3)	N.A. (2.3)
	H2	2.3 ^(b) (2.4)	2.3 ^(b) (2.4)	2.7 ^(b) (2.7)	2.3 ^(b) (2.4)	1.9 ^(b) (1.9)
	Q1	N.A. (2.7)	N.A. (4.4)	N.A. (6.5)	N.A. (3.9)	N.A. (2.6)
	Q2	N.A. (2.5)	N.A. (3.0)	N.A. (4.2)	N.A. (2.7)	N.A. (1.9)
	Q3	N.A. (2.4)	N.A. (2.3)	N.A. (2.8)	N.A. (2.3)	N.A. (1.8)
	Q4	2.2 (2.4)	2.3 (2.4)	2.5 (2.7)	2.4 (2.4)	2.0 (2.1)
2016	Q1	2.8 (2.9)	2.8 (2.9)	3.1 (3.2)	2.8 (2.8)	2.5 (2.6)
(seasonally adjusted quarter-to-quarter rate of change (%))						
2015	Q1	0.3 (0.4)	0.3 (0.4)	0.4 (0.5)	0.3 (0.4)	0.1 (0.1)
	Q2	0.6 (0.7)	-0.6 (-0.6)	-1.1 (-1.4)	-0.5 (-0.5)	-0.1 (0.1)
	Q3	0.5 (0.6)	-0.1 (-0.2)	-1.1 (-1.6)	0.5 (0.3)	0.5 (0.4)
	Q4	0.9 (0.8)	2.7 (2.9)	4.4 (5.1)	2.1 (2.2)	1.5 (1.4)
2016	Q1	0.7 (0.8)	0.7 (0.8)	1.0 (1.1)	0.6 (0.7)	0.6 (0.7)

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

(b) Splicing has been applied to the two sets of CPI series in order to obtain better estimates of the rates of change for the year 2015 and H2 of 2015.

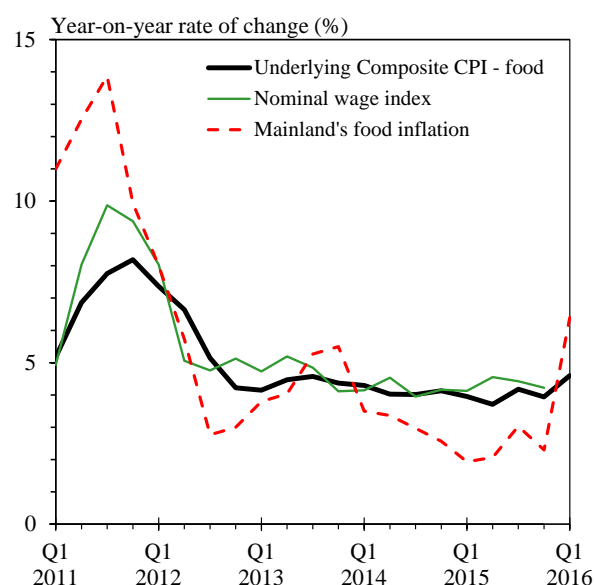
() Figures in parentheses denote year-on-year and seasonally adjusted quarter-to-quarter rates of change in the old series. From the fourth quarter of 2015 onwards, the respective rates of change in the CPIs are computed from the new 2014/15-based CPI series.

N.A. Not available. The year-on-year rates of change based on the new series are available only from the fourth quarter of 2015.

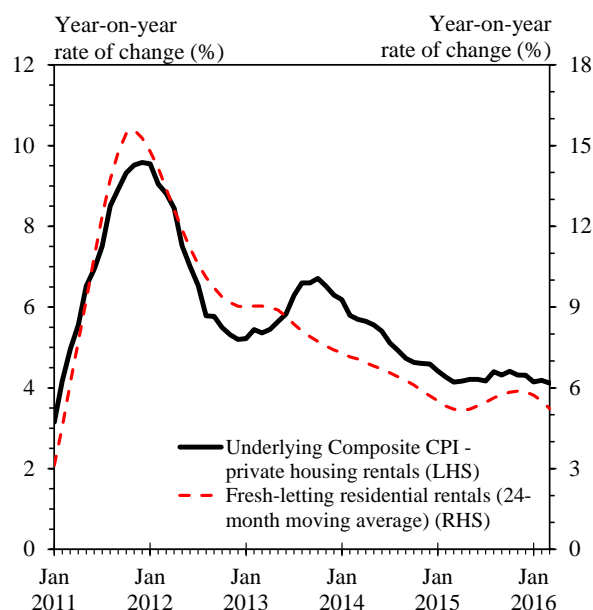
6.3 The increase in underlying inflation in the first quarter of 2016 was largely attributable to the surge in basic food inflation amid exceptionally cold weather during the period. Apart from that, signs of easing remained visible in many other major components of the underlying Composite CPI. Private housing rental component slowed further alongside the consolidation in property market and lower fresh-letting residential rentals. Certain price components such as clothing and footwear registered further declines in tandem with the softening of the consumption market. Prices of durable goods also continued their secular downtrend. On the other hand, prices of miscellaneous services picked up somewhat faster as the fall in charges for package tours narrowed, due partly to the difference in timing of Easter holidays, which fell in late March this year but early April last year, and partly to currency fluctuations, particularly the recent rebound in Japanese yen.

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

(a) Food inflation rebounded in the first quarter of 2016 due to bad weather

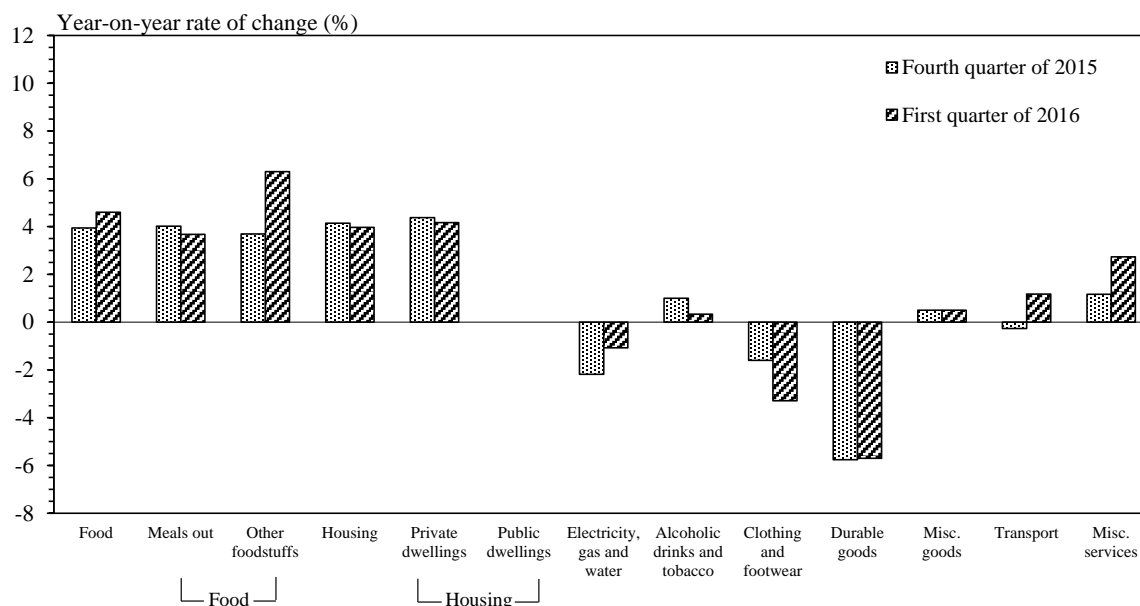


(b) Rental inflation softened amid the consolidation in property market



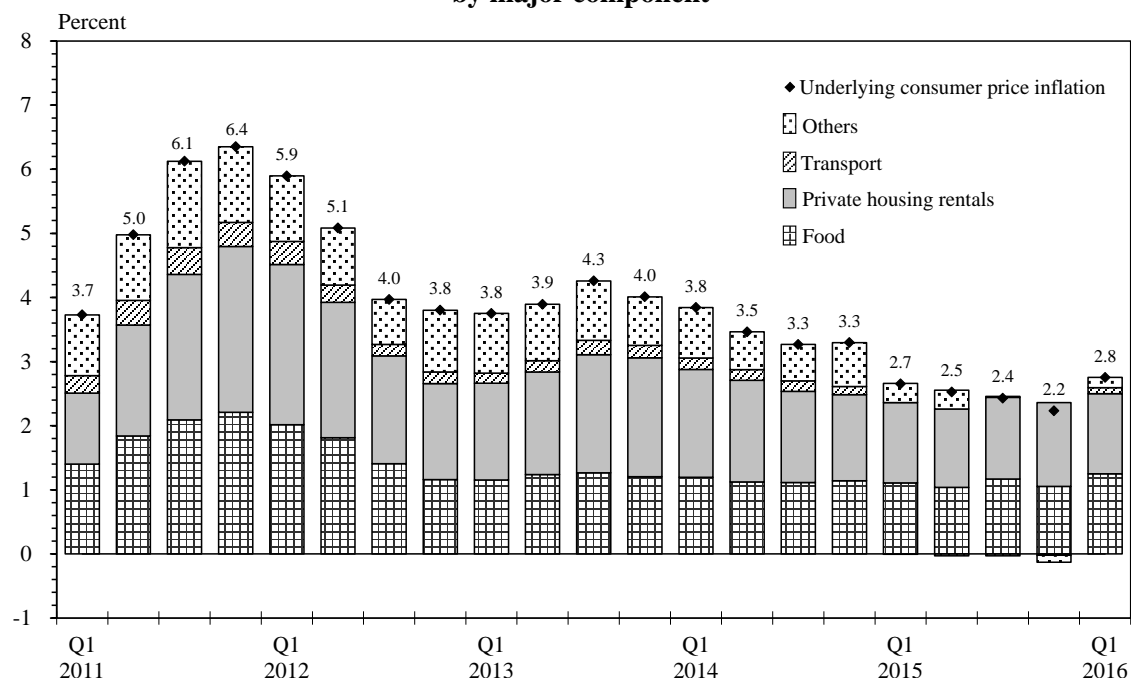
Note : The year-on-year rates of change of the CPIs from the October 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series.

Diagram 6.4 (a) : Price pressures in many of the underlying Composite CPI components continued to ease



Note : Comparison between the two quarters is made on the new 2014/15-based Composite CPI series.

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>2015</u> <u>Q4</u>		<u>2016</u> <u>Q1</u>	
Food	27.29	(27.45)	3.9	(4.1)	4.6	(4.8)
<i>Meals bought away from home</i>	17.74	(17.07)	4.0	(4.0)	3.7	(3.7)
<i>Other foodstuffs</i>	9.55	(10.38)	3.7	(4.1)	6.3	(6.4)
Housing ^(a)	34.29	(31.66)	4.1	(4.0)	4.0	(3.8)
			4.1 ^(b)	(4.0) ^(b)	4.0 ^(b)	(3.8) ^(b)
<i>Private dwellings</i>	29.92	(27.14)	4.4	(4.3)	4.2	(4.1)
			4.4 ^(b)	(4.3) ^(b)	4.2 ^(b)	(4.1) ^(b)
<i>Public dwellings</i>	1.94	(2.05)	*	(0.1)	*	(0.1)
			* ^(b)	(0.1) ^(b)	* ^(b)	(0.1) ^(b)
Electricity, gas and water	2.67	(3.10)	-2.2	(-2.1)	-1.1	(-1.0)
			-1.1 ^(b)	(-0.9) ^(b)	* ^(b)	(0.1) ^(b)
Alcoholic drinks and tobacco	0.54	(0.59)	1.0	(0.8)	0.3	(0.4)
Clothing and footwear	3.21	(3.45)	-1.6	(-1.3)	-3.3	(-2.6)
Durable goods	4.65	(5.27)	-5.8	(-5.4)	-5.7	(-5.1)
Miscellaneous goods	3.56	(4.17)	0.5	(1.0)	0.5	(0.7)
Transport	7.98	(8.44)	-0.3	(-0.1)	1.2	(1.1)
Miscellaneous services	15.81	(15.87)	1.2	(0.9)	2.7	(2.4)
			1.2 ^(b)	(0.9) ^(b)	2.7 ^(b)	(2.4) ^(b)
All items	100.00	(100.00)	2.2	(2.4)	2.8	(2.9)
			2.3 ^(b)	(2.4) ^(b)	2.8 ^(b)	(2.9) ^(b)

Notes : The year-on-year rates of change in the CPIs are computed from the new 2014/15-based CPI series. Figures in adjacent brackets refer to the corresponding year-on-year rates of change computed from the old 2009/10-based CPI series.

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

(b) Headline rates of change before netting out the effect of Government's one-off relief measures.

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

Box 6.1

Rebasing of the Consumer Price Indices

The Consumer Price Indices (CPIs) (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. On 29 April 2016, the Government released a new series of 2014/15-based CPIs to replace the old series of 2009/10-based CPIs. The expenditure ranges of the households covered in these two series are shown below:

	Approximate proportion of households covered (%)	Average monthly expenditure range during Oct 2009 to Sep 2010 (\$)	Average monthly expenditure range during Oct 2014 to Sep 2015 (\$)
CPI(A)	50	4,500 to 18,499	5,500 to 24,499
CPI(B)	30	18,500 to 32,499	24,500 to 44,499
CPI(C)	10	32,500 to 65,999	44,500 to 89,999

The increases in the expenditure brackets of household covered in all the CPIs reflected the consumer price increases that took place during the five-year period from 2009/10 to 2014/15, as well as the rise in household incomes.

Also, the weightings of the various components are updated as follows:

<i>Expenditure component</i>	<u>Composite CPI</u>		<u>CPI(A)</u>		<u>CPI(B)</u>		<u>CPI(C)</u>	
	<u>Old series</u> (%)	<u>New series</u> (%)	<u>Old series</u> (%)	<u>New series</u> (%)	<u>Old series</u> (%)	<u>New series</u> (%)	<u>Old series</u> (%)	<u>New series</u> (%)
Food	27.45	27.29	33.68	34.37	27.16	26.26	20.87	20.85
Meals bought away from home	(17.07)	(17.74)	(19.23)	(20.99)	(17.90)	(17.88)	(13.55)	(13.98)
Food (excluding meals bought away from home)	(10.38)	(9.55)	(14.45)	(13.38)	(9.26)	(8.38)	(7.32)	(6.87)
Housing	31.66	34.29	32.19	33.77	31.43	35.24	31.36	33.60
Electricity, gas and water	3.10	2.67	4.36	3.85	2.84	2.38	2.03	1.76
Alcoholic drinks and tobacco	0.59	0.54	0.91	0.75	0.56	0.57	0.29	0.26
Clothing and footwear	3.45	3.21	2.60	2.57	3.45	3.26	4.39	3.88
Durable goods	5.27	4.65	3.73	3.41	5.73	5.03	6.39	5.53
Miscellaneous goods	4.17	3.56	3.87	3.28	4.17	3.64	4.49	3.77
Transport	8.44	7.98	7.22	6.75	8.35	7.60	9.93	9.84
Miscellaneous services	15.87	15.81	11.44	11.25	16.31	16.02	20.25	20.51
Overall	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

Box 6.1 (Cont'd)

The weightings are updated every five years to ensure that up-to-date expenditure patterns of households are adequately and accurately reflected in the compilation of the CPIs.

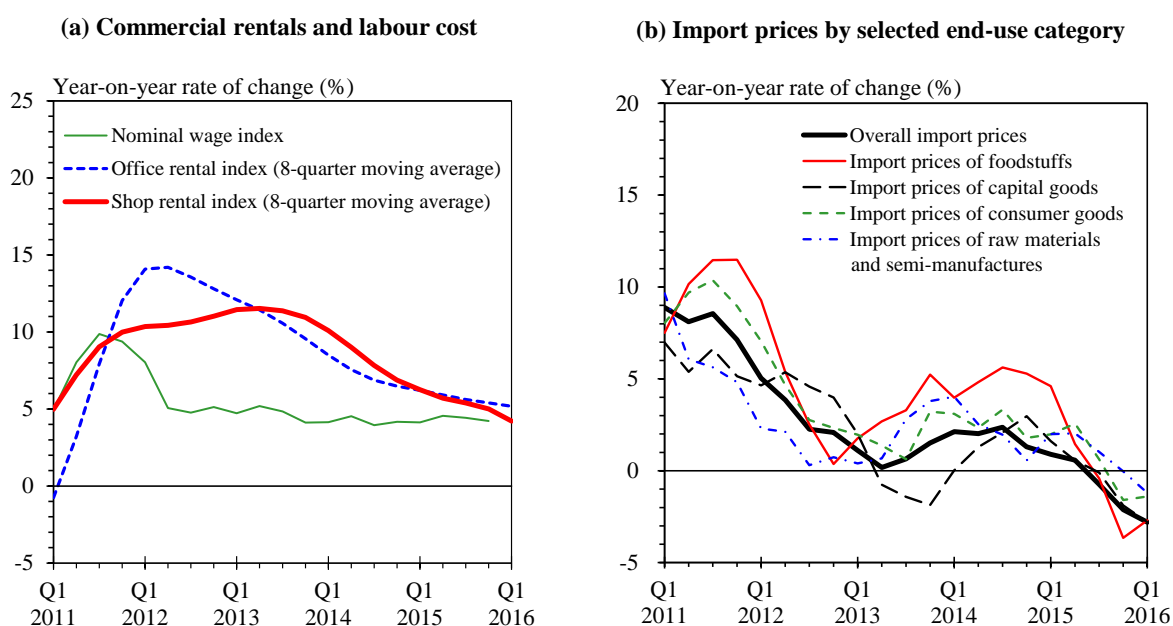
The monthly year-on-year rates of increase in CPIs from the 2014/15-based series are in general smaller than those from the 2009/10-based series. This result is consistent with those in previous rounds of CPI rebasing. Such phenomenon is attributable to the fact that when the prices of various goods and services change, households tend to buy more of the goods or services with smaller price increases (or larger price decreases) to substitute those with larger price increases (or smaller price decreases).

While the magnitudes of the year-on-year rate of change in the 2009/10-based and 2014/15-based CPIs are slightly different, the consumer price inflation based on all the four new CPI series stayed moderate between the fourth quarter of 2015 and the first quarter of 2016, consistent with the price movements as reflected in the old CPI series.

Costs of factor inputs and import prices

6.4 In the first quarter of 2016, domestic cost pressures were largely contained as the local economy slowed further. Earnings growth held steady at around 4% in recent quarters amid broadly stable labour market conditions. The year-on-year increases in shop and office rentals abated further on an eight-quarter-moving-average basis, mainly reflecting the recent consolidation in the property market, continued weakness in the retail sector and generally slower activity expansion in the economy.

Diagram 6.5 : Cost pressures were easing on both both domestic and external fronts



6.5 External price pressures subsided across the board in the first quarter of 2016, amid subdued inflation in major import sources, the still-low international food and commodity prices, and the strength of Hong Kong dollar over the past year or so. The year-on-year decline in overall import prices widened further to 2.8% in the first quarter of 2016, from 2.1% in the preceding quarter. All of the five end-use categories registered year-on-year declines in import prices of varying degrees. Import prices of capital goods, consumer goods, as well as raw materials and semi-manufactures dropped further by 2.8%, 1.4% and 1.2% respectively, mirroring the sluggish global demand conditions. The decline in import prices of foodstuffs narrowed somewhat to 2.7%. Meanwhile, import prices of fuels continued to plunge, by 39.2%, as international oil prices stayed well below year-ago levels.

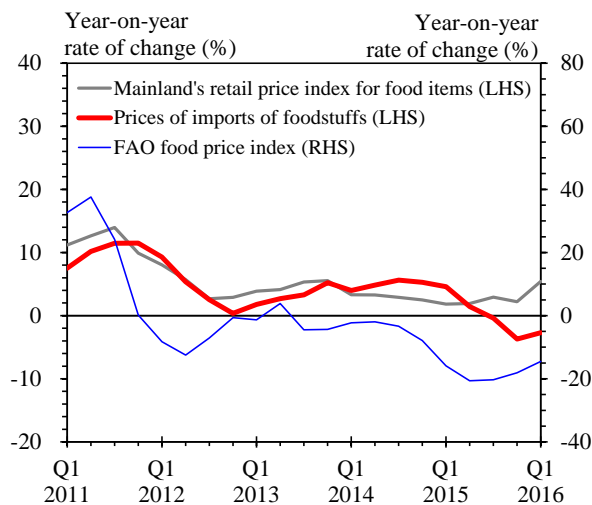
**Table 6.3 : Prices of imports by end-use category
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2015	Annual	0.3	0.8	1.2	-34.8	-0.1	-0.4
	H1	3.0	2.3	2.0	-32.0	1.1	0.7
	H2	-2.2	-0.5	0.5	-38.0	-1.0	-1.4
	Q1	4.6	2.0	2.0	-32.8	1.6	0.9
	Q2	1.4	2.6	2.0	-31.2	0.6	0.6
	Q3	-0.4	0.6	1.0	-39.2	-0.1	-0.7
	Q4	-3.7	-1.6	*	-37.2	-1.9	-2.1
2016	Q1	-2.7	-1.4	-1.2	-39.2	-2.8	-2.8

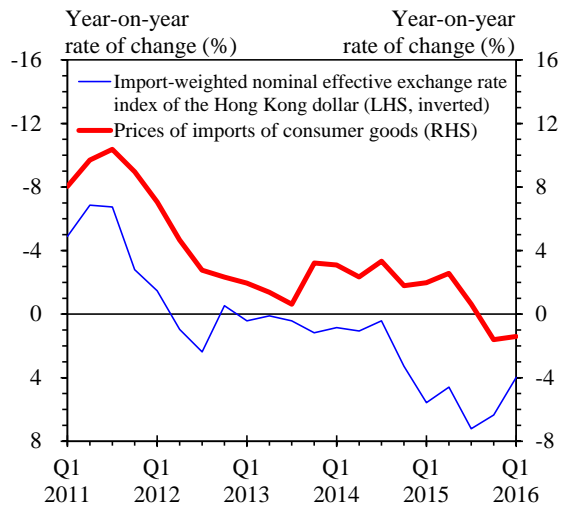
Note : (*) Change within $\pm 0.05\%$.

Diagram 6.6 : Import prices by end-use category

(a) Decline in import prices of food narrowed slightly

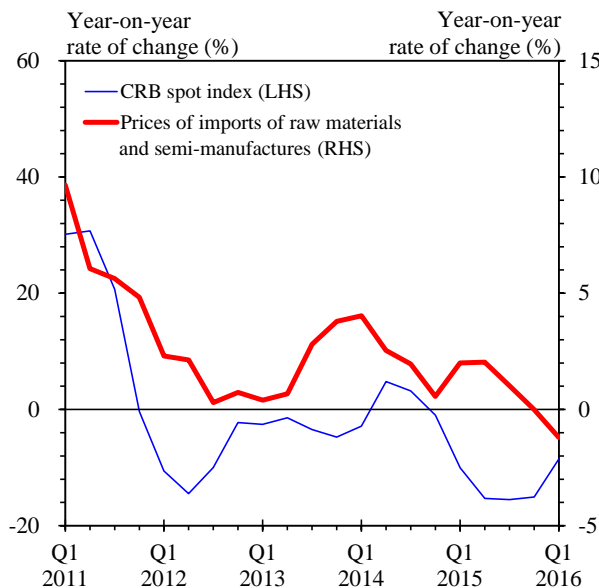


(b) Import prices of consumer goods retreated further

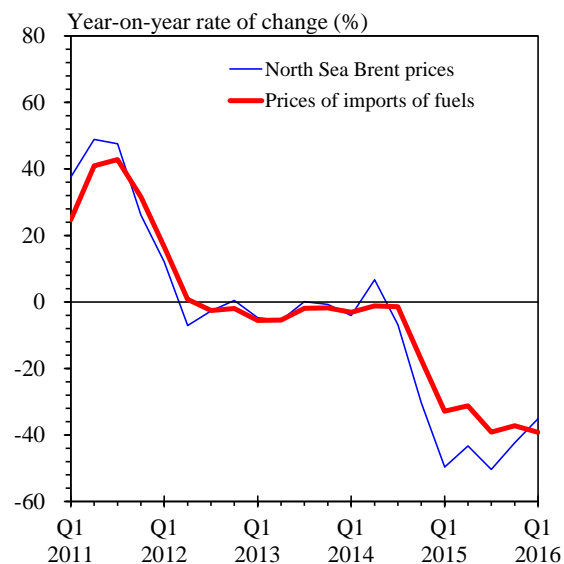


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

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



(d) Fall-off in import prices of fuels remained visible



Output prices

6.6 Output prices in most sectors, as measured by the *Producer Price Indices*⁽³⁾, were on an easing trend over the course of 2015. For the manufacturing sector, output prices registered an enlarged decline in 2015, owing to the accelerated fall in the second half of the year. Among the service sectors, output prices for accommodation services dropped moderately in 2015 amid the continued slack in inbound tourism. Alongside the austere trading environment, the output prices for land transport saw a narrower increase, while those for water and air transports fell notably. Separately, output prices for telecommunications services continued its secular downtrend in 2015, reflecting the continued adoption of cost-saving technologies and intense competition. In contrast, output prices for courier services maintained moderate increases throughout the year.

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>2014</u>					<u>2015</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Manufacturing	-1.7	-6.2	-0.4	1.3	-1.2	-2.7	-0.6	-2.8	-4.4	-3.2
Selected service sectors ^(a)										
Accommodation services	2.1	2.2	3.9	4.0	-1.3	-3.6	-1.6	-5.4	-4.8	-2.6
Land transport	2.8	2.5	3.0	2.9	3.0	2.3	2.9	2.3	2.1	2.0
Water transport	0.8	-2.9	-0.6	2.5	4.6	-7.0	-0.2	-3.5	-10.4	-13.5
Air transport	-0.7	-0.6	-1.8	1.9	-2.2	-7.8	-3.4	-7.9	-9.2	-10.8
Telecommunications	-3.7	-2.9	-3.4	-4.2	-4.2	-4.3	-3.9	-4.4	-4.7	-4.2
Courier services	1.7	1.9	1.4	0.9	2.5	4.5	4.2	4.8	4.7	4.3

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

GDP deflator

6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*⁽⁴⁾ rose by 2.3% year-on-year in the first quarter of 2016, moderated further from the 2.8% increase in the fourth quarter of 2015. Within the GDP deflator, the *terms of trade*⁽⁵⁾ improved by 0.6% in the first quarter of 2016 over a year earlier, broadly similar to the 0.7% improvement for 2015 as a whole. Taking out the external components, the year-on-year increase of domestic demand deflator was 1.3% in the first quarter of 2016, slowing from 1.8% in the preceding quarter.

Diagram 6.7 : GDP deflator

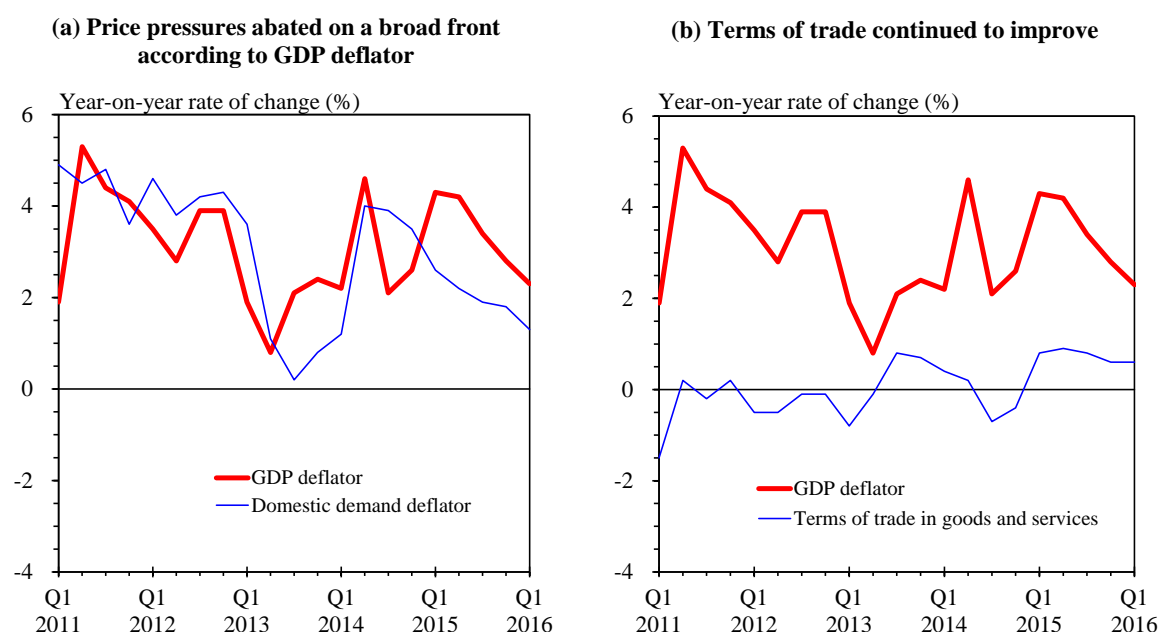


Table 6.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))

	<u>2014</u>		<u>2015</u>				<u>2016</u>
	<u>Annual[#]</u>	<u>Annual[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1⁺</u>
Private consumption expenditure	2.9	1.0	1.7	1.1	0.4	1.0	1.2
Government consumption expenditure	4.7	4.5	4.8	4.6	4.6	4.2	4.3
Gross domestic fixed capital formation	3.1	4.5	4.8	4.8	5.5	3.2	0.8
Total exports of goods	0.8	-0.7	0.8	0.4	-1.2	-2.4	-2.8
Imports of goods	0.9	-1.4	0.1	-0.7	-2.1	-2.8	-3.6
Exports of services	0.8	-2.0	-0.6	-1.6	-3.1	-2.7	-3.5
Imports of services	1.2	-4.3	-3.7	-3.0	-5.3	-4.8	-2.9
Gross Domestic Product	2.9	3.6	4.3	4.2	3.4	2.8	2.3
			<1.2>	<1.0>	<0.1>	<0.4>	<0.7>
Total final demand	1.5	*	1.2	0.7	-0.5	-1.1	-1.5
Domestic demand	3.1	2.1	2.6	2.2	1.9	1.8	1.3
Terms of trade in goods and services	-0.1	0.7	0.8	0.9	0.8	0.6	0.6

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

(#) Revised figures.

(+) Preliminary figures.

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

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

Notes :

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

The expenditure ranges of the households covered in the 2014/15-based CPIs are shown below:

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

The weightings of the various components in the 2014/15-based CPIs are as follows:

<u>Expenditure component</u>	<u>Composite CPI</u> (%)	<u>CPI(A)</u> (%)	<u>CPI(B)</u> (%)	<u>CPI(C)</u> (%)
Food	27.29	34.37	26.26	20.85
<i>Meals bought away from home</i>	17.74	20.99	17.88	13.98
<i>Other foodstuffs</i>	9.55	13.38	8.38	6.87
Housing	34.29	33.77	35.24	33.60
<i>Private dwellings</i>	29.92	26.51	32.15	30.72
<i>Public dwellings</i>	1.94	5.44	0.49	--
<i>Maintenance costs and other housing charges</i>	2.43	1.82	2.60	2.88
Electricity, gas and water	2.67	3.85	2.38	1.76
Alcoholic drinks and tobacco	0.54	0.75	0.57	0.26
Clothing and footwear	3.21	2.57	3.26	3.88
Durable goods	4.65	3.41	5.03	5.53
Miscellaneous goods	3.56	3.28	3.64	3.77
Transport	7.98	6.75	7.60	9.84
Miscellaneous services	15.81	11.25	16.02	20.51
All items	100.00	100.00	100.00	100.00

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

	<u>2014</u>					<u>2015</u>					<u>2016</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Selected developed economies											
US	1.6	1.4	2.1	1.8	1.2	0.1	-0.1	*	0.1	0.5	1.1
Canada	2.0	1.4	2.2	2.1	1.9	1.1	1.1	0.9	1.2	1.3	1.5
EU	0.5	0.8	0.7	0.5	0.2	*	-0.3	0.1	*	0.1	*
Japan	2.7	1.5	3.6	3.4	2.5	0.8	2.3	0.5	0.2	0.3	0.1
Major emerging economies											
Mainland China	2.0	2.3	2.2	2.0	1.5	1.4	1.2	1.4	1.7	1.5	2.1
Russia	7.8	6.4	7.6	7.7	9.6	15.5	16.2	15.8	15.7	14.5	8.4
India	6.6	8.2	7.8	6.7	4.1	4.9	5.3	5.1	3.9	5.3	5.3
Brazil	6.3	5.8	6.4	6.6	6.5	9.0	7.7	8.5	9.5	10.4	10.1
Selected Asian economies											
Hong Kong	4.4	4.2	3.6	4.8	5.1	3.0	4.4	3.0	2.3	2.3 [^]	2.8 [^]
Singapore	1.0	1.0	2.2	1.0	*	-0.5	-0.3	-0.4	-0.6	-0.7	-0.8
Taiwan	1.2	0.8	1.6	1.5	0.8	-0.3	-0.6	-0.7	-0.3	0.3	1.7
Korea	1.3	1.1	1.6	1.4	1.0	0.7	0.6	0.5	0.7	1.1	1.0
Malaysia	3.1	3.5	3.3	3.0	2.8	2.1	0.7	2.2	3.0	2.6	3.4
Thailand	1.9	2.0	2.5	2.0	1.1	-0.9	-0.5	-1.1	-1.1	-0.9	-0.5
Indonesia	6.4	7.8	7.1	4.4	6.5	6.4	6.5	7.1	7.1	4.8	4.3
Philippines	4.1	4.1	4.4	4.7	3.6	1.4	2.4	1.7	0.6	1.0	1.1
Vietnam	4.1	4.8	4.7	4.3	2.6	0.6	0.7	1.0	0.5	0.3	1.3
Macao	6.0	6.1	6.2	5.9	6.0	4.6	5.1	4.8	4.5	3.9	3.7

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

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

Statistical Appendix

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

	(\$Mn)					
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Private consumption expenditure	868,691	982,368	1,026,482	1,013,615	1,090,234	1,224,402
Government consumption expenditure	131,837	138,967	148,017	152,512	157,371	168,517
Gross domestic fixed capital formation	337,153	340,356	350,796	339,552	386,852	455,294
<i>of which:</i>						
Building and construction	106,268	111,776	127,312	123,746	139,249	179,341
Machinery, equipment and intellectual property products	214,093	204,083	198,633	191,568	209,568	239,854
Changes in inventories	-2,129	12,841	8,480	22,941	37,522	11,739
Total exports of goods ^{&}	2,467,357	2,698,850	2,843,998	2,500,143	3,068,444	3,420,076
Imports of goods ^{&}	2,576,340	2,852,522	3,024,089	2,702,966	3,395,057	3,848,200
Exports of services ^{&}	566,416	664,100	720,837	672,794	829,044	941,178
Imports of services ^{&}	289,634	334,204	367,034	339,346	398,078	438,576
GDP	1,503,351	1,650,756	1,707,487	1,659,245	1,776,332	1,934,430
Per capita GDP (\$)	219,240	238,676	245,406	237,960	252,887	273,549
GNI	1,538,864	1,703,567	1,807,994	1,709,007	1,813,928	1,987,256
Per capita GNI (\$)	224,419	246,312	259,851	245,096	258,240	281,019
Total final demand	4,369,325	4,837,482	5,098,610	4,701,557	5,569,467	6,221,206
Total final demand excluding re-exports ^(a)	2,436,589	2,697,292	2,836,222	2,687,437	3,058,027	3,433,559
Domestic demand	1,335,552	1,474,532	1,533,775	1,528,620	1,671,979	1,859,952
Private	1,163,262	1,297,607	1,342,889	1,327,688	1,449,592	1,614,010
Public	172,290	176,925	190,886	200,932	222,387	245,942
External demand	3,033,773	3,362,950	3,564,835	3,172,937	3,897,488	4,361,254

Definition of Terms :

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

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

	(\$Mn)							
	<u>2012</u>	<u>2013</u>	<u>2014[#]</u>	<u>2015[#]</u>	<u>Q2[#]</u>	<u>2015</u> <u>Q3[#]</u>	<u>Q4[#]</u>	<u>2016</u> <u>Q1[#]</u>
Private consumption expenditure	1,314,969	1,413,058	1,503,093	1,589,451	405,640	385,085	411,314	396,156
Government consumption expenditure	185,310	198,572	214,122	231,424	55,605	57,879	58,804	63,656
Gross domestic fixed capital formation	517,411	515,516	530,985	543,589	137,834	128,543	144,872	119,899
<i>of which:</i>								
Building and construction	204,860	211,130	244,036	264,513	65,712	65,686	68,675	66,396
Machinery, equipment and intellectual property products	278,477	264,997	242,982	233,230	59,595	52,130	67,129	47,154
Changes in inventories	-3,662	-1,673	7,473	-23,377	-9,289	-8,444	949	-1,297
Total exports of goods ^{&}	3,591,776	3,816,390	3,877,458	3,779,263	916,423	982,454	1,001,115	823,429
Imports of goods ^{&}	4,116,410	4,394,928	4,471,810	4,289,991	1,066,653	1,077,763	1,117,321	937,677
Exports of services ^{&}	1,003,047	1,058,289	1,077,899	1,053,474	243,949	270,095	271,941	245,352
Imports of services ^{&}	455,382	467,214	481,005	486,709	117,883	123,743	126,883	119,129
GDP	2,037,059	2,138,010	2,258,215	2,397,124	565,626	614,106	644,791	590,389
<i>Per capita GDP (\$)</i>	<i>284,720</i>	<i>297,462</i>	<i>311,835</i>	<i>328,117</i>	--	--	--	--
GNI	2,066,514	2,178,529	2,304,822	2,436,622	594,729	616,871	646,830	N.A.
<i>Per capita GNI (\$)</i>	<i>288,837</i>	<i>303,100</i>	<i>318,271</i>	<i>333,523</i>	--	--	--	--
Total final demand	6,608,851	7,000,152	7,211,030	7,173,824	1,750,162	1,815,612	1,888,995	1,647,195
Total final demand excluding re-exports ^(a)	3,655,325	3,860,845	4,006,094	4,037,607	989,038	999,513	1,060,597	972,821
Domestic demand	2,014,028	2,125,473	2,255,673	2,341,087	589,790	563,063	615,939	578,414
Private	1,737,274	1,827,460	1,929,820	1,991,551	505,281	477,985	526,725	483,948
Public	276,754	298,013	325,853	349,536	84,509	85,078	89,214	94,466
External demand	4,594,823	4,874,679	4,955,357	4,832,737	1,160,372	1,252,549	1,273,056	1,068,781

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

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

(%)

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

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

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

	(%)									
	<u>2012</u>	<u>2013</u>	<u>2014[#]</u>	<u>2015[#]</u>	<u>2015</u>			<u>2016</u>	Average annual rate of change:	
					Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]	10 years 2005 to 2015 [#]	5 years 2010 to 2015 [#]
Private consumption expenditure	4.1	4.6	3.3	4.7	6.8	4.4	2.7	1.1	4.8	5.0
Government consumption expenditure	3.6	2.7	3.0	3.4	3.6	2.8	3.3	3.2	2.7	3.0
Gross domestic fixed capital formation	6.8	2.6	-0.1	-2.0	3.9	-6.2	-9.4	-10.1	3.2	3.4
<i>of which:</i>										
Building and construction	7.2	-4.3	9.3	2.9	14.1	4.2	-0.9	-0.8	2.8	6.0
Machinery, equipment and intellectual property products	10.2	11.3	-8.6	-5.8	-4.7	-10.7	-12.9	-11.9	4.1	3.5
Total exports of goods ^{&}	1.9	6.5	0.8	-1.9	-3.8	-3.1	-0.5	-3.6	3.1	2.1
Imports of goods ^{&}	3.0	7.2	0.9	-2.7	-3.3	-4.2	-2.8	-5.4	3.9	2.6
Exports of services ^{&}	2.2	4.9	1.1	-0.2	1.6	-0.2	-2.7	-4.9	5.7	2.6
Imports of services ^{&}	1.9	1.5	1.8	5.7	5.1	5.5	5.4	3.8	4.6	2.9
GDP	1.7	3.1	2.7	2.4	3.1	2.3	1.9	0.8	3.4	2.9
Per capita GDP	0.5	2.6	1.9	1.5	--	--	--	--	2.7	2.1
RGNI	-0.2	4.0	2.6	3.7	8.8	3.2	0.2	N.A.	3.2	2.9
Per capita RGNI	-1.3	3.5	1.8	2.8	--	--	--	--	2.4	2.1
Total final demand	2.5	5.5	1.5	-0.5	-0.8	-1.5	-0.8	-2.7	3.8	2.7
Total final demand excluding re-exports ^(a)	3.2	4.5	2.1	0.3	1.2	-0.4	-0.9	-0.7	4.0	3.1
Domestic demand	3.9	4.1	2.9	1.6	3.1	1.0	-0.3	-0.2	4.2	3.8
Private	3.6	4.1	2.6	1.5	2.0	0.7	-0.2	-0.3	4.2	3.7
Public	5.8	3.7	4.6	2.6	10.8	2.9	-0.7	*	3.7	4.4
External demand	1.9	6.2	0.9	-1.5	-2.7	-2.5	-1.0	-3.9	3.6	2.2

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

	<u>2010</u>		<u>2011</u>		<u>2012</u>		<u>2013</u>		<u>2014[#]</u>	
	\$Mn	%	\$Mn	%	\$Mn	%	\$Mn	%	\$Mn	%
	share		share		share		share		share	
Agriculture, fishing, mining and quarrying	948	0.1	944	*	1,114	0.1	1,225	0.1	1,496	0.1
Manufacturing	30,410	1.8	30,578	1.6	30,600	1.5	30,156	1.4	27,885	1.3
Electricity, gas and water supply, and waste management	34,486	2.0	33,877	1.8	35,382	1.8	35,119	1.7	35,636	1.6
Construction	56,531	3.3	65,484	3.4	73,445	3.6	83,288	4.0	96,205	4.4
Services	1,614,922	93.0	1,770,166	93.1	1,872,498	93.0	1,947,996	92.9	2,042,819	92.7
<i>Import/export,</i>										
<i>wholesale and retail trades</i>	413,308	23.8	492,900	25.9	511,537	25.4	523,741	25.0	531,541	24.1
<i>Accommodation^(a) and</i>										
<i>food services</i>	56,418	3.2	66,421	3.5	72,044	3.6	75,413	3.6	78,725	3.6
<i>Transportation, storage,</i>										
<i>postal and courier services</i>	137,941	7.9	120,034	6.3	120,609	6.0	125,465	6.0	137,658	6.2
<i>Information and</i>										
<i>communications</i>	55,024	3.2	62,952	3.3	70,866	3.5	76,145	3.6	77,761	3.5
<i>Financing and insurance</i>	283,752	16.3	305,282	16.1	319,312	15.9	345,952	16.5	365,899	16.6
<i>Real estate, professional and</i>										
<i>business services</i>	188,476	10.8	213,987	11.3	232,416	11.5	225,789	10.8	239,434	10.9
<i>Public administration, social</i>										
<i>and personal services</i>	295,257	17.0	313,585	16.5	337,678	16.8	356,326	17.0	379,881	17.2
<i>Ownership of premises</i>	184,745	10.6	195,005	10.3	208,036	10.3	219,166	10.4	231,919	10.5
GDP at basic prices	1,737,298	100.0	1,901,049	100.0	2,013,038	100.0	2,097,785	100.0	2,204,041	100.0
Taxes on products	68,707	--	69,401	--	63,575	--	75,314	--	83,236	--
Statistical discrepancy (%)	-1.7	--	-1.9	--	-1.9	--	-1.6	--	-1.3	--
GDP at current market prices	1,776,332	--	1,934,430	--	2,037,059	--	2,138,010	--	2,258,215	--

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

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

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

(--) Not applicable.

(*) Less than 0.05%.

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

(%)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014[#]</u>	<u>2015[#]</u>	<u>2015</u>			
							Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Agriculture, fishing, mining and quarrying	3.9	0.8	-3.2	4.9	-6.0	-2.2	-0.7	0.5	-4.0	-4.7
Manufacturing	3.3	0.7	-0.8	0.1	-0.4	-1.5	-1.5	-1.2	-2.1	-1.3
Electricity, gas and water supply, and waste management	-0.2	0.6	1.4	-2.9	0.8	0.3	-0.3	2.3	-2.0	1.8
Construction	15.6	18.3	8.3	4.2	13.0	2.0	-5.3	14.8	3.0	-2.3
Services	6.9	5.2	1.8	2.7	2.4	1.9	2.3	1.6	1.9	1.9
<i>Import/export,</i>										
<i>wholesale and retail trades</i>	16.7	9.1	1.9	3.3	1.2	-1.1	*	-3.6	-0.5	-0.7
<i>Accommodation^(a) and</i>										
<i>food services</i>	9.5	8.3	1.8	3.6	2.2	-0.9	-0.5	-1.1	-2.6	0.4
<i>Transportation, storage,</i>										
<i>postal and courier services</i>	6.0	7.2	0.9	4.1	2.9	1.9	2.4	1.1	1.1	3.0
<i>Information and</i>										
<i>communications</i>	1.5	2.8	2.8	4.0	3.9	4.0	5.0	4.6	3.5	2.9
<i>Financing and insurance</i>	6.3	6.5	0.8	7.6	4.8	6.3	4.9	7.9	6.1	6.2
<i>Real estate, professional and</i>										
<i>business services</i>	2.5	2.6	3.1	-4.0	1.9	2.2	4.3	2.1	1.7	1.0
<i>Public administration, social</i>										
<i>and personal services</i>	2.2	1.8	2.1	2.5	2.5	2.6	2.3	2.0	3.3	2.9
<i>Ownership of premises</i>	0.8	0.7	1.1	0.3	0.8	0.6	0.5	0.6	0.6	0.6
Taxes on products	6.3	-6.8	-10.4	-6.4	6.7	7.0	14.5	30.4	1.3	-14.1
GDP in chained (2014) dollars	6.8	4.8	1.7	3.1	2.7	2.4	2.4	3.1	2.3	1.9

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

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

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

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

	(\$Mn)								
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014[#]</u>	<u>2015[#]</u>	<u>2015</u>			
						Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Current account ^(a)	107,513	32,151	32,180	29,363	74,658	240	140	48,460	25,818
Goods	-58,203	-146,729	-216,592	-251,022	-176,907	-74,756	-77,871	-6,346	-17,934
Services	132,681	169,760	229,129	253,564	232,944	75,062	53,707	57,389	46,786
Primary income	52,826	29,455	40,519	46,607	39,498	5,590	29,103	2,765	2,039
Secondary income	-19,791	-20,336	-20,876	-19,786	-20,877	-5,656	-4,799	-5,348	-5,074
Capital and financial account ^(a)	-113,242	-67,664	-86,308	-73,785	-131,553	-27,600	-28,538	-19,769	-55,646
Capital account	-2,021	-1,433	-1,609	-748	-74	-76	176	-78	-96
Financial account	-111,220	-66,231	-84,699	-73,037	-131,479	-27,524	-28,714	-19,691	-55,550
Financial non-reserve assets	-24,437	122,658	-26,810	66,052	150,517	8,763	47,941	51,829	41,984
<i>Direct investment</i>	1,868	-102,623	-50,250	-85,718	928,262	181,512	560,529	52,962	133,259
<i>Portfolio investment</i>	-10,979	-31,592	-386,077	-64,384	-1,094,887	-282,841	-395,165	-145,237	-271,644
<i>Financial derivatives</i>	20,884	15,208	54,661	118,359	117,727	53,114	33,548	11,940	19,125
<i>Other investment</i>	-36,210	241,665	354,856	97,795	199,416	56,979	-150,971	132,164	161,244
Reserve assets	-86,783	-188,889	-57,890	-139,089	-281,996	-36,288	-76,655	-71,520	-97,535
Net errors and omissions	5,729	35,513	54,128	44,422	56,896	27,360	28,398	-28,691	29,828
Overall Balance of Payments	86,783	188,889	57,890	139,089	281,996	36,288	76,655	71,520	97,535

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

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

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

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

	(\$Mn)								
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014[#]</u>	<u>2015[#]</u>		<u>2015</u>		<u>2016</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Total exports of goods	3,420,076	3,591,776	3,816,390	3,877,458	3,779,263	916,423	982,454	1,001,115	823,429
Imports of goods	3,848,200	4,116,410	4,394,928	4,471,810	4,289,991	1,066,653	1,077,763	1,117,321	937,677
Goods trade balance	-428,124 (-11.1)	-524,634 (-12.7)	-578,538 (-13.2)	-594,352 (-13.3)	-510,728 (-11.9)	-150,230 (-14.1)	-95,309 (-8.8)	-116,206 (-10.4)	-114,248 (-12.2)
Exports of services	941,178	1,003,047	1,058,289	1,077,899	1,053,474	243,949	270,095	271,941	245,352
Imports of services	438,576	455,382	467,214	481,005	486,709	117,883	123,743	126,883	119,129
Services trade balance	502,602 (114.6)	547,665 (120.3)	591,075 (126.5)	596,894 (124.1)	566,765 (116.4)	126,066 (106.9)	146,352 (118.3)	145,058 (114.3)	126,223 (106.0)
Exports of goods and services	4,361,254	4,594,823	4,874,679	4,955,357	4,832,737	1,160,372	1,252,549	1,273,056	1,068,781
Imports of goods and services	4,286,776	4,571,792	4,862,142	4,952,815	4,776,700	1,184,536	1,201,506	1,244,204	1,056,806
Goods and services trade balance	74,478 <1.7>	23,031 <0.5>	12,537 <0.3>	2,542 <0.1>	56,037 <1.2>	-24,164 <-2.0>	51,043 <4.2>	28,852 <2.3>	11,975 <1.1>

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

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

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

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

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014[#]</u>	<u>2015[#]</u>		<u>2015</u>		<u>2016</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
<u>At current market prices (\$Mn)</u>									
Total exports of goods	3,406,765	3,632,957	3,926,059	3,999,030	3,920,322	938,147	1,022,546	1,050,243	855,242
Imports of goods	3,464,968	3,779,686	4,142,651	4,250,052	4,097,229	1,016,018	1,028,892	1,068,177	899,752
Goods trade balance	-58,203 (-1.7)	-146,729 (-3.9)	-216,592 (-5.2)	-251,022 (-5.9)	-176,907 (-4.3)	-77,871 (-7.7)	-6,346 (-0.6)	-17,934 (-1.7)	-44,510 (-4.9)
Exports of services	710,716	764,026	812,345	826,995	807,984	192,710	204,114	197,978	193,544
Imports of services	578,035	594,266	583,216	573,431	575,040	139,003	146,725	151,192	137,059
Services trade balance	132,681 (23.0)	169,760 (28.6)	229,129 (39.3)	253,564 (44.2)	232,944 (40.5)	53,707 (38.6)	57,389 (39.1)	46,786 (30.9)	56,485 (41.2)
Exports of goods and services	4,117,481	4,396,983	4,738,404	4,826,025	4,728,306	1,130,857	1,226,660	1,248,221	1,048,786
Imports of goods and services	4,043,003	4,373,952	4,725,867	4,823,483	4,672,269	1,155,021	1,175,617	1,219,369	1,036,811
Goods and services trade balance	74,478 <1.8>	23,031 <0.5>	12,537 <0.3>	2,542 <0.1>	56,037 <1.2>	-24,164 <-2.1>	51,043 <4.3>	28,852 <2.4>	11,975 <1.2>
<u>Rates of change in real terms (%)</u>									
Total exports of goods	4.6	3.3	8.2	1.1	-1.2	-3.4	-2.5	*	-3.3
Imports of goods	6.7	4.6	9.9	1.8	-2.2	-3.2	-3.7	-2.5	-5.2
Exports of services	5.7	2.7	5.9	1.4	0.2	2.7	0.6	-3.6	-5.7
Imports of services	-0.2	2.2	-2.1	-2.2	5.0	5.0	4.3	4.8	2.6

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

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

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

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

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

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

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>			<u>2016</u>
							Q2	Q3	Q4	Q1
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All markets	10.1	2.9	3.6	3.2	-1.8	3,605,279	-1.9	-4.1	-2.9	-6.8
Mainland of China	9.3	6.3	4.9	1.5	-2.1	1,936,515	-3.7	-4.2	-1.7	-8.7
United States	-0.4	2.3	-2.1	3.1	0.2	342,193	5.5	-2.3	-5.4	-7.7
Japan	5.9	6.5	-6.1	-2.8	-6.6	122,772	-7.1	-6.0	-6.3	-5.3
India	25.6	-17.5	7.9	13.1	8.1	101,831	3.2	5.2	17.6	12.7
Vietnam	37.3	9.9	15.5	14.0	14.7	76,612	23.0	16.7	4.8	-3.7
Germany	10.7	-12.8	-5.1	-1.7	-3.2	70,269	-4.5	-1.2	-3.8	-4.9
Taiwan	24.3	-5.2	-4.3	2.5	-18.0	65,029	-21.0	-25.5	-12.8	-9.7
Singapore	10.3	-0.5	4.7	2.2	-2.3	58,451	0.7	-7.7	-7.0	-2.1
United Kingdom	-3.4	-6.0	-2.0	0.5	0.8	54,755	4.0	-5.0	-1.8	-6.1
Republic of Korea	14.2	-4.0	9.0	-2.7	-12.8	54,380	-14.0	-17.7	-13.9	-15.2
Rest of the world	15.1	0.6	5.7	8.5	-1.2	722,471	0.7	-4.2	-5.0	-4.4

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

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>			<u>2016</u>
							Q2	Q3	Q4	Q1
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All sources	11.9	3.9	3.8	3.9	-4.1	4,046,420	-3.2	-6.7	-7.0	-8.2
Mainland of China	10.9	8.5	5.5	2.3	-0.1	1,984,048	0.4	-2.3	-1.9	-8.4
Taiwan	7.2	1.6	6.9	14.7	-8.6	274,385	-12.1	-12.1	-8.6	-3.4
Japan	3.4	-2.2	-8.1	0.9	-9.9	260,294	-12.0	-10.9	-13.2	-15.1
Singapore	7.2	-3.2	*	5.8	-5.7	245,867	-5.4	-8.7	-8.0	-10.2
United States	18.0	-3.3	7.4	*	-3.9	210,933	3.8	-7.9	-14.3	-7.0
Republic of Korea	12.2	2.4	3.4	10.6	-2.0	172,085	-0.7	-0.6	-13.1	-5.5
Malaysia	5.1	-6.0	4.7	16.7	-7.9	94,084	-11.0	-4.8	-10.0	-3.6
Thailand	0.3	-4.8	6.4	13.7	-3.7	84,910	-0.4	-4.2	-5.3	-3.9
India	20.6	-5.5	6.7	10.0	-13.7	82,913	-6.5	-17.8	-22.9	-0.6
Switzerland	51.7	-0.7	-1.7	2.7	-22.1	61,802	-24.9	-21.1	-31.0	-17.2
Rest of the world	20.2	5.8	3.8	0.9	-7.4	575,098	-3.4	-14.2	-9.7	-8.2

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

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

**Table 9 : Exports and imports of services by component
(at current market prices)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014[#]</u>	<u>2015[#]</u>		<u>2015</u>	<u>2016</u>		
							Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
	(% change)				(% change)	(\$Mn)	(% change over a year earlier)			
Exports of services	13.5	6.6	5.5	1.9	-2.3	1,053,474	*	-3.4	-5.4	-8.3
Transportation	7.8	-0.6	-2.5	2.2	-7.4	229,428	-6.9	-7.8	-10.9	-10.8
Travel	28.4	15.8	17.7	-1.5	-5.8	280,227	-3.3	-7.6	-8.4	-15.2
Trade-related	11.0	3.9	2.1	1.9	-2.2	286,314	-1.6	-3.8	-2.6	-4.6
Other services	10.1	9.0	4.6	5.8	7.3	257,505	15.0	6.9	0.1	-2.4
Imports of services	10.2	3.8	2.6	3.0	1.2	486,709	1.9	*	0.3	0.8
Transportation	14.3	2.3	-1.4	1.5	-5.2	135,177	-4.3	-7.6	-5.7	-2.7
Travel	9.8	5.2	5.7	3.7	4.7	178,751	3.6	3.8	5.3	7.8
Trade-related	1.1	1.7	-2.7	2.8	0.1	33,764	2.1	-1.2	-1.8	-3.7
Other services	8.7	4.6	4.8	3.6	3.7	139,017	7.0	3.9	1.0	-3.0
Net exports of services	16.6	9.0	7.9	1.0	-5.0	566,765	-1.7	-6.0	-9.9	-15.5

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

Figures are based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 9a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

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

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

Table 9a : Exports and imports of services based on the change of ownership principle by component (at current market prices)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014[#]</u>	<u>2015[#]</u>		<u>2015</u>		<u>2016</u>	
							Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
	(% change)				(% change)	(\$Mn)	(% change over a year earlier)			
Exports of services	13.6	7.5	6.3	1.8	-2.3	807,984	0.4	-3.2	-6.4	-9.2
Transportation	7.8	-0.6	-2.5	2.2	-7.4	229,428	-6.9	-7.8	-10.9	-10.8
Travel	28.4	15.8	17.7	-1.5	-5.8	280,227	-3.3	-7.6	-8.4	-15.2
Other services	8.1	8.3	3.5	5.1	5.9	298,329	12.6	5.2	-0.4	-2.6
Imports of services	5.7	2.8	-1.9	-1.7	0.3	575,040	1.4	-1.1	-0.5	-0.8
Transportation	14.3	2.3	-1.4	1.5	-5.2	135,177	-4.3	-7.6	-5.7	-2.7
Travel	9.8	5.2	5.7	3.7	4.7	178,751	3.6	3.8	5.3	7.8
Other services	0.1	1.9	-6.0	-6.5	0.4	261,112	3.5	-0.8	-1.3	-5.2

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

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

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

Table 10 : Incoming visitors by source

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>		<u>2016</u>
						Q2	Q3	Q4	Q1
<u>('000)</u>									
All sources	41 921.3	48 615.1	54 298.8	60 838.8	59 307.6	13 906.6	15 097.1	14 883.3	13 735.1
Mainland of China	28 100.1	34 911.4	40 745.3	47 247.7	45 842.4	10 563.5	11 904.9	11 091.0	10 427.9
South and Southeast Asia	3 751.1	3 651.8	3 718.0	3 614.8	3 559.1	940.3	795.4	1 086.4	828.4
Taiwan	2 148.7	2 088.7	2 100.1	2 031.9	2 015.8	491.1	543.2	515.7	484.2
Europe	1 801.3	1 867.7	1 893.7	1 863.3	1 829.4	438.3	396.7	543.7	481.4
United States	1 212.3	1 184.8	1 109.8	1 130.6	1 181.0	308.9	263.9	333.7	279.3
Japan	1 283.7	1 254.6	1 057.0	1 078.8	1 049.3	237.5	279.4	284.2	264.4
Others	3 623.9	3 656.1	3 674.9	3 871.9	3 830.7	927.0	913.7	1 028.7	969.5
<u>(% change over a year earlier)</u>									
All sources	16.4	16.0	11.7	12.0	-2.5	0.5	-6.4	-8.0	-10.9
Mainland of China	23.9	24.2	16.7	16.0	-3.0	1.4	-7.3	-11.9	-15.1
South and Southeast Asia	7.1	-2.6	1.8	-2.8	-1.5	-3.4	0.5	8.3	12.4
Taiwan	-0.7	-2.8	0.5	-3.2	-0.8	-1.9	-2.2	6.4	3.9
Europe	2.5	3.7	1.4	-1.6	-1.8	-3.5	-1.9	3.8	6.8
United States	3.5	-2.3	-6.3	1.9	4.5	4.1	0.6	8.6	1.8
Japan	-2.5	-2.3	-15.7	2.1	-2.7	-6.5	-2.2	7.3	6.5
Others	5.5	0.9	0.5	5.4	-1.1	-1.0	-7.9	1.8	0.8

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

Table 11 : Property market

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

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

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

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

- (b) These include retail premises and other premises designed or adapted for commercial use, with the exception of purpose-built offices. Car-parking space and commercial premises built by the Hong Kong Housing Authority and the Hong Kong Housing Society are excluded.
- (c) These include industrial-cum-office premises, but exclude specialised factory buildings which are developed mainly for own use.
- (d) These include storage premises at the container terminals and the airport.

Table 11 : Property market (Cont'd)

	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>		<u>2016</u>
				Q2	Q3	Q4	Q1
Completion of new property by the private sector							
('000 m ² of internal floor area)							
Residential property ^(a) (in units)	8 254	15 719	11 280	4 217	2 862	3 348	1 803
Commercial property	161	161	233	92	20	61	85
<i>of which :</i>							
Office space	123	104	164	74	5	42	49
Other commercial premises ^(b)	39	57	69	18	16	19	36
Industrial property ^(c)	85	116	30	0	24	3	0
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	85	36	30	0	24	3	0
Storage premises ^(d)	0	80	0	0	0	0	73
Production of public housing							
(in units)							
Rental housing flats ^(e)	20 898	5 634	10 147	1 710	567	0	N.A.
Subsidised sales flats ^(e)	0	0	1 326	988	0	338	N.A.
Building plans with consent to commence work in the private sector							
('000 m ² of usable floor area)							
Residential property	816.0	647.1	893.3	193.5	286.4	118.5	N.A.
Commercial property	309.5	290.3	319.0	45.5	89.1	96.2	N.A.
Industrial property ^(f)	138.1	105.9	225.3	27.3	44.4	137.1	N.A.
Other properties	136.4	217.1	555.4	120.9	35.6	264.2	N.A.
Total	1 400.1	1 260.4	1 993.0	387.3	455.4	615.9	N.A.
Agreements for sale and purchase of property							
(Number)							
Residential property ^(g)	50 676	63 807	55 982	15 493	13 552	10 169	6 221
Primary market	11 046	16 857	16 826	4 989	3 488	4 606	1 325
Secondary market	39 630	46 950	39 156	10 504	10 064	5 563	4 896
Selected types of non-residential properties ^(h)							
Office space	1 685	1 271	1 470	504	330	223	141
Other commercial premises	4 305	3 092	2 072	501	699	315	322
Flatted factory space	4 271	3 016	3 407	986	778	709	396

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

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

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

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

N.A. Not yet available.

Table 12 : Property prices and rentals

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

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

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

For residential property, changes in rentals cover only new tenancies for which rentals are freshly determined.

For non-residential property, changes in rentals cover also lease renewals upon which rentals may be revised.

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

(+) Provisional figures.

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>		<u>2016</u>
				Q2	Q3	Q4 [#]	Q1 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	242.4	256.9	296.8	299.2	305.2	293.6	274.3
Office space	409.8	423.0	448.9	445.2	459.6	457.0	439.0
Shopping space	506.8	521.2	559.3	559.3	571.4	554.9	524.7
Flatted factory space	655.4	668.0	723.8	722.9	742.1	731.1	687.2
Property rental indices ^(b) :							
Residential flats	154.5	159.5	172.8	172.8	176.6	173.5	165.1
Office space	204.1	213.7	226.6	226.0	229.6	230.2	230.5
Shopping space	165.5	173.1	182.5	182.4	184.9	182.4	179.2
Flatted factory space	147.3	160.1	174.1	173.2	177.3	176.6	175.8
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	17.6	6.0	15.5	20.8	16.8	7.0	-5.2
Office space	22.4	3.2	6.1	5.8	8.1	6.6	1.2
Shopping space	20.5	2.8	7.3	8.9	9.0	2.5	-4.9
Flatted factory space	33.8	1.9	8.4	9.1	10.3	7.0	-1.7
Property rental indices ^(b) :							
Residential flats	8.3	3.2	8.3	10.3	9.8	5.0	-2.0
Office space	8.4	4.7	6.0	6.5	6.4	5.7	4.4
Shopping space	9.4	4.6	5.4	5.7	6.1	3.4	-0.6
Flatted factory space	11.7	8.7	8.7	9.5	9.0	6.5	3.9

Table 13 : Monetary aggregates

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

Definition of Terms :

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

Total Money Supply:

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

Table 13 : Monetary aggregates (Cont'd)

	2013	2014	2015	Q2	2015 Q3	Q4	2016 Q1
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	1,000,344	1,116,675	1,253,397	1,287,541	1,265,500	1,253,397	1,306,062
M2 ^(a)	4,795,130	5,225,773	5,765,566	5,775,051	5,737,756	5,765,566	5,801,800
M3 ^(a)	4,806,012	5,236,188	5,778,789	5,787,815	5,749,793	5,778,789	5,814,479
Total money supply (\$Mn)							
M1	1,510,895	1,708,724	1,971,164	1,916,960	2,018,828	1,971,164	2,076,634
M2	10,056,437	11,011,372	11,618,459	11,436,355	11,445,509	11,618,459	11,747,635
M3	10,085,243	11,048,944	11,655,037	11,469,057	11,481,267	11,655,037	11,783,190
Deposit (\$Mn)							
HK\$	4,390,953	4,800,330	5,312,421	5,337,591	5,303,602	5,312,421	5,353,361
Foreign currency	4,789,109	5,272,804	5,437,347	5,214,208	5,354,879	5,437,347	5,617,954
Total	9,180,062	10,073,135	10,749,767	10,551,799	10,658,480	10,749,767	10,971,315
Loans and advances (\$Mn)							
HK\$	3,606,018	4,000,361	4,152,580	4,264,938	4,156,159	4,152,580	4,187,120
Foreign currency	2,850,795	3,275,910	3,381,924	3,410,819	3,403,881	3,381,924	3,335,255
Total	6,456,813	7,276,271	7,534,504	7,675,757	7,560,040	7,534,504	7,522,375
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) ^(b)							
Trade-weighted	94.9	96.0	101.3	100.0	102.0	103.3	104.0
Import-weighted	94.7	96.0	101.7	100.2	102.5	103.9	104.4
Export-weighted	95.1	95.9	100.9	99.6	101.4	102.7	103.6
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	8.6	11.6	12.2	19.1	15.0	12.2	-0.3
M2 ^(a)	5.7	9.0	10.3	12.3	10.1	10.3	3.6
M3 ^(a)	5.7	9.0	10.4	12.4	10.1	10.4	3.6
Total money supply							
M1	9.7	13.1	15.4	17.7	20.3	15.4	7.0
M2	12.4	9.5	5.5	7.9	4.9	5.5	3.5
M3	12.4	9.6	5.5	7.9	4.9	5.5	3.6
Deposit							
HK\$	5.1	9.3	10.7	13.3	10.8	10.7	3.8
Foreign currency	16.2	10.1	3.1	6.4	4.3	3.1	7.1
Total	10.7	9.7	6.7	9.8	7.4	6.7	5.5
Loans and advances							
HK\$	8.2	10.9	3.8	9.7	6.1	3.8	-2.3
Foreign currency	27.6	14.9	3.2	7.1	3.3	3.2	-0.2
Total	16.0	12.7	3.5	8.5	4.9	3.5	-1.4
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) ^(b)							
Trade-weighted	0.0	1.2	5.5	4.4	6.6	6.1	3.9
Import-weighted	0.5	1.4	5.9	4.6	7.2	6.3	4.0
Export-weighted	-0.5	0.8	5.2	3.9	5.8	5.7	3.9

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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>		
					Q1	Q2	Q3	Q4
Services Industry								
Import and export trade	-1.3	-0.3	0.1	-3.9	0.7	-3.9	-4.5	-7.3
Wholesale	3.2	4.3	1.5	-4.9	0.3	-2.9	-5.8	-10.5
Retail	9.8	11.0	-0.2	-3.7	-2.3	-0.9	-4.8	-6.6
Transportation	0.9	1.4	6.1	-4.3	1.8	-3.8	-7.0	-7.3
<i>within which :</i>								
Land transport	11.9	8.0	6.9	5.4	6.3	5.0	1.9	8.4
Water transport	-2.4	-2.9	6.8	-7.7	1.7	-4.6	-11.0	-15.6
Air transport	0.3	2.4	5.3	-5.1	0.5	-6.1	-7.2	-6.9
Warehousing and storage	25.2	8.2	11.9	12.7	13.1	12.8	11.4	13.4
Courier	16.1	26.1	5.4	-5.9	-3.8	-3.3	-7.0	-8.9
Accommodation services ^(a)	13.8	5.6	6.5	-6.6	-4.8	-10.9	-11.1	-0.3
Food services	5.0	3.5	3.5	3.9	3.7	4.9	3.5	3.6
Information and communications	9.3	6.0	5.9	10.8	11.0	12.2	11.3	9.0
<i>within which :</i>								
Telecommunications	14.7	8.0	10.7	19.6	24.4	23.7	18.1	14.4
Film entertainment	1.9	-4.3	-11.7	-3.1	-0.5	-3.1	-3.4	-5.0
Banking	9.4	16.8	5.9	8.3	7.2	27.8	0.3	-2.0
Financing (except banking)	1.6	2.6	6.7	19.0	23.2	44.7	4.5	6.5
<i>within which :</i>								
Financial markets and asset management	1.7	1.0	8.9	19.0	21.6	48.6	5.4	3.8
<i>within which : Asset management</i>	-5.4	14.9	11.0	7.0	17.4	16.0	-0.4	-2.1
Insurance	13.6	15.1	18.2	11.7	15.3	10.9	8.4	12.2
Real estate	11.8	0.1	17.0	8.1	15.9	13.4	4.8	0.1
Professional, scientific and technical services	-0.5	7.2	7.6	5.3	9.0	3.8	4.4	4.3
Administrative and support services	8.2	9.5	7.3	7.4	6.9	7.7	6.6	8.4
Services Domain								
Tourism, convention and exhibition services	15.1	17.8	-0.9	-6.3 ⁺	-5.0 ⁺	-4.2 ⁺	-7.1 ⁺	-8.7 ⁺
Computer and information technology services	15.1	2.1	-1.8	-4.2	-4.3	-6.6	-4.0	-1.9

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

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

(+) Provisional figures.

Table 15 : Labour force characteristics

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>		<u>2016</u>
						Q2	Q3	Q4	Q1
<u>(%)</u>									
Labour force participation rate	60.1	60.5	61.2	61.1	61.2	61.4	61.4	61.1	61.4
Seasonally adjusted unemployment rate ^(a)	3.4	3.3	3.4	3.3	3.3	3.2	3.3	3.3	3.4
Underemployment rate	1.7	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.4
<u>('000)</u>									
Population of working age	6 164.4	6 253.4	6 304.6	6 349.2	6 392.2	6 387.2	6 407.8	6 420.9	6 421.4
Labour force	3 703.1	3 785.2	3 858.8	3 876.4	3 909.8	3 921.5	3 932.1	3 925.5	3 942.2
Persons employed	3 576.4	3 660.7	3 728.0	3 749.2	3 780.9	3 791.6	3 796.2	3 803.9	3 811.8
Persons unemployed	126.7	124.5	130.8	127.2	128.9	129.9	135.8	121.6	130.4
Persons underemployed	63.3	57.6	58.2	56.5	53.0	55.6	53.4	53.5	53.4
<u>(% change over a year earlier)</u>									
Population of working age	1.2	1.4	0.8	0.7	0.7	0.6	0.8	0.8	0.6
Labour force	2.0	2.2	1.9	0.5	0.9	1.6	0.7	0.5	0.4
Persons employed	2.9	2.4	1.8	0.6	0.8	1.6	0.7	0.6	0.3
Persons unemployed	-19.4	-1.8	5.1	-2.7	1.3	1.8	0.8	-0.8	2.4
Persons underemployed	-12.7	-9.0	1.1	-3.0	-6.1	-4.2	-6.2	-14.7	-0.3

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

Table 16 : Employment in selected major industries

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>				
						Mar	Jun	Sep	Dec	
Selected major industries	(% change)					(% change over a year earlier)				(No.)
Manufacturing	-5.6	-5.1	-3.0	-1.2	-2.8	-3.1	-2.6	-3.0	-2.6	98 879
Construction sites (manual workers only)	13.2	13.8	11.2	4.4	14.9	16.9	16.4	8.3	18.1	101 982
Import and export trade	-0.3	-1.1	-0.2	0.1	-1.4	-0.6	-1.5	-1.6	-2.0	484 071
Wholesale	*	-0.6	-2.0	-0.3	-1.4	-1.0	-1.9	-1.7	-1.1	61 393
Retail	4.0	2.5	2.3	2.2	-0.5	0.6	-0.7	-0.3	-1.3	268 072
Food and beverage services	6.6	1.6	0.9	2.4	0.1	1.1	0.1	-0.1	-0.7	243 257
Accommodation services ^(a)	5.8	9.2	5.0	3.2	-1.1	-0.4	-1.7	-0.8	-1.4	40 012
Transportation, storage, postal and courier services	2.0	1.8	2.0	2.7	1.6	2.8	1.1	1.6	1.1	178 497
Information and communications	3.4	5.6	5.1	2.7	1.1	1.2	1.4	0.7	1.2	106 527
Financing and insurance	6.3	1.9	1.0	2.3	2.3	2.8	2.7	2.4	1.5	220 436
Real estate	8.0	4.2	1.6	0.6	1.7	2.2	2.2	2.3	-0.1	128 650
Professional and business services (excluding cleaning and similar services)	4.2	3.4	4.5	2.7	2.4	2.6	2.7	2.8	1.6	282 708
Cleaning and similar services	9.5	3.3	1.6	0.2	2.4	2.9	2.8	2.8	0.9	80 577
Education	1.5	2.4	2.8	4.4	3.9	5.0	3.5	4.1	2.9	193 898
Human health services	4.1	4.9	5.2	4.3	4.5	4.6	4.5	4.7	4.1	118 101
Residential care and social work services	1.3	2.0	0.5	0.6	2.8	2.7	2.4	2.6	3.5	61 999
Arts, entertainment, recreation and other services	2.8	0.6	1.6	5.9	0.9	2.3	1.9	0.4	-1.0	127 921
Civil service ^(b)	0.7	1.1	1.3	1.0	0.7	0.5	0.6	0.6	0.9	164 893
Others ^(c)	-0.6	-5.1	3.5	3.1	-1.0	-1.3	-1.6	-0.4	-0.7	11 036

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

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

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

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

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

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>		
						Mar	Jun	Sep	Dec
<u>(Number)</u>									
Building sites									
Private sector	31 780	37 687	41 308	44 024	50 372	47 272	48 769	50 256	55 191
Public sector ^(a)	12 335	10 578	9 860	11 212	15 470	15 662	15 275	15 110	15 833
Sub-total	44 115	48 265	51 168	55 236	65 842	62 934	64 044	65 366	71 024
Civil engineering sites									
Private sector	1 250	1 410	1 322	1 414	1 609	1 418	2 117	1 505	1 397
Public sector ^(a)	17 270	21 621	26 813	26 145	27 652	27 526	26 647	26 874	29 561
Sub-total	18 520	23 030	28 135	27 559	29 261	28 944	28 764	28 379	30 958
Total	62 635	71 295	79 303	82 795	95 103	91 878	92 808	93 745	101 982
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	11.0	18.6	9.6	6.6	14.4	8.2	16.7	10.1	22.7
Public sector ^(a)	7.6	-14.2	-6.8	13.7	38.0	78.3	53.8	26.9	11.4
Sub-total	10.1	9.4	6.0	8.0	19.2	20.0	23.8	13.5	20.0
Civil engineering sites									
Private sector	-19.0	12.8	-6.2	7.0	13.8	-5.9	32.9	6.3	22.5
Public sector ^(a)	25.9	25.2	24.0	-2.5	5.8	11.9	0.9	-2.5	13.6
Sub-total	21.4	24.4	22.2	-2.0	6.2	10.9	2.7	-2.0	14.0
Total	13.2	13.8	11.2	4.4	14.9	16.9	16.4	8.3	18.1

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**

	(%)								
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>		
Selected industry section						Q1	Q2	Q3	Q4
(in nominal terms)									
Manufacturing	7.7	8.2	3.3	5.3	5.2	6.3	5.0	4.6	4.2
Import/export and wholesale trade	12.8	4.6	3.3	2.8	3.7	3.5	4.6	3.9	2.9
Retail trade	12.0	10.1	6.7	4.2	3.5	4.0	3.7	3.5	3.3
Transportation, storage, postal and courier services	4.1	1.2	5.4	3.3	4.3	3.1	4.8	5.5	3.9
Accommodation ^(a) and food service activities	9.5	6.2	6.7	5.2	5.8	5.7	5.8	5.8	5.9
Information and communications	7.5	8.2	5.4	5.1	4.4	5.1	5.9	4.0	2.4
Financial and insurance activities	12.4	4.7	4.6	6.3	4.0	4.3	5.1	3.6	3.5
Real estate activities	10.8	7.7	5.9	4.7	5.1	4.5	5.5	5.1	5.1
Professional and business services	2.1	4.7	7.1	6.9	5.8	6.7	5.6	4.5	6.4
Social and personal services	3.2	7.6	3.6	1.6	6.7	8.4	4.0	8.7	5.1
All selected industry sections surveyed	7.8	6.5	5.4	4.3	4.6	4.8	4.6	4.5	4.3
(in real terms)									
Manufacturing	2.1	3.9	-0.9	0.9	2.1	1.9	2.1	2.1	1.9
Import/export and wholesale trade	7.2	0.5	-1.0	-1.5	0.7	-0.8	1.6	1.4	0.6
Retail trade	6.3	5.7	2.3	-0.1	0.5	-0.3	0.8	1.0	0.9
Transportation, storage, postal and courier services	-1.2	-2.7	1.0	-1.0	1.3	-1.2	1.8	3.0	1.5
Accommodation ^(a) and food service activities	4.0	2.0	2.3	0.8	2.7	1.3	2.8	3.2	3.5
Information and communications	2.2	4.0	1.0	0.7	1.4	0.8	2.9	1.5	0.1
Financial and insurance activities	7.0	0.5	0.4	1.9	0.7	*	2.1	1.1	1.1
Real estate activities	5.2	3.6	1.4	0.2	2.0	0.2	2.5	2.6	2.7
Professional and business services	-3.1	0.7	2.6	2.3	2.8	2.3	2.6	2.0	4.0
Social and personal services	-2.1	3.6	-0.8	-2.7	3.6	3.9	1.1	6.1	2.7
All selected industry sections surveyed	2.4	2.3	1.1	-0.1	1.5	0.5	1.7	2.0	1.9

Notes: The rates of change in real terms are compiled from the Real Indices of Payroll per Person Engaged. The Indices are derived by deflating the Nominal Indices of Payroll per Person Engaged by the 2014/15-based Composite CPI.

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

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

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

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

	(%)								
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>		
Selected industry section						Mar	Jun	Sep	Dec
(in nominal terms)									
Manufacturing	6.7	4.3	4.7	4.9	4.0	4.4	3.6	4.4	4.2
Import/export, wholesale and retail trades	7.7	4.5	2.9	2.5	3.1	3.0	3.3	3.1	2.8
Transportation	4.1	3.3	3.9	4.8	4.4	4.9	4.6	4.1	4.1
Accommodation ^(a) and food service activities	9.4	7.9	5.7	4.7	5.4	5.4	5.5	5.2	5.3
Financial and insurance activities ^(b)	6.7	4.2	4.4	3.2	3.2	3.4	3.0	3.3	3.5
Real estate leasing and maintenance management	8.7	7.6	9.3	4.5	3.4	2.2	3.9	4.1	3.7
Professional and business services	12.9	6.5	5.9	6.7	6.9	4.9	7.4	7.4	7.0
Personal services	10.0	9.2	6.2	7.8	6.5	7.9	6.3	5.6	5.9
All industries surveyed	8.1	5.6	4.7	4.2	4.4	4.1	4.6	4.4	4.2
(in real terms)									
Manufacturing	0.9	0.6	-0.1	-1.6	0.2	-1.8	-0.6	2.3	1.6
Import/export, wholesale and retail trades	2.4	0.6	-1.7	-3.9	-0.6	-3.1	-1.0	1.1	0.2
Transportation	-1.2	-0.7	-0.6	-1.9	0.6	-1.4	0.3	2.0	1.5
Accommodation ^(a) and food service activities	3.9	3.8	1.1	-1.8	1.5	-0.9	1.2	3.1	2.7
Financial and insurance activities ^(b)	1.4	0.1	0.1	-3.7	-0.5	-2.7	-1.2	1.3	0.9
Real estate leasing and maintenance management	3.5	3.4	4.5	-1.9	-0.4	-3.9	-0.4	2.0	1.1
Professional and business services	7.0	2.2	1.5	*	2.9	-1.3	3.0	5.3	4.3
Personal services	4.1	5.3	1.5	1.1	2.6	1.5	1.9	3.5	3.2
All industries surveyed	2.7	1.6	0.1	-2.4	0.6	-2.1	0.2	2.3	1.6

Notes: The rates of change in real terms are compiled from the Real Wage Indices. The Indices are derived by deflating the Nominal Wage Indices by the 2014/15-based CPI(A).

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

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

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

**Table 20 : Monthly wage level and distribution analysed
by industry section : all employees**

(HK\$)

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

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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

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

(HK\$)

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

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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

Table 22 : Rates of change in prices

(%)

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

Notes: (a) The year-on-year rates of change before October 2015 were derived using the index series in the base periods at that time (for instance the 2009/10-based index series), compared with the index a year earlier in the same base period.

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

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

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

N.A. Not yet available.

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

(%)

	<u>2014</u>	<u>2015</u>	<u>2015</u>			<u>2016</u>	<u>Average annual rate of change:</u>	
			Q2	Q3	Q4	Q1	10 years 2005 to 2015	5 years 2010 to 2015
GDP deflator [#]	2.9	3.6	4.2	3.4	2.8	2.3	1.9	3.1
Domestic demand deflator [#]	3.1	2.1	2.2	1.9	1.8	1.3	2.3	3.1
Consumer Price Indices ^(a) :								
Composite CPI	4.4	3.0	3.0	2.3	2.3	2.8	3.2	4.2
CPI(A)	5.6	4.0	4.2	2.8	2.5	3.1	3.3	4.8
CPI(B)	4.2	2.9	2.7	2.3	2.4	2.8	3.2	4.1
CPI(C)	3.5	2.1	1.9	1.8	2.0	2.5	3.1	3.7
Unit Value Indices :								
Domestic exports	0.2	-3.0	-2.7	-4.3	-3.3	-3.2	1.6	1.5
Re-exports	2.0	0.1	1.4	-0.4	-2.1	-2.6	2.8	2.9
Total exports of goods	2.0	0.1	1.3	-0.4	-2.1	-2.6	2.7	2.9
Imports of goods	1.9	-0.4	0.6	-0.7	-2.1	-2.8	2.9	2.7
Terms of Trade Index	0.1	0.5	0.7	0.3	*	0.2	-0.1	0.2
Producer Price Index for all manufacturing industries ^(b)	-1.7	-2.7	-2.8	-4.4	-3.2	N.A.	1.5	0.1
Tender Price Indices :								
Public sector								
building projects	7.3	5.9	6.9	5.8	4.2	N.A.	9.5	7.9
Public housing projects	8.0	12.5	6.8	19.2	15.1	N.A.	10.4	9.2

Table 23 : Rates of change in Composite Consumer Price Index

(%)

	Weight	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
All items	100.00	2.0 (--)	2.0 (2.8)	4.3 (5.6)	0.5 (1.0)	2.4 (1.7)	5.3 (5.3)	4.1 (4.7)
Food	27.29	1.7	4.3	10.1	1.3	2.4	7.0	5.8
<i>Meals bought away from home</i>	17.74	1.3	2.5	5.9	1.6	1.7	5.2	5.4
<i>Food, excluding meals bought away from home</i>	9.55	2.5	7.1	16.8	0.9	3.5	9.9	6.5
Housing ^(a)	34.29	4.7	2.0	4.1	3.7	0.4	7.2	5.6
<i>Private housing rent</i>	29.92	5.6	4.0	6.8	3.6	0.9	7.2	6.8
<i>Public housing rent</i>	1.94	0.1	-17.7	-27.2	9.5	-7.8	11.9	-7.1
Electricity, gas and water	2.67	2.1	-0.7	-6.5	-25.3	43.3	-4.2	-8.2
Alcoholic drinks and tobacco	0.54	-3.7	-1.2	0.1	18.7	3.4	17.1	3.0
Clothing and footwear	3.21	1.0	4.1	0.8	2.7	1.8	6.8	3.1
Durable goods	4.65	-6.4	-4.7	-2.0	-3.0	-2.7	-3.8	-1.4
Miscellaneous goods	3.56	1.7	2.5	5.0	2.3	2.4	3.8	2.2
Transport	7.98	0.7	-0.1	2.5	-0.9	2.0	4.4	3.0
Miscellaneous services	15.81	1.9	1.7	0.8	-2.1	2.0	3.5	2.8

Notes: The year-on-year rates of change before October 2015 were derived using the index series in the base periods at that time (for instance the 2009/10-based index series), compared with the index a year earlier in the same base period. The weights quoted in this table correspond to that in the 2014/15-based index series.

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

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

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

(--) Not applicable.

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

(%)										
	Weight	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>			<u>2016</u>	Average annual rate of change:	
					Q2	Q3	Q4	Q1	10 years 2005 to 2015	5 years 2010 to 2015
All items	100.00	4.3 (4.0)	4.4 (3.5)	3.0 (2.5)	3.0 (2.5)	2.3 (2.4)	2.3 (2.2)	2.8 (2.8)	3.2 (--)	4.2 (3.9)
Food	27.29	4.4	4.1	4.0	3.7	4.2	3.9	4.6	4.5	5.0
<i>Meals bought away from home</i>	17.74	4.4	4.6	4.2	4.3	4.3	4.0	3.7	3.7	4.8
<i>Food, excluding meals bought away from home</i>	9.55	4.4	3.4	3.4	2.8	4.0	3.7	6.3	5.8	5.5
Housing ^(a)	34.29	6.7	6.7	5.1	4.2	4.1	4.1	4.0	4.6	6.3
<i>Private housing rent</i>	29.92	6.3	6.0	4.7	3.8	3.9	4.4	4.2	5.2	6.2
<i>Public housing rent</i>	1.94	16.0	18.3	10.9	10.0	6.4	*	*	-0.4	9.6
Electricity, gas and water	2.67	6.9	14.9	8.4	22.8	-4.6	-1.1	*	1.7	3.2
Alcoholic drinks and tobacco	0.54	1.5	6.5	1.3	-0.1	0.3	1.0	0.3	4.4	5.7
Clothing and footwear	3.21	1.7	0.9	-1.8	-2.7	-1.9	-1.6	-3.3	2.1	2.1
Durable goods	4.65	-4.3	-3.4	-5.6	-5.7	-5.6	-5.8	-5.7	-3.7	-3.7
Miscellaneous goods	3.56	2.2	2.3	0.9	1.3	0.6	0.5	0.5	2.5	2.3
Transport	7.98	2.3	2.0	-0.3	-0.4	-0.4	-0.3	1.2	1.5	2.3
Miscellaneous services	15.81	3.7	3.0	1.1	1.4	1.1	1.2	2.7	1.8	2.8

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

(%)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Private consumption expenditure	0.9	4.1	2.5	-1.4	1.4	3.6	3.2
Government consumption expenditure	0.1	2.2	4.4	0.7	-0.2	4.5	6.2
Gross domestic fixed capital formation	4.2	-2.1	1.7	0.3	5.8	6.8	6.4
Total exports of goods	0.3	2.2	3.4	0.5	4.6	7.7	3.1
Imports of goods	2.1	1.7	4.1	-1.3	6.3	8.2	3.8
Exports of services	3.6	2.5	3.4	-7.0	7.4	7.6	4.3
Imports of services	0.8	3.0	3.8	-2.7	5.6	6.4	1.9
Gross Domestic Product	-0.5	3.1	1.3	-0.4	0.3	3.9	3.5
Total final demand	1.1	2.3	3.1	-1.1	4.3	6.7	3.6
Domestic demand	1.6	2.4	2.6	-0.8	2.2	4.5	4.2

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

**Table 24 : Rates of change in implicit price deflators of GDP
and its main expenditure components (Cont'd)**

	(%)								
	<u>2013</u>	<u>2014[#]</u>	<u>2015[#]</u>	<u>2015</u>			<u>2016</u>	Average annual rate of change:	
				Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]	10 years 2005 to 2015 [#]	5 years 2010 to 2015 [#]
Private consumption expenditure	2.7	2.9	1.0	1.1	0.4	1.0	1.2	2.1	2.7
Government consumption expenditure	4.3	4.7	4.5	4.6	4.6	4.2	4.3	3.1	4.8
Gross domestic fixed capital formation	-2.9	3.1	4.5	4.8	5.5	3.2	0.8	2.7	3.5
Total exports of goods	-0.3	0.8	-0.7	0.4	-1.2	-2.4	-2.8	2.1	2.1
Imports of goods	-0.4	0.9	-1.4	-0.7	-2.1	-2.8	-3.6	2.4	2.2
Exports of services	0.6	0.8	-2.0	-1.6	-3.1	-2.7	-3.5	2.0	2.2
Imports of services	1.1	1.2	-4.3	-3.0	-5.3	-4.8	-2.9	1.6	1.2
Gross Domestic Product	1.8	2.9	3.6	4.2	3.4	2.8	2.3	1.9	3.1
Total final demand	0.4	1.5	*	0.7	-0.5	-1.1	-1.5	2.2	2.4
Domestic demand	1.4	3.1	2.1	2.2	1.9	1.8	1.3	2.3	3.1

