



Third Quarter Economic Report 2016

Government of the Hong Kong
Special Administrative Region

THIRD QUARTER ECONOMIC REPORT 2016

ECONOMIC ANALYSIS DIVISION
ECONOMIC ANALYSIS AND BUSINESS FACILITATION UNIT
FINANCIAL SECRETARY'S OFFICE
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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

- *The Hong Kong economy picked up slightly to a 1.9% growth in real terms in the third quarter of 2016 over a year earlier, following a 1.7% growth in the preceding quarter. Domestic demand gathered further pace, while external demand also saw relative improvements.*
- *Global economic growth remained modest in the third quarter, though with the acute risks waning somewhat of late. The US maintained its gradualist approach to monetary policy normalisation and kept interest rates unchanged in the quarter. The contagion effect of Brexit on the global economy also stayed largely contained. With Asia's exports generally stabilising after a weak start earlier this year, Hong Kong's total exports of goods made further growth in the third quarter. Meanwhile, exports of services staged a visible improvement and the year-on-year decline continued to taper, thanks to the stabilisation in regional trade and cargo flows and a revival in initial public offering (IPO) activities. Indeed, on a seasonally adjusted quarter-to-quarter basis, services exports rebounded notably after declining for five consecutive quarters.*
- *Domestic demand strengthened visibly in tandem. Private consumption expenditure regained some momentum in the third quarter, supported by further employment growth and sustained increases in labour earnings. Investment expenditure rebounded strongly, having declined successively for four quarters. Machinery and equipment acquisition reverted to notable growth in the quarter, and overall building and construction works expanded steadily further.*
- *The labour market exhibited much resilience and remained in a state of full employment. The seasonally adjusted unemployment rate stayed low at 3.4% in the third quarter, and household income and earnings sustained gains. Total employment grew further in the third quarter, though with still-weak demand in the trade- and consumption-related sectors.*
- *The local stock market was largely buoyant during the third quarter alongside the rally in major overseas markets. Market sentiment was supported by such developments as the smaller-than-expected contagion effect of Brexit, delays in US interest rate hikes, and the approval of the Shenzhen-Hong Kong Stock Connect implementation plan. The Hang Seng Index rallied to this year's highest level in early September and closed the quarter 12% higher than at end-June. Likewise, the residential property market turned more active in the third quarter, marked by*

increases in both flat prices and trading activities.

- *Inflation pressures remained contained in the third quarter, reflecting moderate domestic cost pressures and the lack of imported inflation. Looking ahead, consumer price inflation is expected to stay modest in the near term, barring renewed upward pressures from a notable rebound in international food and energy prices amid an unsteady global monetary environment.*

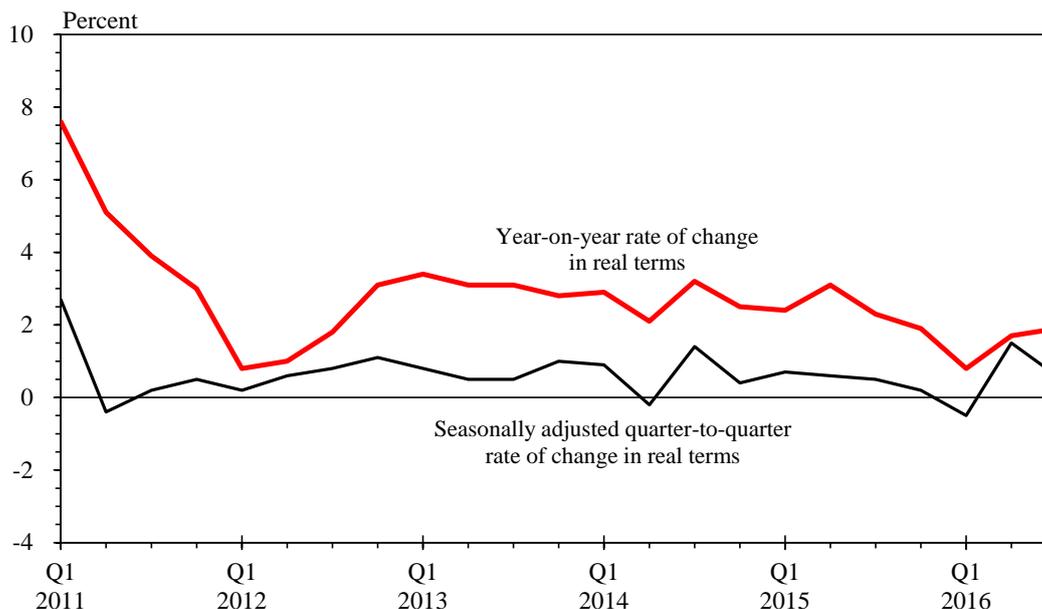
Overall situation

1.1 The Hong Kong economy grew modestly in the third quarter of 2016, underpinned by a strengthening in domestic demand and a relative improvement in the external sector. Global economic growth stayed modest. The US economy grew slightly faster than expected in the third quarter, after the weak performance in the first half of the year. The euro area remained on a modest growth track, as the contagion effect of Brexit has been largely contained so far and it is still highly uncertain whether the UK's formal exit process could be triggered next year. In Asia, the economic recovery in Japan remained fragile, which prompted its central bank to introduce a new monetary policy framework to fend off deflation risks and to consider additional easing moves. But the Mainland economy showed further signs of stabilisation and expanded steadily in the third quarter, on track to attain the official annual growth target. On balance, external headwinds seemed to have abated somewhat during the quarter, though the uncertainties arising from a possible US interest rate hike and the monetary policy divergence among major central banks, together with heightened geopolitical tensions in various regions, will continue to cloud the global economic outlook.

1.2 With global demand staging some modest recovery after a weak start earlier this year, Hong Kong's exports of goods made further growth in the third quarter. Services exports likewise improved upon the stabilisation in regional trade and cargo flows and a revival in IPO activities, though inbound tourism continued to pose a drag. Domestic demand strengthened visibly in the third quarter, with private consumption expenditure regaining some momentum and investment spending bouncing back strongly. Labour market remained in a state of full employment. Underlying inflation eased further, thanks to tame external price pressures.

1.3 In the third quarter of 2016, *Gross Domestic Product* (GDP)⁽¹⁾ grew slightly faster by 1.9% in real terms over a year earlier, after the 1.7% growth in the preceding quarter (same as the earlier estimate). On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, real GDP grew further by 0.6% in the third quarter, following the 1.5% growth in the preceding quarter (revised from the earlier estimate of 1.6%).

Diagram 1.1 : The Hong Kong economy picked up slightly further in the third quarter of 2016



The external sector

1.4 *Total exports of goods* compiled under the GDP accounting framework grew mildly further by 1.9% year-on-year in real terms in the third quarter, broadly similar to that in the preceding quarter. Many markets showed improvements of varying degrees. Exports to the US resumed growth, while those to Japan recorded a much slower decline. Exports to the EU slackened and fell marginally. Yet, the decline in the third quarter was mainly dragged by a further drop in exports to the UK after the Brexit vote. Excluding the UK market, exports to the rest of EU as a whole still registered modest growth. Meanwhile, exports to the Mainland continued to pick up and those to some other Asian markets, including India, Taiwan, Korea and Singapore, registered notable growth. On a seasonally adjusted quarter-to-quarter basis, exports of goods rose further by 0.4% in real terms in the third quarter.

1.5 In tandem with the modest recovery in external demand, *exports of services* likewise improved and the year-on-year decline tapered further to 1.8% in real terms in the third quarter, much narrowed from the 4.6% drop in the preceding quarter. Amid the stabilisation of regional trade and cargo flows, exports of trade-related services grew slightly faster and exports of transportation services rebounded modestly. Meanwhile, exports of financial and other business services saw a much smaller drop, as IPO activities picked up during the quarter. On the other hand, exports of travel services remained the weakest link, still dampened by declines in visitor arrivals. On a seasonally adjusted quarter-to-quarter basis, the improvement was more notable, with exports of services bouncing back strongly by 1.8% in real terms in the third quarter, ending five consecutive quarters of decline.

**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>	<u>Q2[#]</u>	<u>Q3⁺</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)	1.2 (-0.2)	0.5 (0.8)	1.2 (0.7)
Government consumption expenditure	3.0	3.4	3.9 (1.0)	3.6 (0.8)	2.8 (0.5)	3.3 (1.0)	3.3 (1.0)	3.5 (0.9)	3.3 (0.3)
Gross domestic fixed capital formation	-0.1	-2.0	5.6	3.9	-6.2	-9.4	-9.6	-5.0	6.0
<i>of which :</i>									
Building and construction	9.3	2.9	-3.9	14.1	4.2	-0.9	0.2	3.5	3.4
Machinery, equipment and intellectual property products	-8.6	-5.8	10.4	-4.7	-10.7	-12.9	-11.9	-11.2	6.1
Total exports of goods	0.8	-1.9	0.2 (-1.9)	-3.8 (-2.4)	-3.1 (0.5)	-0.5 (2.3)	-3.6 (-3.9)	2.0 (3.3)	1.9 (0.4)
Imports of goods	0.9	-2.7	-0.2 (-2.6)	-3.3 (-2.4)	-4.2 (-0.8)	-2.8 (2.0)	-5.4 (-4.2)	0.2 (3.5)	2.4 (1.3)
Exports of services	1.1	-0.2	0.7 (0.6)	1.6 (-0.8)	-0.2 (-1.1)	-2.7 (-1.4)	-5.0 (-1.9)	-4.6 (-0.2)	-1.8 (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)	4.9 (1.4)	1.6 (-1.5)	1.7 (0.4)
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 (-0.5)	1.7 (1.5)	1.9 (0.6)
<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)	2.1 (0.7)	1.5 (-0.2)
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)[@]	2.6[@] (-0.7)[@]	3.1[@] (0.4)[@]
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)[@]	2.3[@] (0.2)[@]	2.1[@] (0.4)[@]
<i>Change in nominal GDP (%)</i>	5.6	6.2	6.8	7.5	5.8	4.8	3.1	3.7	3.4

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 Domestic demand strengthened visibly in the third quarter. Thanks to further employment growth and sustained increases in labour earnings under a broadly stable labour market, *private consumption expenditure* picked up slightly, registering a 1.2% year-on-year growth in real terms in the third quarter, up from the 0.5% growth in the preceding quarter. Over the same period, *government consumption expenditure* maintained a steady year-on-year growth of 3.3% in real terms.

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

		<i>Of which :</i>							
		Total consumer spending in the domestic market ^(a)	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure ^(b)
2015 Annual		2.5	2.4	8.8	-1.0	2.8	13.1	-3.8	4.7
	H1	3.9	3.3	14.5	*	3.7	12.5	-2.1	5.9
	H2	1.1	1.4	3.8	-2.0	1.9	13.6	-5.3	3.5
	Q1	2.8	4.0	9.5	-0.3	2.6	11.6	-3.3	5.0
	Q2	5.0	2.7	22.0	0.3	4.7	13.4	-0.8	6.8
	Q3	2.1	1.4	7.6	-0.7	2.2	14.8	-3.8	4.4
	Q4	0.2	1.3	1.1	-3.2	1.6	12.4	-6.7	2.7
2016	H1	-2.0	0.6	-18.5	-2.5	1.0	9.0	-11.9	0.9
	Q1	-2.8	-1.8	-18.7	-3.5	1.2	16.3	-13.9	1.2
	Q2	-1.2	2.7	-18.1	-1.5	0.8	2.2	-9.7	0.5
	Q3	-0.9	0.3	-11.4	-3.7	1.8	5.2	-9.0	1.2

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

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

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

Diagram 1.2 : Private consumption expenditure rose at a slightly faster pace

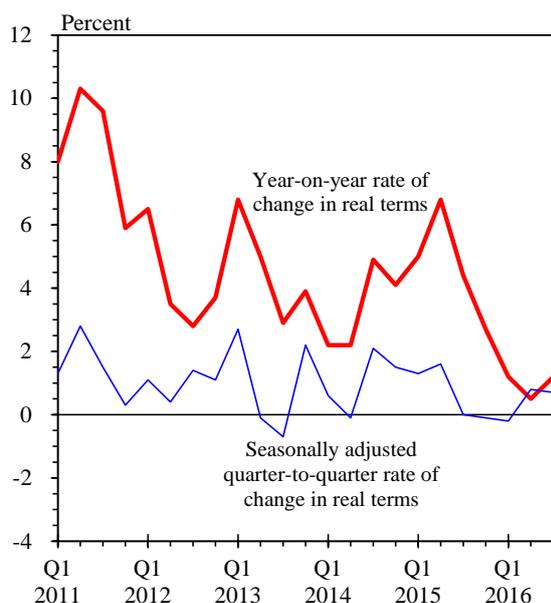
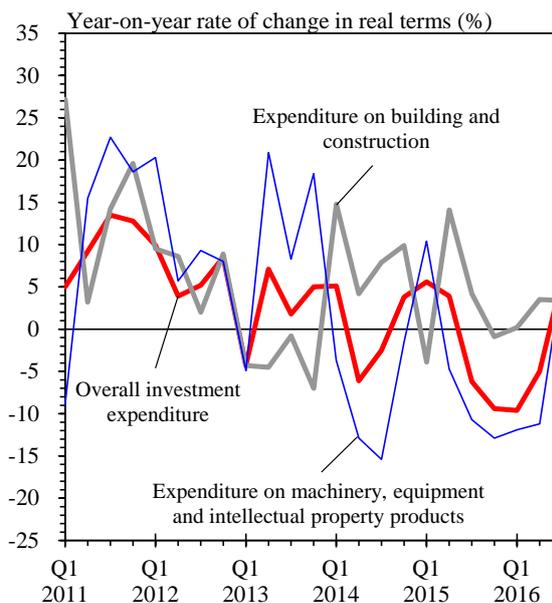


Diagram 1.3 : Investment spending rebounded strongly



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* rebounded strongly by 6.0% year-on-year in real terms in the third quarter, ending the declines in the preceding four quarters. Within this, private sector machinery and equipment acquisition bounced back to an impressive year-on-year growth of 6.7%. Business sentiment seemed to have turned more positive in recent months, as indicated by the results of the latest Quarterly Business Tendency Survey and the diffusion indices on small and medium-sized enterprises (SMEs) (see **Box 1.1** for details of the consultation on SMEs). Overall building and construction expenditure rose steadily by 3.4% year-on-year, as private sector building and construction activity expanded moderately further, while public infrastructure works only dropped marginally.

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 400 SMEs. This note provides a further update of the results reported in *Box 1.2* in the *Half-yearly Economic Report 2016*.

A set of diffusion indices is compiled to indicate the general directions of change in the respondents' views on business receipts, employment and new export orders versus the preceding month. From the June 2016 round onwards, SMEs are asked to report whether they have credit need, in addition to whether the access to credit is tight. While the findings should be interpreted with considerable caution given the coverage and nature of the consultation exercise, they can serve as a rough indicator to enable high frequency monitoring of SMEs' situation.

Business receipts of the SMEs consulted, as measured by the set of diffusion indices, suggested that enterprises surveyed generally remained cautious about the outlook, but with some relative improvement in recent months (*Table 1*). The overall index, albeit still below the boom-bust threshold of 50.0, rose successively from 43.6 in July to 46.6 in September, before moving down marginally to 46.3 in October. Specifically, both the diffusion indices for the import/export trade and logistics generally increased over the past three months, plausibly mirroring signs of improvement in the external trading environment. In regard to the local segments, their performances were mixed, among which the retail trade and business services sectors showed more discernible relative improvements in October as compared to July. As to the employment situation, the feedback from SMEs suggested an overall broadly stable development in recent months (*Table 2*).

For the import/export trade sector in particular, SMEs' views on new export orders were sought separately to help gauge the likely export performance in the near term. The diffusion index on new export orders moved up from 44.9 in July to 47.4 in October, amid the stabilisation in regional trade flows in recent periods (*Table 3*).

Starting in June, as mentioned above, the questions on access to credit have been enhanced for better understanding of the current credit need and credit access situation of SMEs. The overall credit situation remained highly accommodative in recent months. In October, 9.2% of SMEs reported current need for credit, and only 0.7% reported tight access to credit. Apart from the generally accommodative monetary conditions, the Government's continued efforts to support SMEs through various loan guarantee schemes also helped (*Table 4*).

(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>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
<i>Local segments</i>													
Restaurants	42.5	43.3	48.3	41.5	45.7	46.6	44.0	41.4	40.2	49.2	45.0	47.5	44.1
Real estate	41.4	36.2	43.1	41.4	50.0	55.2	46.6	53.4	43.8	50.0	47.4	55.3	42.1
Retail trade	47.7	41.9	44.7	42.2	48.5	41.9	38.8	44.2	37.2	39.7	43.3	45.3	47.9
Wholesale trade	41.7	50.0	47.2	38.9	44.4	32.4	32.4	35.3	38.9	41.7	50.0	47.2	41.7
Business services	50.0	48.4	48.4	45.2	51.7	51.7	50.0	51.8	48.5	45.6	48.5	47.1	47.2
<i>External segments</i>													
Import/export trade	46.0	46.0	46.9	46.4	45.0	49.1	50.9	46.3	41.4	44.0	45.2	45.2	46.9
Logistics	46.9	50.0	50.0	50.0	50.0	46.7	46.7	46.4	37.5	39.5	47.4	50.0	47.1
All the above sectors*	46.1	45.0	46.5	44.2	47.2	46.8	45.7	45.9	41.0	43.6	45.7	46.6	46.3

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>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
<i>Local segments</i>													
Restaurants	49.2	49.2	50.8	50.0	47.4	50.0	50.9	48.3	45.9	50.0	51.7	48.3	51.7
Real estate	51.7	46.6	46.6	43.1	50.0	51.7	50.0	50.0	50.0	46.1	50.0	51.3	51.3
Retail trade	50.0	50.0	50.0	51.0	48.5	50.0	47.4	49.5	48.7	48.3	49.6	49.6	49.6
Wholesale trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Business services	50.0	48.4	54.8	48.4	48.3	50.0	50.0	50.0	48.5	48.5	48.5	48.6	50.0
<i>External segments</i>													
Import/export trade	50.0	48.2	49.1	49.1	48.2	49.5	50.5	49.5	48.8	48.7	49.1	48.2	48.2
Logistics	50.0	50.0	50.0	50.0	50.0	46.7	43.3	50.0	50.0	44.7	50.0	44.4	47.1
All the above sectors*	50.1	48.8	50.1	49.2	48.6	49.8	49.4	49.6	48.8	48.4	49.5	48.8	49.3

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>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
Import/export trade	46.9	47.3	49.1	46.8	46.8	49.5	48.6	47.7	41.4	44.9	46.9	46.5	47.4

Table 4 : Percentage of SMEs with current credit need and reporting tight credit access[&]

	<u>2016</u>				
	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
All selected sectors*					
With current credit need	13.0	8.9	8.4	9.3	9.2
Reported tight access to credit	1.2	0.8	0.3	0.9	0.7

Notes : (&) The questions on access to credit have been enhanced for better understanding of the current credit need and credit access situation of SMEs. It should be noted that the assessment of credit access situation might display great fluctuations from month to month given the small number of SMEs involved, as a great majority of SMEs reported “no credit need”. Thus the results should be interpreted with caution.

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

The labour sector

1.8 The labour market displayed much resilience and remained in a state of full employment in recent periods, marked by sustained growth in household income and earnings. The *seasonally adjusted unemployment rate* stayed at a low level of 3.4% in the third quarter. Over the same period, the *underemployment rate* also held steady at 1.4%. Total employment grew moderately further over a year earlier. Employment growth was seen in most of the major sectors, though with still-weak demand in the trade- and consumption-related sectors.

The asset markets

1.9 The *local stock market* trended largely upward during the third quarter, in tandem with the rallies in major overseas markets. Favourable factors, including the smaller-than-expected contagion effect of Brexit, delays in US interest rate hikes and the approval of the Shenzhen-Hong Kong Stock Connect implementation plan, propelled the Hang Seng Index to reach its highest level this year in early September, and closed the third quarter at 23 297, up by 12% from end-June. Average daily turnover rose to \$68.3 billion in the third quarter, from \$62.6 billion in the preceding quarter. Fund-raising activity also picked up during the quarter, with total equity fund raised up notably when compared with the preceding quarter. Indeed, taking the first three quarters of 2016 together, Hong Kong ranked first among the major stock exchanges in the world in terms of the amount of funds raised through IPO.

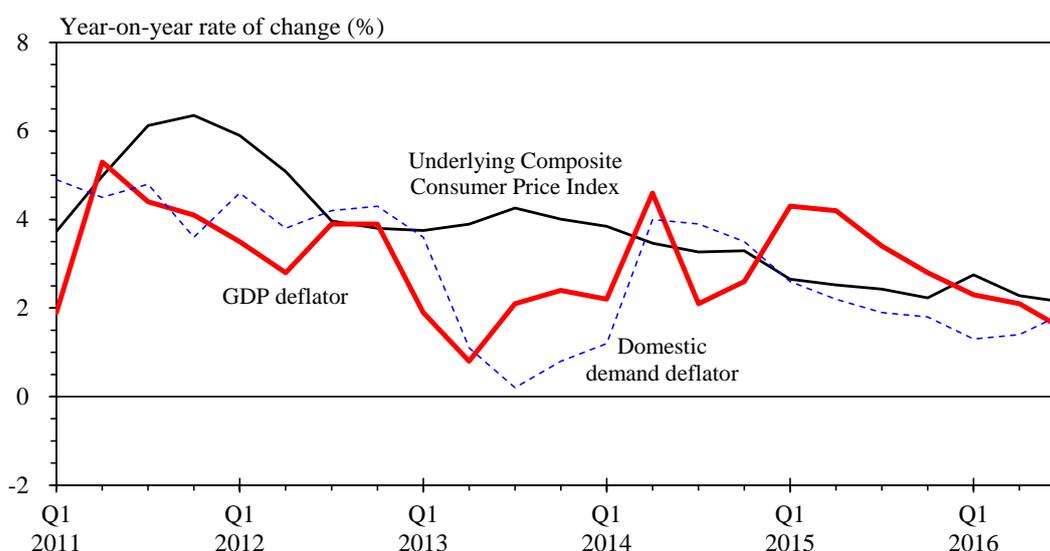
1.10 The *residential property market* put up a brisk performance during the third quarter, with a visible increase in trading activity. The number of residential property transactions rose to 17 890, up 31% over the preceding quarter and marked the highest level since the third quarter of 2014. Residential property prices rose by an accelerated 7% between June and September, and were only 3% lower than the peak in 2015. Overall flat prices in September exceeded the 1997 peak by 71% and the housing affordability ratio worsened again to around 59% in the third quarter. During the third quarter, flat and office rentals rose by 3% and 1% respectively, while shop rentals fell by 1%.

Inflation

1.11 Inflation pressures stayed on an easing trend in the third quarter. On the domestic front, the continued feed-through of earlier year-on-year declines in fresh-letting residential and shop rentals, coupled with steady increases in labour costs, helped contain domestic price pressures. On the external front, imported inflation was basically absent, amid still-low international food and commodity prices and subdued inflation in Hong Kong's major import partners. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, *underlying consumer price inflation* eased slightly to 2.1% in the third quarter, from 2.3% in the preceding quarter. *Headline consumer price inflation* went up to 3.1% in the third quarter, from 2.6% in the preceding quarter, but the increase was mainly due to the temporary low base effect resulted from the Government's one-off payment of public housing rentals in August last year.

1.12 The year-on-year rate of increase in the *GDP deflator* slowed further to 1.5% in the third quarter. Within this, the domestic demand deflator rose at a pace broadly similar to underlying consumer price inflation, but the effect of which was more than offset by the concurrent mild decline in the terms of trade.

Diagram 1.4 : Underlying consumer price inflation eased slightly in the third quarter



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

GDP by major economic sector

1.13 Net output of the services sector as a whole expanded by 2.6% in real terms in the second quarter of 2016 over a year earlier, up from the 1.5% increase in the first quarter. Net output of import and export trade increased at a faster pace, while those of transportation and storage maintained steady growth. The decline in net output of the wholesale and retail trades tapered, while accommodation and food services reverted to modest growth, reflecting the reduced drag from the slowdown in inbound tourism in the quarter. Net output of real estate (mainly reflecting activity of private sector developers and property agencies) bounced back, on the back of a revival in property market activity. Professional and business services, and information and communications saw some acceleration in activity, while financing and insurance registered further moderate growth. As for the secondary sector, net manufacturing output remained on a secular downtrend, while activity in the construction sector showed a modest rebound in the quarter.

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

	<u>2015</u>	<u>2015</u>				<u>2016</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Manufacturing	-1.5	-1.5	-1.2	-2.1	-1.3	-0.3	-0.4
Construction	2.0	-5.3	14.8	3.0	-2.3	-1.4	2.7
Services ^(b)	1.9	2.3	1.6	1.9	1.9	1.5	2.6
Import/export, wholesale and retail trades	-1.1	*	-3.6	-0.5	-0.7	-2.1	0.5
Import and export trade	-0.8	0.1	-4.9	-0.1	0.8	0.3	2.5
Wholesale and retail trades	-2.2	-0.4	1.4	-2.5	-6.1	-10.7	-6.6
Accommodation ^(c) and food services	-0.9	-0.5	-1.1	-2.6	0.4	-0.7	1.2
Transportation, storage, postal and courier services	1.9	2.4	1.1	1.1	3.0	2.8	3.2
Transportation and storage	2.4	2.8	1.4	1.5	3.7	3.0	3.3
Postal and courier services	-6.0	-4.6	-4.7	-6.8	-7.6	-1.3	2.7
Information and communications	4.0	5.0	4.6	3.5	2.9	3.3	4.0
Financing and insurance	6.3	4.9	7.9	6.1	6.2	5.5	4.6
Real estate, professional and business services	2.2	4.3	2.1	1.7	1.0	1.1	3.4
Real estate	1.4	3.5	2.6	1.4	-1.8	-0.3	2.1
Professional and business services	3.0	5.1	1.7	1.9	3.3	2.5	4.6
Public administration, social and personal services	2.6	2.3	2.0	3.3	2.9	2.6	3.3

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 $\pm 0.05\%$.

Box 1.2

An analysis of the poverty situation of Hong Kong, 2009-2015

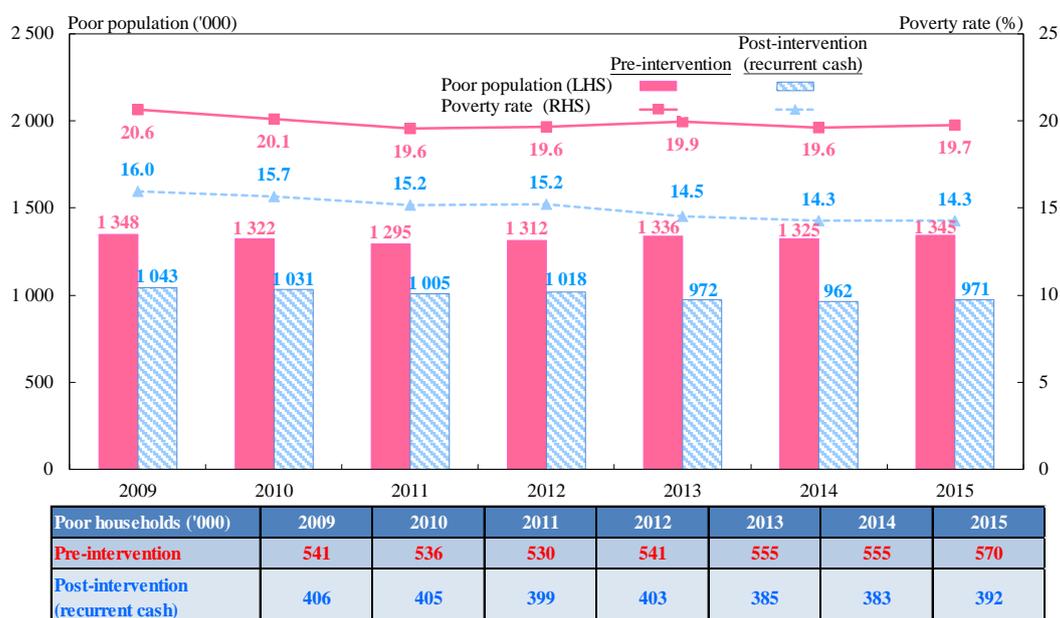
The current-term Government attaches great importance to the poverty issue. As an unprecedented move to demonstrate the Government's commitment to this priority policy area, the first official poverty line was announced by the reinstated Commission on Poverty (CoP) in September 2013, to analyse the poverty situation, assist policy formulation and assess policy effectiveness. Based on the official poverty statistics released annually, this box article analyses the trends in the poverty situation of Hong Kong from 2009 to 2015 with respect to the economic cycles, and discusses the challenges faced by the Government's poverty alleviation work in the future amid the structural trend of population ageing.

The poverty line framework set by CoP

In 2013, the first-term CoP agreed that the poverty line should be based on the concept of "relative poverty" and set at 50% of the median monthly household income before policy intervention (i.e. before taxation and social welfare transfer)⁽¹⁾. On top of the pre-intervention household income, deducting taxes and adding back all recurrent cash benefits gives the post-intervention household income. Households and persons living therein are classified as poor if their household incomes are below the poverty line for the corresponding household size. As such, there are two sets of poverty statistics: pre- and post-intervention; and a comparison of the two sets of poverty indicators facilitates the evaluation of the poverty alleviation impact of the Government's recurrent cash intervention.

Overall trends in the poverty situation of Hong Kong

Chart 1: Poor population and poverty rate, 2009-2015



On the whole, the poverty situation saw improvements between 2009 and 2015, with both the pre- and post-intervention poverty rates⁽²⁾ following general downward trends during the period (*Chart 1*). In 2015, before policy intervention, the size of the poor population and

(1) The poverty line thresholds are set on the basis of household income before policy intervention, so as to avoid distortion by the Government's policy measures, which is in cognisance with one important function of the poverty line, i.e. to assess policy effectiveness. For details of the poverty line and its analytical framework, please refer to **Appendix 1** of the *Hong Kong Poverty Situation Report 2015*.

(2) Poverty rate is the share of the poor population to the total population living in domestic households.

Box 1.2 (Cont'd)

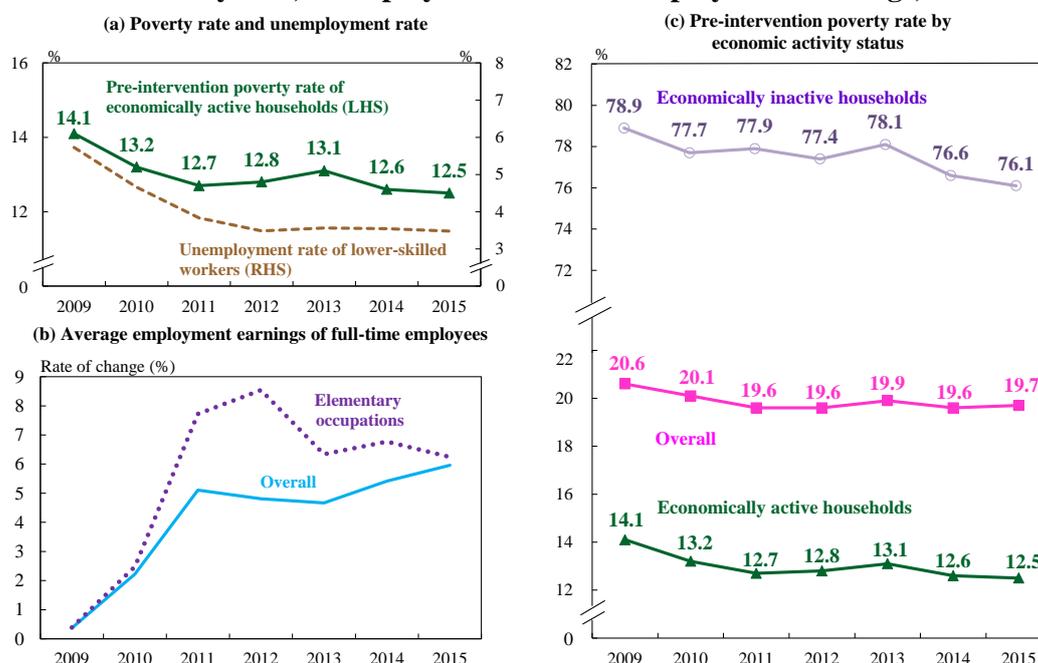
the poverty rate were 1 345 000 and 19.7% respectively. The corresponding poverty figures after policy intervention were 971 400 (the third consecutive year below the one million mark) and a seven-year low of 14.3%, down from 1 043 400 and 16.0% respectively in 2009.

Relationship between poverty and economic cycle

The improvement in the pre-intervention poverty situation is mainly attributable to economic growth and more favourable labour market conditions. The relationship between poverty situation and economic cycle is more discernible when we focus on the poverty rate of economically active households⁽³⁾. With improved economic conditions, these households can conceivably more directly benefit from more job opportunities and sustained income growth, resulting in lower poverty risk.

After the shock of the Global Financial Crisis in 2008, the Hong Kong economy has experienced a speedy recovery since 2010, with an average annual growth rate of 3.6% in real terms. In parallel, the unemployment rate in overall terms and that of lower-skilled workers fell to a low level from 2012 onwards, signifying a state of full employment. This, coupled with the implementation of Statutory Minimum Wage since May 2011 and the upratings in 2013 and 2015, led to notable increase in the employment earnings of grassroots workers. As a result, the pre-intervention poverty rate of economically active households also improved when the unemployment rate and employment earnings had more substantial improvements (*Charts 2a and b*), and it trended down to 12.5% in 2015, at a seven-year low. Specifically, the size of the poor population residing in unemployed and working poor households before policy intervention fell significantly by 53 700 and 20 500 respectively from 2009.

Chart 2: Poverty rate, unemployment rate and employment earnings, 2009-2015



While the overall poverty rate also exhibited decline over the same period, its magnitude of change was smaller due to dilution by poverty statistics of economically inactive households. As the latter do not engage in economic activities, their poverty situation appears to have little direct linkage to the macroeconomic and labour market conditions. With no

(3) Economically active households include working households (households with working member(s)) and unemployed households (households with all members in the labour force being unemployed).

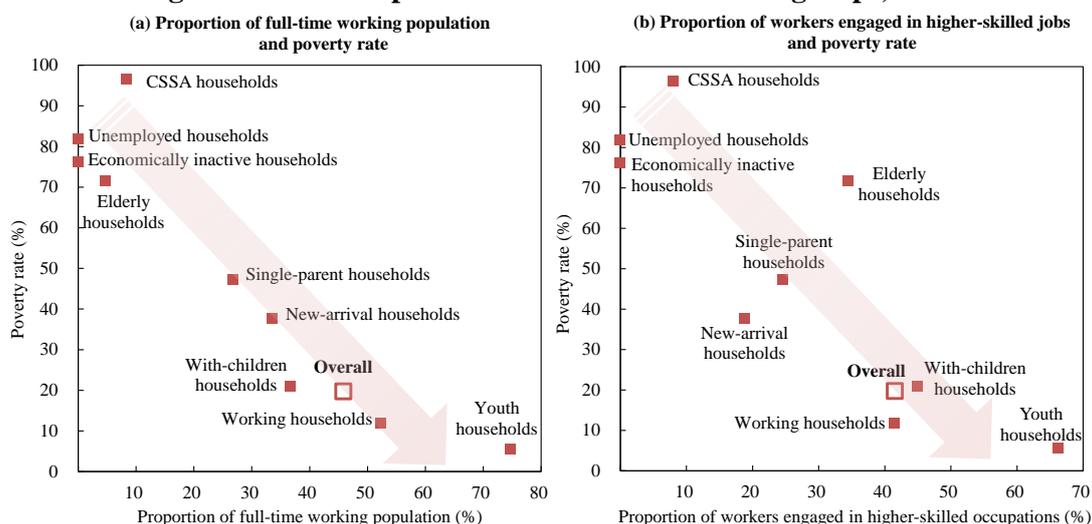
Box 1.2 (Cont'd)

employment earnings, their poverty rate is also far higher than that of their economically active counterparts (*Chart 2c*). Furthermore, measuring poverty solely based on income, the poverty statistics would unavoidably include some “asset-rich, income-poor” persons, especially retired elders, which is a main limitation of the existing poverty line framework that should be borne in mind.

Employment is the best route out of poverty

Further analyses comparing the characteristics among various socio-economic groups reveal that employment is the key to stay away from poverty for those who are available for employment. Taking the 2015 situation for illustration, *Chart 3a* shows that the poverty risk is generally lower for household groups with higher proportions of full-time working population. Also, higher proportions of workers engaged in higher-skilled occupations are associated with lower poverty rates (*Chart 3b*). These demonstrate the importance of employment and skills upgrading to poverty prevention and alleviation.

Chart 3: Proportion of full-time working population / working members engaged in higher-skilled occupations of different household groups, 2015



Note: Poverty rates refer to statistics before recurrent cash intervention.

Increasing Government's poverty alleviation efforts

The Government provides assistance to help those who cannot provide for themselves through the social security system on a reasonable and sustainable basis. Indeed, the recurrent government expenditure on social welfare has risen by nearly 50% between financial years 2009/10 and 2015/16. Taking into account the recurrent cash measures of the Government, the observed post-intervention poverty rate declined by 1.7 percentage points between 2009 and 2015, with its level falling visibly below 15% since 2013, when the Old Age Living Allowance was fully implemented to provide targeted assistance to needy elders.

Indeed, the “actual” extent of poverty reduction during 2009-2015 would be even larger if not masked by changes in demographic factors⁽⁴⁾ over the same period. A decomposition

(4) It should be noted that the change in demographic structure is also a key factor influencing poverty statistics since most elders are retirees with no employment earnings, living alone or with their spouse only. Elderly households take up a substantial (58% in 2015) and rising share of the overall economically inactive households, which feature a poverty rate far higher than that of their economically active counterparts.

Box 1.2 (Cont'd)

analysis of the changes in poverty rate between 2009 and 2015⁽⁵⁾ indicates that the post-intervention poverty rate would have been lowered by 2.51 percentage points due to economic growth, improvement in employment conditions, stronger Government's poverty alleviation efforts, etc., but nearly one-third of the potential poverty reduction was counteracted by the opposite effects brought about by the changes in age structure and the trend toward smaller household size amid population ageing over the past six years (*Table 1*).

Table 1: Decomposition of changes in the poverty rate between 2009 and 2015

Post-intervention poverty rate in 2009	16.0%
Decomposition of changes in the poverty rate between 2009 and 2015	
a. Age structure (Ageing → overall poverty rate↑)	+0.51 % point
b. Household size (Smaller household size↑ → overall poverty rate↑)	+0.29 % point
<i>Sub-total (a + b)</i>	<i>+0.80 % point (-32%)</i>
c. Other factors (including economic performance, the Government's poverty alleviation efforts, etc.)	-2.51 % points
Post-intervention poverty rate in 2015	14.3%

Note: () Figures in parentheses denote the offsetting ratio, i.e. (a + b) / c.

More difficult for poverty rate to decline continuously against a fast ageing trend

The above analyses illustrate that the observed poverty statistics are influenced by a dynamic interplay of factors such as economic cycle, demographic changes and Government measures. Looking forward, the issue of population ageing is set to become more acute, as the proportion of elders is expected to increase from 16% in 2015 to 30% in 2034, thereby posing further upward pressure on the overall poverty statistics, and entailing increasing difficulty for a continuous decline in the future poverty rate.

Concluding remarks

The analyses demonstrate the importance of economic growth, employment and skills upgrading to poverty prevention and alleviation at source. These affirm the direction of the Government's policy to provide more quality jobs by propelling economic development along with reduction in skills mismatch through manpower training, and to encourage employable persons to become self-reliant through employment, while assisting needy persons through social security system. Accordingly, the Government implemented the Low-income Working Family Allowance since May 2016 to relieve the financial burden of working families in need (especially those with children and youths) and encourage active employment. Thanks to economic development with job creation, and the achievements of the current-term Government's efforts in poverty alleviation, the overall post-intervention poverty rate stayed at a seven-year low in 2015. However, persistent population ageing will continue to have a lifting impact on the income-based poverty indicators. The Government is tackling challenges from population ageing on various fronts, and will continue to monitor the poverty situation in Hong Kong, as well as provide appropriate support to the most needy groups.

(5) For details, please see **Box 2.5** of the *Hong Kong Poverty Situation Report 2015*.

Other economic developments

1.14 Hong Kong was again ranked as the world's freest economy by the Fraser Institute in September. In particular, Hong Kong retained the top ranking in terms of the size of government and regulation, and came second in terms of freedom to trade internationally. The Government's steadfast commitment to upholding economic freedom and maintaining an open and free trade and business environment, a small and efficient government, and the rule of law and independent judiciary, are the cornerstones of Hong Kong's economic success and have contributed to enhancing Hong Kong's international competitiveness.

1.15 On consolidating Hong Kong's competitive edge, the Economic Development Commission held its 11th meeting in July, providing insights on possible enhancements to the work of the Government in respect of the key areas mentioned in the chapter dedicated to Hong Kong and Macao in the National 13th Five-Year Plan. Separately, in August, the Government announced its plan to launch a new HK\$200 million Professional Services Advancement Support Scheme in the fourth quarter, to facilitate exchanges and co-operation of the professional services sector with their counterparts in overseas markets and enhance the sector's professional standards and external competitiveness.

1.16 On deepening financial linkages with the Mainland, the Shenzhen-Hong Kong Stock Connect implementation plan was announced in August under the support of the Central Government. It would take about four months to complete the preparations for its formal launch. Exchange-traded funds will be included as eligible securities under the mutual stock market access scheme. These initiatives will consolidate Hong Kong's position as an international financial centre and a premier offshore RMB hub, while facilitating the two-way opening-up of the Mainland's capital markets.

1.17 Regarding innovation and technology, the 11th meeting of the Mainland-Hong Kong Science and Technology Co-operation Committee took place in August to enhance co-operation and encourage entrepreneurship in both places. The 15th Meeting of the Guangdong-Hong Kong Expert Group on Protection of Intellectual Property Rights was held in the same month to strengthen intellectual property (IP) trading and reinforce cross-boundary protection of IP. Separately, in July, the Government announced its plan to launch a HK\$2 billion Innovation and Technology Venture Fund early next year. The Fund will help stimulate private investments in local innovation and technology start-ups.

1.18 On enhancing co-operation with the Pan-Pearl River Delta region, the Government jointly held a business networking luncheon with the provincial governments of Guangdong and Fujian and the Macao SAR Government during the 11th Pan-Pearl River Delta Regional Co-operation and Development Forum and Trade Fair in August, with a view to opening up more business and investment opportunities brought about by Pilot Free Trade Zones. In addition, the Ninth Hong Kong-Macao Co-operation High Level Meeting was held in July. A Working Group on Enhancing Hong Kong-Macao Economic Co-operation will be set up to strengthen co-operation in areas such as trade, professional services and tourism, as well as to promote investment.

Notes :

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

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *The global economy grew modestly further in the third quarter. The US economy gathered some momentum, while the euro area held gradual economic improvement. The Mainland economy also maintained steady growth. With the acute risks associated with Brexit and some other troubling concerns waning somewhat, global stock markets generally bounced back during the quarter after a brief setback. The ensuing modest recovery in global final demand rendered support to Asia's trading and manufacturing activities.*
- *Hong Kong's merchandise exports sustained modest year-on-year growth in real terms⁽¹⁾ in the third quarter. Exports to the US improved and reverted to marginal growth, while those to Asia as a whole picked up somewhat in growth, providing the key impetus to goods export growth in the quarter.*
- *Exports of services also improved visibly in the third quarter, with a strong seasonally adjusted quarter-to-quarter bounce-back after five consecutive quarters of decline, and the year-on-year decline accordingly tapered visibly. Apart from exports of travel services, which remained weak amid continued falls in visitor arrivals, other services exports registered more discernible improvements. Exports of transportation services resumed increase while those of trade-related services attained further modest growth, both benefitting from the relative stabilisation in regional trade and cargo flows. Thanks to a revival in fund-raising activities during the quarter, the decline in exports of financial and other business services narrowed distinctly.*
- *The 19th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference was held in September, setting out directions of co-operation between the two places in such areas as the Belt and Road Initiative, finance, innovation and technology and professional services. In addition, Hong Kong and Japan signed Mutual Recognition Arrangement in August, which should help facilitate and secure trade flows between the two economies.*

Goods trade

Total exports of goods

2.1 The global economy remained on a modest expansion path in the third quarter of 2016, rendering some support to Asia's trade flows and production activity. Hong Kong's *merchandise exports* (comprising re-exports and domestic exports) improved further, reverting to year-on-year growth in August and September after a relapse in July, thus yielding a 1.8% growth for the third quarter as a whole in real terms over a year earlier, after the 1.4% growth in the preceding quarter. On a seasonally adjusted quarter-to-quarter basis, merchandise exports also grew further by 1.5% in the third quarter, after a brisk rebound of 6.8% in the second quarter.

2.2 The relative improvement in Hong Kong's export performance over the period mainly reflected the further stabilisation in the global trading environment, as earlier concerns over acute risks waned somewhat. In particular, the US economy picked up in growth momentum in the third quarter, while the economies of the euro area and the UK also continued to grow modestly. The contagion risks of Brexit had so far been largely contained, and despite lingering uncertainties, economic sentiment in the euro area showed no marked deterioration. International stock markets also rebounded swiftly as economic sentiment stabilised. In Asia, economic growth in the Mainland held steady, while India's economic activity expanded notably. The rebounds in international energy and commodity prices so far this year also rendered some support to commodity-dependent emerging markets economies. In sum, the more benign global economic trend in the recent period had provided some relief to regional trading and manufacturing activities in Asia after experiencing severe downward pressures seen at the turbulent start of the year.

**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
Q2	-1.2	1.4 (6.8)	-2.2	-0.9	1.6 (7.0)	-2.2	-16.8	-14.7 (-4.2)	-2.1
Q3	-0.2	1.8 (1.5)	-1.6	-0.2	1.8 (1.4)	-1.6	-2.0	-0.1 (11.4)	-1.1

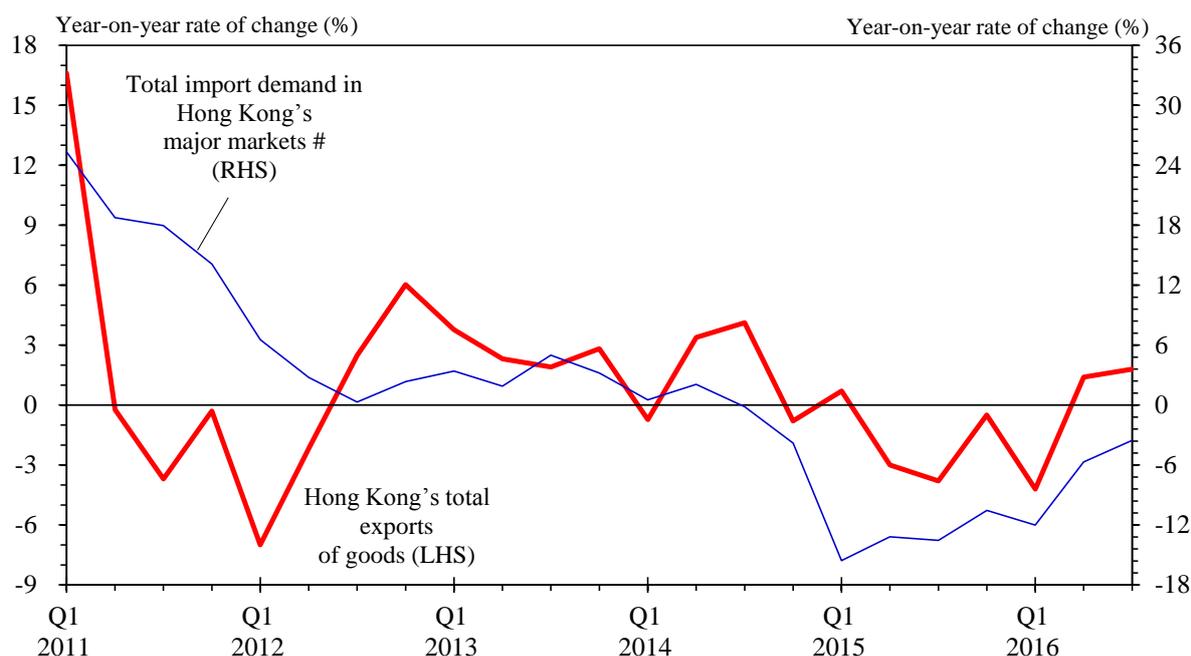
Notes : () Seasonally adjusted quarter-to-quarter rate of change.

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

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

2.3 *Re-exports*⁽²⁾, the mainstay of overall merchandise exports and accounting for 98.8% of total exports by value, recorded further growth at 1.8% year-on-year in real terms in the third quarter, compared with 1.6% in the preceding quarter. *Domestic exports*, constituting the remaining 1.2% of total exports, turned visibly better and edged down only by 0.1% year-on-year in the third quarter, after the 14.7% decline in the preceding quarter.

Diagram 2.1 : Merchandise exports grew modestly further in real terms in the third quarter



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

(#) Import demand figure for the third quarter of 2016 is based on statistics for July and August 2016.

Diagram 2.2 : Hong Kong's merchandise exports showed some further improvement in the third quarter, in tandem with some other high-income economies in Asia

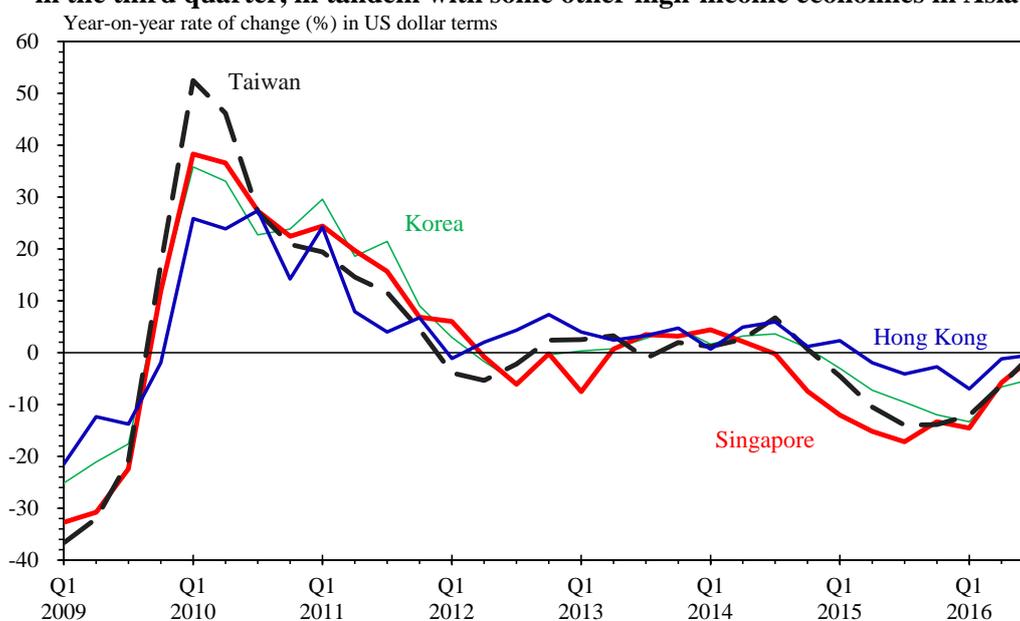


Diagram 2.3 : Exports to the Asian markets generally improved, rendering the key impetus to export growth in the third quarter

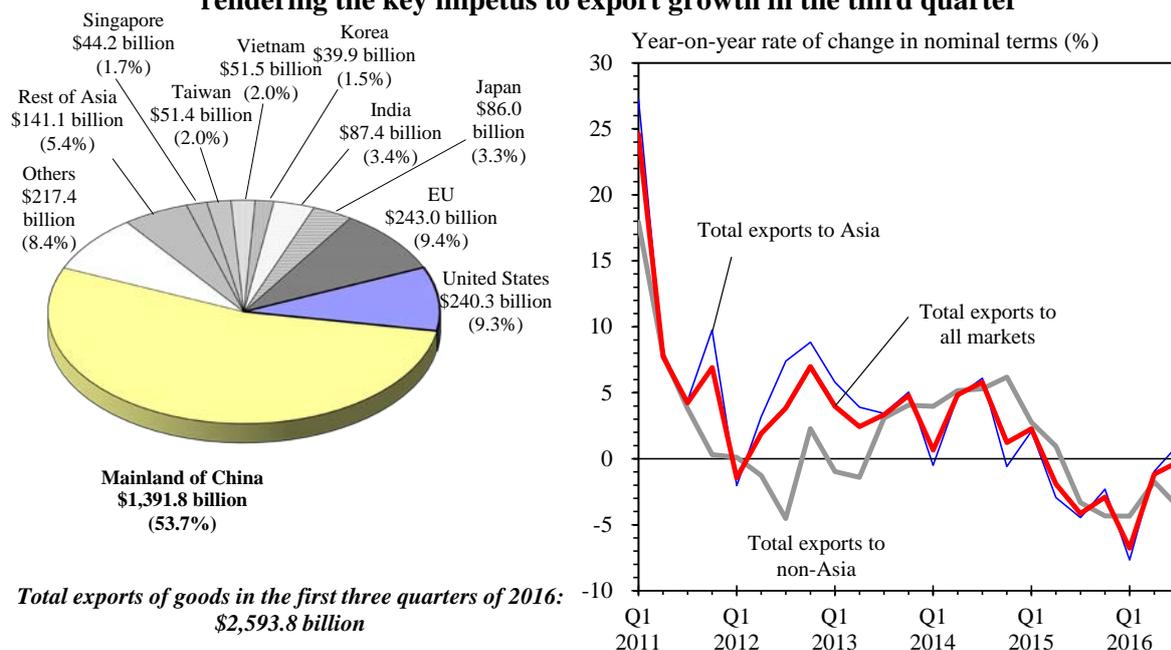


Table 2.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))

	<u>Annual</u>	<u>Q1</u>	<u>2015</u>				<u>2016</u>		
			<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	
Mainland of China	-2.0	-0.2	-4.4	-3.5	0.6	-5.6	2.0	2.7	
United States	1.0	3.3	3.6	-1.4	-0.6	-4.8	-1.4	0.2	
European Union	-4.1	-3.5	-6.7	-6.0	-0.2	-2.6	3.8	-0.4	
Japan	-3.6	-5.8	-4.0	-1.7	-2.8	-3.3	-6.6	-1.1	
India	7.9	12.4	-3.1	2.3	22.8	15.8	28.0	15.8	
Vietnam	12.1	14.0	18.0	12.9	5.2	-2.1	-8.0	-9.8	
Taiwan	-15.0	-12.8	-20.3	-23.5	-2.1	-2.9	17.1	27.5	
Korea	-13.4	-5.7	-13.8	-19.1	-14.2	-14.0	3.2	6.7	
Singapore	-4.3	0.4	-3.7	-8.7	-4.9	-0.4	-1.6	7.7	
Overall*	-1.7	0.7	-3.0	-3.8	-0.5	-4.2	1.4	1.8	

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

2.4 Analysed by major market on a year-on-year comparison in real terms, many markets showed improvements of varying degrees in the third quarter. Exports to the US improved and reverted to show marginal growth after four quarters of decline, thanks to the pick-up in the pace of economic expansion there. Exports to the EU relapsed to a marginal decline, mainly dragged by the marked fall in exports to the UK amid the visible depreciation of the British pound. Excluding the UK market, exports to other EU member states as a whole actually grew slightly further. Exports to Japan, though still weak, also showed some relative stabilisation after a prolonged period of setback.

2.5 Exports to the Asian markets as a whole improved in the third quarter, propelled mainly by a pick-up in exports of raw materials and semi-manufactures, benefitting from relative stabilisation in global final demand. In particular, exports to the Mainland made another quarter of moderate growth. Amongst exports to the high-income Asian economies, exports to Singapore rebounded after five quarters of decline; those to Korea gathered momentum, while those to Taiwan picked up strongly further. Exports to some ASEAN emerging markets also improved by varying degrees. Exports to India remained brisk, mirroring the solid economic expansion there.

Diagram 2.4 : Exports to the Mainland sustained moderate growth

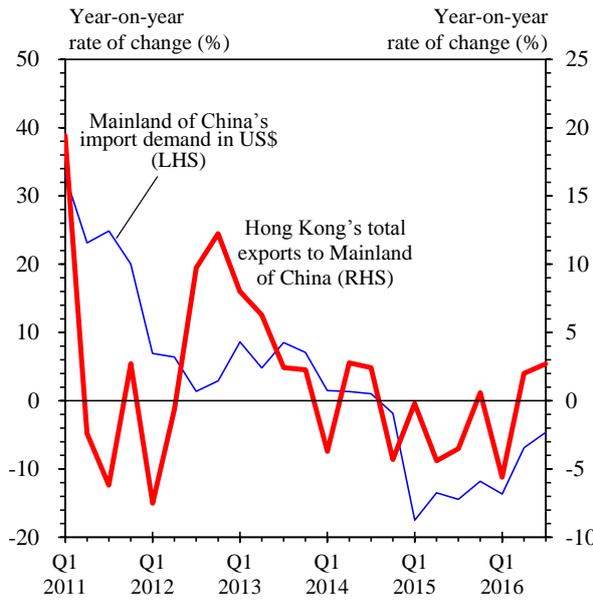


Diagram 2.5 : Exports to the EU related to a marginal decline

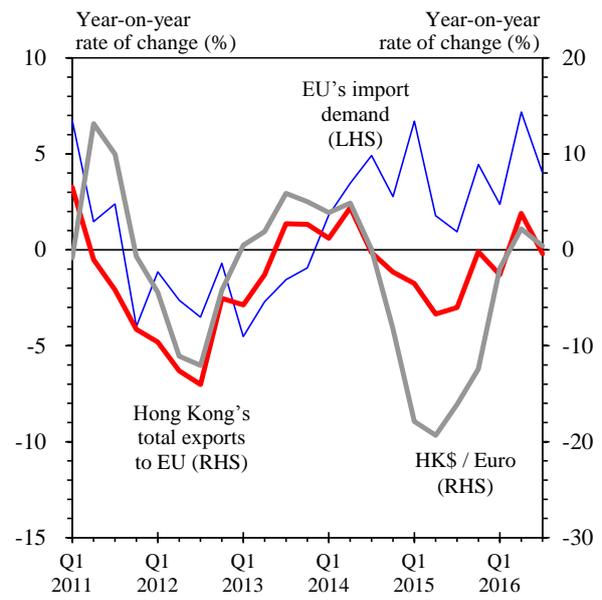


Diagram 2.6 : Exports to the US improved and reverted to show marginal growth

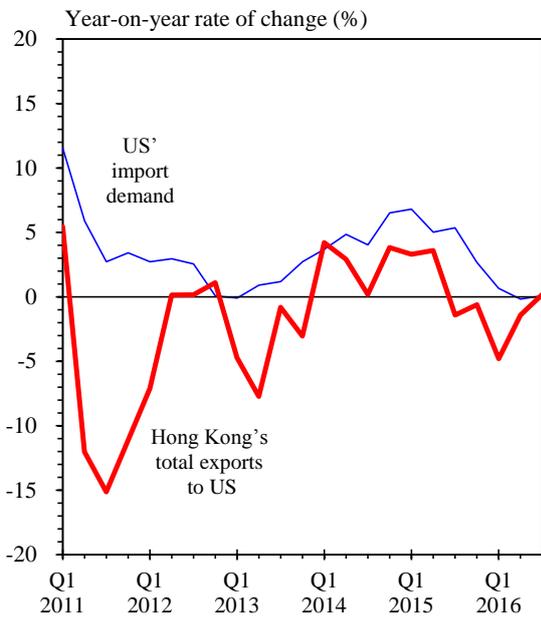


Diagram 2.7 : Exports to Japan, though still weak, showed relative stabilisation

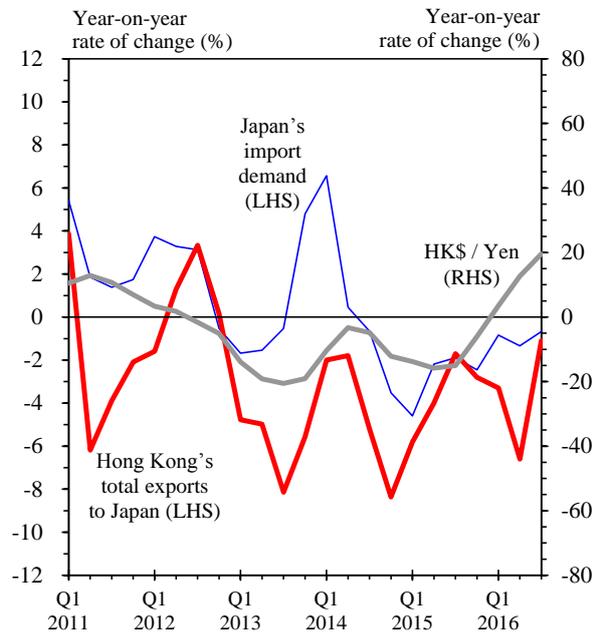


Diagram 2.8 : Exports to India remained brisk

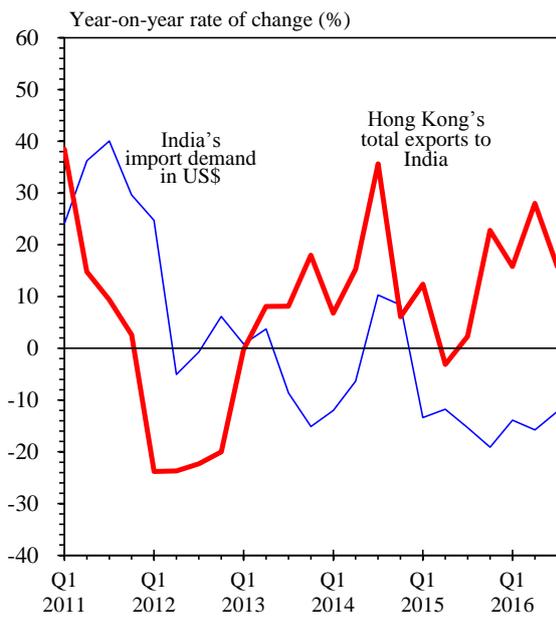


Diagram 2.9 : Exports to Taiwan picked up strongly further

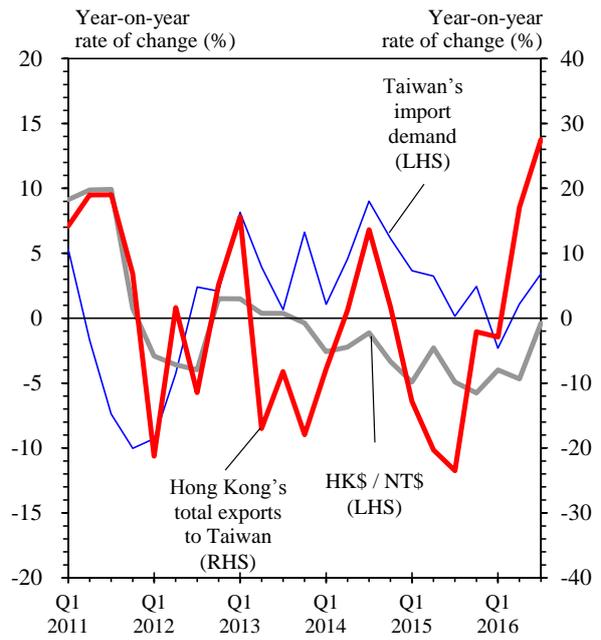


Diagram 2.10 : Exports to Korea gathered momentum

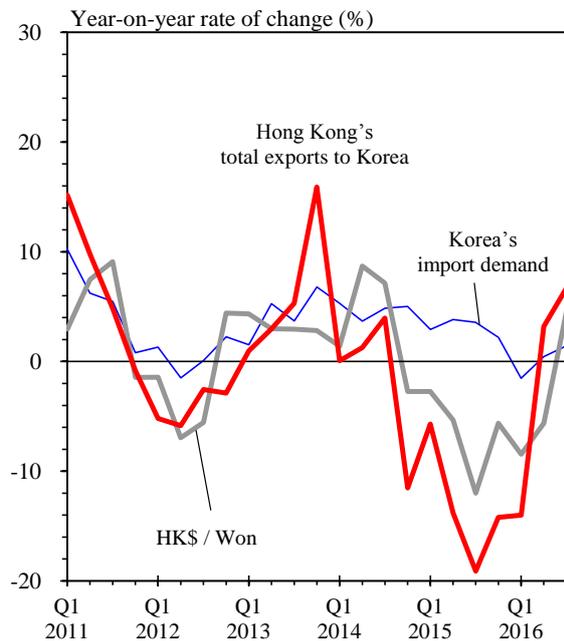
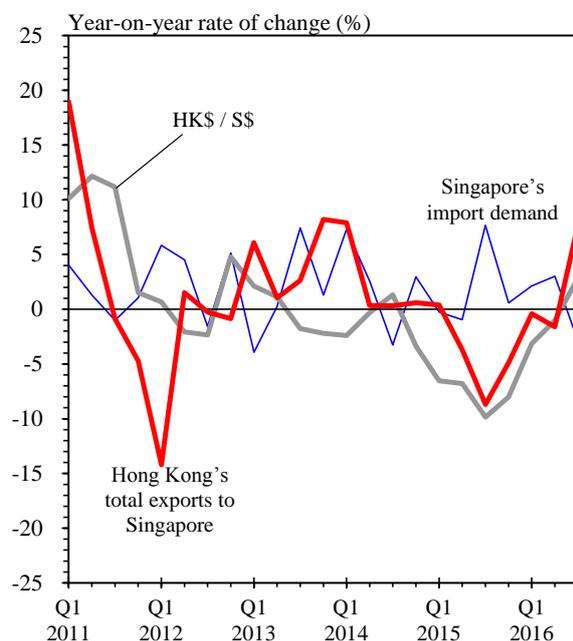


Diagram 2.11 : Exports to Singapore rebounded after five quarters of decline



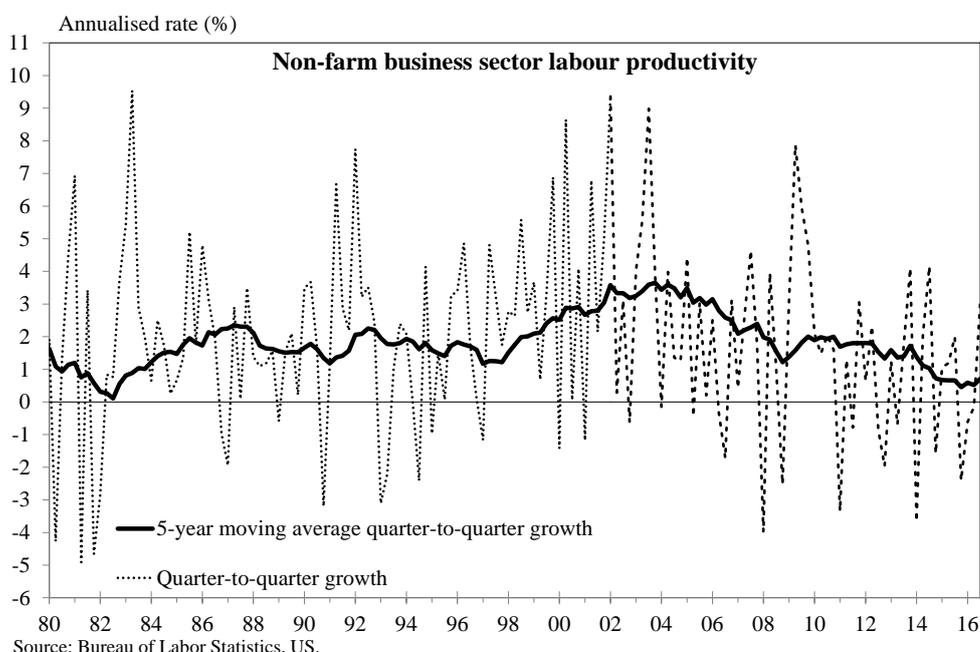
Box 2.1

Productivity growth slowdown in the US and its economic implications

The labour productivity growth slowdown in the US has worsened after the Global Financial Crisis (GFC), raising concern about its medium- to long-term economic growth prospects, particularly in light of its prominence in the global economic arena. This note briefly reviews the US labour productivity situation and some plausible explanations for its recent growth slowdown, as well as its implications for the US economic outlook and monetary policy.

Labour productivity here is referred to as output produced per hour worked. Taking a five-year moving average to smooth out the short-term quarterly growth fluctuations, it can be seen that labour productivity growth in the US has moderated in the past decade or so (*Chart*). In fact, on an average annual growth basis, labour productivity slowed from a hefty 3.3% in 1998-2002 to 2.3% in 2003-2007. Yet, the slowdown has become more acute after the GFC, averaging only 0.6% per year in 2011-2015, marking the slowest five-year growth since the recession in the early 1980s.

Chart : US labour productivity growth slowdown became more acute in recent years



There are different explanations for the slowdown in US labour productivity growth. Some economists⁽¹⁾ argued that the protracted impact on private investment from the deep recession in 2008 and 2009 was the main culprit. In decomposing the US labour productivity growth, they found that weaker capital deepening since 2010 had posed the key drag. They pointed out that cautious business sentiment and subdued demand amid an uncertain economic outlook had reduced the need to expand production capacity, while widespread deleveraging in the wake of the GFC as well as the blow from the oil price plunge to energy-related sectors also exacerbated investment weakness. All these had depressed investment and hence productivity growth. Yet, noting that the deceleration in US labour productivity growth trend has lasted for quite a while, it is natural to hypothesise that some deeper structural influences may also be at work.

(1) Furman, 2015. "Productivity Growth in the Advanced Economies: The Past, the Present, and Lessons for the Future", Speech at the Peterson Institute for International Economics.

European Central Bank, 2016. "The slowdown in U.S. labour productivity growth – stylised facts and economic implications", Economic Bulletin, Issue 2.

Box 2.1 (Cont'd)

On structural forces, several plausible explanations have been put forward. One of them relates the productivity growth slowdown to the change in the US economic structure. Some economists noted that production in the US was increasingly specialised in upstream processes and the high-tech sector, which are more services-oriented, higher in value added and include discovering and developing new technologies, thereby entailing a slower rate of productivity growth⁽²⁾. However, productivity in different production stages in general could not be observed directly. Thus, this explanation lacks direct quantitative evidence for verification.

An alternative hypothesis contends that the US economy has been in a state of secular stagnation⁽³⁾, where a multitude of structural factors have led to a deficiency in aggregate demand, with excessive savings over investment. For example, with a rise in the average age of population, households on balance may increase their propensity to save for retirement. Also, the lack of investment could be due to a reduction in the capital intensity of the US economy, as fewer tangible capital is needed in a service-oriented economy, and the cost of start-ups has fallen visibly amid the rising prominence of technology and internet-driven businesses. Given the possible side effect of nominal interest rates being below zero and low inflation expectations, real interest rates may not be able to adjust sufficiently downward in the negative territory to balance savings and investment. Consequently, the economy may be stuck in a liquidity trap and negative output gap for a prolonged period.

Yet, the argument for the above hypothesis of secular stagnation also has its limitations. Indeed, a reduction in start-up costs could actually encourage more entrepreneurial activity, while the positive effects of population ageing on savings should in theory reverse at some point as more people reach the retirement age. Moreover, a recent study⁽⁴⁾ showed that the returns on productive capital in the US rebounded quickly after the fall-off during the GFC, with the after-tax returns on business capital already exceeding the pre-crisis levels, way above the negative real rates predicted by the secular stagnation view.

Some economists focused on the supply-side impediments confronting the US economy, pointing out that such structural headwinds as diminishing gains from technological progress, population ageing, plateauing education attainment and overhang of private and public debt have lowered US potential growth⁽⁵⁾. A core part of this view is that the boost to labour productivity from the computer and internet revolution have petered out since 2000, while recent technological breakthroughs are not as transformative as those from before.

Nonetheless, since the innovative process is a series of discrete inventions followed by incremental improvements, it is premature to judge at this stage that recent technological innovations, such as robotics, big-data and bio-medical advances are necessarily less transformative and have smaller boosts to productivity growth⁽⁶⁾. Moreover, the extent to which an economy could make advances in technology and diffuse the benefits will also depend on policy choices, the regulatory environment and the underlying market dynamism.

(2) Sposi and Viridi, 2016. "U.S. Productivity Growth Flowing Downstream", Federal Reserve Bank of Dallas, Economic Letter, Vol. 11, No. 12.

(3) Summers, 2014. "U.S. Economic Prospects: Secular Stagnation, Hysteresis, and the Zero Lower Bound", Business Economics, Vol. 49, No. 2.

(4) Gomme et al., 2015. "Secular Stagnation and Returns on Capital", Federal Reserve Bank of St. Louis, Economic Synopses, No. 19.

(5) Gordon, 2012. "Is U.S. economic growth over? Faltering innovation confronts the six headwinds", Centre for Economic Policy Research, Policy Insight, No. 63.

(6) Mokyr, 2013. "Is technological progress a thing of the past?"
(<http://voxeu.org/article/technological-progress-thing-past>)

Box 2.1 (Cont'd)

Besides, there are conjectures that the impact of innovation gains on productivity could have been understated, as statistics may not have fully captured quality improvements and new products over time. Yet, some observers argued that such measurement issues had existed long before the US labour productivity growth slowdown. In addition, there are also doubts about the significance of mis-measurements of innovation gains if any⁽⁷⁾.

In sum, it remains unclear whether the slowdown in the US labour productivity growth is structural in nature, or whether it is purely transitory; hence the outlook for labour productivity growth will remain a key uncertainty facing the US economy⁽⁸⁾. Slow productivity growth, if protracted, would reduce US potential growth, especially given that labour force is expected to grow more slowly in the future. This would add impediment to the revival of international trade flows and the global economy in the period ahead. A wider issue is whether the slowdown in labour productivity growth may also be happening in other advanced and emerging economies.

As far as the formulation of monetary policy in the US is concerned, slower US labour productivity growth would entail a lower equilibrium real neutral rate of interest in the long run, which is the real interest rate consistent with output at its potential level and stable inflation over time.

**Table : Longer-run real GDP growth and Federal funds rate projections
by US Fed FOMC participants in various periods**

Projections in	Real GDP growth (%)		Federal funds rate (%)	
	Central tendency	Median	Central tendency	Median
March 2014	2.2 – 2.3	n.a.	n.a.	4.0
June 2014	2.1 – 2.3	n.a.	n.a.	3.8
September 2014	2.0 – 2.3	n.a.	n.a.	3.8
December 2014	2.0 – 2.3	n.a.	n.a.	3.8
March 2015	2.0 – 2.3	n.a.	n.a.	3.8
June 2015	2.0 – 2.3	2.0	3.5 – 3.8	3.8
September 2015	1.8 – 2.2	2.0	3.3 – 3.8	3.5
December 2015	1.8 – 2.2	2.0	3.3 – 3.5	3.5
March 2016	1.8 – 2.1	2.0	3.0 – 3.5	3.3
June 2016	1.8 – 2.0	2.0	3.0 – 3.3	3.0
September 2016	1.7 – 2.0	1.8	2.8 – 3.0	2.9

Such view is gaining traction, as evident by repeated downward adjustments in longer-run US real GDP growth and Federal funds rate forecasts by the US Federal Reserve (Fed) in recent years⁽⁹⁾ (*Table*). The median projection for longer-run GDP growth has been trimmed to 1.8% in September 2016, slower than the trend growth of 2.4% per annum in 1996-2015, and the median projection for longer-run Federal funds rate has also been scaled back. Moreover, uncertainties associated with the productivity growth slowdown also make the current state of the US economy and its growth prospects more difficult to assess, complicating the Fed's decision on the timing and pace of interest rate hikes.

(7) Byrne et al., 2016. "Does the United States Have a Productivity Slowdown or a Measurement Problem?", Brookings Papers on Economic Activity, Spring 2016.

Syverson, 2016. "Challenges to Mismeasurement Explanations for the U.S. Productivity Slowdown", The National Bureau of Economic Research, Working Paper 21974.

(8) Yellen, June 2016. "Current Conditions and the Outlook for the U.S. Economy", Speech at The World Affairs Council of Philadelphia (<https://www.federalreserve.gov/newsevents/speech/yellen20160606a.htm>).

(9) Yellen, August 2016. "The Federal Reserve's Monetary Policy Toolkit: Past, Present, and Future", Speech at the Jackson Hole Economic Symposium (<http://www.federalreserve.gov/newsevents/speech/yellen20160826a.htm>).

Imports of goods

2.6 *Imports of goods* reverted to grow by 2.9% year-on-year in real terms in the third quarter, after declining marginally by 0.5% in the second quarter, due to the rebound in retained imports, while imports for subsequent re-exports also grew modestly further. *Retained imports*, referring to the imports for domestic use, which accounted for around one-quarter of total imports, reverted to a 6.3% year-on-year growth in real terms in the third quarter, after falling for five consecutive quarters, going in tandem with the visible pick-up in domestic demand growth in the quarter.

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

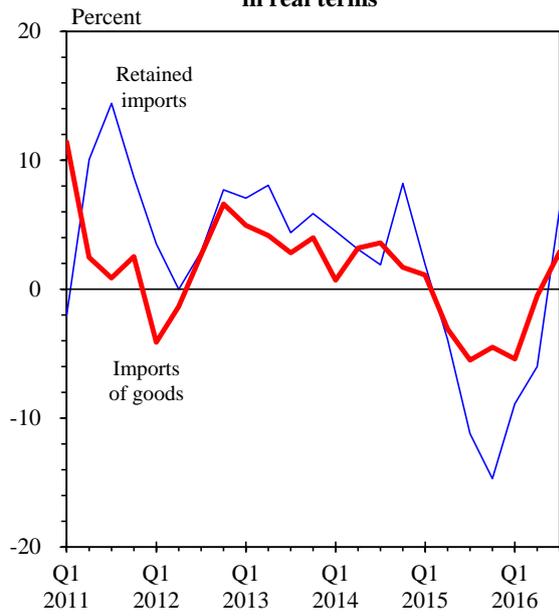
		<u>Imports of goods</u>			<u>Retained imports</u> ^(a)				
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		
2015	Annual	-4.1	-3.2	-0.4	-10.4	-7.4	-1.8		
	Q1	1.4	1.1	(-1.6)	0.9	-1.2	1.9	(-4.7)	-1.9
	Q2	-3.2	-3.1	(-2.3)	0.6	-6.8	-3.9	(-5.2)	-1.3
	Q3	-6.7	-5.5	(-1.7)	-0.7	-14.3	-11.2	(-6.4)	-1.6
	Q4	-7.0	-4.5	(0.9)	-2.1	-17.6	-14.7	(0.5)	-2.4
2016	Q1	-8.2	-5.4	(-4.2)	-2.8	-12.2	-8.9	(0.9)	-3.6
	Q2	-3.2	-0.5	(4.8)	-2.6	-9.2	-6.0	(-1.1)	-3.7
	Q3	1.2	2.9	(2.9)	-1.4	5.8	6.3	(7.2)	-0.5

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.

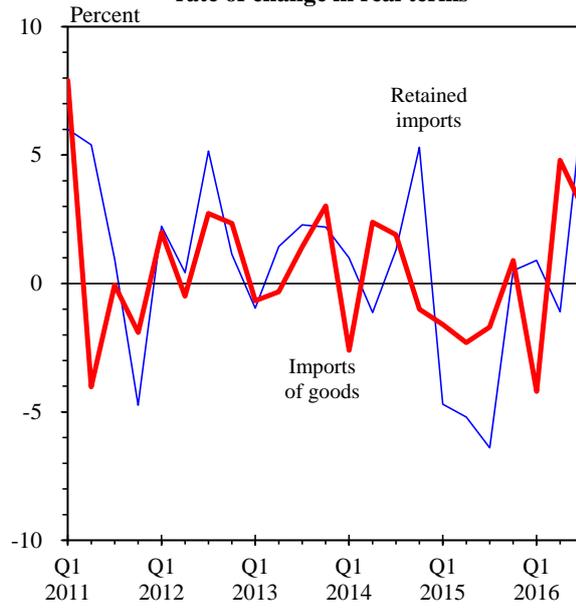
() Seasonally adjusted quarter-to-quarter rate of change.

Diagram 2.12 : Both imports and retained imports reverted to year-on-year growth

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



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

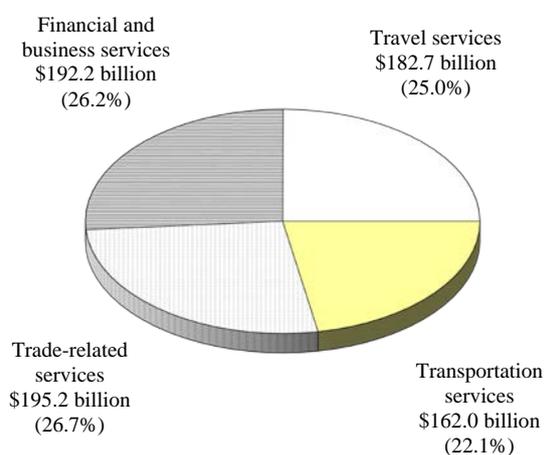


Services trade

Exports of services

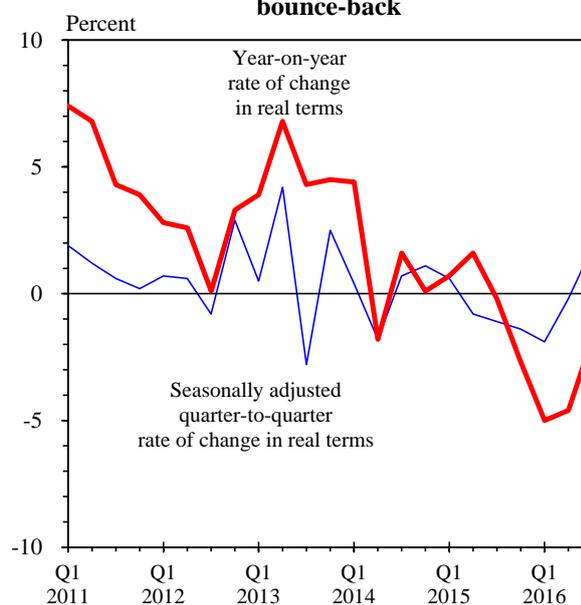
2.7 *Exports of services* also improved visibly in the third quarter, with the year-on-year decline tapering to 1.8% in real terms, markedly smaller than the 4.6% fall in the preceding quarter. The bounce-back on a seasonally adjusted quarter-to-quarter basis was more impressive, at 1.8%, ending five consecutive quarters of decline. The improvement was almost across-the-board. Upon the relative stabilisation in regional trade and cargo flows, exports of trade-related services (comprising mainly offshore trade activities) picked up slightly further in growth and exports of transportation services reverted to show modest growth. Exports of financial and other business services also saw a distinctly narrower decline, as fund-raising activities picked up during the quarter. Exports of travel services remained the weakest link, as visitor arrivals fell further amid a still-strong US dollar during the quarter.

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



Exports of services in the first three quarters of 2016: \$732.0 billion

Diagram 2.14 : Exports of services improved visibly, showing a strong quarter-to-quarter bounce-back



**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	-5.0	(-1.9)	-2.2	-1.8	-13.9	-0.6
	Q2	-4.6	(-0.2)	0.4	-1.3	-9.8	-7.6
	Q3	-1.8	(1.8)	0.6	1.8	-9.0	-0.7

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

Imports of services

2.8 *Imports of services* grew slightly further by 1.7% year-on-year in real terms in the third quarter, similar to that of 1.6% in the second quarter. Imports of travel services grew moderately further, as stable job and income conditions continued to underpin local residents' interest to travel overseas. Imports of trade-related services made tepid growth in the third quarter, amid stabilising regional trade and cargo flows. Yet, those of transportation services edged down. Imports of financial and other business services grew modestly further, on the back of the improved sentiment in global financial markets, while cross-border commercial activities sustained growth.

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

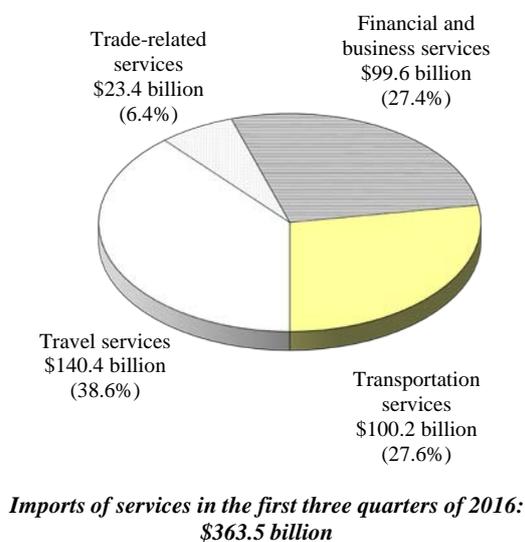


Diagram 2.16 : Imports of services grew slightly further

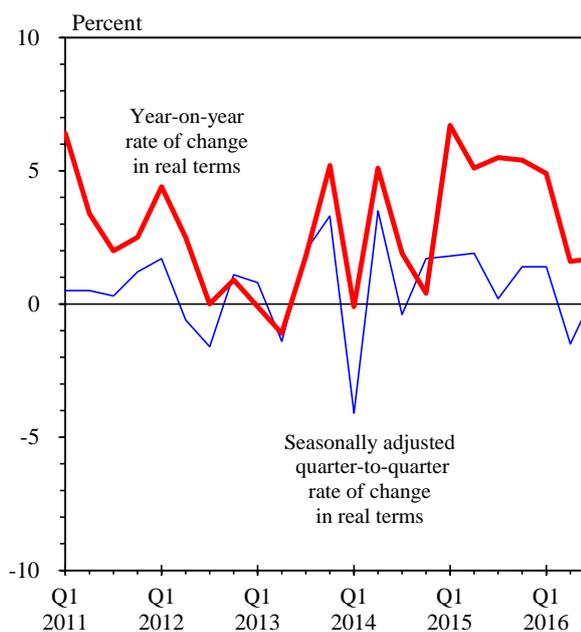


Table 2.5 : Imports of services by major service group (year-on-year rate of change in real terms (%))

Of which :

		<i>Of which :</i>				
		<u>Imports of services</u>	<u>Travel services⁽⁺⁾</u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Financial and business services</u>
2015	Annual	5.7	12.4	-0.9	0.6	5.4
	Q1	6.7 (1.8)	13.3	0.5	1.5	6.5
	Q2	5.1 (1.9)	11.2	-2.8	1.5	6.8
	Q3	5.5 (0.2)	13.0	-1.9	-0.5	5.9
	Q4	5.4 (1.4)	12.2	1.1	0.3	2.6
2016	Q1	4.9 (1.4)	12.8	-0.3	-1.0	1.6
	Q2	1.6 (-1.5)	2.8	-1.0	0.4	2.8
	Q3	1.7 (0.4)	4.0	-1.4	0.6	2.1

Notes : (+) Comprising mainly outbound travel spending.

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

Goods and services balance

2.9 The goods deficit widened somewhat in the third quarter from a year earlier, as retained imports rebounded amid visible acceleration in domestic demand growth while goods exports grew only modestly further during the quarter. With the services surplus more than offsetting the goods deficit, the combined goods and services account still registered a notable surplus of \$35 billion in the third quarter, equivalent to 2.9% of total import value. The corresponding figures were \$51 billion and 4.2% respectively in the third quarter of 2015.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			<u>As % of imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2015	Annual	3,779	1,053	4,290	487	-511	567	56	1.2
	Q1	879	267	1,028	118	-149	149	*	#
	Q2	916	244	1,067	118	-150	126	-24	-2.0
	Q3	982	270	1,078	124	-95	146	51	4.2
	Q4	1,001	272	1,117	127	-116	145	29	2.3
2016	Q1	823	245	938	120	-114	125	11	1.0
	Q2	912	226	1,039	118	-127	109	-18	-1.6
	Q3	989	261	1,089	126	-99	135	35	2.9

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

(*) Within \pm \$0.5 billion.

(#) Within \pm 0.05%.

Other developments

2.10 The Government strives to foster closer trade and investment relations between Hong Kong and its major economic partners, in particular the Mainland. In September, the 19th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference was held, setting out directions for co-operation between the two sides in the coming year in such areas as the Belt and Road Initiative, finance, innovation and technology and professional services. Nine co-operation agreements were signed after the meeting, including, among others, Letter of Intent on Guangdong-Hong Kong Co-operation in Participating in the Belt and Road Initiative, Co-operation Agreement on Guangdong-Hong Kong Co-operation in Taking Forward the Development of China (Guangdong) Pilot Free Trade Zone and Co-operation Agreement between Guangdong and Hong Kong on Tourism.

2.11 Trade facilitation would also help enhance our competitiveness and create new business opportunities. In this regard, Hong Kong Customs signed the Joint Administrative Arrangement on Smart and Secure Trade Lanes (SSTL) Pilot Project Phase 3 in July with the Customs representatives from the Mainland, the European Commission and 15 EU member states. SSTL would enable traders to enjoy more efficient and predictable cargo clearance at both exporting and importing ends, enhancing the network of trade flows between these economies. Separately, in August, the Hong Kong Customs and Japan Customs signed Mutual Recognition Arrangement (MRA) to mutually recognise the Authorised Economic Operator Programmes of both sides, marking the seventh MRA that Hong Kong has concluded with other Customs administrations. The MRA should help facilitate and secure trade flows between the two economies.

Box 2.2

“Spaghetti bowl effect” of free trade agreements

In any World Trade Organization (WTO) agreement, one of the fundamental principles is that all members must trade among themselves without discrimination. For instance, all members have to offer each other the most-favoured-nation (MFN) treatment, meaning that a lower tariff rate offered by one member to another must be extended to all other members. Noting the increasing difficulty in negotiating trade agreements that are applicable to all WTO members in recent years, economies around the world have instead turned to forging webs of bilateral or regional free trade agreements (FTAs) as an alternative approach to pursue further trade liberalisation⁽¹⁾. While the rapid proliferation of FTAs (some 340 FTAs have notified the WTO since 2000, as compared to only 75 from 1958 to 1999) has understandably created trading opportunities across borders and thereby economic benefits, there have also been discussions among researchers on the consequence of the crisscrossing of multiple FTAs, which is also known as the “spaghetti bowl effect”⁽²⁾, that could undermine the potential gains of these FTAs.

Multiple and overlapping FTAs increase the transaction costs for international trade mainly because of their differentiated requirements that firms need to fulfill. On one hand, each and every FTA has its unique set of rules of origin (ROOs) to be complied with for the trade to enjoy preferential tariff rates⁽³⁾. However, the extensive global production chains nowadays mean that the manufacturing process of a merchandise could involve value-added activities in many economies along a trade route that is covered by several FTAs, and the differentiated ROOs of each FTA could render the production unable to take full advantage of all the preferential treatments along the production chains. For example, a study found that the ROOs of FTAs in the Americas alone consisted of a dense tangle of over 38 annexes of rules per product and 24 regulatory chapters operating simultaneously in 2007⁽⁴⁾. Such complicated or even restrictive ROOs and technical standards could pose obstacles to firms’ utilisation of these FTAs, as the adoption of intermediate inputs from a FTA signatory by a producer in another signatory might have affected the preferential status of the finished product. The possible hindrance could be showcased with three hypothetical bilateral FTAs between three economies (say, Economies A, B, and C). Assuming there is no provision for cumulation in any of these FTAs⁽⁵⁾, it is possible that even if Economy A merely assembles the intermediate inputs originating from the other two and exports the finished goods back to them, the final product from Economy A may still not be able to enjoy the preferential

- (1) The arrangement of FTAs, which allows signatories to grant more favourable treatments to each other than to the other WTO members, is permitted by the WTO as an exception to the MFN treatment principle, so long as such an arrangement observes the conditions stipulated in the relevant provisions of the WTO agreements.
- (2) The term was first used in the paper by Bhagwati, J.N, (1995), “US Trade Policy: The Infatuation with FTAs”, Columbia University Discussion Paper Series 726, New York: Columbia University.
- (3) As defined by the WTO, ROOs are the criteria needed to determine the national source of a product. However, there is wide variation in the practice of governments with regard to the ROOs and there is no single set of harmonised rules governing the determination of the country of origin of goods in international commerce.
- (4) Cornejo, R. and Harris, J.T. (2007), “Convergence in the Rules of Origin Spaghetti Bowl: A Methodological Proposal”, Inter-American Development Bank Working Paper 34.
- (5) The concept of “cumulation” (or “cumulative rules of origin”) allows the use of intermediate inputs that have obtained originating status in one signatory to be further processed or added to products originating in another signatory as if they had originated in that latter economy, without the finished product losing the benefit of preferential customs tariffs.

Box 2.2 (Cont'd)

treatments if the ROOs are too restrictive⁽⁶⁾.

On the other hand, the differentiated FTAs would also incur additional costs to firms. On top of the various administrative burden (such as certification costs and procedures), a large number of FTAs could also expose or exacerbate conflicting technical standards and requirements, thereby increasing the compliance costs and hindering market access that is in contrary to the original intention of the FTAs. Understandably, the more overlapping the FTAs are, the more complex are the rules, and the more likely the benefits of lower tariffs under the FTAs are offset by the higher compliance costs. In the worst case, firms may even choose not to take advantage of the FTA preferential tariffs when exporting their products to other signatories, leading to a decline in the utilisation of the FTAs.

Moreover, the situation is further complicated by the fact that international trade in modern days has gone beyond trade in goods. Very often, trade in goods is complemented by trade in services, and involves such other regulatory aspects as intellectual property rights, investment, competition, government procurement, and labour and environmental standards. While the FTA negotiations in recent years have increasingly addressed these important areas, they remain the areas that are likely to have larger discrepancies across economies because of the relatively short history of international cooperation. Without reconciliation on the terms and standards across FTAs, these would only add more dimensions of differentiated requirements on international trade, exacerbating the “spaghetti bowl effect”.

In 2011, the Asian Development Bank had conducted a survey study on evaluating the benefits and costs of a selected set of FTAs covering the East Asia⁽⁷⁾, sampling hundreds of firms in six Asian economies⁽⁸⁾. According to the study, while these firms typically reported more benefits than costs from those FTAs, there were 20% of respondents saying that multiple ROOs (i.e. a major aspect of the “spaghetti bowl effect”) did add significantly to their business costs. In particular, a further econometric investigation based the survey data suggested that the larger firms with longer operational history, i.e. those that tend to export to multiple markets and change their business plans in response to FTAs, are more likely to express concerns about business costs of multiple ROOs. Separately, 41% of respondents saw benefits from adopting some harmonised ROOs, particularly among those large firms with presumably more extensive upstream or downstream operations linked up in the region.

(6) For example, if the FTAs signed by Economy A with Economies B and C require a certain minimum ratio of value added taken place in economy A (say, 40%) to the total value of the final product in order to be eligible for the preferential tariff under those FTAs, the assembly process alone in Economy A might probably entail a ratio that is too low (say, 10%) to be eligible.

(7) Kawai, M. and Wignaraja, G. (2011), “Asia’s Free Trade Agreements: How is Business Responding?”, Asian Development Bank and Asian Development Bank Institute.

(8) The six economies refer to Japan, the Mainland China, Korea, Singapore, Thailand and the Philippines. There were 841 firms surveyed, yet the number of respondents to each aspect of the survey might vary somewhat.

Box 2.2 (Cont'd)

In a nutshell, the cost entailed in one single FTA encompassing a number of economies would be much smaller than that in numerous FTAs covering the same set of economies, and therefore more benefits will be generated. As such, the Government has long been a staunch supporter of multilateral trade agreements. To this end, the Government is actively participating in the development of the Free Trade Area of the Asia-Pacific, which if realised would cover most of the economies around the Pacific Rim. Promoting free trade on a multilateral basis and its continual enhancement are particularly important for Hong Kong, given our highly open economy with trade amounting to more than four times of GDP and our role as an important trading node with extensive trading networks covering a large number of economies. The Government will continue to work on these government-to-government platforms, with a view to enhancing Hong Kong's long-term economic growth and development.

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

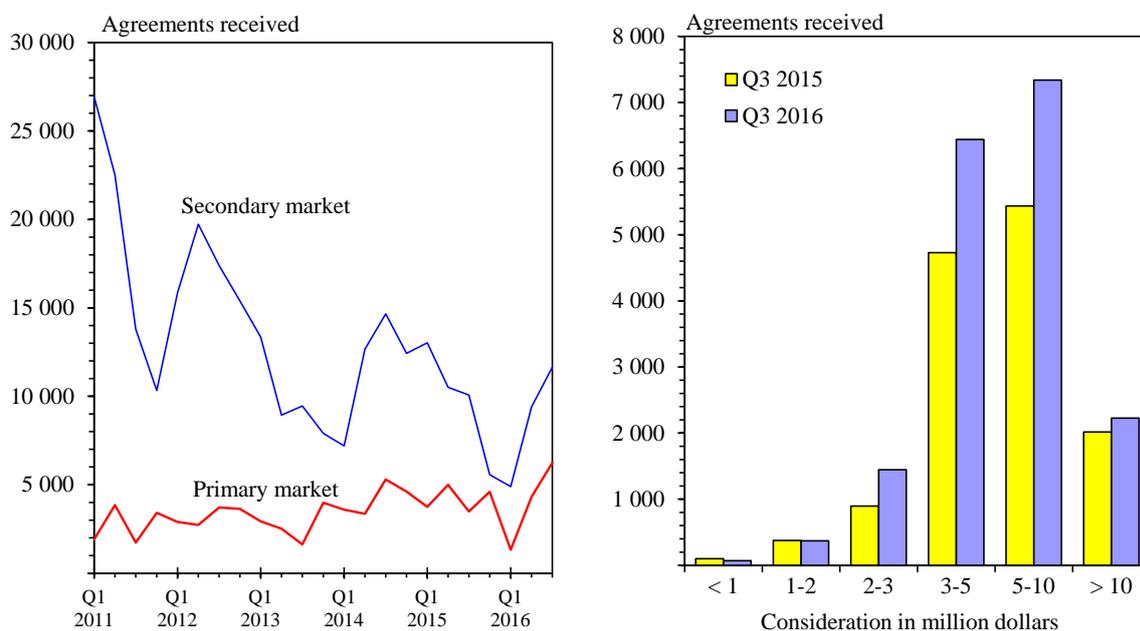
- *The residential property market put up a brisk performance in the third quarter of 2016. Flat prices recorded an accelerated increase of 7% along with a surge in trading activities, amid a still tight demand-supply situation and further delay in the interest rate hike in the US. Housing affordability worsened again in the third quarter, despite some further increases in household incomes in a state of full employment.*
- *Reflecting the Government's sustained efforts to increase land and flat supply, total flat supply in the coming three to four years remained at a record high of 93 000 units.*
- *The commercial and industrial property market showed a mixed performance in the third quarter. Prices and rentals for different market segments went different directions. Trading activities rebounded somewhat over the preceding quarter, but were still relatively quiet by historical standards.*
- *Inbound tourism remained rather weak in the third quarter. Overall visitor arrivals fell by 3.6% from a year earlier to 14.6 million, mainly reflecting the drop in Mainland visitors.*
- *Amid the slow expansion of external trade, the logistics sector saw a mixed performance in the third quarter. Total container throughput continued to fall, albeit at a narrowed year-on-year rate of 5.3%, while air freight throughput recorded an accelerated increase of 5.2%.*

Property

3.1 The *residential property market* put up a brisk performance in the third quarter of 2016. Flat prices recorded an accelerated increase along with a surge in trading activities, amid a still tight demand-supply situation and further delay in the interest rate hike in the US. Housing affordability worsened again, despite some further increases in household incomes in a state of full employment.

3.2 Amid the positive market sentiment, the total number of sale and purchase (S&P) agreements for residential property received by the Land Registry surged by 31% over the preceding quarter or 32% over a year earlier to 17 890 in the third quarter. Within the total, primary market transactions soared by 45% over the preceding quarter amid the launch of several large-scale projects, while secondary market transactions also expanded by 24%. In parallel, total consideration increased by 17% to \$126.3 billion.

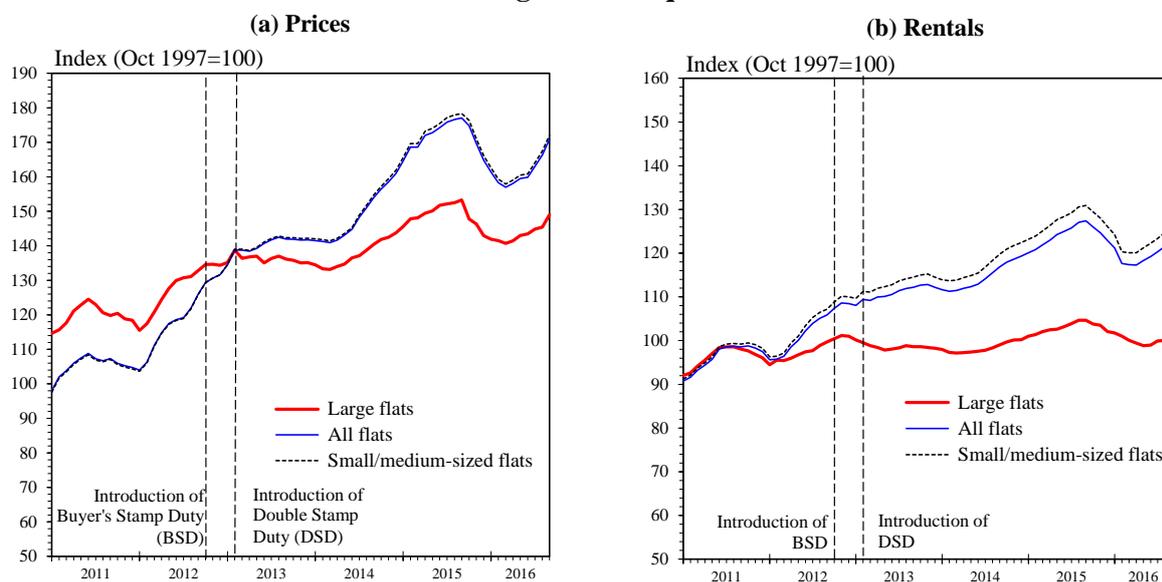
Diagram 3.1 : Trading activities surged in the third quarter



3.3 Following the rebound during the second quarter, overall flat prices rose further by an accelerated 7% during the third quarter. The surge was led by a 7% jump in prices of small/medium-sized flats, though prices of large flats increased by a less rapid 4%. Overall flat prices in September 2016 recorded a cumulative gain of around 4% over December 2015, and were only 3% lower than the peak in September 2015.

3.4 Overall flat rentals also rose by an accelerated 3% between June and September. Analysed by size, rentals of small/medium-sized flats and large flats rose by 3% and 1% respectively. Overall flat rentals in September 2016 were at about the same level as in December 2015, and only 4% below the peak in September 2015. The average rental yield for residential property edged down from 2.8% in June to 2.6% in September.

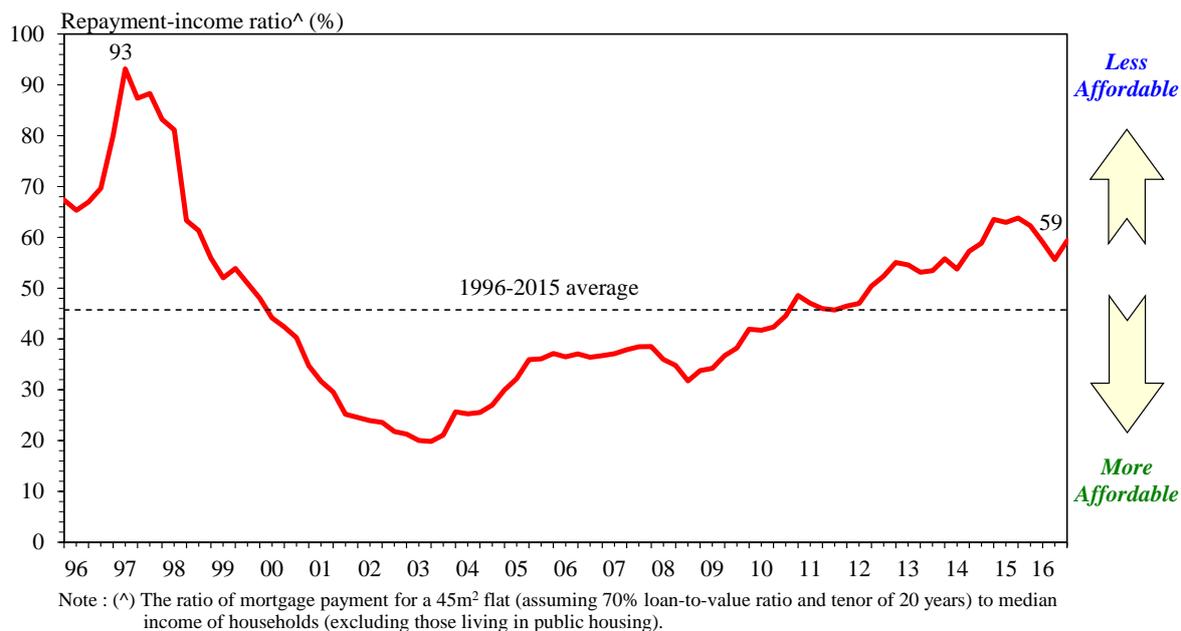
Diagram 3.2 : Both flat prices and rentals recorded accelerated increases during the third quarter



Note : Residential property price index pertains to secondary market transactions only. Large flats refer to those with a saleable area of at least 100 m², and small/medium-sized flats with a saleable area of less than 100 m².

3.5 As a result of the surge over the past several years, overall flat prices in September 2016 exceeded the 1997 peak by 71%. 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), having improved somewhat in the preceding quarters, worsened again and rose to around 59% in the third quarter, significantly above the long-term average of 46% over 1996-2015. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 77%.

Diagram 3.3 : The mortgage payment to income ratio worsened again



3.6 Raising flat supply through increasing land supply is the Government’s top policy priority in ensuring a healthy and stable development of the property market. As announced in September 2016, in the fourth quarter of 2016 the Government will put up for sale a total of five residential sites which are capable of providing about 2 800 flats. The private housing land supply (including Government land sale, railway property development projects, the Urban Renewal Authority’s projects, and private development and redevelopment projects) in the first three quarters of 2016-17 has an estimated capacity of providing about 15 700 units, representing 87% of the 2016-17 private housing land supply target of 18 000 units.

3.7 Reflecting the Government’s sustained efforts in raising land supply, the number of private domestic units commencing work rose by 17% over a year earlier to 16 400 in the first three quarters of 2016. In parallel, completions surged by 36% to 10 700 units. The *total supply of flats* in the coming three to four years (comprising unsold flats of completed projects, flats under construction but not yet sold and flats on disposed sites where construction can start any time) remained at a record high of 93 000 units as estimated at end-September. In addition, another 11 100 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) remained subdued at 24 cases per month or 0.3% of total transactions in the third quarter, well below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer's Stamp Duty, *purchases by non-local individuals and non-local companies* also stayed low at 105 cases per month or 1.5% of total transactions in the third quarter, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As to *mortgage lending*, the average loan-to-value ratio of new mortgages was 53% in the quarter, likewise considerably below the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority.

Diagram 3.4 : Speculative activities stayed subdued

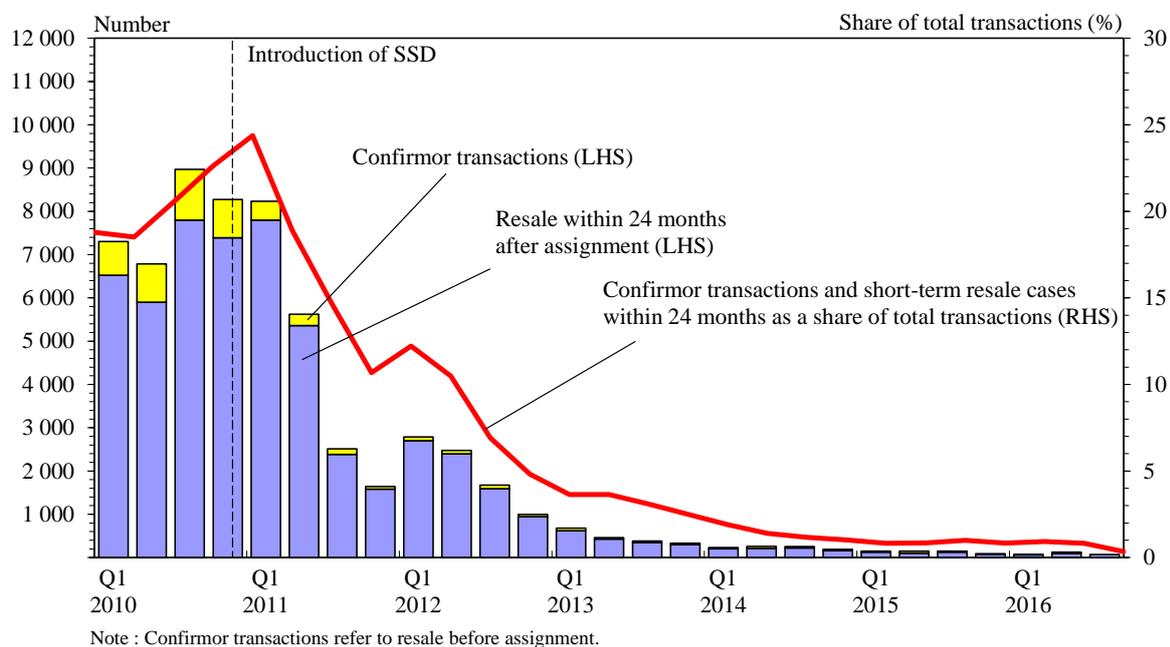
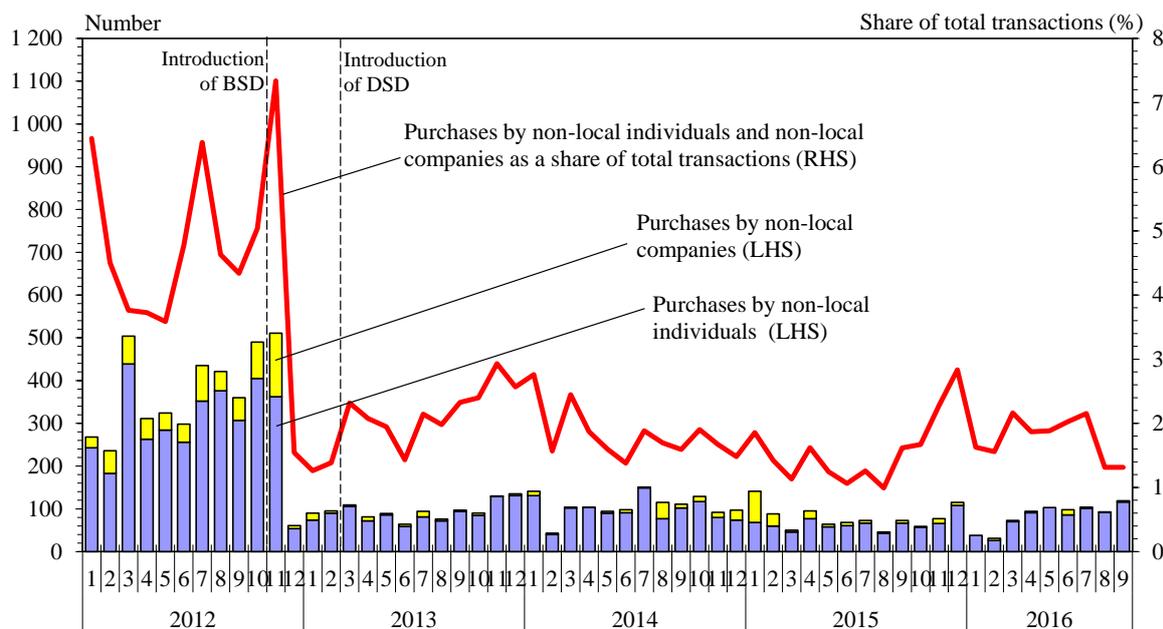


Diagram 3.5 : Purchases by non-local buyers remained low



3.9 Looking forward, market sentiment in the near term may still be influenced by the US Federal Reserve’s recent repeated hesitations in lifting interest rates, which have implied an interest rate uptrend that would be more gradual than earlier expected. Nevertheless, the medium-term supply of flats has been rising steadily following the Government’s efforts to raise land supply, while the US monetary policy normalisation process is set to continue and an interest rate hike in the US by the end of this year is now increasingly likely. These developments will likely influence the property market further down the road.

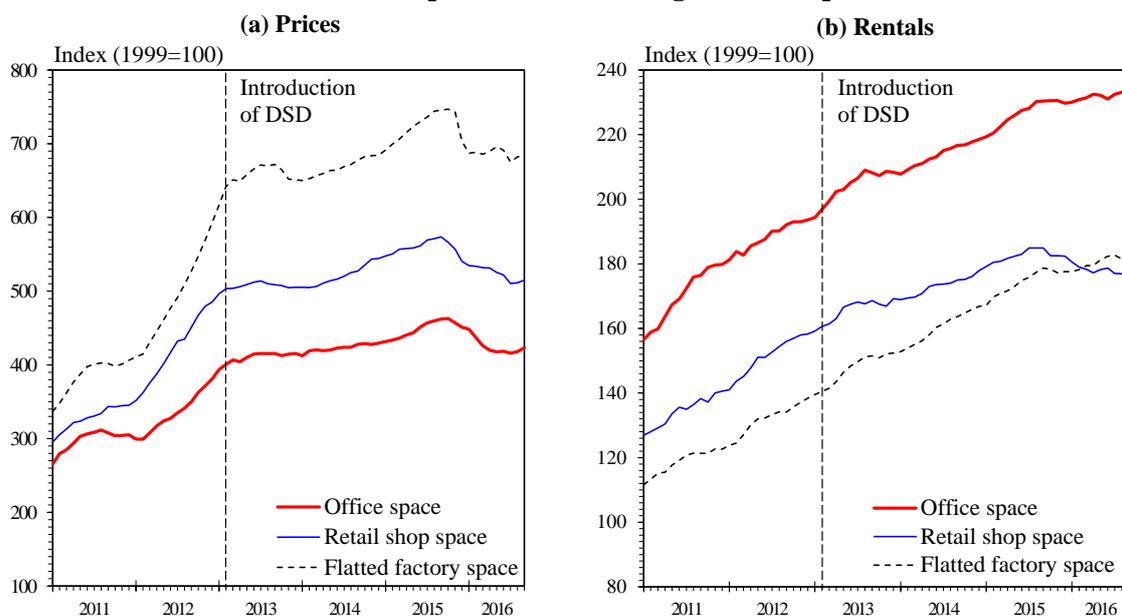
3.10 The *commercial* and *industrial property markets* showed a mixed performance in the third quarter of 2016. Prices and rentals for different market segments went different directions. Trading activities rebounded somewhat over the preceding quarter, but were still relatively quiet by historical standards.

3.11 Overall sale prices of *office space* rose by 1% during the third quarter. Within the total, prices of Grade B and C office space increased by 1% and 3% respectively, while prices of Grade A office space were flat. Meanwhile, overall rentals also rose by 1%, with rentals of Grade A, B and C office space all increasing by 1%. As a result, the average rental yields for Grade A, B and C office space were 3.0%, 3.3% and 3.2% respectively in September, compared with 2.9%, 3.3% and 3.2% in June. Transactions for office space rose by 12% over the preceding quarter to 280 cases in the third quarter, but were still 14% lower than a year earlier.

3.12 Amid the continued weakness in the retail sector, both sale prices and rentals of *retail shop space* fell by 1% between June and September. The average rental yield edged up from 2.5% in June to 2.6% in September. While transactions rebounded by 44% from the record low in the preceding quarter to 380 cases⁽²⁾ in the third quarter, they were still 46% lower than a year earlier.

3.13 Sale prices of *flatted factory space* in September fell by 1% from June, while rentals stayed little changed. The average rental yield stayed at 3.2% in September, unchanged from the level in June. Transactions increased by 6% over the preceding quarter to 620 cases in the third quarter, but were still 20% lower than a year earlier.

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



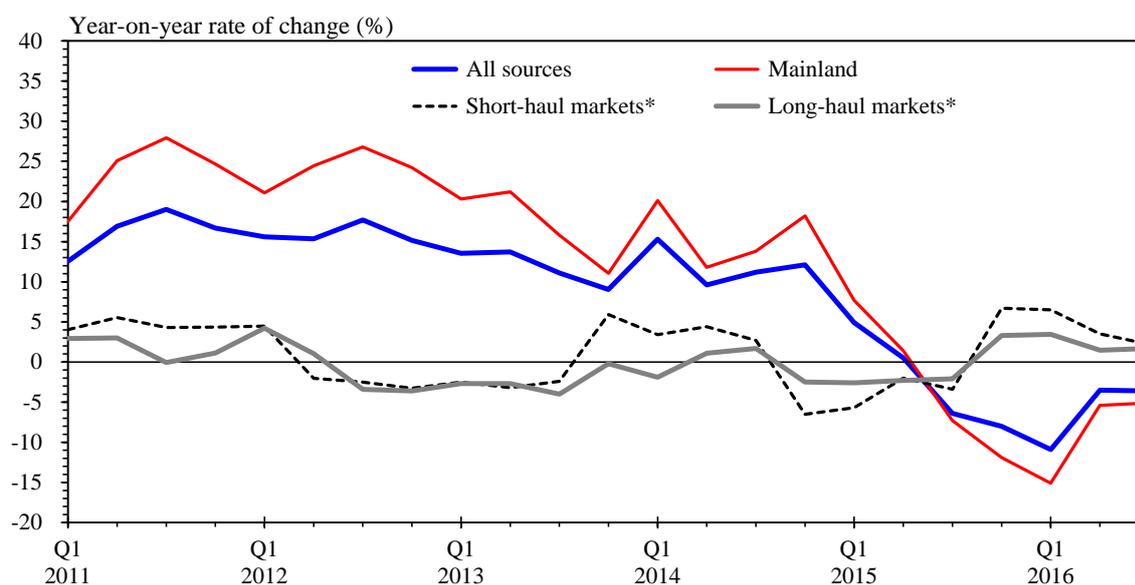
Land

3.14 Reflecting the Government's efforts to increase land supply, eight residential sites, one industrial site, one commercial site and two sites for petrol filling station, with a total area of about 12.5 hectares, were disposed of in the third quarter, fetching a land premium of about \$18.1 billion. The tender exercises for three residential sites in Beacon Hill, Kai Tak and Kwun Tong, one commercial site in Kai Tak and one business site in Wong Chuk Hang also commenced in the quarter. There was one land exchange approved in the third quarter, while lease modifications of seven sites were approved.

Tourism

3.15 Inbound tourism remained rather weak in the third quarter of 2016. Overall *visitor arrivals* fell by 3.6% from a year earlier to 14.6 million in the third quarter, mainly reflecting a 5.1% drop in Mainland visitors to 11.3 million. On the other hand, short-haul and long-haul visitors⁽³⁾ increased by 2.2% and 1.7% respectively.

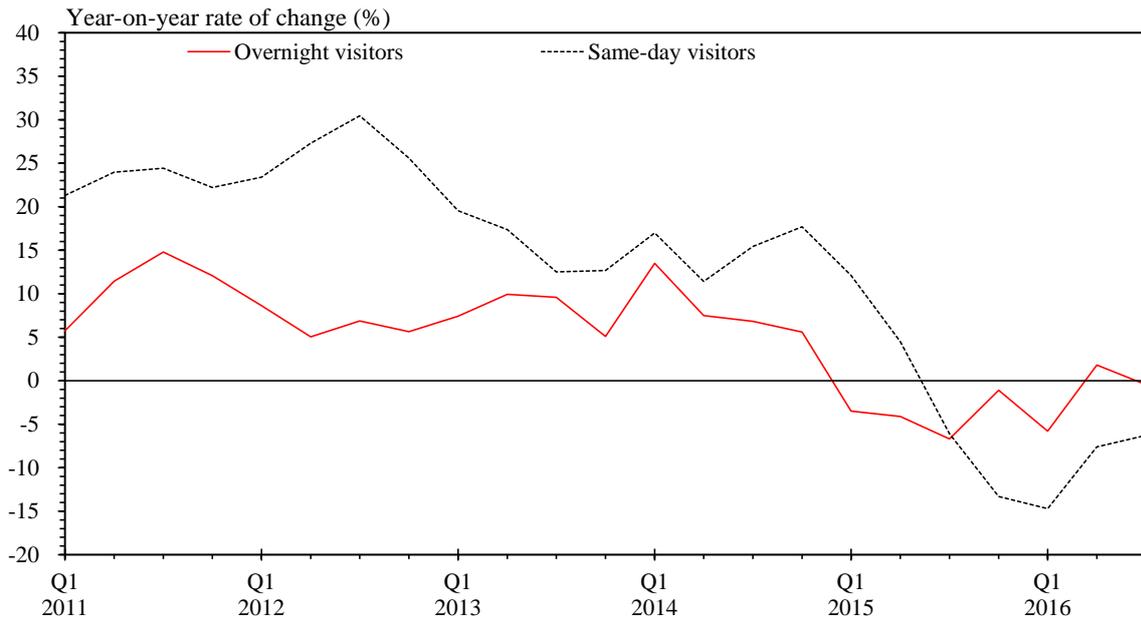
Diagram 3.7 : Inbound tourism remained rather weak in the third quarter



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

3.16 Analysed by the length of stay, overnight visitors edged down by 0.4% from a year earlier. Meanwhile, due to the lingering impact of the “one trip per week” Individual Visit Endorsements⁽⁴⁾, same-day visitors fell by another 6.3%. Reflecting these movements, the share of overnight visitors rose from 46.4% a year earlier to 47.9% in the third quarter, while that of same-day visitors declined from 53.6% to 52.1%.

Diagram 3.8 : Overnight visitors edged down while same-day visitors dropped further

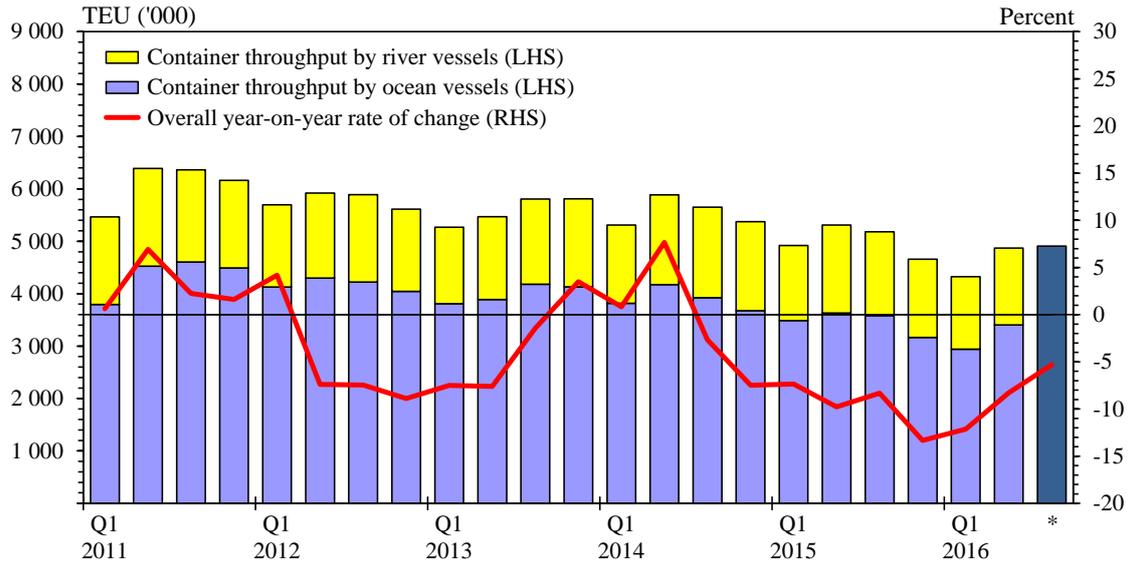


3.17 Notwithstanding the marginal decline in overnight visitor arrivals, the average hotel room occupancy rate edged up from 86% a year earlier to 88% in the third quarter. Yet the average achieved hotel room rate continued to decline, by 3.3% to \$1,187⁽⁵⁾.

Logistics

3.18 Amid the slow expansion of external trade, the logistics sector saw a mixed performance in the third quarter of 2016. *Total container throughput* continued to fall, albeit at a narrowed year-on-year rate of 5.3%, to 4.9 million twenty-foot equivalent units (TEUs). In parallel, the value of trade handled at the Hong Kong port fell by 8.5%, and its share in total trade shrank further from 20.4% to 18.5%.

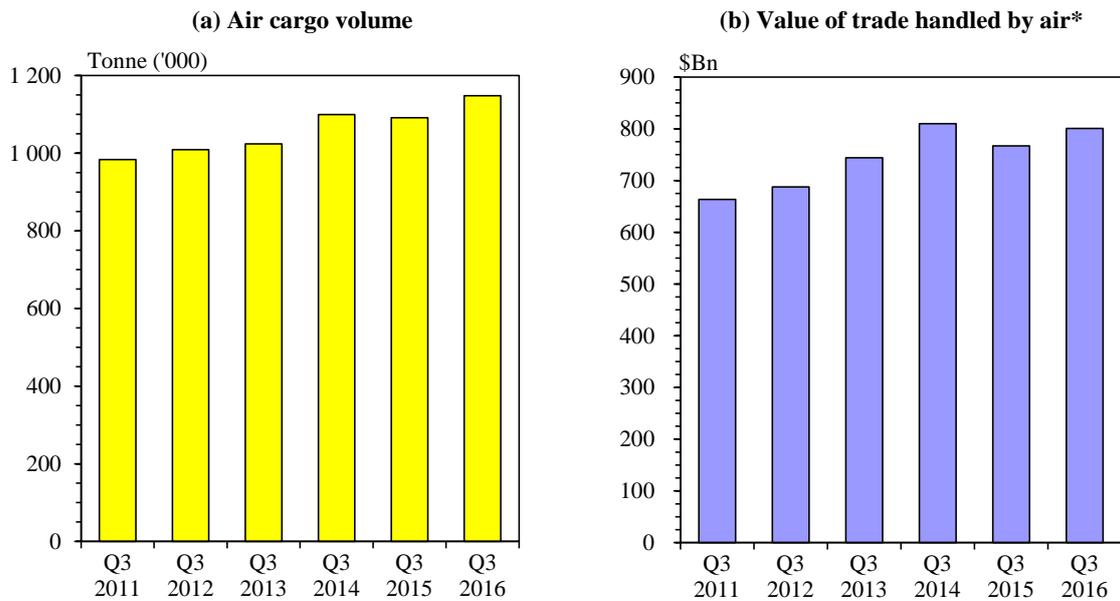
Diagram 3.9 : Container throughput continued to fall in the third quarter, albeit at a narrowed rate



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

3.19 Meanwhile, *air freight throughput* recorded an accelerated year-on-year increase of 5.2% to 1.1 million tonnes in the third quarter. The total value of trade by air increased by 4.4% in tandem, with its share in overall trade value rising from 38.8% a year earlier to 40.3%.

Diagram 3.10 : Air cargo throughput and value of trade handled by air increased further in the third quarter



Note : (*) Not including transshipment.

Transport

3.20 Traffic flows for the different major modes of transport recorded a mixed performance in the third quarter of 2016. Air passenger traffic rose further by 2.3% over a year earlier to 18.0 million, while water-borne passenger trips decreased further by 2.6% to 7.1 million. As to land-based cross-boundary traffic movements, both passenger trips and average daily vehicular movements increased, by 0.2% to 55.5 million and by 2.3% to 43 381 respectively.

3.21 In September, the Government approved carving out a site from the original land lease and regranting it under a new lease to the Airport Authority Hong Kong at a nominal premium for developing the Airport North Commercial District (NCD). The NCD development will become a purpose-built retail, dining and entertainment destination aimed at enriching travellers' experience, promoting tourism and enhancing the competitiveness of the Hong Kong International Airport as a global aviation hub.

Environment

3.22 The Government continued to step up efforts in combating climate change. The Chief Secretary for Administration (CS) chaired the Climate Change Stakeholder Engagement Forum in July to tap the views of key stakeholders to facilitate formulation of Hong Kong's long-term climate strategy. During the forum, CS introduced to the participants the Government's work on facilitating emission reduction including the promotion of smart city development, green transportation and green buildings. Views on climate change strategy by members of the public were collected between June and August 2016.

Notes :

- (1) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 in the 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 in the 2012 Economic Background and 2013 Prospects and Box 3.1 in the First Quarter Economic Report 2013. For details of the measures promulgated in 2014, see Box 4.1 in the 2013 Economic Background and 2014 Prospects. For details of the measures promulgated in 2015, see Box 3.1 of the First Quarter Economic Report 2015.
- (2) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (3) Short-haul markets refer to North Asia, South and Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In the third quarter of 2016, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 78%, 15% and 7% of total visitor arrivals.
- (4) For details of the change in Individual Visit Endorsements policy in April 2015, see paragraph 3.17 in the Half-yearly Economic Report 2015.
- (5) The figures on hotel room occupancy and achieved room rate do not include guesthouses.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *The low interest rate environment in Hong Kong continued in the third quarter of 2016 amid the accommodative monetary policy in the United States. The Hong Kong dollar interbank interest rates stayed at low levels.*
- *The Hong Kong dollar spot exchange rate moved within a narrow range against the US dollar during the third quarter. Meanwhile, both the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices edged up.*
- *Total loans and advances grew steadily, by 1.6% during the third quarter, with loans for use in Hong Kong expanding by 1.5% and loans for use outside Hong Kong by 1.9%.*
- *The local stock market staged a rally in the third quarter, amid easing concerns about an imminent interest rate hike in the US and the near-term impact of Brexit on the global economy. The in-principle approval of the structure of the Shenzhen-Hong Kong Stock Connect also rendered support to market sentiment. The Hang Seng Index reached its highest level this year in early September, and closed the third quarter at 23 297, up by 12.0% from end-June. Trading activities rebounded, and fund raising activities turned livelier.*

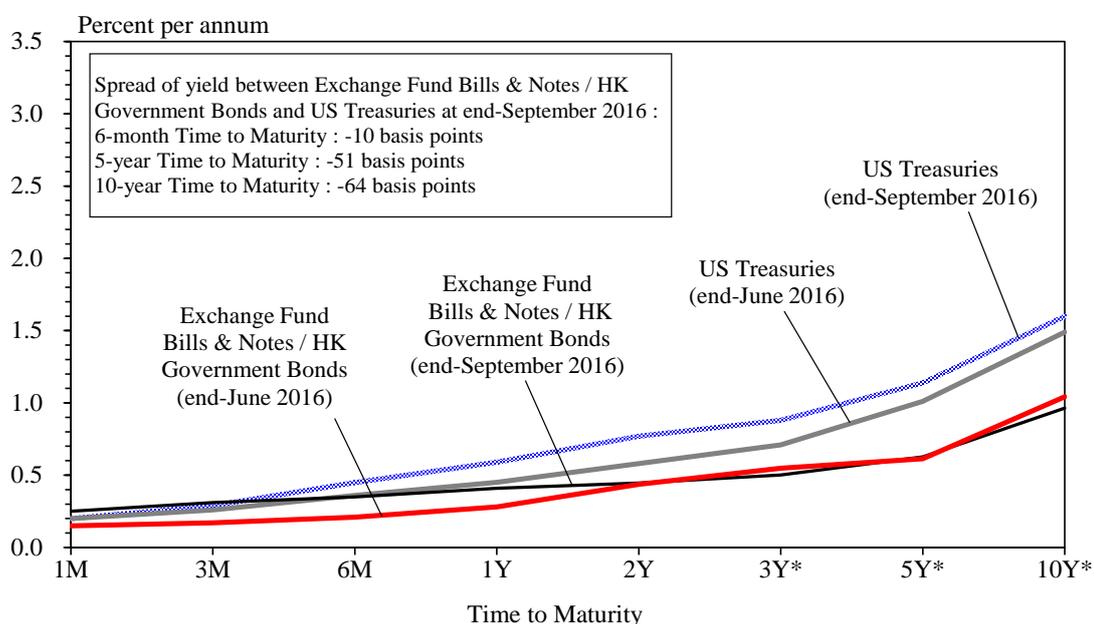
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the third quarter of 2016 amid the ongoing accommodative monetary policy in the United States. With the target range for the Federal Funds Rate staying at 0.25-0.50%, the *Base Rate* under the Discount Window operated by the HKMA held unchanged at 0.75% during the quarter⁽¹⁾. As for the *Hong Kong dollar interbank interest rates* (HIBORs), the overnight HIBOR went up from 0.12% at end-June to 0.22% at end-September, and the three-month HIBOR from 0.57% to 0.59%, but these were still low levels by historical standards.

4.2 *Hong Kong dollar yields* rose at the short tenor but edged down at the long tenor in the third quarter, while the *US dollar yield curve* steepened. Reflecting these movements, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills declined from 15 basis points at end-June to 10 basis points at end-September, while the negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes widened from 45 basis points to 64 basis points.

Diagram 4.1 : Hong Kong dollar yields rose at the short tenor but edged down at the long tenor, while the US dollar yield curve steepened

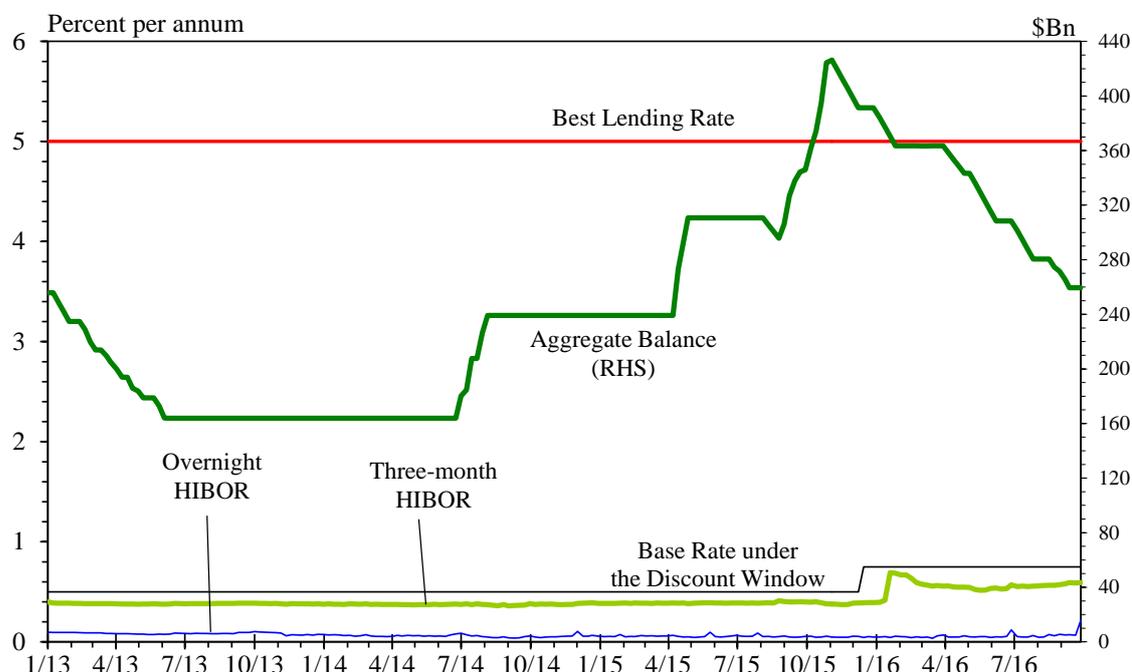


Note : (*) With the HKMA stopping new issuance of Exchange Fund Notes of tenors of three years or above since January 2015, the Hong Kong dollar yields for tenor of 3 years and above refer to those for Hong Kong Government Bonds.

4.3 Interest rates on the retail front continued to stay at low levels. The *Best Lending Rates* stayed unchanged at 5.00% or 5.25% during the third quarter. The *average savings deposit rate* and the *one-year time deposit rate* (for deposits of less than \$100,000) quoted by the major banks remained unchanged at 0.01% and 0.15% respectively at end-September. Meanwhile,

the *composite interest rate*⁽²⁾, which indicates the average cost of funds for retail banks, edged down from 0.26% at end-June to 0.25% at end-September.

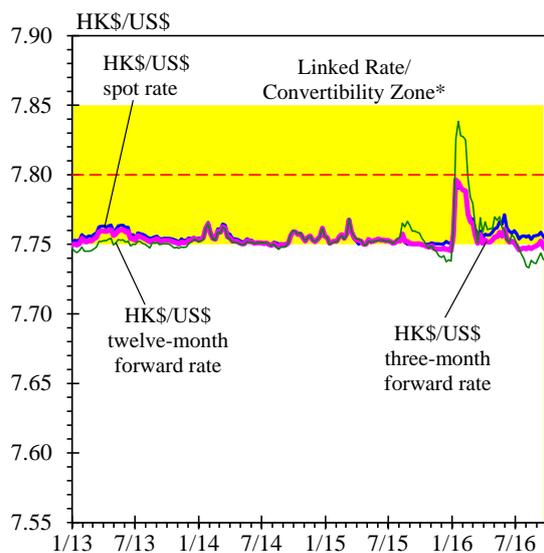
**Diagram 4.2 : Hong Kong dollar interest rates remained low
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* moved within a narrow range of 7.752-7.760 against the US dollar during the third quarter. It closed at 7.755 at end-September, compared with 7.759 at end-June. As regards the *Hong Kong dollar forward rates*, the 12-month forward rate discount expanded from 50 pips (each pip equivalent to HK\$0.0001) at end-June to 150 pips at end-September along with the widening of the negative Hong Kong dollar-US dollar interest rate spread, while the 3-month Hong Kong dollar forward discount narrowed from 85 pips to 71 pips.

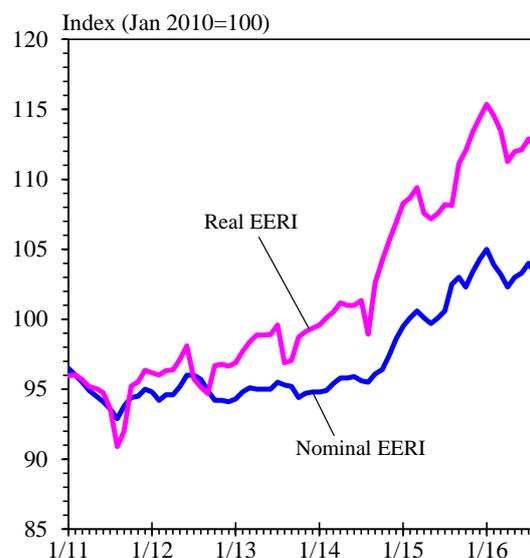
4.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. During the third quarter, the US dollar strengthened against pound sterling and renminbi, though weakening against euro and Japanese yen. Overall, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ edged up by 0.2% and 0.7% respectively during the third quarter.

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



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

Diagram 4.4 : The trade-weighted nominal and real EERIs edged up (average for the month)



Money supply and banking sector

4.6 The monetary aggregates expanded at an accelerated pace in the third quarter. The Hong Kong dollar broad *money supply* (HK\$M3) rose by 4.9% over end-June to \$6,201 billion⁽⁴⁾ at end-September, and the seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1) by 5.4% to \$1,407 billion. Meanwhile, *total deposits* with authorized institutions (AIs)⁽⁵⁾ grew by 5.2% to \$11,628 billion, within which Hong Kong dollar deposits and foreign currency deposits increased by 5.2% and 5.3% respectively.

Diagram 4.5 : The monetary aggregates expanded at an accelerated pace in the third quarter

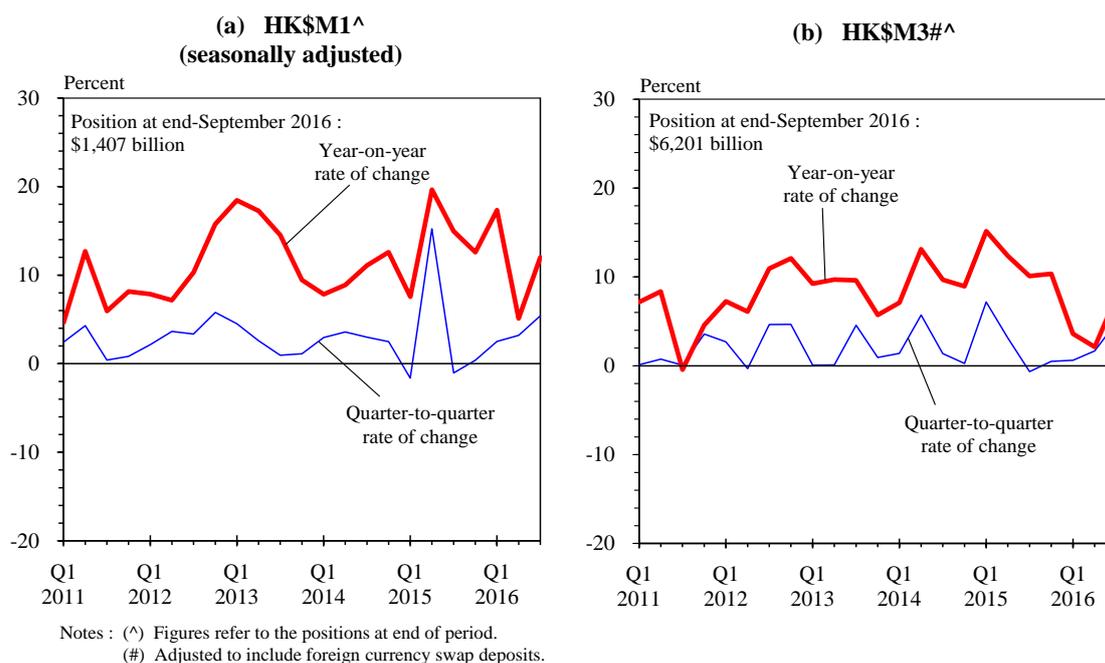


Table 4.1 : Hong Kong dollar money supply and total money supply

% change during the quarter		<u>M1</u>		<u>M2</u>		<u>M3</u>	
		<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
	Q2	3.2	0.6	1.7	0.4	1.7	0.4
	Q3	5.4	6.9	4.9	5.1	4.9	5.1
Total amount at end-September 2016 (\$Bn)		1,407	2,234	6,188	12,390	6,201	12,432
% change over a year earlier		12.0	10.7	7.8	8.3	7.8	8.3

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 *Total loans and advances* grew steadily, by 1.6% over end-June to \$7,824 billion at end-September, with Hong Kong dollar loans and foreign currency loans increasing by 1.6% and 1.7% respectively. Reflecting the relative movements in deposits and loans, the Hong Kong dollar loan-to-deposit ratio declined from 78.2% at end-June to 75.6% at end-September, and that for foreign currencies from 61.4% to 59.3%.

4.8 Loans for use in Hong Kong (including trade finance) increased moderately by 1.5% over end-June to \$5,503 billion at end-September, while loans for use outside Hong Kong expanded by 1.9% to \$2,321 billion. Within loans for use in Hong Kong, loans to financial concerns and loans to wholesale and retail trade grew further by 4.7% and 0.9% respectively. Yet loans to stockbrokers, loans to manufacturing and trade finance retreated by 6.9%, 4.4% and 1.1% respectively. As for property-related lending, amid a brisk performance of the property market, loans for purchase of residential property and loans to building, construction, property development and investment rose further, by 1.0% and 1.4% respectively.

Table 4.2 : Loans and advances

All loans and advances for use in Hong Kong

		Loans to :									
		Trade finance	Manu- facturing	Whole- sale and retail trade	Building, construction, property development and investment	Purchase of residential property ^(a)	Financial concerns	Stock- brokers	Total ^(b)	All loans and advances for use outside Hong Kong ^(c)	Total loans and advances
% 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
	Q2	5.7	8.8	0.7	1.5	0.5	13.7	6.8	3.1	0.7	2.4
	Q3	-1.1	-4.4	0.9	1.4	1.0	4.7	-6.9	1.5	1.9	1.6
Total amount at end-September 2016 (\$Bn)		468	247	423	1,204	1,141	519	59	5,503	2,321	7,824
% change over a year earlier		-7.1	-3.3	-8.2	5.1	3.0	27.9	26.2	5.0	0.1	3.5

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

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

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

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

4.9 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 19.4% at end-June 2016. Asset quality of the local banking sector remained healthy. The ratio of classified loans to total loans stayed low at 0.80% at end-June, though edging up from 0.78% at end-March, while the

delinquency ratio for credit card lending remained unchanged at 0.27%. The delinquency ratio for residential mortgage loans also remained low at 0.04% at end-September.

Table 4.3 : Asset quality of retail banks*

(as % of total loans)

<u>As at end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2015	Q1	98.39	1.14	0.46
	Q2	98.23	1.28	0.49
	Q3	98.08	1.36	0.56
	Q4 [^]	97.87	1.44	0.69
2016	Q1	97.77	1.45	0.78
	Q2	97.80	1.40	0.80

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.

4.10 *Offshore renminbi (RMB) business* remained generally lacklustre in the third quarter. Total RMB deposits (including customer deposits and outstanding certificates of deposit) shrank further by 6.7% from end-June to RMB743.2 billion at end-September. RMB trade settlement transactions handled by banks in Hong Kong fell by a sharp 42.0% from a year earlier or by 3.7% from the preceding quarter to RMB1,189.2 billion in the third quarter. Nonetheless, RMB-related financing showed some expansion. RMB bank lending grew by 7.0% over end-June to RMB307.4 billion at end-September, while bond issuance (not including the issuance by the Ministry of Finance of China) expanded from RMB6.7 billion in the preceding quarter to RMB8.5 billion in the third quarter.

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

<u>As at end of period</u>		<u>Interest rates on^(a)</u>					<u>Number of AIs engaged in RMB business</u>	<u>Amount of cross-border RMB trade settlement^(c)</u> (RMB Mn)
		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Savings deposits^(b)</u> (%)	<u>Three-month time deposits^(b)</u> (%)		
2015	Q1	157,444	794,550	951,994	0.25	0.53	147	1,626,122
	Q2	180,445	812,479	992,924	0.25	0.53	146	1,569,670
	Q3	165,849	729,516	895,365	0.25	0.53	145	2,050,107
	Q4	160,908	690,198	851,106	0.25	0.53	145	1,587,184
2016	Q1	187,124	572,302	759,425	0.25	0.53	145	1,130,645
	Q2	204,282	507,266	711,549	0.25	0.53	146	1,234,587
	Q3	201,829	463,671	665,500	0.25	0.53	145	1,189,244
% change in 2016 Q3 over 2015 Q3		21.7%	-36.4%	-25.7%	N.A.	N.A.	N.A.	-42.0%
% change in 2016 Q3 over 2016 Q2		-1.2%	-8.6%	-6.5%	N.A.	N.A.	N.A.	-3.7%

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

The debt market

4.11 In the *debt market*, total gross issuance of Hong Kong dollar debt securities declined by 7.0% from the preceding quarter to \$744.8 billion in the third quarter. Specifically, public sector debt issuance decreased by 3.5% to \$682.8 billion, mainly due to a plunge in new debts issued by statutory bodies/government-owned corporations and the Government. Private sector debt issuance⁽⁶⁾ fell by a sharp 33.4% to \$60.1 billion, due entirely to the plunge in AIs' and non-Multilateral Development Banks (MDBs) overseas borrowers' issuance. Nonetheless, with more debt issued than debt maturing, the total outstanding balance of Hong Kong dollar debt securities expanded by 4.3% over end-June to \$1,725.6 billion at end-September, equivalent to 27.8% of HK\$M3 or 24.0% of Hong Kong dollar-denominated assets of the banking sector⁽⁷⁾.

4.12 As to the Government Bond ("GB") Programme, a total of \$1.8 billion institutional GBs were issued through tenders in the third quarter. Meanwhile, the inaugural Silver Bond (iBonds for residents aged 65 or above), with an issue

size of \$3 billion, was issued on 12 August. It was greeted with favourable responses, receiving over 76 000 valid applications for around \$8.9 billion of subscription. At end-September, the total outstanding Hong Kong dollar bonds under the GB Programme amounted to \$105.3 billion, comprising 13 institutional issues totaling \$72.3 billion and four retail issues (three iBonds and one Silver Bond) totaling \$33.0 billion. In addition, two US dollar sukuks, each with an issue size of US\$1 billion, were outstanding under the Programme.

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

		Exchange Fund paper	Statutory bodies/govern- ment-owned corporations	Govern- ment	Public sector total	AIs ^(a)	Local corporations	Non-MDBs overseas borrowers ^(b)	Private sector total	MDBs ^(b)	Total
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
	Q2	677.3	14.1	16.5	707.8	56.1	3.3	30.8	90.3	2.8	800.9
	Q3	677.7	0.3	4.8	682.8	29.0	9.3	21.7	60.1	1.9	744.8
	% change in 2016 Q3 over 2015 Q3	13.0	-63.4	-54.7	11.7	96.4	228.8	80.9	102.8	N.A.	16.2
	% change in 2016 Q3 over 2016 Q2	0.1	-97.9	-70.9	-3.5	-48.3	181.9	-29.5	-33.4	-33.5	-7.0
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	149.8	521.6	5.3	1,448.1
	Q4	828.4	43.4	100.4	972.2	240.0	141.7	157.9	539.6	5.3	1,517.0
2016	Q1	856.9	46.6	102.0	1,005.5	226.1	142.6	165.1	533.8	6.0	1,545.2
	Q2	912.4	56.3	102.0	1,070.6	256.7	143.2	175.0	574.9	8.8	1,654.4
	Q3	962.1	53.1	106.8	1,121.9	264.7	150.6	177.8	593.1	10.5	1,725.6
	% change in 2016 Q3 over 2015 Q3	24.4	22.8	2.0	21.8	14.7	6.7	18.7	13.7	99.0	19.2
	% change in 2016 Q3 over 2016 Q2	5.4	-5.7	4.7	4.8	3.1	5.1	1.6	3.2	19.8	4.3

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

N.A. Not available.

(a) AIs : Authorized institutions.

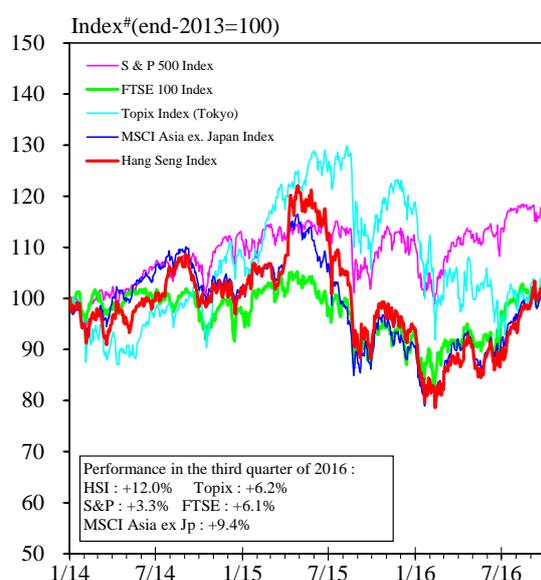
(b) MDBs : Multilateral Development Banks.

The stock and derivatives markets

4.13 The *local stock market* staged a rally in the third quarter of 2016, amid easing concerns about an imminent interest rate hike in the US and the near-term impact of Brexit on the global economy. The in-principle approval of the structure of the Shenzhen-Hong Kong Stock Connect also rendered support to market sentiment. The Hang Seng Index (HSI) reached its highest level this year in early September, and closed the third quarter at 23 297, up by 12.0% from end-June. The *market capitalisation* of the Hong Kong stock market also increased by 11.0% to \$25.6 trillion over the period. The local stock market was the seventh largest in the world and third largest in Asia⁽⁸⁾.

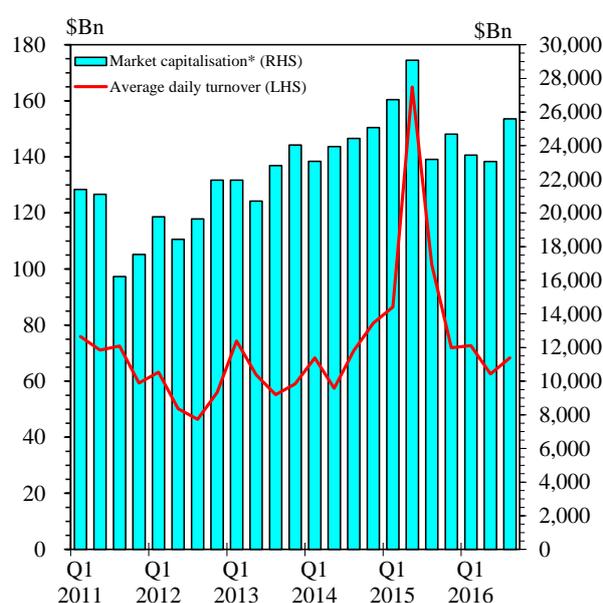
4.14 Trading activities also rebounded in parallel. *Average daily turnover* in the securities market increased by 9.1% over the second quarter to \$68.3 billion in the third quarter, though still representing a plunge of 32.7% from a year earlier. Within the total, the average daily trading value of equities, unit trusts (including Exchange-Traded Funds) and callable bull/bear contracts rose by 14.7%, 13.8% and 1.5% respectively over the preceding quarter, while that of derivative warrants⁽⁹⁾ declined by 10.2%. As to futures and options⁽¹⁰⁾, the average daily trading volume edged down by 1.4% from the preceding quarter. Within the total, trading of H-shares Index futures, HSI futures and HSI options recorded respective declines of 11.5%, 5.7% and 4.2%, while that of stock options rose by 4.1%.

Diagram 4.6 : The local stock market staged a rally in the third quarter



Note : (#) Position at end of month.

Diagram 4.7 : Market capitalisation and trading activities both increased



Note : (*) Position at end of quarter.

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

		Hang Seng Index futures	Hang Seng Index options	H-shares Index futures	Stock options	Total futures and options traded*
2015	Annual	85 991	30 427	135 139	374 346	768 520
	Q1	64 351	27 727	108 774	363 322	672 678
	Q2	81 541	35 129	154 553	523 860	946 336
	Q3	82 743	33 238	152 006	375 780	819 085
	Q4	114 430	25 752	125 310	241 192	641 404
2016	Q1	141 439	38 235	154 053	293 047	805 276
	Q2	135 572	38 802	138 127	292 684	758 733
	Q3	127 885	37 186	122 196	304 828	748 269
% change in 2016 Q3 over 2015 Q3		54.6	11.9	-19.6	-18.9	-8.6
% change in 2016 Q3 over 2016 Q2		-5.7	-4.2	-11.5	4.1	-1.4

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

4.15 Fund raising activities also turned livelier in the third quarter. *Total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)⁽¹¹⁾, soared by 212.5% over the preceding quarter or 20.5% over a year earlier to \$168.6 billion in the third quarter. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) jumped by 582.9% over the low base in the preceding quarter to \$90.8 billion. Yet taking the first three quarters together, total equity capital raised plunged by 63.2% from a year earlier to \$313.5 billion, and funds raised through IPOs by a lesser 14.1% to \$134.3 billion, mainly reflecting the subdued fund raising activities in the first half. Still, Hong Kong ranked the first globally in terms of the amount of funds raised through IPOs in the first three quarters of 2016.

4.16 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-September 2016, a total of 982 Mainland enterprises (including 235 H-share companies, 152 “Red Chip” companies and 595 private enterprises) were listed on the Main Board and GEM, accounting for 51% of the total number of listed companies and 63% of total market capitalisation. In the third quarter, Mainland-related stocks accounted for 72% of equity turnover and 88% of total equity fund raised in the Hong Kong stock exchange.

Fund management and investment funds

4.17 Supported by the buoyant equity market, the fund management business generally showed solid performance in the third quarter. The monthly average gross retail sales of *mutual funds* expanded by 34.7% over the preceding quarter or 32.0% over a year earlier to US\$7.2 billion in July – August⁽¹²⁾. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹³⁾ rose by 7.9% over end-June to \$655.5 billion at end-September. Meanwhile, the amount of net assets managed by *retail hedge funds* fell further⁽¹⁴⁾.

4.18 In July, the HKMA and the Securities and Futures Commission (SFC) published further conclusions on proposals for introducing the first phase of mandatory clearing and the second phase of mandatory reporting under the over-the-counter derivatives regulatory regime. The paper sets out the revised proposals on various technical aspects of the regime in light of market feedback and comments. The first phase of mandatory clearing subsequently commenced on 1 September 2016, and the second phase of mandatory reporting will commence on 1 July 2017.

Insurance sector

4.19 The *insurance sector*⁽¹⁵⁾ recorded an accelerated growth in the second quarter of 2016. Gross premium income from long-term business surged by 33.5% over a year earlier, mainly driven by a noticeable increase in premium income from non-investment linked plans. As to general business, gross premium and net premium edged down by 0.1% and 1.6% 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	
2015 Annual	45,961	32,085	1,697	120,435	10,243	178	417	131,273	177,234
Q1	12,939	9,053	645	32,060	4,249	52	121	36,482	49,421
Q2	10,943	7,888	58	28,909	3,210	42	80	32,241	43,184
Q3	11,592	7,900	803	27,356	1,328	43	145	28,872	40,464
Q4	10,487	7,244	191	32,110	1,456	41	71	33,678	44,165
2016 Q1	13,078	8,864	574	37,256	1,239	50	92	38,637	51,715
Q2	10,937	7,762	501	42,058	853	68	78	43,057	53,994
% change in 2016 Q2 over 2015 Q2	-0.1	-1.6	763.8	45.5	-73.4	61.9	-2.5	33.5	25.0

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

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

Highlights of policy and market developments

4.20 In August, the SFC and the China Securities Regulatory Commission jointly announced the approval, in principle, of the structure of Shenzhen-Hong Kong Stock Connect. Similar to the Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect allows investors in Hong Kong and the Mainland to trade and settle eligible shares listed on the other market via local brokerages, exchanges and clearing houses. The Shenzhen-Hong Kong Stock Connect will provide an additional channel for mutual access to stock markets of the two places. It will further facilitate two-way investment flows and consolidate Hong Kong's development as the global offshore RMB business hub. Subject to the finalisation of all necessary regulatory approvals, market readiness and relevant operational arrangements, the Shenzhen-Hong Kong Stock Connect would be launched in due course.

Notes :

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

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

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

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

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

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

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

- (5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-September 2016, there were 156 licensed banks, 23 restricted licence banks and 18 deposit-taking companies in Hong Kong. Altogether, 197 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.

- (6) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (7) Assets of the banking sector include notes and coins, amount due from AIs in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposit (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.
- (8) The ranking is based on the figures compiled by the World Federation of Exchanges and the London Stock Exchanges Group.
- (9) Given the relatively small share (less than 0.5% of the daily turnover in the securities market), trading of debt securities and its movements were not analysed.
- (10) At end-September 2016, there were 84 classes of stock options contracts and 74 classes of stock futures contracts.
- (11) At end-September 2016, there were 1 687 and 243 companies listed on the Main Board and GEM respectively.
- (12) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-August 2016, the survey covered a total of 1 142 active authorised funds.
- (13) At end-September 2016, there were 18 approved trustees. On MPF products, 35 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 462 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 275 000 employers, 2.58 million employees and 203 000 self-employed persons have participated in MPF schemes.
- (14) At end-September 2016, there were two SFC-authorised retail hedge funds with combined net asset size of US\$38 million. The amount of net assets under management represented a 22.4% decrease from the end-June 2016 level, and a 76.3% decrease from end-2002, the year when the hedge funds guidelines were first issued.
- (15) At end-September 2016, there were 157 authorised insurers in Hong Kong. Within this total, 44 were engaged in long-term insurance business, 94 in general insurance business, and 19 in composite insurance business. These authorised insurers came from 23 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

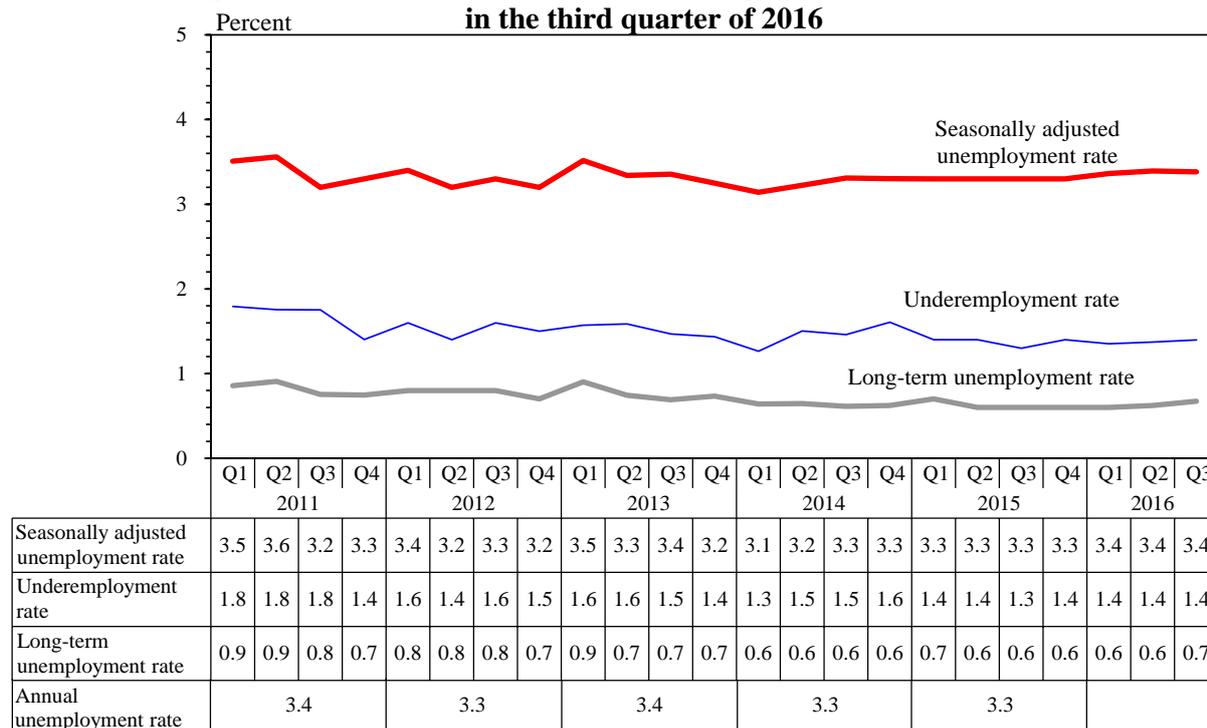
Summary

- *The labour market held largely stable in overall terms in the third quarter of 2016, displaying much resilience against the unsteady external environment and the sustained weakness of inbound tourism.*
- *The seasonally adjusted unemployment rate stayed at 3.4% during the third quarter, a level that signified full employment. Total employment sustained moderate year-on-year growth. Employment growth was seen in most of the major sectors, except those which were more affected by the tepid trade flows and the dwindling tourist spending.*
- *Amid a largely stable labour market, nominal wages and payroll increased steadily further in June 2016. More recent data showed that earnings of grassroots workers sustained solid improvement.*

Overall labour market situation⁽¹⁾

5.1 The labour market stayed resilient and remained largely stable in overall terms in the third quarter of 2016. The seasonally adjusted *unemployment rate*⁽²⁾ and the *underemployment rate*⁽³⁾ remained unchanged compared to the preceding quarter at 3.4% and 1.4% respectively, while total employment and the labour force grew moderately further over a year earlier. Many major economic sectors registered year-on-year employment growth, except those which had been more affected by the lacklustre regional trade flows and the fall-off in tourist spending. Amid the largely stable labour market conditions, wages and earnings sustained steady growth, with earnings of grassroots workers witnessing solid improvement. Yet reflecting the growth moderation in the preceding quarters, signs of slackening labour demand were witnessed across a number of sectors, as manifested by the broad-based and double-digit year-on-year decline in job vacancies in the private sector. Other labour market indicators, such as the proportion of dismissals or lay-offs among the unemployed persons, also saw some deterioration and warranted further monitoring.

Diagram 5.1 : The seasonally adjusted unemployment rate stayed at 3.4% in the third quarter of 2016



Labour force and total employment

5.2 On the supply side, the *labour force*⁽⁴⁾ grew by 1.0% year-on-year to 3 954 000 in the third quarter of 2016, slightly faster than the concurrent increase of 0.8% in the working-age population (i.e. land-based non-institutional population aged 15 and above). Labour force participation rate remained broadly the same at 61.2% over the preceding quarter and a year earlier.

5.3 On the demand side, *total employment*⁽⁵⁾ increased by 0.9% year-on-year to 3 813 400 in the third quarter. Although many major sectors registered job gains over a year earlier, employment in the import/export trades and wholesale, and retail sectors posted the tenth and sixth consecutive quarter of year-on-year decline respectively, amid the sustained weakness in regional trade flows and inbound tourism.

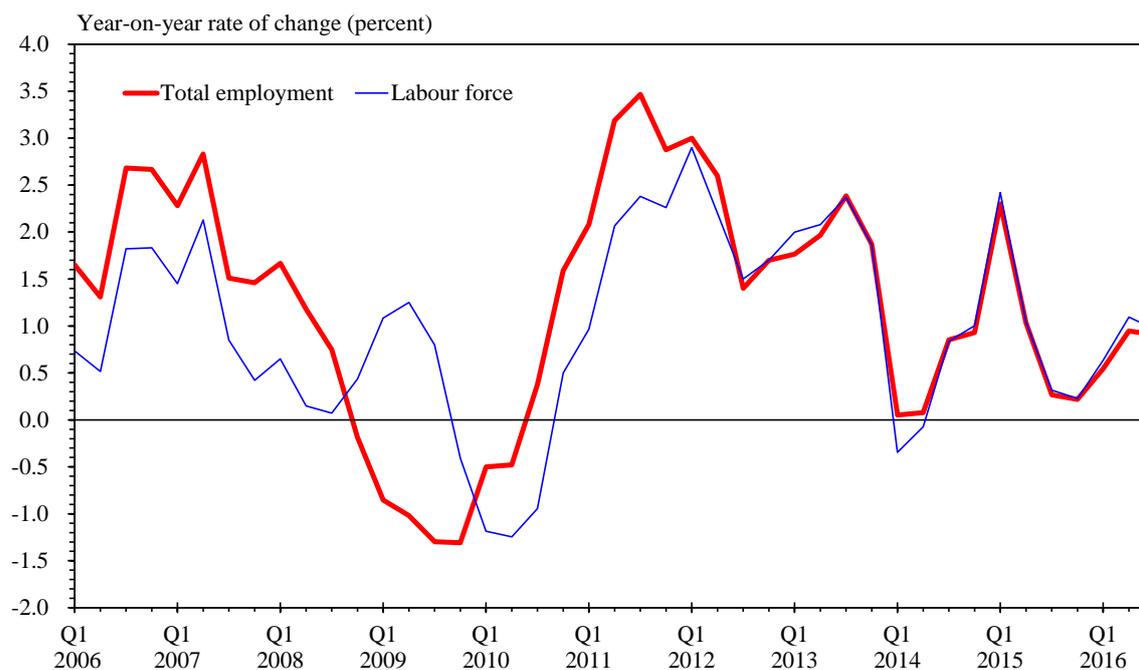
Table 5.1 : The labour force, and persons employed, unemployed and underemployed

	<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed^(a)</u>	<u>Persons underemployed</u>
2015 Annual	3 909 800 (0.9)	3 780 900 (0.8)	128 900	53 000
Q1	3 917 300 (2.4)	3 791 100 (2.3)	126 200	53 500
Q2	3 900 500 (1.0)	3 771 400 (1.0)	129 100	55 200
Q3	3 916 300 (0.3)	3 779 200 (0.3)	137 100	52 800
Q4	3 913 300 (0.2)	3 790 000 (0.2)	123 300	52 900
2016 Q1	3 942 200 (0.6)	3 811 800 (0.5)	130 400	53 400
Q2	3 943 200 (1.1)	3 807 100 (0.9)	136 100	54 100
<i>Three months ending</i>				
2016 Jul	3 950 300 (0.9)	3 811 400 (0.8)	138 800	55 500
Aug	3 958 000 (0.8)	3 816 800 (0.7)	141 200	55 900
Sep	3 954 000 (1.0)	3 813 400 (0.9)	140 600	55 300
	<§>	<§>		

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

Source : General Household Survey, Census and Statistics Department.

Diagram 5.2 : Both the labour force and total employment grew moderately in the third quarter



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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 Q1</u>	<u>2016 Q2</u>	<u>2016 Q3</u>
<u>Male</u>								
15-24	35.7	36.4	37.8	37.8	39.0	38.8	38.7	41.2
<i>of which:</i>								
15-19	9.9	10.5	11.0	11.1	11.6	12.1	12.5	15.2
20-24	61.1	61.1	62.5	61.5	61.9	60.8	61.4	63.4
25-29	93.9	94.5	93.8	93.4	93.6	93.3	91.6	92.8
30-39	96.5	96.8	96.9	96.5	96.5	96.1	96.0	96.1
40-49	95.1	95.3	95.5	94.7	95.0	95.0	95.1	94.9
50-59	84.9	85.1	86.8	86.7	86.7	86.9	86.9	86.3
≥ 60	23.4	25.6	26.9	27.8	28.4	29.8	29.9	30.2
Overall	68.4	68.7	69.1	68.8	68.8	68.9	68.6	68.9
<u>Female</u>								
15-24	37.0	37.5	40.0	39.3	41.5	40.0	41.0	42.7
<i>of which:</i>								
15-19	9.1	9.7	11.5	12.5	12.8	12.0	11.8	12.5
20-24	62.1	62.0	64.2	61.4	63.7	61.2	62.9	66.6
25-29	87.5	87.2	86.6	86.3	85.8	85.7	86.0	86.2
30-39	76.8	77.5	78.5	79.0	78.5	79.3	78.7	78.6
40-49	69.9	70.8	72.8	73.1	73.8	75.1	74.2	73.4
50-59	51.6	53.8	56.1	57.1	58.2	59.8	59.6	59.2
≥ 60	8.1	8.8	9.6	10.6	11.4	11.7	12.1	12.4
Overall	53.0	53.6	54.5	54.6	54.8	55.2	55.0	54.9
<u>Both genders combined</u>								
15-24	36.4	37.0	38.9	38.6	40.2	39.4	39.8	41.9
<i>of which:</i>								
15-19	9.5	10.1	11.2	11.8	12.2	12.0	12.2	13.9
20-24	61.6	61.6	63.4	61.4	62.8	61.0	62.2	65.0
25-29	90.2	90.3	89.7	89.4	89.2	89.1	88.5	89.1
30-39	84.9	85.4	85.9	86.0	85.7	86.0	85.6	85.6
40-49	81.0	81.4	82.5	82.3	82.7	83.4	82.9	82.3
50-59	68.0	69.2	71.0	71.4	71.8	72.6	72.5	72.0
≥ 60	15.5	16.9	17.9	18.9	19.6	20.4	20.6	20.9
Overall	60.1	60.5	61.2	61.1	61.2	61.4	61.2	61.2

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

5.4 With the labour force growth outpacing employment growth, the number of unemployed persons increased by 4 500 over the preceding quarter to 140 600 in the third quarter. After netting out seasonal fluctuations, the seasonally adjusted unemployment rate was unchanged at 3.4% for the third consecutive quarter.

5.5 Diverse movements in the unemployment rate were observed across economic sectors. Compared to the previous quarter, a more noticeable increase in the unemployment rate (not seasonally adjusted) was observed in the warehousing and support activities for transportation sector (up 1.4 percentage points), while a more discernible decrease was seen in the construction sector (down 1.2 percentage points). On a year-on-year comparison to net out seasonal influences, many sectors saw some worsening in the unemployment situation, conceivably attributable to the continued below-trend economic growth in recent quarters. Amid the sustained weakness in inbound tourism and consumption market, the unemployment rate of the consumption- and tourism-related segment as a whole (viz. retail, accommodation and food services) rose by 0.7 percentage point to 5.3%. Within this segment, the retail sector was more affected, with its unemployment rate up by 0.9 percentage point to 5.5%. Meanwhile, the unemployment rates of the professional and business services, information and communications, and import/export trade and wholesale sectors also rose more visibly, by 0.8, 0.7 and 0.5 percentage point respectively. For the *low paying sectors*⁽⁶⁾ as a whole, its unemployment rate fell by 0.2 percentage point over the preceding quarter to 3.3%, but was 0.1 percentage point above its year-ago level.

5.6 Analysed by skill segment, the unemployment rate of lower-skilled workers fell by 0.3 percentage point over the preceding quarter to 3.5%, while that of higher-skilled workers was little changed at 2.1%. On a year-on-year comparison, the unemployment rate of both lower-skilled and higher-skilled workers rose, by 0.1 and 0.3 percentage point respectively.

5.7 As regards other socio-economic attributes, more discernible year-on-year rises in the unemployment rate were observed among persons aged 25-29 (up 0.7 percentage point), and those with primary education and below (up 0.4 percentage point). On the other hand, those aged 15-24 (down by 1.4 percentage points) and those with post-secondary education (down 0.2 percentage point) saw more discernible declines.

Diagram 5.3 : Unemployment rates showed varied movements across different economic sectors

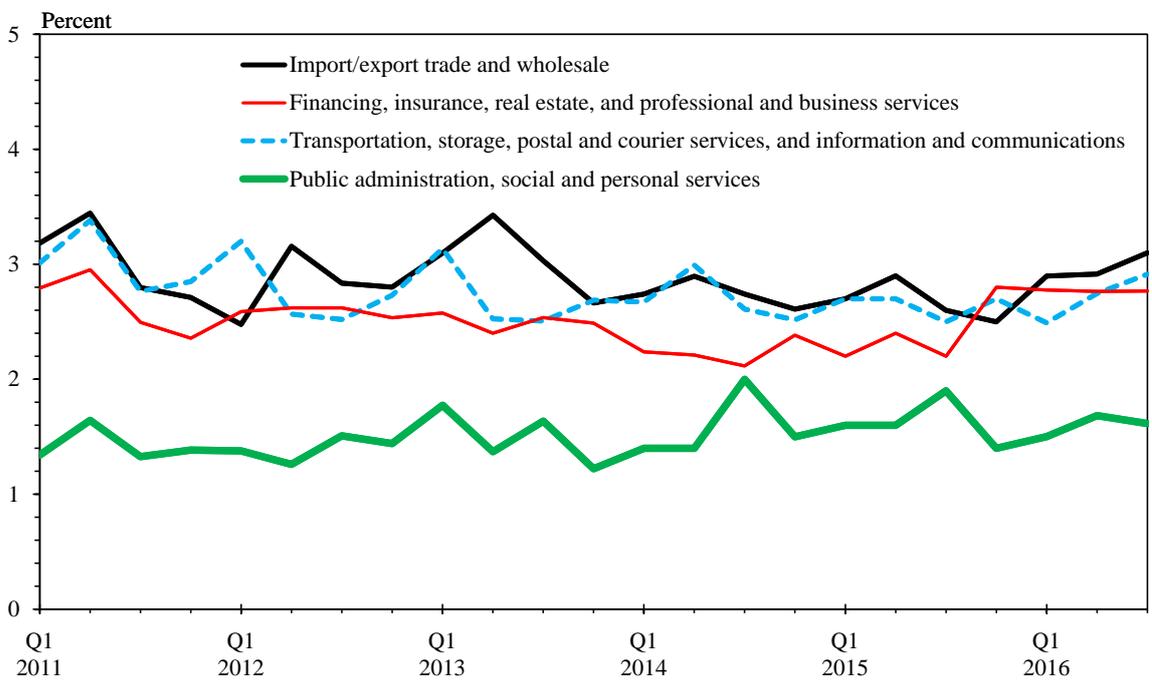
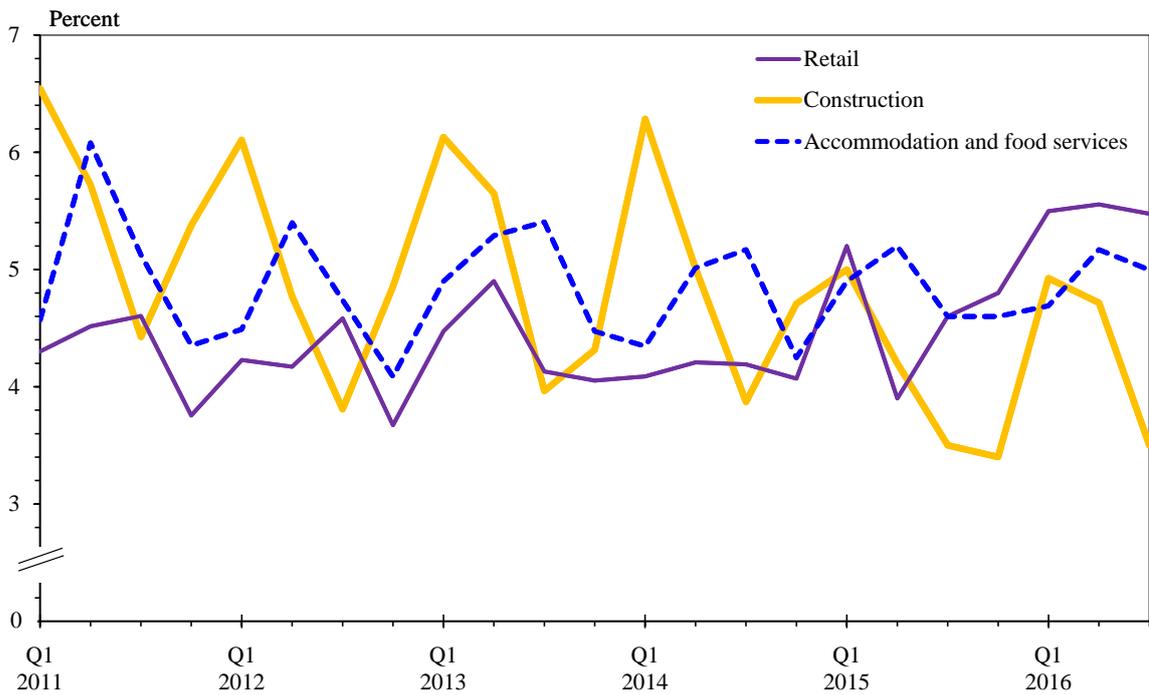


Table 5.3 : Unemployment rates by major economic sector

	<u>2015</u>				<u>2016</u>		
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Import/export trade and wholesale	2.7	2.9	2.6	2.5	2.9	2.9	3.1
Retail	5.2	3.9	4.6	4.8	5.5	5.6	5.5
Accommodation and food services	4.9	5.2	4.6	4.6	4.7	5.2	5.0
Transportation, storage, postal and courier services	2.8	2.8	2.7	2.6	2.5	2.8	2.9
Information and communications	2.4	2.6	2.1	3.1	2.4	2.5	2.8
Financing and insurance	1.7	1.4	1.7	2.1	2.0	2.0	2.1
Real estate	1.7	2.9	2.4	2.3	2.2	3.0	2.6
Professional and business services	2.8	2.9	2.5	3.5	3.5	3.2	3.3
Public administration, social and personal services	1.6	1.6	1.9	1.4	1.5	1.7	1.6
Manufacturing	3.0	3.4	4.0	3.2	4.1	3.8	2.9
Construction	5.0	4.2	3.5	3.4	4.9	4.7	3.5
Overall	3.2 (3.3)	3.3 (3.3)	3.5 (3.3)	3.2 (3.3)	3.3 (3.4)	3.5 (3.4)	3.6 (3.4)

Note : () Seasonally adjusted unemployment figures.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.4 : Unemployment rate of the higher-skilled segment was little changed while that of the lower-skilled segment fell during the third quarter

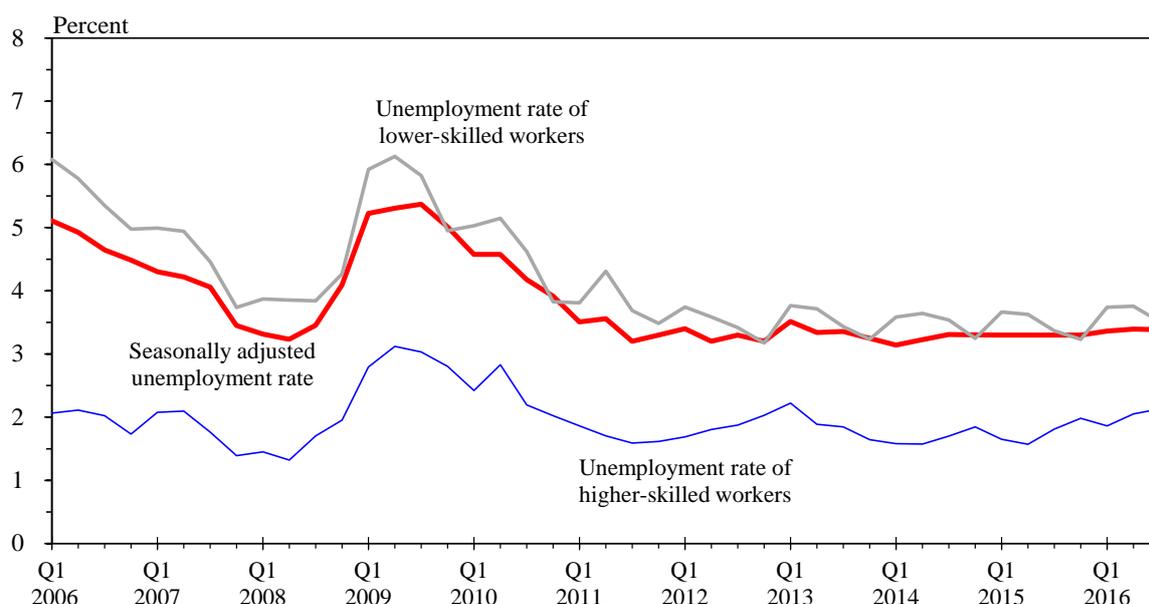


Table 5.4 : Unemployment rates* by skill segment

	<u>2015</u>				<u>2016</u>		
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
<u>Higher-skilled segment</u>	1.7	1.6	1.8	2.0	1.9	2.1	2.1
Managers and administrators	1.1	1.2	1.7	1.5	1.6	1.7	1.2
Professionals	1.4	1.2	1.9	1.7	1.3	1.6	2.2
Associate professionals	2.0	2.0	1.8	2.4	2.2	2.4	2.6
<u>Lower-skilled segment</u> [^]	3.7	3.6	3.4	3.2	3.7	3.8	3.5
Clerical support workers	2.7	3.7	3.4	3.0	3.4	3.4	3.8
Service and sales workers	5.1	4.6	4.4	4.2	4.8	5.0	4.3
Craft and related workers	4.4	4.0	3.1	3.0	4.6	4.3	3.7
Plant and machine operators and assemblers	1.9	2.3	2.6	3.0	2.3	2.4	2.7
Elementary occupations	3.3	2.9	2.8	2.6	3.1	3.2	2.8

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>Q2</u>	<u>Q3</u>
<u>Age</u>							
15-24	9.0	11.1	12.4	8.8	8.9	10.3	11.0
<i>of which:</i>							
15-19	13.9	17.3	14.1	9.1	15.1	17.4	12.1
20-24	8.3	10.1	12.1	8.8	8.0	9.2	10.8
25-29	2.9	3.4	3.8	3.5	4.0	3.9	4.5
30-39	1.9	2.1	2.2	2.2	2.0	2.2	2.5
40-49	3.2	2.6	2.7	2.7	2.8	2.9	2.8
50-59	2.8	2.8	2.8	2.8	3.4	3.1	3.0
≥ 60	3.0	2.4	2.0	2.5	2.1	2.8	1.8
<u>Educational attainment</u>							
Primary education and below	3.7	3.0	2.4	2.8	3.2	3.4	2.8
Lower secondary education	4.6	4.3	3.8	4.0	4.3	4.3	3.9
Upper secondary education [^]	3.2	3.1	3.2	2.8	3.1	3.6	3.5
Post-secondary education	2.6	3.2	3.9	3.3	3.2	3.0	3.7

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 saw some deterioration. The number of long-term unemployed persons (i.e. unemployed for six months or longer) rose to 26 600 in the third quarter from 24 600 in the preceding quarter, with the long-term unemployment rate edging up by 0.1 percentage point to 0.7%, albeit still a relatively low level. The proportion of dismissals or lay-offs among the total number of unemployed persons (not including first-time job-seekers and re-entrants into the labour force) was 47.6%, up by 6.7 percentage points over a year earlier. The median duration of unemployment nevertheless shortened slightly to 70 days in the third quarter, from 71 days in the previous quarter.

Profile of underemployment

5.9 The underemployment situation held largely stable in the third quarter of 2016. While the number of underemployed persons increased by 1 200 over the preceding quarter to 55 300, the underemployment rate remained unchanged at a low level of 1.4% for the fourth straight quarter. On a year-on-year comparison, more noticeable increases in the underemployment rate were seen in the decoration, repair and maintenance of buildings, and retail sectors. On the other hand, more notable declines were observed in the accommodation and food services, and social work activities sectors. Analysed by occupational category, the underemployment rate of the higher-skilled segment rose by 0.2 percentage point to 0.5% over a year earlier, while that of the lower-skilled segment remained unchanged at 2.0%.

Box 5.1

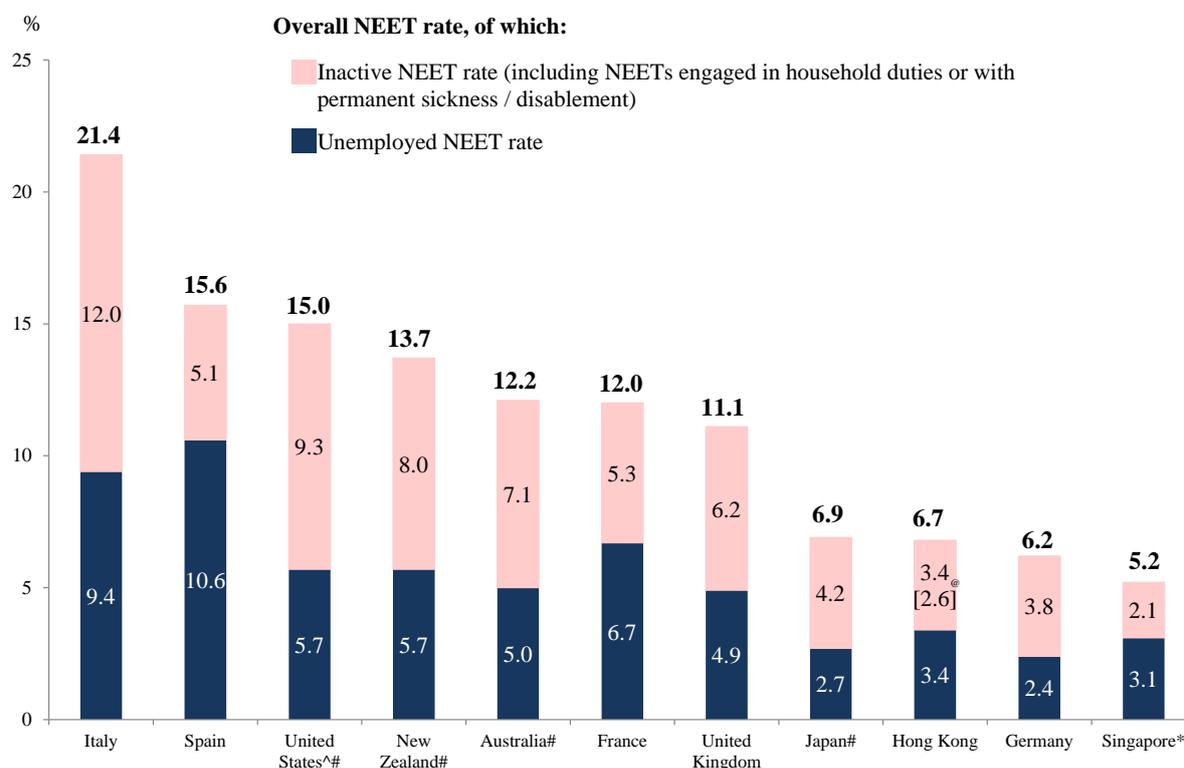
Characteristics of NEET in Hong Kong

How to effectively engage young people to work is often one of the key focuses of policy-makers. In recent years, the concept of NEET (i.e. youths not in employment, education or training) is widely made reference to in policy dialogues for better understanding of young people's vulnerabilities in terms of labour market participation and social inclusion. This proxy is also indicative when measuring the extent to which young people are at risk of being marginalised from traditional employment.

International comparison of NEET rates

For the sake of international comparison, NEET in this article is defined as youths aged 15-24⁽¹⁾ who are either (a) unemployed and not in education / training (i.e. unemployed NEET), or (b) economically inactive⁽²⁾ but not in education / training. For the latter group, while some youths therein may stay economically inactive due to engagement in household duties (i.e. home-makers) or permanent sickness / disablement, the rest is broadly classified as inactive NEET in the ensuing analysis.

Chart 1: NEET rates of selected economies in 2015



Notes: (^) NEETs in the United States refers to those aged 16-24 not in employment, education or training.
 (*) Refers to figures in 2009. The figure refers to a proxy NEET rate which includes the entire unemployed group, regardless of whether or not these people are in education or training.
 (#) Refer to the figures for Q4 2012 for Japan, Mar 2013 for Australia, Q1 2013 for New Zealand and the United States.
 (@) Inactive NEET rate after excluding NEETs engaged in household duties or with permanent sickness / disablement. The inactive and unemployed NEET rates may not add up to the overall NEET rate due to rounding.

Sources: Census and Statistics Department (C&SD), Eurostat, OECD and other national statistical authorities.

- (1) Figures quoted in this article exclude foreign domestic helpers (FDHs) from 1993 onwards.
- (2) The economically inactive population refers to persons who have not had a job and have not been at work during the seven days before enumeration, excluding persons who have been on leave / holiday during the seven-day period and persons who are unemployed.

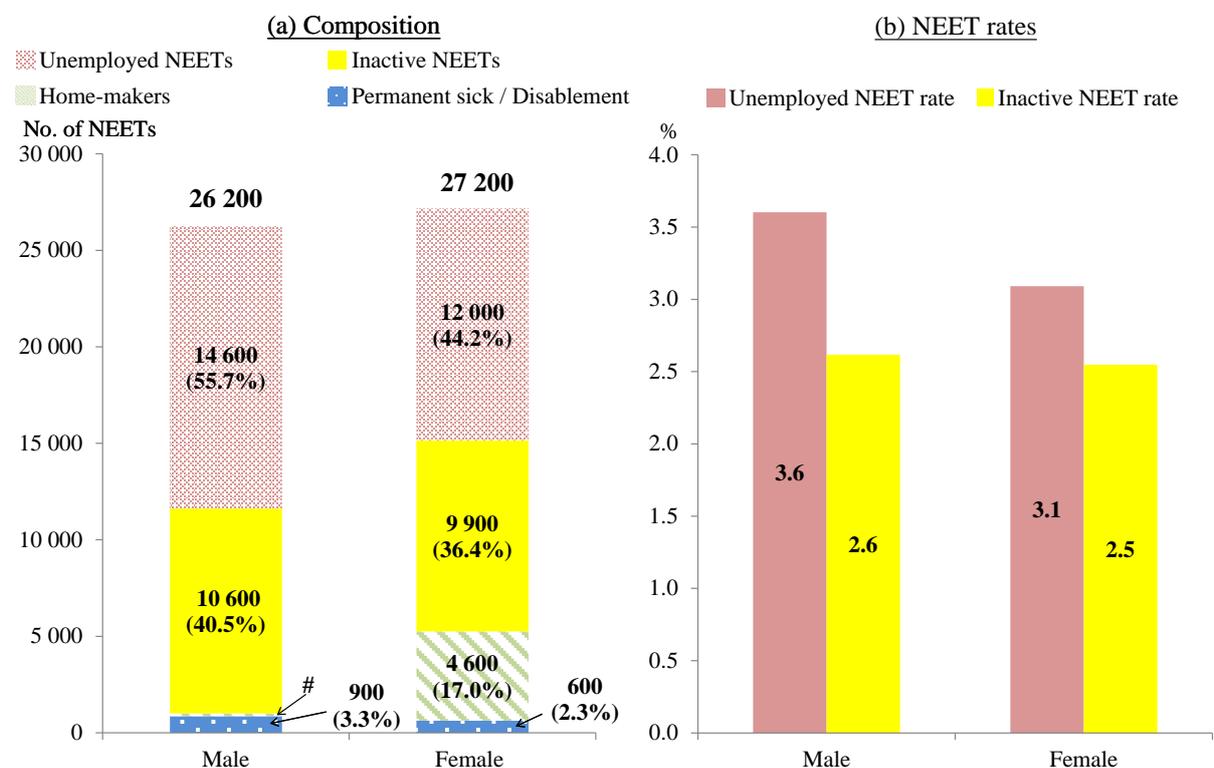
Box 5.1 (Cont'd)

In 2015, there were 53 400 NEETs in Hong Kong, accounting for 6.7% of the youth population (i.e. overall NEET rate). As compared to other advanced economies, both overall NEET and inactive NEET rates (including NEETs engaged in household duties or with permanent sickness / disablement) of Hong Kong were relatively low (*Chart 1*). Meanwhile, the unemployed NEET rate in Hong Kong was 3.4% in 2015, which compared favourably to economies like Spain (10.6%), Italy (9.4%) and France (6.7%) where the youth unemployment rates hovered at high levels in recent years, and was also comparable to other high-income Asian economies.

Heterogeneity of different groups of NEETs

In 2015, the numbers of male and female NEETs were largely similar, at 26 200 and 27 200 respectively (*Chart 2a*). For both genders, unemployed NEETs and inactive NEETs together accounted for a lion share of the respective totals, especially so for males. As regards female NEETs, around one-sixth were home-makers (17.0% or 4 600), as compared to less than 1% of their male counterparts. In terms of NEET rates, young men had slightly higher unemployed NEET rate than females. Meanwhile, the inactive NEET rates for both genders were of no significant difference (*Chart 2b*).

Chart 2: Composition of NEET and NEET rates by gender in 2015



Notes: () Figures in brackets on the left panel denote the share of each type of NEETs among overall NEETs by gender. Figures may not add up to 100% due to rounding.

(#) Figures are not released due to relatively large sampling error.

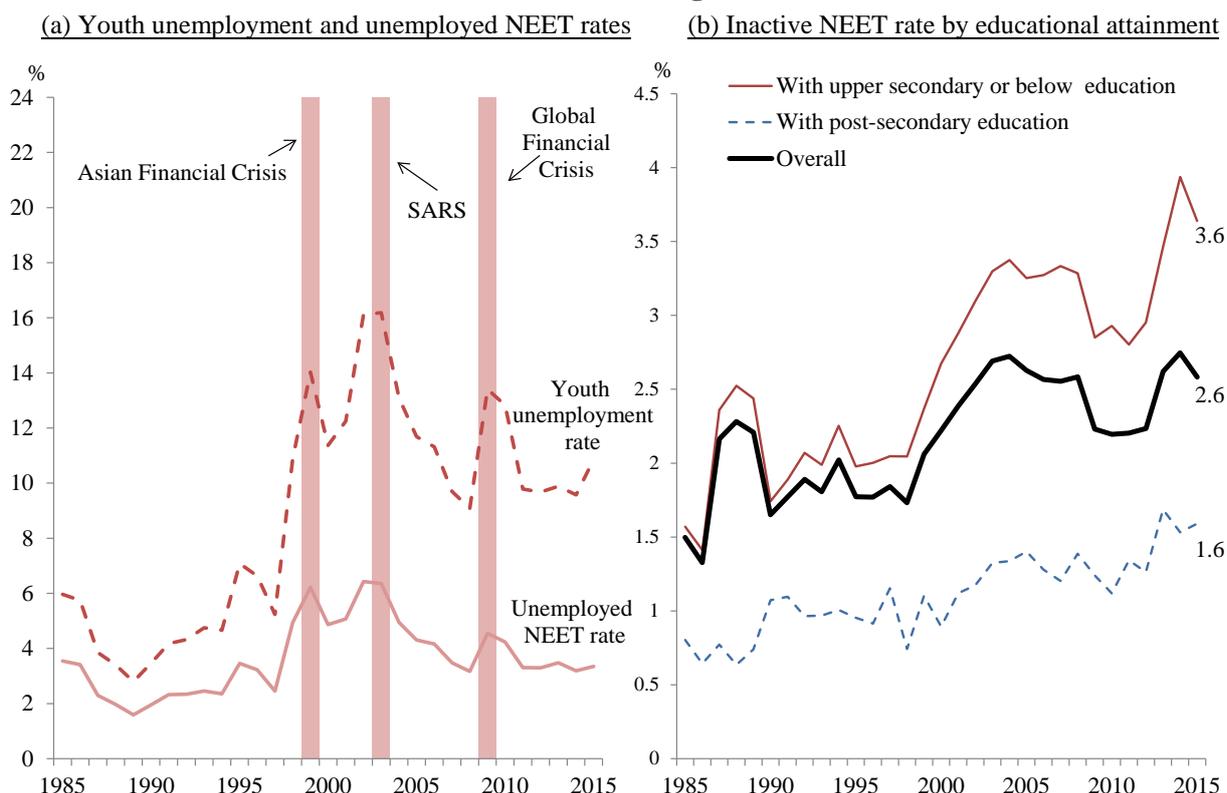
Source: General Household Survey (GHS), C&SD.

In examining various NEET rates over a longer period of time, it is noted that the unemployed NEET rate is more sensitive to changes in economic situation. In particular, the unemployed NEET rate went up visibly during the Asian Financial Crisis in 1997-98, the Severe Acute Respiratory Syndrome (SARS) outbreak in 2003, and the Global Financial Crisis of 2008, alongside the slack in the labour market and rising youth unemployment (*Chart 3a*).

Box 5.1 (Cont'd)

In contrast, inactive NEETs stayed low in number and proportion in the past 30 years without bearing a clear relationship with business cycles. Comparing 2015 with 1985, the number of inactive NEETs went up from 15 100 to 20 500, giving in a mild uptrend of inactive NEET rate from 1.5% to 2.6% (*Chart 3b*). Analysed by educational attainment, the inactive NEET rate is persistently higher among less educated youths. Specifically in 2015, 3.6% of the youths with upper secondary or below education were inactive NEETs, as compared to 1.6% for those with post-secondary education. Apart from reflecting the fact that better educated youths are less likely to be out of the labour force, the above phenomenon also suggests that education plays an important role in shielding young people from workplace disengagement.

Chart 3: NEET rates during 1985 to 2015

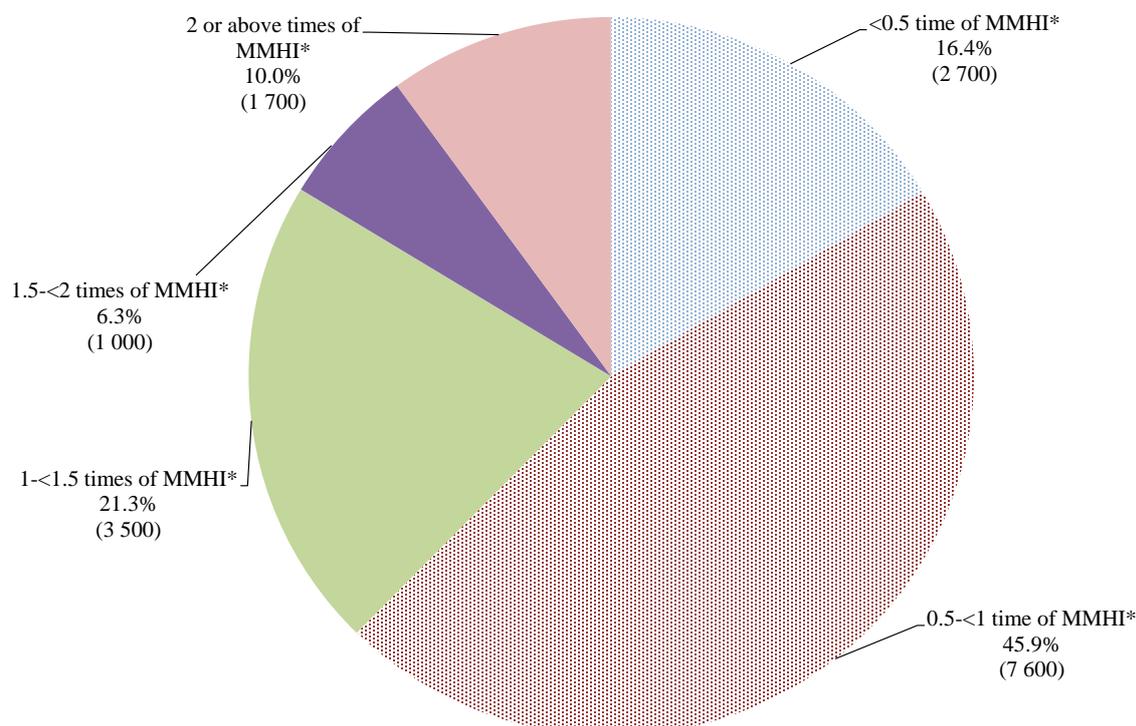


Source: GHS, C&SD.

Availability of financial support from family may have also played a role in influencing youths' incentive to work. Some 81% of the 20 500 inactive NEETs in 2015 lived with their parents in economically active households (i.e. at least one household member engaged in the labour market). However, there is no strong evidence to suggest that most inactive NEETs come from relatively well-off families. Indeed, comparing the median monthly household income (excluding income of FDHs) (MMHI) of economically active households with youths living with parents to that of similar households with inactive NEETs, the latter was on average some 20% lower. As depicted by *Chart 4*, over 60% of inactive NEETs lived in economically active households with monthly household income less than MMHI of comparable households, hinting that inactive NEETs were more pronounced in families with lower household incomes.

Box 5.1 (Cont'd)

Chart 4: Number and proportion of inactive NEETs living with parents in economically active households by monthly household income in 2015



Note: (*) MMHI refers to the median monthly domestic household income (excluding income of FDHs) of economically active households with youths living with parents.

Source: GHS, C&SD.

Final Remarks

There are often labels attached to NEETs as youths who are discouraged, disengaged and socially excluded. However, the above analysis shows that NEETs actually comprise heterogeneous groups of young people with multifaceted characteristics and needs. Unemployed NEETs, for instance, may face temporary hardship in finding jobs. Targeted policies like providing comprehensive training and employment support would be useful to assist them in embarking their career.

In an affluent economy like Hong Kong with accessible opportunities and resources to develop ones' own skills and interests, the life prospects of nowadays youth can be actualised in more diversified and individualised trajectories. Indeed, some of the so-called "inactive NEETs" might choose to follow certain non-traditional pathways to pursue their aspirations, including engaging in unpaid work like volunteering, which should not be regarded as undesirable behavior. At the same time, we should pay more attention to those who have difficulties in gaining access to labour market, and explore the need to devise appropriate policy responses that can help bring in their talents for the longer-term social and economic development of Hong Kong.

Profile of employment in establishments

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

5.11 The pace of job creation remained modest in June 2016, with total employment in private sector establishments growing by 0.6% over a year earlier to 2 807 600. Apart from the secular downtrend in manufacturing (down 3.5% year-on-year), more noticeable declines in employment were seen in arts, entertainment and recreation (down 4.8%), and such tourism- and consumption-related sectors as accommodation services (down 2.5%) and retail (down 1.4%), reflecting the drag from dwindling tourist spending and sluggish local consumption. Meanwhile, employment growth eased visibly in financing and insurance (up 0.4%), and information and communications (up 0.2%). On a positive note, construction sites (covering manual workers only) continued to see visible job growth (up 14.4%). The pace of job creation in social and personal services likewise remained appreciable. Analysed by establishment size, employment in large enterprises grew by 1.5% year-on-year, more than offsetting the 0.4% decline in small and medium-sized enterprises (SMEs)⁽⁷⁾. As for the civil service, employment grew by 1.1% year-on-year in June 2016.

Vacancies

5.12 The vacancy situation saw further broad-based slackening. The number of job vacancies in private sector establishments fell visibly by 13.0% year-on-year to 68 200 in June 2016, representing the fifth consecutive quarter of decline and also an enlarged one from that of 10.0% in March 2016.

Table 5.6 : Employment by major economic sector

	<u>2015</u>					<u>2016</u>	
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>
Import/export trade and wholesale	546 500 (-1.4)	549 200 (-0.7)	545 700 (-1.5)	545 400 (-1.6)	545 500 (-1.9)	542 900 (-1.1)	543 000 (-0.5)
Retail	269 600 (-0.5)	271 500 (0.6)	269 900 (-0.7)	268 900 (-0.3)	268 100 (-1.3)	266 200 (-1.9)	266 200 (-1.4)
Accommodation ^(a) and food services	283 000 (-0.1)	283 700 (0.9)	282 700 (-0.1)	282 300 (-0.2)	283 300 (-0.8)	280 600 (-1.1)	280 800 (-0.7)
Transportation, storage, postal and courier services	177 400 (1.6)	176 600 (2.8)	176 500 (1.1)	178 200 (1.6)	178 500 (1.1)	178 600 (1.2)	177 900 (0.8)
Information and communications	105 300 (1.1)	104 000 (1.2)	104 900 (1.4)	105 500 (0.7)	106 500 (1.2)	105 700 (1.6)	105 100 (0.2)
Financing, insurance, real estate, professional and business services	712 100 (2.2)	711 400 (2.6)	712 300 (2.6)	712 500 (2.6)	712 400 (1.2)	714 100 (0.4)	718 000 (0.8)
Social and personal services	497 200 (3.1)	494 100 (3.9)	495 200 (3.2)	497 400 (3.1)	501 900 (2.2)	505 500 (2.3)	503 400 (1.7)
Manufacturing	99 600 (-2.8)	100 300 (-3.1)	99 600 (-2.6)	99 600 (-3.0)	98 900 (-2.6)	97 800 (-2.5)	96 100 (-3.5)
Construction sites (manual workers only)	95 100 (14.9)	91 900 (16.9)	92 800 (16.4)	93 700 (8.3)	102 000 (18.1)	104 800 (14.1)	106 200 (14.4)
<i>All establishments surveyed in the private sector^(b)</i>	<i>2 796 700 (1.2)</i>	<i>2 793 700 (1.9) <0.2></i>	<i>2 790 500 (1.3) <§></i>	<i>2 794 600 (1.1) <0.3></i>	<i>2 808 000 (0.7) <0.1></i>	<i>2 807 200 (0.5) <0.1></i>	<i>2 807 600 (0.6) <0.2></i>
<i>Civil service^(c)</i>	<i>164 100 (0.7)</i>	<i>163 600 (0.5)</i>	<i>163 800 (0.6)</i>	<i>164 000 (0.6)</i>	<i>164 900 (0.9)</i>	<i>166 200 (1.5)</i>	<i>165 500 (1.1)</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 The broad economic sectors all recorded year-on-year declines in vacancies in June 2016. In particular, double-digit declines were seen in construction sites (covering manual workers only) (down 41.6% year-on-year), transportation, storage, postal and courier services (down 19.1%), social and personal services (down 17.5%), retail (down 15.9%), import/export trade and wholesale (down 15.4%), and accommodation and food services (down 13.9%). Nevertheless, for construction sites in particular, the decline in vacancies probably reflected that some previous vacancies had been gradually filled when viewed against the notable employment growth over the period. Analysed by occupational category, both higher-skilled and lower-skilled vacancies fell visibly further, by 10.5% and 14.1% year-on-year respectively, the former dragged by associate professionals and the latter dragged mainly by clerical support workers, service and sales workers, and elementary occupations. Analysed by the size of establishments, vacancies in large enterprises and SMEs fell by 16.2% and 7.9% respectively over a year earlier. In contrast, the number of job openings in the civil service went up further by 10.8% year-on-year to 8 900 in June 2016.

5.14 Reflecting further easing in overall labour demand, the ratio of job vacancies per 100 unemployed persons went down noticeably to 50 in June 2016 from 61 a year earlier. The ratio for the higher-skilled segment decreased visibly from 101 to 69, while that of the lower-skilled segment went down from 63 to 51. Nonetheless, analysed by economic sector, manpower shortages were still apparent in residential care and social work services, human health services, financing and insurance, and cleaning and similar activities in June 2016, for which the corresponding ratios exceeded 100.

5.15 The vacancy rate for private sector establishments, measured in terms of the percentage of job vacancies to total employment opportunities, remained unchanged at 2.4% in June 2016 compared with March 2016, but was down by 0.3 percentage point from 2.7% a year earlier. Year-on-year decreases in the vacancy rate were observed in many sectors, including notably the food and beverage services, social and personal services, retail, and transportation, storage, postal and courier services sectors.

Table 5.7 : Vacancies by major economic sector

	<u>Number of vacancies</u>							Vacancy rate in <u>Jun 2016</u> (%)	
	<u>Annual Average</u>	<u>2015</u>					<u>2016</u>		
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>		
Import/export trade and wholesale	7 810 (-7.7)	9 000 (-2.3)	8 200 (0.6)	7 610 (-10.0)	6 450 (-19.8)	6 920 (-23.1)	6 940 (-15.4)	1.3	
Retail	8 320 (-8.6)	8 550 (-11.7)	8 440 (-4.2)	8 350 (-9.6)	7 950 (-8.7)	7 660 (-10.5)	7 100 (-15.9)	2.6	
Accommodation ^(a) and food services	14 610 (-9.1)	15 470 (-12.1)	15 150 (-4.1)	14 600 (-6.1)	13 200 (-13.7)	12 930 (-16.4)	13 040 (-13.9)	4.4	
Transportation, storage, postal and courier services	3 640 (-1.1)	3 960 (-5.4)	4 060 (0.6)	3 440 (1.7)	3 100 (-0.4)	3 440 (-13.2)	3 290 (-19.1)	1.8	
Information and communications	2 800 (9.3)	2 930 (14.3)	2 480 (-6.5)	2 620 (11.3)	3 160 (18.3)	2 550 (-13.0)	2 470 (-0.3)	2.3	
Financing, insurance, real estate, professional and business services	18 790 (4.9)	18 360 (3.0)	18 780 (3.1)	18 590 (4.4)	19 440 (9.2)	18 400 (0.2)	18 020 (-4.1)	2.4	
Social and personal services	15 800 (12.0)	15 620 (34.3)	17 290 (4.1)	15 760 (13.2)	14 540 (1.9)	14 280 (-8.6)	14 260 (-17.5)	2.8	
Manufacturing	2 720 (-10.6)	2 990 (-6.6)	2 730 (-23.9)	2 700 (-6.4)	2 470 (-1.2)	2 880 (-3.5)	2 280 (-16.2)	2.3	
Construction sites (manual workers only)	800 (-42.6)	880 (-45.8)	940 (-39.1)	710 (-53.7)	650 (-22.7)	960 (8.8)	550 (-41.6)	0.5	
<i>All establishments surveyed in the private sector^(b)</i>	<i>75 590 (-1.3)</i>	<i>78 070 (0.4) <-2.9></i>	<i>78 380 (-1.7) <-0.5></i>	<i>74 670 (-0.9) <-0.6></i>	<i>71 240 (-3.1) <0.5></i>	<i>70 300 (-10.0) <-9.1></i>	<i>68 200 (-13.0) <-4.4></i>	2.4	
<i>Civil service^(c)</i>	<i>8 250 (15.1)</i>	<i>7 820 (23.3)</i>	<i>8 030 (10.4)</i>	<i>8 540 (14.9)</i>	<i>8 590 (13.0)</i>	<i>8 090 (3.3)</i>	<i>8 900 (10.8)</i>	5.1	

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.

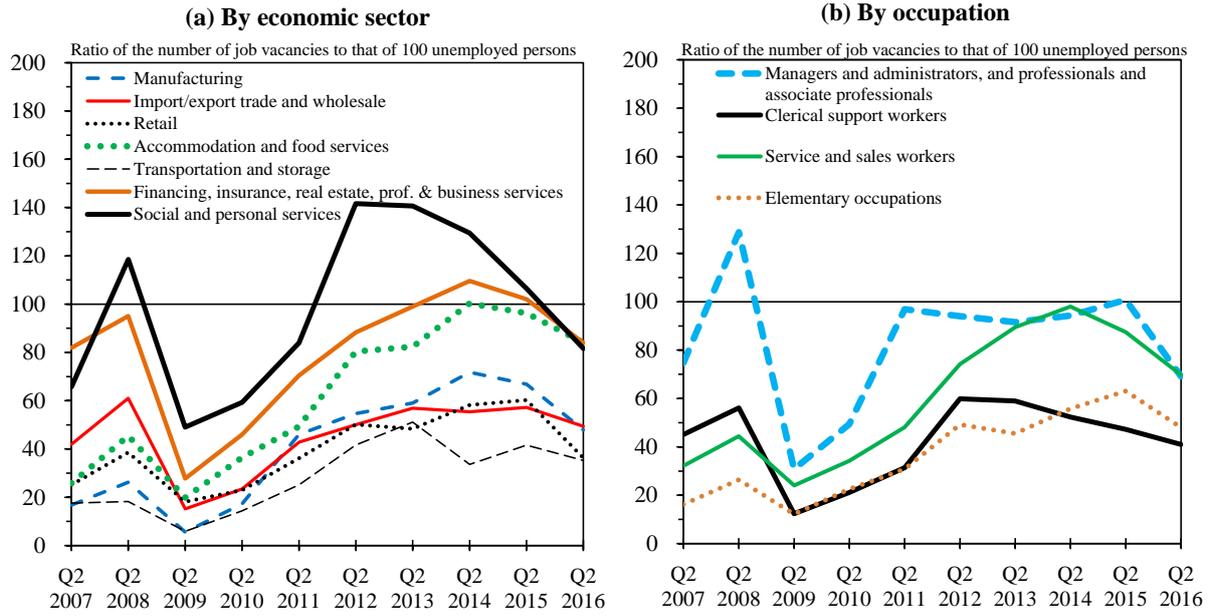
() % change over a year earlier.

<> 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 saw broad-based easing



5.16 The vacancy registration figures compiled by the Labour Department (LD), notwithstanding its smaller sample size, may provide some hints on the latest developments in the labour market. The number of private sector job vacancies averaged at around 117 500 per month in the third quarter of 2016, still a relatively high level but down by 3.6% over a year earlier, echoing the more cautious hiring sentiment of late.

Wages and earnings

5.17 Wages grew steadily further in June 2016, amid the largely stable labour market conditions. *Wage index*, which covers regular payment to employees at the supervisory level or below, rose by 3.8% year-on-year in June 2016. After adjusting for inflation⁽⁸⁾, real wages increased by 1.2%.

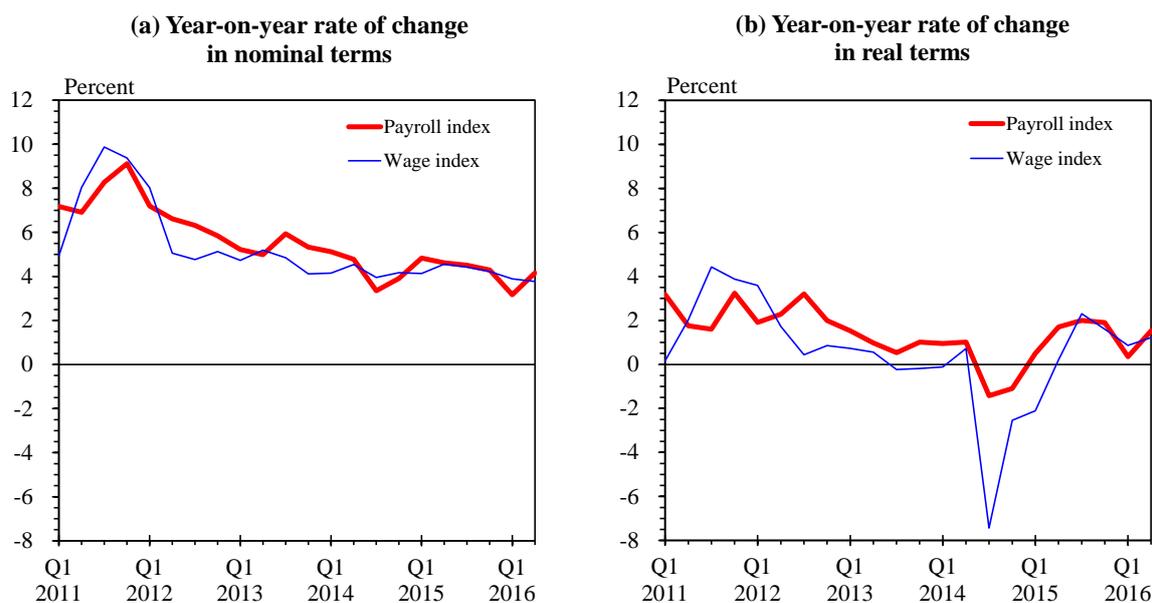
5.18 Increases in nominal wages were observed across all economic sectors and occupations in June 2016, more notably in personal services (up 5.8% year-on-year), accommodation and food service activities (up 4.9%), and professional and business services (up 4.7%). Analysed by occupation, more pronounced wage gains were found in operatives (up 6.5%) and service workers (up 5.7%).

5.19 According to the Salary Indices for Managerial and Professional Employees, compensation among workers at the upper end also witnessed solid growth. The Salary Index covering staff remaining in the same occupation and the same company over the period rose further by 5.2% in nominal terms and by 2.9% in real terms in June 2016 over a year earlier. Including the newly recruited and promoted employees, the broader-based index registered a nominal increase of 4.0%, translating into a gain of 1.7% in real terms.

5.20 *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, posted a year-on-year increase of 4.2% in the second quarter of 2016, slightly faster than that in wages. After adjusting for inflation, real earnings went up by 1.5%.

5.21 Rises in nominal payroll were seen across all major sectors in the second quarter of 2016, with more appreciable growth in accommodation and food service activities (up 5.1%), and professional and business services (up 5.0%). On the other hand, import/export and wholesale trades (up 2.3%), and retail trade (up 2.2%) continued to post relatively modest earnings growth, reflecting the sustained drag from sluggish trade flows as well as weaker tourist spending and relatively slow local consumption growth.

Diagram 5.6 : Wages and earnings grew steadily further in nominal terms and sustained real improvement in the second quarter of 2016



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

5.22 More recent statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, revealed that the average monthly employment earnings⁽¹⁰⁾ of full-time employees (excluding foreign domestic helpers) engaged in elementary occupations grew solidly further by 5.3% in the third quarter of 2016 over a year earlier, translating into a real improvement of 0.8% after discounting inflation. For the overall income situation, the median monthly household income (excluding foreign domestic helpers) went up by 3.7% in nominal terms in the third quarter of 2016 over a year earlier, broadly the same as the growth in the preceding quarter.

Highlights of labour-related measures and policy developments

5.23 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job-seekers on the spot. From January to October 2016, LD organised 17 large-scale job fairs in North District, Cheung Sha Wan, Wan Chai, Tsuen Wan, Sha Tin, Tuen Mun and Yau Tong. 479 participating organisations offered over 30 600 vacancies from the retail, catering, property management, transport and other industries. There were also 15 training bodies joining the job fairs to introduce job training courses and receive applications on the spot. Apart from large-scale job fairs, district-based job fairs are organised at LD's Job Centres from time to time to assist job-seekers in finding employment. Recruitment activities are also staged by catering, retail and construction employers at the three industry-based recruitment centres regularly for interviewing job-seekers on the spot.

5.24 The Minimum Wage Commission (MWC), adopting an evidence-based approach to reviewing the Statutory Minimum Wage (SMW) rate and following iterative discussions, has reached a consensus on the SMW level and in October submitted its recommendation report to the Chief Executive in Council.

5.25 The Standard Working Hours Committee (SWHC) on 24 July 2016 completed a three-month second-stage consultation on its preliminary discussion outcomes and working hours policy directions under exploration. With reference to the findings of the second-stage consultation and past discussions, SWHC is further discussing working hours policy directions for preparing its report to the Government.

Notes :

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

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

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

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

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

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

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

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

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

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

CHAPTER 6 : PRICES

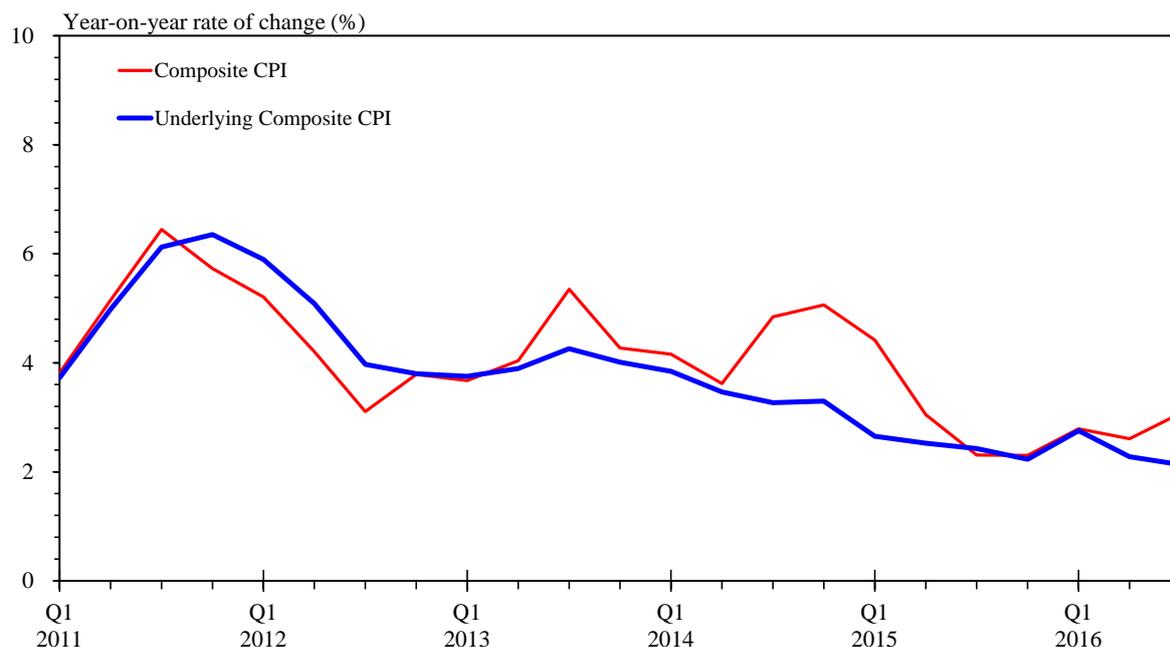
Summary

- *Inflation continued its easing mode in the third quarter of 2016. The underlying Composite Consumer Price Index (Composite CPI)⁽¹⁾, which nets out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, rose by 2.1% in the third quarter over a year earlier, abating further from the 2.3% increase in the preceding quarter. Over the same period, the headline Composite CPI inflation increased slightly from 2.6% to 3.1%, mainly due to a temporary low base of comparison resulted from the Government's one-off payment of public housing rentals in August last year.*
- *Domestic cost pressures remained mild. Increases in labour costs were steady in recent quarters amid the broadly stable labour market conditions. Rental inflation was largely kept at bay, as the earlier softening of fresh-letting residential rentals continued to feed through, while shop rentals fell further in face of protracted weakness in retail segment.*
- *External price pressures were muted, thanks to the tame inflation in our major import sources, a strong US dollar, and the relatively soft international energy and commodity prices.*
- *Looking ahead, inflation pressures should remain contained in the near term, given the moderate cost increases from both local and external sources. Yet, the situation has to be closely monitored as international food and energy prices could see some renewed upward pressures amid an unsteady global monetary environment.*

Consumer prices

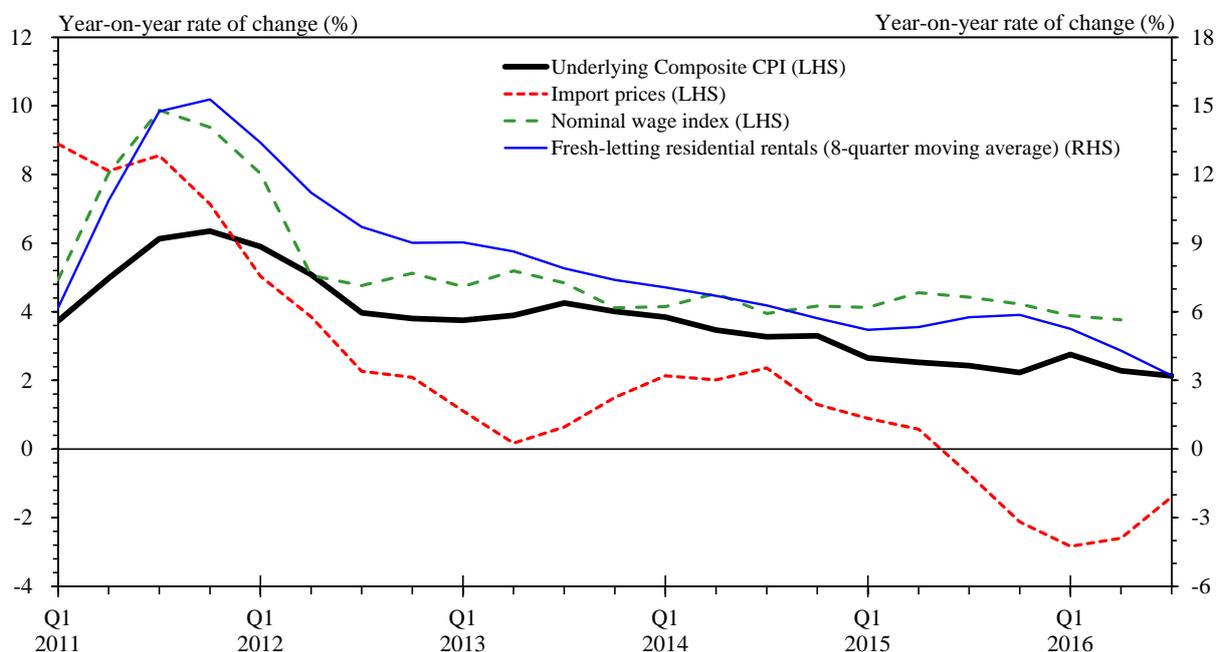
6.1 Underlying inflation continued its easing trend in the third quarter of 2016. Domestically, wage growth, on the back of a broadly stable labour market, remained steady in recent quarters. Furthermore, rental inflation was kept largely at bay as the earlier softening of fresh-letting residential rentals fed through. The slowdown in retail business, in tandem with a rather unsteady performance in inbound tourism, led to successive declines in shop rentals, while also curtailing the pricing power of the retail segment. External price pressures were likewise virtually absent, given the tame inflation in many of Hong Kong's major import sources⁽²⁾, a strong US dollar, and international energy and commodity prices being still generally lower than year-ago levels.

Diagram 6.1 : Underlying inflation remained moderate in the third 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 : External and domestic cost pressures stayed modest



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

6.2 Underlying consumer price inflation, in terms of the year-on-year rate of change in the underlying Composite CPI, which nets out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, moderated further to 2.1% in the third quarter of 2016, from 2.3% in the second quarter. Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, was 3.1% in the third quarter of 2016, up slightly from 2.6% in the preceding quarter. The increase in the headline figure was mainly due to the temporary influence of a low base of comparison stemming from the Government's payment of public housing rentals in August last year. In the first three quarters of 2016, the underlying and headline consumer price inflation rates averaged 2.4% and 2.8% respectively, both slightly lower than those of 2.5% and 3.0% for 2015 as a whole.

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

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying^(a)</u>	<u>Headline</u>			
2015	Annual	2.5 ^(b)	3.0 ^(b)	4.0 ^(b)	2.9 ^(b)	2.1 ^(b)
	H1	2.6	3.7	5.3	3.3	2.3
	H2	2.3 ^(b)	2.3 ^(b)	2.7 ^(b)	2.3 ^(b)	1.9 ^(b)
	Q1	2.7	4.4	6.5	3.9	2.6
	Q2	2.5	3.0	4.2	2.7	1.9
	Q3	2.4	2.3	2.8	2.3	1.8
	Q4	2.2	2.3	2.5	2.4	2.0
2016	H1	2.5	2.7	2.9	2.7	2.5
	Q1	2.8	2.8	3.1	2.8	2.5
	Q2	2.3	2.6	2.7	2.7	2.4
	Q3	2.1	3.1	4.5	2.6	2.2
(seasonally adjusted quarter-to-quarter rate of change (%))						
2015	Q1	0.3	0.3	0.4	0.3	0.1
	Q2	0.6	-0.6	-1.1	-0.5	-0.1
	Q3	0.5	-0.1	-1.1	0.5	0.5
	Q4	0.9	2.7	4.4	2.1	1.5
2016	Q1	0.7	0.7	1.0	0.6	0.6
	Q2	0.2	-0.7	-1.4	-0.5	-0.2
	Q3	0.4	0.4	0.5	0.4	0.3

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

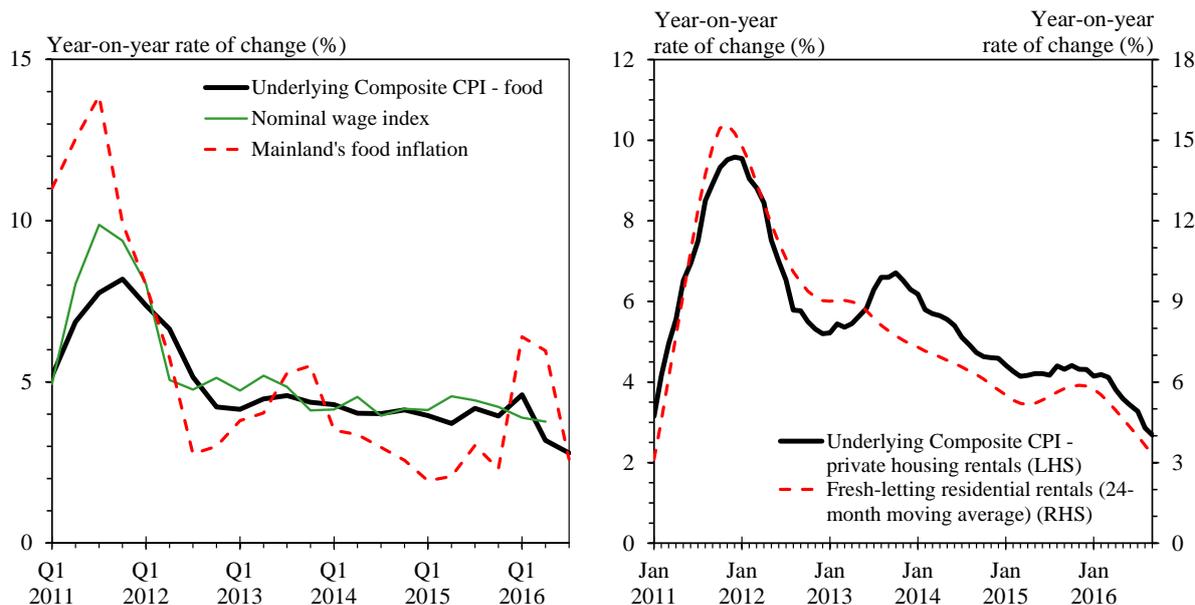
(b) The year-on-year rates of change of the CPIs from the fourth quarter of 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series. Splicing has been applied to the indices in order to obtain better estimates of the rates of change for the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

6.3 Many major components of the underlying Composite CPI saw abatement in price pressures. On the two largest components by weight, local food inflation eased to 2.8% in the third quarter alongside the still-soft global food prices and moderating food inflation in the Mainland, while the rental increase for private housing also tapered to 3.0%. Even though property market activities turned more active which provided some support to fresh-letting rentals in more recent months, this had yet to be fully reflected in the private rental component of the CPI. In face of the weak state of the local consumption market, prices of clothing and footwear registered a widened decline. The prices of durable goods likewise stayed on their secular downtrend. Over the same period, the prices in the electricity, gas and water component rebounded notably year-on-year, mainly attributable to the special fuel rebate in electricity in mid-August and September last year, which had created a low base of comparison.

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

(a) Food inflation eased in the third quarter

(b) Rental inflation trended down further



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

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

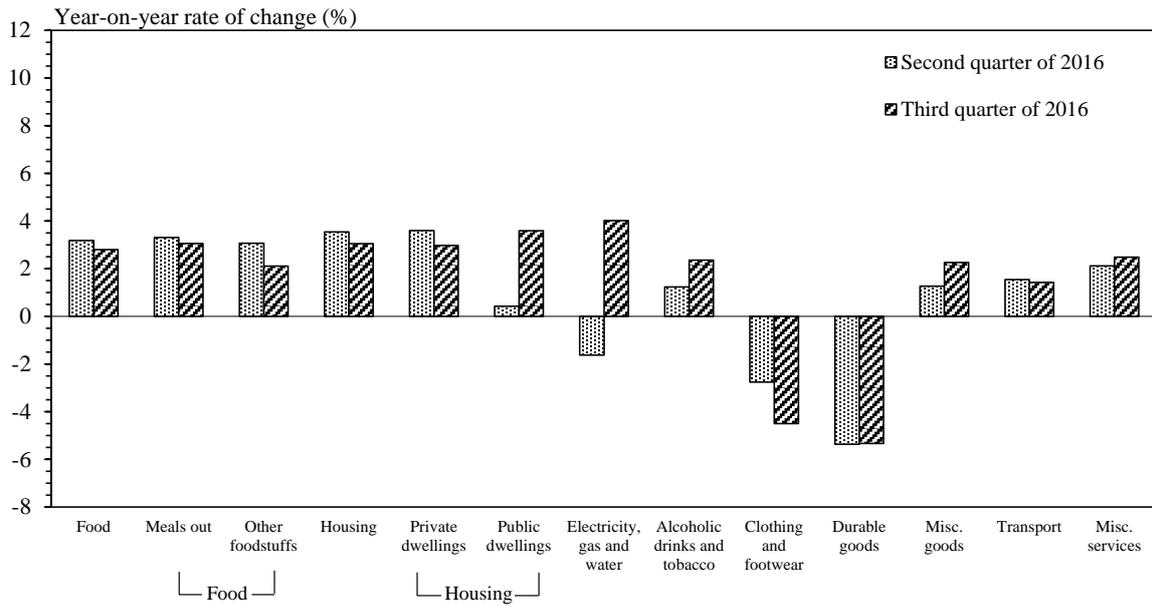
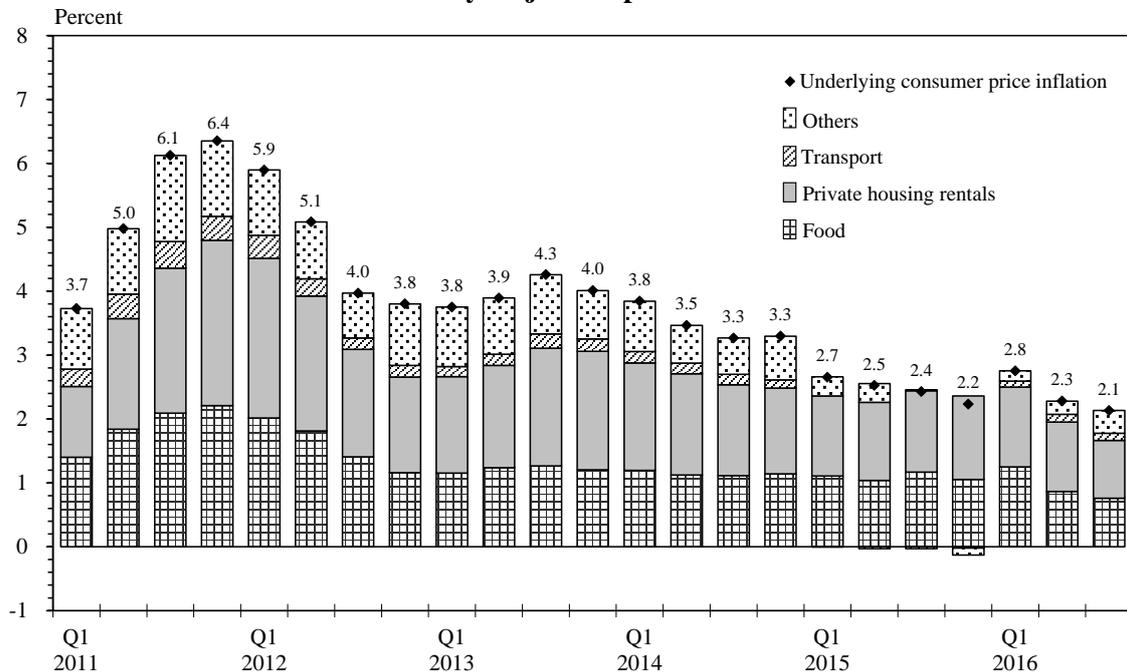


Diagram 6.4 (b) : Contribution to underlying consumer price inflation by major component



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

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>Annual</u>	<u>2015</u>				<u>2016</u>		
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Food	27.29	4.0 ^(b)	4.0	3.7	4.2	3.9	4.6	3.2	2.8
<i>Meals bought away from home</i>	17.74	4.2 ^(b)	4.4	4.3	4.3	4.0	3.7	3.3	3.1
<i>Other foodstuffs</i>	9.55	3.4 ^(b)	3.3	2.8	4.0	3.7	6.3	3.1	2.1
Housing ^(a)	34.29	4.5 ^(b) (5.1) ^(b)	4.7 (8.2)	4.7 (4.2)	4.5 (4.1)	4.1 (4.1)	4.0 (4.0)	3.5 (4.6)	3.1 (6.0)
<i>Private dwellings</i>	29.92	4.3 ^(b) (4.7) ^(b)	4.3 (6.8)	4.2 (3.8)	4.3 (3.9)	4.4 (4.4)	4.2 (4.2)	3.6 (4.8)	3.0 (4.1)
<i>Public dwellings</i>	1.94	6.2 ^(b) (10.9) ^(b)	9.8 (29.0)	9.4 (10.0)	6.1 (6.4)	* (*)	* (*)	0.4 (0.5)	3.6 (51.3)
Electricity, gas and water	2.67	-2.6 ^(b) (8.4) ^(b)	-1.4 (21.5)	-0.7 (22.8)	-6.1 (-4.6)	-2.2 (-1.1)	-1.1 (*)	-1.6 (-1.1)	4.0 (4.1)
Alcoholic drinks and tobacco	0.54	1.3 ^(b)	4.3	-0.1	0.3	1.0	0.3	1.2	2.4
Clothing and footwear	3.21	-1.8 ^(b)	-0.8	-2.7	-1.9	-1.6	-3.3	-2.8	-4.5
Durable goods	4.65	-5.6 ^(b)	-5.5	-5.7	-5.6	-5.8	-5.7	-5.4	-5.3
Miscellaneous goods	3.56	0.9 ^(b)	1.2	1.3	0.6	0.5	0.5	1.3	2.3
Transport	7.98	-0.3 ^(b)	-0.1	-0.4	-0.4	-0.3	1.2	1.5	1.4
Miscellaneous services	15.81	1.1 ^(b) (1.1) ^(b)	0.8 (0.8)	1.4 (1.4)	1.1 (1.1)	1.2 (1.2)	2.7 (2.7)	2.1 (2.1)	2.5 (2.5)
All items	100.00	2.5 ^(b) (3.0) ^(b)	2.7 (4.4)	2.5 (3.0)	2.4 (2.3)	2.2 (2.3)	2.8 (2.8)	2.3 (2.6)	2.1 (3.1)

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

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

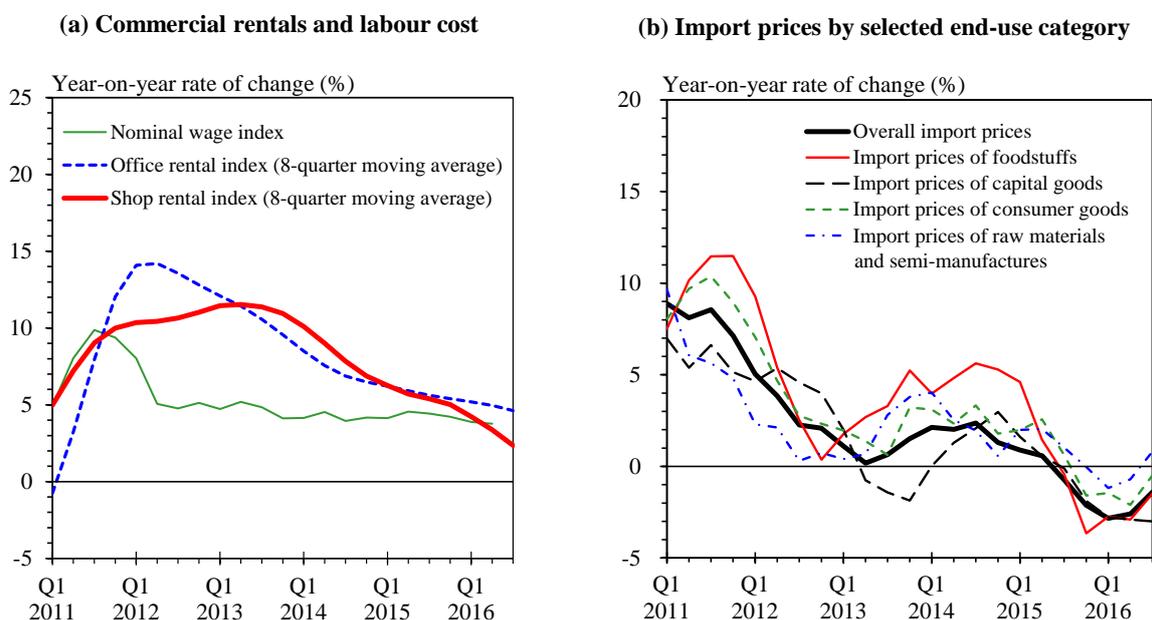
() Figures in brackets represent the headline rates of change before netting out the effect of Government's one-off relief measures.

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

Costs of factor inputs and import prices

6.4 The increases in domestic costs were generally moderate in the third quarter. On labour costs, wage growth held steady in the past few quarters, thanks to the largely stable labour market conditions. The year-on-year increases in office and shop rentals, when analysed on an eight-quarter-moving-average basis, continued to show a moderating trend in line with the below-trend economic growth.

Diagram 6.5 : Local cost pressures remained in check, while external price pressures stayed low



6.5 Imported inflation stayed muted in the third quarter, thanks to the tame inflation in major import sources, a strong US dollar, and the relatively soft international energy and commodity prices. Overall import prices extended their decline in the third quarter, down by 1.4% from a year ago. Analysed by end-use category, the import prices of foodstuffs and consumer goods fell further by 1.5% and 0.5% respectively in the third quarter. The decline in import prices of capital goods widened slightly to 3.0%. Import prices of fuels still fell visibly by 15.5%, albeit narrowed from the previous quarters. On the other hand, import prices of raw materials and semi-manufactures rebounded by 0.8%, after declining in the first half of the year.

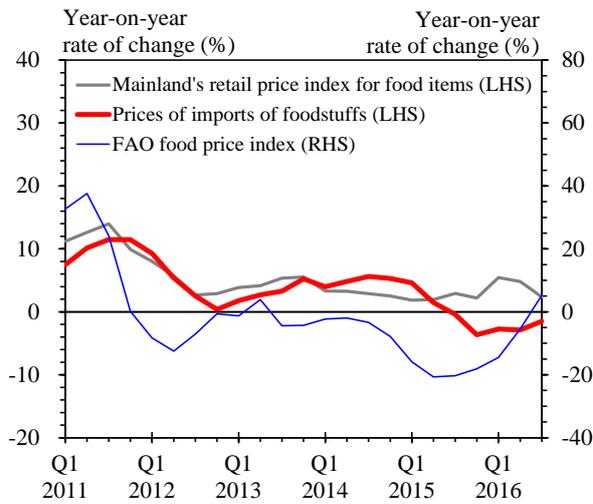
**Table 6.3 : Prices of imports by end-use category
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2015	Annual	0.3	0.8	1.2	-34.8	-0.1	-0.4
	H1	3.0	2.3	2.0	-32.0	1.1	0.7
	H2	-2.2	-0.5	0.5	-38.0	-1.0	-1.4
	Q1	4.6	2.0	2.0	-32.8	1.6	0.9
	Q2	1.4	2.6	2.0	-31.2	0.6	0.6
	Q3	-0.4	0.6	1.0	-39.2	-0.1	-0.7
	Q4	-3.7	-1.6	*	-37.2	-1.9	-2.1
2016	H1	-2.9	-1.8	-0.9	-33.7	-2.8	-2.7
	Q1	-2.7	-1.4	-1.2	-39.2	-2.8	-2.8
	Q2	-2.9	-2.1	-0.7	-28.5	-2.9	-2.6
	Q3	-1.5	-0.5	0.8	-15.5	-3.0	-1.4

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

Diagram 6.6 : Import prices by end-use category

(a) Import prices of food remained soft

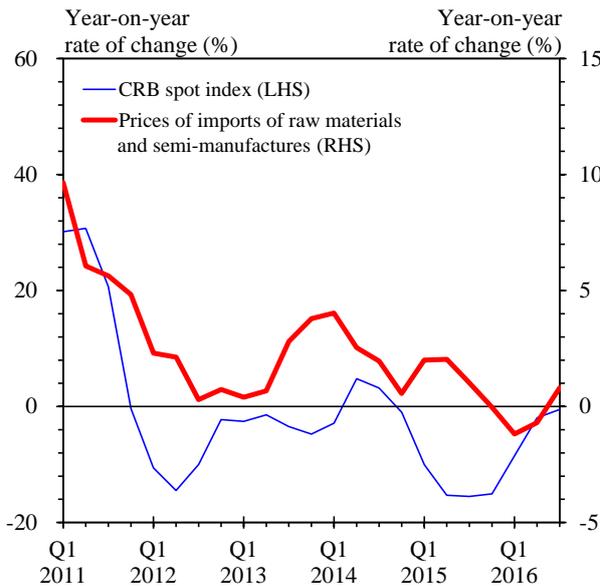


(b) Import prices of consumer goods fell slightly further

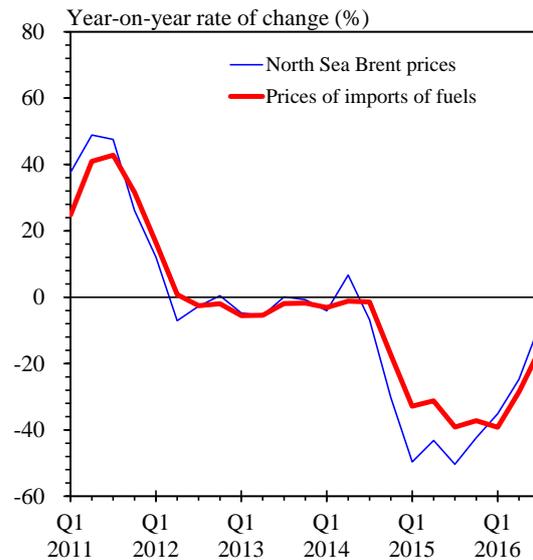


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Import prices of raw materials and semi-manufactures resumed some increases



(d) Import prices of fuels still registered visible year-on-year decline



Output prices

6.6 Output prices, as measured by the *Producer Price Indices*⁽³⁾, were generally soft in the second quarter of 2016. For the manufacturing sector, the output prices reverted to a mild year-on-year increase, after having declined for six consecutive quarters. As for the selected service sectors, the year-on-year decline in output prices for accommodation services narrowed, conceivably helped by the smaller decline in visitor arrivals over the same period. However, the output prices for water and air transport recorded further double-digit year-on-year declines in the midst of an unsteady external environment. The increases in output prices for land transport and courier services likewise remained modest. Meanwhile, the output prices for telecommunications services continued to stay on their secular downtrend.

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

<u>Industry group</u>	<u>Annual</u>	<u>2015</u>				<u>2016</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Manufacturing	-2.7	-0.6	-2.8	-4.4	-3.2	-2.8	0.4
Selected service sectors ^(a)							
Accommodation services	-3.6	-1.6	-5.4	-4.8	-2.6	-4.7	-1.9
Land transport	2.3	2.9	2.3	2.1	2.0	2.6	2.1
Water transport	-7.0	-0.2	-3.5	-10.4	-13.5	-15.8	-14.8
Air transport	-7.8	-3.4	-7.9	-9.2	-10.8	-12.1	-10.9
Telecommunications	-4.3	-3.9	-4.4	-4.7	-4.2	-3.6	-3.1
Courier services	4.5	4.2	4.8	4.7	4.3	1.8	2.3

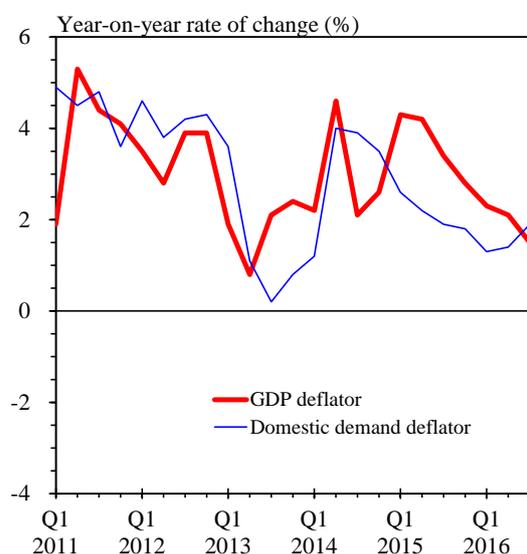
Note : (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the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

GDP deflator

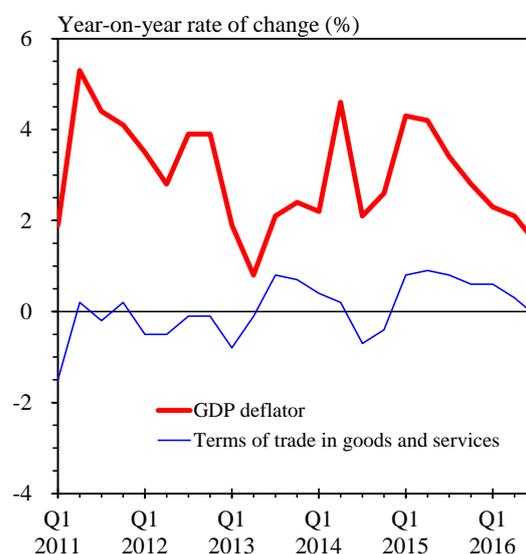
6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*⁽⁴⁾ rose by 1.5% in the third quarter of 2016 over a year earlier, slower than the average of 2.2% in the first half of the year. Within the GDP deflator, the *terms of trade*⁽⁵⁾ worsened slightly over the same period as export prices dropped slightly faster than import prices. Taking out the external trade components, the domestic demand deflator rose by 1.9% year-on-year in the third quarter.

Diagram 6.7 : GDP deflator

(a) GDP deflator continued to ease, despite the slight pick-up in domestic demand deflator



(b) Terms of trade deteriorated but only slightly



**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>	<u>Q2[#]</u>	<u>Q3⁺</u>
Private consumption expenditure	2.9	1.0	1.7	1.1	0.4	1.0	1.2	1.6	2.1
Government consumption expenditure	4.7	4.5	4.8	4.6	4.6	4.2	4.0	3.9	3.9
Gross domestic fixed capital formation	3.1	4.5	4.8	4.8	5.5	3.2	0.5	-0.2	*
Total exports of goods	0.8	-0.7	0.8	0.4	-1.2	-2.4	-2.8	-2.4	-1.2
Imports of goods	0.9	-1.4	0.1	-0.7	-2.1	-2.8	-3.6	-2.8	-1.3
Exports of services	0.8	-2.0	-0.6	-1.6	-3.1	-2.7	-3.7	-2.7	-1.6
Imports of services	1.2	-4.3	-3.7	-3.0	-5.3	-4.8	-3.4	-1.7	0.2
Gross Domestic Product	2.9	3.6	4.3	4.2	3.4	2.8	2.3	2.1	1.5
			<1.2>	<1.0>	<0.1>	<0.4>	<0.7>	<0.7>	<-0.2>
Total final demand	1.5	*	1.2	0.7	-0.5	-1.1	-1.5	-1.1	-0.3
Domestic demand	3.1	2.1	2.6	2.2	1.9	1.8	1.3	1.4	1.9
Terms of trade in goods and services	-0.1	0.7	0.8	0.9	0.8	0.6	0.6	0.3	-0.1

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

(#) Revised figures.

(+) Preliminary figures.

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

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

Notes :

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

The expenditure ranges of the households covered in the 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>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Selected developed economies									
US	1.6	0.1	-0.1	*	0.1	0.5	1.1	1.0	1.1
Canada	2.0	1.1	1.1	0.9	1.2	1.3	1.5	1.6	1.2
EU	0.5	*	-0.3	0.1	*	0.1	*	-0.1	0.3
Japan	2.7	0.8	2.3	0.5	0.2	0.3	0.1	-0.4	-0.5
Major emerging economies									
Mainland China	2.0	1.4	1.2	1.4	1.7	1.5	2.1	2.1	1.7
Russia	7.8	15.5	16.2	15.8	15.7	14.5	8.3	7.4	6.8
India	6.6	4.9	5.3	5.1	3.9	5.3	5.3	5.7	5.1
Brazil	6.3	9.0	7.7	8.5	9.5	10.4	10.1	9.1	8.7
Selected Asian economies									
Hong Kong	4.4	3.0	4.4	3.0	2.3	2.3 [^]	2.8 [^]	2.6 [^]	3.1 [^]
Singapore	1.0	-0.5	-0.3	-0.4	-0.6	-0.7	-0.8	-0.9	-0.4
Taiwan	1.2	-0.3	-0.6	-0.7	-0.3	0.3	1.7	1.3	0.7
Korea	1.3	0.7	0.6	0.5	0.7	1.1	1.0	0.9	0.8
Malaysia	3.1	2.1	0.7	2.2	3.0	2.6	3.4	1.9	1.3
Thailand	1.9	-0.9	-0.5	-1.1	-1.1	-0.9	-0.5	0.3	0.3
Indonesia	6.4	6.4	6.5	7.1	7.1	4.8	4.3	3.5	3.0
Philippines	4.1	1.4	2.4	1.7	0.6	1.0	1.1	1.5	2.0
Vietnam	4.1	0.6	0.7	1.0	0.5	0.3	1.3	2.2	2.8
Macao	6.0	4.6	5.1	4.8	4.5	3.9	3.7	2.6	1.8

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
<i>Per capita GDP (\$)</i>	<i>219,240</i>	<i>238,676</i>	<i>245,406</i>	<i>237,960</i>	<i>252,887</i>	<i>273,549</i>
GNI	1,538,864	1,703,567	1,807,994	1,709,007	1,813,928	1,987,256
<i>Per capita GNI (\$)</i>	<i>224,419</i>	<i>246,312</i>	<i>259,851</i>	<i>245,096</i>	<i>258,240</i>	<i>281,019</i>
Total final demand	4,369,325	4,837,482	5,098,610	4,701,557	5,569,467	6,221,206
Total final demand excluding re-exports ^(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)							
	2012	2013	2014 [#]	2015 [#]	2015 Q4 [#]	Q1 [#]	2016 Q2 [#]	Q3 [#]
Private consumption expenditure	1,314,969	1,413,058	1,503,093	1,589,451	411,314	396,873	414,303	397,972
Government consumption expenditure	185,310	198,572	214,122	231,424	58,804	63,554	59,819	62,086
Gross domestic fixed capital formation	517,411	515,516	530,985	543,589	144,872	120,140	130,722	136,286
<i>of which:</i>								
Building and construction	204,860	211,130	244,036	264,513	68,675	66,669	69,695	69,251
Machinery, equipment and intellectual property products	278,477	264,997	242,982	233,230	67,129	47,122	51,748	54,759
Changes in inventories	-3,662	-1,673	7,473	-23,377	949	-1,017	193	3,409
Total exports of goods ^{&}	3,591,776	3,816,390	3,877,458	3,779,263	1,001,115	823,429	912,362	989,270
Imports of goods ^{&}	4,116,410	4,394,928	4,471,810	4,289,991	1,117,321	937,677	1,039,442	1,088,649
Exports of services ^{&}	1,003,047	1,058,289	1,077,899	1,053,474	271,941	244,592	226,498	260,936
Imports of services ^{&}	455,382	467,214	481,005	486,709	126,883	119,762	117,675	126,098
GDP	2,037,059	2,138,010	2,258,215	2,397,124	644,791	590,132	586,780	635,212
<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	646,830	601,056	625,202	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	1,888,995	1,647,571	1,743,897	1,849,959
Total final demand excluding re-exports ^(a)	3,655,325	3,860,845	4,006,094	4,037,607	1,060,597	973,197	988,228	1,032,896
Domestic demand	2,014,028	2,125,473	2,255,673	2,341,087	615,939	579,550	605,037	599,753
Private	1,737,274	1,827,460	1,929,820	1,991,551	526,725	485,673	515,430	509,719
Public	276,754	298,013	325,853	349,536	89,214	93,877	89,607	90,034
External demand	4,594,823	4,874,679	4,955,357	4,832,737	1,273,056	1,068,021	1,138,860	1,250,206

- 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>			<u>Average annual rate of change:</u>	
					Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]	10 years 2005 to 2015 [#]	5 years 2010 to 2015 [#]
Private consumption expenditure	4.1	4.6	3.3	4.7	2.7	1.2	0.5	1.2	4.8	5.0
Government consumption expenditure	3.6	2.7	3.0	3.4	3.3	3.3	3.5	3.3	2.7	3.0
Gross domestic fixed capital formation	6.8	2.6	-0.1	-2.0	-9.4	-9.6	-5.0	6.0	3.2	3.4
<i>of which:</i>										
Building and construction	7.2	-4.3	9.3	2.9	-0.9	0.2	3.5	3.4	2.8	6.0
Machinery, equipment and intellectual property products	10.2	11.3	-8.6	-5.8	-12.9	-11.9	-11.2	6.1	4.1	3.5
Total exports of goods ^{&}	1.9	6.5	0.8	-1.9	-0.5	-3.6	2.0	1.9	3.1	2.1
Imports of goods ^{&}	3.0	7.2	0.9	-2.7	-2.8	-5.4	0.2	2.4	3.9	2.6
Exports of services ^{&}	2.2	4.9	1.1	-0.2	-2.7	-5.0	-4.6	-1.8	5.7	2.6
Imports of services ^{&}	1.9	1.5	1.8	5.7	5.4	4.9	1.6	1.7	4.6	2.9
GDP	1.7	3.1	2.7	2.4	1.9	0.8	1.7	1.9	3.4	2.9
<i>Per capita GDP</i>	<i>0.5</i>	<i>2.6</i>	<i>1.9</i>	<i>1.5</i>	--	--	--	--	<i>2.7</i>	<i>2.1</i>
RGNI	-0.2	4.0	2.6	3.7	0.2	2.8	3.6	N.A.	3.2	2.9
<i>Per capita RGNI</i>	<i>-1.3</i>	<i>3.5</i>	<i>1.8</i>	<i>2.8</i>	--	--	--	--	<i>2.4</i>	<i>2.1</i>
Total final demand	2.5	5.5	1.5	-0.5	-0.8	-2.7	0.8	2.2	3.8	2.7
Total final demand excluding re-exports ^(a)	3.2	4.5	2.1	0.3	-0.9	-0.6	*	2.7	4.0	3.1
Domestic demand	3.9	4.1	2.9	1.6	-0.3	*	1.2	4.6	4.2	3.8
Private	3.6	4.1	2.6	1.5	-0.2	*	1.0	4.9	4.2	3.7
Public	5.8	3.7	4.6	2.6	-0.7	-0.2	2.3	2.3	3.7	4.4
External demand	1.9	6.2	0.9	-1.5	-1.0	-3.9	0.6	1.1	3.6	2.2

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

	2011		2012		2013		2014 [#]		2015 [#]	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture, fishing, mining and quarrying	944	*	1,114	0.1	1,225	0.1	1,496	0.1	1,630	0.1
Manufacturing	30,578	1.6	30,600	1.5	30,156	1.4	27,885	1.3	27,353	1.2
Electricity, gas and water supply, and waste management	33,877	1.8	35,382	1.8	35,119	1.7	35,636	1.6	34,019	1.5
Construction	65,484	3.4	73,445	3.6	83,288	4.0	96,205	4.4	110,817	4.8
Services	1,770,166	93.1	1,872,498	93.0	1,948,292	92.9	2,044,739	92.7	2,154,110	92.5
<i>Import/export, wholesale and retail trades</i>	492,900	25.9	511,537	25.4	523,741	25.0	531,541	24.1	527,774	22.7
<i>Accommodation^(a) and food services</i>	66,421	3.5	72,044	3.6	75,413	3.6	78,725	3.6	78,394	3.4
<i>Transportation, storage, postal and courier services</i>	120,034	6.3	120,609	6.0	125,465	6.0	137,658	6.2	150,463	6.5
<i>Information and communications</i>	62,952	3.3	70,866	3.5	76,145	3.6	77,761	3.5	81,912	3.5
<i>Financing and insurance</i>	305,282	16.1	319,312	15.9	346,248	16.5	367,989	16.7	409,986	17.6
<i>Real estate, professional and business services</i>	213,987	11.3	232,416	11.5	225,789	10.8	239,434	10.9	253,766	10.9
<i>Public administration, social and personal services</i>	313,585	16.5	337,678	16.8	356,326	17.0	379,577	17.2	405,027	17.4
<i>Ownership of premises</i>	195,005	10.3	208,036	10.3	219,166	10.4	232,053	10.5	246,787	10.6
GDP at basic prices	1,901,049	100.0	2,013,038	100.0	2,098,080	100.0	2,205,961	100.0	2,327,930	100.0
Taxes on products	69,401	--	63,575	--	75,314	--	83,236	--	95,796	--
Statistical discrepancy (%)	-1.9	--	-1.9	--	-1.7	--	-1.4	--	-1.1	--
GDP at current market prices	1,934,430	--	2,037,059	--	2,138,010	--	2,258,215	--	2,397,124	--

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>		<u>2016</u>	
							Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Agriculture, fishing, mining and quarrying	3.9	0.8	-3.2	4.9	-6.0	-2.2	-4.0	-4.7	-8.9	-0.8
Manufacturing	3.3	0.7	-0.8	0.1	-0.4	-1.5	-2.1	-1.3	-0.3	-0.4
Electricity, gas and water supply, and waste management	-0.2	0.6	1.4	-2.9	0.8	0.3	-2.0	1.8	2.0	0.4
Construction	15.6	18.3	8.3	4.2	13.0	2.0	3.0	-2.3	-1.4	2.7
Services	6.9	5.2	1.8	2.7	2.4	1.9	1.9	1.9	1.5	2.6
<i>Import/export, wholesale and retail trades</i>	<i>16.7</i>	<i>9.1</i>	<i>1.9</i>	<i>3.3</i>	<i>1.2</i>	<i>-1.1</i>	<i>-0.5</i>	<i>-0.7</i>	<i>-2.1</i>	<i>0.5</i>
<i>Accommodation^(a) and food services</i>	<i>9.5</i>	<i>8.3</i>	<i>1.8</i>	<i>3.6</i>	<i>2.2</i>	<i>-0.9</i>	<i>-2.6</i>	<i>0.4</i>	<i>-0.7</i>	<i>1.2</i>
<i>Transportation, storage, postal and courier services</i>	<i>6.0</i>	<i>7.2</i>	<i>0.9</i>	<i>4.1</i>	<i>2.9</i>	<i>1.9</i>	<i>1.1</i>	<i>3.0</i>	<i>2.8</i>	<i>3.2</i>
<i>Information and communications</i>	<i>1.5</i>	<i>2.8</i>	<i>2.8</i>	<i>4.0</i>	<i>3.9</i>	<i>4.0</i>	<i>3.5</i>	<i>2.9</i>	<i>3.3</i>	<i>4.0</i>
<i>Financing and insurance</i>	<i>6.3</i>	<i>6.5</i>	<i>0.8</i>	<i>7.6</i>	<i>4.8</i>	<i>6.3</i>	<i>6.1</i>	<i>6.2</i>	<i>5.5</i>	<i>4.6</i>
<i>Real estate, professional and business services</i>	<i>2.5</i>	<i>2.6</i>	<i>3.1</i>	<i>-4.0</i>	<i>1.9</i>	<i>2.2</i>	<i>1.7</i>	<i>1.0</i>	<i>1.1</i>	<i>3.4</i>
<i>Public administration, social and personal services</i>	<i>2.2</i>	<i>1.8</i>	<i>2.1</i>	<i>2.5</i>	<i>2.5</i>	<i>2.6</i>	<i>3.3</i>	<i>2.9</i>	<i>2.6</i>	<i>3.3</i>
<i>Ownership of premises</i>	<i>0.8</i>	<i>0.7</i>	<i>1.1</i>	<i>0.3</i>	<i>0.8</i>	<i>0.6</i>	<i>0.6</i>	<i>0.6</i>	<i>0.7</i>	<i>0.8</i>
Taxes on products	6.3	-6.8	-10.4	-6.4	6.7	7.0	1.3	-14.1	-20.6	-25.5
GDP in chained (2014) dollars	6.8	4.8	1.7	3.1	2.7	2.4	2.3	1.9	0.8	1.7

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

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

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

	(\$Mn)								
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014[#]</u>	<u>2015[#]</u>	<u>2015</u>		<u>2016</u>	
						Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Current account ^(a)	107,513	32,151	32,180	29,363	74,658	48,460	25,818	16,160	14,829
Goods	-58,203	-146,729	-216,592	-251,022	-176,907	-6,346	-17,934	-44,623	-57,030
Services	132,681	169,760	229,129	253,564	232,944	57,389	46,786	55,205	38,773
Primary income	52,826	29,455	40,519	46,607	39,498	2,765	2,039	10,924	38,422
Secondary income	-19,791	-20,336	-20,876	-19,786	-20,877	-5,348	-5,074	-5,346	-5,337
Capital and financial account ^(a)	-113,242	-67,664	-86,308	-73,785	-131,553	-19,769	-55,646	10,251	8,918
Capital account	-2,021	-1,433	-1,609	-748	-74	-78	-96	-72	-57
Financial account	-111,220	-66,231	-84,699	-73,037	-131,479	-19,691	-55,550	10,323	8,975
Financial non-reserve assets	-24,437	122,658	-26,810	66,052	150,517	51,829	41,984	15,570	-7,116
<i>Direct investment</i>	1,868	-102,623	-50,250	-85,718	928,262	52,962	133,259	-7,598	31,738
<i>Portfolio investment</i>	-10,979	-31,592	-386,077	-64,384	-1,094,887	-145,237	-271,644	84,715	-18,862
<i>Financial derivatives</i>	20,884	15,208	54,661	118,359	117,727	11,940	19,125	11,804	6,712
<i>Other investment</i>	-36,210	241,665	354,856	97,795	199,416	132,164	161,244	-73,352	-26,704
Reserve assets	-86,783	-188,889	-57,890	-139,089	-281,996	-71,520	-97,535	-5,246	16,092
Net errors and omissions	5,729	35,513	54,128	44,422	56,896	-28,691	29,828	-26,411	-23,747
Overall Balance of Payments	86,783	188,889	57,890	139,089	281,996	71,520	97,535	5,246	-16,092

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>		
						Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
Total exports of goods	3,420,076	3,591,776	3,816,390	3,877,458	3,779,263	1,001,115	823,429	912,362	989,270
Imports of goods	3,848,200	4,116,410	4,394,928	4,471,810	4,289,991	1,117,321	937,677	1,039,442	1,088,649
Goods trade balance	-428,124 (-11.1)	-524,634 (-12.7)	-578,538 (-13.2)	-594,352 (-13.3)	-510,728 (-11.9)	-116,206 (-10.4)	-114,248 (-12.2)	-127,080 (-12.2)	-99,379 (-9.1)
Exports of services	941,178	1,003,047	1,058,289	1,077,899	1,053,474	271,941	244,592	226,498	260,936
Imports of services	438,576	455,382	467,214	481,005	486,709	126,883	119,762	117,675	126,098
Services trade balance	502,602 (114.6)	547,665 (120.3)	591,075 (126.5)	596,894 (124.1)	566,765 (116.4)	145,058 (114.3)	124,830 (104.2)	108,823 (92.5)	134,838 (106.9)
Exports of goods and services	4,361,254	4,594,823	4,874,679	4,955,357	4,832,737	1,273,056	1,068,021	1,138,860	1,250,206
Imports of goods and services	4,286,776	4,571,792	4,862,142	4,952,815	4,776,700	1,244,204	1,057,439	1,157,117	1,214,747
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>	28,852 <2.3>	10,582 <1.0>	-18,257 <-1.6>	35,459 <2.9>

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>		
						Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
<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	1,050,243	855,326	936,584	1,030,276
Imports of goods	3,464,968	3,779,686	4,142,651	4,250,052	4,097,229	1,068,177	899,949	993,614	1,042,040
Goods trade balance	-58,203 (-1.7)	-146,729 (-3.9)	-216,592 (-5.2)	-251,022 (-5.9)	-176,907 (-4.3)	-17,934 (-1.7)	-44,623 (-5.0)	-57,030 (-5.7)	-11,764 (-1.1)
Exports of services	710,716	764,026	812,345	826,995	807,984	197,978	192,838	176,182	195,616
Imports of services	578,035	594,266	583,216	573,431	575,040	151,192	137,633	137,409	148,393
Services trade balance	132,681 (23.0)	169,760 (28.6)	229,129 (39.3)	253,564 (44.2)	232,944 (40.5)	46,786 (30.9)	55,205 (40.1)	38,773 (28.2)	47,223 (31.8)
Exports of goods and services	4,117,481	4,396,983	4,738,404	4,826,025	4,728,306	1,248,221	1,048,164	1,112,766	1,225,892
Imports of goods and services	4,043,003	4,373,952	4,725,867	4,823,483	4,672,269	1,219,369	1,037,582	1,131,023	1,190,433
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>	28,852 <2.4>	10,582 <1.0>	-18,257 <-1.6>	35,459 <3.0>
<u>Rates of change in real terms (%)</u>									
Total exports of goods	4.6	3.3	8.2	1.1	-1.2	*	-3.2	2.2	2.0
Imports of goods	6.7	4.6	9.9	1.8	-2.2	-2.5	-5.2	0.6	2.6
Exports of services	5.7	2.7	5.9	1.4	0.2	-3.6	-5.7	-5.9	-2.6
Imports of services	-0.2	2.2	-2.1	-2.2	5.0	4.8	3.5	0.7	1.0

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

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

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

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

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

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

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>	<u>2016</u>		
	(% change)				(% change)	(\$Mn)	Q4	Q1	Q2	Q3
							(% change over a year earlier)			
All markets	10.1	2.9	3.6	3.2	-1.8	3,605,279	-2.9	-6.8	-1.2	-0.2
Mainland of China	9.3	6.3	4.9	1.5	-2.1	1,936,515	-1.7	-8.7	-0.7	1.0
United States	-0.4	2.3	-2.1	3.1	0.2	342,193	-5.4	-7.7	-5.2	-3.9
Japan	5.9	6.5	-6.1	-2.8	-6.6	122,772	-6.3	-5.3	-7.5	-3.9
India	25.6	-17.5	7.9	13.1	8.1	101,831	17.6	12.7	20.9	10.4
Vietnam	37.3	9.9	15.5	14.0	14.7	76,612	4.8	-3.7	-10.1	-10.1
Germany	10.7	-12.8	-5.1	-1.7	-3.2	70,269	-3.8	-4.9	4.4	-10.3
Taiwan	24.3	-5.2	-4.3	2.5	-18.0	65,029	-12.8	-9.7	11.0	22.3
Singapore	10.3	-0.5	4.7	2.2	-2.3	58,451	-7.0	-2.1	-2.0	5.8
United Kingdom	-3.4	-6.0	-2.0	0.5	0.8	54,755	-1.8	-6.1	-8.7	-10.1
Republic of Korea	14.2	-4.0	9.0	-2.7	-12.8	54,380	-13.9	-15.2	1.5	3.4
Rest of the world	15.1	0.6	5.7	8.5	-1.2	722,471	-5.0	-4.4	-2.6	-2.5

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

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2015</u>	<u>2016</u>		
	(% change)				(% change)		Q4	Q1	Q2	Q3
					(\$Mn)		(% change over a year earlier)			
All sources	11.9	3.9	3.8	3.9	-4.1	4,046,420	-7.0	-8.2	-3.2	1.2
Mainland of China	10.9	8.5	5.5	2.3	-0.1	1,984,048	-1.9	-8.4	-3.1	-1.7
Taiwan	7.2	1.6	6.9	14.7	-8.6	274,385	-8.6	-3.4	0.2	11.4
Japan	3.4	-2.2	-8.1	0.9	-9.9	260,294	-13.2	-15.1	-5.7	-5.5
Singapore	7.2	-3.2	*	5.8	-5.7	245,867	-8.0	-10.2	1.1	15.5
United States	18.0	-3.3	7.4	*	-3.9	210,933	-14.3	-7.0	-13.2	0.9
Republic of Korea	12.2	2.4	3.4	10.6	-2.0	172,085	-13.1	-5.5	3.3	11.1
Malaysia	5.1	-6.0	4.7	16.7	-7.9	94,084	-10.0	-3.6	-6.2	-6.8
Thailand	0.3	-4.8	6.4	13.7	-3.7	84,910	-5.3	-3.9	-5.0	-3.6
India	20.6	-5.5	6.7	10.0	-13.7	82,913	-22.9	-0.6	15.5	13.7
Switzerland	51.7	-0.7	-1.7	2.7	-22.1	61,802	-31.0	-17.2	-5.8	-18.9
Rest of the world	20.2	5.8	3.8	0.9	-7.4	575,098	-9.7	-8.2	-5.5	3.9

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>	
	(% change)				(% change)	(\$Mn)	Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
	(% change over a year earlier)									
Exports of services	13.5	6.6	5.5	1.9	-2.3	1,053,474	-5.4	-8.6	-7.2	-3.4
Transportation	7.8	-0.6	-2.5	2.2	-7.4	229,428	-10.9	-11.1	-8.4	-5.9
Travel	28.4	15.8	17.7	-1.5	-5.8	280,227	-8.4	-15.7	-10.3	-8.8
Trade-related	11.0	3.9	2.1	1.9	-2.2	286,314	-2.6	-4.7	-1.8	-1.0
Other services	10.1	9.0	4.6	5.8	7.3	257,505	0.1	-2.6	-7.9	1.5
Imports of services	10.2	3.8	2.6	3.0	1.2	486,709	0.3	1.3	-0.2	1.9
Transportation	14.3	2.3	-1.4	1.5	-5.2	135,177	-5.7	-2.9	-2.2	-0.4
Travel	9.8	5.2	5.7	3.7	4.7	178,751	5.3	9.4	1.9	4.8
Trade-related	1.1	1.7	-2.7	2.8	0.1	33,764	-1.8	-3.8	-2.2	-0.8
Other services	8.7	4.6	4.8	3.6	3.7	139,017	1.0	-3.0	-0.5	1.0
Net exports of services	16.6	9.0	7.9	1.0	-5.0	566,765	-9.9	-16.4	-13.7	-7.9

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.

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>		
	(% change)				(% change)	(\$Mn)	Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
	(% change over a year earlier)									
Exports of services	13.6	7.5	6.3	1.8	-2.3	807,984	-6.4	-9.5	-8.6	-4.2
Transportation	7.8	-0.6	-2.5	2.2	-7.4	229,428	-10.9	-11.1	-8.4	-5.9
Travel	28.4	15.8	17.7	-1.5	-5.8	280,227	-8.4	-15.7	-10.3	-8.8
Other services	8.1	8.3	3.5	5.1	5.9	298,329	-0.4	-2.9	-7.1	1.2
Imports of services	5.7	2.8	-1.9	-1.7	0.3	575,040	-0.5	-0.4	-1.1	1.1
Transportation	14.3	2.3	-1.4	1.5	-5.2	135,177	-5.7	-2.9	-2.2	-0.4
Travel	9.8	5.2	5.7	3.7	4.7	178,751	5.3	9.4	1.9	4.8
Other services	0.1	1.9	-6.0	-6.5	0.4	261,112	-1.3	-5.3	-2.9	-0.7

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

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

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

Table 10 : Incoming visitors by source

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u> Q4	Q1	<u>2016</u> Q2	Q3
<u>('000)</u>									
All sources	41 921.3	48 615.1	54 298.8	60 838.8	59 307.6	14 883.3	13 735.1	13 425.2	14 558.0
Mainland of China	28 100.1	34 911.4	40 745.3	47 247.7	45 842.4	11 091.0	10 427.9	9 987.8	11 301.2
South and Southeast Asia	3 751.1	3 651.8	3 718.0	3 614.8	3 559.1	1 086.4	828.4	992.4	793.3
Taiwan	2 148.7	2 088.7	2 100.1	2 031.9	2 015.8	515.7	484.2	502.8	527.7
Europe	1 801.3	1 867.7	1 893.7	1 863.3	1 829.4	543.7	481.4	451.6	411.1
United States	1 212.3	1 184.8	1 109.8	1 130.6	1 181.0	333.7	279.3	312.3	268.4
Japan	1 283.7	1 254.6	1 057.0	1 078.8	1 049.3	284.2	264.4	235.1	283.8
Others	3 623.9	3 656.1	3 674.9	3 871.9	3 830.7	1 028.7	969.5	943.3	972.4
<u>(% change over a year earlier)</u>									
All sources	16.4	16.0	11.7	12.0	-2.5	-8.0	-10.9	-3.5	-3.6
Mainland of China	23.9	24.2	16.7	16.0	-3.0	-11.9	-15.1	-5.4	-5.1
South and Southeast Asia	7.1	-2.6	1.8	-2.8	-1.5	8.3	12.4	5.5	-0.3
Taiwan	-0.7	-2.8	0.5	-3.2	-0.8	6.4	3.9	2.4	-2.8
Europe	2.5	3.7	1.4	-1.6	-1.8	3.8	6.8	3.0	3.6
United States	3.5	-2.3	-6.3	1.9	4.5	8.6	1.8	1.1	1.7
Japan	-2.5	-2.3	-15.7	2.1	-2.7	7.3	6.5	-1.0	1.6
Others	5.5	0.9	0.5	5.4	-1.1	1.8	0.8	1.8	6.4

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> Q4	Q1	<u>2016</u> Q2	Q3
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	3 348	1 803	5 614	3 339
Commercial property	161	161	233	61	85	76	10
<i>of which :</i>							
Office space	123	104	164	42	49	56	0
Other commercial premises ^(b)	39	57	69	19	36	20	10
Industrial property ^(c)	85	116	30	3	0	0	0
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	85	36	30	3	0	0	0
Storage premises ^(d)	0	80	0	0	73	0	0
Production of public housing							
(in units)							
Rental housing flats ^(e)	20 898	5 634	10 147	0	11 987	187	N.A.
Subsidised sales flats ^(e)	0	0	1 326	338	0	0	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	118.5	211.1	57.2	N.A.
Commercial property	309.5	290.3	319.0	96.2	115.4	79.5	N.A.
Industrial property ^(f)	138.1	105.9	225.3	137.1	15.1	28.0	N.A.
Other properties	136.4	217.1	555.4	264.2	57.7	42.3	N.A.
Total	1 400.1	1 260.4	1 993.0	615.9	399.2	207.0	N.A.
Agreements for sale and purchase of property							
(Number)							
Residential property ^(g)	50 676	63 807	55 982	10 169	6 221	13 700	17 890
Primary market	11 046	16 857	16 826	4 606	1 325	4 308	6 244
Secondary market	39 630	46 950	39 156	5 563	4 896	9 392	11 646
Selected types of non-residential properties ^(h)							
Office space	1 685	1 271	1 470	223	141	253	283
Other commercial premises	4 305	3 092	2 067	310	319	262	378
Flatted factory space	4 271	3 016	3 407	709	450	588	621

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> Q4	Q1	<u>2016</u> Q2 [#]	Q3 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	242.4	256.9	296.8	293.6	274.7	275.2	288.3
Office space	409.8	423.0	448.9	457.0	437.1	418.7	419.0
Shopping space	506.8	521.2	559.2	554.7	533.5	526.2	512.2
Flatted factory space	655.4	668.0	723.9	731.2	687.0	692.3	680.5
Property rental indices ^(b) :							
Residential flats	154.5	159.5	172.8	173.5	165.4	164.8	169.2
Office space	204.1	213.7	226.7	230.2	230.7	231.9	232.9
Shopping space	165.5	173.1	182.5	182.5	179.3	178.0	177.2
Flatted factory space	147.3	160.1	174.4	177.7	178.4	181.0	182.2
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	17.6	6.0	15.5	7.0	-5.0	-8.0	-5.5
Office space	22.4	3.2	6.1	6.6	0.8	-6.0	-8.8
Shopping space	20.5	2.8	7.3	2.5	-3.3	-5.9	-10.4
Flatted factory space	33.8	1.9	8.4	7.0	-1.7	-4.2	-8.3
Property rental indices ^(b) :							
Residential flats	8.3	3.2	8.3	5.0	-1.8	-4.6	-4.2
Office space	8.4	4.7	6.1	5.7	4.5	2.6	1.4
Shopping space	9.4	4.6	5.4	3.5	-0.5	-2.4	-4.2
Flatted factory space	11.7	8.7	8.9	7.2	5.4	4.5	2.8

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)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u> Q4	Q1	<u>2016</u> Q2	Q3
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	1,000,344	1,116,675	1,253,380	1,253,380	1,306,062	1,329,267	1,417,126
M2 ^(a)	4,795,130	5,225,773	5,765,549	5,765,549	5,801,800	5,899,348	6,187,842
M3 ^(a)	4,806,012	5,236,188	5,778,772	5,778,772	5,814,479	5,911,089	6,200,545
Total money supply (\$Mn)							
M1	1,510,895	1,708,724	1,971,146	1,971,146	2,076,634	2,089,932	2,234,444
M2	10,056,437	11,011,372	11,618,441	11,618,441	11,747,635	11,791,318	12,390,203
M3	10,085,243	11,048,944	11,655,019	11,655,019	11,783,190	11,828,214	12,431,638
Deposit (\$Mn)							
HK\$	4,390,953	4,800,330	5,312,403	5,312,403	5,353,361	5,450,475	5,733,148
Foreign currency	4,789,109	5,272,804	5,437,346	5,437,346	5,617,954	5,597,236	5,894,377
Total	9,180,062	10,073,135	10,749,749	10,749,749	10,971,315	11,047,711	11,627,525
Loans and advances (\$Mn)							
HK\$	3,606,018	4,000,361	4,152,589	4,152,589	4,187,120	4,264,170	4,331,398
Foreign currency	2,850,795	3,275,910	3,381,951	3,381,951	3,335,255	3,435,335	3,492,673
Total	6,456,813	7,276,271	7,534,540	7,534,540	7,522,375	7,699,505	7,824,071
Nominal Effective Exchange Rate Indices (Jan 2010 =100) ^(b)							
Trade-weighted	94.9	96.0	101.3	103.3	104.0	102.8	103.5
Import-weighted	94.7	96.0	101.7	103.9	104.4	102.9	103.3
Export-weighted	95.1	95.9	100.9	102.7	103.6	102.7	103.8
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	8.6	11.6	12.2	12.2	-0.3	3.2	12.0
M2 ^(a)	5.7	9.0	10.3	10.3	3.6	2.2	7.8
M3 ^(a)	5.7	9.0	10.4	10.4	3.6	2.1	7.8
Total money supply							
M1	9.7	13.1	15.4	15.4	7.0	9.0	10.7
M2	12.4	9.5	5.5	5.5	3.5	3.1	8.3
M3	12.4	9.6	5.5	5.5	3.6	3.1	8.3
Deposit							
HK\$	5.1	9.3	10.7	10.7	3.8	2.1	8.1
Foreign currency	16.2	10.1	3.1	3.1	7.1	7.3	10.1
Total	10.7	9.7	6.7	6.7	5.5	4.7	9.1
Loans and advances							
HK\$	8.2	10.9	3.8	3.8	-2.3	*	4.2
Foreign currency	27.6	14.9	3.2	3.2	-0.2	0.7	2.6
Total	16.0	12.7	3.5	3.5	-1.4	0.3	3.5
Nominal Effective Exchange Rate Indices (Jan 2010 =100) ^(b)							
Trade-weighted	0.0	1.2	5.5	6.1	3.9	2.8	1.5
Import-weighted	0.5	1.4	5.9	6.3	4.0	2.7	0.8
Export-weighted	-0.5	0.8	5.2	5.7	3.9	3.1	2.4

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

(b) Period average.

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

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

(%)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>		<u>2016</u>	
					Q3	Q4	Q1	Q2
Services Industry								
Import and export trade	-1.3	-0.3	0.1	-3.9	-4.5	-7.3	-10.7	-2.9
Wholesale	3.2	4.3	1.5	-4.9	-5.8	-10.5	-7.8	-1.7
Retail	9.8	11.0	-0.2	-3.7	-4.8	-6.6	-12.5	-8.2
Transportation	0.9	1.4	6.1	-4.3	-7.0	-7.3	-8.5	-9.0
<i>within which :</i>								
Land transport	11.9	8.0	6.9	5.4	1.9	8.4	5.9	3.9
Water transport	-2.4	-2.9	6.8	-7.7	-11.0	-15.6	-16.3	-16.1
Air transport	0.3	2.4	5.3	-5.1	-7.2	-6.9	-8.2	-8.7
Warehousing and storage	25.2	8.2	11.9	12.7	11.4	13.4	14.8	16.3
Courier	16.1	26.1	5.4	-5.9	-7.0	-8.9	-3.1	6.8
Accommodation services ^(a)	13.8	5.6	6.5	-6.6	-11.1	-0.3	-4.6	-0.5
Food services	5.0	3.5	3.5	3.9	3.5	3.6	1.9	3.0
Information and communications	9.3	6.0	5.9	10.8	11.3	9.0	6.9	6.5
<i>within which :</i>								
Telecommunications	14.7	8.0	10.7	19.6	18.1	14.4	8.6	7.5
Film entertainment	1.9	-4.3	-11.7	-3.1	-3.4	-5.0	3.0	-8.4
Banking	9.4	16.8	5.9	8.3	0.3	-2.0	-9.6	28.1
Financing (except banking)	1.6	2.6	6.7	19.0	4.5	6.5	-10.7	-15.6
<i>within which :</i>								
Financial markets and asset management	1.7	1.0	8.9	19.0	5.4	3.8	-12.5	-18.6
<i>within which : Asset management</i>	-5.4	14.9	11.0	7.0	-0.4	-2.1	*	2.1
Insurance	13.6	15.1	18.2	11.7	8.4	12.2	10.5	21.7
Real estate	11.8	0.1	17.0	8.1	4.8	0.1	6.9	10.9
Professional, scientific and technical services	-0.5	7.2	7.6	5.3	4.4	4.3	2.1	3.8
Administrative and support services	8.2	9.5	7.3	7.4	6.6	8.4	2.9	0.5
Services Domain								
Tourism, convention and exhibition services	15.1	17.8	-0.9	-5.0	-6.1	-7.1	-13.3 ⁺	-8.1 ⁺
Computer and information technology services	15.1	2.1	-1.8	-4.2	-4.0	-1.9	-4.7	-5.7

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

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

(+) Provisional figures.

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

Table 15 : Labour force characteristics

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>		<u>2016</u>	
						Q4	Q1	Q2	Q3
<u>(%)</u>									
Labour force participation rate	60.1	60.5	61.2	61.1	61.2	61.0	61.4	61.2	61.2
Seasonally adjusted unemployment rate ^(a)	3.4	3.3	3.4	3.3	3.3	3.3	3.4	3.4	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	6 417.3	6 421.4	6 444.7	6 458.0
Labour force	3 703.1	3 785.2	3 858.8	3 876.4	3 909.8	3 913.3	3 942.2	3 943.2	3 954.0
Persons employed	3 576.4	3 660.7	3 728.0	3 749.2	3 780.9	3 790.0	3 811.8	3 807.1	3 813.4
Persons unemployed	126.7	124.5	130.8	127.2	128.9	123.3	130.4	136.1	140.6
Persons underemployed	63.3	57.6	58.2	56.5	53.0	52.9	53.4	54.1	55.3
<u>(% change over a year earlier)</u>									
Population of working age	1.2	1.4	0.8	0.7	0.7	0.8	0.6	0.9	0.8
Labour force	2.0	2.2	1.9	0.5	0.9	0.2	0.6	1.1	1.0
Persons employed	2.9	2.4	1.8	0.6	0.8	0.2	0.5	0.9	0.9
Persons unemployed	-19.4	-1.8	5.1	-2.7	1.3	0.6	3.3	5.4	2.6
Persons underemployed	-12.7	-9.0	1.1	-3.0	-6.1	-15.6	-0.2	-2.0	4.7

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

Table 16 : Employment in selected major industries

Selected major industries	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>			<u>2016</u>	(No.)
	(% change)					Sep	Dec	Mar	Jun	
						(% change over a year earlier)				
Manufacturing	-5.6	-5.1	-3.0	-1.2	-2.8	-3.0	-2.6	-2.5	-3.5	96 094
Construction sites (manual workers only)	13.2	13.8	11.2	4.4	14.9	8.3	18.1	14.1	14.4	106 193
Import and export trade	-0.3	-1.1	-0.2	0.1	-1.4	-1.6	-2.0	-1.2	-0.5	481 828
Wholesale	*	-0.6	-2.0	-0.3	-1.4	-1.7	-1.1	-0.4	-0.1	61 220
Retail	4.0	2.5	2.3	2.2	-0.5	-0.3	-1.3	-1.9	-1.4	266 151
Food and beverage services	6.6	1.6	0.9	2.4	0.1	-0.1	-0.7	-0.7	-0.4	242 175
Accommodation services ^(a)	5.8	9.2	5.0	3.2	-1.1	-0.8	-1.4	-3.5	-2.5	38 651
Transportation, storage, postal and courier services	2.0	1.8	2.0	2.7	1.6	1.6	1.1	1.2	0.8	177 864
Information and communications	3.4	5.6	5.1	2.7	1.1	0.7	1.2	1.6	0.2	105 104
Financing and insurance	6.3	1.9	1.0	2.3	2.3	2.4	1.5	1.1	0.4	220 565
Real estate	8.0	4.2	1.6	0.6	1.7	2.3	-0.1	-1.0	-0.5	128 878
Professional and business services (excluding cleaning and similar services)	4.2	3.4	4.5	2.7	2.4	2.8	1.6	0.6	1.6	286 523
Cleaning and similar services	9.5	3.3	1.6	0.2	2.4	2.8	0.9	-0.3	1.0	82 033
Education	1.5	2.4	2.8	4.4	3.9	4.1	2.9	2.7	2.2	194 950
Human health services	4.1	4.9	5.2	4.3	4.5	4.7	4.1	4.2	4.4	120 306
Residential care and social work services	1.3	2.0	0.5	0.6	2.8	2.6	3.5	4.3	3.7	62 811
Arts, entertainment, recreation and other services	2.8	0.6	1.6	5.9	0.9	0.4	-1.0	-0.9	-2.6	125 329
Civil service ^(b)	0.7	1.1	1.3	1.0	0.7	0.6	0.9	1.5	1.1	165 526
Others ^(c)	-0.6	-5.1	3.5	3.1	-1.0	-0.4	-0.7	-0.8	0.8	10 963

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

- (a) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.
- (b) These figures cover only those employed on civil service terms of appointment. Judges, judicial officers, ICAC officers, locally engaged staff working in the Hong Kong Economic and Trade Offices outside Hong Kong, and other government employees such as non-civil service contract staff are not included.
- (c) Include employment in mining and quarrying; and in electricity and gas supply, and waste management.
- (*) Change within $\pm 0.05\%$.

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>		<u>2016</u>	
						Sep	Dec	Mar	Jun
<u>(Number)</u>									
Building sites									
Private sector	31 780	37 687	41 308	44 024	50 372	50 256	55 191	57 069	59 557
Public sector ^(a)	12 335	10 578	9 860	11 212	15 470	15 110	15 833	15 949	15 047
Sub-total	44 115	48 265	51 168	55 236	65 842	65 366	71 024	73 018	74 604
Civil engineering sites									
Private sector	1 250	1 410	1 322	1 414	1 609	1 505	1 397	1 670	1 317
Public sector ^(a)	17 270	21 621	26 813	26 145	27 652	26 874	29 561	30 125	30 272
Sub-total	18 520	23 030	28 135	27 559	29 261	28 379	30 958	31 795	31 589
Total	62 635	71 295	79 303	82 795	95 103	93 745	101 982	104 813	106 193
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	11.0	18.6	9.6	6.6	14.4	10.1	22.7	20.7	22.1
Public sector ^(a)	7.6	-14.2	-6.8	13.7	38.0	26.9	11.4	1.8	-1.5
Sub-total	10.1	9.4	6.0	8.0	19.2	13.5	20.0	16.0	16.5
Civil engineering sites									
Private sector	-19.0	12.8	-6.2	7.0	13.8	6.3	22.5	17.8	-37.8
Public sector ^(a)	25.9	25.2	24.0	-2.5	5.8	-2.5	13.6	9.4	13.6
Sub-total	21.4	24.4	22.2	-2.0	6.2	-2.0	14.0	9.9	9.8
Total	13.2	13.8	11.2	4.4	14.9	8.3	18.1	14.1	14.4

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

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

**Table 18 : Rates of change in indices of payroll per person engaged
by selected industry section**

(%)

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

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

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

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

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

	(%)								
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>		<u>2016</u>	
Selected industry section						Sep	Dec	Mar	Jun
(in nominal terms)									
Manufacturing	6.7	4.3	4.7	4.9	4.0	4.4	4.2	3.5	3.6
Import/export, wholesale and retail trades	7.7	4.5	2.9	2.5	3.1	3.1	2.8	2.9	2.8
Transportation	4.1	3.3	3.9	4.8	4.4	4.1	4.1	3.8	3.6
Accommodation ^(a) and food service activities	9.4	7.9	5.7	4.7	5.4	5.2	5.3	5.0	4.9
Financial and insurance activities ^(b)	6.7	4.2	4.4	3.2	3.2	3.3	3.5	3.5	3.2
Real estate leasing and maintenance management	8.7	7.6	9.3	4.5	3.4	4.1	3.7	3.4	3.4
Professional and business services	12.9	6.5	5.9	6.7	6.9	7.4	7.0	5.4	4.7
Personal services	10.0	9.2	6.2	7.8	6.5	5.6	5.9	6.3	5.8
All industries surveyed	8.1	5.6	4.7	4.2	4.4	4.4	4.2	3.9	3.8
(in real terms)									
Manufacturing	0.9	0.6	-0.1	-1.6	0.2	2.3	1.6	0.5	1.0
Import/export, wholesale and retail trades	2.4	0.6	-1.7	-3.9	-0.6	1.1	0.2	-0.1	0.3
Transportation	-1.2	-0.7	-0.6	-1.9	0.6	2.0	1.5	0.7	1.1
Accommodation ^(a) and food service activities	3.9	3.8	1.1	-1.8	1.5	3.1	2.7	1.9	2.3
Financial and insurance activities ^(b)	1.4	0.1	0.1	-3.7	-0.5	1.3	0.9	0.5	0.7
Real estate leasing and maintenance management	3.5	3.4	4.5	-1.9	-0.4	2.0	1.1	0.4	0.9
Professional and business services	7.0	2.2	1.5	*	2.9	5.3	4.3	2.3	2.1
Personal services	4.1	5.3	1.5	1.1	2.6	3.5	3.2	3.2	3.2
All industries surveyed	2.7	1.6	0.1	-2.4	0.6	2.3	1.6	0.9	1.2

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>			Average annual rate of change:	
			Q4	Q1	Q2	Q3	10 years		5 years		
							2005 to 2015	2010 to 2015	2005 to 2015	2010 to 2015	
GDP deflator [#]	2.9	3.6	2.8	2.3	2.1	1.5			1.9	3.1	
Domestic demand deflator [#]	3.1	2.1	1.8	1.3	1.4	1.9			2.3	3.1	
Consumer Price Indices ^(a) :											
Composite CPI	4.4	3.0	2.3	2.8	2.6	3.1			3.2	4.2	
CPI(A)	5.6	4.0	2.5	3.1	2.7	4.5			3.3	4.8	
CPI(B)	4.2	2.9	2.4	2.8	2.7	2.6			3.2	4.1	
CPI(C)	3.5	2.1	2.0	2.5	2.4	2.2			3.1	3.7	
Unit Value Indices :											
Domestic exports	0.2	-3.0	-3.3	-3.2	-2.1	-1.1			1.6	1.5	
Re-exports	2.0	0.1	-2.1	-2.6	-2.2	-1.6			2.8	2.9	
Total exports of goods	2.0	0.1	-2.1	-2.6	-2.2	-1.6			2.7	2.9	
Imports of goods	1.9	-0.4	-2.1	-2.8	-2.6	-1.4			2.9	2.7	
Terms of Trade Index	0.1	0.5	*	0.2	0.4	-0.3			-0.1	0.2	
Producer Price Index for all manufacturing industries ^(b)	-1.7	-2.7	-3.2	-2.8	0.4	N.A.			1.5	0.1	
Tender Price Indices :											
Public sector											
building projects	7.3	5.9	4.2	2.5	0.9	N.A.			9.5	7.9	
Public housing projects	8.0	12.5	15.1	10.3	3.4	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:	
					Q4	Q1	Q2	Q3	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)	2.3 (2.2)	2.8 (2.8)	2.6 (2.3)	3.1 (2.1)	3.2 (-)	4.2 (3.9)	
Food	27.29	4.4	4.1	4.0	3.9	4.6	3.2	2.8	4.5	5.0	
<i>Meals bought away from home</i>	17.74	4.4	4.6	4.2	4.0	3.7	3.3	3.1	3.7	4.8	
<i>Food, excluding meals bought away from home</i>	9.55	4.4	3.4	3.4	3.7	6.3	3.1	2.1	5.8	5.5	
Housing ^(a)	34.29	6.7	6.7	5.1	4.1	4.0	4.6	6.0	4.6	6.3	
<i>Private housing rent</i>	29.92	6.3	6.0	4.7	4.4	4.2	4.8	4.1	5.2	6.2	
<i>Public housing rent</i>	1.94	16.0	18.3	10.9	*	*	0.5	51.3	-0.4	9.6	
Electricity, gas and water	2.67	6.9	14.9	8.4	-1.1	*	-1.1	4.1	1.7	3.2	
Alcoholic drinks and tobacco	0.54	1.5	6.5	1.3	1.0	0.3	1.2	2.4	4.4	5.7	
Clothing and footwear	3.21	1.7	0.9	-1.8	-1.6	-3.3	-2.8	-4.5	2.1	2.1	
Durable goods	4.65	-4.3	-3.4	-5.6	-5.8	-5.7	-5.4	-5.3	-3.7	-3.7	
Miscellaneous goods	3.56	2.2	2.3	0.9	0.5	0.5	1.3	2.3	2.5	2.3	
Transport	7.98	2.3	2.0	-0.3	-0.3	1.2	1.5	1.4	1.5	2.3	
Miscellaneous services	15.81	3.7	3.0	1.1	1.2	2.7	2.1	2.5	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:	
				Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]	10 years 2005 to 2015 [#]	5 years 2010 to 2015 [#]	
Private consumption expenditure	2.7	2.9	1.0	1.0	1.2	1.6	2.1	2.1	2.7	
Government consumption expenditure	4.3	4.7	4.5	4.2	4.0	3.9	3.9	3.1	4.8	
Gross domestic fixed capital formation	-2.9	3.1	4.5	3.2	0.5	-0.2	*	2.7	3.5	
Total exports of goods	-0.3	0.8	-0.7	-2.4	-2.8	-2.4	-1.2	2.1	2.1	
Imports of goods	-0.4	0.9	-1.4	-2.8	-3.6	-2.8	-1.3	2.4	2.2	
Exports of services	0.6	0.8	-2.0	-2.7	-3.7	-2.7	-1.6	2.0	2.2	
Imports of services	1.1	1.2	-4.3	-4.8	-3.4	-1.7	0.2	1.6	1.2	
Gross Domestic Product	1.8	2.9	3.6	2.8	2.3	2.1	1.5	1.9	3.1	
Total final demand	0.4	1.5	*	-1.1	-1.5	-1.1	-0.3	2.2	2.4	
Domestic demand	1.4	3.1	2.1	1.8	1.3	1.4	1.9	2.3	3.1	

