



Half-yearly Economic Report 2017

Government of the Hong Kong
Special Administrative Region

HALF-YEARLY ECONOMIC REPORT 2017

ECONOMIC ANALYSIS DIVISION
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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

- *The Hong Kong economy sustained above-trend growth in the second quarter of 2017, expanding by 3.8% over a year earlier, following notable growth of 4.3% in the first quarter. The generally benign global economic environment remained supportive to external demand. Domestic demand growth stayed robust, buttressed by favourable labour market conditions and improved economic sentiment.*
- *External demand improved further in the second quarter, with downside risks to the global economic outlook receding. This continued to render support to Asia's regional trading and manufacturing activities. Against this backdrop, Hong Kong's total exports of goods registered visible growth in the second quarter, with exports to Asian markets providing the main growth impetus. Meanwhile, exports of services grew at a steady pace amid reviving regional trade flows and increased cross-border financial activities, notwithstanding the stuttered recovery in inbound tourism.*
- *The domestic sector continued to display strength in the second quarter. Private consumption expenditure grew briskly, underpinned by favourable labour market conditions and stronger wealth effects. Meanwhile, overall investment expenditure strengthened to show sizeable growth, as machinery and equipment acquisition rebounded and building and construction activity sustained its uptrend.*
- *The labour market tightened along with the above-trend pace of economic expansion. Total employment saw further sturdy growth in the second quarter, and the seasonally adjusted unemployment rate went down slightly to a three-year low of 3.1%. Wages and earnings improved further in real terms.*
- *The rally in the local stock market at the beginning of this year extended well into the second quarter. Market sentiment was rather bullish amid the improved global economic outlook that also drove up many major overseas stock markets. The residential property market stayed largely active during the second quarter, though the pace of price gains slowed somewhat over the course of the quarter.*
- *Underlying inflation remained moderate in the second quarter, thanks to limited external price pressure and moderate increase in local costs. As these developments are expected to continue, inflationary pressure in the economy should be contained in the near term.*

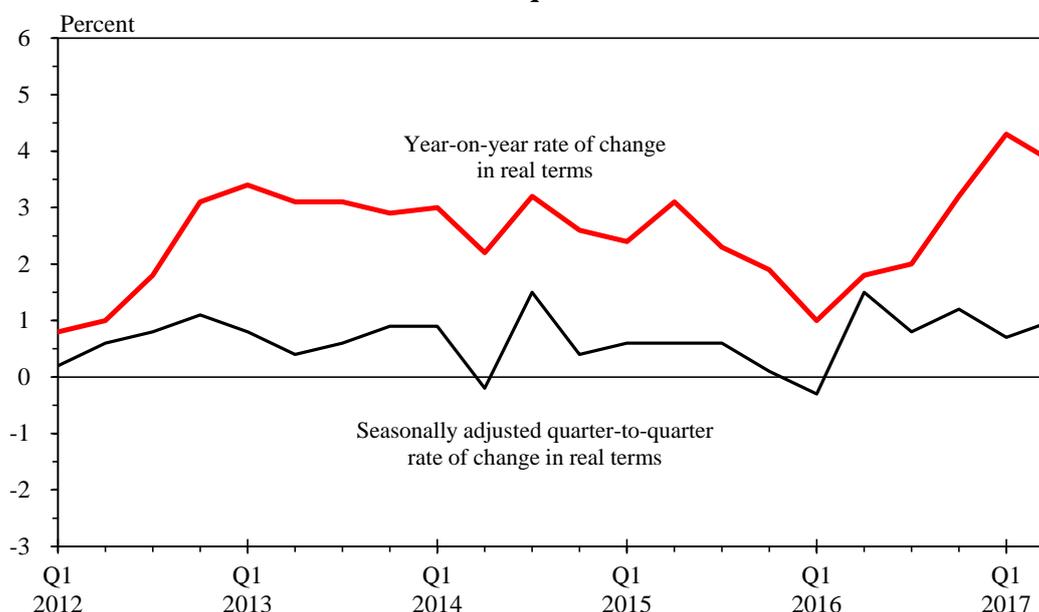
Overall situation

1.1 The Hong Kong economy grew by 3.8% in the second quarter of 2017 over a year earlier, following notable growth of 4.3% in the first quarter and sustaining another quarter of above-trend growth. Global economic conditions remained largely benign in the second quarter, thereby rendering support to external demand for goods and services. Exports of goods grew visibly in the second quarter following sizeable growth in the first quarter, with Asian markets providing the main impetus. Exports of services grew at a steady pace amid reviving regional trade flows and increased cross-border financial activities, though the recovery in inbound tourism stuttered. The domestic sector continued to display strength. Private consumption expenditure expanded briskly, underpinned by favourable labour market conditions and stronger wealth effects. Overall investment expenditure saw faster growth, supported by a bounce-back in machinery and equipment acquisition, rising building and construction activity and a notable increase in costs of ownership transfer. Overall inflationary pressure stayed moderate.

1.2 The global economy expanded further in the second quarter. The US economy continued to grow moderately, bolstering the Federal Reserve's confidence to raise rates again in mid-June and to reveal a firmer intention to begin scaling back its balance sheet later this year. The economic recovery in the euro area gathered more pace, as the impact from policy and political uncertainties remained relatively limited. Meanwhile, the Mainland economy stayed on the path of medium-high speed growth and picked up slightly from the growth pace last year, buttressed by its resilient domestic demand and strengthening external sector. Economic growth rates in the rest of Asia were in general solid, aided by a continued expansion in regional trading and manufacturing activities. On the whole, downside risks to the near-term global economic outlook receded in the second quarter, though uncertainties continued to prevail, including the future pace of monetary policy normalisation in the US; ongoing Brexit-related negotiations, policy and political developments in the US and Europe; and still-elevated geopolitical tensions in various regions. Against this backdrop, the International Monetary Fund (IMF)⁽¹⁾ in July projected that the global economy would grow by 3.5% in 2017. While the overall growth forecast by the IMF for the global economy remained unchanged from its previous assessment in April, the IMF expected a slower growth in the US due to uncertainty over the timing and nature of its future fiscal policy changes, but projected faster growth for several other major economies such as China, the euro area and Japan.

1.3 In the second quarter of 2017, *Gross Domestic Product (GDP)*⁽²⁾ grew by 3.8% in real terms over a year earlier, following notable growth of 4.3% in the preceding quarter (the same as the preliminary estimate). Both were stronger than the trend growth of 2.9% per annum over the past ten years. For the first half of 2017 as a whole, real GDP expanded by 4.0% year-on-year, doubling its 2.0% growth pace in 2016. On a seasonally adjusted quarter-to-quarter basis⁽³⁾, real GDP picked up to grow by 1.0% in the second quarter of 2017, following the 0.7% growth in the preceding quarter (the same as the preliminary estimate) and representing the fifth consecutive quarter-to-quarter expansion.

Diagram 1.1 : The Hong Kong economy sustained above-trend growth in the second quarter of 2017



The external sector

1.4 *Total exports of goods* compiled under the GDP accounting framework grew visibly by 5.6% in real terms in the second quarter over a year earlier, following marked growth of 9.3% in the first quarter when there was a fall-off in external demand a year ago. Among major markets, with reference to external merchandise trade statistics, exports to Asian economies remained the key growth driver of our overall exports in the second quarter as the demand for raw materials, semi-manufactures and capital goods remained robust amid reviving regional trading and manufacturing activities. Specifically, exports to the Mainland sustained solid growth, and those to some emerging Asian economies such as India and Vietnam increased strongly. Exports to Japan also picked up to double-digit growth in the second quarter, thanks to recovery in production activities and relative improvement in consumer sentiment there. In contrast, the US and EU markets rose at a modest pace by comparison.

1.5 *Exports of services* grew modestly by 2.3% year-on-year in real terms in the second quarter, after 2.8% growth in the previous quarter, underpinned by the generally positive global economic environment. Exports of transport services expanded notably, thanks to growth in regional trade and cargo flows. Exports of financial services sustained moderate growth, amid increasing cross-border financial activities. Exports of business and other services also increased marginally. Meanwhile, exports of travel services fell modestly. The relative improvement that was seen in these exports in recent quarters stuttered, as tourist spending still lacked growth and the recovery in visitor arrivals was unsteady in the second quarter.

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

	<u>2015</u> [#]	<u>2016</u> [#]	<u>2016</u>				<u>2017</u>	
			<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [#]	<u>Q2</u> ⁺
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	4.8	1.8	1.5 (0.2)	0.4 (0.7)	1.6 (1.1)	3.6 (1.5)	3.9 (0.5)	5.3 (2.0)
Government consumption expenditure	3.4	3.4	3.2 (0.9)	3.6 (1.0)	3.4 (0.5)	3.4 (0.9)	3.1 (0.6)	3.2 (1.1)
Gross domestic fixed capital formation	-3.2	-0.3	-8.7	-5.1	7.2	5.6	5.9	8.0
Building and construction	2.2	3.9	1.5	2.4	4.3	7.5	8.6	4.0
Costs of ownership transfer	-8.3	-2.9	-50.9	-19.2	22.5	63.7	77.3	53.4
Machinery, equipment and intellectual property products	-7.7	-4.6	-10.8	-10.3	7.6	-4.2	-8.6	4.6
Total exports of goods ^{&}	-1.7	1.8	-3.5 (-2.5)	2.4 (3.0)	2.5 (0.7)	5.1 (3.9)	9.3 (1.6)	5.6 (-0.8)
Imports of goods ^{&}	-2.7	1.1	-5.6 (-3.8)	0.6 (3.6)	3.1 (1.9)	5.6 (4.0)	10.0 (0.3)	6.2 (-0.2)
Exports of services ^{&}	0.3	-3.2	-5.4 (-1.0)	-6.2 (-0.6)	-2.5 (1.8)	1.2 (1.1)	2.8 (0.6)	2.3 (-1.3)
Imports of services ^{&}	5.0	2.0	4.1 (1.7)	1.2 (-1.1)	0.8 (-0.2)	2.0 (1.6)	0.9 (0.5)	3.5 (1.6)
Gross Domestic Product	2.4	2.0	1.0 (-0.3)	1.8 (1.5)	2.0 (0.8)	3.2 (1.2)	4.3 (0.7)	3.8 (1.0)
<i>Change in the main price indicators (%)</i>								
GDP deflator	3.6	1.8	2.1 (0.5)	1.7 (0.5)	1.5 (0.2)	1.8 (0.6)	2.1 (0.8)	3.1 (1.4)
Composite CPI								
Headline	3.0 [@]	2.4	2.8 (0.7)	2.6 (-0.6)	3.1 (0.4)	1.2 (0.7)	0.5 (0.1)	2.0 (0.7)
Underlying [^]	2.5 [@]	2.3	2.8 (0.7)	2.3 (0.2)	2.1 (0.5)	2.1 (0.7)	1.4 (0.1)	2.0 (0.7)
Change in nominal GDP (%)	6.1	3.9	3.2	3.6	3.6	5.0	6.5	7.0

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

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

(#) Revised figures.

(+) Preliminary figures.

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

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

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

The domestic sector

1.6 The domestic sector continued to display strength in the second quarter. *Private consumption expenditure* (PCE) grew briskly by 5.3% in real terms in the second quarter over a year earlier, picking up from 3.9% growth in the first quarter. The faster growth in the second quarter mainly reflected robust local consumption demand, which was underpinned by favourable labour market conditions and stronger wealth effects. Also relevant was sizeable growth in residents' expenditure abroad, partly helped by the difference in timing of the Easter holidays in 2016 and 2017, which fell in late March last year but mid-April this year (See **Box 1.1** for an explanation of the discrepancy between the recent performance of PCE and retail sales in Hong Kong). *Government consumption expenditure* maintained steady year-on-year growth of 3.2% in real terms in the second quarter, slightly accelerating from its 3.1% growth in the preceding quarter.

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

	Total consumer spending in the domestic market ^(a)	<i>Of which :</i>				Residents' expenditure abroad	Visitor spending	Private consumption expenditure ^(b)
		Food	Durables	Non- durables	Services			
2016 Annual	-0.2	0.9	-13.3	-0.3	1.9	7.1	-8.1	1.8
H1	-1.7	0.7	-17.9	-2.5	1.1	9.2	-11.0	1.0
H2	1.2	1.2	-8.8	1.9	2.8	5.1	-5.3	2.7
Q1	-2.2	-1.8	-17.8	-3.4	1.8	16.6	-13.0	1.5
Q2	-1.1	2.7	-18.1	-1.5	0.3	2.4	-8.8	0.4
Q3	*	0.3	-8.1	-2.9	2.2	4.0	-7.4	1.6
Q4	2.3	2.0	-9.3	6.1	3.3	6.1	-3.3	3.6
2017								
H1	3.9	3.3	-0.6	5.7	4.0	4.1	-0.6	4.6
Q1	3.6	3.3	-1.1	4.5	4.2	-0.2	-0.2	3.9
Q2	4.1	3.4	0.2	6.9	3.8	8.7	-1.1	5.3

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

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

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

Diagram 1.2 : Private consumption expenditure grew briskly

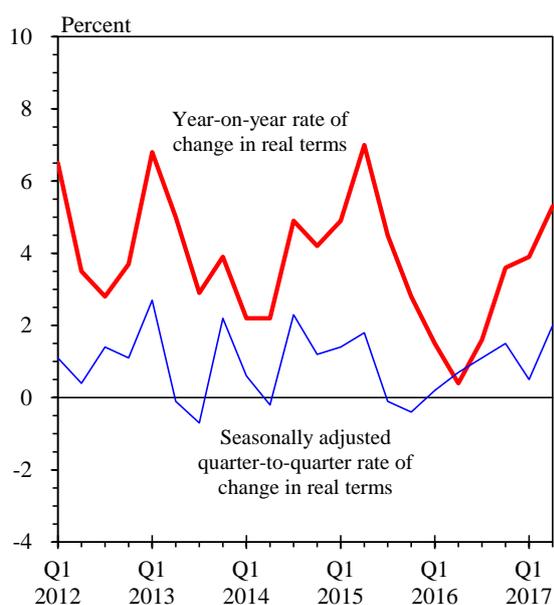
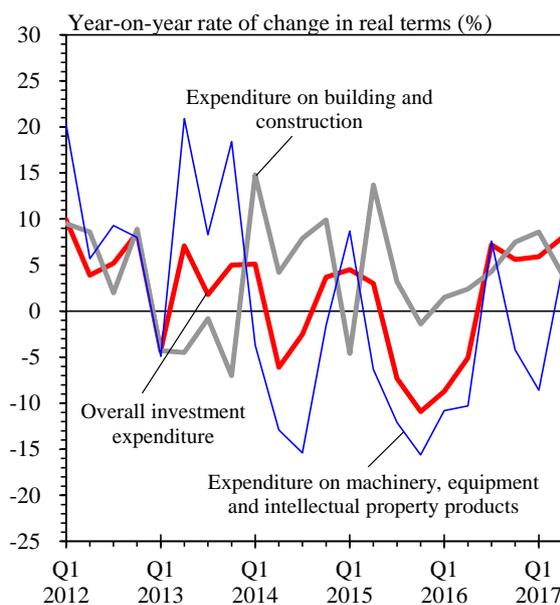


Diagram 1.3 : Overall investment spending strengthened to show sizeable growth



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* strengthened to show sizeable growth of 8.0% in real terms in the second quarter over a year earlier, after visible growth of 5.9% in the preceding quarter. Within this, overall building and construction expenditure maintained its uptrend, expanding by 4.0%, as private building and construction activity saw further notable growth and public building and construction expenditure stayed at a high level. Cost of ownership transfer also increased markedly against a low base of comparison last year. Machinery and equipment acquisition rebounded by 4.6% year-on-year, after falling for two consecutive quarters. Indeed, the latest Quarterly Business Tendency Survey and other surveys on business sentiments also indicated that business sentiment in many economic sectors remained broadly optimistic (see **Box 1.2** for more detailed analysis of the results of these surveys on business sentiments), mirroring the improving global economic outlook.

Box 1.1

Discrepancy between the recent performance of PCE and retail sales in Hong Kong

Private consumption expenditure (PCE), which measures the overall consumption expenditure of Hong Kong residents, grew visibly by 4.6% in the first half of 2017 in real terms over a year earlier, an acceleration from the 1.8% growth for 2016 as a whole. While local retail sales volume likewise improved over the same period, its performance was weaker by comparison (*Chart 1*). This box article, by making reference to the coverage of these two indicators, explains the factors behind the differences in their recent performance.

By definition, PCE covers consumer spending on goods (purchased from all channels including retail outlets) and services by Hong Kong residents, both domestically and abroad. Meanwhile, retail sales figures cover the sales receipts of goods sold by local retail outlets to both local residents and foreign visitors. Simply put, PCE has a much broader coverage than retail sales in terms of the types of purchases and geographical locations (as PCE covers residents' expenditure outside Hong Kong). Yet, PCE does not include visitors' shopping expenditure in Hong Kong, which is instead covered in retail sales figures.

Until a year or two ago, inbound tourism witnessed a sustained period of rapid expansion, with visitor arrivals and visitors' shopping expenditure⁽¹⁾ surging at an average annual rate of 8.4% and 12.0% respectively over the past ten years, far outpacing the average annual growth of 7.1% in retail sales value over the same period. Thus, tourists spending assumed an increasingly significant role in driving retail sales, with its estimated share in retail sales rising from just 22% in 2006 to around 35% to 40% in recent years. Hence, the performance of retail sales also increasingly reflected the change of visitors' shopping profile, on top of the shopping outlay of local residents. For instance, when the year-on-year decline in visitors' shopping expenditure widened from 4.3% in the first half of 2015 to 23.1% in the first half of 2016, the year-on-year decline in retail sales value also worsened from 1.6% to 10.5% over the same period. Then, as inbound tourism began to bottom out slowly since the second half of 2016, retail sales also improved relatively in tandem (*Chart 2*).

Chart 1: Retail sales showed a weaker performance than PCE of late

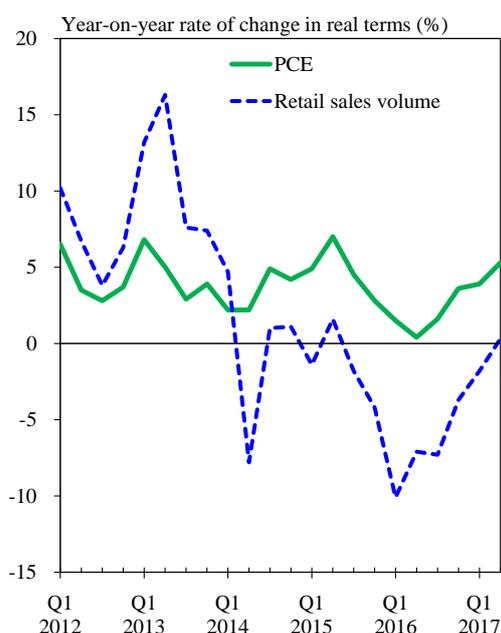
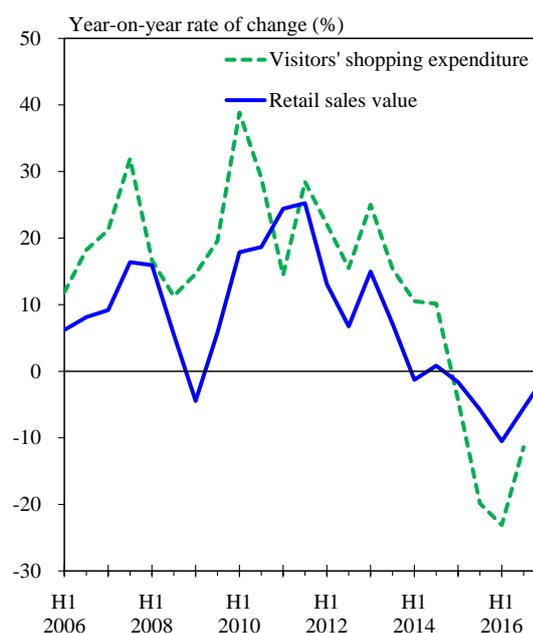


Chart 2: Retail sales followed the swings in visitors' shopping expenditure



(1) Refers to the shopping expenditure of overnight and same-day-in-town visitors compiled by the Hong Kong Tourism Board. It is used as a proxy of inbound tourism's contribution to retail sales in this article.

Box 1.1 (Cont'd)

On the other hand, the performance of PCE hinges on local consumer sentiment, which in turn depends on factors such as conditions in the labour market and asset markets, in addition to the external environment. In recent years, thanks to a sustained period of full employment in the labour market with real growth in wages and earnings, local consumer sentiment generally fared well, though it was somewhat affected by various adversities in the external environment that emerged in individual quarters. For instance, in the first half of 2016, as global economic growth was lacklustre with gyrations in global financial markets, local consumer sentiment worsened correspondingly, dragging the growth in PCE to only 1.0% year-on-year. However, while spendings on both goods and services responded to the change in local consumer sentiment, fluctuations in services outlays have been smaller than those in retail sales over time (*Chart 3*), conceivably due in part to the fact that a significant proportion of services consumption are “necessities” such as housing, transportation, medical services and education services. Considering that services outlays account for over 50% of overall consumer spending, this further explains why PCE exhibits more resilience and a more stable trend than retail sales. As for the more recent period in 2017 so far, with favourable labour market conditions and increases in asset prices, local consumption demand was robust, rendering solid growth in PCE. Furthermore, the state of local consumer sentiment could also be gauged by statistics from the payment side. Specifically, steady growth in the total value of transactions by credit and debit cards issued in Hong Kong⁽²⁾ since the fourth quarter of 2016 was another indication of the prevailing optimistic local consumer sentiment (*Chart 4*).

Chart 3: Growth in services spending tended to be more stable

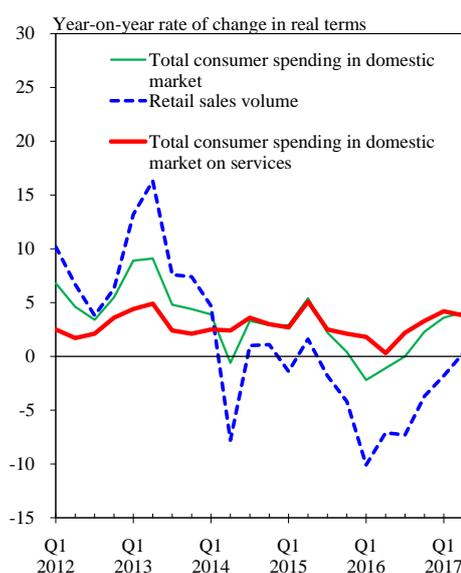
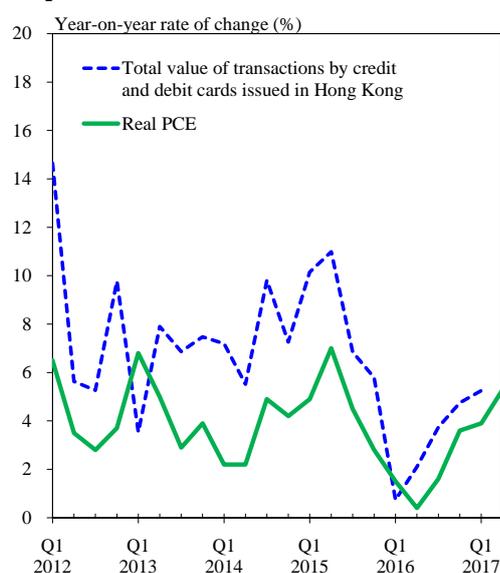


Chart 4: Payment side indicator likewise pointed to robust local consumer sentiment



In sum, PCE is a more appropriate and comprehensive measure of the state of local private consumption than retail sales. Looking ahead, while various sources of external uncertainties remain at play, especially the uncertain pace of US monetary policy normalisation, near-term local consumer sentiment is likely to remain sanguine on the back of favourable labour market conditions, thereby rendering further impetus to PCE growth going forward. As for the outlook for retail sales, while the prevailing positive local consumer sentiment would be a supportive factor, its performance would unavoidably hinge on the recovery pace of inbound tourism. Considering the importance of private consumption in the local economy, and the role of the retail sector as a key employment generator, we will closely monitor local consumption demand and the retail sector in the period ahead.

(2) Sourced from statistics of payment cards issued in Hong Kong as published by the HKMA. Credit card transactions in this article refer to credit card transactions on retail sales as defined by the HKMA. HKMA's definition of retail sales is different from that of the Census and Statistics Department.

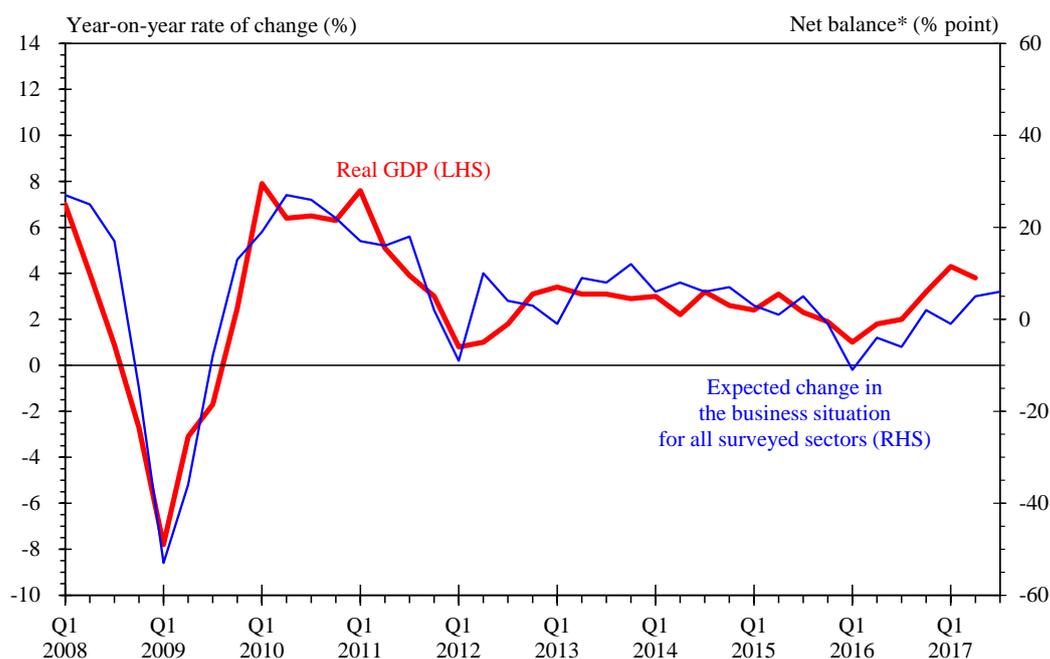
Box 1.2

Business sentiment in Hong Kong

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

According to the latest results from the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾, large enterprises in Hong Kong have turned somewhat more sanguine about their near-term business prospects alongside the above-trend growth of the Hong Kong economy in the first half of 2017 (*Chart 1*). In particular, the proportion of large enterprises surveyed in early June till mid-July 2017 expecting their business situation to be better in the third quarter of 2017 outweighed that of those expecting a weaker business performance by 6 percentage points (i.e. a net balance of +6), up from a net balance of +5 in the preceding quarter. Among the various sectors, large enterprises in “financing and insurance”, “information and communications”, and “manufacturing” remained highly optimistic. “Real estate” and “transportation, storage and courier services” returned to a positive net balance, while some other sectors such as “construction”, “import/export trade and wholesale” and “accommodation and food services” also saw some relative improvements (*Table 1*). Hiring sentiment of large enterprises in most sectors remained positive, broadly in line with the prevailing sturdy growth in employment (*Table 2*).

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



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

(1) The Quarterly Business Tendency Survey collected views from around 500 large establishments on their near-term business outlook. Respondents were asked to exclude seasonal influences in their responses.

Box 1.2 (Cont'd)

Table 1 : Large enterprises in general turned more sanguine about the near-term business outlook

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2016			2017		
	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	+12	-2	+2	+18	+14	+18
Construction	-7	-12	-11	-18	-14	-9
Import/export trade and wholesale	-8	-14	-14	-6	-2	0
Retail	-40	-38	-2	-15	-4	-4
Accommodation and food services	-17	-11	+13	-14	-13	-2
Transportation, storage and courier services	+8	+5	+12	+7	-2	+2
Information and communications	0	+12	+15	0	+19	+17
Financing and insurance	+9	+6	+12	+12	+24	+19
Real estate	-6	-3	+4	-2	0	+6
Professional and business services	-11	-14	+9	-8	0	0

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

Table 2 : Hiring sentiment among large enterprises was mostly positive

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

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

Separately, the C&SD also compiled a set of diffusion indices on a monthly basis⁽²⁾ to gauge the general directions of change in the views of small and medium-sized enterprises (SMEs) on their business situation versus the preceding month. While the overall index on business receipts was still below the divide of 50.0, the readings since March 2017 were somewhat higher than those in the second half of 2016 and early 2017. Also, the feedbacks from SMEs surveyed continued to point to a broadly stable employment situation and highly accommodative credit situation in recent months (*Table 3*).

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

	2016						2017						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Diffusion indices [^] for all selected sectors*													
Business receipts	43.6	45.7	46.6	46.3	46.4	45.2	46.0	46.1	47.2	47.0	47.0	46.5	47.8
Employment	48.4	49.5	48.8	49.3	49.8	49.2	49.7	49.5	49.6	49.7	50.0	49.2	49.0
Percentage of SMEs in all selected sectors*													
with current credit need	8.9	8.4	9.3	9.2	9.4	9.8	8.4	8.5	7.8	8.0	8.1	7.9	7.1
reported tight access to credit ^{&}	0.8	0.3	0.9	0.7	0.6	0.5	0.2	0.1	0.7	0.5	0.1	0.2	0.6

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 / employment situation is generally favourable, whereas an index below 50 indicates otherwise. Respondents were requested to exclude seasonal effects in reporting their views.

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

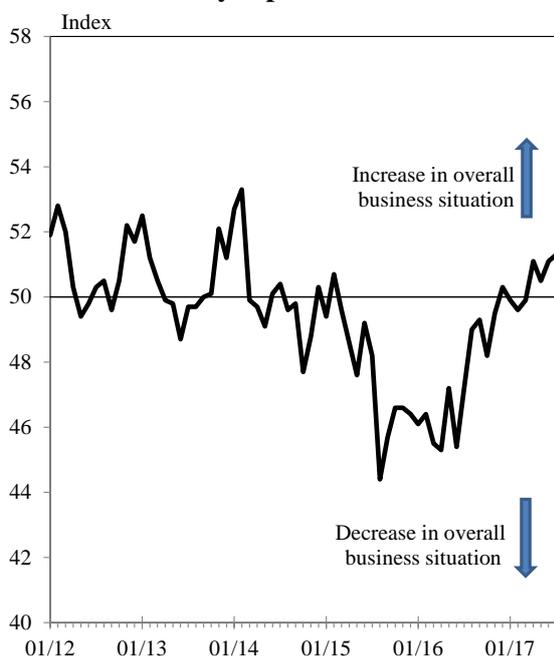
(&) It should be noted that the assessment of credit access situation might display great fluctuations from month to month given the small number of SMEs involved, as a great majority of SMEs reported "no credit need". Thus the results should be interpreted with caution.

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

Box 1.2 (Cont'd)

There are also other surveys in the public domain that help shed some light on the prevailing business sentiment. The Nikkei Purchasing Managers' Index (PMI) of Hong Kong⁽³⁾, which gauges the performance of the private sector's business activity, showed a general trend of improvement since mid-2016 as the Hong Kong economy regained growth momentum over the course of 2016. It rose above the 50.0 divide in April 2017 and pointed to continued activity expansion in the subsequent three months, largely in line with the more sanguine economic environment in 2017 so far (*Chart 2*). Separately, business sentiment of Hong Kong's exporters, as measured by the Hong Kong Trade Development Council (HKTDC)'s Export Index⁽⁴⁾, rose visibly to a 16-quarter high of 50.1 in the second quarter of 2017, from 47.1 in the first quarter, broadly in line with the sustained improvement in external demand and reviving regional trade flows during the quarter (*Table 4*).

Chart 2 : Nikkei Hong Kong PMI pointed to continued activity expansion in recent months



Source: Nikkei; IHS Markit.

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

Table 4 : HKTDC's Export Index improved visibly in the second quarter of 2017

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

Source: HKTDC.

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

It is worthwhile to point out that these surveys are essentially opinion-based, thereby unavoidably subject to various limitations (e.g. results are not directly comparable) and hence the results should be interpreted with care. Nonetheless, the latest survey findings seem to suggest that business sentiment in Hong Kong has generally remained positive of late, as the global economy sustained its growth momentum. While downside risks in the global macroeconomic environment have receded thus far this year, the Government will stay vigilant to various developments on the external front and their possible repercussions on the Hong Kong economy.

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

The labour sector

1.8 Overall labour market conditions remained favourable and tightened somewhat, with the *seasonally adjusted unemployment rate* going down slightly to a three-year low of 3.1% in the second quarter. The *underemployment rate* held steady at 1.2% in the same quarter. Total employment sustained sturdy year-on-year growth in the second quarter. Wages and earnings stayed on the rise in real terms. Partly benefitting from the upward adjustment of the Statutory Minimum Wage rate since May 2017, the average monthly employment earnings of full-time employees (excluding foreign domestic helpers) engaged in elementary occupations continued to increase, up by 3.4% year-on-year in real terms in the second quarter.

The asset markets

1.9 The *local stock market* sustained a general uptrend in the second quarter, similar to the gains in many overseas stock markets. Such favourable developments largely reflected upbeat investor sentiment amid a benign global economic outlook, notwithstanding the uncertainties surrounding the future path of monetary policy normalisation among major central banks and the complications in Brexit negotiations after the UK general election. The Hang Seng Index closed the second quarter at 25 765, up by 6.9% from three months earlier. Average daily turnover edged up to \$77.8 billion in the second quarter, from \$74.3 billion in the preceding quarter. Credit growth remained strong, with loans for use in Hong Kong at end-June increasing by 13.8% over a year earlier, following corresponding growth of 11.5% three months earlier.

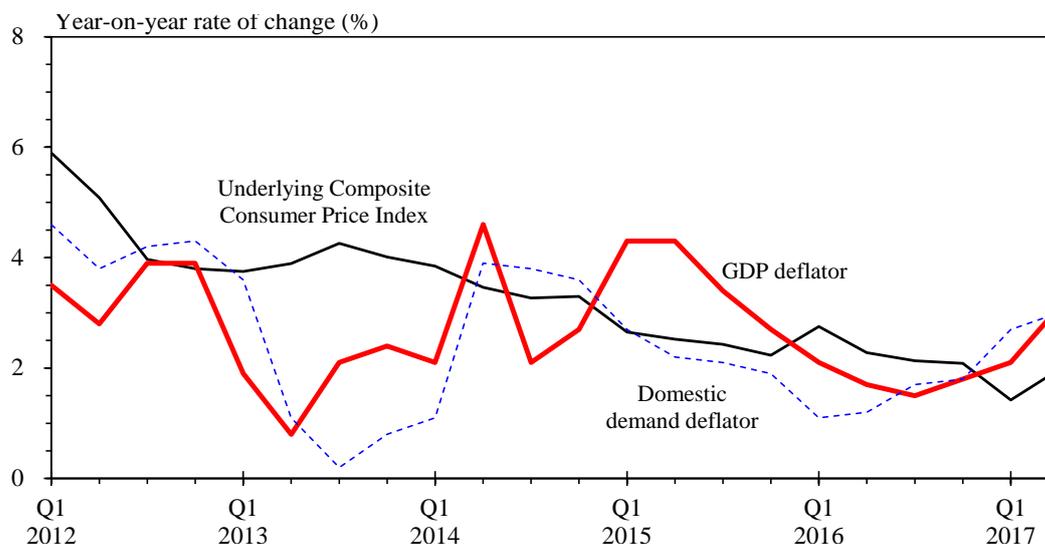
1.10 The *residential property market* stayed active in the second quarter. Trading activities picked up, with the number of residential property transactions increasing from 13 200 in the first quarter to 18 900 in the second quarter. Residential property prices rose by 5% between March and June. Compared to the 1997 peak, overall flat prices in June were 94% higher. Meanwhile, the housing affordability ratio worsened to around 67% in the second quarter. During the second quarter, flat rentals went up by 3%, while shop and office rentals rose by 2% and 1% respectively. To strengthen banks' risk management and resilience, the Hong Kong Monetary Authority in mid-May introduced the eighth round of macro-prudential measures for property mortgage loans.

Inflation

1.11 Consumer price inflation remained moderate in the second quarter. External price pressures were muted, thanks to low inflation in our major import partners and the appreciation of the Hong Kong dollar alongside its US counterpart against many other currencies on a year-on-year basis. Locally, increases in labour costs stayed largely moderate. Slower rises in fresh-letting residential and commercial rentals in 2016 continued to feed through into the Composite CPI, notwithstanding the more visible pick-ups in fresh-letting residential rentals in recent months. Yet, as the temporary effect from the high base of comparison due to the weather-induced spikes in food prices in the early months last year dissipated, consumer price inflation in the second quarter returned to levels that were more in line with the prevailing moderate price pressures in the economy. In sum, netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, *underlying composite consumer price inflation* was 2.0% in the second quarter, up from 1.4% in the first quarter. Meanwhile, *headline consumer price inflation* also ticked up to 2.0% from 0.5%. Headline consumer price inflation showed a larger up-tick in the second quarter, as the dampening effect of the rates concession on the headline rate in the first quarter largely dissipated.

1.12 The year-on-year rate of increase in the *GDP deflator* also picked up to 3.1% in the second quarter, from the 2.1% increase in the first quarter. Analysed by its major components, the domestic demand deflator showed a slightly larger year-on-year increase, while the terms of trade held virtually unchanged year-on-year.

Diagram 1.4 : Underlying consumer price inflation remained moderate in the second quarter



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

GDP by major economic sector

1.13 The net output of the services sector as a whole expanded by 3.5% in real terms in the first quarter of 2017 over a year earlier. This was higher than its 2.5% growth in the fourth quarter of 2016, largely mirroring the stronger year-on-year growth of the overall economy. Among the key services industries, the net output of import and export trade, as well as transportation and storage, grew more visibly in the first quarter, amid strengthening trade flows. The net output of wholesale and retail trades showed further relative improvement, and that of accommodation and food services grew at a faster year-on-year pace than in previous quarters, as visitor arrivals resumed growth gradually. The net output of real estate, which mainly reflects activity of private sector developers and property agencies, increased visibly as the residential property market revived in the first quarter over a very low base of comparison a year earlier. Financing and insurance, and information and communications all saw faster expansion in the first quarter, whereas professional and business services registered slower growth. As for the secondary sector, construction activity expanded apace in the first quarter, driven by visible growth in both the public and the private sectors. Meanwhile, the net manufacturing output increased marginally.

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

	<u>2016</u>	<u>2016</u>				<u>2017</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	-0.4	-0.3	-0.4	-0.1	-1.0	0.2
Construction	2.6	-1.2	0.8	3.0	7.6	8.6
Services ^(b)	2.3	1.6	2.7	2.3	2.5	3.5
Import/export, wholesale and retail trades	0.4	-2.1	0.9	0.8	1.7	3.9
Import and export trade	2.1	0.1	2.8	2.3	2.9	5.1
Wholesale and retail trades	-6.0	-10.0	-5.9	-5.9	-2.8	-0.8
Accommodation ^(c) and food services	0.1	-0.9	1.0	0.1	0.2	1.6
Transportation, storage, postal and courier services	3.3	2.6	3.4	3.5	3.8	4.7
Transportation and storage	3.4	2.8	3.5	3.4	3.8	4.5
Postal and courier services	2.3	-1.4	2.7	5.8	2.5	9.0
Information and communications	3.7	3.7	4.2	3.7	3.3	3.8
Financing and insurance	4.7	5.0	4.2	4.7	4.8	5.2
Real estate, professional and business services	3.0	1.8	3.7	3.2	3.5	4.4
Real estate	3.7	0.6	2.9	5.5	6.0	8.5
Professional and business services	2.5	2.6	4.4	1.4	1.7	0.6
Public administration, social and personal services	2.7	2.5	3.3	2.5	2.3	2.5

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

- (a) The GDP figures shown in this table are compiled from the production approach, while those shown in Table 1.1 are compiled from the expenditure approach. For details, see Note (2) to this chapter.
- (b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity.
- (c) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

Other economic developments

1.14 Hong Kong was named as the world's most competitive economy for the second consecutive year in the International Institute for Management Development World Competitiveness Yearbook 2017. In particular, Hong Kong remained on top in terms of government efficiency and business efficiency, a clear recognition of the Government's commitment to building a favourable business environment and a robust financial system. In light of the fierce competition in the global economic arena, the Government will strive to uphold our prevailing competitive edges, including the open and free market principle, the rule of law, an efficient public sector and a robust institutional framework. These competitive strengths enabled us to make significant progress in economic development in the past two decades after returning to the Motherland (See **Box 1.3** for a detailed review).

1.15 To further enhance Hong Kong's economic integration with the Mainland, the Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Bay Area was signed in Hong Kong on 1 July by the National Development and Reform Commission, the Hong Kong SAR Government, the People's Government of Guangdong Province and the Macao SAR Government. The Framework Agreement provides that the objective of cooperation is to implement the principle of "one country, two systems" fully and accurately, improve and innovate on the cooperation mechanism, establish a mutually complementary cooperation relationship, and jointly take forward the development of the Guangdong-Hong Kong-Macao Bay Area. In addition, the Framework Agreement establishes the key cooperation areas in the development of the Bay Area, which include, among others, promoting infrastructure connectivity, enhancing the level of market integration, and building a global technology and innovation hub.

1.16 Furthermore, under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), the Investment Agreement and Agreement on Economic and Technical Cooperation were signed in June. With these two new Agreements, CEPA becomes a comprehensive modern free trade agreement covering the four important pillars of trade in goods, trade in services, investment, and economic and technical cooperation.

1.17 On financial development, the People's Bank of China and the Hong Kong Monetary Authority made a joint announcement in May on their approval for establishing mutual bond market access between Hong Kong and the Mainland (Bond Connect). Qualified overseas investors can buy bonds in the Mainland interbank bond market with either Renminbi (RMB) or foreign

currencies. Bond Connect will facilitate investors' participation in the bond markets, improve the connectivity between market infrastructures and promote healthy development of the bond markets, thereby enhancing Hong Kong's status as an international financial centre and the global offshore RMB business hub. Separately, Hong Kong became a new member of the Asian Infrastructure Investment Bank (AIIB) and participated in AIIB's June meeting.

1.18 The Chief Executive laid out a package of priority measures to support quality education at the Legislative Council on 5 July. Specific measures included, among others, providing a non-means-tested annual subsidy of \$30,000 for eligible students pursuing full-time locally accredited local and non-local self-financing undergraduate (including top-up degree) programmes, increasing the teacher-to-class ratio for public primary and secondary schools by 0.1 across-the-board, providing additional resources to enhance support for students in special schools, and providing for annual adjustment of the portion for teachers' salary in the subsidies under the Free Quality Kindergarten Education Policy in line with the annual civil service pay adjustment. This package marked the first step of the fifth-term Government in improving education for our next generation.

Box 1.3

Twenty years after returning to the Motherland : a review

Since returning to the Motherland, Hong Kong has gone through many significant challenges over the past two decades, including the Asian Financial Crisis, the bursting of the IT bubble, the outbreak of SARS, and the Global Financial Crisis. Each time, the economy was able to recover swiftly and move from strength to strength, making progress in economic development and embodying the successful implementation of “one country, two systems”.

Notable economic growth over the past two decades

Hong Kong economy has grown remarkably since China resumed the exercise of sovereignty over Hong Kong. The size of the economy in 2016 was 1.8 times that of 1997. Real GDP growth averaged 3.2% per annum during the period, exceeding that of advanced economies at 2.0% per annum. Per capita nominal GDP reached US\$43,700 in 2016, surpassing many advanced economies⁽¹⁾.

Sound fundamentals; highly internationalised city

Hong Kong’s friendly business environment is well recognised worldwide. The number of overseas and Mainland companies which chose to locate their regional headquarters or regional offices here increased sizably, up from some 2 500 in 1997 to over 3 700 in 2016. The total position of direct investment liabilities in Hong Kong surged from \$1,914 billion in 1998⁽²⁾ to \$13,845 billion in 2016, or 556% of GDP in 2016, underscoring Hong Kong’s important role as an international business hub.

Hong Kong’s economic development has been underpinned by strong competitive advantages. Its simple and low tax system, free and open trade, rule of law, level playing field, robust regulatory regimes, and fully convertible currency altogether provide an attractive economic environment. In addition, the world-class financial system, superb transport and communications infrastructure, and efficient government are also essential elements of Hong Kong’s success. These competitive strengths have won us successive international accolades from prestigious research institutions worldwide (**Table 1**).

Table 1: Hong Kong ranks among the top in the global league

Economic Freedom	
Heritage Foundation	1st for 23 consecutive years
Fraser Institute	1st every year since the report first came out in 1996
Ease of Doing Business	
The World Bank	4th in 2017; persistently top five in the past ten years
Competitiveness	
International Institute for Management Development	1st in 2016 and 2017; top three in nine out of the past ten years

Hong Kong’s economic fundamentals have also gone from strength to strength, empowering the economy to weather global challenges. Hong Kong’s current account stayed in healthy surplus, averaging 2.6% of GDP in the past five years. Public finance has been sound, with successive years of fiscal surpluses since the fiscal year 2004/05 yielding a huge fiscal reserve of \$953.7 billion, equivalent to 25 months of government expenditure. In terms of international investment position, Hong Kong has all along been a net creditor, with net external financial assets reaching 368% of GDP in 2016. Official foreign currency reserve assets increased from US\$92.8 billion at end-December 1997 to US\$408.0 billion at end-June

(1) According to the IMF’s World Economic Outlook Database in April 2017, the per capita GDPs of Germany, the UK and Japan were US\$41,900, US\$40,100 and US\$38,900 respectively in 2016.

(2) Earliest figure available at 1998.

Box 1.3 (Cont'd)

2017 and are now the seventh largest in the world. The banking sector maintained a strong capital position, sound asset quality and favourable liquidity conditions⁽³⁾. Strong economic fundamentals provided a buffer against external shocks, which helped Hong Kong going through the global financial turmoil. The hard-won reputation as an international financial centre has been firmly built.

Visible gains in jobs, labour income and productivity

Sustained economic growth has brought about continued job creation. Between 1997 and 2016, total employment increased by 624 000 to a record annual high of 3.79 million. Indeed, the labour market held in a state of full employment in recent years, with the unemployment rate hovering at 3.1% – 3.5% since the second half of 2011⁽⁴⁾, lending strength to our private consumption.

The vibrant labour market also gave rise to some visible improvement in labour income. Between 1997 and 2016, average employment earnings of full-time employees (excluding foreign domestic workers) increased by 36.1% in real terms. With the implementation of Statutory Minimum Wage in 2011 and solid labour demand, the lower-paid full-time workers enjoyed a comparatively more notable increase in earnings in recent years, with average employment earnings in the lowest income decile group (excluding foreign domestic workers) up 14.4% in real terms between 2010 and 2016, higher than the overall average of 9.0%.

The increases in labour earnings were supported by remarkable labour productivity growth that averaged 2.2% per annum since 1997, which in turn drove economic growth. Important industries, such as import and export trade, financing and insurance, and wholesale and retail trades, saw spectacular growth in labour productivity⁽⁵⁾. Furthermore, quality talents are vital in driving productivity growth. The share of labour force with tertiary education almost doubled to 38.9% in 2016 as compared to that in 1997. The increasing supply of higher-skilled workers has enabled the economy to climb up the value chain amidst keen global competition.

Closer economic ties to the Mainland

The Mainland's continued economic reforms and opening-up have provided considerable opportunities to Hong Kong. Through realising these opportunities, the economic ties between the two places get ever closer. With a flexible economy, Hong Kong also adapted to the Mainland's economic transformation and played different significant roles in the past two decades. For the trading sector, China's accession to the World Trade Organization (WTO) in 2001 rendered abundant opportunities. Merchandise trade with the Mainland in 2016 was over three times that in 1997. Indeed, in 2016, close to 90% of re-exports routed through Hong Kong involved the Mainland either as a source or as a destination. The continued economic transformation in the Mainland has not only propelled it to become the world's second largest economy, but also created tremendous opportunities for a wide range of services activities in and outside the Mainland. The implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) in 2003 and its supplements thereafter opened up huge markets, further deepening economic integration between the two places. Under CEPA, the Mainland offers preferential access opportunities for Hong Kong's

(3) According to statistics compiled by the Hong Kong Monetary Authority, the consolidated capital adequacy ratio of locally incorporated authorized institutions was 19.2% at end-2016, well above the international minimum requirement of 8%. Retail banks' classified loan ratio was 0.72% at end-2016, well below the long-run historical average of 2.4% since 2000. The average liquidity coverage ratio of category 1 institutions was 156.3% in the fourth quarter of 2016, well above the 70% statutory minimum requirement applicable for 2016.

(4) The seasonally adjusted unemployment rate was 3.1% in the second quarter of 2017.

(5) Based on sectoral figures which can be dated back to 2000 the earliest, the import and export trade, financing and insurance, and wholesale and retail trades sectors saw spectacular growth in labour productivity at average rates of 5.7%, 4.6% and 4.0% per annum respectively between 2000 and 2016.

Box 1.3 (Cont'd)

products and services, ahead of and beyond its commitments to WTO members. Nowadays, Hong Kong has become an important service hub linking the Mainland and the rest of the world, catalysing the nation's rebalancing of growth towards services and consumption, and benefitting from the process.

China's global financial centre

As an international financial centre, Hong Kong has a long history serving the financial services needs of Mainland enterprises. It has been an important gateway for investment between the Mainland and the rest of the world. Due to its status as a leading equity fund raiser, the number of Mainland enterprises listed in Hong Kong surged from 101 in 1997 to 1 002 in 2016, accounting for over 60% of stock market capitalisation in 2016. Hong Kong has long been the top external direct investor in the Mainland, with Hong Kong's stock of outward direct investment in the Mainland amounting to \$4,702 billion in 2015. In more recent years, Hong Kong serves as an ideal platform for Mainland entities as they "go global". The stock of inward direct investment from the Mainland to Hong Kong amounted to \$3,270 billion in 2015, 16 times that in 1998.

Hong Kong's financial industry also plays an important role as a testing ground for the Mainland's financial market liberalisation and the opening of its capital account. Notable examples in recent years were the Shanghai- and Shenzhen- Hong Kong Stock Connect, the mutual recognition of funds arrangement with the Mainland and the Bond Connect. With continued support from the Central Government, Hong Kong has become the primary offshore RMB business hub, possessing the world's largest pool of offshore RMB funds that engage in a wide and expanding range of businesses. Buttressed by the Mainland's support and its own competitive strengths, Hong Kong's financial services sector has prospered, causing its contribution to the overall economy to leap by 7 percentage points from 1997 to 17.6% of GDP in 2015.

Economic collaboration with other places

As a cosmopolitan city, Hong Kong has been making good progress in advancing cooperation with other economic partners in trade and investment over the past two decades. Apart from CEPA, Hong Kong has signed free trade agreements with other trading partners, including New Zealand, the Member States of the European Free Trade Association and Chile. For years, Hong Kong has also invested heavily in infrastructure to boost connectivity with other parts of the world so as to facilitate people and cargo flows. In 2016, Hong Kong International Airport was the world's busiest cargo gateway and third busiest international passenger airport. The construction of a third runway commenced in August 2016. When completed, Hong Kong's capacity in handling air passengers and cargo flows would be further enhanced.

Tremendous opportunities ahead

The Government will continue to strengthen Hong Kong's role as the principal gateway between the Mainland and the world, being an international financial, transportation and trade centre. Hong Kong will leverage its unique positioning as set out in the Dedicated Chapter on Hong Kong and Macao of the Outline of the National 13th Five-Year Plan. In particular, the development of Guangdong-Hong Kong-Macao Bay Area and the Belt and Road Initiative will certainly provide vast opportunities for Hong Kong in the years to come. The facilitation of factors of production flows in the Bay Area will enhance the complementarity between places in the region and unleash growth potential, while the Belt and Road Initiative will boost demand for high value-added services in Hong Kong as a platform in financing, trading and logistics, and professional services, to name just a few. All in all, given Asia's increasing importance in the world economy amid notable economic growth in the Mainland, Hong Kong's long-term economic outlook is essentially bright. The Government will continue to facilitate economic development, striving for sustainability and thereby creating the necessary resources to improve people's livelihood.

Notes :

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

	<u>2017</u>		
	<u>2016</u> (%)	<u>April round</u> (%)	<u>July round</u> (%)
World (PPP ^{##} weighted)	3.2	3.5	3.5
Advanced economies	1.7	2.0	2.0
US	1.5 [#]	2.3	2.1
Euro area	1.8 [#]	1.7	1.9
UK	1.8 [#]	2.0	1.7
Japan	1.0 [#]	1.2	1.3
Emerging market and developing economies	4.3	4.5	4.6
Emerging and developing Asia	6.4	6.4	6.5
Mainland China	6.7 [#]	6.6	6.7
India [^]	7.1 [#]	7.2	7.2

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

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

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *Global economic activities continued to expand in the second quarter of 2017. The US economy sustained moderate growth. The economic recovery in the euro area became more entrenched, as the impacts of Brexit and other political developments so far had been limited. The Mainland economy continued to grow at a notable pace. As downside risks in the global economy receded, financial markets worldwide were generally buoyant during the quarter. With the supportive global economic environment and the ensuing regional economic upturn, Hong Kong's exports of goods and services made further growth in the second quarter.*
- *Hong Kong's merchandise exports grew visibly year-on-year in real terms⁽¹⁾ in the second quarter. Exports to Asian markets remained the key growth propeller, with further solid expansion in the Mainland market and strong growth in some emerging markets in the region such as India, Vietnam, Thailand and Indonesia. Exports to US and Europe also rose further, though only at a modest rate by comparison.*
- *Exports of services grew steadily year-on-year in the second quarter, thanks to reviving regional trade flows and increased cross-border financial transactions amid a benign global economic environment. Exports of transport services saw further notable growth, and exports of financial services sustained moderate growth. Exports of business and other services increased marginally. On the other hand, exports of travel services dipped slightly, as visitor arrivals grew at a slower pace and tourist spending had yet to resume growth.*
- *Hong Kong continued to strengthen economic ties with its trading and investment partners. In May, Hong Kong and Australia officially launched the Free Trade Agreement (FTA) negotiation. In June, two agreements under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) framework were signed, broadening the CEPA's scope to become a comprehensive modern free trade agreement covering trade in goods, trade in services, investment, and economic and technical cooperation. This marked another milestone of CEPA's development.*

Goods trade

Total exports of goods

2.1 Alongside the sustained expansion in global economic activities, trading and manufacturing activities in Asia remained on the rise in the second quarter of 2017. Exports of many major Asian economies showed further solid year-on-year growth in the second quarter, notwithstanding the receding low base effects seen in the first quarter. Against this backdrop, Hong Kong's *merchandise exports* (comprising re-exports and domestic exports) grew visibly by 5.8% year-on-year in real terms in the second quarter, after marked growth of 8.8% in the preceding quarter.

2.2 The global economy continued to display solid performance in the second quarter. The US economy grew at a moderate pace, with visible job gains, prompting the Federal Reserve to raise interest rates again in June and unveil plans to start scaling back the balance sheet this year (see **Box 2.1** for details). In the euro area, economic sentiment strengthened, as Brexit and other political developments so far had limited impacts. The entrenched economic recovery has raised market's expectation about the possibility of European Central Bank's trimming of monetary stimuli in the period ahead. In Asia, the Mainland economy registered notable growth so far this year, actually representing a slight pick-up from that of last year. Its favourable outlook towards medium-to-high growth is also vindicated by the latest upward revisions by the International Monetary Fund (IMF)⁽²⁾. Japan's economy also registered relative improvement, while most emerging ASEAN economies showed further solid growth. With the downside risks in the global economy receding, financial markets worldwide were generally buoyant during the quarter.

2.3 The recovery in final demand from major advanced economies in recent quarters added vigour to Asia's manufacturing activity. As goods are generally produced via geographically-fragmented production chains in Asia, the manufacturing expansion in the region is usually manifested by an enlarged growth in intra-regional trade flows involving raw materials, semi-manufactures and capital goods. Regional trade flows of this nature were a key growth engine in Asian exports in recent quarters. As a regional trading and logistics hub, Hong Kong's goods exports benefited considerably from such a development.

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

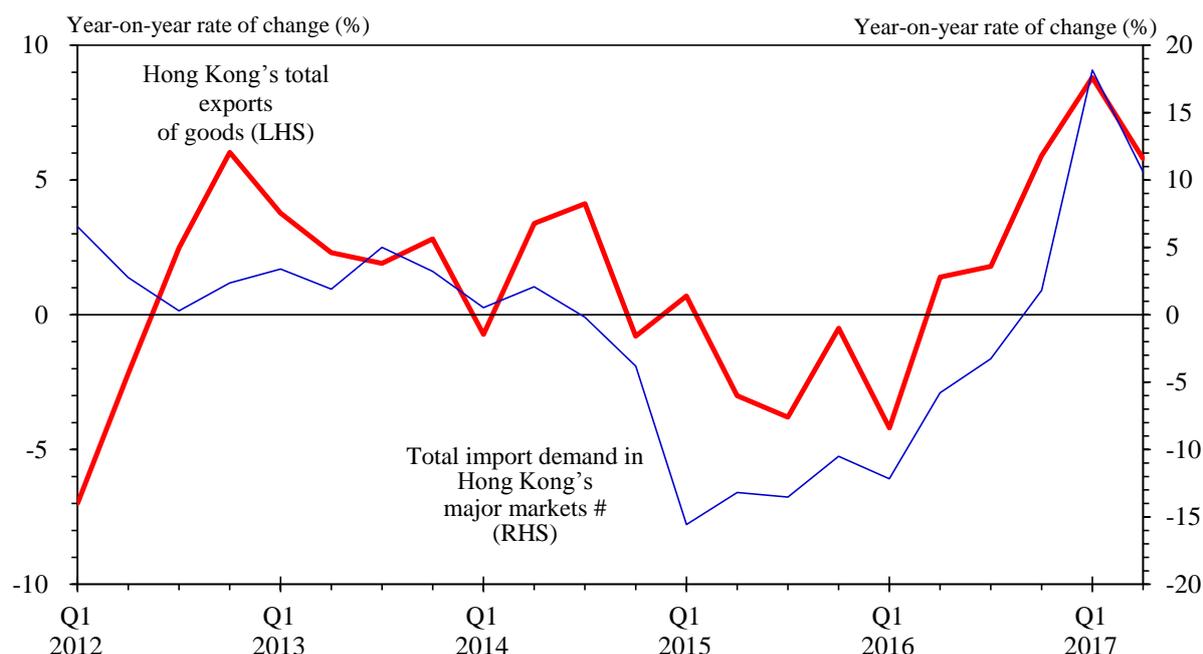
	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
	<u>In value terms</u>	<u>In real terms^(a)</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms^(a)</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms^(a)</u>	<u>Change in prices</u>
2016 Annual	-0.5	1.4	-1.7	-0.4	1.5	-1.7	-8.5	-7.0	-1.4
Q1	-6.8	-4.2 (-4.7)	-2.6	-6.7	-4.0 (-4.7)	-2.6	-15.2	-12.1 (-2.4)	-3.2
Q2	-1.2	1.4 (6.1)	-2.2	-0.9	1.6 (6.3)	-2.2	-16.8	-14.7 (-2.7)	-2.1
Q3	-0.2	1.8 (1.0)	-1.6	-0.2	1.8 (0.9)	-1.6	-2.0	-0.1 (8.2)	-1.1
Q4	5.5	5.9 (3.8)	-0.5	5.6	6.0 (3.9)	-0.5	0.9	-0.7 (-3.8)	0.9
2017 Q1	10.3	8.8 (-0.4)	1.6	10.4	8.8 (-0.4)	1.6	4.9	1.8 (1.9)	3.0
Q2	7.4	5.8 (1.0)	1.6	7.5	5.9 (1.1)	1.6	1.7	-0.6 (-6.3)	2.2

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

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

2.4 *Re-exports*⁽³⁾, the mainstay of overall merchandise exports and accounting for 98.9% of total exports by value, grew briskly by 5.9% year-on-year in real terms in the second quarter, after 8.8% growth in the preceding quarter. In contrast, *domestic exports*, constituting the remaining 1.1% of total exports, fell slightly by 0.6% in real terms from a year earlier in the second quarter, after 1.8% rise in the first quarter.

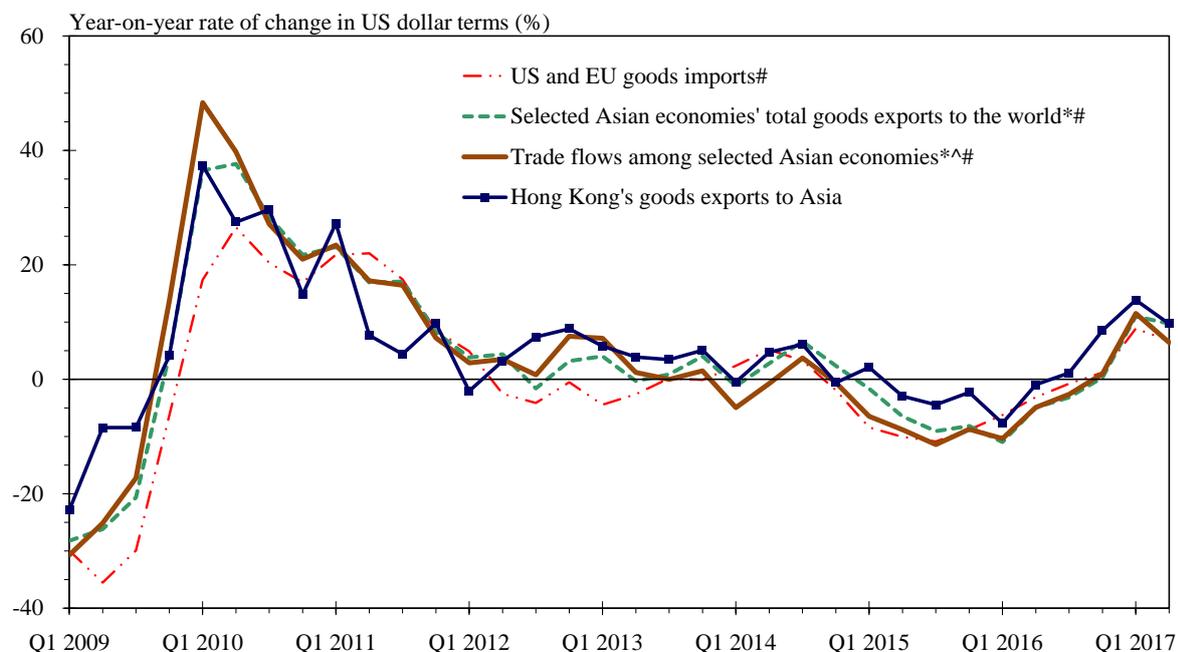
Diagram 2.1 : Merchandise exports grew visibly in the second quarter of 2017



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

(#) Import demand figure for the second quarter of 2017 is based on statistics for April and May 2017.

Diagram 2.2: Intra-regional trade remained on the rise amid revival of import demand from US and EU in recent quarters



Notes : (*) "Selected Asian economies" include the Mainland of China, Hong Kong, Singapore, Korea, Taiwan, Japan, Indonesia, Malaysia, Thailand and the Philippines.
 (^) The trade flows were measured by the sum of the individual economies' exports of goods to the other nine economies within the "selected Asian economies".
 (#) Trade figures for the United States, the European Union and "selected Asian economies" for the second quarter of 2017 are based on the information available as of early August 2017.

Diagram 2.3 : Exports to Asia remained the key growth propeller of overall merchandise exports

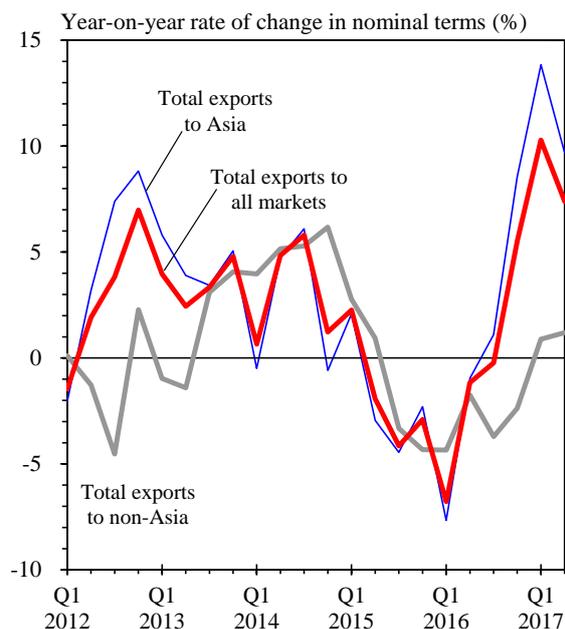
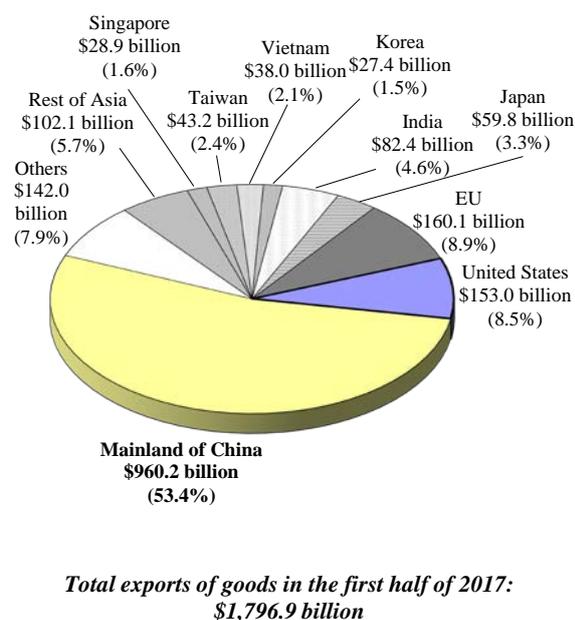


Table 2.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))

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

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

2.5 Analysed by major market on a year-on-year comparison in real terms, exports to the Mainland sustained solid growth in the second quarter. Exports to some emerging markets in the region grew robustly, with particularly sizeable growth in such markets as India and Vietnam. Exports of raw materials, semi-manufactures and capital goods to Asia continued to be the key growth driver of overall merchandise exports in Hong Kong. The performances of exports to the higher-income Asian markets were mixed. Exports to Taiwan once again grew briskly and those to Singapore improved to show a moderate rebound, yet those to Korea weakened. Exports to Japan gathered momentum to show double-digit growth from a low base last year, thanks to the recovery in production activities and relative improvement in consumer sentiment there.

2.6 Exports to the US and Europe also rose further in the second quarter, though at a modest pace by comparison. Exports to the US market rose somewhat amid continued moderate economic expansion there. Likewise, exports to the EU grew modestly as the recovery there continued to make progress.

Diagram 2.4 : Exports to the Mainland grew solidly

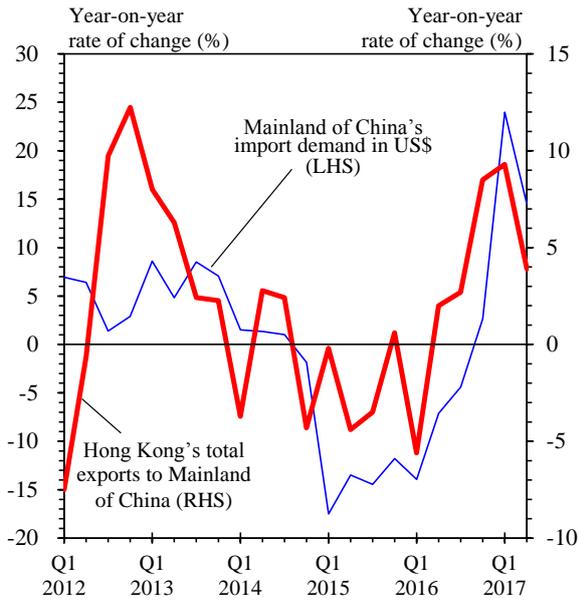


Diagram 2.5 : Exports to the EU grew modestly

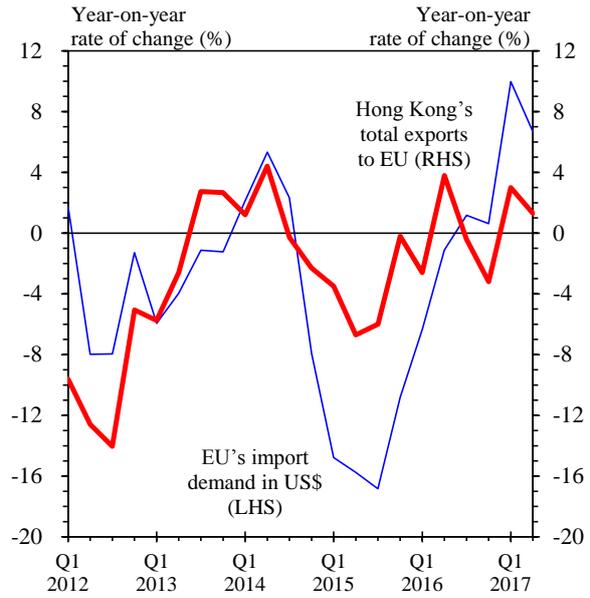


Diagram 2.6 : Exports to the US rose somewhat

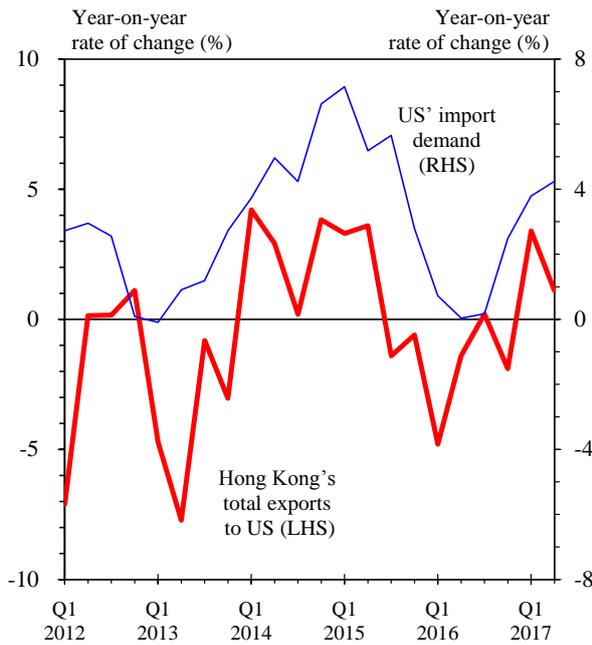


Diagram 2.7 : Exports to Japan gathered momentum to show double-digit growth

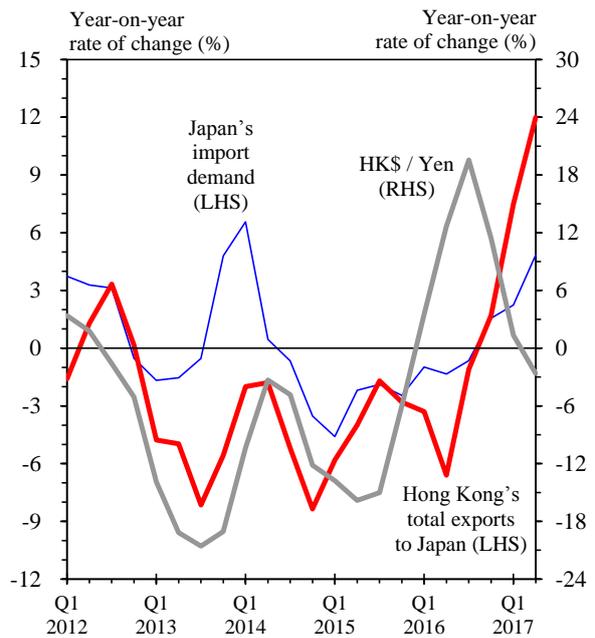


Diagram 2.8 : Exports to India surged

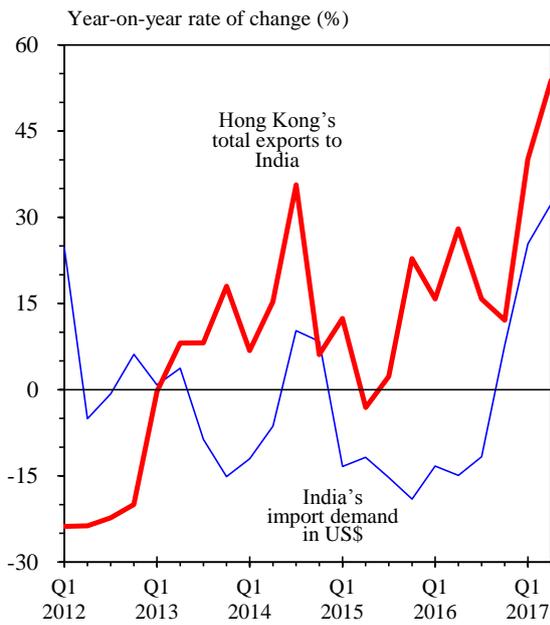


Diagram 2.9 : Exports to Taiwan grew briskly

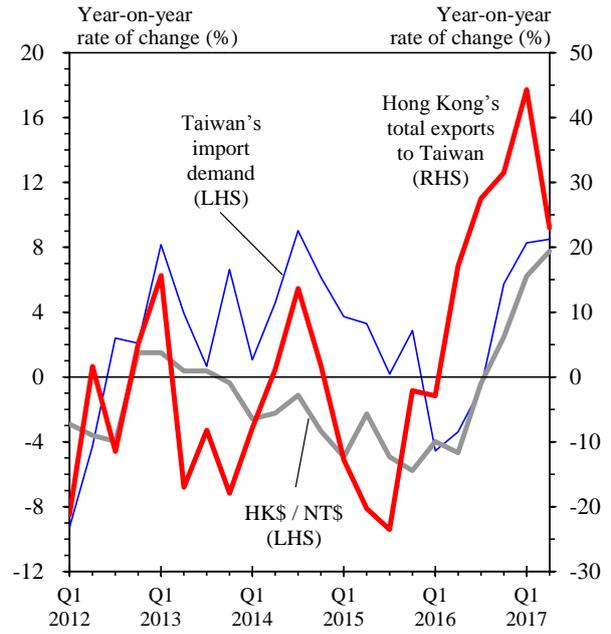


Diagram 2.10 : Exports to Korea weakened

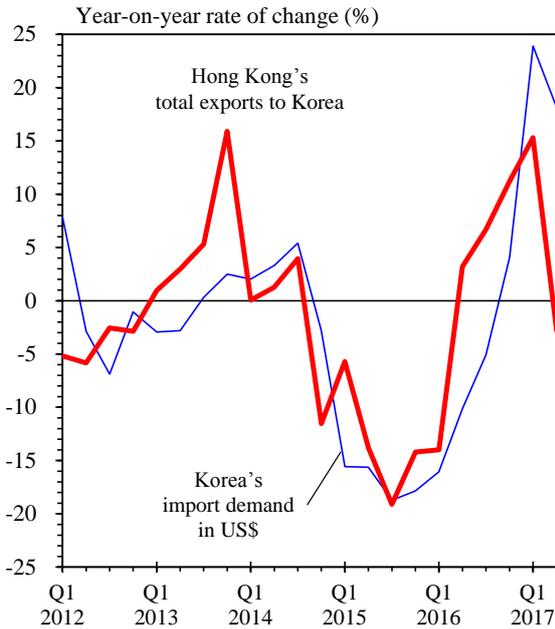
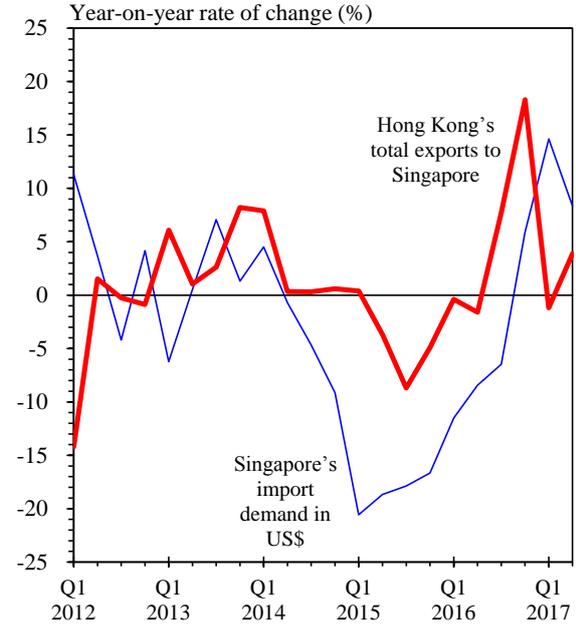


Diagram 2.11 : Exports to Singapore improved to show a moderate rebound



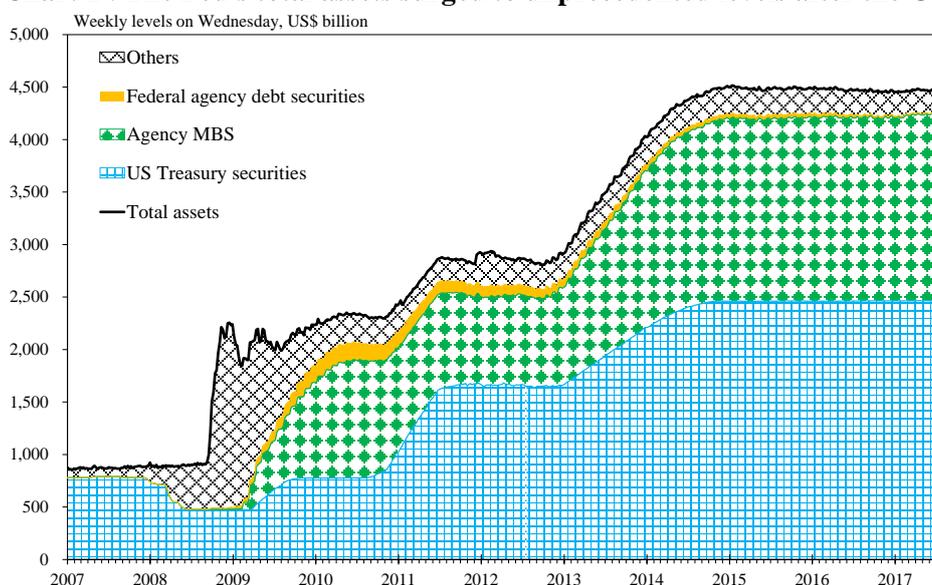
Box 2.1

The US Federal Reserve's balance sheet normalisation

In June 2017, on top of announcing the fourth interest rate hike since December 2015, the US Federal Reserve (Fed) unveiled a plan on normalising its balance sheet, which was expected to start relatively soon according to its statement following the latest Federal Open Market Committee (FOMC) meeting in late July. As reducing the size of the Fed's balance sheet is one of the key aspects of the ongoing monetary policy normalisation in the US, this note intends to examine the Fed's plan and explore its possible implications.

The Fed conducted a series of large-scale asset purchases under its quantitative easing programmes in the wake of the global financial crisis of 2008 (GFC) to ease overall financial conditions and stimulate economic activity in the US. Since then, the Fed has kept its securities holdings at unprecedented levels by reinvesting principal payments received from maturing US Treasury securities, federal agency debt securities and agency mortgage-backed securities (MBS). The amount of assets held by the Fed hovered around US\$4.5 trillion since its asset purchase programmes ended in late 2014, representing a significant increase from the pre-crisis level of around US\$900 billion (*Chart 1*). Within this, US Treasury securities and agency MBS comprised 55% and 40% of the Fed's total assets respectively.

Chart 1 : The Fed's total assets surged to unprecedented levels after the GFC



Source: Federal Reserve Bank of New York.

Note: Latest position as of 26 July 2017.

Table 1 shows the maturity distribution of the Fed's securities holdings as of 26 July 2017. More than half of the Fed's US Treasury securities will mature by end-2021, while less than 1% of agency MBS will mature within the coming five years. As for federal agency debt securities, the majority will reach maturity by end-2018 and will be reinvested into agency MBS under the Fed's current reinvestment policy.

Table 1 : The maturity distribution of the Fed's securities holdings as of 26 July 2017

Maturity date		Rest of 2017	2018	2019	2020	2021	2022	Beyond 2022	All
US Treasury securities*	US\$ billion [^]	90	426	370	232	239	201	889	2,447
	% of total	4	17	15	10	10	8	36	100
Agency MBS	US\$ billion [#]	&	&	&	0.2	0.4	0.1	1,768	1,769
	% of total	&	&	&	0.01	0.02	0.01	99.95	100
Federal agency debt securities	US\$ billion [^]	4	2	0.1	-	-	-	2	8
	% of total	46	24	0.8	-	-	-	29	100

Notes: Compiled based on data from the Federal Reserve Bank of New York.

* Does not include the compensation that adjusts for the effect of inflation on the original face value of inflation-indexed securities, which amounted to US\$19 billion as of 26 July 2017.

[^] Face value.

[#] Remaining principal balance of the securities.

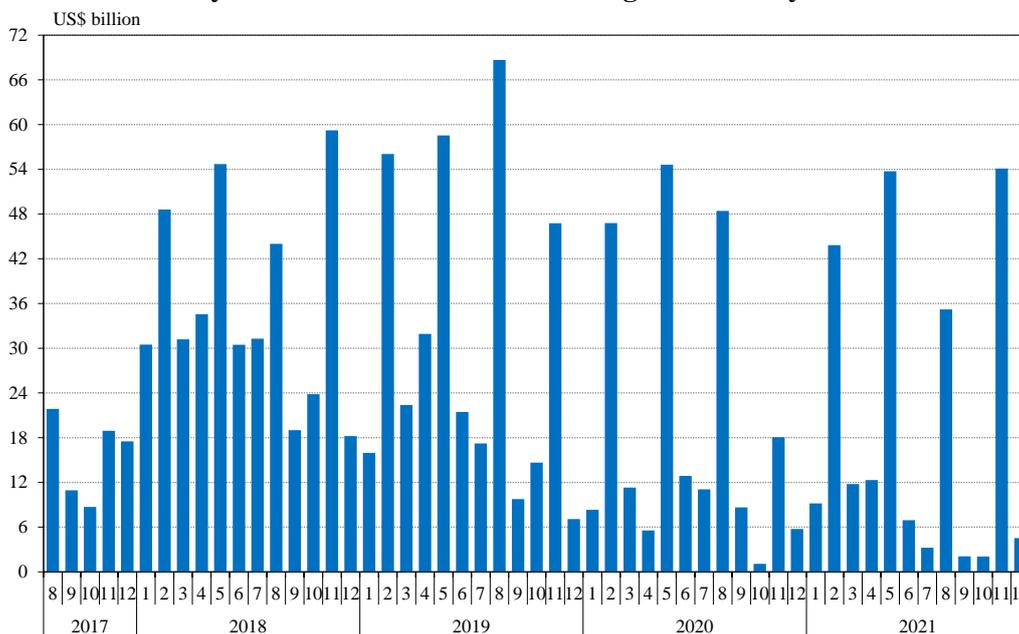
& Less than US\$5 million and 0.005%.

Box 2.1 (Cont'd)

To unwind its balance sheet, the Fed plans to gradually scale back reinvestments of its securities holdings by setting monthly caps⁽¹⁾, such that only the amount exceeding these caps will be reinvested each month. According to this plan, the scale of the Fed's balance sheet reduction is relatively small when compared to its prevailing securities holdings. The amount of securities that would be rolled off over the first twelve months is capped at US\$300 billion, equivalent to 7% of the Fed's current total securities holdings. Provided that the monthly caps as announced are to remain in place, the decline in the Fed's balance sheet over each subsequent twelve-month period would be limited to US\$600 billion or 14% of its current total securities holdings.

These monthly caps, however, may not be binding. As an illustration, *Chart 2* shows that the monthly face value of maturing US Treasury securities ranges from less than US\$6 billion to over US\$65 billion. Hence the amount of maturing US Treasury securities in a particular month can be lower than the corresponding monthly cap in many occasions. As for agency MBS, while most of the Fed's holdings have a rather long period of maturity (over 10 years), the amount of principal payments received from these holdings is more difficult to determine in advance, as it consists of scheduled mortgage repayments and homeowners' mortgage prepayments of part or all of their remaining principal balance prior to the maturity date. The latter of which does not follow a pre-set schedule and depends on a range of factors, including the interest rate outlook, changes in house prices and credit conditions. Nonetheless, generally speaking, considering the maturity patterns of the Fed's Treasury securities and agency MBS holdings, the Fed's pace of scaling back its balance sheet could be slower than that suggested by its intended monthly caps.

Chart 2 : The monthly face value of the Fed's maturing US Treasury securities varies greatly



Source: Federal Reserve Bank of New York.

Note: Data as of 26 July 2017.

(1) Based on the Addendum to the Policy Normalization Principles and Plans released on 14 June 2017, the caps will be set at US\$6 billion per month for US Treasury securities and US\$4 billion per month for federal agency debt securities and agency MBS. These caps will be raised once every three months by US\$6 billion and US\$4 billion per month respectively until they reach US\$30 billion and US\$20 billion per month in a year's time. The caps are anticipated to remain in place until the FOMC judges that the Fed is holding no more securities than necessary for efficient and effective monetary policy implementation.

Box 2.1 (Cont'd)

While the process of the Fed's balance sheet normalisation is expected to be gradual, its scale-down would presumably reverse some of the stimulating effects achieved by previous quantitative easing programmes. Large-scale asset purchases and subsequent reinvestments by the Fed have not only provided abundant liquidity to the financial system after the GFC, but have also lowered longer-term interest rates, thus holding down borrowing costs for households and firms and rendering support to the overall US economy. By means of its asset purchases that began in the wake of the GFC and ended as recently as in late 2014, the Fed had sent a signal of intent to the financial markets on its resolve to maintain an exceptionally accommodative monetary policy stance for a prolonged period of time. The successive asset purchases had effectively lowered market expectations for the future path of policy rates and posed downward pressures on longer-term interest rates. Besides, through the portfolio balance channel, the substantial increase in the Fed's longer-term securities holdings had reduced the amount of these assets available in the market, not only raising the prices of these assets and lowering their yields, but also raising the prices and lowering the yields of other assets with similar risk and return characteristics (e.g. longer-term and high quality corporate bonds) as well.

From the perspective of assessing the uncertainty ahead in the effect of unwinding some of the stimulus measures previously introduced by the Fed (in this case through gradually winding down its balance sheet), it is important to note that the Fed's prior quantitative easing programmes were unconventional measures and there is still yet to be a broadly agreed conclusion on the transmission channels through which they may have an effect on interest rates and macroeconomic variables, such as output, employment and inflation. Indeed, with factors such as investor expectations, economic policies and international economic, monetary and policy developments, intertwining with each other and affecting broader economic and financial conditions at the same time, it is challenging to quantify the standalone impact of the Fed's large-scale asset purchases. In a similar vein, there is no historical guidance for gauging the macroeconomic effects of the Fed's balance sheet normalisation, though the gradual unwinding of the Fed's long-term securities holdings could conceivably exert some upward pressure on bond yields and interest rates.

A recent paper by the Fed⁽²⁾ released in April 2017 focused only on the portfolio balance channel and estimated that the 10-year US Treasury term premium effect was around negative 100 basis points at end-2016. In other words, this implies that the yield on a 10-year US Treasury security would be 100 basis points higher at end-2016 in the absence of the Fed's asset purchases and subsequent reinvestments, if considering solely the drag effect from this particular channel. Another Fed research paper⁽³⁾ looked at whether the Fed's balance sheet reduction would have similar effects as raising interest rates. It is estimated that a US\$675 billion reduction in the Fed's balance sheet over a two-year period could raise the term premium by around 25 basis points, which is roughly equivalent to around a quarter-point increase in the federal funds rate. But this result is largely dependent on the estimated term premium effect and the long-run neutral real rate of interest, which can vary when using different model frameworks and assumptions.

(2) Bonis, Brian, Jane Ihrig, and Min Wei (2017). "The Effect of the Federal Reserve's Securities Holdings on Longer-term Interest Rates", Board of Governors of the Federal Reserve System, FEDS Notes, April 20.

(3) Davig, Troy, A. Lee Smith (2017). "Forecasting the Stance of Monetary Policy under Balance Sheet Adjustments", Federal Reserve Bank of Kansas City, The Macro Bulletin, May 10.

Box 2.1 (Cont'd)

Financial markets have reacted calmly to the Fed's announcement of its balance sheet normalisation plan thus far. Arguably, the looming balance sheet reduction by the Fed may have already been expected by market participants. However, uncertainties still abound, as the Fed did not offer a clear indication of the preferred size of its normalised balance sheet. So far, the Fed only stated that it would bring down its securities holdings to a level appreciably below that seen in recent years but larger than that before the GFC. Such a level would reflect the banking system's demand for reserve balances and the Fed's decisions about how to implement monetary policy most efficiently and effectively in the future. More importantly, while the Fed affirmed that changing the federal funds rate remains the primary means of adjusting its monetary policy stance, it is uncertain whether and how the scale-back of its balance sheet might affect the pace of its concomitant interest rate normalisation process going forward. In addition, although the European Central Bank and the Bank of Japan have maintained their asset purchase programmes in recent months, different monetary policy actions by major central banks could alter and complicate global financial and liquidity conditions.

Market speculations about these uncertainties could spark abrupt changes in risk sentiment and unintended increases in borrowing costs, and trigger sudden reversals of capital flows and oversized financial market reactions. Hence risks of renewed financial market volatility cannot be ruled out in the period ahead. For instance, in late May 2013, when the Fed signalled its intention of tapering its monthly asset purchases sometime later in the year, financial markets misinterpreted the Fed's signal as a tightening of its monetary policy stance and massive sell-offs in stock and bond markets took place across the globe. In the subsequent three months, the 10-year US Treasury yield advanced by almost 100 basis points.

Looking ahead, it is thus important that the Fed could give clarity about its future policy intentions with effective market communications, thereby containing the risks of a sharp tightening of liquidity conditions and abrupt disruptions to financial markets during the course of the Fed's monetary policy normalisation. Under such a more benign scenario, the US economy and the global economic and financial environment should hopefully be able to hold up.

As an international financial centre, massive capital flows go in and out of Hong Kong. Although the Fed's eventual balance sheet normalisation has added uncertainty to the global monetary environment, Hong Kong is capable of navigating through capricious global financial conditions with our resilient and robust financial system and strong economic fundamentals. That said, the Fed is poised to proceed with raising interest rates gradually, though the timing and pace of future interest rate hikes remain data-dependent. Under the Linked Exchange Rate System, interest rates in Hong Kong will eventually follow the movements of the US interest rates. The Government will continue to closely monitor the US monetary policy developments and stay vigilant to their possible impacts on the Hong Kong economy.

Imports of goods

2.7 *Imports of goods* grew further by 6.4% year-on-year in real terms in the second quarter, though moderated from 9.0% growth in the preceding quarter. Both imports for subsequent re-exports as well as retained imports saw further notable growth. *Retained imports*, referring to the imports for domestic use, which accounted for around one-quarter of total imports, grew appreciably by 8.1% year-on-year in real terms in the second quarter, after growing by 9.7% in the first quarter. The strong growth in retained imports largely mirrored the robust expansion in domestic demand in the second 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>	
2016	Annual	-0.9	1.0	-1.7	-4.1	-0.6	-3.2	
	Q1	-8.2	-5.4	(-2.4)	-2.8	-13.5	-8.9 (4.6)	-5.0
	Q2	-3.2	-0.5	(3.6)	-2.6	-10.6	-6.0 (-3.7)	-5.2
	Q3	1.2	2.9	(2.6)	-1.4	4.1	6.3 (7.6)	-2.1
	Q4	5.6	6.2	(2.4)	-0.1	4.0	6.6 (-1.8)	-0.6
2017	Q1	10.7	9.0	(2.2)	1.6	11.6	9.7 (10.2)	1.5
	Q2	8.2	6.4	(-1.1)	1.8	10.4	8.1 (-7.4)	2.5

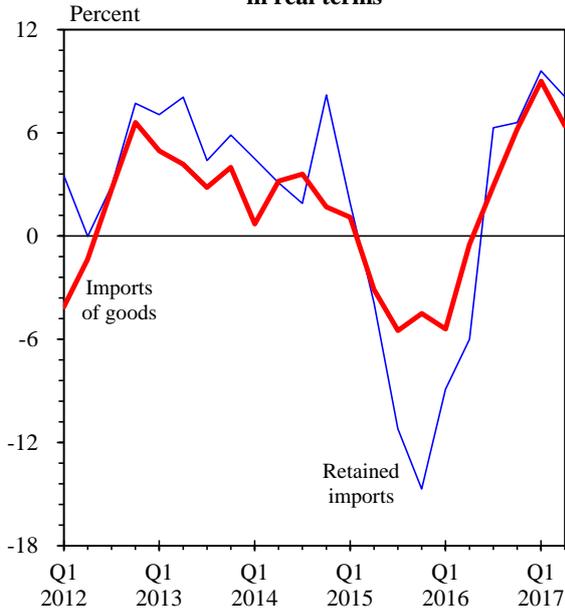
Notes : (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

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

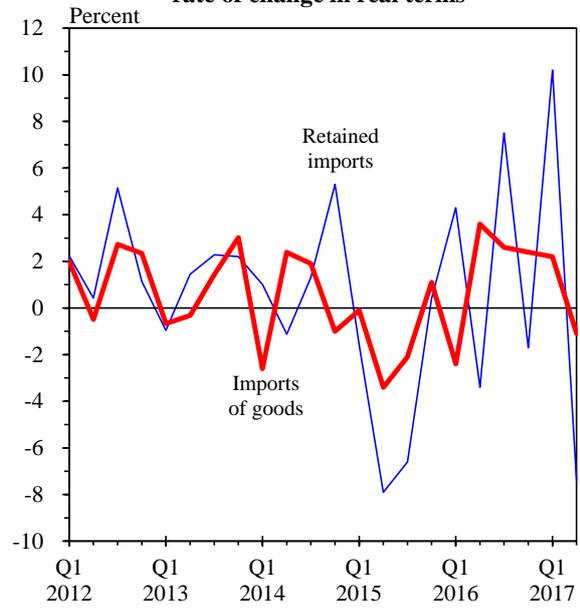
() Seasonally adjusted quarter-to-quarter rate of change.

Diagram 2.12 : Imports and retained imports sustained notable 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

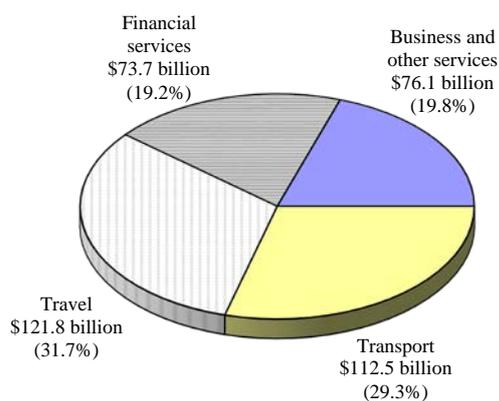


Services trade

Exports of services

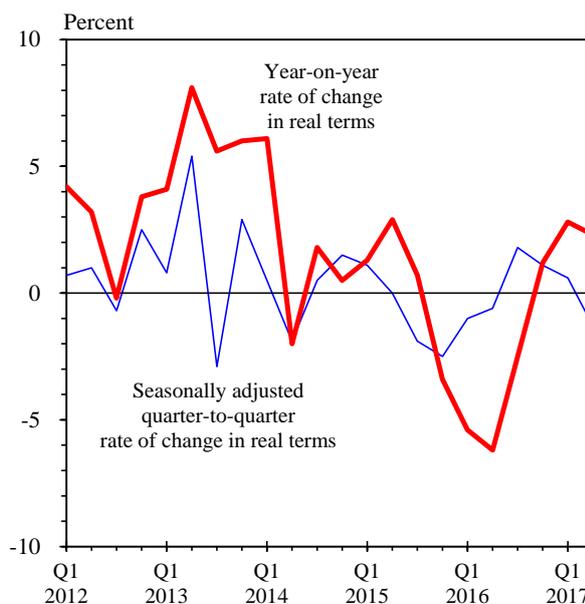
2.8 *Exports of services* grew steadily by 2.3% year-on-year in real terms in the second quarter, after 2.8% growth in the first quarter, supported by the generally benign global economic environment. Exports of transport services grew notably, mirroring reviving regional trade and cargo flows. Meanwhile, exports of financial services sustained moderate growth, on the back of increased cross-border financial transactions. Exports of business and other services increased marginally. Nevertheless, exports of travel services dipped slightly, as visitor arrivals grew at a slower pace in the second quarter and tourist spending had yet to resume growth.

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



Exports of services in the first half of 2017:
\$384.1 billion

Diagram 2.14 : Exports of services grew steadily



**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>Transport</u>	<u>Travel^(a)</u>	<u>Financial services</u>	<u>Business and other services</u>
2016	Annual	-3.2	2.2	-8.6	-3.7	-1.0
	Q1	-5.4	(-1.0)	-2.0	0.1	-2.6
	Q2	-6.2	(-0.6)	-1.1	-15.1	-0.7
	Q3	-2.5	(1.8)	2.5	-1.7	-1.1
	Q4	1.2	(1.1)	9.6	-0.2	0.2
2017	Q1	2.8	(0.6)	9.2	2.4	0.9
	Q2	2.3	(-1.3)	7.5	2.8	0.6

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

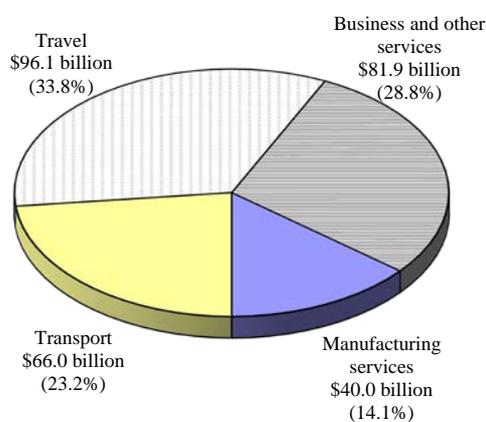
(a) Comprising mainly inbound tourism receipts.

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

Imports of services

2.9 *Imports of services* rose by 3.5% in real terms in the second quarter over a year earlier, up from 0.9% growth in the preceding quarter. Within this, the year-on-year growth in imports of travel services turned visibly faster, mainly attributable to the stronger growth of outbound tourism due to the difference in timing of the Easter holidays, which fell in late March in 2016 but in mid-April in 2017. On balance, imports of travel services in recent quarters were underpinned by the keen interest of local residents in overseas travel amid generally favourable job and income conditions. Imports of transport services picked up slightly in growth, along with increasing regional trading activities. Imports of business and other services also grew at a slightly faster pace. However, imports of manufacturing services declined further, reflecting the shrinking of outward processing activities.

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



Imports of services in the first half of 2017: \$284.1 billion

Diagram 2.16 : Imports of services picked up in growth

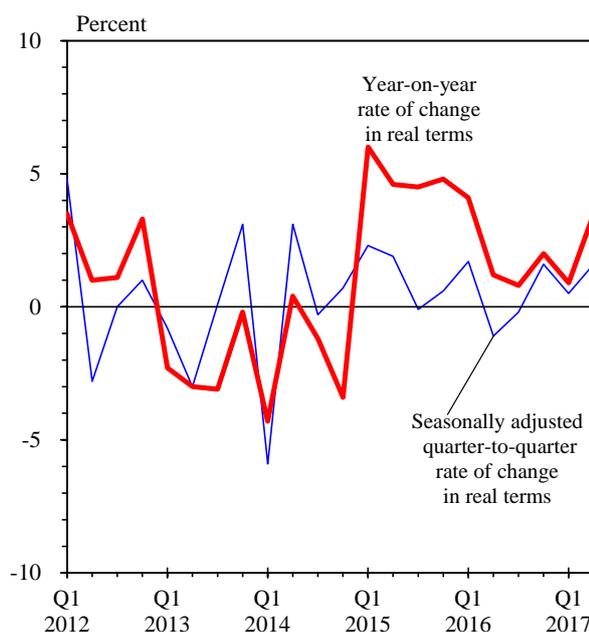


Table 2.5 : Imports of services by major service group (year-on-year rate of change in real terms (%))

		Of which :				
		Imports of services	Travel ⁽⁺⁾	Transport	Manufacturing services ^(^)	Business and other services
2016	Annual	2.0	5.9	-0.3	-1.9	1.8
	Q1	4.1 (1.7)	13.0	-0.5	0.9	0.2
	Q2	1.2 (-1.1)	2.9	-1.2	-0.5	2.5
	Q3	0.8 (-0.2)	3.7	-1.0	-2.8	1.6
	Q4	2.0 (1.6)	4.7	1.5	-4.1	2.8
2017	Q1	0.9 (0.5)	0.4	2.0	-4.4	2.5
	Q2	3.5 (1.6)	8.4	2.9	-5.5	3.1

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

(+) Comprising mainly outbound travel spending.

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

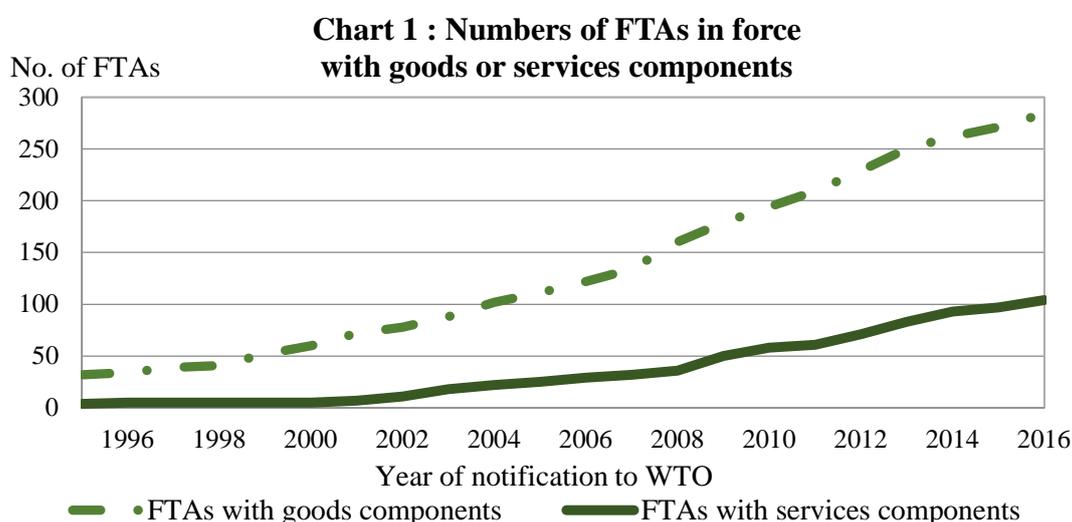
() Seasonally adjusted quarter-to-quarter rate of change.

Box 2.2

Overview on the development of international services trade cooperation

Services are playing an increasingly important role in the modern world. Partly due to the continuous economic upgrading across the globe and also partly to the expansion of global value chains that has driven up the demand for such producer services as logistics, finance and professional services, the services sectors altogether now account for around 70% of the world's GDP, up from some 60% twenty years ago. Moreover, technology advancement has allowed many services to be delivered in a timely manner and be produced and consumed simultaneously but in different economies. Against this, policymakers worldwide have increasingly emphasised on how to promote services trade on their cooperation agenda. This article attempts to provide an overview of the development in Free Trade Agreements (FTAs) and other policies that facilitate services trade in the past two decades.

The World Trade Organization (WTO)'s General Agreement on Trade in Services (GATS), the first multilateral trade agreement that aims at removing barriers to services trade, entered into force in 1995. In contrary to the "barriers" to trade in goods which mostly relate to tariffs and border control arrangements, "barriers" to services trade are much more diverse given the unique characteristics of each sector, often in various forms of business regulations that limit market access of foreign service providers. The conclusion of the GATS formed a basis for international negotiations on services trade facilitation, and the number of FTAs that includes provisions on services flourished thereafter (*Chart 1*). According to the WTO, in 1995 only four out of the 32 FTAs in force covered the services sector. Yet by the end of 2016, provisions on services have already become an integral part of the overall landscape, with nearly 40% (104 out of 284) of the total number of FTAs in force having a services component.



Source: Regional Trade Agreements Information System, WTO.

The way to facilitate services trade has also evolved over time. Under the GATS, market access obligations and national treatment commitments are made on a "positive listing" approach, in which the liberalisation commitments of each signatory are explicitly listed out so that the facilitation measures can be tailored to fit their national policy objectives. In recent years, the alternative "negative listing" approach has become more popular in FTA negotiations. The "negative listing" approach opens up all sectors to market access and national treatment except those on the "list(s) of non-conforming measures", and is hence generally more attractive to foreign businesses for its higher degree of stability and

Box 2.2 (Cont'd)

predictability⁽¹⁾. Both approaches are in use nowadays, depending on the signatories' economic structures and their industries' stages of development⁽²⁾.

Another important form of cooperation on services trade is international investment agreement (IIA). As companies establish commercial presence in the consumers' economy, foreign investment is involved and an IIA would help clarify some regulatory uncertainties and even provide preferential treatment. While the degree of liberalisation under IIA is smaller than a full-fledged FTA, it could serve as an initial step to foster closer economic relations. Indeed, according to the United Nations' World Investment Report and its Investment Policy Hub, the number of IIA rose rapidly in the past two decades from some 1 300 as at end-1996 to over 3 400 by end-2016.

In the context of Hong Kong, the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) vividly demonstrated the evolution of services liberalisation over time. In the early years after the signing of CEPA in 2003, the Mainland's liberalisation of services sector to Hong Kong adopted the "positive listing" approach with the coverage continuously enhanced through the ten Supplements. The Agreement between the Mainland and Hong Kong on Achieving Basic Liberalisation of Trade in Services in Guangdong signed in 2014 and the Agreement on Trade in Services signed in 2015 signified the shift to the "negative listing" approach that further expanded the market liberalisation to cover 95.6% of all the services sectors. More recently, the Investment Agreement and Agreement on Economic and Technical Cooperation signed in June this year further enhanced the CEPA framework by expanding commitments on admission of investment and investment protection and broadening the cooperation areas to cover especially the Belt and Road Initiative and Sub-regional Cooperation, making CEPA a comprehensive modern FTA.

As a highly developed services economy and an international financial centre, Hong Kong will spare no efforts in promoting services trade and actively participate in international initiative on services trade liberalisation. Notwithstanding the resurgence of protectionist sentiments in various parts of the world in recent years, we will continue our steadfast commitment on maintaining an open and free trade regime. For instance, we have been participating actively in the negotiations of Trade in Services Agreement (TiSA), which seeks to further liberalise trade in services with 22 WTO Members, representing more than 70% of the world's trade in services. Within Asia, on top of the continuously enhanced CEPA mentioned above, the negotiation work on the FTA with the Association of Southeast Asian Nations (ASEAN) is also progressing at full speed. Looking ahead, with the advancement in information and communications technologies, services trade is expected to further expand both in breadth - to encompass more professions and industries - and in geographical reach, made possible through business process outsourcing and offshoring practices. This global trend would certainly provide significant opportunities for Hong Kong to further expand our portfolio of services trade and in turn create more business opportunities which are beneficial to our long-term economic growth.

(1) The "list(s) of non-conforming measures" provides flexibility to businesses with the comprehensive coverage assumed. It includes all sector-specific measures and other restrictions that do not comply with full openness (therefore called non-complying or non-conforming measures).

(2) Latrille, P. and Lee, J. (2012), "Services rules in regional trade agreements: How diverse and how creative as compared to the GATS multilateral rules?", Working Paper ERSD-2012-19, WTO, Geneva.

Goods and services balance

2.10 Compiled based on the change of ownership principle, the goods deficit widened in the second quarter, as growth in retained imports, underpinned by a notable expansion in domestic demand, outpaced growth in exports of goods. Adding the services surplus, the combined goods and services account registered a deficit of \$29 billion in the second quarter of 2017, equivalent to 2.4% of total import value. This was larger than the corresponding deficit of \$18 billion in the second quarter of 2016, equivalent to 1.6% of total import value.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			<u>As % of imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2016	Annual	3,900	767	4,037	578	-136	189	53	1.1
	Q1	849	194	892	138	-44	55	12	1.1
	Q2	929	177	987	138	-57	39	-18	-1.6
	Q3	1,025	196	1,037	148	-12	48	36	3.1
	Q4	1,098	200	1,121	153	-24	47	23	1.8
2017	Q1	942	201	1,000	141	-58	60	2	0.2
	Q2	994	183	1,063	143	-69	40	-29	-2.4

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

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

Other developments

2.11 Hong Kong's economic ties with the Mainland, our most important economic partner, made further progress. In June, two agreements under the CEPA framework were signed, namely the Investment Agreement and the Agreement on Economic and Technical Cooperation (Ecotech Agreement). The agreements broadened CEPA's scope to become a comprehensive modern free trade agreement covering trade in goods, trade in services, investment, and economic and technical cooperation. In particular, the Investment Agreement is the Mainland's first investment agreement with pre-establishment national treatment commitments made under a negative listing approach. The Ecotech Agreement provides Hong Kong businesses with good opportunities for participating in the national development strategies, including the Belt and Road Initiative as well as the development of Guangdong-Hong Kong-Macao Bay Area. The two agreements marked another milestone of CEPA's development.

2.12 Hong Kong has always been a staunch supporter of open and free trade policy. In May, the FTA negotiation between Hong Kong and Australia was officially launched, which is envisaged to include, among other elements, elimination or reduction of tariffs, reduction of non-tariff barriers, better market access for trade in services, promotion and protection of investments. The FTA between Hong Kong and Australia, if materialised, would provide a new platform for enhancing economic and financial collaborations between the two places. In July, Hong Kong Customs and Australia Customs signed a Mutual Recognition Arrangement, providing trade facilitation between the two economies.

2.13 In addition, the Government strived to promote investment flows between Hong Kong and other parts of the world. In April, Hong Kong and Korea signed a Memorandum of Understanding (MoU) on investment promotion cooperation. According to the MoU, both sides will exchange information on the investment environment, investment opportunities, experience in attracting foreign investment as well as best practices in investment promotion.

2.14 As a responsible member of the international community, Hong Kong has all along been supportive of international efforts to promote tax transparency and combat tax evasion. In June, the agreements with Ireland and Indonesia on conducting automatic exchange of financial account information in tax matters (AEOI) were signed, raising the number of total AEOI partners to 13.

Notes :

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the external trade quantum index series compiled using the chain linking approach, which were first released in March 2015 to replace the previous trade index numbers compiled using the Laspeyres method with a fixed base year. The series are not comparable with the real trade aggregates under GDP (reported in Chapter 1) which are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*. Apart from this, non-monetary gold is recorded as a separate item in the statistics of merchandise trade and not included in the trade aggregates reported in Chapter 2, but is included in the trade aggregates under GDP in accordance to the international compilation standard.
- (2) Upon the completion of 2017 Article IV Mission to China in June, the IMF raised Mainland's economic growth forecasts to 6.7% in 2017 and an average of 6.4% per year between 2018 and 2020. Its previous Mainland's economic growth forecasts made in April 2017 were 6.6% in 2017, 6.2% in 2018, 6.0% in 2019 and 5.9% in 2020.
- (3) 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

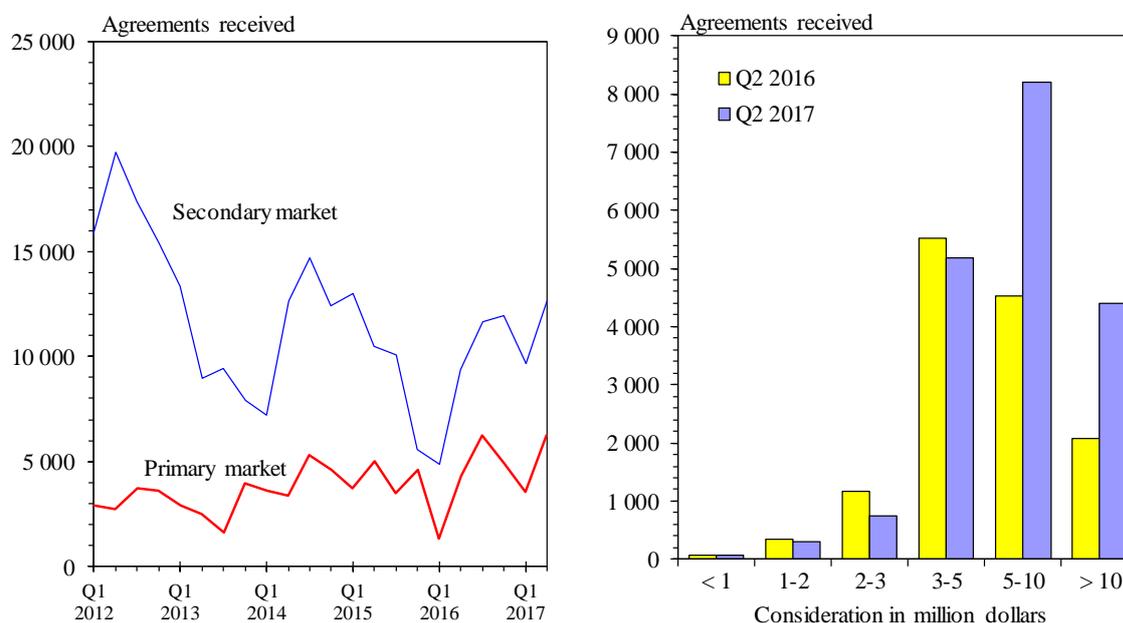
- *The residential property market remained generally buoyant in April and early May 2017 amid a still tight demand-supply situation and market expectation that local interest rates would remain low for some time. It showed some signs of moderation in June following the introduction of the eighth round of macro-prudential measures for property mortgage loans by the Hong Kong Monetary Authority. For the second quarter as a whole, trading still showed a notable increase while flat prices rose by 5%.*
- *Reflecting the Government's sustained efforts to increase land and flat supply, total flat supply in the coming three to four years rose to another record high of 98 000 units.*
- *The commercial and industrial property markets generally firmed up in the second quarter. Trading activities turned more active, while prices and rentals of most market segments showed further increases.*
- *The number of visitor arrivals continued to recover in the second quarter. Overall visitor arrivals increased by 1.0% over a year earlier to 13.6 million, with visitors from the Mainland, short-haul and long-haul markets up by 0.8%, 2.1% and 1.0% respectively.*
- *The logistics sector gathered further strength in the second quarter amid the continued improvement in external trade. Total container throughput and air freight throughput in the second quarter leapt by 8.5% and 11.1% respectively over a year earlier.*

Property

3.1 The *residential property market* remained generally buoyant in April and early May 2017 amid a still tight demand-supply situation and market expectation that local interest rates would remain low for some time. It showed some signs of moderation in June following the introduction of the eighth round of macro-prudential measures for property mortgage loans by the Hong Kong Monetary Authority (HKMA) in May (see paragraph 3.8 and note (2)). For the second quarter as a whole, trading still showed a notable increase while flat prices continued to rise.

3.2 The total number of sale and purchase (S&P) agreements for residential property received by the Land Registry surged by 43% over the preceding quarter or by 38% over a year earlier to 18 892 in the second quarter. Yet after reaching a high of 7 060 in April, it declined to 5 732 and 6 100 in May and June respectively as potential buyers turned more cautious. Within the total, primary market transactions in the second quarter soared by 75% over the preceding quarter as developers paced up the launch of new projects, which were mostly greeted with favourable responses. Secondary market transactions also rose noticeably by 31%. Likewise, total consideration leapt by 60% to \$182.3 billion. However, due to the less fervent trading in the first quarter, the number of S&P agreements for the first half of 2017 as a whole fell by 8% from the second half of 2016 to 32 113 while total consideration went up moderately by 8% to \$296.6 billion.

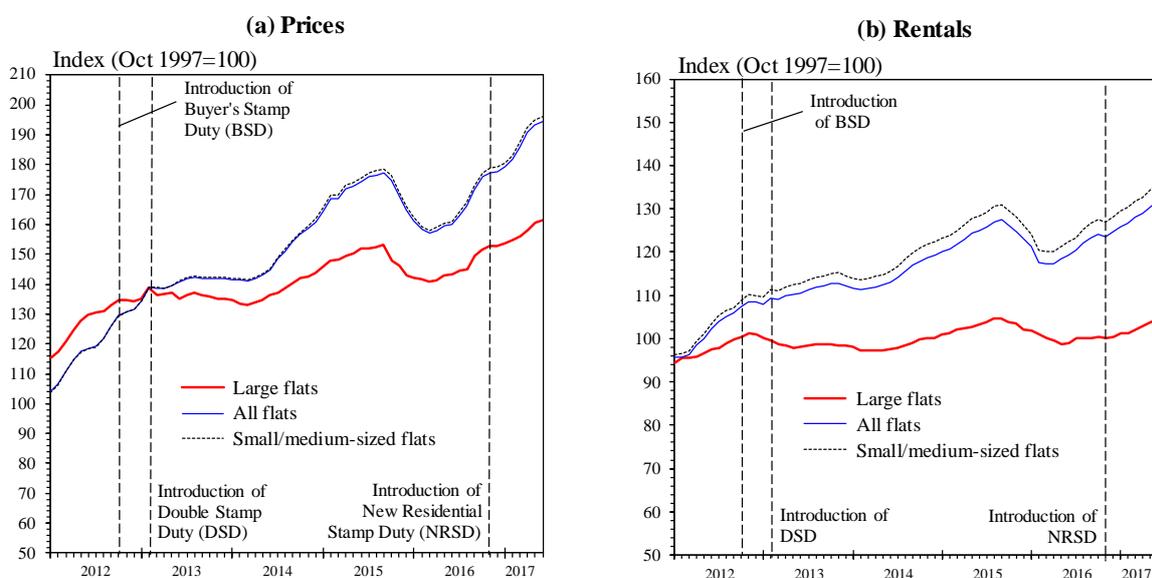
Diagram 3.1 : Trading remained buoyant in the second quarter of 2017



3.3 Overall flat prices rose further, by 5% during the second quarter. Yet the month-to-month increase decelerated from 2.7% in April to 1.2% in May and further to 0.7% in June. Analysed by size, prices of small/medium-sized flats and large flats increased by 5% and 3% respectively during the second quarter. During the first half of 2017, overall flat prices rose by a cumulative 9%.

3.4 Overall flat rentals also rose by 3% between March and June, with rentals of small/medium-sized flats and large flats up by 3% and 2% respectively. During the first half of 2017, overall flat rentals rose by a cumulative 6%. The average rental yield for residential property stayed at 2.6% in June, unchanged from March.

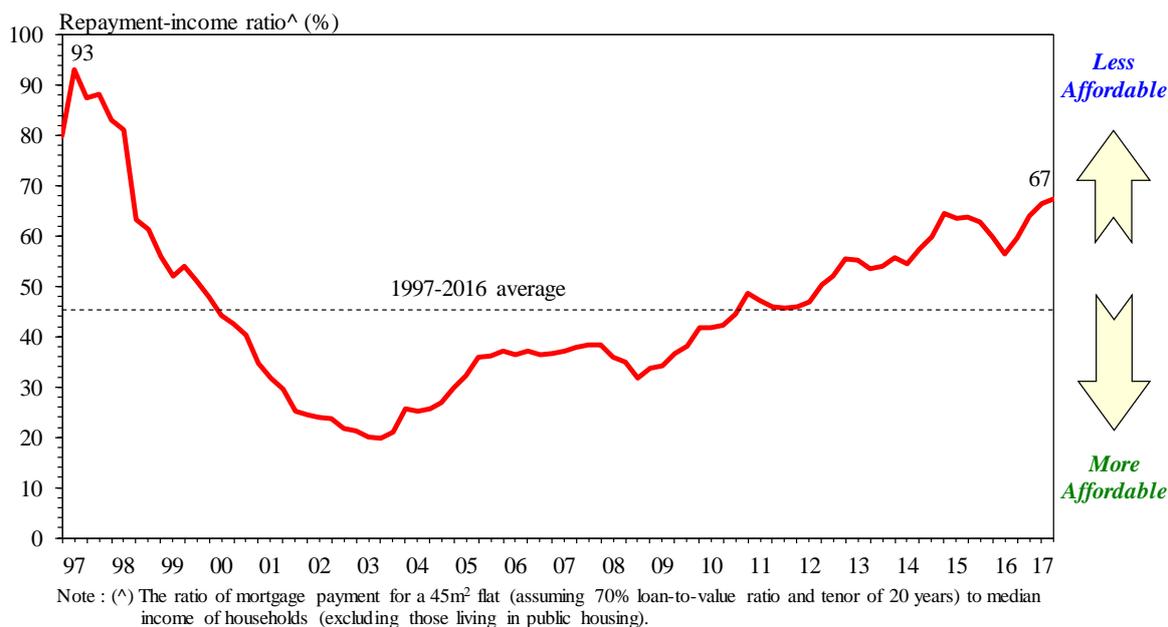
Diagram 3.2 : Flat prices and rentals rose further during the second quarter



Note : Residential property price index pertains to secondary market transactions only. Large flats refer to those with a saleable area of at least 100 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 June 2017 exceeded the 1997 peak by a rampant 94%. The home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) worsened further to around 67% in the second quarter, significantly above the long-term average of 45% over 1997-2016. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 87%.

Diagram 3.3 : The mortgage payment to income ratio worsened further



3.6 Raising flat supply through increasing land supply is the Government’s top policy priority in ensuring a healthy and stable development of the property market. In June the Government announced that it would put up three residential sites for sale in the third quarter of 2017, which are capable of providing about 1 350 flats. The private housing land supply from Government land sale, railway property development project, the Urban Renewal Authority’s project, and private development and redevelopment projects in the first half of 2017-18 has a capacity to provide about 16 100 flats, representing about 89% of the 2017-18 supply target of 18 000 flats.

3.7 Reflecting the Government’s sustained efforts in raising land supply, the number of private domestic units commencing work went up by 16% over a year earlier to 12 600 in the first half of 2017, and completions by 19% to 8 800. The *total supply of flats* in the coming three to four years (comprising unsold flats of completed projects, flats under construction but not yet sold and flats on disposed sites where construction can start any time) rose from 96 000 units as estimated at end-March to another record high of 98 000 units as estimated at end-June. In addition, 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⁾. To strengthen banks’ risk management and resilience, in May the HKMA introduced the eighth round of macro-prudential measures for property mortgage loans⁽²⁾. The various demand-side management measures

have yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) remained low at 44 cases per month or 0.7% of total transactions in the second quarter, well below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer's Stamp Duty, *purchases by non-local individuals and non-local companies* also stayed low at 100 cases per month or 1.5% of total transactions in the second quarter, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As an indicator of *investment activities*, purchases subject to New Residential Stamp Duty were modest at 683 cases per month or 10.4% of total transactions in the second quarter, sharply below the monthly average of 1 412 cases subject to Double Stamp Duty or 26.5% in January to November 2016. As to *mortgage lending*, the average loan-to-value ratio of new mortgages approved was 50% in the second 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 HKMA.

Diagram 3.4 : Speculative activities stayed subdued

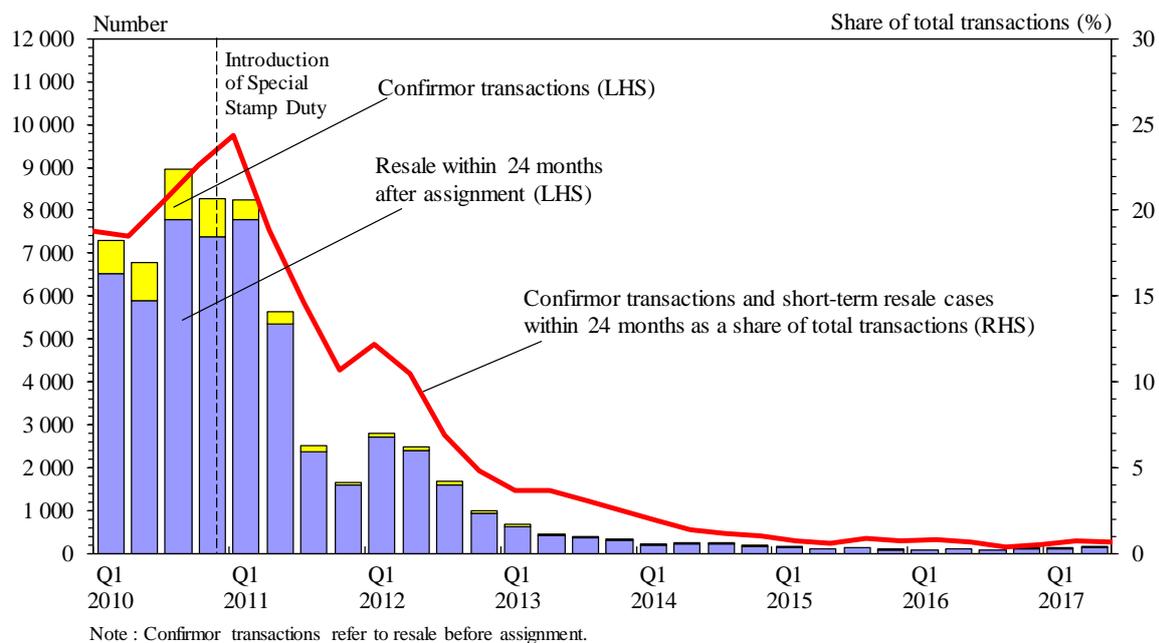


Diagram 3.5 : Purchases by non-local buyers remained low

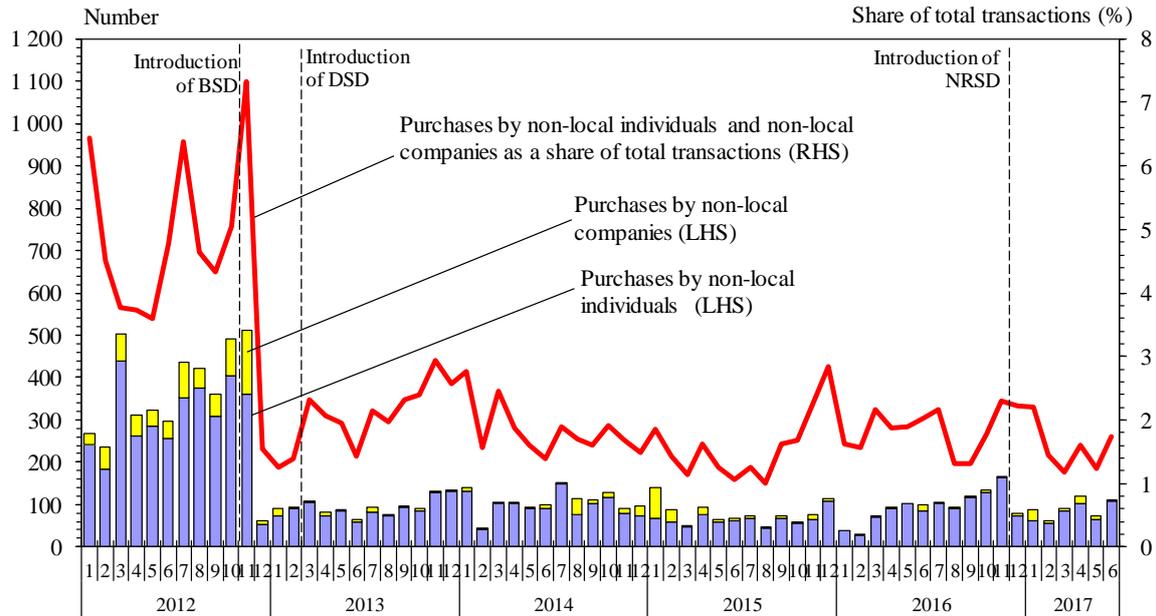
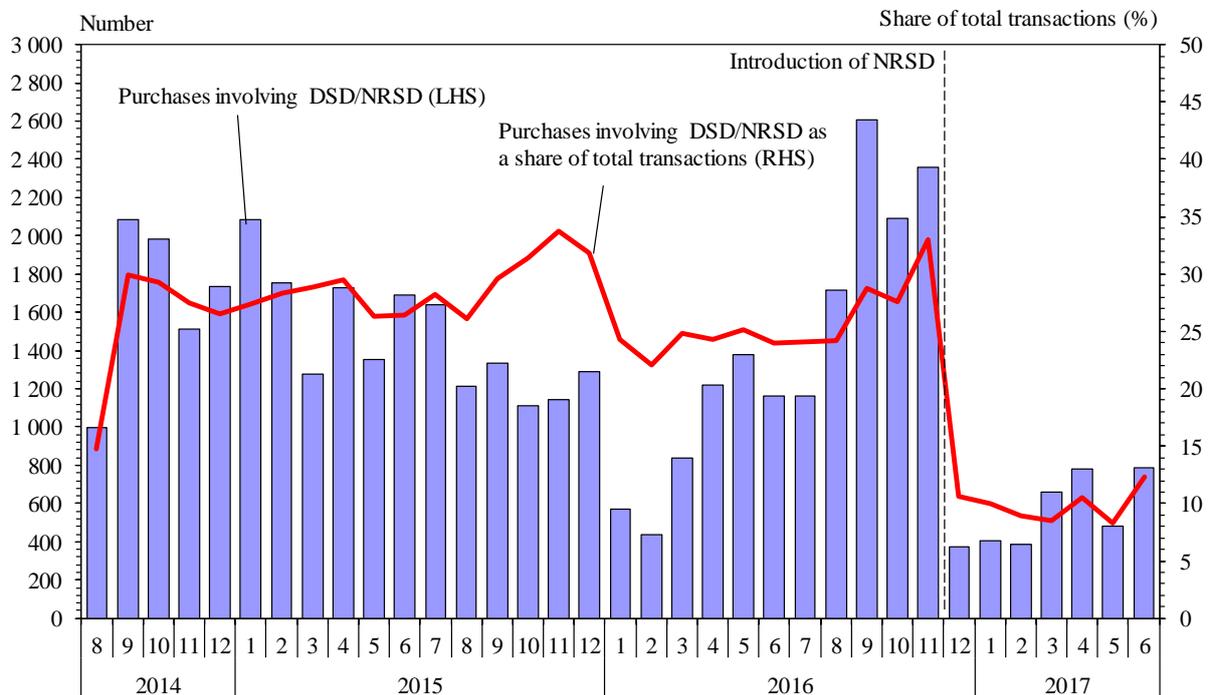


Diagram 3.6 : Investment activities were modest



3.9 The outlook for the property market will hinge on interest rate movements, the demand-supply balance of flats as well as market sentiment. Notwithstanding the interest rate hike by the US Federal Reserve in June, local interbank rates remained stable and no bank in Hong Kong has raised the best lending rate. Yet as the US interest rate normalisation process proceeds, local interest rates are set to rise under the Linked Exchange Rate System. The demand-supply balance of flats would also ease when the increased residential land supply over the past few years gradually turns into actual flat production.

The combined effects of higher interest rates and increased flat supply would reverse the fervent market sentiment in due course.

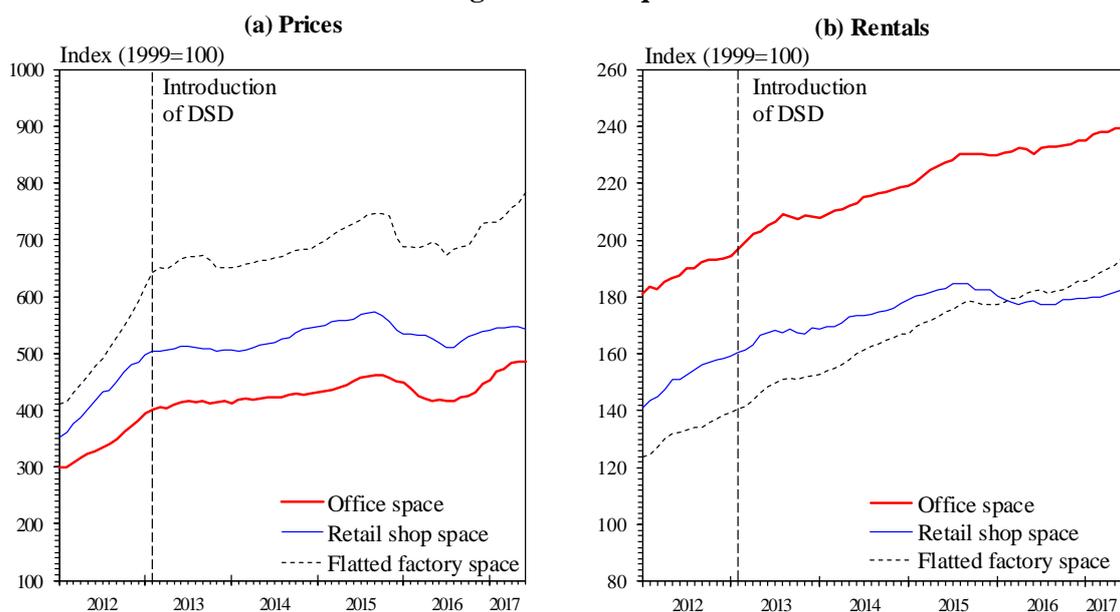
3.10 The *commercial* and *industrial property markets* generally firmed up in the second quarter of 2017. Trading activities turned more active, while prices and rentals of most market segments showed further increases.

3.11 Overall sale prices of *office space* rose by another 3% between March and June. Within the total, prices of Grade A and C office space increased by 2% and 6% respectively, while those of Grade B office space stayed little changed. Over the same period, overall rentals edged up by 1%, with those of Grade B and C office space both rising by 1% and those of Grade A office space remaining unchanged. The average rental yields of Grade A, B and C office space edged down to 2.7%, 2.8% and 2.8% respectively in June, from 2.8%, 2.9% and 2.9% in March. Transactions for office space increased by 23% over the preceding quarter or by an even sharper 104% over a year earlier to 530 cases in the second quarter.

3.12 For *retail shop space*, sale prices edged down by 1%, while rentals rose by 2% during the second quarter. The average rental yield stayed unchanged at 2.5%. Trading activities rose to 580 cases in the second quarter, representing an increase of 17% over the preceding quarter or 113% over a year earlier⁽³⁾.

3.13 Sale prices and rentals of *flatted factory space* in June rose by 5% and 3% respectively over March. Reflecting these movements, the average rental yield edged down from 3.0% to 2.9% over the period. Transactions increased by 26% over the preceding quarter or by a much sharper 106% over a year earlier to 1 210 cases in the second quarter.

Diagram 3.7 : Prices and rentals of most non-residential properties rose further during the second quarter



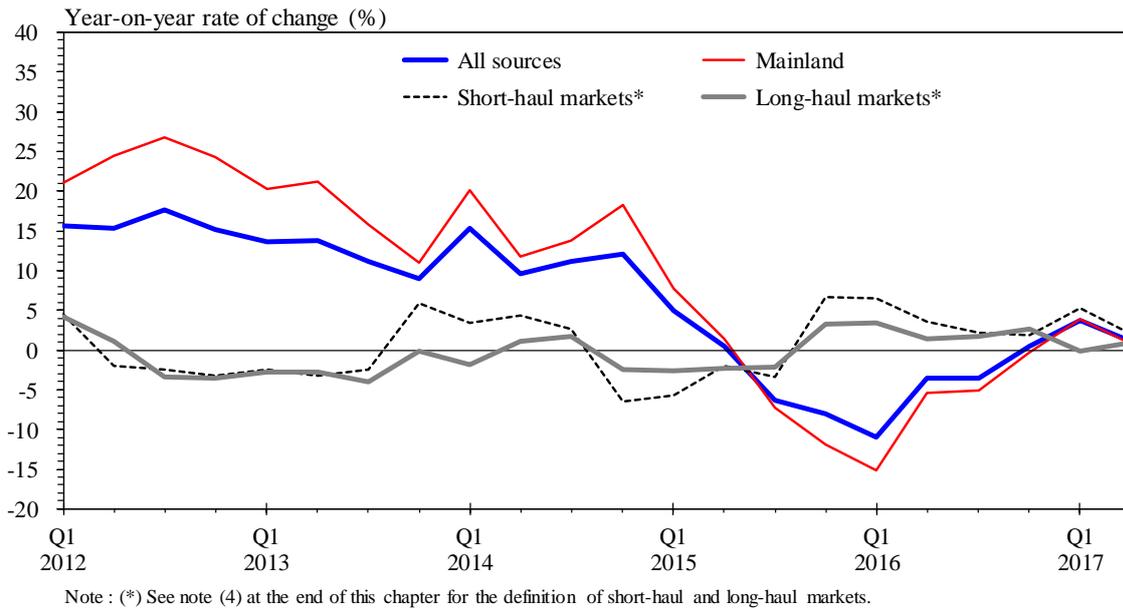
Land

3.14 Two residential sites, two commercial sites, one commercial/hotel site, one industrial site and three sites for petrol filling station, with a total area of about 5.4 hectares, were disposed of in the second quarter, fetching a total land premium of about \$63.5 billion. In addition, the tender exercises for one residential site in Sha Tin and one business site in Cheung Sha Wan also commenced in the quarter. In the second quarter, two land exchange cases and lease modifications of 13 sites were approved.

Tourism

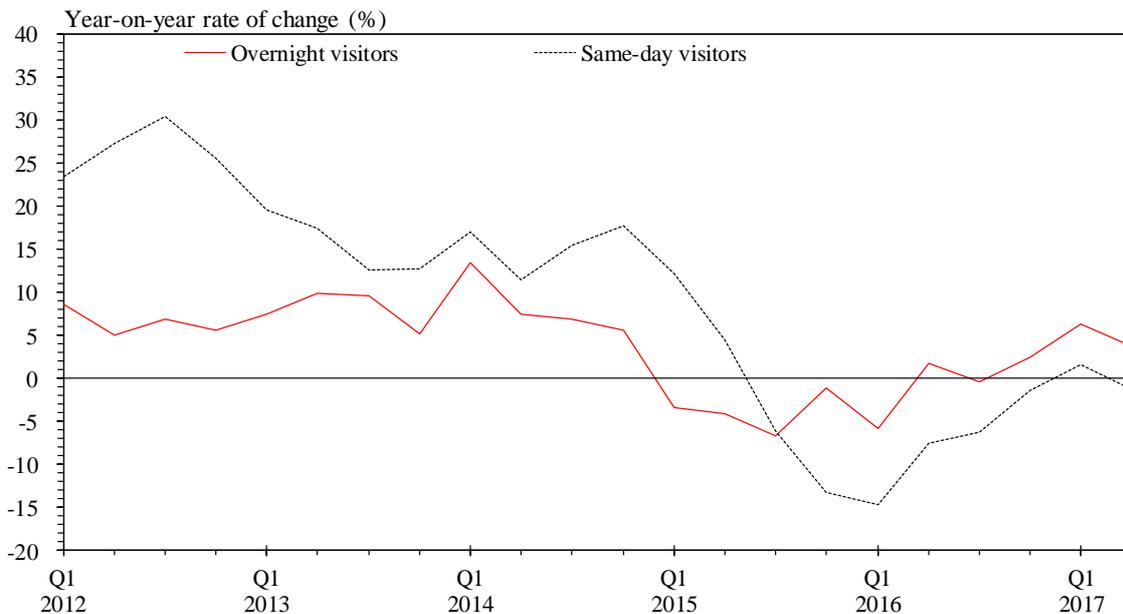
3.15 The number of *visitor arrivals* continued to recover in the second quarter of 2017. Overall visitor arrivals increased by 1.0% over a year earlier to 13.6 million. Mainland visitors, which accounted for 74.2% of the total, edged up by 0.8% to 10.1 million. Visitor arrivals from the short-haul and long-haul markets went up by 2.1% and 1.0% respectively⁽⁴⁾.

Diagram 3.8 : Visitor arrivals continued to recover in the second quarter



3.16 Analysed by the length of stay, overnight visitor arrivals increased further by 3.7% over a year earlier, while same-day visitor arrivals fell by 1.3%. Reflecting these movements, the share of overnight visitors rose from 46.6% a year earlier to 47.9% in the second quarter, while that of same-day visitors declined from 53.4% to 52.1%.

Diagram 3.9 : Overnight visitors increased further while same-day visitors declined

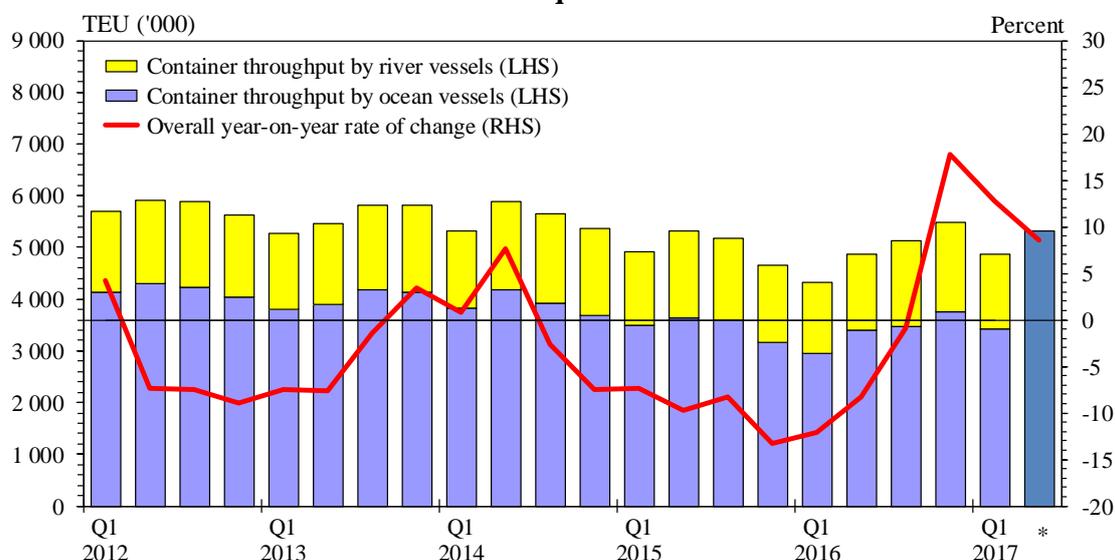


3.17 Supported by the modest increase in overnight visitors, the average hotel room occupancy rate rose from 85% a year earlier to 87% in the second quarter, though the average achieved hotel room rate declined further by 2.5% to \$1,187⁽⁵⁾.

Logistics

3.18 The logistics sector gathered further strength in the second quarter of 2017 amid the continued improvement in external trade. *Total container throughput* in the second quarter leapt by 8.5% over a year earlier to 5.3 million twenty-foot equivalent units (TEUs). The value of trade handled at the Hong Kong port likewise rose by 3.7%, though its share in total trade shrank further from 19.2% a year earlier to 18.5%.

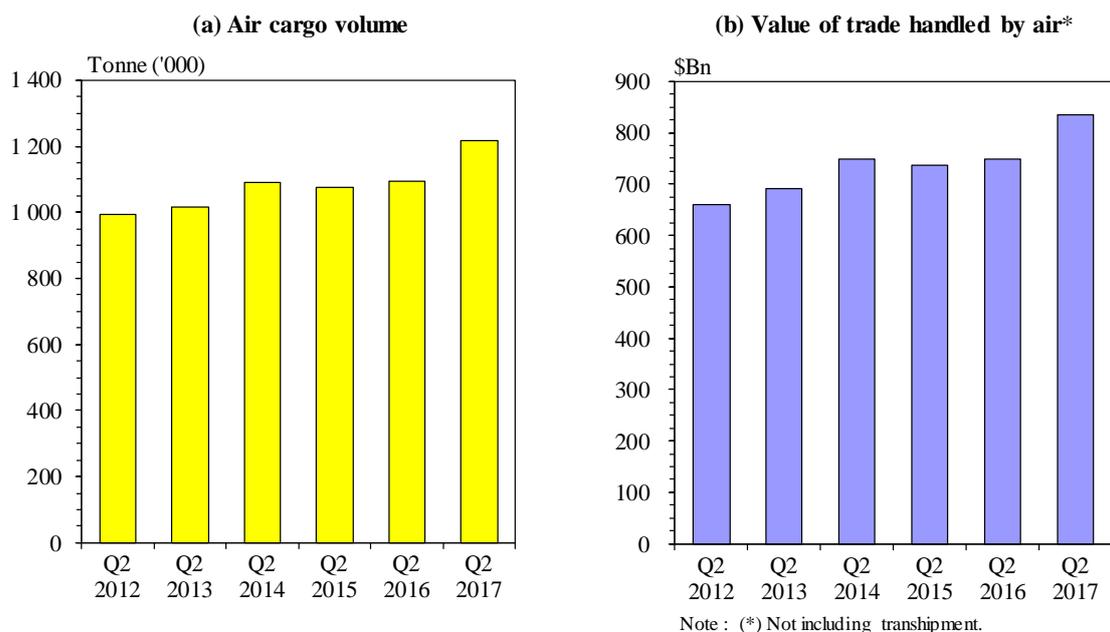
Diagram 3.10 : Container throughput gathered further strength in the second quarter of 2017



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

3.19 *Air freight throughput* jumped by 11.1% over a year earlier to 1.2 million tonnes in the second quarter. Likewise, the value of trade by air rose by 11.6%, with its share in total trade rising from 40.5% a year earlier to 41.9%.

Diagram 3.11 : Air cargo throughput and value of trade handled by air increased further in the second quarter



Transport

3.20 Traffic flows for the major modes of transport increased in the second quarter. Air passenger traffic rebounded by 3.0% over a year earlier to 18.2 million, while water-borne passenger trips rose by 5.2% to 6.6 million. As to land-based cross-boundary traffic, passenger trips increased by 1.1% to 54.9 million, and average daily vehicle movements by 4.6% to 44 277.

3.21 In June, the Legislative Council passed the Bill for increasing the maximum seating capacity of both public and private light buses from 16 to 19. The new maximum seating capacity would help better meet passenger demand for public light bus services and reduce passengers' waiting time, in particular during peak periods. The new legislation was effective on 7 July.

Environment

3.22 In April, the Government entered into new Scheme of Control Agreements (SCAs) with the two power companies, which would be effective upon the expiry of the current SCAs at end-2018. To strike a balance between public expectation of a lower return to the power companies and the need to encourage investments to meet Hong Kong's electricity demand and help improve the environment, the term of the new SCAs will be 15 years and the permitted rate of return of the power companies will be reduced from the existing 9.99% to 8% under the new SCAs. Other features that would promote energy saving and renewable energy are also included in the new SCAs to

reflect the Government's commitments to reducing energy intensity and combating climate change.

Notes :

- (1) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 in the 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 in the 2012 Economic Background and 2013 Prospects and Box 3.1 in the First Quarter Economic Report 2013. For details of the measures promulgated in 2014, see Box 4.1 in the 2013 Economic Background and 2014 Prospects. For details of the measures promulgated in 2015, see Box 3.1 of the First Quarter Economic Report 2015. For details of the measures promulgated in 2016, see note (1) at the end of Chapter 4 in the 2016 Economic Background and 2017 Prospects. For details of the measures promulgated in 2017, see note (3) at the end of Chapter 3 in the First Quarter Economic Report 2017 and note (2) below.
- (2) On 19 May 2017, the Hong Kong Monetary Authority announced the following measures for property mortgage loans to strengthen banks' risk management and resilience:
 - (a) Raising the risk-weight floor from 15% to 25% for new residential mortgage loans granted after 19 May 2017 by banks using Internal Ratings-Based Approach to calculate capital charges for credit risk;
 - (b) Lowering the applicable loan-to-value ratio (LTV) cap by 10 percentage points for property mortgage loans extended to borrowers with one or more pre-existing mortgages, in addition to observing the existing requirement of lowering the applicable debt servicing ratio (DSR) limit by 10 percentage points; and
 - (c) Lowering the applicable DSR limit by 10 percentage points for property mortgage loans extended to borrowers whose income is mainly derived from outside of Hong Kong, in addition to observing the existing requirement of lowering the applicable LTV cap by 10 percentage points.
- (3) 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.
- (4) Short-haul markets refer to North Asia, South and Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In the second quarter of 2017, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 74%, 17% and 9% of total visitors.
- (5) The figures on hotel room occupancy and achieved room rate do not include guesthouses.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *With the monetary policy normalisation in the US proceeding in a gradual manner, the low interest rate environment in Hong Kong continued in the second quarter of 2017. The Hong Kong dollar interbank interest rates stayed at low levels.*
- *The Hong Kong dollar spot exchange rate continued to weaken against the US dollar during the second quarter. Meanwhile, as the US dollar weakened further against most major currencies, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices decreased by 2.0% and 1.9% respectively.*
- *Total loans and advances rose by an accelerated 5.4% during the second quarter, supported by improving economic performance and increased funding demand by multinational corporations. Loans for use in and outside Hong Kong went up by 5.2% and 5.9% respectively.*
- *The local stock market continued to rally in the second quarter, underpinned by further improvement in the global economic outlook and expectation of an only gradual pace of US interest rate normalisation. The Hang Seng Index closed the quarter at 25 765, 6.9% higher than a quarter earlier. Trading activities were generally active, while fund raising activities showed some pick-up.*

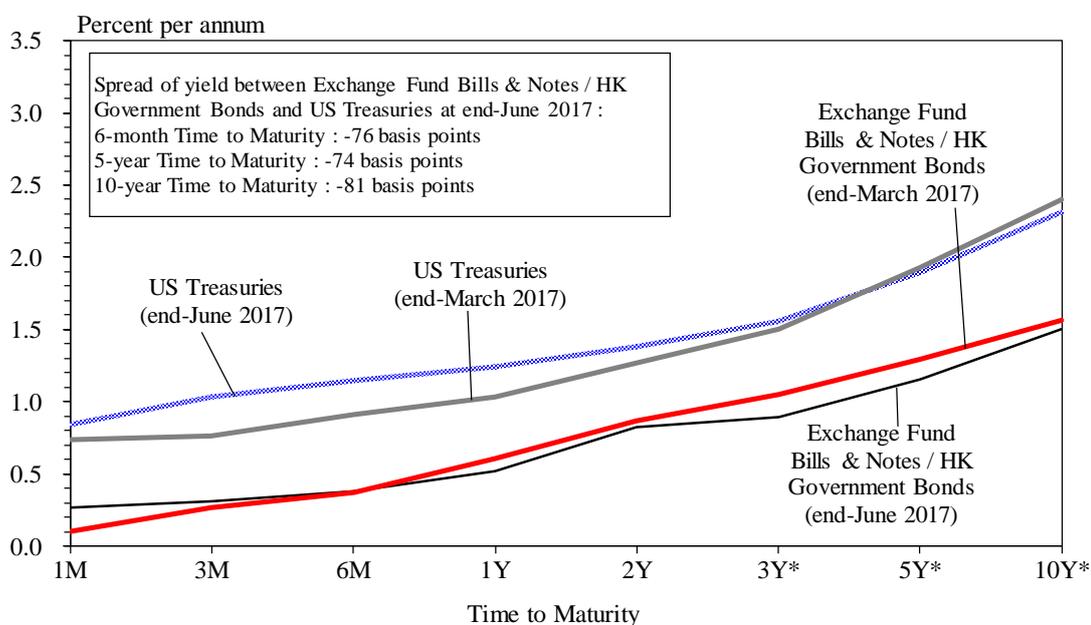
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

Interest rates and exchange rates

4.1 With the monetary policy normalisation in the US proceeding in a gradual manner, the low interest rate environment in Hong Kong continued in the second quarter of 2017. The US Federal Open Market Committee raised the target range for the Federal Funds Rate from 0.75-1.00% to 1.00-1.25% in June. Consequently, the HKMA adjusted the *Base Rate* under the Discount Window upward from 1.25% to 1.50%⁽¹⁾. Yet the *Hong Kong dollar interbank interest rates* remained at low levels. While the overnight HIBOR edged up from 0.10% at end-March to 0.34% at end-June, the three-month HIBOR declined from 0.94% to 0.78%.

4.2 During the second quarter, both the *Hong Kong dollar yield curve* and the *US dollar yield curve* flattened, though by different degrees. Reflecting these movements, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills widened from 54 basis points at end-March to 76 basis points at end-June, while the negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes narrowed marginally from 83 basis points to 81 basis points.

Diagram 4.1 : Both the Hong Kong dollar and US dollar yield curves flattened

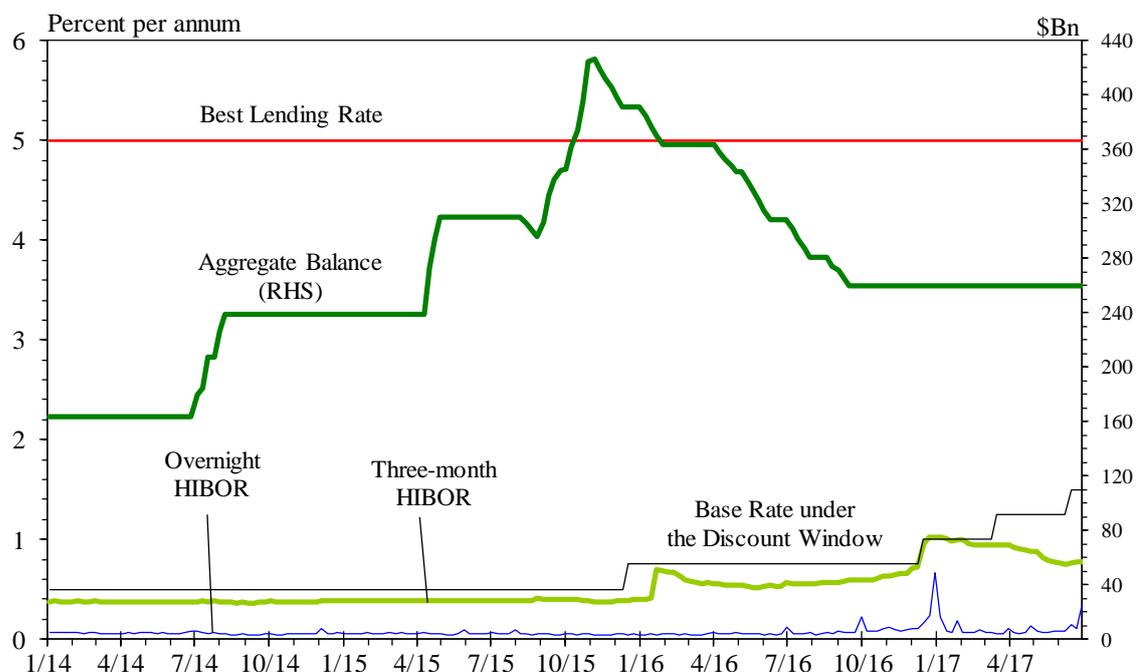


Note : (*) With the HKMA stopping new issuance of Exchange Fund Notes of tenors of three years or above since January 2015, the Hong Kong dollar yields for tenor of 3 years and above refer to those for Hong Kong Government Bonds.

4.3 Interest rates on the retail front also stayed at low levels. The *Best Lending Rates* remained unchanged at 5.00% or 5.25% during the second quarter. The *average savings deposit rate* and *one-year time deposit rate*

quoted by the major banks for deposits of less than \$100,000 also stayed unchanged at 0.01% and 0.15% respectively. The *composite interest rate*⁽²⁾, which indicates the average cost of funds for retail banks, edged down from 0.32% at end-March to 0.31% at end-June.

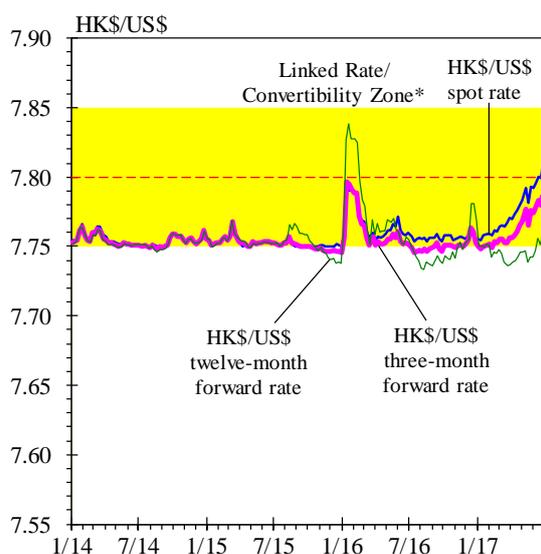
**Diagram 4.2 : Hong Kong dollar interest rates remained low
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* weakened further against the US dollar during the second quarter, mainly due to increased carry trade activities amid the widening negative spreads between Hong Kong dollar and US dollar interest rates. The Hong Kong dollar spot exchange rate closed at 7.807 per US dollar at end-June, compared with 7.770 at end-March. The *Hong Kong dollar forward rates* registered larger discounts to the spot rate, with the discount of 3-month forward rate widening from 146 pips (each pip is equivalent to HK\$0.0001) at end-March to 195 pips at end-June, and that of the 12-month forward rate from 335 pips to 460 pips.

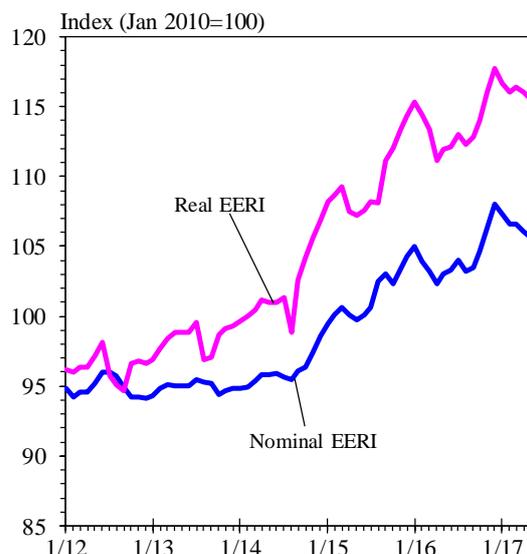
4.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar weakened further against most major currencies, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ decreased by 2.0% and 1.9% respectively during the second quarter.

Diagram 4.3 : Hong Kong dollar weakened further against the US dollar during the second quarter (end for the week)



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

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



Money supply and banking sector

4.6 The monetary aggregates continued to expand during the second quarter. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) increased by 0.8% over end-March to \$1,507 billion⁽⁴⁾ at end-June, and the Hong Kong dollar broad money supply (HK\$M3) by 3.6% to \$6,850 billion. Meanwhile, *total deposits* with authorised institutions (AIs)⁽⁵⁾ grew by 2.4% to \$12,379 billion, with Hong Kong dollar and foreign currency deposits increasing by 4.0% and 0.9% respectively.

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

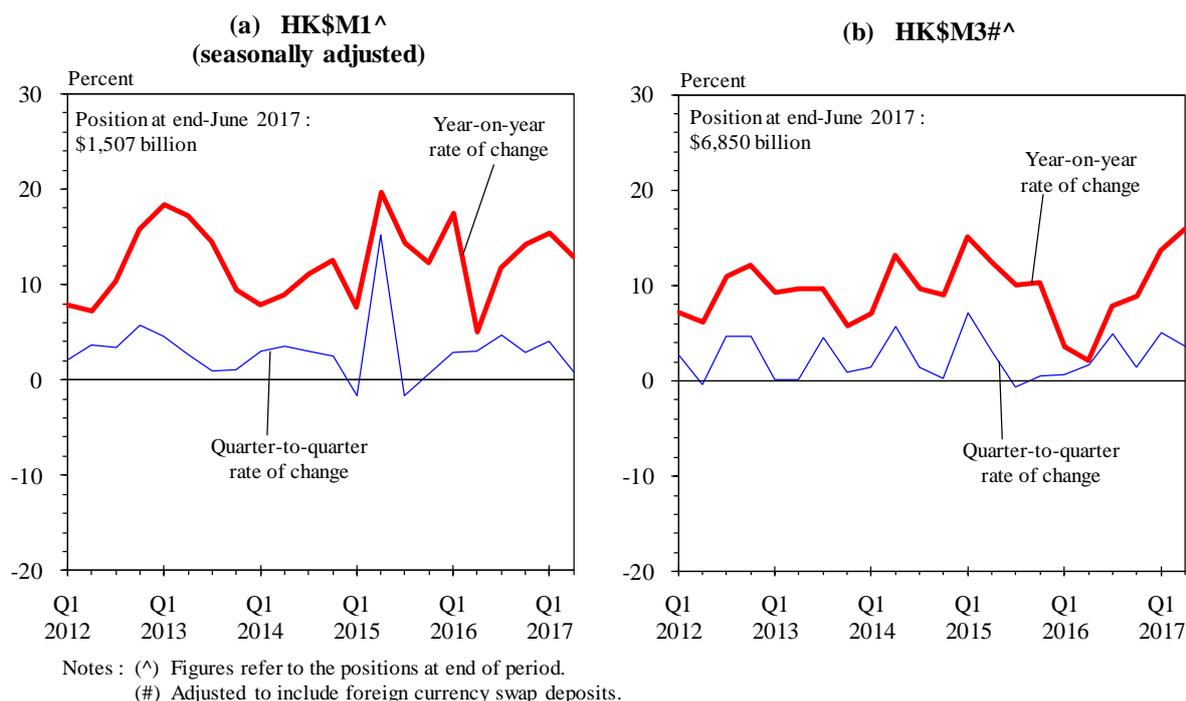


Table 4.1 : Hong Kong dollar money supply and total money supply

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
<u>% change during the quarter</u>		<u>HK\$[^]</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
2016	Q1	2.9	5.4	0.6	1.1	0.6	1.1
	Q2	3.0	0.6	1.7	0.4	1.7	0.4
	Q3	4.7	6.9	4.9	5.1	4.9	5.1
	Q4	2.9	-0.9	1.5	1.0	1.5	1.0
2017	Q1	4.0	0.7	5.1	3.4	5.1	3.4
	Q2	0.8	3.2	3.6	3.0	3.6	3.0
Total amount at end-June 2017 (\$Bn)		1,507	2,299	6,837	13,315	6,850	13,362
% change over a year earlier		12.9	10.0	15.9	12.9	15.9	13.0

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 Supported by improving economic performance and increased funding demand by multinational corporations, *total loans and advances* rose by an accelerated 5.4% over end-March to \$8,844 billion at end-June. Within the total, Hong Kong dollar and foreign currency loans rose by 5.9% and 4.8% respectively. With loans increasing at a faster pace than deposits, the loan-to-deposit ratio for Hong Kong dollar went up from 75.7% at end-March to 77.1% at end-June, and that for foreign currencies from 63.1% to 65.5%.

4.8 Loans for use in Hong Kong (including trade finance) rose by 5.2% over end-March to \$6,167 billion at end-June and loans for use outside Hong Kong by 5.9% to \$2,677 billion. Within the former, loans to most major economic sectors recorded further increases. Trade finance expanded further by 4.5% along with the improved external trade. Loans to manufacturing and loans to wholesale and retail trade also recorded faster increases of 5.2% and 2.8% respectively. Loans to financial concerns went up by another 11.7%, while loans to stockbrokers dropped by 7.6%. As for property-related lending, loans to building, construction, property development and investment rose by a solid 4.9%, while loans for purchase of residential property recorded a faster increase of 2.4% amid a pick-up in property market transactions. To strengthen the credit risk management of AIs with respect to lending to property developers, in May the HKMA announced measures to tighten up related lending⁽⁶⁾.

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											
2016	Q1	-1.5	-3.0	-6.3	2.7	0.5	-3.6	7.8	0.1	-0.8	-0.2
	Q2	5.7	8.7	0.7	1.5	0.5	13.7	6.8	3.1	0.7	2.4
	Q3	-1.1	-4.4	0.9	1.4	1.0	4.6	-6.9	1.5	1.9	1.6
	Q4	-2.8	0.2	-2.4	4.7	2.1	5.2	9.9	2.5	2.7	2.5
2017	Q1	2.6	4.6	1.6	4.9	1.6	12.1	9.7	4.0	6.0	4.6
	Q2	4.5	5.2	2.8	4.9	2.4	11.7	-7.6	5.2	5.9	5.4
Total amount at end-June 2017 (\$Bn)		487	271	431	1,388	1,213	683	66	6,167	2,677	8,844
% change over a year earlier		3.0	5.4	2.9	17.0	7.3	37.8	3.7	13.8	17.4	14.9

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

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

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

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

4.9 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio

staying high at 18.8% at end-March 2017. Asset quality of the local banking sector also stayed healthy. The ratio of classified loans to total loans edged down from 0.72% at end-2016 to 0.70% at end-March 2017, while the delinquency ratio for credit card lending edged up from 0.24% to 0.27%. Meanwhile, the delinquency ratio for residential mortgage loans edged down from 0.04% at end-March to 0.03% at end-June.

Table 4.3 : Asset quality of retail banks*

(as % of total loans)

<u>As at end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2016	Q1	97.77	1.45	0.78
	Q2	97.80	1.40	0.80
	Q3	97.68	1.51	0.81
	Q4	97.75	1.53	0.72
2017	Q1	97.94	1.35	0.70

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”.

4.10 The *offshore renminbi (RMB) business* stayed generally lacklustre in the second quarter. RMB trade settlement transactions handled by banks in Hong Kong plunged by 24.8% from a year earlier to RMB927.9 billion in the second quarter. Total RMB deposits (including customer deposits and outstanding certificates of deposit) edged up by 1.0% over end-March to RMB588.7 billion at end-June. As to financing activities, outstanding RMB bank loans dropped by 20.1% to RMB206.3 billion. While RMB bond issuance rose from RMB0.8 billion in the preceding quarter to RMB2.2 billion (excluding the issuance of RMB7.0 billion by the Ministry of Finance) in the second quarter, this was still a relatively low level.

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> (%)		
2016	Q1	187,124	572,302	759,425	0.25	0.53	145	1,130,645
	Q2	204,282	507,266	711,549	0.25	0.53	146	1,234,587
	Q3	201,829	463,671	665,500	0.25	0.53	145	1,189,244
	Q4	135,520	411,187	546,707	0.25	0.53	144	987,651
2017	Q1	131,103	376,169	507,272	0.25	0.53	141	821,390
	Q2	142,517	383,560	526,077	0.25	0.53	140	927,925
% change in 2017 Q2 over 2016 Q2		-30.2%	-24.4%	-26.1%	N.A.	N.A.	N.A.	-24.8%
% change in 2017 Q2 over 2017 Q1		8.7%	2.0%	3.7%	N.A.	N.A.	N.A.	13.0%

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

The debt market

4.11 The Hong Kong dollar *debt market* continued to grow during the second quarter. Total gross issuance of Hong Kong dollar debt securities rose by 2.8% over the preceding quarter to \$822.0 billion, underpinned by the respective increases of 2.2% and 8.8% in public and private sector debt issuance⁽⁷⁾. As a result, the total outstanding balance of Hong Kong dollar debt securities edged up by another 0.2% over end-March to \$1,751.6 billion at end-June. This was equivalent to 25.6% of HK\$M3 or 22.1% of Hong Kong dollar-denominated assets of the entire banking sector⁽⁸⁾.

4.12 As to the Government Bond (“GB”) Programme, a total of \$7.7 billion institutional GBs were issued through tenders in the second quarter. Also, the second batch of Silver Bond was issued in June, with an issue size of \$3.0 billion. It was greeted with positive market responses, receiving 44 842 valid applications for a total of over \$4.1 billion in principal amount of bonds. The total outstanding amount of Hong Kong dollar bonds under the GB Programme was \$110.8 billion at end-June, comprising 14 institutional issues totaling \$74.8 billion and five retail issues (three iBonds and two Silver Bond)

totaling \$36.0 billion. In addition, three US dollar sukuks, each with an issue size of US\$1.0 billion, were outstanding under the Programme.

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

	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										
2016 Annual	2,689.6	20.9	29.4	2,739.9	181.2	25.2	100.7	307.1	5.5	3,052.6
Q1	622.4	4.4	1.6	628.4	53.8	5.2	20.9	79.9	0.8	709.1
Q2	677.3	14.1	16.5	707.8	56.1	3.3	30.8	90.3	2.8	800.9
Q3	677.7	0.3	4.8	682.8	29.0	9.3	21.7	60.1	1.9	744.8
Q4	712.3	2.2	6.5	720.9	42.4	7.3	27.2	76.9	0.0	797.8
2017 Q1	709.7	9.7	1.8	721.3	54.9	4.1	17.4	76.4	1.7	799.3
Q2	718.1	8.6	10.7	737.4	41.6	4.5	37.0	83.1	1.6	822.0
% change in 2017 Q2 over 2016 Q2	6.0	-38.9	-35.2	4.2	-25.9	36.6	19.9	-8.0	-45.5	2.6
% change in 2017 Q2 over 2017 Q1	1.2	-11.9	494.4	2.2	-24.2	10.5	112.3	8.8	-7.7	2.8
Outstanding (as at end of period)										
2016 Q1	856.9	46.6	102.0	1,005.5	226.1	142.6	165.1	533.8	6.0	1,545.2
Q2	912.4	56.3	102.0	1,070.6	256.7	143.2	175.0	574.9	8.8	1,654.4
Q3	962.1	53.1	106.8	1,121.9	264.7	150.6	177.8	593.1	10.5	1,725.6
Q4	963.1	50.0	102.8	1,115.9	273.1	153.4	177.6	604.1	10.5	1,730.6
2017 Q1	964.6	54.4	104.6	1,123.7	283.7	153.2	176.5	613.4	11.8	1,748.8
Q2	965.6	52.0	112.3	1,129.9	269.2	154.7	186.4	610.3	11.4	1,751.6
% change in 2017 Q2 over 2016 Q2	5.8	-7.6	10.1	5.5	4.9	8.0	6.5	6.2	29.0	5.9
% change in 2017 Q2 over 2017 Q1	0.1	-4.5	7.4	0.6	-5.1	1.0	5.6	-0.5	-3.4	0.2

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

(a) AIs : Authorised institutions.

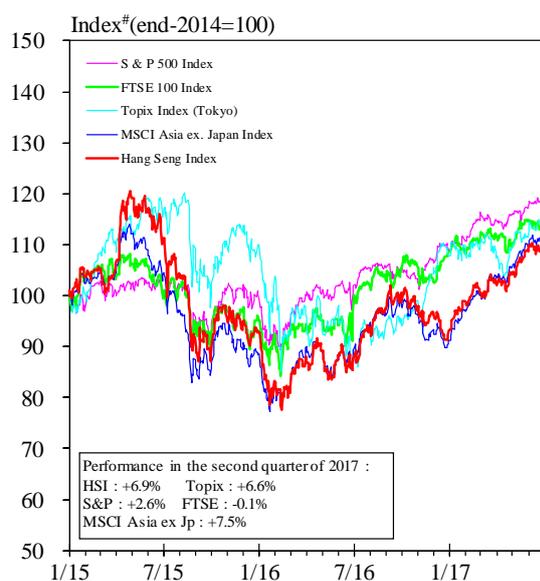
(b) MDBs : Multilateral Development Banks.

The stock and derivatives markets

4.13 The *local stock market* continued to rally in the second quarter, underpinned by further improvement in the global economic outlook and expectation of an only gradual pace of US interest rate normalisation. The Hang Seng Index (HSI) reached 26 063 on 8 June, the highest closing since July 2015, and closed the quarter at 25 765 or 6.9% higher than a quarter earlier. During the first half of 2017, the HSI rose by a sharp 17.1%. In parallel, the *market capitalisation* expanded by 5.3% over end-March to \$28.7 trillion at end-June. The local stock market ranked the sixth largest in the world and the third largest in Asia⁽⁹⁾.

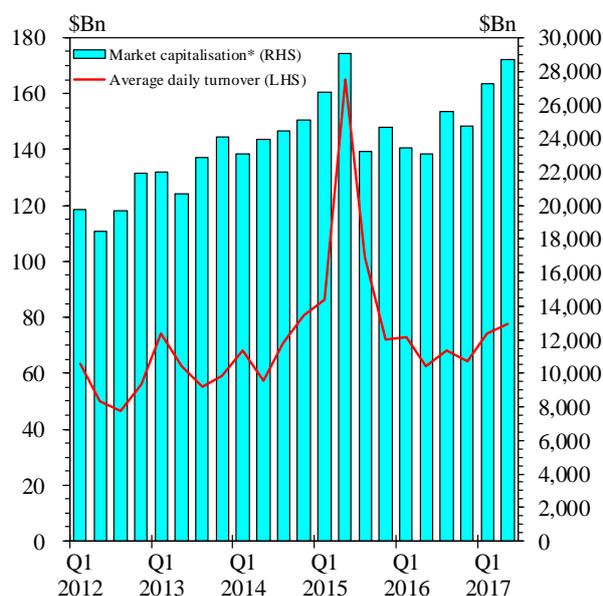
4.14 Trading activities were generally active. *Average daily turnover* in the securities market rose by 4.7% over the preceding quarter or 24.3% over a year earlier to \$77.8 billion in the second quarter. Within the total, the average daily trading value of unit trusts (including Exchange-Traded Funds) and equities leapt by 21.6% and 10.6% respectively over the preceding quarter, while that of derivative warrants and callable bull/bear contracts⁽¹⁰⁾ fell by 22.6% and 17.8% respectively. As to futures and options⁽¹¹⁾, the average daily trading volume grew by 5.3% over the preceding quarter. Within the total, trading of HSI futures, stock options and H-shares Index futures increased by 13.8%, 9.8% and 4.5% respectively, while that of HSI options edged down by 2.0%.

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



Note : (#) Position at end of month.

Diagram 4.7 : Market capitalisation expanded, while trading activities were generally active



Note : (*) Position at end of quarter.

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

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	H-shares <u>Index futures</u>	Stock <u>options</u>	Total futures and <u>options traded*</u>
2016	Annual	130 826	37 869	133 729	297 903	761 744
	Q1	141 439	38 235	154 053	293 047	805 276
	Q2	135 572	38 802	138 127	292 684	758 733
	Q3	127 885	37 186	122 196	304 828	748 269
	Q4	119 016	37 295	121 896	300 596	737 238
2017	Q1	107 376	37 294	117 732	338 771	759 988
	Q2	122 209	36 565	122 975	371 991	800 034
% change in 2017 Q2 over 2016 Q2		-9.9	-5.8	-11.0	27.1	5.4
% change in 2017 Q2 over 2017 Q1		13.8	-2.0	4.5	9.8	5.3

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 After a weak start in the early part of the year, fund raising activities showed some pick-up in the second quarter. For the first half as a whole, *total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)⁽¹²⁾, increased by 16.3% over a year earlier to \$168.6 billion, though plunging by 51.1% from the high base in the second half of 2016. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) rose by 23.1% over a year earlier to \$53.6 billion. Hong Kong ranked the fifth globally in terms of the amount of funds raised through IPOs in the first half of the year.

4.16 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-June, a total of 1 021 Mainland enterprises (including 246 H-share companies, 158 “Red Chip” companies and 617 private enterprises) were listed on the Main Board and the GEM, accounting for 50% of the total number of listed companies and 64% of total market capitalisation. In the second quarter, Mainland-related stocks accounted for 75% of equity turnover and 84% of total equity fund raised in the Hong Kong stock exchange.

4.17 In May the Hong Kong Exchanges and Clearing Limited (HKEX) announced its plan to implement Phase 2 of the securities market’s Closing Auction Session (CAS) in the third quarter of 2017. The CAS is to meet the needs of investors by enabling trade execution at the securities’ closing prices,

which is a key investment mandate of certain funds and commonly adopted in developed securities markets. The Reference Price for the CAS is determined in the last minute of the continuous trading session from 15:59 to 16:00, with an allowable price limit of +/-5%. Phase 1 of the CAS has been launched in July 2016 and covers all constituents of the Hang Seng Composite LargeCap and MidCap indices, H shares with corresponding A shares listed on a Mainland exchange, and all Exchange-Traded Funds. Phase 2 will expand the coverage to include constituents of the Hang Seng Composite SmallCap Index and allow regulated short-selling orders to be placed during the CAS at a price not lower than the CAS Reference Price. This would help reduce tracking errors of index funds, thereby protecting the interests of fund investors.

4.18 To broaden capital markets access in Hong Kong and cope with latest developments in the global financial markets, in June the HKEX launched a two-month public consultation on a proposed New Board and a review of the GEM. The New Board is to enhance Hong Kong's ability to attract companies from "New Economy sectors" with characteristics that currently prohibit them from listing in Hong Kong, including pre-profit companies, companies with non-standard governance features, and Mainland companies that wish to list on the Exchange as a secondary listing venue. It is proposed that the New Board would be divided into two segments to enable the calibration of shareholder protection standards based on the level of perceived risk, *viz.* New Board PREMIUM that would be open to retail investors and New Board PRO that would be open to professional investors only. Meanwhile, the review of the GEM seeks to address market and regulatory concerns regarding the quality and performance of its applicants and listed issuers, and covers four key areas including its position as a stepping stone to the Main Board, its admission requirements and delisting mechanism, open market requirement for the GEM companies, and eligibility requirements for the Main Board. The HKEX would consider the public views collected during the consultation and refine the proposals if needed.

Fund management and investment funds

4.19 In parallel to the strong performance of the stock market, the fund management business generally showed further expansion in the second quarter. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹³⁾ grew by another 6.4% over end-March to \$745.7 billion at end-June. For *mutual funds*, the monthly average gross retail sales surged by 32.5% over a year earlier to US\$7.2 billion in April – May, though 2.4% lower than in the preceding quarter⁽¹⁴⁾. Yet the amount of net assets managed by *retail hedge funds* declined further⁽¹⁵⁾.

4.20 In June the Securities and Futures Commission (SFC) launched a two-month consultation on the detailed legal and regulatory requirements of the newly-introduced open-ended fund company (OFC) structure. The consultation sets out the proposed rules and codes on OFCs relating to their formation, key operators, ongoing maintenance, and termination and winding-up. The introduction of the OFC regime would help enhance Hong Kong's attractiveness as a preferred fund domicile. Upon completion of the public consultation as well as the legislative process, the new OFC regime is expected to be implemented in 2018.

Insurance sector

4.21 The *insurance sector*⁽¹⁶⁾ recorded a solid performance in the first quarter. Gross premium income from long-term business grew further by 13.4% over a year earlier. Within the total, premium income from non-investment linked plans rose by 11.2% while that from investment linked plans surged by 74.4%. As to general business, gross and net premium rebounded by 6.6% and 7.0% respectively.

4.22 Since 26 June, the Insurance Authority (IA) has taken over the statutory functions of the Office of the Commissioner of Insurance to regulate insurance companies. The IA, established by the Insurance Companies (Amendment) Ordinance 2015, is an insurance regulator independent of the Government with an expanded scope of regulatory oversight. The IA would also take over the regulation of insurance intermediaries from the three existing Self-Regulatory Organisations and establish a statutory licensing regime in two years' time. This would put in place a more holistic and effective insurance regulatory system, thereby protecting the interests of policy holders in a more comprehensive manner.

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	
2016	Annual	45,643	31,457	1,606	179,147	5,744	255	343	185,489	231,132
	Q1	13,078	8,864	574	37,256	1,239	50	92	38,637	51,715
	Q2	10,937	7,762	501	42,058	853	68	78	43,057	53,994
	Q3	11,727	8,094	215	49,250	1,422	70	116	50,858	62,585
	Q4	9,901	6,737	316	50,583	2,230	67	57	52,937	62,838
2017	Q1	13,947	9,482	383	41,436	2,161	57	168	43,822	57,769
% change in 2017 Q1 over 2016 Q1		6.6	7.0	-33.3	11.2	74.4	14.0	82.6	13.4	11.7

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

4.23 The Bond Connect, a pilot scheme to connect the bond markets in the Mainland and Hong Kong through the two places' financial infrastructure institutions, was launched on 3 July. For the time being the connection is confined to Northbound Trading, while Southbound Trading will be added later. Through enhancing mutual capital market access between the Mainland and Hong Kong, the Bond Connect will further strengthen Hong Kong's position as an intermediary for capital flows between the Mainland and international markets.

Notes :

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

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

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

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

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

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

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

- (5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-June 2017, there were 155 licensed banks, 21 restricted licence banks and 17 deposit-taking companies in Hong Kong. Altogether, 193 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (6) On 12 May 2017, the HKMA announced that from 1 June 2017, AIs are required to lower the financing caps for construction financing to 40% of the site value and 80%

of the construction cost (from the previous 50% and 100% respectively), with an overall cap of 50% of the expected value of the completed projects (from the previous 60%). Also, locally incorporated AIs are required to set aside an adequate amount of capital for exposures to property developers offering high loan-to-value mortgages.

- (7) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (8) Assets of the banking sector include notes and coins, amount due from 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.
- (9) The ranking is based on the figures compiled by the World Federation of Exchanges and the London Stock Exchanges Group.
- (10) Given the relatively small share (less than 0.5% of the daily turnover in the securities market), trading of debt securities and its movements were not analysed.
- (11) At end-June 2017, there were 87 classes of stock options contracts and 73 classes of stock futures contracts.
- (12) At end-June 2017, there were 1 746 and 288 companies listed on the Main Board and GEM respectively.
- (13) At end-June 2017, there were 18 approved trustees. On MPF products, 33 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 485 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 279 000 employers, 2.58 million employees and 202 000 self-employed persons have participated in MPF schemes.
- (14) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-May 2017, the survey covered a total of 1 332 active authorised funds.
- (15) At end-June 2017, there were two SFC-authorized retail hedge funds with combined net asset size of US\$27 million. The amount of net assets under management represented a 3.6% decrease from end-March, and a 83.1% decrease from end-2002, the year when the hedge funds guidelines were first issued.
- (16) At end-June 2017, there were 159 authorised insurers in Hong Kong. Within this total, 47 were engaged in long-term insurance business, 93 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 23 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

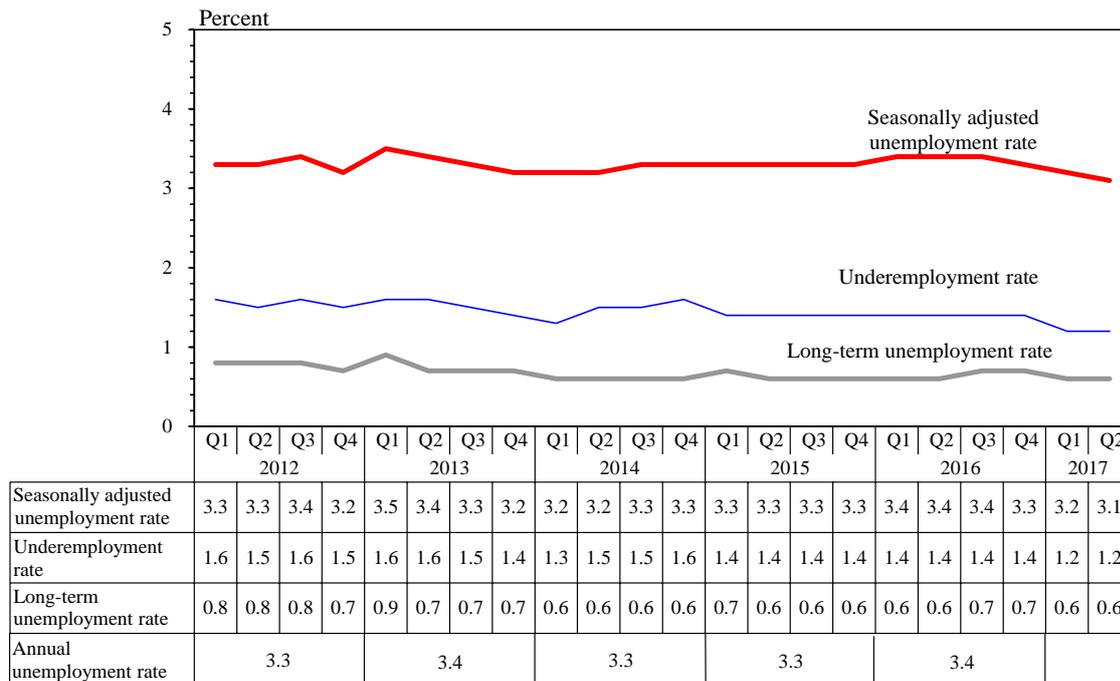
Summary

- *The labour market tightened further in the second quarter of 2017. The seasonally adjusted unemployment rate edged down by 0.1 percentage point to 3.1%, the lowest level in more than three years. This, together with a stable and low underemployment rate of 1.2%, essentially signified the continuation of full employment.*
- *The favourable economic conditions of late helped add impetus to labour demand, as manifested by the robust growth in total employment and the end of downward drift in private sector vacancies. The labour force likewise sustained solid growth amid a generally tight labour market.*
- *Nominal wages and payroll saw further broad-based increases in March 2017. Earnings of grassroots workers continued to record appreciable growth. The upward adjustment of the Statutory Minimum Wage (SMW) rate in May 2017 is expected to augur well for the earnings situation in the grassroots segment for the remainder of the year.*

Overall labour market situation⁽¹⁾

5.1 The labour market tightened further in the second quarter of 2017 on the back of the above-trend economic expansion pace. The seasonally adjusted *unemployment rate*⁽²⁾ went down slightly by 0.1 percentage point to 3.1%, the lowest level in more than three years. At the same time, the *underemployment rate*⁽³⁾ stayed low at 1.2%. The recent stronger growth of the Hong Kong economy had revived the pace of job creation, as manifested by a faster growth in total employment and the stabilisation of vacancy number in the private sector after seven consecutive quarters of year-on-year decline. The labour force likewise grew solidly in the second quarter, as the generally favourable economic and job conditions had attracted more people to seek jobs. Amid the various positive developments in the local labour market, wages and payroll stayed on the rise in a broad-based manner. Earnings growth of the lower-income workers continued to fare particularly well, while the upward adjustment of the SMW rate in May 2017 looks set to render further support to the earnings situation of grassroots workers over the coming months.

Diagram 5.1 : The labour market tightened further in the second quarter of 2017



Labour force and total employment

5.2 On the supply side, the *labour force*⁽⁴⁾ in the second quarter of 2017 expanded by 0.9% over a year earlier to 3 947 200, outstripping the increase of 0.5% in the working-age population (i.e. land-based non-institutional population aged 15 and above). Over the same period, the labour force participation rate increased by 0.2 percentage point year-on-year to 61.1%.

5.3 On the demand side, *total employment*⁽⁵⁾ saw a faster year-on-year increase of 1.3% in the second quarter to reach 3 822 100. More specifically, employment in such sectors as insurance, construction, and real estate recorded particularly visible increases. Meanwhile, employment in the consumption- and tourism-related sector, viz. retail, accommodation and food services as a whole, likewise posted a notable increase amid the generally positive local consumer sentiment and the relative improvement of inbound tourism.

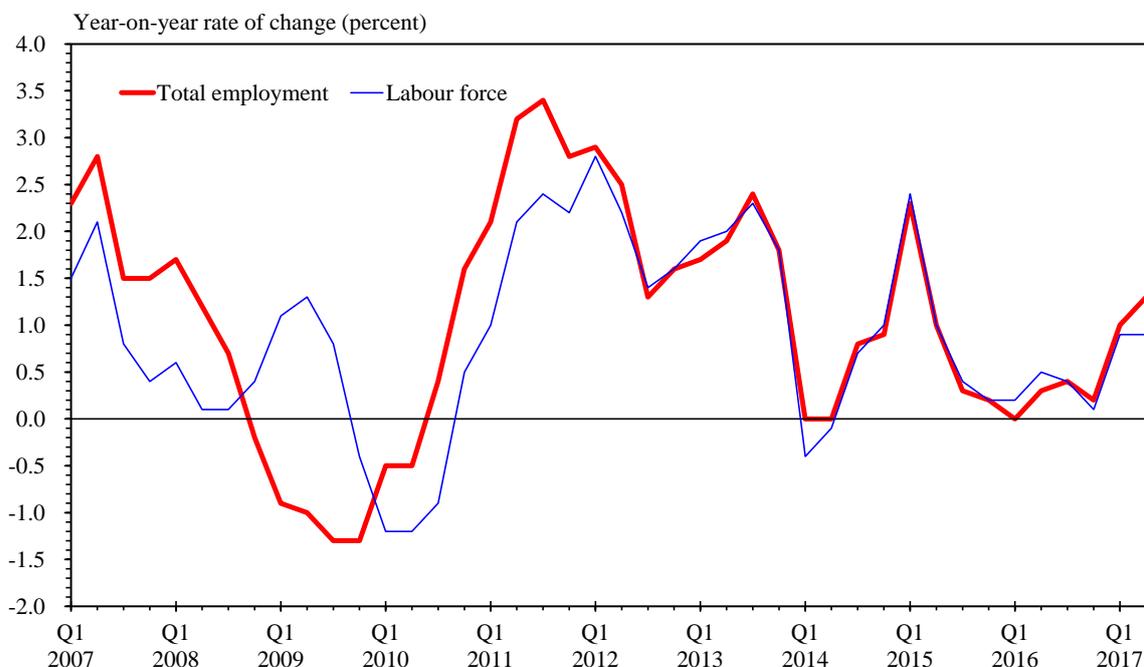
Table 5.1 : The labour force, and persons employed, unemployed and underemployed

	<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed^(a)</u>	<u>Persons underemployed</u>
2016 Annual	3 920 100 (0.4)	3 787 100 (0.4)	133 000	54 700
Q1	3 914 100 (0.2)	3 783 000 (§)	131 100	53 500
Q2	3 911 200 (0.5)	3 774 300 (0.3)	136 900	54 500
Q3	3 925 700 (0.4)	3 785 800 (0.4)	140 000	55 800
Q4	3 909 500 (0.1)	3 787 100 (0.2)	122 400	54 600
2017 Q1	3 947 400 (0.9)	3 822 400 (1.0)	125 000	49 000
<i>Three months ending</i>				
2017 Apr	3 943 900 (0.9)	3 816 700 (1.1)	127 200	48 800
May	3 944 200 (1.1)	3 817 900 (1.3)	126 300	47 600
Jun	3 947 200 (0.9)	3 822 100 (1.3)	125 200	45 500
	<0.1>	<0.2>		

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

Source : General Household Survey, Census and Statistics Department.

Diagram 5.2 : Growth in both the labour force and total employment picked up in the first half of 2017



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

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

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

5.4 The number of unemployed persons in the second quarter of 2017, at 125 200, showed little change from the preceding quarter. Yet it was 8.6% lower than a year earlier. After netting out seasonal fluctuations, the seasonally adjusted unemployment rate inched down further to 3.1%, the lowest level in more than three years.

5.5 While the movements in the unemployment rates (not seasonally adjusted) in different industry sectors varied when compared to the previous quarter, more visible decreases were observed in the decoration, repair and maintenance for buildings (down 1.0 percentage point), warehousing and social work activities (both down 0.6 percentage point) sectors. On a year-on-year comparison to net out the effect of seasonality, a number of major economic sectors saw a markedly improved unemployment situation in the second quarter of 2017 amid the tightening of the labour market. For instance, thanks to the relative improvement in inbound tourism and generally sanguine local consumer sentiment, the unemployment rate of the consumption- and tourism-related segment as a whole (viz. retail, accommodation and food services), at 4.7%, was 0.8 percentage point below its year-ago level. The financing, insurance, real estate, professional and business services segments as a whole also saw a notable decline in unemployment rate over a year earlier alongside the buoyant activities of the related sectors. Regarding the *low paying sectors*⁽⁶⁾ as a whole, its unemployment rate edged down by 0.1 percentage point over the preceding quarter to 3.1%, and was 0.6 percentage point below its year-ago level.

5.6 Analysed by skill segment, the unemployment rate of lower-skilled workers held steady at 3.6%, while that of the higher-skilled workers fell slightly by 0.1 percentage point over the preceding quarter to 1.7%. On a year-on-year comparison, the unemployment rates of lower-skilled and higher-skilled workers went down by 0.2 and 0.3 percentage point respectively amid the robust labour market conditions.

5.7 As regards other socio-economic attributes, more discernible year-on-year decreases in the unemployment rates were noted among persons aged 15-24 as well as 60 and above (down 2.2 and 0.6 percentage points respectively), and those with degree education (down 0.5 percentage point).

Diagram 5.3 : Notable improvements in unemployment situation were seen in a number of major economic sectors in the second quarter of 2017 on a year-on-year basis

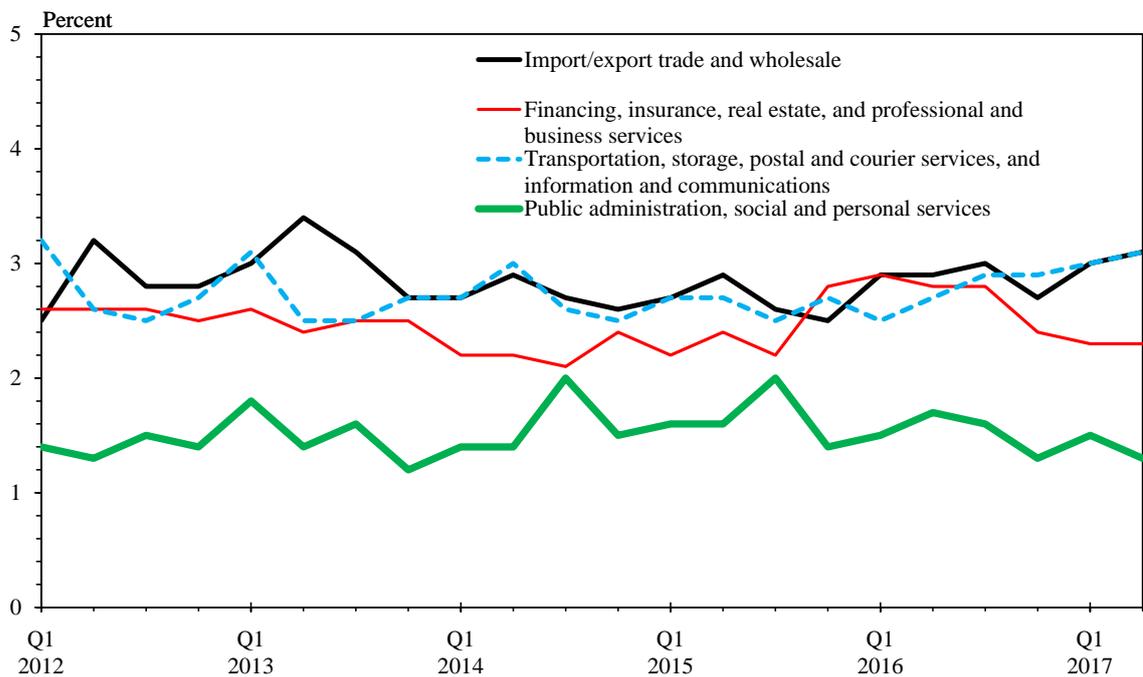
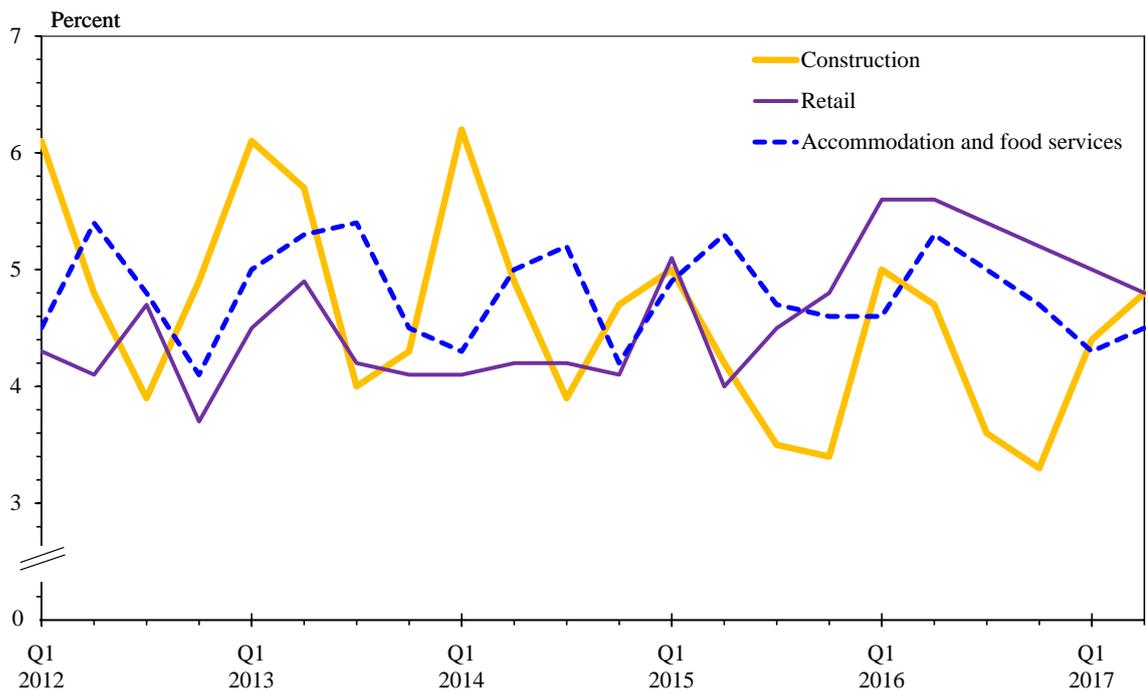


Table 5.3 : Unemployment rates by major economic sector

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

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

() Seasonally adjusted unemployment rates.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.4 : The unemployment rates of both the higher-skilled and lower-skilled segments remained at low levels amid the sturdy labour demand

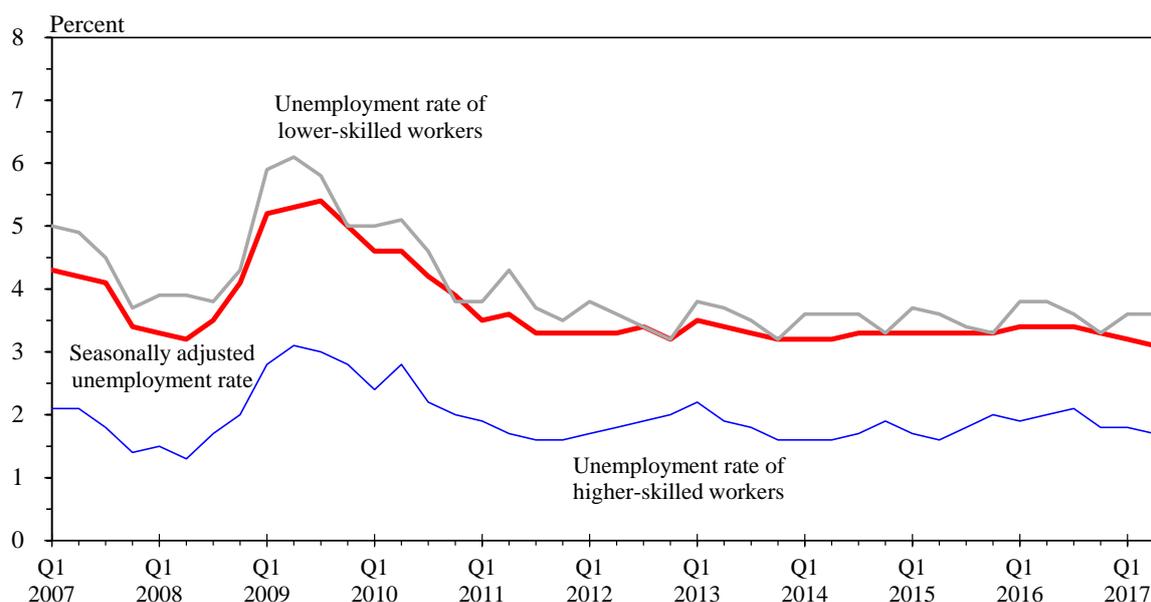


Table 5.4 : Unemployment rates* by skill segment

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

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

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 in the second quarter of 2017 were mostly favourable when compared to their year-ago levels. The number of long-term unemployed persons (i.e. unemployed for six months or longer) showed little change at 24 900. The long-term unemployment rate consequently remained at 0.6%, while the median duration of unemployment shortened from 71 days to 62 days. The share of long-term unemployment in total unemployment likewise stayed at a relatively low level of 19.9%. Nonetheless, the proportion of dismissal or lay-offs among the total number of unemployed persons (not including first-time job-seekers and re-entrants into the labour force) went up by 4.7 percentage points to 50.1%, albeit still somewhat lower than its long-term average of 53.9% recorded over the past 10 years.

Profile of underemployment

5.9 The underemployment rate remained unchanged at a low level of 1.2% in the second quarter of 2017, while the number of underemployed persons decreased by 3 500 over the preceding quarter to 45 500. A more noticeable increase in the underemployment rate was seen in the cleaning and similar activities sector, while a more discernable decline was found in the art, entertainment and recreation sector. Analysed by occupational category, the underemployment rate of the higher-skilled segment remained unchanged at 0.4%, while that of the lower-skilled segment dropped marginally by 0.1 percentage point to 1.7%.

Box 5.1

Returns on attaining university education⁽¹⁾

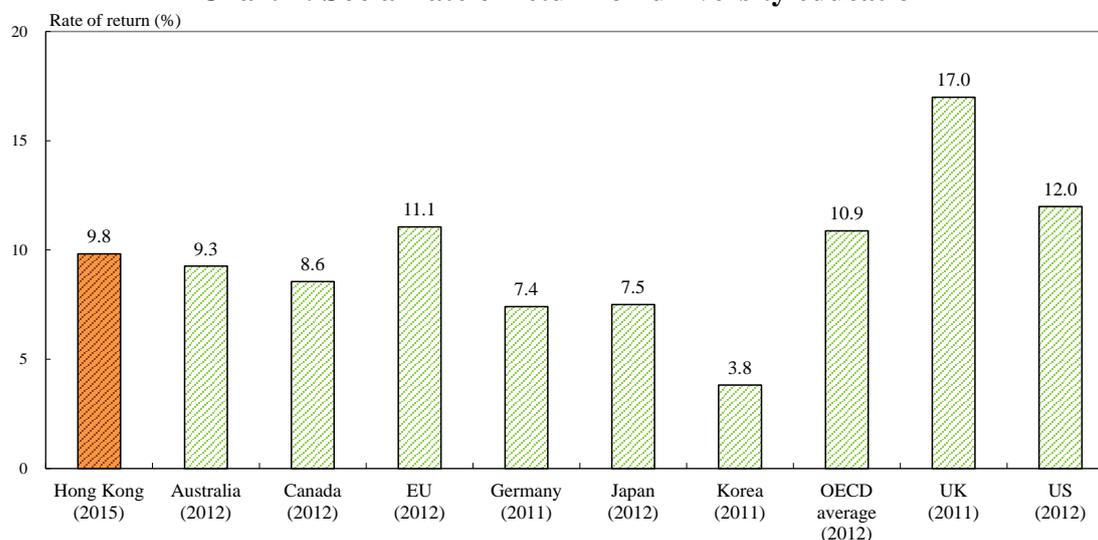
Investment in education is essential to upgrading our human capital. The quality of our workforce is ever more important in laying the foundation for Hong Kong's development as a knowledge-based economy, as well as for sustaining economic vitality through productivity enhancement when the size of our labour force is expected to dwindle amid an ageing population. This note focuses on the returns on attaining university education, as an update to an earlier article published in 2006⁽²⁾.

Drawing reference to the Organisation for Economic Co-operation and Development (OECD)'s "Education at a Glance" report, the returns on education are estimated by the internal rate of return (IRR) approach, where the IRR is the break-even rate of return that equates the future stream of benefits with the upfront costs invested in university education after discounting for time. The social and private IRR⁽³⁾ of Hong Kong are analysed below and benchmarked against other advanced economies⁽⁴⁾ to help gauge the returns on university education for our society as a whole and for private individuals.

Social return on university education

Under the IRR approach, Hong Kong's real social return on 3-year university education is estimated at 9.8% in 2015. This figure, which captures financial returns only, is generally in line with international norms as proxied by the OECD average for tertiary education (at 10.9% in 2012). When viewed across individual economies, Hong Kong's figure was somewhat lower than those of the US and the EU (at 11.1% to 12.0%), while notably ahead of those of Canada, Japan, Germany and Korea (at 3.8% to 8.6%) (*Chart 1*).

Chart 1: Social rate of return on university education



Notes: As the estimated returns from OECD (2016) are by sex, the above return for each selected economy and the OECD average is the simple average of the respective estimated returns to males and females.

Singapore's returns to tertiary education are not available from OECD; only the private rate of return is available from Singapore's Ministry of Manpower (see Chart 4).

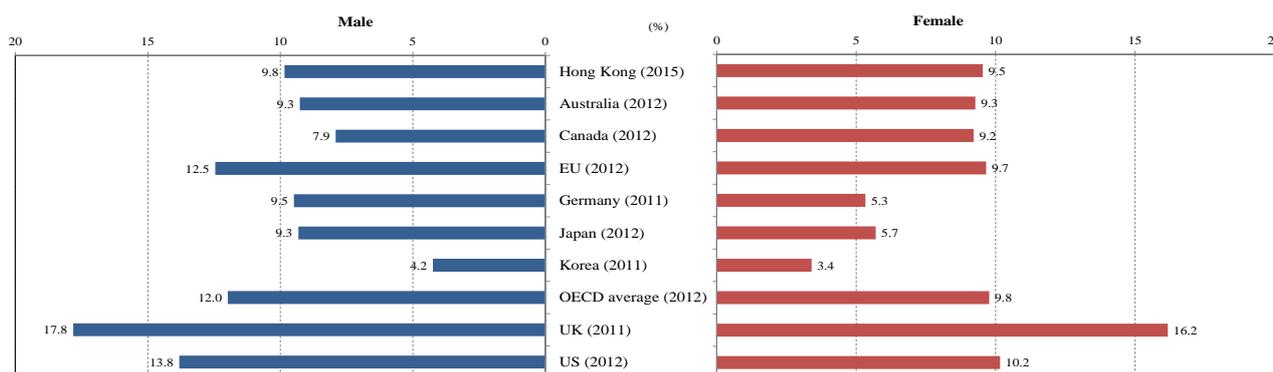
Sources: OECD: Education at a Glance 2016; Hong Kong: General Household Survey, Census and Statistics Department (C&SD), internal staff estimates.

- (1) In this article, "university education" covers publicly-funded 3-year first degree education for Hong Kong, and all levels of tertiary education for OECD economies. Hong Kong's first cohort of university graduates completing 4-year undergraduate programmes had not yet entered the labour force in 2015.
- (2) "Estimating the social rate of return of university education in Hong Kong", November 2006. [http://www.hkeconomy.gov.hk/en/pdf/Rate_ReturnU\(2006\).pdf](http://www.hkeconomy.gov.hk/en/pdf/Rate_ReturnU(2006).pdf)
- (3) In estimating the IRR for Hong Kong, private costs comprise the tuition fees and employment earnings foregone during university study whereas private benefits are the full-time after-tax earnings differential of university graduates over matriculation graduates; social costs include private costs as well as public resources from the University Grants Committee's funding and foregone rental value of campus premises, and social benefits include individuals' higher earnings.
- (4) The OECD no longer published the social return figures after 2005. The social rates of return on tertiary education for the OECD average and individual economies are roughly calculated as the average of the private and public rates of return weighted by the respective private and public costs of education as published by the OECD.

Box 5.1 (Cont'd)

Hong Kong also has a relatively narrow gender gap in its social return on university education, with male workers having a social rate of return on average of just 0.3 percentage point higher than their female counterparts. The corresponding figure for the OECD was 2.2 percentage points. Nevertheless, the situation varied across individual economies: whereas the social return on tertiary education for male workers in Japan, Germany and the US were more than 3 percentage points higher than that of their female peers, the gender gap was virtually non-existent in Australia. In Canada, the rate of return for female workers was even higher than the male rate of return (*Chart 2*).

Chart 2: Social rate of return on university education by gender



Sources: OECD: Education at a Glance 2016; Hong Kong: General Household Survey, C&SD, internal staff estimates.

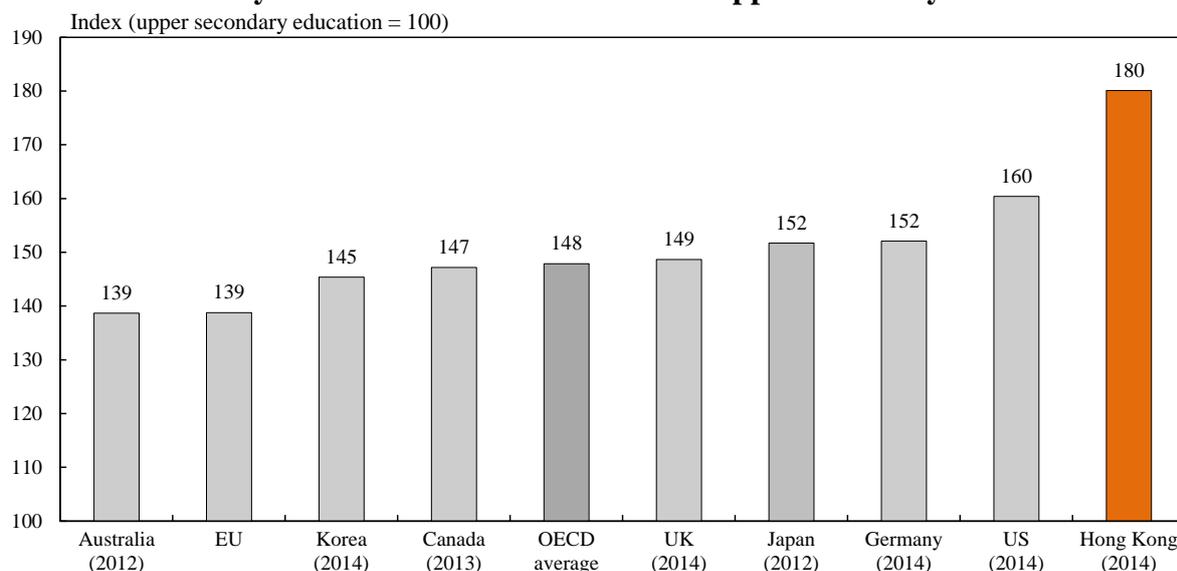
Private return on university education

In addition to the benefits conferred on society as a whole, the economic incentives for private individuals to pursue tertiary education are usually substantial. The earnings advantage for university graduates is especially appreciable in Hong Kong, with their average income being some 80% higher than that of workers with secondary education at the sixth form or above, far exceeding the earnings differentials in many advanced economies and the OECD average of 48% (*Chart 3*). Hong Kong's increasingly high value-added and knowledge-based economic activities could conceivably be a key motivation for employers to put a higher value on the enhanced productivity from workers with degree-level education. This income premium is also manifested in the attractive real private rate of return on university education for workers in Hong Kong, which at 17.7% in 2015 was well ahead of the private return on tertiary education of most of our peers (*Chart 4*).

In response to the alluring economic incentives to pursue higher education, the share of the labour force with a first degree or higher educational attainment increased notably from 11% in 1996 to 20% in 2006 and further to 30% in 2016. Looking ahead, the future trend of the earnings premium of university graduates will hinge on the effects of an increased supply of well-educated labour force; the Statutory Minimum Wage's ripple effect in bolstering the wages for the lower segment of the labour market; prevailing labour market conditions; and the persistent demand for skilled labour alongside the upgrading of the Hong Kong economy.

Box 5.1 (Cont'd)

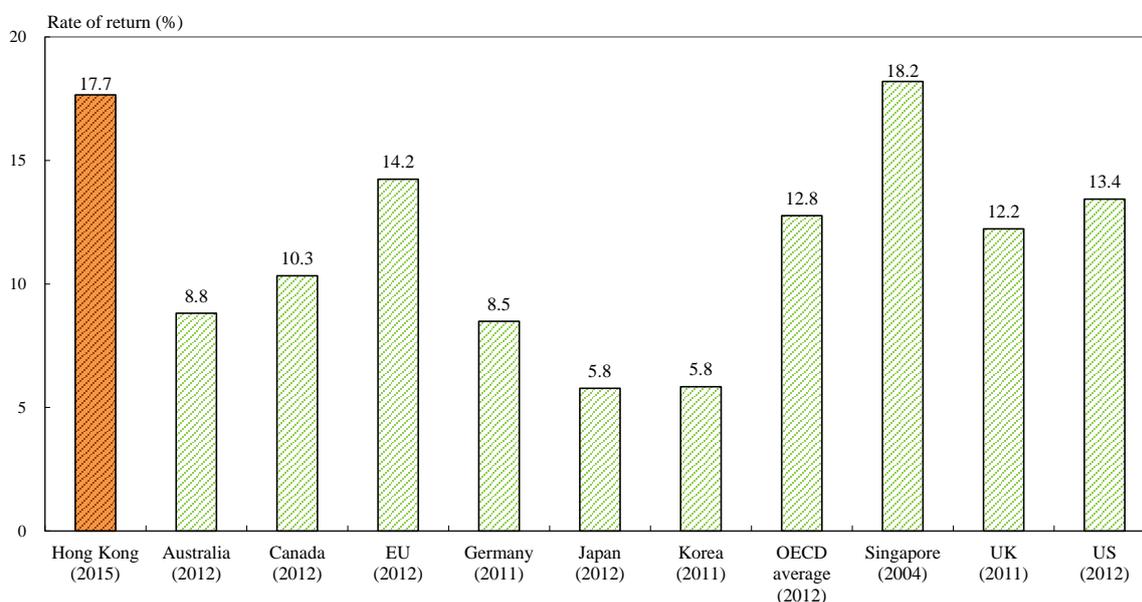
Chart 3: Full-time employment earnings of workers aged 25-64 with first degree university education relative to those with upper secondary education



Notes: The OECD (2016) report did not specify the reference years of the EU and the OECD average figures. Japan's data refer to all tertiary earners. In line with the estimation of IRR for Hong Kong in other parts of this article, Hong Kong's figure compares the full-time employment earnings of university graduates against matriculation graduates.

Sources: OECD Education at a Glance 2016; Hong Kong: General Household Survey, C&SD.

Chart 4: Private rate of return on university education



Notes: As the estimated returns from OECD (2016) are by sex, the above return for each selected economy and the OECD average is the simple average of the respective estimated returns to males and females. Singapore's figure is the simple average of the respective returns to Polytechnic diploma and University first degree levels to males and females.

Sources: OECD: Education at a Glance 2016; Singapore: Ministry of Manpower, "Premium on Fields of Study: The Returns to Higher Education in Singapore", January 2007; Hong Kong: General Household Survey, C&SD, internal staff estimates.

These forces consequently would be among the factors determining the private return on university education, the incentives to pursue higher education and the upward mobility for the next generation of talents in Hong Kong. There is a need to closely monitor the relevant developments and their implications for the local labour force.

Box 5.1 (Cont'd)

Policy measures

In view of the many aspirants for higher education and the increasing need for talents in the economy, the Government continued to invest heavily in education persistently over the past few decades, especially in terms of opening up more diversified pathways to tertiary education for our youths. Such measures include increasing the number of senior-year undergraduate places at University Grants Committee-funded institutions to offer more opportunities for students with sub-degree qualifications to access publicly-funded degree programmes; broadening educational options for youths through the Study Subsidy Scheme for Designated Professions/Sectors (SSSDP) starting from the 2015/16 academic year for designated full-time self-financing undergraduate programmes in selected disciplines to nurture talents for specific industries with keen manpower demand; and providing matching grants to help degree-awarding institutions tap more funding sources. In 2014, the Government launched the Hong Kong Scholarship for Excellence Scheme to support outstanding students wishing to pursue studies in world renowned universities outside Hong Kong; and in the same year, the Government also launched the Mainland University Study Subsidy Scheme to support students in financial need to pursue undergraduate studies in designated Mainland institutions.

The current-term Government has added further impetus to this effort by taking expedited actions to introduce a package of measures involving additional recurrent expenditure of about \$3.6 billion per year and covering different stages of the educational ladder. For tertiary education in particular, the Government has secured approval from the Legislative Council to launch a non-means-tested annual subsidy scheme in the 2017/18 academic year that provides \$30,000 per year for eligible students pursuing full-time locally-accredited local and non-local self-financing undergraduate (including top-up degree) programmes in eligible institutions in Hong Kong⁽⁵⁾ and \$5,000 per year for eligible students pursuing eligible undergraduate (including top-up degree) programmes in the Mainland. This non-means-tested annual subsidy scheme, estimated to immediately benefit about 39 000 students, signifies the Government's recognition of the importance of talent for Hong Kong's continued development.

Concluding remarks

A well-educated workforce is essential to meeting the keen demand for talents and consolidating Hong Kong's role as a world-class international business centre amid fierce global competition. Human capital is also a vital element for the sustainable development and competitiveness of Hong Kong in light of the challenges brought about by population ageing and a shrinking labour force. Hong Kong's generally favourable returns on attaining university education vis-à-vis other advanced economies indicate the significant benefits of investing in education both for society as a whole and for private individuals in pursuit of higher education. The Government will spare no effort on this front, with a view to providing more opportunities for our younger generations to realise their full potential, which will in turn bode well for Hong Kong's social and economic developments.

(5) Students enrolled in places already supported under the SSSDP are excluded.

Profile of employment in establishments

5.10 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only up to March 2017. To bring the analysis more up-to-date, attempts have been made wherever possible by drawing reference to information from supplementary sources.

5.11 Alongside the improving economic situation on entering 2017, growth in private sector employment picked up slightly in March 2017. Total employment in private sector establishments grew by 1.0% over a year earlier to 2 836 500, the fastest growth pace since September 2015. In terms of sectoral performance, employment in construction sites (covering manual workers only) (up 12.2% year-on-year), human health activities (up 3.9%), and professional and business services (excluding cleaning and similar services) (up 3.2%) continued to see appreciable growth. Meanwhile, a modest rebound in employment in consumption- and tourism-related sectors, such as retail (up 0.4%) and accommodation and food services (up 0.1%), was observed in the period amid the recovery in visitor arrivals and robust local consumption demand. On the other hand, more noticeable declines in employment were seen in the arts, entertainment and recreation sector (down 4.4% year-on-year) as well as the manufacturing sector (down 3.4%), the latter of which remained on a secular downtrend. Analysed by establishment size, employment in large enterprises and the small and medium-sized enterprises (SMEs)⁽⁷⁾ grew by 1.6% and 0.4% year-on-year respectively. As for the civil service, employment grew by 0.9% year-on-year in March 2017.

Table 5.6 : Employment by major economic sector

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

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

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

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

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

() % change over a year earlier.

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

§ Change less than 0.05%.

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

Vacancies

5.12 Benefiting from the strengthening labour demand, the number of job vacancies in private sector establishments stabilised in March 2017, at 70 460 and 0.2% higher than a year earlier, after declining on a year-on-year basis for seven consecutive quarters.

5.13 Diverse movements in vacancy number were seen across different economic sectors. Import and export trade (up 10.9% year-on-year), and accommodation and food services (up 5.7%) sectors posted particularly notable improvements, driven by the pick-up in trade flows and stabilisation of inbound tourism. At the same time, the number of vacancies in the information and communications (up 6.6%), transportation, storage, postal and courier services (up 4.9%), and financing and insurance (up 3.9%) sectors arrested their earlier declines and recorded appreciable growth in March 2017. As for most of the other sectors, the down-drift in vacancies narrowed by various extents, yet more noticeable declines in job openings were seen in construction sites (covering manual workers only) (down 40.8%) and the manufacturing sector (down 11.0%). Nevertheless, the former conceivably partly reflected that the previous job openings had been gradually filled, as reflected by the strong employment growth over the same period. In terms of occupational category, vacancies in the higher-skilled segment reverted to a visible year-on-year increase of 18.3% after recording year-on-year declines throughout the four quarters in 2016, while those in the lower-skilled segment fell further by 6.2%. Nevertheless, within the lower-skilled segment, the number of vacancies for elementary occupations rebounded by 2.4% year-on-year in March 2017, after recording noticeable declines for three quarters in a row. Analysed by the size of establishments, vacancies in large enterprises went up by 0.9% year-on-year after recording six straight quarters of decline. Meanwhile, a narrower decline of 0.7% was recorded for SMEs. As for the civil service, the number of job openings went up further by 7.1% year-on-year to 8 660 in March 2017.

5.14 Amid the fall in the number of unemployed workers and the stabilisation of vacancy number, the ratio of job vacancies per 100 unemployed persons picked up, to 56 in March 2017 from 54 a year earlier. More specifically, the ratio for the higher-skilled segment increased to 79 from its year-ago level of 66, while that of the lower-skilled segment edged up from 56 to 57 over the same period. Analysed by economic sector, manpower shortage remained apparent in the real estate, residential care and social work services, and human health services sectors in March 2017, for which the corresponding ratios far exceeded 100.

Table 5.7 : Vacancies by major economic sector

	<u>Number of vacancies</u>						<u>Vacancy rate in Mar 2017 (%)</u>	
	<u>Annual average</u>	<u>2016</u>						<u>2017</u>
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>		
Import/export trade and wholesale	6 990 (-10.5)	6 920 (-23.1)	6 940 (-15.4)	7 030 (-7.5)	7 070 (9.7)	7 530 (8.8)	1.4	
Retail	7 600 (-8.7)	7 660 (-10.5)	7 100 (-15.9)	8 280 (-0.9)	7 370 (-7.2)	7 540 (-1.6)	2.7	
Accommodation ^(a) and food services	13 140 (-10.0)	12 930 (-16.4)	13 040 (-13.9)	13 230 (-9.4)	13 360 (1.2)	13 670 (5.7)	4.6	
Transportation, storage, postal and courier services	3 240 (-11.0)	3 440 (-13.2)	3 290 (-19.1)	3 210 (-6.8)	3 040 (-2.0)	3 600 (4.9)	2.0	
Information and communications	2 640 (-5.7)	2 550 (-13.0)	2 470 (-0.3)	2 830 (7.9)	2 710 (-14.4)	2 720 (6.6)	2.5	
Financing, insurance, real estate, professional and business services	17 790 (-5.3)	18 400 (0.2)	18 020 (-4.1)	17 670 (-4.9)	17 070 (-12.2)	18 620 (1.2)	2.5	
Social and personal services	14 040 (-11.1)	14 280 (-8.6)	14 260 (-17.5)	14 210 (-9.9)	13 410 (-7.8)	13 460 (-5.7)	2.6	
Manufacturing	2 330 (-14.2)	2 880 (-3.5)	2 280 (-16.2)	2 100 (-22.1)	2 070 (-16.4)	2 570 (-11.0)	2.6	
Construction sites (manual workers only)	740 (-7.4)	960 (8.8)	550 (-41.6)	590 (-16.6)	850 (29.7)	570 (-40.8)	0.5	
<i>All establishments surveyed in the private sector^(b)</i>	<i>68 750 (-9.1)</i>	<i>70 300 (-10.0) <-7.1></i>	<i>68 200 (-13.0) <-3.9></i>	<i>69 340 (-7.1) <4.8></i>	<i>67 140 (-5.8) <0.4></i>	<i>70 460 (0.2) <-0.6></i>	<i>2.4</i>	
<i>Civil service^(c)</i>	<i>8 640 (4.7)</i>	<i>8 090 (3.3)</i>	<i>8 900 (10.8)</i>	<i>8 740 (2.4)</i>	<i>8 820 (2.6)</i>	<i>8 660 (7.1)</i>	<i>4.9</i>	

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

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

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

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

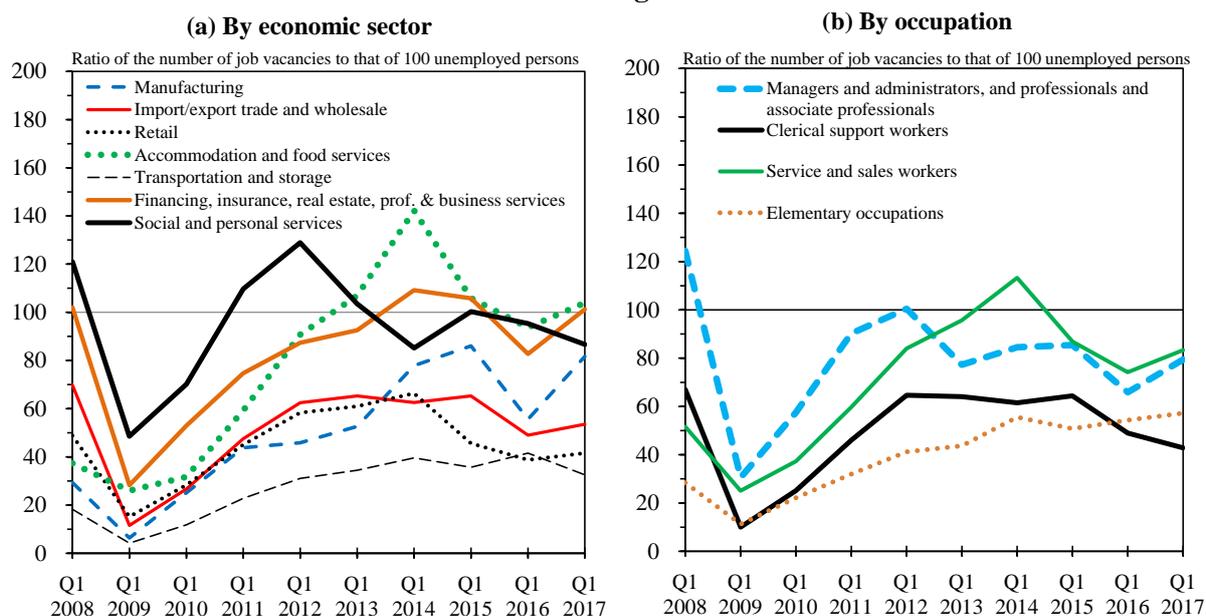
() % change over a year earlier.

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

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

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

Diagram 5.5 : Manpower resource balance showed signs of tightening on entering 2017



5.15 The vacancy rate for private sector establishments, measured in terms of the percentage of job vacancies to total employment opportunities, edged up by 0.1 percentage point from 2.3% in December 2016 to 2.4% in March 2017, which was on par with its year-ago level. Year-on-year changes across major economic sectors were generally small in magnitude, though a relatively visible increase was seen in the food and beverage services sector, while a more discernible decrease was observed in the construction sites (covering manual workers only).

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 in the second quarter of 2017 averaged at around 113 000 per month, still a relatively high level, suggesting that the overall hiring sentiment in the private sector remained generally positive in the second quarter.

Wages and earnings

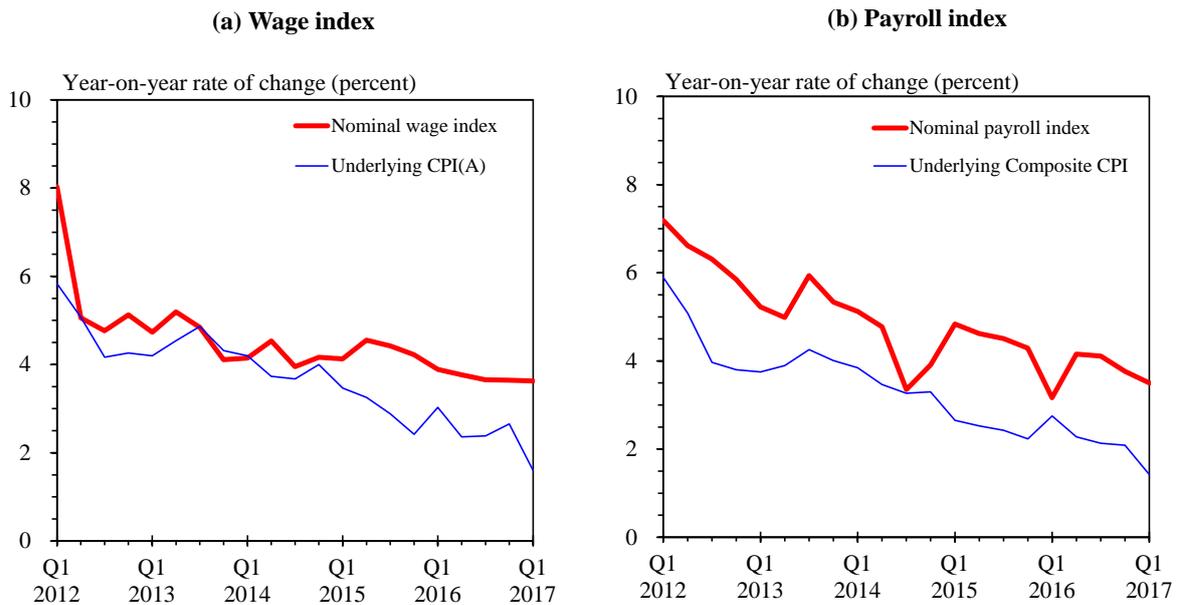
5.17 Nominal wages continued to post broad-based increases in March 2017, benefiting from the generally tight labour market. Wages of lower-paid workers sustained particularly appreciable growth. The *wage index*, which covers regular payment to employees at the supervisory level or below, rose in nominal terms by 3.6% year-on-year in March 2017, far exceeding the underlying CPI(A) inflation of 1.6% in the same month⁽⁸⁾, pointing to a notable real improvement.

5.18 Analysed by sector, nominal wages in the professional and business services (up 4.9%), accommodation and food service activities (up 4.5%), and personal services (up 4.4%) sectors showed relatively larger gains in March 2017. Analysed by occupation, more visible wage gains were observed in service workers (up 4.9%) and miscellaneous non-production workers (up 4.6%).

5.19 *Labour earnings*⁽⁹⁾, as measured by the index of payroll per person engaged in the private sector, including overtime pay, discretionary bonuses and other irregular payments, stayed on the rise in the first quarter of 2017 at a broadly similar pace of 3.5% year-on-year. The payroll growth was also way above the underlying Composite CPI inflation of 1.4% over the same period, hinting at an appreciable overall earnings growth in real terms.

5.20 The growth in nominal payroll likewise remained broad-based in the first quarter of 2017. Apart from the more distinct rises in nominal earnings observed in the social and personal services (up 4.6%), real estate activities (up 4.2%), and professional and business services (up 4.1%) sectors, steady increases in payroll were recorded in the consumption- and tourism-related segment, viz. the accommodation and food service activities (up 3.9%) and retail trade (up 2.6%) sectors due to the gradual improvement in the business environment of the segment.

Diagram 5.6 : Nominal wages and earnings stayed on the rise on entering 2017



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

5.21 More recent statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, revealed that the average monthly employment earnings⁽¹⁰⁾ of full-time employees (excluding foreign domestic helpers) engaged in elementary occupations continued to grow solidly, by 5.8% in the second quarter of 2017 over a year earlier, translating into a real increase of 3.4% after discounting inflation. For the overall income situation, the median monthly household income (excluding foreign domestic helpers) went up by 4.0% in the second quarter over a year earlier, also exceeding the concurrent consumer price inflation and pointing to real improvement. The upward adjustment of the SMW rate in May 2017 is expected to render further support to the earnings situation of grassroots workers over the coming months.

Box 5.2

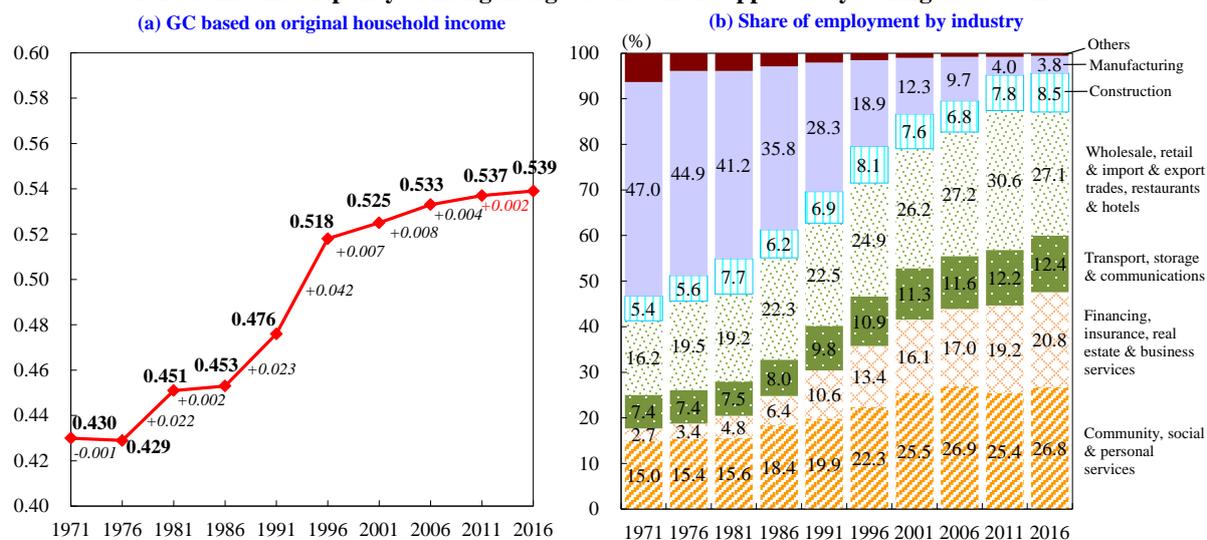
The Gini Coefficients of Hong Kong in 2016 : trends and interpretations

The latest set of Gini Coefficients⁽¹⁾ (GCs) of Hong Kong, a common measure of income disparity, was recently released by the Census and Statistics Department (C&SD) based on household income data from the 2016 Population By-census. This box article analyses the trend of GC in the light of past socio-economic and demographic developments⁽²⁾.

Trend of GC (based on original household income) in longer-term perspective

The longest series of GC available (1971 - 2016) is compiled based on original household income. Although the series does not reflect the total impact from Government's various income redistributive measures, it still provides valuable information on how the situation has evolved over a longer period of time (*Chart 1a*).

Chart 1: Income disparity of Hong Kong widened more appreciably during the 80s and 90s



Notes: Figures in italics denote the absolute period-to-period change of GC. Figures on employment by industry for 2011-16 are compiled based on the Hong Kong Standard Industrial Classification (HSIC) Version 2.0 while figures for 2006 and before are compiled based on the industry classification modeled on HSIC Version 1.1. As such, figures for 2011 and onwards may not be strictly comparable with those for previous years.

Sources: Census / By-Census 1971 - 2016 and various issues of the Thematic Report on Household Income Distribution in Hong Kong, C&SD.

Specifically, the GC stood at around 0.430 in the 1970s, and went up since the 80s, with a marked acceleration between 1986 and 1996. On entering the millennium, the increase of GC moderated considerably. Corresponding to the rapid rise in GC during the 80s and 90s, two concurrent developments are noteworthy:

- **Inflow of immigrants:** the huge inflow of immigrants from the Mainland before 1980s brought about an abrupt increase in total population. Despite being a fresh source of manpower supporting the fast economic growth of Hong Kong, the group of arrivals, usually confined to low-paying jobs given their relatively low education / skill levels, inevitably increased the number of low-income households. This plausibly explains the jump of GC during 1976 - 81, as well as the acceleration during the 80s and 90s.
- **Economic restructuring:** starting from the 80s, Hong Kong underwent rapid transformation towards a high value-added and knowledge-based economy, in tandem with the Mainland's open-door policy and economic reforms as well as the worldwide developments in globalisation. This process was manifested in a visible reduction in manufacturing jobs and an even more marked rise in services employment. The profound structural change was particularly noticeable during the 80s and 90s. As shown in *Chart 1b*, the share of employment in manufacturing shrank from 35.8% in 1986 to 18.9% in 1996, while that of financing, insurance, real estate and business services surged from 6.4% to 13.4%.

(1) GC is a summary indicator commonly used to analyse income disparity. Its value ranges from 0 to 1, and the higher the GC, the more the disparity it implies.

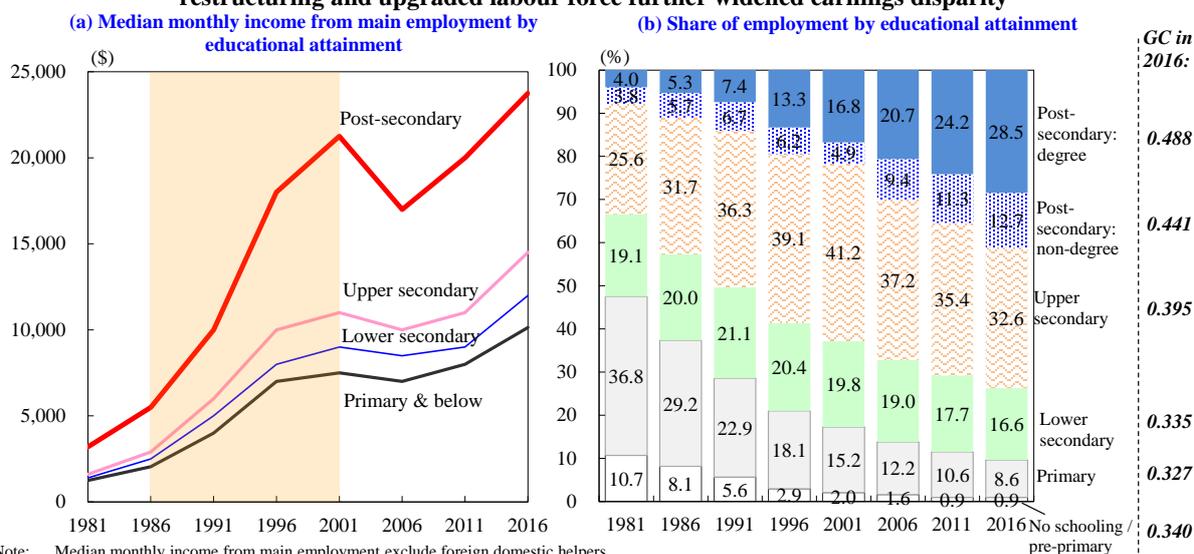
(2) This box article provides an update to the results reported in *Box 5.2 in Half-yearly Economic Report 2012*.

Box 5.2 (Cont'd)

As the economic transformation proceeded in full steam, higher-skilled jobs blossomed amid rapid developments of financial and other professional services. With acutely keen demand for better-educated and skilled workers, there were generally larger income increases for workers at the upper segment than those at the lower segment, as also evident by the widened income gap between groups of workers by educational attainment during the 80s and 90s (*Chart 2a*).

Moreover, the more acute demand / supply imbalance at the higher-skilled occupation level and the heterogeneity in skill demand amongst the high-pay jobs led to greater income disparity among the highly educated workers (i.e. higher GCs of earnings within these higher-educated groups) (*Chart 2b*), in contrast to the 1970s when the skill requirements were generally more homogenous in nature and their pay / rank hierarchy more simple. These trends have led to increased disparity in earnings over time.

Chart 2: Increasing demand for talents with better educational attainment in tandem with economic restructuring and upgraded labour force further widened earnings disparity



Note: Median monthly income from main employment exclude foreign domestic helpers.

Sources: Census / By-Census 1981 - 2016 and various issues of the Thematic Report on Household Income Distribution in Hong Kong, C&SD.

Despite the jump in GC during 1981 - 96 (from 0.451 to 0.518), it is worth mentioning that amidst the robust economic growth, all segments of the society were able to enjoy visible real improvement in incomes, albeit at different pace. Over 1981 - 96, the median income of households in the bottom 3 income deciles gained cumulatively by 76% in real terms after discounting inflation, while that of the top 3 income deciles rose by a more hefty 92%.

Recent trends and intervening factors of household income disparity in Hong Kong

From the above analysis, it is noted that: (i) the trend of income disparity should not be seen as a short-term phenomenon, but a continuous development over time; and (ii) the GC, as a condensed single measure of income disparity, has its limitations in delineating the underlying causes which are related to different socio-economic and demographic factors.

An examination of the developments of structural factors over the recent two decades (1996 - 2016) indicates that, apart from the continued structural transformations of the economy and the labour market, demographic factors have emerged as a more prominent factor with increasing influence on the overall household income disparity in Hong Kong, including the accelerating population ageing and continued trend towards smaller-sized households:

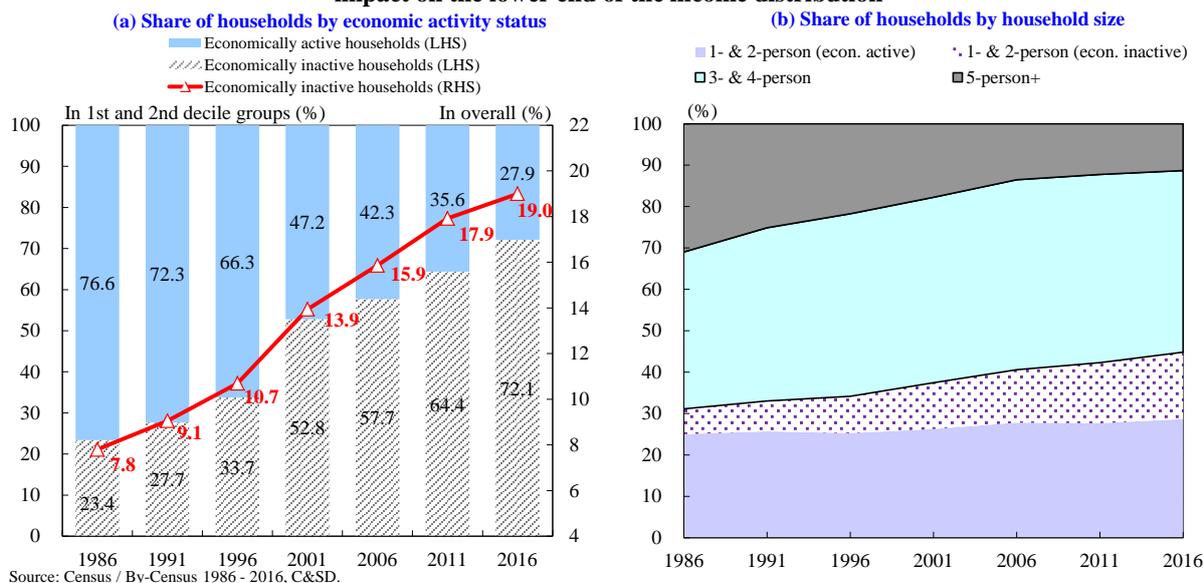
- **Population ageing:** the more rapid growth of retired elderly and economically inactive households with little or even no employment income has widened income disparity. Specifically, the share of economically inactive households increased notably to 19.0% in 2016 from 10.7% in 1996, which was largely attributable to the increase in economically inactive elderly households. Analysed by decile, it is observed that 72.1%

Box 5.2 (Cont'd)

of the households in the lowest two decile groups were economically inactive in 2016, up significantly from 33.7% in 1996 (*Chart 3a*).

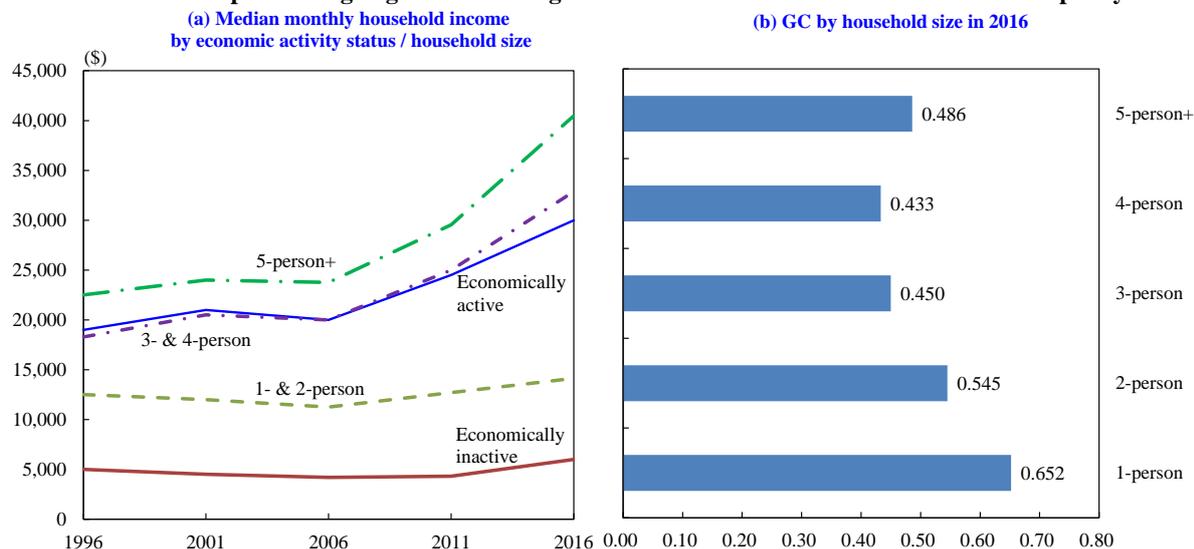
- Changing household composition towards smaller-sized families:** alongside population ageing, the tendency to remain single and a low fertility rate, family structure in our society has been shifting smaller in scale. From *Chart 3b*, the share of 1- and 2-person households rose to over 40% in 2016 from about 30% in the 80s and 90s, in tandem with the rise in economically inactive households among these smaller households. As household income depends partly on household size and in particular the number of working members, such trend would tend to pose a drag on household income in general.

Chart 3: The upsurge of economically inactive / elderly households amid population ageing would further impact on the lower end of the income distribution



The widening effects of the above factors on household income disparity could be illustrated in *Chart 4a*, which shows the widening income gap between the economically active and inactive households and that between the smaller and larger household groups. Besides, larger income dispersion with greater GC was generally seen within those smaller household groups, which registered higher shares of economic inactivity (e.g. in 2016, 48% and 28% of 1- and 2- person households were economically inactive respectively, much higher than the overall average at 19%) (*Chart 4b*). As such, the expected rising shares of these households amid population ageing would inevitably exert increasing upward pressure on overall income disparity down the road.

Chart 4: Population ageing and dwindling household size widened household income disparity



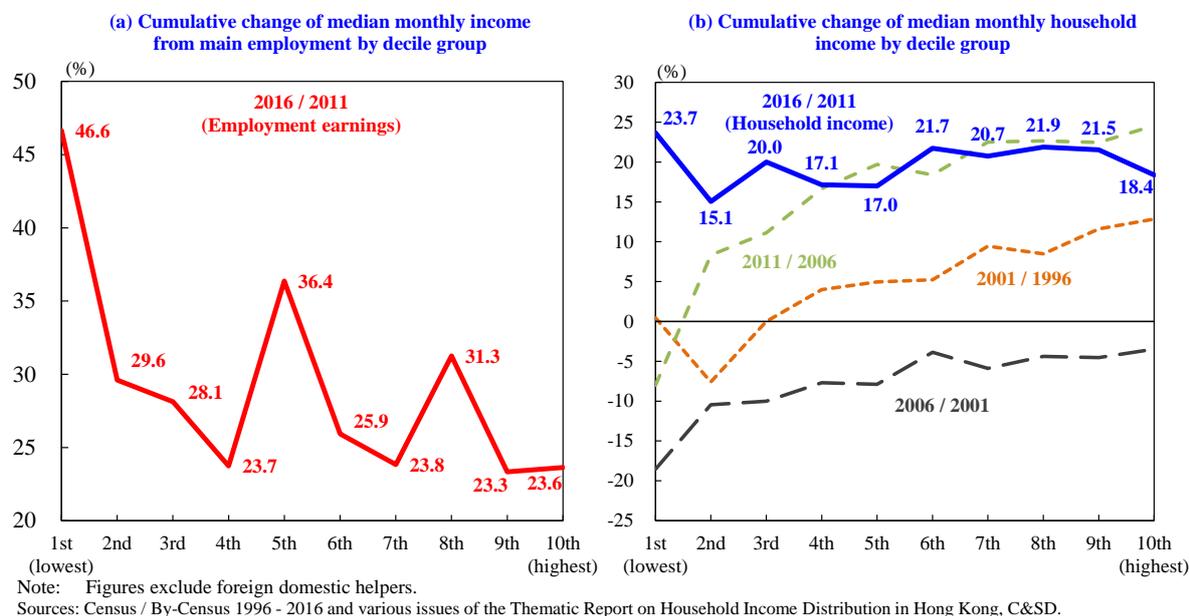
Box 5.2 (Cont'd)

In the more recent years, while structural factors such as population ageing and dwindling household size have exerted lifting effect on overall income disparity, favourable economic developments, a labour market in full employment, as well as the Government's cash policy interventions helped slow the widening income disparity trend to some extent. Indeed, the increase of GC based on original household income during 2011 - 16 (up 0.002 to 0.539) was the smallest over the past three decades. Specifically:

- **Narrowed employment earnings disparity:** thanks to the steady economic growth and a tight labour market with sturdy labour demand in lower-skilled jobs, together with the implementation of Statutory Minimum Wage (SMW) and subsequent up-ratings, the employment and income situations of grassroots workers enjoyed significant improvement. During 2011 - 16, the median employment earnings improved across all decile groups, with growth in the lowest two decile groups, at 46.6% and 29.6% respectively, significantly faster than the top two decile groups (*Chart 5a*).
- **Increased government cash benefits:** the cash social benefits by the Government to those in need, including the Old Age Living Allowance introduced in 2013 to support needy elders, further increased. The continued commitment by the Government is evidenced by the rise of recurrent expenditure on social welfare budgetted for 2017-18 to \$73.3 billion, up 71% in five years compared with that in 2012-13.

Summing up, the median household incomes of different decile groups all recorded double-digit cumulative increases, ranging from 15.1% to 23.7% over the past five years. As a result, the growth rates of household income during the latest 5-year period were less dispersed, in stark contrast to the trend seen in the previous rounds where income growth at the bottom deciles were persistently slower than those at the top (*Chart 5b*).

Chart 5: Improved earnings and increased government cash handouts helped narrow income disparity to some extent



Compilation of other GCs in reflecting the underlying situation

As the level and movement of the GC based on original household income are heavily affected by a host of socio-economic and demographic factors, C&SD has compiled different sets of GCs with a view to facilitating a more comprehensive analysis at different angles and for delineating the underlying income disparity situation (*Table 1*).

Box 5.2 (Cont'd)**Table 1: Different sets of GC for understanding the underlying situation of income disparity**

GC	1996	2001	2006	2011	2016
All households					
(1) Original household income	0.518	0.525	0.533	0.537	0.539
(2) Post-tax post-social transfer	0.466	0.470	0.475	0.475	0.473
<i>Difference (1-2)</i>	<i>0.052</i>	<i>0.055</i>	<i>0.058</i>	<i>0.062</i>	<i>0.066</i>
(3) Per capita	0.427	0.421	0.427	0.431	0.420
Economically active households					
(4) Original household income	-	0.488	0.490	0.489	0.482
(5) Post-tax post-social transfer	-	0.436	0.436	0.430	0.422
<i>Difference (4-5)</i>	<i>-</i>	<i>0.052</i>	<i>0.054</i>	<i>0.059</i>	<i>0.060</i>
(6) Per capita	-	0.412	0.412	0.413	0.401

Sources: Various issues of the Thematic Report on Household Income Distribution in Hong Kong, C&SD.

Taking into account the Government's income redistributive measures through taxation and in-kind social benefits (including education, housing and medical), the GC based on post-tax post-social transfer household income was 0.473 in 2016, improved moderately from 0.475 in 2011. It is worthy to note that it marked the first decline of this indicator since the series was compiled.

Comparing this GC with the original one provides a measure of the magnitude or effectiveness of the Government's policies in mitigating income disparity. In 2016, income redistribution by the Government reduced the GC based on original household income by 0.066. Comparing with past periods (e.g. 0.062 in 2011 and 0.058 in 2006), the greater reduction impact witnessed in 2016 reflected the increased strength and effectiveness of government policies in narrowing income disparity over time.

Discounting the effect of population ageing, the post-tax post-social transfer GC for the economically active households improved from 0.430 in 2011 to 0.422 in 2016. Also taking into account the change in household size, the corresponding per capita GC for economically active households improved more significantly, from 0.413 in 2011 to 0.401 in 2016.

Concluding remarks

Income disparity is a broad and complicated subject. The rise in GC based on original household income over the past four decades was attributable to various socio-economic and demographic factors at play. For example, the significant widening of household income disparity in the 80s and 90s was mainly due to the inflow of immigrants and the rapid transformation of our economy which brought about drastic changes in our labour market and earnings structures. Since the mid-90s, demographic factors such as an ageing population and a persistent decrease of household size have emerged with increasing drag on the lower end of the household income distribution up to 2016, thereby offsetting the favourable effects from reduced income disparity among the working households and from the Government's increased cash handouts in the latest 5-year period.

Analysed by different sets of GCs for a more thorough and meaningful comparison, it is worth noting that the income disparity situations have tended to stabilise or even improved slightly in 2016 after taking into account the Government's income redistributive measures as well as discounting the effects of population ageing and changing household size. The Government pays close attention to the income disparity situation and will continue the efforts to enable different strata of society to share the fruits of social and economic developments.

Highlights of labour-related measures and policy developments

5.22 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job-seekers on the spot. During January to June 2017, LD organised nine large-scale job fairs in North District, Mong Kok, Yau Tong, Tsim Sha Tsui and Wan Chai. 302 participating organisations offered over 21 600 vacancies from the retail, catering, property management, transport and other industries. There were also 16 training bodies joining the job fairs to introduce job training courses and receive applications on the spot. Apart from large-scale job fairs, district-based job fairs are organised at LD's Job Centres from time to time to assist job-seekers in finding employment. Recruitment activities are also staged by catering, retail and construction employers at the three industry-based recruitment centres regularly for interviewing job-seekers on the spot.

5.23 The SMW rate was raised by 6.2% from \$32.5 to \$34.5 per hour with effect from 1 May 2017. LD has organised extensive publicity activities to enhance awareness of the revised rate in the community and undertaken targeted enforcement actions to monitor employers' compliance with the new requirement.

5.24 The Standard Working Hours Committee (SWHC) submitted its report to the Government of the previous term on 27 January 2017 to put up recommendations on working hours policy direction. On 13 June 2017, the then Chief Executive in Council endorsed SWHC's report and its recommendations as a general framework for guiding future formulation of the working hours policy, and agreed to adopt suitable supportive measures to take forward SWHC's recommendations.

Notes :

- (1) Labour force statistics enumerated from the General Household Survey are statistics which involve the use of the population figures in the compilation process. The statistics of the three-month periods of May – July 2016 to October – December 2016 have been revised to take into account the final end-2016 population estimates.

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

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

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

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

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

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

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

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

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

CHAPTER 6 : PRICES

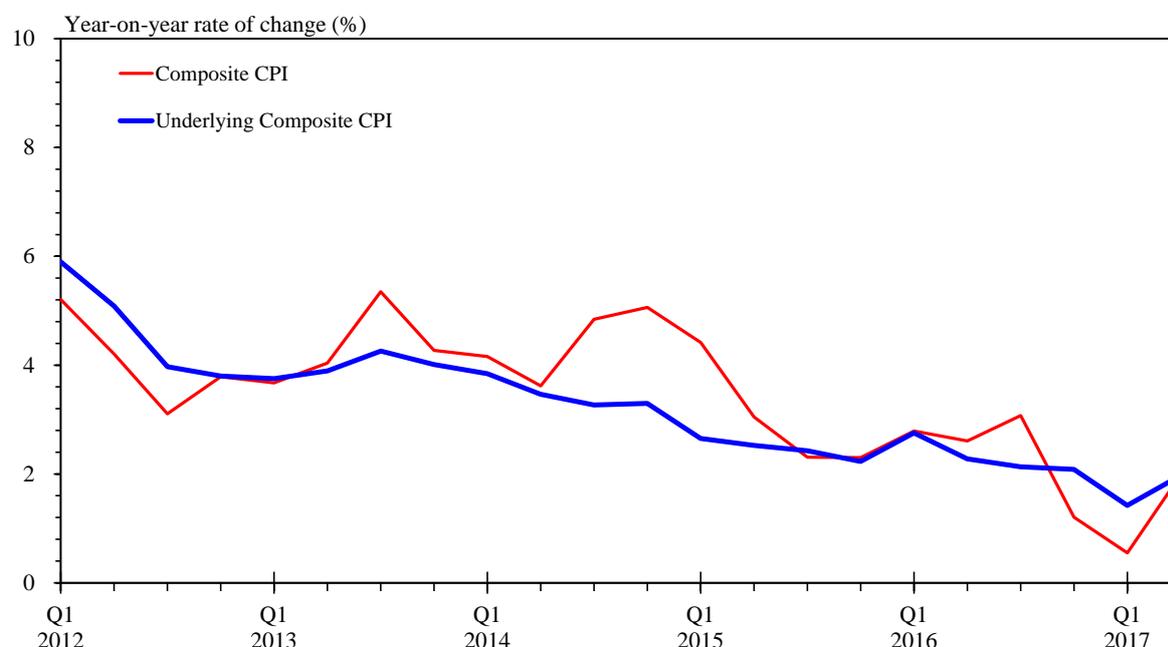
Summary

- *Consumer price inflation remained moderate in the first half of 2017, thanks to limited external price pressure and steady increase in local costs. 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 2.0% in the second quarter over a year earlier, higher than the 1.4% increase in the first quarter. As the temporary effect from the high base of comparison due to the weather-induced spikes in food prices in the early months last year dissipated, underlying consumer price inflation in the second quarter returned to levels that were more in line with the prevailing moderate price pressures in the economy. Over the same period, the headline Composite CPI inflation likewise ticked up from 0.5% to 2.0%.*
- *Local cost pressures remained largely contained. Increases in wages and earnings were largely steady in the first half of 2017. The slower increases in fresh-letting residential and commercial rentals in 2016 continued to feed through into the CPI inflation, notwithstanding the more discernible pick-ups in fresh-letting residential and commercial rentals in recent months.*
- *External price pressures were rather limited, thanks to low inflation in our major import sources, as well as the appreciation of the Hong Kong dollar alongside its US counterpart against many other currencies on a year-on-year basis. Overall import prices continued to show rather modest increase in the second quarter of 2017.*
- *Looking ahead, the upside risks to consumer price inflation should remain contained, as global inflation is likely to stay modest amid the steady expansion in the global economy. The increases in local costs should remain moderate in the near term, having taken into account that the feed-through of the higher fresh-letting rentals in recent months into the CPI inflation would only be a gradual process. The upward adjustment of the Statutory Minimum Wage level in May is expected to have limited impact on overall labour costs and hence on inflation.*

Consumer prices

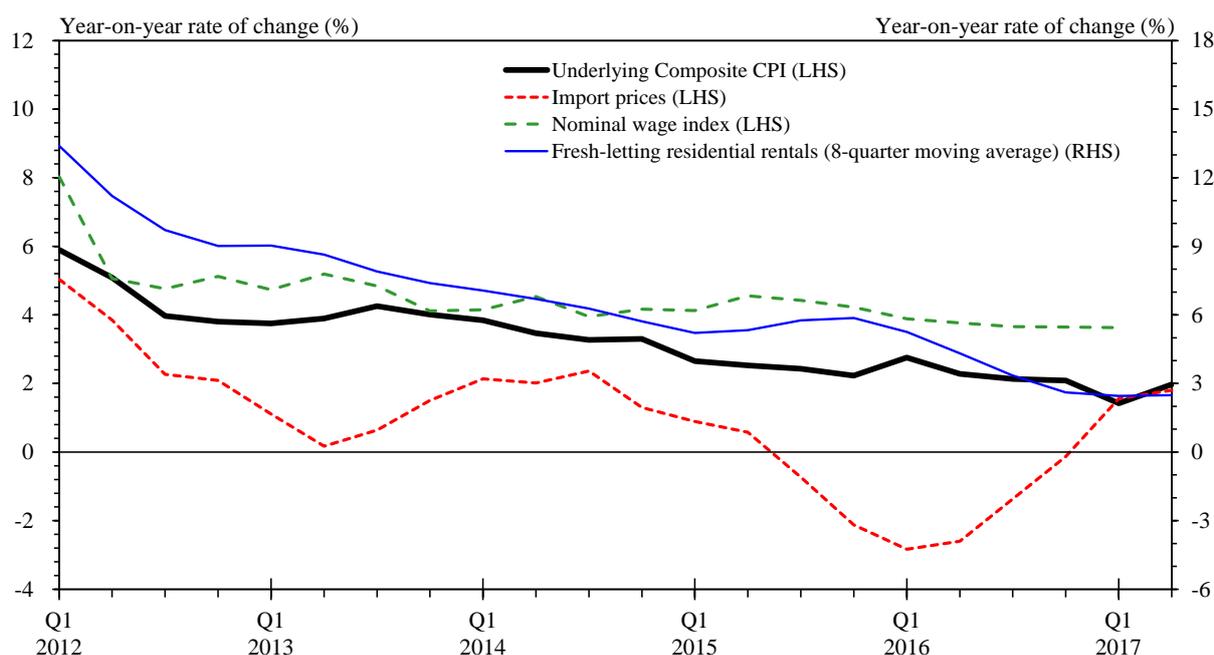
6.1 Inflation pressure stayed moderate during the first half of 2017. Import price pressures were tame, and local cost pressures remained stable. Domestically, labour costs sustained steady increases. While the fresh-letting residential and commercial rentals showed faster rises in recent months, the stabilising effect owing to their slower increases during 2016 continued to keep the rental cost pressures in the overall economy in check. Externally, inflation in many of Hong Kong's major import sources⁽²⁾ remained benign amid the steady expansion of the global economy. This, coupled with the strengthening of Hong Kong dollar against many major currencies on a year-on-year basis, helped contain import price pressures at a rather muted level.

Diagram 6.1 : Consumer price inflation remained moderate in the first half of 2017



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

Diagram 6.2 : Domestic cost pressures held stable while import price pressures remained limited



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, picked up from 1.4% in the first quarter to 2.0% in the second quarter. Over the same period, headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, likewise rose from 0.5% to 2.0%. As compared to the first quarter, both measures of consumer price inflation returned to levels that are more in line with the prevailing moderate price pressures in the economy in the second quarter, as the favourable effect from the high base of comparison due to the weather-induced spikes in food prices in the early months last year dissipated. The difference in timing of the Easter holidays, which fell in late March last year but mid-April this year, was also a contributory factor. In the case of the headline inflation, the pick-up in the second quarter also reflected the dampening effect of the rates concession on the headline rate in the first quarter. For the first half of 2017 as a whole, underlying and headline consumer price inflation averaged 1.7% and 1.3% respectively, easing further from the second half of 2016, when both measures averaged 2.1%.

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>			
2016	Annual	2.3	2.4	2.8	2.3	2.1
	H1	2.5	2.7	2.9	2.7	2.5
	H2	2.1	2.1	2.8	1.9	1.7
	Q1	2.8	2.8	3.1	2.8	2.5
	Q2	2.3	2.6	2.7	2.7	2.4
	Q3	2.1	3.1	4.5	2.6	2.2
	Q4	2.1	1.2	1.1	1.2	1.3
2017	H1	1.7	1.3	1.2	1.2	1.4
	Q1	1.4	0.5	0.1	0.6	0.9
	Q2	2.0	2.0	2.3	1.8	1.9
(seasonally adjusted quarter-to-quarter rate of change (%))						
2016	Q1	0.7	0.7	0.9	0.6	0.6
	Q2	0.2	-0.6	-1.4	-0.5	-0.1
	Q3	0.5	0.4	0.6	0.5	0.2
	Q4	0.7	0.7	1.0	0.6	0.6
2017	Q1	0.1	0.1	*	0.1	0.2
	Q2	0.7	0.7	0.6	0.6	0.8

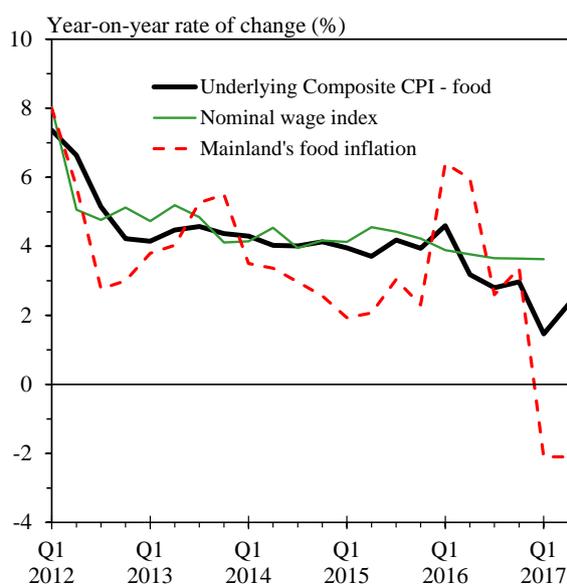
Notes : (a) Underlying consumer price inflation is calculated by netting out the effects of all relevant one-off measures introduced since 2007, including the waiver and Government's payment of public housing rentals, rates concession, suspension and subsequent abolition of Employees Retraining Levy,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

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

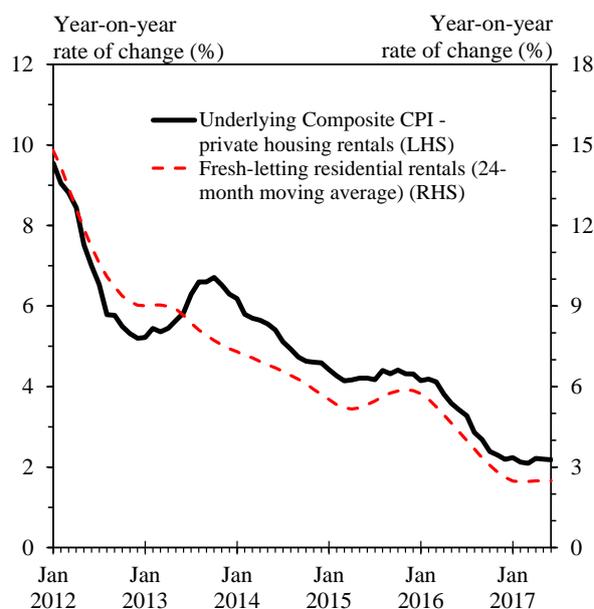
6.3 Analysed by major component of the underlying Composite CPI, inflation pressure was moderate on a broad front in the first half of 2017. Among major components, local food inflation (including costs of dining out) rose back somewhat to 2.3% in the second quarter from the relative trough of 1.5% in the first quarter, reflecting the dissipation of the favourable effect from the high base of comparison caused by the adverse weather conditions in the early months of last year. The price increase in the private housing rental component of the CPI remained moderate at 2.2% in the second quarter, just slightly above that of 2.1% in the first quarter, as the residential leases that took effect last year amid the softer fresh-letting rentals back then continued to keep the overall private residential cost pressure contained, notwithstanding the pick-up in fresh-letting rentals in recent months. Meanwhile, prices of miscellaneous services rose at a faster rate in the second quarter as compared to the first quarter, as the difference in timing of the Easter holidays (which fell in late March last year but in mid-April this year) depressed the year-on-year rate of change in the charges of package tours in the first quarter of 2017 and jacked up that in the second quarter. Prices of durable goods extended their secular downtrend. Prices of clothing and footwear also continued to decline, albeit at a slower rate.

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

(a) Food inflation rose back somewhat, but remained modest



(b) Rental inflation stayed moderate



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 remained moderate in many of the underlying Composite CPI components

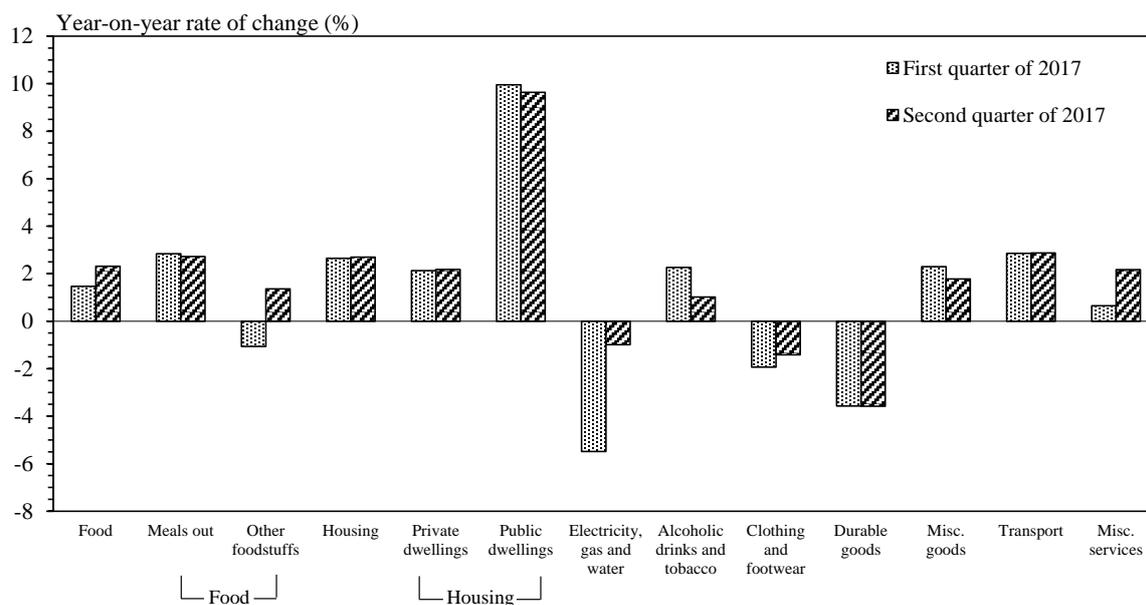
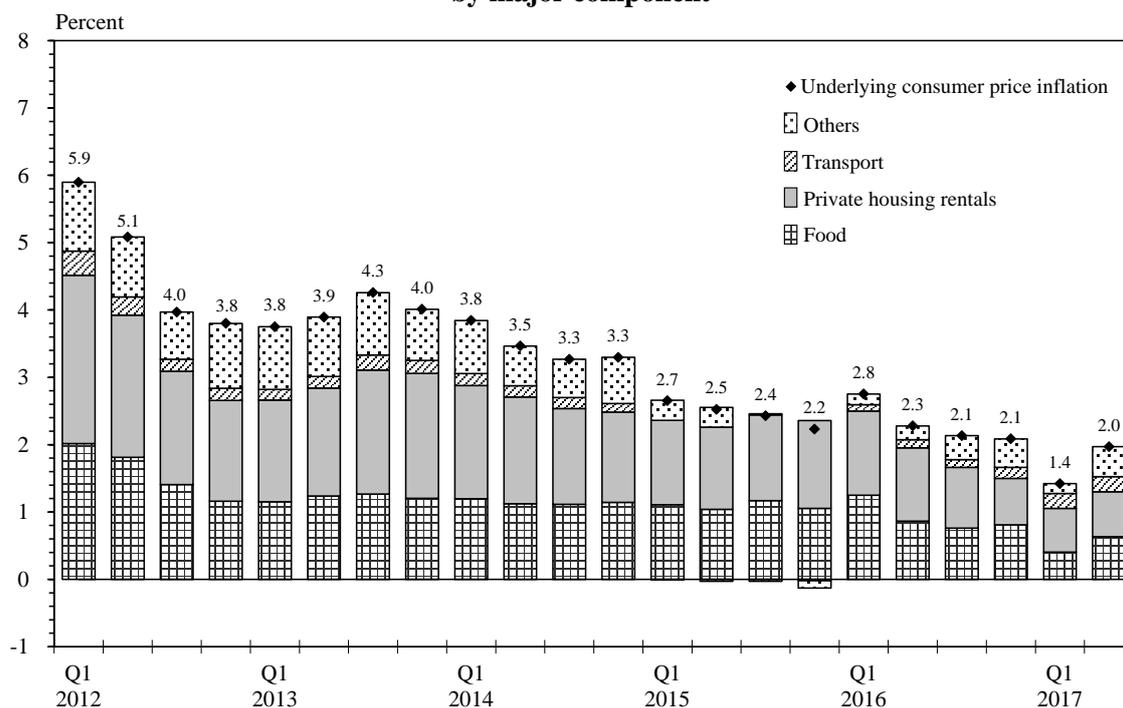


Diagram 6.4 (b) : Contribution to underlying consumer price inflation by major component



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

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

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

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

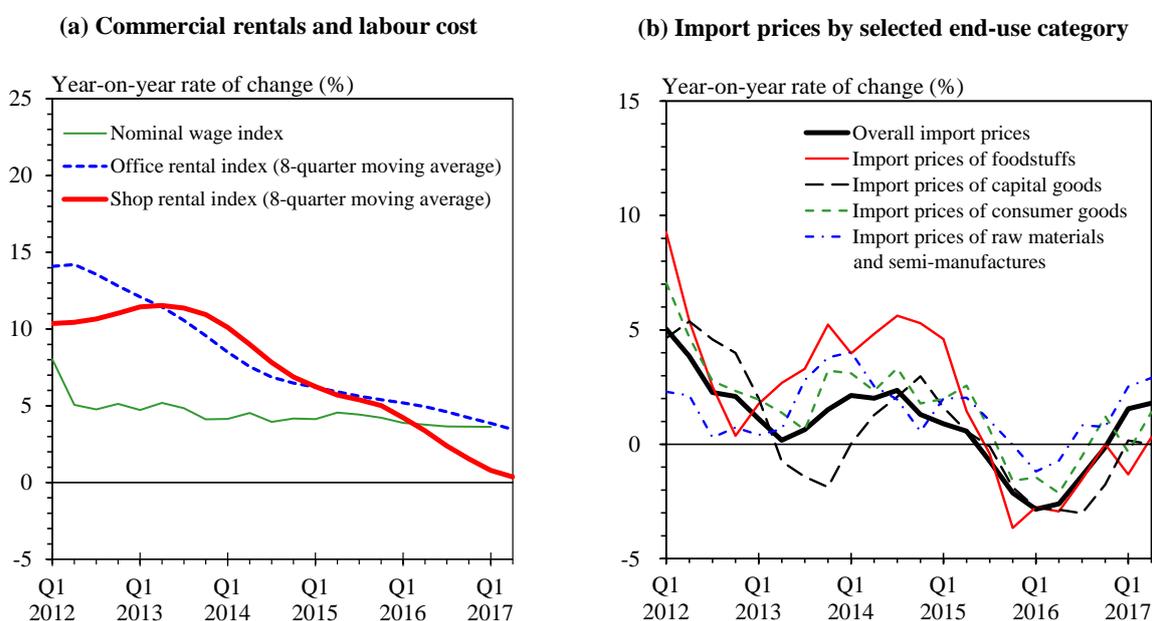
() Figures in brackets represent the headline rates of change before netting out the effect of Government's one-off relief measures.

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

Costs of factor inputs and import prices

6.4 Domestic costs continued to see moderate increase in the first half of 2017. Labour costs sustained steady increases in recent quarters. While the fresh-letting office and shop rentals rose further in recent months in tandem with the general improvement in overall business conditions, their year-on-year increases on an eight-quarter moving-average basis stayed on an easing trend in the first half of 2017. Separately, the impacts of the upward adjustment of the Statutory Minimum Wage level in May on overall labour costs and inflation are expected to be limited.

Diagram 6.5 : Local cost pressures were largely contained, while external price pressures stayed tame



6.5 External price pressures were rather limited, helped by the still-low inflation in our major import sources amid steady expansion in the global economy, as well as by the strength of the Hong Kong dollar along its US counterpart against many other currencies on a year-on-year basis. Overall import prices rose modestly by 1.8% from a year earlier in the second quarter, broadly the same as in the preceding quarter, giving an average increase of 1.7% for the first half of 2017 as a whole. Import price pressures were kept largely at bay across end-use categories in the second quarter. In particular, import prices of consumer goods, and raw materials and semi-manufactures rose modestly from a year ago by 1.4% and 2.9% respectively. Import prices of foodstuffs inched up by 0.3% over a year earlier, while import prices of capital goods were largely steady. Meanwhile, alongside the softer international oil prices in recent months, import prices of fuels showed a decelerated year-on-year increase of 19.8% in the second quarter.

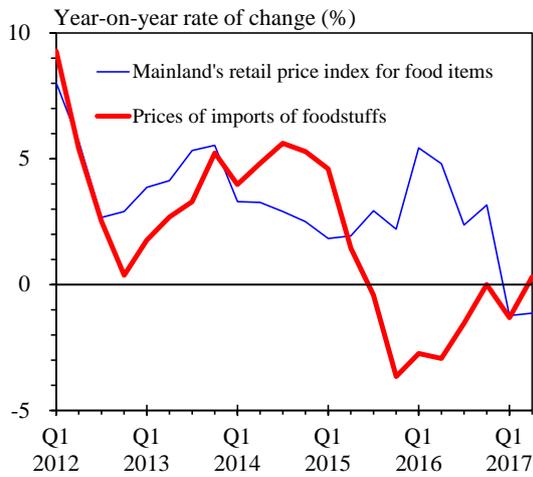
**Table 6.3 : Prices of imports by end-use category
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2016	Annual	-1.8	-0.7	*	-21.4	-2.6	-1.7
	H1	-2.9	-1.8	-0.9	-33.7	-2.8	-2.7
	H2	-0.7	0.3	0.8	-6.7	-2.4	-0.7
	Q1	-2.7	-1.4	-1.2	-39.2	-2.8	-2.8
	Q2	-2.9	-2.1	-0.7	-28.5	-2.9	-2.6
	Q3	-1.5	-0.5	0.8	-15.5	-3.0	-1.4
	Q4	*	1.2	0.8	3.1	-1.8	-0.1
2017	H1	-0.5	0.6	2.7	31.5	0.1	1.7
	Q1	-1.3	-0.3	2.5	46.1	0.2	1.6
	Q2	0.3	1.4	2.9	19.8	*	1.8

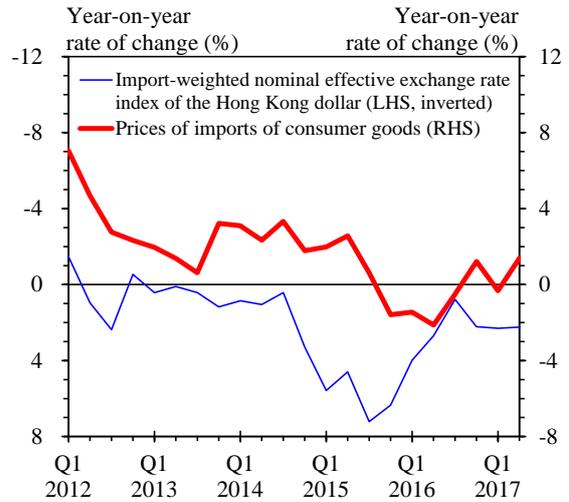
Note : (*) Change within $\pm 0.05\%$.

Diagram 6.6 : Import prices by end-use category

(a) Import prices of food edged up from a year earlier

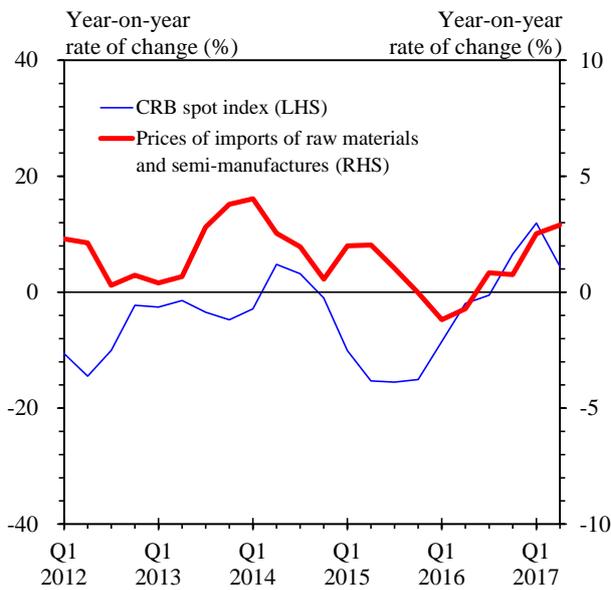


(b) Import prices of consumer goods resumed year-on-year increases

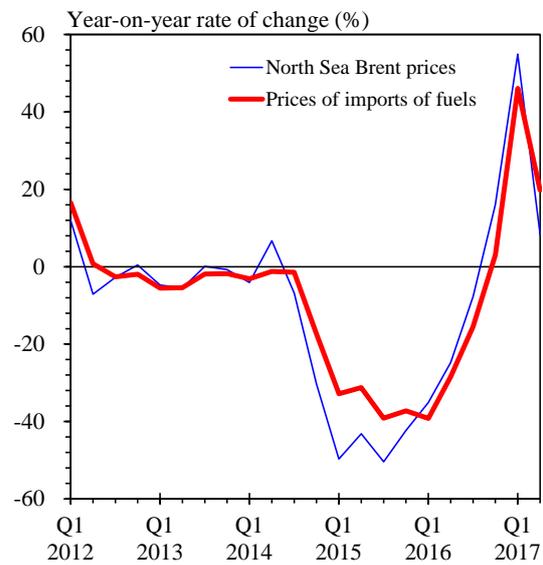


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Increase in import prices of raw materials and semi-manufactures stayed moderate



(d) Import prices of fuels saw narrower year-on-year increases



Output prices

6.6 Output prices, as measured by the *Producer Price Indices*⁽³⁾, mostly showed faster increases or narrower declines in the first quarter of 2017 as business conditions improved. For the manufacturing sector, output prices registered a slightly faster year-on-year increase. As for the selected service sectors, output prices for accommodation services climbed up further amid the recovery in visitor arrivals. Thanks to the strengthening global demand and the revival in regional trade flows, the fall-off in output prices for water transport and air transport narrowed notably, while the increases in output prices for land transport and courier services picked up from the preceding quarter. Meanwhile, output prices for telecommunications services stayed on its secular downtrend.

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

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

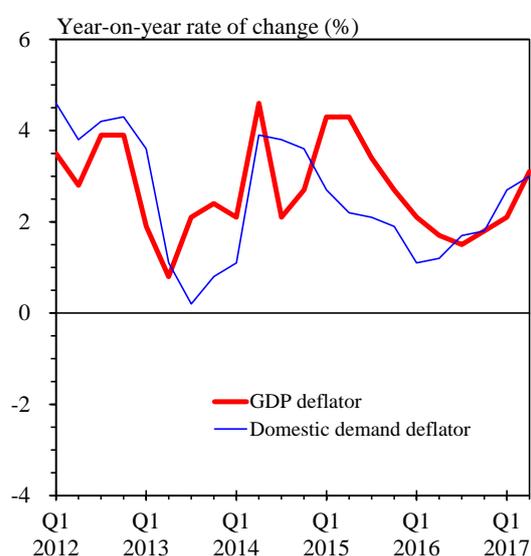
Note : (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the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

GDP deflator

6.7 As a broad measure of the overall change in prices in the economy, the year-on-year increase in *GDP deflator*⁽⁴⁾ picked up somewhat from 2.1% in the first quarter of 2017 to 3.1% in the second quarter. Within the GDP deflator, *terms of trade*⁽⁵⁾ held virtually unchanged in the second quarter over a year earlier. Taking out the external trade components, the year-on-year increase in domestic demand deflator was 3.0% in the second quarter, up from 2.7% in the first quarter.

Diagram 6.7 : GDP deflator

(a) GDP deflator rose faster alongside the pick-up in domestic demand deflator



(b) Terms of trade held virtually flat over a year earlier

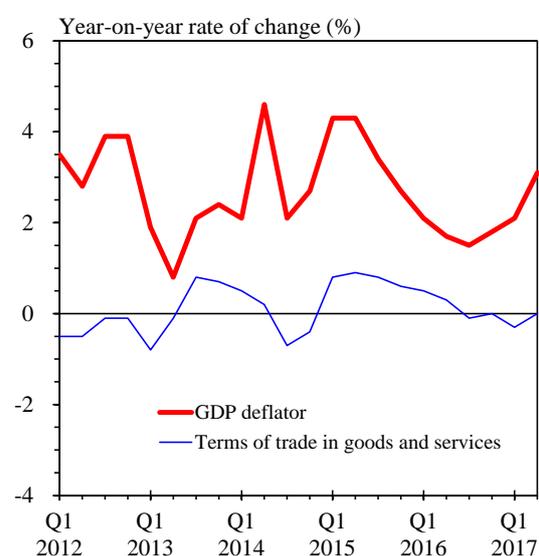


Table 6.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))

	2015		2016				2017	
	<u>Annual</u> [#]	<u>Annual</u> [#]	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [#]	<u>Q2</u> ⁺
Private consumption expenditure	1.2	1.6	1.1	1.5	2.1	1.8	2.0	2.3
Government consumption expenditure	4.4	3.8	3.8	3.7	3.9	3.7	3.4	2.3
Gross domestic fixed capital formation	4.5	0.1	-0.2	-0.8	-0.4	1.3	4.5	5.2
Total exports of goods ^{&}	-0.7	-1.4	-2.7	-2.4	-1.3	0.3	1.6	1.3
Imports of goods ^{&}	-1.4	-1.8	-3.4	-2.8	-1.4	0.3	1.9	1.4
Exports of services ^{&}	-2.8	-2.0	-4.0	-2.3	-1.2	-0.5	1.1	1.0
Imports of services ^{&}	-4.6	-1.4	-3.5	-1.6	0.1	-0.7	0.9	0.5
Gross Domestic Product	3.6	1.8	2.1	1.7	1.5	1.8	2.1	3.1
			<0.5>	<0.5>	<0.2>	<0.6>	<0.8>	<1.4>
Total final demand ^{&}	*	-0.5	-1.5	-1.2	-0.3	0.7	1.9	1.9
Domestic demand	2.2	1.5	1.1	1.2	1.7	1.8	2.7	3.0
Terms of trade in goods and services ^{&}	0.7	0.2	0.5	0.3	-0.1	*	-0.3	*

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

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

(#) Revised figures.

(+) Preliminary figures.

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

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

Notes :

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

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

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

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

<u>Expenditure component</u>	<u>Composite CPI</u> (%)	<u>CPI(A)</u> (%)	<u>CPI(B)</u> (%)	<u>CPI(C)</u> (%)
Food	27.29	34.37	26.26	20.85
<i>Meals bought away from home</i>	17.74	20.99	17.88	13.98
<i>Other foodstuffs</i>	9.55	13.38	8.38	6.87
Housing	34.29	33.77	35.24	33.60
<i>Private 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>2015</u>		<u>2016</u>				<u>2017</u>	
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Selected developed economies								
US	0.1	1.3	1.1	1.0	1.1	1.8	2.5	1.9
Canada	1.1	1.4	1.5	1.6	1.2	1.4	1.9	1.3
EU	*	0.3	*	-0.1	0.3	0.8	1.8	1.7
Japan	0.8	-0.1	*	-0.3	-0.5	0.3	0.3	0.4
Major emerging economies								
Mainland China	1.4	2.0	2.1	2.1	1.7	2.2	1.4	1.4
Russia	15.5	7.1	8.3	7.4	6.8	5.8	4.6	4.2
India	4.9	4.9	5.3	5.7	5.2	3.7	3.6	2.2
Brazil	9.0	8.7	10.1	9.1	8.7	7.0	4.9	3.6
Selected Asian economies								
Hong Kong	3.0	2.4	2.8	2.6	3.1	1.2	0.5	2.0
Singapore	-0.5	-0.5	-0.8	-0.9	-0.4	*	0.6	0.8
Taiwan	-0.3	1.4	1.7	1.3	0.7	1.8	0.8	0.6
Korea	0.7	1.0	0.9	0.8	0.7	1.5	2.1	1.9
Malaysia	2.1	2.1	3.4	1.9	1.3	1.7	4.3	4.0
Thailand	-0.9	0.2	-0.5	0.3	0.3	0.7	1.3	0.1
Indonesia	6.4	3.5	4.3	3.5	3.0	3.3	3.6	4.3
Philippines	1.4	1.8	1.1	1.5	2.0	2.5	3.2	3.1
Vietnam	0.6	2.7	1.3	2.2	2.8	4.4	5.0	3.3
Macao	4.6	2.4	3.7	2.6	1.8	1.4	0.9	0.9

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

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

Statistical Appendix

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

	(\$Mn)					
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Private consumption expenditure	982,368	1,026,482	1,013,615	1,090,234	1,224,402	1,314,969
Government consumption expenditure	138,967	148,017	152,512	157,371	168,517	185,310
Gross domestic fixed capital formation	340,356	350,796	339,552	386,852	455,294	517,411
Building and construction	111,776	127,312	123,746	139,249	179,341	204,860
Costs of ownership transfer	24,497	24,851	24,238	38,035	36,099	34,074
Machinery, equipment and intellectual property products	204,083	198,633	191,568	209,568	239,854	278,477
Changes in inventories	12,841	8,480	22,941	37,522	11,739	-3,662
Total exports of goods ^{&}	2,574,439	2,758,181	2,454,394	3,021,492	3,406,765	3,632,957
Imports of goods ^{&}	2,364,930	2,563,428	2,351,386	2,995,928	3,464,968	3,779,686
Exports of services ^{&}	502,775	544,358	501,303	625,719	710,716	764,026
Imports of services ^{&}	536,060	565,399	473,686	546,930	578,035	594,266
GDP	1,650,756	1,707,487	1,659,245	1,776,332	1,934,430	2,037,059
<i>Per capita GDP (\$)</i>	<i>238,676</i>	<i>245,406</i>	<i>237,960</i>	<i>252,887</i>	<i>273,549</i>	<i>284,899</i>
GNI	1,703,567	1,807,994	1,709,007	1,813,928	1,987,256	2,066,514
<i>Per capita GNI (\$)</i>	<i>246,312</i>	<i>259,851</i>	<i>245,096</i>	<i>258,240</i>	<i>281,019</i>	<i>289,019</i>
Total final demand	4,551,746	4,836,314	4,484,317	5,319,190	5,977,433	6,411,011
Total final demand excluding re-exports ^(a)	2,823,914	3,001,538	2,823,844	3,235,971	3,604,705	3,828,055
Domestic demand	1,474,532	1,533,775	1,528,620	1,671,979	1,859,952	2,014,028
Private	1,297,607	1,342,889	1,327,688	1,449,592	1,614,010	1,737,274
Public	176,925	190,886	200,932	222,387	245,942	276,754
External demand	3,077,214	3,302,539	2,955,697	3,647,211	4,117,481	4,396,983

Definition of Terms :

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

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

	(\$Mn)							
	<u>2013</u>	<u>2014</u>	<u>2015[#]</u>	<u>2016[#]</u>	<u>2016</u>		<u>2017</u>	
					Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Private consumption expenditure	1,413,058	1,502,768	1,593,227	1,648,082	400,391	435,447	421,462	446,244
Government consumption expenditure	198,572	214,216	231,261	248,085	62,118	62,931	67,457	63,014
Gross domestic fixed capital formation	515,516	530,916	537,228	536,155	135,706	152,813	131,942	145,878
Building and construction	211,130	244,047	262,791	278,550	68,755	75,897	74,660	74,089
Costs of ownership transfer	39,389	43,967	45,846	45,134	12,281	17,225	14,171	19,069
Machinery, equipment and intellectual property products	264,997	242,902	228,591	212,471	54,670	59,691	43,111	52,720
Changes in inventories	-1,673	7,473	-20,580	5,635	1,549	4,341	5,549	1,160
Total exports of goods ^{&}	3,926,059	3,986,769	3,889,225	3,900,462	1,025,058	1,097,702	942,108	994,019
Imports of goods ^{&}	4,142,651	4,237,700	4,066,527	4,036,909	1,036,803	1,121,390	1,000,454	1,062,893
Exports of services ^{&}	812,640	829,085	808,948	767,035	196,380	200,017	201,261	182,833
Imports of services ^{&}	583,216	573,522	574,345	577,544	148,189	153,274	140,866	143,220
GDP	2,138,305	2,260,005	2,398,437	2,491,001	636,210	678,587	628,459	627,035
<i>Per capita GDP (\$)</i>	<i>297,860</i>	<i>312,609</i>	<i>328,945</i>	<i>339,531</i>	--	--	--	--
GNI	2,178,824	2,306,612	2,442,813	2,575,114	651,533	698,030	648,259	N.A.
<i>Per capita GNI (\$)</i>	<i>303,504</i>	<i>319,056</i>	<i>335,031</i>	<i>350,996</i>	--	--	--	--
Total final demand	6,864,172	7,071,227	7,039,309	7,105,454	1,821,202	1,953,251	1,769,779	1,833,148
Total final demand excluding re-exports ^(a)	4,025,243	4,116,670	4,139,943	4,207,530	1,061,078	1,143,539	1,065,550	1,078,961
Domestic demand	2,125,473	2,255,373	2,341,136	2,437,957	599,764	655,532	626,410	656,296
Private	1,827,460	1,929,514	1,991,566	2,066,158	509,919	556,673	522,947	561,861
Public	298,013	325,859	349,570	371,799	89,845	98,859	103,463	94,435
External demand	4,738,699	4,815,854	4,698,173	4,667,497	1,221,438	1,297,719	1,143,369	1,176,852

- Notes: (a) Re-export margin is nevertheless retained in the total final demand.
 (#) Figures are subject to revision later on as more data become available.
 (&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.
 (--) Not applicable.
 N.A. Not yet available.

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

(%)

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

- Notes: (a) Re-export margin is nevertheless retained in the total final demand.
 (#) Figures are subject to revision later on as more data become available.
 (&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.
 (--) Not applicable.
 (*) Change within $\pm 0.05\%$.
 N.A. Not yet available.

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

	<u>2013</u>	<u>2014</u>	<u>2015[#]</u>	<u>2016[#]</u>	<u>2016</u>		<u>2017</u>		Average annual rate of change:	
					Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]	10 years 2006 to 2016 [#]	5 years 2011 to 2016 [#]
Private consumption expenditure	4.6	3.3	4.8	1.8	1.6	3.6	3.9	5.3	4.4	3.7
Government consumption expenditure	2.7	3.1	3.4	3.4	3.4	3.4	3.1	3.2	2.9	3.2
Gross domestic fixed capital formation	2.6	-0.1	-3.2	-0.3	7.2	5.6	5.9	8.0	2.4	1.1
Building and construction	-4.3	9.3	2.2	3.9	4.3	7.5	8.6	4.0	3.9	3.6
Costs of ownership transfer	-28.1	6.9	-8.3	-2.9	22.5	63.7	77.3	53.4	-4.3	-10.9
Machinery, equipment and intellectual property products	11.3	-8.7	-7.7	-4.6	7.6	-4.2	-8.6	4.6	1.7	-0.3
Total exports of goods ^{&}	8.2	0.8	-1.7	1.8	2.5	5.1	9.3	5.6	3.1	2.4
Imports of goods ^{&}	9.9	1.5	-2.7	1.1	3.1	5.6	10.0	6.2	4.5	2.8
Exports of services ^{&}	6.0	1.6	0.3	-3.2	-2.5	1.2	2.8	2.3	4.9	1.4
Imports of services ^{&}	-2.1	-2.2	5.0	2.0	0.8	2.0	0.9	3.5	0.7	0.9
GDP	3.1	2.8	2.4	2.0	2.0	3.2	4.3	3.8	2.9	2.4
<i>Per capita GDP</i>	<i>2.7</i>	<i>2.0</i>	<i>1.5</i>	<i>1.4</i>	--	--	--	--	2.2	1.6
RGNI	4.0	2.7	3.8	4.0	3.5	5.6	4.9	N.A.	2.9	2.8
<i>Per capita RGNI</i>	<i>3.6</i>	<i>1.9</i>	<i>2.9</i>	<i>3.3</i>	--	--	--	--	2.2	2.1
Total final demand	6.6	1.6	-0.4	1.5	2.6	4.5	7.2	5.2	3.6	2.5
Total final demand excluding re-exports ^(a)	4.2	0.6	0.1	1.5	2.7	3.5	4.6	4.5	3.2	1.9
Domestic demand	4.1	2.9	1.6	2.6	4.7	4.5	5.4	5.4	3.8	3.0
Private	4.1	2.6	1.3	2.6	5.2	4.0	5.1	5.9	3.7	2.8
Public	3.7	4.6	2.9	2.9	1.8	7.3	6.9	2.8	4.4	4.0
External demand	7.8	1.0	-1.4	0.9	1.6	4.5	8.1	5.0	3.4	2.3

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

	2011		2012		2013		2014		2015 [#]	
	\$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	26,716	1.1
Electricity, gas and water supply, and waste management	33,877	1.8	35,382	1.8	35,119	1.7	35,636	1.6	34,653	1.5
Construction	65,484	3.4	73,445	3.6	83,288	4.0	96,205	4.4	107,902	4.6
Services	1,770,166	93.1	1,872,498	93.0	1,948,292	92.9	2,044,750	92.7	2,154,603	92.7
<i>Import/export, wholesale and retail trades</i>	492,900	25.9	511,537	25.4	523,741	25.0	531,541	24.1	527,822	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	78,134	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	150,073	6.5
<i>Information and communications</i>	62,952	3.3	70,866	3.5	76,145	3.6	77,761	3.5	80,813	3.5
<i>Financing and insurance</i>	305,282	16.1	319,312	15.9	346,248	16.5	367,989	16.7	409,933	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	252,714	10.9
<i>Public administration, social and personal services</i>	313,585	16.5	337,678	16.8	356,326	17.0	379,588	17.2	407,467	17.5
<i>Ownership of premises</i>	195,005	10.3	208,036	10.3	219,166	10.4	232,053	10.5	247,648	10.6
GDP at basic prices	1,901,049	100.0	2,013,038	100.0	2,098,080	100.0	2,205,972	100.0	2,325,505	100.0
Taxes on products	69,401	--	63,575	--	75,314	--	83,236	--	95,433	--
Statistical discrepancy (%)	-1.9	--	-1.9	--	-1.6	--	-1.3	--	-0.9	--
GDP at current market prices	1,934,430	--	2,037,059	--	2,138,305	--	2,260,005	--	2,398,437	--

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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015[#]</u>	<u>2016[#]</u>	<u>2016</u>			<u>2017</u>
							Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Agriculture, fishing, mining and quarrying	0.8	-3.2	4.9	-6.0	-6.8	-2.9	-0.2	-3.5	-1.3	5.2
Manufacturing	0.7	-0.8	0.1	-0.4	-1.5	-0.4	-0.4	-0.1	-1.0	0.2
Electricity, gas and water supply, and waste management	0.6	1.4	-2.9	0.8	-2.6	0.3	0.2	0.6	-1.5	-3.3
Construction	18.3	8.3	4.2	13.0	5.4	2.6	0.8	3.0	7.6	8.6
Services	5.2	1.8	2.7	2.5	1.7	2.3	2.7	2.3	2.5	3.5
<i>Import/export, wholesale and retail trades</i>	<i>9.1</i>	<i>1.9</i>	<i>3.3</i>	<i>1.2</i>	<i>-1.1</i>	<i>0.4</i>	<i>0.9</i>	<i>0.8</i>	<i>1.7</i>	<i>3.9</i>
<i>Accommodation^(a) and food services</i>	<i>8.3</i>	<i>1.8</i>	<i>3.6</i>	<i>2.2</i>	<i>-1.9</i>	<i>0.1</i>	<i>1.0</i>	<i>0.1</i>	<i>0.2</i>	<i>1.6</i>
<i>Transportation, storage, postal and courier services</i>	<i>7.2</i>	<i>0.9</i>	<i>4.1</i>	<i>2.9</i>	<i>3.3</i>	<i>3.3</i>	<i>3.4</i>	<i>3.5</i>	<i>3.8</i>	<i>4.7</i>
<i>Information and communications</i>	<i>2.8</i>	<i>2.8</i>	<i>4.0</i>	<i>3.9</i>	<i>4.0</i>	<i>3.7</i>	<i>4.2</i>	<i>3.7</i>	<i>3.3</i>	<i>3.8</i>
<i>Financing and insurance</i>	<i>6.5</i>	<i>0.8</i>	<i>7.7</i>	<i>5.3</i>	<i>6.1</i>	<i>4.7</i>	<i>4.2</i>	<i>4.7</i>	<i>4.8</i>	<i>5.2</i>
<i>Real estate, professional and business services</i>	<i>2.6</i>	<i>3.1</i>	<i>-4.0</i>	<i>1.9</i>	<i>0.7</i>	<i>3.0</i>	<i>3.7</i>	<i>3.2</i>	<i>3.5</i>	<i>4.4</i>
<i>Public administration, social and personal services</i>	<i>1.8</i>	<i>2.1</i>	<i>2.5</i>	<i>2.4</i>	<i>2.5</i>	<i>2.7</i>	<i>3.3</i>	<i>2.5</i>	<i>2.3</i>	<i>2.5</i>
<i>Ownership of premises</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>0.5</i>	<i>0.6</i>	<i>0.7</i>	<i>0.9</i>
Taxes on products	-6.8	-10.4	-6.4	6.7	7.1	-9.0	-25.5	-6.3	24.2	21.0
GDP in chained (2015) dollars	4.8	1.7	3.1	2.8	2.4	2.0	1.8	2.0	3.2	4.3

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

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

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

	(\$Mn)								
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015[#]</u>	<u>2016[#]</u>		<u>2016</u>		<u>2017</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Current account ^(a)	32,151	32,475	31,453	79,553	115,519	14,966	46,548	36,764	16,930
Goods	-146,729	-216,592	-250,931	-177,302	-136,447	-57,448	-11,745	-23,688	-58,346
Services	169,760	229,424	255,563	234,603	189,491	39,328	48,191	46,743	60,395
Primary income	29,455	40,519	46,607	44,376	84,113	38,422	15,323	19,443	19,800
Secondary income	-20,336	-20,876	-19,786	-22,124	-21,638	-5,337	-5,221	-5,734	-4,919
Capital and financial account ^(a)	-67,664	-86,308	-73,785	-128,642	-122,822	8,918	-75,890	-66,102	12,087
Capital account	-1,433	-1,609	-748	-216	-362	-57	-48	-185	-59
Financial account	-66,231	-84,699	-73,037	-128,426	-122,460	8,975	-75,842	-65,917	12,146
Financial non-reserve assets	122,658	-26,810	66,052	153,570	-113,605	-7,116	-77,793	-44,265	57,455
<i>Direct investment</i>	-102,623	-50,250	-85,718	794,800	354,466	31,738	157,441	172,885	69,372
<i>Portfolio investment</i>	-31,592	-386,077	-64,384	-970,938	-325,571	-18,862	-213,675	-177,749	103,040
<i>Financial derivatives</i>	15,208	54,661	118,359	99,178	28,599	6,712	6,174	3,909	12,533
<i>Other investment</i>	241,665	354,856	97,795	230,531	-171,098	-26,704	-27,733	-43,310	-127,491
Reserve assets	-188,889	-57,890	-139,089	-281,996	-8,856	16,092	1,951	-21,651	-45,309
Net errors and omissions	35,513	53,833	42,332	49,089	7,303	-23,884	29,342	29,337	-29,017
Overall Balance of Payments	188,889	57,890	139,089	281,996	8,856	-16,092	-1,951	21,651	45,309

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

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

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

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

(\$Mn)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015[#]</u>	<u>2016[#]</u>	<u>2016</u>		<u>2017</u>	
						Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Total exports of goods	3,632,957	3,926,059	3,986,769	3,889,225	3,900,462	1,025,058	1,097,702	942,108	994,019
Imports of goods	3,779,686	4,142,651	4,237,700	4,066,527	4,036,909	1,036,803	1,121,390	1,000,454	1,062,893
Goods trade balance	-146,729 (-3.9)	-216,592 (-5.2)	-250,931 (-5.9)	-177,302 (-4.4)	-136,447 (-3.4)	-11,745 (-1.1)	-23,688 (-2.1)	-58,346 (-5.8)	-68,874 (-6.5)
Exports of services	764,026	812,640	829,085	808,948	767,035	196,380	200,017	201,261	182,833
Imports of services	594,266	583,216	573,522	574,345	577,544	148,189	153,274	140,866	143,220
Services trade balance	169,760 (28.6)	229,424 (39.3)	255,563 (44.6)	234,603 (40.8)	189,491 (32.8)	48,191 (32.5)	46,743 (30.5)	60,395 (42.9)	39,613 (27.7)
Exports of goods and services	4,396,983	4,738,699	4,815,854	4,698,173	4,667,497	1,221,438	1,297,719	1,143,369	1,176,852
Imports of goods and services	4,373,952	4,725,867	4,811,222	4,640,872	4,614,453	1,184,992	1,274,664	1,141,320	1,206,113
Goods and services trade balance	23,031 <0.5>	12,832 <0.3>	4,632 <0.1>	57,301 <1.2>	53,044 <1.1>	36,446 <3.1>	23,055 <1.8>	2,049 <0.2>	-29,261 <-2.4>

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

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

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

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

Table 6a : Goods and services trade based on the standards stipulated in the *System of National Accounts 2008* , other than the change of ownership principle

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015[#]</u>	<u>2016[#]</u>	<u>2016</u>		<u>2017</u>	
						Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
<u>At current market prices (\$Mn)</u>									
Total exports of goods	3,591,776	3,816,390	3,877,458	3,779,263	3,776,638	989,242	1,051,658	915,309	975,059
Imports of goods	4,116,410	4,394,928	4,471,810	4,289,991	4,240,000	1,088,649	1,174,232	1,046,631	1,115,073
Goods trade balance	-524,634 (-12.7)	-578,538 (-13.2)	-594,352 (-13.3)	-510,728 (-11.9)	-463,362 (-10.9)	-99,407 (-9.1)	-122,574 (-10.4)	-131,322 (-12.5)	-140,014 (-12.6)
Exports of services	1,003,047	1,058,584	1,079,989	1,052,355	1,007,273	261,342	274,471	254,714	233,452
Imports of services	455,382	467,214	481,005	484,326	490,867	125,489	128,842	121,343	122,699
Services trade balance	547,665 (120.3)	591,370 (126.6)	598,984 (124.5)	568,029 (117.3)	516,406 (105.2)	135,853 (108.3)	145,629 (113.0)	133,371 (109.9)	110,753 (90.3)
Exports of goods and services	4,594,823	4,874,974	4,957,447	4,831,618	4,783,911	1,250,584	1,326,129	1,170,023	1,208,511
Imports of goods and services	4,571,792	4,862,142	4,952,815	4,774,317	4,730,867	1,214,138	1,303,074	1,167,974	1,237,772
Goods and services trade balance	23,031 <0.5>	12,832 <0.3>	4,632 <0.1>	57,301 <1.2>	53,044 <1.1>	36,446 <3.0>	23,055 <1.8>	2,049 <0.2>	-29,261 <-2.4>
<u>Rates of change in real terms (%)</u>									
Total exports of goods	1.9	6.5	0.8	-1.9	1.4	2.0	4.7	9.3	5.4
Imports of goods	3.0	7.2	0.9	-2.7	0.6	2.5	4.8	9.4	5.6
Exports of services	2.2	4.9	1.2	-0.3	-2.4	-1.6	1.3	2.6	2.1
Imports of services	1.9	1.5	1.8	5.3	2.7	1.6	3.2	1.6	5.1

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

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

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

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>		<u>2016</u>		<u>2017</u>	
	(% change)				(% change)	(\$Mn)	Q3	Q4	Q1	Q2
							(% change over a year earlier)			
All markets	2.9	3.6	3.2	-1.8	-0.5	3,588,247	-0.2	5.5	10.3	7.4
Mainland of China	6.3	4.9	1.5	-2.1	0.4	1,943,469	1.0	8.6	12.6	6.8
United States	2.3	-2.1	3.1	0.2	-5.3	324,040	-3.9	-4.8	2.4	-0.1
Japan	6.5	-6.1	-2.8	-6.6	-4.9	116,746	-3.9	-3.2	4.0	9.7
India	-17.5	7.9	13.1	8.1	14.6	116,702	10.4	15.2	40.1	54.7
Taiwan	-5.2	-4.3	2.5	-18.0	14.6	74,516	22.3	33.3	44.5	27.2
Vietnam	9.9	15.5	14.0	14.7	-5.8	72,173	-10.1	0.6	13.1	13.6
Germany	-12.8	-5.1	-1.7	-3.2	-5.1	66,717	-10.3	-8.4	3.6	1.1
Singapore	-0.5	4.7	2.2	-2.3	4.8	61,285	5.8	18.2	-2.6	0.9
Netherlands	-2.0	1.1	12.7	10.2	10.3	57,378	13.7	14.5	21.8	16.9
Korea	-4.0	9.0	-2.7	-12.8	-0.6	54,040	3.4	9.1	15.2	-1.7
Rest of the world	0.2	5.4	7.6	-1.8	-3.3	701,182	-4.3	-0.4	1.4	2.8

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

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>		<u>2017</u>		
	(% change)				(% change)	(\$Mn)	Q3	Q4	Q1	Q2
	(% change over a year earlier)									
All sources	3.9	3.8	3.9	-4.1	-0.9	4,008,384	1.2	5.6	10.7	8.2
Mainland of China	8.5	5.5	2.3	-0.1	-3.4	1,916,831	-1.7	-1.1	8.6	4.8
Taiwan	1.6	6.9	14.7	-8.6	6.4	292,072	11.4	16.5	19.6	8.3
Singapore	-3.2	*	5.8	-5.7	6.4	261,694	15.5	20.2	12.9	12.1
Japan	-2.2	-8.1	0.9	-9.9	-5.2	246,698	-5.5	5.1	8.9	1.4
United States	-3.3	7.4	*	-3.9	-2.0	206,645	0.9	11.7	3.1	7.9
Korea	2.4	3.4	10.6	-2.0	14.0	196,228	11.1	48.5	46.3	23.2
India	-5.5	6.7	10.0	-13.7	11.9	92,773	13.7	20.9	28.4	32.8
Malaysia	-6.0	4.7	16.7	-7.9	-3.7	90,584	-6.8	1.9	3.8	18.1
Thailand	-4.8	6.4	13.7	-3.7	-2.7	82,586	-3.6	1.4	10.6	9.3
Philippines	0.3	2.5	22.0	10.3	5.8	59,768	4.2	20.5	36.4	24.5
Rest of the world	5.3	3.2	-0.3	-10.6	-3.1	562,507	1.4	2.6	1.0	8.3

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

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

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015[#]</u>	<u>2016[#]</u>		<u>2016</u>		<u>2017</u>	
	(% change)				(% change)		(\$Mn)	Q3 [#]	Q4 [#]	Q1 [#]
							(% change over a year earlier)			
Exports of services	7.5	6.4	2.0	-2.4	-5.2	767,035	-3.7	0.7	3.9	3.3
Transport	-0.6	-2.5	2.2	-6.8	-4.7	219,967	-4.2	4.7	7.6	6.2
Travel	15.8	17.7	-1.5	-5.8	-9.0	255,064	-7.4	-3.4	-0.7	-2.0
Financial services	7.8	6.1	7.0	8.5	-5.5	140,436	-1.5	0.9	6.6	8.9
Other services	8.7	1.4	4.7	1.6	1.6	151,568	1.4	2.9	4.0	3.5
Imports of services	2.8	-1.9	-1.7	0.1	0.6	577,544	0.9	1.2	1.8	4.0
Transport	2.3	-1.4	1.5	-5.9	-1.0	132,906	0.1	1.5	1.9	2.4
Travel	5.2	5.7	3.7	4.7	5.1	187,792	4.9	4.1	0.9	8.3
Manufacturing [^]	-0.4	-16.5	-20.2	-2.7	-3.7	86,677	-4.2	-2.1	2.3	0.3
Other services	4.0	3.2	3.5	2.2	-0.7	170,169	*	*	2.4	2.2

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

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

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

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

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

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015[#]</u>	<u>2016[#]</u>		<u>2016</u>		<u>2017</u>	
	(% change)				(% change)		(\$Mn)	Q3 [#]	Q4 [#]	Q1 [#]
							(% change over a year earlier)			
Exports of services	6.6	5.5	2.0	-2.6	-4.3	1,007,273	-3.0	0.7	3.9	3.2
Transport	-0.6	-2.5	2.2	-6.8	-4.7	219,967	-4.2	4.7	7.6	6.2
Travel	15.8	17.7	-1.5	-5.8	-9.0	255,064	-7.4	-3.4	-0.7	-2.0
Trade-related	3.9	2.1	1.9	-3.0	-1.3	280,040	-0.7	0.7	3.6	2.9
Other services	9.0	4.7	6.6	6.4	-2.1	252,202	*	2.3	5.5	6.3
Imports of services	3.8	2.6	3.0	0.7	1.4	490,867	1.9	1.9	1.7	4.7
Transport	2.3	-1.4	1.5	-5.9	-1.0	132,906	0.1	1.5	1.9	2.4
Travel	5.2	5.7	3.7	4.7	5.1	187,792	4.9	4.1	0.9	8.3
Trade-related	1.7	-2.7	2.8	0.1	-0.5	33,562	-0.5	1.5	3.5	2.8
Other services	4.6	4.8	3.6	2.7	-0.7	136,607	0.1	-0.4	2.1	2.0

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

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

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

Table 10 : Incoming visitors by source

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>		<u>2017</u>	
						Q3	Q4	Q1	Q2
<u>('000)</u>									
All sources	48 615.1	54 298.8	60 838.8	59 307.6	56 654.9	14 558.0	14 936.7	14 242.8	13 566.1
Mainland of China	34 911.4	40 745.3	47 247.7	45 842.4	42 778.1	11 301.2	11 061.3	10 823.0	10 069.7
South and Southeast Asia	3 651.8	3 718.0	3 614.8	3 559.1	3 701.8	793.3	1 087.7	834.5	989.5
Taiwan	2 088.7	2 100.1	2 031.9	2 015.8	2 011.4	527.7	496.8	489.8	497.3
Europe	1 867.7	1 893.7	1 863.3	1 829.4	1 904.9	411.1	560.8	480.4	462.2
United States	1 184.8	1 109.8	1 130.6	1 181.0	1 211.5	268.4	351.5	291.7	316.5
Japan	1 254.6	1 057.0	1 078.8	1 049.3	1 092.3	283.8	309.1	319.8	263.2
Others	3 656.1	3 674.9	3 871.9	3 830.7	3 954.8	972.4	1 069.5	1 003.6	967.8
<u>(% change over a year earlier)</u>									
All sources	16.0	11.7	12.0	-2.5	-4.5	-3.6	0.4	3.7	1.0
Mainland of China	24.2	16.7	16.0	-3.0	-6.7	-5.1	-0.3	3.8	0.8
South and Southeast Asia	-2.6	1.8	-2.8	-1.5	4.0	-0.3	0.1	0.7	-0.3
Taiwan	-2.8	0.5	-3.2	-0.8	-0.2	-2.8	-3.7	1.2	-1.1
Europe	3.7	1.4	-1.6	-1.8	4.1	3.6	3.2	-0.2	2.4
United States	-2.3	-6.3	1.9	4.5	2.6	1.7	5.3	4.4	1.3
Japan	-2.3	-15.7	2.1	-2.7	4.1	1.6	8.8	20.9	11.9
Others	0.9	0.5	5.4	-1.1	3.2	6.4	4.0	3.5	2.6

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

Table 11 : Property market

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

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

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

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

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

Table 11 : Property market (Cont'd)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>		<u>2017</u>	
				Q3	Q4	Q1	Q2
Completion of new property by the private sector							
('000 m ² of internal floor area)							
Residential property ^(a) (in units)	15 719	11 280	14 595	3 339	3 839	4 370	4 419
Commercial property	161	233	276	10	101	20	18
<i>of which :</i>							
Office space	104	164	153	0	53	12	0
Other commercial premises ^(b)	57	69	123	10	49	7	17
Industrial property ^(c)	116	30	78	0	5	0	23
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	36	30	5	0	5	0	23
Storage premises ^(d)	80	0	73	0	0	0	0
Production of public housing							
(in units)							
Rental housing flats ^(e)	5 634	10 147	21 755	4 697	4 884	1 648	N.A.
Subsidised sales flats ^(e)	0	1 326	229	0	229	2 788	N.A.
Building plans with consent to commence work in the private sector							
('000 m ² of usable floor area)							
Residential property	647.1	893.3	645.8	271.1	106.4	325.2	N.A.
Commercial property	290.3	319.0	312.4	76.9	40.6	274.9	N.A.
Industrial property ^(f)	105.9	225.3	76.2	16.6	16.5	18.0	N.A.
Other properties	217.1	555.4	235.1	13.3	121.7	85.9	N.A.
Total	1 260.4	1 993.0	1 269.4	377.9	285.3	704.0	N.A.
Agreements for sale and purchase of property							
(Number)							
Residential property ^(g)	63 807	55 982	54 701	17 890	16 890	13 221	18 892
Primary market	16 857	16 826	16 793	6 244	4 916	3 573	6 245
Secondary market	46 950	39 156	37 908	11 646	11 974	9 648	12 647
Selected types of non-residential properties ^(h)							
Office space	1 271	1 470	1 105	294	412	429	527
Other commercial premises	3 092	2 067	1 523	393	541	491	576
Flatted factory space	3 016	3 407	2 727	616	1 074	959	1 211

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

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

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

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

N.A. Not yet available.

Table 12 : Property prices and rentals

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

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

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

For residential property, changes in rentals cover only new tenancies for which rentals are freshly determined. For non-residential property, changes in rentals cover also lease renewals upon which rentals may be revised.

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

(+) Provisional figures.

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>		<u>2017</u>	
				Q3	Q4	Q1 [#]	Q2 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	256.9	296.8	286.1	288.4	306.1	315.0	333.2
Office space	423.0	448.9	426.9	417.8	434.3	464.4	484.4
Shopping space	521.2	559.2	526.9	514.0	534.4	544.2	545.8
Flatted factory space	668.0	723.9	692.7	681.9	709.2	735.2	768.3
Property rental indices ^(b) :							
Residential flats	159.5	172.8	168.2	169.8	172.8	176.8	181.7
Office space	213.7	226.7	232.3	232.8	234.0	236.8	239.0
Shopping space	173.1	182.5	178.6	177.5	179.4	179.7	181.8
Flatted factory space	160.1	174.4	181.4	182.0	184.1	187.0	191.7
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	6.0	15.5	-3.6	-5.5	4.3	14.7	21.1
Office space	3.2	6.1	-4.9	-9.1	-5.0	6.2	15.8
Shopping space	2.8	7.3	-5.8	-10.0	-3.7	2.0	3.8
Flatted factory space	1.9	8.4	-4.3	-8.1	-3.0	7.0	10.9
Property rental indices ^(b) :							
Residential flats	3.2	8.3	-2.7	-3.9	-0.4	6.9	10.3
Office space	4.7	6.1	2.5	1.4	1.7	2.6	3.2
Shopping space	4.6	5.4	-2.1	-4.0	-1.7	0.2	2.1
Flatted factory space	8.7	8.9	4.0	2.7	3.6	4.8	5.9

Table 13 : Monetary aggregates

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

Definition of Terms :

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

Total Money Supply:

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

Table 13 : Monetary aggregates (Cont'd)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>		<u>2017</u>	
				Q3	Q4	Q1	Q2
<i>(as at end of period)</i>							
Hong Kong dollar money supply (\$Mn)							
M1	1,116,675	1,253,380	1,428,775	1,417,126	1,428,775	1,474,229	1,502,456
M2 ^(a)	5,225,773	5,765,549	6,280,230	6,187,842	6,280,230	6,598,508	6,837,206
M3 ^(a)	5,236,188	5,778,772	6,292,666	6,200,545	6,292,666	6,611,151	6,850,484
Total money supply (\$Mn)							
M1	1,708,724	1,971,146	2,213,970	2,234,444	2,213,970	2,228,810	2,299,020
M2	11,011,372	11,618,441	12,508,127	12,390,203	12,508,127	12,928,850	13,314,695
M3	11,048,944	11,655,019	12,551,331	12,431,638	12,551,331	12,977,811	13,361,692
Deposit (\$Mn)							
HK\$	4,800,330	5,312,403	5,809,060	5,733,148	5,809,060	6,104,834	6,346,347
Foreign currency	5,272,804	5,437,346	5,918,240	5,894,377	5,918,240	5,979,283	6,032,883
Total	10,073,135	10,749,749	11,727,300	11,627,525	11,727,300	12,084,117	12,379,230
Loans and advances (\$Mn)							
HK\$	4,000,361	4,152,589	4,479,107	4,331,398	4,479,107	4,622,401	4,893,803
Foreign currency	3,275,910	3,381,951	3,544,284	3,492,673	3,544,284	3,770,500	3,950,454
Total	7,276,271	7,534,540	8,023,390	7,824,071	8,023,390	8,392,901	8,844,257
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) ^(b)							
Trade-weighted	96.0	101.3	104.1	103.5	106.3	106.8	105.4
Import-weighted	96.0	101.7	104.2	103.3	106.2	106.8	105.2
Export-weighted	95.9	100.9	104.1	103.8	106.4	106.8	105.6
<i>(% change over a year earlier)</i>							
Hong Kong dollar money supply							
M1	11.6	12.2	14.0	12.0	14.0	12.9	13.0
M2 ^(a)	9.0	10.3	8.9	7.8	8.9	13.7	15.9
M3 ^(a)	9.0	10.4	8.9	7.8	8.9	13.7	15.9
Total money supply							
M1	13.1	15.4	12.3	10.7	12.3	7.3	10.0
M2	9.5	5.5	7.7	8.3	7.7	10.1	12.9
M3	9.6	5.5	7.7	8.3	7.7	10.1	13.0
Deposit							
HK\$	9.3	10.7	9.3	8.1	9.3	14.0	16.4
Foreign currency	10.1	3.1	8.8	10.1	8.8	6.4	7.8
Total	9.7	6.7	9.1	9.1	9.1	10.1	12.1
Loans and advances							
HK\$	10.9	3.8	7.9	4.2	7.9	10.4	14.8
Foreign currency	14.9	3.2	4.8	2.6	4.8	13.0	15.0
Total	12.7	3.5	6.5	3.5	6.5	11.6	14.9
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) ^(b)							
Trade-weighted	1.2	5.5	2.8	1.5	2.9	2.7	2.5
Import-weighted	1.4	5.9	2.5	0.8	2.2	2.3	2.2
Export-weighted	0.8	5.2	3.2	2.4	3.6	3.1	2.8

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

(b) Period average.

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

	(%)							
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>			<u>2017</u>
					Q2	Q3	Q4	Q1
Services Industry								
Import and export trade	-0.3	0.1	-3.9	-2.5	-2.9	0.1	3.0	4.2
Wholesale	4.3	1.5	-4.9	-1.0	-1.7	3.2	2.6	3.4
Retail	11.0	-0.2	-3.7	-8.1	-8.2	-7.5	-3.7	-1.3
Transportation	1.4	6.1	-4.3	-6.5	-9.0	-6.8	-1.6	2.3
<i>within which:</i>								
Land transport	8.0	6.9	5.4	3.6	3.9	4.4	0.7	1.5
Water transport	-2.9	6.8	-7.7	-11.2	-16.1	-12.7	1.4	2.3
Air transport	2.4	5.3	-5.1	-7.0	-8.7	-6.9	-4.3	2.7
Warehousing and storage	8.2	11.9	12.7	12.1	16.3	10.6	7.7	7.1
Courier	26.1	5.4	-5.9	5.5	6.8	12.6	5.6	18.9
Accommodation services ^(a)	5.6	6.5	-6.6	-1.1	-0.5	-0.5	0.9	5.0
Food services	3.5	3.5	3.9	2.9	3.0	2.6	4.1	4.2
Information and communications	6.0	5.9	10.8	0.6	6.5	-3.7	-5.3	-0.5
<i>within which:</i>								
Telecommunications	8.0	10.7	19.6	-0.8	7.5	-6.4	-10.0	-7.0
Film entertainment	-4.3	-11.7	-3.1	-4.5	-8.4	-5.2	-7.0	4.8
Banking	16.8	5.9	8.3	8.1	28.1	3.9	5.8	17.6
Financing (except banking)	2.6	6.7	19.0	-6.0	-15.6	5.1	-0.3	8.2
<i>within which:</i>								
Financial markets and asset management	1.0	8.9	19.0	-8.7	-18.6	0.8	-1.6	0.4
<i>within which: Asset management</i>	14.9	11.0	7.0	4.1	2.1	8.7	6.0	1.2
Insurance	15.1	18.2	11.7	21.8	21.7	29.9	25.2	18.1
Real estate	0.1	17.0	8.1	16.5	10.9	21.3	26.5	35.7
Professional, scientific and technical services	7.2	7.6	5.3	3.3	3.8	2.7	4.3	1.9
Administrative and support services	9.5	7.3	7.4	0.9	0.5	0.1	0.2	0.3
Services Domain								
Tourism, convention and exhibition services	17.8	-0.9	-5.0	-8.1	-8.0	-6.5	-4.2	-0.3 ⁺
Computer and information technology services	2.1	-1.8	-4.2	-3.5	-5.7	-4.4	0.7	0.9

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

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

(+) Provisional figure.

Table 15 : Labour force characteristics

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>		<u>2017</u>	
						Q3 [#]	Q4 [#]	Q1	Q2
<u>(%)</u>									
Labour force participation rate	60.5	61.2	61.1	61.1	61.1	61.0	60.6	61.2	61.1
Seasonally adjusted unemployment rate ^(a)	3.3	3.4	3.3	3.3	3.4	3.4	3.3	3.2	3.1
Underemployment rate	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.2	1.2
<u>('000)</u>									
Population of working age	6 251.5	6 297.5	6 340.1	6 383.7	6 420.9	6 440.9	6 454.0	6 449.8	6 460.8
Labour force	3 782.2	3 855.1	3 871.1	3 903.2	3 920.1	3 925.7	3 909.5	3 947.4	3 947.2
Persons employed	3 658.0	3 724.0	3 743.5	3 773.8	3 787.1	3 785.8	3 787.1	3 822.4	3 822.1
Persons unemployed	124.3	131.1	127.6	129.4	133.0	140.0	122.4	125.0	125.2
Persons underemployed	57.2	58.3	56.8	53.3	54.7	55.8	54.6	49.0	45.5
<u>(% change over a year earlier)</u>									
Population of working age	1.4	0.7	0.7	0.7	0.6	0.8	0.7	0.7	0.5
Labour force	2.1	1.9	0.4	0.8	0.4	0.4	0.1	0.9	0.9
Persons employed	2.3	1.8	0.5	0.8	0.4	0.4	0.2	1.0	1.3
Persons unemployed	-1.9	5.5	-2.7	1.4	2.8	2.2	-1.0	-4.7	-8.6
Persons underemployed	-9.6	1.9	-2.6	-6.1	2.5	4.9	2.9	-8.4	-16.5

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

(#) Figures have been revised to take into account the final 2016 population estimates.

Table 16 : Employment in selected major industries

Selected major industries	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>			<u>2017</u>	(No.)
	(% change)					Jun	Sep	Dec	Mar	
						(% change over a year earlier)				
Manufacturing	-5.1	-3.0	-1.2	-2.8	-3.6	-3.5	-4.4	-4.1	-3.4	94 548
Construction sites (manual workers only)	13.8	11.2	4.4	14.9	13.3	14.4	15.0	10.2	12.2	117 642
Import and export trade	-1.1	-0.2	0.1	-1.4	-0.7	-0.5	-0.6	-0.6	-0.3	480 246
Wholesale	-0.6	-2.0	-0.3	-1.4	-0.8	-0.1	-1.3	-1.2	-1.0	60 681
Retail	2.5	2.3	2.2	-0.5	-1.1	-1.4	-0.9	-0.2	0.4	267 324
Food and beverage services	1.6	0.9	2.4	0.1	-0.2	-0.4	0.1	*	0.3	242 518
Accommodation services ^(a)	9.2	5.0	3.2	-1.1	-2.1	-2.5	-1.2	-1.1	-1.0	38 387
Transportation, storage, postal and courier services	1.8	2.0	2.7	1.6	0.5	0.8	*	0.2	-0.3	178 112
Information and communications	5.6	5.1	2.7	1.1	0.7	0.2	0.2	0.8	1.5	107 270
Financing and insurance	1.9	1.0	2.3	2.3	0.8	0.4	0.5	1.0	0.9	223 221
Real estate	4.2	1.6	0.6	1.7	-0.1	-0.5	*	1.1	1.3	130 159
Professional and business services (excluding cleaning and similar services)	3.4	4.5	2.7	2.4	1.9	1.6	2.5	2.9	3.2	292 340
Cleaning and similar services	3.3	1.6	0.2	2.4	0.5	1.0	0.1	1.1	1.8	82 531
Education	2.4	2.8	4.4	3.9	2.3	2.2	1.8	2.3	1.5	199 022
Human health services	4.9	5.2	4.3	4.5	4.3	4.4	4.3	4.2	3.9	124 351
Residential care and social work services	2.0	0.5	0.6	2.8	3.0	3.7	3.2	0.8	0.3	63 087
Arts, entertainment, recreation and other services	0.6	1.6	5.9	0.9	-2.2	-2.6	-2.1	-3.1	-2.4	123 861
Civil service ^(b)	1.1	1.3	1.0	0.7	1.2	1.1	1.1	1.0	0.9	167 671
Others ^(c)	-5.1	3.5	3.1	-1.0	0.8	0.8	1.4	1.9	3.3	11 219

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

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

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>		<u>2016</u>		<u>2017</u>
						Jun	Sep	Dec	Mar
<u>(Number)</u>									
Building sites									
Private sector	37 687	41 308	44 024	50 372	60 243	59 557	61 091	63 255	65 559
Public sector ^(a)	10 578	9 860	11 212	15 470	16 030	15 047	15 152	17 971	21 141
Sub-total	48 265	51 168	55 236	65 842	76 273	74 604	76 243	81 226	86 700
Civil engineering sites									
Private sector	1 410	1 322	1 414	1 609	1 386	1 317	1 334	1 221	1 110
Public sector ^(a)	21 621	26 813	26 145	27 652	30 141	30 272	30 242	29 923	29 832
Sub-total	23 030	28 135	27 559	29 261	31 526	31 589	31 576	31 144	30 942
Total	71 295	79 303	82 795	95 103	107 799	106 193	107 819	112 370	117 642
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	18.6	9.6	6.6	14.4	19.6	22.1	21.6	14.6	14.9
Public sector ^(a)	-14.2	-6.8	13.7	38.0	3.6	-1.5	0.3	13.5	32.6
Sub-total	9.4	6.0	8.0	19.2	15.8	16.5	16.6	14.4	18.7
Civil engineering sites									
Private sector	12.8	-6.2	7.0	13.8	-13.9	-37.8	-11.4	-12.6	-33.5
Public sector ^(a)	25.2	24.0	-2.5	5.8	9.0	13.6	12.5	1.2	-1.0
Sub-total	24.4	22.2	-2.0	6.2	7.7	9.8	11.3	0.6	-2.7
Total	13.8	11.2	4.4	14.9	13.3	14.4	15.0	10.2	12.2

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	2012	2013	2014	2015	2016	2016		2017	
						Q2	Q3	Q4	Q1
(in nominal terms)									
Manufacturing	8.2	3.3	5.3	5.2	3.5	4.0	3.9	3.1	3.3
Import/export and wholesale trade	4.6	3.3	2.8	3.7	2.3	2.3	1.9	2.6	2.2
Retail trade	10.1	6.7	4.2	3.5	2.4	2.2	2.8	2.9	2.6
Transportation, storage, postal and courier services	1.2	5.4	3.3	4.3	3.3	3.6	2.4	3.4	3.3
Accommodation ^(a) and food service activities	6.2	6.7	5.2	5.8	5.1	5.1	5.2	5.1	3.9
Information and communications	8.2	5.4	5.1	4.4	3.4	3.0	3.6	4.0	3.2
Financial and insurance activities	4.7	4.6	6.3	4.0	2.7	3.0	2.9	3.6	2.5
Real estate activities	7.7	5.9	4.7	5.1	4.2	4.1	4.5	4.4	4.2
Professional and business services	4.7	7.1	6.9	5.8	5.1	5.0	4.8	4.6	4.1
Social and personal services	7.6	3.6	1.6	6.7	2.5	3.7	4.1	3.3	4.6
All selected industry sections surveyed	6.5	5.4	4.3	4.6	3.7	4.2	4.1	3.8	3.5
(in real terms)									
Manufacturing	3.9	-0.9	0.9	2.1	1.0	1.4	0.7	1.9	2.7
Import/export and wholesale trade	0.5	-1.0	-1.5	0.7	-0.1	-0.3	-1.2	1.4	1.6
Retail trade	5.7	2.3	-0.1	0.5	*	-0.3	-0.3	1.7	2.1
Transportation, storage, postal and courier services	-2.7	1.0	-1.0	1.3	0.9	1.0	-0.7	2.1	2.8
Accommodation ^(a) and food service activities	2.0	2.3	0.8	2.7	2.6	2.5	2.0	3.8	3.3
Information and communications	4.0	1.0	0.7	1.4	1.0	0.4	0.5	2.7	2.7
Financial and insurance activities	0.5	0.4	1.9	0.7	0.3	0.4	-0.2	2.3	2.0
Real estate activities	3.6	1.4	0.2	2.0	1.7	1.4	1.3	3.1	3.6
Professional and business services	0.7	2.6	2.3	2.8	2.6	2.4	1.6	3.3	3.5
Social and personal services	3.6	-0.8	-2.7	3.6	0.1	1.1	0.9	2.1	4.0
All selected industry sections surveyed	2.3	1.1	-0.1	1.5	1.3	1.5	1.0	2.5	2.9

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

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

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

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

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

	(%)								
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>		<u>2016</u>		<u>2017</u>
Selected industry section						Jun	Sep	Dec	Mar
(in nominal terms)									
Manufacturing	4.3	4.7	4.9	4.0	4.0	3.6	3.8	3.9	3.6
Import/export, wholesale and retail trades	4.5	2.9	2.5	3.1	2.7	2.8	2.7	2.8	2.9
Transportation	3.3	3.9	4.8	4.4	3.5	3.6	3.3	3.3	3.1
Accommodation ^(a) and food service activities	7.9	5.7	4.7	5.4	4.9	4.9	5.0	4.8	4.5
Financial and insurance activities ^(b)	4.2	4.4	3.2	3.2	3.4	3.2	3.0	3.2	3.3
Real estate leasing and maintenance management	7.6	9.3	4.5	3.4	3.7	3.4	3.7	3.5	3.4
Professional and business services	6.5	5.9	6.7	6.9	4.7	4.7	4.4	4.5	4.9
Personal services	9.2	6.2	7.8	6.5	5.5	5.8	5.3	4.9	4.4
All industries surveyed	5.6	4.7	4.2	4.4	3.7	3.8	3.7	3.6	3.6
(in real terms)									
Manufacturing	0.6	-0.1	-1.6	0.2	1.4	1.0	0.5	2.8	3.4
Import/export, wholesale and retail trades	0.6	-1.7	-3.9	-0.6	0.3	0.3	-0.5	1.7	2.7
Transportation	-0.7	-0.6	-1.9	0.6	1.0	1.1	0.1	2.2	2.9
Accommodation ^(a) and food service activities	3.8	1.1	-1.8	1.5	2.3	2.3	1.6	3.7	4.3
Financial and insurance activities ^(b)	0.1	0.1	-3.7	-0.5	0.9	0.7	-0.3	2.1	3.2
Real estate leasing and maintenance management	3.4	4.5	-1.9	-0.4	1.1	0.9	0.4	2.4	3.3
Professional and business services	2.2	1.5	*	2.9	2.3	2.1	1.1	3.4	4.8
Personal services	5.3	1.5	1.1	2.6	3.0	3.2	2.0	3.8	4.2
All industries surveyed	1.6	0.1	-2.4	0.6	1.2	1.2	0.3	2.5	3.5

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

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

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

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

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

(HK\$)

Industry section	May – Jun 2015			May – Jun 2016		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing ^(a)	12,100	14,900	22,300	12,700	15,600	23,500
Electricity and gas supply; sewerage, waste management and remediation activities	18,800	25,000	39,500	18,900	25,800	40,700
Construction	15,700	20,000	24,700	16,700	21,200	26,000
Import and export trade	12,000	16,500	25,500	12,500	17,100	26,300
Wholesale	10,300	13,300	18,000	10,700	13,800	19,000
Retail trade	9,500	12,000	16,100	10,000	12,400	16,600
<i>within which:</i>						
Supermarkets and convenience stores	6,300	10,300	12,700	6,500	10,600	12,900
Other retail stores	9,700	12,200	16,700	10,100	12,600	17,300
Land transport	13,000	16,800	24,500	13,500	17,500	25,400
Other transportation, storage, postal and courier services ^(b)	12,300	16,200	21,600	12,900	16,800	22,500
Restaurants	9,000	11,100	15,000	9,600	11,800	15,900
<i>within which:</i>						
Hong Kong style tea cafes	9,400	11,000	14,400	10,000	11,700	15,500
Chinese restaurants	10,500	12,600	17,000	11,000	13,200	18,000
Restaurants, other than Chinese	9,900	11,700	15,100	10,400	12,300	16,000
Fast food cafes ^(c)	3,900	8,300	10,800	4,200	8,800	11,400
Accommodation ^(d) and other food service activities	11,000	13,800	18,000	11,500	14,400	18,800
Information and communications	13,600	20,000	30,500	14,200	20,700	31,500
Financing and insurance	16,000	25,100	42,500	16,700	26,000	43,800
Real estate activities ^(e)	12,500	20,000	29,800	13,000	20,700	30,800
Estate management, security and cleaning services	8,500	10,600	13,200	9,100	11,200	13,800
<i>within which:</i>						
Real estate maintenance management	10,600	11,900	14,500	11,000	12,400	15,200
Security services ^(f)	9,800	11,400	13,400	10,300	11,800	14,000
Cleaning services	7,100	8,300	9,300	7,400	8,700	9,800
Membership organisations ^(g)	8,500	11,800	18,300	9,000	12,300	19,000
Professional, scientific and technical services	13,400	20,500	32,000	14,200	21,500	33,500
Administrative and support services activities	11,100	15,100	23,500	11,600	15,800	24,500
Travel agency, reservation service and related activities	10,800	13,100	18,600	11,400	13,800	19,600
Education and public administration (excluding the Government)	13,000	25,400	45,400	13,600	26,800	48,500
Human health activities; and beauty and body prettifying treatment	12,200	16,700	36,200	12,900	17,600	37,700
Miscellaneous activities	9,300	11,000	14,500	9,700	11,500	15,000
<i>within which:</i>						
Elderly homes	10,300	12,000	14,600	10,800	12,600	15,300
Laundry and dry cleaning services	7,800	10,400	13,700	8,000	10,700	14,000
Hairdressing and other personal services	9,000	10,500	14,000	9,300	11,000	14,500
Local courier services	7,600	9,200	13,000	7,800	9,500	13,600
Food processing and production	8,900	11,000	15,900	9,300	11,500	16,500
Other activities not classified above	10,400	14,000	21,600	10,700	14,500	22,600
All industry sections above	11,000	15,500	24,400	11,600	16,200	25,400

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 sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(e) Excluding real estate maintenance management.

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

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

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

(HK\$)

Industry section	May – Jun 2015			May – Jun 2016		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing ^(a)	46.9	60.7	90.0	48.9	63.3	94.9
Electricity and gas supply; sewerage, waste management and remediation activities	69.2	96.6	146.1	71.8	100.0	150.1
Construction	65.1	83.0	103.0	69.6	88.9	110.4
Import and export trade	51.1	70.4	108.0	52.9	73.2	111.2
Wholesale	45.3	57.4	76.6	47.0	58.3	77.8
Retail trade	37.8	45.3	60.5	39.7	47.1	63.2
<i>within which:</i>						
Supermarkets and convenience stores	35.8	39.1	45.5	37.6	42.3	47.0
Other retail stores	38.5	46.7	62.5	40.3	48.9	66.0
Land transport	49.5	70.6	108.9	51.4	73.3	112.8
Other transportation, storage, postal and courier services ^(b)	45.5	59.4	81.0	47.2	62.1	84.4
Restaurants	38.0	42.3	53.8	40.0	44.7	55.6
<i>within which:</i>						
Hong Kong style tea cafes	38.7	42.3	52.5	41.0	45.0	55.5
Chinese restaurants	38.6	44.4	60.5	40.8	47.0	63.5
Restaurants, other than Chinese	39.4	45.1	55.6	41.2	47.3	58.9
Fast food cafes ^(c)	35.8	38.1	42.1	38.0	40.6	44.8
Accommodation ^(d) and other food service activities	40.2	49.5	64.9	41.9	51.7	67.9
Information and communications	54.9	78.6	121.0	56.5	80.8	124.1
Financing and insurance	63.9	98.5	167.6	66.2	101.8	173.6
Real estate activities ^(e)	56.8	79.9	128.4	58.8	83.1	132.4
Estate management, security and cleaning services	34.0	38.1	49.3	35.7	40.0	51.9
<i>within which:</i>						
Real estate maintenance management	34.0	37.7	54.4	35.7	39.7	55.4
Security services ^(f)	34.5	37.5	45.1	35.7	39.4	47.0
Cleaning services	33.6	37.4	42.2	35.1	39.6	44.0
Membership organisations ^(g)	36.3	48.4	75.3	37.9	50.1	77.4
Professional, scientific and technical services	56.5	83.1	137.8	59.0	86.7	144.0
Administrative and support services activities	43.0	62.1	96.4	45.2	65.5	101.0
Travel agency, reservation service and related activities	43.4	57.7	78.7	45.5	60.6	81.7
Education and public administration (excluding the Government)	60.9	119.5	200.0	64.4	124.7	211.4
Human health activities; and beauty and body prettifying treatment	55.3	78.2	145.2	57.4	81.5	153.0
Miscellaneous activities	37.5	43.8	58.8	39.2	46.1	61.1
<i>within which:</i>						
Elderly homes	35.6	43.5	58.0	37.3	45.4	60.6
Laundry and dry cleaning services	37.0	42.9	54.1	38.0	44.2	58.5
Hairdressing and other personal services	39.6	45.1	60.7	42.0	46.9	62.5
Local courier services	37.0	44.1	54.0	38.8	45.8	56.5
Food processing and production	37.4	42.8	60.0	39.4	44.7	62.6
Other activities not classified above	45.2	57.8	90.4	46.8	59.3	93.4
All industry sections above	44.2	62.9	100.0	46.2	65.4	103.9

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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

Table 22 : Rates of change in prices

(%)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
GDP deflator	3.1	1.3	-0.4	0.3	3.9	3.5	1.8	2.9
Domestic demand deflator	2.4	2.6	-0.8	2.2	4.5	4.2	1.4	3.1
Consumer Price Indices ^(a) :								
Composite CPI	2.0	4.3	0.5	2.4	5.3	4.1	4.3	4.4
CPI(A)	1.3	3.6	0.4	2.7	5.6	3.6	5.1	5.6
CPI(B)	2.2	4.6	0.5	2.3	5.2	4.3	4.1	4.2
CPI(C)	2.7	4.7	0.6	2.1	5.1	4.1	3.8	3.5
Unit Value Indices :								
Domestic exports	0.8	5.1	-0.2	5.4	5.7	2.4	2.5	0.2
Re-exports	2.4	3.8	1.2	4.6	8.0	3.4	1.3	2.0
Total exports of goods	2.3	3.8	1.1	4.7	8.0	3.4	1.3	2.0
Imports of goods	2.3	4.4	-0.1	6.4	8.1	3.3	0.9	1.9
Terms of Trade Index	0.1	-0.5	1.3	-1.7	-0.1	0.1	0.4	0.1
Producer Price Index for all manufacturing industries	3.0	5.6	-1.7	6.0	8.3	0.1	-3.1	-1.7
Tender Price Indices :								
Public sector building projects	20.1	41.9	-15.9	12.5	11.6	8.3	6.6	7.3
Public housing projects	19.7	30.8	-6.8	6.7	10.1	6.4	9.3	8.0

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

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

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

N.A. Not yet available.

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

(%)

	<u>2015</u>	<u>2016</u>	<u>2016</u>		<u>2017</u>		Average annual rate of change:	
			Q3	Q4	Q1	Q2	10 years	5 years
							2006 to 2016	2011 to 2016
GDP deflator [#]	3.6	1.8	1.5	1.8	2.1	3.1	2.2	2.7
Domestic demand deflator [#]	2.2	1.5	1.7	1.8	2.7	3.0	2.3	2.5
Consumer Price Indices ^(a) :								
Composite CPI	3.0	2.4	3.1	1.2	0.5	2.0	3.3	3.6
CPI(A)	4.0	2.8	4.5	1.1	0.1	2.3	3.4	4.2
CPI(B)	2.9	2.3	2.6	1.2	0.6	1.8	3.2	3.5
CPI(C)	2.1	2.1	2.2	1.3	0.9	1.9	3.1	3.1
Unit Value Indices :								
Domestic exports	-3.0	-1.4	-1.1	0.9	3.0	2.2	1.7	0.1
Re-exports	0.1	-1.7	-1.6	-0.5	1.6	1.6	2.5	1.0
Total exports of goods	0.1	-1.7	-1.6	-0.5	1.6	1.6	2.5	1.0
Imports of goods	-0.4	-1.7	-1.4	-0.1	1.6	1.8	2.5	0.8
Terms of Trade Index	0.5	*	-0.3	-0.3	*	-0.2	*	0.2
Producer Price Index for all manufacturing industries	-2.7	1.3	3.9	4.0	4.2	N.A.	1.4	-1.2
Tender Price Indices :								
Public sector								
building projects	5.9	1.0	0.3	0.3	0.2	N.A.	9.1	5.8
Public housing projects	12.5	-0.7	-8.8	-6.0	-3.5	N.A.	9.2	7.0

Table 23 : Rates of change in Composite Consumer Price Index

(%)

	Weight	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
All items	100.00	2.0 (2.8)	4.3 (5.6)	0.5 (1.0)	2.4 (1.7)	5.3 (5.3)	4.1 (4.7)	4.3 (4.0)
Food	27.29	4.3	10.1	1.3	2.4	7.0	5.8	4.4
<i>Meals bought away from home</i>	17.74	2.5	5.9	1.6	1.7	5.2	5.4	4.4
<i>Food, excluding meals bought away from home</i>	9.55	7.1	16.8	0.9	3.5	9.9	6.5	4.4
Housing ^(a)	34.29	2.0	4.1	3.7	0.4	7.2	5.6	6.7
<i>Private housing rent</i>	29.92	4.0	6.8	3.6	0.9	7.2	6.8	6.3
<i>Public housing rent</i>	1.94	-17.7	-27.2	9.5	-7.8	11.9	-7.1	16.0
Electricity, gas and water	2.67	-0.7	-6.5	-25.3	43.3	-4.2	-8.2	6.9
Alcoholic drinks and tobacco	0.54	-1.2	0.1	18.7	3.4	17.1	3.0	1.5
Clothing and footwear	3.21	4.1	0.8	2.7	1.8	6.8	3.1	1.7
Durable goods	4.65	-4.7	-2.0	-3.0	-2.7	-3.8	-1.4	-4.3
Miscellaneous goods	3.56	2.5	5.0	2.3	2.4	3.8	2.2	2.2
Transport	7.98	-0.1	2.5	-0.9	2.0	4.4	3.0	2.3
Miscellaneous services	15.81	1.7	0.8	-2.1	2.0	3.5	2.8	3.7

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

Figures in brackets represent the underlying 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".

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

(%)										
	Weight	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>		<u>2017</u>		Average annual rate of change:	
					Q3	Q4	Q1	Q2	10 years 2006 to 2016	5 years 2011 to 2016
All items	100.00	4.4	3.0	2.4	3.1	1.2	0.5	2.0	3.3	3.6
		(3.5)	(2.5)	(2.3)	(2.1)	(2.1)	(1.4)	(2.0)	(3.3)	(3.3)
Food	27.29	4.1	4.0	3.4	2.8	3.0	1.5	2.3	4.6	4.3
<i>Meals bought away from home</i>	17.74	4.6	4.2	3.3	3.1	3.1	2.8	2.7	3.9	4.4
<i>Food, excluding meals bought away from home</i>	9.55	3.4	3.4	3.6	2.1	2.7	-1.1	1.4	5.9	4.3
Housing ^(a)	34.29	6.7	5.1	3.7	6.0	0.4	0.3	2.7	4.5	5.6
<i>Private housing rent</i>	29.92	6.0	4.7	3.4	4.1	0.6	0.5	2.2	4.9	5.4
<i>Public housing rent</i>	1.94	18.3	10.9	7.2	51.3	-5.6	-5.6	11.5	0.3	8.7
Electricity, gas and water	2.67	14.9	8.4	1.0	4.1	1.4	-5.5	-1.0	1.6	4.3
Alcoholic drinks and tobacco	0.54	6.5	1.3	1.5	2.4	2.1	2.3	1.0	5.0	2.7
Clothing and footwear	3.21	0.9	-1.8	-3.4	-4.5	-3.0	-1.9	-1.4	1.6	0.1
Durable goods	4.65	-3.4	-5.6	-5.4	-5.3	-5.0	-3.6	-3.6	-3.6	-4.0
Miscellaneous goods	3.56	2.3	0.9	1.5	2.3	2.1	2.3	1.8	2.5	1.8
Transport	7.98	2.0	-0.3	1.6	1.4	2.1	2.9	2.9	1.6	1.7
Miscellaneous services	15.81	3.0	1.1	2.3	2.5	1.9	0.6	2.2	1.9	2.6

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

(%)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Private consumption expenditure	4.1	2.5	-1.4	1.4	3.6	3.2	2.7
Government consumption expenditure	2.2	4.4	0.7	-0.2	4.5	6.2	4.3
Gross domestic fixed capital formation	-2.1	1.7	0.3	5.8	6.8	6.4	-2.9
Total exports of goods	2.0	3.8	0.3	4.3	7.8	3.2	-0.1
Imports of goods	1.5	4.5	-1.4	6.3	8.4	4.3	-0.3
Exports of services	2.6	3.2	-9.4	8.2	7.5	4.7	0.4
Imports of services	2.5	4.3	-3.8	4.9	5.9	0.6	0.3
Gross Domestic Product	3.1	1.3	-0.4	0.3	3.9	3.5	1.8
Total final demand	2.2	3.3	-1.3	4.1	6.7	3.7	0.4
Domestic demand	2.4	2.6	-0.8	2.2	4.5	4.2	1.4

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

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

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

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

	(%)								
	<u>2014</u>	<u>2015[#]</u>	<u>2016[#]</u>	<u>2016</u>		<u>2017</u>		Average annual rate of change:	
				Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]	10 years 2006 to 2016 [#]	5 years 2011 to 2016 [#]
Private consumption expenditure	2.9	1.2	1.6	2.1	1.8	2.0	2.3	2.2	2.3
Government consumption expenditure	4.7	4.4	3.8	3.9	3.7	3.4	2.3	3.5	4.7
Gross domestic fixed capital formation	3.1	4.5	0.1	-0.4	1.3	4.5	5.2	2.3	2.2
Total exports of goods	0.7	-0.7	-1.4	-1.3	0.3	1.6	1.3	1.9	0.3
Imports of goods	0.8	-1.4	-1.8	-1.4	0.3	1.9	1.4	2.0	0.3
Exports of services	0.4	-2.8	-2.0	-1.2	-0.5	1.1	1.0	1.1	0.1
Imports of services	0.5	-4.6	-1.4	0.1	-0.7	0.9	0.5	0.9	-0.9
Gross Domestic Product	2.9	3.6	1.8	1.5	1.8	2.1	3.1	2.2	2.7
Total final demand	1.4	*	-0.5	-0.3	0.7	1.9	1.9	2.0	1.0
Domestic demand	3.1	2.2	1.5	1.7	1.8	2.7	3.0	2.3	2.5

