2017 Economic Background and 2018 Prospects

Government of the Hong Kong Special Administrative Region

2017 ECONOMIC BACKGROUND AND 2018 PROSPECTS

ECONOMIC ANALYSIS DIVISION
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FINANCIAL SECRETARY'S OFFICE
GOVERNMENT OF THE
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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE IN 2017

Summary

- *The Hong Kong economy sustained notable expansion throughout 2017 amid a synchronised global economic upswing, attaining an annual growth of 3.8% for the year as a whole, up from 2.1% growth in 2016 and notably above the average annual growth of 2.9% in the preceding ten years (2007-2016). The strong economic performance in 2017 was broad-based. External demand turned stronger amid the increased global growth momentum. Domestic demand was likewise robust, thanks to favourable labour market conditions and upbeat economic sentiment.*

- *Hong Kong's total exports of goods grew briskly in 2017, picking up notably from the modest growth in 2016, as the strengthening global demand gave rise to vibrant regional production and trading activities in Asia. Against this backdrop, exports to Asian markets continued to be the key propeller in 2017. Exports to the US and the EU also reverted to growth for the year as a whole.*

- *Exports of services showed a turnaround in 2017, reverting to moderate growth from the annual decline in 2016. The improvement was across all major service components. Amid the vibrant regional trade flows, exports of transport services were the bright spot and grew at the fastest annual pace since 2010. Mirroring the solid revival of inbound tourism, exports of travel services ended the prolonged setback and resumed growth for the year as a whole. Exports of financial services saw faster growth over the course of the year, bolstered by the increasingly buoyant global financial markets. Exports of business and other services also showed some modest growth for the year as a whole.*

- *Domestically, private consumption expenditure continued to display strength, with growth gathering pace over the course of 2017. The stellar private consumption performance was underpinned by favourable job and income situations as well as a bigger boost from positive wealth effects. Business sentiments were generally optimistic in 2017 as the economic outlook improved. Investment expenditure resumed a moderate increase for 2017 as a whole after three consecutive years of annual decline, aided also by the acceleration in public sector building and construction works and a pick-up in property market transactions.*

- *The labour market remained in a state of full employment and tightened further over the course of 2017, with the seasonally adjusted unemployment rate falling successively to a near-20-year low of 2.9% in the fourth quarter of 2017. Total employment picked up strongly during the year to reach a*

new annual high. Wages and earnings saw sustained real improvement.

- *The local stock market saw a strong rally in 2017, as investor sentiment turned more bullish amid the brightened global economic outlook and receding external risks. The residential market was generally buoyant, except for a brief period of moderation around mid-year following the eighth round of macro-prudential measures for property mortgage loans in May. During the year, overall residential flat prices rose sizably by 15%.*
- *Inflation remained moderate in 2017, as local cost pressure was largely contained and imported inflation stayed low. For 2017 as a whole, underlying consumer price inflation came down to 1.7% from 2.3% in 2016, marking the sixth consecutive year of easing.*

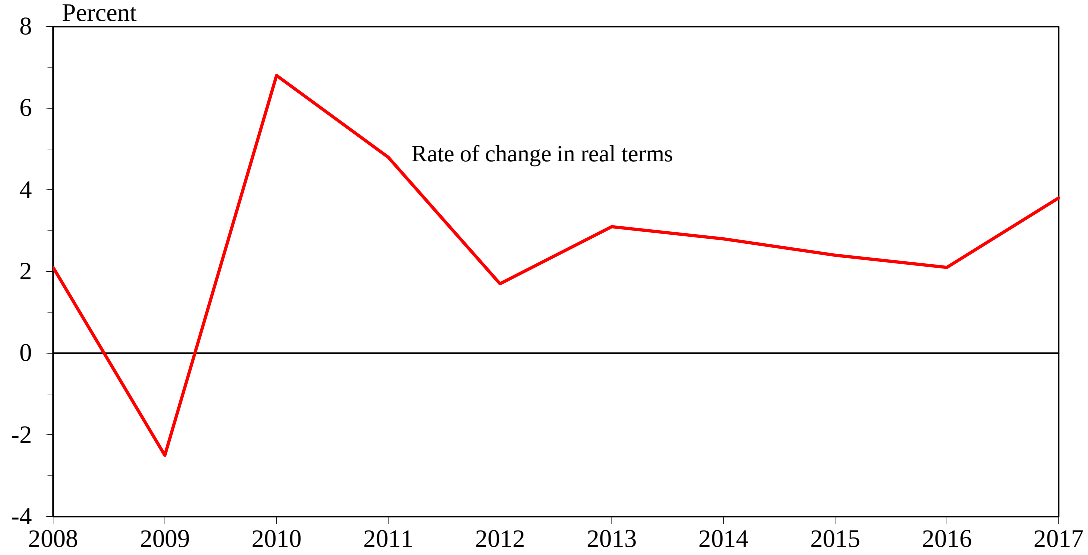
Overall situation

1.1 The Hong Kong economy expanded notably throughout 2017, as the improving growth momentum in late 2016 evolved into a full-fledged upturn in 2017. This was mainly supported by the broad-based global economic upswing, the broadest upsurge since 2010, which in turn gave rise to more vibrant global trade flows. The various external downside risks which troubled the global economy in the early months of 2017 subsided over the course of the year. As the global economic outlook brightened and sentiment turned more upbeat, major stock markets around the world rallied strongly during the year. Against this favourable backdrop, Hong Kong's exports of goods picked up visibly in 2017. Exports of services likewise saw a broad-based turnaround, thanks to active regional trade flows, a sustained recovery of inbound tourism and buoyant cross-border financial activities. The domestic sector was robust. Well underpinned by favourable labour market conditions and a stronger boost from positive wealth effects, private consumption staged strong growth in 2017. Investment spending resumed moderate growth for 2017 as a whole, supported by generally positive business sentiments, acceleration in public building and construction works, and a pick-up in property market transactions. The labour market continued to see full employment and tightened further amid strong employment growth. Wages and earnings sustained real increases. Meanwhile, inflation stayed moderate in 2017, as local cost pressure was largely contained and imported inflation remained low.

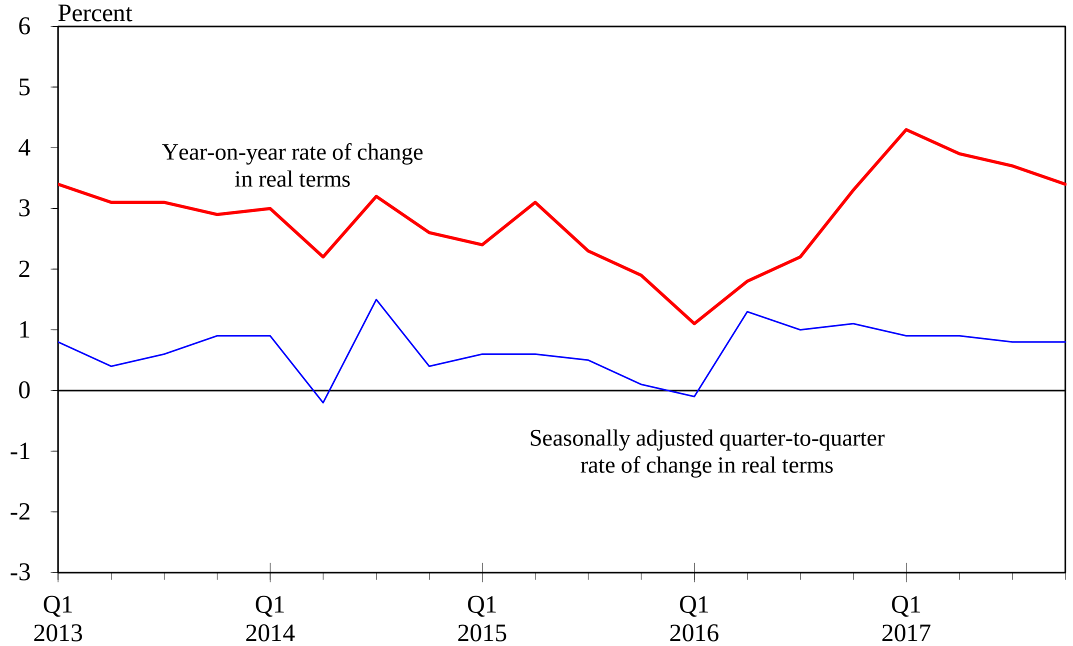
1.2 For 2017 as a whole, *Gross Domestic Product* (GDP)[(1)] grew notably by 3.8% in real terms, accelerating from 2.1% growth in 2016. This was also markedly faster than the 2.9% trend growth over the preceding ten years (2007-2016). In terms of the quarterly profile, the year-on-year growth rate of real GDP leaped to 4.3% in the first quarter against a relatively low base of comparison in early 2016, and maintained above-trend growth at 3.9%, 3.7% and 3.4% respectively in the second, third and fourth quarters. On a seasonally adjusted quarter-to-quarter basis[(2)], real GDP sustained visible growth throughout the four quarters, at 0.9%, 0.9%, 0.8% and 0.8% respectively.

Diagram 1.1 : The Hong Kong economy picked up to expand at an above-trend pace in 2017

(a) Annual profile



(b) Quarterly profile



The external sector

1.3 *Total exports of goods* compiled under the GDP accounting framework accelerated to grow notably by 5.9% in real terms in 2017, much faster than their 1.6% growth in 2016, reflecting buoyant external demand amid the broad-based global economic upswing. In terms of the quarterly profile, after surging by 9.5% year-on-year in real terms in the first quarter over a low base of comparison in early 2016, total exports of goods grew notably further by 5.8% and 5.7% respectively in the second and third quarters. A solid growth of 3.4% was attained in the fourth quarter, despite the higher base of comparison in the same period of 2016.

1.4 Analysed by major market, by reference to external merchandise trade statistics, the Asian markets remained the key driving force of overall export performance in 2017, as strengthening global demand gave rise to vibrant regional manufacturing and trading activities in Asia. This was evidenced by the robust growth in exports of raw materials and semi-manufactures to these markets. In particular, exports to the Mainland sustained solid growth throughout the year, while those to India and Taiwan saw another year of double-digit growth. Exports to Korea, Singapore and many other markets in the Association of Southeast Asian Nations (ASEAN) also grew by various extents. Exports to the major advanced economies likewise improved. Notably, exports to Japan staged a double-digit rebound after four years of prolonged setback. Exports to the EU likewise picked up to grow strongly in the second half of the year as the economic recovery there gained further traction, turning in the fastest annual growth since 2010. Meanwhile, exports to the US also reverted to modest growth in 2017.

1.5 *Exports of services* likewise improved visibly, reverting to moderate 3.5% growth in real terms in 2017 from an annual decline of 3.4% in 2016, with broad-based improvement across different segments. Exports of transport services picked up to grow at the fastest annual pace since 2010, thanks to the vibrant regional trade and cargo flows. The sanguine global economic environment also gave rise to buoyant cross-border financial activities, lending support to our exports of financial services which rebounded and gathered pace during 2017. Reflecting the solid revival of visitor arrivals, exports of travel services ended three years of decline and resumed modest growth in 2017, with growth picking up further in the fourth quarter. Separately, exports of business and other services also showed mild growth.

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

	2016#	2017+	2016 Q1#	2016 Q2#	2016 Q3#	2016 Q4#	2017 Q1#	2017 Q2#	2017 Q3#	2017 Q4+
Change in real terms of GDP and its main expenditure components (%)										
Private consumption expenditure	1.9	5.4	1.6	0.2	2.0	3.9	3.6	5.4	6.3	6.3
			(0.9)	(0.2)	(1.2)	(1.5)	(0.8)	(1.8)	(2.0)	(1.4)
Government consumption expenditure	3.3	3.4	3.1	3.6	3.4	3.2	2.9	2.9	4.5	3.1
			(0.9)	(1.0)	(0.3)	(1.0)	(0.6)	(1.0)	(1.8)	(-0.3)
Gross domestic fixed capital formation	-0.1	4.2	-7.7	-5.7	7.2	6.0	5.8	7.8	-1.3	4.7
Building and construction	5.9	3.0	4.1	3.9	4.8	10.4	7.0	1.9	3.4	0.1
Costs of ownership transfer	-2.9	22.2	-50.9	-19.3	22.5	63.6	77.2	53.3	-12.6	6.1
Machinery, equipment and intellectual property products	-6.3	1.9	-11.7	-13.3	7.0	-6.4	-6.8	6.7	-4.3	10.1
Total exports of goods&	1.6	5.9	-3.7	2.3	2.3	4.8	9.5	5.8	5.7	3.4
			(-3.2)	(3.9)	(0.7)	(3.5)	(1.2)	(0.2)	(0.7)	(1.1)
Imports of goods&	0.7	6.9	-5.9	0.4	2.8	5.1	10.2	6.4	6.3	5.4
			(-4.2)	(4.1)	(1.7)	(3.3)	(0.8)	(0.4)	(1.5)	(2.4)
Exports of services&	-3.4	3.5	-5.7	-6.3	-2.8	1.1	3.4	2.7	3.9	4.0
			(-1.4)	(-0.4)	(1.7)	(1.0)	(1.1)	(-1.1)	(2.8)	(1.1)
Imports of services&	2.1	1.8	4.5	0.4	1.0	2.5	1.0	4.2	1.6	0.6
			(1.9)	(-2.0)	(1.1)	(1.6)	(0.2)	(1.2)	(-1.2)	(0.5)
Gross Domestic Product	**2.1**	**3.8**	**1.1**	**1.8**	**2.2**	**3.3**	**4.3**	**3.9**	**3.7**	**3.4**
			(-0.1)	**(1.3)**	**(1.0)**	**(1.1)**	**(0.9)**	**(0.9)**	**(0.8)**	**(0.8)**
Change in the main price indicators (%)										
GDP deflator	**1.7**	**3.0**	**2.1**	**1.6**	**1.3**	**1.7**	**2.4**	**3.5**	**3.3**	**2.7**
			(0.4)	**(0.3)**	**(0.3)**	**(0.9)**	**(1.0)**	**(1.2)**	**(0.3)**	**(0.3)**
Composite CPI										
Headline	**2.4**	**1.5**	**2.8**	**2.6**	**3.1**	**1.2**	**0.5**	**2.0**	**1.8**	**1.6**
			(0.7)	**(-0.7)**	**(0.5)**	**(0.7)**	**(0.1)**	**(0.6)**	**(0.3)**	**(0.6)**
Underlying^	**2.3**	**1.7**	**2.8**	**2.3**	**2.1**	**2.1**	**1.4**	**2.0**	**1.7**	**1.6**
			(0.7)	**(0.1)**	**(0.5)**	**(0.7)**	**(0.1)**	**(0.6)**	**(0.3)**	**(0.6)**
Change in **nominal GDP** *(%)*	**3.9**	**6.9**	**3.2**	**3.4**	**3.6**	**5.1**	**6.8**	**7.5**	**7.1**	**6.2**

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 domestic sector

1.6 Domestic demand was robust in 2017. *Private consumption expenditure* displayed much strength in 2017, expanding by 5.4% in real terms, notably faster than its 1.9% growth in 2016. Such visible growth was underpinned by sanguine consumer sentiment, thanks to favourable employment and income conditions as well as a bigger boost from wealth effects alongside buoyant asset markets. Meanwhile, *government consumption expenditure* grew steadily by 3.4% in real terms in 2017, broadly similar to its 3.3% growth in 2016.

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)]	*Of which :* Food	Durables	Non-durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure[(b)]
2016	Annual	-0.1	-2.5	-7.0	-0.2	1.9	5.9	-8.3	1.9
	H1	-1.7	-2.8	-13.5	-2.3	1.0	7.6	-11.2	0.9
	H2	1.6	-2.3	-0.5	1.9	2.8	4.2	-5.3	3.0
	Q1	-2.1	-4.6	-14.3	-3.6	2.0	15.5	-13.2	1.6
	Q2	-1.2	-1.3	-12.3	-1.0	0.1	0.4	-9.0	0.2
	Q3	0.3	-3.2	0.6	-2.7	2.2	3.4	-7.7	2.0
	Q4	2.7	-1.4	-1.4	6.0	3.4	5.0	-3.1	3.9
2017	Annual	5.0	3.6	6.0	6.4	4.6	3.8	1.9	5.4
	H1	3.9	3.4	-0.9	5.6	4.1	4.7	0.4	4.5
	H2	6.1	3.9	11.9	7.2	5.2	2.9	3.3	6.3
	Q1	3.7	3.4	-1.1	5.2	4.0	-0.5	1.5	3.6
	Q2	4.1	3.4	-0.6	5.9	4.2	10.3	-0.8	5.4
	Q3	5.9	4.5	9.4	7.6	5.0	4.2	2.4	6.3
	Q4	6.3	3.4	13.9	6.8	5.3	1.6	4.2	6.3

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.

Diagram 1.2 : Private consumption expenditure grew strongly

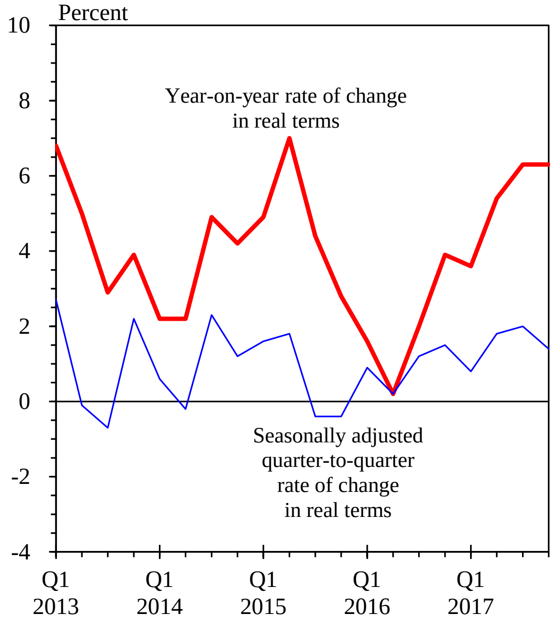
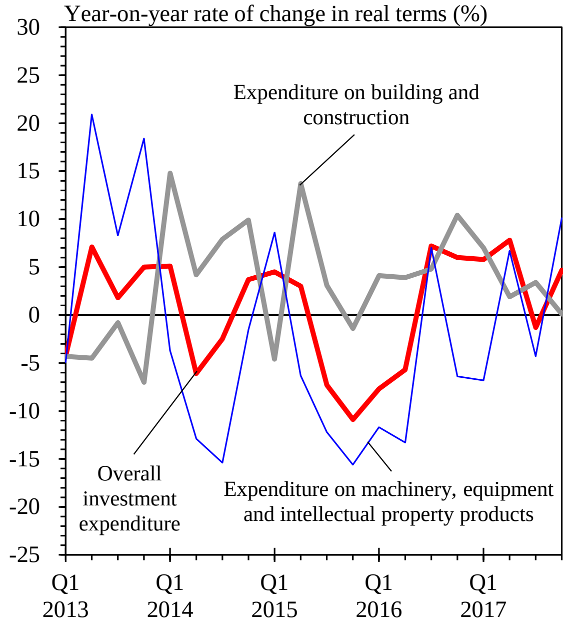


Diagram 1.3 : Investment spending resumed moderate growth in 2017



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* resumed moderate growth of 4.2% in real terms in 2017 despite some volatility in individual quarters, after dipping by 0.1% in 2016. In particular, overall building and construction grew solidly by 3.0% in real terms in 2017. Within this, private sector building and construction activities saw further growth in 2017 after a surge in the previous year, while public sector building and construction works picked up notably. Separately, the surge in the costs of ownership transfer amid a more active property market also contributed to the annual increase in overall investment spending. Regarding expenditure on acquisitions of machinery, equipment and intellectual property products, there was an increase of 1.9% in real terms in 2017, arresting the trend of annual declines since 2014, as business sentiment stayed generally positive throughout the year along with progressive improvement in the global economic outlook (See ***Box 1.1*** on economic sentiment indicators across major economies and Hong Kong).

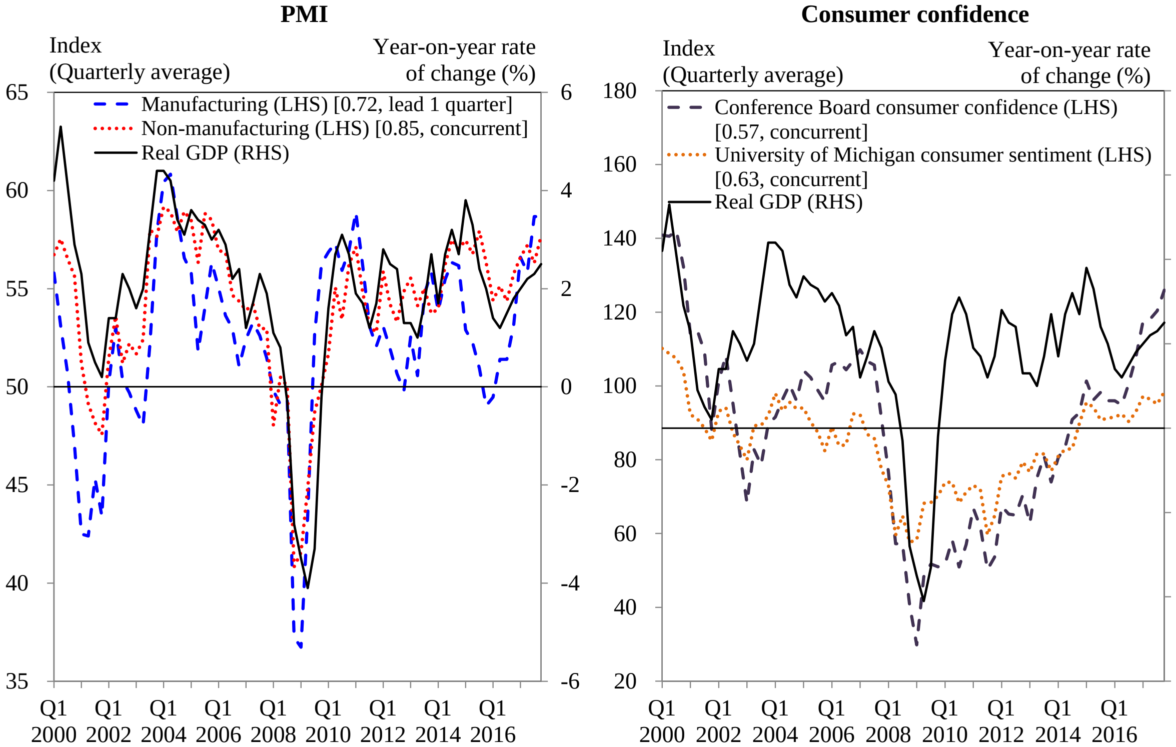
Box 1.1

Recent global economic sentiment

Results of regular surveys on consumer confidence and business sentiment can be used to produce high-frequency indicators for gauging the latest economic situation and outlook. For example, stronger consumer confidence, business sentiment and purchasing managers' indices (PMIs) may indicate that consumers are more willing to spend and businesses are more inclined to invest or to increase production in anticipation of a pickup in future demand. Thus these indicators provide signals about the current state of the economy and its future direction. This box article gives an overview of the latest trends in global and local economic sentiment, based on results from various surveys that are available in the public domain as of 15 February 2018.

Selected sentiment indicators on the major advanced economies are shown in ***Charts 1-3***. These indicators have moved broadly in line with, or slightly ahead of, GDP growth. Such observation is also confirmed by cross correlation analyses between these sentiment indicators and GDP growth in the corresponding economies. Given that these indicators are usually available within or shortly after the reference month, whereas the releases of GDP statistics have a much longer time lag, usually well past the reference quarter, they are useful, despite their limitations, as a quick-and-simple way to gauge the latest growth momentum of the economy.

Chart 1 : US sentiment and real GDP growth



Notes: For PMI, 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.

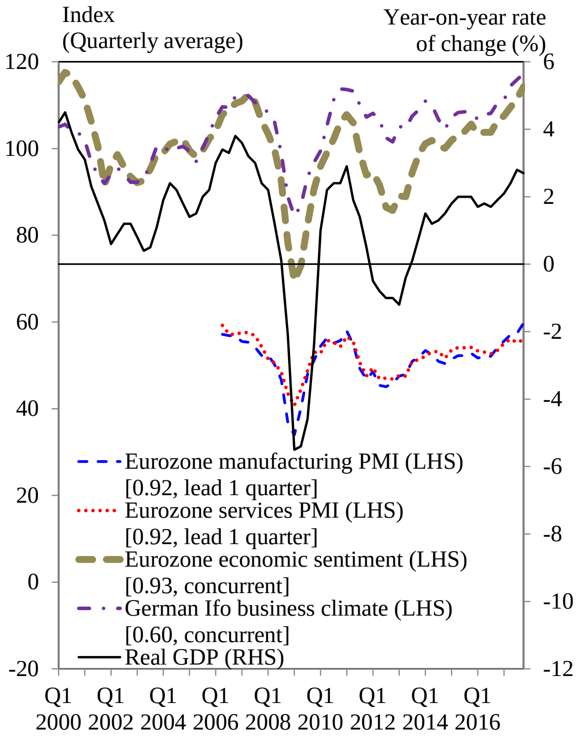
[ ] Cross correlation coefficient with GDP, with specified lead time over the corresponding GDP growth.

Sources: PMIs: Institute for Supply Management (ISM). Consumer confidence: The US Conference Board; University of Michigan. Real GDP: US Bureau of Economic Analysis.

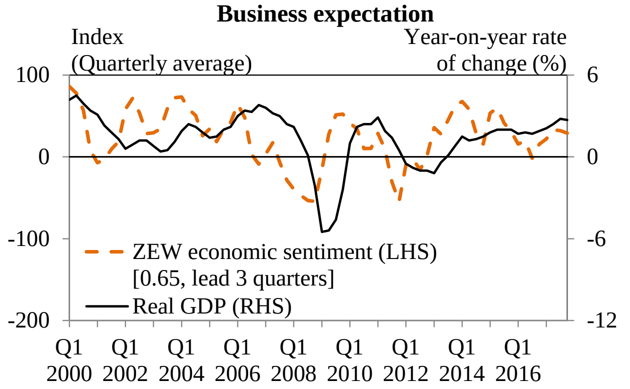
Box 1.1 (Cont'd)

Chart 2 : Euro-area sentiment and real GDP growth

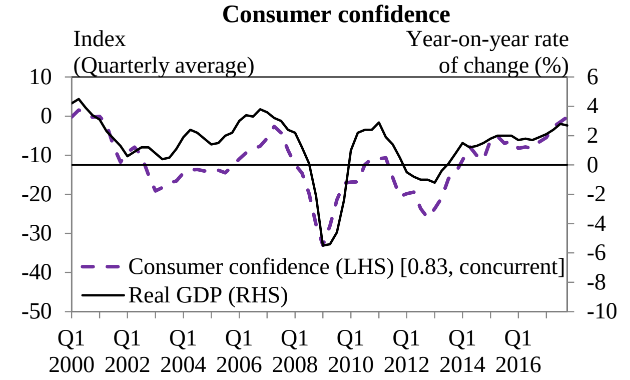
Business sentiment



Business expectation



Consumer confidence

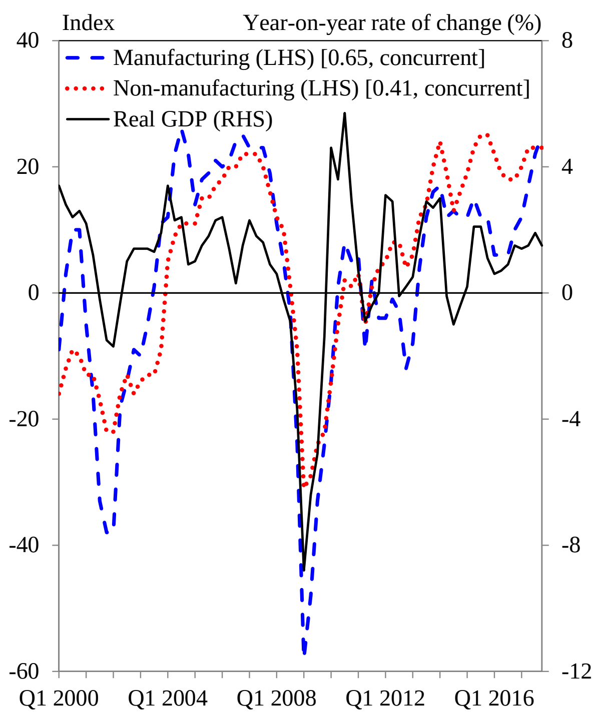


Note: [ ] Cross correlation coefficient with GDP, with specified lead time over the corresponding GDP growth.

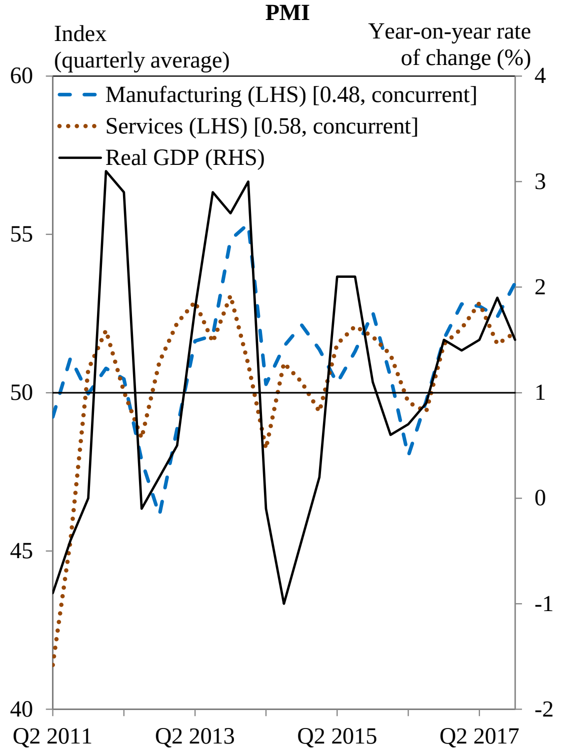
Sources: Eurozone PMIs: IHS Markit. German Ifo business climate: Ifo Business Survey. Economic sentiment, consumer confidence: European Commission. ZEW economic sentiment: ZEW Financial Market Survey. Real GDP: Eurostat.

Chart 3 : Japan sentiment and real GDP growth

Tankan for large enterprises



PMI



Note: [ ] Cross correlation coefficient with GDP, with specified lead time over the corresponding GDP growth.

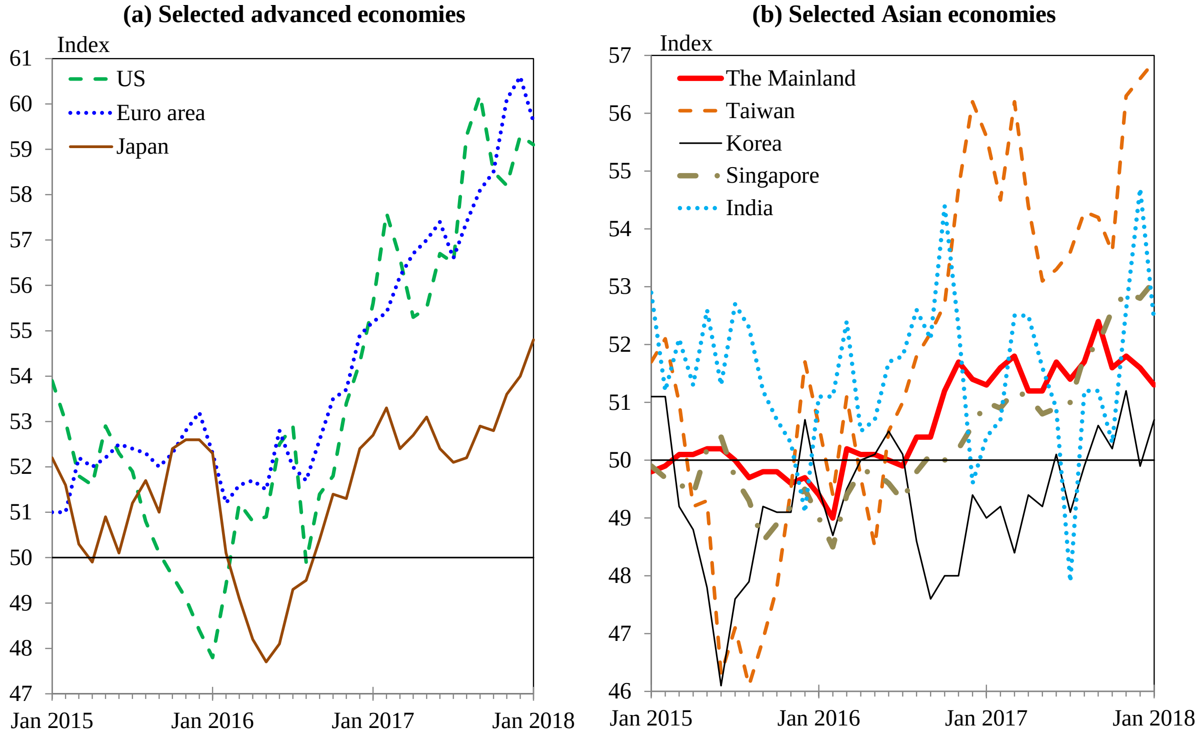
Sources: Tankan: Bank of Japan. PMI: Nikkei, IHS Markit. Real GDP: Japan Cabinet Office's Economic and Social Research Institute.

Box 1.1 (Cont'd)

These indicators broadly strengthened over the course of 2017, in line with the synchronised global economic upswing. In the major advanced economies, various sentiment indices on enterprises bottomed out in 2016 and stayed in expansion zone throughout 2017, trending up visibly in tandem to reach multi-year highs in the latter part of the year (***Chart 4a***), notably for the euro area economy, which saw the fastest growth in a decade in 2017.

As for other major Asian markets (***Chart 4b***), the PMIs for the Mainland, Taiwan and Singapore likewise remained in expansion zone throughout 2017 and largely strengthened by the year-end. India's PMI, though being volatile during the year amid the adverse effects arising from currency reform and the implementation of goods and services taxes, rebounded well into the expansion zone towards the year-end. For Korea, although its PMI over the past year seemed to suggest somewhat more cautious sentiment vis-à-vis the general optimism seen in other economies, there was likewise some relative improvement. In any case, with the vibrant regional trade flows, many economies in Asia generally registered robust growth in 2017.

Chart 4 : Manufacturing PMIs for selected economies



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, except for Singapore.

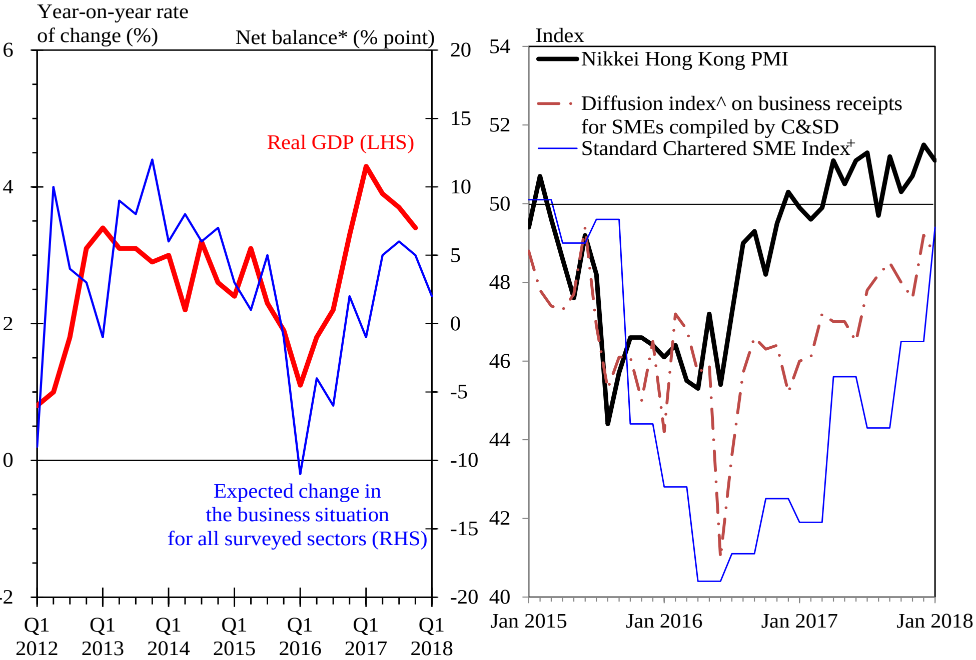
Sources: US: Institute for Supply Management. The Mainland: National Bureau of Statistics. Singapore: Singapore Institute of Purchasing and Materials Management. Others: IHS Markit, Nikkei.

The latest releases of these indicators suggest that the economic upturn as observed in 2017 has broadly extended into early 2018 globally. In January 2018, both the US ISM manufacturing and non-manufacturing PMIs stayed well above the boom-bust divide of 50, and the consumer sentiment indicators stayed strong. In the euro area, the composite PMI climbed up to the highest since June 2006, and the economic sentiment indicator compiled by the European Commission also held firm. Other indicators such as consumer confidence, ZEW economic sentiment and German Ifo business climate indices all climbed up in January. In Japan, the PMIs remained in the expansionary zone, and the Bank of Japan's Tankan December 2017 report suggested business conditions for large manufacturers improved further and hit an 11-year high. The PMIs in many other major Asian economies likewise pointed to further activity expansion and broadly optimistic near-term outlook.

Box 1.1 (Cont'd)

The optimistic sentiment prevailing in the global economy in early 2018 should bode well for Hong Kong as a small and open economy. Indeed, business sentiment for the private sector in Hong Kong broadly improved alongside the global trend over the course of 2017 and remained largely positive on entering 2018, with the Nikkei Hong Kong PMI(1) staying in expansion zone at 51.1 in January 2018 (***Chart 5***). Results from Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey(2) pointed to generally positive sentiment among large enterprises in 2017 and early 2018. As for small and medium enterprises (SMEs), the overall diffusion index(3) on business receipts compiled by C&SD stayed high recently relative to its levels in the past few years, while the Standard Chartered Hong Kong SME Leading Business Index (Standard Chartered SME Index)(4) picked up during 2017 and rose further in early 2018, reflecting sustained relative improvement in SMEs' business outlook.

Chart 5 : Business sentiment among large enterprises and SMEs in Hong Kong



Notes: (*) 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. Respondents were asked to exclude seasonal influences in their responses.

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

(+) Launched in Q3 2012 and quarterly data.

It is worth pointing out that these surveys are essentially opinion-based, thereby unavoidably subject to limitations (e.g. results are not directly comparable) and hence the results should be interpreted with care. Still, the latest survey findings suggest that global economic sentiment has stayed largely sanguine on entering 2018. That said, there remain various sources of uncertainty in the external environment, and the Government will continue to closely monitor the global economic developments.

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(1) According to the press release jointly released by Nikkei and IHS Markit, the Nikkei Hong Kong PMI is compiled from 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.

(2) The Quarterly Business Tendency Survey collected views from around 500-600 large establishments on their near-term business outlook.

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

(4) Conducted independently by Hong Kong Productivity Council, the quarterly survey enables the public and SMEs to gain insights into the forthcoming business climate for better forward planning. The Overall Index comprises five areas, including local SMEs' outlook on their "Sales amount", "Profit margin", "Investments", "Staff number", and "Global economic growth" for the next quarter.

The labour sector

1.8 The labour market remained in a state of full employment and tightened further in 2017, as the broad-based upturn in the economy during the year gave rise to strengthening demand for labour. The *seasonally adjusted unemployment rate* and the *underemployment rate* both moved down successively during the year to multi-year lows of 2.9% and 1.1% respectively in the fourth quarter. Total employment saw faster growth to reach a new annual high. Amid a tight labour market, wages and earnings sustained real increases in 2017. In particular, employment earnings of low-paid workers saw more appreciable growth, thanks to the additional boost from the upward adjustment of the Statutory Minimum Wage (SMW) rate since May 2017.

The asset markets

1.9 The *local stock market* saw a strong rally throughout 2017, alongside a surge in major overseas stock markets. In a still-very-low interest rate environment, investor sentiment turned more bullish as the global economic outlook brightened. The Hang Seng Index (HSI) rose almost uninterruptedly and reached a post-crisis high of 30 003 on 22 November, before closing the year at 29 919, 36.0% higher than at end-2016. The average daily turnover also increased markedly to $88.2 billion in 2017, from $66.9 billion in 2016. Credit growth, in terms of the year-on-year increase in loans for use in Hong Kong (including trade finance), picked up progressively over the year to 15.5% at end-December 2017, as compared to 7.3% growth at end-December 2016. However, fund-raising activity in terms of the amount of total initial public offering (IPO) funds raised moderated further from $195.3 billion in 2016 to $128.2 billion in 2017, though this was still sufficient to make Hong Kong the fourth largest IPO centre in the world.

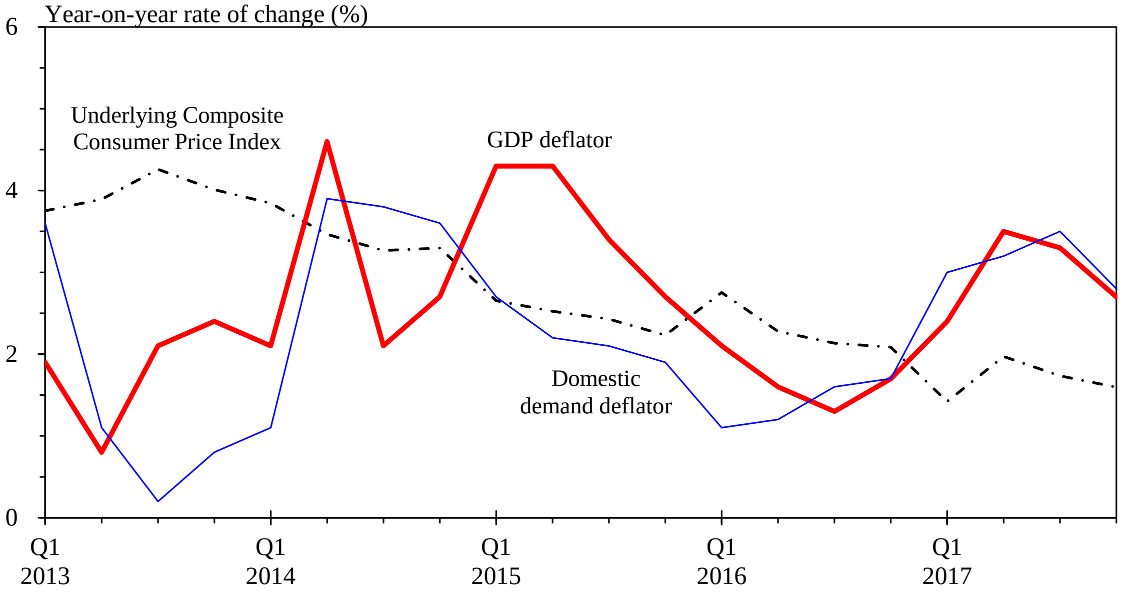
1.10 The *residential property market* was generally buoyant in 2017, except for a brief period of moderation around mid-year following the introduction of the eighth round of macro-prudential measures for property mortgage loans in May. The market situation was fervent, fuelled by the improved economic situation, the tight demand-supply balance of flats and sustained low interest rates. Overall flat prices in December 2017 were 15% higher than a year earlier and exceeded the 1997 peak by 104%. Trading was generally active throughout the year other than those several months around mid-year. The number of transactions, in terms of the total number of sales and purchase agreements for residential property received by the Land Registry, rose by 13% to 61 591 in 2017. The housing affordability ratio stayed elevated at around 67% in the fourth quarter of 2017, well above the long-term average of 45% from 1997 to 2016. Flat rentals likewise picked up to a cumulative 8% rise during 2017. As for commercial and industrial property, prices and rentals generally went up in 2017, in tandem with the broad-based improvement in the overall economy. Rentals for offices and flatted factories both increased by 5% over the same period, and those for retail premises reverted to a modest increase.

Inflation

1.11 Inflation pressure remained moderate in 2017. Netting out the effects of the Government's one-off relief measures, *underlying consumer price inflation* went down to 1.7% in 2017 from 2.3% in 2016, marking the sixth consecutive year of easing. External price pressures were modest in 2017, as inflation in Hong Kong's major import partners stayed mild, notwithstanding some slightly higher import price pressure towards the latter part of the year due to the global economic upswing and the depreciation of the US dollar. Locally, rental cost pressures as reflected in consumer price inflation were moderate in 2017, given that the general uptrend in fresh-letting residential rentals over the year only fed through gradually. The increase in labour costs was also in check when reckoned on a unit cost basis, as increases in labour earnings were accompanied by notable gains in labour productivity amid sustained above-trend economic growth. Meanwhile, *headline consumer price inflation* likewise moderated to 1.5% in 2017 from 2.4% in 2016.

1.12 The *GDP deflator* rose by 3.0% in 2017, faster than its 1.7% increase in 2016. This was mainly driven by the pick-up in the domestic demand deflator, reflecting in part the surge in asset prices during the year. Meanwhile, the terms of trade deteriorated mildly for 2017 as a whole, as import prices rose slightly faster than export prices in most of the year.

Diagram 1.4 : Underlying consumer price inflation extended its easing trend to 2017



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 services sector expanded solidly in the first three quarters of 2017, matching the notable overall GDP growth. The net output of the services sector grew in real terms by 3.6%, 3.2% and 3.6% respectively in the first three quarters of 2017 over a year earlier.

1.14 Among the major service sectors, the net output of wholesale and retail trades rebounded in the first three quarters of 2017 combined, with a more noticeable pick-up in the third quarter, on the back of robust consumption demand and progressive improvement in tourist spending. In tandem, the net output of accommodation and food services also rose faster compared to 2016. The net output of import/export trade and transportation, storage, postal and courier services both saw solid and accelerated growth alongside vibrant regional trade and cargo flows. Meanwhile, active financial activities amid a buoyant stock market and improved economic conditions rendered growth impetus to the net output of financing and insurance in the first three quarters. The net output of professional and business services, information and communications, as well as public administration, social and personal services likewise grew further. Growth in the net output of real estate, which covers activity of private sector developers and property agencies, picked up slightly when taking the first three quarters of 2017 together. As for the secondary sector, net output in the manufacturing sector rose mildly in the first three quarters of 2017, while that in the construction sector registered visible growth.

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

	2016	2017	2016				2017		
		Q1-Q3	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	-0.4	0.3	-0.3	-0.4	-0.1	-1.0	0.2	0.4	0.3
Construction	5.1	5.1	1.8	3.0	4.6	10.7	7.3	3.2	4.7
Services[(b)]	2.3	3.5	1.5	2.6	2.2	2.7	3.6	3.2	3.6
Import/export, wholesale and retail trades	0.6	3.8	-2.1	0.8	0.9	2.2	3.9	3.4	3.9
Import and export trade	2.2	4.3	-0.1	2.7	2.4	3.5	5.1	4.1	3.9
Wholesale and retail trades	-5.9	1.3	-9.7	-5.9	-5.9	-2.7	-0.9	0.6	3.9
Accommodation[(c)] and food services	0.5	1.8	-1.0	1.5	0.7	0.9	1.6	1.4	2.5
Transportation, storage, postal and courier services	3.0	4.9	2.3	3.0	3.1	3.5	4.7	4.8	5.2
Transportation and storage	3.1	4.7	2.5	3.0	3.1	3.6	4.5	4.5	5.0
Postal and courier services	1.6	9.5	-2.0	2.0	5.1	1.8	9.4	9.7	9.3
Information and communications	4.1	3.9	3.9	4.6	4.2	3.8	4.1	3.7	4.0
Financing and insurance	4.2	5.1	4.7	3.6	4.2	4.4	5.0	4.9	5.3
Real estate, professional and business services	2.8	2.8	1.7	3.5	2.5	3.5	4.2	2.1	2.0
Real estate	3.5	4.5	0.7	2.8	4.1	6.4	8.0	3.6	1.7
Professional and business services	2.2	1.3	2.3	4.1	1.1	1.3	0.7	0.9	2.2
Public administration, social and personal services	2.9	3.2	2.8	3.6	2.6	2.5	2.7	2.9	3.8

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

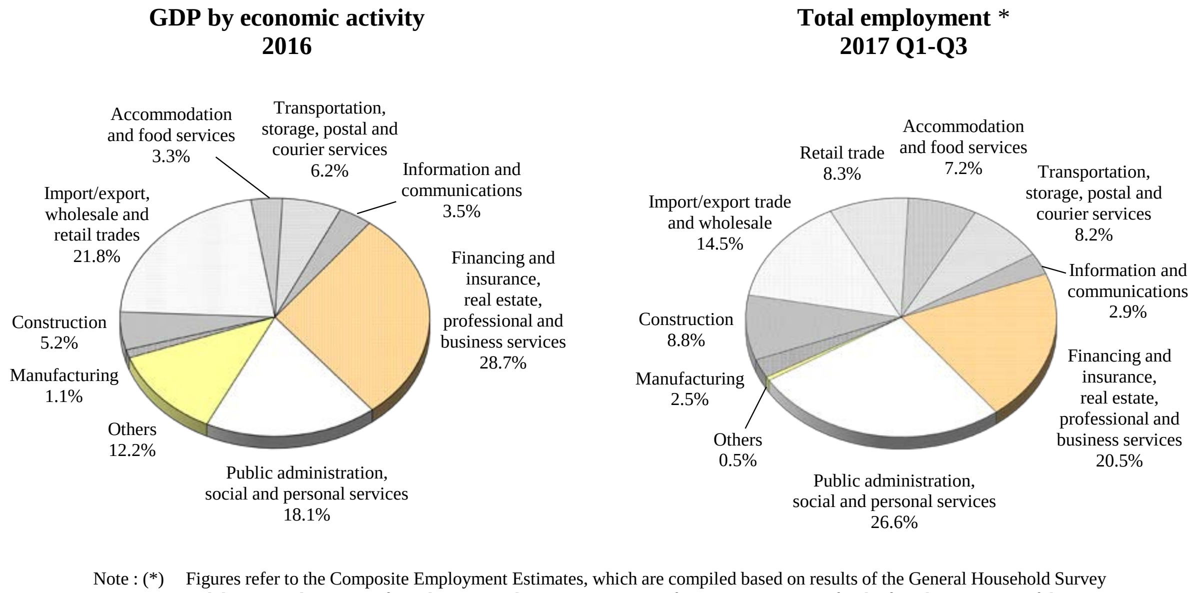
(a) The GDP figures shown in this table are compiled from the production approach, while those shown in Table 1.1 are compiled from the expenditure approach. For details, see Note (1) to this chapter.

(b) In the context of value-added contribution to GDP, the services 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.

1.15 The services sector is the mainstay of the Hong Kong economy, accounting for 92.2% of GDP in 2016 and providing 88.1% of total employment in the first three quarters of 2017. As the economic development of the Mainland enters a new era, shifting towards high-quality development, there are plenty of opportunities for Hong Kong's services sector to capture. Riding on the ongoing rebalancing of the Mainland's economy to services and consumption, as well as its further opening-up and deepening reforms, Hong Kong can leverage its competitive strengths to contribute to the nation's economic development. The Belt and Road Initiative will unleash a huge demand for services in which Hong Kong enjoys a competitive edge, such as financing, law and accounting, insurance and risk management, project management and town planning, dispute resolution and arbitration. Separately, at the regional level, the Guangdong-Hong Kong-Macao Bay Area development will lead to more cooperation with our neighbouring cities. By enhancing the flows of factors of production between these cities, there will be enormous synergies to achieve to raise the overall competitiveness and growth potential of the Bay Area. A notable example is the development of an international innovation and technology hub in Lok Ma Chau Loop. Meanwhile, Hong Kong will continue to enhance its status as an international financial, trading and business centre, by consolidating the strength of the traditional pillar industries, developing new industries with growth potential, encouraging innovation and technology, improving the regulatory regime, investing heavily in education and nurturing talents.

Diagram 1.5 : The services sector remains the key driver of the economy



Note : (*) Figures refer to the Composite Employment Estimates, which are compiled based on results of the General Household Survey and the Quarterly Survey of Employment and Vacancies. Figures for 2017 are averages for the first three quarters of the year.

Other economic developments

1.16 As the external environment was subject to a high degree of uncertainty in early 2017, the Government introduced a package of relief measures amounting to $35.1 billion in the 2017-18 Budget in February 2017, with a view to supporting the economy on one hand and sharing the fruits of economic development on the other. In October 2017, the new Chief Executive delivered her maiden Policy Address, outlining the current-term Government's vision in various policy areas and putting forward measures with new perspectives to promote economic development and enhance people's livelihood. On economic development, the Government will seize the opportunities from the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Bay Area development. The Government will also enhance Hong Kong's competitiveness through various means, including devising a more competitive tax system by introducing a two-tier profits tax system targeted to benefit small and medium-sized enterprises and a tax deduction to encourage investment in research and development. The Policy Address also pledged to increase land supply, devote new resources to education, and step up efforts to develop innovation and technology.

1.17 Fostering Hong Kong's economic integration with the Mainland is one of our key development strategies. To this end, the Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Bay Area was signed in July 2017, which sets out the goals and principles of cooperation and establishes the key cooperation areas in the development of the Bay Area. Meanwhile, 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 2017, and were implemented on 1 January 2018 and 28 June 2017 respectively.

1.18 To capitalise on the huge opportunities presented by the Belt and Road Initiative, the Arrangement between the National Development and Reform Commission (NDRC) and the Government of the Hong Kong Special Administrative Region for Advancing Hong Kong's Full Participation in and Contribution to the Belt and Road Initiative was signed in December 2017. The Arrangement serves as a blueprint for Hong Kong's further participation in the Belt and Road Initiative, and will put forward specific measures focusing on six key areas, namely finance and investment; infrastructure and maritime services; economic and trade facilitation; people-to-people bonds; taking forward the Guangdong-Hong Kong-Macao Bay Area Development; and enhancing collaboration in project interfacing and dispute resolution services.

1.19 Separately, the Government has continued to deepen economic ties with existing trading partners. In November 2017, Hong Kong forged a Free Trade Agreement and an Investment Agreement with ASEAN, which will bring about legal certainty and better market access for trade in goods and services as well as investment protection to Hong Kong, and reduce restrictions in doing business and expand business opportunities for Hong Kong enterprises.

1.20 On financial development, in May 2017, approval was given by the People's Bank of China and the Hong Kong Monetary Authority (HKMA) for establishing mutual bond market access between Hong Kong and the Mainland (Bond Connect), further reinforcing Hong Kong's status as an international financial centre and global offshore Renminbi centre. In June 2017, Hong Kong became a new member of the Asian Infrastructure Investment Bank. Separately, the HKMA and the Dubai Financial Services Authority of the Dubai International Financial Centre entered into a Co-operation Agreement in December 2017 to step up fintech collaboration.

1.21 To build Hong Kong into a world-class smart city, the Government in December 2017 released the Smart City Blueprint for Hong Kong, with a vision to embrace innovation and technology in order to realise a high quality of living. The Blueprint covered six major areas, namely "Smart Mobility", "Smart Living", "Smart Environment", "Smart People", "Smart Government" and "Smart Economy", and mapped out development plans in the next five years and beyond.

1.22 Hong Kong's institutional strength continues to be well recognised. Hong Kong was ranked as the world's freest economy by the Heritage Foundation for 24 years in a row. Also, Hong Kong was ranked as the world's most competitive economy for the second consecutive year in the International Institute for Management Development World Competitiveness Yearbook 2017. Moreover, Hong Kong was ranked the fifth easiest place to do business by the World Bank in its Doing Business 2018 report, being in a top-5 position persistently in the past decade amid the Government's incessant efforts in business facilitation.

Notes :

(1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.

(2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.

CHAPTER 2 : ECONOMIC OUTLOOK FOR 2018 AND THE MEDIUM TERM

Summary

- *The global economy in 2017 showed the fastest growth since 2011. The broad-based global economic upturn is expected to continue in 2018, with the Mainland economy sustaining robust growth, the US economy picking up further given the short-term boost from the tax reform, and the euro-area economy expanding on a firmer footing.*

- *Notwithstanding the prevailing sanguine economic sentiment, the global outlook is still subject to some uncertainties. First, amid improving economic conditions, major central banks, with the US Federal Reserve (Fed) taking the lead, would gradually withdraw monetary easing measures that have been put in place since the Global Financial Crisis. In this complicated monetary environment, any tightening moves that are faster than anticipated, or any developments that point to such possibilities, could heighten global financial volatility, with possible spill-over effects on asset prices, as evidenced by the recent jitters in global financial markets. Second, while the US tax reform is expected to boost short-term growth in the US, it could lead to a faster monetary tightening by the Fed or a reversal of international capital flows. Third, the possibility of an increase in trade conflicts cannot be ruled out, particularly in view of the shift towards inward-looking policies in some major economies. Fourth, geopolitical tensions and political uncertainty in certain regions still warrant attention.*

- *The strengthening global economy will continue to render a firm support to Asia's trading and manufacturing activities in 2018. As an international financial, trade and business centre, Hong Kong's exports of goods and services should benefit from such a development. For exports of services, additional support will come from the ongoing recovery in inbound tourism and further expansion of cross-border financial activity.*

- *Domestic demand should remain resilient in 2018. The tight labour market, coupled with favourable employment and income conditions, will be the major force underpinning private consumption expenditure. Investment expenditure is poised for further growth, thanks to the benign business sentiment, intensive infrastructure works, as well as expansion of building and construction activity.*

- *Considering the supportive global economic environment and resilient domestic demand, and barring any drastic external shocks, the Hong Kong economy is projected to grow by 3-4% in 2018, as compared to the notable growth of 3.8% in 2017 and the average annual growth of 2.7% in the past 10 years. If materialised, this will mark the second consecutive year of above-trend growth.*

- *On consumer price inflation, price pressures are expected to increase somewhat in 2018. Externally, inflation in Hong Kong's major import sources is expected to go slightly higher from the current low levels amid a stronger global economy. Locally, the feed-through from the rise in fresh-letting residential rentals during 2017 will likely turn more visible, and local cost pressure may also go up somewhat as the economy is expected to sustain above-trend growth. Overall, the underlying Composite Consumer Price Index (CPI) is forecast to increase by an average of 2.5% in 2018, as compared to that of 1.7% in 2017.*

- *The medium-term outlook for the Hong Kong economy remains bright. The Mainland's economic development has entered a new era. While proceeding with structural reforms and rebalancing, the Mainland economy is expected to move along a medium-to-high growth path, continuing to account for over 30% of global economic growth. Other developing Asian economies, generally with sound fundamentals, are expected to flourish further. With strong competitive edge in a wide range of services, Hong Kong is well positioned to benefit. The Government will act as a facilitator and a promoter when developing the economy, with a view to seizing the opportunities emancipating from the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Bay Area development. Meanwhile, the Government will continue to tackle the supply-side constraints in the economy and raise its overall competitiveness as well as productivity, in order to effectively raise Hong Kong's economic growth potential in a sustainable and inclusive manner. Overall, the trend GDP growth rate in real terms is forecast at 3% per annum from 2019 to 2022. The trend rate of underlying consumer price inflation is forecast at 2.5% per annum.*

Major external developments

2.1 The global economy strengthened in 2017, as the key downside risks clouding the outlook in early 2017 gradually subsided. With a synchronised upswing across economies, global economic growth in 2017 was the fastest since 2011. As the US economy gathered pace, the Fed proceeded further with its monetary policy normalisation. In the euro area, the economic recovery became more entrenched. Amid a burgeoning global demand, global trade flows increased visibly, enabling many Asian economies to register robust growth. In particular, the Mainland's economic growth picked up for the first time in seven years to 6.9%. The improving economic sentiment over the course of 2017 helped bolster major global stock markets and commodity prices, further reinforcing the broad-based global economic upturn. Looking ahead, the global economy is expected to carry its momentum into 2018, supporting international trade and investment flows. As an international financial, trade and business hub, Hong Kong stands to benefit from these developments.

2.2 While the global economic outlook for 2018 is generally optimistic with risks broadly balanced in the short term, there are still uncertainties relating to the global monetary environment as evidenced by the recent global stock market corrections; ramifications from the US tax reform (see ***Box 2.1*** on the detailed analysis on the implications of US tax reform); possible rise of trade conflicts; as well as geopolitical tensions and political uncertainty in certain regions. That said, economic growth in the advanced and emerging economies could also turn out to be stronger than expected in 2018, if various external uncertainties would diminish over the course of the year.

Global economic outlook

2.3 The major advanced economies all recorded stronger growth in 2017. In the US, real GDP growth picked up to 2.3%, and its unemployment rate fell to a 17-year low in recent months. The strengthening economy enabled the Fed to deliver three interest rate hikes during the year and start scaling back its balance sheet. Looking ahead, the US tax reform is widely expected to provide some extra boost to investment activity in the short term, though it remains to be seen whether this demand boost will spur inflation and hence lead to faster interest rate hikes by the Fed.

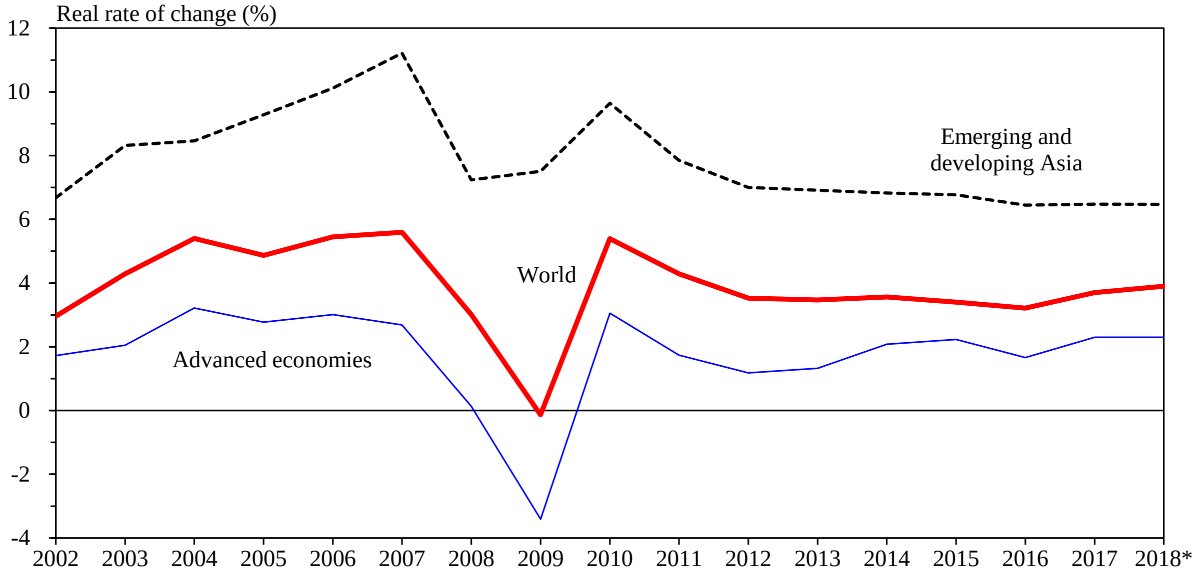
2.4 The euro-area economy, following a more entrenched recovery in 2017, is expected to sustain moderate growth in 2018. One major anchor is the highly accommodative monetary policy that is likely to be maintained by the European Central Bank (ECB) as inflation in the euro area remains modest, notwithstanding its tapering of asset purchases starting from January 2018. Domestic demand should also be buttressed by improved labour market conditions and stronger economic sentiment. Yet, there are uncertainties in the political development in Europe. On Brexit, the UK and the EU aim to launch the negotiations on future relationship shortly after March 2018, but the outcome remains to be seen. Other political events in Europe, including the general election in Italy in March 2018, also warrant attention.

2.5 Japan's economic performance improved in 2017, on the back of the strengthening global demand and supportive fiscal and monetary policy actions. Labour market tightened, with its unemployment rate hovering around 24-year-low level. Deflation risks receded somewhat, though inflation remained low. Looking ahead in 2018, Japan's external sector should continue to benefit from the further firm-up of global demand, while domestic demand should be supported by the extra fiscal stimulus approved in late 2017 and loose monetary policy. Nevertheless, the economy's growth potential is still constrained by structural issues such as population ageing.

2.6 The advanced economies as a whole have apparently emerged from the bumpy recovery seen after the Global Financial Crisis. Barring significant disruptions to international trade and geopolitical order, the advanced economies are expected to see further moderate growth in 2018. The International Monetary Fund (IMF) in January 2018 projected the advanced economies to grow by 2.3% in 2018, same as that in 2017.

2.7 Emerging market economies as a whole also gathered pace in 2017. Both Russia and Brazil reverted to growth after contracting for two consecutive years, thanks to the rebound in commodity prices. India's economic growth was notable, as the short-term impacts due to the introduction of goods and services tax in mid-2017 and currency reform in late-2016 gradually faded. Meanwhile, Asian emerging market economies generally displayed strength, characterised by vibrant manufacturing activities and surging trade flows during 2017. Looking ahead in 2018, emerging market economies should continue to benefit from the revival of global demand. The rise of the middle class in these economies should also provide some growth impetus to their consumption demand. The higher commodity prices after the rally in the past year or so, if sustained, could be conducive to the growth of commodity-dependent emerging market economies, though some of them whose fundamentals are weaker could be more vulnerable to capital outflows if the pace of monetary tightening in the advanced economies is faster than expected. According to the IMF's latest projections, emerging market and developing economies as a whole would grow by 4.9% in 2018, up from 4.7% in 2017. Within this, emerging and developing Asia was projected to grow notably by 6.5% in 2018, same as that in 2017, signifying the continuous shift of the global economic gravity towards Asia.

Diagram 2.1 : Asian emerging market economies are projected to grow notably further in 2018, signifying the continuous shift of the global economic gravity towards Asia



Source : IMF World Economic Outlook Update, January 2018.
Note : (*) Forecasts from the IMF.

2.8 The Mainland economy grew markedly by 6.9% in 2017, outperforming the official target of around 6.5% set at the beginning of the year. Exports rebounded appreciably and domestic demand stayed robust. Structural reforms have made notable progress, putting the economy onto a more sustainable growth path. Looking ahead in 2018, the Mainland economy is expected to maintain its growth momentum, as global economic environment should be favourable for its external sector and its domestic sector should remain sturdy. The 2017 Central Economic Work Conference, which set the overall strategy of economic work in 2018, highlighted the importance of pursuing high-quality development. The Central Authorities will also further deepen the supply-side structural reforms. Fiscal policy will continue to be proactive and monetary policy will remain prudent. To enhance external cooperation, the Belt and Road Initiative will continue to bring new growth opportunities. In January 2018, the IMF raised its projection for Mainland's economic growth to 6.6% in 2018, implying that the Mainland would remain the single largest global growth driver in 2018, contributing over 30% of global growth.

2.9 All in all, the IMF in January raised its growth forecast for the global economy in 2018 to 3.9%, representing a further pick-up from 3.7% in 2017, as it expected the stronger momentum seen in 2017 to carry on, barring a drastic correction in financial markets. The growth in global demand will create an environment conducive to international trade and investment flows. Also, the US tax reform and associated fiscal stimulus are expected to render a boost to the US economy this year, along with favourable spill-over effects for US trading partners. Meanwhile, the IMF deemed that the risks to the near-term outlook are broadly balanced. On one hand, the IMF continued to caution against uncertainties associated with US monetary policy normalisation, ramifications of US tax cuts, increase in trade barriers, geopolitical tensions and political developments in various regions. On the other hand, the IMF was of the view that the prevailing cyclical upturn may turn out to be stronger in the near term, if confidence in the global outlook and easy financial conditions continue to reinforce each other.

Table 2.1 : Growth forecasts for major economies in 2018

		2018	
	2017* (%)	IMF* (%)	Private sector forecast^ (%)
World (PPP## weighted)	3.7	3.9	-
Advanced economies	2.3	2.3	-
US	2.3#	2.7	2.8
Euro area	2.5#	2.2	2.3
UK	1.8#	1.5	1.5
Japan	1.6#	1.2	1.4
Emerging market and developing economies	4.7	4.9	-
Emerging and developing Asia	6.5	6.5	-
Mainland China	6.9#	6.6	6.5
India~	6.7	7.4	7.3
Middle East and North Africa+	2.5	3.6	-

Notes : (*) IMF World Economic Outlook Update, January 2018.
(^) Average forecasts as at February 2018.
(-) Not available.
(#) Actual figures.
(##) PPP refers to purchasing power parity.
(~) India's GDP growth refers to fiscal year.
(+) Based on "Middle East, North Africa, Afghanistan, and Pakistan" as defined by the IMF.

Box 2.1

US tax reform and its possible implications for the US and global economy

"Tax Cuts and Jobs Act of 2017" (1) in the US was signed into law before Christmas last year. The bill has taken effect from this year and will not only affect the US economy but also have impacts on the global economy given the economic significance of the US. This article highlights the prominent elements of the US tax reform and discusses its possible macroeconomic implications for the US and the world.

Highlights of the US tax reform bill

The US tax reform bill is a lengthy and complicated document. A central theme surrounding it is tax alleviation. For individuals, the statutory federal income tax rates for most income brackets are lowered(2). Other tax-saving measures, ranging from an increase in the child tax credit to a higher standard deduction for taxable income, are introduced. Yet, other measures such as a lower limit on the mortgage interest deduction and a newly imposed cap on the state and local income tax deduction may partially offset the impact. Overall, these changes would on balance reduce average tax rates on wage income by about one percentage point, according to the Joint Committee on Taxation of the US Congress (JCT)(3). The impacts of tax cuts are spread unevenly across taxpayers, depending on such factors as income, geographic location and outstanding mortgage debt.

A core part of the tax reform lies on corporations. The statutory federal corporate tax rate is reduced drastically to a flat 21%, while previously, US corporations were subject to a top rate of 35% under a progressive tax scheme(4). Moreover, a full expense deduction on certain capital asset acquisition is allowed for the coming five years(5), which helps firms realise immediate tax savings through accelerated depreciation in tax accounting. Smaller enterprises and non-corporates also enjoy tax deductions under the new tax law via provisions related to "pass-through" income(6).

The US approach to international taxation also sees revolutionary changes. Previously, US corporations paid taxes on their worldwide income, whether earned in the US or abroad. They were subject to a top rate of 35% whenever they received repatriated earnings from their foreign subsidiaries. Having weighed this and other relevant investment factors, US

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(1) Formal name of the act was "An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018", popularly referred as the "Tax Cuts and Jobs Act of 2017".

(2) The individual income tax rates for the seven income brackets were amended from 10%, 15%, 25%, 28%, 33%, 35%, and 39.6% previously to 10%, 12%, 22%, 24%, 32%, 35%, and 37% under the new tax law.

(3) JCT (22 December 2017). "Macroeconomic analysis of the conference agreement for H.R.1, The 'Tax cuts and jobs act'".

(4) Previously, the statutory federal corporate tax rates were 15% for taxable income not over US$50,000; 25% for between US$50,000 and US$75,000; 34% for between US$75,000 and US$10 million and 35% for over US$10 million. An additional five-percent tax was imposed on a corporation's taxable income in excess of US$100,000. The corresponding maximum additional tax was $11,750. Also, a second additional three-percent tax was imposed on a corporation's taxable income in excess of $15 million. The maximum second additional tax was US$100,000.

(5) Under the new law, generally, the bonus depreciation percentage is increased from 50% to 100% for qualified business assets acquired before 2023. Afterwards, the new law provides a phase down of the bonus depreciation percentage. Note that there are limitations on the types of assets.

(6) "Pass-through" is a general term for sole proprietorships, partnerships, limited liability companies and S corporations, as they are reported by the owners or shareholders on their individual income tax returns. Under the new law, individuals receiving income from certain pass-through businesses may deduct 20% of their "qualified business income" (QBI) from taxable income, subject to certain limits if annual QBI exceeds certain amounts (US$315,000 for married couples filing jointly, or US$157,500 for other individuals).

Box 2.1 (Cont'd)

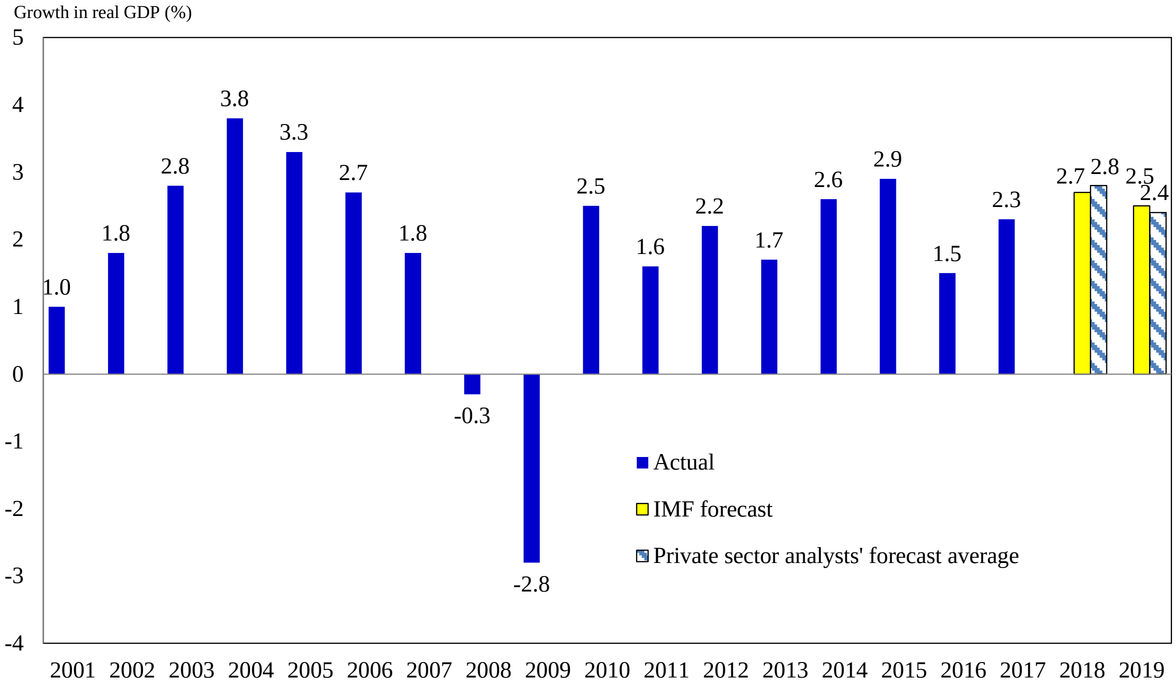
companies ended up accumulating huge amounts of undistributed earnings overseas over years, in cash or other forms of assets. Their value was estimated at as high as US$2.6 trillion in 2015(7).

Under the reform, US taxation shifts to a "territorial system", converging to a common practice of many high-income economies. US corporations' dividends from foreign subsidiaries are exempted from US taxation. To avoid abuses, base erosion prevention measures are introduced(8). As a transition to the new system, past "undistributed earnings" are mandatorily taxed once and for all, albeit at reduced rates of 15.5% for earnings and profits in cash (or equivalent) and 8% for the remainder. This tax liability is payable over a period of up to eight years.

Impacts on US economic growth

The tax reform is widely expected to have some boosting effects from the demand side, mainly through stronger business investments, thereby spurring short-term US economic growth. In January 2018, the International Monetary Fund (IMF) upwardly revised its US economic growth forecasts in the coming two years. The US economy was expected to grow at faster paces of 2.7% in 2018 and 2.5% in 2019, up from 2.3% in 2017. Private sector analysts on average also came to similar conclusions ***(Chart 1)***.

Chart 1: US economic growth is generally expected to pick up in 2018



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(7) See letter from Thomas Barthold, chief of staff of the Joint Committee on Taxation on 31 August, 2016.

(8) The new law provides for an exemption by means of a 100% deduction for the "foreign-source portion" of dividends that domestic US corporations receive from specified foreign corporations of which they own 10% or more. Separately, in order to reduce the erosion of the US corporate income tax base, the new tax law equalises the tax treatment of high return income from foreign sales whether they are earned through a foreign corporation or a domestic US corporation, and imposes a new minimum tax for certain related party transactions.

Box 2.1 (Cont'd)

Looking beyond the short term, whether the tax reform can spur potential growth in the longer run is more controversial. From a supply-side perspective, the increase in work incentive (substitution effect) should support an increase in labour supply, but the extent is uncertain, depending on the offsetting impact from higher demand for leisure (income effect) in tandem. The increase in capital stock accumulation is also difficult to predict, as firms can use the tax savings for other activities, such as mergers and acquisitions, debt reduction, share repurchase, special dividends or foreign investment, instead of investing locally. As explained later, the extent of international capital that would be lured to the US to create employment and lift productivity remains to be seen.

Therefore, it is no surprise that opinions about the tax reform's ability to lift long-term growth are highly divided. Many are of the view that there will be little lasting positive impact. In particular, US Fed officials in mid-December 2017 left their median forecast of longer-run US real GDP growth unchanged, at 1.8%. While the JCT estimated that the tax reform package would lift the level of US GDP by an average of 0.7% relative to the baseline forecast over the 10-year budget window, it added that the increase would fall to only 0.1-0.2% at the end of its 10-year window. Similarly, according to the IMF, the level of US GDP will be spurred by the tax reform in the short term, cumulating to 1.2% through 2020, but the boosting effects will be reversed from 2022 onwards, paring down earlier gains as the temporary tax measures are phased out according to the current bill.

On the other hand, some economists suggested a larger boosting effect, estimating that the changes to the corporate taxation could raise the level of US GDP in the long run by just over 3%, thereby translating into a 0.3 percentage point increase in annual growth over a 10-year horizon(9). The US Treasury Department was particularly optimistic, envisaging that the tax reform, together with some other measures, will bolster US real GDP growth in the coming 10 years by 0.7 percentage point on average, to 2.9% per year(10).

Implications for US fiscal and monetary policies

On the fiscal front, tax cuts could potentially lower US government revenue and worsen its budget deficit. This is a troubling issue, as its public finance has weakened visibly after the 2008 global financial crisis, with federal government debt estimated to have risen to 77% of its GDP by end-2017 ***(Chart 2)***. Moreover, government spending is under mounting pressure to rise amid an aging population, a common challenge confronting most advanced economies. The prospect of lower US government revenue in the longer run due to tax cuts would also compress its fiscal space for investment and countercyclical measures when needed.

Most available studies so far point to a net reduction in US federal government revenue over the 10-year budget forecast horizon, although the extent would hinge on the increase in the level of output brought by the reform and the attendant additional revenue that could make up the losses of revenue from the tax cuts. For examples, the JCT estimated that the US federal government revenue will be reduced on net by nearly US$1.1 trillion over a decade, and Moody's suggested a net increase of US$1.5 trillion to the US federal debt(11).

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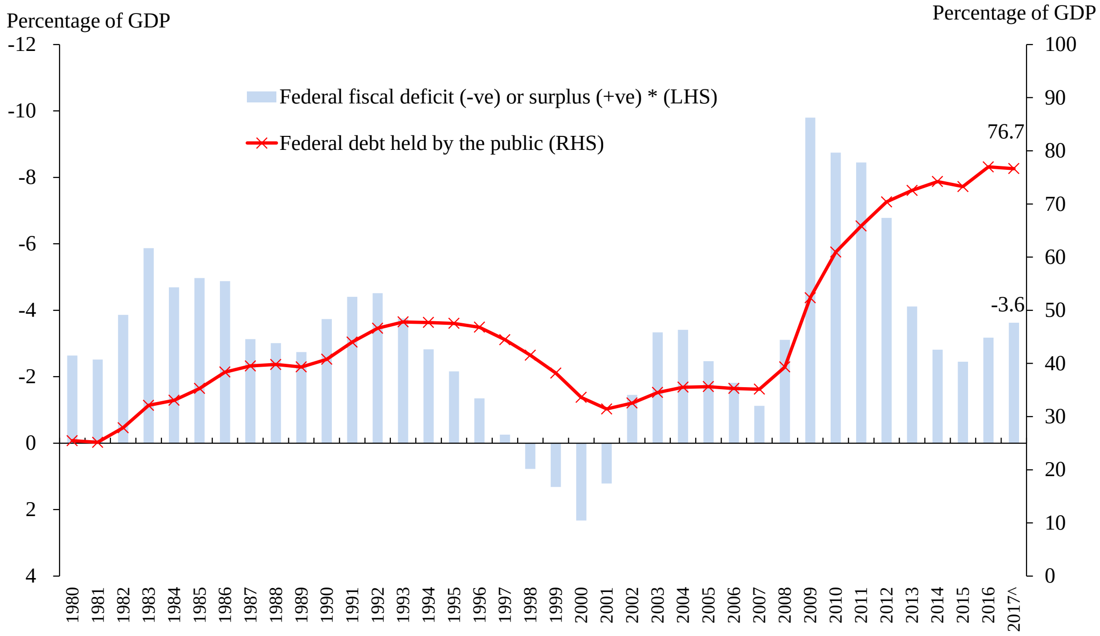
(9) Robert J. Barro, Michael J. Boskin, John Cogan and others (25 November 2017). "How tax reform will lift the economy". The estimated just-over-3% boost cited in this box refers to the estimate based on the 5-year expensing proposal of business assets in the letter.

(10) US Department of Treasury (11 December 2017). "Analysis of growth and revenue estimates based on the US Senate Committee on Finance tax reform plan".

(11) Moody's (21 December 2017), Announcement. "Tax reform will boost corporate profits, but is negative for the US sovereign and mixed for other sectors".

Box 2.1 (Cont'd)

Chart 2: US public finance position weakened visibly after the global financial crisis in 2008



Notes: (*) Deficit is inverted in scale for easier comprehension.
(^) 2017 figures are forecasts by the Congressional Budget Office, US.

Source: Congressional Budget Office, US. (June 2017 report: An Update to the Budget and Economic Outlook: 2017 to 2027).

On monetary policy, the US output gap has basically returned to positive territory, while the unemployment rate hovers at a 17-year low. Thus the room for accelerating growth due to the tax reform without raising inflation pressure is getting smaller. While core inflation in the US has stayed moderate of late, the Fed would have to tighten monetary policy at a faster pace, leading to faster-than-expected interest rate hikes, if inflation goes up. This could enlarge global financial volatility.

Impacts on the global economy

The IMF in January 2018 revised its global economic growth forecast upward by 0.2 percentage point to 3.9% in both 2018 and 2019. According to the IMF, half of its upward revision was attributed to the US tax reform, as a pick-up in demand in the US due to the tax reform in the upcoming two to three years will likely raise US imports from major trading partners, thereby spurring world trade and the global economy as a whole. That said, the demand-boosting effect of the tax reform could widen US current account deficits, and growing external imbalances could in turn fuel protectionist sentiments, aggravate international trade frictions and add global uncertainties.

The influences of US tax reforms on global capital flows also warrant attention. Tax cuts and changes in international taxation rules in the US provide incentives for foreign subsidiaries to repatriate earnings to their US parent companies. A more appealing tax landscape in the US may also draw foreign investments which otherwise would have flowed elsewhere. Given that the US is the largest economy as well as the biggest source of and destination for foreign direct investment in the world, the potential implications for global capital flows should not be ignored. That said, on top of tax factors, there are many other factors at play such as market size, supply chains, infrastructure, availability of skilled labour, and the regulatory environment when firms make decisions on new investments or alter their existing ones. Hence, whether the US tax reform would materially alter global capital flows remains to be seen.

Box 2.1 (Cont'd)

In a highly inter-connected world, another concern arising from a drastic tax cut initiated by the world's largest economy is the possibility of knock-on effects leading to a new wave of competitive tax cuts. Separately, there are also questions whether the US tax bill might constitute an unfair trade practice and whether it would contravene international trade treaties. How all this will eventually play out needs to be closely monitored.

Conclusion

In sum, the impacts of the US tax reform on the global economy are multi-faceted. As far as the Hong Kong economy is concerned, a brighter near-term global economic outlook led by faster US growth would be conducive to our economic growth this year. However, possible drawbacks such as faster interest rate hikes in the US, a reversal of global capital flows and rising protectionist sentiments stemming from growing external imbalances should not be overlooked. While Hong Kong is underpinned by sound economic fundamentals with strong buffers against external shocks, the Government will not be complacent and will monitor the developments closely.

On taxation, the Government recognises that the design of a tax regime is instrumental to our competitiveness. Hong Kong's simple tax system with low tax rates is highly competitive. Yet, the Government will proactively adopt a multi-pronged approach to unleash new sources of productivity growth, including the use of tax measures. A two-tiered tax system is expected to be rolled out this year, which should help alleviate the tax burden of small and medium enterprises as well as encourage entrepreneurship. A bill for an enhanced tax deduction for eligible research and development expenditure is also being drafted, with an aim to encourage research and development investment by enterprises. Also important is that the Government will observe international tax obligations to ensure that the new tax measures are not viewed as damaging to other economies in the world.

Monetary conditions

2.10 The global monetary landscape turns increasingly complicated as the broad-based upcycle has prompted adjustments of monetary stimuli in major advanced economies. The Fed, which has raised rates for five times since December 2015, is set to continue its monetary policy normalisation. For the US federal funds rate in particular, the median forecast by the Federal Open Market Committee (FOMC) participants in December 2017 pointed to three more hikes of 25 basis points each in 2018, though this pace should understandably hinge on the upcoming economic growth and inflation data. The latest FOMC meeting in late January 2018 was also viewed by many financial market participants as a prelude to a rate hike in March 2018. Meanwhile, other major central banks also started to adjust their monetary stimuli in 2017 as economic conditions improved. In particular, the ECB trimmed the pace of its asset purchase further starting from January 2018, while central banks in the UK and Canada raised rates for the first time in quite a few years. While many of them continued to stress the need to maintain an accommodative monetary policy environment going forward, there are possibilities of further adjustments should their economies sustain growth and inflation rise.

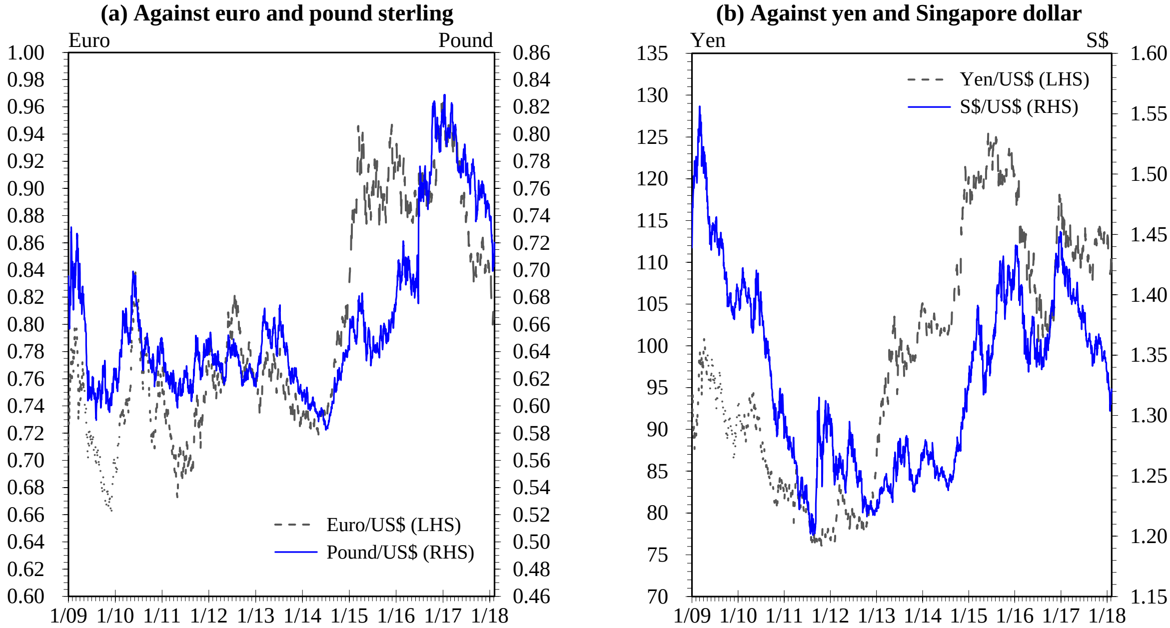
2.11 As the global economy and the financial markets have become used to the easy monetary environment since the Global Financial Crisis, any hint of tighter-than-expected moves by the major central banks as economic conditions evolve might trigger an abrupt tightening in global financial conditions, affecting sentiments and asset prices. Hence, the potential ramifications from this source of uncertainty should not be taken lightly.

Exchange rates and price competitiveness

2.12 During 2017, the US dollar weakened visibly against other major currencies from the high level in late 2016. The Hong Kong dollar, which mirrors closely the movements of the US dollar, also depreciated against many other currencies. The nominal trade-weighted effective exchange rate index of the Hong Kong dollar in December 2017 was 6% lower than a year ago. This partly contributed to the slightly widened increase in import prices towards the latter part of 2017.

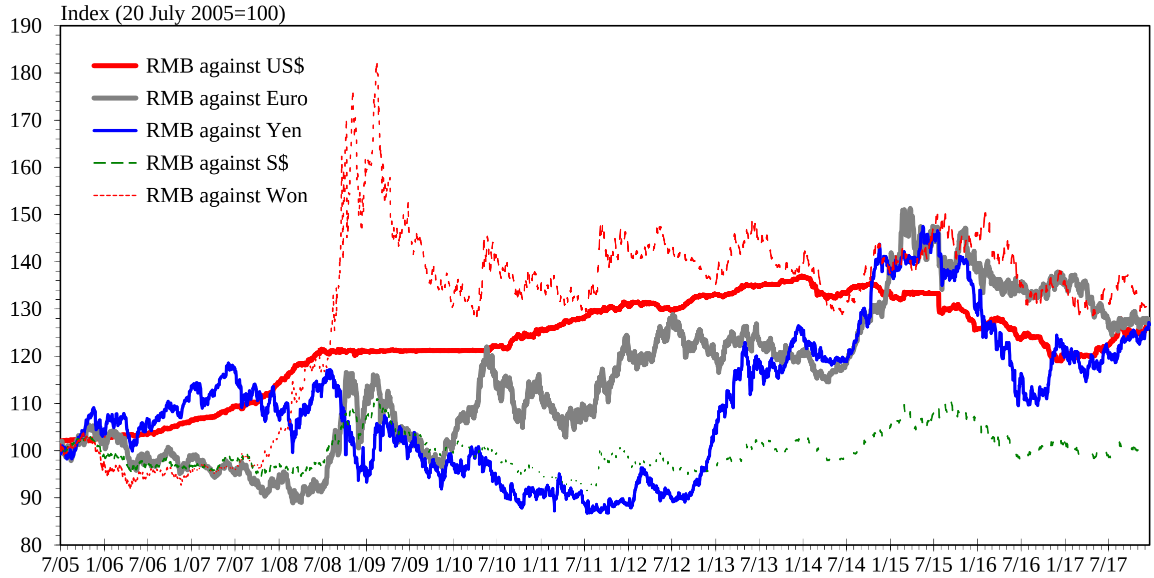
2.13 In 2018, the direction of exchange rate movements will remain subject to great uncertainty. The movements of the US dollar in the period ahead would depend on a number of factors, including the pace of the US monetary policy normalisation, the relative strengths of economic growth across major economies, as well as the actual impact of the US tax reform on international capital movements. As of early 2018, the US dollar remained notably weaker than its level a year earlier. While the movements of US dollar and hence the Hong Kong dollar may affect the price competitiveness of Hong Kong's exports of goods and services, the key factor determining Hong Kong's export outlook in 2018 would still be the strength of the import demand among Hong Kong's major export destinations.

Diagram 2.2 : The direction of exchange rate movements in 2018 will remain subject to great uncertainty



2.14 Given Hong Kong's close economic relations with the Mainland, the movement of the renminbi (RMB) is also an important factor affecting the performance of Hong Kong's external sector. RMB appreciated by 6% against Hong Kong dollar year-on-year in December 2017, reflecting the stronger-than-expected economic growth in the Mainland and the weakening of the US dollar against most major currencies. Going forward, the price determination mechanism of RMB is expected to be increasingly market-driven, amid continued policy improvements by the People's Bank of China (PBoC). The PBoC also continues to promote the wider use of cross-border RMB for trade settlement as well as investment. On the exchange rate value of the RMB, the expected solid growth momentum in the Mainland economy would bode well for a relatively stable RMB, which could help reduce the exchange rate uncertainty faced by Hong Kong companies.

Diagram 2.3 : A relatively stable RMB could help reduce uncertainty that Hong Kong's trading companies would face



Note : An increase in the index represents an appreciation of the RMB against the currency concerned.

World inflation and global commodity prices

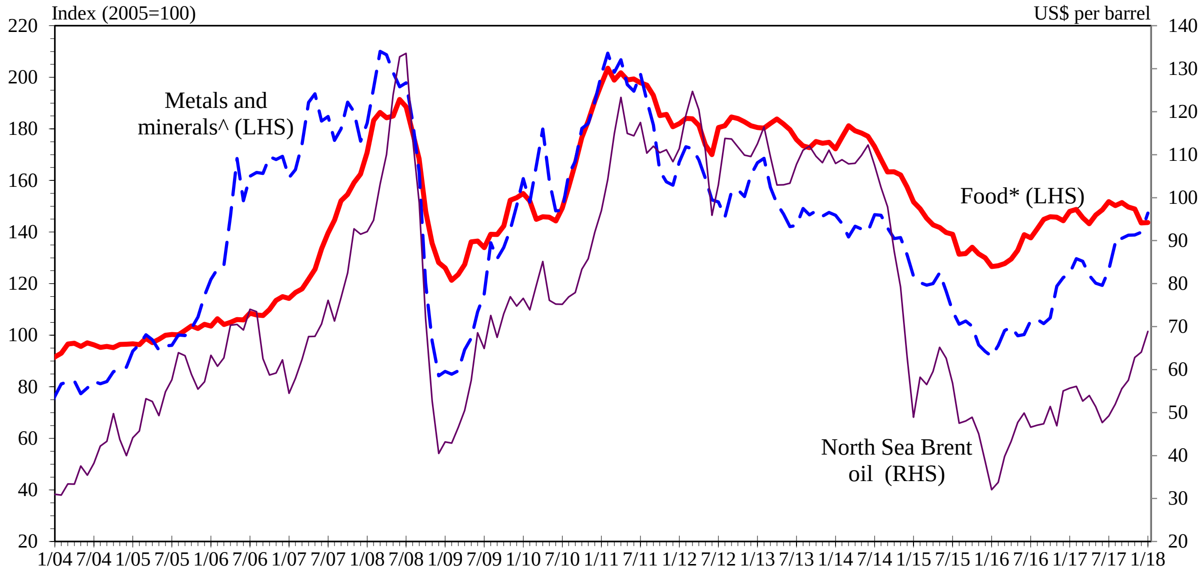
2.15 In 2017, global inflation rose slightly along with the economic upturn, but by and large remained modest. Thanks to such development, deflation risks in the euro area and Japan receded. Still, in many advanced economies, their inflation rates after excluding the energy and food items remained persistently below their central banks' targets during 2017. Looking ahead in 2018, if the synchronised economic upturn continues as expected, global inflation will see some further upward pressure. Conceivably, there would be somewhat higher wage pressure following the sustained improvement in labour market conditions in the major economies over the past years as their growth momentum has finally taken a firmer footing after years of bumpy recovery. Taking IMF's forecasts in January 2018 as reference, the inflation rate in the advanced economies is projected to edge up from 1.7% in 2017 to 1.9% in 2018, and that in the emerging market and developing economies will also go up slightly.

2.16 International crude oil prices rose notably in 2017, thanks to improving global economic conditions, production cut by the members of the Organization of the Petroleum Exporting Countries (OPEC) and Russia as well as multiple events spurring concerns about political uncertainty in some major oil exporters during the year. The prices of many manufacturing-related commodities, such as industrial-used metals, went visibly higher year-on-year as production activities picked up in various economies. Global food prices broadly continued their recovering trend starting from 2016, according to the

Food and Agriculture Organization (FAO) of the United Nations. Nonetheless, imported inflation for food in Hong Kong has remained modest overall, as food inflation in the Mainland, one of Hong Kong's major import sources, has been subdued.

2.17 Looking ahead, while commodity prices are expected to be supported by improving global economic conditions, their movements are still subject to a high degree of uncertainty. For the oil market, how the expected stronger global demand and the production cut by OPEC and other major oil-producing economies could alleviate the global supply glut remain to be seen. The uncertainty about geopolitical situations in oil-producing regions is also a cause for concern. Separately, international food prices are usually volatile, and can be sensitive to short-term supply shocks arising from adverse weather conditions.

Diagram 2.4 : Commodity prices are expected to be supported by improving global economic conditions, but their movements are subject to a high degree of uncertainty



Notes: (*) Food Price Index from FAO of the United Nations, rebased to show average in 2005 = 100.
(^) Metals and Minerals Price Index from the World Bank, rebased to show average in 2005 = 100.

Major sources of uncertainty

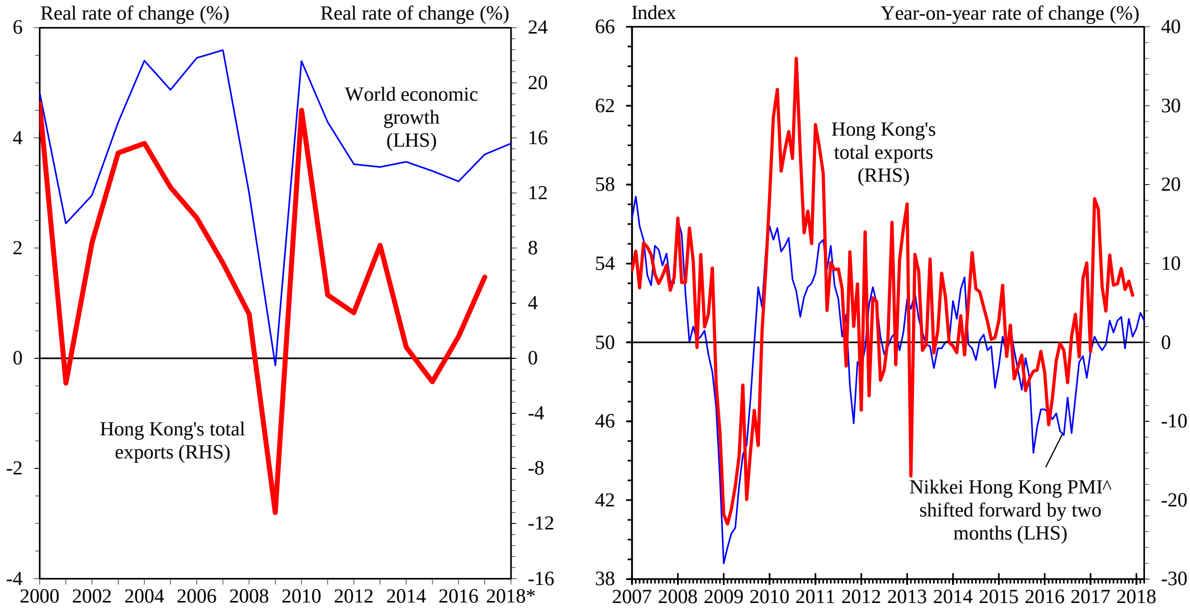
2.18 While the global economic outlook for 2018 is generally optimistic with risks broadly balanced in the short term, there are some uncertainties that need to be watched over. First, major central banks, led by the Fed, are expected to gradually withdraw the monetary stimuli amid improving economic conditions. Any withdrawal moves that are faster than anticipated, or any developments that point to such possibilities, could risk tightening financial conditions abruptly and heightening financial volatility, with possible spill-over effects on asset prices and economic sentiment. The recent jitters in global financial markets served as a timely reminder of the potential destabilising effects from this source. Second, the implications of the US tax reform on the global economy are multi-faceted. The US tax reform is widely expected to boost US economic growth in the short term, but it remains to be seen whether it would lead to a faster monetary tightening by the Fed and whether it would materially alter international capital flows. Third, protectionism could be a potential threat, particularly in view of the shift towards inward-looking policies in some major economies. Fourth, the geopolitical tensions and political uncertainty in certain regions also warrant attention.

2.19 On the other hand, if the various external uncertainties would gradually diminish in the period ahead, global economic growth in 2018 could turn out to be even stronger than expected.

Outlook for the Hong Kong economy in 2018

2.20 As a small and open economy, Hong Kong's economic outlook in 2018 will mainly hinge on the global economic and financial conditions. As the current momentum in the global economic upswing is expected to extend into 2018, the ensuing firm support for trading and manufacturing activities in Asia should augur well for Hong Kong's exports of goods in 2018. Barring any disruptions to international trade arising from trade conflicts or abrupt changes in global economic sentiment, Hong Kong's exports of goods is poised to attain another year of solid growth in 2018.

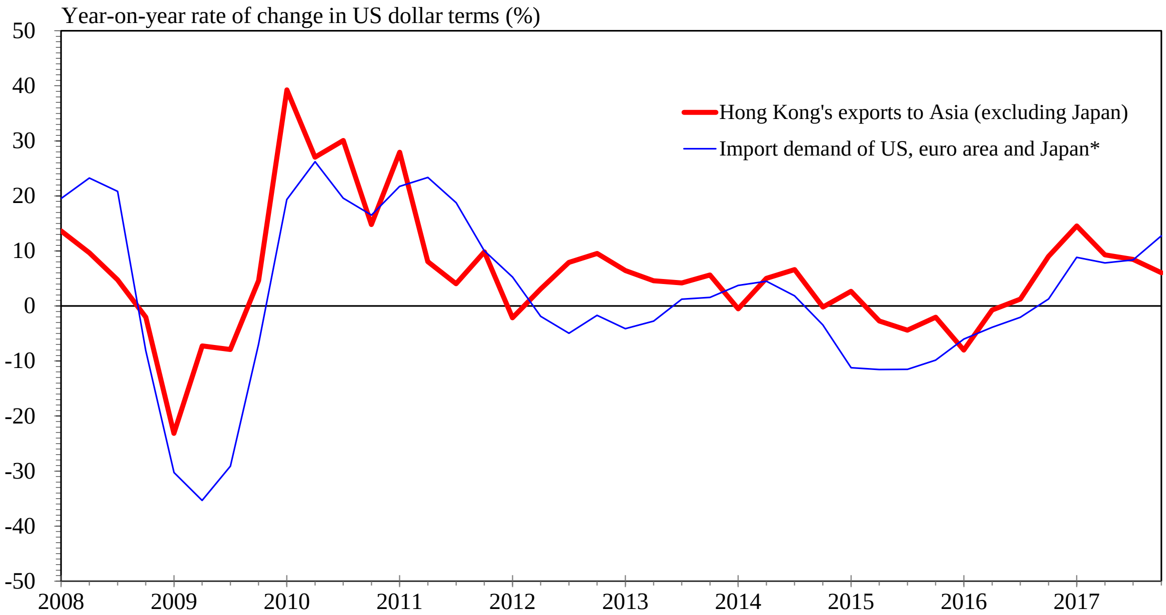
Diagram 2.5 : The current momentum in global economic upswing should augur well for Hong Kong's goods exports in 2018



Note : (*) Forecast from the IMF World Economic Outlook Update, January 2018.

Note: (^) Based on data from Nikkei and IHS Markit.

Diagram 2.6 : Regional trade improved in 2017 amid recovery in external demand

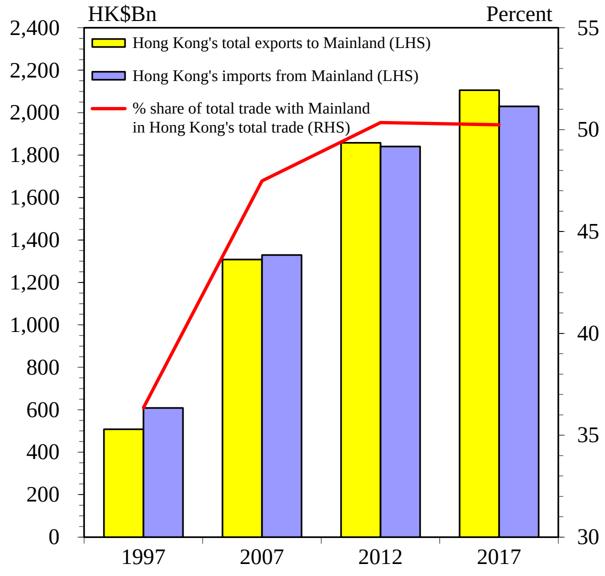


Note : (*) The latest figure refers to October-November 2017 combined.

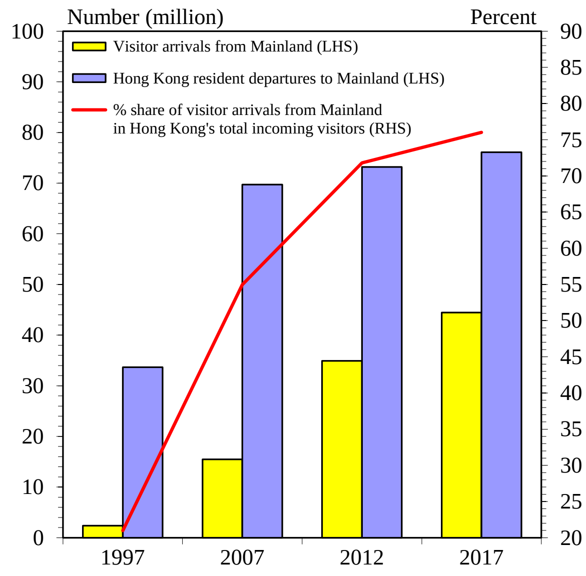
2.21 The expected solid expansion of global economic activity, if not derailed by severe shocks, should likewise bode well for exports of services in 2018. Thanks to the surge in regional trade flows, the revival of inbound tourism as well as buoyant financial markets, exports of services reverted to moderate growth in 2017 as a whole. Looking ahead in 2018, among the various major components, exports of transport services should see further growth, being supported by vibrant regional trade flows in Asia. Exports of travel services, having resumed growth in 2017 after three consecutive years of annual decline, should continue to benefit from the ongoing recovery in inbound tourism. The global financial markets, while turning more volatile of late, could stay active. This, coupled with the increasing cross-border financial and fund-raising activities of the Mainland enterprises, should be supportive of exports of financial services going forward.

Diagram 2.7 : Economic links with the Mainland are important for Hong Kong

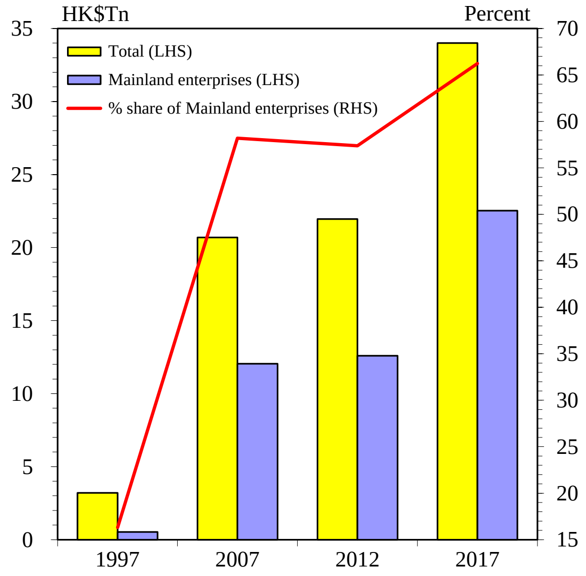
(a) Merchandise trade



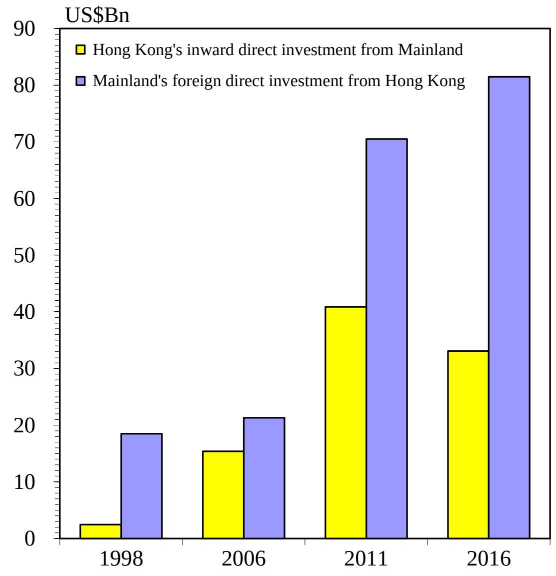
(b) Visitor arrivals from Mainland and Hong Kong resident departures to Mainland



(c) Market capitalisation of Mainland enterprises in the Hong Kong stock market (end-year figures)



(d) Hong Kong's inward direct investment from Mainland and Mainland's foreign direct investment from Hong Kong



2.22 Hong Kong's domestic demand picked up notably in 2017, thanks to the strong growth of private consumption expenditure and the rebound in investment spending. Looking ahead, private consumption expenditure is likely to show further solid growth in 2018, underpinned by the tight labour market and solid income growth. Investment expenditure in 2018 is poised for further growth, thanks to the benign business sentiment, intensive infrastructure works as well as further expansion in building works in both public and private sectors given the Government's efforts in increasing housing supply.

Diagram 2.8 : Private consumption is likely to show further solid growth in 2018

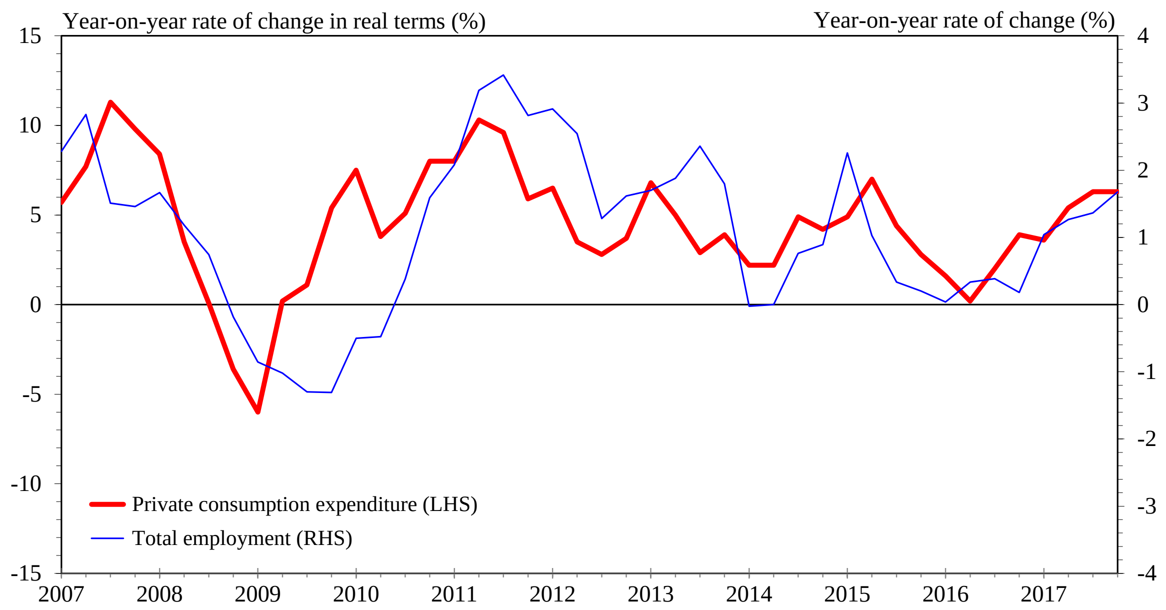
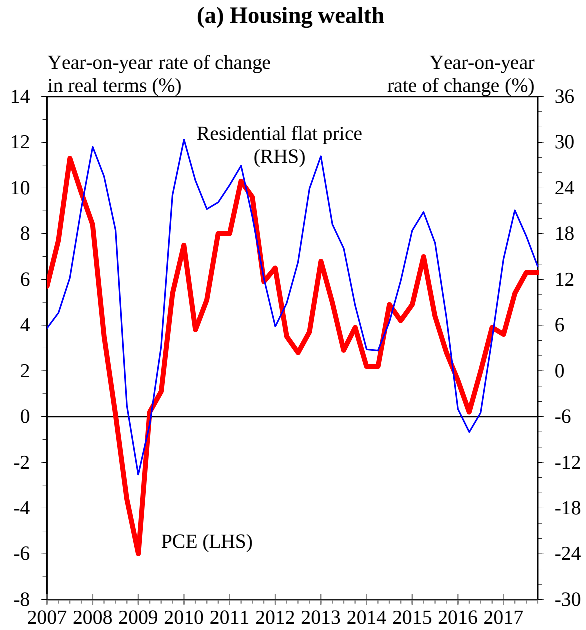


Diagram 2.9 : Consumer sentiment will also be swayed by the performance of the asset markets



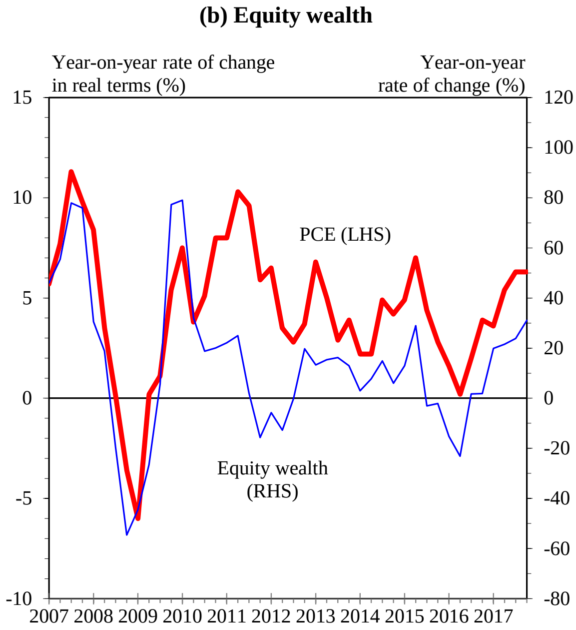
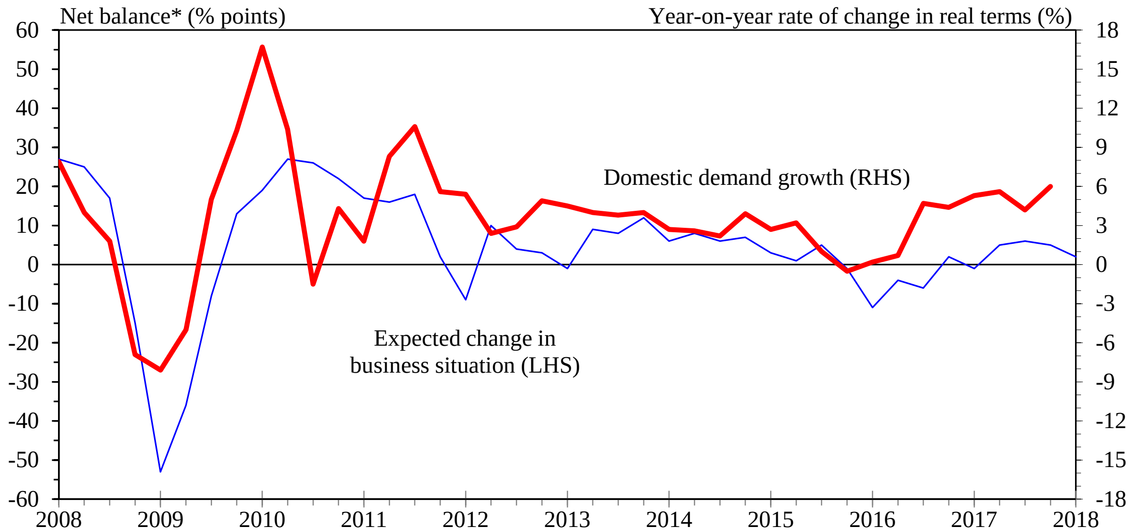
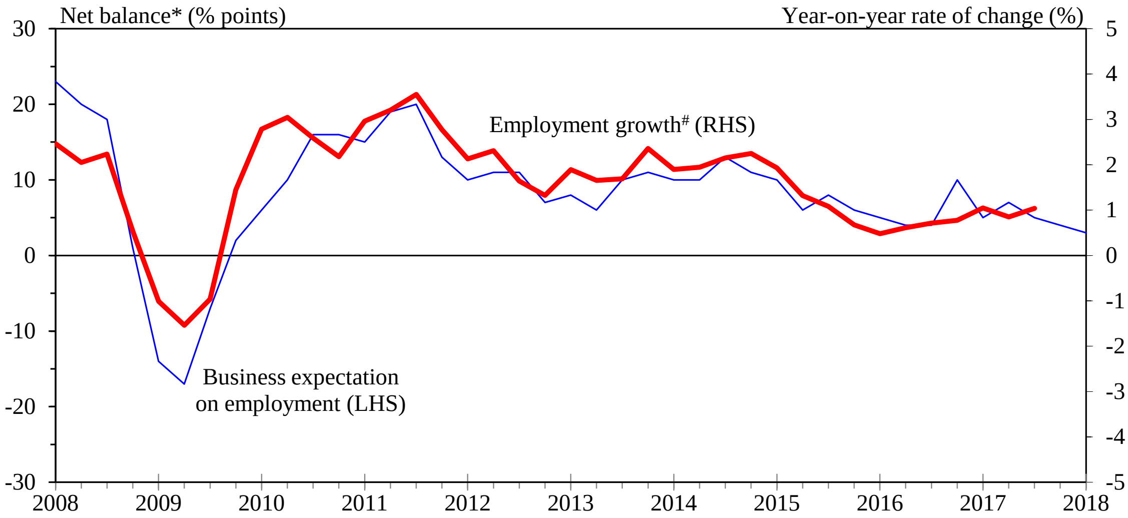


Diagram 2.10 : Overall business sentiment of large enterprises has remained positive of late



Note : (*) Net balance indicates the direction of expected change in 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.

Diagram 2.11 : Hiring sentiment held broadly stable



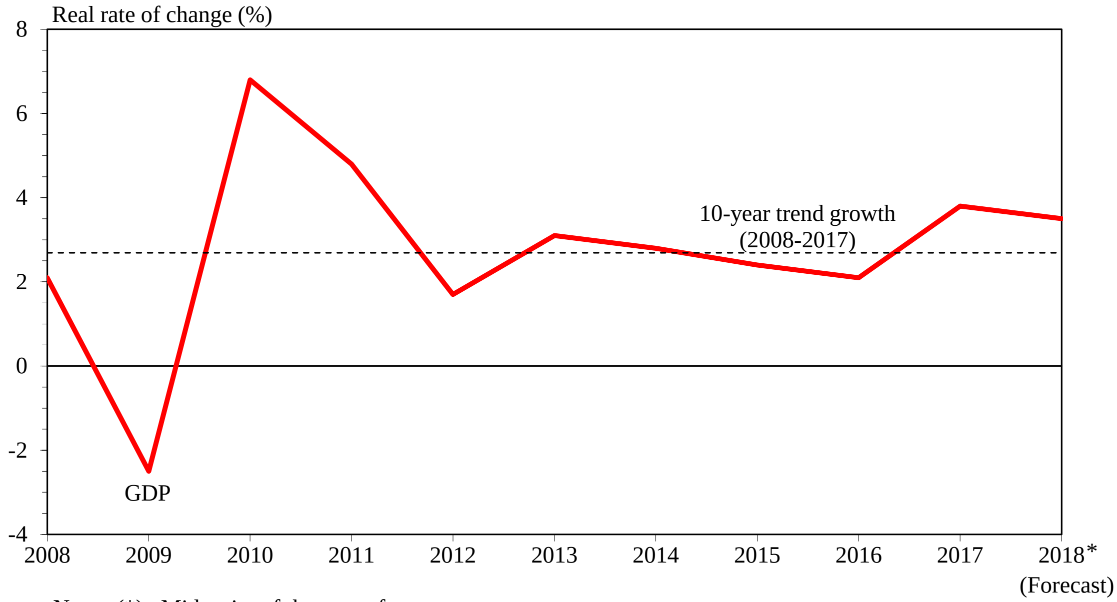
Notes : (*) Net balance indicates the direction of expected change in number of persons engaged versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "up" over that choosing "down". A positive sign indicates a likely upward trend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

(#) Employment in the private sector.

2.23 Under the Linked Exchange Rate System, the movements of interest rates in Hong Kong will eventually follow those of their US counterparts. In 2018, the Fed is poised to proceed with the monetary policy normalisation. However, there is still uncertainty about its pace of interest rate hikes, which will remain data dependent. The possible policy actions by other major central banks and impacts of the US tax reform on capital flows could also add uncertainty and heighten global financial volatility. Thus, despite the generally bright outlook, we should stay alert to the potential repercussions originating from the rising trend of interest rates and a more volatile global monetary environment on the local asset markets and economic sentiment.

2.24 In sum, the continued momentum in global economic expansion and strength in domestic demand are expected to render solid support to the Hong Kong economy going forward. Barring any drastic external shocks, the real GDP in 2018 is forecast to grow by 3-4%, as compared to the 3.8% growth in 2017 and the trend growth of 2.7% per annum in the past ten years. If materialised, this will represent the second consecutive year of above-trend growth. However, such growth forecast is predicated on a sustained upturn in the global economy, with risks to growth broadly balanced. The Government will be mindful of various uncertainties in the external environment, for their possible ramifications on the Hong Kong economy. For comparison, the latest forecasts by private sector analysts for Hong Kong’s economic growth in 2018 mostly fall within the range of 2.7-3.5%, averaging around 2.9%, and that by the IMF is 2.8%.

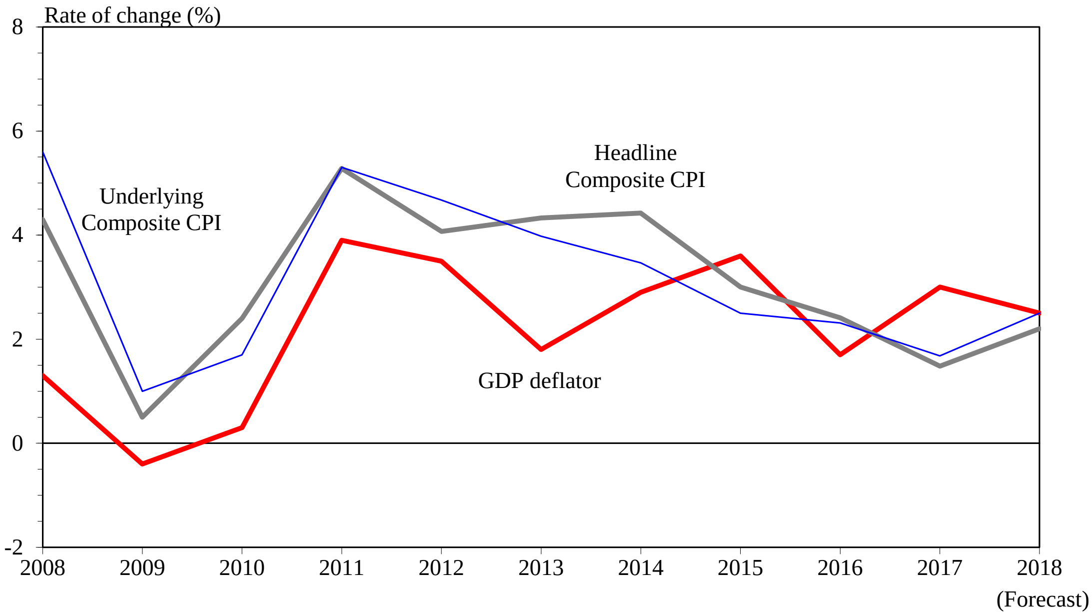
Diagram 2.12 : Hong Kong economy is forecast to grow by 3-4% in 2018



Note : (*) Mid-point of the range forecast.

2.25 Underlying inflation in Hong Kong went down from 2.3% in 2016 to 1.7% in 2017, marking the sixth consecutive year of easing. Looking ahead in 2018, consumer price pressures are expected to increase somewhat. Externally, inflation in Hong Kong's major import sources is expected to go slightly higher from the current low levels amid a stronger global economy. The prevailing weakness in the US dollar, if sustained, may also add to imported inflation somewhat. Locally, the feed-through into the consumer price inflation from the rise in fresh-letting residential rentals over the past year or so will likely turn more visible in 2018, and local cost pressure may also go up somewhat as the economy is expected to continue to expand at an above-trend rate. Overall, the underlying Composite CPI is forecast to increase by 2.5% for 2018 as a whole, up from the 1.7% increase in 2017. Taking into account the effects of the Government's one-off measures, the headline Composite CPI is forecast to increase by 2.2% in 2018, as compared to that of 1.5% in 2017. For reference, the latest forecasts of consumer price inflation in 2018 by private sector analysts averaged 2.3%, while that by the IMF in January 2018 was 1.8%. The GDP deflator is forecast to rise by 2.5% in 2018, as price pressures from both the local and external sources are expected to be largely moderate.

Diagram 2.13 : Consumer price pressures are expected to increase somewhat in 2018



Forecast rate of change in 2018 (%)

Gross Domestic Product (GDP)	
Real GDP	**3 to 4**
Nominal GDP	5.5 to 6.5
Per capita GDP in real terms	2.2 to 3.1
Per capita GDP at current market prices	HK$376,900 – 380,500 (US$48,300 – 48,800)
Composite Consumer Price Index	
Underlying	**2.5**
Headline	**2.2**
GDP Deflator	**2.5**

Forecast on Hong Kong's real GDP growth in 2018 recently made by other selected parties

	(%)
Asian Development Bank (December 2017)	3.2
IMF (January 2018)	2.8
Average forecast by private sector analysts#	2.9

Note : (#) Real GDP growth forecasts by private sector analysts mostly fall between 2.7% and 3.5%.

Medium-term outlook for the Hong Kong economy

2.26 Hong Kong's medium-term economic outlook remains bright. While the upside in growth potential among major advanced economies may be constrained by various structural issues, developing Asian economies, notably the Mainland, are expected to thrive going forward as supported by their sound fundamentals, thereby continuing to provide the key growth impetus to the global economy. With strong competitive edge in a wide range of service areas, Hong Kong is well positioned to leverage on these opportunities.

2.27 While the advanced economies should attain further growth in the medium term, their growth pace would likely be moderate. For the US economy, the fiscal boost due to the tax reform may have some stimulus effect on their aggregate demand in 2018, and immediately beyond, but its growth potential in the latter part of the medium term will be constrained by the prevailing slow growth in labour productivity. The euro area should continue to see some moderate growth in the early years into the medium term. Yet its growth prospect going further forward is restricted by structural issues such as the high levels of government debt in some member economies. Separately, the uncertainty surrounding Brexit and the future economic relationship between the UK and the EU may need to be watched over. As for Japan, its long-term growth potential is likewise restrained by structural issues such as public debt overhang and population ageing. Furthermore, there will be a potential drag on demand from the sales tax hike scheduled for late 2019.

2.28 One key aspect of uncertainty that warrants attention is how the financial vulnerabilities will evolve amid the progress of monetary policy normalisation in the advanced economies. The protracted period of very low interest rates since the Global Financial Crisis has encouraged more risk-taking, yield-seeking investment activities over the past few years, as evidenced by surges in global asset prices, narrowing in risk premiums and rapid credit creation. The potential risks of an exposure of hidden financial vulnerabilities as the monetary policy normalisation proceeds in the major economies should not be overlooked.

2.29 Meanwhile, developing Asian economies, notably the Mainland, possess strong underlying growth potential and will continue to be the engine for global economic growth in the medium term. With the Mainland's economic development now entering a new era, the policy focus is to steer the economy towards high-quality development. Supply-side structural reforms will continue, stressing the shift towards consumption, services and innovation. Risk management will also be a top priority of the Central Authorities to ensure financial stability. All these endeavours should help raise productivity and competitiveness of the Mainland economy, allowing it to maintain medium-to-high speed growth on a sustainable basis and progress towards the target of achieving a moderately prosperous society in all respects by 2020. With all the above, the Mainland economy will generate substantial business opportunities for Hong Kong, given our strong competitiveness in higher-end services.

2.30 Furthermore, one key aspect of the Mainland's policy is the two-way opening up of its economy on trade, finance and investment. This will provide Hong Kong extensive opportunities in stepping up our role as an international centre for fund raising, offshore RMB business and asset management. The closer ties in trade and investment with economies along the Belt and Road will also bring in new growth impetus for the Hong Kong economy.

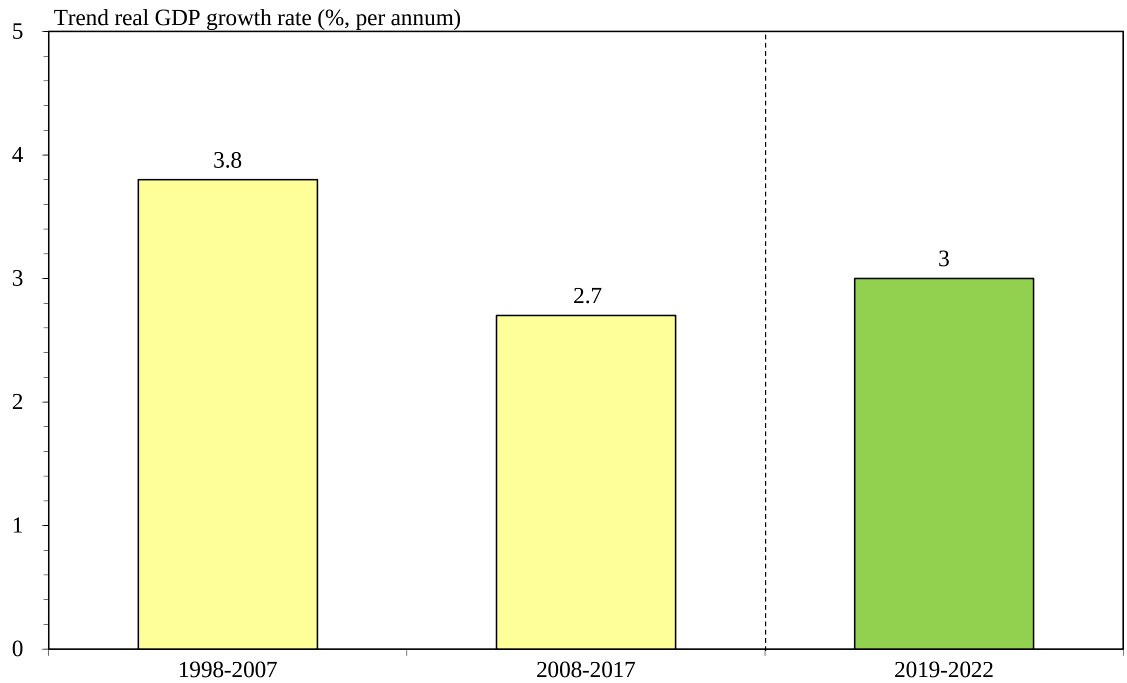
2.31 At the regional level, the Government will take forward the development of the Guangdong-Hong Kong-Macao Bay Area, which will bring forth vast business opportunities. The synergy of the 11 cities in the Bay Area will be realised through better coordination and further facilitation of free flow of factors of production, thereby raising the overall competitiveness and growth potential of the region. The development of the Hong Kong-Shenzhen Innovation & Technology Park in the Lok Ma Chau Loop serves as a good example. When completed, it will be the largest platform for innovation and technology activities in Hong Kong and help attract top-notch talents around the world that are essential for Hong Kong's economic development.

2.32 Locally, the Government will serve as a facilitator and a promoter when developing the economy, to seize new opportunities and lift Hong Kong's growth potential in a sustainable and inclusive manner. The Government will also strive to address the supply-side constraints arising from land supply and an ageing population, and to make good use of resources to increase competitiveness. More investment will be channelled into infrastructure, education and training to improve connectivity and nurture talents. The Government will strengthen existing pillar industries as well as promote new growth spots, with particular focus on developing innovation and technology to lift productivity.

2.33 Having considered the developments on the external and domestic fronts, the Hong Kong economy is expected to attain a trend growth of 3% per annum in real terms from 2019 to 2022.

2.34 The outlook for inflation in the medium term depends on both external and domestic developments. Global inflation should conceivably return to moderate levels from the very low levels in recent years, as the major advanced economies gradually close their output gaps and emerging market economies continue their solid expansion. Locally, while rental inflation may see some upward pressure in 2018, the tight demand-supply balance of residential flats could eventually ease over the medium term as flat completions will continue to increase in response to the Government's sustained efforts in stepping up residential land supply. The Government's various measures to improve productivity should also help lessen some of the local cost pressures at the macro level. However, in the medium term, there remain uncertainties regarding the international food and commodity prices, which are usually volatile. Taking all these developments into account, the trend rate of change in the underlying Composite CPI in Hong Kong from 2019 to 2022 is forecast at a moderate level of 2.5% per annum.

Diagram 2.14 : Medium-term trend growth forecast at 3% per annum



CHAPTER 3 : THE EXTERNAL SECTOR

Summary

- *Global economic growth picked up in 2017, with a broad-based upswing across the advanced and emerging economies not seen since 2010. The US economy displayed strength throughout the year, and there was a stronger-than-expected recovery in the euro area. Growth in Asia was robust, led by the notable growth in the Mainland economy.*

- *The sustained expansion in global demand gave rise to vibrant trading and manufacturing activities in Asia during 2017. Hong Kong was no exception, as growth momentum strengthened in 2017, building on the broadly improving trend that started in mid-2016. Hong Kong's merchandise exports(1) accelerated to grow by 6.2% in real terms in 2017, faster than the 1.4% growth in 2016. The Mainland and other Asian markets continued to provide the main growth impetus to overall merchandise exports in 2017. Merchandise exports to the US and the EU also reverted to growth for the year as a whole.*

- *Exports of services likewise improved visibly in 2017, reverting to a moderate growth of 3.5% from the annual decline of 3.4% in 2016. The improvement was broad-based across all major services. In tandem with the vibrant trade and cargo flows, exports of transport services were the bright spot and grew at the fastest annual pace in seven years. Amid the buoyant global financial markets, exports of financial services picked up progressively over the year, in contrast to the relapse in the previous year. Exports of travel services ended the prolonged setback amid the sustained recovery of inbound tourism, resuming modest growth after more than three years of contraction, with the pace of expansion picking up somewhat towards the year-end. Meanwhile, exports of business and other services also saw modest growth.*

- *Hong Kong strives to strengthen ties with its economic partners, and explores actively cooperation with emerging market economies. In November 2017, Hong Kong and ASEAN forged a Free Trade Agreement (FTA) and an Investment Agreement, which would expand business opportunities for Hong Kong enterprises. In December, the Arrangement between the National Development and Reform Commission and the Government of the Hong Kong Special Administrative Region for Advancing Hong Kong's Full Participation in and Contribution to the Belt and Road Initiative was signed, laying the blueprint for Hong Kong's further participation in the Belt and Road Initiative where huge opportunities lie.*

Goods trade

Total exports of goods

3.1 The global economy picked up in 2017. The broad-based acceleration in growth across most advanced and developing economies, not seen since 2010, rendered strong impetus to regional trading and manufacturing activities. The growth momentum in exports from many Asian economies strengthened further in 2017, building on the gradual recovery earlier on in the second half of 2016. As such, Hong Kong's *merchandise exports* grew markedly by 6.2% in real terms in 2017, accelerating notably from the 1.4% increase in the preceding year and representing the fastest growth in seven years. Analysed by individual quarters, merchandise exports sustained solid growth on a year-on-year basis throughout 2017, notwithstanding being subject to a higher base of comparison over the course of the year.

3.2 The notable growth in Hong Kong's merchandise exports throughout 2017 was in line with the sanguine external trading environment that saw a broad-based upturn in the global economy. The pick-up in global demand gave rise to a sustained recovery in world trade, as earlier worries over an imminent upsurge in protectionist measures and trade barriers did not materialise. For the major advanced economies, economic growth gathered pace in a synchronised manner. Labour market conditions improved and corporate profits rose, brightening overall economic sentiments. For the US in particular, the ongoing strength in its economic upturn enabled the Federal Reserve to proceed with its monetary policy normalisation in 2017, in line with expectations, raising its policy interest rate three times during the year and kick-starting the plan of scaling back its balance sheet in October 2017. The stronger-than-expected performance of the euro-area economy in 2017 also paved the way for the European Central Bank to begin to roll back some of its monetary stimuli starting this year. As for Japan, strengthening exports drove the improvement in its economy in 2017, with business sentiments turning more optimistic. Meanwhile for Asia as a whole, growth was robust amid the vibrant trade flows, led by the notable growth in the Mainland economy. At 6.9% in 2017, economic growth in the Mainland staged the first pick-up in seven years. Separately, other major emerging economies such as Russia and Brazil also came out of recession with the help of the rebound in commodity prices. Reflecting the upbeat economic sentiment amid a still highly accommodative monetary environment, many major overseas stock markets hit record highs in 2017, particularly towards the end of the year.

3.3 The strengthening global demand rendered a strong support to manufacturing and trading activities in Asia, as reflected by the visible increase in intake of raw materials and semi-manufactures as well as the vibrant intra-regional trade flows. Indeed, export performance in Asia was generally robust in 2017, particularly so when compared against the weak overall performance in the previous year, with exports in some economies recording double-digit growth for 2017 as a whole. As a regional trading and logistics hub, Hong Kong's goods exports picked up notably.

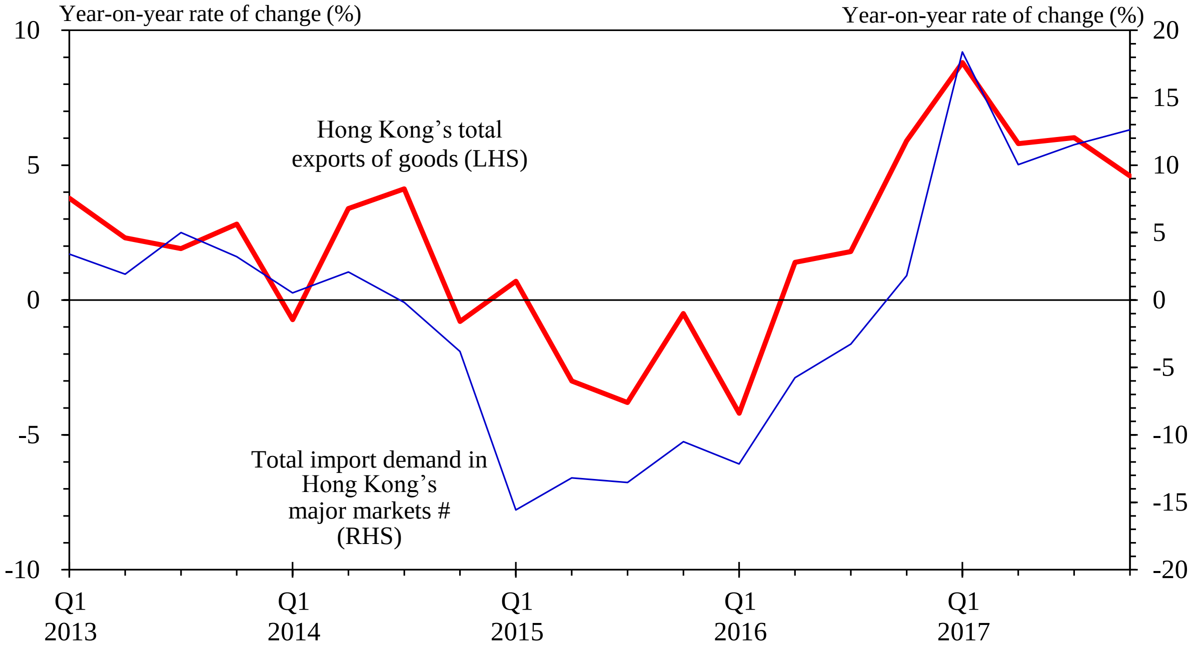
Table 3.1 : Total exports of goods
(year-on-year rate of change (%))

		Total exports of goods			
		In value terms	In real terms[a]		Change in prices
2016	Annual	-0.5	1.4		-1.7
	Q1	-6.8	-4.2	(-4.1)	-2.6
	Q2	-1.2	1.4	(6.2)	-2.2
	Q3	-0.2	1.8	(1.1)	-1.6
	Q4	5.5	5.9	(3.0)	-0.5
2017	Annual	8.0	6.2		1.8
	Q1	10.3	8.8	(0.2)	1.6
	Q2	7.4	5.8	(1.0)	1.6
	Q3	8.0	6.0	(0.5)	1.9
	Q4	6.8	4.6	(2.6)	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*.

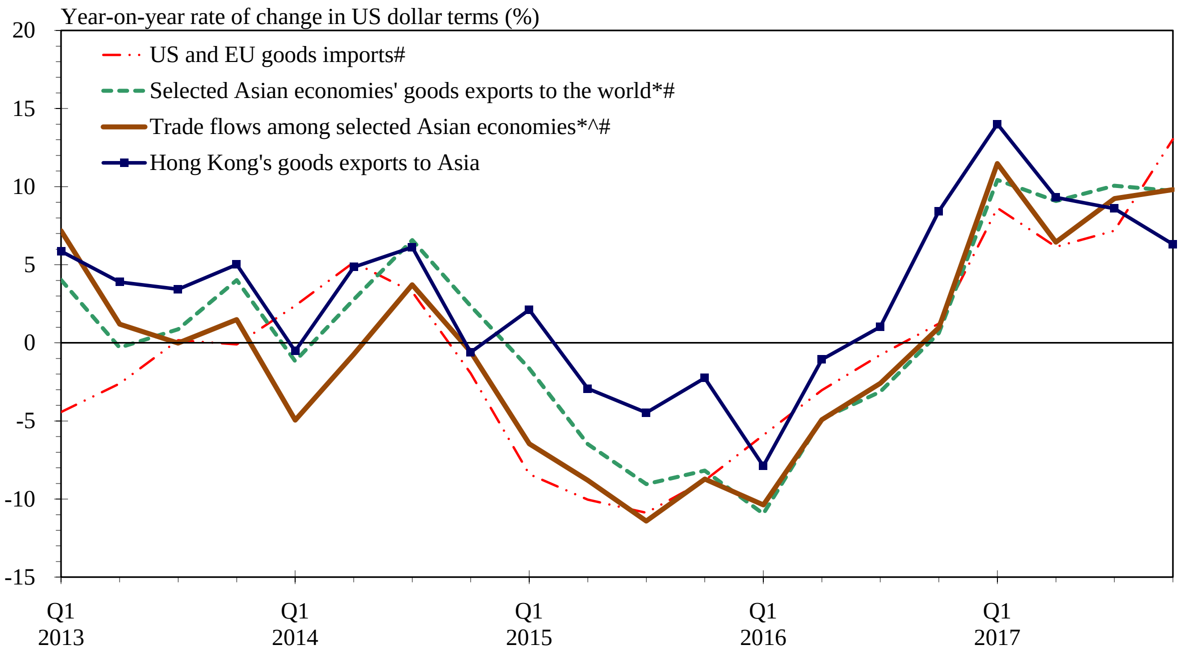
Diagram 3.1 : Merchandise exports staged a strong rebound in 2017



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 fourth quarter of 2017 is based on statistics for October and November 2017.

Diagram 3.2 : Intra-regional trade was vibrant amid the global demand revival

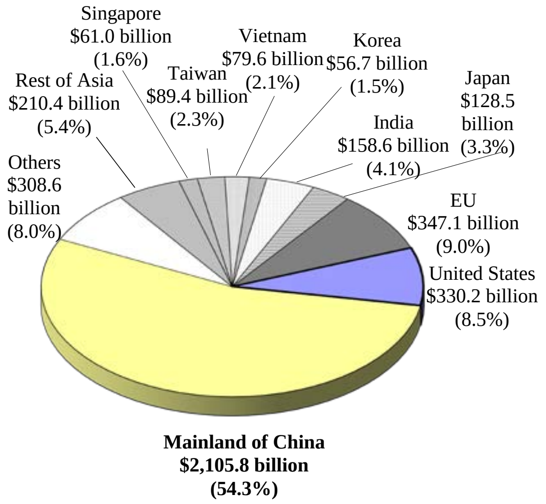


Notes : (*) "Selected Asian economies" include the Mainland of China, Hong Kong, Singapore, Korea, Taiwan, Japan, Indonesia, Malaysia, Thailand and the Philippines.

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

(#) Trade figures for the US, the EU and "selected Asian economies" for the fourth quarter of 2017 are based on the information available as of early February 2018.

Diagram 3.3 : Exports to Asia remained the bright spot and those to non-Asia also improved



Total exports of goods in 2017: $3,875.9 billion

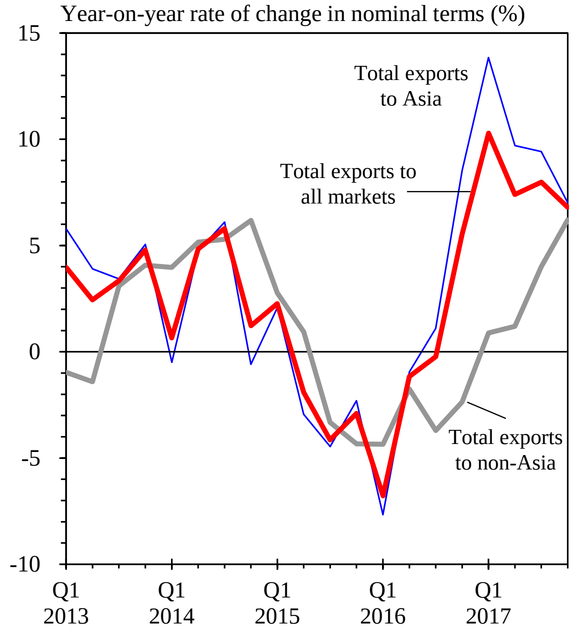


Table 3.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))

	2016					2017			
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4
Mainland of China	2.2	-5.6	2.0	2.7	8.5	5.4	9.3	3.9	6.0	3.0
United States	-1.9	-4.8	-1.4	0.2	-1.9	1.9	3.4	1.1	-0.5	3.8
European Union	-0.7	-2.6	3.8	-0.4	-3.2	4.6	3.0	1.3	5.0	8.5
India	17.6	15.8	28.0	15.8	12.1	35.1	40.1	53.8	9.9	39.5
Japan	-2.3	-3.3	-6.6	-1.1	1.7	10.3	7.5	12.0	10.8	10.6
Taiwan	19.0	-2.9	17.1	27.5	31.5	16.1	44.3	23.0	14.7	-5.4
Vietnam	-4.8	-2.1	-8.0	-9.8	0.7	8.7	10.8	11.9	6.8	5.9
Singapore	5.9	-0.4	-1.6	7.7	18.3	1.8	-1.2	3.9	11.7	-6.2
Korea	1.5	-14.0	3.2	6.7	11.2	3.3	15.3	-2.8	-1.5	3.5
Overall*	1.4	-4.2	1.4	1.8	5.9	6.2	8.8	5.8	6.0	4.6

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*.

3.4 Hong Kong's goods exports improved across all major markets in 2017, thanks to the synchronised global upswing and buoyant external demand during the year. Exports to Asian markets remained the key growth propeller, attaining high single-digit growth for the region as a whole, reflecting the vibrant intra-regional trade flows. In particular, exports to the Mainland sustained solid growth throughout the four quarters, and those to Japan bounced back with double-digit growth after four years of decline. As for other industrialised Asian markets, exports to Taiwan recorded double-digit growth for the second consecutive year, while those to Singapore and Korea saw modest to moderate growth. Exports to other emerging markets were robust. Notably, exports to India surged, and exports to many ASEAN economies picked up to see visible growth.

3.5 Exports to the US and Europe also improved, providing more visible growth impetus to the overall export performance in the latter part of the year. In particular, exports to the EU picked up to grow strongly in the second half of the year, as the economic recovery there progressively gained traction. Within the EU, exports to such major markets as Germany and the Netherlands saw notable growth for 2017 as a whole, whereas exports to the UK continued to decline amid the earlier depreciation of its currency and uncertainties surrounding the upcoming Brexit. As for exports to the US, there was also some improvement, with the annual rate of change reverting to a modest growth in 2017.

Diagram 3.4 : Exports to the Mainland sustained solid growth throughout 2017

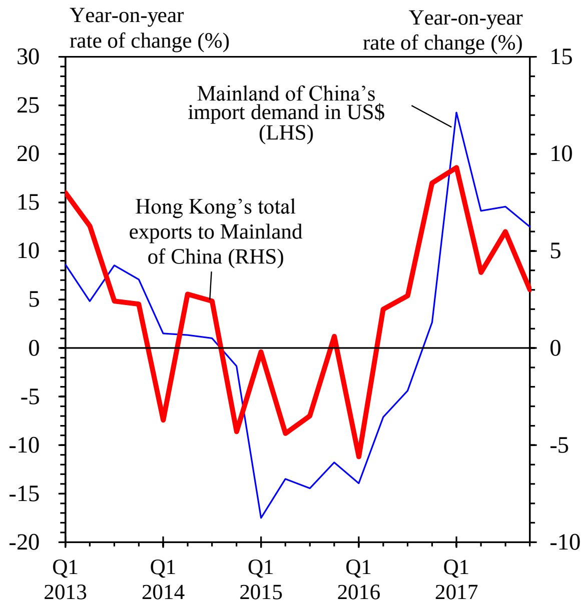


Diagram 3.5 : Exports to the EU picked up visibly in the second half of 2017

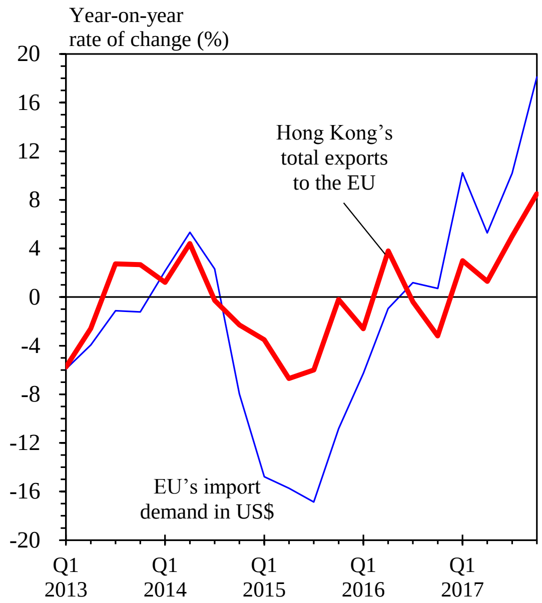


Diagram 3.6 : Exports to the US reverted to modest growth

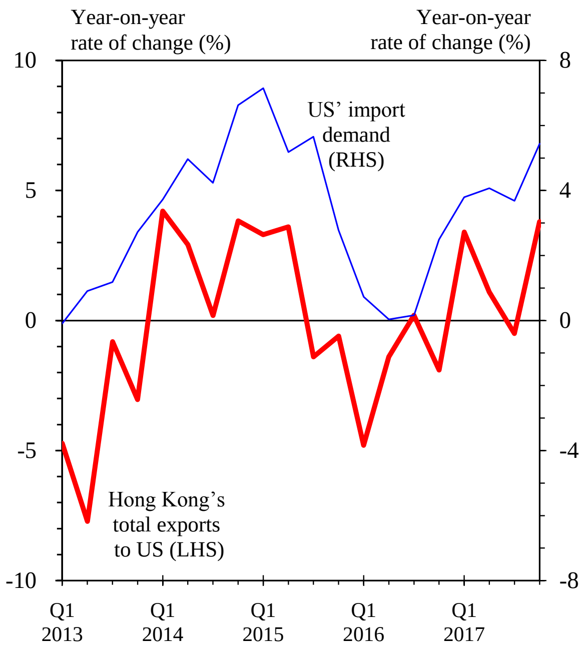


Diagram 3.7 : Exports to Japan bounced back with double-digit growth

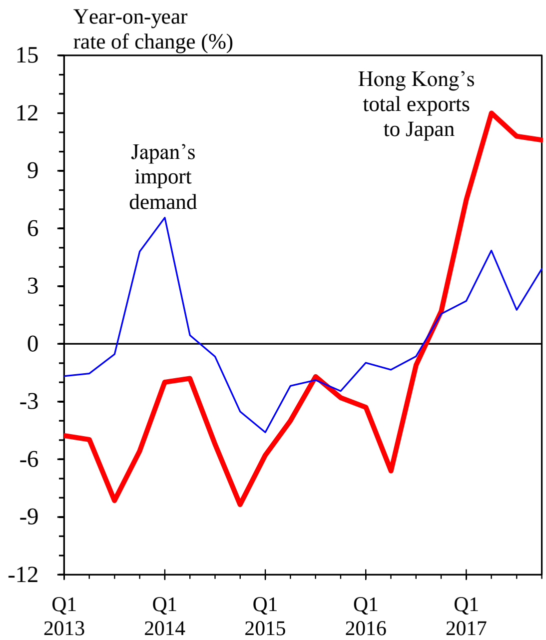


Diagram 3.8 : Exports to India continued to grow apace

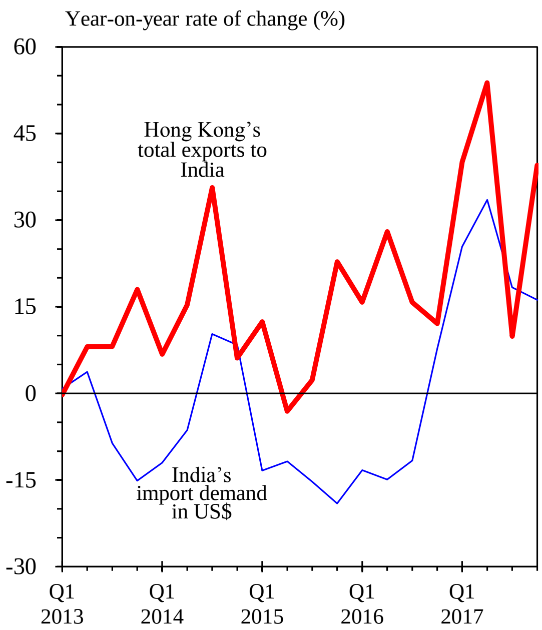


Diagram 3.9 : Exports to Taiwan grew strongly further for 2017 as a whole

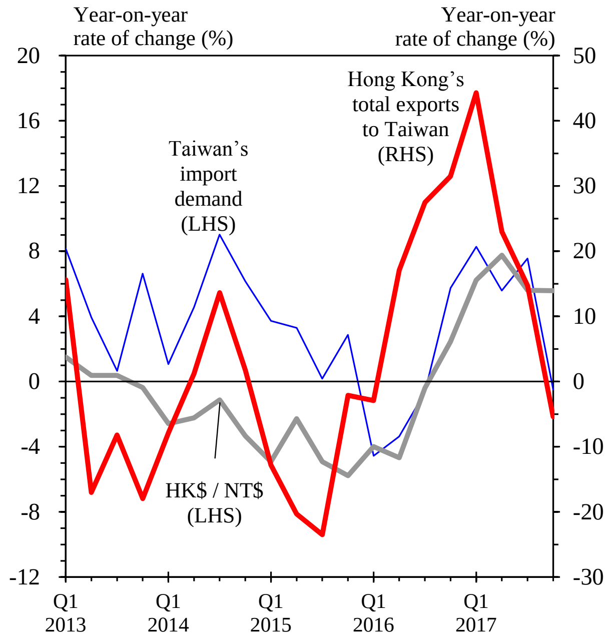


Diagram 3.10 : Exports to Korea grew moderately in 2017

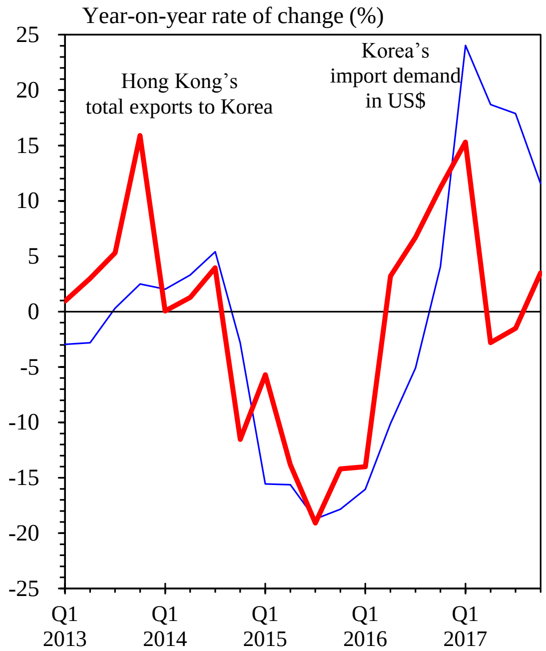
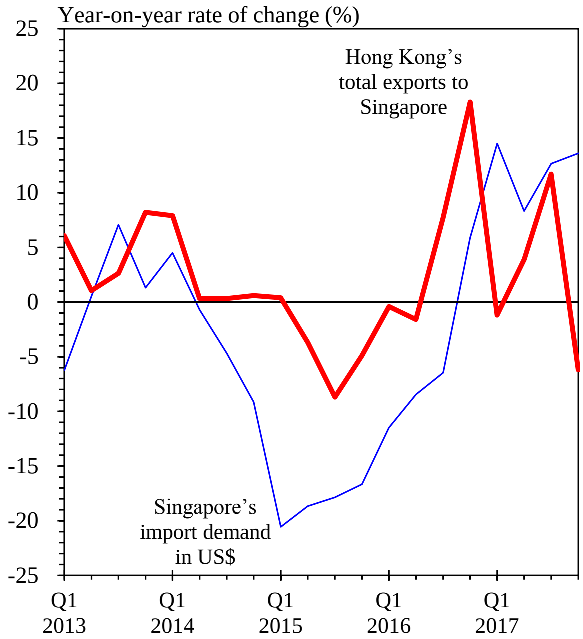


Diagram 3.11 : Exports to Singapore saw modest growth



Imports of goods

3.6 *Imports of goods* picked up to grow by 6.8% in real terms in 2017, as *re-export*[2] trade blossomed amid the notable pick-up in global trading activity. The robust local consumption demand also supported visible growth in *retained imports*, which refer to the imports for domestic use that accounted for around one-quarter of total imports in 2017. In particular, retained imports grew by 8.3% in real terms for 2017 as a whole, a strong rebound from an annual decline of 0.6% in 2016. Retained imports sustained solid expansion throughout 2017, mirroring the brisk growth in domestic demand and the progressive improvement in the local retail market over the course of the year.

Table 3.3 : Imports of goods and retained imports (year-on-year rate of change (%))

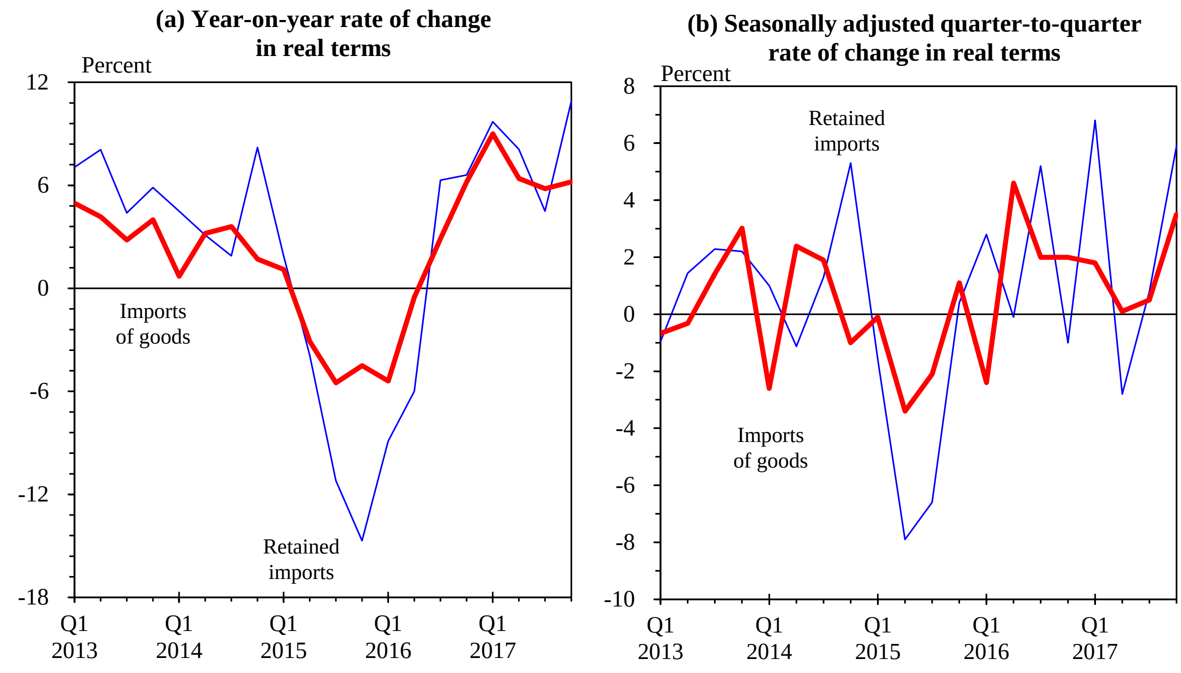
		Imports of goods				Retained imports[a]			
		In value terms	In real terms[+]		Change in prices	In value terms	In real terms		Change in prices
2016	Annual	-0.9	1.0		-1.7	-4.1	-0.6		-3.2
	Q1	-8.2	-5.4	(-2.4)	-2.8	-13.5	-8.9	(2.8)	-5.0
	Q2	-3.2	-0.5	(4.6)	-2.6	-10.6	-6.0	(-0.1)	-5.2
	Q3	1.2	2.9	(2.0)	-1.4	4.1	6.3	(5.2)	-2.1
	Q4	5.6	6.2	(2.0)	-0.1	4.0	6.6	(-1.0)	-0.6
2017	Annual	8.7	6.8		1.9	10.5	8.3		2.1
	Q1	10.7	9.0	(1.8)	1.6	11.6	9.7	(6.8)	1.5
	Q2	8.2	6.4	(0.1)	1.8	10.4	8.1	(-2.8)	2.5
	Q3	7.7	5.8	(0.5)	1.9	6.3	4.5	(0.8)	2.3
	Q4	8.5	6.2	(3.5)	2.2	13.6	10.9	(5.9)	2.4

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 3.12 : Imports and retained imports picked up visibly in 2017

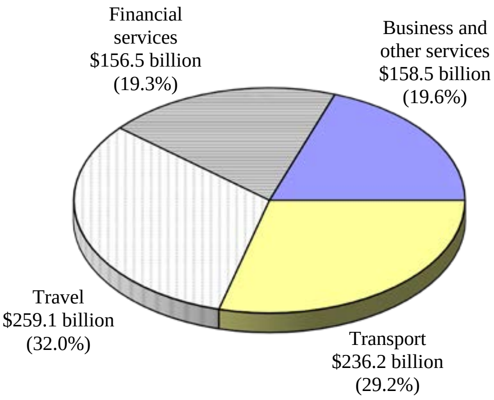


Services trade

Exports of services

3.7 Benefitting from the more favourable external developments, *exports of services* likewise improved visibly in 2017, reverting to a moderate growth of 3.5% in real terms, from the annual decline of 3.4% in 2016. The improvement in 2017 was broad-based, with some strengthening in growth momentum in the second half of the year. Among the major service components, exports of transport services continued to outperform in 2017, registering the fastest growth since 2010, thanks to vibrant regional trade flows. Reflecting the buoyant global financial markets and active cross-border financing activities, exports of financial services gathered pace over the course of the year, attaining high single-digit year-on-year growth in the fourth quarter, in stark contrast to the relapse seen in 2016. Indeed, many major overseas stock markets saw new highs in 2017, reflecting the bullish sentiments among global investors. Exports of travel services recovered from more than three years of decline and resumed a modest growth in 2017, with growth pace picking up somewhat towards the year-end. This mirrored the solid revival of inbound tourism as visitor arrivals firmed up further in the latter part of the year. Meanwhile, exports of business and other services also saw modest growth.

Diagram 3.13 : Travel, transport and financial services are the major service components within exports of services



Exports of services in 2017: $810.3 billion

Diagram 3.14 : Exports of services improved visibly in 2017, reverting to a moderate annual growth

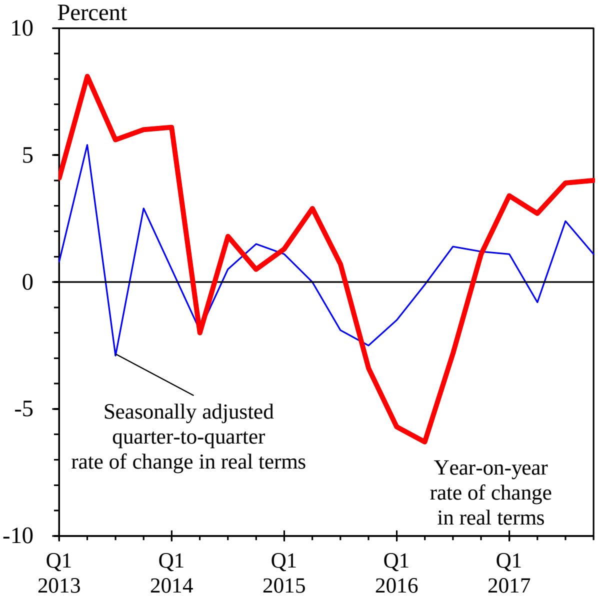


Table 3.4 : Exports of services by major service group (year-on-year rate of change in real terms (%))

			Of which :			
		Exports of services	Transport	Travel[(a)]	Financial services	Business and other services
2016	Annual	-3.4	1.6	-8.6	-5.0	0.2
	Q1	-5.7 (-1.4)	-2.5	-13.3	-1.5	-1.3
	Q2	-6.3 (-0.4)	-1.4	-9.1	-16.3	1.0
	Q3	-2.8 (1.7)	1.8	-8.0	-3.1	0.1
	Q4	1.1 (1.0)	8.7	-3.9	-1.0	1.3
2017	Annual	3.5	7.1	1.2	4.4	0.9
	Q1	3.4 (1.1)	9.7	0.6	2.4	1.0
	Q2	2.7 (-1.1)	8.4	-1.9	3.0	0.3
	Q3	3.9 (2.8)	7.2	1.6	4.9	1.0
	Q4	4.0 (1.1)	3.6	4.1	7.7	1.3

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.*

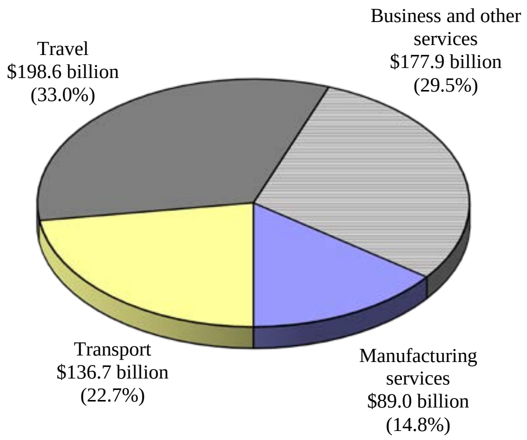
(a) Comprising mainly inbound tourism receipts.

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

Imports of services

3.8 *Imports of services* grew steadily by 1.8% in real terms in 2017, similar to the 2.1% growth in 2016. Within this, imports of travel services were supported by local residents' keen travel interest given the favourable job and income conditions as well as the positive wealth effects arising from rising asset prices. Imports of transport services reverted to moderate annual growth along with the notable pick-up in regional trade and cargo flows bolstered by the revival of global demand since late 2016. The generally sanguine global economic environment also rendered slightly faster growth impetus to imports of business and other services. On the other hand, imports of manufacturing services continued their downtrend in 2017, as outward processing activities remained sluggish.

Diagram 3.15 : Travel services had the largest share in imports of services



Imports of services in 2017: $602.3 billion

Diagram 3.16 : Imports of services grew modestly in 2017

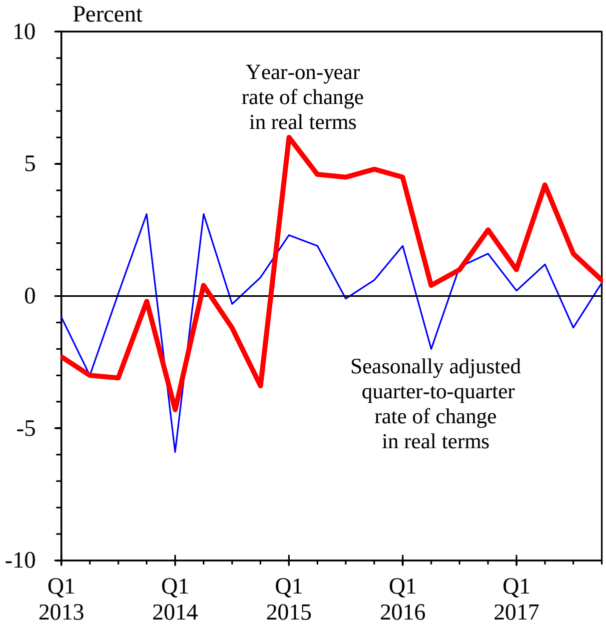


Table 3.5 : Imports of services by major service group (year-on-year rate of change in real terms (%))

		Imports of services		*Of which :* Travel(+)	Transport	Manufacturing services(^)	Business and other services
2016	Annual	2.1		5.4	-1.1	-0.2	2.4
	Q1	4.5	(1.9)	13.5	-2.0	3.0	1.1
	Q2	0.4	(-2.0)	1.2	-2.5	-0.1	2.8
	Q3	1.0	(1.1)	3.2	-1.2	-1.4	2.2
	Q4	2.5	(1.6)	4.5	1.2	-1.2	3.5
2017	Annual	1.8		3.7	2.7	-5.4	2.8
	Q1	1.0	(0.2)	0.1	2.3	-3.9	2.8
	Q2	4.2	(1.2)	9.9	3.7	-5.6	3.2
	Q3	1.6	(-1.2)	4.1	2.4	-5.7	2.6
	Q4	0.6	(0.5)	1.1	2.2	-5.9	2.5

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

(+) Comprising mainly outbound travel spending.

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

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

Goods and services balance

3.9 Compiled based on the change of ownership principle, the goods deficit widened somewhat in 2017, as imports of goods under firm domestic demand slightly outpaced exports of goods. Nonetheless, with the services surplus more than offsetting the goods deficit, the combined goods and services account registered a surplus of $21 billion in 2017, equivalent to 0.4% of total import value, both being lower than the corresponding figures in 2016.

Table 3.6 : Goods and services balance
($ billion at current market prices)

		Total exports		Imports		Trade balance			
		Goods	Services	Goods	Services	Goods	Services	Combined	As % of imports
2016	Annual	3,893	765	4,023	578	-130	187	57	1.2
	Q1	847	193	889	139	-42	54	12	1.2
	Q2	928	177	985	137	-56	40	-16	-1.5
	Q3	1,023	195	1,033	148	-10	47	37	3.1
	Q4	1,095	200	1,116	154	-21	46	24	1.9
2017	Annual	4,190	810	4,377	602	-187	208	21	0.4
	Q1	941	202	998	142	-57	61	4	0.4
	Q2	995	184	1,063	143	-68	41	-27	-2.2
	Q3	1,099	207	1,116	155	-17	52	36	2.8
	Q4	1,154	216	1,201	162	-46	54	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*.

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

Other developments

3.10 The Government continued to broaden and deepen the economic integration with the Mainland in 2017, working relentlessly to unlock the enormous development opportunities therein. In February, the 22nd Working Meeting of the Hong Kong/Guangdong Co-operation Joint Conference was held, formulating the 2017 Work Plan covering 77 key cooperation items, including the formulation of cooperation platform of the Guangdong-Hong Kong-Macao Bay Area (the Bay Area). In June, the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was further enhanced with the signing of two new agreements, namely the Investment Agreement and the Agreement on Economic and Technical Cooperation. This development enabled CEPA to be a comprehensive modern FTA, covering four important pillars of trade in goods, trade in services, investment, and economic and technical cooperation. In July, the Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Bay Area was signed by the National Development and Reform Commission and the three governments of the Guangdong Province, Hong Kong and Macao, marking an important milestone in formulating the development plan for the Bay Area. In September, the 2017 Pan-Pearl River Delta (PPRD) Regional Cooperation Chief Executive Joint Conference was held, with the signing of the PPRD Regional Customs and Clearance Co-operation Agreement and the PPRD Regional Tourism Union Co-operation Agreement. In November, the "Agreement on intellectual property cooperation in the Pan-Pearl River Delta region in the context of the Belt and Road" was signed with Macao and nine intellectual property offices of the PPRD region, which will promote the regional intellectual property cooperation and facilitate economic and cultural exchanges with countries and regions along the Belt and Road, fostering joint economic development in the PPRD region.

3.11 President Xi affirmed the support of the Central Government for Hong Kong to make full use of its role and strengths in advancing the Belt and Road Initiative during his visit to Hong Kong in July. In December 2017, the Arrangement between the National Development and Reform Commission and the Government of the Hong Kong Special Administrative Region for Advancing Hong Kong's Full Participation in and Contribution to the Belt and Road Initiative was signed. The Arrangement serves as a blueprint for Hong Kong's further participation in the Belt and Road Initiative, which will provide new impetus for our economic growth and open up enormous opportunities for our services sector on a broad front. Indeed, reflecting the huge potential of the Mainland and Asia, Hong Kong has been a top destination for foreign investment. Hong Kong ranked fourth in terms of foreign direct investment inflows in 2016 according to the United Nations Conference on Trade and Development's World Investment Report 2017.

3.12 The Government also continued to actively enhance bilateral ties with other economies. In May 2017, the FTA negotiation between Hong Kong and Australia was officially launched. In September, Hong Kong launched a Strategic Dialogue on Trade Partnership with the United Kingdom to explore opportunities for cooperation and strengthen bilateral economic relationship. In October, the Hong Kong-Macao CEPA was signed. In November, Hong Kong and ASEAN forged an FTA and an Investment Agreement. The agreements will expand business opportunities for Hong Kong enterprises by bringing about legal certainty and better market access for the trade in goods and services as well as investment protection to Hong Kong. Considering the expanding opportunities available in the ASEAN markets (see ***Box 3.1***), the Government announced a plan to set up an Economic and Trade Office (ETO) in Thailand, the third ETO in ASEAN after Singapore and Indonesia.

3.13 To strengthen Hong Kong's position as an international commercial and financial centre, it is the Government's policy priority to establish a network of comprehensive avoidance of double taxation agreements (CDTAs) with our major trading and investment partners, as well as emerging economies with potential for growth in bilateral trade and investment. The Government targeted to expand the total number of CDTAs to 50 over the next few years from the current 38 tax jurisdictions, including those along the Belt and Road. In 2017, the Government signed CDTAs with Belarus, Pakistan and Saudi Arabia in January, February and August respectively. The CDTAs set out clearly the allocation of taxing rights and help investors of both places to better assess their potential tax liabilities on business activities, thereby providing added incentives for cross-border business and investments.

Box 3.1

ASEAN economic linkages with Hong Kong and market potentials: Recent developments

The Association of Southeast Asian Nations (ASEAN)[(1)] is an economically-dynamic region. Its economic ties with Hong Kong have been close (see ***Box 2.1*** in the ***Half-yearly Economic Report 2014***). With the Belt and Road Initiative and a Free Trade Agreement (FTA) and an Investment Agreement forged between Hong Kong and ASEAN, ASEAN's economic rise will present new opportunities to us. This box article briefly portrays its related recent developments and their possible implications for Hong Kong.

ASEAN has vast market potential, as its members collectively have a GDP size of around US$2.6 trillion in 2016 and a population exceeding 600 million. Economic growth there has been solid, averaging 5.2% per annum in the decade from 2007 to 2016. All indicators suggest that its growth picked up in 2017 amid the synchronised global upturn[(2)]. With such an enviable growth record, it outpaced many developing peers outside Asia. Being at different stages of economic development with some being rich in natural resources, ASEAN members have strong complementarity and have increasingly participated in the Asian supply chains. Some less developed members have also embraced the trend of globalisation and opened up their economies. For example, Vietnam joined the World Trade Organization in 2007, and Myanmar has pushed forward economic reforms since 2011.

ASEAN has long been a close economic partner of Hong Kong (**Table 1**), being the second largest in merchandise trade and fourth largest in services trade. It accounted for 11.4% of our total value of goods trade in 2017 and 9.1% of our total value of services trade in 2016. Merchandise trade with ASEAN rose briskly by 12.4% in 2017 and cumulatively by around 70% over the past decade.

Table 1 : Hong Kong's close economic ties with ASEAN

	Value ($Bn)	Share* (%)	Cumulative growth in ten years (%)
Trade in goods with ASEAN in 2017	**936.8**	**11.4**	**70.4**
of which:			
Goods exports to ASEAN	284.0	7.3	73.1
Goods imports from ASEAN	652.7	15.0	69.3
Trade in services with ASEAN in 2016	**119.3**	**9.1**	**80.8**
of which:			
Services exports to ASEAN	66.4	9.0	103.7
Services imports from ASEAN	52.9	9.2	58.4
Inward DI stock from ASEAN in 2016	**510.1**	**4.0**	**512.4**
Outward DI stock to ASEAN in 2016	**277.1**	**2.3**	**211.0**

Source : Census and Statistics Department.
Notes : Based on latest available figures.
(*) Refer to the share in Hong Kong's corresponding overall total.

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(1) Members of ASEAN include Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

(2) In January 2018, the IMF estimated that economic growth of ASEAN-5 (namely Indonesia, Malaysia, the Philippines, Thailand and Vietnam) picked up from 4.9% in 2016 to 5.3% in 2017.

Box 3.1 (Cont'd)

A large part of the trade flows is linked to production activities in ASEAN. Over 80% of our trade with ASEAN are raw materials, semi-manufactures and capital goods. Indeed, there are many bright spots. Our merchandise trade performance with Vietnam market stood out in the past ten years, increasing by over four times, as many Hong Kong entrepreneurs have set production plants there. Vietnam has been among the top ten markets for Hong Kong's merchandise exports since 2011, ranking the sixth in 2017. Besides, our capital goods exports to Vietnam, Indonesia, Thailand and the Philippines enjoyed stellar rises. Merchandise trade with Myanmar, though small in size, also expanded rapidly since 2012. On services, the trade value between ASEAN and Hong Kong also rose by 80.8% in the ten-year period ending 2016.

The Belt and Road Initiative encompasses ASEAN region in its southbound route. The major goal of the Belt and Road Initiative is to promote policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds between economies along the routes. The Mainland and ASEAN have already shared strong economic ties. ASEAN was the fourth largest export market in goods of the Mainland in 2017, and reciprocally the Mainland was the largest trading partner of ASEAN. By enhancing connectivity between ASEAN and other economies along the route, the Belt and Road Initiative is poised to lift economic collaborations among ASEAN, Mainland and Hong Kong to a new height.

Hong Kong has a unique role to play given our strategic geographical location and excellent platforms for various economic activities. Hong Kong is a key node between the Mainland and Southeast Asia. On merchandise trade, Hong Kong as an international trade and logistic centre has long served as an important intermediary. Around 11% of the bilateral trade in merchandise trade between the Mainland and ASEAN in 2017 were channelled through Hong Kong, and its value rising by 89.0% in the past decade. As pointed out in the Arrangement with the National Development and Reform Commission for Advancing Hong Kong's Full Participation in and Contribution to the Belt and Road Initiative in late 2017, Hong Kong will act as a two-way open platform for "going global" and together with other Bay Area cities in the Mainland to develop into a world-class city cluster to radiate the effect to economies in Southeast Asia and South Asia.

Hong Kong is indeed an ideal springboard for Mainland companies to develop ASEAN business, and for Southeast Asian firms to explore opportunities in the Mainland. Our convenient location at the Mainland's gateway, business-friendly environment, simple and low tax system and superb infrastructure put us in a vantage position to play this role. Indeed, around 60% of Mainland's outbound investment to the rest of the world in 2016 is channelled to or via Hong Kong. A total of 1 264 regional headquarters, regional offices as well as local offices were set up by Mainland enterprises in Hong Kong as of mid-2017, up by around 74% as compared to 2007. At the same time, a total of 586 regional headquarters and offices as well as local offices were set up in Hong Kong by ASEAN firms. Our inward and outward external direct investment (DI) stocks associated with ASEAN totalled \$510 billion and \$277 billion respectively at end-2016.

Filling infrastructure shortage in emerging market economies is an integral part of the Belt & Road Initiative. Infrastructure construction and upgrades, spanning such areas as transports, power, telecommunication and water supply, could help lift productivity and growth potentials, but require massive investment and professional skills to accomplish. In Southeast Asia, infrastructure investment needs were estimated at US\$210 billion annually

Box 3.1 (Cont'd)

between 2016 and 2030(3). As a member of Asian Infrastructure Investment Bank, Hong Kong could help provide fund-raising and other related financial services, given our world-class financial markets, with a deep liquidity pool and large number of financial talents.

Beyond infrastructure financing, Hong Kong as a prominent international financial centre runs a wide range of financial services. For ASEAN or Mainland companies in pursuit of equity or debt funds to launch foreign business, our sophisticated financing platform could provide a one-stop shop, with services on offer ranging from equity-financing, loan syndication to private equity. Renminbi financing in vast scale is also available. In November 2017, the Hong Kong Exchanges and Clearing Limited opened its first overseas office in Singapore, further strengthening the financial connections between the Mainland China, Hong Kong and Southeast Asia.

For enterprises aspiring to take part in the Belt and Road Initiative, cross-border investment is almost a must, which typically entails complicated issues. For example, differences in regulatory and cultural environments, as well as insufficient market information will need to be addressed by these enterprises as they proceed with their projects. Our prowess in full-range of professional services could meet the demand. In fact, Hong Kong enterprises and professionals already have experiences participating in projects in emerging market economies along the Belt & Road. For ASEAN in particular, examples include airports in Cambodia and power plants in Thailand and Vietnam.

The FTA and the Investment Agreement between Hong Kong and ASEAN forged in November 2017 was a new milestone in trade and economic collaboration between the two sides. The Agreements will bring about legal certainty and better market access for trade as well as better investment protection. Our service providers can also enjoy national treatment, subject to listed specific exceptions. Under the FTA, many ASEAN services sectors will be liberalised. For example, Thailand will open markets in arbitration services and electronic mail services, while Indonesia will open markets in restaurant services and energy-related analysis services. On investment, Thailand, the Philippines and Vietnam will allow Hong Kong enterprises to have foreign capital participation of up to 50% or even full ownership in many service sectors. In sum, the Agreements will be a catalyst to deepen and broaden trade and investment relations between the two sides.

The Government attaches great importance to strengthening economic ties with ASEAN. The Agreements between Hong Kong and ASEAN will enter into force on 1 January 2019 the earliest, and the Government will work closely with the ASEAN member with a view to implementing the Agreements as planned. Besides, the Government will set up an Economic and Trade Office (ETO) in Thailand, the third in the ASEAN region, to step up external promotion and to enhance bilateral cooperation and investment flows. The Government will continue its efforts to expand relationship between Hong Kong and ASEAN and grasp the opportunities so arising with a view to supporting Hong Kong's long-term economic growth and development.

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(3) Infrastructure investment needs of Southeast Asia estimated as in "Meeting Asia's Infrastructure Needs Report" by Asian Development Bank (2017). It refers to the amount of public and private investment in infrastructure required to sustain long-term economic growth and cope with demographic changes. The estimate is in 2015 price and has included climate mitigation and adaption costs.

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 3, but is included in the trade aggregates under GDP in accordance to the international compilation standard.

(2) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

CHAPTER 4 : DEVELOPMENTS IN SELECTED SECTORS

Summary

- *The residential property market was generally buoyant in 2017, except for a temporary moderation around the middle of the year following the introduction of the eighth round of macro-prudential measures for property mortgage loans by the Hong Kong Monetary Authority in May. Improved global and local economic performance, the still-tight demand-supply balance of flats and sustained low local interest rates have all contributed to the fervent market situation. Trading turned more active again in the latter part of 2017 and overall flat prices recorded a hefty gain of 15% during the year.*

- *Reflecting the Government's sustained efforts to increase land and flat supply, total flat supply in the coming three to four years stayed at a high level of 97 000 units. Meanwhile, as the various demand-side management measures yielded noticeable results, speculative activities continued to be subdued, non-local demand remained low, and investment activities stayed modest in 2017.*

- *The commercial and industrial property markets generally revived in 2017. Prices and rentals in individual market segments increased by varying degrees, while trading activities rebounded sharply.*

- *Inbound tourism turned up during the course of 2017, mainly driven by the strong revival of the Mainland market. Overall visitor arrivals rebounded by 3.2% to 58.5 million, after registering annual declines for two consecutive years.*

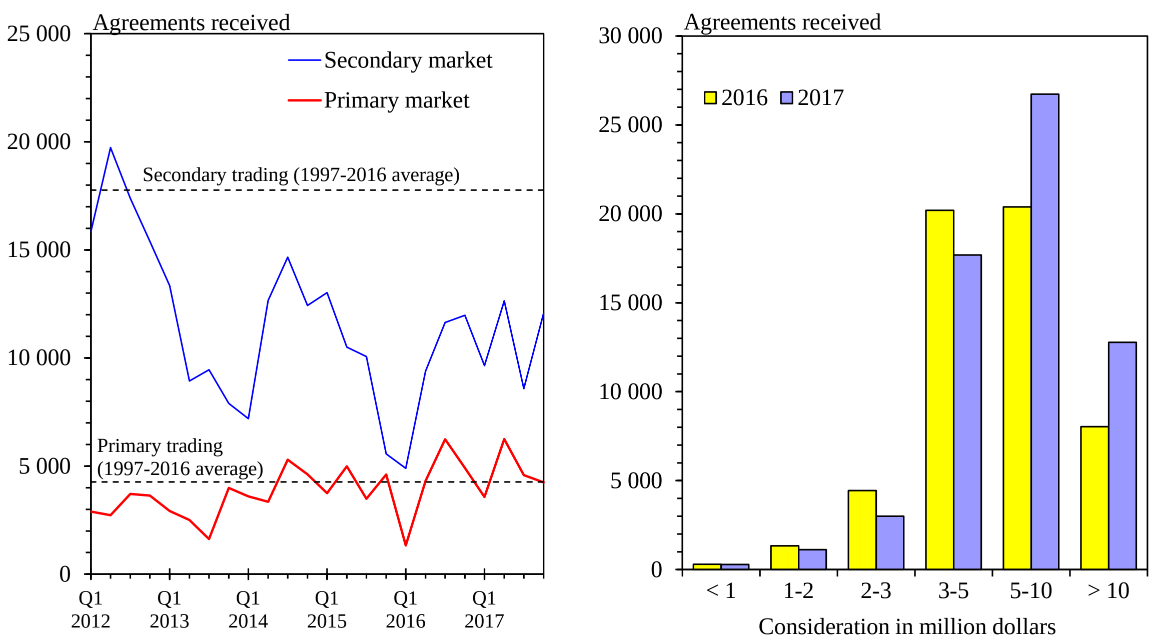
- *The logistics sector extended the recovery trend throughout 2017, benefitting from the resurgence in external trade. Total container throughput reverted to a growth of 4.8% to 20.8 million twenty-foot equivalent units, while air freight throughput exhibited an even better performance and leapt by 9.2%.*

Property

4.1 The *residential property market* was generally buoyant in 2017, except for a temporary moderation around the middle of the year following the introduction of the eighth round of macro-prudential measures for property mortgage loans by the Hong Kong Monetary Authority (HKMA) in May. Improved global and local economic performance, the still-tight demand-supply balance of flats and sustained low local interest rates have all contributed to the fervent market situation.

4.2 The total number of sale and purchase agreements for residential property received by the Land Registry rose by 13% to 61 591 in 2017, though still below the long-term average of 88 139 from 1997 to 2016. Trading was generally active through the year other than for a couple of months when market sentiment was dented by the HKMA's macro-prudential measures. Within the total, primary market transactions rose by 11% to 18 645 with new launches generally greeted with favourable responses, while secondary market transactions increased by 13% to 42 946. Total consideration soared by 30% to $556.3 billion in parallel.

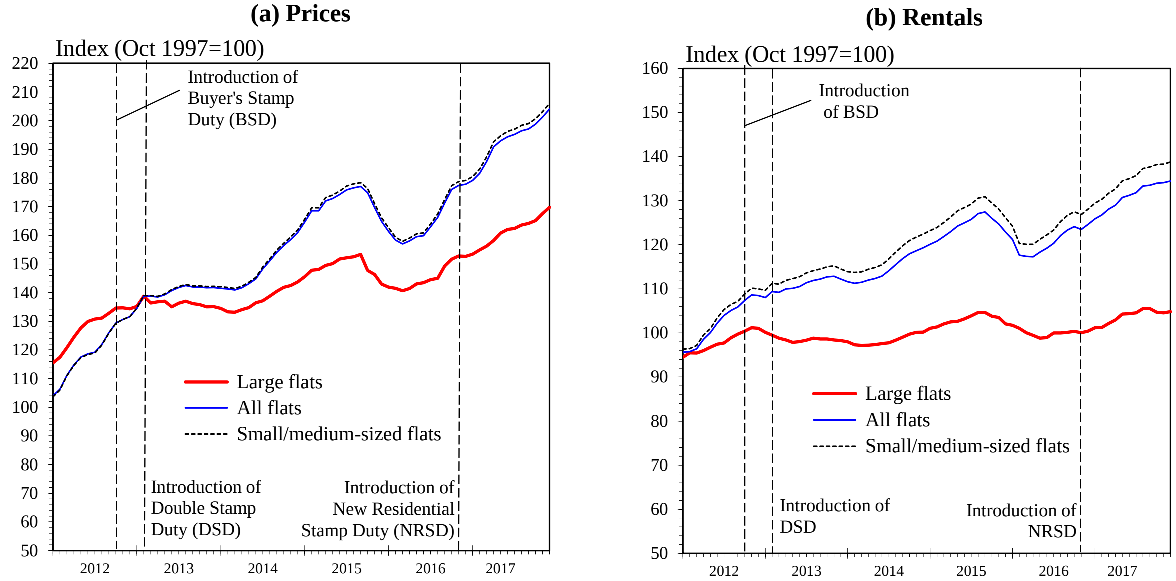
Diagram 4.1 : Trading turned active again in the latter part of 2017



4.3 Overall flat prices recorded a hefty gain of 15% between December 2016 and December 2017. While the rate of increase decelerated somewhat around the middle of the year, it accelerated again towards the end of the year along with the revival in transactions. Analysed by size, prices of small/medium-sized flats and large flats went up by 15% and 11% respectively.

4.4 As to the leasing market, overall flat rentals also picked up to an increase of 8% between December 2016 and December 2017 amid the favourable economic environment. Analysed by size, rentals of small/medium-sized and large flats increased by 8% and 4% respectively. Reflecting the relative movements of flat prices and rentals, the average rental yield for residential property edged down from 2.6% a year earlier to 2.5% in December 2017.

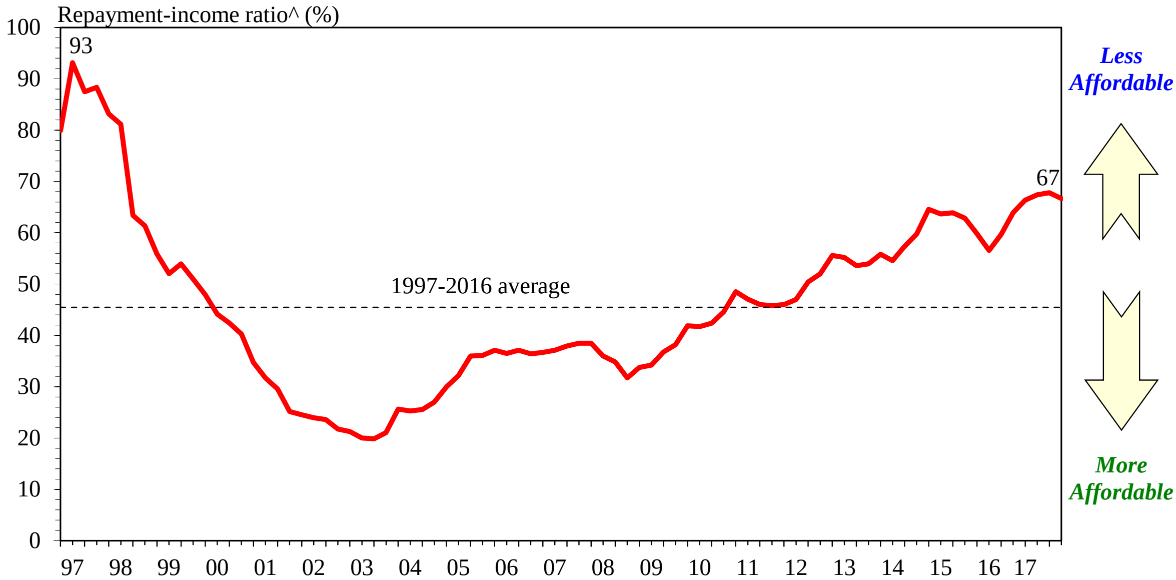
Diagram 4.2 : Flat prices recorded a hefty gain during 2017 while the increase in rentals accelerated



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

4.5 As a result of the surge over the past several years, overall flat prices in December 2017 exceeded the 1997 peak by 104%. The index of 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 and assuming a 70% loan-to-value ratio and tenor of 20 years) stayed elevated at around 67% in the fourth 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 4.3 : The mortgage payment to income ratio stayed elevated



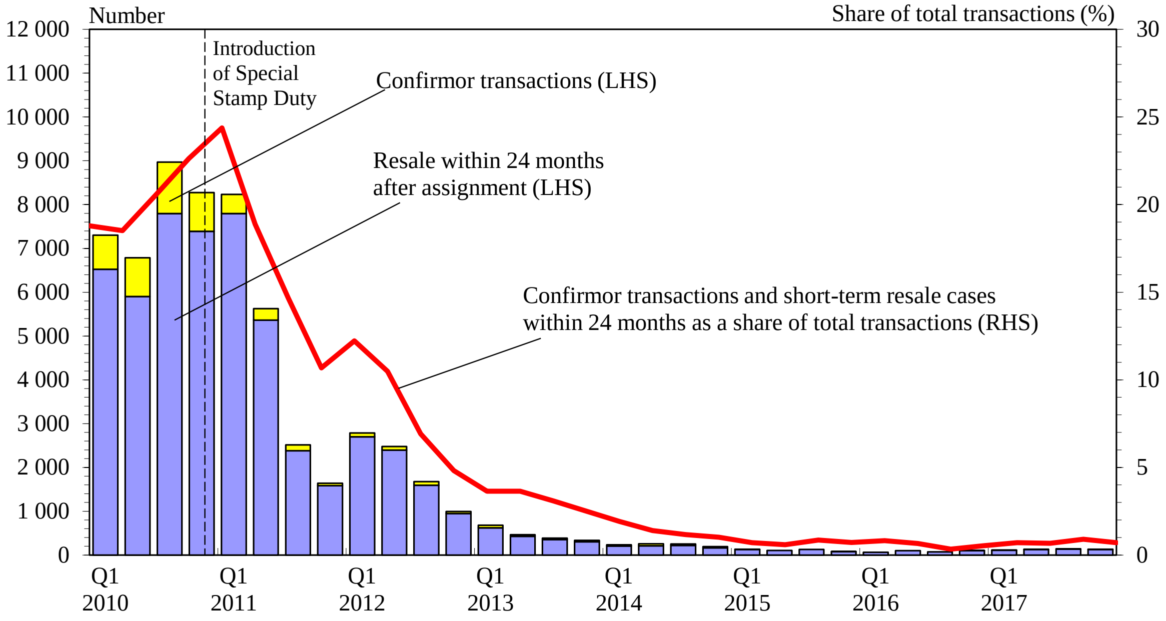
Note : (^) The ratio of mortgage payment for a 45m^2 flat (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing).

4.6 Raising flat supply through increasing land supply is the Government's top policy priority in ensuring a healthy and stable development of the property market. As announced in December 2017, a total of 11 sites were sold or would be put up for sale in 2017-18 by the Government under the Land Sale Programme, capable of providing about 5 800 flats in total. The aggregate private housing land supply from the various sources (including Government land sale, railway property development projects, the Urban Renewal Authority's projects, and private development and redevelopment projects) in 2017-18 was estimated to have a capacity to provide about 24 300 flats, exceeding the annual supply target for the fourth consecutive year.

4.7 Gross completions of private flats increased by 22% to 17 800 units in 2017. After netting off demolition of 1 600 units, the net completions of 16 200 units fell short of the take-up of 17 000 units[(1)], and the vacancy rate thus edged down from 3.8% at end-2016 to 3.7% at end-2017. While the demand-supply balance of flats remained tight for the time being as indicated by the vacancy rate, it is set to ease in the years ahead. The Rating and Valuation Department forecasts that completions will rise to 18 100 units and 20 400 units respectively[(2)] in 2018 and 2019, from the average of 17 900 units per annum over 1997-2016. Reflecting the Government's sustained efforts in raising land supply, the number of private domestic units commencing work rose by 9% to 22 700 in 2017. The *total supply of flats* in the coming three to four years (comprising unsold flats of completed projects, flats under construction but not yet sold and flats on disposed sites where construction can start any time) stayed at a high level of 97 000 units as estimated at end-December 2017. Also, 3 900 units could be further added to the total supply after the conversion of a number of residential sites into "disposed sites".

4.8 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[(3)]. These measures have yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) remained low at an average of 42 cases per month or 0.7% of total transactions in 2017, 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 92 cases per month or 1.6% of total transactions in 2017, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As an indicator of *investment activities*, purchases subject to the New Residential Stamp Duty stayed at a modest level of 675 cases per month or 11.7% of total transactions in 2017, markedly lower than the monthly average of 1 412 cases subject to Double Stamp Duty or 26.5% in January-November 2016. As to *mortgage lending*, the average loan-to-value ratio of new mortgages approved was 49% in 2017, 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 4.4 : Speculative activities stayed subdued



Note : Confirmor transactions refer to resale before assignment.

Diagram 4.5 : Purchases by non-local buyers remained low

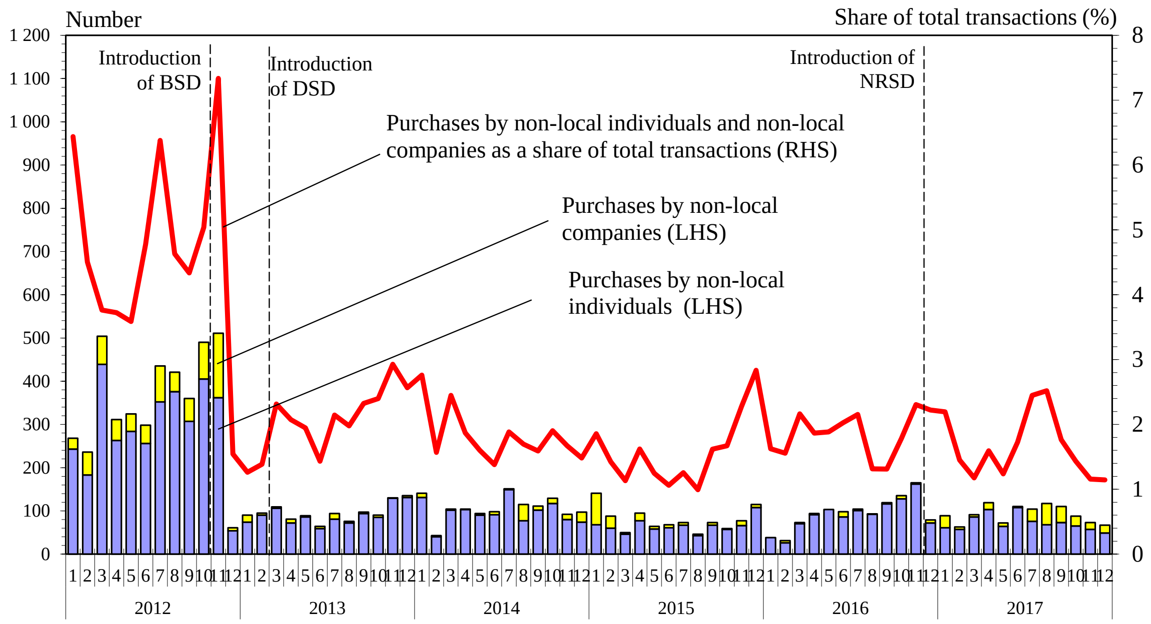
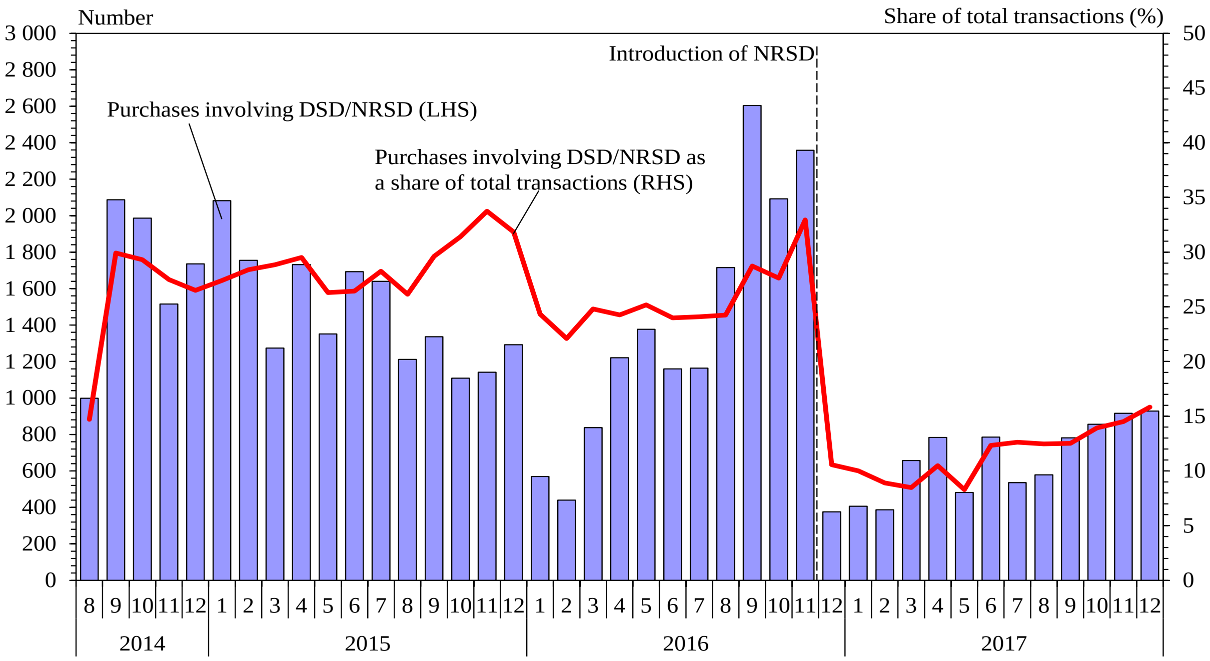


Diagram 4.6 : Investment activities were modest



4.9 While market sentiment remains sanguine at the present moment, the changing fundamental factors will pose increasing adjustment pressures on the residential property market over time. In addition to an expected gradual easing of demand-supply balance of flats resulted from a projected increase in flat production in the coming few years, local interest rates are set to rise under the Linked Exchange Rate System as the US monetary policy normalisation process continues. The Federal Reserve has already raised US interest rates five times by a total of 125 basis points since December 2015, and started scaling back its balance sheet in October 2017.

4.10 The *commercial* and *industrial property markets* generally revived in 2017. Prices and rentals in individual market segments increased by varying degrees, while trading activities rebounded sharply.

4.11 Overall prices of *office space* rose by 15% between December 2016 and December 2017. Within the total, prices of Grade A, B and C office space went up by 17%, 13% and 14% respectively. Over the period, overall rentals increased by a less rapid 5%, with those of Grade A, B and C office space rising by 6%, 3% and 4% respectively. The average rental yield of Grade A, B and C office space fell to 2.6%, 2.7% and 2.7% respectively in December 2017, all from 3.0% a year earlier. Meanwhile, transactions increased sharply by 77% to 1 960 cases in 2017. As the take-up of 23 300 m^2 was lower than the completion of 198 100 m^2, the vacancy rate went up from 8.2% at end-2016 to 9.5% at end-2017, but was still slightly below the long-term average of 9.8% over 1997-2016.

4.12 The *retail shop space* market gradually improved during 2017 along with the rebound in retail sales. Between December 2016 and December 2017, prices rose by 8%, while rentals went up by 4%. As a result, the average rental yield edged down from 2.5% to 2.4%. Trading activities likewise rebounded by 44% to 2 190 cases in 2017[(4)]. The take-up and completion of retail shop space were 76 600 m^2 and 105 000 m^2 respectively. The vacancy rate stayed unchanged from a year earlier, at 9.0% at end-2017, slightly above the long-term average of 8.8% over 1997-2016.

4.13 Prices and rentals of *flatted factory space* rose by 13% and 5% respectively between December 2016 and December 2017. The average rental yield fell from 3.1% to 2.9% over the period. Transactions soared by 87% to 5 090 cases in 2017. As to the demand-supply balance, there was a negative take-up of 119 700 m^2 against a completion of 22 500 m^2. The vacancy rate therefore rose from 5.8% at end-2016 to 6.1% at end-2017, but was still below the long-term average of 7.7% over 1997-2016.

Diagram 4.7 : Prices and rentals of non-residential properties increased by varying extents during 2017

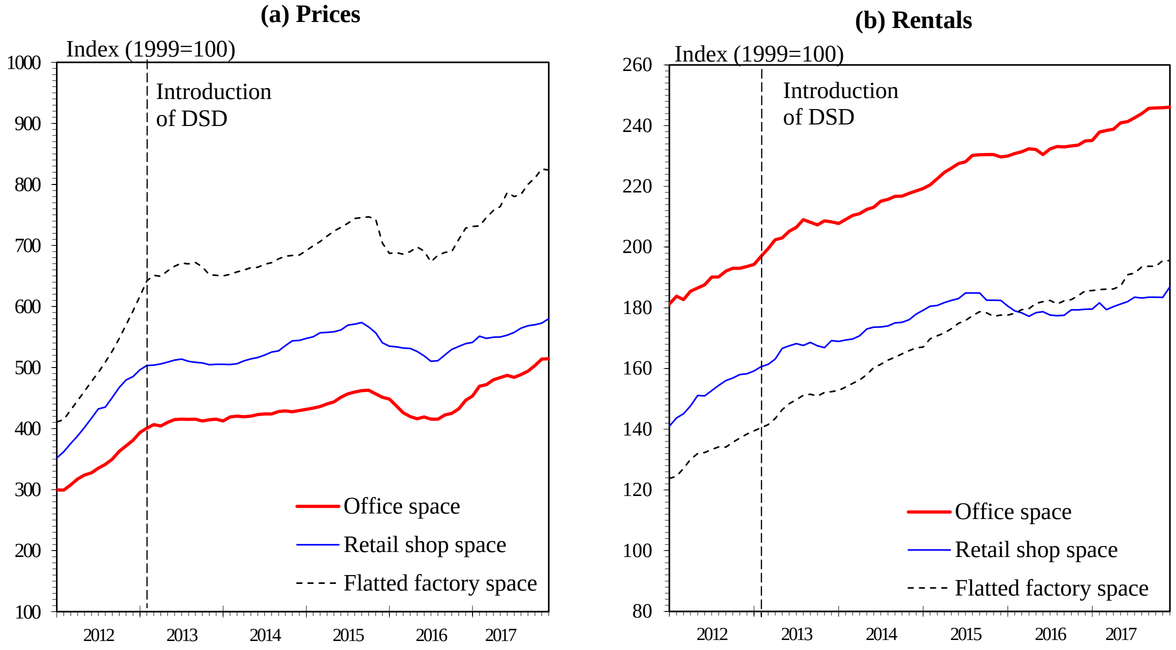
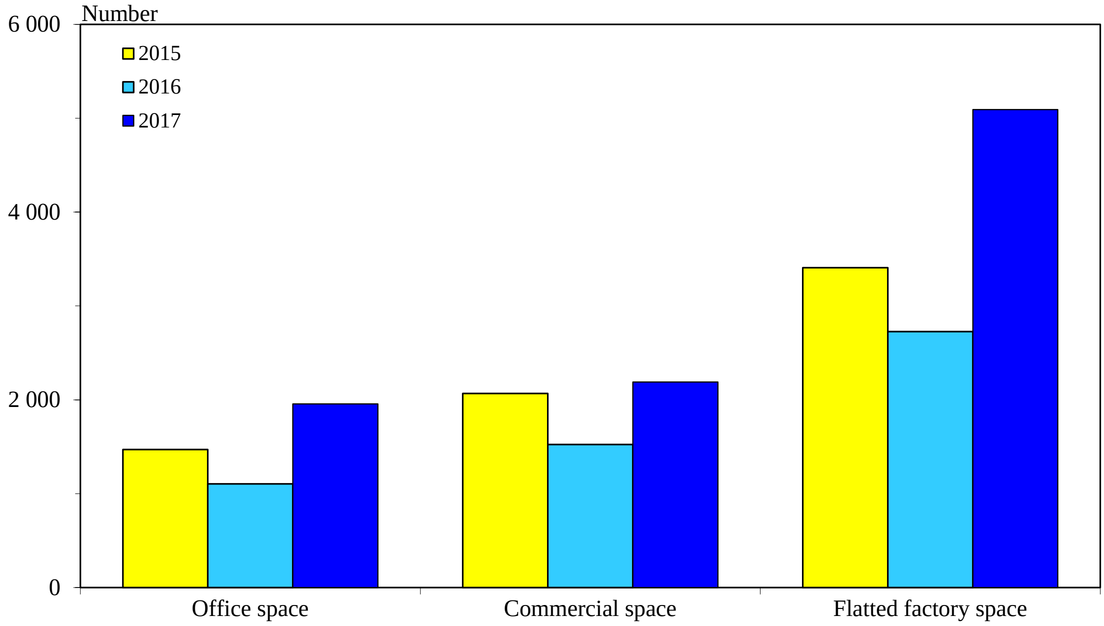


Diagram 4.8 : Transactions for commercial and industrial properties rebounded sharply in 2017



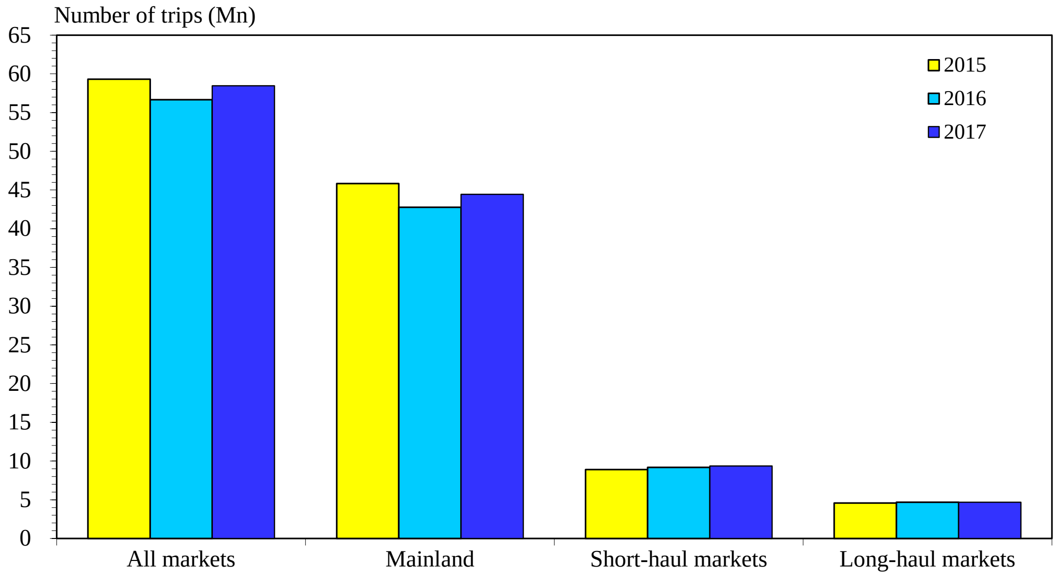
Land

4.14 Twenty sites with a total area of about 13.2 hectares were disposed of in 2017, fetching a land premium of about $128.4 billion. Among these sites, there were ten residential sites, two business sites, two commercial sites, one industrial site, one hotel site, one commercial/hotel site and three sites for petrol filling station. In addition, the tender exercises for another two residential sites and one industrial site commenced in the last quarter of the year. Regarding exchange of land, 19 sites with a total area of about 86.0 hectares were approved in 2017. As to lease modifications, a total of 64 sites were approved.

Tourism

4.15 Inbound tourism turned up during the course of 2017, mainly driven by the strong revival of the Mainland market. Overall *visitor arrivals* rebounded by 3.2% to 58.5 million, after registering annual declines for two consecutive years. With the performance gradually improving over the course of the year, the year-on-year growth rate picked up to a solid 6.0% in the fourth quarter. Mainland visitors, which accounted for 76.0% of the total, rose by 3.9% to 44.4 million in 2017 along with the robust economic growth there. As to the non-Mainland markets, visitor arrivals from the short-haul markets increased by another 1.8%, while those from the long-haul markets edged down by 0.3%[(5)].

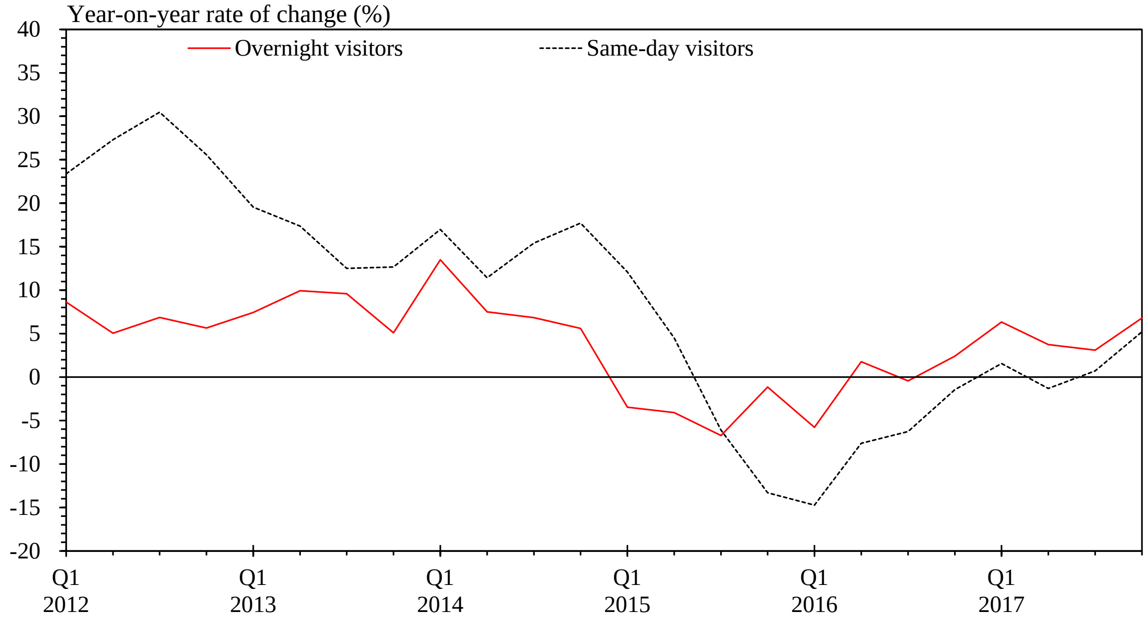
Diagram 4.9 : Inbound tourism turned up during 2017



Note : See note (5) at the end of this chapter for the definition of short-haul and long-haul markets.

4.16 Analysed by the length of stay, overnight visitor arrivals reverted to an increase of 5.0% in 2017 following two consecutive years of decline, while same-day visitor arrivals also returned to a small growth of 1.6%. Reflecting these movements, the share of overnight visitors rose further from 46.9% in 2016 to 47.7% in 2017, while that of same-day visitors declined from 53.1% to 52.3%.

Diagram 4.10 : Both overnight visitors and same-day visitors reverted to an increase in 2017

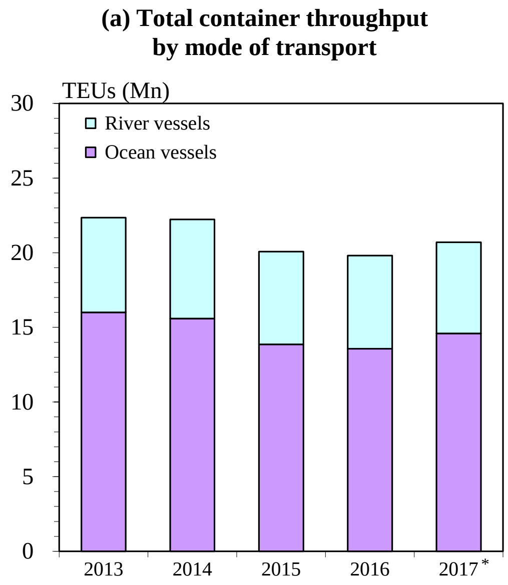


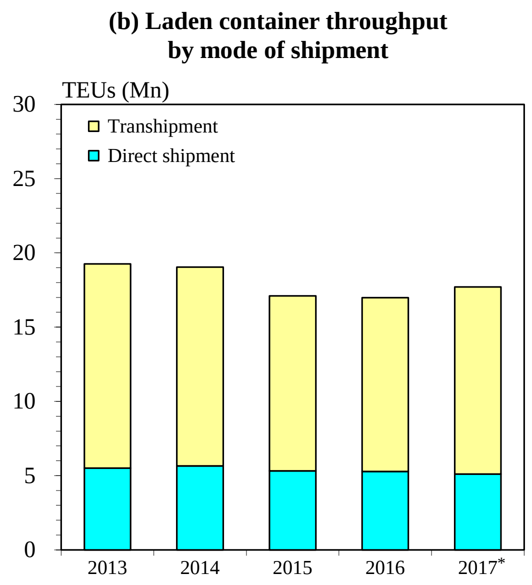
4.17 In tandem with the increase in overnight visitor arrivals, the average hotel room occupancy rate rose from 87% in 2016 to 89% in 2017, while the average achieved hotel room rate edged up by 0.1% to $1,288[(6)].

Logistics

4.18 The logistics sector extended the recovery trend throughout 2017, benefitting from the resurgence in external trade. Following five consecutive years of decline, *total container throughput* reverted to a growth of 4.8% to 20.8 million twenty-foot equivalent units (TEUs). Within the laden container throughput, transhipment jumped by 9.9% while direct shipment fell by 2.0%. In parallel, the value of trade handled at the Hong Kong port rebounded by 4.4%, though its share in total trade by value shrank further from 18.8% in 2016 to 18.1% in 2017.

Diagram 4.11 : Container throughput showed some improvement in 2017

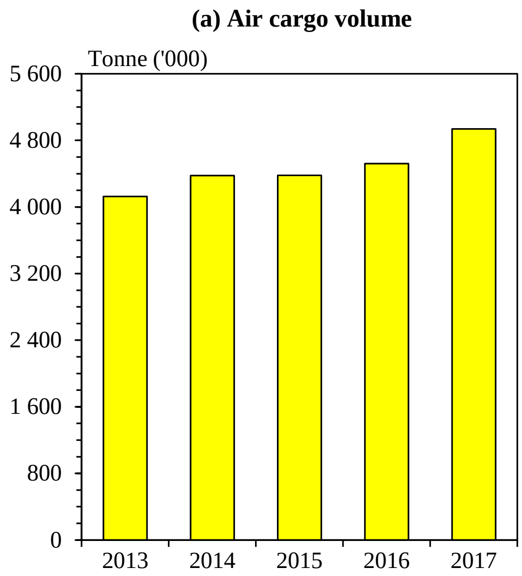


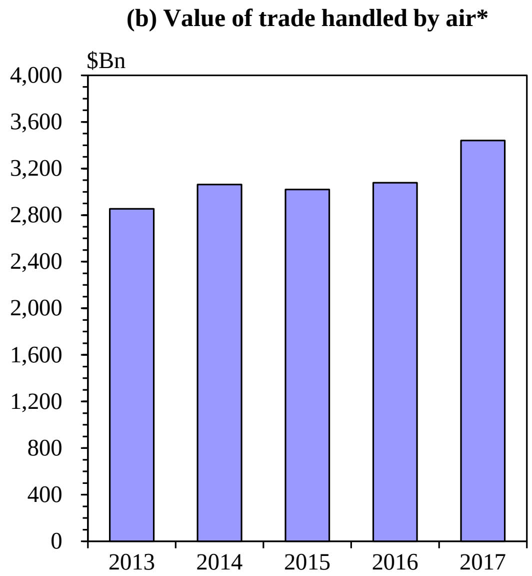


Note : (*) Total container throughput for 2017 is the preliminary estimate by Hong Kong Maritime and Port Board. Its breakdown by mode of transport and the laden container throughput by mode of shipment are crudely estimated from the profile in the first eleven months of 2017.

4.19 By comparison, *air freight throughput* exhibited an even better performance and jumped by 9.2% to 4.9 million tonnes in 2017. Likewise, the value of trade by air leapt by 11.7%, with its share in total trade rising further from 40.5% to 41.8%.

Diagram 4.12 : Air cargo throughput and the value of trade handled by air registered sharp growth in 2017





Note : (*) Not including transhipment.

Transport

4.20 Traffic flows for all the major modes of transport increased in 2017. Air passenger traffic rose by 3.3% to 72.9 million trips, and water-borne passenger trips edged up by 0.3% to 26.8 million. As to land-based cross-boundary traffic, passenger trips inched up by 0.2% to 221.7 million, and average daily vehicle movements increased by 3.8% to 43 921.

Innovation and technology

4.21 In December 2017, the Government published the Smart City Blueprint for Hong Kong with a vision to build Hong Kong into a world-class smart city. The Blueprint maps out development plans in the next five years, aiming to enhance the effectiveness of city management and improve people's quality of living as well as Hong Kong's attractiveness and sustainability by making use of innovation and technology.

Environment

4.22 Domestically, the Government announced the modified implementation arrangements for municipal solid waste charging, and target to implement it towards the end of 2019 at the earliest after the endorsement of the enabling legislation by the Legislative Council. Moreover, the Government commissioned a landfill gas utilisation project at the South East New Territories Landfill which turns surplus landfill gas into synthetic natural gas as a renewable energy source and reduces greenhouse gas emissions.

4.23 Regionally, the HKSAR Government and the Guangdong Government finalised the emission reduction targets of key air pollutants for 2020 for both sides with a view to further improving regional air quality. The HKSAR Government also signed a cooperation agreement with relevant Shenzhen authorities to establish the Shenzhen-Hong Kong Office for Marine Emissions and Control and collaborate on the implementation of the Domestic Marine Emission Control Area in the Pearl River Delta.

Notes :

(1) Take-up figures represent the net increase in the number of units occupied. The figures are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures. Take-up should not be confused with the sales of new developments, and it bears no direct relationship to the number of units sold by developers. Negative take-up means that there is a decrease in the number of units occupied (i.e. property previously occupied was released during the year and remained vacant at the year-end). Also, take-up, demolition, completion and vacancy figures on residential and non-residential properties are preliminary figures from the Rating and Valuation Department, and are subject to revision.

(2) Forecast completions in 2018 and 2019 are preliminary figures only, and are subject to revision upon the availability of more data.

(3) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 in the 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 in the 2012 Economic Background and 2013 Prospects and Box 3.1 in the First Quarter Economic Report 2013. For details of the measures promulgated in 2014, see Box 4.1 in the 2013 Economic Background and 2014 Prospects. For details of the measures promulgated in 2015, see Box 3.1 of the First Quarter Economic Report 2015. For details of the measures promulgated in 2016, see note (1) at the end of Chapter 4 in the 2016 Economic Background and 2017 Prospects. For details of the measures promulgated in 2017, see note (3) at the end of Chapter 3 in the First Quarter Economic Report 2017, note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2017 and Box 3.1 of the Third Quarter Economic Report 2017.

(4) The figures on transaction and vacancy rate refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.

(5) 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 2017, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 76%, 16% and 8% of total visitors.

(6) The figures on hotel room occupancy and achieved room rate do not include guesthouses.

CHAPTER 5 : THE FINANCIAL SECTOR[#]

Summary

- *The monetary policy normalisation in the US proceeded further in 2017. Yet the low interest rate environment in Hong Kong continued. Following the interest rate hikes by the US Federal Open Market Committee, the Hong Kong Monetary Authority adjusted upward the Base Rate under the Discount Window three times by a total of 75 basis points to 1.75%. Notwithstanding this, interest rates at both the wholesale and retail levels remained generally low.*

- *The Hong Kong dollar spot exchange rate generally weakened against the US dollar during 2017, mainly driven by carry trade activities amid widening negative Hong Kong dollar-US dollar interest rate spreads.*

- *As the US dollar weakened against most major currencies including the euro, pound sterling and renminbi, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices declined by 5.7% and 5.8% respectively during 2017.*

- *Total loans and advances recorded sharp increases in 2017, underpinned by the stronger economic situation. Loans for use in Hong Kong surged by 15.5% during the year, and loans for use outside Hong Kong by 17.4%.*

- *The local stock market staged a strong rally in 2017, propelled by the improved global economic situation and generally benign local interest rate environment. In parallel to the surge in the major overseas equity markets, the Hang Seng Index soared by 36.0% during 2017 to 29 919 at end of the year, the largest annual increase since 2009. Trading was very active, while fund raising showed some pick-up.*

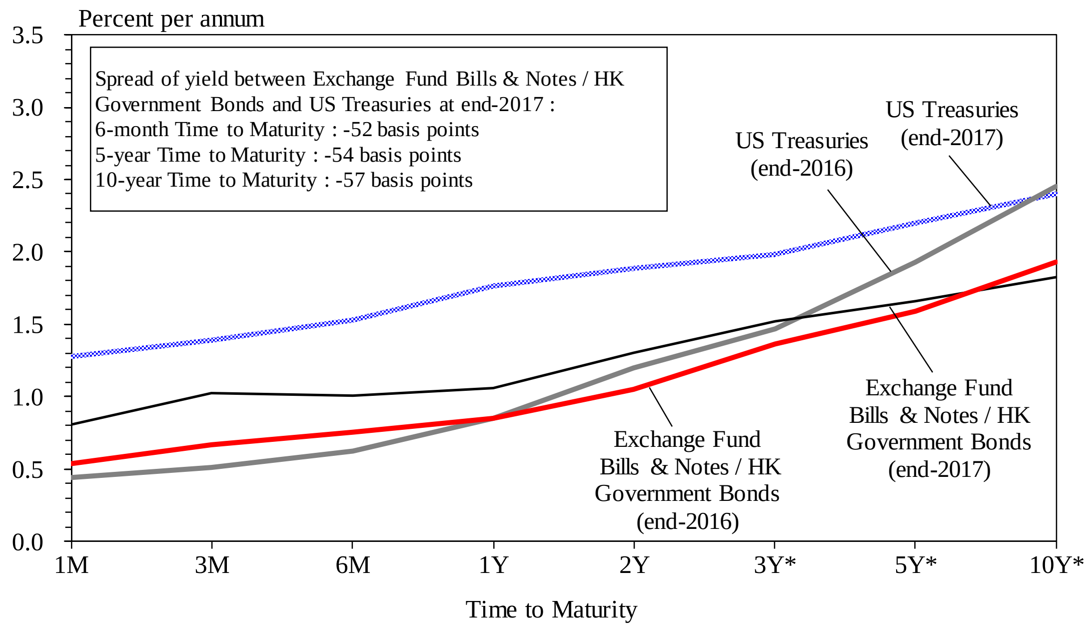
(#) This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.

Interest rates and exchange rates

5.1 The monetary policy normalisation in the US proceeded further in 2017. Yet the low interest rate environment in Hong Kong continued. The US Federal Open Market Committee raised the target range for the Federal Funds Rate three times by a total of 75 basis points to 1.25-1.50% during the year. Consequentially, the HKMA adjusted upward the *Base Rate* under the Discount Window from 1.00% to 1.75%(1). Nonetheless, *Hong Kong dollar interbank interest rates* stayed at low levels, despite some pick-up in the latter part of the year due in part to Initial Public Offering (IPO)-related and seasonal funding demand. The overnight and three-month HIBORs were at 1.34% and 1.31% respectively at end-2017, compared with 0.66% and 1.02% at end-2016.

5.2 Both the *US dollar* and *Hong Kong dollar yield curves* flattened in 2017, as short- to medium-term yields rose and longer-term yields declined. Reflecting the smaller rise in short-term yields of Hong Kong dollar than that of US dollar, the yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills turned from positive 13 basis points at end-2016 to negative 52 basis points at end-2017. Meanwhile, the negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes widened slightly from 52 basis points to 57 basis points.

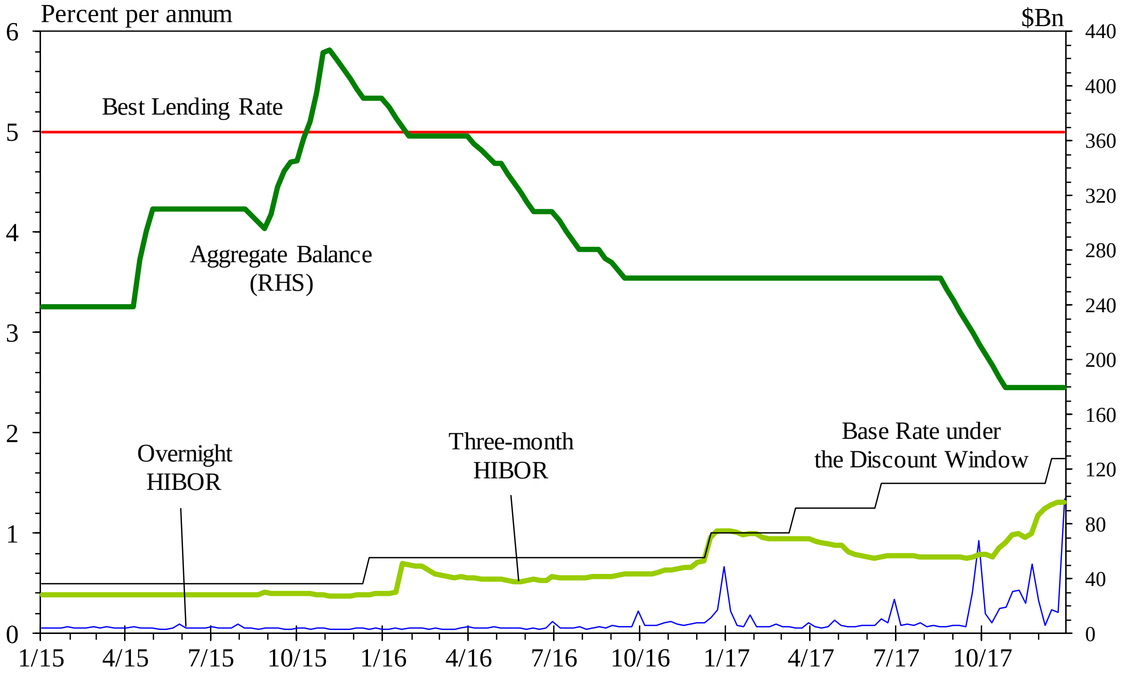
Diagram 5.1 : Both US dollar and Hong Kong dollar yield curves flattened in 2017



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.

5.3 Interest rates on the retail front stayed at low levels. The *Best Lending Rates* stayed unchanged at 5.00% or 5.25% throughout 2017, while the *average savings deposit rate* and the one-year *time deposit rate* quoted by the major banks for deposits of less than $100,000 also remained stable at 0.01% and 0.15% respectively. The *composite interest rate*(2), which indicates the average cost of funds for retail banks, edged up from 0.31% at end-2016 to 0.38% at end-2017, but still a low level by historical standards.

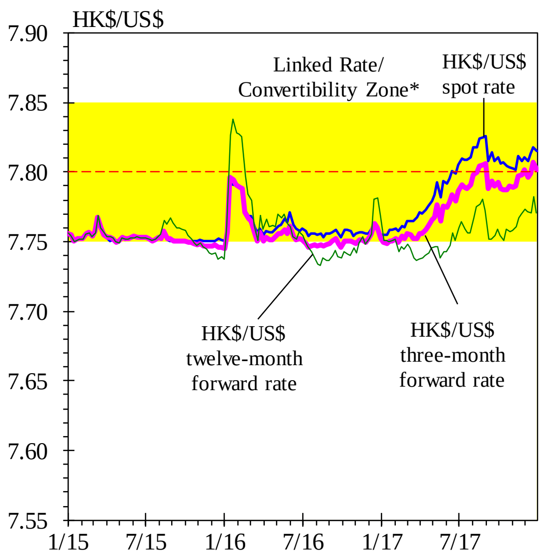
Diagram 5.2 : Hong Kong dollar interest rates remained generally low in 2017 (end for the week)



5.4 The *Hong Kong dollar spot exchange rate* weakened against the US dollar in 2017. Mainly driven by carry trade activities amid widening negative Hong Kong dollar-US dollar interest rate spreads, the Hong Kong dollar gradually weakened during the first eight months and touched 7.827 per US dollar in late August. It rebounded briefly thereafter, before weakening again towards the end of the year amid an increase in year-end commercial demand for US dollar. It closed the year at 7.814, compared with 7.754 a year earlier. As regards the *Hong Kong dollar forward rates*, the differential between the 12-month Hong Kong dollar forward rate and spot rate turned from +145 pips (each pip is equivalent to HK$0.0001) at end-2016 to -445 pips at end-2017. The differential between the 3-month forward rate and spot rate also widened from -25 pips to -141 pips.

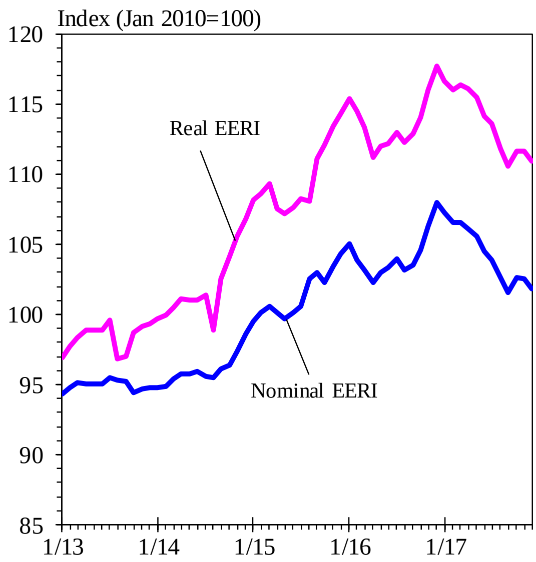
5.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed that of the US dollar. During 2017, the US dollar weakened against most major currencies including the euro, pound sterling and renminbi (RMB). As a result, the *trade-weighted Hong Kong dollar Nominal* and *Real Effective Exchange Rate Indices*[3] declined by 5.7% and 5.8% respectively during 2017.

Diagram 5.3 : Hong Kong dollar generally weakened against the US dollar (end for the week)



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

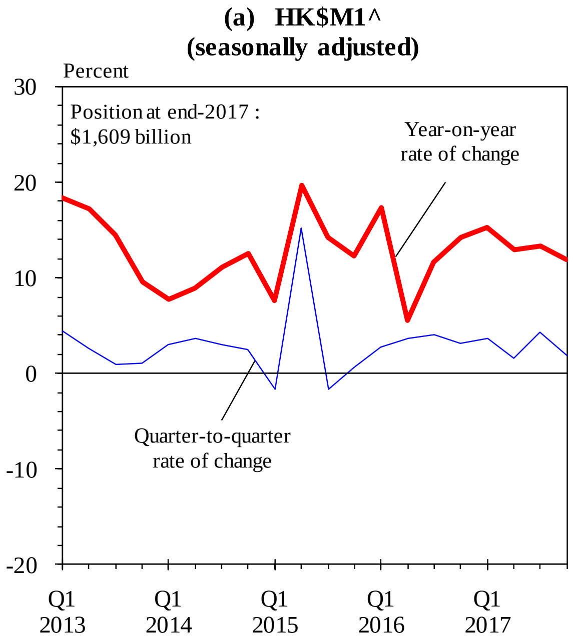
Diagram 5.4 : The trade-weighted nominal and real EERIs declined alongside the US dollar (average for the month)

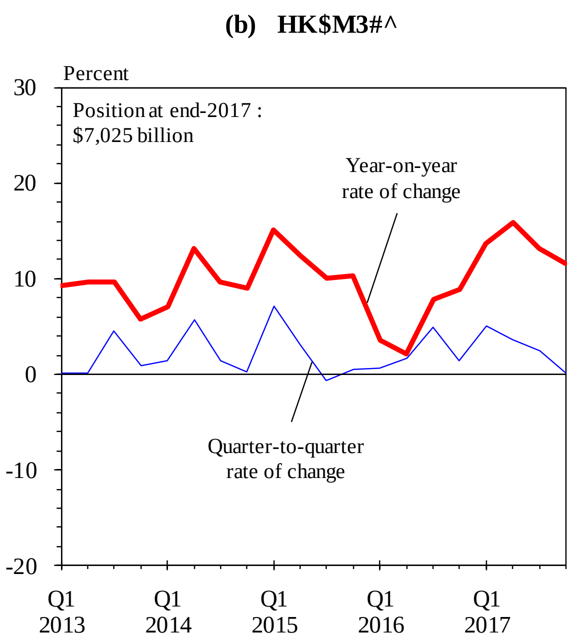


Money supply and banking sector

5.6 The monetary aggregates continued to expand in 2017. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK$M1) rose noticeably by 11.9% over end-2016 to $1,609 billion at end-2017, and the broad money supply (HK$M3) by 11.6% to $7,025 billion[4]. Meanwhile, *total deposits* with authorised institutions (AIs)[5] increased by 8.7% to $12,752 billion, within which Hong Kong dollar deposits and foreign currency deposits went up by 11.6% and 5.9% respectively.

Diagram 5.5 : The monetary aggregates continued to expand in 2017





Notes : (^) Figures refer to the positions at end of period.
(#) Adjusted to include foreign currency swap deposits.

Table 5.1 : Hong Kong dollar money supply and total money supply

% change during the quarter		M1 HK$^	M1 Total	M2 HK$(a)	M2 Total	M3 HK$(a)	M3 Total
2016	Q1	2.7	5.4	0.6	1.1	0.6	1.1
	Q2	3.7	0.6	1.7	0.4	1.7	0.4
	Q3	4.0	6.9	4.9	5.1	4.9	5.1
	Q4	3.1	-0.9	1.5	1.0	1.5	1.0
2017	Q1	3.7	0.7	5.1	3.4	5.1	3.4
	Q2	1.6	3.2	3.6	3.0	3.6	3.0
	Q3	4.3	4.1	2.4	1.3	2.5	1.3
	Q4	1.9	1.6	0.1	2.0	0.1	2.0
Total amount at end-2017 ($Bn)		1,609	2,431	7,010	13,755	7,025	13,804
% change over a year earlier		11.9	9.8	11.6	10.0	11.6	10.0

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

5.7 *Total loans and advances* recorded sharp increases in 2017 amid the stronger economic situation. Total loans and advances soared by 16.1% over a year earlier to $9,314 billion at end-2017. Within the total, Hong Kong dollar loans and foreign currency loans grew by 19.7% and 11.6% respectively. Reflecting the corresponding movements in loans and deposits, the loan-to-deposit ratio for Hong Kong dollar went up from 77.1% a year earlier to

82.7% at end-2017, and that for foreign currency from 59.9% to 63.1%.

5.8 Loans for use in Hong Kong (including trade finance) surged by 15.5% over a year earlier to $6,514 billion at end-2017, and loans for use outside Hong Kong by 17.4% to $2,799 billion. Within the loans for use in Hong Kong, loans to most economic sectors recorded increases. Loans to financial concerns and loans to stockbrokers surged by 50.4% and 33.8% respectively alongside the rally in local stock market. Loans to manufacturing and trade finance registered strong growth of 18.8% and 8.7% respectively, while loans to wholesale and retail trade declined marginally by 0.8%. As for property-related lending, loans to building, construction, property development and investment expanded by 16.7%, reflecting the increased funding demand for construction activities and land acquisitions. Loans for purchase of residential property also increased, by 8.1%, amid the generally buoyant property market.

Table 5.2 : Loans and advances

% change during the quarter		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
		All loans and advances for use in Hong Kong									
2016	Q1	-1.5	-3.0	-6.3	2.7	0.5	-3.6	7.8	0.1	-0.8	-0.2
	Q2	5.7	8.7	0.7	1.5	0.5	13.7	6.8	3.1	0.7	2.4
	Q3	-1.1	-4.4	0.9	1.4	1.0	4.6	-6.9	1.5	1.9	1.6
	Q4	-2.8	0.2	-2.4	4.7	2.1	5.2	9.9	2.5	2.7	2.5
2017	Q1	2.6	4.6	1.6	4.9	1.6	12.1	9.7	4.0	6.0	4.6
	Q2	4.5	5.3	2.8	4.9	2.4	11.7	-7.6	5.2	5.9	5.4
	Q3	4.1	4.7	-3.0	3.4	2.3	5.9	13.1	2.7	1.4	2.3
	Q4	-2.6	3.0	-2.1	2.5	1.6	13.5	16.7	2.8	3.2	2.9
Total amount at end-2017 ($Bn)		494	293	409	1,470	1,259	821	87	6,514	2,799	9,314
% change over a year earlier		8.7	18.8	-0.8	16.7	8.1	50.4	33.8	15.5	17.4	16.1

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.

5.9 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 18.7% at end-September 2017. The ratio of classified loans to total loans for retail banks declined from 0.72% at end-2016 to 0.62% at end-September 2017. The delinquency ratio for credit card lending decreased marginally from 0.24% at end-2016 to 0.23% at end-September 2017, and the delinquency ratio for residential mortgage loans stayed unchanged at 0.03% at end-2017, same as a year earlier.

Table 5.3 : Asset quality of retail banks*

(as % of total loans)

As at end of period		Pass loans	Special mention loans	Classified loans (gross)
2016	Q1	97.77	1.45	0.78
	Q2	97.80	1.40	0.80
	Q3	97.68	1.51	0.81
	Q4	97.75	1.53	0.72
2017	Q1	97.94	1.35	0.70
	Q2	98.22	1.10	0.68
	Q3	98.36	1.02	0.62

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

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

5.10 *Offshore RMB business* stayed lacklustre in 2017. RMB trade settlement transactions handled by banks in Hong Kong dropped by another 13.6% to RMB3,926.5 billion in 2017. Total RMB deposits (including customer deposits and outstanding certificates of deposit) edged down by 1.1% from end-2016 to RMB618.4 billion at end-2017. As to RMB-related financing activities, RMB bond issuance fell from RMB52.8 billion in 2016 to RMB20.6 billion in 2017, while outstanding RMB bank loans decreased from RMB294.8 billion at end-2016 to RMB144.5 billion at end-2017.

Table 5.4 : Renminbi deposits and cross-border renminbi trade settlement in Hong Kong

As at end of period		Demand and savings deposits (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	Interest rates on[a]: Savings deposits[b] (%)	Interest rates on[a]: Three-month time deposits[b] (%)	Number of AIs engaged in RMB business	Amount of cross-border RMB trade settlement[c] (RMB Mn)
2016	Q1	187,124	572,302	759,425	0.25	0.53	145	1,130,645
	Q2	204,282	507,266	711,549	0.25	0.53	146	1,234,587
	Q3	201,829	463,671	665,500	0.25	0.53	145	1,189,244
	Q4	135,520	411,187	546,707	0.25	0.53	144	987,651
2017	Q1	131,103	376,169	507,272	0.25	0.53	141	821,390
	Q2	142,517	383,560	526,077	0.25	0.53	140	927,925
	Q3	153,368	382,099	535,468	0.25	0.53	137	993,430
	Q4	159,698	399,439	559,137	0.25	0.53	137	1,183,712
% change over a year earlier		17.8	-2.9	2.3	N.A.	N.A.	N.A.	19.9

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

5.11 The Hong Kong dollar *debt market* continued to expand in 2017, on the back of increased issuance of Exchange Fund papers. Total gross issuance grew by 9.3% to $3,335.3 billion, with the robust growth of 11.0% in public sector debt issuance more than offsetting the decline of 5.4% in private sector debt issuance[6]. As a result, the total outstanding balance of Hong Kong dollar debt securities rose by 4.1% over a year earlier to another record high of $1,802.2 billion at end-2017, equivalent to 25.7% of HK$M3 or 21.5% of Hong Kong dollar-denominated assets of the entire banking sector[7].

5.12 As to the Government Bond ("GB") programme, a total of $16.6 billion worth of institutional GBs were issued through tenders in 2017. Another batch of Silver Bond with an issue size of $3.0 billion was also issued in June. At end-2017, the total outstanding amount of Hong Kong dollar bonds under the GB Programme was $104.8 billion, comprising 13 institutional issues totaling $78.9 billion and four retail issues (two iBonds and two Silver Bonds) totaling $25.9 billion. In addition, three US dollar sukuks, each with an issue size of US$1.0 billion, were outstanding under the Programme.

Table 5.5 : New issuance and outstanding value of Hong Kong dollar debt securities ($Bn)

		Exchange Fund paper	Statutory bodies/government-owned corporations	Government	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	Annual	3,000.4	21.5	19.6	3,041.6	185.8	20.7	84.0	290.5	3.2	3,335.3
	Q1	709.7	9.7	1.8	721.3	54.9	4.1	17.4	76.4	1.7	799.3
	Q2	718.1	8.6	10.7	737.4	41.6	4.5	37.0	83.1	1.6	822.0
	Q3	766.5	2.0	0.6	769.1	43.9	9.7	13.6	67.2	0.0	836.3
	Q4	806.1	1.2	6.5	813.8	45.4	2.4	16.0	63.8	0.0	877.6
% change in 2017 over 2016		11.6	3.1	-33.3	11.0	2.5	-17.6	-16.6	-5.4	-41.6	9.3
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
	Q3	1,014.6	52.8	102.9	1,170.3	262.7	158.7	182.7	604.2	10.8	1,785.2
	Q4	1,048.5	53.6	106.4	1,208.5	242.6	160.6	180.5	583.8	9.9	1,802.2
% change at end-2017 over end-2016		8.9	7.3	3.5	8.3	-11.2	4.7	1.7	-3.4	-6.6	4.1

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

(a) AIs : Authorised institutions.

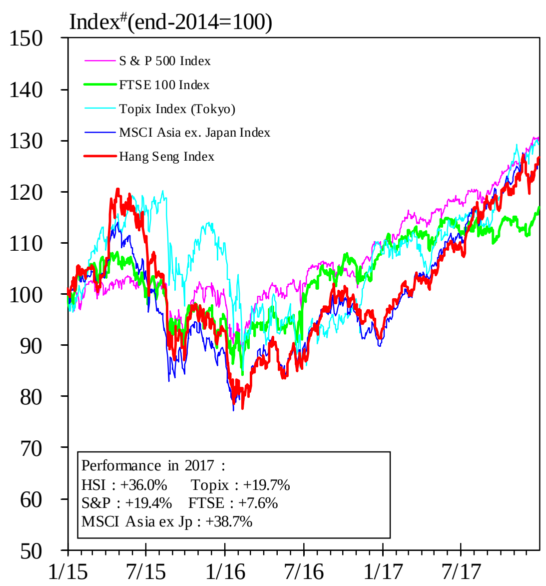
(b) MDBs : Multilateral Development Banks.

The stock and derivatives markets

5.13 The *local stock market* staged a strong rally in 2017, propelled by the improved global economic situation and generally benign local interest rate environment. In parallel to the surge in the major overseas equity markets, the Hang Seng Index (HSI) rose to a ten-year high of 30 003 on 22 November. For the year as a whole, the HSI soared by 36.0% to 29 919 at end-2017, the largest annual increase since 2009. The *market capitalisation* also expanded substantially by 37.3% to a record high of $34.0 trillion over the period. The local stock market was the sixth largest in the world and the third largest in Asia(8).

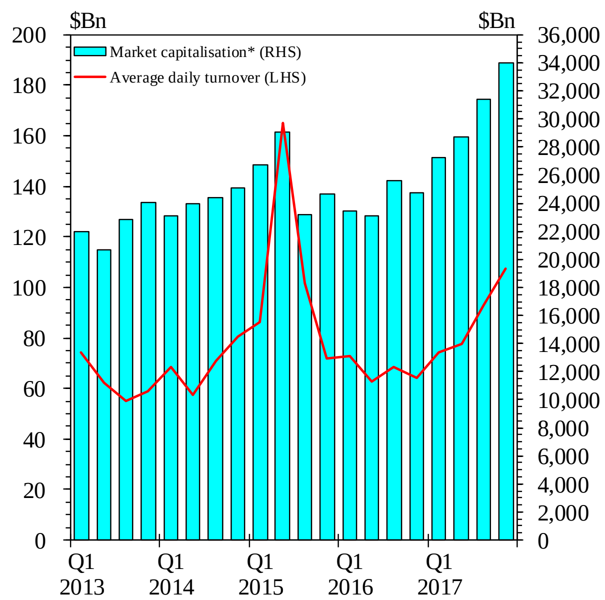
5.14 Trading activities were very active in 2017, especially in the second half. For the year as a whole, *average daily turnover* in the securities market surged by 31.9% to $88.2 billion. Within the total, the average daily trading value of equities, unit trusts (including Exchange-Traded Funds) and derivative warrants(9) increased by 44.4%, 12.8% and 9.8% respectively, while that of callable bull/bear contracts declined by 13.7%. As to futures and options(10), the average daily trading volume expanded by 14.2%. Within the total, trading of stock options and HSI options went up by 43.8% and 8.3% respectively, while that of Hang Seng China Enterprises Index futures and HSI futures fell by 12.7% and 2.6% respectively.

Diagram 5.6 : The local stock market staged a strong rally in 2017



Note : (#) Position at end of month.

Diagram 5.7 : Market capitalisation expanded to a record high, while trading activities were very active



Note : (*) Position at end of quarter.

Table 5.6 : Average daily turnover of futures and options of the Hong Kong market

		Hang Seng Index futures	Hang Seng Index options	Hang Seng China Enterprises Index futures	Stock options	Total futures and options traded*
2016	Annual	130 826	37 869	133 729	297 903	761 744
	Q1	141 439	38 235	154 053	293 047	805 276
	Q2	135 572	38 802	138 127	292 684	758 733
	Q3	127 885	37 186	122 196	304 828	748 269
	Q4	119 016	37 295	121 896	300 596	737 238
2017	Annual	127 478	41 009	116 812	428 499	869 819
	Q1	107 376	37 294	117 732	338 771	759 988
	Q2	122 209	36 565	122 975	371 991	800 034
	Q3	126 987	43 317	111 466	473 785	905 293
	Q4	153 527	46 626	115 614	526 096	1 011 148
% change in 2017 Q4 over 2016 Q4		29.0	25.0	-5.2	75.0	37.2
% change in 2017 over 2016		-2.6	8.3	-12.7	43.8	14.2

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

5.15 After a weak start in the first quarter of 2017, fund raising activities showed some pick-up in the rest of the year. For the year 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)[(11)], grew by 18.3% over the preceding year to $579.9 billion. Within the total, the amount of funds raised through IPOs however plummeted by 34.4% to $128.2 billion. In terms of the amount of funds raised through IPOs, Hong Kong ranked the fourth globally in 2017.

5.16 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-2017, a total of 1 051 Mainland enterprises (including 252 H-share companies, 159 “Red Chip” companies and 640 private enterprises) were listed on the Main Board and the GEM, accounting for 50% of the total number of listed companies and 66% of total market capitalisation. Mainland-related stocks accounted for 76% of equity turnover and 63% of total equity fund raised in the Hong Kong stock exchange in 2017.

5.17 In December the Hong Kong Exchanges and Clearing Limit (HKEX) announced to expand the listing regime of Hong Kong. Specifically, HKEX would revise the Main Board Listing Rules to allow the listing of Biotech issuers who are pre-profit/pre-revenue and issuers from emerging and innovative sectors that have weighted voting rights structures, subject to additional disclosure and safeguards. The HKEX also proposed to modify the existing Listing Rules in relation to overseas companies to create a new concessionary secondary listing route to attract issuers from emerging and innovative sectors that are primarily listed on exchanges in US and UK. These amendments would help broaden the capital markets access in Hong Kong and enhance its competitiveness as a global financial centre. The HKEX is drafting the proposed amendments to the Listing Rules for further formal public consultation in the first quarter of 2018.

5.18 Also in December, the HKEX published the conclusions of the earlier consultation on the review of the GEM and changes to GEM and Main Board Listing Rules. Based on the responses received and further discussions with the Securities and Future Commission (SFC), HKEX decided to implement almost all of the proposals in the consultation paper. Subsequently, the Listing Rules were amended to reflect the new role of GEM as a market for small and mid-sized companies and to ensure that there was a clear distinction between issuers listed on GEM and the Main Board. Key amendments included a change in name from "Growth Enterprise Market" to "GEM", and changes to Listing Rules in specific aspects including minimum expected market capitalisation, cash flow requirement and extension of the post-IPO lock-up period.

5.19 Separately, in December the SFC launched a two-month consultation on proposals to refine the over-the-counter (OTC) derivatives regulatory regime and to require licensed corporations to properly manage financial exposures to connected persons. Specifically, the proposals included refinements on the scope of regulated activities, internal control requirements on risk mitigation, client clearing and record keeping for OTC derivatives transactions, requirements in relation to fees, insurance, competence and training under the new OTC derivatives licensing regime and requirements on proper management of financial exposures of licensed corporations. These proposals would help enhance the regulatory regime for OTC derivatives in Hong Kong and help strengthen the management of conduct and financial risks in transactions and business dealings.

Fund management and investment funds

5.20 In parallel to the stock market rally, the fund management business generally recorded a strong performance in 2017. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*(12) surged by 30.5% over a year earlier to $843.5 billion at end-2017. The gross retail sales of *mutual funds* also leapt by 37.1% to US$85.4 billion(13) in the first eleven months of 2017. Yet the amount of net assets managed by *retail hedge funds* shrank further(14).

5.21 In December, the SFC launched a three-month consultation on proposed amendments to the Code on Unit Trusts and Mutual Funds to align the regulatory regime for SFC-authorised funds with international standards. Key proposals included strengthening requirements for key operators (e.g. management companies, trustees and custodians), providing greater flexibility with enhanced safeguards for funds' investment activities and introducing new fund types. The amendments sought to update the regulatory regime for mutual funds and unit trusts and address the risks posed by financial innovation and market developments. This would provide a foundation for further growth of the retail fund industry in Hong Kong and is conducive to Hong Kong's position as an international asset management centre.

Insurance sector

5.22 Different segments of the *insurance sector*(15) showed a mixed performance in the third quarter of 2017. For long-term business, gross premium income plunged by 29.8% from the high base a year earlier, as the plunge of 35.4% in premium income from non-investment linked plans more than offset the jump of 162.1% in premium income from investment-linked plans. Meanwhile, general business continued to grow, with gross premium and net premium going up by 5.4% and 3.2% respectively.

Table 5.7 : Insurance business in Hong Kong* ($Mn)

	General business			Premium for long-term 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	Gross premium from long-term business and general business
2016 Annual	45,643	31,457	1,606	179,147	5,744	255	343	185,489	231,132
Q1	13,078	8,864	574	37,256	1,239	50	92	38,637	51,715
Q2	10,937	7,762	501	42,058	853	68	78	43,057	53,994
Q3	11,727	8,094	215	49,250	1,422	70	116	50,858	62,585
Q4	9,901	6,737	316	50,583	2,230	67	57	52,937	62,838
2017 Q1	13,947	9,482	383	41,436	2,161	57	168	43,822	57,769
Q2	11,516	8,144	-14	33,584	3,254	56	207	37,101	48,617
Q3	12,358	8,349	-562	31,819	3,727	63	79	35,688	48,046
% change in 2017 Q3 over 2016 Q3	5.4	3.2	N.A.	-35.4	162.1	-10.0	-31.9	-29.8	-23.2

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

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

N.A. Not available.

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-2017, there were 155 licensed banks, 19 restricted licence banks and 17 deposit-taking companies in Hong Kong. Altogether, 191 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.

(6) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.

(7) Assets of the banking sector include notes and coins, amount due from AIs in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposit (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.

(8) The ranking is based on the figures compiled by the World Federation of Exchanges and the London Stock Exchanges Group.

(9) Given the relatively small share (less than 0.5% of the daily turnover in the securities market), trading of debt securities and its movements were not analysed.

(10) At end-2017, there were 86 classes of stock options contracts and 72 classes of stock futures contracts.

(11) At end-2017, there were 1 794 and 324 companies listed on the Main Board and GEM respectively.

(12) At end-2017, there were 18 approved trustees. On MPF products, 29 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 469 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 280 000 employers, 2.58 million employees and 205 000 self-employed persons have participated in MPF schemes.

(13) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-November 2017, the survey covered a total of 1 304 active authorised funds.

(14) At end-2017, there was one SFC-authorised retail hedge fund with net asset size of US$26 million. The amount of net assets under management represented a 10.3% decrease over a year earlier, and a 83.8% decrease from end-2002, the year when the hedge funds guidelines were first issued.

(15) At end-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 came from 23 countries and territories (including Hong Kong).

CHAPTER 6 : THE LABOUR SECTOR

Summary

- *The labour market tightened in 2017 on the back of a vibrant local economy. Both the unemployment and underemployment rates went lower progressively over the course of 2017, averaging at post-1997 lows of 3.1% and 1.1% respectively for the year as a whole.*

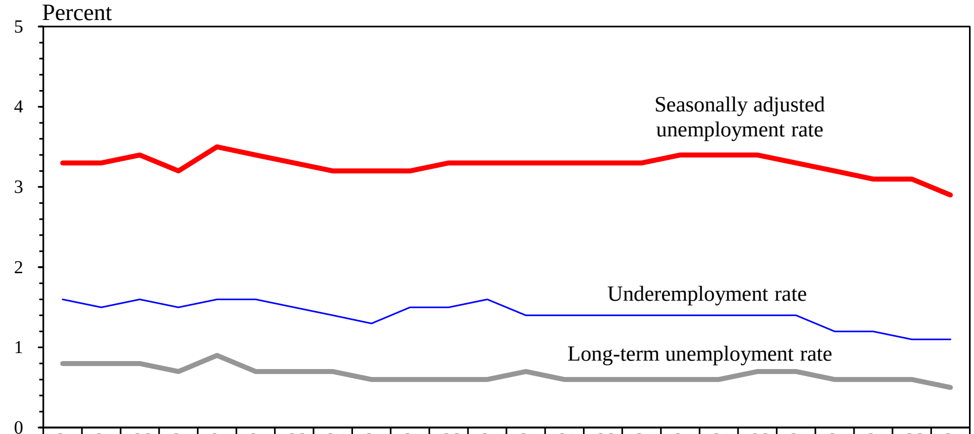
- *Vacancies in the private sector posted a modest increase upon entering 2017 in tandem with the solid employment growth, reflecting the robust labour demand. The number of private sector job vacancies rebounded by 1.6% year-on-year for the first three quarters of 2017 as a whole, after showing annual declines for three consecutive years.*

- *Benefiting from the broad-based tightening of the labour market, wages and earnings continued to post appreciable real growth across most of the major sectors in 2017. Meanwhile, the uprating of the Statutory Minimum Wage (SMW) since May 2017 provided additional impetus to the earnings growth for the grassroots.*

Overall labour market situation(1)

6.1 The labour market showed a broad-based tightening during 2017, thanks to the strong performance of the local economy. Both the labour force and total employment picked up notably in growth throughout the year, with the latter reaching a new record high of 3.83 million for the year as a whole. The seasonally adjusted *unemployment rate*(2) declined progressively over the course of 2017 and reached 2.9% in the final quarter of the year, below 3% for the first time in nearly 20 years. As a result, the unemployment rate averaged 3.1% for 2017 as a whole, 0.3 percentage point below that in 2016. Meanwhile, the *underemployment rate*(3) stayed low during the year, averaging 1.1% for 2017 as a whole, also down by 0.3 percentage point from 2016. Both figures were at their lowest levels since 1998. Data collected from private sector establishments likewise pointed to sturdy labour demand, with the number of vacancies registering year-on-year increases in the first three quarters of 2017 alongside the solid job gains. Backed by persistently tight manpower situation and benign economic conditions, overall wages and earnings sustained appreciable real increases in the first three quarters of 2017. Earnings growth of grassroots workers remained particularly notable, thanks partly to the additional boost from the SMW uprating since May 2017.

Diagram 6.1 : The labour market tightened in 2017 on the back of a buoyant local economy



	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4
Seasonally adjusted unemployment rate	3.3	3.3	3.4	3.2	3.5	3.4	3.3	3.2	3.2	3.2	3.3	3.3	3.3	3.3	3.3	3.3	3.4	3.4	3.4	3.3	3.2	3.1	3.1	2.9
Underemployment rate	1.6	1.5	1.6	1.5	1.6	1.6	1.5	1.4	1.3	1.5	1.5	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.2	1.2	1.1	1.1
Long-term unemployment rate	0.8	0.8	0.8	0.7	0.9	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.6	0.6	0.6	0.5
Annual unemployment rate	3.3				3.4				3.3				3.3				3.4				3.1#			
Annual underemployment rate	1.5				1.5				1.5				1.4				1.4				1.1#			

Note : # Provisional figures.

Labour force and total employment

6.2 On the supply side, the *labour force*(4) grew by 0.9% in 2017 to 3 955 200, mainly driven by the increase in working-age population (i.e. land-based non-institutional population aged 15 and above). The labour force participation rate likewise edged up to 61.2% in 2017, as abundant job opportunities together with better income prospects helped entice more people to join or re-enter the labour market.

6.3 On the demand side, *total employment*(5) expanded by 1.2% in 2017 to reach another annual high of 3 833 100, the fastest growth pace since 2014. Specifically, the employment situation in the retail, accommodation and food services sector witnessed a remarkable turnaround in 2017, thanks to the vibrant local consumption demand and gradual recovery of inbound tourism. In terms of the quarterly profile, the year-on-year growth in total employment accelerated over the course of 2017, from 1.0% in the first quarter to 1.3% and 1.4% in the second and third quarters respectively and further to 1.7% in the fourth quarter.

Table 6.1 : The labour force, and persons employed, unemployed and underemployed

		Labour force		Persons employed		Persons unemployed[a]	Persons underemployed
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	Annual#	3 955 200	(0.9)	3 833 100	(1.2)	122 000	45 100
	Q1	3 947 400	(0.9)	3 822 400	(1.0)	125 000	49 000
	Q2	3 947 200	(0.9)	3 822 100	(1.3)	125 200	45 500
	Q3	3 965 600	(1.0)	3 837 400	(1.4)	128 200	43 700
	Q4	3 960 400	(1.3) <0.2>	3 850 600	(1.7) <0.3>	109 800	42 100

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 fourth quarter of 2017.
Provisional figures.
§ Change less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

Diagram 6.2 : Growth in both the labour force and total employment picked up notably in 2017

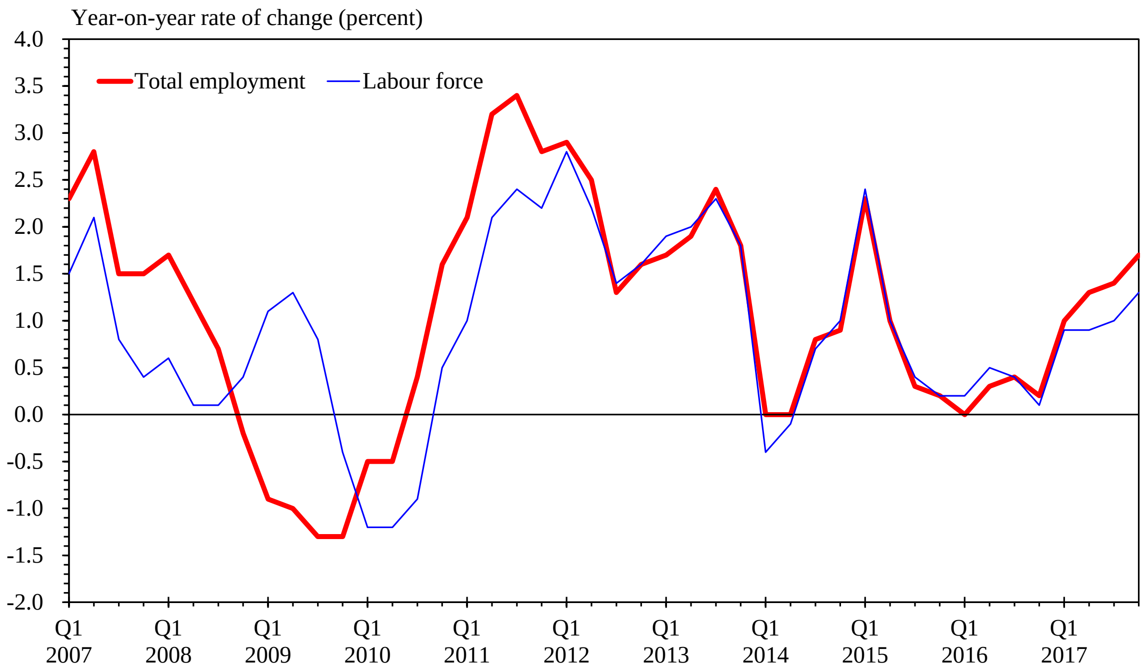


Table 6.2 : Labour force participation rates by gender and by age group (%)

	2012	2013	2014	2015	2016	2017[#]
Male						
15-24	36.3	37.8	37.8	39.1	39.5	38.6
of which:						
15-19	*10.4*	*11.0*	*11.1*	*11.7*	*12.9*	*10.2*
20-24	*61.1*	*62.5*	*61.4*	*62.0*	*60.7*	*60.3*
25-29	94.4	93.8	93.4	93.7	92.9	92.6
30-39	96.8	96.9	96.5	96.5	96.4	96.6
40-49	95.3	95.5	94.7	95.1	95.0	95.3
50-59	85.2	86.9	86.7	86.6	86.0	86.9
≥ 60	25.5	27.0	28.0	28.5	29.9	30.3
Overall	68.7	69.2	68.8	68.8	68.6	68.5
Female						
15-24	37.6	40.0	39.3	41.4	41.9	41.6
of which:						
15-19	*9.7*	*11.5*	*12.5*	*12.8*	*12.3*	*11.8*
20-24	*62.2*	*64.2*	*61.4*	*63.6*	*63.6*	*62.4*
25-29	87.3	86.5	86.3	85.7	86.2	86.7
30-39	77.6	78.4	78.9	78.4	78.0	79.6
40-49	70.7	72.8	73.0	73.7	73.4	74.1
50-59	53.9	56.2	57.2	58.3	59.7	59.9
≥ 60	8.8	9.7	10.7	11.4	12.3	13.5
Overall	53.5	54.5	54.5	54.7	54.8	55.1
Both genders combined						
15-24	36.9	38.9	38.5	40.2	40.7	40.1
of which:						
15-19	*10.0*	*11.3*	*11.8*	*12.3*	*12.6*	*11.0*
20-24	*61.6*	*63.4*	*61.4*	*62.8*	*62.2*	*61.4*
25-29	90.3	89.6	89.4	89.2	89.2	89.4
30-39	85.5	85.9	86.0	85.7	85.4	86.4
40-49	81.4	82.5	82.3	82.7	82.4	82.8
50-59	69.2	71.1	71.4	71.8	72.2	72.6
≥ 60	16.9	18.0	19.0	19.6	20.7	21.6
Overall	60.5	61.2	61.1	61.1	61.1	61.2

Note : # Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Box 6.1

Compositional changes in Hong Kong's labour force

The composition of labour force is closely related to the demographic profile of the underlying population. An older population normally implies an older labour force, and similarly, a more educated population generally results in a more educated labour force [(1)]. With the composition of Hong Kong's population having undergone substantial changes over the past couple of decades, it is worthwhile to examine the trends in the make-up of the labour force. Observations on these past trends may help shed some lights on the future composition of the labour supply in Hong Kong along with the ongoing change in demographics.

Changes in the make-up of the labour force

Charts 1(a) and ***1(b)*** show the population pyramids of Hong Kong in 1996 and 2016 respectively [(2)]. Population pyramids are often used to illustrate the shift in age and sex composition of population over time in a graphical way. The educational make-up of the labour force is superimposed on the standard population pyramid to provide additional information on the size and composition of the labour force. Darker colours indicate higher educational attainment within the labour force. The larger the proportion of the hatched area within each age-sex category (i.e. the share of persons not in the labour force), the lower the corresponding labour force participation rate (LFPR). A few salient observations on the changes in the composition of the labour force can be made by comparing the two pyramids in ***Chart 1***.

(a) Older labour force

Hong Kong's population aged considerably over the last twenty years. Due to a low fertility rate, the number of younger persons decreased over time, as reflected by the shrinking base of the population pyramid in 2016. At the same time, the middle and top parts of the pyramid became wider. The proportion of persons aged 45-64 increased from 19.6% in 1996 to 32.4% in 2016, while that of those aged 65 and above also went up significantly by 6.2 percentage points to 16.6% over the same period, thanks in part to the rising life expectancy.

Similar trend is also observed in the labour force as the underlying population became older. While the labour force comprised workers mostly in their 20's and 30's in 1996 (58.7% of the total labour force), 54.3% of the labour force was between 40 to 64 years old in 2016. On the other hand, workers aged 60 and above accounted for 9.0% of the labour force in 2016, more than doubled the share in 1996. These trends can be seen graphically with the somewhat triangular-shaped labour force in ***Chart 1(a)*** as against a more rectangular-shaped one in ***Chart 1(b)***.

Another factor contributing to an older labour force is the increase in LFPR of older age groups over the period. Specifically, the LFPR for those aged 60-64 went up notably from 31.4% in 1996 to 44.7% in 2016 and those aged 65-69 also saw an increase in their LFPR by 5.7 percentage points to 20.7% over the same period. These changes can be seen by comparing the shares of the hatched areas within each of the corresponding age groups in ***Charts 1(a)*** and ***1(b)***.

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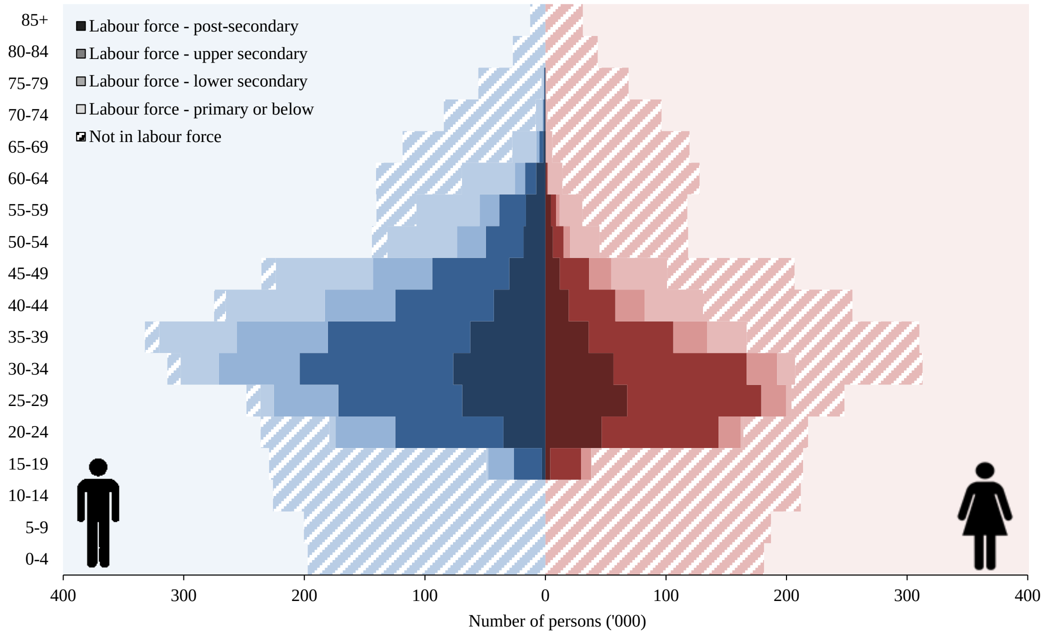
(1) The compositional changes in the population do not necessarily translate proportionally to that in the labour force. At an aggregate level, the tendency to participate in the labour market varies across persons of different age, sex, and educational attainment. This in turn affects the size and make-up of the labour force, on top of the impact stemming from compositional changes in the underlying population.

(2) All charts and statistics in this article exclude foreign domestic helpers (FDHs).

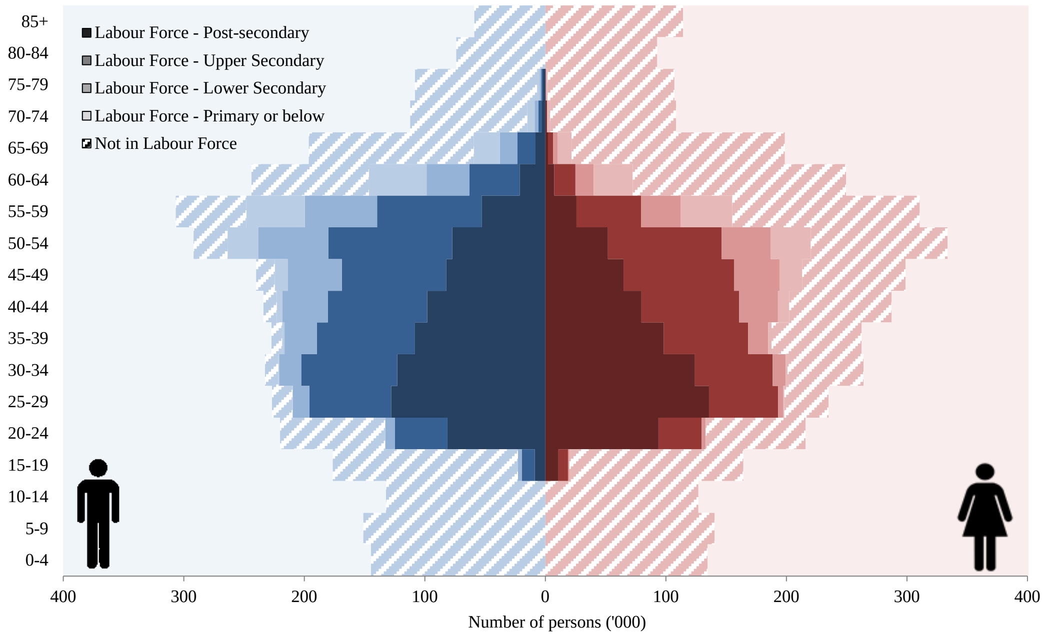
Box 6.1 (Cont'd)

Chart 1: Population pyramids with educational attainment of the labour force

(a) 1996



(b) 2016



Notes: Population figures are mid-year figures. Labour force aged 75 and above is grouped under 75-79, for the purpose of compiling the above charts. Post-secondary education includes both degree and non-degree courses.

Source: Demographic Statistics Section and Social Analysis and Research Section, Census and Statistics Department.

The reasons for such increase in LFPR are manifold. First, older workers can stay in the labour force longer because of their better health in general. In addition, as Hong Kong has developed into a highly service-oriented and knowledge-based economy, many jobs become less physically demanding yet require higher skills instead. This coupled with the education upgrade of the older population over time implies that there are more employment opportunities for older workers than before. At the same time, the more favourable labour market conditions and income prospects in the lower-skilled segment since the implementation of the Statutory Minimum Wage (SMW) in 2011 have also attracted some older persons, especially those with lower education level and female workers, to stay in or re-enter the labour market.

Box 6.1 (Cont'd)

(b) Fewer youth workers

Fewer youths (i.e. persons aged 15-24) were in the labour force in 2016. Not only the number of persons aged 15-24 decreased over the period, but so did their corresponding LFPR. In 1996, 20.1% and 77.3% of those aged 15-19 and 20-24 participated in the labour market, while only 12.6% and 61.3% did so respectively in 2016. This was conceivably due to more youngsters delaying employment in favour of pursuing further study, owing to better and wider education opportunities in recent years.

(c) More educated labour force

Hong Kong's labour force became much better educated compared with two decades ago. The proportion of labour force with post-secondary education (as indicated by the share of the darkest-coloured area in ***Chart 1***) increased substantially from 20.4% in 1996 to 41.1% in 2016. Meanwhile, only 9.0% of the labour force had primary or below education in 2016, down from 22.1% in 1996. Not surprisingly, the younger workforce was more educated than the older, as shown by the higher share of darker-coloured area (indicating higher educational attainment) in the lower portion of the labour force pyramid in 2016.

(d) More women in the workforce

More women were in the labour force in 2016 than in 1996. Comparing ***Charts 1(a)*** and ***1(b)***, it is noted that for 2016, the area representing female labour force (i.e. the solid area on the right-hand side) is substantially larger. Its size was also more comparable to that of the male counterpart in 2016 than in 1996. The driving force behind a larger pool of female workers was not only the faster growth in female population, but also the increase in female LFPR, as manifested in the much larger change in the gender ratio of the labour force than that of the population. ***Chart 2(a)*** shows that the female LFPR went up for all age groups above 25 years old (3) between 1996 and 2016, while that of male held relatively stable over the same period.

Chart 2(a): Female LFPR increased

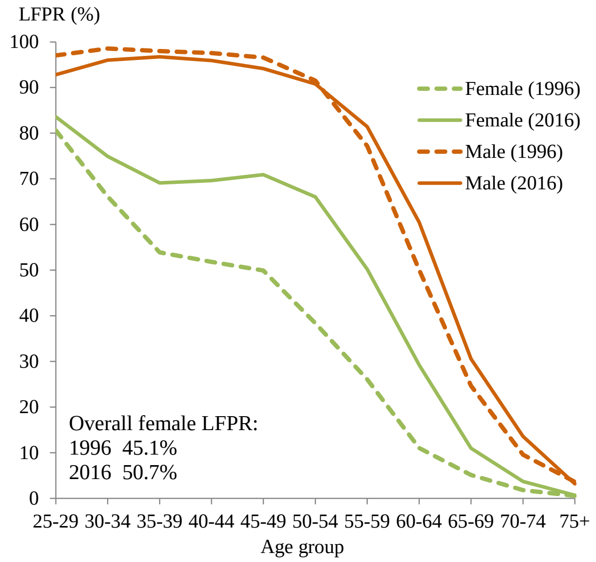
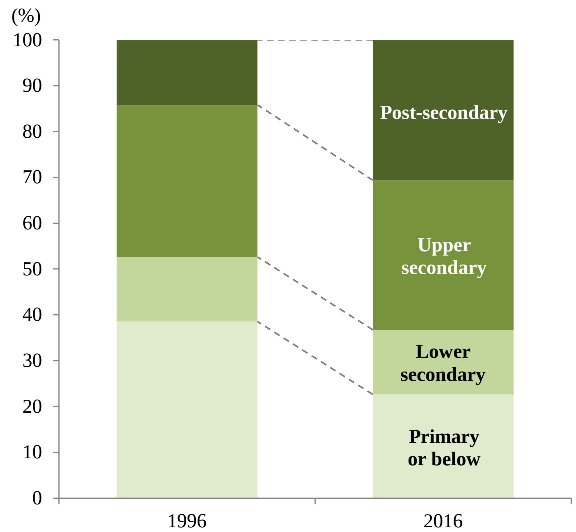


Chart 2(b): Upgrade in the educational attainment of the female population(*)



Notes: (*) Includes only female land-based non-institutional population aged 15 and above.
Post-secondary education includes both degree and non-degree courses.

Source: Social Analysis and Research Section, Census and Statistics Department.

(3) Female LFPR for the age groups 15-19 and 20-24 were lower in 2016 than in 1996, likely due to delayed employment for more education as discussed above. Similar trend is also observed for male LFPR in the same age groups.

Box 6.1 (Cont'd)

The higher LFPR of female is partly attributable to their higher education level in general. There was a major education upgrade in the female population over the past twenty years (***Chart 2(b)***). Typically, persons with higher education level are more likely to seek jobs because of their higher opportunity cost of not working [(4)]. By the same token, women with higher education level are less likely to drop out of the labour force after getting married or having children. Besides, the increased availability of foreign domestic helpers has helped lessen some of the household responsibilities of women, particularly those living with children, thus allowing more of them to participate in the labour market than before [(5)].

Implications for the future labour supply

According to the latest projection by the Census and Statistics Department (C&SD), Hong Kong's labour force is projected to decrease after reaching a plateau during 2019 to 2022, amid a slow-growing and ageing population [(6)]. The latest projection has taken into account the increasing trends of LFPR among female and older age groups in the past, especially in the more recent years. Indeed, the rising LFPR of these groups has helped counteract in part the effects of other factors contributing to reducing the labour force (such as the shrinking young cohorts). Given the education upgrade of the population in general and the evolving employment structure towards less physically demanding jobs, the elevated levels of LFPR for female and older age groups are likely to sustain in the future.

Apart from the decline in size, the composition of the labour force will also continue to change. Population ageing is expected to persist with low fertility rate and increasing life expectancy in Hong Kong, with the median age of the population projected to rise from 44.3 in 2016 to 50.9 in 2036. At the same time, the trend of youngsters preferring more education thus delaying employment till a later age is expected to continue. As a result of these trends, a generally older workforce is to be expected in the future.

Traditionally, an ageing workforce is regarded as a less productive one. However, because of the structural changes in the Hong Kong economy, relatively more emphasis is now put on the experience and knowledge of the workers, instead of their physical ability which deteriorates as one gets older. The lost productivity due to fewer younger workers can hence be somewhat compensated by the productivity gain in having more experienced workers [(7)].

At the same time, the labour force will become generally more educated with the older, less educated workers retiring and the younger, more educated cohorts joining the labour market. This will to some extent mitigate the negative effect of an older labour force on productivity, as more educated workers are typically considered to be more productive since they are generally more skilled and able to better adapt to changes in the market.

Facing the challenges of an ageing population and shrinking labour force, the Government will spare no effort in assisting different groups to participate in the labour market. For example, the Labour Department provides comprehensive and free employment services to job-seekers through its job centres, industry-based recruitment centres, and other telephone and online platforms. In addition, the Government will continue to invest vigorously in education and training with a view to further strengthening Hong Kong's human capital base which is crucial to long-term sustainable development.

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(4) For a discussion of the relationship between educational attainment and labour force participation, see Box 5.1 in the Third Quarter Economic Report 2014.

(5) For a related discussion, see Box 5.1 in the Half-yearly Economic Report 2014.

(6) The population is projected to grow at an annual rate of 0.4% till mid-2043 and then decline at a rate of 0.3% per annum from mid-2043 to mid-2066. Besides, the number of persons aged 65 and over is projected to more than double in twenty years' time. By 2043, about one in three persons in Hong Kong will be aged 65 or over.

(7) To what extent these opposite forces affect the overall labour productivity will require closer investigation in further research.

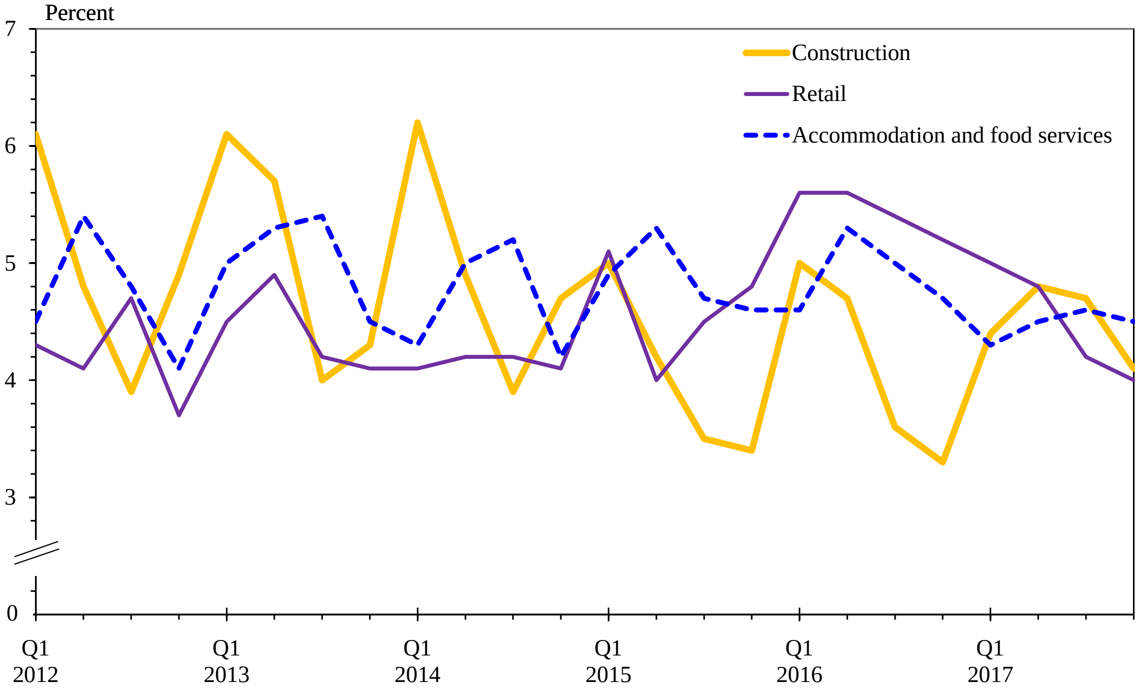
Profile of unemployment

6.4 Reflecting the tightening of labour market conditions, the average number of unemployed persons fell by 10 900 to 122 000 in 2017. In tandem, the unemployment rate declined notably by 0.3 percentage point from 3.4% in 2016 to 3.1% in 2017, the lowest level since 1998.

6.5 Comparing 2017 with 2016, most of the major service sectors recorded declines in their respective unemployment rates, as the notable pick-up in economic growth and generally positive hiring sentiment had transpired into sturdy labour demand in a wide array of business activities. More visible decreases in unemployment rate were seen in the retail, professional and business services (excluding cleaning and similar activities) (both down 1.0 percentage point), financing and insurance, real estate, and accommodation and food services (all down 0.4 percentage point) sectors. Specifically, the retail sector finally came out of the doldrums in 2017 alongside the gradual revival of inbound tourism. On the other hand, the unemployment rate of the construction sector went up by 0.4 percentage point to 4.5% in 2017, yet it was way below the average level of 6.0% over the 10-year period 2007-2016. For the *low-paying sectors*(6) as a whole, the unemployment rate fell by 0.5 percentage point from 3.5% in 2016 to 3.0% in 2017. Analysed by skill segment, the unemployment rate for the higher- and lower-skilled segments decreased by 0.3 and 0.2 percentage point to 1.7% and 3.4% respectively. Analysed by age, declines in unemployment rate were witnessed across most age groups, more discernibly for those aged 15-24.

6.6 In terms of the quarterly profile, the seasonally adjusted unemployment rate edged down progressively from 3.3% in the fourth quarter of 2016 to 3.2% in the first quarter of 2017, 3.1% in both the second and third quarters and further to 2.9% in the fourth quarter as the economy stayed vibrant throughout the year. Comparing the fourth quarter of 2017 with a year earlier, more visible declines in the unemployment rate were noted in the retail, professional and business services (excluding cleaning and similar activities), and financing and insurance sectors. Analysed by occupational category, more discernible dips in jobless rate were observed among plant and machine operators and assemblers, managers and administrators, and service and sales workers. As for other socio-economic attributes, more apparent decreases in the unemployment rate were observed among persons aged 15-24 and those with lower secondary education and below.

Diagram 6.3 : Most of the major service sectors saw visible improvements in unemployment situation in 2017



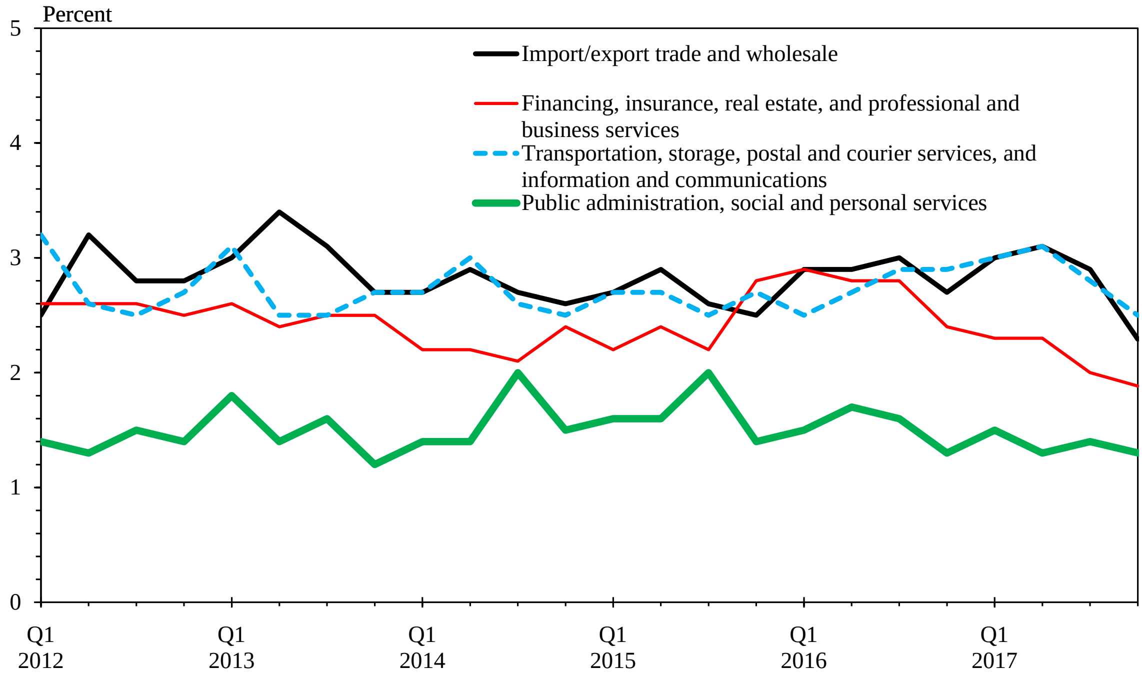


Table 6.3 : Unemployment rates by major economic sector

	2016					2017				
	Annual	Q1	Q2	Q3	Q4	Annual#	Q1	Q2	Q3	Q4
Import/export trade and wholesale	2.9	2.9	2.9	3.0	2.7	2.8	3.0	3.1	2.9	2.3
Retail	5.5	5.6	5.6	5.4	5.2	4.5	5.0	4.8	4.2	4.0
Accommodation and food services	4.9	4.6	5.3	5.0	4.7	4.5	4.3	4.5	4.6	4.5
Transportation, storage, postal and courier services	2.8	2.6	2.9	3.0	2.9	2.8	3.3	3.0	2.5	2.4
Information and communications	2.7	2.4	2.4	2.8	2.8	2.9	2.5	3.2	3.3	2.8
Financing and insurance	2.1	2.0	2.1	2.2	1.9	1.7	2.0	1.8	1.7	1.3
Real estate	2.5	2.4	3.0	2.5	2.3	2.1	1.9	2.3	2.0	2.0
Professional and business services	3.2	3.6	3.3	3.4	2.8	2.5	2.7	2.6	2.2	2.3
Public administration, social and personal services	1.6	1.5	1.7	1.6	1.3	1.4	1.5	1.3	1.4	1.3
Manufacturing	3.5	4.3	3.8	3.0	2.4	2.6	2.6	2.4	2.7	2.6
Construction	4.1	5.0	4.7	3.6	3.3	4.5	4.4	4.8	4.7	4.1
Overall*	3.4	3.3 (3.4)	3.5 (3.4)	3.6 (3.4)	3.1 (3.3)	3.1	3.2 (3.2)	3.2 (3.1)	3.2 (3.1)	2.8 (2.9)

Notes : ( ) Seasonally adjusted unemployment figures.

\# Provisional figures.

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

Source : General Household Survey, Census and Statistics Department.

Diagram 6.4 : The unemployment rate of both the higher-skilled and lower-skilled segments went lower in 2017

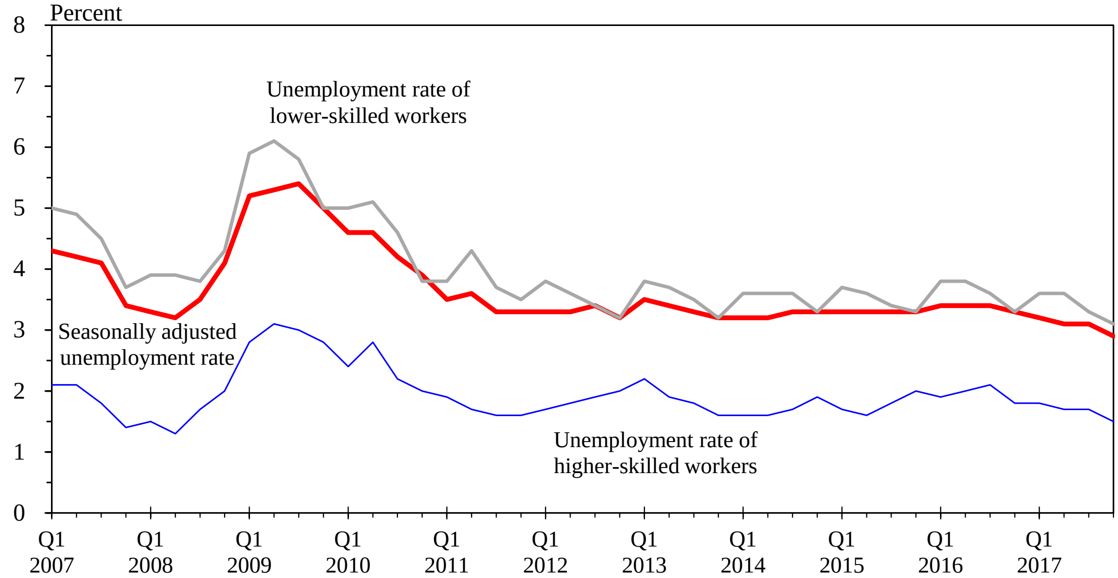


Table 6.4 : Unemployment rates* by skill segment

	2016					2017				
	Annual	Q1	Q2	Q3	Q4	Annual#	Q1	Q2	Q3	Q4
Higher-skilled segment	2.0	1.9	2.0	2.1	1.8	1.7	1.8	1.7	1.7	1.5
Managers and administrators	1.5	1.7	1.8	1.2	1.3	1.0	1.4	1.0	1.0	0.8
Professionals	1.6	1.3	1.6	2.1	1.4	1.5	1.8	1.4	1.6	1.3
Associate professionals	2.3	2.3	2.4	2.6	2.2	2.1	2.0	2.2	2.1	2.1
Lower-skilled segment^	3.6	3.8	3.8	3.6	3.3	3.4	3.6	3.6	3.3	3.1
Clerical support workers	3.6	3.4	3.5	3.9	3.4	3.3	3.2	3.6	3.4	3.1
Service and sales workers	4.6	4.8	5.0	4.3	4.3	4.2	4.3	4.6	4.1	3.8
Craft and related workers	4.1	4.9	4.3	3.8	3.8	4.2	4.5	4.2	4.0	4.1
Plant and machine operators and assemblers	2.3	2.4	2.5	2.8	1.8	1.9	2.8	2.0	1.7	1.2
Elementary occupations	3.0	3.2	3.3	2.9	2.6	2.9	3.1	3.0	2.7	2.6

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

^ Including other occupations.

\# Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Table 6.5 : Unemployment rates* by age and educational attainment

	2016					2017				
	Annual	Q1	Q2	Q3	Q4	Annual#	Q1	Q2	Q3	Q4
Age										
15-24	9.8	8.9	10.2	10.8	9.4	8.7	8.3	8.0	10.5	7.9
of which:										
15-19	*13.8*	*15.0*	*16.9*	*11.9*	*11.6*	*11.4*	*11.7*	*12.5*	*10.6*	*11.1*
20-24	*9.1*	*7.9*	*9.1*	*10.6*	*9.1*	*8.4*	*7.8*	*7.5*	*10.5*	*7.5*
25-29	4.0	3.9	3.9	4.4	3.6	4.2	4.0	4.3	4.7	3.9
30-39	2.3	2.0	2.2	2.5	2.4	2.1	2.1	2.3	2.2	1.9
40-49	2.8	3.0	3.0	2.8	2.4	2.5	2.6	2.8	2.5	2.0
50-59	3.1	3.4	3.1	3.1	2.8	2.7	3.3	2.7	2.3	2.6
≥ 60	2.2	2.2	3.0	1.9	1.9	2.2	2.2	2.4	2.3	1.9
Educational attainment										
Primary education and below	3.2	3.3	3.5	2.9	2.8	2.8	3.2	3.1	2.7	2.4
Lower secondary education	4.2	4.4	4.4	4.0	4.0	4.0	4.5	4.3	3.8	3.3
Upper secondary education^	3.3	3.2	3.7	3.5	3.1	3.0	3.0	3.2	2.9	2.9
Post-secondary education	3.2	3.2	3.0	3.6	2.9	2.9	2.9	2.8	3.4	2.6

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

^ Including craft courses.

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

6.7 Other indicators measuring the intensity of unemployment generally turned more favourable in 2017. The long-term unemployment rate dropped slightly to 0.6% for the year as a whole, falling to 0.5% in the fourth quarter, the quarterly low level last seen in the first quarter of 1998. Meanwhile, the number of long-term unemployed persons (i.e. unemployed for six months or longer) decreased from 25 500 in 2016 to 23 300 in 2017, so did the share of long-term unemployment in total unemployment, though only marginally from 19.2% to 19.1%. The median duration of unemployment shortened from 72 days in 2016 to 66 days in 2017, whereas the proportion of dismissal or lay-offs among the total number of unemployed persons rose by 0.7 percentage point to 47.8%, still below the 10-year average of 53.0% for 2007-2016.

Profile of underemployment

6.8 The underemployment situation improved notably in 2017 as well. The number of underemployed persons decreased substantially by 9 600 to 45 100, thereby pushing the underemployment rate down by 0.3 percentage point to 1.1%, matching the low level seen in 1997. On the quarterly profile, the underemployment rate fell from 1.4% in the fourth quarter of 2016 to 1.2% in the first two quarters of 2017, and edged down to 1.1% in both the third and fourth quarters. For the latest trend in the fourth quarter, more visible year-on-year decreases in the underemployment rate were seen in the construction and transportation sectors. Analysed by occupational category, the decline in underemployment rate was more discernable in the lower-skilled segment and among craft and related workers, plant and machine operators and assemblers, and elementary occupations in particular.

Profile of employment in establishments

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

6.10 Total employment in private sector establishments grew further by 1.0% in September 2017 over a year earlier to 2 843 800. More visible job gains were observed in construction sites (covering manual workers only) (up 12.7% year-on-year), human health services (up 3.2%), financing and insurance (up 1.9%), professional and business services (excluding cleaning and similar services), education, and residential care and social work services (all up 1.4%). On the other hand, manufacturing employment extended its secular downtrend (down 3.4%). Thanks to solid domestic demand and the gradual recovery of inbound tourism, employment in the tourism- and consumption-related sectors posted a modest rebound in the first three quarters of 2017. Analysed by establishment size, employment in *small and medium-sized enterprises (SMEs)*[(7)] increased by 1.6% year-on-year in September 2017, the fastest pace in three years and also visibly larger than the 0.6% growth recorded for large enterprises. Taking the first three quarters of 2017 together, total employment in private sector establishments posted a solid year-on-year increase of 1.0%, after the 0.6% growth for 2016 as a whole. As for the civil service, employment increased by 1.9% in September 2017 and by 1.4% in the first nine months of 2017 combined.

Table 6.6 : Employment by major economic sector

	2016					2017		
	Annual average	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Import/export trade and wholesale	542 400 (-0.7)	542 900 (-1.1)	543 000 (-0.5)	542 000 (-0.6)	541 600 (-0.7)	540 900 (-0.4)	541 000 (-0.4)	539 400 (-0.5)
Retail	266 600 (-1.1)	266 200 (-1.9)	266 200 (-1.4)	266 500 (-0.9)	267 500 (-0.2)	267 300 (0.4)	267 800 (0.6)	267 100 (0.2)
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)	281 500 (0.3)	283 400 (0.5)
Transportation, storage, postal and courier services	178 400 (0.5)	178 600 (1.2)	177 900 (0.8)	178 200 (§)	178 800 (0.2)	178 100 (-0.3)	177 600 (-0.1)	179 000 (0.5)
Information and communications	106 000 (0.7)	105 700 (1.6)	105 100 (0.2)	105 700 (0.2)	107 300 (0.8)	107 300 (1.5)	106 600 (1.4)	106 600 (0.9)
Financing, insurance, real estate, professional and business services	719 500 (1.0)	714 100 (0.4)	718 000 (0.8)	720 600 (1.1)	725 200 (1.8)	728 300 (2.0)	728 600 (1.5)	730 900 (1.4)
Social and personal services	505 500 (1.7)	505 500 (2.3)	503 400 (1.7)	505 200 (1.6)	508 000 (1.2)	510 300 (1.0)	510 800 (1.5)	512 500 (1.4)
Manufacturing	96 000 (-3.6)	97 800 (-2.5)	96 100 (-3.5)	95 300 (-4.4)	94 900 (-4.1)	94 500 (-3.4)	93 400 (-2.8)	92 000 (-3.4)
Construction sites (covering manual workers only)	107 800 (13.3)	104 800 (14.1)	106 200 (14.4)	107 800 (15.0)	112 400 (10.2)	117 600 (12.2)	112 800 (6.2)	121 500 (12.7)
All establishments surveyed in the private sector[(b)]	*2 814 800* *(0.6)*	*2 807 200* *(0.5)* *<§>*	*2 807 600* *(0.6)* *<0.2>*	*2 814 500* *(0.7)* *<0.3>*	*2 829 800* *(0.8)* *<0.2>*	*2 836 500* *(1.0)* *<0.3>*	*2 831 400* *(0.8)* *<0.1>*	*2 843 800* *(1.0)* *<0.4>*
Civil service[(c)]	*166 100* *(1.2)*	*166 200* *(1.5)*	*165 500* *(1.1)*	*165 900* *(1.1)*	*166 600* *(1.0)*	*167 700* *(0.9)*	*167 900* *(1.4)*	*169 000* *(1.9)*

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

6.11 Vacancies continued to increase in September 2017 amid the sturdy labour demand, with the number of private sector vacancies up by 2.6% year-on-year to 71 150. Taking the first three quarters of 2017 together, job vacancies in the private sector rose by 1.6% year-on-year, arresting the downtrend seen during 2014 to 2016.

6.12 Analysed by economic sector, most of the sectors recorded increases in the number of vacancies in September 2017. More specifically, visible rises in vacancies were observed in construction sites (covering manual workers only) (up 40.4% year-on-year), human health services (up 25.3%), accommodation services (up 20.1%), residential care and social work services (up 14.4%) and transportation, storage, postal and courier services (up 12.2%). On the other hand, vacancies in the arts, entertainment, recreation and other services (down 9.0%), and food and beverage services (down 7.8%) recorded more discernible drops on a year-on-year basis. Analysed by occupational category, vacancies for higher-skilled workers saw a year-on-year increase of 14.1%, in stark contrast to the modest decline of 2.2% recorded for lower-skilled occupations which was mainly attributable to the dip in openings for service and sales workers and clerical support workers. Taking the first three quarters of 2017 together, vacancies in higher-skilled occupations rose by a similar extent of 14.4% over a year earlier, while those for lower-skilled occupations fell by 3.6%. Analysed by the size of establishments, year-on-year increases in vacancies were seen in both large enterprises and SMEs in September 2017, at 4.1% and 0.3% respectively. On the other hand, the number of job openings in the civil service fell by 5.9% year-on-year to 8 230 in September 2017.

6.13 The ratio of job vacancies per 100 unemployed persons in September 2017, at 55, was slightly below that of 56 in June 2017, yet notably higher than that of 50 a year earlier. In terms of skill segment, while the ratio for lower-skilled jobs rose from 53 in June 2017 to 60 in September 2017 and that for higher-skilled jobs held stable at 89 over the period, both figures were higher than their respective year-ago levels. Manpower shortage broadened from a sectoral perspective, more notably (where the number of vacancies visibly exceeded unemployed persons in the sectors) in human health services, residential care and social work services, real estate, financing and insurance, and professional and business services.

6.14 The vacancy rate for private sector establishments in September 2017, measured in terms of the percentage of job vacancies to total employment opportunities, remained unchanged at 2.4% as compared to both June 2017 and a year ago. Although the corresponding ratios for most of the major sectors were largely steady on a year-on-year comparison, a relatively notable increase was seen in accommodation services, whereas a discernible decrease was recorded in food and beverage services.

Table 6.7 : Vacancies by major economic sector

	Number of vacancies								
	2016					2017			
	Annual average	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Vacancy rate in Sep 2017 (%)
Import/export trade and wholesale	6 990 (-10.5)	6 920 (-23.1)	6 940 (-15.4)	7 030 (-7.5)	7 070 (9.7)	7 530 (8.8)	7 320 (5.5)	7 610 (8.3)	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)	7 080 (-0.2)	8 130 (-1.8)	3.0
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)	13 220 (1.4)	12 630 (-4.5)	4.3
Transportation, storage, postal and courier services	3 240 (-11.0)	3 440 (-13.2)	3 290 (-19.1)	3 210 (-6.8)	3 040 (-2.0)	3 600 (4.9)	3 560 (8.4)	3 600 (12.2)	2.0
Information and communications	2 640 (-5.7)	2 550 (-13.0)	2 470 (-0.3)	2 830 (7.9)	2 710 (-14.4)	2 720 (6.6)	2 710 (9.6)	2 750 (-2.8)	2.5
Financing, insurance, real estate, professional and business services	17 790 (-5.3)	18 400 (0.2)	18 020 (-4.1)	17 670 (-4.9)	17 070 (-12.2)	18 620 (1.2)	18 540 (2.9)	18 240 (3.2)	2.4
Social and personal services	14 040 (-11.1)	14 280 (-8.6)	14 260 (-17.5)	14 210 (-9.9)	13 410 (-7.8)	13 460 (-5.7)	13 130 (-7.9)	14 920 (5.0)	2.8
Manufacturing	2 330 (-14.2)	2 880 (-3.5)	2 280 (-16.2)	2 100 (-22.1)	2 070 (-16.4)	2 570 (-11.0)	2 290 (0.2)	2 240 (6.6)	2.4
Construction sites (covering manual workers only)	740 (-7.4)	960 (8.8)	550 (-41.6)	590 (-16.6)	850 (29.7)	570 (-40.8)	1 510 (176.2)	830 (40.4)	0.7
All establishments surveyed in the private sector[(b)]	*68 750* *(-9.1)*	*70 300* *(-10.0)* *<-7.2>*	*68 200* *(-13.0)* *<-2.9>*	*69 340* *(-7.1)* *<3.4>*	*67 140* *(-5.8)* *<0.7>*	*70 460* *(0.2)* *<-0.6>*	*69 590* *(2.0)* *<-1.3>*	*71 150* *(2.6)* *<3.8>*	*2.4*
Civil service[(c)]	*8 640* *(4.7)*	*8 090* *(3.3)*	*8 900* *(10.8)*	*8 740* *(2.4)*	*8 820* *(2.6)*	*8 660* *(7.1)*	*8 420* *(-5.4)*	*8 230* *(-5.9)*	*4.6*

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.

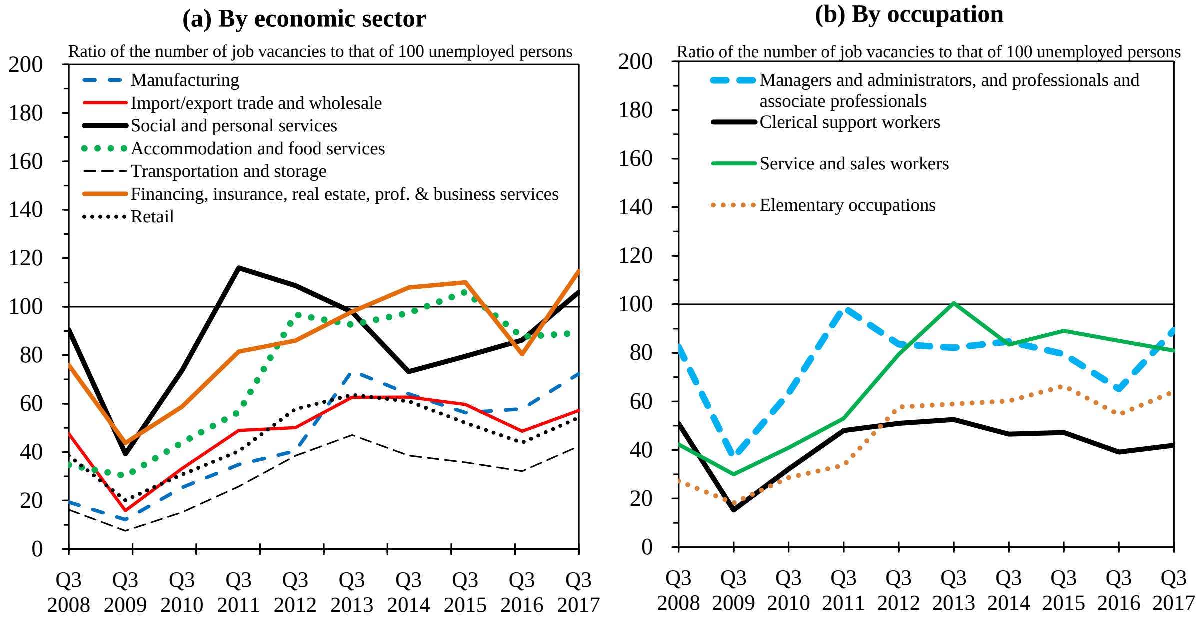
(c) These figures cover only vacancies for those staff to be employed on civil service terms of appointment.

( ) % 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 6.5 : Manpower resource balance tightened almost across-the-board in the third quarter of 2017



6.15 The vacancy registration figures compiled by the Labour Department (LD), notwithstanding its smaller sample size, may provide some hints on the latest developments in the labour market. The number of private sector job vacancies averaged around 120 800 per month in the fourth quarter of 2017, up by 9.3% over a year earlier. For 2017 as a whole, the monthly average number of private sector vacancies, at around 118 300, was 5.3% higher than in 2016, echoing the broad-based tightening of labour market conditions.

Wages and earnings

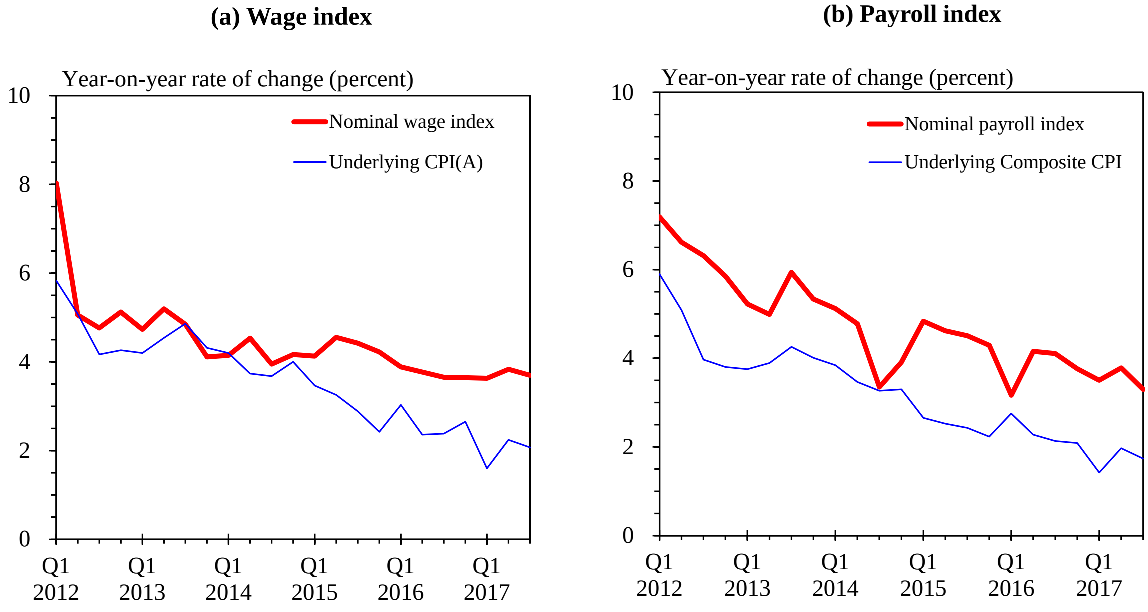
6.16 On the back of a tight labour market, overall wages and earnings witnessed solid increases in nominal terms, well exceeding inflation in 2017. *Wage index*, which covers regular payment to employees at the supervisory level and below, rose by 3.7% year-on-year in both September 2017 and the first nine months of 2017 as a whole, following a similar rise recorded in 2016. After adjusting for inflation[(8)], real wages increased notably by 2.4% in the first nine months of 2017 over a year earlier.

6.17 Gains in nominal wage index were broad-based in September 2017, led by accommodation and food service activities (up 4.8% year-on-year), professional and business services, and real estate leasing and maintenance management (both up 4.4%). Analysed by occupation, more notable wage gains were seen in such lower-skilled positions as miscellaneous non-production workers (up 4.9%), service workers, and clerical and secretarial workers (both up 4.4%).

6.18 *Labour earnings*[(9)], as measured by the index of payroll per person engaged in the private sector, increased by 3.3% year-on-year in the third quarter of 2017. Taking the first three quarters of 2017 together, nominal labour earnings rose by 3.5% year-on-year, broadly comparable to the 3.7% increase for 2016 as a whole. After discounting inflation, overall payroll saw a real improvement of 2.1% in the first three quarters of 2017 over a year earlier.

6.19 Analysed by sector, more visible year-on-year increases in nominal payroll were seen in accommodation and food service activities (up 5.6%), professional and business services (up 4.3%) and real estate activities (up 4.2%) in the third quarter of 2017, mirroring the revival of related business activities over the course of 2017.

Diagram 6.6 : Overall wages and earnings sustained notable real improvement in the first three quarters of 2017



6.20 More recent statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, revealed that *average monthly employment earnings*(10) of full-time employees engaged in elementary occupations (excluding foreign domestic helpers) recorded a year-on-year nominal increase of 6.1% in the fourth quarter of 2017. For the year as a whole, preliminary estimates suggested that their average employment earnings grew appreciably by 5.5% in nominal terms and 3.9% in real terms. Meanwhile, average employment earnings of full-time employees (excluding foreign domestic helpers) in the lowest three decile groups combined grew markedly by 6.1% in 2017, translating into a real increase of 4.5% after discounting inflation. For the overall income situation, the median monthly household income (excluding foreign domestic helpers) saw faster growth in 2017, up by 5.2% in nominal terms or 3.7% in real terms.

Highlights of labour-related measures and policy developments in 2017

6.21 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job-seekers on the spot. In 2017, LD organised 18 large-scale job fairs in Wan Chai, Yau Tong, Mong Kok, Tsim Sha Tsui, Sham Shui Po, Hung Hom, Tsuen Wan, Tuen Mun and North District. A total of 544 participating organisations offered about 38 400 vacancies from the retail, catering, property management, transport and other industries. There were also 20 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.

6.22 Moreover, LD has started the work on formulating the sector-specific working hours guidelines in 2017 through the department's industry-based tripartite committees. These committees, comprising representatives from employers, employees and the Government, should serve as useful platforms for the parties concerned to work together in drawing up the guidelines to provide guidance on suggested working hours arrangements, overtime compensation methods and good working hours management measures.

6.23 With the revised SMW rate of $34.5 per hour (up by 6.2% from the previous rate of $32.5 per hour) taking effect from 1 May 2017, LD has launched extensive publicity activities and targeted enforcement campaigns. The revised SMW rate has been operating smoothly. The labour market has remained in good shape, while employment earnings of low-income workers have sustained appreciable real improvement.

Notes :

(1) Labour force statistics enumerated from the General Household Survey are statistics which involve the use of the population figures in the compilation process. The statistics of the three-month periods of November 2015 – January 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 to March 2011. Starting from the reference quarter of January to March 2011, all the labour force statistics by occupation, unless otherwise specified, are compiled based on the ISCO-08.

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

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

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

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

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

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

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

(5) Figures enumerated from household data. The employed population is defined here to include those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).

(6) The low paying sectors as identified by the Minimum Wage Commission include:
   (i) retail (including supermarkets and convenience stores, and other retail stores);
   (ii) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes, and Hong Kong style tea cafes);
   (iii) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services and membership organisations);
   (iv) other low paying sectors, including
      - elderly homes;
      - laundry and dry cleaning services;
      - hairdressing and other personal services;
      - local courier services; and
      - food processing and production.

(7) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as small and medium-sized enterprises (SMEs) in Hong Kong. Yet, establishments with the same main business registration number (BRN) and engaging in activities of the same industry sector are grouped into one business unit for the purpose of calculating the number of SMEs. Thus, a business with a lot of small chain stores each employing a small number of employees will be considered as a single large enterprise, instead of separate SMEs.

(8) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the relatively low expenditure group, is taken as the price deflator for wages in respect of employees engaged in occupations up to the supervisory level.

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

(10) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.

CHAPTER 7 : PRICES

Summary

- *Consumer price inflation went lower in 2017, thanks to largely contained domestic and external price pressures during the year. The increase in 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, abated for the sixth consecutive year, down from 2.3% in 2016 to 1.7% in 2017. Headline Composite CPI inflation likewise receded from 2.4% in 2016 to 1.5% in 2017.*

- *Domestic cost pressures remained in check during 2017. While wages and earnings sustained moderate growth amid the favourable labour market conditions, labour cost pressure reckoned on a unit cost basis was mild after taking into account labour productivity gains. Fresh-letting residential and commercial rentals were on the rise in 2017, but they had yet to feature in consumer price inflation.*

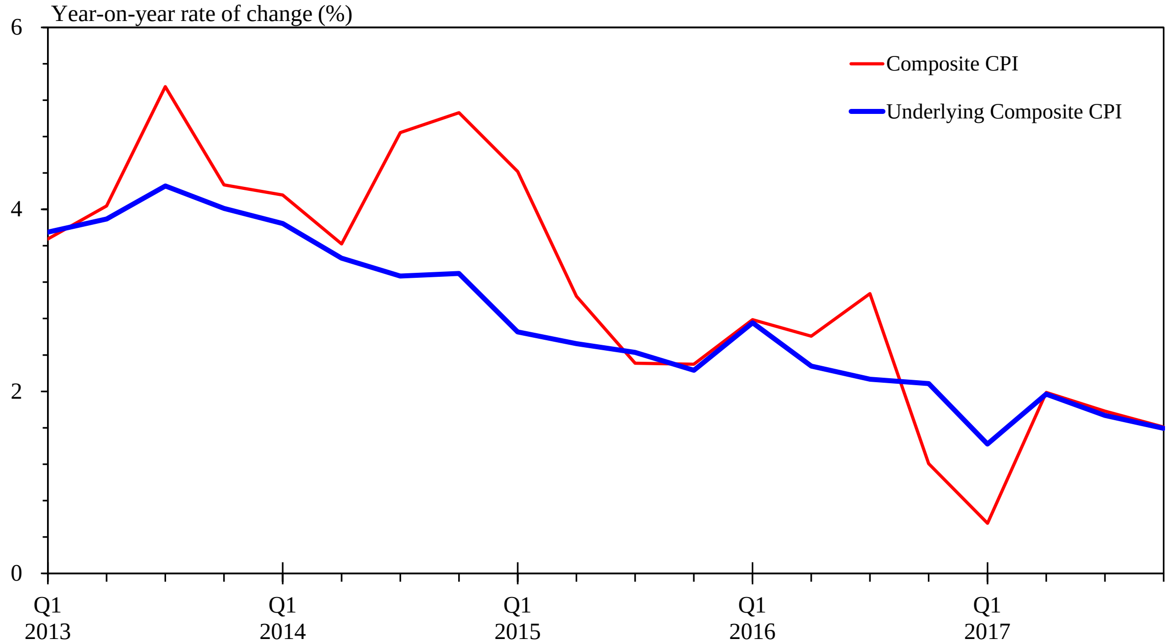
- *External price pressures were modest in general in 2017 amid the low inflation in our major import sources, though the weakness in US dollar against some currencies of our import sources on a year-on-year basis gave rise to somewhat higher import prices from these sources towards the latter part of the year. Meanwhile, the rebound in global commodity prices in 2017 had relatively limited impact on consumer price inflation.*

- *Looking ahead, CPI inflation should remain moderate in the near term, considering the still-modest global inflation and the rather gradual pace of increases in local costs. Nevertheless, there may eventually be more upward pressures on the latter, as the local economy is expected to attain another year of above-trend growth in 2018. Also, the feed-through from the uptrend in fresh-letting residential rentals over the past year or so would turn more evident in 2018. On the external front, imported inflation may increase slightly if the global economic upswing continues. Also worth noting would be the movements of exchange rates and international commodity prices amid an increasingly complicated global monetary environment as they would add uncertainty around the inflation outlook.*

Consumer prices

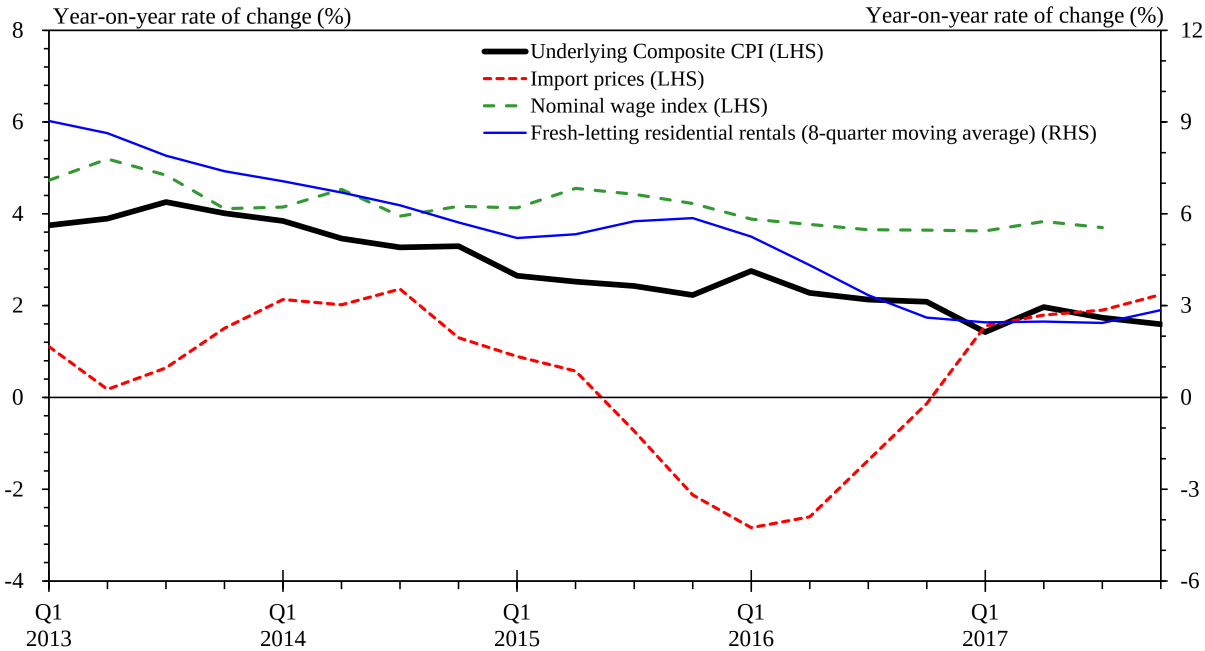
7.1 Underlying inflation eased for the sixth consecutive year in 2017, as domestic and external price pressures remained largely contained during the year. Locally, while wages and earnings sustained moderate increases, labour cost pressure when reckoned on a unit cost basis was tame. The uptrend in fresh-letting residential and commercial rentals in 2017 had yet to feature in consumer price inflation, as the feed-through process was slow and gradual. Externally, import prices resumed some modest to moderate increases in 2017. The impact on import prices from the rebound in global commodity prices in 2017 was mainly confined to fuels, rendering limited pressure on the overall consumer price inflation. On the whole, external cost pressure was considered modest in general in 2017 thanks to the mild inflation in our major trading partners(2), though the weakness in US dollar against some currencies of our import sources on a year-on-year basis gave rise to slightly higher import prices from these sources towards the latter part of the year.

Diagram 7.1 : Underlying consumer price inflation continued its easing trend for the sixth consecutive year in 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 7.2 : External price pressures were modest while domestic cost pressures stayed in check



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.

7.2 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 genuinely reflect the underlying inflation trend, stayed modest in general throughout 2017. Following a temporary dip to 1.4% in the first quarter of 2017 due to the high base of comparison for food prices a year earlier and a late Easter holiday in April 2017, underlying inflation receded from 2.0% in the second quarter to 1.7% in the third quarter, and further to 1.6% in the fourth quarter. Apart from the broadly stable inflation environment in the macro-economy, the dissipation of the effect from upward adjustment in public housing rentals in September 2016 and the year-on-year decreases in school fees arising from the launch of new Government subsidy schemes in the 2017-18 academic year also contributed to lower rate of inflation in the fourth quarter in particular. For 2017 as a whole, underlying inflation averaged 1.7%, abating from 2.3% in 2016. Headline consumer price inflation likewise eased from 2.4% in 2016 to 1.5% in 2017. The lower headline rate as compared to the underlying rate was due to an extra quarter of one-off rates concession in 2017 as against 2016.

Table 7.1 : Consumer Price Indices
(year-on-year rate of change (%))

		Composite CPI		CPI(A)	CPI(B)	CPI(C)
		Underlying[(a)]	Headline			
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	Annual	1.7	1.5	1.5	1.4	1.5
	H1	1.7	1.3	1.2	1.2	1.4
	H2	1.7	1.7	1.9	1.5	1.7
	Q1	1.4	0.5	0.1	0.6	0.9
	Q2	2.0	2.0	2.3	1.8	1.9
	Q3	1.7	1.8	2.1	1.6	1.6
	Q4	1.6	1.6	1.6	1.5	1.7
		(seasonally adjusted quarter-to-quarter rate of change (%))				
2016	Q1	0.7	0.7	0.9	0.6	0.6
	Q2	0.1	-0.7	-1.3	-0.5	-0.3
	Q3	0.5	0.5	0.5	0.5	0.4
	Q4	0.7	0.7	1.0	0.6	0.6
2017	Q1	0.1	0.1	*	0.1	0.2
	Q2	0.6	0.6	0.7	0.6	0.6
	Q3	0.3	0.3	0.4	0.3	0.2
	Q4	0.6	0.6	0.5	0.6	0.7

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

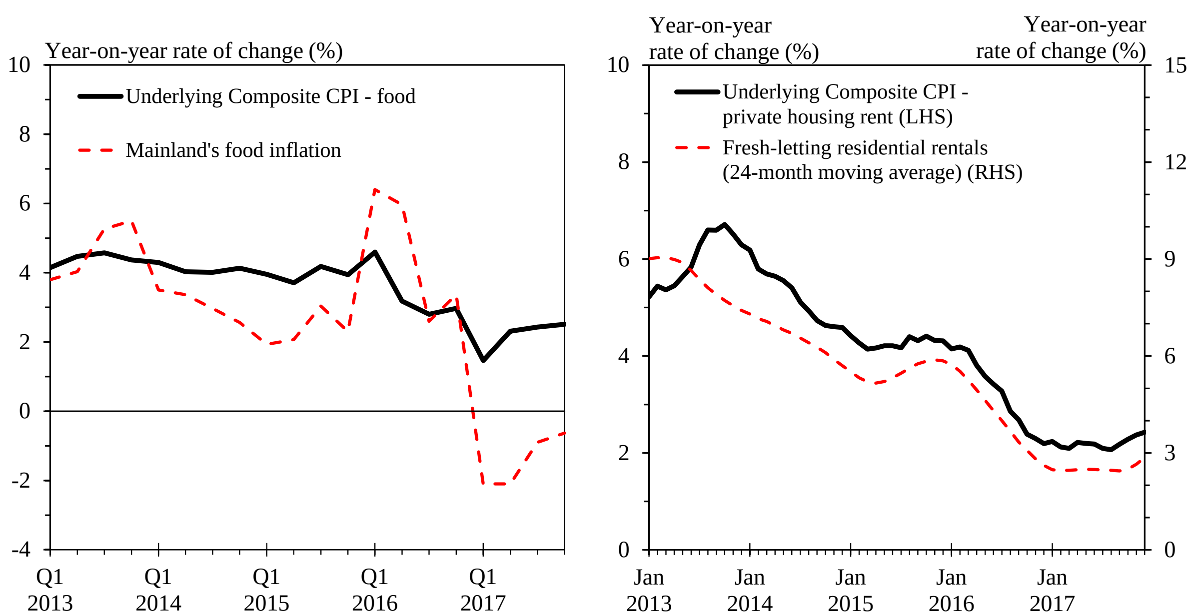
(*) Change within ±0.05%.

7.3 Analysed by major components in the underlying Composite CPI, price pressures in 2017 mostly abated, including the two largest components of food and private housing rent. As pressures of imported food prices and shop rentals were relatively mild, local food inflation (including costs of dining out) moderated to an average of 2.2% in 2017 from 3.4% in 2016. The annual increase in private housing rent also decelerated further to an average of 2.2% in 2017 from 3.2% in 2016, as the feed-through from rising fresh-letting residential rentals in 2017 to CPI remained gradual. On the other hand, public housing rent and transport costs saw faster increases in 2017, with the former attributable to the carry-over effect of the upward adjustment in public housing rentals in September 2016, and the latter mainly driven by the rebound in motor fuel costs and taxi fare increase. Meanwhile, prices of electricity, gas and water fell in 2017, mainly reflecting the lower electricity charges after the rebates offered by the two power companies. Prices of clothing and footwear stabilised and reverted to a modest increase towards the latter part of 2017, partly reflecting the gradual improvement in retail businesses and partly reflecting some mild pick-up in import prices amid a weaker US dollar. For the year as a whole, prices of clothing and footwear recorded a narrower decline compared to 2016, while those of durable goods stayed on a secular downtrend.

Diagram 7.3 : Food and private housing rent components of the underlying Composite CPI

(a) Food inflation moderated relative to 2016

(b) Rental inflation remained mild



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 7.4 (a) : Lessening price pressures in many of the underlying Composite CPI components

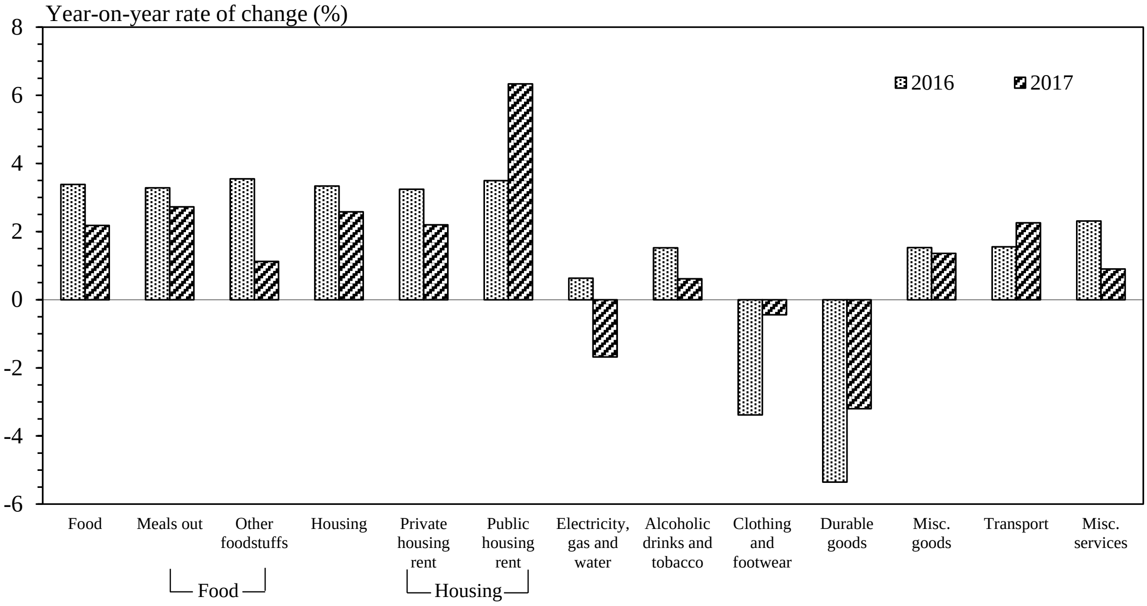
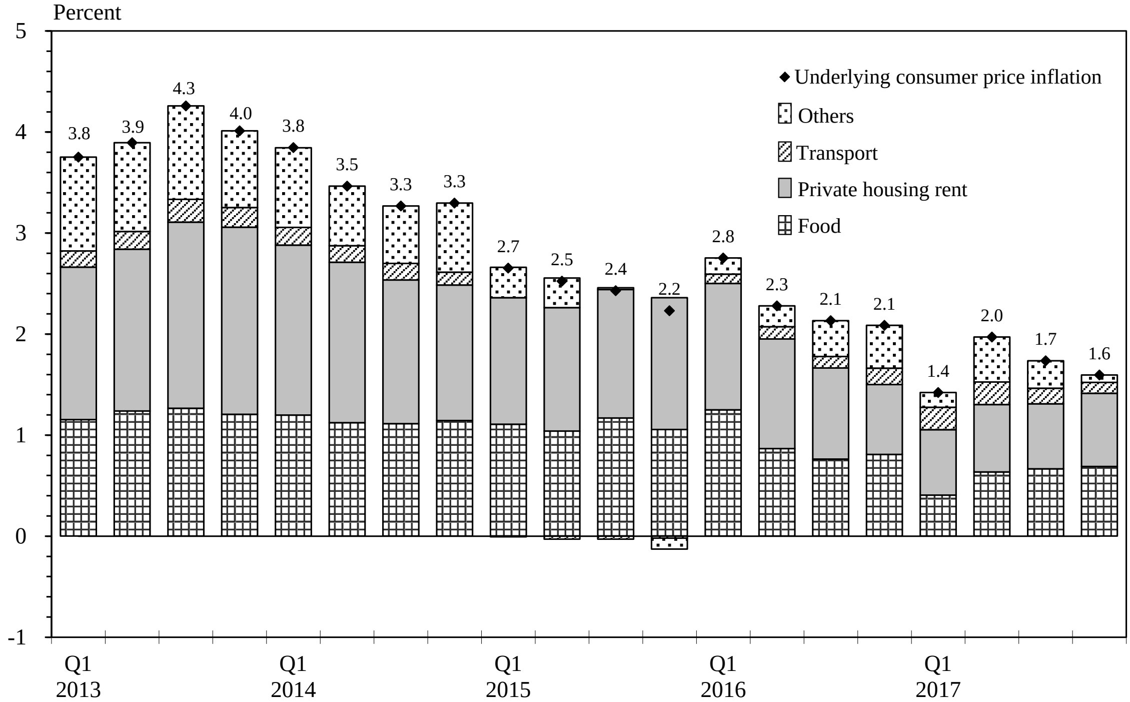


Diagram 7.4 (b) : Contribution to underlying consumer price inflation by major component



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

Expenditure component	Weighting (%)	2016	2017 Annual	2017 Q1	2017 Q2	2017 Q3	2017 Q4
Food	27.29	3.4	2.2	1.5	2.3	2.4	2.5
Meals bought away from home	17.74	3.3	2.7	2.8	2.7	2.7	2.7
Other foodstuffs	9.55	3.6	1.1	-1.1	1.4	2.0	2.2
Housing[(a)]	34.29	3.3 (3.7)	2.6 (2.0)	2.7 (0.3)	2.7 (2.7)	2.6 (2.6)	2.4 (2.4)
Private housing rent	29.92	3.2 (3.4)	2.2 (1.8)	2.1 (0.5)	2.2 (2.2)	2.1 (2.1)	2.4 (2.4)
Public housing rent	1.94	3.5 (7.2)	6.3 (3.0)	9.9 (-5.6)	9.6 (11.5)	6.3 (7.5)	0.1 (0.4)
Electricity, gas and water	2.67	0.6 (1.0)	-1.7 (-1.7)	-5.5 (-5.5)	-1.0 (-1.0)	-0.3 (-0.3)	0.1 (*)
Alcoholic drinks and tobacco	0.54	1.5	0.6	2.3	1.0	-0.2	-0.6
Clothing and footwear	3.21	-3.4	-0.4	-1.9	-1.4	1.0	0.6
Durable goods	4.65	-5.4	-3.2	-3.6	-3.6	-3.3	-2.3
Miscellaneous goods	3.56	1.5	1.4	2.3	1.8	0.5	0.9
Transport	7.98	1.6	2.3	2.9	2.9	2.0	1.4
Miscellaneous services	15.81	2.3	0.9	0.6	2.2	0.9	-0.1
All items	100.00	2.3 (2.4)	1.7 (1.5)	1.4 (0.5)	2.0 (2.0)	1.7 (1.8)	1.6 (1.6)

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

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

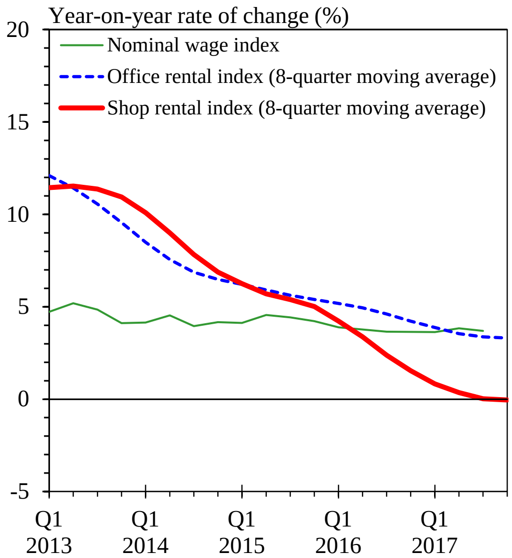
(*) Change within ±0.05%.

Costs of factor inputs and import prices

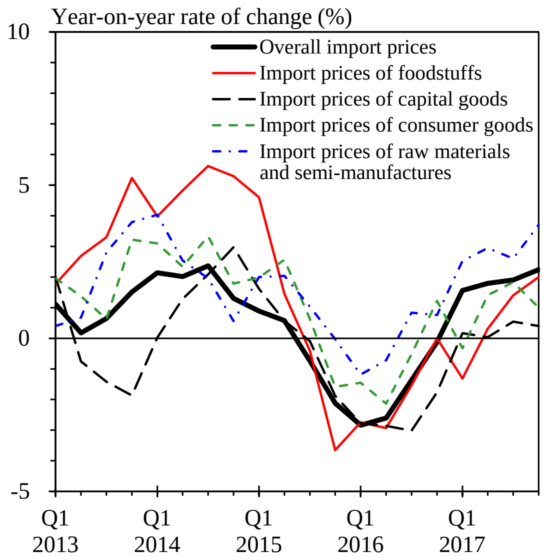
7.4 Domestic cost pressures remained in check in 2017. Wages and earnings sustained moderate growth, thanks to the tight labour market conditions and in part to the upward adjustment of the Statutory Minimum Wage rate in May 2017. Nonetheless, labour productivity gains amid the sustained above-trend economic growth helped to contain labour cost pressures when reckoned on a unit cost basis. On commercial rental costs, shop rentals resumed modest increases in 2017 amid the revival of inbound tourism and robust local consumption. Separately, office rentals picked up during 2017, echoing the improving business sentiment amid the favourable economic conditions. Nevertheless, when analysed on an eight-quarter moving-average basis which should be more in line with the overall rental costs faced by businesses, commercial rental costs still largely followed an easing path in 2017.

Diagram 7.5 : Labour and rental costs remained contained while external price pressures were still modest

(a) Commercial rentals and labour cost



(b) Import prices by selected end-use category



7.5 The global economic upswing resulted in slightly higher price pressure in the advanced economies and also lent strength to world commodity prices in 2017. Against this backdrop, import prices reverted to increase in 2017, though the extent of increase remained modest overall, thanks to the still-mild inflation in our major import sources. For 2017 as a whole, import prices of fuels, being more directly affected by the rebound in oil prices, surged by 24.8%. Import prices of raw materials and semi-manufactures saw a moderate increase of 2.9%. Import prices of foodstuffs, consumer goods and capital goods resumed some mild annual increases in 2017, at 0.7%, 1.0% and 0.3% respectively. The year-on-year increase in import prices slightly widened towards the latter part of 2017, partly due to the weakening in the US dollar against some currencies of our import sources over a year earlier.

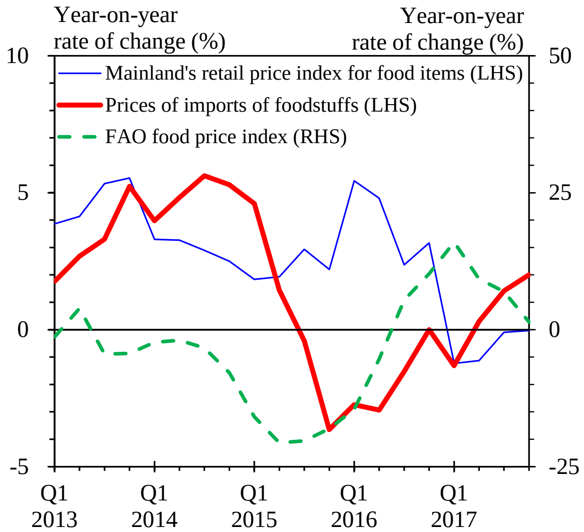
Table 7.3 : Prices of imports by end-use category
(year-on-year rate of change (%))

		Foodstuffs	Consumer goods	Raw materials and semi-manufactures	Fuels	Capital goods	All
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	Annual	0.7	1.0	2.9	24.8	0.3	1.9
	H1	-0.5	0.6	2.7	31.5	0.1	1.7
	H2	1.7	1.4	3.1	19.1	0.4	2.1
	Q1	-1.3	-0.3	2.5	46.1	0.2	1.6
	Q2	0.3	1.4	2.9	19.8	*	1.8
	Q3	1.4	1.8	2.6	17.6	0.5	1.9
	Q4	2.0	1.0	3.7	21.0	0.4	2.2

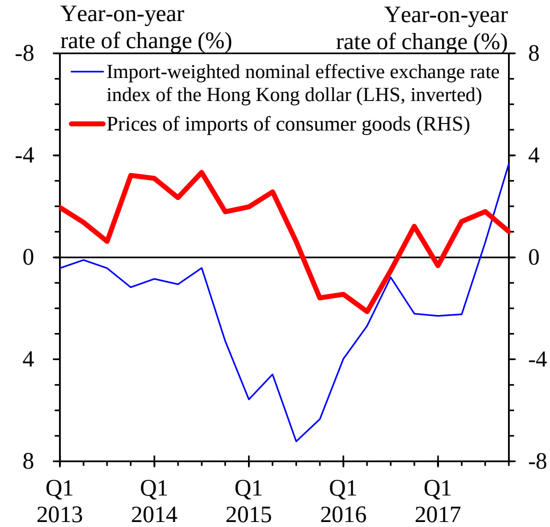
Note : (*) Change within ±0.05%.

Diagram 7.6 : Import prices by end-use category

(a) Import prices of food picked up to mild growth towards the end of the year

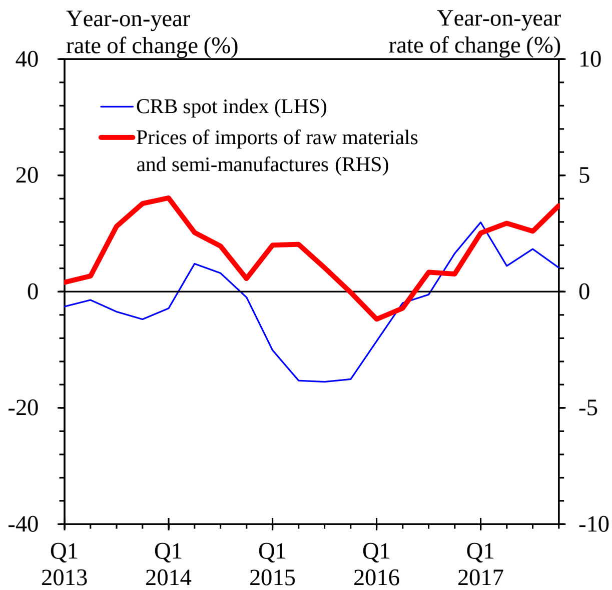


(b) Import prices of consumer goods resumed a modest increase in 2017

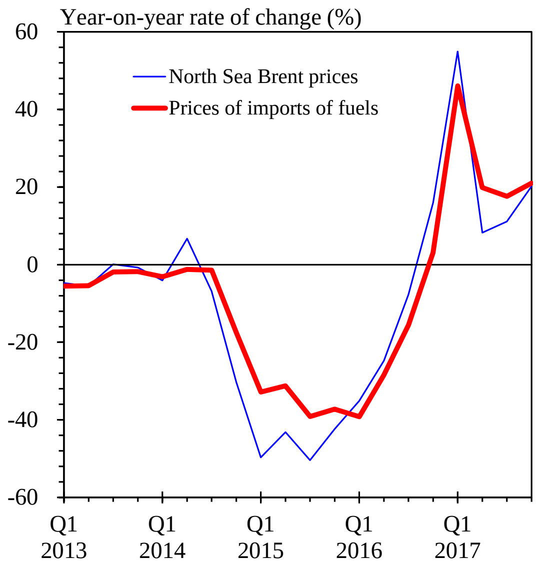


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Import prices of raw materials and semi-manufactures saw a moderate increase in 2017



(d) Strong rebound in import prices of fuels in 2017



Output prices

7.6 Output prices, as measured by the *Producer Price Indices*[3], mostly registered year-on-year increases of varying degrees in the first three quarters of 2017. Specifically, the manufacturing sector saw a solid year-on-year increase in output prices. Among the selected service sectors, in tandem with the strong revival in regional trade flows, output prices for water and air transport reverted to year-on-year increases in the first three quarters combined, while those for land transport and courier services continued to see modest to moderate year-on-year increases. Thanks to the recovery of inbound tourism and the upturn in visitor arrival numbers, output prices for accommodation services rose for four quarters in a row, with the increase picking up slightly in the third quarter of 2017. Output prices for telecommunications followed a secular downtrend, reflecting competitive nature within the sector.

Table 7.4 : Producer Price Indices for the manufacturing sector and selected service sectors
(year-on-year rate of change (%))

	2016					2017			
Industry group	Annual	Q1	Q2	Q3	Q4	Q1-Q3	Q1	Q2	Q3
Manufacturing	1.3	-2.8	0.4	3.9	4.0	3.9	4.2	3.7	3.7
Selected service sectors[a]									
Accommodation services	-2.1	-4.7	-1.9	-2.2	0.2	1.8	1.6	1.5	2.3
Land transport	1.6	2.6	2.1	0.9	1.0	1.2	1.8	1.2	0.5
Water transport	-12.4	-15.8	-14.8	-11.6	-7.0	3.2	-1.0	5.2	5.6
Air transport	-9.9	-12.1	-10.9	-10.9	-5.7	1.3	-3.5	3.4	4.2
Telecommunications	-2.8	-3.6	-3.1	-2.3	-1.9	-2.8	-2.9	-2.5	-2.9
Courier services	2.1	1.8	2.3	2.8	1.5	2.6	3.6	2.2	2.0

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

7.7 As a broad measure of the overall change in prices in the economy, the increase in *GDP deflator*[4] picked up from an annual average of 1.7% in 2016 to 3.0% in 2017. The *terms of trade*[5] saw a mild deterioration in 2017, as import prices rose slightly faster than export prices. Taking out the external trade components, the domestic demand deflator rose by 3.1% in 2017, up from 1.4% in 2016, partly aided by the asset price increases in 2017.

Diagram 7.7 : GDP deflator

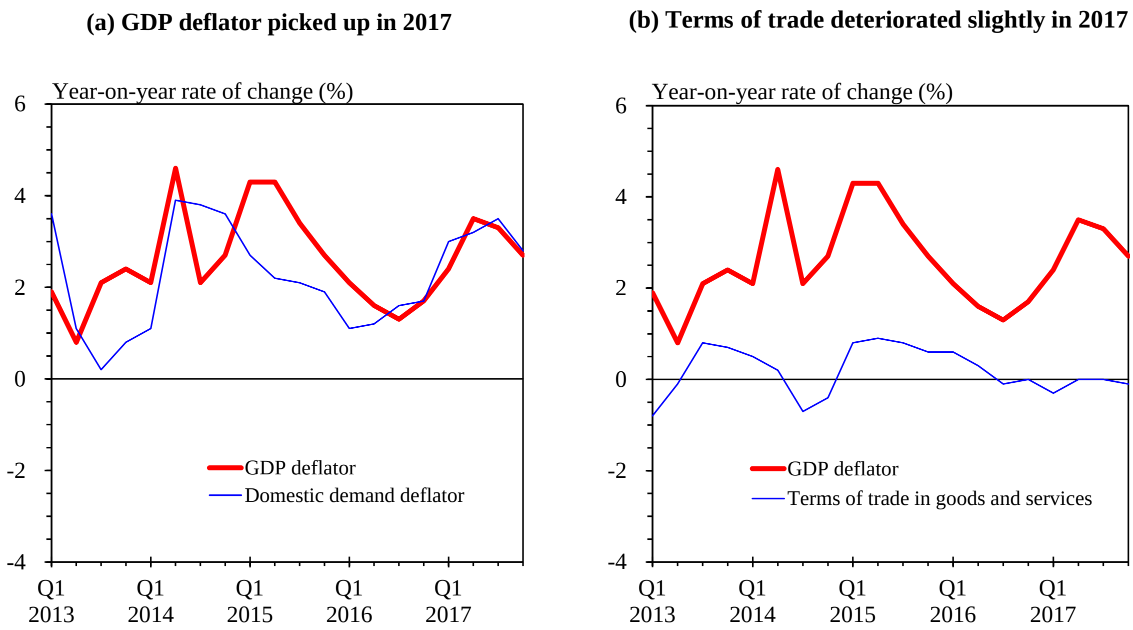


Table 7.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))

	2016					2017				
	Annual[#]	Q1[#]	Q2[#]	Q3[#]	Q4[#]	Annual[+]	Q1[#]	Q2[#]	Q3[#]	Q4[+]
Private consumption expenditure	1.6	1.0	1.3	2.1	1.8	2.6	2.1	2.5	2.9	2.8
Government consumption expenditure	3.6	3.6	3.7	3.8	3.5	2.4	3.6	2.5	1.6	1.7
Gross domestic fixed capital formation	-0.1	-0.6	-1.1	-0.7	1.3	4.7	5.3	5.8	5.4	2.7
Total exports of goods[&]	-1.4	-2.7	-2.4	-1.3	0.3	1.6	1.6	1.4	1.6	2.0
Imports of goods[&]	-1.8	-3.4	-2.8	-1.4	0.3	1.8	1.9	1.4	1.6	2.1
Exports of services[&]	-2.1	-3.8	-2.5	-1.5	-0.5	2.4	1.2	1.5	2.3	4.2
Imports of services[&]	-1.4	-3.4	-1.7	*	-0.7	2.3	1.1	0.6	2.9	4.6
Gross Domestic Product	**1.7**	**2.1** **<0.4>**	**1.6** **<0.3>**	**1.3** **<0.3>**	**1.7** **<0.9>**	**3.0**	**2.4** **<1.0>**	**3.5** **<1.2>**	**3.3** **<0.3>**	**2.7** **<0.3>**
Total final demand[&]	-0.6	-1.5	-1.2	-0.3	0.7	2.2	2.0	2.0	2.3	2.5
Domestic demand	1.4	1.1	1.2	1.6	1.7	3.1	3.0	3.2	3.5	2.8
Terms of trade in goods and services[&]	0.2	0.6	0.3	-0.1	*	-0.1	-0.3	*	*	-0.1

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

(&) 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 ±0.05%.

Notes :

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

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

	Approximate proportion of households covered (%)	Average monthly expenditure range during Oct 2014 to Sep 2015 ($)
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:

Expenditure component	Composite CPI (%)	CPI(A) (%)	CPI(B) (%)	CPI(C) (%)
Food	27.29	34.37	26.26	20.85
Meals bought away from home	*17.74*	*20.99*	*17.88*	*13.98*
Other foodstuffs	*9.55*	*13.38*	*8.38*	*6.87*
Housing	34.29	33.77	35.24	33.60
Private housing rent	*29.92*	*26.51*	*32.15*	*30.72*
Public housing rent	*1.94*	*5.44*	*0.49*	--
Maintenance costs and other housing charges	*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.

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

Note : (*) Change within ±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.

Calendar of Events of Significance
for the Hong Kong Economy in 2017

3 Jan	The Hong Kong Special Administrative Region (HKSAR) Government and the Shenzhen Municipal People's Government signed the "Memorandum of Understanding on Jointly Developing the Lok Ma Chau Loop (LMCL) by Hong Kong and Shenzhen" to jointly develop the Hong Kong/Shenzhen Innovation and Technology Park at the LMCL. The Chief Secretary for Administration (CS) and the Party Secretary of the CPC Shenzhen Municipal Committee and Mayor of Shenzhen Municipality co-chaired the Hong Kong/Shenzhen Co-operation Meeting. At the meeting, both sides reviewed the achievements made in the past year and set out the direction for cooperation for the coming year in key areas including development of the LMCL, innovation and technology, Qianhai development, financial cooperation, professional services and youth cooperation.
16 Jan	Hong Kong and Belarus signed an agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital.
16-17 Jan	The Government and the Hong Kong Trade Development Council (HKTDC) co-organised the tenth Asian Financial Forum, with the theme "Asia: Driving Change, Innovation and Connectivity", discussing global economic trends and investment opportunities, which attracted more than 2 800 financial and business leaders, policymakers, investors and high net-worth individuals from all over the world to participate.
18 Jan	The Chief Executive (CE) delivered the 2017 Policy Address, outlining plans to develop the economy and improve people's livelihood.
	The Government announced the tendering of 10-year Government Bonds, totalling $1.2 billion, through the re-opening of an existing 10-year Government Bond issue under the Institutional Bond Issuance Programme of the Government Bond Programme.
27 Jan	The Hong Kong Monetary Authority (HKMA) announced that the countercyclical capital buffer (CCyB) for Hong Kong would increase to 1.875% from 1.25% with effect from 1 January 2018. The CCyB is part of the Basel III regulatory capital framework and is being implemented in parallel by Basel Committee member jurisdictions worldwide. The CCyB is designed by the Basel Committee to increase the resilience of the banking sector in periods of excess credit growth. The increase is consistent with the Basel III phase-in arrangements for the CCyB.
7 Feb	The CE in Council approved the three Outline Zoning Plans (OZPs) including Tung Chung Extension Area, Tung Chung Town Centre Area and Tung Chung Valley, for the development of the Tung Chung New Town Extension. Upon completion of the extension project, the Tung Chung New Town will become a distinct community for accommodating a population of about 270 000 to meet the development needs of Hong Kong.
13 Feb	The Companies (Winding Up and Miscellaneous Provisions) (Amendment) Ordinance 2016 came into operation. The Amendment Ordinance sought to increase protection of creditors, streamline the winding up process and strengthen regulation under the winding-up regime with a view to improving and modernising Hong Kong's corporate winding-up regime.

15 Feb	The Heritage Foundation released the 2017 Index of Economic Freedom. Hong Kong was rated the freest economy in the world for the 23rd consecutive year.
17 Feb	Hong Kong and Pakistan signed an agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.
22 Feb	The Financial Secretary (FS) delivered the Budget for the financial year 2017-18 in which he explained his objectives regarding public finance. He also announced a host of initiatives to strengthen the competitiveness of the pillar industries, to support the development of industries over which Hong Kong has advantages as well as emerging industries, and to identify growth opportunities, in order to promote sustained and diversified development of Hong Kong's economy.
	The 2016 Economic Background and 2017 Prospects was published along with the 2017-18 Budget. Hong Kong's real Gross Domestic Product (GDP) growth in 2017 was forecast to be 2-3%, while underlying and headline Composite Consumer Price Index (CCPI) inflation rates were forecast at 2% and 1.8% respectively.
	The Government announced the successful offering of its 10-year USD-denominated Sukuk, totalling US$1 billion, under the Government Bond Programme. The issuance, being the third sukuk launched by the Government, was a landmark transaction since Hong Kong is the first AAA-government to launch a sukuk with a 10-year tenor.
23 Feb	CE visited Guangzhou and Shenzhen, with a view to further broadening and deepening exchanges and cooperation in commerce and trade, finance, infrastructure and technology between Hong Kong and the two places.
	CS and the Vice-Governor of Guangdong Province co-chaired the 22nd Working Meeting of the Hong Kong/Guangdong Co-operation Joint Conference (HK/GDCJC) in Guangzhou. The meeting decided to implement the 2017 Work Plan of the Framework Agreement on Hong Kong/Guangdong Co-operation which covers 77 cooperation items on various areas, including the Belt and Road Initiative, innovation and technology, youth, financial services, environmental protection, tourism and cross-boundary infrastructure, etc.
	The Government announced the 2017-18 Land Sale Programme (LSP). The LSP included 28 residential sites (with an aggregate capacity to produce about 18 900 flats), three commercial/business sites and one hotel site.
1 Mar	The Government announced the tendering of 15-year Government Bonds, totalling $0.6 billion, under the Institutional Bond Issuance Programme of the Government Bond Programme.
16 Mar	The HKMA announced an upward adjustment of the Base Rate by 25 basis points to 1.25%, according to a pre-set formula. The increase in the Base Rate followed the 25-basis-point upward shift in the target range for the US federal funds rate on 15 March in the US.
24-25 Mar	CE attended the Boao Forum for Asia Annual Conference 2017 in Hainan.
28 Mar	The Government granted a new ten-year franchise to the Kowloon Motor Bus Company (1933) Limited. The new franchise commenced on 1 July 2017.

30 Mar The Hong Kong Housing Authority (HA) launched the Sale of Home Ownership Scheme (HOS) Flats 2017 for the pre-sale of 2 057 new subsidised sales flats in Choi Hing Court in Kwun Tong, and Ngan Wai Court and Ngan Ho Court in Mui Wo, Lantau Island. Some 104 600 applications were received. All flats were sold by 26 October.

1 Apr The Mandatory Provident Fund Default Investment Strategy (DIS) was launched. The DIS is a highly standardised, fee-controlled investment strategy designed to be consistent with the objective of building up long-term retirement savings for scheme members. The fee control mechanism consists of two caps, namely a fee cap of 0.75% and an out-of-pocket expenses cap of 0.2%, both calculated as a percentage of the net asset value of the constituent funds under the DIS.

HKMA established the Resolution Office as a major step to implement the Financial Institutions (Resolution) Ordinance (Cap. 628) (FIRO). The Resolution Office works to ensure the Hong Kong resolution regime is operational for banks.

7-30 Apr The three-week "International IT Fest" was staged, featuring 33 events to showcase Hong Kong's achievements in information and communications technology (ICT). The "Internet Economy Summit 2017" held from 10 to 12 April brought together renowned ICT experts and leaders from the East and the West to explore future development and opportunities of the Internet economy.

11 Apr The Government announced the tightening of the prevailing exemption arrangement for Hong Kong permanent residents (HKPRs) under the New Residential Stamp Duty (NRSD) regime with effect from 12 April 2017. Under the tightened exemption arrangement, acquisition of a single residential property under a single instrument by a HKPR who is acting on his/her own behalf and is not a beneficial owner of any other residential property in Hong Kong at the time of acquisition will continue to be subject to the lower ad valorem stamp duty rates at Scale 2. However, if the HKPR concerned acquires more than one residential property under a single instrument, the transaction will no longer be exempted and will be subject to the NRSD rate of 15%.

19-21 Apr CE visited the cities in Guangdong Province in the Guangdong-Hong Kong-Macao Bay Area (Bay Area).

25 Apr The Government signed the post-2018 Scheme of Control Agreements (SCAs) with each of the two power companies. The term of these SCAs is about 15 years, until end 2033. Under the post-2018 SCAs, the permitted rate of return of the power companies will be reduced from 9.99% to 8% of their Average Net Fixed Assets. Incentive schemes will also be put in place to encourage the power companies to further promote energy efficiency and conservation as well as the development of renewable energy. The new SCAs will continue to ensure that electricity demand of the community is met safely, reliably and at reasonable prices, while minimising the environmental impact of electricity generation.

30 Apr The Government completed the six-month public engagement for "Hong Kong 2030+ : Towards a Planning Vision and Strategy Transcending 2030", which serves to update the territorial development strategy to guide planning, land and infrastructure development and the shaping of the built and natural environment of Hong Kong beyond 2030. Two strategic growth areas, namely East Lantau Metropolis and New Territories North, are proposed to help Hong Kong embrace the future challenges and opportunities. The Government will finalise the Hong Kong 2030+ study taking into account the public comments received, findings of the technical assessments and the

latest Government initiatives.

1 May	The Statutory Minimum Wage rate was increased by 6.2% from $32.5 to $34.5 per hour.
4-9 May	FS attended the 50th Annual Meeting of the Asian Development Bank (ADB) in Yokohama, Japan. He also visited Tokyo to strengthen bilateral economic and trade ties between Hong Kong and Japan.
12 May	The Government released the preliminary GDP figures for the first quarter of 2017. The Hong Kong economy grew notably by 4.3% in real terms over a year earlier. External demand continued to strengthen as the global economic environment further improved. Domestic demand also held up well, supported by favourable employment conditions and more positive business sentiment. In the May review of the economic forecast for 2017, the forecast real GDP growth rate was maintained at 2-3%. The forecast rates of underlying and headline CCPI inflation were maintained at 2% and 1.8% respectively.
13-15 May	CE attended the Belt and Road Forum for International Cooperation in Beijing.
16 May	The 12 km-long Hong Kong-Zhuhai-Macao Bridge (HZMB) Hong Kong Link Road was completely connected. The HZMB will connect Hong Kong in the east and Zhuhai and Macao in the west. Upon commissioning, the travel time between the Hong Kong International Airport (HKIA) and Zhuhai will be reduced from currently 4 hours or so to about 45 minutes. The Office of the Commissioner of Insurance (OCI) and the China Insurance Regulatory Commission signed the Equivalence Assessment Framework Agreement on Solvency Regulatory Regime in Beijing, to conduct equivalence assessment on the insurance solvency regulatory regimes of the Mainland and Hong Kong.
17 May	The Government announced the tendering of 5-year Government Bonds, totalling $2.5 billion, under the Institutional Bond Issuance Programme of the Government Bond Programme.
19 May	The HKMA introduced the eighth round of macro-prudential measures for property mortgage loans to strengthen banks' risk management and resilience: (1) raising the risk-weight floor for new residential mortgage loans granted by banks using Internal Ratings-Based Approach from 15% to 25%; (2) for borrowers with one or more pre-existing mortgages: lowering the applicable loan-to-value ratio cap by 10 percentage points; and (3) for borrowers with income mainly derived from outside of Hong Kong: lowering the applicable debt servicing ratio limit by 10 percentage points.
24 May	Moody's Investors Service downgraded the long-term credit rating of Hong Kong to "Aa2" from "Aa1".
26 May	The Hung Shui Kiu (HSK) and Ha Tsuen OZP, which was prepared based on land use proposals as recommended under the HSK New Development Area (NDA) Planning and Engineering Study, was exhibited for public inspection under section 5 of the Town Planning Ordinance (TPO). Strategically located in the North West New Territories, the HSK NDA will become a "Regional Economic and Civic Hub" for accommodating a population of 218 000 and providing about 150 000 new employment opportunities upon completion.

31 May	Hong Kong was crowned as the world's most competitive economy for the second consecutive year, according to the International Institute for Management Development World Competitiveness Yearbook 2017.
	Hong Kong commenced free trade agreement (FTA) negotiations with Australia with a view to further strengthening economic and trade ties between the two economies and strengthening Hong Kong's role as an international trade, commerce and financial centre.
	The Government launched the $500 million "Innovation and Technology Fund for Better Living" to encourage and fund the use of innovation and technology in developing projects that bring more convenience, comfort and safety to daily living, or address the needs of specific community groups.
3 Jun	The Development Bureau promulgated the "Sustainable Lantau Blueprint", which provides a reference road map and guideline for implementing the development and conservation initiatives in Lantau. The Blueprint embraces the overarching principle of "Development in the North; Conservation for the South", which is widely supported by the public. Major economic and housing developments are planned in North Lantau, and Northeast Lantau will be developed into a node for leisure, entertainment and tourism. The predominant part of Lantau, particularly South Lantau, will be for conservation, leisure, cultural and eco-tourism purposes.
7 Jun	Hong Kong became a member of the Asian Infrastructure Investment Bank (AIIB). AIIB is a multilateral development bank with a mission to foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors.
9 Jun	To facilitate the implementation of the "Memorandum of Understanding on Jointly Developing the LMCL by Hong Kong and Shenzhen" signed on 3 January 2017, the LMCL OZP was exhibited for public inspection under section 5 of the TPO. The LMCL will be developed into a key base for scientific research, as well as relevant higher education and cultural and creative industries use.
13 Jun	The CE in Council endorsed the report of the Standard Working Hours Committee 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 the recommendations of the Committee.
	The Ministry of Finance (MoF) of the People's Republic of China (PRC) announced the issuance of RMB sovereign bonds in Hong Kong to institutional investors. The issuance was with tenors ranging from three to five years, totalling RMB7 billion.
14 Jun	The report of the first territory-wide Strategic Review on Healthcare Manpower Planning and Professional Development was published to lay the foundation for healthcare manpower planning and set out the direction for professional development and regulation of healthcare professionals.
15 Jun	The HKMA announced an upward adjustment of the Base Rate by 25 basis points to 1.50%, according to a pre-set formula. The increase in the Base Rate followed the 25-basis-point upward shift in the target range for the US federal funds rate on 14 June in the US.

15-17 Jun	FS attended the second Annual Meeting of the Board of Governors of the AIIB in Jeju, Korea and met with the AIIB President, Mr Jin Liqun, and other financial officials attending the Meeting. This was the first time Hong Kong attended as an AIIB member.
20 Jun	The Airport Authority unveiled major development plans, including the expansion of Terminal 1 and construction of Sky Bridge.
21 Jun	The Government announced the subscription and allocation results of the second Silver Bond issued under the retail part of the Government Bond Programme. The Silver Bond targets Hong Kong residents aged 65 or above. A total of about 45 000 valid applications were received for a total of $4.2 billion in principal amount of bonds. The final issue amount was $3 billion with a tenor of three years.
26 Jun	The Insurance Authority (IA) took over the statutory functions of the OCI, a Government department, to regulate insurance companies. The OCI was disbanded on the same day.
28 Jun	Hong Kong and the Mainland signed the Investment Agreement and the Agreement on Economic and Technical Cooperation under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), providing for the promotion and protection of the increasing investment flows between the two places with clarity and stability as well as fostering economic and technical cooperation.
	The Elderly Commission submitted to the Government the Elderly Services Programme Plan, which is the blueprint for the future planning and development of elderly services in Hong Kong.
	The Government announced the tendering of 10-year Government Bonds, totalling $1.2 billion, under the Institutional Bond Issuance Programme of the Government Bond Programme.
29 Jun	HKIA was crowned "Best Global Airport" at the 2017 Asian Freight, Logistics and Supply Chain Awards by *Asia Cargo News*.
	A Collaborative Agreement was signed by the West Kowloon Cultural District (WKCD) Authority and the Palace Museum on the development of Hong Kong Palace Museum in WKCD.
1 Jul	President Xi Jinping attended the Celebrations of the 20th Anniversary of Hong Kong's Return to the Motherland and the Inaugural Ceremony of the Fifth Term HKSAR Government in Hong Kong. Witnessed by President Xi, the Chairman of the National Development and Reform Commission, the CE of HKSAR, the Governor of Guangdong Province and the Chief Executive of the Macao Special Administrative Region, signed the Framework Agreement on Deepening Guangdong-Hong Kong-Macao Co-operation in the Development of the Bay Area. 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 the cooperation mechanism, establish a mutually complementary cooperation relationship, and jointly take forward the development of the Bay Area. It also sets out the goals and principles of cooperation. Separately, President Xi visited the HZMB Hong Kong Link Road and was briefed on the Hong Kong section of the HZMB. He also visited HKIA and was briefed on the airport's development and its expansion into a three-runway system.

	The Inland Revenue (Amendment) (No. 2) Ordinance 2017 came into effect. The list of "reportable jurisdictions" under the Inland Revenue Ordinance was expanded to cover 75 jurisdictions for implementation of automatic exchange of financial account information in tax matters.
3 Jul	Northbound Trading of the Bond Connect commenced. Hong Kong and other overseas investors could invest in the China Interbank Bond Market through mutual access between Hong Kong and Mainland financial infrastructure institutions in respect of trading, custody, settlement, etc.
4 Jul	Hong Kong's Renminbi Qualified Foreign Institutional Investor (RQFII) quota was expanded to RMB500 billion from RMB270 billion as approved by the State Council of the PRC.
6 Jul	HKIA received the "Top Asian Airport Efficiency Excellence Award" from the Air Transport Research Society.
6-9 Jul	FS attended the Group of Twenty Leaders' Summit in Hamburg, Germany, as a member of the delegation of China.
7 Jul	The Inland Revenue (Amendment) (No. 3) Ordinance 2017 was published in the gazette. To promote aircraft leasing activities in Hong Kong, the Government amended the Inland Revenue Ordinance to: (1) introduce a concessionary profits tax rate (i.e. one-half of the normal tax rate for corporations which is currently at 16.5%) for qualifying aircraft lessors and qualifying aircraft leasing managers; and (2) make provisions for profits tax purposes about businesses in connection with aircraft.
	The resolution regime established under FIRO commenced operation. Under FIRO, the Monetary Authority, the IA and the Securities and Futures Commission (SFC) are the resolution authorities.
10 Jul	The SFC signed a Memorandum of Understanding (MoU) with France's Autorité des Marchés Financiers on mutual recognition of funds to facilitate the distribution of eligible public funds in each other's market.
19 Jul	The Finance Committee of the Legislative Council approved the increase of recurrent expenditure on education by $3.6 billion a year for the implementation of a package of priority measures in the education system, with the aim of attaining quality education.
25-27 Jul	FS officiated in Jakarta, Indonesia the opening ceremony of the Hong Kong Economic and Trade Office in Jakarta.
2-5 Aug	CE visited Singapore and Bangkok, Thailand to foster closer ties between Hong Kong and countries of the Association of Southeast Asian Nations (ASEAN).
4 Aug	The HKMA announced the designation of four retail payment systems which are of significant public interest for the processing of payment transactions involving participants in Hong Kong under the Payment Systems and Stored Value Facilities Ordinance.
6-9 Aug	CE visited Beijing to call on various ministries in the Central People's Government and other organisations.

8 Aug The Recommended Outline Development Plan for Yuen Long South was promulgated proposing to develop degraded brownfield land for housing and other uses with supporting infrastructure and community facilities, housing a new population of about 85 400 in about 28 500 new flats. The proposal would also generate about 10 500 job opportunities.

9 Aug The Government signed the Agreement on Further Enhancement of Tourism Co-operation between the Mainland and Hong Kong with the China National Tourism Administration with a view to strengthening tourism exchanges and collaboration between both sides.

11 Aug The Government released the preliminary GDP figures for the second quarter of 2017. The Hong Kong economy sustained above-trend growth at 3.8% in real terms over a year earlier. 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.

In the August update of the economic forecast for 2017, the forecast growth rate in real terms of GDP was revised upwards to 3-4%. The forecast rates of underlying and headline CCPI inflation for 2017 were revised to 1.8% and 1.6% respectively.

18 Aug The Financial Leaders Forum chaired by FS was set up as a platform to deliberate on strategic and forward-looking proposals that are conducive to strengthening Hong Kong's position as an international financial centre, and to keep track of the progress in implementing such proposals by Government departments and other relevant organisations, with a view to enhancing monetary stability, financial safety and market quality.

21-24 Aug FS officiated at Wuhan the opening of a roving exhibition on the 20th anniversary of the establishment of HKSAR. He also attended gala dinners at Changsha and Zhengzhou to celebrate the opening of the Hunan Liaison Unit and the Henan Liaison Unit of the HKSAR Government.

24 Aug Hong Kong and Saudi Arabia signed an agreement for the avoidance of double taxation and the prevention of tax evasion with respect to taxes on income.

1 Sep To take a macro review of the land supply options, CE appointed the Task Force on Land Supply to facilitate different sectors of the community to discuss and make trade-offs on the land supply options and their priorities, with a view to mapping out the direction for land supply that would benefit the community as a whole.

11 Sep The Government and the HKTDC co-organised the second Belt and Road Summit, successfully bringing together more than 3 000 government, professional and business leaders from the Mainland as well as countries along the Belt and Road and beyond to explore opportunities under the Belt and Road Initiative.

14-17 Sep CE visited Naypyidaw and Yangon, Myanmar to promote closer ties between Hong Kong and Myanmar and attend the 14th World Chinese Entrepreneurs Convention.

15 Sep The SFC and the Stock Exchange of Hong Kong Limited (SEHK) published the conclusions to their joint consultation on proposed enhancements to SEHK's decision-making and governance structure for listing regulation. The conclusions clarify the role of the SFC as the statutory regulator which administers the Securities and Futures Ordinance and the Securities and Futures (Stock Market Listing) Rules,

	and which supervises, monitors and regulates the activities carried on by the SEHK, as well as the SEHK's role as the regulator administering the Listing Rules.
	The Government launched the $2 billion "Innovation and Technology Venture Fund" to co-invest with private venture capital funds in local innovation and technology start-ups.
20-23 Sep	CE visited London to showcase Hong Kong's business services advantages for UK companies seeking opportunities in Asia and witness the signing of an agreement on financial technology (Fintech).
21 Sep	CE announced the launch of the Strategic Dialogue on Trade Partnership with the United Kingdom, with a view to laying a solid foundation for future collaboration through discussions on trade issues of mutual interest.
	The IA entered into a cooperation agreement with the UK Financial Conduct Authority (FCA) to enhance collaboration in supporting Fintech innovation. Under the agreement, the IA and the FCA will cooperate on information sharing on innovation and referrals of innovative firms seeking to enter the counterpart's market.
	The Guangzhou Institutes of Biomedicine and Health under the Chinese Academy of Sciences set up a stem cell and regenerative medicine research centre in Hong Kong Science Park.
22 Sep	S&P Global Ratings lowered the long-term credit rating of Hong Kong to "AA+" from "AAA", with a "stable" outlook, and affirmed the "A-1+" short-term credit rating.
24 Sep	The Massachusetts Institute of Technology (MIT) Hong Kong Innovation Node officially opened its base at the Hong Kong Productivity Council (HKPC) Building to provide technology and entrepreneurial education and training for students and researchers from MIT, local universities and enterprises.
24-25 Sep	CE attended the 2017 Pan-Pearl River Delta Regional Co-operation Chief Executive Joint Conference in Changsha, Hunan Province.
25 Sep	The Innovation and Technology Bureau and the Ministry of Science and Technology of the Central People's Government jointly organised the "Hong Kong Innovation and Technology Forum 2017" to promote exchanges and collaboration between Hong Kong and the Mainland on innovation and technology. Around 300 representatives from the government, universities, research and development (R&D) institutes and enterprises of the two places joined the Forum.
28 Sep	Hong Kong remained the freest economy in the world, according to the 2017 Annual Report on the Economic Freedom of the World jointly released by the Fraser Institute of Canada and the CATO Institute of the US.
29 Sep	The IA launched two pilot initiatives, namely Insurtech Sandbox and Fast Track, to promote the development and the application of new technologies in the insurance sector of Hong Kong.
	The launch of the SFC Regulatory Sandbox provided a confined regulatory environment for qualified firms utilising innovative technologies to engage in regulated activities before their Fintech is used on a fuller scale.

11 Oct	CE presented "The Chief Executive's 2017 Policy Address", outlining the current-term Government's vision on various policy areas, and putting forward new approaches and innovative measures to resolve economic and livelihood issues of concern to the community, with a view to charting Hong Kong's future development with the people.
	The number of business operations in Hong Kong with parent companies overseas and in the Mainland hit the record high to 8 225 in 2017, according to a joint survey conducted by Invest Hong Kong and the Census and Statistics Department.
12 Oct	HKIA received Payload Asia's "Asia Pacific Airport of the Year – Industry Choice" Award for the fourth time.
12-17 Oct	FS attended the 2017 Annual Meetings of the World Bank Group and the International Monetary Fund (IMF) in Washington, DC, the United States, as a member of the delegation of China.
13 Oct	The funding application for reclamations and advance works in Tung Chung East was approved by the Legislative Council to take forward the Tung Chung New Town Extension project. The reclamations work started in end-2017, with a view to achieving the first population intake in 2023/24.
18 Oct	The Government announced the tendering of 3-year Government Bonds, totalling $4 billion, through the re-opening of an existing 5-year Government Bond issue under the Institutional Bond Issuance Programme of the Government Bond Programme.
19-22 Oct	FS attended the Asia-Pacific Economic Cooperation Finance Ministers' Meeting in Hoi An, Vietnam.
20 Oct	The Banking (Capital) (Amendment) Rules 2017, the Banking (Liquidity) (Amendment) Rules 2017 and the Banking (Specification of Multilateral Development Bank) (Amendment) Notice 2017 were gazetted. The two sets of Rules seek mainly to implement the Basel III-related capital and liquidity standards with effect from 1 January 2018. The Amendment Notice seeks to specify the International Development Association as a Multilateral Development Bank for preferential capital and liquidity treatment under the Banking Ordinance.
23 Oct	The Government held the "Summit on New Directions for Taxation" to consult stakeholders on tax measures conducive to economic development.
23-27 Oct	The second Hong Kong Fintech Week attracted more than 4 000 attendees from over 50 countries and more than 300 speakers. Alongside the packed events in the main hall and workshop rooms, more than 150 one-on-one meetings took place involving entrepreneurs, regulators, incubators, venture capitalists and service providers.
26 Oct	The MoF issued US dollar sovereign bonds totalling US$2 billion (comprising US$1 billion of 5-year bonds and US$1 billion of 10-year bonds) in Hong Kong.
27 Oct	FS and the Secretary for Economy and Finance of the Macao Special Administrative Region signed the Hong Kong Special Administrative Region and Macao Special Administrative Region Closer Economic Partnership Arrangement, and co-chaired the Tenth Hong Kong Macao Co-operation High Level Meeting in Hong Kong, with in-depth discussions on the direction of cooperation for the coming year in the development of the Bay Area, economic cooperation, cross-boundary infrastructure and developing cross-boundary helicopter services.

	The Finance Committee of the Legislative Council approved the 2017-18 Civil Service Pay Adjustment. The adjustment rates ranged from 1.88% to 2.94%, and took retrospective effect from 1 April 2017.
	HKPC established an "Inno Space" to nurture the start-up culture in Hong Kong and support "re-industrialisation". The "Inno Space" provides workspace and technical support to assist start-up entrepreneurs, students and graduates in developing their innovative ideas into industrial design, which may subsequently be translated into products through prototyping.
	Cyberport announced its participation in the "Space Sharing Scheme for Youth" to operate a Smart-Space co-working space of around 20 000 square feet in Tsuen Wan, which can house around 140 start-ups.
30 Oct	The Hong Kong Housing Society launched for pre-sale 620 new subsidised sale flats in Mount Verdant in Tseung Kwan O and Terrace Concerto in Tuen Mun. Some 94 000 applications were received.
31 Oct	Hong Kong ranked the fifth in the World Bank's Doing Business 2018 Report, once again re-affirming Hong Kong's position as one of the world's easiest places to do business.
7 Nov	HKIA was named the "Best Airport in North & East Asia" at the Future Travel Experience Asia Awards 2017.
	The Civil Aviation Department (CAD) was presented with the Global Safety Achievement Award by the Civil Air Navigation Services Organisation in recognition of the significant contribution made by the CAD to improving aviation safety over the past year, especially in the light of the full commissioning of the new Air Traffic Management System in November 2016.
	The Pacific Economic Co-operation Council published its State of the Region Report 2017-2018. The Report recognised Hong Kong as one of the most integrated economies in the markets of the Asia-Pacific region.
9-12 Nov	CE attended the Asia-Pacific Economic Cooperation 2017 Economic Leaders' Meeting and other related meetings in Da Nang, Vietnam.
10 Nov	The Government released the preliminary GDP figures for the third quarter of 2017. The Hong Kong economy continued to expand notably by 3.6% in real terms over a year earlier, marking the fourth consecutive quarter of above-trend economic expansion. External demand stayed vibrant, while domestic demand attained solid growth, led by the brisk expansion of private consumption.
	In the November update of the economic forecast for 2017, the forecast growth rate in real terms of GDP was revised to 3.7%. The forecast rates of underlying and headline CCPI inflation were revised to 1.7% and 1.5% respectively.
12 Nov	Hong Kong and ASEAN forged an FTA and an Investment Agreement, which will help enhance trade and investment flows between Hong Kong and ASEAN, boost business opportunities for Hong Kong enterprises and service providers, and enhance the protection of investments made by Hong Kong investors in ASEAN.

16 Nov The eleventh annual Structured Dialogue meeting between the HKSAR Government and the EU was held. The two sides conducted fruitful discussions on a wide range of subjects and identified areas for further cooperation.

17 Nov The Commission on Poverty announced the updated poverty line and poverty situation in Hong Kong in 2016. In 2016, the poverty line thresholds were raised along with the increase in household income. Compared with 2015, the poverty rate after recurrent cash policy intervention rose slightly to 14.7% in 2016, with the size of the poor population slightly increased to 995 800 persons, staying below one million for the fourth consecutive year.

18 Nov CE and the Governor of Guangdong Province co-chaired the 20th Plenary of the HK/GDCJC in Hong Kong, and agreed that the future focus of cooperation would be to take forward the development of the Bay Area together, deepen mutually beneficial cooperation and serve the development of the Belt and Road Initiative.

The Development Bureau and the Department of Housing and Urban-Rural Development of Guangdong Province signed the Agreement on Strengthening Guangdong-Hong Kong Cooperation in Construction and Related Engineering Services with a view to taking forward issues regarding construction and related engineering services under the CEPA framework and Belt and Road Initiative as well as implementing the Framework Agreement on Hong Kong/Guangdong Co-operation and its annual work plans. The Agreement would encourage cooperation between enterprises and professionals of the two sides to participate jointly in the Bay Area development and expand into overseas market together.

HKSAR signed the Co-operation Arrangement between the Mainland and the Hong Kong Special Administrative Region on the Establishment of the Port at the West Kowloon Station of the Guangzhou-Shenzhen-Hong Kong Express Rail Link for Implementing Co-location Arrangement (Co-operation Arrangement) with the Mainland, marking the formal commencement of the “Three-step Process” by both places to meet the target of implementing co-location arrangement at the West Kowloon Station upon the commissioning of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link in the third quarter of 2018.

22 Nov The MoF announced the issuance of RMB sovereign bonds in Hong Kong to institutional investors, overseas central banks and monetary authorities. The issuance was with tenors ranging from two to ten years, totalling RMB7 billion.

The Government announced the tendering of 5-year Government Bonds, totalling $2.5 billion, through the re-opening of existing 5-year Government Bond issue under the Institutional Bond Issuance Programme of the Government Bond Programme.

23-24 Nov The Government and HKTDC jointly hosted the Seventh Asian Logistics and Maritime Conference, attracting over 2 000 business leaders and industry practitioners from 36 countries and regions.

27 Nov The PBoC and the HKMA announced that the currency swap agreement had been renewed for a term of another three years. The size of the agreement is RMB400 billion, same as the previous one, equivalent to HK$470 billion.

29 Nov Following the 2017 Article IV Consultation with the HKSAR, an assessment was made by the IMF in the Concluding Statement of the IMF Mission, commending that the HKSAR was well placed to navigate through challenges given its strong buffers and

robust policy frameworks, including ample fiscal reserves, strong financial regulatory and supervisory frameworks, and the Linked Exchange Rate System.

30 Nov HA has conducted a review on the Interim Scheme to Extend the HOS Secondary Market to White Form Buyers and endorsed regularising it as the White Form Secondary Market Scheme (WSM). The WSM will be launched with an annual quota of 2 500 in the first quarter of 2018, together with the Sale of HOS Flats 2018.

3-4 Dec CE met with HM King Salman bin Abdulaziz Al Saud, King of Saudi Arabia, and HRH Crown Prince Mohammed bin Salman in Saudi Arabia, to explore business opportunities between the two places, with particular reference to what Hong Kong can offer in terms of financial services.

4-9 Dec "Business of Design Week" is the largest annual design event of Asia and one of the leading design events locally and from all over the world. Italy was the partner country for the 2017 edition. Over 140 000 persons participated in the "Business of Design Week 2017" and its concurrent events.

7 Dec HKMA entered into a cooperation agreement with the Dubai Financial Services Authority (DFSA) to enhance collaboration in supporting Fintech innovation. Under the agreement, HKMA and the DFSA will cooperate on information sharing on innovation and referrals of innovative firms seeking to enter the counterpart's market.

8 Dec CE attended "The 16th HK-PRD Industrial and Commercial Circle Goodwill Gathering 2017" in Dongguan, and met with leaders of the Dongguan Municipal Government.

CE chaired the first "Steering Committee on Innovation and Technology" meeting.

The construction of the Central Kowloon Route (CKR) project has commenced for commissioning in around 2025. Upon completion, CKR will enhance the capacity of major east-west road corridors in Kowloon. The journey time between West Kowloon and Kowloon Bay via CKR will be shortened to around five minutes during rush hours, about 25 minutes less compared with the current journey time.

14 Dec "The Arrangement between the National Development and Reform Commission and the Government of the Hong Kong Special Administrative Region for Advancing Hong Kong's Full Participation in and Contribution to the Belt and Road Initiative" was signed. It puts forward specific measures focusing on six key areas, namely finance and investment; infrastructure and maritime services; economic and trade facilitation; people-to-people bonds; taking forward the Bay Area Development; and enhancing collaboration in project interfacing and dispute resolution services, and serves as a blueprint for Hong Kong's further participation in the Belt and Road Initiative.

The agreement with the Guangdong authorities for the supply of Dongjiang water for the years between 2015 and 2017 expired at the end of 2017. The Hong Kong Government signed a new agreement for the years between 2018 and 2020 with the Guangdong authorities ensuring a reliable source of water supply.

The HKMA announced an upward adjustment of the Base Rate by 25 basis points to 1.75%, according to a pre-set formula. The increase in the Base Rate followed the 25-basis-point upward shift in the target range for the US federal funds rate on 13 December in the US.

15 Dec Hong Kong Exchanges and Clearing Limited and its subsidiary SEHK published the consultation conclusions on the conceptual proposals regarding the establishment of a new board, determining to proceed to expand Hong Kong's listing regime to facilitate listings of companies from emerging and innovative sectors.

The Government published the "Smart City Blueprint for Hong Kong", outlining the Government's vision and mission to build Hong Kong into a leading smart city of the world and setting out development plans under six major areas, namely "Smart Mobility", "Smart Living", "Smart Environment", "Smart People", "Smart Government" and "Smart Economy", in the next five years and beyond.

20 Dec The Government released the Long Term Housing Strategy Annual Progress Report 2017. The updated total housing supply target for the ten-year period from 2018-19 to 2027-28 is 460 000 units, maintaining the 60:40 public-private split. Accordingly, the public housing supply target is 280 000 units, comprising 200 000 public rental housing units and 80 000 subsidised sale flats, while the private housing supply target is 180 000 units.

The Environmental Protection Department awarded the design, build and operate contract for the Integrated Waste Management (IWMF) Phase 1 which is planned for commissioning in 2024. Located on an artificial island near Shek Kwu Chau, the IWMF Phase 1 will be equipped with an advanced incinerator system with a maximum treatment capacity of 3 000 tonnes of municipal solid waste (MSW) per day, as well as a mechanical sorting and recycling facility that can recover useful resources from up to 200 tonnes of MSW per day. The IWMF Phase 1 will also generate electricity by recovering energy from waste through the incineration process, thereby reducing the use of fossil fuel for electricity generation and contributing to the reduction of local greenhouse gas emission.

27 Dec The Standing Committee of the National People's Congress made the decision approving the Co-operation Arrangement, which signified the accomplishment of the second step in the "Three-step Process" to provide a firm legal basis for the implementation of co-location arrangement at the West Kowloon Station.

28 Dec The Civil Engineering Development Department and the Planning Department formulated and promulgated the Cavern Master Plan (CMP), which is Hong Kong's first strategic framework that holistically integrates urban planning and multi-disciplinary engineering elements in order to provide public and private sectors with practical and comprehensive guidelines in assisting them to consider cavern options, identify suitable sites and conduct project planning. The CMP marks a new milestone in expanding the city's scarce land resources via innovative means, thereby creating capacity for Hong Kong's sustainable growth.

31 Dec The number of visitors to Hong Kong increased by 3.2% in 2017 to 58.47 million, reversing the downtrend in the past two years since 2015.

The Hang Seng Index closed at 29 919, up 36.0% during the year. The stock market of Hong Kong ranked fourth globally in terms of the amount of funds raised through initial public offerings in 2017.

Statistical Appendix

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

($Mn)

	2008	2009	2010	2011	2012	2013
Private consumption expenditure	1,026,482	1,013,615	1,090,234	1,224,402	1,314,969	1,413,058
Government consumption expenditure	148,017	152,512	157,371	168,517	185,310	198,572
Gross domestic fixed capital formation	350,796	339,552	386,852	455,294	517,411	515,516
Building and construction	127,312	123,746	139,249	179,341	204,860	211,130
Costs of ownership transfer	24,851	24,238	38,035	36,099	34,074	39,389
Machinery, equipment and intellectual property products	198,633	191,568	209,568	239,854	278,477	264,997
Changes in inventories	8,480	22,941	37,522	11,739	-3,662	-1,673
Total exports of goods&	2,758,181	2,454,394	3,021,492	3,406,765	3,632,957	3,926,059
Imports of goods&	2,563,428	2,351,386	2,995,928	3,464,968	3,779,686	4,142,651
Exports of services&	544,358	501,303	625,719	710,716	764,026	812,640
Imports of services&	565,399	473,686	546,930	578,035	594,266	583,216
GDP	**1,707,487**	**1,659,245**	**1,776,332**	**1,934,430**	**2,037,059**	**2,138,305**
Per capita GDP ($)	***245,406***	***237,960***	***252,887***	***273,549***	***284,899***	***297,860***
GNI	**1,807,994**	**1,709,007**	**1,813,928**	**1,987,256**	**2,066,514**	**2,178,824**
Per capita GNI ($)	***259,851***	***245,096***	***258,240***	***281,019***	***289,019***	***303,504***
Total final demand	4,836,314	4,484,317	5,319,190	5,977,433	6,411,011	6,864,172
Total final demand excluding re-exports(a)	3,001,538	2,823,844	3,235,971	3,604,705	3,828,055	4,025,243
Domestic demand	1,533,775	1,528,620	1,671,979	1,859,952	2,014,028	2,125,473
Private	1,342,889	1,327,688	1,449,592	1,614,010	1,737,274	1,827,460
Public	190,886	200,932	222,387	245,942	276,754	298,013
External demand	3,302,539	2,955,697	3,647,211	4,117,481	4,396,983	4,738,699

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)

	2014	2015	2016#	2017#	2017 Q1#	2017 Q2#	2017 Q3#	2017 Q4#
Private consumption expenditure	1,502,768	1,593,091	1,649,585	1,783,704	420,984	445,535	439,615	477,570
Government consumption expenditure	214,216	231,263	247,608	261,944	67,401	62,874	65,935	65,734
Gross domestic fixed capital formation	530,916	537,205	536,023	584,567	133,772	145,058	140,737	165,000
Building and construction	244,047	262,780	283,451	309,184	76,188	74,231	75,967	82,798
Costs of ownership transfer	43,967	45,846	45,131	68,297	14,410	19,065	14,048	20,774
Machinery, equipment and intellectual property products	242,902	228,579	207,441	207,086	43,174	51,762	50,722	61,428
Changes in inventories	7,473	-20,580	447	11,380	4,739	2,329	-262	4,574
Total exports of goods&	3,986,769	3,889,225	3,892,886	4,190,160	941,485	995,127	1,099,086	1,154,462
Imports of goods&	4,237,700	4,066,527	4,022,579	4,377,170	998,058	1,062,849	1,115,653	1,200,610
Exports of services&	829,085	808,948	764,839	810,308	202,393	184,083	207,486	216,346
Imports of services&	573,522	574,345	578,106	602,256	141,793	143,094	155,190	162,179
GDP	**2,260,005**	**2,398,280**	**2,490,703**	**2,662,637**	**630,923**	**629,063**	**681,754**	**720,897**
Per capita GDP ($)	***312,609***	***328,924***	***339,490***	***360,220***	--	--	--	--
GNI	**2,306,612**	**2,442,656**	**2,553,296**	**N.A.**	**650,723**	**679,483**	**709,936**	**N.A.**
Per capita GNI ($)	***319,056***	***335,010***	***348,022***	***N.A.***	--	--	--	--
Total final demand	7,071,227	7,039,152	7,091,388	7,642,063	1,770,774	1,835,006	1,952,597	2,083,686
Total final demand excluding re-exports(a)	4,116,670	4,139,786	4,190,791	4,494,262	1,064,757	1,076,896	1,127,467	1,225,142
Domestic demand	2,255,373	2,340,979	2,433,663	2,641,595	626,896	655,796	646,025	712,878
Private	1,929,514	1,991,436	2,062,313	2,244,006	523,285	561,450	548,276	610,995
Public	325,859	349,543	371,350	397,589	103,611	94,346	97,749	101,883
External demand	4,815,854	4,698,173	4,657,725	5,000,468	1,143,878	1,179,210	1,306,572	1,370,808

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)

(%)

	2008	2009	2010	2011	2012	2013
Private consumption expenditure	1.9	0.2	6.1	8.4	4.1	4.6
Government consumption expenditure	2.0	2.3	3.4	2.5	3.6	2.7
Gross domestic fixed capital formation	1.4	-3.5	7.7	10.2	6.8	2.6
Building and construction	6.8	-5.5	5.7	15.7	7.2	-4.3
Costs of ownership transfer	-11.6	-2.9	27.2	-20.9	-17.8	-28.1
Machinery, equipment and intellectual property products	*	-2.2	6.5	12.3	10.2	11.3
Total exports of goods[&]	3.2	-11.2	18.0	4.6	3.3	8.2
Imports of goods[&]	3.7	-7.0	19.9	6.7	4.6	9.9
Exports of services[&]	4.9	1.7	15.3	5.7	2.7	6.0
Imports of services[&]	1.1	-12.9	10.0	-0.2	2.2	-2.1
GDP	**2.1**	**-2.5**	**6.8**	**4.8**	**1.7**	**3.1**
Per capita GDP	***1.5***	***-2.7***	***6.0***	***4.1***	***0.6***	***2.7***
RGNI	**3.3**	**-4.6**	**3.7**	**4.8**	**-0.2**	**4.0**
Per capita RGNI	***2.7***	***-4.8***	***2.9***	***4.1***	***-1.3***	***3.6***
Total final demand	2.8	-6.1	14.0	5.3	3.4	6.6
Total final demand excluding re-exports[(a)]	2.9	-3.5	11.0	4.7	3.2	4.2
Domestic demand	1.4	0.5	7.1	6.5	3.9	4.1
Private	1.2	-0.1	6.6	6.7	3.6	4.1
Public	3.2	4.5	10.2	5.5	5.8	3.7
External demand	3.5	-9.1	17.6	4.8	3.2	7.8

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 ±0.05%.

N.A. Not yet available.

(^) Average annual rate of change for the 10-year period 2006-2016.

(~) Average annual rate of change for the 5-year period 2011-2016.

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

(%)

	2014	2015	2016#	2017#	2017 Q1#	Q2#	Q3#	Q4#	Average annual rate of change: 10 years 2007 to 2017#	5 years 2012 to 2017#
Private consumption expenditure	3.3	4.8	1.9	5.4	3.6	5.4	6.3	6.3	4.1	4.0
Government consumption expenditure	3.1	3.4	3.3	3.4	2.9	2.9	4.5	3.1	3.0	3.2
Gross domestic fixed capital formation	-0.1	-3.2	-0.1	4.2	5.8	7.8	-1.3	4.7	2.5	0.6
Building and construction	9.3	2.2	5.9	3.0	7.0	1.9	3.4	0.1	4.4	3.1
Costs of ownership transfer	6.9	-8.3	-2.9	22.2	77.2	53.3	-12.6	6.1	-5.1	-3.5
Machinery, equipment and intellectual property products	-8.7	-7.7	-6.3	1.9	-6.8	6.7	-4.3	10.1	1.4	-2.2
Total exports of goods&	0.8	-1.7	1.6	5.9	9.5	5.8	5.7	3.4	3.0	2.9
Imports of goods&	1.5	-2.7	0.7	6.9	10.2	6.4	6.3	5.4	4.2	3.2
Exports of services&	1.6	0.3	-3.4	3.5	3.4	2.7	3.9	4.0	3.7	1.5
Imports of services&	-2.2	5.0	2.1	1.8	1.0	4.2	1.6	0.6	0.3	0.9
GDP	**2.8**	**2.4**	**2.1**	**3.8**	**4.3**	**3.9**	**3.7**	**3.4**	**2.7**	**2.8**
Per capita GDP	***2.0***	***1.5***	***1.5***	***3.0***	--	--	--	--	***2.0***	***2.2***
RGNI	**2.7**	**3.8**	**3.2**	**N.A.**	**3.6**	**6.4**	**6.9**	**N.A.**	**2.8**^	**2.7**~
Per capita RGNI	***1.9***	***2.9***	***2.5***	***N.A.***	--	--	--	--	***2.1***^	***1.9***~
Total final demand	1.6	-0.4	1.3	5.4	7.3	5.4	5.0	4.3	3.3	2.9
Total final demand excluding re-exports(a)	0.6	0.1	1.5	4.4	4.6	4.7	3.8	4.5	2.9	2.1
Domestic demand	2.9	1.6	2.5	5.3	5.3	5.6	4.2	6.0	3.5	3.3
Private	2.6	1.3	2.4	5.5	5.0	6.2	3.8	6.9	3.4	3.2
Public	4.6	2.9	3.0	4.0	6.6	2.3	6.1	0.9	4.7	3.6
External demand	1.0	-1.4	0.7	5.5	8.4	5.3	5.4	3.5	3.2	2.7

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

	2012 $Mn	2012 % share	2013 $Mn	2013 % share	2014 $Mn	2014 % share	2015 $Mn	2015 % share	2016[#] $Mn	2016[#] % share
Agriculture, fishing, mining and quarrying	1,114	0.1	1,225	0.1	1,496	0.1	1,630	0.1	1,898	0.1
Manufacturing	30,600	1.5	30,156	1.4	27,885	1.3	26,716	1.1	26,875	1.1
Electricity, gas and water supply, and waste management	35,382	1.8	35,119	1.7	35,636	1.6	34,653	1.5	34,459	1.4
Construction	73,445	3.6	83,288	4.0	96,205	4.4	107,902	4.6	124,534	5.2
Services	1,872,498	93.0	1,948,292	92.9	2,044,750	92.7	2,154,556	92.7	2,230,147	92.2
Import/export, wholesale and retail trades	*511,537*	*25.4*	*523,741*	*25.0*	*531,541*	*24.1*	*527,822*	*22.7*	*526,857*	*21.8*
Accommodation[(a)] and food services	*72,044*	*3.6*	*75,413*	*3.6*	*78,725*	*3.6*	*78,134*	*3.4*	*79,472*	*3.3*
Transportation, storage, postal and courier services	*120,609*	*6.0*	*125,465*	*6.0*	*137,658*	*6.2*	*150,073*	*6.5*	*149,767*	*6.2*
Information and communications	*70,866*	*3.5*	*76,145*	*3.6*	*77,761*	*3.5*	*80,813*	*3.5*	*84,120*	*3.5*
Financing and insurance	*319,312*	*15.9*	*346,248*	*16.5*	*367,989*	*16.7*	*409,933*	*17.6*	*429,157*	*17.7*
Real estate, professional and business services	*232,416*	*11.5*	*225,789*	*10.8*	*239,434*	*10.9*	*252,714*	*10.9*	*265,627*	*11.0*
Public administration, social and personal services	*337,678*	*16.8*	*356,326*	*17.0*	*379,588*	*17.2*	*407,420*	*17.5*	*436,506*	*18.1*
Ownership of premises	*208,036*	*10.3*	*219,166*	*10.4*	*232,053*	*10.5*	*247,648*	*10.6*	*258,642*	*10.7*
GDP at basic prices	**2,013,038**	**100.0**	**2,098,080**	**100.0**	**2,205,972**	**100.0**	**2,325,457**	**100.0**	**2,417,913**	**100.0**
Taxes on products	63,575	--	75,314	--	83,236	--	95,433	--	84,604	--
Statistical discrepancy (%)	-1.9	--	-1.6	--	-1.3	--	-0.9	--	-0.5	--
GDP at current market prices	**2,037,059**	**--**	**2,138,305**	**--**	**2,260,005**	**--**	**2,398,280**	**--**	**2,490,703**	**--**

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

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

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

(--) Not applicable.

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

(%)

	2011	2012	2013	2014	2015	2016#	2016		2017	
							Q4#	Q1#	Q2#	Q3#
Agriculture, fishing, mining and quarrying	0.8	-3.2	4.9	-6.0	-6.8	-2.0	-0.7	5.0	-2.6	-2.6
Manufacturing	0.7	-0.8	0.1	-0.4	-1.5	-0.4	-1.0	0.2	0.4	0.3
Electricity, gas and water supply, and waste management	0.6	1.4	-2.9	0.8	-2.6	-0.8	-2.6	-3.2	-0.6	5.4
Construction	18.3	8.3	4.2	13.0	5.4	5.1	10.7	7.3	3.2	4.7
Services	5.2	1.8	2.7	2.5	1.7	2.3	2.7	3.6	3.2	3.6
Import/export, wholesale and retail trades	*9.1*	*1.9*	*3.3*	*1.2*	*-1.1*	*0.6*	*2.2*	*3.9*	*3.4*	*3.9*
Accommodation[(a)] and food services	*8.3*	*1.8*	*3.6*	*2.2*	*-1.9*	*0.5*	*0.9*	*1.6*	*1.4*	*2.5*
Transportation, storage, postal and courier services	*7.2*	*0.9*	*4.1*	*2.9*	*3.3*	*3.0*	*3.5*	*4.7*	*4.8*	*5.2*
Information and communications	*2.8*	*2.8*	*4.0*	*3.9*	*4.0*	*4.1*	*3.8*	*4.1*	*3.7*	*4.0*
Financing and insurance	*6.5*	*0.8*	*7.7*	*5.3*	*6.1*	*4.2*	*4.4*	*5.0*	*4.9*	*5.3*
Real estate, professional and business services	*2.6*	*3.1*	*-4.0*	*1.9*	*0.7*	*2.8*	*3.5*	*4.2*	*2.1*	*2.0*
Public administration, social and personal services	*1.8*	*2.1*	*2.5*	*2.4*	*2.5*	*2.9*	*2.5*	*2.7*	*2.9*	*3.8*
Ownership of premises	*0.7*	*1.1*	*0.3*	*0.8*	*0.6*	*0.5*	*0.7*	*0.9*	*0.8*	*0.8*
Taxes on products	-6.8	-10.4	-6.4	6.7	7.1	-9.0	24.2	21.0	21.0	-0.2
GDP in chained (2015) dollars	**4.8**	**1.7**	**3.1**	**2.8**	**2.4**	**2.1**	**3.3**	**4.3**	**3.9**	**3.7**

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

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

Table 5 : Value added and employment statistics of the Four Key Industries and other selected industries

	2013 $Bn	2013 % share in total(1)	2014 $Bn	2014 % share in total(1)	2015 $Bn	2015 % share in total(1)	2016# $Bn	2016# % share in total(1)	Annual percentage change (%) 2014	2015	2016#
Value added at current prices											
Four Key Industries	*1,212.8*	*57.8*	*1,269.3*	*57.5*	*1,330.9*	*57.2*	*1,367.7*	*56.6*	*4.7*	*4.9*	*2.8*
Financial services	346.2	16.5	368.0	16.7	409.9	17.6	429.2	17.7	6.3	11.4	4.7
Tourism	105.9	5.0	112.5	5.1	116.4	5.0	112.6	4.7	6.2	3.4	-3.2
Trading and logistics	500.5	23.9	515.7	23.4	517.4	22.3	523.5	21.7	3.0	0.3	1.2
Professional services and other producer services(2)	260.2	12.4	273.2	12.4	287.2	12.3	302.4	12.5	5.0	5.1	5.3
Other selected industries (3)	*190.6*	*9.1*	*202.0*	*9.2*	*207.5*	*8.9*	*214.3*	*8.9*	*6.0*	*2.7*	*3.3*
Cultural and creative industries	106.1	5.1	109.7	5.0	108.9	4.7	109.4	4.5	3.4	-0.7	0.4
Medical services	32.4	1.5	36.2	1.6	38.9	1.7	42.2	1.7	11.6	7.5	8.3
Education services	24.2	1.2	26.1	1.2	28.1	1.2	30.0	1.2	7.7	7.6	6.7
Innovation and technology	14.7	0.7	15.8	0.7	16.7	0.7	17.1	0.7	7.1	5.8	2.4
Testing and certification services	6.0	0.3	6.5	0.3	7.0	0.3	7.3	0.3	8.0	8.1	4.4
Environmental industries	7.1	0.3	7.8	0.4	7.9	0.3	8.4	0.3	9.8	1.1	6.5
Nominal GDP at basic prices	**2,098.1**	**100.0**	**2,206.0**	**100.0**	**2,325.5**	**100.0**	**2,417.9**	**100.0**	**5.1**	**5.4**	**4.0**

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

(1) Refers to percentage share in nominal GDP at basic prices. Such GDP figure is slightly different from the commonly used one, i.e. valued at current market prices, in which taxes on products are included.

(2) Other producer services refer to producer services other than financial services, tourism, trading and logistics and professional services.

(3) The other selected industries reflect the direct contribution of these industries in the private sector only. Some of them are service domains straddling across different industries. For example, "innovation and technology" activities may exist in any industry and organisation. The term "industry" is used to denote the aggregate of the economic activities concerned for easy general understanding.

(4) Since innovation and technology involves significant non-routine activities, persons engaged in these activities are measured by the volume of labour input to innovation and technology in full-time equivalent terms (in terms of man-years).

(5) Figures refer to Composite Employment Estimates.

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

Table 5 : Value added and employment statistics of the Four Key Industries and other selected industries (Cont'd)

	2013		2014		2015		2016#		Annual percentage change (%)		
	Number ('000)	% share in total	Number ('000)	% share in total	Number ('000)	% share in total	Number ('000)	% share in total	2014	2015	2016#
Employment											
Four Key Industries	*1 764.7*	*47.4*	*1 780.1*	*47.5*	*1 781.1*	*47.2*	*1 775.3*	*46.9*	*0.9*	*0.1*	*-0.3*
Financial services	231.9	6.2	236.4	6.3	246.7	6.5	253.1	6.7	2.0	4.3	2.6
Tourism	270.3	7.3	271.3	7.2	265.9	7.0	258.9	6.8	0.4	-2.0	-2.6
Trading and logistics	766.3	20.6	764.8	20.4	746.9	19.8	730.7	19.3	-0.2	-2.3	-2.2
Professional services and other producer services(2)	496.2	13.3	507.7	13.6	521.7	13.8	532.6	14.1	2.3	2.8	2.1
Other selected industries (3)	*450.3*	*12.1*	*466.7*	*12.5*	*475.1*	*12.6*	*480.7*	*12.7*	*3.6*	*1.8*	*1.2*
Cultural and creative industries	207.5	5.6	213.1	5.7	213.9	5.7	212.8	5.6	2.7	0.4	-0.5
Medical services	82.1	2.2	87.5	2.3	89.5	2.4	91.4	2.4	6.5	2.3	2.1
Education services	74.9	2.0	76.8	2.1	79.3	2.1	82.6	2.2	2.5	3.3	4.1
Innovation and technology(4)	32.0	0.9	33.7	0.9	35.1	0.9	35.6	0.9	5.2	4.2	1.6
Testing and certification services	13.1	0.4	13.5	0.4	13.6	0.4	14.0	0.4	3.3	0.4	2.8
Environmental industries	40.7	1.1	42.1	1.1	43.8	1.2	44.3	1.2	3.7	3.8	1.3
Total employment(5)	**3 724.8**	**100.0**	**3 744.2**	**100.0**	**3 774.5**	**100.0**	**3 787.8**	**100.0**	**0.5**	**0.8**	**0.4**

Table 6 : Balance of Payments by major component (at current prices)

($Mn)

	2012	2013	2014	2015	2016#	2016 Q4#	2017 Q1#	2017 Q2#	2017 Q3#
Current account[(a)]	32,151	32,475	31,453	79,553	98,664	23,492	18,908	18,937	58,746
Goods	-146,729	-216,592	-250,931	-177,302	-129,693	-21,349	-56,573	-67,722	-16,567
Services	169,760	229,424	255,563	234,603	186,733	45,681	60,600	40,989	52,296
Primary income	29,455	40,519	46,607	44,376	62,593	4,535	19,800	50,420	28,182
Secondary income	-20,336	-20,876	-19,786	-22,124	-20,969	-5,375	-4,919	-4,749	-5,165
Capital and financial account[(a)]	-67,664	-86,308	-73,785	-128,642	-101,104	-49,848	12,087	-45,533	-89,585
Capital account	-1,433	-1,609	-748	-216	-374	-187	-59	-74	-147
Financial account	-66,231	-84,699	-73,037	-128,426	-100,730	-49,661	12,146	-45,459	-89,437
Financial non-reserve assets	122,658	-26,810	66,052	153,570	-91,874	-28,010	57,455	30,646	-33,836
Direct investment	*-102,623*	*-50,250*	*-85,718*	*794,800*	*447,758*	*122,887*	*69,372*	*-36,922*	*13,217*
Portfolio investment	*-31,592*	*-386,077*	*-64,384*	*-970,938*	*-469,591*	*-106,039*	*103,040*	*229,086*	*-13,462*
Financial derivatives	*15,208*	*54,661*	*118,359*	*99,178*	*36,327*	*9,988*	*12,533*	*-3,570*	*10,997*
Other investment	*241,665*	*354,856*	*97,795*	*230,531*	*-106,368*	*-54,846*	*-127,491*	*-157,948*	*-44,588*
Reserve assets	-188,889	-57,890	-139,089	-281,996	-8,856	-21,651	-45,309	-76,105	-55,601
Net errors and omissions	35,513	53,833	42,332	49,089	2,440	26,357	-30,995	26,596	30,839
Overall Balance of Payments	**188,889**	**57,890**	**139,089**	**281,996**	**8,856**	**21,651**	**45,309**	**76,105**	**55,601**

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 7 : Goods and services trade
(at current market prices)

($Mn)

	2013	2014	2015	2016#	2017#	2017			
						Q1#	Q2#	Q3#	Q4#
Total exports of goods	3,926,059	3,986,769	3,889,225	3,892,886	4,190,160	941,485	995,127	1,099,086	1,154,462
Imports of goods	4,142,651	4,237,700	4,066,527	4,022,579	4,377,170	998,058	1,062,849	1,115,653	1,200,610
Goods trade balance	**-216,592**	**-250,931**	**-177,302**	**-129,693**	**-187,010**	**-56,573**	**-67,722**	**-16,567**	**-46,148**
	(-5.2)	**(-5.9)**	**(-4.4)**	**(-3.2)**	**(-4.3)**	**(-5.7)**	**(-6.4)**	**(-1.5)**	**(-3.8)**
Exports of services	812,640	829,085	808,948	764,839	810,308	202,393	184,083	207,486	216,346
Imports of services	583,216	573,522	574,345	578,106	602,256	141,793	143,094	155,190	162,179
Services trade balance	**229,424**	**255,563**	**234,603**	**186,733**	**208,052**	**60,600**	**40,989**	**52,296**	**54,167**
	(39.3)	**(44.6)**	**(40.8)**	**(32.3)**	**(34.5)**	**(42.7)**	**(28.6)**	**(33.7)**	**(33.4)**
Exports of goods and services	4,738,699	4,815,854	4,698,173	4,657,725	5,000,468	1,143,878	1,179,210	1,306,572	1,370,808
Imports of goods and services	4,725,867	4,811,222	4,640,872	4,600,685	4,979,426	1,139,851	1,205,943	1,270,843	1,362,789
Goods and services trade balance	**12,832**	**4,632**	**57,301**	**57,040**	**21,042**	**4,027**	**-26,733**	**35,729**	**8,019**
	<0.3>	**<0.1>**	**<1.2>**	**<1.2>**	**<0.4>**	**<0.4>**	**<-2.2>**	**<2.8>**	**<0.6>**

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 7a : Goods and services trade based on the standards stipulated in the *System of National Accounts 2008* , other than the change of ownership principle

	2013	2014	2015	2016#	2017#	2017			
						Q1#	Q2#	Q3#	Q4#
At current market prices ($Mn)									
Total exports of goods	3,816,390	3,877,458	3,779,263	3,776,638	4,055,437	915,309	975,059	1,059,892	1,105,177
Imports of goods	4,394,928	4,471,810	4,289,991	4,240,000	4,586,052	1,046,631	1,115,073	1,168,631	1,255,717
Goods trade balance	**-578,538**	**-594,352**	**-510,728**	**-463,362**	**-530,615**	**-131,322**	**-140,014**	**-108,739**	**-150,540**
	(-13.2)	**(-13.3)**	**(-11.9)**	**(-10.9)**	**(-11.6)**	**(-12.5)**	**(-12.6)**	**(-9.3)**	**(-12.0)**
Exports of services	1,058,584	1,079,989	1,052,355	1,010,316	1,064,902	257,117	235,891	276,427	295,467
Imports of services	467,214	481,005	484,326	489,914	513,245	121,768	122,610	131,959	136,908
Services trade balance	**591,370**	**598,984**	**568,029**	**520,402**	**551,657**	**135,349**	**113,281**	**144,468**	**158,559**
	(126.6)	**(124.5)**	**(117.3)**	**(106.2)**	**(107.5)**	**(111.2)**	**(92.4)**	**(109.5)**	**(115.8)**
Exports of goods and services	4,874,974	4,957,447	4,831,618	4,786,954	5,120,339	1,172,426	1,210,950	1,336,319	1,400,644
Imports of goods and services	4,862,142	4,952,815	4,774,317	4,729,914	5,099,297	1,168,399	1,237,683	1,300,590	1,392,625
Goods and services trade balance	**12,832**	**4,632**	**57,301**	**57,040**	**21,042**	**4,027**	**-26,733**	**35,729**	**8,019**
	<0.3>	**<0.1>**	**<1.2>**	**<1.2>**	**<0.4>**	**<0.3>**	**<-2.2>**	**<2.7>**	**<0.6>**
Rates of change in real terms (%)									
Total exports of goods	6.5	0.8	-1.9	1.4	5.7	9.3	5.4	5.5	3.1
Imports of goods	7.2	0.9	-2.7	0.6	6.2	9.4	5.6	5.5	4.7
Exports of services	4.9	1.2	-0.3	-2.0	3.1	3.2	2.4	3.4	3.4
Imports of services	1.5	1.8	5.3	2.5	3.1	1.7	6.0	3.1	1.9

Notes: (#) Figures are subject to revision later on as more data become available.
( ) As a percentage of the total value of imports of goods/services.
< > As a percentage of the total value of imports of goods and services.

Table 8 : Total exports of goods by market
(in value terms)

	2013	2014	2015	2016	2017		2017			
							Q1	Q2	Q3	Q4
	(% change)				(% change)	($Mn)	(% change over a year earlier)			
All markets	**3.6**	**3.2**	**-1.8**	**-0.5**	**8.0**	**3,875,898**	**10.3**	**7.4**	**8.0**	**6.8**
Mainland of China	4.9	1.5	-2.1	0.4	8.4	2,105,829	12.6	6.8	8.9	6.0
United States	-2.1	3.1	0.2	-5.3	1.9	330,198	2.4	-0.1	-0.7	6.1
India	7.9	13.1	8.1	14.6	35.9	158,635	40.1	54.7	12.4	38.9
Japan	-6.1	-2.8	-6.6	-4.9	10.0	128,474	4.0	9.7	12.9	13.2
Taiwan	-4.3	2.5	-18.0	14.6	19.9	89,371	44.5	27.2	19.6	-0.7
Vietnam	15.5	14.0	14.7	-5.8	10.3	79,632	13.1	13.6	7.7	7.7
Germany	-5.1	-1.7	-3.2	-5.1	10.8	73,912	3.6	1.1	16.8	21.3
Netherlands	1.1	12.7	10.2	10.3	11.5	63,982	21.8	16.9	10.6	1.2
Singapore	4.7	2.2	-2.3	4.8	-0.4	61,023	-2.6	0.9	9.6	-8.5
Korea	9.0	-2.7	-12.8	-0.6	4.9	56,672	15.2	-1.7	1.4	5.9
Rest of the world	5.4	7.6	-1.8	-3.3	3.8	728,169	1.4	2.8	6.1	4.8

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

Table 9 : Imports of goods by source (in value terms)

	2013	2014	2015	2016	2017	2017	2017 Q1	Q2	Q3	Q4
		(% change)			(% change)	($Mn)	(% change over a year earlier)			
All sources	**3.8**	**3.9**	**-4.1**	**-0.9**	**8.7**	**4,357,004**	**10.7**	**8.2**	**7.7**	**8.5**
Mainland of China	5.5	2.3	-0.1	-3.4	5.9	2,030,145	8.6	4.8	4.9	5.8
Taiwan	6.9	14.7	-8.6	6.4	12.9	329,678	19.6	8.3	8.0	16.2
Singapore	*	5.8	-5.7	6.4	10.1	288,107	12.9	12.1	16.7	-0.1
Japan	-8.1	0.9	-9.9	-5.2	2.7	253,394	8.9	1.4	1.1	0.6
Korea	3.4	10.6	-2.0	14.0	28.5	252,056	46.3	23.2	29.8	20.0
United States	7.4	*	-3.9	-2.0	3.4	213,737	3.1	7.9	2.5	0.9
Malaysia	4.7	16.7	-7.9	-3.7	26.8	114,877	3.8	18.1	20.6	62.0
India	6.7	10.0	-13.7	11.9	15.8	107,412	28.4	32.8	-0.6	3.1
Thailand	6.4	13.7	-3.7	-2.7	8.5	89,641	10.6	9.3	6.2	8.3
Philippines	2.5	22.0	10.3	5.8	27.6	76,275	36.4	24.5	30.8	20.9
Rest of the world	3.2	-0.3	-10.6	-3.1	7.0	601,681	1.0	8.3	7.0	11.2

Notes: Individual figures may not add up exactly to the total due to rounding.
(*) Change within ±0.05%.

Table 10 : Exports and imports of services by component (at current market prices)

	2013	2014	2015	2016#	2017#		2017			
							Q1#	Q2#	Q3#	Q4#
		(% change)			(% change)	($Mn)	(% change over a year earlier)			
Exports of services	**6.4**	**2.0**	**-2.4**	**-5.5**	**5.9**	**810,308**	**4.7**	**4.2**	**6.3**	**8.3**
Transport	-2.5	2.2	-6.8	-5.3	8.0	236,241	8.8	8.9	8.1	6.4
Travel	17.7	-1.5	-5.8	-9.0	1.6	259,068	0.9	-1.7	1.5	5.2
Financial services	6.1	7.0	8.5	-6.8	12.9	156,453	6.5	9.2	13.7	23.2
Other services	1.4	4.7	1.6	2.3	3.9	158,546	4.1	3.5	3.8	4.1
Imports of services	**-1.9**	**-1.7**	**0.1**	**0.7**	**4.2**	**602,256**	**2.0**	**4.8**	**4.5**	**5.2**
Transport	-1.4	1.5	-5.9	-2.1	4.1	136,717	2.6	3.4	4.1	5.9
Travel	5.7	3.7	4.7	4.8	6.0	198,619	0.4	9.8	7.1	6.5
Manufacturing^	-16.5	-20.2	-2.7	-2.0	0.9	89,011	3.0	-0.2	0.7	0.5
Other services	3.2	3.5	2.2	-0.1	4.0	177,909	2.9	2.6	3.9	5.9

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

Figures in this table are compiled based on the change of ownership principle in recording goods sent abroad for processing and 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.

Table 10a : 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)

	2013	2014	2015	2016#	2017#		2017			
							Q1#	Q2#	Q3#	Q4#
	(% change)				(% change)	($Mn)	(% change over a year earlier)			
Exports of services	**5.5**	**2.0**	**-2.6**	**-4.0**	**5.4**	**1,064,902**	**4.5**	**4.0**	**5.7**	**7.1**
Transport	-2.5	2.2	-6.8	-5.3	8.0	236,241	8.8	8.9	8.1	6.4
Travel	17.7	-1.5	-5.8	-9.0	1.6	259,068	0.9	-1.7	1.5	5.2
Trade-related	2.1	1.9	-3.0	0.6	3.7	296,017	3.8	3.0	3.9	4.0
Other services	4.7	6.6	6.4	-2.4	8.9	273,576	5.5	6.4	9.5	14.4
Imports of services	**2.6**	**3.0**	**0.7**	**1.2**	**4.8**	**513,245**	**1.9**	**5.7**	**5.2**	**6.2**
Transport	-1.4	1.5	-5.9	-2.1	4.1	136,717	2.6	3.4	4.1	5.9
Travel	5.7	3.7	4.7	4.8	6.0	198,619	0.4	9.8	7.1	6.5
Trade-related	-2.7	2.8	0.1	-0.9	3.3	34,523	3.2	2.7	3.3	3.6
Other services	4.8	3.6	2.7	0.1	4.1	143,386	2.8	2.6	4.1	6.5

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

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

Table 11 : Incoming visitors by source

	2013	2014	2015	2016	2017	2017 Q1	Q2	Q3	Q4
('000)									
All sources	**54 298.8**	**60 838.8**	**59 307.6**	**56 654.9**	**58 472.2**	**14 242.8**	**13 566.1**	**14 826.3**	**15 837.0**
Mainland of China	40 745.3	47 247.7	45 842.4	42 778.1	44 445.3	10 823.0	10 069.7	11 605.9	11 946.6
South and Southeast Asia	3 718.0	3 614.8	3 559.1	3 701.8	3 626.2	834.5	989.5	751.7	1 050.4
Taiwan	2 100.1	2 031.9	2 015.8	2 011.4	2 010.8	489.8	497.3	515.6	508.0
Europe	1 893.7	1 863.3	1 829.4	1 904.9	1 901.5	480.4	462.2	405.3	553.6
United States	1 109.8	1 130.6	1 181.0	1 211.5	1 215.6	291.7	316.5	267.1	340.3
Japan	1 057.0	1 078.8	1 049.3	1 092.3	1 230.0	319.8	263.2	324.6	322.5
Others	3 674.9	3 871.9	3 830.7	3 954.8	4 042.9	1 003.6	967.8	956.0	1 115.5
(% change over a year earlier)									
All sources	**11.7**	**12.0**	**-2.5**	**-4.5**	**3.2**	**3.7**	**1.0**	**1.8**	**6.0**
Mainland of China	16.7	16.0	-3.0	-6.7	3.9	3.8	0.8	2.7	8.0
South and Southeast Asia	1.8	-2.8	-1.5	4.0	-2.0	0.7	-0.3	-5.3	-3.4
Taiwan	0.5	-3.2	-0.8	-0.2	*	1.2	-1.1	-2.3	2.3
Europe	1.4	-1.6	-1.8	4.1	-0.2	-0.2	2.4	-1.4	-1.3
United States	-6.3	1.9	4.5	2.6	0.3	4.4	1.3	-0.5	-3.2
Japan	-15.7	2.1	-2.7	4.1	12.6	20.9	11.9	14.4	4.3
Others	0.5	5.4	-1.1	3.2	2.2	3.5	2.6	-1.7	4.3

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

(*) Change within ±0.05%.

Table 12 : Property market

	2008	2009	2010	2011	2012	2013	2014
Completion of new property by the private sector							
('000 m^2 of internal floor area)							
Residential property[(a)] (in units)	8 776	7 157	13 405	9 449	10 149	8 254	15 719
Commercial property	390	235	189	197	226	161	161
of which :							
Office space	341	151	124	155	136	123	104
Other commercial premises[(b)]	49	84	65	42	90	39	57
Industrial property[(c)]	78	3	21	105	170	85	116
of which :							
Industrial-cum-office premises	4	0	0	0	0	0	0
Conventional flatted factory space	70	3	21	32	46	85	36
Storage premises[(d)]	4	0	0	73	123	0	80
Production of public housing							
(in units)							
Rental housing flats[(e)]	22 759	19 021	6 385	17 787	9 778	20 898	5 634
Subsidised sales flats[(e)]	2 200	370	1 110	0	0	0	0
Building plans with consent to commence work in the private sector							
('000 m^2 of usable floor area)							
Residential property	530.0	546.8	570.5	580.6	796.4	816.0	647.1
Commercial property	147.7	178.3	158.4	133.6	210.2	309.5	290.3
Industrial property[(f)]	106.6	97.1	34.3	109.3	70.7	138.1	105.9
Other properties	212.8	253.2	459.2	232.7	428.9	136.4	217.1
Total	997.1	1 075.4	1 222.4	1 056.2	1 506.1	1 400.1	1 260.4
Agreements for sale and purchase of property							
(Number)							
Residential property[(g)]	95 931	115 092	135 778	84 462	81 333	50 676	63 807
Primary market	11 046	16 161	13 646	10 880	12 968	11 046	16 857
Secondary market	84 885	98 931	122 132	73 582	68 365	39 630	46 950
Selected types of non-residential properties[(h)]							
Office space	2 845	2 521	3 591	3 071	3 269	1 685	1 271
Other commerical premises	4 149	5 359	7 639	5 980	7 282	4 305	3 092
Flatted factory space	5 741	5 554	8 206	7 619	9 731	4 271	3 016

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 12 : Property market (Cont'd)

	2015	2016	2017	2017 Q1	Q2	Q3	Q4
Completion of new property by the private sector							
('000 m^2 of internal floor area)							
Residential property[a] (in units)	11 280	14 595	17 791	4 370	4 419	4 128	4 874
Commercial property	233	276	303	20	22	136	125
of which :							
Office space	164	153	198	13	0	101	85
Other commercial premises[b]	69	123	105	7	22	35	41
Industrial property[c]	30	78	105	0	23	83	0
of which :							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	30	5	23	0	23	0	0
Storage premises[d]	0	73	83	0	0	83	0
Production of public housing							
(in units)							
Rental housing flats[e]	10 147	21 755	N.A.	1 648	1 352	0	N.A.
Subsidised sales flats[e]	1 326	229	N.A.	2 788	0	0	N.A.
Building plans with consent to commence work in the private sector							
('000 m^2 of usable floor area)							
Residential property	893.3	645.8	N.A.	325.2	196.8	272.2	N.A.
Commercial property	319.0	312.4	N.A.	274.9	67.0	115.5	N.A.
Industrial property[f]	225.3	76.2	N.A.	18.0	13.4	12.4	N.A.
Other properties	555.4	235.1	N.A.	85.9	39.2	38.2	N.A.
Total	1 993.0	1 269.4	N.A.	704.0	316.4	438.4	N.A.
Agreements for sale and purchase of property							
(Number)							
Residential property[g]	55 982	54 701	61 591	13 221	18 892	13 158	16 320
Primary market	16 826	16 793	18 645	3 573	6 245	4 577	4 250
Secondary market	39 156	37 908	42 946	9 648	12 647	8 581	12 070
Selected types of non-residential properties[h]							
Office space	1 470	1 105	1 957	594	547	361	455
Other commerical premises	2 067	1 523	2 189	490	574	533	592
Flatted factory space	3 407	2 727	5 093	963	1 346	1 292	1 492

Notes: (cont'd)

(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 13 : Property prices and rentals

	2008	2009	2010	2011	2012	2013	2014
(Index (1999=100))							
Property price indices :							
Residential flats[(a)]	120.5	121.3	150.9	182.1	206.2	242.4	256.9
Office space	199.0	179.8	230.4	297.9	334.7	409.8	423.0
Shopping space	192.2	193.1	257.2	327.4	420.5	506.8	521.2
Flatted factory space	235.9	216.3	284.4	385.0	489.8	655.4	668.0
Property rental indices[(b)] :							
Residential flats	115.7	100.4	119.7	134.0	142.6	154.5	159.5
Office space	155.5	135.7	147.6	169.9	188.3	204.1	213.7
Shopping space	116.2	110.9	122.9	134.3	151.3	165.5	173.1
Flatted factory space	109.3	99.4	108.9	118.6	131.9	147.3	160.1
(% change)							
Property price indices :							
Residential flats[(a)]	16.4	0.7	24.4	20.7	13.2	17.6	6.0
Office space	20.2	-9.6	28.1	29.3	12.4	22.4	3.2
Shopping space	11.4	0.5	33.2	27.3	28.4	20.5	2.8
Flatted factory space	18.2	-8.3	31.5	35.4	27.2	33.8	1.9
Property rental indices[(b)] :							
Residential flats	13.7	-13.2	19.2	11.9	6.4	8.3	3.2
Office space	17.9	-12.7	8.8	15.1	10.8	8.4	4.7
Shopping space	3.9	-4.6	10.8	9.3	12.7	9.4	4.6
Flatted factory space	8.8	-9.1	9.6	8.9	11.2	11.7	8.7

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 13 : Property prices and rentals (Cont'd)

	2015	2016	2017	2017 Q1	Q2	Q3[#]	Q4[+]
(Index (1999=100))							
Property price indices :							
Residential flats[(a)]	296.8	286.1	333.9	315.0	333.2	339.3	348.1
Office space	448.9	426.9	486.9	464.8	483.6	488.8	510.5
Shopping space	559.2	526.9	558.8	546.7	550.9	563.5	574.2
Flatted factory space	723.9	692.7	778.3	736.3	769.2	788.1	819.8
Property rental indices[(b)] :							
Residential flats	172.8	168.2	182.6	176.8	181.5	185.1	186.9
Office space	226.7	232.3	241.9	237.1	240.3	244.1	245.9
Shopping space	182.5	178.6	182.4	180.2	181.2	183.4	184.6
Flatted factory space	174.4	181.4	190.5	185.9	188.1	192.9	194.9
(% change over a year earlier)							
Property price indices :							
Residential flats[(a)]	15.5	-3.6	16.7	14.7	21.1	17.6	13.7
Office space	6.1	-4.9	14.1	6.3	15.6	17.0	17.5
Shopping space	7.3	-5.8	6.1	2.5	4.8	9.6	7.4
Flatted factory space	8.4	-4.3	12.4	7.2	11.1	15.6	15.6
Property rental indices[(b)] :							
Residential flats	8.3	-2.7	8.6	6.9	10.1	9.0	8.2
Office space	6.1	2.5	4.1	2.8	3.7	4.9	5.1
Shopping space	5.4	-2.1	2.1	0.5	1.7	3.3	2.9
Flatted factory space	8.9	4.0	5.0	4.2	3.9	6.0	5.9

Table 14 : Monetary aggregates

	2008	2009	2010	2011	2012	2013	2014
(as at end of period)							
Hong Kong dollar money supply ($Mn)							
M1	491,115	671,241	730,093	794,726	920,920	1,000,344	1,116,675
M2[(a)]	3,239,857	3,587,717	3,866,788	4,046,216	4,537,384	4,795,130	5,225,773
M3[(a)]	3,261,306	3,604,843	3,878,193	4,055,404	4,545,590	4,806,012	5,236,188
Total money supply ($Mn)							
M1	645,833	901,819	1,017,227	1,127,320	1,377,359	1,510,895	1,708,724
M2	6,268,058	6,602,310	7,136,271	8,057,530	8,950,005	10,056,437	11,011,372
M3	6,300,751	6,626,843	7,156,260	8,081,079	8,970,396	10,085,243	11,048,944
Deposit ($Mn)							
HK$	3,033,980	3,373,595	3,617,183	3,740,240	4,176,200	4,390,953	4,800,330
Foreign currency	3,024,004	3,007,445	3,245,081	3,851,020	4,120,234	4,789,109	5,272,804
Total	6,057,984	6,381,040	6,862,265	7,591,260	8,296,434	9,180,062	10,073,135
Loans and advances ($Mn)							
HK$	2,354,755	2,401,323	2,824,445	3,160,002	3,333,059	3,606,018	4,000,361
Foreign currency	930,883	887,160	1,403,281	1,920,659	2,233,751	2,850,795	3,275,910
Total	3,285,638	3,288,483	4,227,726	5,080,661	5,566,810	6,456,813	7,276,271
Nominal Effective Exchange Rate Indices (Jan 2010 =100)[(b)]							
Trade-weighted	100.7	101.9	99.5	94.6	94.9	94.9	96.0
Import-weighted	101.3	102.2	99.2	93.9	94.2	94.7	96.0
Export-weighted	100.1	101.6	99.8	95.4	95.6	95.1	95.9
(% change)							
Hong Kong dollar money supply							
M1	8.1	36.7	8.8	8.9	15.9	8.6	11.6
M2[(a)]	-1.3	10.7	7.8	4.6	12.1	5.7	9.0
M3[(a)]	-1.2	10.5	7.6	4.6	12.1	5.7	9.0
Total money supply							
M1	4.7	39.6	12.8	10.8	22.2	9.7	13.1
M2	2.6	5.3	8.1	12.9	11.1	12.4	9.5
M3	2.6	5.2	8.0	12.9	11.0	12.4	9.6
Deposit							
HK$	-1.3	11.2	7.2	3.4	11.7	5.1	9.3
Foreign currency	8.2	-0.5	7.9	18.7	7.0	16.2	10.1
Total	3.2	5.3	7.5	10.6	9.3	10.7	9.7
Loans and advances							
HK$	7.8	2.0	17.6	11.9	5.5	8.2	10.9
Foreign currency	19.8	-4.7	58.2	36.9	16.3	27.6	14.9
Total	10.9	0.1	28.6	20.2	9.6	16.0	12.7
Nominal Effective Exchange Rate Indices (Jan 2010 =100)[(b)]							
Trade-weighted	-5.3	1.2	-2.4	-4.9	0.3	*	1.2
Import-weighted	-5.9	0.9	-2.9	-5.3	0.3	0.5	1.4
Export-weighted	-4.5	1.5	-1.8	-4.4	0.2	-0.5	0.8

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 14 : Monetary aggregates (Cont'd)

	2015	2016	2017	2017 Q1	Q2	Q3	Q4
(as at end of period)							
Hong Kong dollar money supply ($Mn)							
M1	1,253,380	1,428,775	1,598,014	1,474,229	1,502,456	1,607,223	1,598,014
M2[(a)]	5,765,549	6,280,230	7,010,345	6,598,508	6,837,206	7,004,256	7,010,345
M3[(a)]	5,778,772	6,292,666	7,024,514	6,611,151	6,850,484	7,019,465	7,024,514
Total money supply ($Mn)							
M1	1,971,146	2,213,970	2,431,461	2,228,810	2,299,020	2,393,467	2,431,461
M2	11,618,441	12,508,127	13,755,255	12,928,850	13,314,695	13,484,438	13,755,255
M3	11,655,019	12,551,331	13,803,837	12,977,811	13,361,692	13,533,592	13,803,837
Deposit ($Mn)							
HK$	5,312,403	5,809,060	6,484,616	6,104,834	6,346,347	6,490,502	6,484,616
Foreign currency	5,437,346	5,918,240	6,267,872	5,979,283	6,032,883	6,011,369	6,267,872
Total	10,749,749	11,727,300	12,752,488	12,084,117	12,379,230	12,501,870	12,752,488
Loans and advances ($Mn)							
HK$	4,152,589	4,479,107	5,359,981	4,622,401	4,893,757	5,112,454	5,359,981
Foreign currency	3,381,951	3,544,284	3,953,686	3,770,500	3,950,445	3,936,339	3,953,686
Total	7,534,540	8,023,390	9,313,666	8,392,901	8,844,202	9,048,793	9,313,666
Nominal Effective Exchange Rate Indices (Jan 2010 =100)[(b)]							
Trade-weighted	101.3	104.1	104.2	106.8	105.4	102.7	102.3
Import-weighted	101.7	104.2	104.2	106.8	105.2	102.7	102.3
Export-weighted	100.9	104.1	104.3	106.8	105.6	102.7	102.3
(% change over a year earlier)							
Hong Kong dollar money supply							
M1	12.2	14.0	11.8	12.9	13.0	13.4	11.8
M2[(a)]	10.3	8.9	11.6	13.7	15.9	13.2	11.6
M3[(a)]	10.4	8.9	11.6	13.7	15.9	13.2	11.6
Total money supply							
M1	15.4	12.3	9.8	7.3	10.0	7.1	9.8
M2	5.5	7.7	10.0	10.1	12.9	8.8	10.0
M3	5.5	7.7	10.0	10.1	13.0	8.9	10.0
Deposit							
HK$	10.7	9.3	11.6	14.0	16.4	13.2	11.6
Foreign currency	3.1	8.8	5.9	6.4	7.8	2.0	5.9
Total	6.7	9.1	8.7	10.1	12.1	7.5	8.7
Loans and advances							
HK$	3.8	7.9	19.7	10.4	14.8	18.0	19.7
Foreign currency	3.2	4.8	11.6	13.0	15.0	12.7	11.6
Total	3.5	6.5	16.1	11.6	14.9	15.7	16.1
Nominal Effective Exchange Rate Indices (Jan 2010 =100)[(b)]							
Trade-weighted	5.5	2.8	0.1	2.7	2.5	-0.8	-3.8
Import-weighted	5.9	2.5	*	2.3	2.2	-0.6	-3.7
Export-weighted	5.2	3.2	0.2	3.1	2.8	-1.1	-3.9

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

(b) Period average.

(*) Change within ±0.05%.

Table 15 : Rates of change in business receipts indices for services industries/domains

(%)

	2013	2014	2015	2016	2016 Q4	2017 Q1	2017 Q2	2017 Q3
Services Industry								
Import and export trade	-0.3	0.1	-3.9	-2.5	3.0	4.2	1.6	2.1
Wholesale	4.3	1.5	-4.9	-1.0	2.6	3.4	1.9	2.0
Retail	11.0	-0.2	-3.7	-8.1	-3.7	-1.3	0.2	4.1
Transportation	1.4	6.1	-4.3	-6.5	-1.6	2.3	9.2	9.6
within which:								
Land transport	8.0	6.9	5.4	3.6	0.7	1.5	2.3	1.2
Water transport	-2.9	6.8	-7.7	-11.2	1.4	2.3	11.7	10.7
Air transport	2.4	5.3	-5.1	-7.0	-4.3	2.7	10.6	12.2
Warehousing and storage	8.2	11.9	12.7	12.1	7.7	7.1	11.1	18.5
Courier	26.1	5.4	-5.9	5.5	5.6	18.9	17.7	16.9
Accommodation services[(a)]	5.6	6.5	-6.6	-1.1	0.9	5.0	4.8	5.0
Food services	3.5	3.5	3.9	2.9	4.1	4.2	4.0	5.0
Information and communications	6.0	5.9	10.8	0.6	-5.3	-0.5	1.0	4.3
within which:								
Telecommunications	8.0	10.7	19.6	-0.8	-10.0	-7.0	-7.2	0.1
Film entertainment	-4.3	-11.7	-3.1	-4.5	-7.0	4.8	6.0	3.2
Banking	16.8	5.9	8.3	8.1	5.8	17.6	-28.9	10.9
Financing (except banking)	2.6	6.7	19.0	-6.0	-0.3	8.2	2.2	8.0
within which:								
Financial markets and asset management	1.0	8.9	19.0	-8.7	-1.6	0.4	-4.6	5.3
within which : Asset management	14.9	11.0	7.0	4.1	6.0	1.2	0.1	8.2
Insurance	15.1	18.2	11.7	21.8	25.2	18.1	7.0	10.9
Real estate	0.1	17.0	8.1	16.5	26.5	35.7	14.6	-1.2
Professional, scientific and technical services	7.2	7.6	5.3	3.3	4.3	1.9	0.7	2.3
Administrative and support services	9.5	7.3	7.4	0.9	0.2	0.3	0.1	2.6
Services Domain								
Tourism, convention and exhibition services	17.8	-0.9	-5.0	-8.1	-4.2	-0.3[+]	-2.5[+]	1.9[+]
Computer and information technology services	2.1	-1.8	-4.2	-3.5	0.7	0.9	1.4	2.2

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 16 : Labour force characteristics

	2013	2014	2015	2016	2017[+]	2017 Q1	Q2	Q3	Q4
(%)									
Labour force participation rate	61.2	61.1	61.1	61.1	61.2	61.2	61.1	61.3	61.1
Seasonally adjusted unemployment rate[(a)]	3.4	3.3	3.3	3.4	3.1	3.2	3.1	3.1	2.9
Underemployment rate	1.5	1.5	1.4	1.4	1.1	1.2	1.2	1.1	1.1
('000)									
Population of working age	6 297.5	6 340.1	6 383.7	6 420.9	6 466.9	6 449.8	6 460.8	6 473.2	6 484.0
Labour force	3 855.1	3 871.1	3 903.2	3 920.1	3 955.2	3 947.4	3 947.2	3 965.6	3 960.4
Persons employed	3 724.0	3 743.5	3 773.8	3 787.1	3 833.1	3 822.4	3 822.1	3 837.4	3 850.6
Persons unemployed	131.1	127.6	129.4	133.0	122.0	125.0	125.2	128.2	109.8
Persons underemployed	58.3	56.8	53.3	54.7	45.1	49.0	45.5	43.7	42.1
(% change over a year earlier)									
Population of working age	0.7	0.7	0.7	0.6	0.7	0.7	0.5	0.5	0.5
Labour force	1.9	0.4	0.8	0.4	0.9	0.9	0.9	1.0	1.3
Persons employed	1.8	0.5	0.8	0.4	1.2	1.0	1.3	1.4	1.7
Persons unemployed	5.5	-2.7	1.4	2.8	-8.2	-4.7	-8.6	-8.4	-10.2
Persons underemployed	1.9	-2.6	-6.1	2.5	-17.5	-8.4	-16.5	-21.6	-23.0

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

(+) Provisional figures.

Table 17 : Employment in selected major industries

Selected major industries	2012	2013	2014	2015	2016	2016 Dec	2017 Mar	2017 Jun	2017 Sep	
	(% change)					(% change over a year earlier)				(No.)
Manufacturing	-5.1	-3.0	-1.2	-2.8	-3.6	-4.1	-3.4	-2.8	-3.4	92 036
Construction sites (covering manual workers only)	13.8	11.2	4.4	14.9	13.3	10.2	12.2	6.2	12.7	121 466
Import and export trade	-1.1	-0.2	0.1	-1.4	-0.7	-0.6	-0.3	-0.3	-0.5	478 847
Wholesale	-0.6	-2.0	-0.3	-1.4	-0.8	-1.2	-1.0	-0.9	-0.3	60 519
Retail	2.5	2.3	2.2	-0.5	-1.1	-0.2	0.4	0.6	0.2	267 131
Food and beverage services	1.6	0.9	2.4	0.1	-0.2	*	0.3	0.2	0.4	244 113
Accommodation services[(a)]	9.2	5.0	3.2	-1.1	-2.1	-1.1	-1.0	0.8	0.5	39 252
Transportation, storage, postal and courier services	1.8	2.0	2.7	1.6	0.5	0.2	-0.3	-0.1	0.5	178 998
Information and communications	5.6	5.1	2.7	1.1	0.7	0.8	1.5	1.4	0.9	106 623
Financing and insurance	1.9	1.0	2.3	2.3	0.8	1.0	0.9	1.4	1.9	224 963
Real estate	4.2	1.6	0.6	1.7	-0.1	1.1	1.3	1.2	1.3	131 400
Professional and business services (excluding cleaning and similar services)	3.4	4.5	2.7	2.4	1.9	2.9	3.2	1.9	1.4	292 722
Cleaning and similar services	3.3	1.6	0.2	2.4	0.5	1.1	1.8	0.4	0.6	81 804
Education	2.4	2.8	4.4	3.9	2.3	2.3	1.5	2.0	1.4	198 686
Human health services	4.9	5.2	4.3	4.5	4.3	4.2	3.9	3.3	3.2	125 752
Residential care and social work services	2.0	0.5	0.6	2.8	3.0	0.8	0.3	0.6	1.4	63 298
Arts, entertainment, recreation and other services	0.6	1.6	5.9	0.9	-2.2	-3.1	-2.4	-0.6	-0.2	124 804
Civil service[(b)]	1.1	1.3	1.0	0.7	1.2	1.0	0.9	1.4	1.9	169 027
Others[(c)]	-5.1	3.5	3.1	-1.0	0.8	1.9	3.3	3.7	1.1	11 306

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 ±0.05%.

Table 18 : Number of manual workers engaged at building and construction sites

	2012	2013	2014	2015	2016	2016 Dec	2017 Mar	2017 Jun	2017 Sep
(Number)									
Building sites									
Private sector	37 687	41 308	44 024	50 372	60 243	63 255	65 559	63 176	66 764
Public sector[(a)]	10 578	9 860	11 212	15 470	16 030	17 971	21 141	20 189	22 388
Sub-total	48 265	51 168	55 236	65 842	76 273	81 226	86 700	83 365	89 152
Civil engineering sites									
Private sector	1 410	1 322	1 414	1 609	1 386	1 221	1 110	904	892
Public sector[(a)]	21 621	26 813	26 145	27 652	30 141	29 923	29 832	28 556	31 422
Sub-total	23 030	28 135	27 559	29 261	31 526	31 144	30 942	29 460	32 314
Total	**71 295**	**79 303**	**82 795**	**95 103**	**107 799**	**112 370**	**117 642**	**112 825**	**121 466**
(% change over a year earlier)									
Building sites									
Private sector	18.6	9.6	6.6	14.4	19.6	14.6	14.9	6.1	9.3
Public sector[(a)]	-14.2	-6.8	13.7	38.0	3.6	13.5	32.6	34.2	47.8
Sub-total	9.4	6.0	8.0	19.2	15.8	14.4	18.7	11.7	16.9
Civil engineering sites									
Private sector	12.8	-6.2	7.0	13.8	-13.9	-12.6	-33.5	-31.4	-33.1
Public sector[(a)]	25.2	24.0	-2.5	5.8	9.0	1.2	-1.0	-5.7	3.9
Sub-total	24.4	22.2	-2.0	6.2	7.7	0.6	-2.7	-6.7	2.3
Total	**13.8**	**11.2**	**4.4**	**14.9**	**13.3**	**10.2**	**12.2**	**6.2**	**12.7**

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 19 : Rates of change in indices of payroll per person engaged by selected industry section

(%)

Selected industry sections	2012	2013	2014	2015	2016	2016 Q4	2017 Q1	2017 Q2	2017 Q3
(in nominal terms)									
Manufacturing	8.2	3.3	5.3	5.2	3.5	3.1	3.3	3.8	3.6
Import/export and wholesale trade	4.6	3.3	2.8	3.7	2.3	2.6	2.2	3.0	3.3
Retail trade	10.1	6.7	4.2	3.5	2.4	2.9	2.6	3.2	3.4
Transportation, storage, postal and courier services	1.2	5.4	3.3	4.3	3.3	3.4	3.3	3.6	3.7
Accommodation[(a)] and food service activities	6.2	6.7	5.2	5.8	5.1	5.1	3.9	5.3	5.6
Information and communications	8.2	5.4	5.1	4.4	3.4	4.0	3.2	2.9	3.5
Financial and insurance activities	4.7	4.6	6.3	4.0	2.7	3.6	2.5	3.5	3.2
Real estate activities	7.7	5.9	4.7	5.1	4.2	4.4	4.2	4.7	4.2
Professional and business services	4.7	7.1	6.9	5.8	5.1	4.6	4.1	4.1	4.3
Social and personal services	7.6	3.6	1.6	6.7	2.5	3.3	4.6	3.6	-0.7
All selected industry sections surveyed	**6.5**	**5.4**	**4.3**	**4.6**	**3.7**	**3.8**	**3.5**	**3.8**	**3.3**
(in real terms)									
Manufacturing	3.9	-0.9	0.9	2.1	1.0	1.9	2.7	1.8	1.8
Import/export and wholesale trade	0.5	-1.0	-1.5	0.7	-0.1	1.4	1.6	1.0	1.5
Retail trade	5.7	2.3	-0.1	0.5	*	1.7	2.1	1.2	1.6
Transportation, storage, postal and courier services	-2.7	1.0	-1.0	1.3	0.9	2.1	2.8	1.6	1.9
Accommodation[(a)] and food service activities	2.0	2.3	0.8	2.7	2.6	3.8	3.3	3.3	3.7
Information and communications	4.0	1.0	0.7	1.4	1.0	2.7	2.7	0.9	1.7
Financial and insurance activities	0.5	0.4	1.9	0.7	0.3	2.3	2.0	1.4	1.4
Real estate activities	3.6	1.4	0.2	2.0	1.7	3.1	3.6	2.7	2.3
Professional and business services	0.7	2.6	2.3	2.8	2.6	3.3	3.5	2.1	2.5
Social and personal services	3.6	-0.8	-2.7	3.6	0.1	2.1	4.0	1.6	-2.5
All selected industry sections surveyed	**2.3**	**1.1**	**-0.1**	**1.5**	**1.3**	**2.5**	**2.9**	**1.7**	**1.5**

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

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

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

(*) Change within ±0.05%.

Table 20 : Rates of change in wage indices by selected industry section

(%)

Selected industry sections	2012	2013	2014	2015	2016	2016 Dec	2017 Mar	2017 Jun	2017 Sep
(in nominal terms)									
Manufacturing	4.3	4.7	4.9	4.0	4.0	3.9	3.6	3.9	3.7
Import/export, wholesale and retail trades	4.5	2.9	2.5	3.1	2.7	2.8	2.9	2.9	2.9
Transportation	3.3	3.9	4.8	4.4	3.5	3.3	3.1	3.0	2.9
Accommodation[a] and food service activities	7.9	5.7	4.7	5.4	4.9	4.8	4.5	4.9	4.8
Financial and insurance activities[b]	4.2	4.4	3.2	3.2	3.4	3.2	3.3	3.6	3.5
Real estate leasing and maintenance management	7.6	9.3	4.5	3.4	3.7	3.5	3.4	4.0	4.4
Professional and business services	6.5	5.9	6.7	6.9	4.7	4.5	4.9	5.1	4.4
Personal services	9.2	6.2	7.8	6.5	5.5	4.9	4.4	4.6	4.0
All industries surveyed	**5.6**	**4.7**	**4.2**	**4.4**	**3.7**	**3.6**	**3.6**	**3.8**	**3.7**
(in real terms)									
Manufacturing	0.6	-0.1	-1.6	0.2	1.4	2.8	3.4	1.5	2.2
Import/export, wholesale and retail trades	0.6	-1.7	-3.9	-0.6	0.3	1.7	2.7	0.5	1.4
Transportation	-0.7	-0.6	-1.9	0.6	1.0	2.2	2.9	0.6	1.4
Accommodation[a] and food service activities	3.8	1.1	-1.8	1.5	2.3	3.7	4.3	2.5	3.3
Financial and insurance activities[b]	0.1	0.1	-3.7	-0.5	0.9	2.1	3.2	1.3	2.0
Real estate leasing and maintenance management	3.4	4.5	-1.9	-0.4	1.1	2.4	3.3	1.7	2.9
Professional and business services	2.2	1.5	*	2.9	2.3	3.4	4.8	2.7	2.8
Personal services	5.3	1.5	1.1	2.6	3.0	3.8	4.2	2.2	2.5
All industries surveyed	**1.6**	**0.1**	**-2.4**	**0.6**	**1.2**	**2.5**	**3.5**	**1.5**	**2.2**

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

(a) Accommodation services 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 ±0.05%.

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

(HK$)

Industry sections	May – Jun 2015 25th percentile	May – Jun 2015 50th percentile	May – Jun 2015 75th percentile	May – Jun 2016 25th percentile	May – Jun 2016 50th percentile	May – Jun 2016 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
within which:						
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
within which:						
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
within which:						
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
within which:						
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 22 : Hourly wage level and distribution analysed by industry section : all employees

(HK$)

Industry sections	May – Jun 2015 25th percentile	May – Jun 2015 50th percentile	May – Jun 2015 75th percentile	May – Jun 2016 25th percentile	May – Jun 2016 50th percentile	May – Jun 2016 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
within which:						
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
within which:						
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
within which:						
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
within which:						
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 23 : Rates of change in prices

(%)

	2008	2009	2010	2011	2012	2013	2014	2015
GDP deflator	1.3	-0.4	0.3	3.9	3.5	1.8	2.9	3.6
Domestic demand deflator	2.6	-0.8	2.2	4.5	4.2	1.4	3.1	2.2
Consumer Price Indices[(a)] :								
Composite CPI	4.3	0.5	2.4	5.3	4.1	4.3	4.4	3.0
CPI(A)	3.6	0.4	2.7	5.6	3.6	5.1	5.6	4.0
CPI(B)	4.6	0.5	2.3	5.2	4.3	4.1	4.2	2.9
CPI(C)	4.7	0.6	2.1	5.1	4.1	3.8	3.5	2.1
Unit Value Indices :								
Total exports of goods	3.8	1.1	4.7	8.0	3.4	1.3	2.0	0.1
Imports of goods	4.4	-0.1	6.4	8.1	3.3	0.9	1.9	-0.4
Terms of Trade Index[(b)]	-0.5	1.3	-1.7	-0.1	0.1	0.4	0.1	0.5
Producer Price Index for all manufacturing industries	5.6	-1.7	6.0	8.3	0.1	-3.1	-1.7	-2.7
Tender Price Indices :								
Public sector building projects	41.9	-15.9	12.5	11.6	8.3	6.6	7.3	5.9
Public housing projects	30.8	-6.8	6.7	10.1	6.4	9.3	8.0	12.5

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

(b) Derived from merchandise trade index numbers.

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

(*) Change within ±0.05%.

N.A. Not yet available.

(^) Average annual rate of change for the 10-year period 2006-2016.

(~) Average annual rate of change for the 5-year period 2011-2016.

Table 23 : Rates of change in prices (Cont'd)

(%)

	2016	2017	2017 Q1	Q2	Q3	Q4	Average annual rate of change: 10 years 2007 to 2017	5 years 2012 to 2017
GDP deflator[#]	1.7	3.0	2.4	3.5	3.3	2.7	2.1	2.6
Domestic demand deflator[#]	1.4	3.1	3.0	3.2	3.5	2.8	2.4	2.2
Consumer Price Indices[(a)] :								
Composite CPI	2.4	1.5	0.5	2.0	1.8	1.6	3.2	3.1
CPI(A)	2.8	1.5	0.1	2.3	2.1	1.6	3.5	3.8
CPI(B)	2.3	1.4	0.6	1.8	1.6	1.5	3.2	2.9
CPI(C)	2.1	1.5	0.9	1.9	1.6	1.7	3.0	2.6
Unit Value Indices :								
Total exports of goods	-1.7	1.8	1.6	1.6	1.9	2.2	2.4	0.7
Imports of goods	-1.7	1.9	1.6	1.8	1.9	2.2	2.4	0.5
Terms of Trade Index[(b)]	*	-0.1	*	-0.2	-0.1	*	*	0.2
Producer Price Index for all manufacturing industries	1.3	N.A.	4.2	3.7	3.7	N.A.	1.4^	-1.2~
Tender Price Indices :								
Public sector building projects	1.0	N.A.	0.2	*	-0.6	N.A.	9.1^	5.8~
Public housing projects	-0.7	N.A.	-3.5	2.5	3.2	N.A.	9.2^	7.0~

Table 24 : Rates of change in Composite Consumer Price Index

(%)

	Weight	2008	2009	2010	2011	2012	2013	2014
All items	**100.00**	**4.3** **(5.6)**	**0.5** **(1.0)**	**2.4** **(1.7)**	**5.3** **(5.3)**	**4.1** **(4.7)**	**4.3** **(4.0)**	**4.4** **(3.5)**
Food	27.29	10.1	1.3	2.4	7.0	5.8	4.4	4.1
Meals bought away from home	*17.74*	*5.9*	*1.6*	*1.7*	*5.2*	*5.4*	*4.4*	*4.6*
Food, excluding meals bought away from home	*9.55*	*16.8*	*0.9*	*3.5*	*9.9*	*6.5*	*4.4*	*3.4*
Housing[(a)]	34.29	4.1	3.7	0.4	7.2	5.6	6.7	6.7
Private housing rent	*29.92*	*6.8*	*3.6*	*0.9*	*7.2*	*6.8*	*6.3*	*6.0*
Public housing rent	*1.94*	*-27.2*	*9.5*	*-7.8*	*11.9*	*-7.1*	*16.0*	*18.3*
Electricity, gas and water	2.67	-6.5	-25.3	43.3	-4.2	-8.2	6.9	14.9
Alcoholic drinks and tobacco	0.54	0.1	18.7	3.4	17.1	3.0	1.5	6.5
Clothing and footwear	3.21	0.8	2.7	1.8	6.8	3.1	1.7	0.9
Durable goods	4.65	-2.0	-3.0	-2.7	-3.8	-1.4	-4.3	-3.4
Miscellaneous goods	3.56	5.0	2.3	2.4	3.8	2.2	2.2	2.3
Transport	7.98	2.5	-0.9	2.0	4.4	3.0	2.3	2.0
Miscellaneous services	15.81	0.8	-2.1	2.0	3.5	2.8	3.7	3.0

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

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

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

(*) Change within ±0.05%.

Table 24 : Rates of change in Composite Consumer Price Index (Cont'd)

(%)

	Weight	2015	2016	2017	2017 Q1	2017 Q2	2017 Q3	2017 Q4	Average annual rate of change: 10 years 2007 to 2017	Average annual rate of change: 5 years 2012 to 2017
All items	**100.00**	**3.0** **(2.5)**	**2.4** **(2.3)**	**1.5** **(1.7)**	**0.5** **(1.4)**	**2.0** **(2.0)**	**1.8** **(1.7)**	**1.6** **(1.6)**	**3.2** **(3.2)**	**3.1** **(2.8)**
Food	27.29	4.0	3.4	2.2	1.5	2.3	2.4	2.5	4.4	3.6
Meals bought away from home	*17.74*	*4.2*	*3.3*	*2.7*	*2.8*	*2.7*	*2.7*	*2.7*	*3.9*	*3.8*
Food, excluding meals bought away from home	*9.55*	*3.4*	*3.6*	*1.1*	*-1.1*	*1.4*	*2.0*	*2.2*	*5.3*	*3.2*
Housing[(a)]	34.29	5.1	3.7	2.0	0.3	2.7	2.6	2.4	4.5	4.8
Private housing rent	*29.92*	*4.7*	*3.4*	*1.8*	*0.5*	*2.2*	*2.1*	*2.4*	*4.7*	*4.4*
Public housing rent	*1.94*	*10.9*	*7.2*	*3.0*	*-5.6*	*11.5*	*7.5*	*0.4*	*2.5*	*11.0*
Electricity, gas and water	2.67	8.4	1.0	-1.7	-5.5	-1.0	-0.3	*	1.5	5.8
Alcoholic drinks and tobacco	0.54	1.3	1.5	0.6	2.3	1.0	-0.2	-0.6	5.2	2.3
Clothing and footwear	3.21	-1.8	-3.4	-0.4	-1.9	-1.4	1.0	0.6	1.2	-0.6
Durable goods	4.65	-5.6	-5.4	-3.2	-3.6	-3.6	-3.3	-2.3	-3.5	-4.4
Miscellaneous goods	3.56	0.9	1.5	1.4	2.3	1.8	0.5	0.9	2.4	1.7
Transport	7.98	-0.3	1.6	2.3	2.9	2.9	2.0	1.4	1.9	1.6
Miscellaneous services	15.81	1.1	2.3	0.9	0.6	2.2	0.9	-0.1	1.8	2.2

Table 25 : Rates of change in implicit price deflators of GDP and its main expenditure components

(%)

	2008	2009	2010	2011	2012	2013	2014
Private consumption expenditure	2.5	-1.4	1.4	3.6	3.2	2.7	2.9
Government consumption expenditure	4.4	0.7	-0.2	4.5	6.2	4.3	4.7
Gross domestic fixed capital formation	1.7	0.3	5.8	6.8	6.4	-2.9	3.1
Total exports of goods	3.8	0.3	4.3	7.8	3.2	-0.1	0.7
Imports of goods	4.5	-1.4	6.3	8.4	4.3	-0.3	0.8
Exports of services	3.2	-9.4	8.2	7.5	4.7	0.4	0.4
Imports of services	4.3	-3.8	4.9	5.9	0.6	0.3	0.5
Gross Domestic Product	**1.3**	**-0.4**	**0.3**	**3.9**	**3.5**	**1.8**	**2.9**
Total final demand	3.3	-1.3	4.1	6.7	3.7	0.4	1.4
Domestic demand	2.6	-0.8	2.2	4.5	4.2	1.4	3.1

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 ±0.05%.

Table 25 : Rates of change in implicit price deflators of GDP and its main expenditure components (Cont'd)

(%)

	2015	2016#	2017#	2017 Q1#	Q2#	Q3#	Q4#	Average annual rate of change: 10 years 2007 to 2017#	5 years 2012 to 2017#
Private consumption expenditure	1.2	1.6	2.6	2.1	2.5	2.9	2.8	2.0	2.2
Government consumption expenditure	4.4	3.6	2.4	3.6	2.5	1.6	1.7	3.5	3.9
Gross domestic fixed capital formation	4.5	-0.1	4.7	5.3	5.8	5.4	2.7	3.0	1.8
Total exports of goods	-0.7	-1.4	1.6	1.6	1.4	1.6	2.0	1.9	*
Imports of goods	-1.4	-1.8	1.8	1.9	1.4	1.6	2.1	2.1	-0.2
Exports of services	-2.8	-2.1	2.4	1.2	1.5	2.3	4.2	1.1	-0.4
Imports of services	-4.6	-1.4	2.3	1.1	0.6	2.9	4.6	0.8	-0.6
Gross Domestic Product	**3.6**	**1.7**	**3.0**	**2.4**	**3.5**	**3.3**	**2.7**	**2.1**	**2.6**
Total final demand	*	-0.6	2.2	2.0	2.0	2.3	2.5	2.0	0.7
Domestic demand	2.2	1.4	3.1	3.0	3.2	3.5	2.8	2.4	2.2

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