



Half-yearly Economic Report 2018

Government of the Hong Kong
Special Administrative Region

HALF-YEARLY ECONOMIC REPORT 2018

OFFICE OF THE GOVERNMENT ECONOMIST
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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

- *The Hong Kong economy sustained strong momentum in the second quarter of 2018, expanding by 3.5% over a year earlier, following the growth of 4.6% in the first quarter. Riding on the robust global economy, external demand remained sturdy, though there seemed to be some moderation towards the end of the quarter. Domestic demand also expanded visibly. Labour market conditions stayed favourable, while inflation was still moderate.*
- *Total exports of goods grew solidly for the second quarter as a whole, with most major markets recording further growth. Exports of services expanded notably, with the momentum maintained for all major components. In particular, inbound tourism continued to register double-digit growth. Yet, external uncertainties increased markedly in the latter part of June, as the US escalated trade tensions with the Mainland and other major economies. This could weigh on global economic sentiment as well as trade and investment activities going forward.*
- *Domestic demand remained strong in the second quarter. Private consumption expenditure grew significantly as favourable labour market conditions continued to underpin consumer sentiment. Overall investment expenditure recorded further growth, supported by the solid growth in machinery and equipment acquisition, notwithstanding some declines in building and construction activity.*
- *The labour market tightened further in the second quarter. The seasonally adjusted unemployment rate edged down to 2.8%, the lowest level in more than 20 years, while the underemployment rate stayed unchanged. Total employment saw further solid growth. Wages and earnings continued to register broad-based gains in real terms.*
- *The local stock market was range-bound during most of the second quarter, before posting declines in the second half of June when market sentiment was swayed by the US' escalated trade conflicts with the Mainland and expectations of faster US interest rate hikes. The residential property market stayed buoyant during the second quarter, with flat prices rising further amid active trading.*
- *Consumer price inflation stayed moderate in the second quarter. Yet several major components in the consumer price index saw accelerated increases, indicating some build-up of inflationary pressure amid strong economic conditions. Local cost pressures were largely contained, but the effects of the uptrend in fresh-letting residential rentals over the past year*

or so continued to feed through. External price pressures, while still rather moderate, inched up.

Overall situation

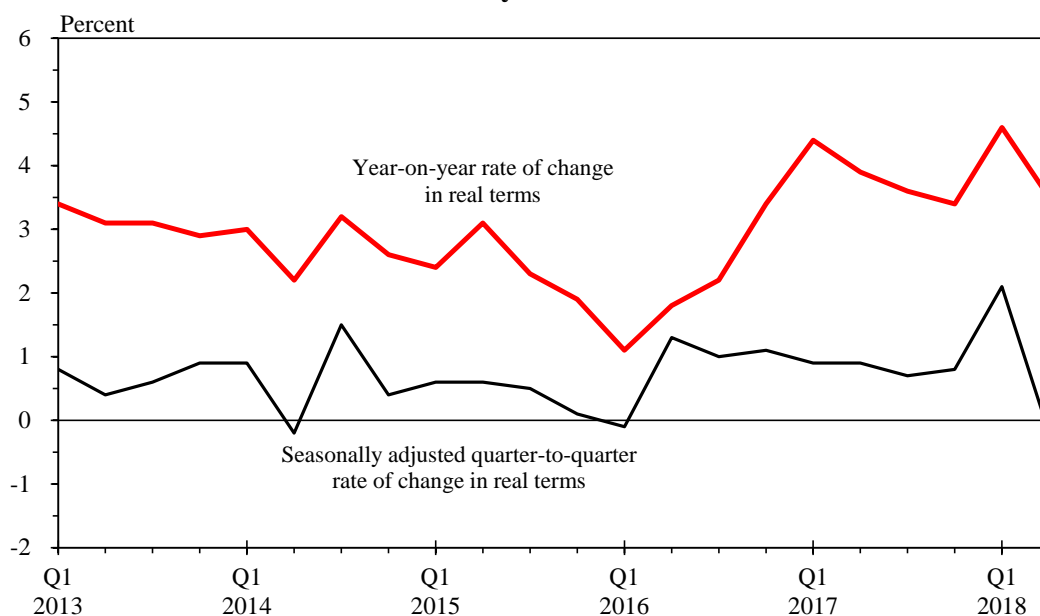
1.1 The Hong Kong economy sustained strong year-on-year growth of 3.5% in the second quarter, compared with the 4.6% expansion in the first quarter. Global economic growth remained robust in the second quarter, rendering strong support to the external demand for Hong Kong's goods and services. Exports of goods grew solidly for the second quarter as a whole, despite some deceleration in June. Exports of services expanded notably, with the momentum maintained for all major components. In particular, inbound tourism continued to record double-digit growth. Meanwhile, the domestic sector remained strong. Private consumption expenditure continued to grow significantly, thanks to favourable labour market conditions and to a lesser extent positive wealth effect. Overall investment expenditure recorded further growth, supported by the solid expansion in machinery and equipment acquisition, notwithstanding some declines in building and construction activity. Meanwhile, consumer price inflation stayed moderate in the second quarter, though there was some build-up of inflationary pressure amid vibrant economic conditions.

1.2 While the global economy sustained its strong momentum so far this year, external uncertainties increased markedly towards the end of the second quarter, as a result of the escalation of the US' trade conflicts with the Mainland and other major economies. This could weigh on global economic sentiment as well as trade and investment activities going forward. Moreover, as the US economy maintained above-trend growth with inflation hovering around the Federal Reserve's (Fed) target level, the market increasingly expected that US interest rates would rise faster than earlier expected. The Fed raised the federal funds rate by 0.25 percentage point to 1.75-2% at the June Federal Open Market Committee (FOMC) meeting. Median projection by the FOMC participants suggested that there would be two more rate hikes of 25 basis points each in the second half of 2018. The tightening of financial conditions across advanced economies, particularly in the US, could lead to higher volatility in the financial and foreign exchange markets in the period ahead. Against the backdrop of the stronger US dollar, the currencies of several emerging market economies with weaker fundamentals already faced some downward pressure in the second quarter. Though maintaining the 2018 global economic growth forecast at 3.9%⁽¹⁾ in July, the International Monetary Fund (IMF) warned that the balance of risks had shifted further to the

downside, mainly due to the escalating and sustained trade tensions, and tighter global financial conditions stemming from the market expectation of faster US rate hikes.

1.3 In the second quarter of 2018, *Gross Domestic Product* (GDP)⁽²⁾ grew strongly by 3.5% in real terms over a year earlier, after the growth of 4.6% in the preceding quarter (revised from the preliminary estimate of 4.7%), marking the seventh quarter of growth above the trend growth rate of 2.7% per annum in the past ten years. For the first half of 2018 as a whole, real GDP expanded by 4.0% over a year earlier. On a seasonally adjusted quarter-to-quarter comparison⁽³⁾, real GDP decreased slightly by 0.2% in the second quarter of 2018 against a high base of comparison created by the 2.1% surge in the preceding quarter (revised from the preliminary estimate of 2.2%).

Diagram 1.1 : The Hong Kong economy grew strongly in the second quarter over a year earlier



The external sector

1.4 *Total exports of goods*, compiled under the GDP accounting framework, grew solidly by 4.6% in real terms in the second quarter over a year earlier, after the growth of 5.2% in the first quarter. External merchandise trade statistics showed that growth was robust in April and May before showing some deceleration in June. Most major markets recorded continued growth in the second quarter. Exports to the US picked up further and those to the EU continued to register solid growth amid the robust final demand there. Meanwhile, on the back of strong manufacturing and trading activities in the region resulted from the robust global economy, exports to many Asian economies registered further growth. Specifically, exports to the Mainland continued to grow visibly, while exports to many major emerging markets in ASEAN also registered growth of varying degrees. As for the higher income Asian economies, exports to Singapore grew strongly, and exports to Japan and Korea recorded modest growth, though those to Taiwan dipped slightly. More recently, there was some slowdown in growth or declines in exports to some Asian markets. It remains to be seen how the escalation of trade conflicts between the US and the Mainland would affect the global economy and Hong Kong's exports in the coming months.

1.5 *Exports of services* expanded notably by 6.1% year-on-year in real terms in the second quarter, following the 7.9% growth in the previous quarter. All major service components attained growth. Exports of travel services continued to register double-digit growth, supported by a notable growth in visitor arrivals and increase in per capita spending. Exports of financial services and exports of business and other services expanded further, thanks to frequent cross-border financial and commercial activities. Exports of transport services also showed a moderate increase amid active regional trade flows.

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

	<u>2016[#]</u>	<u>2017[#]</u>	<u>2017</u>				<u>2018</u>	
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>	<u>Q2⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	2.0	5.5	3.7 (0.8)	5.8 (2.0)	6.3 (1.8)	6.3 (1.5)	8.8 (3.3)	6.1 (-0.6)
Government consumption expenditure	3.3	3.4	2.8 (0.6)	3.0 (1.1)	4.5 (1.7)	3.2 (-0.2)	3.9 (1.2)	4.4 (1.6)
Gross domestic fixed capital formation	-0.1	3.5	5.7	7.6	-2.1	3.1	4.2	0.4
Building and construction	5.9	1.7	7.0	2.0	0.9	-2.6	1.9	-3.0
Costs of ownership transfer	-2.9	22.3	77.8	53.0	-12.8	6.2	11.9	0.7
Machinery, equipment and intellectual property products	-6.3	1.8	-7.8	6.1	-3.0	9.9	6.1	4.7
Total exports of goods ^{&}	1.6	5.9	9.6 (1.2)	5.7 (0.1)	5.7 (0.8)	3.4 (1.1)	5.2 (3.1)	4.6 (-0.4)
Imports of goods ^{&}	0.7	7.0	10.3 (0.8)	6.4 (0.4)	6.3 (1.5)	5.4 (2.4)	6.9 (2.3)	6.3 (-0.1)
Exports of services ^{&}	-3.5	3.2	3.3 (1.2)	1.9 (-1.6)	3.5 (3.0)	3.9 (1.2)	7.9 (5.2)	6.1 (-3.2)
Imports of services ^{&}	2.0	1.9	0.9 (0.2)	4.8 (1.6)	1.4 (-1.7)	0.8 (0.8)	4.2 (3.6)	0.4 (-2.1)
Gross Domestic Product	2.2	3.8	4.4 (0.9)	3.9 (0.9)	3.6 (0.7)	3.4 (0.8)	4.6 (2.1)	3.5 (-0.2)
<i>Change in the main price indicators (%)</i>								
GDP deflator	1.7	2.9	2.4 (0.9)	3.4 (1.1)	3.2 (0.3)	2.8 (0.5)	4.1 (2.1)	4.1 (1.1)
Composite CPI								
Headline	2.4	1.5	0.5 (0.1)	2.0 (0.6)	1.8 (0.3)	1.6 (0.6)	2.4 (0.9)	2.1 (0.4)
Underlying[^]	2.3	1.7	1.4 (0.1)	2.0 (0.6)	1.7 (0.3)	1.6 (0.6)	2.4 (0.8)	2.4 (0.8)
Change in nominal GDP (%)	3.9	6.8	6.8	7.4	6.9	6.3	8.9	7.7

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 the category due to the presence of considerable short term fluctuations.

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

(#) Revised figures.

(+) Preliminary figures.

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

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

The domestic sector

1.6 Domestic demand remained strong in the second quarter. *Private consumption expenditure* continued to grow significantly, by 6.1% in real terms over a year earlier, following the 8.8% growth in the first quarter. Favourable labour market conditions, and to a lesser extent positive wealth effect, continued to underpin consumer sentiment. Residents' expenditure abroad registered a decline, but this mainly reflected the effect of the difference in timing of the Easter holidays, which fell in mid-April last year but late March this year. *Government consumption expenditure* grew steadily by 4.4% in the second quarter, up from the 3.9% growth in the preceding quarter.

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

		<i>Of which :</i>							
		Total consumer spending in the domestic market ^(a)	<u>Food</u>	<u>Durables</u>	<u>Non- durables</u>	<u>Services</u>	Residents’ expenditure <u>abroad</u>	<u>Visitor spending</u>	Private consumption <u>expenditure</u> ^(b)
2017 Annual		5.1	3.6	6.0	6.4	4.8	4.0	1.5	5.5
	Q1	3.7	3.4	-1.1	5.2	4.1	-0.8	1.5	3.7
	Q2	4.3	3.4	-0.6	5.9	4.3	11.5	-1.7	5.8
	Q3	5.9	4.5	9.4	7.6	4.9	3.8	1.8	6.3
	Q4	6.3	3.4	13.9	6.9	5.6	2.1	4.0	6.3
2018	Q1	9.5	4.1	25.7	13.9	6.5	7.4	13.0	8.8
	Q2	7.4	3.5	20.8	13.4	4.5	-1.5	11.0	6.1

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 continued to show significant growth

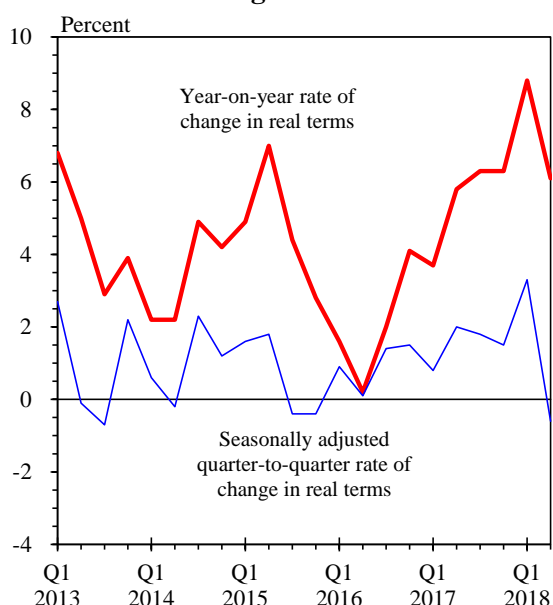
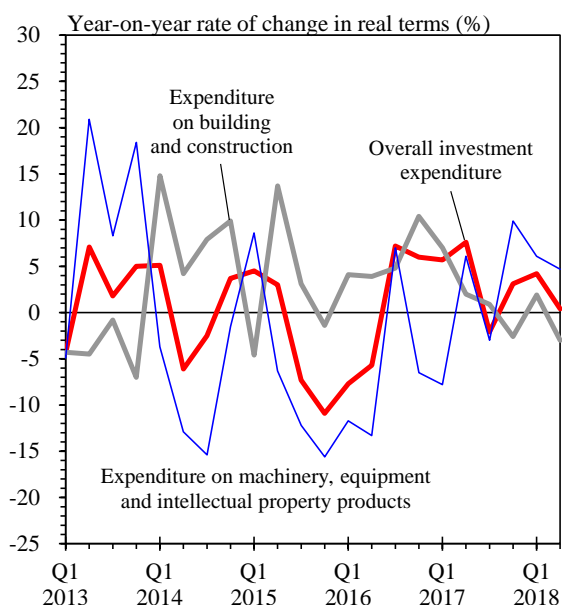


Diagram 1.3 : Overall investment recorded further growth



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* rose further by 0.4% in real terms in the second quarter over a year earlier, though decelerating from the 4.2% growth in the preceding quarter. Machinery and equipment acquisition recorded a solid growth, thanks to strong private sector spending on the back of robust economic conditions. Meanwhile, overall building and construction activity, which is inherently volatile, fell back. Local business sentiment turned slightly more cautious more recently amid a marked increase in uncertainty in the external trading environment (see **Box 1.1** for an analysis of business sentiments).

Box 1.1

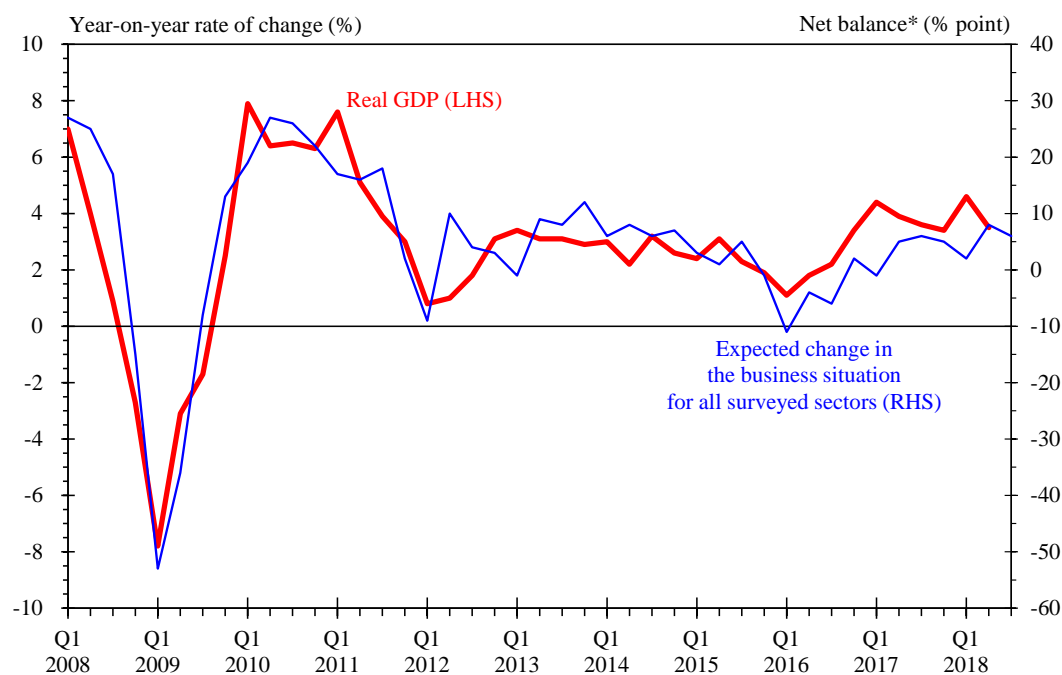
Business sentiment in Hong Kong

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

According to the latest results from the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾, business sentiment of large enterprises in Hong Kong, though staying positive in overall terms, has turned slightly more cautious, amid the intensification of trade tensions between the US and the Mainland (**Chart 1**). Specifically, the proportion of large enterprises surveyed in early June to mid-July 2018 expecting a better business situation in the third quarter of 2018 outweighed that of those expecting a weaker one by 6 percentage points (i.e. a net balance of +6), slightly lower than the 8 percentage points in the second quarter.

Large enterprises in a number of sectors turned more cautious about their near-term business outlook (**Table 1**). The net balances in “import/export trade and wholesale” and “retail” fell to the negative zone. Those in “accommodation and food services” and “construction” remained deep in the negative region. Large enterprises in “financing and insurance”, “information and communications” and “real estate” also became less optimistic, as suggested by the declining, albeit positive, net balances. Nonetheless, business sentiment among large enterprise in certain sectors like “manufacturing” and “professional and business services” became somewhat more optimistic. Meanwhile, hiring sentiment of large enterprises in most of the sectors remained broadly favourable (**Table 2**), in line with prevailing solid employment growth.

Chart 1 : Large enterprises in Hong Kong turned slightly more cautious on their near-term business prospects



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

- (1) The Quarterly Business Tendency Survey collected views from around 500-600 large establishments on their near-term business outlook. Respondents were asked to exclude seasonal influences in their responses.

Box 1.1 (Cont'd)

Table 1 : Business sentiment for large enterprises in many sectors was somewhat more cautious

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2017			2018		
	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	+14	+18	-1	-10	-5	+23
Construction	-14	-9	-16	-16	-13	-10
Import/export trade and wholesale	-2	0	+1	-4	+5	-1
Retail	-4	-4	+24	+20	+4	-1
Accommodation and food services	-13	-2	+13	-3	-7	-10
Transportation, storage and courier services	-2	+2	-7	-5	-8	+5
Information and communications	+19	+17	+16	-2	+20	+16
Financing and insurance	+24	+19	+13	+21	+28	+23
Real estate	0	+6	+6	0	+11	+1
Professional and business services	0	0	+7	+2	-2	+3

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

Table 2 : Hiring sentiment among large enterprises remained broadly favourable

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2017			2018		
	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	-7	+21	+13	-10	+15	+3
Construction	0	+2	-9	-7	-8	+18
Import/export trade and wholesale	+2	-1	+1	-2	+2	-7
Retail	+4	-3	+3	-1	+7	+11
Accommodation and food services	+9	+20	+5	+5	+7	+13
Transportation, storage and courier services	+9	+7	+2	+9	+8	+10
Information and communications	+24	+9	+10	-8	+9	0
Financing and insurance	+16	+16	+13	+24	+26	+21
Real estate	+18	+14	+18	+5	+5	+4
Professional and business services	+6	-3	+5	+4	+2	-1

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

As for small and medium-sized enterprises (SMEs), the C&SD also compiled a set of diffusion indices on a monthly basis⁽²⁾ to gauge the general directions of change in the views of SMEs on their business situation versus the preceding month. The overall index on business receipts has weakened somewhat since May (*Chart 2a*). Nevertheless, employment situation remained stable and credit situation stayed highly accommodative. Meanwhile, the Standard Chartered Hong Kong SME Leading Business Index (Standard Chartered SME Index)⁽³⁾ remained below 50 in the third quarter of 2018, suggesting that SMEs were still cautious on their business outlook.

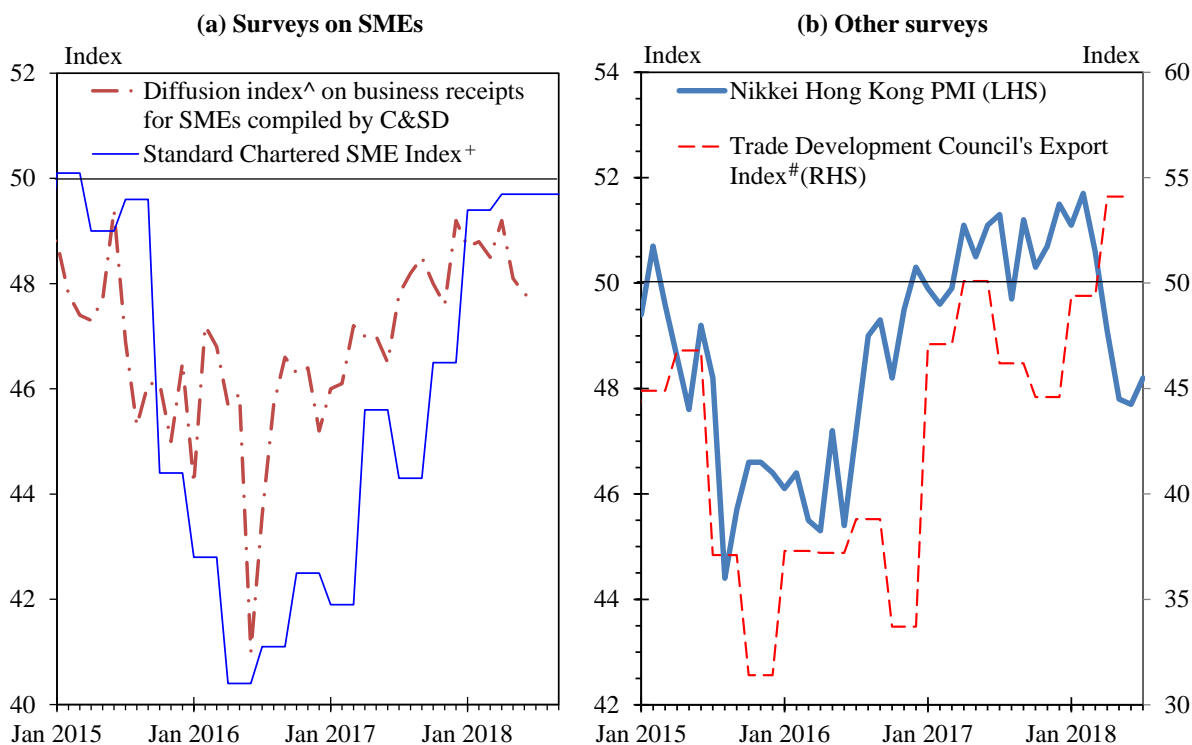
As for other surveys in the public domain, on 20 June, the Hong Kong Trade Development Council (HKTDC) issued its HKTDC Export Index⁽⁴⁾ in the second quarter of 2018, which improved to a 29-quarter high of 54.1 (*Chart 2b*). The traders surveyed were positive about the near-term outlook. Yet, the share of traders surveyed that believed ongoing trade frictions between the US and the Mainland would bring negative effects on their export performance increased from 25.8% in the preceding quarter to 42.8% in the second quarter, and their views have yet to take into account the intensification of trade tensions in late-June and July. For more recent indication, the monthly Nikkei Purchasing Managers' Index (PMI) of Hong Kong⁽⁵⁾, which gauges the performance of the private sector's business activity, stayed below 50 for the fourth consecutive month in July.

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

(3) 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.

Box 1.1 (Cont'd)

Chart 2 : Some other survey indicators also pointed to increased cautiousness of late



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

(+) Launched in Q3 2012 and quarterly data.

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

It is worth pointing out that these surveys are essentially opinion-based, thereby unavoidably subject to various limitations (e.g. results are not directly comparable) and hence the results should be interpreted with care. Still, the latest survey findings taken together suggest that business sentiment in Hong Kong, though remaining largely positive, has turned somewhat more cautious of late amid the increase in external uncertainties. The Government will continue to monitor closely the various external developments and their implications for local business sentiments and the Hong Kong economy.

(4) The HKTDC Export Index is compiled based on a quarterly survey to collect views from around 500 traders concerning their export performances in the prevailing quarter as well as their outlook for the subsequent quarter and covers six major industries – electronics, clothing, jewellery, timepieces, toys and machinery.

(5) According to the press release jointly released by Nikkei and IHS Markit, the Nikkei Hong Kong PMI is compiled according to monthly replies to questionnaires sent to purchasing executives in over 300 companies. It is a composite index based on five individual indices with the following weights: New Orders (0.3); Output (0.25); Employment (0.2); Suppliers' Delivery Times (0.15); and Stock of Items Purchased (0.1), with the Delivery Times index inverted so that it moves in a comparable direction. Survey responses reflect the change, if any, in the prevailing month compared to the previous month.

The labour sector

1.8 The labour market tightened further in the second quarter, with the *seasonally adjusted unemployment rate* edging down to 2.8%, the lowest level in more than 20 years, while the *underemployment rate* stayed unchanged at 1.0%. Total employment saw further solid year-on-year growth. Against this backdrop, wages and earnings continued to register gains in real terms, with appreciable increases for lower-income workers.

The asset markets

1.9 The *local stock market* was range-bound during most of the second quarter, before posting declines in the second half of June when market sentiment was swayed by the US' escalated trade conflicts with the Mainland and expectations of faster US interest rate hikes. The Hang Seng Index closed the second quarter at 28 955, down by 3.8% from a quarter earlier. Average daily turnover fell from the fervent level of \$146.1 billion in the preceding quarter to \$106.8 billion in the second quarter, but was still 37% higher than its year ago level. Credit growth, in terms of the year-on-year increase in loans for use in Hong Kong (including trade finance), remained strong at 11.3% at end-June, though somewhat slower than the 15.1% growth at end-March.

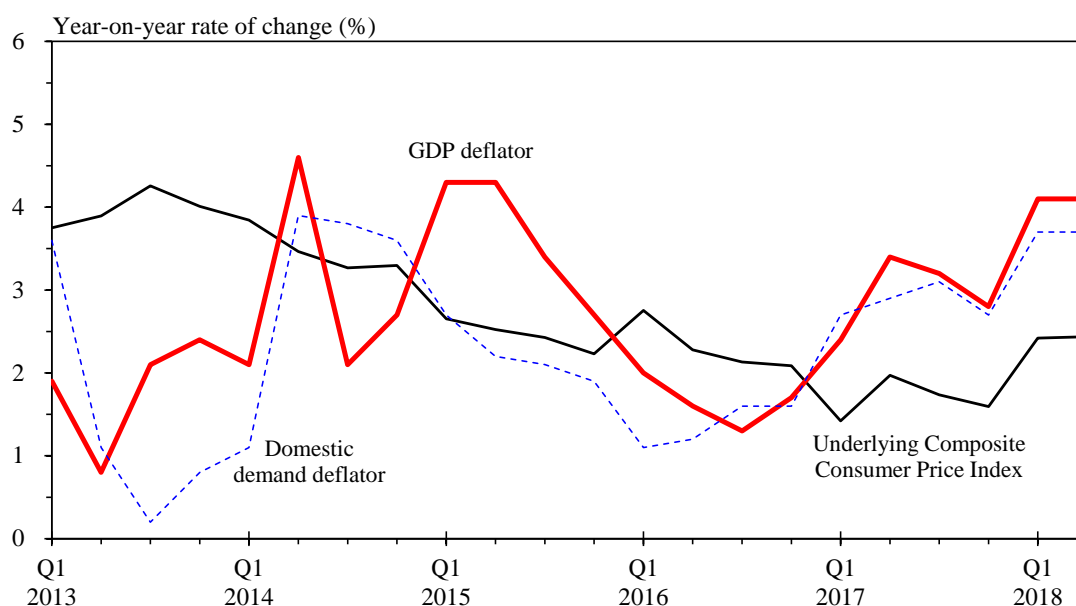
1.10 The *residential property market* stayed buoyant in the second quarter. The number of residential property transactions increased from 15 000 in the first quarter to 18 900 in the second quarter. Overall flat prices rose by 5% between March and June, while the index of home purchase affordability worsened to around 74% in the second quarter. Overall flat prices in June exceeded the 1997 peak by 125%. Between March and June, flat rentals went up by 2%. Shop and office rentals rose by 1% and 2% respectively over the same period. On 29 June, the Government introduced six new housing initiatives, aiming at making subsidised sale flats more affordable, increasing supply of subsidised housing units, and enhancing support for transitional housing supply, and encouraging more timely supply of first-hand private flats.

Inflation

1.11 Overall inflation pressure stayed moderate in the second quarter of 2018, though building up somewhat amid strong economic conditions. Local cost pressures were largely contained, as the sustained improvement in labour productivity kept labour cost pressure in check on a unit cost basis, and rental costs faced by businesses remained moderate thus far. Yet the effects of the uptrend in fresh-letting residential rentals over the past year or so continued to feed through. External price pressures, while still rather moderate, inched up amid the mild acceleration of inflation in some of our major import suppliers and to a lesser extent the hike in international oil prices in recent months. While the temporary factors that led to a faster increase in prices in the first quarter subsided, the *underlying consumer price inflation*, which nets out the effects of the Government's one-off relief measures, remained unchanged at 2.4% in the second quarter. Due to the upward adjustment in the ceiling of the Government's rates concession, the *headline consumer price inflation* came down slightly to 2.1% in the second quarter, compared to 2.4% in the first quarter.

1.12 The *GDP deflator* increased by 4.1% over a year earlier in the second quarter, same as in the first quarter. Within this, domestic demand deflator rose further by 3.7% year-on-year in the second quarter, also same as in the first quarter. Meanwhile, the terms of trade continued to show slight improvement.

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



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

GDP by major economic sector

1.13 Net output of the services sector as a whole grew by 4.4% in real terms over a year earlier in the first quarter of 2018, up from 3.5% in the whole year of 2017. Among the key service industries, net output of wholesale and retail trades surged, thanks to the strong recovery in inbound tourism and buoyant local consumption demand. Net output of accommodation and food services likewise saw faster expansion. Net output of import and export trade, and transportation and storage showed faster growth alongside sustained expansion in trading activities. Net output of financing and insurance grew solidly, underpinned by active financial market activities. Net output of information and communications, and professional and business services also registered further expansion, while the net output of real estate, which covers activities of private sector developers and property agencies, grew modestly. As for the secondary sector, construction activity rebounded in the first quarter, while net manufacturing output continued to record modest growth.

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

	<u>2017</u>	<u>2017</u>				<u>2018</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	0.4	0.2	0.4	0.3	0.8	1.1
Construction	2.3	7.3	3.2	2.0	-2.6	3.5
Services ^(b)	3.5	3.7	3.3	3.6	3.4	4.4
Import/export, wholesale and retail trades	3.6	3.9	3.2	3.8	3.6	6.4
Import and export trade	3.9	5.1	3.8	3.7	3.3	5.2
Wholesale and retail trades	2.3	-0.8	0.6	4.0	4.6	11.2
Accommodation ^(c) and food services	2.3	1.5	1.4	2.2	3.9	5.9
Transportation, storage, postal and courier services	4.9	4.7	4.9	5.0	4.9	4.9
Transportation and storage	4.6	4.5	4.6	4.9	4.6	4.8
Postal and courier services	9.4	9.4	9.7	9.3	9.1	6.4
Information and communications	3.9	4.5	4.1	4.2	2.9	3.1
Financing and insurance	5.6	5.4	5.3	5.7	5.9	6.8
Real estate, professional and business services	2.5	4.2	2.0	2.1	1.6	2.1
Real estate	3.7	7.9	3.2	1.6	1.9	1.6
Professional and business services	1.4	0.8	1.0	2.6	1.4	2.6
Public administration, social and personal services	3.2	2.7	2.9	3.9	3.2	3.4

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

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

Other economic developments

1.14 Hong Kong was ranked as the world's second most competitive economy, and most competitive in Asia, in the International Institute for Management Development World Competitiveness Yearbook 2018. Among the major competitiveness factors, Hong Kong maintained the top rank in government efficiency and business efficiency, both for the fourth consecutive year. The ranking in economic performance climbed up from 11th to 9th on the back of above-trend economic growth, though the ranking in infrastructure fell from 20th to 23rd. Amid intense global competition, the Government will continue to enhance Hong Kong's competitive strengths, including the rule of law, an open and free market, an efficient public sector, and a robust institutional framework, while taking up a more proactive role as a “promoter” and “facilitator” in economic development.

1.15 The Government is committed to promoting scientific research and the development of innovation and technology (I&T). To this end, the Government rolled out a Technology Talent Admission Scheme to provide a fast-track arrangement for the admission of overseas and Mainland research and development talent to meet the needs of I&T sector in recruiting technology talent that is in short supply locally.

1.16 Following President Xi's instruction to promote collaboration between Hong Kong and the Mainland on the technology front, in May the Ministry of Science and Technology and the Ministry of Finance promulgated provisions on opening up science and technology funding of the Central Government for application by higher education institutions and research institutions in Hong Kong. This will inject further impetus into Hong Kong's research sector, and encourage local technology talents to collaborate with the Mainland and participate in major technology missions of the country.

1.17 On developments in the financial sector, the enhancement of Listing Rules to facilitate the listing of emerging and innovative enterprises took effect on 30 April. The rules would help develop the breadth and depth of Hong Kong's securities market. In May, the People's Bank of China announced a series of measures to further enhance cross-border fund flow management, which would support Hong Kong's development as the global offshore RMB business hub. Separately, the Hong Kong Monetary Authority and the Financial Services Regulatory Authority of the Abu Dhabi Global Market signed a Co-operation Agreement in June to enhance fintech collaboration.

Notes :

- (1) The table below presents a more detailed comparison between the growth forecasts made by the IMF in July 2018 and those made three months ago.

	<u>2017</u>	<u>2018</u>	<u>2018</u>
	(%)	April round (%)	July round (%)
World (PPP ^{##} weighted)	3.7	3.9	3.9
Advanced economies	2.4	2.5	2.4
US	2.2 [#]	2.9	2.9
Euro area	2.4 [#]	2.4	2.2
UK	1.7 [#]	1.6	1.4
Japan	1.7 [#]	1.2	1.0
Emerging market and developing economies	4.7	4.9	4.9
Emerging and developing Asia	6.5	6.5	6.5
Mainland China	6.9 [#]	6.6	6.6
India [^]	6.7 [#]	7.4	7.3
Middle East and North Africa ⁺	2.2	3.4	3.5

- Notes : (#) Actual figures.
 (##) PPP refers to purchasing power parity.
 (^) Fiscal year.
 (+) Based on “Middle East, North Africa, Afghanistan, and Pakistan” as defined by the IMF.

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

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *Global economic growth remained robust in the second quarter of 2018. The US economy maintained above-trend growth. The euro-area economy continued to expand moderately, though at a somewhat slower pace than in the early part of the year. The Mainland economy stayed on course for a medium-high growth pace. Most other emerging Asian economies also sustained notable growth, supported by vibrant manufacturing activities and trade flows in the region. Yet, external uncertainties increased markedly in the latter part of June, as the US escalated trade conflicts with the Mainland and other major economies. Moreover, the market increasingly expected that US interest rates would rise at a faster pace, which could lead to heightened volatility in the global financial markets in the period ahead.*
- *Hong Kong's merchandise exports grew solidly by 6.2% year-on-year in real terms⁽¹⁾ for the second quarter as a whole, despite some deceleration in June. Exports to the US picked up further and those to the EU continued to register solid growth, reflecting their robust demand conditions. On the back of strong manufacturing and trading activities in the region, exports to many Asian economies also registered further growth.*
- *Exports of services expanded visibly in the second quarter, with the momentum maintained for all major components. In particular, exports of travel services continued to register double-digit growth, supported by notable growth in visitor arrivals and an increase in per capita spending. Exports of financial services and exports of business and other services expanded further, thanks to frequent cross-border financial and commercial activities. Exports of transport services sustained a moderate increase amid active regional trade flows.*
- *The Government continued to proactively strengthen Hong Kong's collaboration and connectivity with its trading partners, through expansion of the networks of Free Trade Agreement (FTA) and Comprehensive Avoidance of Double Taxation Agreement (CDTA). To take forward the Belt and Road Initiative, the Government would make the most of the Belt and Road Joint Conference mechanism, to strengthen communication, collaboration and mutual support with the central authorities.*

Goods trade

Total exports of goods

2.1 The sturdy global demand, and the resulting vibrant manufacturing and trading activities in Asia, rendered strong support to Hong Kong's external trade in the second quarter of 2018. Hong Kong's *merchandise exports* grew solidly by 6.2% year-on-year in real terms in the second quarter, after a notable growth of 7.3% in the preceding quarter.

2.2 The global economy sustained strong momentum in the second quarter. The Mainland economy remained firmly on track to achieve its official growth target of around 6.5% in 2018. The US economy maintained above-trend growth, partly boosted by the tax reform. In the euro area, the economy grew moderately, at a still above-trend though somewhat slower pace than in the early part of the year. For other parts of Asia, economic activities in Japan showed modest expansion, while the emerging market economies generally recorded notable growth thanks to vibrant regional trade flows.

2.3 However, external uncertainties increased markedly in the latter part of June, as the US escalated trade conflicts with the Mainland and other major economies⁽²⁾. On 1 June, the US imposed additional tariffs on imports of steel and aluminium products from the EU, Canada, and Mexico, and these economies subsequently introduced countermeasures. On 15 June, the US announced an additional 25% tariff on a wide range of products imported from the Mainland worth US\$50 billion. The first batch covering imports worth about US\$34 billion took effect on 6 July. This was met with the Mainland's countermeasures of the same scale. In retaliation, on 10 July the US further released a proposed list of products from the Mainland worth US\$200 billion to be subject to an additional 10% tariff (subsequently revised up to 25%), pending a decision after subsequent public comment and hearing process. Taking the two lists together, some US\$250 billion worth of imports from the Mainland were or would be subject to US' additional tariffs. It is broadly estimated that, with reference to the trade figures for 2017, around HK\$136.5 billion worth of Hong Kong's re-exports of Mainland origin to the US would be affected, amounting to around half of such re-export trade, equivalent to around 3.5% of Hong Kong's total exports⁽³⁾. At this juncture, it is still highly uncertain whether the trade conflicts would escalate further.

2.4. As to the monetary environment, with the labour market remaining tight and inflation hovering around the 2% target in the US, the Federal Reserve

(Fed) effected another interest rate hike in June. The median projection by the FOMC participants in June suggested two more rate hikes of 25 basis points each in the second half of 2018, and the market increasingly expected the US interest rate normalisation to proceed at a faster pace. In Europe, the European Central Bank indicated that it would likely end net asset purchases by the end of 2018. As the major central banks move ahead with monetary policy normalisation, the global financial markets could become more volatile in the period ahead.

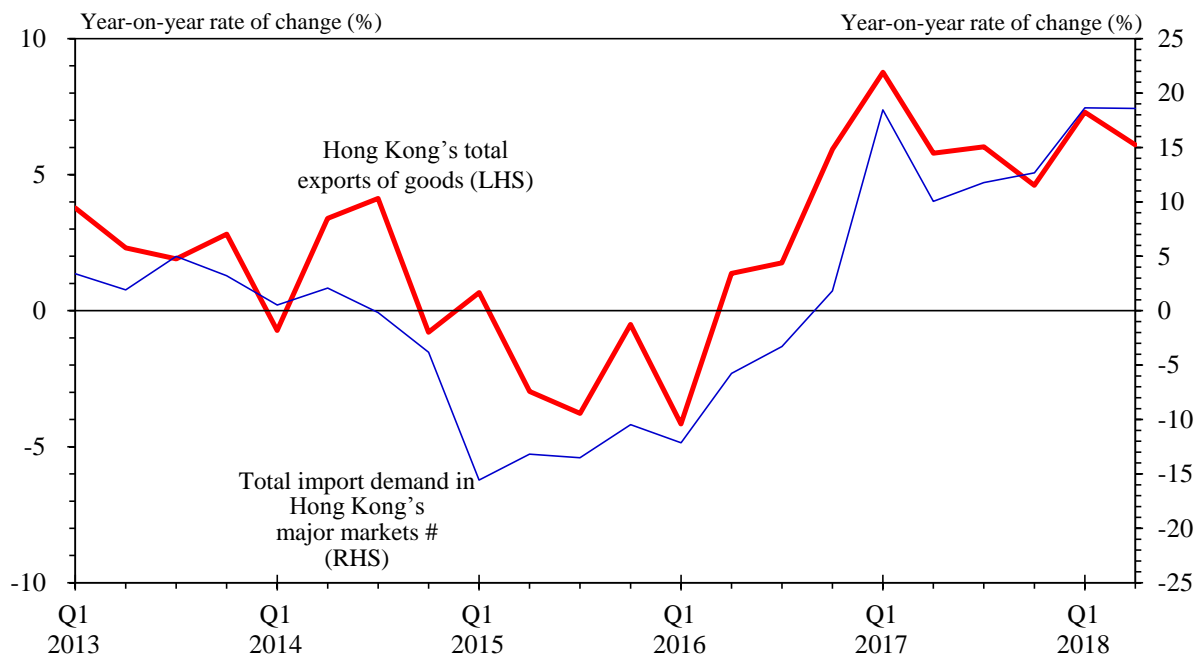
**Table 2.1 : Total exports of goods
(year-on-year rate of change (%))**

		In value <u>terms</u>	In real <u>terms</u> ^(a)		Change <u>in prices</u>
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
2018	Q1	9.7	7.3	(2.2)	2.3
	Q2	9.0	6.2	(0.8)	2.7

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*.

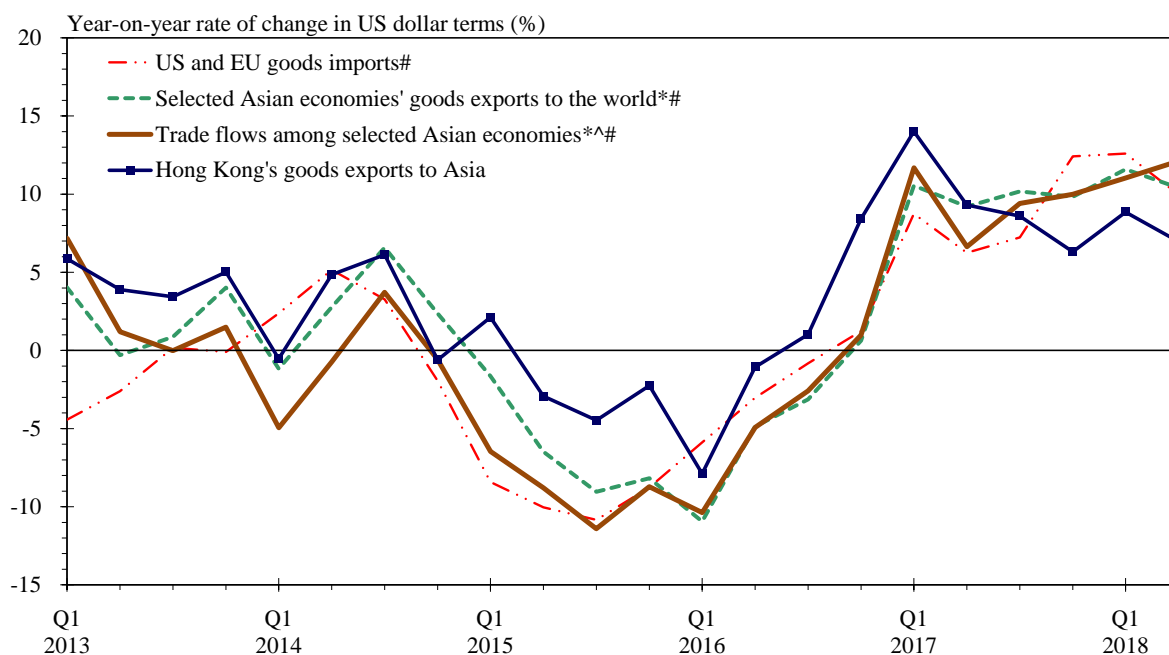
Diagram 2.1 : Merchandise exports grew solidly in the second quarter of 2018



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

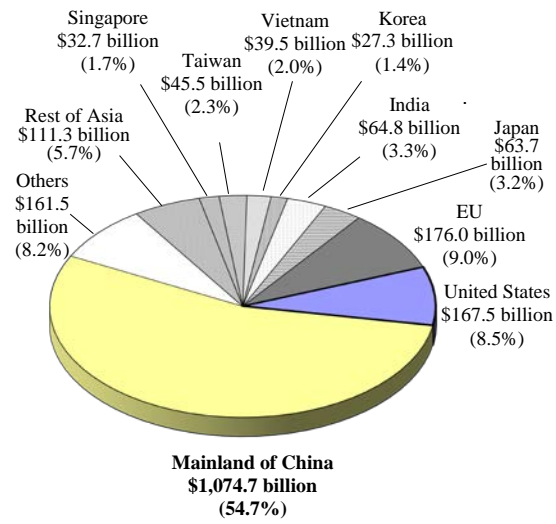
(#) Import demand figure for the second quarter of 2018 is based on statistics for April and May 2018.

Diagram 2.2 : Trade flows in Asia remained buoyant, riding on sturdy global demand

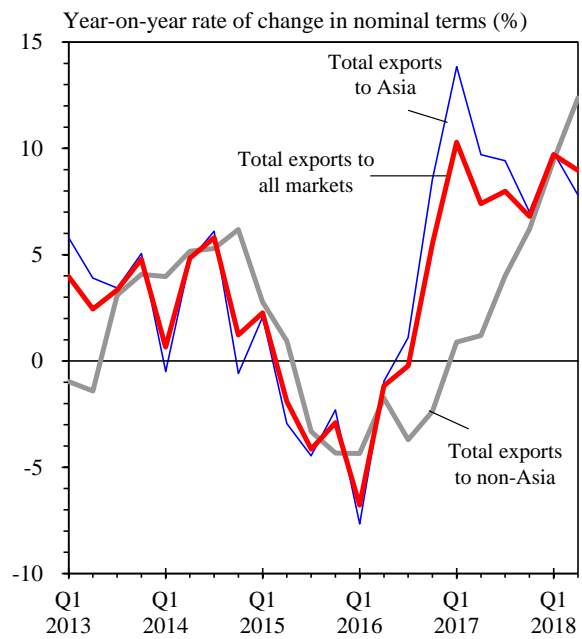


Notes : (*) "Selected Asian economies" include the Mainland of China, Hong Kong, Singapore, Korea, Taiwan, Japan, Indonesia, Malaysia, Thailand and the Philippines.
 (^) The trade flows were measured by the sum of the individual economies' exports of goods to the other nine economies within the "selected Asian economies".
 (#) Trade figures for the US, the EU and "selected Asian economies" for the second quarter of 2018 are based on the information available as of early August 2018.

Diagram 2.3 : Exports to both Asia and non-Asia saw further growth



Total exports of goods in the first half of 2018:
\$1,964.4 billion



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

	<u>Annual</u>	<u>Q1</u>	<u>2017</u> <u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>2018</u> <u>Q1</u>	<u>Q2</u>
Mainland of China	5.4	9.3	3.9	6.0	3.0	9.4	7.7
United States	1.9	3.4	1.1	-0.5	3.8	5.1	8.2
European Union	4.6	3.0	1.3	5.0	8.5	9.1	7.2
India	35.1	40.1	53.8	9.9	39.5	-7.6	-33.1
Japan	10.3	7.5	12.0	10.8	10.6	5.2	2.8
Taiwan	16.1	44.3	23.0	14.7	-5.4	8.4	-1.9
Vietnam	8.7	10.8	11.9	6.8	5.9	0.9	7.3
Singapore	1.8	-1.2	3.9	11.7	-6.2	10.5	19.3
Korea	3.3	15.3	-2.8	-1.5	3.5	-3.1	1.5
Overall*	6.2	8.8	5.8	6.0	4.6	7.3	6.2

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

2.5 Among the major advanced markets, exports to the US picked up further to grow briskly in the second quarter, supported by accelerated growth in personal consumption expenditure and firm fixed asset investment spending there. Exports to the EU continued to register solid growth alongside sustained activity expansion there.

2.6 Riding on sturdy global demand, trade flows of raw materials, semi-manufactures and capital goods in Asia remained buoyant, which in turn provided strong support to Hong Kong's exports to the region in the second quarter. In particular, exports to the Mainland sustained visible growth. Exports to Singapore grew strongly, and exports to Japan and Korea recorded modest growth, though those to Taiwan dipped slightly. Exports to many major emerging markets in ASEAN also registered growth of varying degrees. Yet, exports to India showed an enlarged year-on-year decline, mainly dragged by a high base of comparison a year ago before the implementation of goods and services tax there. In June, exports to some Asian markets recorded slowdown in growth or declines. More observations are needed to ascertain

whether this was related to the recent rise of protectionist trade actions and threats.

Diagram 2.4 : Exports to the Mainland sustained visible growth

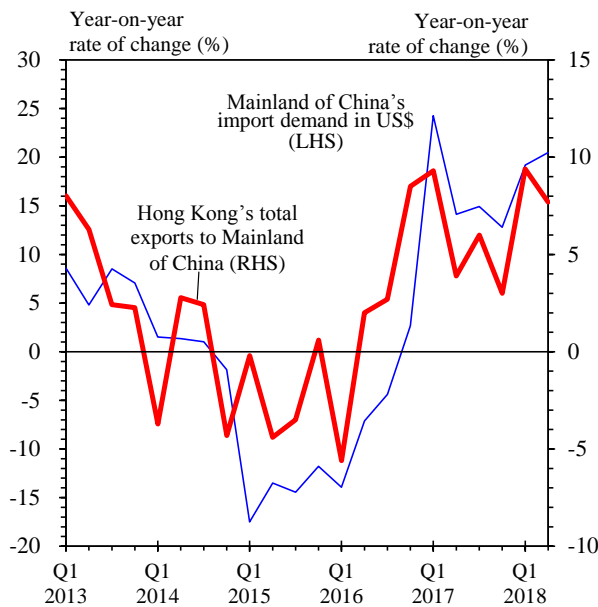


Diagram 2.5 : Exports to the EU continued to register solid growth

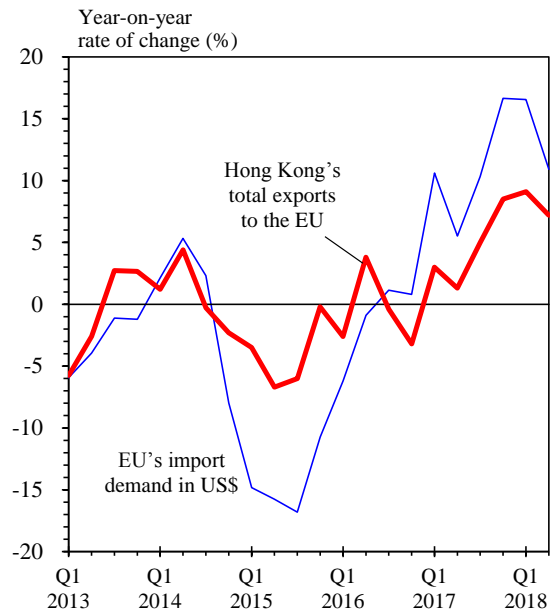


Diagram 2.6 : Exports to the US grew briskly

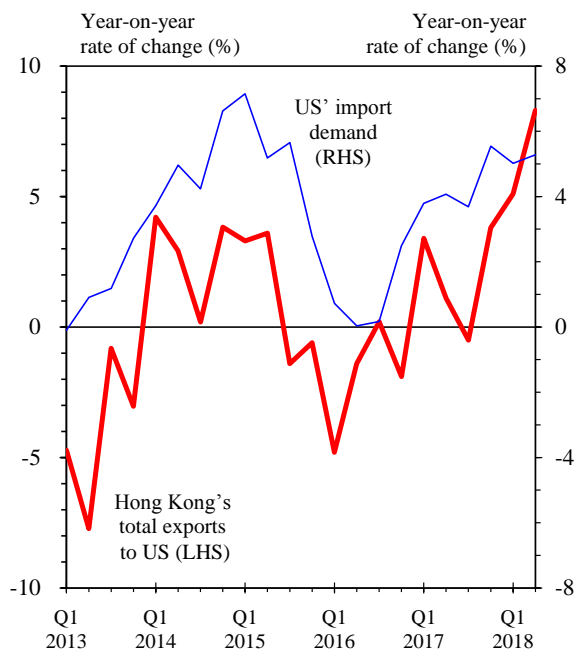


Diagram 2.7 : Exports to Japan recorded modest growth

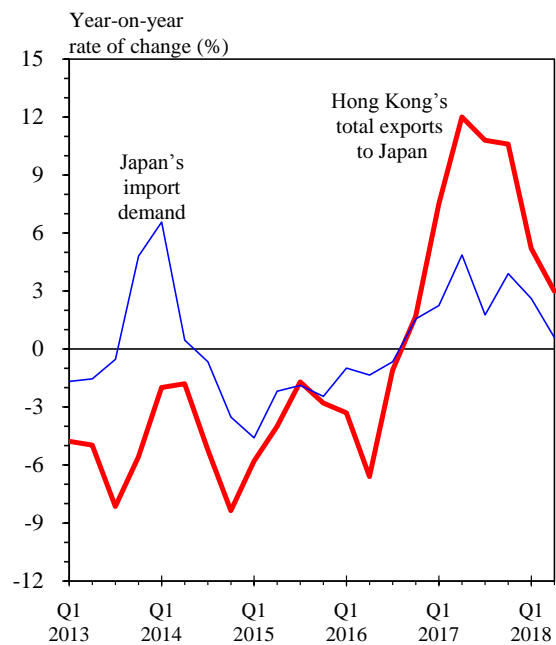


Diagram 2.8 : Exports to India showed an enlarged decline

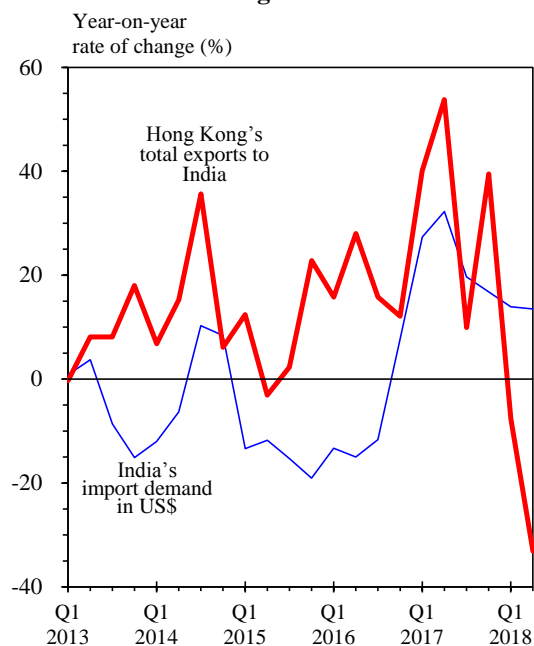


Diagram 2.9 : Exports to Taiwan dipped slightly

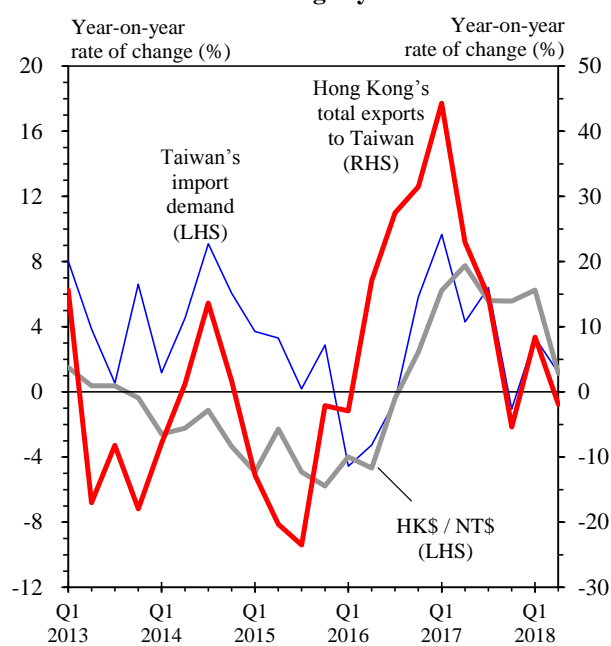


Diagram 2.10 : Exports to Korea reverted to a modest increase

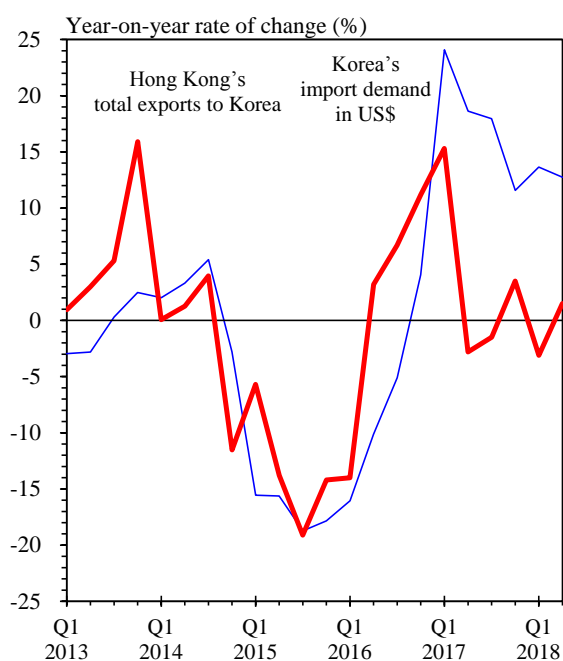
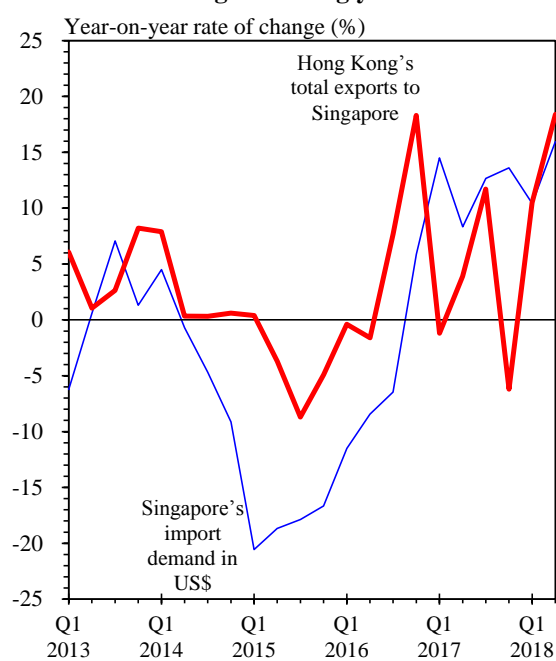


Diagram 2.11 : Exports to Singapore grew strongly



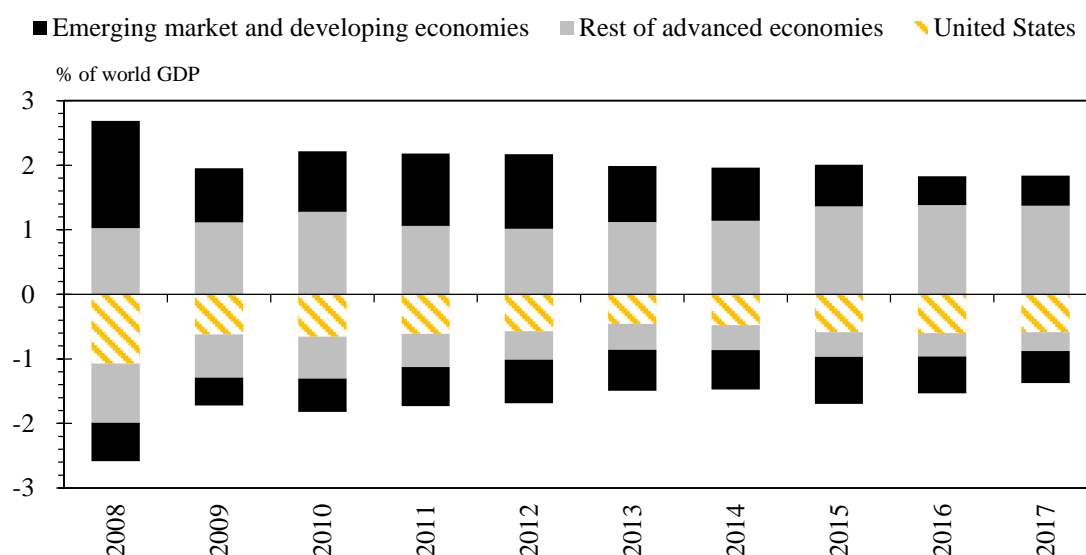
Box 2.1

The situation of global current account imbalances: an update

The situation of global current account imbalances is monitored by global policy-makers closely, as any widening of the imbalances could fuel protectionist sentiment and threaten financial stability. In early 2014, we reported in a box article that the global imbalances, after widening through mid-2000s, improved markedly after the outbreak of the global financial crisis⁽¹⁾. This box article provides an update to the developments since 2013.

In aggregate, the extent of global current account imbalances in 2017 showed little change from the situation in 2013. **Chart 1** shows the sum of the balances of all economies running a current account surplus and the sum of balances of those running a current account deficit⁽²⁾. Each of the two bars has about the same length in 2013 and in 2017, suggesting a broadly similar extent of global imbalances in overall terms.

Chart 1: The overall level of global imbalances in 2017 was little changed from that in 2013



Source: World Economic Outlook database in April 2018, the IMF

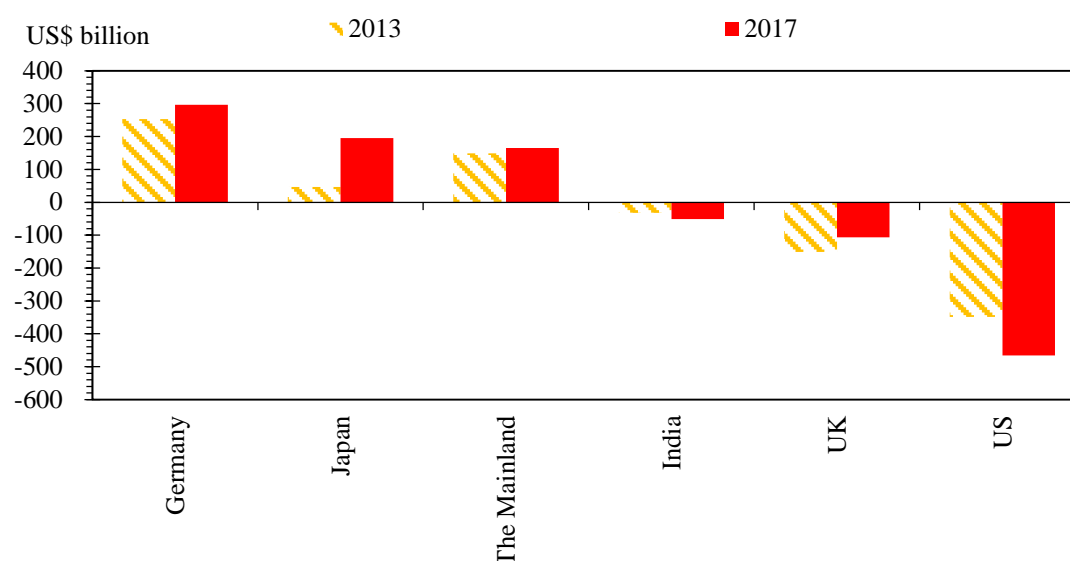
Yet, a more detailed look suggests that an increasing share of the imbalances in 2017 came from a few major advanced economies. Among the surplus economies, Germany and Japan saw a visible increase in current account surpluses between 2013 and 2017 (**Chart 2**), by one-third and more than three-folds respectively. The rise in Germany's current account surplus was underpinned by vibrant exports fueled by the economic recovery of first the euro-area and later the world. A steep fall in international oil prices during 2015 and 2016 also contributed. In Japan, an important factor leading to the larger current account surplus was also smaller net imports of petroleum and gas thanks to falling international energy prices and re-opening of Japan's nuclear plants. The current account surpluses of these two economies together accounted for over 30% of the world's total in US dollar terms in 2017.

(1) See "Box 2.2: Recent situation of global current account imbalances" in First Quarter Economic Report 2014.

(2) The differences between the sum of the balances of all economies running a current account surplus and that of all economies running a current account deficit in individual years are due to statistical discrepancies in the current account data in individual economies. Nonetheless, the broad trends of the two sums are similar. Unless otherwise specified, all the figures of current account balances in this article are based on the IMF World Economic Outlook database in April 2018.

Box 2.1 (Cont'd)

Chart 2: Current account balances of major economies in 2013 and 2017



Source: World Economic Outlook database in April 2018, the IMF

By comparison, the Mainland's current account surplus in 2017 was marginally higher than in 2013 (also *Chart 2*). Goods exports generally performed well during the period, but goods imports expanded at an even faster pace, as domestic demand increasingly became a growth driver amid continued economic rebalancing and opening-up. On the other hand, emerging market and developing economies combined saw a decline in current account surpluses between 2013 and 2017 (also *Chart 1*), mainly due to a visible fall in the surpluses of major oil exporting economies such as Saudi Arabia and United Arab Emirates.

As for the current account deficits, a prominent feature in recent years was a renewed concentration in the US. Thanks to the sustained economic expansion and gradual phase out of fiscal austerity, the current account deficit of the US rose by one-third between 2013 and 2017, reaching a 9-year high of US\$466 billion. Its share in the world's total deficit also leapt from 31% to 42% over the period. Developments in other major economies with current account deficits were mixed though. While the current account deficits in the UK narrowed, that of India swelled visibly.

Some argue that growing bilateral trade deficits with individual partners, especially the Mainland, was the main culprit for the US' worsening current account position, calling for protectionist measures to rectify the situation. This argument is difficult to stand from an economic perspective. As pointed out by an IMF working paper, the current account balance of an economy is a mirror of the difference between its savings and investment. Thus, the current account balance of an economy are determined by such factors as economic growth, government budgetary positions, real exchange rate movements and terms of trade fluctuations, and demographic structure⁽³⁾. Meanwhile, the patterns of bilateral trade balances of an economy primarily reflected product specialisation and consumer preferences of that economy and its trading partners. While erecting trade barriers (tariffs, quota, etc.) might be able to narrow bilateral trade balances in the short term, it bears little direct implications for the overall saving and investment behaviour of an economy, and hence would not be effective in improving the economy's overall trade balance in the long term.

(3) See the IMF Working Paper "Medium-term determinants of current accounts in industrial and developing countries: an empirical exploration" by Menzie D. Chinn and Eswar S. Prasad in 2000.

Box 2.1 (Cont'd)

The unwinding of US current account deficit after 2008 provides an interesting case in point. Without erecting significant trade barriers, the improvement in current account deficit then was realised by the deleveraging in the private and public sectors in the US. Likewise, all of the economies in the euro-area periphery managed to sharply cut down or even eliminate their current account deficits after the European debt crisis, as steep macroeconomic adjustments boosted private savings and reduced government budget deficits.

Trade restrictive measures could backfire. A simulation by the International Monetary Fund (IMF) in 2017 showed that there would only be small impacts of using tariffs as a means to reduce bilateral imbalances, as retaliation by its trading partners and subsequent adjustments in real exchange rates would provide partial offsets. Also according to the simulation, the global economy would experience output losses, and the losses would increase with the duration of protectionist policies in place ⁽⁴⁾.

Looking ahead, US current account deficit will likely go up in the coming years in light of the radical tax cuts. According to the US Congressional Budget Office in May 2018, the US budget deficit is projected to go up visibly to US\$955 billion or 4.5% of GDP in 2019, up from US\$665 billion or 3.5% in 2017. Separately, in April 2018 the IMF forecast that US current account deficit will widen by more than 50% between 2017 and 2019 ⁽⁵⁾. The mounting external imbalances could aggravate the US' trade frictions with its major trading partners, a major source of downside risk to the global economy further down the road.

To promote global rebalancing in a growth-friendly fashion, surplus and deficit economies alike should re-formulate their macroeconomic policy-mix. In particular, surplus economies with fiscal room should increase public spending, and push forth structural reforms that promote domestic demand expansion or encourage competition from foreign imports. On the other hand, deficit economies should give priority to fiscal consolidation, while forging ahead with structural reforms to lift gross national savings and enhance export competitiveness. After all, economies should avoid using protectionist measures and seek ways through the rule-based multilateral trading system to settle international trade disputes.

(4) See "Box 6. Trade Protectionism, Global Imbalances, and Growth" in the IMF External Sector Report, 2017.

(5) "Box 5. Tax Reform and the US Current Account" in the IMF External Sector Report, 2018 also pointed out specific provisions under the latest US tax reform act that could possibly widen US current account deficits in the near term directly through reducing net investment income.

Imports of goods

2.7 *Imports of goods* grew appreciably by 7.6% in real terms over a year earlier in the second quarter, following an 8.2% growth in the preceding quarter. Growth in *retained imports*, which refer to the imports for domestic use and accounted for around one-quarter of total imports, accelerated somewhat to 11.7%, mirroring the strong domestic demand. Imports for subsequent *re-exports*⁽⁴⁾ also grew solidly.

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

		<u>Imports of goods</u>				<u>Retained imports</u> ^(a)			
		<u>In value terms</u>	<u>In real terms</u> ⁽⁺⁾	<u>Change in prices</u>		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	
2017	Annual	8.7	6.8		1.9	10.1	8.3		1.8
	Q1	10.7	9.0	(1.8)	1.6	11.2	9.7	(6.9)	1.1
	Q2	8.2	6.4	(0.1)	1.8	10.1	8.1	(-2.9)	2.1
	Q3	7.7	5.8	(0.5)	1.9	5.9	4.5	(0.8)	1.9
	Q4	8.5	6.2	(3.5)	2.2	13.2	10.9	(6.0)	2.0
2018	Q1	10.6	8.2	(2.9)	2.3	12.6	10.6	(4.7)	2.3
	Q2	10.4	7.6	(0.7)	2.8	14.9	11.7	(0.8)	3.3

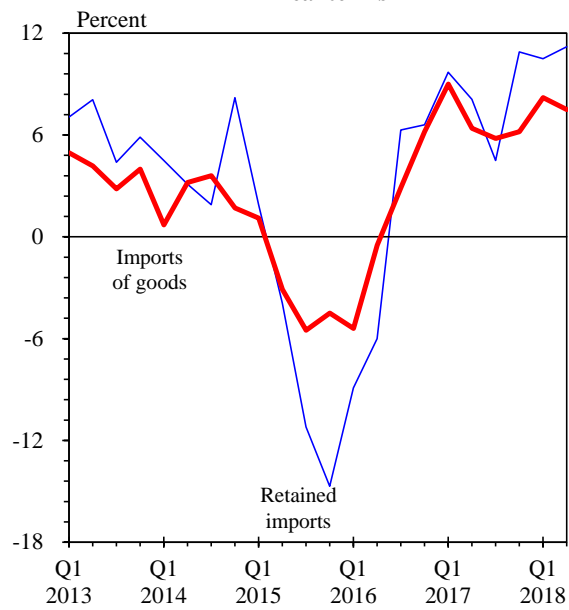
Notes : (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

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

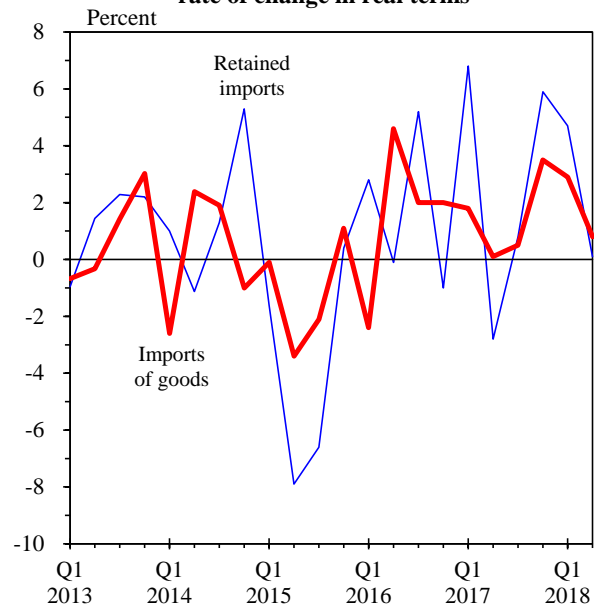
() Seasonally adjusted quarter-to-quarter rate of change.

Diagram 2.12 : Imports and retained imports sustained appreciable growth

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



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

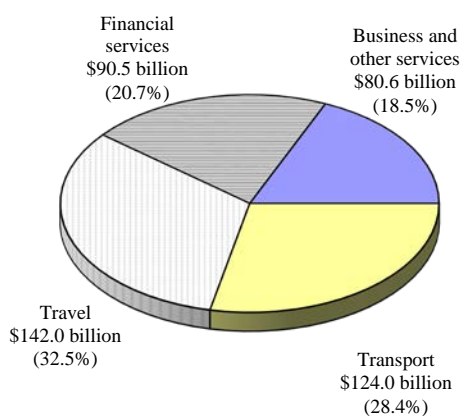


Services trade

Exports of services

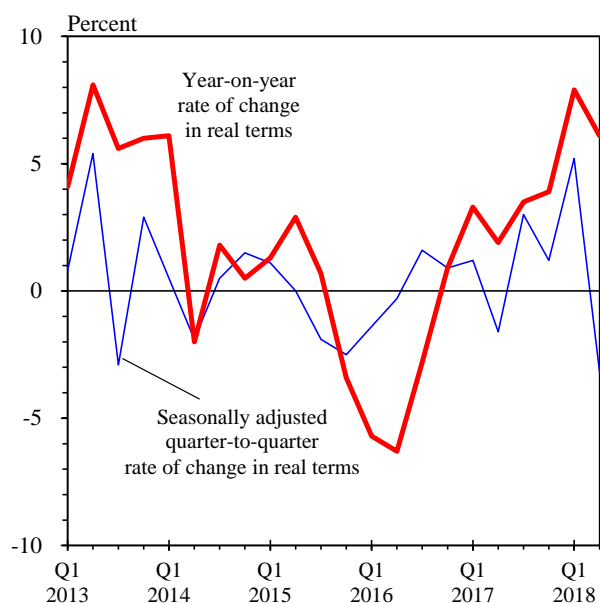
2.8 *Exports of services* expanded visibly by 6.1% year-on-year in real terms in the second quarter, after a 7.9% growth in the first quarter. All major components attained growth. In particular, exports of travel services posted another quarter of double-digit growth, supported by notable growth in visitor arrivals and an increase in per capita spending. Exports of financial services and exports of business and other services expanded further, thanks to frequent cross-border financial and commercial activities. Exports of transport services sustained a moderate increase amid active regional trade flows.

Diagram 2.13 : Travel, transport and financial services together constituted over 80% of exports of services



*Exports of services in the first half of 2018:
\$437.0 billion*

Diagram 2.14 : Exports of services expanded visibly



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

		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Transport</u>	<u>Travel^(a)</u>	<u>Financial services</u>	<u>Business and other services</u>
2017	Annual	3.2	6.1	1.5	4.4	0.7
	Q1	3.3 (1.2)	8.0	1.5	2.1	1.1
	Q2	1.9 (-1.6)	6.9	-1.8	2.6	0.4
	Q3	3.5 (3.0)	6.5	1.8	5.0	0.8
	Q4	3.9 (1.2)	3.3	4.0	8.0	0.7
2018	Q1	7.9 (5.2)	4.1	13.1	10.3	1.4
	Q2	6.1 (-3.2)	3.2	11.1	7.6	1.4

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

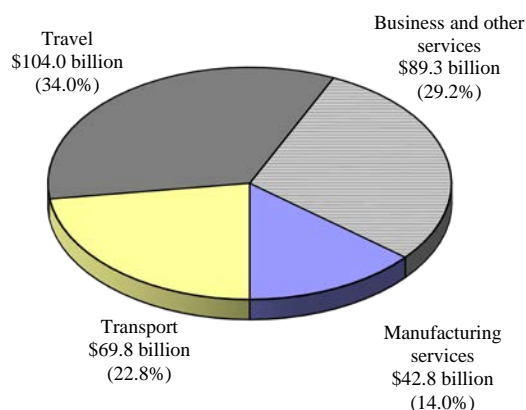
(a) Comprising mainly inbound tourism receipts.

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

Imports of services

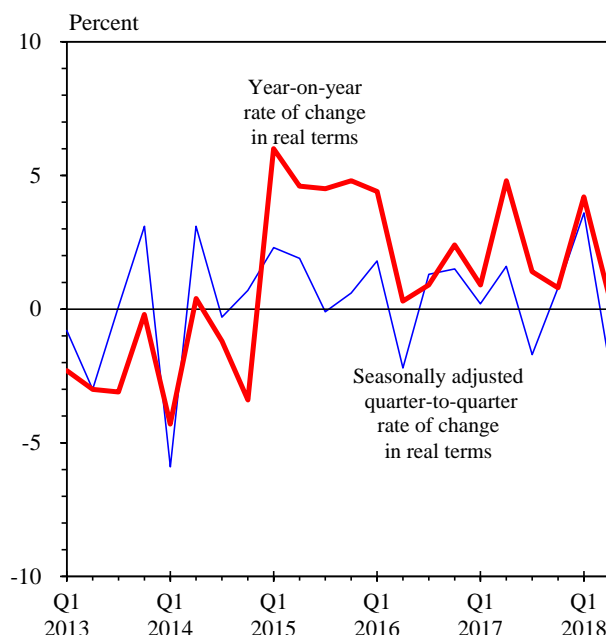
2.9 *Imports of services* grew marginally by 0.4% in real terms in the second quarter over a year earlier, slower than the 4.2% growth in the preceding quarter. Imports of travel services registered a year-on-year decline in the second quarter, primarily due to the drag arising from an earlier arrival of the Easter holidays which straddled March and April this year (as compared to mid-April in 2017). Nonetheless, imports of transport services and imports of business and other services grew modestly, in tandem with further expansion of trading and commercial activities. Imports of manufacturing services picked up slightly to record modest growth.

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



*Imports of services in the first half of 2018:
\$305.9 billion*

Diagram 2.16 : Imports of services grew marginally in the second quarter



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

Of which :

		Imports of services	Travel ⁽⁺⁾	Transport	Manufacturing services ^(^)	Business and other services
2017	Annual	1.9	4.0	2.6	-5.5	3.0
	Q1	0.9 (0.2)	-0.2	2.4	-3.9	3.0
	Q2	4.8 (1.6)	11.1	3.6	-5.6	3.5
	Q3	1.4 (-1.7)	3.5	2.1	-5.7	2.7
	Q4	0.8 (0.8)	1.8	2.2	-6.4	2.8
2018	Q1	4.2 (3.6)	6.4	4.2	0.2	3.5
	Q2	0.4 (-2.1)	-2.9	1.8	1.9	2.6

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*.

(+) Comprising mainly outbound travel spending.

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

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

Goods and services balance

2.10 Based on the GDP accounting framework, the goods deficit in the second quarter widened from a year earlier, as growth in imports of goods outpaced that in exports of goods amid strong domestic demand. Over the period, the services surplus widened slightly. The combined goods and services account registered a deficit of \$36 billion in the second quarter of 2018, equivalent to 2.7% of total import value, larger than the deficit of \$27 billion or 2.2% of total import value in the second quarter of 2017.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			<u>As % of imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2017	Annual	4,191	811	4,378	601	-187	211	24	0.5
	Q1	941	203	998	141	-57	62	5	0.5
	Q2	995	184	1,063	143	-68	41	-27	-2.2
	Q3	1,099	208	1,116	154	-17	53	37	2.9
	Q4	1,156	216	1,201	162	-46	55	9	0.6
2018	Q1	1,017	231	1,094	156	-77	75	-2	-0.2
	Q2	1,067	206	1,159	150	-92	56	-36	-2.7

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

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

Other developments

2.11 The Government continued to proactively strengthen Hong Kong's collaboration and connectivity with its trading partners. In June, the Free Trade Agreement (FTA) between Hong Kong and Georgia was signed, marking the first FTA with a country in the Caucasus. The FTA is comprehensive in scope, encompassing trade in goods and services, investment, dispute settlement mechanism and other related areas. It will provide a platform to take the economic and trade relations between the two places to a new level, while offering ample opportunities for Hong Kong businessmen to tap the Georgian market and a gateway to the Caucasus covered under the Belt and Road Initiative. In May, a comprehensive avoidance of double taxation agreement (CDTA) was signed with Finland, the 16th member state of the European Union that had such an agreement with Hong Kong.

2.12 In June, the first Belt and Road Joint Conference was convened in Beijing by the Government with the National Development and Reform Commission, the Hong Kong and Macao Affairs Office of the State Council as well as other relevant central ministries. The Joint Conference mechanism was agreed at the meeting, and the strategy for promoting Hong Kong's full participation in the Belt and Road Initiative and the work priorities for the year were discussed. It was agreed that the Joint Conference would be convened at least once a year as a platform for regular and direct communication.

2.13 To further lower the cost of importing and exporting high-value goods to and from Hong Kong, the charge for each import and export declaration was capped at \$200 from 1 August onwards. This should directly benefit the local trading and logistics industry through lowering the operating cost of import and export, encouraging the industry to move up the value chain, and supporting the further development of businesses in trading, storage, logistics and distribution of high-value goods, thereby strengthening Hong Kong's position as a trading hub.

2.14 With a view to deepening economic ties with the Mainland, in May the First Plenary of the Hong Kong-Sichuan Co-operation Conference was held in Chengdu, alongside a high-level meeting between the Government of the Hong Kong Special Administrative Region and the Sichuan Provincial People's Government. A consensus was reached on 11 co-operation areas, including the Belt and Road Initiative, economic and trade fronts, innovation and technology, finance, and youth development.

Notes :

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the external trade quantum index series compiled using the chain linking approach, which were first released in March 2015 to replace the previous trade index numbers compiled using the Laspeyres method with a fixed base year. 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 merchandising under the standards stipulated in the *System of National Accounts 2008*. Apart from this, non-monetary gold is recorded as a separate item in the statistics of merchandise trade and not included in the trade aggregates reported in Chapter 2, but is included in the trade aggregates under GDP in accordance to the international compilation standard.
- (2) The International Monetary Fund (IMF) in its July 2018 update of World Economic Outlook pointed out that downside risks facing the global economy were mounting. The IMF estimated that the global GDP could be 0.5% below their current projection level by 2020 in a worst-case scenario where current trade policy threats are materialised and business confidence falls as a result, according to a surveillance note by the Staff of the IMF prepared for G-20 Finance Ministers and Central Bank Governors' Meetings in Argentina on 21-22 July 2018.
- (3) The direct impact on the Hong Kong economy arising from the US' and Mainland's additional tariffs will manifest mainly in trade activities. In particular, the US' additional tariffs on imports from the Mainland would affect Hong Kong's re-exports of Mainland origin to the US and Hong Kong's offshore trade involving goods of Mainland origin with the US as the market. Other activities that support US-China trade involving Hong Kong will also be affected. In 2017, the amount of products of Mainland origin re-exported via Hong Kong to the US was around HK\$277.5 billion, constituting 7.2% of Hong Kong's total exports of goods. In respect of the tariff list announced by the Office of the United States Trade Representative (USTR) on 15 June 2018, it is broadly estimated that, with reference to the trade figures for 2017, about HK\$52.9 billion, or 19%, of these re-exports would be affected, equivalent to around 1.4% of Hong Kong's total exports of goods in 2017. Most of these goods (over HK\$40 billion) were affected by the additional tariff that took effect on 6 July. As for the proposed tariff list announced by the USTR on 10 July 2018 covering US\$200 billion worth of Mainland imports, it is crudely estimated that around HK\$83.6 billion worth of re-exports of the Mainland origin to the US would be affected, equivalent to 30% of such re-exports or around 2.2% of Hong Kong's total exports of goods. Combining the two lists altogether and assuming that the latter list would take effect in the latter part of 2018, the US would have imposed additional tariffs on US\$250 billion worth of imports from the Mainland, with an estimated direct impact of around 0.2-0.3 percentage point on Hong Kong's economic growth in 2018. Moreover, with the intensifying conflicts between the US and the Mainland, uncertainties in the external environment have increased markedly. This could weigh on the global economic sentiment as well as future trade and investment growth, and local economic sentiment and asset markets would also be under pressure. If so, the impact on the Hong Kong economy could be even more notable.

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

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

Summary

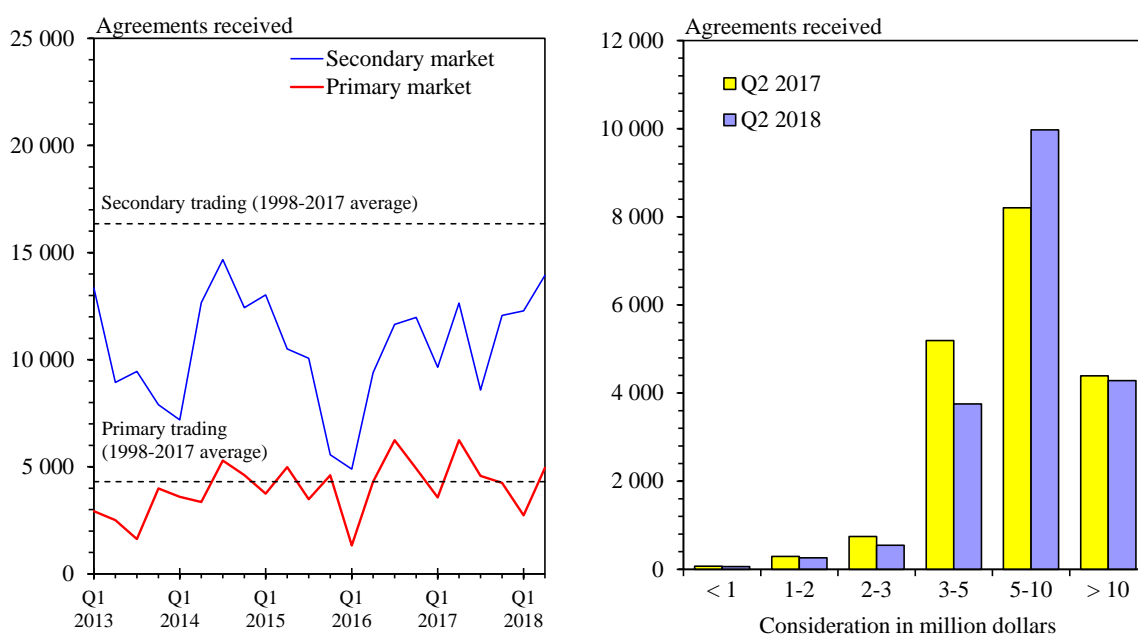
- *The residential property market stayed buoyant in the second quarter of 2018 amid strong economic conditions, a still tight demand-supply balance of flats and generally low local interest rates. Trading activities remained active, and flat prices rose by another 5% during the quarter.*
- *Reflecting the Government's sustained efforts to increase land and flat supply, total flat supply in the coming three to four years stayed at a high level of 93 000 units as estimated at end-June 2018.*
- *For the commercial and industrial property markets, most market segments showed some pick-up in the second quarter. Prices and rentals recorded further increases, while transactions turned active in general.*
- *On the back of a continued rally in Mainland visitors, inbound tourism grew further in the second quarter. Overall visitor arrivals rose by a faster 10.5% over a year earlier to 15.0 million.*
- *The logistics sector put up a mixed performance in the second quarter. Total container throughput decreased by 7.0% from a year earlier, while air freight throughput rose by another 3.7%.*

Property

3.1 The *residential property market* stayed buoyant in the second quarter of 2018 amid strong economic conditions, a still tight demand-supply balance of flats and generally low local interest rates. Trading activities remained active, and flat prices continued to rise.

3.2 The total number of sale and purchase (S&P) agreements for residential property received by the Land Registry jumped by 26% over the preceding quarter to 18 881 in the second quarter, though 0.1% lower than a year earlier. Within the total, primary market transactions soared by 81% over the preceding quarter as developers paced up the launch of new projects, which were mostly greeted with favourable responses, while secondary market transactions rose further by 13%. In parallel, total consideration surged by 30% over the preceding quarter to \$182.0 billion. For the first half of 2018 as a whole, the number of S&P agreements rose by 15% over the second half of 2017 to 33 896, and total consideration by 24% to \$321.5 billion.

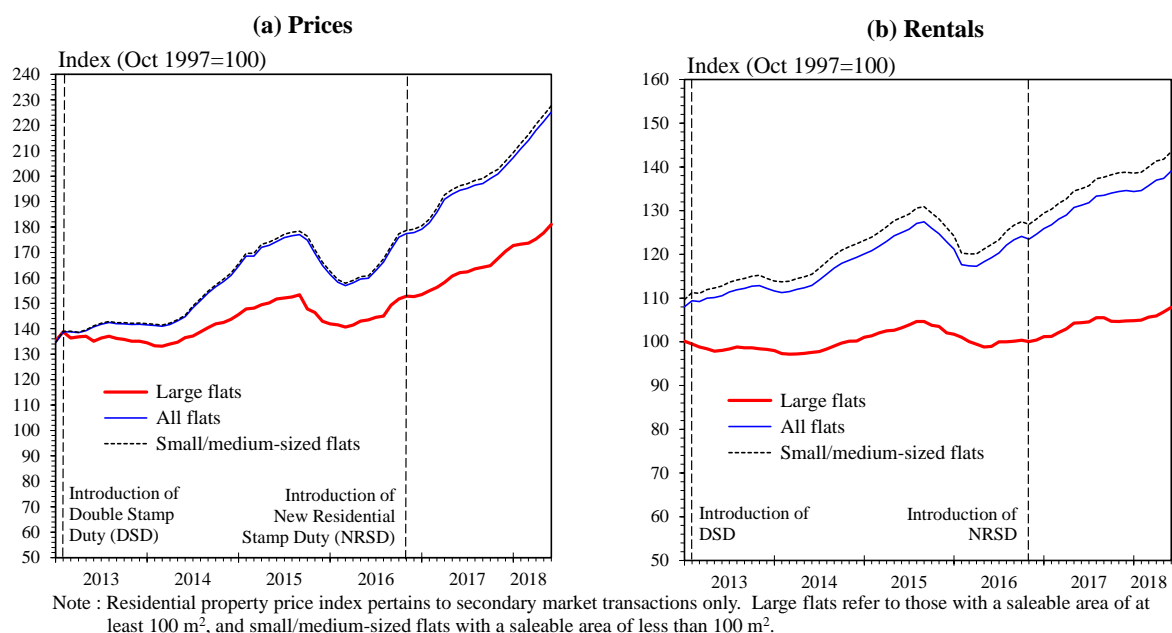
Diagram 3.1 : Trading activities remained active in the second quarter



3.3 Supported by fervent market sentiment, overall flat prices rose by another 5% between March and June 2018. Analysed by size, prices of small/medium-sized flats and large flats increased by 5% and 4% respectively. During the first half of 2018, overall flat prices recorded a hefty gain of 10%.

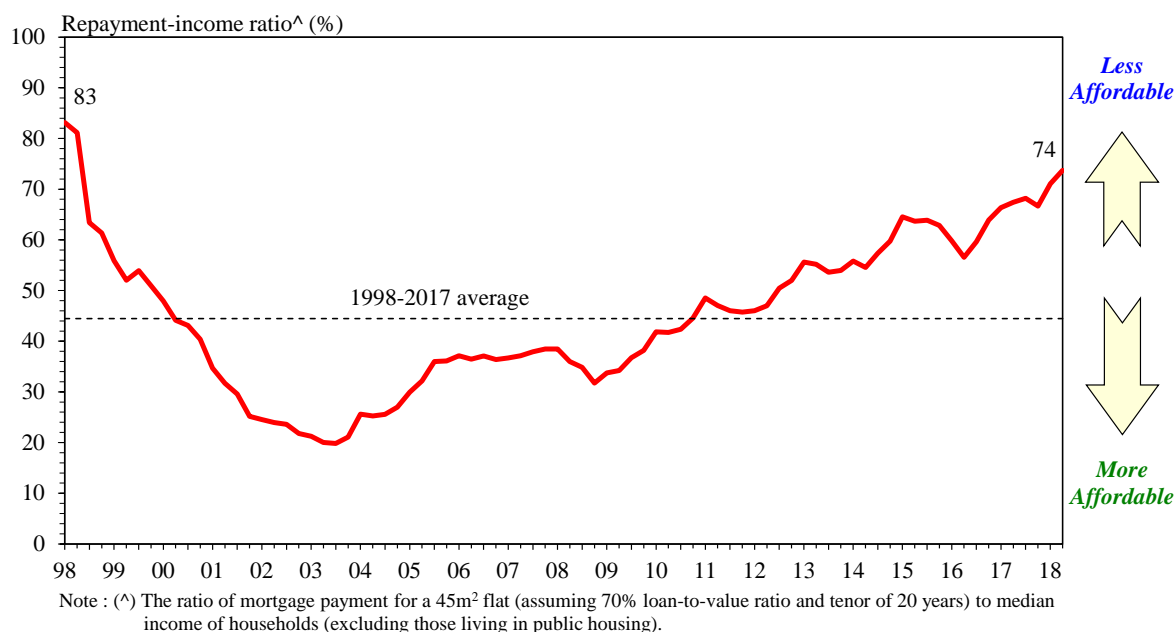
3.4 Overall flat rentals rose more moderately, by 2% during the second quarter, with rentals of small/medium-sized flats and large flats both rising by 2%. During the first half of 2018, overall flat rentals rose by a cumulative 3%. Reflecting the movements of prices and rentals, the average rental yield for residential property edged down from 2.5% in March to 2.4% in June.

Diagram 3.2 : Flat prices and rentals continued to rise during the second quarter



3.5 As a result of the surge over the past several years, overall flat prices in June 2018 exceeded the 1997 peak by 125%. 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) worsened to around 74% in the second quarter, significantly above the long-term average of 44% over 1998-2017. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 96%.

Diagram 3.3 : The mortgage payment to income ratio worsened



3.6 Raising flat supply through increasing land supply is the Government's top policy priority in ensuring a healthy development of the property market. The Government announced in July to put up five residential sites for sale in the third quarter of 2018, which are capable of providing about 1 850 flats in total. Combining the various sources (including Government land sale, railway property development projects, the Urban Renewal Authority's projects, and private development and redevelopment projects), the total private housing land supply in the first half of 2018-19 is estimated to have a capacity to produce about 6 000 units. The Government would continue to put up for sale suitable housing sites in the coming quarters to meet the annual target of providing land to produce around 18 000 private units.

3.7 Reflecting the Government's sustained efforts in raising land supply, 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 93 000 units as estimated at end-June 2018. Another 5 200 units could be added to the total supply after the conversion of a number of residential sites into "disposed sites".

3.8 In late June, the Chief Executive announced a package of six new initiatives on housing. The initiatives aim to meet three objectives, namely making subsidised sale flats more affordable, increasing supply of subsidised housing units and enhancing support for transitional housing supply, and encouraging more timely supply of first-hand private flats (**Box 3.1**).

Box 3.1

Latest Government initiatives on housing (June 2018)

In late June, the Chief Executive announced six new housing initiatives, which aim to meet three objectives, namely making subsidised sale flats (SSFs) more affordable, increasing supply of subsidised housing units and enhancing support for transitional housing supply, and encouraging more timely supply of first-hand private flats. The new initiatives are summarised below.

(1) Revising the pricing policy for SSFs

- Revise the affordability test of the existing pricing mechanism for the Home Ownership Scheme (HOS) to make SSFs more affordable to lower- to middle-income households. In particular, the Government would use the median monthly household income of non-owner occupier households (currently around \$39,500, net of Mandatory Provident Fund (MPF) contributions) as the reference income for calculating the affordability test⁽¹⁾, instead of the income limit of White Form (WF) family applicants (currently \$57,000, net of MPF contributions). Also, it would be ensured that at least 75% of flats are affordable, up from the previous 50%.
- Offer a further discount of 10% for the Green Form Subsidised Home Ownership Scheme (GSH) from that decided for the preceding HOS sale exercise.
- Propose that the Housing Authority (HA) considers tightening the alienation restrictions for SSFs.

(2) Inviting the Urban Renewal Authority (URA) to assign a redevelopment project as the Starter Homes (SH) pilot project

- Invite the URA to assign its non-joint venture redevelopment project at Ma Tau Wai Road as a SH pilot project. The pre-sale exercise of the project, which could provide 450 units, can be launched in December 2018 at the soonest and the project is estimated to be completed in second quarter of 2019.
- Introduce the major eligibility criteria. Among other criteria, eligible applicants have to be Hong Kong residents who have lived in Hong Kong for seven years or more, who have never owned any residential property in Hong Kong, whose income falls between the prevailing income limits for WF applicants for the HOS and about 30% higher than such limits, and whose assets should not exceed the limit of 30% above the prevailing HOS asset limits for WF applicants.
- Set a discount for SH units 10% to 20% less than that decided for the preceding HOS sale exercise.

(3) Reallocating private housing sites for public housing

- Reallocate a total of nine private housing sites in Kai Tak and Anderson Road Quarry for public housing use, capable of providing about 10 600 public housing flats.

(1) Under the existing pricing policy, the Housing Authority prices HOS flats at a 30% discount from “assessed market value” if the resultant prices meet the affordability test. The test is met if, for at least 50% of the flats, households with income at the prevailing income limit for White Form family applicants need not use more than 40% of their income on mortgage payments. If the affordability test is not satisfied, a discount higher than 30% will be offered.

Box 3.1 (Cont'd)**(4) Assisting the community to take forward transitional housing projects**

- Set up a task force under the Transport and Housing Bureau to provide one-stop, co-ordinated support to assist and enable more non-governmental institutions/organisations to pursue the implementation of various short-term community initiatives on transitional housing.

(5) Introducing Special Rates on vacant first-hand private residential units

- Propose to introduce Special Rates on vacant first-hand private residential units by amending the Rating Ordinance. Owners (mainly developers) of first-hand private residential units with the Occupation Permit issued for 12 months or more will be required to furnish annual returns to the Government on the occupancy status of the units. Units that have not been occupied or rented out for more than six months during the past 12 months will be considered as vacant and subject to Special Rates.
- The Special Rates is proposed to be collected by the Rating and Valuation Department annually at two times (i.e. 200%) the rateable value of the units concerned. The Government plans to introduce an Amendment Bill into the Legislative Council during the 2018-19 legislative year. The Special Rates would take effect after gazettal of the Amendment Ordinance following passage of the Amendment Bill in the Legislative Council.

(6) Amending Lands Department Consent Scheme to improve sales practices

- Require developers to offer for sale no less than 20% of the total number of residential units subject to the relevant pre-sale consent at each turn of sale, regardless of the sales method (including tender and auction). The requirement has already been implemented.

These new initiatives would help address some concerns over the housing market, and ensure a healthy development of the property market. Meanwhile, the Government would continue to expand the developable land in order to boost housing supply.

3.9 Over the years, the Government has also put in significant efforts to manage demand and reduce the possible risks to financial stability arising from an exuberant property market⁽¹⁾. These measures have yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) remained low at 83 cases per month or 1.2% of total transactions in the second quarter, well below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer's Stamp Duty, *purchases by non-local individuals and non-local companies* also stayed low at 93 cases per month or 1.3% of total transactions in the second quarter, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As an indicator of *investment activities*, purchases subject to the New Residential Stamp Duty stayed at a modest level of 731 cases per month or 10.3% of total transactions in the second quarter, markedly lower than the monthly average of 1 412 cases subject to Double Stamp Duty or 26.5% in January to November 2016. As to *mortgage lending*, the average loan-to-value ratio of new mortgages was 47% in the second quarter, likewise considerably below the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority.

Diagram 3.4 : Speculative activities stayed subdued

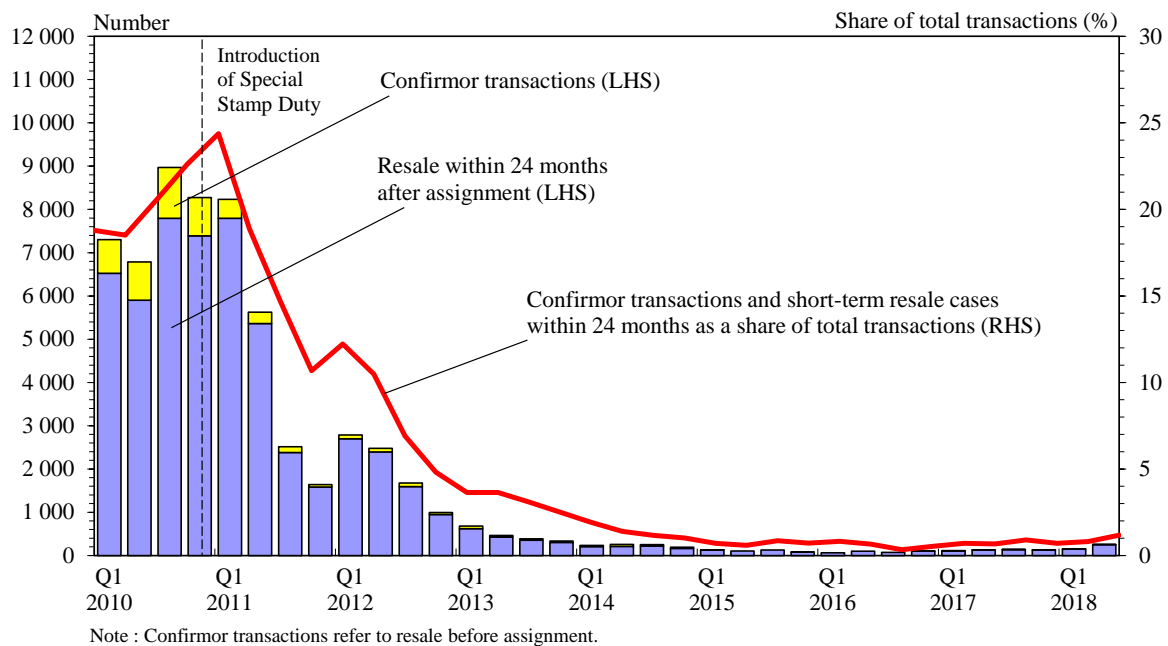


Diagram 3.5 : Purchases by non-local buyers remained low

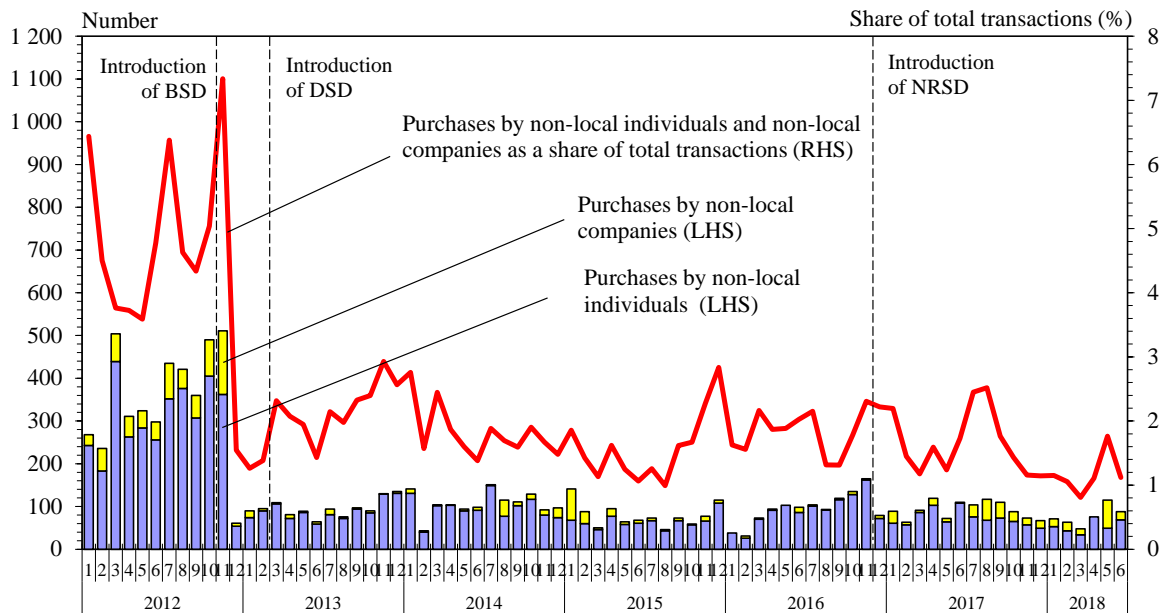
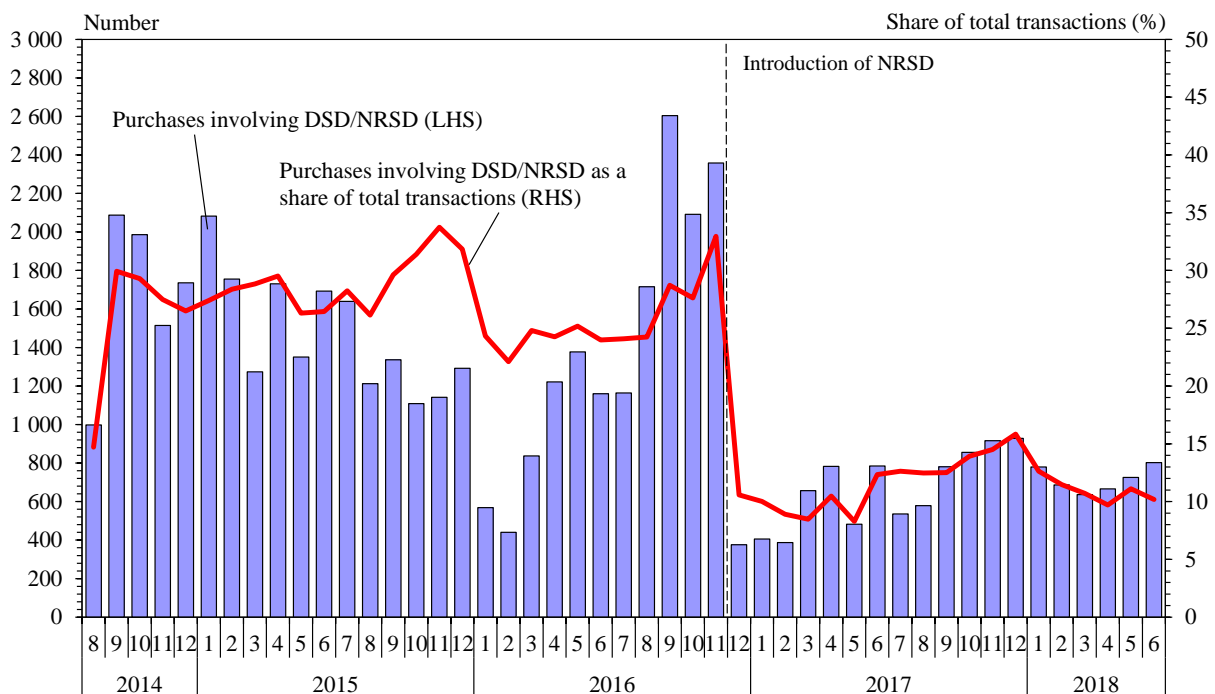


Diagram 3.6 : Investment activities were modest



3.10 While market sentiment stays sanguine for the time being, the changing fundamental factors will pose increasing adjustment pressures on the residential property market over time. The global and local economies sustained strong momentum so far this year, but external uncertainties have increased sharply of late as a result of the escalating trade conflicts between the US and the Mainland. The tight demand-supply balance of flats will ease in due course given the expected increase in flat completions in the coming few years. Also, local interest rates are bound to rise under the Linked Exchange Rate System as the US monetary policy normalisation process continues.

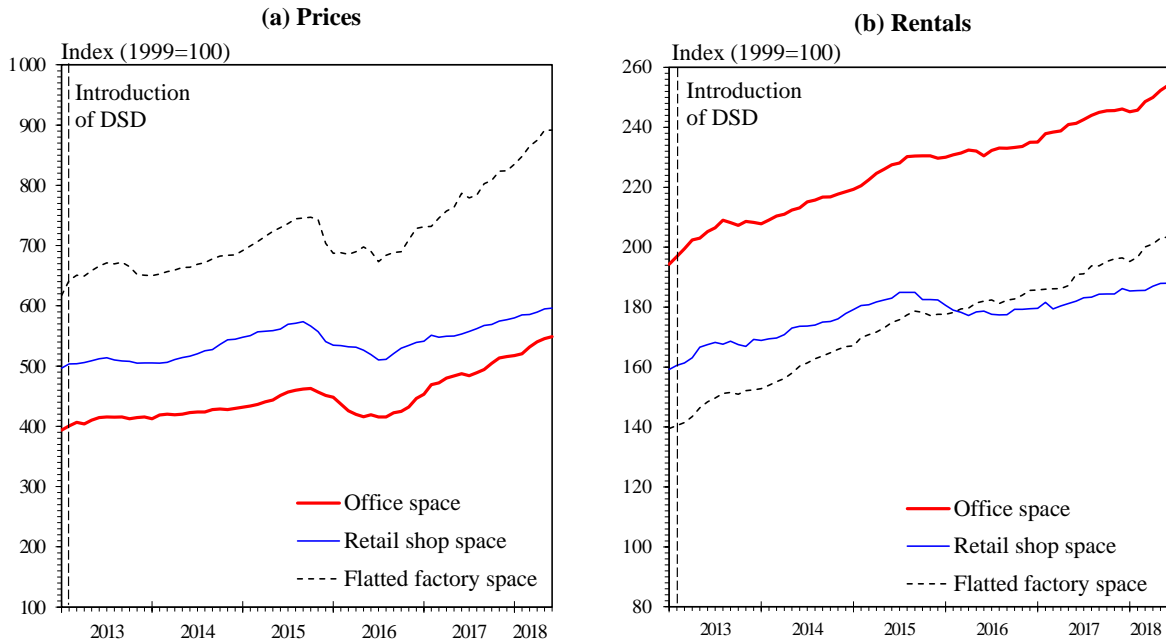
3.11 For the *commercial and industrial property markets*, most market segments showed some pick-up in the second quarter. Prices and rentals recorded further increases, while transactions turned active in general.

3.12 Overall sale prices of *office space* rose by another 3% between March and June. Within the total, prices of Grade A, B and C office space went up by 5%, 3% and 1% respectively. Over the same period, overall rentals also increased further by 2%, with those of Grade A, B and C office space rising by 3%, 2% and 1% respectively. Reflecting these movements, the average rental yields of Grade A, B and C office space were 2.4%, 2.7% and 2.7% respectively in June, compared with 2.5%, 2.7% and 2.7% in March. Yet transactions declined by 4% from the preceding quarter or 32% from a year earlier to 370 cases in the second quarter.

3.13 For *retail shop space*, sale prices and rentals went up by 2% and 1% respectively during the second quarter. The average rental yield stayed at 2.4% in June, virtually unchanged from March. Trading activities also expanded by 11% over the preceding quarter or 9% over a year earlier to 630 cases in the second quarter⁽²⁾.

3.14 As to *flatted factory space*, sale prices and rentals in June went up by 3% and 2% respectively over March. Reflecting these movements, the average rental yield edged down from 2.8% to 2.7% over the period. Transactions increased by 5% over the preceding quarter or a sharper 21% over a year earlier to 1 630 cases in the second quarter.

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



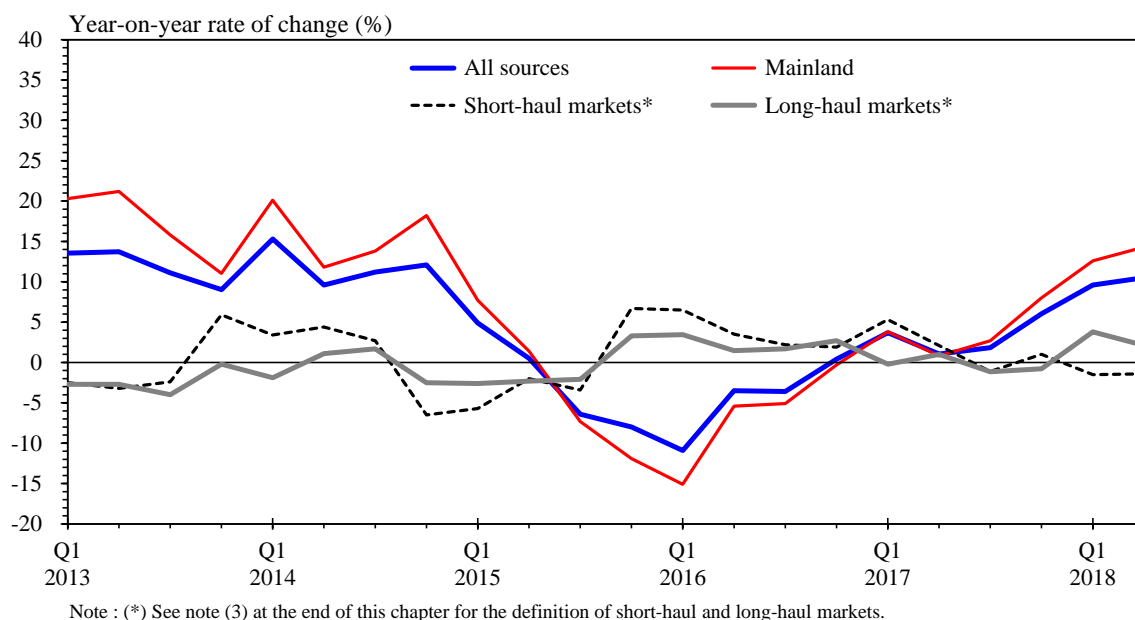
Land

3.15 Two residential sites, one site for logistics development purposes and one site for petrol filling station, with a total area of about 5.1 hectares, were disposed of in the second quarter, fetching a land premium of about \$29.3 billion. In addition, the tender exercises for one residential site in Yau Tong and one industrial site in Fanling commenced in the quarter. In the second quarter, four land exchange cases and lease modifications of eight sites were approved.

Tourism

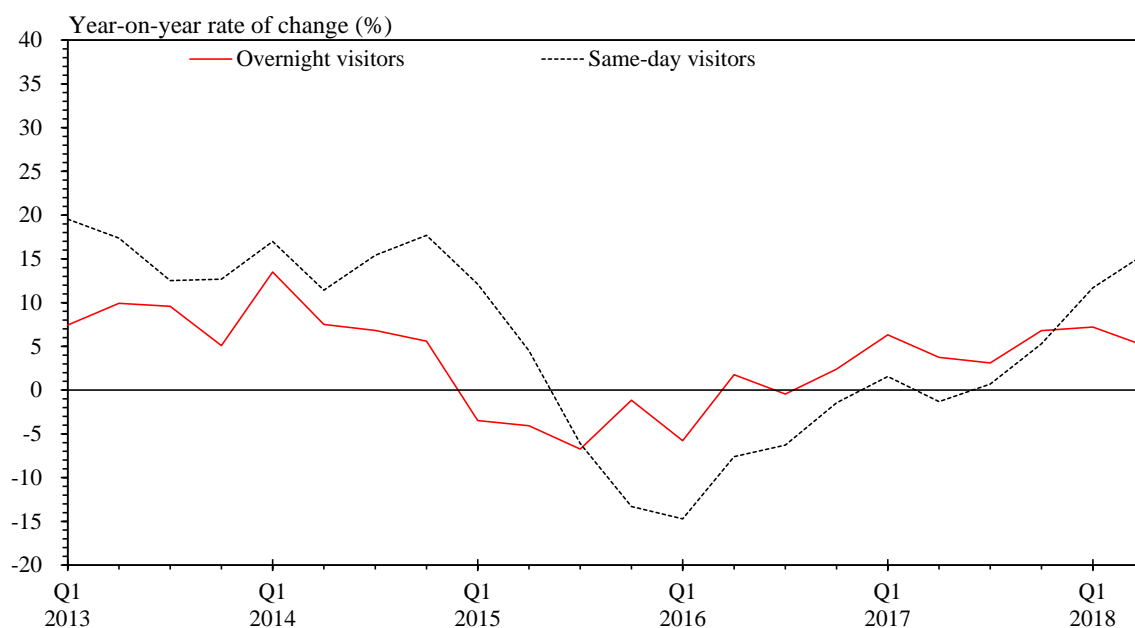
3.16 On the back of a continued rally in Mainland visitors, inbound tourism grew further in the second quarter. Overall *visitor arrivals* rose by 10.5% over a year earlier to 15.0 million. Mainland visitors, which accounted for 76.7% of the total, surged by 14.3% to 11.5 million. Meanwhile, visitor arrivals from long-haul markets rose by 2.1%, while visitor arrivals from short-haul markets declined by 1.4%⁽³⁾.

Diagram 3.8 : Inbound tourism grew further in the second quarter



3.17 Analysed by the length of stay, same-day visitor arrivals in the second quarter soared by 15.5% over a year earlier, and overnight visitor arrivals by a more moderate 5.1%. Reflecting these movements, the share of same-day visitors increased from 52.1% a year earlier to 54.4%, while that of overnight visitors declined from 47.9% to 45.6%.

Diagram 3.9 : Both same-day visitors and overnight visitors rose further

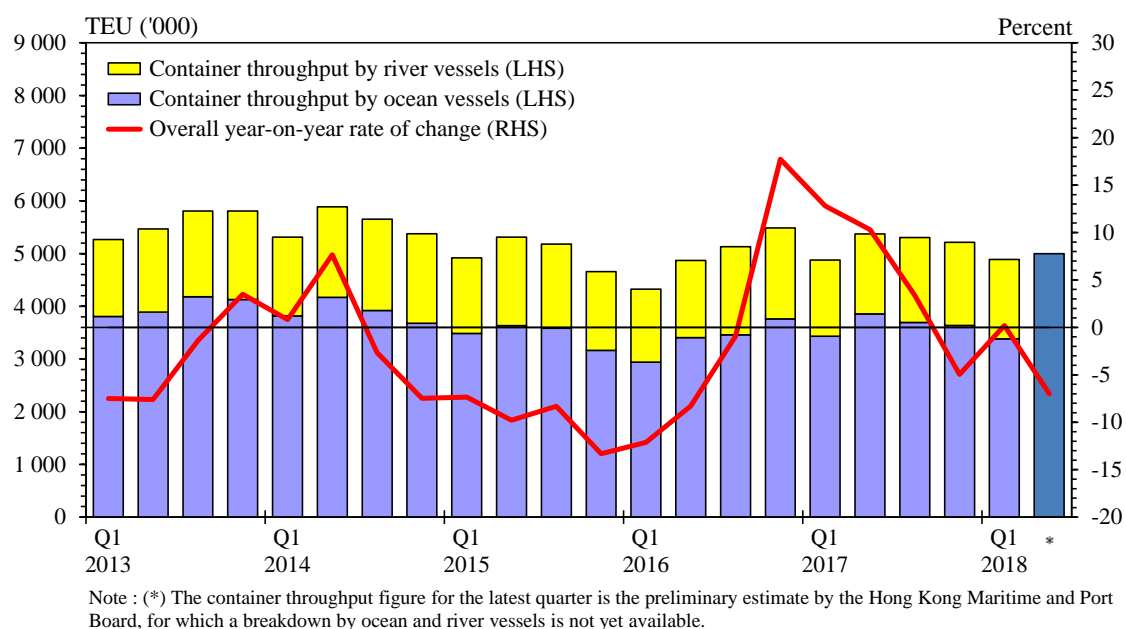


3.18 In tandem with the rise in overnight visitor arrivals, the average hotel room occupancy rate rose from 87% a year earlier to 90% in the second quarter. The average achieved hotel room rate also went up by 8.4% over a year earlier to \$1,297⁽⁴⁾.

Logistics

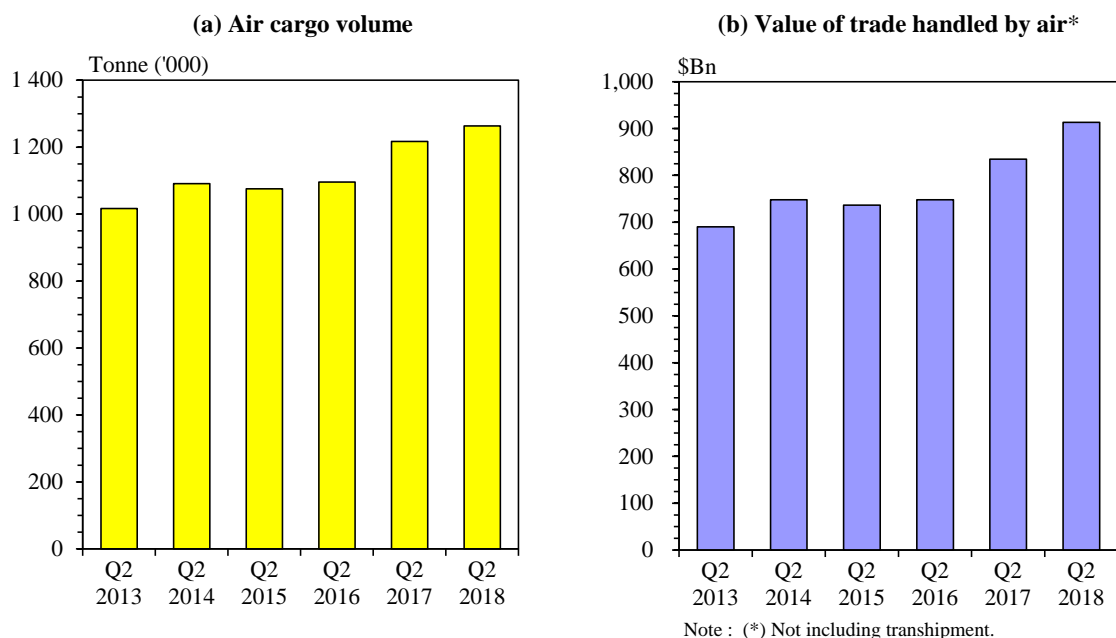
3.19 The logistics sector put up a mixed performance in the second quarter. Despite the solid performance in external trade, *total container throughput* decreased by 7.0% from a year earlier to 5.0 million twenty-foot equivalent units (TEUs), reflecting a fall in both direct and transshipment cargoes handled. While the value of trade handled at the Hong Kong port rose by 5.2%, its share in total trade shrank further from 18.5% a year earlier to 17.7%.

Diagram 3.10 : Container throughput decreased in the second quarter



3.20 Meanwhile, *air freight throughput* rose by another 3.7% over a year earlier to 1.3 million tonnes in the second quarter. Likewise, the value of trade by air increased by 9.4%, though its share in total trade decreased marginally from 41.9% a year earlier to 41.8%.

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



Transport

3.21 Traffic flows for most major modes of transport increased in the second quarter of 2018. Air passenger traffic rose by another 2.3% over a year earlier to 18.6 million trips, while water-borne passenger trips went up further by 0.8% to 6.6 million. As to land-based cross-boundary traffic, passenger trips increased by 2.7% to 56.4 million, while average daily vehicle movements decreased by 2.1% to 43 339.

Innovation and technology

3.22 The Inland Revenue (Amendment) (No. 3) Bill 2018 was gazetted in April to provide enhanced tax deduction to enterprises for their qualifying research and development (R&D) expenditure. Specifically, enterprises would enjoy a 300% tax deduction for the first \$2 million qualifying R&D expenditure and a 200% deduction for expenditure beyond that, without any cap on the amount of deduction. The measure would provide stronger incentives for enterprises to conduct R&D activities in Hong Kong for the benefit of its long-term development capacity and competitiveness.

3.23 Separately, the Government introduced the three-year Pilot Technology Talent Admission Scheme in June to provide a fast-track arrangement for the admission of overseas and Mainland research and development talent in specific technology areas. Through expediting the application and approval process for technology companies in acquiring talents,

the Scheme would help attract talents from different parts of the world and drive the innovation and technology development in Hong Kong.

Environment

3.24 In April, the Government announced the rates for the Feed-in Tariff (FiT), an initiative under the post-2018 Scheme of Control Agreements of the two power companies. The FiT Scheme will be introduced by the two power companies in late 2018 and early 2019. The two companies will purchase the electricity generated by renewable energy power generation installations at a rate higher than the normal electricity tariff rate, to encourage the private sector to invest in renewable energy (RE). Specifically, the Government has set the FiT rates at \$3, \$4 and \$5 per unit of electricity depending on the generation capacity of the RE system concerned, and the rates will be reviewed annually.

Notes :

- (1) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 in the 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 in the 2012 Economic Background and 2013 Prospects and Box 3.1 in the First Quarter Economic Report 2013. For details of the measures promulgated in 2014, see Box 4.1 in the 2013 Economic Background and 2014 Prospects. For details of the measures promulgated in 2015, see Box 3.1 of the First Quarter Economic Report 2015. For details of the measures promulgated in 2016, see note (1) at the end of Chapter 4 in the 2016 Economic Background and 2017 Prospects. For details of the measures promulgated in 2017, see note (3) at the end of Chapter 3 in the First Quarter Economic Report 2017, note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2017 and Box 3.1 of the Third Quarter Economic Report 2017.
- (2) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (3) Short-haul markets refer to North Asia, South and Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In the second quarter of 2018, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 77%, 15% and 8% of total visitors.
- (4) The figures on hotel room occupancy and achieved room rate do not include guesthouses.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *As the monetary policy normalisation in the US proceeded further, interest rates in Hong Kong, albeit still at rather low levels, generally picked up in the second quarter of 2018. Following the interest rate hike by the US Federal Open Market Committee in June, the Hong Kong Monetary Authority (HKMA) adjusted the Base Rate upward from 2.00% to 2.25%. The Hong Kong dollar interbank interest rates broadly picked up, partly due to some fund outflows amid higher US interest rates, and partly due to initial public offering (IPO)-related funding and seasonal liquidity needs.*
- *The Hong Kong dollar spot exchange rate stayed generally weak against the US dollar, and traded within a narrow range of 7.843 and 7.850 during the second quarter. The weak-side Convertibility Undertaking had been triggered many times since 12 April, and in response the HKMA purchased a total of \$70.4 billion worth of Hong Kong dollars, bringing the Aggregate Balance down from \$179.7 billion at end-March to \$109.5 billion at end-June.*
- *As the US dollar strengthened against most major currencies, both the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices rebounded by 2.6%.*
- *Total loans and advances grew by a moderated 1.6% during the second quarter, within which loans for use in and outside Hong Kong rose by 1.7% and 1.4% respectively.*
- *The local stock market came under pressure in mid-June after staying range-bound during most of the second quarter. As market sentiment was swayed by escalating trade conflicts between the US and the Mainland and expectations of faster US interest rate hikes, the Hang Seng Index closed the quarter at 28 955, 3.8% lower than end-March. Trading activities stayed generally active, while fund raising activities were tepid.*

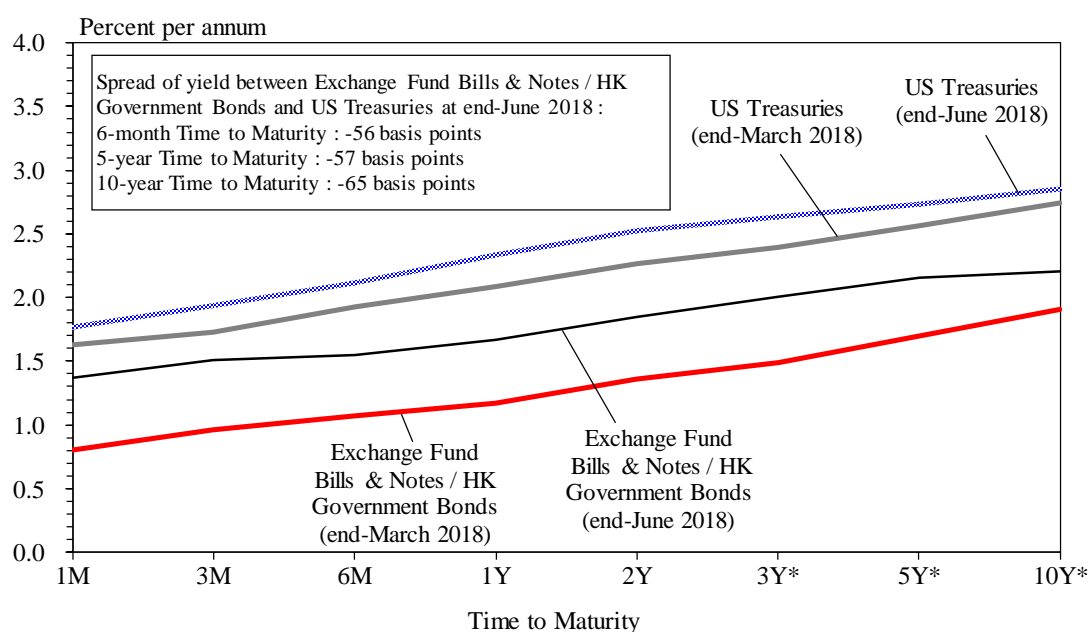
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Office of the Government Economist.*

Interest rates and exchange rates

4.1 As the monetary policy normalisation in the US proceeded further, interest rates in Hong Kong, albeit still at rather low levels, generally picked up in the second quarter of 2018. The US Federal Open Market Committee raised the target range for the Federal Funds Rate from 1.50-1.75% to 1.75-2.00% in June. Consequently, the HKMA adjusted the *Base Rate* under the Discount Window upward from 2.00% to 2.25%⁽¹⁾. The *Hong Kong dollar interbank interest rates* (HIBORs) broadly picked up, partly due to some fund outflows amid higher US interest rates, and partly due to IPO-related funding and seasonal liquidity needs. The overnight HIBOR surged from 0.59% at end-March to 2.70% at end-June, and the three-month HIBOR from 1.21% to 2.10%, though these were still low levels by historical standards.

4.2 During the second quarter, both *US dollar* and *Hong Kong dollar yields* rose, with the latter recording larger increases. Reflecting the relative movements, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills narrowed from 86 basis points at end-March to 56 basis points at end-June, and the negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes from 84 basis points to 65 basis points.

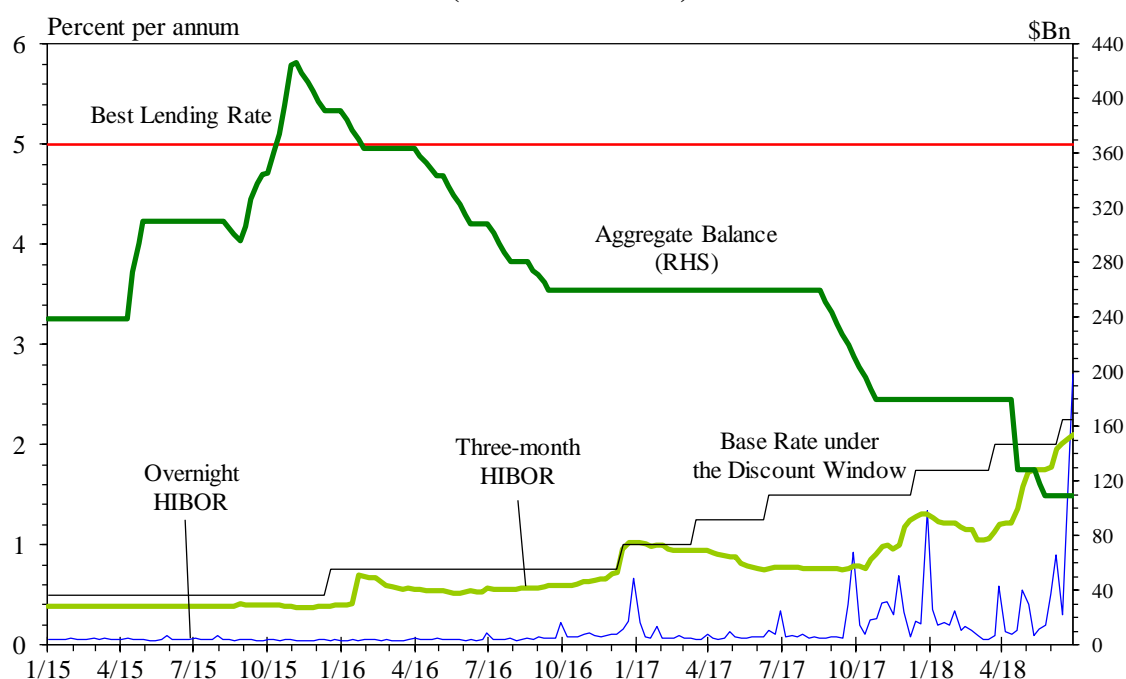
Diagram 4.1 : Hong Kong dollar yields recorded larger increases than their US dollar counterparts



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

4.3 Yet, interest rates on the retail front stayed at low levels. The *Best Lending Rates* remained unchanged at 5.00% or 5.25% in the second quarter. The *average savings deposit rate* and *one-year time deposit rate* quoted by the major banks for deposits of less than \$100,000 were also unchanged at 0.01% and 0.15% respectively, but some banks offered higher interest rates for time deposits of larger denominations. Meanwhile, the *composite interest rate*⁽²⁾, which indicates the average cost of funds for retail banks, picked up from 0.38% at end-March to 0.62% at end-June, reflecting both higher deposit rates and interbank rates.

**Diagram 4.2 : Interbank interest rates broadly picked up, while those on the retail front stayed at low levels
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* stayed generally weak against the US dollar, and traded within a narrow range of 7.843 and 7.850 during the second quarter. The weak-side Convertibility Undertaking had been triggered many times since 12 April, and in response the HKMA purchased a total of \$70.4 billion worth of Hong Kong dollars, bringing the Aggregate Balance down from \$179.7 billion at end-March to \$109.5 billion at end-June. The Hong Kong dollar closed at 7.846 at end-June, compared with 7.849 at end-March. Meanwhile, the *Hong Kong dollar forward rates* registered smaller discounts. The discounts of the 3-month and 12-month forward rates narrowed noticeably from 236 pips and 530 pips (each pip is equivalent to HK\$0.0001) at end-March to 128 pips and 415 pips at end-June respectively.

4.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar strengthened against most major currencies including the euro, pound sterling and renminbi (RMB), both the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ rebounded by 2.6% during the second quarter.

Diagram 4.3 : Hong Kong dollar traded within a narrow range against the US dollar during the second quarter (end for the week)

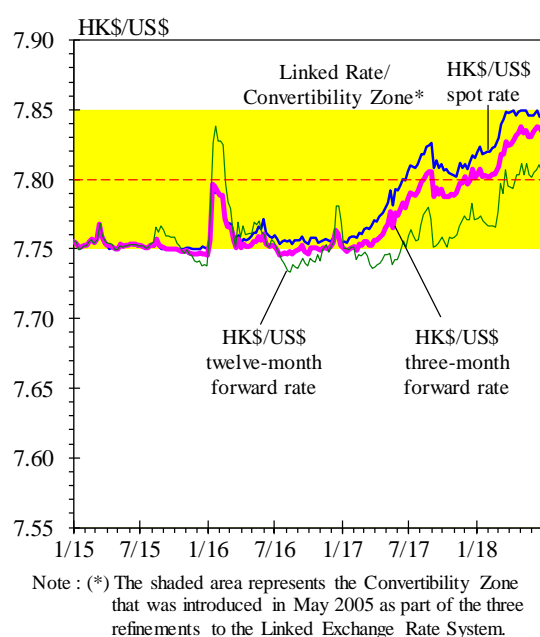
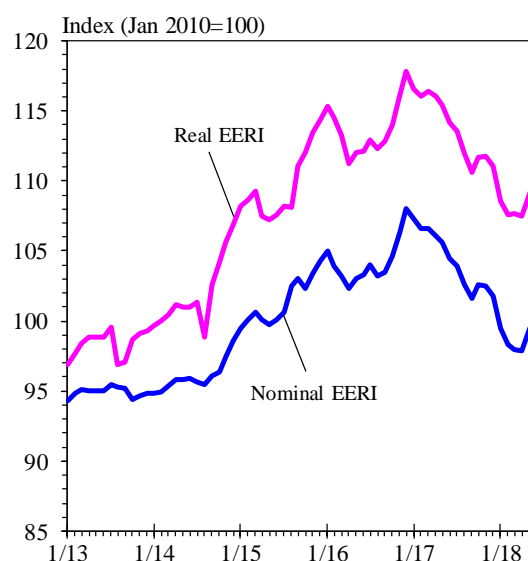


Diagram 4.4 : The trade-weighted nominal and real EERIs rebounded alongside the US dollar (average for the month)



Money supply and banking sector

4.6 The Hong Kong dollar broad *money supply* (HK\$M3) expanded by a decelerated 0.5% over end-March to \$7,279 billion⁽⁴⁾ at end-June, while the seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1) fell by 1.8% to \$1,645 billion. Meanwhile, *total deposits* with authorised institutions (AIs)⁽⁵⁾ increased modestly by 0.4% to \$12,958 billion, with Hong Kong dollar deposits and foreign currency deposits increasing by 0.5% and 0.2% respectively.

Diagram 4.5 : Broad money supply expanded at a decelerated pace, while narrow money supply declined during the second quarter

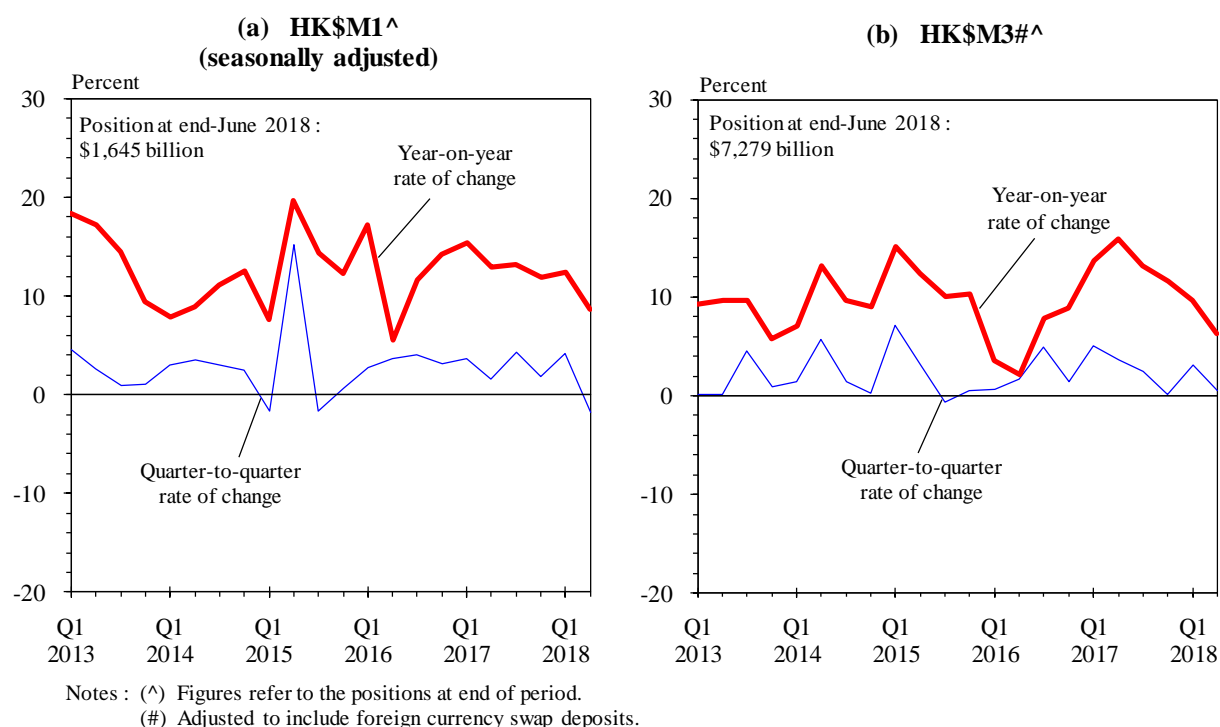


Table 4.1 : Hong Kong dollar money supply and total money supply

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
% change during the quarter		<u>HK\$[^]</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
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
2018	Q1	4.2	1.7	3.1	1.3	3.2	1.3
	Q2	-1.8	1.9	0.5	0.3	0.5	0.3
Total amount at end-June 2018 (\$Bn)		1,645	2,520	7,263	13,980	7,279	14,033
% change over a year earlier		8.6	9.6	6.2	5.0	6.3	5.0

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 *Total loans and advances* grew by a moderated 1.6% over end-March to \$9,806 billion at end-June. Within the total, Hong Kong dollar loans expanded by 3.2%, while foreign currency loans contracted by 0.6%. Reflecting the relative movements in deposits and loans, the loan-to-deposit

ratio for Hong Kong dollar went up from 83.2% at end-March to 85.4% at end-June, while that for foreign currencies edged down from 65.7% to 65.2%.

4.8 Both loans for use in and outside Hong Kong grew at decelerated paces. Loans for use in Hong Kong (including trade finance) increased by 1.7% over end-March to \$6,862 billion at end-June, and loans for use outside Hong Kong by 1.4% to \$2,944 billion. Within the former, loans to most economic sectors continued to register increases amid strong domestic economic situation. Loans to manufacturing and trade finance expanded strongly by 9.6% and 5.1% respectively in tandem with solid export growth. Loans to stockbrokers and financial concerns increased further by 15.6% and 3.5% respectively, while loans to wholesale and retail trade edged up by 0.6%. As for property-related lending, loans for purchase of residential property recorded solid increase of 2.3% amid a buoyant property market, yet loans to building, construction, property development and investment switched to a mild decline of 2.3%.

Table 4.2 : Loans and advances

All loans and advances for use in Hong Kong

		Loans to :									
% change during the quarter		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
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	1.5	13.5	16.7	2.8	3.2	2.9
2018	Q1	5.7	3.3	4.9	2.8	1.9	6.1	3.7	3.6	3.7	3.6
	Q2	5.1	9.6	0.6	-2.3	2.3	3.5	15.6	1.7	1.4	1.6
Total amount at end-June 2018 (\$Bn)		549	332	432	1,478	1,313	901	105	6,862	2,944	9,806
% change over a year earlier		12.6	22.1	0.2	6.5	8.2	31.9	58.2	11.3	10.0	10.9

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

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

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

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

4.9 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 19.1% at end-March 2018. Asset quality of the local banking sector also stayed healthy. The ratio of classified loans to total loans for retail banks edged up from 0.54% at end-2017 to 0.55% at end-March 2018, and the delinquency ratio for credit card lending remained at a low level of 0.22%. The delinquency ratio for residential mortgage loans stayed low at 0.02% at end-June 2018.

Table 4.3 : Asset quality of retail banks*

(as % of total loans)

<u>As at end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2017	Q1	97.94	1.35	0.70
	Q2	98.22	1.10	0.68
	Q3	98.35	1.02	0.62
	Q4	98.42	1.03	0.54
2018	Q1	98.36	1.09	0.55

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

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

4.10 The Banking (Disclosure) (Amendment) Rules 2018 came into operation on 30 June. The Disclosure Rules seek mainly to implement the latest disclosure requirements issued by the Basel Committee on Banking Supervision in March 2017 to enhance the requirements in terms of transparency, comparability and user-relevance of bank disclosures. Separately, the Banking (Amendment) Ordinance 2018 (Commencement) Notice 2018 and the Banking (Exposure Limits) Rules were gazetted in May to modernise the relevant section of the Banking Ordinance in relation to a prescribed limit on equity exposures incurred by AIs. These legislative exercises represent the commitment of Hong Kong to align its regulatory regime with the latest international standards, market developments and industry practices. They would also help enhance the resilience of the banking system and be conducive to Hong Kong’s status as a major international financial centre.

4.11 The *offshore RMB business* showed mixed performance in the second quarter. RMB trade settlement transactions handled by banks in Hong Kong rose by 10.1% over a year earlier to RMB1,013.7 billion in the second quarter. Total RMB deposits (including customer deposits and outstanding certificates of deposit) also increased modestly by 5.0% over end-March to RMB634.2 billion at end-June. Yet RMB financing activities remained generally soft. RMB bond issuance went down from RMB9.5 billion in the preceding quarter to RMB7.4 billion in the second quarter, though sharply above the RMB2.2 billion issuance a year earlier (excluding the issuance of RMB7.0 billion by the Ministry of Finance). Outstanding RMB bank loans fell by 11.0% from end-March to RMB123.3 billion at end-June.

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

<u>As at end of period</u>		<u>Interest rates on</u> ^(a)					<u>Number of AIs engaged in RMB business</u>	<u>Amount of cross-border RMB trade settlement</u> ^(c) (RMB Mn)
		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Savings deposits</u> ^(b) (%)	<u>Three-month time deposits</u> ^(b) (%)		
2017	Q1	131,103	376,169	507,272	0.25	0.53	141	813,750
	Q2	142,517	383,560	526,077	0.25	0.53	140	920,424
	Q3	153,368	382,099	535,468	0.25	0.53	137	997,068
	Q4	159,698	399,439	559,137	0.25	0.53	137	1,182,650
2018	Q1	159,509	394,808	554,317	0.25	0.53	136	1,007,895
	Q2	167,016	417,505	584,521	0.25	0.53	137	1,013,743
% change in 2018 Q2 over 2017 Q2		17.2	8.9	11.1	N.A.	N.A.	N.A.	10.1
% change in 2018 Q2 over 2018 Q1		4.7	5.7	5.4	N.A.	N.A.	N.A.	0.6

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

The debt market

4.12 The Hong Kong dollar *debt market* continued to expand in the second quarter. Total gross issuance of Hong Kong dollar debt securities edged up by 0.3% over the preceding quarter to \$902.8 billion, with the increase of 2.1% in public sector debt issuance more than offsetting the decline of 15.1% in private sector debt issuance⁽⁶⁾. Total outstanding balance of Hong Kong dollar debt securities went up by 1.8% over end-March to \$1,824.5 billion at end-June, equivalent to 25.1% of HK\$M3 or 20.4% of Hong Kong dollar-denominated assets of the banking sector⁽⁷⁾.

4.13 As to the Government Bond (“GB”) Programme, a total of \$6.5 billion worth of institutional GBs were issued through tenders in the second quarter. At end-June, the total outstanding amount of Hong Kong dollar bonds under the GB Programme was \$104.7 billion, comprising 12 institutional issues totaling \$78.8 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 4.5 : New issuance and outstanding value of
Hong Kong dollar debt securities (\$Bn)**

		<u>Exchange Fund paper</u>	<u>Statutory bodies/govern- ment-owned corporations</u>	<u>Govern- ment</u>	<u>Public sector total</u>	<u>AIs^(a)</u>	<u>Local corporations</u>	<u>Non-MDBs overseas borrowers^(b)</u>	<u>Private sector total</u>	<u>MDBs^(b)</u>	<u>Total</u>
New Issuance											
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
2018	Q1	791.9	7.2	1.8	801.0	63.9	5.6	28.8	98.2	1.2	900.4
	Q2	805.4	6.2	6.5	818.1	40.9	15.0	27.4	83.3	1.4	902.8
% change in 2018 Q2 over 2017 Q2		12.2	-28.3	-39.3	10.9	-1.5	232.5	-26.0	0.3	-9.7	9.8
% change in 2018 Q2 over 2018 Q1		1.7	-15.1	261.1	2.1	-35.9	170.4	-5.0	-15.1	14.8	0.3
Outstanding (as at end of period)											
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	102.8	1,170.2	262.7	158.7	182.7	604.2	10.8	1,785.2
	Q4	1,048.5	53.6	106.3	1,208.4	242.6	160.6	180.5	583.8	9.9	1,802.1
2018	Q1	1,050.6	55.9	99.7	1,206.2	221.9	159.5	193.1	574.6	11.1	1,791.9
	Q2	1,053.9	54.5	106.2	1,214.5	222.0	173.6	202.3	597.8	12.1	1,824.5
% change in 2018 Q2 over 2017 Q2		9.1	4.8	-5.4	7.5	-17.6	12.2	8.5	-2.0	6.3	4.2
% change in 2018 Q2 over 2018 Q1		0.3	-2.6	6.5	0.7	*	8.8	4.7	4.0	9.0	1.8

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.

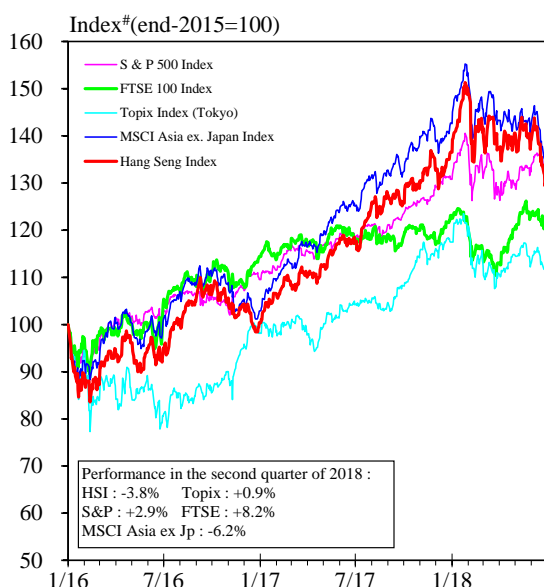
(*) Change of less than $\pm 0.05\%$.

The stock and derivatives markets

4.14 The *local stock market* came under pressure in mid-June after staying range-bound during most of the second quarter. The Hang Seng Index (HSI) moved within a narrow range of around 29 500 and 31 500 during April to early June. Yet it slid starting mid-June, as market sentiment was swayed by escalating trade conflicts between the US and the Mainland and expectations of faster US interest rate hikes. The HSI dropped to 28 356 on 27 June, the lowest since early December 2017, and closed the quarter at 28 955, 3.8% lower than end-March 2018. In parallel, *market capitalisation* declined by 3.8% from end-March to \$33.1 trillion at end-June. The local stock market ranked the sixth largest in the world and the third largest in Asia⁽⁸⁾.

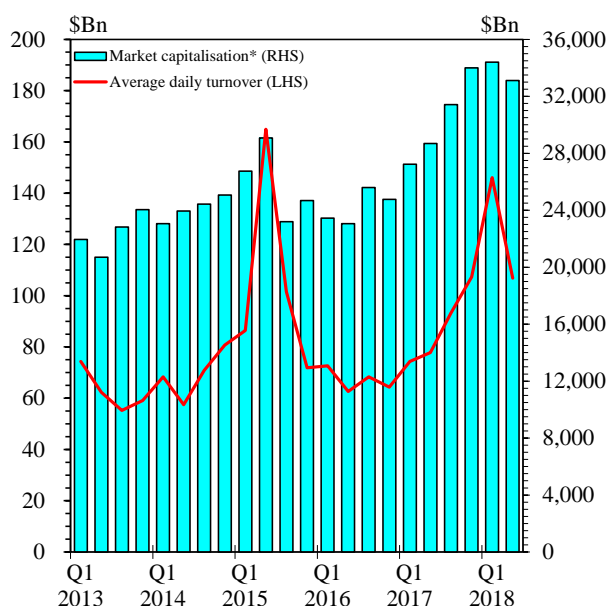
4.15 Trading activities stayed generally active in the second quarter, though quietening down from the hectic level in the preceding quarter. *Average daily turnover* in the securities market contracted by 26.8% from the high base in the first quarter to \$106.8 billion, but was still 37.3% higher than a year earlier. Within the total, the average daily trading value of derivative warrants, callable bull/bear contracts, unit trusts (including Exchange-Traded Funds) and equities⁽⁹⁾ fell noticeably by 42.9%, 36.1%, 26.2% and 22.6% respectively from the preceding quarter. As to futures and options⁽¹⁰⁾, the average daily trading volume declined by 16.4%. Within the total, trading of stock options, HSI options and Hang Seng China Enterprises Index futures fell by 27.6%, 21.4% and 7.7% respectively, while that of HSI futures rose by 14.9%.

Diagram 4.6 : The local stock market came under pressure in mid-June after staying range-bound during most of the second quarter



Note : (#) Position at end of month.

Diagram 4.7 : Market capitalisation declined, while trading activities stayed generally active



Note : (*) Position at end of quarter.

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

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	Hang Seng China Enterprises <u>Index futures</u>	Stock <u>options</u>	Total futures and <u>options traded*</u>
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
2018	Q1	205 103	58 873	151 890	665 446	1 342 268
	Q2	235 668	46 252	140 129	481 531	1 122 713
% change in 2018 Q2 over 2017 Q2		92.8	26.5	13.9	29.4	40.3
% change in 2018 Q2 over 2018 Q1		14.9	-21.4	-7.7	-27.6	-16.4

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

4.16 Fund raising activities were tepid in the second quarter. *Total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and GEM⁽¹¹⁾, plummeted by 42.9% from the preceding quarter or 38.1% from a year earlier to \$69.0 billion. Within the total, the amount of funds raised through IPOs rebounded by 6.5% over the preceding quarter to \$26.0 billion, yet this was still a low level by historical standards. Nonetheless, thanks to the relatively strong performance in the first quarter, total equity capital raised rose by 8.9% over the first half of 2017 to \$189.8 billion for the first half of 2018 as a whole, though the amount of funds raised through IPOs fell by 8.1% to \$50.4 billion. Hong Kong ranked the third globally in terms of the amount of funds raised through IPOs in the first half of the year.

4.17 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-June, a total of 1 085 Mainland enterprises (including 256 H-share companies, 164 “Red Chip” companies and 665 private enterprises) were listed on the Main Board and GEM, accounting for 49% of the total number of listed companies and 67% of total market capitalisation. In the second quarter, Mainland-related stocks accounted for 80% of equity turnover and 76% of total equity fund raised in the Hong Kong stock exchange.

4.18 The Stock Exchange of Hong Kong launched a new listing regime for companies from emerging and innovative sectors on 30 April. The new regime allows the listings on the Main Board of Biotech companies that do not meet any of the financial eligibility tests (including those that do not have any prior record of revenue or profit), high growth and innovative companies that have weighted voting rights structures, as well as Qualifying Issuers seeking a secondary listing through a new concessionary route. The new listing regime would help enhance the attractiveness of Hong Kong's stock market while maintaining a high standard of investor protection.

4.19 In April, the China Securities Regulatory Commission and the Securities and Futures Commission (SFC) agreed to increase the daily quotas under Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. Specifically, since 1 May, the daily quota for each of the northbound trading links has been raised from RMB13.0 billion to RMB52.0 billion, and that for each of the southbound trading links from RMB10.5 billion to RMB42.0 billion. The increase would facilitate investors' access to the Hong Kong and Mainland stock markets and promote the further development of mutual market access, thereby strengthening Hong Kong's roles and contributions in the two-way opening-up of the Mainland's capital markets.

4.20 Following earlier consultation, the HKMA and the SFC issued the conclusions on further enhancements to the over-the-counter (OTC) derivatives regulatory regime in June. The conclusions set out the detailed proposals for, among others, the mandatory use of the Legal Entity Identifiers in trade reporting of OTC derivatives, and an expansion of the clearing obligation. These proposals would help align Hong Kong's regulatory regime for OTC derivatives trading with international standards and enhance its robustness for the benefit of financial system stability.

Fund management and investment funds

4.21 The fund management business showed some cool-off in the second quarter⁽¹²⁾. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹³⁾ edged down by 0.5% from end-March to \$852.0 billion at end-June. For *mutual funds*, the monthly average gross retail sales plunged by 29.9% from the preceding quarter to US\$7.7 billion in April – May⁽¹⁴⁾, though increasing by 7.1% over a year earlier.

4.22 In May, the SFC released the consultation conclusions on the proposed Securities and Futures (Open-ended Fund Companies) Rules and Code on Open-ended Fund Companies, setting out the detailed legal and regulatory requirements for the new open-ended fund company (OFC) structure. After considering market feedback, the SFC would implement its earlier proposals with certain modifications and clarifications, including streamlining the approval requirements for private OFCs and providing a one-stop arrangement for the establishment, ongoing corporate filings and termination of OFCs. The relevant subsidiary legislations were subsequently gazetted and the OFC regime took effect on 30 July. The introduction of the OFC regime as a new corporate fund structure would help enrich the choice of investment vehicles in Hong Kong and enhance Hong Kong's attractiveness as a preferred fund domicile.

Insurance sector

4.23 The *insurance sector*⁽¹⁵⁾ recorded mixed performance in the first quarter of 2018. Gross premium income from long-term business edged up by 0.9% over a year earlier. Premium income from non-investment linked plans (which accounted for 90% of total premium for this segment) fell by 4.0%, while that from investment linked plans surged by 96.8%. As to general business, gross and net premium rose by 11.1% and 11.5% respectively.

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

		General business			Premium for long-term business^					Gross premium from long-term business and general business
		<u>Gross premium</u>	<u>Net premium</u>	<u>Underwriting profit</u>	<u>Individual life and annuity (non-linked)</u>	<u>Individual life and annuity (linked)</u>	<u>Other individual business</u>	<u>Non-retirement scheme group business</u>	<u>All long-term business</u>	
2017	Annual	48,137	33,068	-792	142,905	12,710	253	507	156,375	204,512
	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
	Q4	10,316	7,093	-599	36,066	3,568	77	53	39,764	50,080
2018	Q1	15,495	10,569	-166	39,783	4,252	63	132	44,230	59,725
% change in 2018 Q1 over 2017 Q1		11.1	11.5	N.A.	-4.0	96.8	10.5	-21.4	0.9	3.4

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 movements 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 and held outside the monetary sector, as well as short-term Exchange Fund placements of less than one month.

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

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

- (5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-June 2018, there were 154 licensed banks, 19 restricted licence banks and 17 deposit-taking companies in Hong Kong. Altogether, 190 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-June 2018, there were 89 classes of stock options contracts and 76 classes of stock futures contracts.
- (11) At end-June 2018, there were 1 848 and 367 companies listed on the Main Board and GEM respectively.
- (12) At end-June 2018, there was no SFC-authorised hedge fund after the de-authorisation of the remaining retail hedge fund in the second quarter of 2018.
- (13) At end-June 2018, there were 16 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 284 000 employers, 2.60 million employees and 206 000 self-employed persons have participated in MPF schemes.
- (14) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-May 2018, the survey covered a total of 973 active authorised funds.
- (15) At end-June 2018, there were 160 authorised insurers in Hong Kong. Within this total, 48 were engaged in long-term insurance business, 93 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 23 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

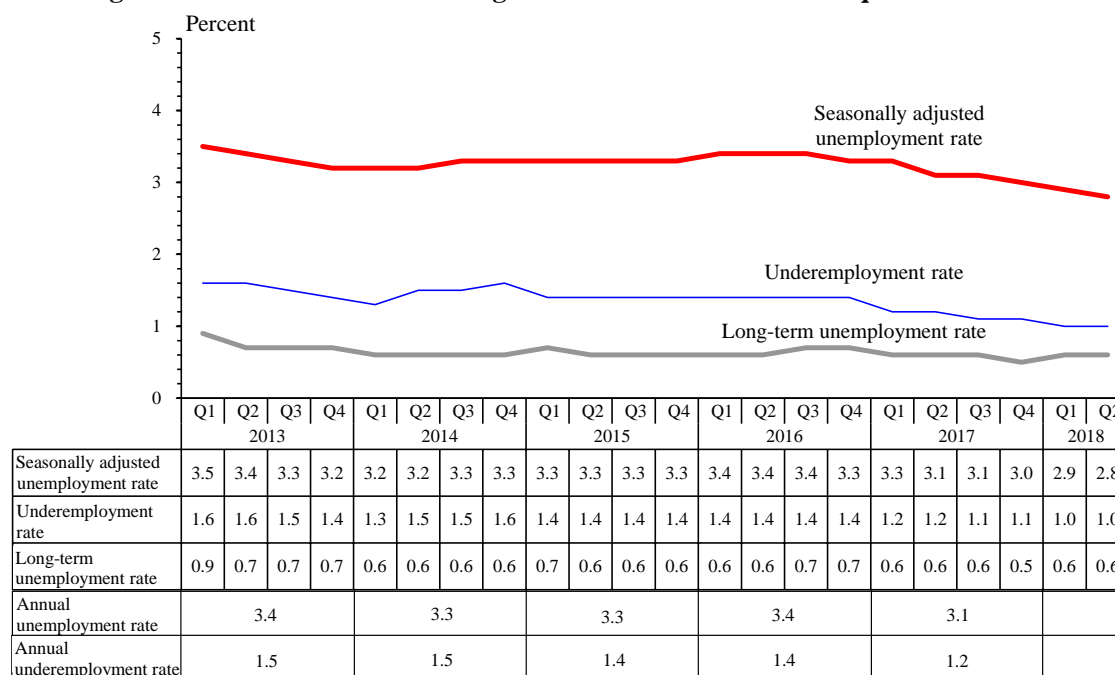
Summary

- *On the back of vibrant economic conditions, the labour market tightened further in the second quarter of 2018. The seasonally adjusted unemployment rate edged down by 0.1 percentage point from the preceding quarter to a fresh 20-year low of 2.8%, while the underemployment rate held unchanged at 1.0%.*
- *Reflecting the sturdy labour demand, total employment continued to record solid growth in the second quarter over a year earlier while the number of private sector vacancies showed further marked increase.*
- *Wages and payroll sustained solid year-on-year growth that exceeded inflation in early 2018, with increases observed for most major sectors. Earnings of grassroots workers grew steadily further and continued to see appreciable real improvement.*

Overall labour market situation⁽¹⁾

5.1 The labour market tightened further in the second quarter of 2018 amid the vibrant local economy. The seasonally adjusted *unemployment rate*⁽²⁾ edged down by 0.1 percentage point from the preceding quarter to 2.8%, the lowest level since early 1998, while the *underemployment rate*⁽³⁾ remained unchanged at a low level of 1.0%. Both the labour force and total employment posted further solid year-on-year growth in the second quarter. Data collected from private sector establishments likewise pointed to robust labour demand, as manifested by sturdy job gains and a notable increase in job vacancies over a year earlier. Thanks to the persistently tight labour market, wages and earnings in most sectors continued to record solid growth, translating into real improvement after discounting inflation. Earnings of the lower-income workers increased steadily at a pace well exceeding inflation, signifying appreciable growth in real terms.

Diagram 5.1 : The labour market tightened further in the second quarter of 2018



Labour force and total employment

5.2 On the supply side, the *labour force*⁽⁴⁾ expanded by 1.3% year-on-year to 3 982 200 in the second quarter of 2018, faster than the concurrent increase of 0.8% in the working-age population (i.e. land-based non-institutional population aged 15 and above), mainly due to a rise in labour force participation rate to 61.2% from 60.9% a year earlier.

5.3 On the demand side, *total employment*⁽⁵⁾ went up further by 1.7% year-on-year, reaching 3 869 800 in the second quarter of 2018. Analysed by sector, the construction sector and many major service sectors registered job gains, with relatively visible increases found in the human health activities, social work activities, decoration, repair and maintenance for buildings, and financing and insurance sectors.

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

		<u>Labour force</u>		<u>Persons employed</u>		<u>Persons unemployed^(a)</u>	<u>Persons underemployed</u>
2017	Annual	3 946 600 (0.7)		3 823 200 (1.0)		123 400	45 600
	Q1	3 931 700 (0.4)		3 805 000 (0.6)		126 700	48 900
	Q2	3 931 100 (0.5)		3 805 300 (0.8)		125 700	46 200
	Q3	3 946 900 (0.5)		3 817 500 (0.8)		129 400	44 900
	Q4	3 950 200 (1.0)		3 840 300 (1.4)		109 800	42 400
2018	Q1	3 984 400 (1.3)		3 872 400 (1.8)		112 100	38 900
<i>Three months ending</i>							
2018	Apr	3 979 500 (1.4)		3 866 600 (1.8)		112 900	41 100
	May	3 977 200 (1.3)		3 864 900 (1.7)		112 300	41 000
	Jun	3 982 200 (1.3)		3 869 800 (1.7)		112 400	41 400
		<0.1>		<0.2>			

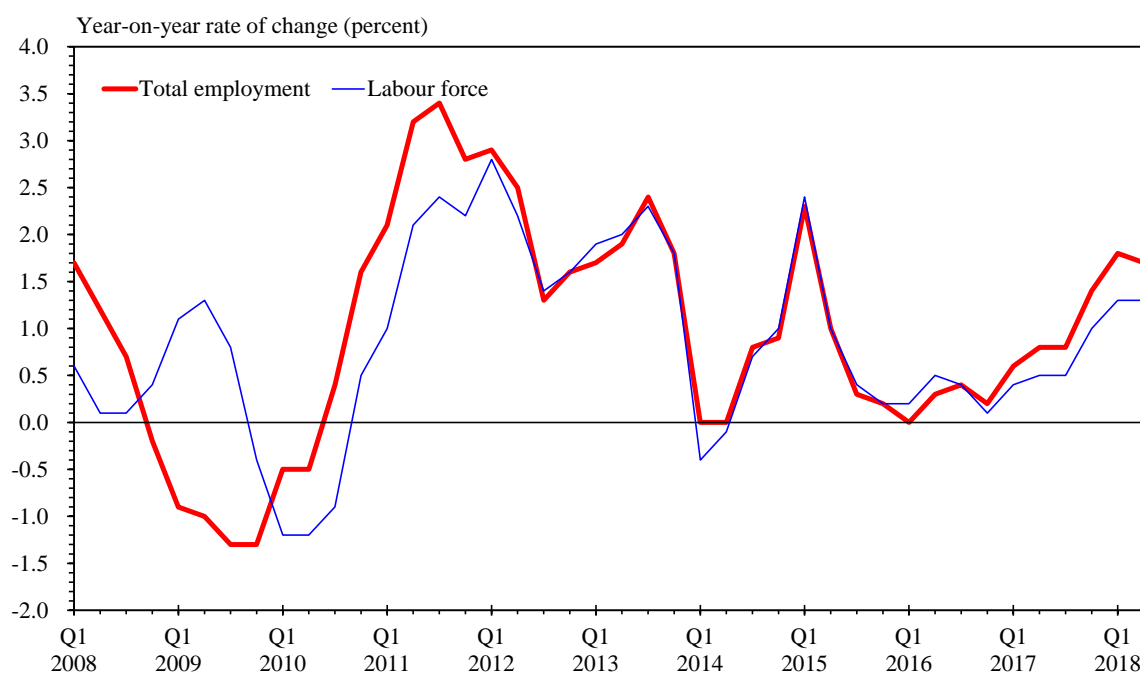
Notes : (a) These include first-time job-seekers and re-entrants into the labour force.

() % change over a year earlier.

< > Seasonally adjusted quarter-to-quarter % change for the second quarter of 2018.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.2 : Labour force and total employment sustained solid year-on-year growth in the second quarter of 2018



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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018 Q1</u>	<u>2018 Q2</u>
<u>Male</u>							
15-24	37.8	37.8	39.1	39.5	38.1	39.0	38.6
<i>of which:</i>							
15-19	11.0	11.1	11.7	12.9	9.9	9.3	10.4
20-24	62.5	61.4	62.0	60.7	59.2	60.7	59.3
25-29	93.8	93.4	93.7	92.9	92.6	92.2	92.5
30-39	96.9	96.5	96.5	96.4	96.6	96.9	96.1
40-49	95.5	94.7	95.1	95.0	95.2	95.5	95.3
50-59	86.9	86.7	86.6	86.0	86.7	87.3	86.4
≥ 60	27.0	28.0	28.5	29.9	30.4	31.2	31.9
Overall	69.2	68.8	68.8	68.6	68.3	68.7	68.4
<u>Female</u>							
15-24	40.0	39.3	41.4	41.9	41.5	40.8	40.7
<i>of which:</i>							
15-19	11.5	12.5	12.8	12.3	11.8	11.1	12.9
20-24	64.2	61.4	63.6	63.6	61.8	60.5	59.3
25-29	86.5	86.3	85.7	86.2	86.5	87.3	85.2
30-39	78.4	78.9	78.4	78.0	79.0	80.2	80.7
40-49	72.8	73.0	73.7	73.4	73.8	74.1	74.3
50-59	56.2	57.2	58.3	59.7	60.4	61.1	60.7
≥ 60	9.7	10.7	11.4	12.3	13.7	14.3	14.7
Overall	54.5	54.5	54.7	54.8	55.1	55.4	55.3
<u>Both genders combined</u>							
15-24	38.9	38.5	40.2	40.7	39.8	39.9	39.7
<i>of which:</i>							
15-19	11.3	11.8	12.3	12.6	10.8	10.1	11.6
20-24	63.4	61.4	62.8	62.2	60.5	60.6	59.3
25-29	89.6	89.4	89.2	89.2	89.3	89.5	88.5
30-39	85.9	86.0	85.7	85.4	86.0	86.8	86.8
40-49	82.5	82.3	82.7	82.4	82.6	82.9	82.9
50-59	71.1	71.4	71.8	72.2	72.7	73.3	72.7
≥ 60	18.0	19.0	19.6	20.7	21.7	22.4	22.9
Overall	61.2	61.1	61.1	61.1	61.1	61.4	61.2

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

5.4 The number of unemployed persons, at 112 400 in the second quarter of 2018, showed little change from the preceding quarter. However, when compared with its year-ago level to net out seasonal fluctuations, there was a notable decrease of 10.6%. The seasonally adjusted unemployment rate inched down by 0.1 percentage point from the first quarter to 2.8% in the second quarter, the lowest level in more than 20 years.

5.5 On a quarter-to-quarter comparison, the unemployment rates (not seasonally adjusted) in the decoration, repair and maintenance for buildings (down 0.8 percentage point), and education sectors registered notable declines (down 0.6 percentage point). On the other hand, visible increases in unemployment rate were seen in the postal and courier activities (up 1.8 percentage points), and warehousing and support activities for transportation sectors (up 0.8 percentage point). On a year-on-year comparison to net out seasonal influences, most of the major service sectors witnessed improvement in unemployment situation. Specifically, thanks to the strength in local consumption and inbound tourism, the jobless rate in the consumption- and tourism-related segment as a whole (viz retail, accommodation and food services) went down visibly by 0.8 percentage point from its year-ago level to a four-year low of 3.9%. The cleaning and similar activities, and import/export trade and wholesale sectors also saw relatively notable declines in unemployment rate over the same period. Meanwhile, the unemployment rate of *low paying sectors*⁽⁶⁾ as a whole edged down by 0.1 percentage point from the preceding quarter to 2.7%, and was 0.4 percentage point below its year-ago level.

5.6 Analysed by skill segment, the unemployment rate of the lower-skilled segment went down slightly by 0.2 percentage point from the preceding quarter to 3.0%, while that of the higher-skilled segment increased marginally by 0.1 percentage point to 1.7%. On a year-on-year comparison, the unemployment rate of the lower-skilled segment declined visibly by 0.7 percentage point, whereas that of the higher-skilled segment remained unchanged.

5.7 As regards other socio-economic attributes, more discernible year-on-year decreases in unemployment rate were noted among persons aged 60 and above (down 0.8 percentage point), and those with lower secondary education and below (down 0.9 percentage point).

Diagram 5.3 : Most of the major service sectors registered declines in unemployment rate on a year-on-year basis in the second quarter of 2018

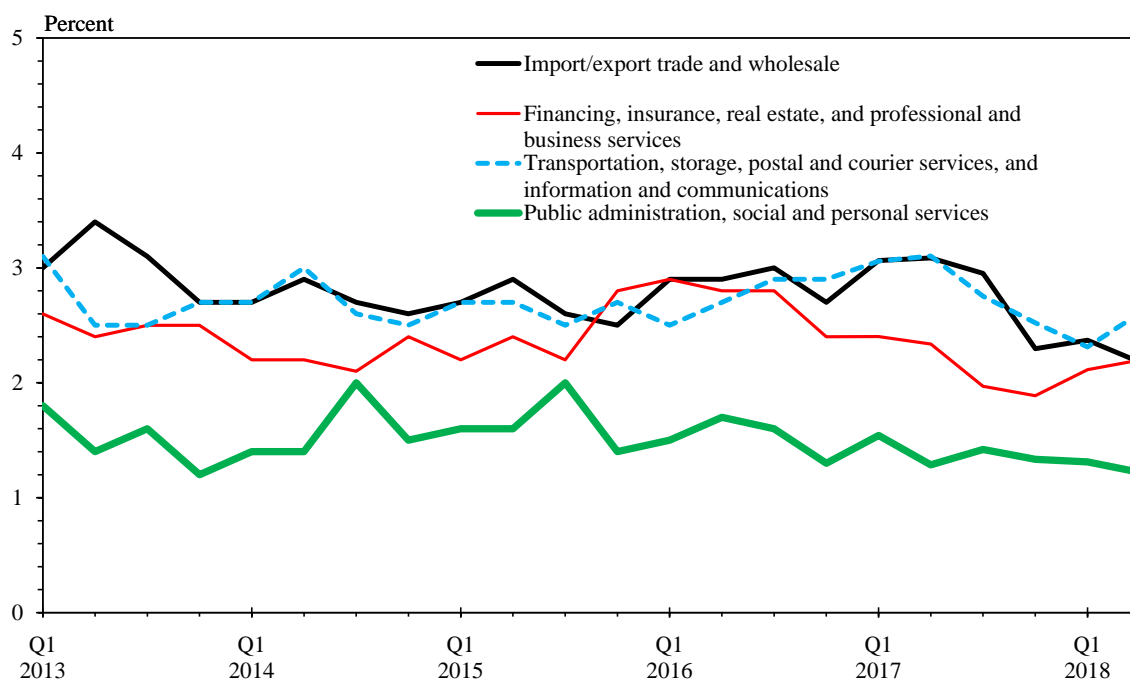
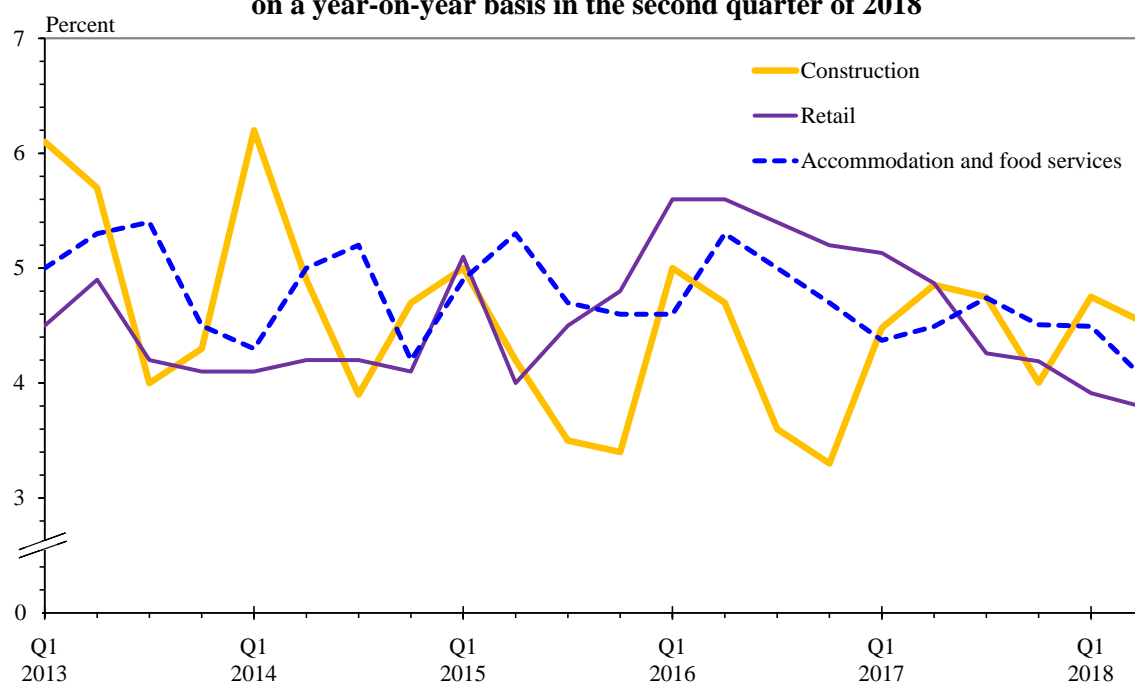


Table 5.3 : Unemployment rates by major economic sector

	<u>2017</u>				<u>2018</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Import/export trade and wholesale	3.1	3.1	3.0	2.3	2.4	2.2
Retail	5.1	4.9	4.3	4.2	3.9	3.8
Accommodation and food services	4.4	4.5	4.7	4.5	4.5	4.0
Transportation, storage, postal and courier services	3.3	3.0	2.5	2.5	2.3	2.6
Information and communications	2.5	3.3	3.3	2.7	2.3	2.7
Financing and insurance	2.1	1.9	1.7	1.3	1.6	1.7
Real estate	1.9	2.3	2.1	2.0	2.3	2.2
Professional and business services	2.8	2.6	2.1	2.3	2.4	2.5
Public administration, social and personal services	1.5	1.3	1.4	1.3	1.3	1.2
Manufacturing	2.6	2.3	2.8	2.7	3.3	3.0
Construction	4.5	4.9	4.7	4.0	4.8	4.5
Overall*	3.2 (3.3)	3.2 (3.1)	3.3 (3.1)	2.8 (3.0)	2.8 (2.9)	2.8 (2.8)

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

() Seasonally adjusted unemployment rates.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.4 : The unemployment rate of the higher-skilled segment remained unchanged from a year earlier, while that of the lower-skilled segment went notably lower

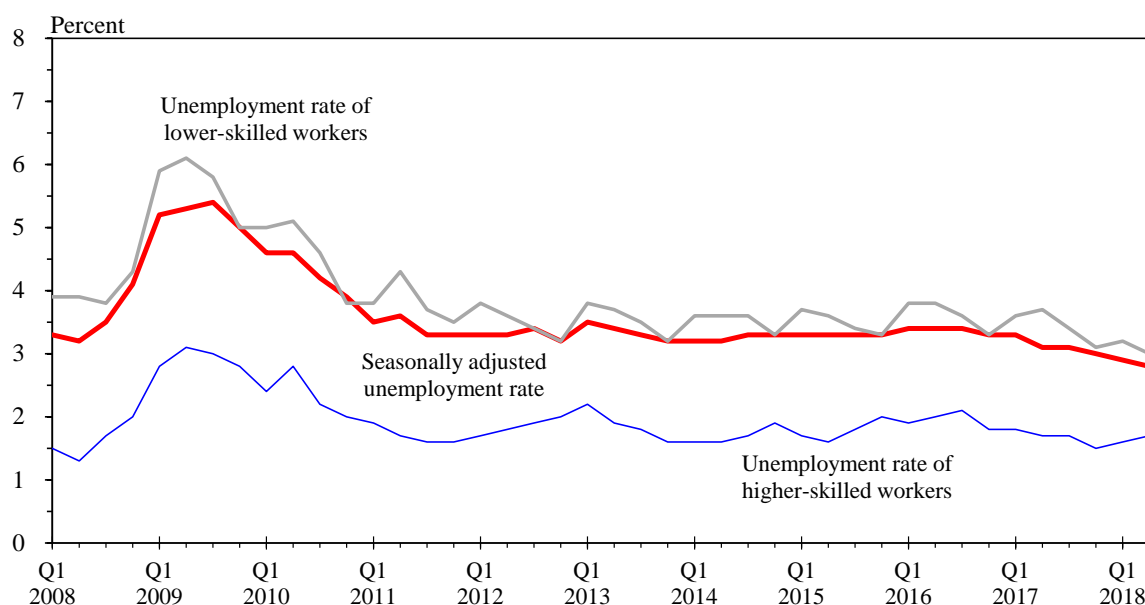


Table 5.4 : Unemployment rates* by skill segment

	<u>2017</u>				<u>2018</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
<u>Higher-skilled segment</u>	1.8	1.7	1.7	1.5	1.6	1.7
Managers and administrators	1.4	0.9	1.1	0.8	1.2	1.2
Professionals	1.8	1.5	1.5	1.2	1.1	1.0
Associate professionals	2.1	2.2	2.2	2.1	1.9	2.2
<u>Lower-skilled segment^</u>	3.6	3.7	3.4	3.1	3.2	3.0
Clerical support workers	3.3	3.7	3.5	3.1	3.3	3.1
Service and sales workers	4.2	4.6	4.2	3.8	3.9	3.8
Craft and related workers	4.5	4.2	4.1	4.0	4.8	4.2
Plant and machine operators and assemblers	3.0	1.9	1.8	1.3	1.5	1.8
Elementary occupations	3.2	3.0	2.7	2.6	2.5	2.3

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

^ Including other occupations.

Source : General Household Survey, Census and Statistics Department.

Table 5.5 : Unemployment rates* by age and educational attainment

	<u>2017</u>				<u>2018</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
<u>Age</u>						
15-24	8.3	8.1	10.5	7.8	8.0	8.9
<i>of which:</i>						
15-19	11.9	13.0	10.1	10.8	9.6	12.2
20-24	7.8	7.5	10.6	7.4	7.8	8.5
25-29	3.9	4.2	4.8	4.0	3.9	3.5
30-39	2.1	2.2	2.2	1.8	1.9	2.1
40-49	2.6	2.8	2.5	2.1	2.2	2.2
50-59	3.4	2.8	2.4	2.6	2.6	2.6
≥ 60	2.3	2.6	2.4	2.0	2.1	1.8
<u>Educational attainment</u>						
Primary education and below	3.3	3.3	2.8	2.5	2.9	2.6
Lower secondary education	4.7	4.4	3.9	3.3	3.4	3.5
Upper secondary education [^]	3.0	3.2	3.0	2.9	2.8	2.8
Post-secondary education	2.9	2.8	3.4	2.5	2.6	2.7

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

^ Including craft courses.

Source : General Household Survey, Census and Statistics Department.

5.8 Indicators measuring the intensity of unemployment remained largely stable in the second quarter of 2018 when compared to their year-ago levels. The number of long-term unemployed persons (i.e. unemployed for six months or longer) decreased from 25 000 to 22 500, while the long-term unemployment rate showed little change at 0.6%. However, as the total number of unemployed persons declined at a slightly faster pace over the same period, the share of long-term unemployment in total unemployment edged up from 19.9% to 20.0%, while the median duration of unemployment increased marginally from 62 days to 63 days. On the other hand, the proportion of dismissal or lay-offs among the total number of unemployed persons (not including first-time job-seekers and re-entrants into the labour force) declined by 5.8 percentage points from a year earlier to 44.2% in the second quarter.

Profile of underemployment

5.9 On a quarter-to-quarter comparison, although the number of underemployed persons increased by 2 500 to 41 400 in the second quarter of 2018, the underemployment rate held virtually unchanged at a low level of 1.0%. More noticeable rises in underemployment rates were found in the social work activities, decoration, repair and maintenance for buildings, and art, entertainment and recreation sectors, whereas a more visible decrease was seen in the cleaning and similar activities sector. Analysed by occupational category, the underemployment rate of the higher-skilled segment edged up by 0.1 percentage point from the preceding quarter to 0.4%, while that of the lower-skilled segment, which took up 85% of underemployed persons, was broadly stable at 1.5%.

Box 5.1

Average age of withdrawal from the labour force: international comparison

With rising life expectancy and a general improvement in health condition among the older population, and with employers being generally more receptive to engaging older workers, many people are now choosing to stay in the labour market longer⁽¹⁾ and thus retiring at a later age compared to their parents' generation. Yet, it is often difficult to measure and compare internationally the average age at which workers *actually* retire. The Organisation for Economic Co-operation and Development (OECD) regularly publishes a proxy measure, viz “average effective age at which older workers withdraw from the labour force” (or “average age of withdrawal” for short), for its member states to facilitate comparison over time and across different economies. This article applies the methodology adopted by OECD⁽²⁾ to estimate the average age of withdrawal in Hong Kong and compares the figures with those in other developed economies.

Retirement and withdrawal from the labour force

While the concept of retirement appears to be straightforward, different people may have divergent definitions for it. To some, retirement means withdrawing from the present major full-time job with the option of being employed in a different job later, be it full-time or part-time. To others, it may mean quitting the labour market entirely. Indeed, retirement is perhaps better described as a process, rather than a one-time event. It is therefore rather difficult to pinpoint the exact timing of retirement, not only with respect to an individual but also at the aggregate level in terms of an economy-wide average retirement age.

Yet, it is important for policy makers to have some quantitative measures for monitoring the retirement situation, especially in economies facing an ageing population, as retirement trend will have significant implications for various policies. OECD's proxy measure is calculated as a weighted average age of withdrawals from the labour market of five-year age groups over a five-year period for workers initially aged 40 and over⁽³⁾, with the formula as below:

$$\sum_{k=9}^{16} (5k) \max(LF_{5(k-1)}^{y-5} - LF_{5k}^y, 0) / \sum_{k=9}^{16} \max(LF_{5(k-1)}^{y-5} - LF_{5k}^y, 0)$$

where LF_j^y = labour force in year y for the five-year age group j to j+4

Assuming that the population is constant over the five-year period for each age group, it is equivalent to:

$$\sum_{k=9}^{16} (5k) \max(LFPR_{5(k-1)}^{y-5} - LFPR_{5k}^y, 0) / \sum_{k=9}^{16} \max(LFPR_{5(k-1)}^{y-5} - LFPR_{5k}^y, 0)$$

where $LFPR_j^y$ = labour force participation rate in year y for the five-year age group j to j+4

It measures in essence the average age of workers who withdraw from the labour force entirely over the five-year period⁽⁴⁾, which serves as a useful indicator of retirement age trend⁽⁵⁾.

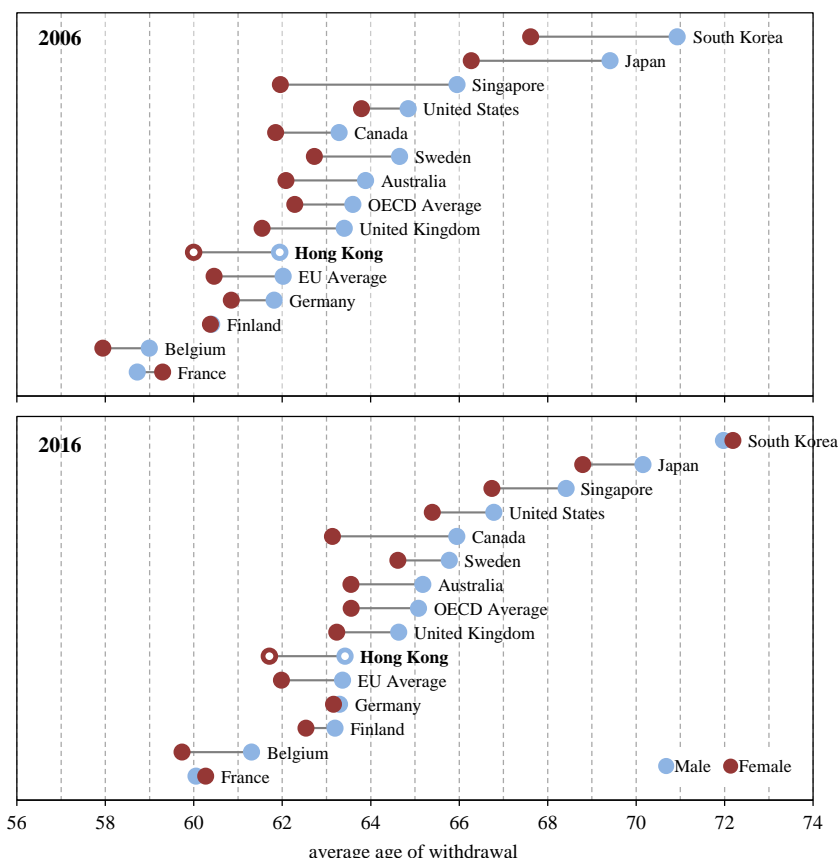
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- (1) For the latest trends of workers in the older age groups, see Box 5.1 in the Third Quarter Economic Report 2017.
 - (2) Keese, M. (2012), “A method for calculating the average effective age of retirement”, OECD Working Paper, available at <https://www.oecd.org/els/emp/39371923.pdf>.
 - (3) The indicator assumes that when someone enters the labour force, the person stays economically active until he / she leaves the labour force upon “retirement” and that no one aged 80 and over is in the labour force.
 - (4) For example, an average age of withdrawal of 60 in 2016 implies that the average age of the workers who withdrew from the labour market between 2011 and 2016 was 60.
 - (5) Alternative indicators have been proposed by other authorities, such as the European Commission (EC) and the UK Office for National Statistics. See in particular the consultancy reports commissioned by the EC

Box 5.1 (Cont'd)

International comparison: 2006 versus 2016 ⁽⁶⁾

Following the methodology adopted by OECD, the average age of withdrawal is calculated separately for men and women in Hong Kong in 2006 and 2016. The results are then compared with those of high-income economies in *Chart 1*. A few salient observations can be made by this international comparison.

Chart 1: Average age of withdrawal, 2006 versus 2016



Notes: The average age of withdrawal is calculated as a weighted average age of withdrawals from the labour market of five-year age groups over a five-year period for workers initially aged 40 and over. Labour force withdrawals are estimated based on changes in labour force participation rates.

Figures for Hong Kong exclude foreign domestic helpers (FDHs).

Figures for Singapore include Singapore citizens and permanent residents only.

Sources: Census and Statistics Department, OECD, and Singapore Department of Statistics.

(a) Differences in average age of withdrawal across economies

Chart 1 shows that there is a large variation in the average age of withdrawal across different economies. The average age of withdrawal is typically lower in European economies than in other advanced economies in North America and the Asia-Pacific region. Specifically in 2016, the average ages of withdrawal in the European Union (EU) as a whole were 63.4 for men and 62.0 for women, both much lower than the figures in Australia (65.2 for men; 63.6 for women), United States (66.8; 65.4), Singapore (68.4, 66.7) and Japan (70.2; 68.8). For OECD as a whole, the average ages of withdrawal were 65.1 for men and 63.6 for women in 2016.

and published by Economix, Research & Consulting in 2008 and 2009 for more information. The application of these other indicators for Hong Kong can be topics for future research.

(6) Latest figures available from OECD.

Box 5.1 (Cont'd)

The average ages of withdrawal in Hong Kong were 63.4 and 61.7 for male and female respectively in 2016. The figures were broadly similar to those in the EU but much lower than in many other developed economies. In particular, workers in Hong Kong on average quitted the labour force much earlier than those in other advanced Asian economies. The gap between Hong Kong and Singapore was 5.0 years for both male and female workers, while those with Japan (6.7 and 7.1 years for men and women respectively) and South Korea (8.6 and 10.5) were even larger. This was mirrored by the lower labour force participation rates of older workers in Hong Kong than in our neighbouring countries. In 2017, the labour force participation rates of workers aged 65 and above were well over 20% in Singapore, Japan, and South Korea, while that in Hong Kong was only 11.0% (*Table 1*).

Table 1: Labour force participation rates of workers aged 65 and above in selected Asian economies in 2017

Hong Kong	Singapore	Japan	South Korea
11.0%	26.8%	23.5%	31.5%

Notes: Figure for Hong Kong excludes FDHs.

Figure for Singapore includes Singapore citizens and permanent residents only.

Sources: Census and Statistics Department, Singapore Department of Statistics, Japan Statistics Bureau, and Statistics Korea.

(b) Trend of later withdrawal from labour force

By comparing the lower panel (2016) with the upper panel (2006) of *Chart 1*, it can be seen that the cluster of points shifted to the right, indicating that the average age of withdrawal increased generally for the economies shown in the chart between 2006 and 2016.

For example, the average ages of withdrawal went up by 1.3 and 1.5 years for men and women in EU respectively over the period. Similarly, the average ages of withdrawal for OECD as a whole rose by 1.5 and 1.3 years respectively for male and female workers. Of the high-income economies shown, those with larger increases in the average ages of withdrawal were Singapore (female: 4.8 years; male: 2.5 years), South Korea (female: 4.6 years), Finland (male: 2.8 years), Canada (male: 2.7 years), Japan (female: 2.5 years), Belgium (male: 2.3 years) and Germany (female: 2.3 years). As for Hong Kong, the average ages of withdrawal increased by 1.5 and 1.7 years respectively for male and female between 2006 and 2016, in line with the global trend of delayed retirement among workers.

(c) Gender gap narrowed for some, particularly in Singapore, Japan and South Korea

Another interesting observation is the narrower gender gap in the average age of withdrawal over time for some economies, particularly in Singapore, Japan and South Korea. The line between each pair of points in *Chart 1* indicates the difference in average age of withdrawal between men and women for the specific economy. It can be seen that the lines for Singapore, Japan and Korea in the lower panel (2016) shortened significantly from those in the upper panel (2006). In 2006, women in Singapore, Japan and South Korea were on average withdrawing from the labour force 4.0, 3.1 and 3.3 years respectively earlier than their male counterparts. In 2016, the gap was reduced to 1.7 and 1.4 years in Singapore and Japan respectively and virtually disappeared in South Korea. On the other hand, the gender gap in the average age of withdrawal in the EU and OECD stayed largely unchanged between 2006 and 2016.

Box 5.1 (Cont'd)

The gender difference was much smaller in Hong Kong compared with that in Singapore, Japan and South Korea in 2006, and remained largely stable between 2006 and 2016. In 2006, the average age of withdrawal for men was 1.9 years above that for women, while the figure was 1.7 years in 2016.

Final remarks

Nowadays, as people are expected to live longer, workers in many economies are prolonging their working lives, perhaps to better prepare for retirement. While this seems to be a global trend across different economies, workers in Hong Kong still on average quit the labour force at much younger ages than our Asian counterparts. Recognising the importance of more active participation of older people in the workforce when facing the challenges of population ageing, it will be desirable to assist older workers, if they so wish, to participate in the labour market.

Profile of employment in establishments

5.10 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only up to March 2018. To bring the analysis more up-to-date, attempts have been made wherever possible by drawing reference to information from supplementary sources.

5.11 Private sector employment sustained a sturdy year-on-year increase of 1.1% to 2 867 400 in March 2018, on the back of robust economic conditions. Analysed by industries, the number of persons engaged in the human health services (up 3.3% year-on-year), professional and business services (excluding cleaning and similar services) (up 2.7%), at construction sites (covering manual workers only) (up 2.6%) and in financing and insurance (up 2.5%) recorded particularly notable growth. Meanwhile, employment in the accommodation and food services (up 1.9%), and retail (up 1.4%) sectors picked up further, thanks to the strengths in local consumption and inbound tourism. On the other hand, employment continued to decline in the manufacturing sector (down 3.9% year-on-year). Analysed by establishment size, employment in *small and medium-sized enterprises (SMEs)*⁽⁷⁾ increased marginally by 0.1%, whereas that in large enterprises went up by 1.9%. As for the civil service, employment increased by 2.3%.

Table 5.6 : Employment by major economic sector

		<u>2017</u>				<u>2018</u>
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>
Import/export trade and wholesale	539 900 (-0.5)	540 900 (-0.4)	541 000 (-0.4)	539 400 (-0.5)	538 200 (-0.6)	538 400 (-0.5)
Retail	267 900 (0.5)	267 300 (0.4)	267 800 (0.6)	267 100 (0.2)	269 300 (0.6)	271 000 (1.4)
Accommodation ^(a) and food services	282 300 (0.3)	280 900 (0.1)	281 500 (0.3)	283 400 (0.5)	283 500 (0.2)	286 200 (1.9)
Transportation, storage, postal and courier services	178 700 (0.2)	178 100 (-0.3)	177 600 (-0.1)	179 000 (0.5)	180 300 (0.8)	179 200 (0.6)
Information and communications	106 900 (0.9)	107 300 (1.5)	106 600 (1.4)	106 600 (0.9)	107 100 (-0.2)	106 900 (-0.3)
Financing, insurance, real estate, professional and business services	731 100 (1.6)	728 300 (2.0)	728 600 (1.5)	730 900 (1.4)	736 700 (1.6)	742 800 (2.0)
Social and personal services	512 800 (1.4)	510 300 (1.0)	510 800 (1.5)	512 500 (1.4)	517 400 (1.9)	520 000 (1.9)
Manufacturing	92 900 (-3.3)	94 500 (-3.4)	93 400 (-2.8)	92 000 (-3.4)	91 400 (-3.6)	90 900 (-3.9)
Construction sites (covering manual workers only)	118 700 (10.1)	117 600 (12.2)	112 800 (6.2)	121 500 (12.7)	122 800 (9.2)	120 700 (2.6)
<i>All establishments surveyed in the private sector^(b)</i>	<i>2 842 400 (1.0)</i>	<i>2 836 500 (1.0)</i>	<i>2 831 400 (0.8)</i>	<i>2 843 800 (1.0)</i>	<i>2 857 900 (1.0)</i>	<i>2 867 400 (1.1)</i>
		<i><0.3></i>	<i><§></i>	<i><0.4></i>	<i><0.2></i>	<i><0.4></i>
<i>Civil service^(c)</i>	<i>168 700 (1.6)</i>	<i>167 700 (0.9)</i>	<i>167 900 (1.4)</i>	<i>169 000 (1.9)</i>	<i>170 300 (2.2)</i>	<i>171 500 (2.3)</i>

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

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

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

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

() % change over a year earlier.

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

§ Change less than 0.05%.

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

Vacancies

5.12 Amid a persistently tight labour market, the number of job vacancies in the private sector increased for the fifth consecutive quarter in March 2018, at a marked year-on-year rate of 9.1% to 76 880.

5.13 Most of the economic sectors recorded further year-on-year increases in the number of vacancies in March 2018, with more notable rises observed in human health services (up 98.8%), construction sites (covering manual workers only) (up 49.8%), arts, entertainment and recreation (up 30.3%), accommodation services (up 25.6%), residential care and social work services (up 14.8%), information and communications (up 14.6%), and financing and insurance (up 13.2%). In contrast, the number of vacancies in the cleaning and similar services (down 9.2%), real estate (down 1.4%), and import and export trade (down 0.7%) sectors registered declines over the same period. In terms of occupational category, vacancies in both higher-skilled and low-skilled segments went up further, by 16.6% and 5.7% year-on-year respectively. Within the lower-skilled segment, more discernible increases in the number of vacancies were observed for clerical support workers (up 28.2%), and plant and machine operators and assemblers (up 24.4%). Analysed by the size of establishments, vacancies in large enterprises and SMEs went up by 13.1% and 3.3% respectively. As for the civil service, the number of job openings decreased by 13.0% to 7 540.

5.14 The ratio of job vacancies per 100 unemployed persons edged up from 67 in December 2017 to 69 in March 2018, which was significantly higher than the year-ago level of 56. In particular, the ratio for the higher-skilled segment increased from 79 a year ago to 103 in March 2018 and that of the lower-skilled segment rose from 57 to 66. Analysed by sector, manpower shortage was particularly acute in the residential care and social work services, human health services, accommodation services, and financing and insurance sectors in March 2018, with their corresponding ratios far exceeding 100.

Table 5.7 : Vacancies by major economic sector

	<u>Annual average</u>	<u>Number of vacancies</u>					<u>Vacancy rate in Mar 2018 (%)</u>
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	
Import/export trade and wholesale	7 400 (5.9)	7 530 (8.8)	7 320 (5.5)	7 610 (8.3)	7 150 (1.0)	7 600 (0.8)	1.4
Retail	7 640 (0.5)	7 540 (-1.6)	7 080 (-0.2)	8 130 (-1.8)	7 800 (5.8)	8 110 (7.6)	2.9
Accommodation ^(a) and food services	13 350 (1.6)	13 670 (5.7)	13 220 (1.4)	12 630 (-4.5)	13 910 (4.1)	14 380 (5.2)	4.8
Transportation, storage, postal and courier services	3 550 (9.6)	3 600 (4.9)	3 560 (8.4)	3 600 (12.2)	3 450 (13.4)	4 040 (12.2)	2.2
Information and communications	2 740 (3.6)	2 720 (6.6)	2 710 (9.6)	2 750 (-2.8)	2 770 (2.1)	3 120 (14.6)	2.8
Financing, insurance, real estate, professional and business services	18 420 (3.5)	18 620 (1.2)	18 540 (2.9)	18 240 (3.2)	18 280 (7.1)	19 830 (6.5)	2.6
Social and personal services	14 490 (3.2)	13 460 (-5.7)	13 130 (-7.9)	14 920 (5.0)	16 440 (22.5)	16 140 (19.9)	3.0
Manufacturing	2 420 (3.9)	2 570 (-11.0)	2 290 (0.2)	2 240 (6.6)	2 610 (26.0)	2 610 (1.6)	2.8
Construction sites (covering manual workers only)	1 070 (45.3)	570 (-40.8)	1 510 (176.2)	830 (40.4)	1 370 (62.0)	850 (49.8)	0.7
<i>All establishments surveyed in the private sector^(b)</i>	<i>71 310 (3.7)</i>	<i>70 460 (0.2) <0.7></i>	<i>69 590 (2.0) <-1.5></i>	<i>71 150 (2.6) <4.4></i>	<i>74 040 (10.3) <6.1></i>	<i>76 880 (9.1) <0.1></i>	<i>2.6</i>
<i>Civil service^(c)</i>	<i>8 320 (-3.6)</i>	<i>8 660 (7.1)</i>	<i>8 420 (-5.4)</i>	<i>8 230 (-5.9)</i>	<i>7 980 (-9.6)</i>	<i>7 540 (-13.0)</i>	<i>4.2</i>

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

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

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

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

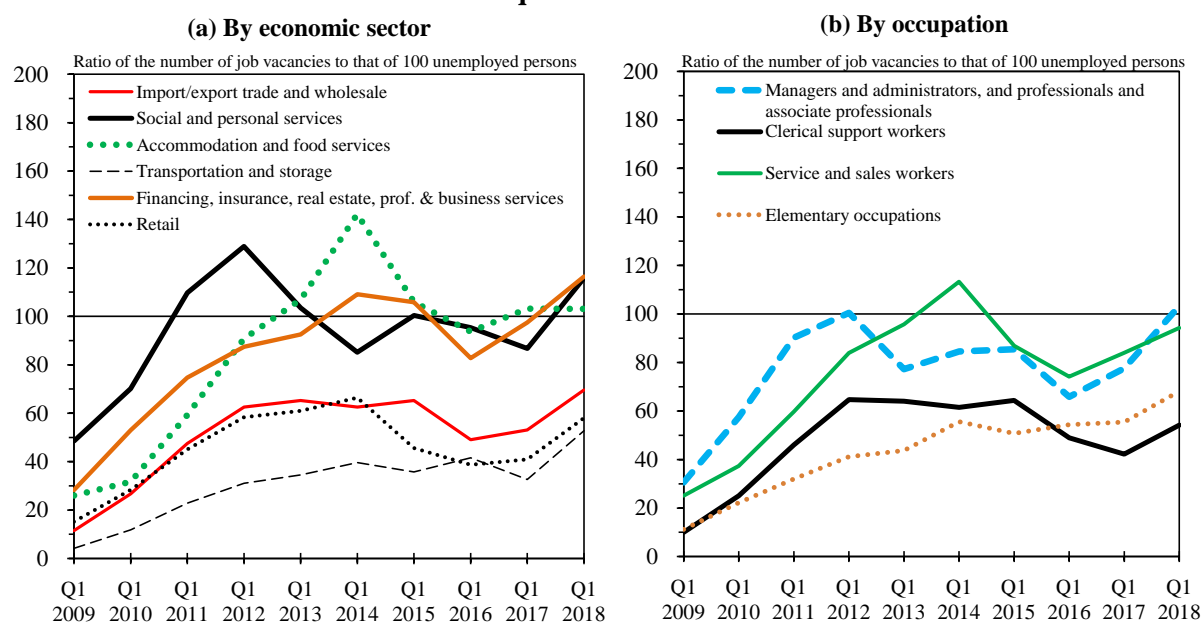
() % change over a year earlier.

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

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

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

Diagram 5.5 : Manpower situation tightened further almost across-the-board in the first quarter of 2018



5.15 The vacancy rate for private sector establishments, measured in terms of the percentage of job vacancies to total employment opportunities, edged up by 0.1 percentage point from December 2017 or 0.2 percentage point from a year earlier to 2.6% in March 2018. A majority of the sectors recorded higher vacancy rates on a year-on-year basis, with more notable increases seen in the human health services, accommodation services, arts, entertainment and recreation, and residential care and social work services sectors.

5.16 The vacancy registration figures compiled by the Labour Department (LD), notwithstanding its smaller sample size, may provide some hints on the latest developments in the labour market. In tandem with the further tightening of labour market conditions, the number of private sector job vacancies registered at LD went up by 9.2% from a year earlier to an average of around 123 400 per month in the second quarter.

Wages and earnings

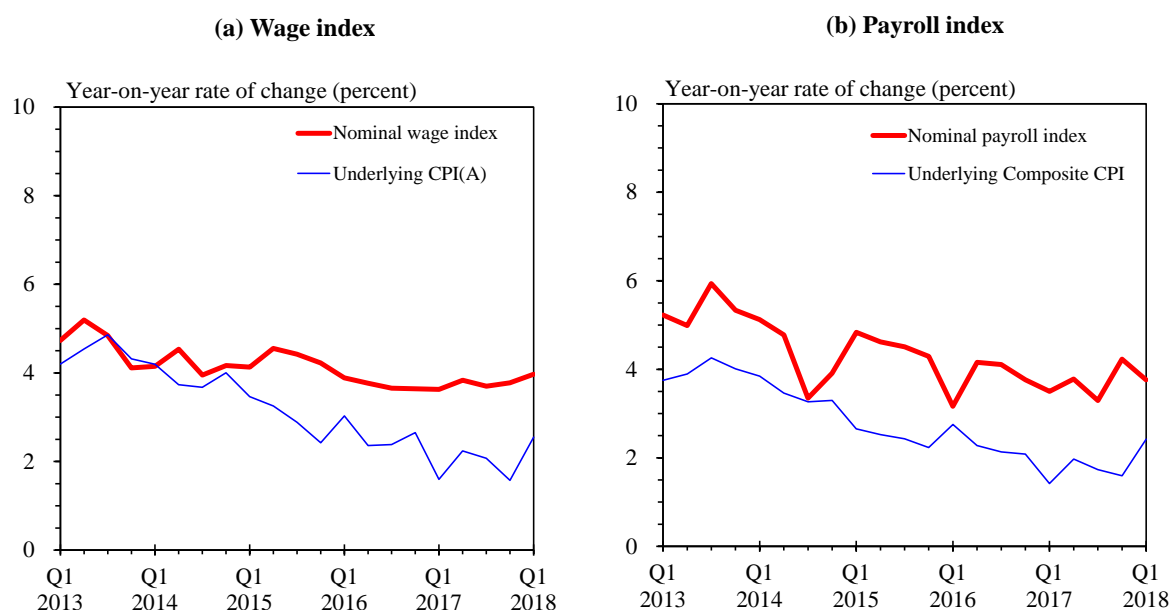
5.17 On the back of vibrant economic performance and persistently tight labour market conditions, growth in nominal wages picked up slightly in March 2018. The *wage index*, which covers regular payment to employees at the supervisory level or below, went up by 4.0% in nominal terms in March 2018 over a year earlier. After adjusting for inflation⁽⁸⁾, the wage index posted a real improvement of 1.2%.

5.18 Increases in nominal wages continued to be broad-based across sectors and occupations. More notable improvements were seen in the professional and business services (up 4.9% year-on-year), accommodation and food service activities (up 4.8%), and real estate leasing and maintenance management (up 4.7%) sectors in March 2018. Analysed by occupation, more appreciable wage gains were observed for craftsmen and operatives (up 5.2%), service workers (up 4.6%), and miscellaneous non-production workers (up 4.5%).

5.19 *Labour earnings*⁽⁹⁾, as measured by the index of payroll per person engaged in the private sector, including overtime pay, discretionary bonuses and other irregular payments, went up further by 3.8% year-on-year in the first quarter of 2018, broadly similar to the 3.7% increase for 2017 as a whole. After discounting inflation, overall payroll recorded a real improvement of 1.3% in the first quarter of 2018 over a year earlier.

5.20 All selected sectors registered further nominal payroll growth in the first quarter of 2018, with particularly notable increases observed in the accommodation and food service activities (up 4.8% year-on-year), professional and business services (up 4.6%), and real estate activities (up 4.3%) sectors. Real payroll improvements were observed across all selected sectors.

Diagram 5.6 : Wages and earnings sustained solid real growth in the first quarter of 2018



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

5.21 More recent statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, revealed that the *average monthly employment earnings*⁽¹⁰⁾ of full-time employees (excluding foreign domestic helpers) engaged in elementary occupations grew appreciably by 6.5% in the second quarter of 2018 over a year earlier, translating into a real increase of 4.0% after discounting inflation. The average earnings of full-time employees (excluding foreign domestic helpers) in the lowest three decile groups continued to grow steadily by 4.7% year-on-year in nominal terms or 2.3% in real terms. For the overall income situation, the median monthly household income (excluding foreign domestic helpers) went up by 5.9%, also well exceeding consumer price inflation.

Highlights of labour-related measures and policy developments

5.22 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job-seekers on the spot. In the first half of 2018, LD organised nine large-scale job fairs in Wan Chai, Yau Tong, Kowloon Tong, Mong Kok and North District. A total of 335 participating organisations offered more than 26 900 job opportunities in the retail, catering, property management, transport and other industries. There were also 16 training bodies joining the job fairs to introduce job training courses and receive applications on the spot. Apart from large-scale job fairs, district-based job fairs are organised at LD's job centres from time to time to assist job-seekers in finding employment. Recruitment activities are also staged by catering, retail and construction employers at the three industry-based recruitment centres regularly for interviewing job-seekers on the spot.

5.23 The Minimum Wage Commission (MWC) is conducting a new round of review on the Statutory Minimum Wage (SMW) rate. MWC completed a six-week public consultation in May 2018 and held 19 consultation meeting sessions with stakeholder groups in June. Having considered the views received, MWC is undertaking an evidence-based approach in reviewing the SMW rate, with a view to submitting a recommendation report to the Chief Executive in Council by end-October 2018.

5.24 Meanwhile, LD is focusing efforts on formulating sector-specific working hours guidelines through the department's industry-based tripartite committees. These committees, comprising representatives from employers, employees and the Government, serve as useful platforms for the parties concerned to draw up guidelines on suggested working hours arrangements, overtime compensation arrangements, and good working hours management measures for employers' reference and adoption so as to improve employees' working hours arrangements.

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 2016 – January 2017 to October – December 2017 have been revised to take into account the final end-2017 population estimates.

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

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

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

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

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

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

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

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

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

CHAPTER 6 : PRICES

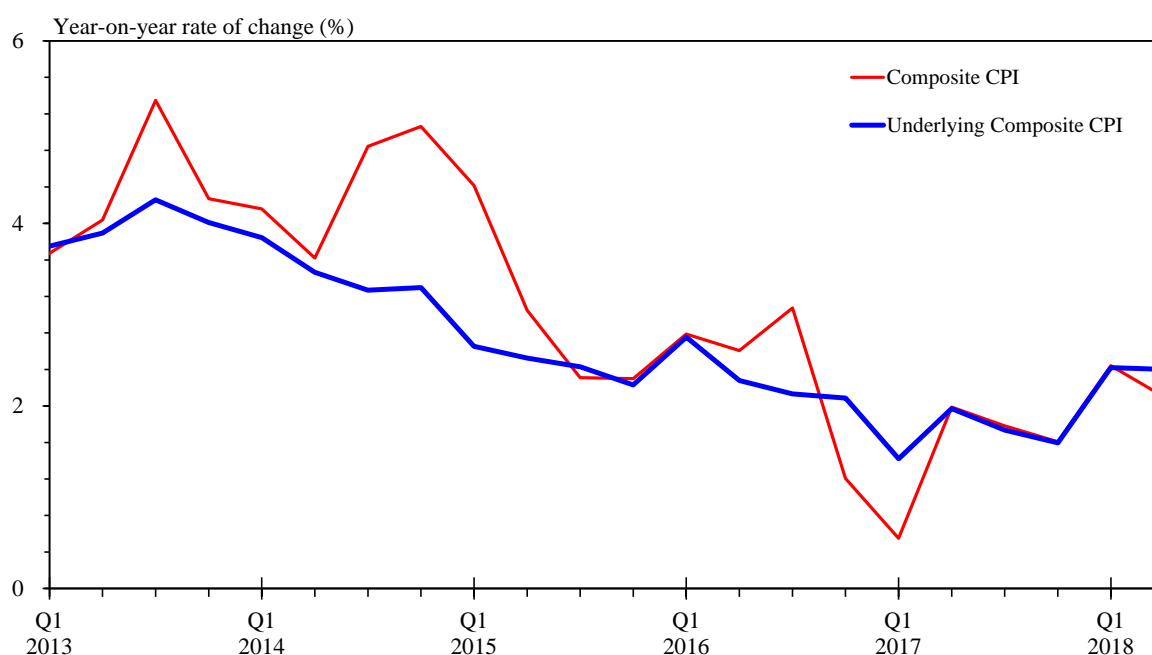
Summary

- *Consumer price inflation stayed moderate in the second quarter of 2018. Yet several major components in the consumer price index saw accelerated increases, indicating some build-up of inflationary pressure amid favourable economic conditions.*
- *While the temporary factors that led to a faster increase in prices in the first quarter subsided, the year-on-year increase in the underlying Composite Consumer Price Index (Composite CPI)⁽¹⁾, which nets out the effects of the Government's one-off relief measures, remained unchanged at 2.4% in the second quarter. Due to the upward adjustment in the ceiling of the Government's rates concession, the headline Composite CPI inflation declined from 2.4% in the first quarter to 2.1% in the second quarter.*
- *Local cost pressures were largely contained. Labour cost pressure was kept in check, as the steady growth in wages and earnings was matched by sustained improvement in labour productivity. Rental cost pressure faced by businesses remained moderate thus far. Yet the uptrend in fresh-letting residential rentals over the past year or so continued to feed through, leading to some faster increases in the private housing rental components of the underlying consumer price indices in the second quarter.*
- *External price pressures, while still rather moderate, inched up in the second quarter, owing to slightly higher inflation in some of our major import sources⁽²⁾ and to a lesser extent the recent increases in international oil prices. Overall import prices rose at a faster pace, with those of fuels showing visible acceleration.*

Consumer prices

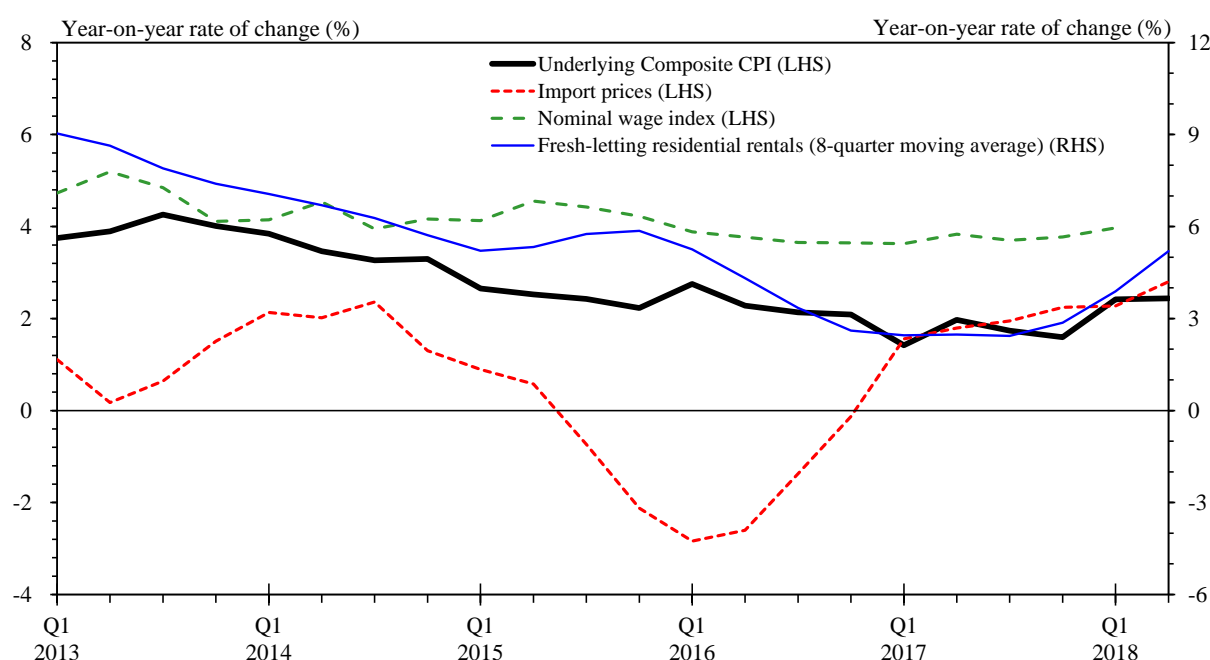
6.1 Overall inflation pressure stayed moderate in the second quarter of 2018, though building up somewhat amid favourable economic conditions. Local cost pressures were largely contained. Sustained improvement in labour productivity kept labour cost pressure in check notwithstanding the steady growth in wages and earnings. Rental cost pressure faced by businesses remained moderate thus far. Yet, the continued feed-through of the uptrend in fresh-letting residential rentals over the past year or so led to some faster increases in the underlying private housing rental components of the consumer price indices. External price pressures, while still rather moderate, inched up due to the mild acceleration of inflation in some of our major import suppliers and to a lesser extent the hike in international oil prices in recent months.

Diagram 6.1 : Consumer price inflation stayed moderate in the second quarter of 2018



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

Diagram 6.2 : Yet, the uptrend in residential rentals continued to feed through and external price pressures inched up



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

6.2 Underlying consumer price inflation, in terms of the year-on-year rate of change in the underlying Composite CPI which nets out the effects of the Government's one-off relief measures, stayed moderate at 2.4% in the second quarter, same as in the first quarter. While the temporary factors that led to a faster increase in prices in the first quarter (i.e. a low base of comparison for electricity charge due to the special fuel rebate in early 2017, higher vegetable prices in February 2018 due to bad weather conditions, and early arrival of the Easter holidays in late March 2018) dissipated, underlying inflation pressure built up somewhat, as suggested by the accelerated increases in several major components in underlying consumer price inflation. Separately, due to the upward adjustment in the ceiling of the Government's rates concession, headline Composite CPI inflation declined from 2.4% in the first quarter to 2.1% in the second quarter.

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

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying^(a)</u>	<u>Headline</u>			
2017	Annual	1.7	1.5	1.5	1.4	1.5
	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
2018	Q1	2.4	2.4	2.6	2.4	2.4
	Q2	2.4	2.1	2.4	2.1	2.0

(seasonally adjusted quarter-to-quarter rate of change (%))

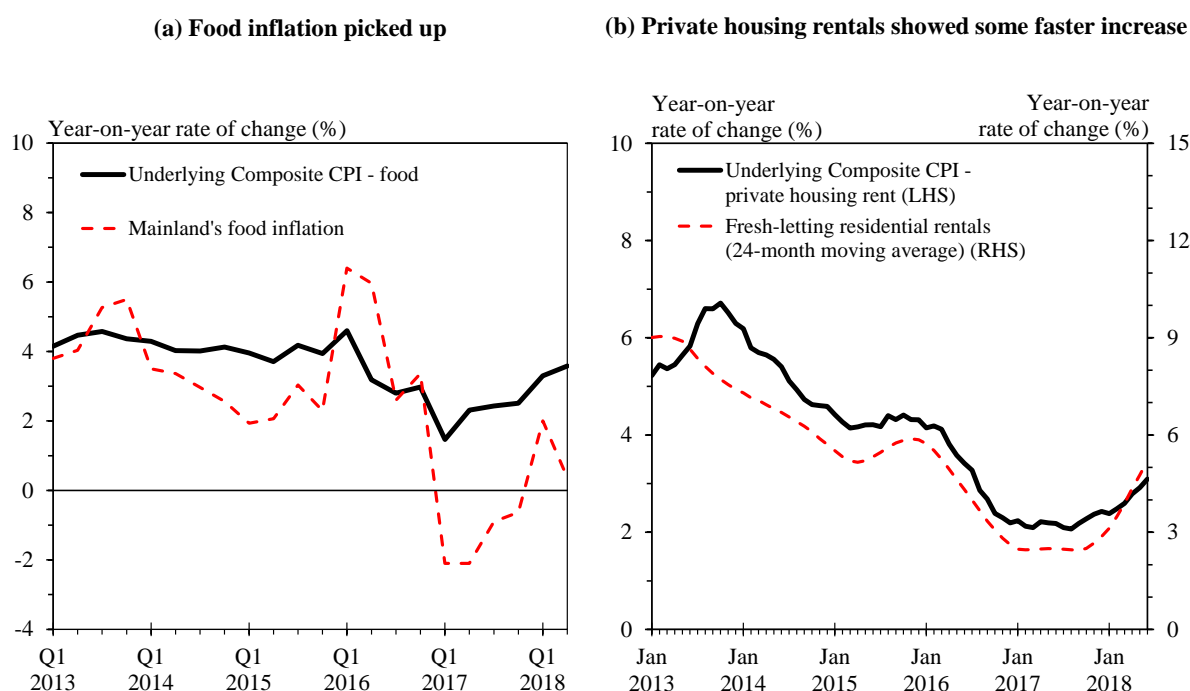
2017	Q1	0.1	0.1	*	0.1	0.2
	Q2	0.6	0.6	0.7	0.6	0.6
	Q3	0.3	0.3	0.4	0.3	0.2
	Q4	0.6	0.6	0.5	0.6	0.7
2018	Q1	0.8	0.9	0.9	0.9	0.8
	Q2	0.8	0.4	0.6	0.4	0.3

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

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

6.3 Analysed by major component of the underlying Composite CPI, private housing rentals showed some faster increase in the second quarter as the uptrend in the fresh-letting residential rentals over the past year or so continued to feed through. Prices of food, the component with the largest weight other than housing, also picked up against the backdrop of higher import prices and strong consumption demand. Prices of miscellaneous goods posted a marginally faster increase, notwithstanding the drag from prices of jewellery amid a retreat in gold prices. Prices of miscellaneous services rose at a slower pace, but it was mainly due to seasonal factor (i.e. the earlier arrival of the Easter holidays in late March this year as compared to mid-April last year) that dampened the year-on-year increase in prices of package tour. Prices of some major groups of services (such as medical services, and professional services, subscriptions and other services) actually picked up, and some others (such as information and communication services) showed narrower declines. On the other hand, prices of clothing and footwear turned in a slower rate of increase, while prices of durable goods remained on their secular downtrend.

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



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

Diagram 6.4 (a) : Several major components in underlying Composite CPI showed faster increases

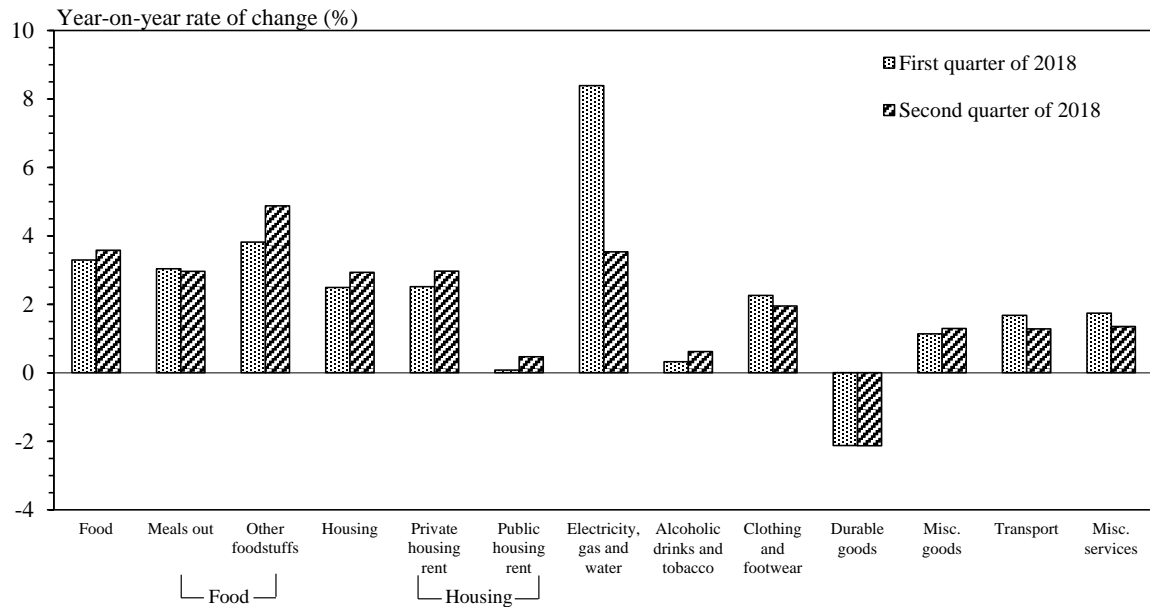
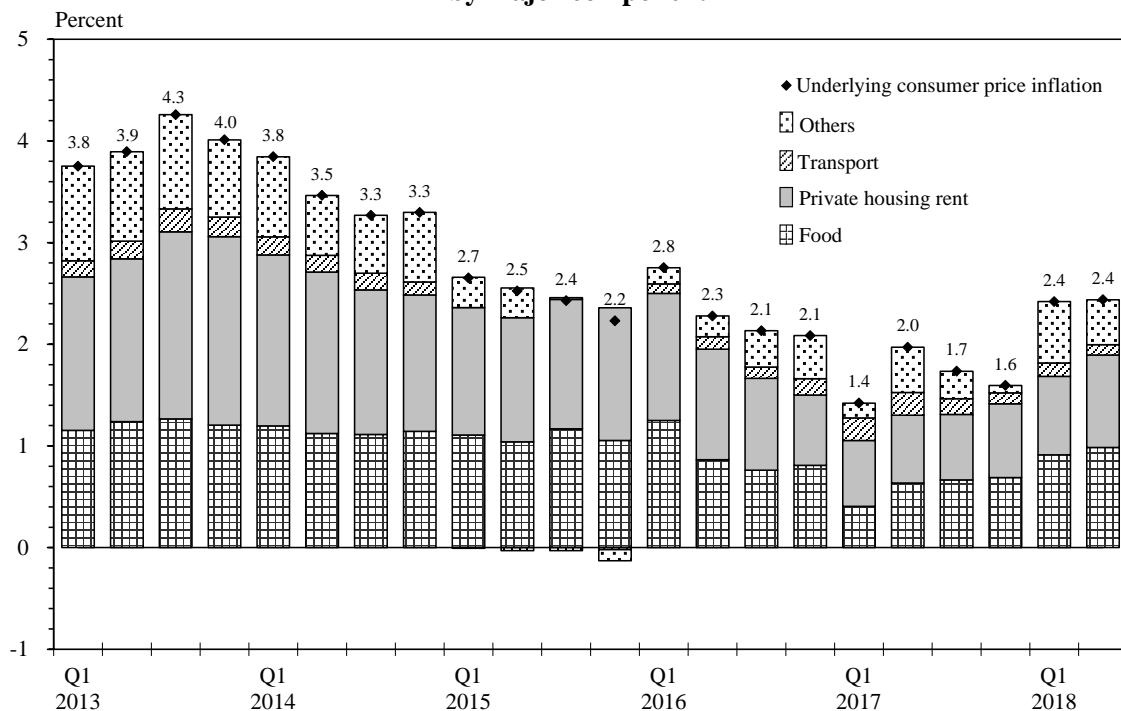


Diagram 6.4 (b) : Contribution to underlying consumer price inflation by major component



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

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>Annual</u>	<u>2017</u>				<u>2018</u>	
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Food	27.29	2.2	1.5	2.3	2.4	2.5	3.3	3.6
<i>Meals bought away from home</i>	17.74	2.7	2.8	2.7	2.7	2.7	3.0	3.0
<i>Other foodstuffs</i>	9.55	1.1	-1.1	1.4	2.0	2.2	3.8	4.9
Housing ^(a)	34.29	2.6 (2.0)	2.7 (0.3)	2.7 (2.7)	2.6 (2.6)	2.4 (2.4)	2.5 (2.5)	2.9 (2.0)
<i>Private housing rent</i>	29.92	2.2 (1.8)	2.1 (0.5)	2.2 (2.2)	2.1 (2.1)	2.4 (2.4)	2.5 (2.5)	3.0 (1.9)
<i>Public housing rent</i>	1.94	6.3 (3.0)	9.9 (-5.6)	9.6 (11.5)	6.3 (7.5)	0.1 (0.4)	0.1 (0.4)	0.5 (0.4)
Electricity, gas and water	2.67	-1.7 (-1.7)	-5.5 (-5.5)	-1.0 (-1.0)	-0.3 (-0.3)	0.1 (*)	8.4 (8.3)	3.5 (3.7)
Alcoholic drinks and tobacco	0.54	0.6	2.3	1.0	-0.2	-0.6	0.3	0.6
Clothing and footwear	3.21	-0.4	-1.9	-1.4	1.0	0.6	2.3	2.0
Durable goods	4.65	-3.2	-3.6	-3.6	-3.3	-2.3	-2.1	-2.1
Miscellaneous goods	3.56	1.4	2.3	1.8	0.5	0.9	1.1	1.3
Transport	7.98	2.3	2.9	2.9	2.0	1.4	1.7	1.3
Miscellaneous services	15.81	0.9	0.6	2.2	0.9	-0.1	1.7	1.4
All items	100.00	1.7 (1.5)	1.4 (0.5)	2.0 (2.0)	1.7 (1.8)	1.6 (1.6)	2.4 (2.4)	2.4 (2.1)

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 dwellings is slightly less than the weighting of the entire housing component.

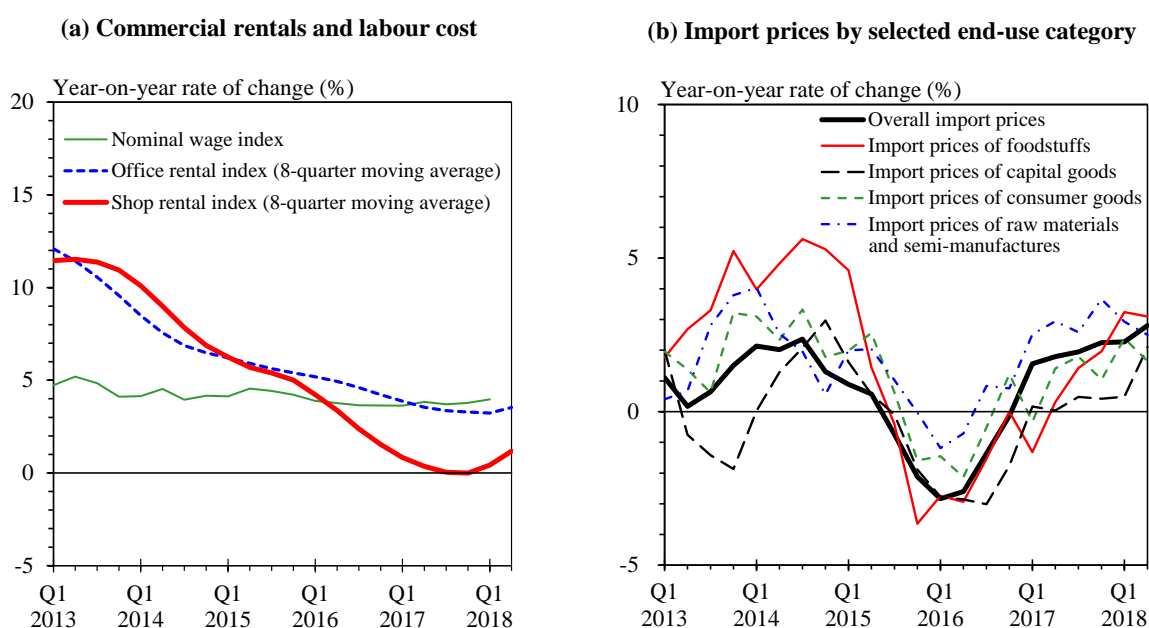
() Figures in brackets represent the headline rates of change before netting out the effect of Government's one-off relief measures.

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

Costs of factor inputs and import prices

6.4 Local cost pressures were largely contained in the second quarter of 2018. Wages and earnings grew steadily further, but the sustained gains in labour productivity kept the increase in labour costs in check on a unit cost basis. As for rental costs, while the rentals of retail premises and offices were on a general uptrend in the past year or so, the year-on-year increases on an eight-quarter moving average basis, which are more relevant to the actual rental costs faced by businesses, stayed largely moderate.

Diagram 6.5 : Local cost pressures were largely contained while external price pressures edged up



6.5 External price pressures, while still rather moderate, inched up in the second quarter. Amid sustained expansion of the global economy, there was a mild acceleration of inflation in some of our major import suppliers, including the US, Europe, and some other Asian economies. Overall import prices rose by 2.8% over a year earlier in the second quarter, up from 2.3% in the preceding quarter. Analysed by end-use category, the increase in import prices of fuels accelerated to a sharp 30.4% amid the hike in international oil prices in recent months. The rise in import prices of capital goods also picked up, though still at a moderate 2.1%. Import prices of foodstuffs, consumer goods and raw materials sustained moderate increases.

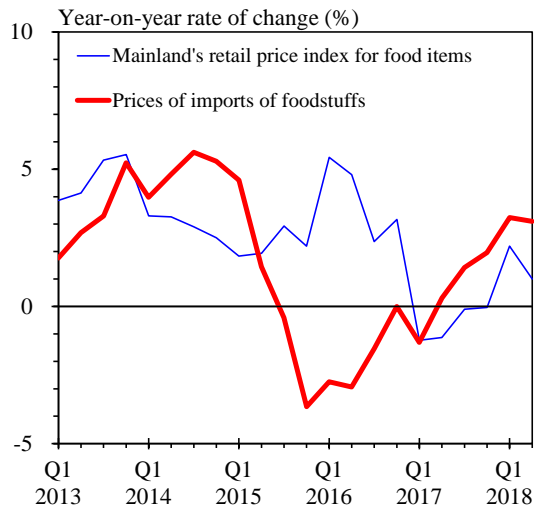
**Table 6.3 : Prices of imports by end-use category
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2017	Annual	0.7	1.0	2.9	24.8	0.3	1.9
	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
2018	Q1	3.2	2.4	2.9	16.0	0.5	2.3
	Q2	3.1	1.6	2.5	30.4	2.1	2.8

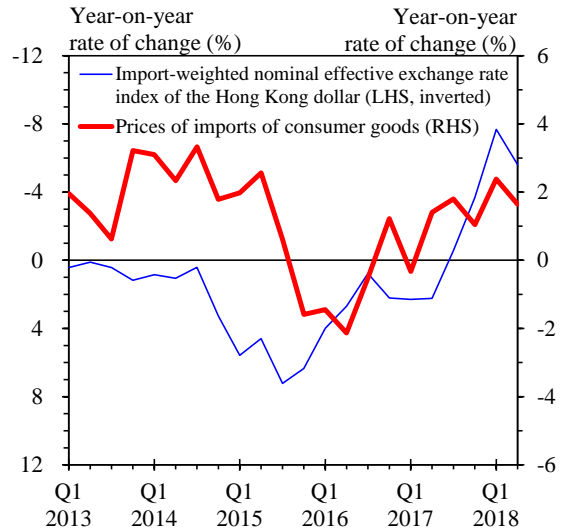
Note : (*) Change within $\pm 0.05\%$.

Diagram 6.6 : Import prices by end-use category

(a) Import prices of foodstuffs remained moderate

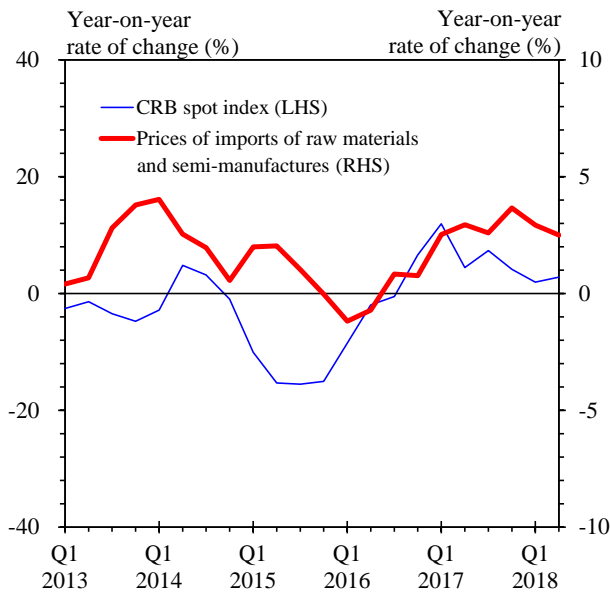


(b) Import prices of consumer goods sustained moderate increase

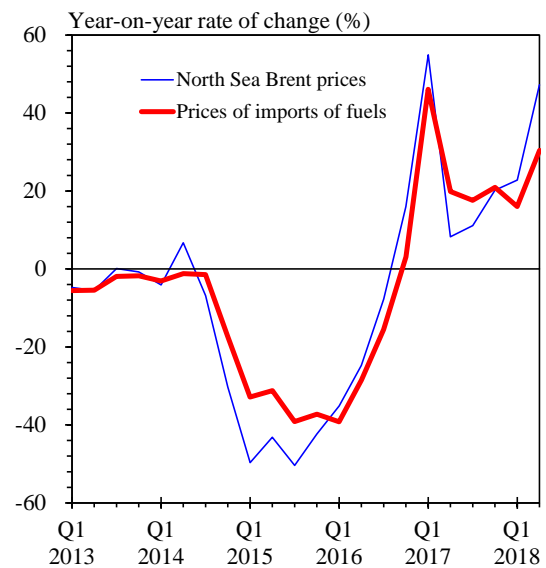


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Import prices of raw materials and semi-manufactures rose moderately



(d) Import prices of fuels accelerated to a sharp increase



Output prices

6.6 Output prices, as measured by the *Producer Price Indices*⁽³⁾, continued to record year-on-year increases in most sectors in the first quarter of 2018 on the back of robust business conditions. Output prices for the manufacturing sector rose at a slightly accelerated rate. As for the selected service sectors, the increase in output prices for accommodation services picked up further alongside strong growth in inbound tourism. Thanks to favourable global economic conditions and active regional trade flows, output prices for air transport rose visibly further. Output prices for land transport, courier services and water transport also recorded modest to moderate increases. On the other hand, output prices for telecommunications services stayed on their perennial downtrend, as a result of continued technological improvement and keen competition in the segment.

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

<u>Industry group</u>	<u>2016</u>		<u>2017</u>				<u>2018</u>
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	1.3	3.8	4.2	3.7	3.7	3.5	3.8
Selected service sectors ^(a)							
Accommodation services	-2.1	2.0	1.6	1.5	2.3	2.6	4.5
Land transport	1.6	1.0	1.8	1.2	0.5	0.4	0.7
Water transport	-12.4	3.3	-1.0	5.2	5.6	3.6	3.6
Air transport	-9.9	2.4	-3.5	3.4	4.2	5.6	9.7
Telecommunications	-2.8	-3.2	-2.9	-2.5	-2.9	-4.4	-3.5
Courier services	2.1	3.8	3.6	2.2	2.0	7.4	3.3

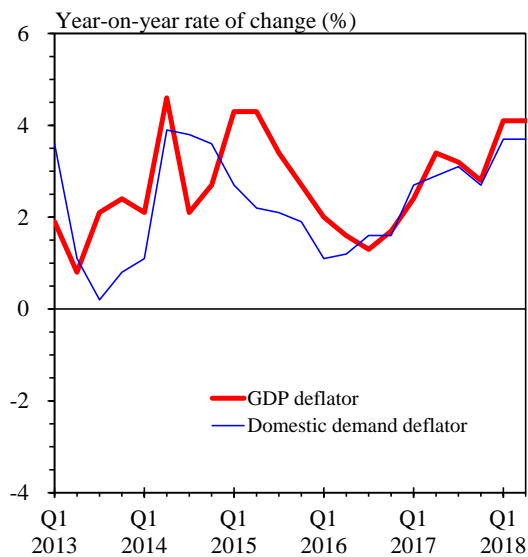
Note : (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the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

GDP deflator

6.7 As a broad measure of the overall change in prices in the economy, the year-on-year increase in *GDP deflator*⁽⁴⁾ stayed unchanged at 4.1% in the second quarter. The *terms of trade*⁽⁵⁾ continued to show slight improvement as export prices rose somewhat faster than import prices. The domestic demand deflator rose further by 3.7% in the second quarter, same as in the first quarter.

Diagram 6.7 : GDP deflator

(a) The year-on-year increase in GDP deflator stayed unchanged in the second quarter



(b) Terms of trade continued to see slight improvement

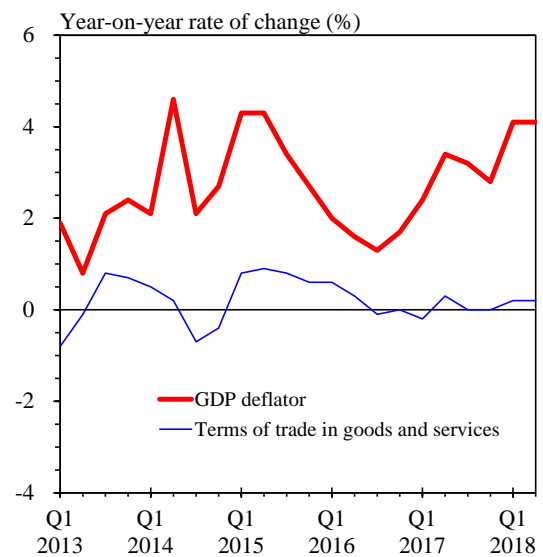


Table 6.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))

	<u>2016</u>			<u>2017</u>			<u>2018</u>	
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1[#]</u>	<u>Q2⁺</u>
Private consumption expenditure	1.5	2.4	1.9	2.1	2.7	2.8	4.3	3.8
Government consumption expenditure	3.7	2.4	3.8	2.4	1.8	1.6	1.6	2.8
Gross domestic fixed capital formation	-0.1	4.8	5.4	6.1	4.8	3.2	2.8	4.0
Total exports of goods ^{&}	-1.4	1.6	1.5	1.5	1.6	2.1	2.7	2.5
Imports of goods ^{&}	-1.8	1.8	1.8	1.5	1.6	2.1	2.6	2.6
Exports of services ^{&}	-2.0	2.8	1.7	2.4	2.8	4.2	5.3	5.5
Imports of services ^{&}	-1.3	1.9	0.7	0.1	2.5	4.0	5.8	4.5
Gross Domestic Product	1.7	2.9	2.4 <0.9>	3.4 <1.1>	3.2 <0.3>	2.8 <0.5>	4.1 <2.1>	4.1 <1.1>
Total final demand ^{&}	-0.6	2.2	1.9	2.0	2.2	2.5	3.4	3.2
Domestic demand	1.4	2.8	2.7	2.9	3.1	2.7	3.7	3.7
Terms of trade in goods and services ^{&}	0.2	0.1	-0.2	0.3	*	*	0.2	0.2

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

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

(#) Revised figures.

(+) Preliminary figures.

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

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

Notes :

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

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

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

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

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

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

	<u>2016</u>		<u>2017</u>				<u>2018</u>	
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Selected developed economies								
US	1.3	2.1	2.5	1.9	2.0	2.1	2.2	2.7
Canada	1.4	1.6	1.9	1.3	1.4	1.8	2.1	2.3
EU	0.3	1.7	1.8	1.7	1.7	1.7	1.5	1.8
Japan	-0.1	0.5	0.3	0.4	0.6	0.6	1.3	0.6
Selected major emerging economies								
Mainland China	2.0	1.6	1.4	1.4	1.6	1.8	2.1	1.8
Russia	7.1	3.7	4.6	4.2	3.4	2.6	2.2	2.4
India	4.9	3.3	3.6	2.2	3.0	4.6	4.6	4.8
Brazil	8.7	3.4	4.9	3.6	2.6	2.8	2.8	3.3
Selected Asian economies								
Hong Kong	2.4	1.5	0.5	2.0	1.8	1.6	2.4	2.1
Singapore	-0.5	0.6	0.6	0.8	0.4	0.5	0.2	0.3
Taiwan	1.4	0.6	0.8	0.6	0.7	0.4	1.6	1.7
Korea	1.0	1.9	2.1	1.9	2.3	1.5	1.3	1.5
Malaysia	2.1	3.8	4.2	3.8	3.6	3.5	1.8	1.3
Thailand	0.2	0.7	1.3	0.1	0.4	0.9	0.6	1.3
Indonesia	3.5	3.8	3.6	4.3	3.8	3.5	3.3	3.3
Philippines	1.3	2.9	2.9	2.8	2.7	3.0	3.9	4.8
Vietnam	2.7	3.5	5.0	3.3	3.1	2.7	2.8	3.8
Macao	2.4	1.2	0.9	0.9	1.3	1.8	2.5	3.0

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

Statistical Appendix

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

	(\$Mn)					
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
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)							
	<u>2014</u>	<u>2015</u>	<u>2016[#]</u>	<u>2017[#]</u>	<u>2017</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>
					Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Private consumption expenditure	1,502,768	1,593,091	1,649,664	1,782,567	439,031	477,768	476,424	490,916
Government consumption expenditure	214,216	231,263	247,615	262,116	66,016	65,776	71,178	67,464
Gross domestic fixed capital formation	530,916	537,205	536,010	581,018	138,867	163,307	143,310	151,449
Building and construction	244,047	262,780	283,444	304,842	74,122	80,296	81,093	75,154
Costs of ownership transfer	43,967	45,846	45,131	68,294	14,048	20,771	18,550	22,006
Machinery, equipment and intellectual property products	242,902	228,579	207,435	207,882	50,697	62,240	43,667	54,289
Changes in inventories	7,473	-20,580	447	11,065	-399	5,886	-1,857	2,793
Total exports of goods ^{&}	3,986,769	3,889,225	3,892,886	4,191,267	1,099,086	1,155,569	1,016,870	1,066,845
Imports of goods ^{&}	4,237,700	4,066,527	4,022,579	4,377,940	1,115,653	1,201,380	1,093,822	1,158,670
Exports of services ^{&}	829,085	808,948	764,839	811,396	207,622	216,240	230,650	206,395
Imports of services ^{&}	573,522	574,345	578,106	600,506	154,339	161,604	155,742	150,179
GDP	2,260,005	2,398,280	2,490,776	2,660,983	680,231	721,562	687,011	677,013
<i>Per capita GDP (\$)</i>	<i>312,609</i>	<i>328,924</i>	<i>339,500</i>	<i>359,996</i>	--	--	--	--
GNI	2,306,612	2,442,656	2,553,369	2,771,717	708,413	733,894	711,171	N.A.
<i>Per capita GNI (\$)</i>	<i>319,056</i>	<i>335,010</i>	<i>348,032</i>	<i>374,977</i>	--	--	--	--
Total final demand	7,071,227	7,039,152	7,091,461	7,639,429	1,950,223	2,084,546	1,936,575	1,985,862
Total final demand excluding re-exports ^(a)	4,116,670	4,139,786	4,190,864	4,491,147	1,125,093	1,225,521	1,167,095	1,168,435
Domestic demand	2,255,373	2,340,979	2,433,736	2,636,766	643,515	712,737	689,055	712,622
Private	1,929,514	1,991,436	2,062,392	2,242,869	547,696	612,625	578,105	614,575
Public	325,859	349,543	371,344	393,897	95,819	100,112	110,950	98,047
External demand	4,815,854	4,698,173	4,657,725	5,002,663	1,306,708	1,371,809	1,247,520	1,273,240

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

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

(%)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
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 $\pm 0.05\%$.
 N.A. Not yet available.

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

	(%)									
	<u>2014</u>	<u>2015</u>	<u>2016[#]</u>	<u>2017[#]</u>	<u>2017</u>		<u>2018</u>		Average annual rate of change:	
					Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]	10 years 2007 to 2017 [#]	5 years 2012 to 2017 [#]
Private consumption expenditure	3.3	4.8	2.0	5.5	6.3	6.3	8.8	6.1	4.1	4.0
Government consumption expenditure	3.1	3.4	3.3	3.4	4.5	3.2	3.9	4.4	3.0	3.2
Gross domestic fixed capital formation	-0.1	-3.2	-0.1	3.5	-2.1	3.1	4.2	0.4	2.4	0.5
Building and construction	9.3	2.2	5.9	1.7	0.9	-2.6	1.9	-3.0	4.3	2.9
Costs of ownership transfer	6.9	-8.3	-2.9	22.3	-12.8	6.2	11.9	0.7	-5.1	-3.5
Machinery, equipment and intellectual property products	-8.7	-7.7	-6.3	1.8	-3.0	9.9	6.1	4.7	1.4	-2.2
Total exports of goods ^{&}	0.8	-1.7	1.6	5.9	5.7	3.4	5.2	4.6	3.0	2.9
Imports of goods ^{&}	1.5	-2.7	0.7	7.0	6.3	5.4	6.9	6.3	4.2	3.2
Exports of services ^{&}	1.6	0.3	-3.5	3.2	3.5	3.9	7.9	6.1	3.7	1.5
Imports of services ^{&}	-2.2	5.0	2.0	1.9	1.4	0.8	4.2	0.4	0.3	0.9
GDP	2.8	2.4	2.2	3.8	3.6	3.4	4.6	3.5	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	5.6	6.9	4.5	5.4	N.A.	2.6	3.8
Per capita RGNI	1.9	2.9	2.6	4.8	--	--	--	--	1.9	3.1
Total final demand	1.6	-0.4	1.3	5.4	4.9	4.3	5.8	4.8	3.3	2.9
Total final demand excluding re-exports ^(a)	0.6	0.1	1.5	4.4	3.6	4.5	5.6	4.6	2.9	2.1
Domestic demand	2.9	1.6	2.6	5.4	4.1	6.0	6.2	4.9	3.6	3.3
Private	2.6	1.3	2.5	5.8	4.1	7.2	6.4	5.6	3.4	3.3
Public	4.6	2.9	3.0	2.9	4.1	-1.0	5.1	1.1	4.6	3.4
External demand	1.0	-1.4	0.7	5.5	5.4	3.5	5.6	4.8	3.2	2.7

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

	<u>2012</u>		<u>2013</u>		<u>2014</u>		<u>2015</u>		<u>2016[#]</u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture, fishing, mining and quarrying	1,114	0.1	1,225	0.1	1,496	0.1	1,630	0.1	1,898	0.1
Manufacturing	30,600	1.5	30,156	1.4	27,885	1.3	26,716	1.1	26,844	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	34,414	1.4
Construction	73,445	3.6	83,288	4.0	96,205	4.4	107,902	4.6	124,932	5.2
Services	1,872,498	93.0	1,948,292	92.9	2,044,750	92.7	2,154,541	92.7	2,229,568	92.2
<i>Import/export, wholesale and retail trades</i>	<i>511,537</i>	<i>25.4</i>	<i>523,741</i>	<i>25.0</i>	<i>531,541</i>	<i>24.1</i>	<i>527,822</i>	<i>22.7</i>	<i>525,526</i>	<i>21.7</i>
<i>Accommodation^(a) and food services</i>	<i>72,044</i>	<i>3.6</i>	<i>75,413</i>	<i>3.6</i>	<i>78,725</i>	<i>3.6</i>	<i>78,134</i>	<i>3.4</i>	<i>79,682</i>	<i>3.3</i>
<i>Transportation, storage, postal and courier services</i>	<i>120,609</i>	<i>6.0</i>	<i>125,465</i>	<i>6.0</i>	<i>137,658</i>	<i>6.2</i>	<i>150,073</i>	<i>6.5</i>	<i>149,719</i>	<i>6.2</i>
<i>Information and communications</i>	<i>70,866</i>	<i>3.5</i>	<i>76,145</i>	<i>3.6</i>	<i>77,761</i>	<i>3.5</i>	<i>80,813</i>	<i>3.5</i>	<i>84,208</i>	<i>3.5</i>
<i>Financing and insurance</i>	<i>319,312</i>	<i>15.9</i>	<i>346,248</i>	<i>16.5</i>	<i>367,989</i>	<i>16.7</i>	<i>409,933</i>	<i>17.6</i>	<i>429,082</i>	<i>17.7</i>
<i>Real estate, professional and business services</i>	<i>232,416</i>	<i>11.5</i>	<i>225,789</i>	<i>10.8</i>	<i>239,434</i>	<i>10.9</i>	<i>252,714</i>	<i>10.9</i>	<i>266,139</i>	<i>11.0</i>
<i>Public administration, social and personal services</i>	<i>337,678</i>	<i>16.8</i>	<i>356,326</i>	<i>17.0</i>	<i>379,588</i>	<i>17.2</i>	<i>407,405</i>	<i>17.5</i>	<i>436,565</i>	<i>18.1</i>
<i>Ownership of premises</i>	<i>208,036</i>	<i>10.3</i>	<i>219,166</i>	<i>10.4</i>	<i>232,053</i>	<i>10.5</i>	<i>247,648</i>	<i>10.6</i>	<i>258,649</i>	<i>10.7</i>
GDP at basic prices	2,013,038	100.0	2,098,080	100.0	2,205,972	100.0	2,325,443	100.0	2,417,657	100.0
Taxes on products	63,575	--	75,314	--	83,236	--	95,433	--	84,357	--
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	--	2,490,776	--

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

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

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

(--) Not applicable.

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

	(%)									
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016[#]</u>	<u>2017[#]</u>	<u>2017</u>			<u>2018</u>
							Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Agriculture, fishing, mining and quarrying	-3.2	4.9	-6.0	-6.8	-2.0	-0.5	-2.4	-2.4	-2.1	-4.8
Manufacturing	-0.8	0.1	-0.4	-1.5	-0.4	0.4	0.4	0.3	0.8	1.1
Electricity, gas and water supply, and waste management	1.4	-2.9	0.8	-2.6	-0.8	0.6	-0.8	5.0	*	4.2
Construction	8.3	4.2	13.0	5.4	5.1	2.3	3.2	2.0	-2.6	3.5
Services	1.8	2.7	2.5	1.7	2.3	3.5	3.3	3.6	3.4	4.4
<i>Import/export,</i> <i>wholesale and retail trades</i>	<i>1.9</i>	<i>3.3</i>	<i>1.2</i>	<i>-1.1</i>	<i>0.6</i>	<i>3.6</i>	<i>3.2</i>	<i>3.8</i>	<i>3.6</i>	<i>6.4</i>
<i>Accommodation^(a) and</i> <i>food services</i>	<i>1.8</i>	<i>3.6</i>	<i>2.2</i>	<i>-1.9</i>	<i>0.5</i>	<i>2.3</i>	<i>1.4</i>	<i>2.2</i>	<i>3.9</i>	<i>5.9</i>
<i>Transportation, storage,</i> <i>postal and courier services</i>	<i>0.9</i>	<i>4.1</i>	<i>2.9</i>	<i>3.3</i>	<i>3.0</i>	<i>4.9</i>	<i>4.9</i>	<i>5.0</i>	<i>4.9</i>	<i>4.9</i>
<i>Information and</i> <i>communications</i>	<i>2.8</i>	<i>4.0</i>	<i>3.9</i>	<i>4.0</i>	<i>4.1</i>	<i>3.9</i>	<i>4.1</i>	<i>4.2</i>	<i>2.9</i>	<i>3.1</i>
<i>Financing and insurance</i>	<i>0.8</i>	<i>7.7</i>	<i>5.3</i>	<i>6.1</i>	<i>4.2</i>	<i>5.6</i>	<i>5.3</i>	<i>5.7</i>	<i>5.9</i>	<i>6.8</i>
<i>Real estate, professional and</i> <i>business services</i>	<i>3.1</i>	<i>-4.0</i>	<i>1.9</i>	<i>0.7</i>	<i>2.8</i>	<i>2.5</i>	<i>2.0</i>	<i>2.1</i>	<i>1.6</i>	<i>2.1</i>
<i>Public administration, social</i> <i>and personal services</i>	<i>2.1</i>	<i>2.5</i>	<i>2.4</i>	<i>2.5</i>	<i>2.9</i>	<i>3.2</i>	<i>2.9</i>	<i>3.9</i>	<i>3.2</i>	<i>3.4</i>
<i>Ownership of premises</i>	<i>1.1</i>	<i>0.3</i>	<i>0.8</i>	<i>0.6</i>	<i>0.5</i>	<i>0.9</i>	<i>0.8</i>	<i>0.9</i>	<i>0.9</i>	<i>1.0</i>
Taxes on products	-10.4	-6.4	6.7	7.1	-9.0	12.5	22.1	-1.2	10.0	15.6
GDP in chained (2016) dollars	1.7	3.1	2.8	2.4	2.2	3.8	3.9	3.6	3.4	4.6

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

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

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

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

	(\$Mn)								
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016[#]</u>	<u>2017[#]</u>		<u>2017</u>		<u>2018</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Current account ^(a)	32,475	31,453	79,553	98,664	114,946	19,070	59,733	15,985	16,564
Goods	-216,592	-250,931	-177,302	-129,693	-186,673	-67,722	-16,567	-45,811	-76,952
Services	229,424	255,563	234,603	186,733	210,890	41,122	53,283	54,636	74,908
Primary income	40,519	46,607	44,376	62,593	110,734	50,420	28,182	12,332	24,160
Secondary income	-20,876	-19,786	-22,124	-20,969	-20,005	-4,749	-5,165	-5,172	-5,552
Capital and financial account ^(a)	-86,308	-73,785	-128,642	-101,104	-155,044	-45,533	-89,585	-32,013	-44,572
Capital account	-1,609	-748	-216	-374	-646	-74	-147	-366	-75
Financial account	-84,699	-73,037	-128,426	-100,730	-154,397	-45,459	-89,437	-31,647	-44,497
Financial non-reserve assets	-26,810	66,052	153,570	-91,874	96,111	30,646	-33,836	41,847	29,288
<i>Direct investment</i>	-50,250	-85,718	794,800	447,758	167,473	-36,922	13,217	121,806	-19,745
<i>Portfolio investment</i>	-386,077	-64,384	-970,938	-469,591	305,014	229,086	-13,462	-13,650	-245,652
<i>Financial derivatives</i>	54,661	118,359	99,178	36,327	39,646	-3,570	10,997	19,685	-3,849
<i>Other investment</i>	354,856	97,795	230,531	-106,368	-416,022	-157,948	-44,588	-85,995	298,535
Reserve assets	-57,890	-139,089	-281,996	-8,856	-250,509	-76,105	-55,601	-73,494	-73,786
Net errors and omissions	53,833	42,332	49,089	2,440	40,098	26,463	29,852	16,028	28,009
Overall Balance of Payments	57,890	139,089	281,996	8,856	250,509	76,105	55,601	73,494	73,786

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

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

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

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

	(\$Mn)								
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016[#]</u>	<u>2017[#]</u>	<u>2017</u>		<u>2018</u>	
						Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Total exports of goods	3,926,059	3,986,769	3,889,225	3,892,886	4,191,267	1,099,086	1,155,569	1,016,870	1,066,845
Imports of goods	4,142,651	4,237,700	4,066,527	4,022,579	4,377,940	1,115,653	1,201,380	1,093,822	1,158,670
Goods trade balance	-216,592 (-5.2)	-250,931 (-5.9)	-177,302 (-4.4)	-129,693 (-3.2)	-186,673 (-4.3)	-16,567 (-1.5)	-45,811 (-3.8)	-76,952 (-7.0)	-91,825 (-7.9)
Exports of services	812,640	829,085	808,948	764,839	811,396	207,622	216,240	230,650	206,395
Imports of services	583,216	573,522	574,345	578,106	600,506	154,339	161,604	155,742	150,179
Services trade balance	229,424 (39.3)	255,563 (44.6)	234,603 (40.8)	186,733 (32.3)	210,890 (35.1)	53,283 (34.5)	54,636 (33.8)	74,908 (48.1)	56,216 (37.4)
Exports of goods and services	4,738,699	4,815,854	4,698,173	4,657,725	5,002,663	1,306,708	1,371,809	1,247,520	1,273,240
Imports of goods and services	4,725,867	4,811,222	4,640,872	4,600,685	4,978,446	1,269,992	1,362,984	1,249,564	1,308,849
Goods and services trade balance	12,832 <0.3>	4,632 <0.1>	57,301 <1.2>	57,040 <1.2>	24,217 <0.5>	36,716 <2.9>	8,825 <0.6>	-2,044 <-0.2>	-35,609 <-2.7>

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

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

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

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

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016[#]</u>	<u>2017[#]</u>	<u>2017</u>		<u>2018</u>	
						Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
<u>At current market prices (\$Mn)</u>									
Total exports of goods	3,816,390	3,877,458	3,779,263	3,776,638	4,055,437	1,059,892	1,105,177	987,978	1,045,394
Imports of goods	4,394,928	4,471,810	4,289,991	4,240,000	4,586,052	1,168,631	1,255,717	1,143,416	1,213,623
Goods trade balance	-578,538 (-13.2)	-594,352 (-13.3)	-510,728 (-11.9)	-463,362 (-10.9)	-530,615 (-11.6)	-108,739 (-9.3)	-150,540 (-12.0)	-155,438 (-13.6)	-168,229 (-13.9)
Exports of services	1,058,584	1,079,989	1,052,355	1,010,316	1,066,446	276,563	295,817	288,165	260,975
Imports of services	467,214	481,005	484,326	489,914	511,614	131,108	136,452	134,771	128,355
Services trade balance	591,370 (126.6)	598,984 (124.5)	568,029 (117.3)	520,402 (106.2)	554,832 (108.4)	145,455 (110.9)	159,365 (116.8)	153,394 (113.8)	132,620 (103.3)
Exports of goods and services	4,874,974	4,957,447	4,831,618	4,786,954	5,121,883	1,336,455	1,400,994	1,276,143	1,306,369
Imports of goods and services	4,862,142	4,952,815	4,774,317	4,729,914	5,097,666	1,299,739	1,392,169	1,278,187	1,341,978
Goods and services trade balance	12,832 <0.3>	4,632 <0.1>	57,301 <1.2>	57,040 <1.2>	24,217 <0.5>	36,716 <2.8>	8,825 <0.6>	-2,044 <-0.2>	-35,609 <-2.7>
<u>Rates of change in real terms (%)</u>									
Total exports of goods	6.5	0.8	-1.9	1.4	5.6	5.5	3.0	5.1	4.5
Imports of goods	7.2	0.9	-2.7	0.6	6.2	5.5	4.6	6.5	6.0
Exports of services	4.9	1.2	-0.3	-2.1	2.9	3.1	3.4	6.8	5.3
Imports of services	1.5	1.8	5.3	2.4	3.3	2.9	2.2	4.7	0.1

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

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

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

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>		<u>2017</u>		<u>2018</u>	
							Q3	Q4	Q1	Q2
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All markets	3.6	3.2	-1.8	-0.5	8.0	3,875,898	8.0	6.8	9.7	9.0
Mainland of China	4.9	1.5	-2.1	0.4	8.4	2,105,829	8.9	6.0	12.6	11.3
United States	-2.1	3.1	0.2	-5.3	1.9	330,198	-0.7	6.1	7.4	11.4
India	7.9	13.1	8.1	14.6	35.9	158,635	12.4	38.9	-6.3	-34.1
Japan	-6.1	-2.8	-6.6	-4.9	10.0	128,474	12.9	13.2	7.0	5.9
Taiwan	-4.3	2.5	-18.0	14.6	19.9	89,371	19.6	-0.7	11.9	-0.7
Vietnam	15.5	14.0	14.7	-5.8	10.3	79,632	7.7	7.7	0.1	7.5
Germany	-5.1	-1.7	-3.2	-5.1	10.8	73,912	16.8	21.3	12.4	13.2
Netherlands	1.1	12.7	10.2	10.3	11.5	63,982	10.6	1.2	0.1	16.4
Singapore	4.7	2.2	-2.3	4.8	-0.4	61,023	9.6	-8.5	8.9	17.5
Korea	9.0	-2.7	-12.8	-0.6	4.9	56,672	1.4	5.9	-1.8	1.3
Rest of the world	5.4	7.6	-1.8	-3.3	3.8	728,169	6.1	4.8	9.2	12.8

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

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>		<u>2017</u>		<u>2018</u>	
							Q3	Q4	Q1	Q2
	(% change)				(% change)	(\$Mn)	(% change over a year earlier)			
All sources	3.8	3.9	-4.1	-0.9	8.7	4,357,004	7.7	8.5	10.6	10.4
Mainland of China	5.5	2.3	-0.1	-3.4	5.9	2,030,145	4.9	5.8	7.8	9.3
Taiwan	6.9	14.7	-8.6	6.4	12.9	329,678	8.0	16.2	15.1	14.8
Singapore	*	5.8	-5.7	6.4	10.1	288,107	16.7	-0.1	8.8	9.4
Japan	-8.1	0.9	-9.9	-5.2	2.7	253,394	1.1	0.6	0.5	6.2
Korea	3.4	10.6	-2.0	14.0	28.5	252,056	29.8	20.0	13.3	28.5
United States	7.4	*	-3.9	-2.0	3.4	213,737	2.5	0.9	6.2	3.3
Malaysia	4.7	16.7	-7.9	-3.7	26.8	114,877	20.6	62.0	97.9	80.3
India	6.7	10.0	-13.7	11.9	15.8	107,412	-0.6	3.1	-12.3	-28.1
Thailand	6.4	13.7	-3.7	-2.7	8.5	89,641	6.2	8.3	4.2	5.8
Philippines	2.5	22.0	10.3	5.8	27.6	76,275	30.8	20.9	5.3	13.8
Rest of the world	3.2	-0.3	-10.6	-3.1	7.0	601,681	7.0	11.2	14.4	6.3

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

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

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016[#]</u>	<u>2017[#]</u>		<u>2017</u>		<u>2018</u>	
							Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
	(% change)				(% change)	(\$Mn)	(% change over a year earlier)			
Exports of services	6.4	2.0	-2.4	-5.5	6.1	811,396	6.4	8.2	13.5	11.9
Transport	-2.5	2.2	-6.8	-5.3	8.1	236,459	8.1	6.5	7.8	8.9
Travel	17.7	-1.5	-5.8	-9.0	1.8	259,544	1.5	5.1	15.9	13.8
Financial services	6.1	7.0	8.5	-6.8	13.0	156,552	13.7	22.9	25.0	23.2
Other services	1.4	4.7	1.6	2.3	4.0	158,841	4.0	4.2	4.9	4.9
Imports of services	-1.9	-1.7	0.1	0.7	3.9	600,506	4.0	4.9	10.2	4.8
Transport	-1.4	1.5	-5.9	-2.1	3.3	135,775	3.3	5.2	9.4	5.5
Travel	5.7	3.7	4.7	4.8	5.6	197,874	6.0	6.0	14.7	2.2
Manufacturing [^]	-16.5	-20.2	-2.7	-2.0	0.8	88,892	0.7	*	4.7	6.5
Other services	3.2	3.5	2.2	-0.1	4.0	177,965	3.9	6.0	8.7	6.8

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

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

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

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

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

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016[#]</u>	<u>2017[#]</u>		<u>2017</u>	<u>2018</u>		
							Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
	(% change)				(% change)	(\$Mn)	(% change over a year earlier)			
Exports of services	5.5	2.0	-2.6	-4.0	5.6	1,066,446	5.7	7.2	11.7	10.5
Transport	-2.5	2.2	-6.8	-5.3	8.1	236,459	8.1	6.5	7.8	8.9
Travel	17.7	-1.5	-5.8	-9.0	1.8	259,544	1.5	5.1	15.9	13.8
Trade-related	2.1	1.9	-3.0	0.6	3.9	296,548	3.9	4.6	5.1	5.4
Other services	4.7	6.6	6.4	-2.4	9.0	273,895	9.7	14.1	16.6	14.1
Imports of services	2.6	3.0	0.7	1.2	4.4	511,614	4.6	5.8	11.1	4.5
Transport	-1.4	1.5	-5.9	-2.1	3.3	135,775	3.3	5.2	9.4	5.5
Travel	5.7	3.7	4.7	4.8	5.6	197,874	6.0	6.0	14.7	2.2
Trade-related	-2.7	2.8	0.1	-0.9	3.3	34,541	3.3	3.8	5.0	4.8
Other services	4.8	3.6	2.7	0.1	4.1	143,424	4.1	6.6	9.5	7.3

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

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

Table 10 : Incoming visitors by source

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2017</u>		<u>2018</u>	
						Q3	Q4	Q1	Q2
<u>('000)</u>									
All sources	54 298.8	60 838.8	59 307.6	56 654.9	58 472.2	14 826.3	15 837.0	15 609.7	14 996.4
Mainland of China	40 745.3	47 247.7	45 842.4	42 778.1	44 445.3	11 605.9	11 946.6	12 181.3	11 507.6
South and Southeast Asia	3 718.0	3 614.8	3 559.1	3 701.8	3 626.2	751.7	1 050.4	817.5	970.2
Taiwan	2 100.1	2 031.9	2 015.8	2 011.4	2 010.8	515.6	508.0	460.6	488.2
Europe	1 893.7	1 863.3	1 829.4	1 904.9	1 901.5	405.3	553.6	494.6	472.0
United States	1 109.8	1 130.6	1 181.0	1 211.5	1 215.6	267.1	340.3	305.8	337.9
Japan	1 057.0	1 078.8	1 049.3	1 092.3	1 230.0	324.6	322.5	326.6	289.4
Others	3 674.9	3 871.9	3 830.7	3 954.8	4 042.9	956.0	1 115.5	1 023.1	931.1
<u>(% change over a year earlier)</u>									
All sources	11.7	12.0	-2.5	-4.5	3.2	1.8	6.0	9.6	10.5
Mainland of China	16.7	16.0	-3.0	-6.7	3.9	2.7	8.0	12.6	14.3
South and Southeast Asia	1.8	-2.8	-1.5	4.0	-2.0	-5.3	-3.4	-2.0	-2.0
Taiwan	0.5	-3.2	-0.8	-0.2	*	-2.3	2.3	-6.0	-1.8
Europe	1.4	-1.6	-1.8	4.1	-0.2	-1.4	-1.3	3.0	2.1
United States	-6.3	1.9	4.5	2.6	0.3	-0.5	-3.2	4.8	6.8
Japan	-15.7	2.1	-2.7	4.1	12.6	14.4	4.3	2.1	10.0
Others	0.5	5.4	-1.1	3.2	2.2	-1.7	4.3	1.9	-3.8

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

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

Table 11 : Property market

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
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
<i>of which :</i>							
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
<i>of which :</i>							
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 commercial 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 11 : Property market (Cont'd)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2017</u>		<u>2018</u>	
				Q3	Q4	Q1	Q2
Completion of new property by the private sector							
('000 m ² of internal floor area)							
Residential property ^(a) (in units)	11 280	14 595	17 791	4 128	4 874	1 243	4 977
Commercial property	233	276	303	136	125	39	81
<i>of which :</i>							
Office space	164	153	198	101	85	32	50
Other commercial premises ^(b)	69	123	105	35	41	7	31
Industrial property ^(c)	30	78	105	83	0	8	5
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	30	5	23	0	0	8	2
Storage premises ^(d)	0	73	83	83	0	0	3
Production of public housing							
(in units)							
Rental housing flats ^(e)	10 147	21 755	11 268	0	8 268	3 793	N.A.
Subsidised sales flats ^(e)	1 326	229	2 788	0	0	248	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	872.8	272.2	78.6	270.3	N.A.
Commercial property	319.0	312.4	488.6	115.5	31.2	24.3	N.A.
Industrial property ^(f)	225.3	76.2	62.5	12.4	18.7	29.5	N.A.
Other properties	555.4	235.1	227.1	38.2	63.8	29.7	N.A.
Total	1 993.0	1 269.4	1 651.1	438.4	192.3	353.8	N.A.
Agreements for sale and purchase of property							
(Number)							
Residential property ^(g)	55 982	54 701	61 591	13 158	16 320	15 015	18 881
Primary market	16 826	16 793	18 645	4 577	4 250	2 734	4 948
Secondary market	39 156	37 908	42 946	8 581	12 070	12 281	13 933
Selected types of non-residential properties ^(h)							
Office space	1 470	1 105	1 955	360	454	388	374
Other commercial premises	2 067	1 523	2 198	536	598	568	628
Flatted factory space	3 407	2 727	5 135	1 302	1 524	1 558	1 631

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

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

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

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

N.A. Not yet available.

Table 12 : Property prices and rentals

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>(Index (1999=100))</u>							
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
<u>(% change)</u>							
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 12 : Property prices and rentals (Cont'd)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2017</u>		<u>2018</u>	
				Q3	Q4	Q1 [#]	Q2 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	296.8	286.1	333.9	339.3	348.0	364.3	383.1
Office space	448.9	426.9	487.1	489.0	511.1	523.1	545.0
Shopping space	559.2	526.9	558.4	562.3	573.6	583.5	593.6
Flatted factory space	723.9	692.7	778.1	788.4	818.6	849.4	885.9
Property rental indices ^(b) :							
Residential flats	172.8	168.2	182.6	185.1	187.1	187.9	192.0
Office space	226.7	232.3	241.8	243.9	245.7	246.5	252.1
Shopping space	182.5	178.6	182.5	183.6	185.0	185.5	187.6
Flatted factory space	174.4	181.4	190.7	192.9	195.9	197.3	202.5
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	15.5	-3.6	16.7	17.6	13.7	15.7	15.0
Office space	6.1	-4.9	14.1	17.0	17.7	12.5	12.7
Shopping space	7.3	-5.8	6.0	9.4	7.3	6.7	7.8
Flatted factory space	8.4	-4.3	12.3	15.6	15.4	15.4	15.2
Property rental indices ^(b) :							
Residential flats	8.3	-2.7	8.6	9.0	8.3	6.3	5.8
Office space	6.1	2.5	4.1	4.8	5.0	4.0	4.9
Shopping space	5.4	-2.1	2.2	3.4	3.1	2.9	3.5
Flatted factory space	8.9	4.0	5.1	6.0	6.4	6.1	7.7

Table 13 : Monetary aggregates

	2008	2009	2010	2011	2012	2013	2014
<u>(as at end of period)</u>							
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
<u>(% change)</u>							
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, 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 negotiable certificates of deposit issued by such institutions and held outside the monetary sector.

Table 13 : Monetary aggregates (Cont'd)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2017</u> Q3	Q4	<u>2018</u> Q1	Q2
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	1,253,380	1,428,775	1,598,014	1,607,223	1,598,014	1,656,884	1,660,700
M2 ^(a)	5,765,549	6,280,230	7,010,345	7,004,256	7,010,345	7,229,517	7,262,507
M3 ^(a)	5,778,772	6,292,666	7,024,514	7,019,465	7,024,514	7,245,943	7,279,273
Total money supply (\$Mn)							
M1	1,971,146	2,213,970	2,431,461	2,393,467	2,431,461	2,473,438	2,519,925
M2	11,618,441	12,508,127	13,755,255	13,484,438	13,755,255	13,935,534	13,979,948
M3	11,655,019	12,551,331	13,803,837	13,533,592	13,803,837	13,987,761	14,032,525
Deposit (\$Mn)							
HK\$	5,312,403	5,809,060	6,484,616	6,490,502	6,484,616	6,680,610	6,715,033
Foreign currency	5,437,346	5,918,240	6,267,872	6,011,369	6,267,872	6,230,670	6,243,395
Total	10,749,749	11,727,300	12,752,488	12,501,870	12,752,488	12,911,280	12,958,428
Loans and advances (\$Mn)							
HK\$	4,152,589	4,479,107	5,359,983	5,112,454	5,359,983	5,557,010	5,735,843
Foreign currency	3,381,951	3,544,284	3,953,686	3,936,339	3,953,686	4,095,020	4,070,229
Total	7,534,540	8,023,390	9,313,668	9,048,793	9,313,668	9,652,030	9,806,072
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) ^(b)							
Trade-weighted	101.3	104.1	104.2	102.7	102.3	98.6	99.3
Import-weighted	101.7	104.2	104.2	102.7	102.3	98.6	99.3
Export-weighted	100.9	104.1	104.3	102.7	102.3	98.7	99.3
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	12.2	14.0	11.8	13.4	11.8	12.4	10.5
M2 ^(a)	10.3	8.9	11.6	13.2	11.6	9.6	6.2
M3 ^(a)	10.4	8.9	11.6	13.2	11.6	9.6	6.3
Total money supply							
M1	15.4	12.3	9.8	7.1	9.8	11.0	9.6
M2	5.5	7.7	10.0	8.8	10.0	7.8	5.0
M3	5.5	7.7	10.0	8.9	10.0	7.8	5.0
Deposit							
HK\$	10.7	9.3	11.6	13.2	11.6	9.4	5.8
Foreign currency	3.1	8.8	5.9	2.0	5.9	4.2	3.5
Total	6.7	9.1	8.7	7.5	8.7	6.8	4.7
Loans and advances							
HK\$	3.8	7.9	19.7	18.0	19.7	20.2	17.2
Foreign currency	3.2	4.8	11.6	12.7	11.6	8.6	3.0
Total	3.5	6.5	16.1	15.7	16.1	15.0	10.9
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) ^(b)							
Trade-weighted	5.5	2.8	0.1	-0.8	-3.8	-7.7	-5.8
Import-weighted	5.9	2.5	*	-0.6	-3.7	-7.7	-5.6
Export-weighted	5.2	3.2	0.2	-1.1	-3.9	-7.6	-6.0

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

(b) Period average.

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

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

	(%)							
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2017</u>		<u>2018</u>	
					Q2	Q3	Q4	Q1
Services Industry								
Import and export trade	0.1	-3.9	-2.5	2.3	1.6	2.1	1.4	4.8
Wholesale	1.5	-4.9	-1.0	2.8	1.9	2.0	4.0	5.6
Retail	-0.2	-3.7	-8.1	2.2	0.2	4.1	5.8	14.4
Transportation	6.1	-4.3	-6.5	7.1	9.2	9.6	6.9	10.5
<i>within which:</i>								
Land transport	6.9	5.4	3.6	1.8	2.3	1.2	2.0	3.9
Water transport	6.8	-7.7	-11.2	5.6	11.7	10.7	-1.6	5.5
Air transport	5.3	-5.1	-7.0	10.0	10.6	12.2	14.2	16.3
Warehousing and storage	11.9	12.7	12.1	14.1	11.1	18.5	19.1	17.3
Courier	5.4	-5.9	5.5	19.1	17.7	16.9	22.8	13.7
Accommodation services ^(a)	6.5	-6.6	-1.1	6.0	4.8	5.0	8.5	10.8
Food services	3.5	3.9	2.9	5.0	4.0	5.0	6.7	10.0
Information and communications	5.9	10.8	0.6	2.9	1.0	4.3	6.3	10.3
<i>within which:</i>								
Telecommunications	10.7	19.6	-0.8	-3.5	-7.2	0.1	0.1	10.8
Film entertainment	-11.7	-3.1	-4.5	4.3	6.0	3.2	3.5	1.8
Banking	5.9	8.3	8.1	-0.1	-28.9	10.9	18.2	11.1
Financing (except banking)	6.7	19.0	-6.0	7.2	2.2	8.0	10.6	28.9
<i>within which:</i>								
Financial markets and asset management	8.9	19.0	-8.7	1.6	-4.6	5.3	5.4	38.8
<i>within which: Asset management</i>	11.0	7.0	4.1	4.4	0.1	8.2	7.8	24.9
Insurance	18.2	11.7	21.8	11.8	7.0	10.9	11.9	8.7
Real estate	17.0	8.1	16.5	14.2	14.6	-1.2	11.3	7.2
Professional, scientific and technical services	7.6	5.3	3.3	1.9	0.7	2.3	2.6	6.2
Administrative and support services	7.3	7.4	0.9	1.5	0.1	2.6	3.0	2.9
Services Domain								
Tourism, convention and exhibition services	-0.9	-5.0	-8.1	0.7	-2.9	-0.1	4.6	12.1 ⁺
Computer and information technology services	-1.8	-4.2	-3.5	1.4	1.4	2.2	1.1	4.0

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

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

(+) Provisional figure.

Table 15 : Labour force characteristics

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2017</u> Q3 [#]	<u>2017</u> Q4 [#]	<u>2018</u> Q1	<u>2018</u> Q2
<u>(%)</u>									
Labour force participation rate	61.2	61.1	61.1	61.1	61.1	61.0	60.9	61.4	61.2
Seasonally adjusted unemployment rate ^(a)	3.4	3.3	3.3	3.4	3.1	3.1	3.0	2.9	2.8
Underemployment rate	1.5	1.5	1.4	1.4	1.2	1.1	1.1	1.0	1.0
<u>('000)</u>									
Population of working age	6 297.5	6 340.1	6 383.7	6 420.9	6 463.3	6 470.7	6 481.9	6 493.9	6 507.3
Labour force	3 855.1	3 871.1	3 903.2	3 920.1	3 946.6	3 946.9	3 950.2	3 984.4	3 982.2
Persons employed	3 724.0	3 743.5	3 773.8	3 787.1	3 823.2	3 817.5	3 840.3	3 872.4	3 869.8
Persons unemployed	131.1	127.6	129.4	133.0	123.4	129.4	109.8	112.1	112.4
Persons underemployed	58.3	56.8	53.3	54.7	45.6	44.9	42.4	38.9	41.4
<u>(% change over a year earlier)</u>									
Population of working age	0.7	0.7	0.7	0.6	0.7	0.5	0.4	0.7	0.8
Labour force	1.9	0.4	0.8	0.4	0.7	0.5	1.0	1.3	1.3
Persons employed	1.8	0.5	0.8	0.4	1.0	0.8	1.4	1.8	1.7
Persons unemployed	5.5	-2.7	1.4	2.8	-7.2	-7.6	-10.3	-11.5	-10.6
Persons underemployed	1.9	-2.6	-6.1	2.5	-16.5	-19.5	-22.3	-20.3	-10.2

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

(#) Figures have been revised to take into account the final 2017 population estimates.

Table 16 : Employment in selected major industries

Selected major industries	2013	2014	2015	2016	2017	2017			2018	(No.)
	(% change)					Jun	Sep	Dec	Mar	
						(% change over a year earlier)				
Manufacturing	-3.0	-1.2	-2.8	-3.6	-3.3	-2.8	-3.4	-3.6	-3.9	90 869
Construction sites (covering manual workers only)	11.2	4.4	14.9	13.3	10.1	6.2	12.7	9.2	2.6	120 723
Import and export trade	-0.2	0.1	-1.4	-0.7	-0.4	-0.3	-0.5	-0.7	-0.5	478 005
Wholesale	-2.0	-0.3	-1.4	-0.8	-0.6	-0.9	-0.3	-0.4	-0.5	60 389
Retail	2.3	2.2	-0.5	-1.1	0.5	0.6	0.2	0.6	1.4	270 951
Food and beverage services	0.9	2.4	0.1	-0.2	0.3	0.2	0.4	0.1	1.7	246 611
Accommodation services ^(a)	5.0	3.2	-1.1	-2.1	0.3	0.8	0.5	0.8	3.1	39 586
Transportation, storage, postal and courier services	2.0	2.7	1.6	0.5	0.2	-0.1	0.5	0.8	0.6	179 241
Information and communications	5.1	2.7	1.1	0.7	0.9	1.4	0.9	-0.2	-0.3	106 916
Financing and insurance	1.0	2.3	2.3	0.8	1.5	1.4	1.9	2.0	2.5	228 891
Real estate	1.6	0.6	1.7	-0.1	1.3	1.2	1.3	1.4	1.8	132 503
Professional and business services (excluding cleaning and similar services)	4.5	2.7	2.4	1.9	2.1	1.9	1.4	1.8	2.7	300 175
Cleaning and similar services	1.6	0.2	2.4	0.5	0.7	0.4	0.6	0.1	-1.5	81 257
Education	2.8	4.4	3.9	2.3	1.6	2.0	1.4	1.6	2.0	202 976
Human health services	5.2	4.3	4.5	4.3	3.5	3.3	3.2	3.5	3.3	128 441
Residential care and social work services	0.5	0.6	2.8	3.0	1.0	0.6	1.4	1.5	0.8	63 580
Arts, entertainment, recreation and other services	1.6	5.9	0.9	-2.2	-0.6	-0.6	-0.2	0.9	0.9	125 029
Civil service ^(b)	1.3	1.0	0.7	1.2	1.6	1.4	1.9	2.2	2.3	171 458
Others ^(c)	3.5	3.1	-1.0	0.8	2.1	3.7	1.1	0.2	0.2	11 240

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.

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>		<u>2017</u>		<u>2018</u>
						Jun	Sep	Dec	Mar
<u>(Number)</u>									
Building sites									
Private sector	41 308	44 024	50 372	60 243	65 985	63 176	66 764	68 442	67 872
Public sector ^(a)	9 860	11 212	15 470	16 030	21 660	20 189	22 388	22 921	22 491
Sub-total	51 168	55 236	65 842	76 273	87 645	83 365	89 152	91 363	90 363
Civil engineering sites									
Private sector	1 322	1 414	1 609	1 386	979	904	892	1 010	1 470
Public sector ^(a)	26 813	26 145	27 652	30 141	30 050	28 556	31 422	30 388	28 890
Sub-total	28 135	27 559	29 261	31 526	31 029	29 460	32 314	31 398	30 360
Total	79 303	82 795	95 103	107 799	118 674	112 825	121 466	122 761	120 723
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	9.6	6.6	14.4	19.6	9.5	6.1	9.3	8.2	3.5
Public sector ^(a)	-6.8	13.7	38.0	3.6	35.1	34.2	47.8	27.5	6.4
Sub-total	6.0	8.0	19.2	15.8	14.9	11.7	16.9	12.5	4.2
Civil engineering sites									
Private sector	-6.2	7.0	13.8	-13.9	-29.3	-31.4	-33.1	-17.3	32.4
Public sector ^(a)	24.0	-2.5	5.8	9.0	-0.3	-5.7	3.9	1.6	-3.2
Sub-total	22.2	-2.0	6.2	7.7	-1.6	-6.7	2.3	0.8	-1.9
Total	11.2	4.4	14.9	13.3	10.1	6.2	12.7	9.2	2.6

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

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

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

	(%)								
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2017</u>		<u>2018</u>	
Selected industry sections						Q2	Q3	Q4	Q1
(in nominal terms)									
Manufacturing	3.3	5.3	5.2	3.5	3.4	3.8	3.6	3.9	3.4
Import/export and wholesale trade	3.3	2.8	3.7	2.3	2.9	3.0	3.3	3.3	3.5
Retail trade	6.7	4.2	3.5	2.4	3.3	3.2	3.4	3.3	3.5
Transportation, storage, postal and courier services	5.4	3.3	4.3	3.3	3.4	3.6	3.7	2.8	3.2
Accommodation ^(a) and food service activities	6.7	5.2	5.8	5.1	4.7	5.3	5.6	4.1	4.8
Information and communications	5.4	5.1	4.4	3.4	3.3	2.9	3.5	3.6	3.2
Financial and insurance activities	4.6	6.3	4.0	2.7	3.0	3.5	3.2	2.8	3.0
Real estate activities	5.9	4.7	5.1	4.2	4.3	4.7	4.2	4.3	4.3
Professional and business services	7.1	6.9	5.8	5.1	4.2	4.1	4.3	4.5	4.6
Social and personal services	3.6	1.6	6.7	2.5	3.1	3.6	-0.7	5.8	2.8
All selected industry sections surveyed	5.4	4.3	4.6	3.7	3.7	3.8	3.3	4.2	3.8
(in real terms)									
Manufacturing	-0.9	0.9	2.1	1.0	2.0	1.8	1.8	2.2	1.0
Import/export and wholesale trade	-1.0	-1.5	0.7	-0.1	1.4	1.0	1.5	1.7	1.1
Retail trade	2.3	-0.1	0.5	*	1.8	1.2	1.6	1.7	1.1
Transportation, storage, postal and courier services	1.0	-1.0	1.3	0.9	1.9	1.6	1.9	1.1	0.8
Accommodation ^(a) and food service activities	2.3	0.8	2.7	2.6	3.2	3.3	3.7	2.4	2.3
Information and communications	1.0	0.7	1.4	1.0	1.9	0.9	1.7	2.0	0.7
Financial and insurance activities	0.4	1.9	0.7	0.3	1.6	1.4	1.4	1.1	0.6
Real estate activities	1.4	0.2	2.0	1.7	2.8	2.7	2.3	2.7	1.9
Professional and business services	2.6	2.3	2.8	2.6	2.7	2.1	2.5	2.8	2.1
Social and personal services	-0.8	-2.7	3.6	0.1	1.6	1.6	-2.5	4.1	0.3
All selected industry sections surveyed	1.1	-0.1	1.5	1.3	2.3	1.7	1.5	2.6	1.3

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

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

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

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

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

	(%)								
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>		<u>2017</u>		<u>2018</u>
Selected industry sections						Jun	Sep	Dec	Mar
(in nominal terms)									
Manufacturing	4.7	4.9	4.0	4.0	3.7	3.9	3.7	3.9	3.7
Import/export, wholesale and retail trades	2.9	2.5	3.1	2.7	3.0	2.9	2.9	3.0	3.1
Transportation	3.9	4.8	4.4	3.5	2.9	3.0	2.9	2.8	3.7
Accommodation ^(a) and food service activities	5.7	4.7	5.4	4.9	4.7	4.9	4.8	4.7	4.8
Financial and insurance activities ^(b)	4.4	3.2	3.2	3.4	3.5	3.6	3.5	3.6	3.3
Real estate leasing and maintenance management	9.3	4.5	3.4	3.7	4.1	4.0	4.4	4.5	4.7
Professional and business services	5.9	6.7	6.9	4.7	4.7	5.1	4.4	4.6	4.9
Personal services	6.2	7.8	6.5	5.5	4.2	4.6	4.0	4.0	3.8
All industries surveyed	4.7	4.2	4.4	3.7	3.8	3.8	3.7	3.8	4.0
(in real terms)									
Manufacturing	-0.1	-1.6	0.2	1.4	2.2	1.5	2.2	2.2	1.0
Import/export, wholesale and retail trades	-1.7	-3.9	-0.6	0.3	1.6	0.5	1.4	1.3	0.4
Transportation	-0.6	-1.9	0.6	1.0	1.5	0.6	1.4	1.1	0.9
Accommodation ^(a) and food service activities	1.1	-1.8	1.5	2.3	3.3	2.5	3.3	3.0	2.0
Financial and insurance activities ^(b)	0.1	-3.7	-0.5	0.9	2.1	1.3	2.0	1.9	0.5
Real estate leasing and maintenance management	4.5	-1.9	-0.4	1.1	2.6	1.7	2.9	2.8	1.9
Professional and business services	1.5	*	2.9	2.3	3.2	2.7	2.8	2.9	2.1
Personal services	1.5	1.1	2.6	3.0	2.7	2.2	2.5	2.3	1.0
All industries surveyed	0.1	-2.4	0.6	1.2	2.3	1.5	2.2	2.1	1.2

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

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

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

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

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

(HK\$)

Industry sections	May – Jun 2016			May – Jun 2017		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing ^(a)	12,700	15,600	23,500	13,300	16,100	24,200
Electricity and gas supply; sewerage, waste management and remediation activities	18,900	25,800	40,700	20,000	26,500	42,200
Construction	16,700	21,200	26,000	17,300	22,100	27,000
Import and export trade	12,500	17,100	26,300	12,900	17,500	26,900
Wholesale	10,700	13,800	19,000	11,100	14,300	19,300
Retail trade	10,000	12,400	16,600	10,400	13,000	17,200
<i>within which:</i>						
Supermarkets and convenience stores	6,500	10,600	12,900	6,800	11,000	13,600
Other retail stores	10,100	12,600	17,300	10,700	13,300	18,000
Land transport	13,500	17,500	25,400	14,100	18,200	27,100
Other transportation, storage, postal and courier services ^(b)	12,900	16,800	22,500	13,300	17,500	23,800
Restaurants	9,600	11,800	15,900	10,000	12,400	16,100
<i>within which:</i>						
Hong Kong style tea cafes	10,000	11,700	15,500	10,600	12,300	16,500
Chinese restaurants	11,000	13,200	18,000	11,600	13,800	18,600
Restaurants, other than Chinese	10,400	12,300	16,000	11,000	13,000	16,600
Fast food cafes ^(c)	4,200	8,800	11,400	4,400	9,300	12,000
Accommodation ^(d) and other food service activities	11,500	14,400	18,800	12,000	14,900	19,500
Information and communications	14,200	20,700	31,500	14,700	21,600	33,000
Financing and insurance	16,700	26,000	43,800	17,100	26,900	45,000
Real estate activities ^(e)	13,000	20,700	30,800	13,600	21,500	31,900
Estate management, security and cleaning services	9,100	11,200	13,800	9,500	11,700	14,300
<i>within which:</i>						
Real estate maintenance management	11,000	12,400	15,200	11,600	12,900	15,900
Security services ^(f)	10,300	11,800	14,000	10,600	12,300	14,600
Cleaning services	7,400	8,700	9,800	7,600	9,100	10,200
Membership organisations ^(g)	9,000	12,300	19,000	9,600	12,900	20,000
Professional, scientific and technical services	14,200	21,500	33,500	14,800	22,100	34,600
Administrative and support services activities	11,600	15,800	24,500	12,000	16,200	25,000
Travel agency, reservation service and related activities	11,400	13,800	19,600	11,500	14,100	20,000
Education and public administration (excluding the Government)	13,600	26,800	48,500	13,800	27,500	49,400
Human health activities; and beauty and body prettifying treatment	12,900	17,600	37,700	13,500	18,200	40,000
Miscellaneous activities	9,700	11,500	15,000	10,000	12,000	15,700
<i>within which:</i>						
Elderly homes	10,800	12,600	15,300	11,300	13,100	16,000
Laundry and dry cleaning services	8,000	10,700	14,000	8,200	11,100	14,700
Hairdressing and other personal services	9,300	11,000	14,500	9,700	11,500	15,600
Local courier services	7,800	9,500	13,600	8,000	10,200	14,000
Food processing and production	9,300	11,500	16,500	9,600	12,000	17,000
Other activities not classified above	10,700	14,500	22,600	11,200	15,000	23,300
All industry sections above	11,600	16,200	25,400	12,100	16,800	26,300

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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

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

(HK\$)

Industry sections	May – Jun 2016			May – Jun 2017		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing ^(a)	48.9	63.3	94.9	50.5	65.4	97.4
Electricity and gas supply; sewerage, waste management and remediation activities	71.8	100.0	150.1	74.2	102.3	153.3
Construction	69.6	88.9	110.4	73.2	93.2	114.3
Import and export trade	52.9	73.2	111.2	54.4	75.0	113.9
Wholesale	47.0	58.3	77.8	48.4	60.5	81.3
Retail trade	39.7	47.1	63.2	41.6	49.3	64.8
<i>within which:</i>						
Supermarkets and convenience stores	37.6	42.3	47.0	39.0	43.8	49.2
Other retail stores	40.3	48.9	66.0	42.3	51.0	68.3
Land transport	51.4	73.3	112.8	52.4	75.0	115.5
Other transportation, storage, postal and courier services ^(b)	47.2	62.1	84.4	49.5	64.5	88.2
Restaurants	40.0	44.7	55.6	42.0	47.0	58.7
<i>within which:</i>						
Hong Kong style tea cafes	41.0	45.0	55.5	43.1	47.8	58.1
Chinese restaurants	40.8	47.0	63.5	43.0	49.2	65.8
Restaurants, other than Chinese	41.2	47.3	58.9	43.3	49.0	61.7
Fast food cafes ^(c)	38.0	40.6	44.8	40.2	42.6	46.8
Accommodation ^(d) and other food service activities	41.9	51.7	67.9	43.5	52.9	69.3
Information and communications	56.5	80.8	124.1	58.3	83.8	128.5
Financing and insurance	66.2	101.8	173.6	67.8	105.1	180.2
Real estate activities ^(e)	58.8	83.1	132.4	60.7	85.7	136.9
Estate management, security and cleaning services	35.7	40.0	51.9	37.5	41.8	54.0
<i>within which:</i>						
Real estate maintenance management	35.7	39.7	55.4	37.6	41.4	57.7
Security services ^(f)	35.7	39.4	47.0	37.3	40.9	49.2
Cleaning services	35.1	39.6	44.0	36.7	41.8	46.2
Membership organisations ^(g)	37.9	50.1	77.4	40.0	52.9	81.2
Professional, scientific and technical services	59.0	86.7	144.0	61.2	89.6	148.1
Administrative and support services activities	45.2	65.5	101.0	46.7	66.7	103.2
Travel agency, reservation service and related activities	45.5	60.6	81.7	47.2	62.5	83.4
Education and public administration (excluding the Government)	64.4	124.7	211.4	66.4	127.5	216.3
Human health activities; and beauty and body prettifying treatment	57.4	81.5	153.0	59.3	84.0	158.5
Miscellaneous activities	39.2	46.1	61.1	41.2	48.4	64.4
<i>within which:</i>						
Elderly homes	37.3	45.4	60.6	38.9	47.4	63.0
Laundry and dry cleaning services	38.0	44.2	58.5	39.4	45.3	60.7
Hairdressing and other personal services	42.0	46.9	62.5	44.7	48.8	66.3
Local courier services	38.8	45.8	56.5	40.6	47.8	58.6
Food processing and production	39.4	44.7	62.6	40.3	47.0	64.5
Other activities not classified above	46.8	59.3	93.4	48.4	61.1	96.0
All industry sections above	46.2	65.4	103.9	48.1	68.0	107.5

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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

Table 22 : Rates of change in prices

	(%)							
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
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 $\pm 0.05\%$.
- N.A. Not yet available.

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

	(%)							
	<u>2016</u>	<u>2017</u>	<u>2017</u>		<u>2018</u>		Average annual rate of change:	
			Q3	Q4	Q1	Q2	10 years 2007 to 2017	5 years 2012 to 2017
GDP deflator [#]	1.7	2.9	3.2	2.8	4.1	4.1	2.1	2.6
Domestic demand deflator [#]	1.4	2.8	3.1	2.7	3.7	3.7	2.3	2.2
Consumer Price Indices ^(a) :								
Composite CPI	2.4	1.5	1.8	1.6	2.4	2.1	3.2	3.1
CPI(A)	2.8	1.5	2.1	1.6	2.6	2.4	3.5	3.8
CPI(B)	2.3	1.4	1.6	1.5	2.4	2.1	3.2	2.9
CPI(C)	2.1	1.5	1.6	1.7	2.4	2.0	3.0	2.6
Unit Value Indices :								
Total exports of goods	-1.7	1.8	1.9	2.2	2.3	2.7	2.4	0.7
Imports of goods	-1.7	1.9	1.9	2.2	2.3	2.8	2.4	0.5
Terms of Trade Index ^(b)	*	-0.1	-0.1	*	*	-0.1	*	0.2
Producer Price Index for all manufacturing industries	1.3	3.8	3.7	3.5	3.8	N.A.	1.5	-0.5
Tender Price Indices :								
Public sector building projects	1.0	-0.3	-0.6	-0.7	-1.3	N.A.	7.1	4.1
Public housing projects	-0.7	0.3	3.2	-0.8	-1.9	N.A.	7.2	5.7

Table 23 : Rates of change in Composite Consumer Price Index

(%)

	Weight	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
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
<i>Meals bought away from home</i>	17.74	5.9	1.6	1.7	5.2	5.4	4.4	4.6
<i>Food, excluding meals bought away from home</i>	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
<i>Private housing rent</i>	29.92	6.8	3.6	0.9	7.2	6.8	6.3	6.0
<i>Public housing rent</i>	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 $\pm 0.05\%$.

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

(%)										
	Weight	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2017</u>		<u>2018</u>		Average annual rate of change:	
					Q3	Q4	Q1	Q2	10 years 2007 to 2017	5 years 2012 to 2017
All items	100.00	3.0 (2.5)	2.4 (2.3)	1.5 (1.7)	1.8 (1.7)	1.6 (1.6)	2.4 (2.4)	2.1 (2.4)	3.2 (3.2)	3.1 (2.8)
Food	27.29	4.0	3.4	2.2	2.4	2.5	3.3	3.6	4.4	3.6
<i>Meals bought away from home</i>	17.74	4.2	3.3	2.7	2.7	2.7	3.0	3.0	3.9	3.8
<i>Food, excluding meals bought away from home</i>	9.55	3.4	3.6	1.1	2.0	2.2	3.8	4.9	5.3	3.2
Housing ^(a)	34.29	5.1	3.7	2.0	2.6	2.4	2.5	2.0	4.5	4.8
<i>Private housing rent</i>	29.92	4.7	3.4	1.8	2.1	2.4	2.5	1.9	4.7	4.4
<i>Public housing rent</i>	1.94	10.9	7.2	3.0	7.5	0.4	0.4	0.4	2.5	11.0
Electricity, gas and water	2.67	8.4	1.0	-1.7	-0.3	*	8.3	3.7	1.5	5.8
Alcoholic drinks and tobacco	0.54	1.3	1.5	0.6	-0.2	-0.6	0.3	0.6	5.2	2.3
Clothing and footwear	3.21	-1.8	-3.4	-0.4	1.0	0.6	2.3	2.0	1.2	-0.6
Durable goods	4.65	-5.6	-5.4	-3.2	-3.3	-2.3	-2.1	-2.1	-3.5	-4.4
Miscellaneous goods	3.56	0.9	1.5	1.4	0.5	0.9	1.1	1.3	2.4	1.7
Transport	7.98	-0.3	1.6	2.3	2.0	1.4	1.7	1.3	1.9	1.6
Miscellaneous services	15.81	1.1	2.3	0.9	0.9	-0.1	1.7	1.4	1.8	2.2

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

(%)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
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 $\pm 0.05\%$.

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

	(%)								
	<u>2015</u>	<u>2016[#]</u>	<u>2017[#]</u>	<u>2017</u>		<u>2018</u>		Average annual rate of change:	
				Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]	10 years 2007 to 2017 [#]	5 years 2012 to 2017 [#]
Private consumption expenditure	1.2	1.5	2.4	2.7	2.8	4.3	3.8	2.0	2.1
Government consumption expenditure	4.4	3.7	2.4	1.8	1.6	1.6	2.8	3.5	3.9
Gross domestic fixed capital formation	4.5	-0.1	4.8	4.8	3.2	2.8	4.0	3.0	1.8
Total exports of goods	-0.7	-1.4	1.6	1.6	2.1	2.7	2.5	1.9	*
Imports of goods	-1.4	-1.8	1.8	1.6	2.1	2.6	2.6	2.1	-0.2
Exports of services	-2.8	-2.0	2.8	2.8	4.2	5.3	5.5	1.2	-0.3
Imports of services	-4.6	-1.3	1.9	2.5	4.0	5.8	4.5	0.8	-0.7
Gross Domestic Product	3.6	1.7	2.9	3.2	2.8	4.1	4.1	2.1	2.6
Total final demand	*	-0.6	2.2	2.2	2.5	3.4	3.2	2.0	0.7
Domestic demand	2.2	1.4	2.8	3.1	2.7	3.7	3.7	2.3	2.2

