



Third Quarter Economic Report 2018

Government of the Hong Kong
Special Administrative Region

THIRD QUARTER ECONOMIC REPORT 2018

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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

- *The Hong Kong economy grew solidly by 2.9% in the third quarter of 2018 over a year earlier. While marking the eighth consecutive quarter of above-trend growth, it moderated from the 3.5% growth in the second quarter. External demand continued to record visible growth for the quarter as a whole alongside further expansion of the global economy. Domestic demand held firm. Labour market conditions remained favourable, while consumer inflation went up slightly.*
- *Total exports of goods sustained further notable growth for the third quarter as a whole, with most major markets showing growth of varying degrees. Yet the pace of export growth decelerated in September, as the impact of the US-Mainland trade conflicts began to surface. Exports of services expanded moderately in the third quarter. Underpinned by visible expansion in inbound tourism, exports of travel services grew solidly, albeit at a decelerated rate. Amid the heightened external uncertainties and slower momentum of cross-border financial activities, growth in exports of financial services moderated, while exports of transport services, and business and other services recorded only modest increases.*
- *Domestic demand stayed largely resilient in the third quarter. Private consumption expenditure, albeit less buoyant than in the previous quarters, expanded notably, buttressed by favourable job and income conditions. Overall investment expenditure picked up significantly, as machinery and equipment acquisition surged and building and construction activity registered a narrower decline. Yet, local business sentiment has become more cautious in recent months owing to the increasing external headwinds.*
- *The labour market remained tight in the third quarter. The seasonally adjusted unemployment rate stayed unchanged at a low level of 2.8%, while the underemployment rate edged up to a still-low level of 1.2%. Total employment sustained visible growth on a year-on-year basis. Wages and earnings also registered solid and broad-based gains in real terms.*
- *The local stock market saw further consolidation in the third quarter, as the increased external headwinds weighed on market sentiment. The residential property market showed some cool-off, with flat prices switching to fall amid shrinking transactions.*
- *Pressures on consumer prices continued to build up alongside sustained above-trend economic growth. Domestically, the rises in fresh-letting*

residential rentals over the past year or so continued to feed through to consumer price inflation. Local cost pressures, while still largely contained, have turned more visible. Meanwhile, external price pressures largely held steady.

Overall situation

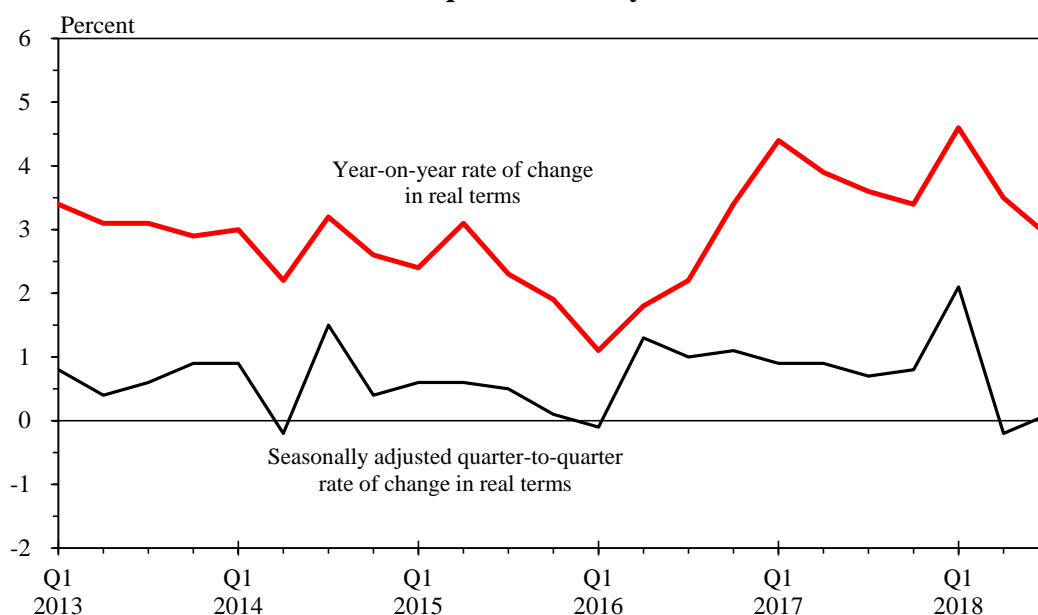
1.1 The Hong Kong economy grew solidly by 2.9% in the third quarter of 2018 over a year earlier. While marking the eighth consecutive quarter of above-trend growth, it moderated from the 3.5% growth in the second quarter. Despite an increasingly challenging external environment, Hong Kong's exports of goods continued to grow notably for the third quarter as a whole, with most major markets showing growth of varying degrees. But the pace of export growth decelerated in September, as the impact of the US-Mainland trade conflicts began to surface. Exports of services expanded moderately. Underpinned by visible expansion of inbound tourism, exports of travel services grew solidly, albeit at a decelerated rate. Amid heightened external uncertainties and slower momentum of cross-border financial activities, growth in exports of financial services moderated, while exports of transport services, and business and other services recorded only modest increases. Domestic demand stayed largely resilient in the third quarter. Private consumption expenditure expanded notably, buttressed by favourable job and income conditions. Yet the pace of expansion moderated from the exceptionally strong growth in the first half of the year. Overall investment expenditure picked up significantly, as machinery and equipment acquisition surged and building and construction activity registered a narrower decline. However, local business sentiment has become more cautious in recent months owing to the increased headwinds in the external environment, in particular the escalated US-Mainland trade conflicts and tightening global financial conditions. Meanwhile, the labour market continued to be in a state of full employment, and pressures on consumer prices increased somewhat amid the sustained above-trend economic growth.

1.2 Global economic growth was still visible in the third quarter, but has turned less even across the major economies and appeared to have plateaued. Moreover, the headwinds facing the global economy have also increased notably. With the US introducing additional tariffs on a wider range of Mainland products and threatening to cast the net even wider, the US-Mainland trade conflicts have started to weigh on global economic sentiment, as evidenced by the recent corrections of the major stock markets and slower

growth in the EU and many Asian economies. The withdrawal of monetary policy support in major advanced economies, particularly in the US, was another factor contributing to heightened global financial volatility, which also exerted intense pressures on some emerging market economies with weak fundamentals such as Argentina and Turkey. Against this backdrop, the International Monetary Fund (IMF) revised down its 2018 global economic growth forecast to 3.7%⁽¹⁾ in October (as compared to 3.9% in July), and considered that the balance of risks to global outlook had shifted to the downside.

1.3 In the third quarter of 2018, *Gross Domestic Product* (GDP)⁽²⁾ grew by a solid 2.9% in real terms over a year earlier, after the growth of 3.5% in the preceding quarter (same as the preliminary estimate). This was above the trend growth rate of 2.7% per annum in the past ten years for the eighth consecutive quarter. On a seasonally adjusted quarter-to-quarter comparison⁽³⁾, real GDP grew by 0.1% in the third quarter of 2018, having decreased by 0.2% in the preceding quarter (same as the preliminary estimate).

**Diagram 1.1 : The Hong Kong economy grew solidly
in the third quarter over a year earlier**



The external sector

1.4 *Total exports of goods*, compiled under the GDP accounting framework, grew notably by 5.0% in real terms in the third quarter over a year earlier, after a similar 4.6% growth in the second quarter. However, external merchandise trade statistics showed that growth decelerated in September, suggesting that the impacts of the US-Mainland trade conflicts have begun to surface. For the third quarter as a whole, exports to most major markets showed growth of varying degrees. Exports to the US grew visibly, underpinned by a pick-up in import demand alongside strong economic expansion there. While those re-exports of Mainland origin to the US affected by the additional tariffs imposed in July and August showed notable deceleration in August and September, they constituted only about 15% of Hong Kong's total exports to this market in the third quarter. As to exports to the EU, steady growth was recorded amid sustained economic growth in the region. Exports to most major Asian markets also grew by varying extents alongside further expansion in intra-regional trade. Specifically, exports to the Mainland continued to grow visibly. Exports to India and major emerging markets in ASEAN posted discernible growth. As to the high-income Asian markets, exports to Korea picked up, and those to Singapore saw still-solid growth, but those to Japan and Taiwan registered declines.

1.5 *Exports of services* expanded moderately by 3.1% year-on-year in real terms in the third quarter, after a 5.9% growth in the preceding quarter. Underpinned by visible expansion in inbound tourism, exports of travel services grew solidly, albeit at a decelerated rate. Amid heightened external uncertainties and slower momentum of cross-border financial activities, growth in exports of financial services moderated, while exports of transport services, and business and other services recorded only modest increases.

**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>	<u>Q3⁺</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)	6.0 (-0.7)	5.2 (0.9)
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)	4.3 (1.5)	3.3 (0.7)
Gross domestic fixed capital formation	-0.1	3.5	5.7	7.6	-2.1	3.1	4.2	1.1	8.2
Building and construction	5.9	1.7	7.0	2.0	0.9	-2.6	1.9	-1.6	-0.3
Costs of ownership transfer	-2.9	22.3	77.8	53.0	-12.8	6.2	11.9	0.7	-1.0
Machinery, equipment and intellectual property products	-6.3	1.8	-7.8	6.1	-3.0	9.9	6.1	4.9	21.2
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)	5.0 (1.2)
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)	7.6 (2.7)
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)	5.9 (-3.3)	3.1 (0.1)
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)	-0.1 (-2.5)	3.4 (1.8)
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)	2.9 (0.1)
<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)	4.0 (1.0)	3.7 (0.2)
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)	2.5 (0.5)
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)	2.8 (0.5)
Change in nominal GDP (%)	3.9	6.8	6.8	7.4	6.9	6.3	8.9	7.7	6.7

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 largely resilient in the third quarter. *Private consumption expenditure* expanded notably by 5.2% in real terms over a year earlier, albeit moderated somewhat from the exceptionally strong growth of 7.4% in the first half of the year. Local consumer sentiment continued to be buttressed by favourable job and income conditions, though the wealth effect may have turned less supportive amid the stock market corrections. *Government consumption expenditure* grew steadily by 3.3% in the third quarter, following the 4.3% 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)	Food	Durables	Non- durables	Services	Residents’ expenditure abroad	Visitor spending	Private consumption expenditure ^(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	3.9	21.7	13.9	4.1	-2.2	11.0	6.0
	Q3	5.1	0.9	8.7	10.5	3.6	5.4	4.9	5.2

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 showed notable expansion

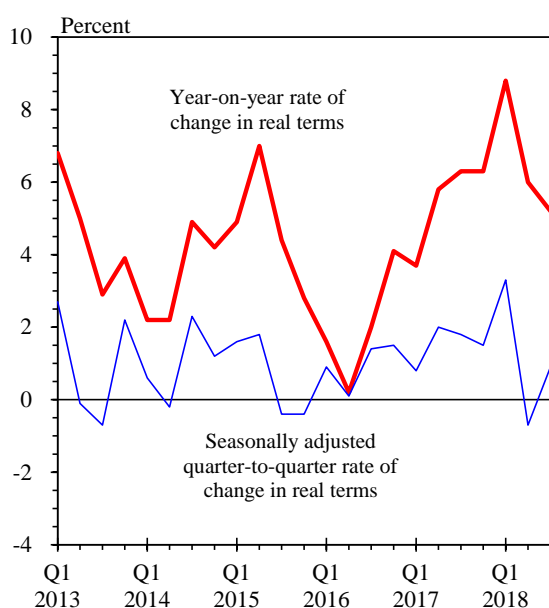
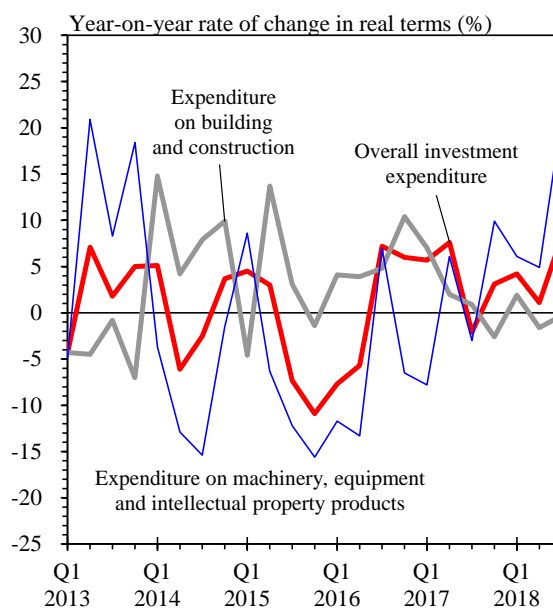


Diagram 1.3 : Overall investment picked up significantly



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* recorded a much faster year-on-year growth of 8.2% in real terms in the third quarter, compared with the 1.1% increase in the second quarter. Within the total, machinery and equipment acquisition, which is usually volatile, surged from a low base of comparison in the same quarter last year. However, local business sentiment has become more cautious in recent months owing to the increased headwinds in the external environment (see **Box 1.1** for more detailed analysis of the results of these surveys on business sentiments). Meanwhile, overall building and construction activity registered a narrower year-on-year decline.

Box 1.1

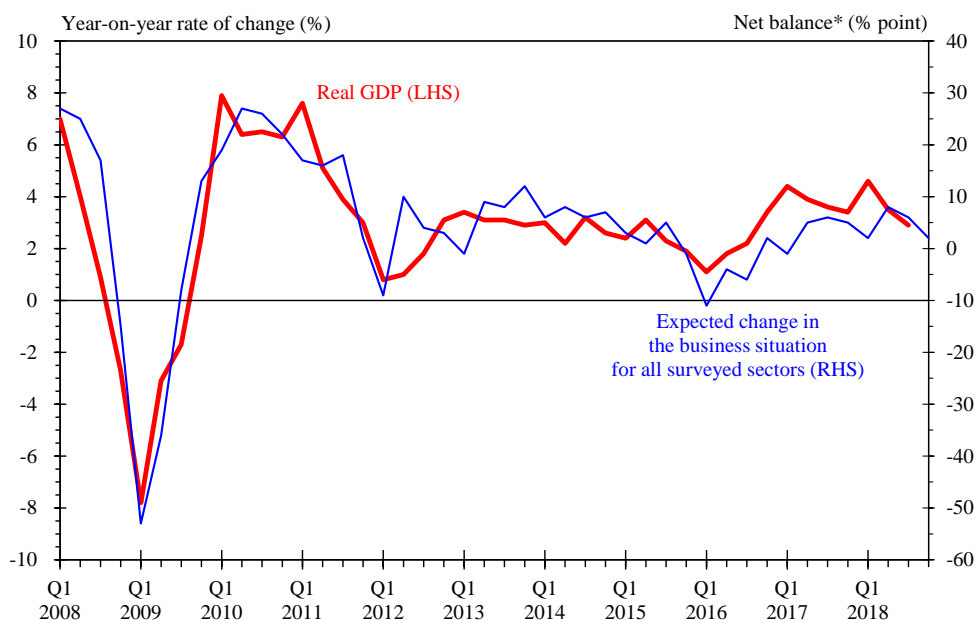
Business sentiment in Hong Kong

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 became more cautious amid increased uncertainties in the external environment (*Chart 1*). The latest round of QBTS was conducted during early September to mid-October 2018, and the results indicated that the proportion of large enterprises expecting a better business situation in the fourth quarter of 2018 slightly outweighed that of those expecting a weaker situation by 2 percentage points (i.e. a net balance of +2), which was lower than the positive net balance of 6 percentage points in the preceding quarter.

Large enterprises in many sectors saw deteriorations in sentiment (*Table 1*). The net balance in “import/export trade and wholesale” slipped further in the negative zone, reflecting the impacts of escalated trade conflicts between the US and the Mainland. The net balance in “real estate” turned negative, mirroring the recent cool-off in property market, while that in “construction” slackened further in the negative area. Large enterprises in “professional and business services” and “manufacturing” also turned more cautious. Nonetheless, business sentiment among large enterprises in “retail” and “accommodation and food services” brightened up visibly, conceivably buttressed by the strength in inbound tourism. The net balances in “financing and insurance” and “information and communications” also stayed in the positive region. Meanwhile, despite increasing external headwinds, hiring sentiment of large enterprises in most of the sectors stayed generally favourable (*Table 2*).

Chart 1 : Large enterprises in Hong Kong became more cautious about their near-term business prospects



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

(1) The Quarterly Business Tendency Survey collected views from around 500-600 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 of large enterprises in many sectors became more cautious

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2017		2018			
	Q3	Q4	Q1	Q2	Q3	Q4
Manufacturing	+18	-1	-10	-5	+23	-1
Construction	-9	-16	-16	-13	-10	-26
Import/export trade and wholesale	0	+1	-4	+5	-1	-5
Retail	-4	+24	+20	+4	-1	+19
Accommodation and food services	-2	+13	-3	-7	-10	+17
Transportation, storage and courier services	+2	-7	-5	-8	+5	+8
Information and communications	+17	+16	-2	+20	+16	+16
Financing and insurance	+19	+13	+21	+28	+23	+13
Real estate	+6	+6	0	+11	+1	-6
Professional and business services	0	+7	+2	-2	+3	-2

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 stayed generally favourable

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2017		2018			
	Q3	Q4	Q1	Q2	Q3	Q4
Manufacturing	+21	+13	-10	+15	+3	+13
Construction	+2	-9	-7	-8	+18	-6
Import/export trade and wholesale	-1	+1	-2	+2	-7	-1
Retail	-3	+3	-1	+7	+11	+13
Accommodation and food services	+20	+5	+5	+7	+13	+14
Transportation, storage and courier services	+7	+2	+9	+8	+10	+16
Information and communications	+9	+10	-8	+9	0	+15
Financing and insurance	+16	+13	+24	+26	+21	+12
Real estate	+14	+18	+5	+5	+4	+18
Professional and business services	-3	+5	+4	+2	-1	+3

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

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 weakened further in recent months (*Chart 2a*). Nonetheless, employment situation remained stable and credit situation stayed highly accommodative. Meanwhile, in the fourth quarter the Standard Chartered Hong Kong SME Leading Business Index (Standard Chartered SME Index)⁽³⁾ dropped to the lowest in seven quarters, with the import, export and wholesale trade showing the most notable deterioration among the industries surveyed.

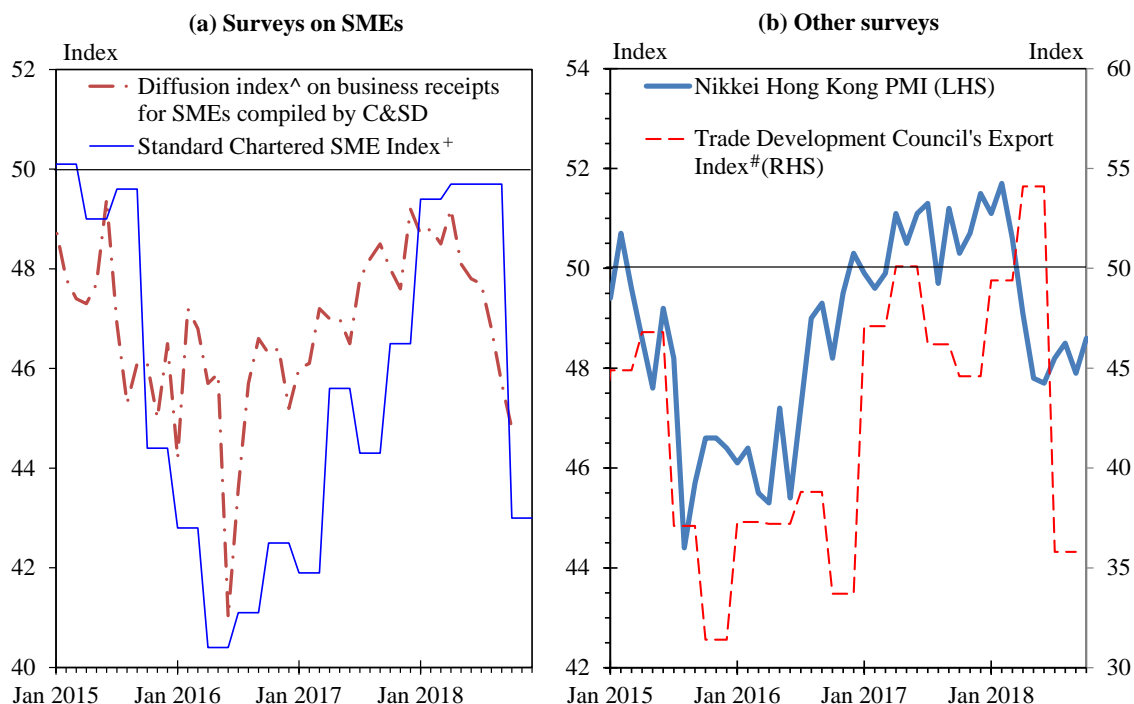
As for other surveys in the public domain, the Hong Kong Trade Development Council (HKTDC)’s Export Index⁽⁴⁾ plunged from 54.1 in the second quarter to 35.8 in the third quarter (*Chart 2b*), indicating that the traders surveyed turned much more cautious about the near-term outlook. Moreover, the share of traders surveyed that believed ongoing trade frictions between the US and the Mainland would bring negative effects on their export performance picked up further from 42.8% to 44.5%, and more than one-third of the traders surveyed reported that their export performance had been negatively affected. Separately, 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 seventh consecutive month in October.

(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 : 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 became more cautious in recent months amid rising external uncertainties. The Government will continue to closely monitor the various external developments, for their possible ramifications on Hong Kong’s business and employment situations.

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- (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 remained tight in the third quarter. The *seasonally adjusted unemployment rate* stayed at a 20-year low of 2.8%, while the *underemployment rate* edged up to a still-low level of 1.2%. Total employment registered further visible growth on a year-on-year basis. Against this backdrop, wages and earnings sustained solid and broad-based growth in real terms. Earnings of grassroots workers also stayed on the rise after discounting inflation.

The asset markets

1.9 The *local stock market* consolidated further in the third quarter, as market sentiment was hit by escalating US-Mainland trade conflicts and successive US rate hikes. The Hang Seng Index closed the third quarter at 27 789, down by 4.0% from a quarter earlier. Average daily turnover fell further to \$91.9 billion in the third quarter, from \$106.8 billion in the preceding quarter. Credit growth, in terms of the year-on-year increase in loans for use in Hong Kong (including trade finance), while remaining notable, also slowed from 11.3% at end-June to 7.0% at end-September. In late September, shortly after the US Federal Reserve raised the target range of its policy rate, major commercial banks in Hong Kong raised their Best Lending Rates for the first time in 12 years.

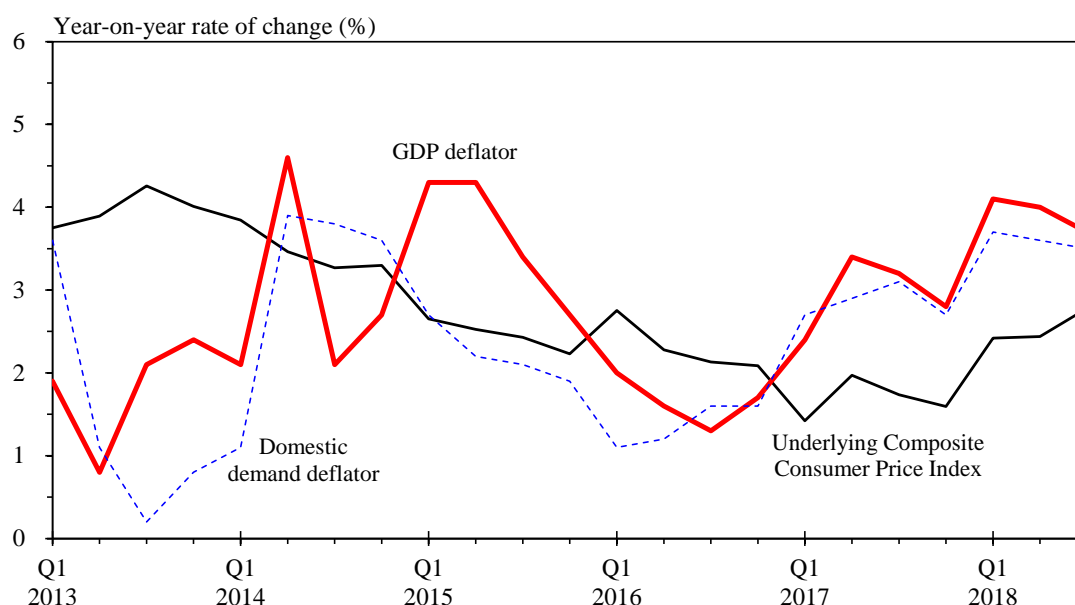
1.10 The *residential property market* showed some cool-off. The number of residential property transactions fell by 24% from 18 900 in the second quarter to 14 400 in the third quarter. Overall flat prices edged down by 1% during the third quarter, with the month-to-month increase in July more than offset by declines in August and September. Notwithstanding the latest declines, prices in September were still higher than the 1997 peak by 125%. Meanwhile, the index of home purchase affordability stayed elevated at around 74% in the third quarter. Between June and September, flat rentals rose further by 2%. Over the same period, shop and office prices increased by 2% and 6% respectively, and their rentals also increased, by 2% and 1% respectively.

Inflation

1.11 Alongside the sustained above-trend economic growth, pressures on consumer prices continued to build up in the third quarter. Domestically, the rises in fresh-letting residential rentals over the past year or so continued to feed through to consumer price inflation. Local cost pressures on factor inputs, while still largely contained, have turned more visible. While wages and earnings continued to register solid gains, rental pressures faced by businesses, albeit broadly moderate, edged up against the broad uptrend in rentals of retail premises and offices. Meanwhile, external price pressures largely held steady. Against this backdrop, *underlying consumer price inflation*, which nets out the effects of the Government's one-off relief measures, averaged 2.8% in the third quarter, up from 2.4% in the second quarter. *Headline consumer price inflation* also went up to 2.5% from 2.1% over the same period. The pick-up of inflation rates was more discernible in September, primarily due to the upward adjustment in the public housing rentals and the waning effects of the new government subsidy schemes for education introduced in September last year.

1.12 The year-on-year rate of increase in the *GDP deflator* was 3.7% in the third quarter, somewhat slower than that in the preceding quarter. Within this, domestic demand deflator rose at a marginally decelerated pace of 3.5% while the terms of trade registered mild improvement.

Diagram 1.4 : Consumer price inflation went up somewhat in the third quarter



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

GDP by major economic sector

1.13 Net output of the services sector as a whole expanded by 3.8% year-on-year in real terms in the second quarter of 2018, after the 4.4% growth in the first quarter. Among the key service industries, net output of wholesale and retail trades sustained notable growth, thanks to vibrant local consumption demand and double-digit increase in visitor arrivals. Net output of accommodation and food services also saw further expansion. Amid the active regional trade flows, net output of import and export trade, and transportation and storage rose further, though that of postal and courier services fell mildly after posting successive quarters of rapid growth. Net output of real estate sector, which covers activities of private sector developers and property agencies, grew modestly. Net output of financing and insurance grew solidly further, while that of information and communications, and professional and business services rose steadily. As for the secondary sector, net output of construction sector fell back, while net manufacturing output continued to register modest increase.

**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>	<u>Q2</u>
Manufacturing	0.4	0.2	0.4	0.3	0.8	1.1	1.6
Construction	2.3	7.3	3.2	2.0	-2.6	3.5	-1.8
Services ^(b)	3.5	3.7	3.3	3.6	3.4	4.4	3.8
Import/export, wholesale and retail trades	3.6	3.9	3.2	3.8	3.6	6.4	5.8
Import and export trade	3.9	5.1	3.8	3.7	3.3	5.2	4.8
Wholesale and retail trades	2.3	-0.8	0.6	4.0	4.6	11.2	9.9
Accommodation ^(c) and food services	2.3	1.5	1.4	2.2	3.9	5.9	3.8
Transportation, storage, postal and courier services	4.9	4.7	4.9	5.0	4.9	4.9	4.3
Transportation and storage	4.6	4.5	4.6	4.9	4.6	4.8	4.7
Postal and courier services	9.4	9.4	9.7	9.3	9.1	6.4	-0.9
Information and communications	3.9	4.5	4.1	4.2	2.9	3.1	3.3
Financing and insurance	5.6	5.4	5.3	5.7	5.9	6.8	5.1
Real estate, professional and business services	2.5	4.2	2.0	2.1	1.6	2.1	2.0
Real estate	3.7	7.9	3.2	1.6	1.9	1.6	2.4
Professional and business services	1.4	0.8	1.0	2.6	1.4	2.6	1.7
Public administration, social and personal services	3.2	2.7	2.9	3.9	3.2	3.4	2.9

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

- (a) The GDP figures shown in this table are compiled from the production approach, 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 freest economy by the Fraser Institute in September. Among the five areas of assessment, Hong Kong was ranked top in "Freedom to Trade Internationally" and "Regulation". Hong Kong has always been ranked as the freest economy since the Institute published its first report in 1996. These results vividly reflect the Government's steadfast commitment to building a free economy with a level playing field. Separately, Hong Kong ranked seventh in the World Economic Forum's Global Competitiveness Report 2018 released in October. Among the 12 pillars, Hong Kong obtained the top rank in "Macroeconomic stability" and "Health", the second in "Infrastructure", "ICT adoption", "Product market" and "Financial system" and the sixth in "Institutions". On the ease of doing business, Hong Kong was ranked fourth globally, moving up one place from being fifth last year, according to the World Bank's Doing Business 2019 Report. In the past ten years, Hong Kong has maintained its position among the world's top ranking economies, re-affirming Hong Kong's favourable business environment for overseas companies to set up their regional headquarters and offices, and for all businesses to flourish.

1.15 The Chief Executive delivered the 2018 Policy Address in October 2018, announcing a raft of measures to boost land supply, nurture talent and diversify the economy. The more salient points on economic development are highlighted below.

- The Government is determined to identify and produce land and build a land reserve to help resolve the challenge of land supply shortage. The Government will increase the ratio of public housing, allocate more land to public housing development, and undertake that 70% of the housing units on the Government's newly developed land will be for public housing. The Government presented some plans on land supply in line with the policy objectives, including Lantau Tomorrow Vision, development of brownfield sites, land sharing and revitalisation of industrial buildings. In particular, the Government's vision for the development of Lantau covers the development areas at artificial islands with a total area of about 1 700 hectares, to be supported by a new set of transport networks connecting various development areas. The Government will realise this vision through five policy directions and investments, i.e. increasing land supply, according priority to transport infrastructure, promoting economic development, enhancing environmental capacity and increasing leisure and entertainment facilities.

- With a view to nurturing talent, the Government will allocate an additional recurrent expenditure of \$4.7 billion to a number of specific measures to further enhance the quality of education and respond to the aspirations of teachers, principals and parents. These measures include providing to schools a recurrent Life-wide Learning Grant, implementing the all-graduate teaching force policy in public sector primary and secondary schools, earmarking funding to improve the manpower at the middle-management level in primary schools, strengthening administrative support for schools, enhancing home-school co-operation, improving vocational education and training, increasing further the opportunities and subsidies for students to pursue post-secondary education, as well as enhancing support for students with special education needs.
- The Government will strengthen its role in serving as “facilitator” and “promoter” and seize the opportunities brought by the Belt and Road Initiative and the Greater Bay Area development, with a view to generating new impetus for the Hong Kong economy. The Government also proposed initiatives on the maritime industry, insurance industry, film industry, Chinese medicine sector, etc. that will be conducive to the development of the industries and sector. The Government will also step up its efforts to promote Innovation & Technology (I&T). In particular, the Government will allocate an additional \$28 billion for university research, re-industrialisation, application of technology in public services and fostering of an enabling environment for I&T.

Notes :

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

	<u>2017</u>	<u>July round</u>	<u>2018</u> <u>October round</u>
	(%)	(%)	(%)
World (PPP ^{##} weighted)	3.7	3.9	3.7
Advanced economies	2.3	2.4	2.4
US	2.2 [#]	2.9	2.9
Euro area	2.4 [#]	2.2	2.0
UK	1.7 [#]	1.4	1.4
Japan	1.7 [#]	1.0	1.1
Emerging market and developing economies	4.7	4.9	4.7
Emerging and developing Asia	6.5	6.5	6.5
Mainland China	6.9 [#]	6.6	6.6
India [^]	6.7 [#]	7.3	7.3
Middle East and North Africa ⁺	2.2	3.5	2.4

- 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 was still visible in the third quarter of 2018, but has turned less even across the major economies and appeared to have plateaued. The US economy continued to grow strongly on the back of the expansionary fiscal policy. Economic activities in the euro area and Japan expanded at a decelerated pace. The Mainland economy continued to grow solidly, albeit at a slower pace. Many other Asian economies also recorded solid but somewhat slower expansion in the third quarter. Meanwhile, the impacts of the US-Mainland trade conflicts on economic sentiment have become more visible. This, coupled with the withdrawal of monetary policy support in major advanced economies, particularly the US, has led to heightened volatility in global financial markets and exerted notable pressures on some emerging market economies with weak fundamentals such as Argentina and Turkey.*
- *Merchandise exports grew notably by 6.5% year-on-year in real terms⁽¹⁾ for the third quarter as a whole, with most major markets showing growth of varying degrees. Yet, the pace of growth decelerated in September, suggesting that the impacts of the US-Mainland trade conflicts have begun to surface.*
- *Exports of services expanded moderately in the third quarter. Underpinned by visible expansion of inbound tourism, exports of travel services grew solidly, albeit at a decelerated rate. Amid heightened external uncertainties and slower momentum of cross-border financial activities, growth in exports of financial services moderated, while exports of transport services, and business and other services recorded only modest increases.*
- *To cope with the rise of trade protectionism, the Government has taken a number of initiatives to assist the trade in market development and risk diversification. Separately, economic co-operation with the Mainland was further enhanced with the signing of a number of agreements with Shanghai and Chongqing. A Steering Committee for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area will also be established for the overall co-ordination of participation in the development of the Greater Bay Area and identification of opportunities for Hong Kong.*

Goods trade

Total exports of goods

2.1 Alongside further expansion of the global economy, Hong Kong's *merchandise exports* grew notably by 6.5% year-on-year in real terms for the third quarter of 2018 as a whole, after a 6.2% expansion in the preceding quarter. Yet, the pace of growth decelerated in September, suggesting that the impacts of the US-Mainland trade conflicts have begun to surface.

2.2 Global economic growth was still visible in the third quarter, but has turned less even across the major economies and appeared to have plateaued. The US economy continued to grow strongly on the back of the expansionary fiscal policy. Economic activities in the euro area and Japan expanded at a decelerated pace. The Mainland economy continued to grow solidly, albeit at a slower pace, and was on track to accomplish its official full-year growth target of around 6.5% early this year. Many other Asian economies also recorded solid but somewhat slower expansion in the third quarter.

2.3 The US-Mainland trade conflicts escalated in the third quarter, and have cast increasing uncertainties over the near-term global economic outlook. Following the implementation of an additional 25% tariff on a list of Mainland products with an annual import value of US\$50 billion in July and August⁽²⁾, the US imposed an additional 10% tariff on another US\$200 billion worth of Mainland products starting 24 September, with the tariff rate to be raised to 25% starting 1 January 2019⁽³⁾. It is crudely estimated that, on an annual basis, around HK\$134.5 billion⁽⁴⁾ worth of Hong Kong's re-exports of the Mainland origin to the US would be affected, equivalent to around 3.5% of Hong Kong's total exports of goods. Judging by the performance of Hong Kong's re-exports of the Mainland origin to the US, especially those affected by the earlier batches of additional tariffs introduced in July and August, it seems that the impacts of the US-Mainland trade conflicts through the trade channel, still limited for the time being, have begun to surface in August and September⁽⁵⁾. According to the International Monetary Fund (IMF), if the trade conflicts are to escalate further with more trade barriers, the costs on the global economy could be significant, especially through the impacts on economic confidence and financial conditions⁽⁶⁾.

2.4. The monetary environment is another major source of uncertainties facing the global economy, as central banks in major advanced economies continued to withdraw monetary policy support. In September, the US Federal

Reserve hiked interest rate for the third time this year, and signalled further gradual rate hikes going forward. The European Central Bank halved the monthly net asset purchases to €15 billion starting October, and would likely bring it to a close by the end of 2018. Rising US interest rates and the resultant stronger US dollar wreaked financial havoc in some emerging market economies with weak fundamentals, such as Argentina, Turkey and Pakistan. In Asia, to counter the downward pressures on their currencies, central banks in India, Indonesia and the Philippines raised interest rates by varying magnitudes in the third quarter (see **Box 2.1** for a review on the external positions and latest financial conditions of emerging market economies).

**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
	Q3	9.0	6.5	(1.2)	2.5

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*.

Box 2.1

External positions and latest financial conditions of emerging market economies

This box article reviews the external positions of major emerging market (EM) economies and their latest financial conditions, with particular focus on those in Asia, as the global economic risks tilted towards the downside in the past few months.

The external positions of an economy can be assessed by its (i) current account balance, (ii) international reserves and (iii) gross and short-term external debt ⁽¹⁾. An economy with current account deficit faces the need for external financing through either attracting capital inflows or drawing from its international reserves. In general, sustained current account deficit associated with a build-up of external and foreign currency debts without the backing of external financial assets poses a source of vulnerability. Financing current account deficit by short-term capital inflows in the form of ‘hot money’ or external debts could be disruptive in the event of an external shock, while drawdown from international reserves will reduce the buffer available for future shocks.

Chart 1(a) gives a summary of the recent external positions of major EM economies in Asia and the rest of the world. The situations differ markedly across economies. Pakistan has the weakest external position among the selected economies, with its persistent current account deficit widening to 6% of GDP in the year ending June 2018, its international reserves depleting by one-third during the first nine months of this year, and external debt rising to over 700% of its international reserves. This was followed by Argentina and Turkey, which have also experienced persistent and widening current account deficits for years, resulting in a surge in their external debts to over 450% of their international reserves at end-June 2018. Rising US interest rates and the resultant stronger US dollar have wreaked havoc in these economies. Short-term interest rates in these economies surged and their currencies depreciated sharply since the beginning of this year (**Table 1**). Argentina and Pakistan have sought financial assistance from the International Monetary Fund (IMF). Another EM economy with particularly vulnerable external position is South Africa. Its current account deficit, which was already at a high level, saw renewed widening this year, and its gross external debt reached 358% of its international reserves at end-June 2018.

In comparison, the external positions of other EM economies in Asia were stronger. As shown in **Chart 1(a)**, the latest current account balances of these economies were either in surplus or small deficit, and the ratios of external debts to international reserves were generally smaller. Moreover, their external positions have improved significantly compared to the situation in the run-up to the 1997 Asian Financial Crisis. The current account balances of Thailand, Vietnam and Malaysia turned from huge deficits back in 1996 to surpluses of 10%, 5% and 3% of GDP respectively in the year ending June 2018, while the deficits of Philippines and Indonesia narrowed by different degrees (**Chart 1(b)**).

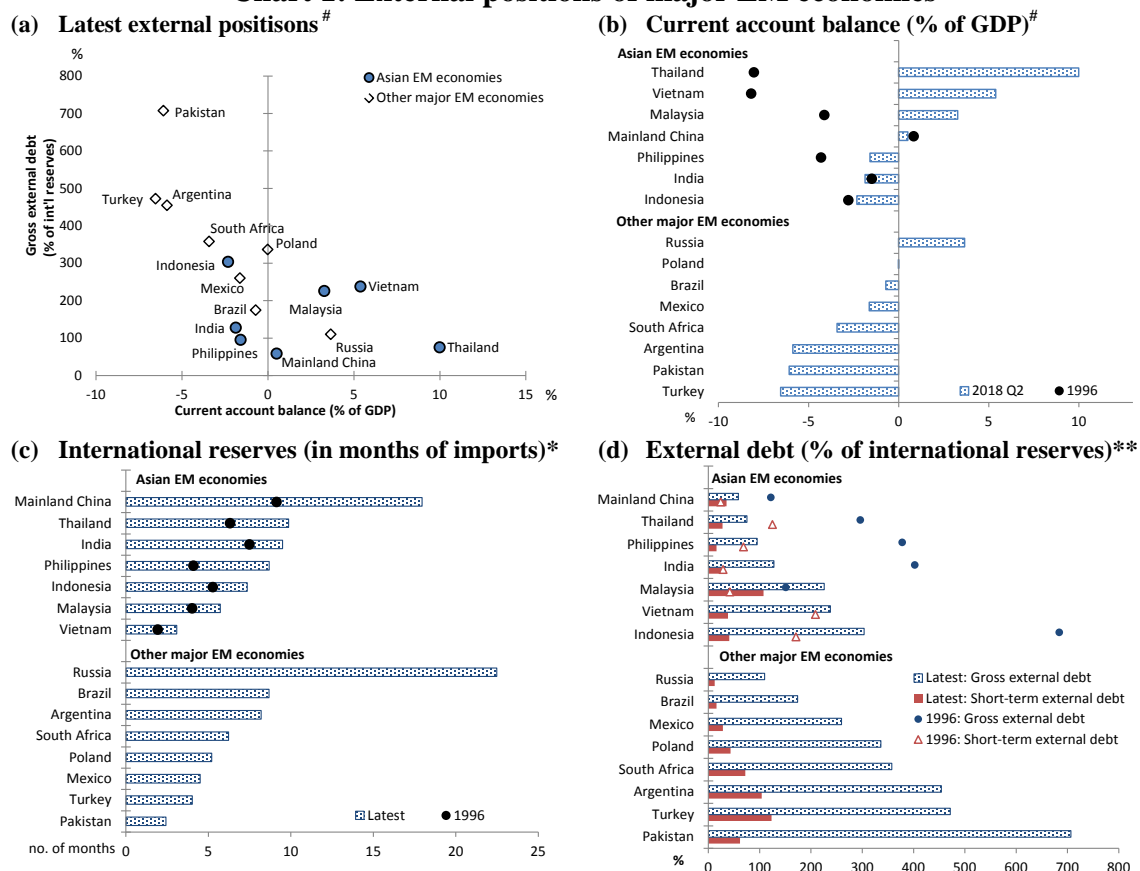
There has also been a sustained accumulation of international reserves by the Asian EM economies in the subsequent years of the Asian Financial Crisis, with the latest levels varying from 3 months of imports in Vietnam to 18 months in China (**Chart 1(c)**). The build-up of international reserves was also accompanied by relatively contained growth in external debts over the years. As a result, their ratios of gross external debt to international reserves

(1) An economy is classified as robust or fragile based on these three variables in Joshua Aizenman, Mahir Binici, and Michael M. Hutchison (2016), “The transmission of Federal Reserve tapering news to emerging financial markets”, *International Journal of Central Banking*, p.317-356. In this box article, international reserves are the sums of foreign exchange reserves and gold holdings of IMF International Financial Statistics.

Box 2.1 (Cont'd)

generally decreased by more than half from 1996, to 59%-304% currently (*Chart 1(d)*). The ratio of short term external debt to international reserves of most Asian EM market economies of late was below the 100%.

Chart 1: External positions of major EM economies



Notes: (#) Four-quarter rolling sum for current account balance as at 2018 Q2 based on data from CEIC and Bloomberg.

(**) Latest available external debt from World Bank Quarterly External Debt Statistics are 2018 Q2 for the selected economies, except Vietnam which is as of end-2016 from World Bank International Debt Statistics. The ratio of gross external debt to international reserve of Vietnam in 1996 was around 1461% and is not shown in the chart.

That said, some EM economies in Asia have seen somewhat weakened external positions recently. India and Indonesia recorded current account deficits over the past 13 and 6 years respectively and, together with the Philippines, showed signs of widening deficits entering this year. These three economies also saw decrease in their international reserves by 2%, 12% and 5% respectively since the beginning of the year. Separately, Malaysia has registered a gradual increase in its ratio of external debt to its international reserves since 2007. While the ratio was not particularly high in the most recent period, it exceeded that in 1996.

As such, some Asian EM economies have been facing increasing pressures on their currencies and financial markets. As of 8 November, the Indian rupee and Indonesia rupiah have dropped by 11.8% and 6.9% respectively since the beginning of this year. The CDS premiums of the 5-year government bonds of some Asian EM economies have increased, to over 100 basis points of late in India, Indonesia, Malaysia and Vietnam. Stock prices in these economies went down in general. The central banks of India, Indonesia and the Philippines have raised their policy rates by varying magnitudes to counter the downward pressures on their currencies. In particular, the policy rates in Indonesia and the Philippines have been raised by five and four times respectively since May this year (*Table 1*).

Box 2.1 (Cont'd)

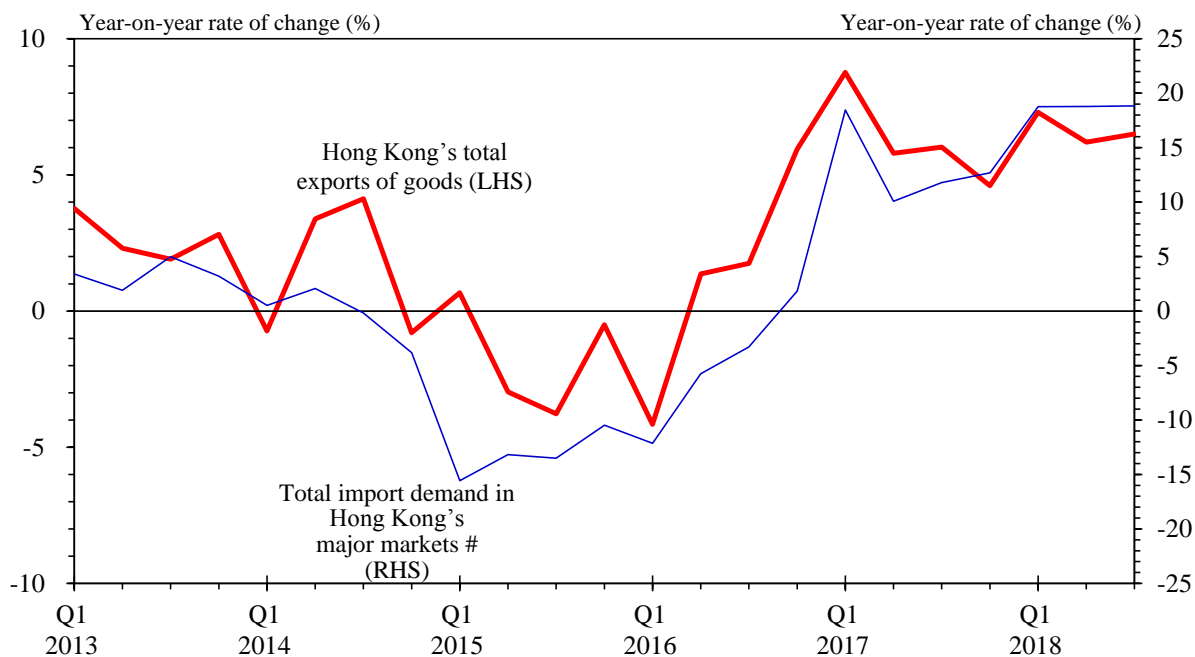
Looking ahead, amid further rate hikes in the US and the ensuing strength in the US dollar, there could be even more pressures of capital outflows from EM economies. We need to stay vigilant to the developments.

Table 1: Year-to-date change in financial indicators of major EM economies

As of 8 November 2018	Domestic currency (%)	Stock market index (%)	CDS premium ⁽ⁱ⁾		Short-term interest rate ⁽ⁱⁱ⁾		Policy rate ⁽ⁱⁱⁱ⁾	
			Change (bps)	Latest level (bps)	Change (bps)	Latest level (%)	Change (bps)	Current rate (%)
Asian EM economies:								
China, the Mainland	-6.1	-20.3	13	63	-191	3.00	5	2.55
India	-11.8	0.6	39	105	105	7.56	50	6.50
Indonesia	-6.9	-6.0	57	142	203	7.52	150	5.75
Malaysia	-2.6	-4.2	47	105	25	3.69	25	3.25
Philippines	-5.7	-17.8	22	89	190	5.16	150	4.50
Thailand	-1.1	-4.1	-3	42	4	1.61	0	1.50
Vietnam	-2.5	-5.9	36	157	48	4.85	0	4.25
Other major EM economies:								
Argentina	-46.3	2.2	339	571	3855	66.76	3625	65.00*
Brazil	-11.2	12.1	38	200	-37	5.39	-50	6.50
Mexico	-1.3	-10.5	32	138	65	8.31	50	7.75
Pakistan	-17.4	2.2	88	398	312	9.03	275	8.50
Poland	-7.3	-8.1	19	67	0	1.62	0	1.50
Russia	-13.0	15.6	24	151	-2	6.66	-25	7.50
South Africa	-11.2	-9.1	60	217	-14	7.02	-25	6.50
Turkey	-30.7	-18.9	201	366	1036	25.32	1600	24.00

- Notes:
- (i) CDS premium of 5-year government bonds from Bloomberg.
 - (ii) 3-month interbank rates are used if available. For Argentina, Brazil, and Russia where 3-month interbank rates are not available, weighted average interbank rate, USDBRL 3-month NDF implied yield and USDRUB 3-month forward implied yield are adopted respectively.
 - (iii) Argentina – Central Bank of Argentina 7-day repo reference rate; Brazil - Selic target rate; China: People's Bank of China 7-day reverse repo rate; India - Reserve Bank of India repurchase rate; Indonesia - Bank Indonesia 7-day reverse repo rate; Malaysia - Bank Negara overnight rate; Mexico - Bank of Mexico overnight rate; Pakistan - State Bank of Pakistan target policy rate; the Philippines - Bangko Sentral ng Pilipinas' overnight reverse repurchase rate; Poland - Narodowy Bank Polski reference rate; Russia - Bank of Russia 7-day repo rate; South Africa - South African Reserve Bank repo rate; Thailand - Bank of Thailand 1-day repo rate; Turkey - Central Bank of Turkey 7-day repo rate; Vietnam - State Bank of Vietnam discount rate.
 - (*) Central Bank of Argentina 7-day repo reference rate as of 30 September. Starting from 1 October 2018, Argentina changed its monetary policy framework to limiting growth of monetary base through June 2019.

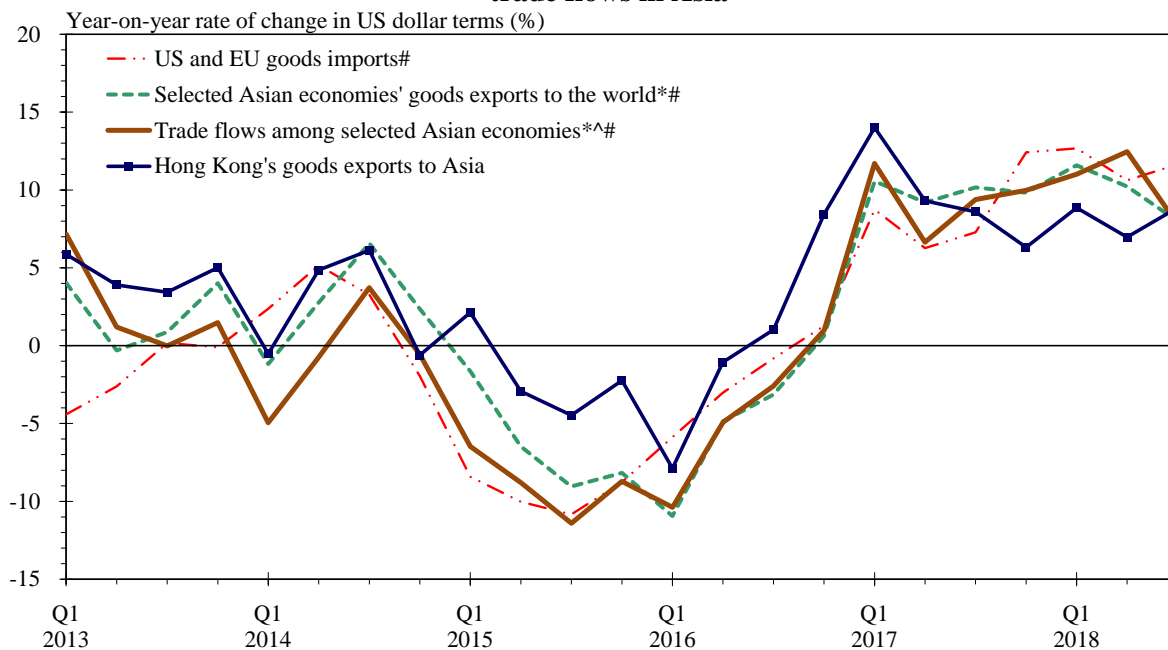
Diagram 2.1 : Merchandise exports grew notably for the third quarter of 2018 as a whole



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

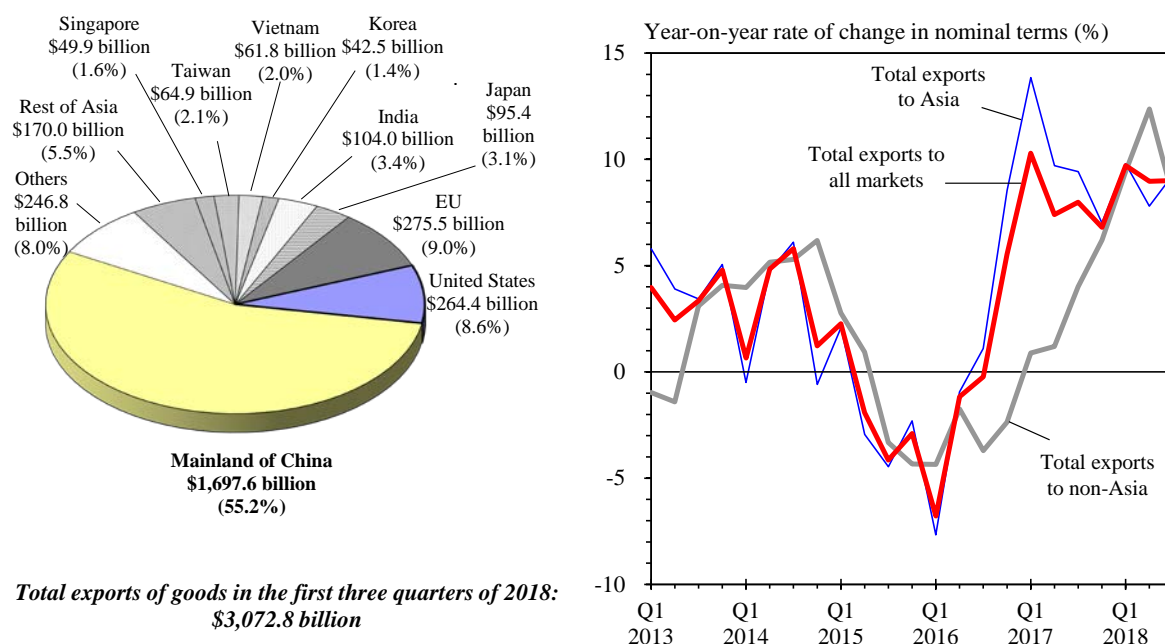
(#) Import demand figure for the third quarter of 2018 is based on statistics for July and August 2018.

Diagram 2.2 : Global economic expansion continued to support trade flows in Asia



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 third quarter of 2018 are based on the information available as of early November 2018.

Diagram 2.3 : Exports to both Asia and non-Asia sustained expansion



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

		2017				2018		
	Annual	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Mainland of China	5.4	9.3	3.9	6.0	3.0	9.4	7.7	7.1
United States	1.9	3.4	1.1	-0.5	3.8	5.1	8.2	7.9
European Union	4.6	3.0	1.3	5.0	8.5	9.1	7.2	7.9
India	35.1	40.1	53.8	9.9	39.5	-7.6	-33.1	14.3
Japan	10.3	7.5	12.0	10.8	10.6	5.2	2.8	-7.8
Taiwan	16.1	44.3	23.0	14.7	-5.4	8.4	-1.9	-18.0
Vietnam	8.7	10.8	11.9	6.8	5.9	0.9	7.3	16.7
Singapore	1.8	-1.2	3.9	11.7	-6.2	10.5	19.3	5.6
Korea	3.3	15.3	-2.8	-1.5	3.5	-3.1	1.5	7.9
Overall*	6.2	8.8	5.8	6.0	4.6	7.3	6.2	6.5

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 Exports to most major markets showed growth of varying degrees for the third quarter as whole. Among the major advanced markets, exports to the US grew visibly, underpinned by a pick-up in import demand alongside strong economic expansion there. While those re-exports of the Mainland origin to the US affected by the additional tariffs imposed in July and August showed notable deceleration in growth in August and September, they constituted only about 15% of the value of Hong Kong's total exports of goods to this market in the third quarter. As to exports to the EU, steady growth was recorded amid sustained economic expansion there. Yet, exports to Japan showed a decline.

2.6 Exports to many other major markets in Asia also grew by varying extents for the third quarter as a whole, alongside further expansion in intra-regional trade. In particular, exports to the Mainland continued to grow visibly. Regarding the high-income Asian markets, exports to Korea picked up, and those to Singapore saw still-solid growth. On the other hand, exports to Taiwan registered a noticeable decline due to a sharp fall in exports of foodstuffs. Exports to India and major emerging markets in ASEAN, including Vietnam, Malaysia and Thailand, posted discernible growth. Yet it is noted that exports to a majority of markets showed either deceleration in growth or even declines in September.

2.7 To cope with the rise of trade protectionism, the Government has been maintaining close liaison with the trade and has taken a number of initiatives to assist them in market development and risk diversification. The initiatives include strengthening various funding schemes for small and medium-sized enterprises (SMEs), and implementing special enhanced measures by the Hong Kong Export Credit Insurance Corporation to strengthen the protection and support for Hong Kong exporters affected by the US tariff measures. The special concessionary measures under the SME Financing Guarantee Scheme operated by the Hong Kong Mortgage Corporation Insurance Limited will also be enhanced, and the application period extended, to further relieve the financing burden of local enterprises.

Diagram 2.4 : Exports to the Mainland continued to grow visibly

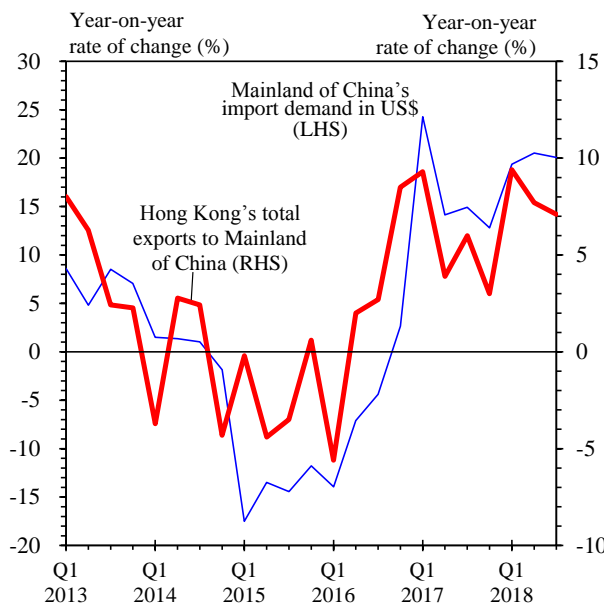


Diagram 2.5 : Exports to the EU posted steady growth

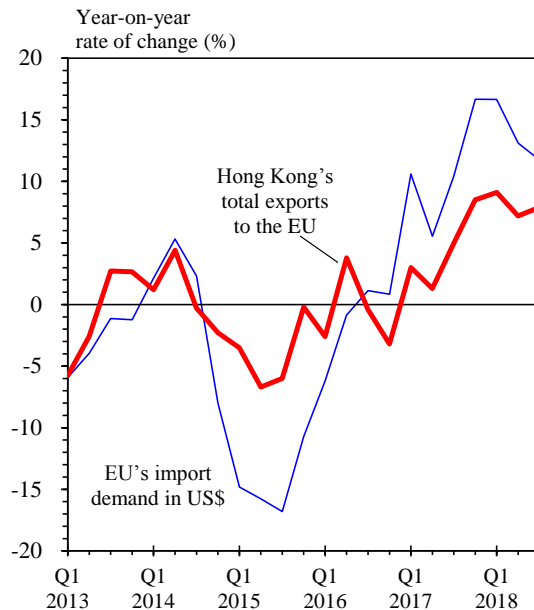


Diagram 2.6 : Exports to the US grew visibly

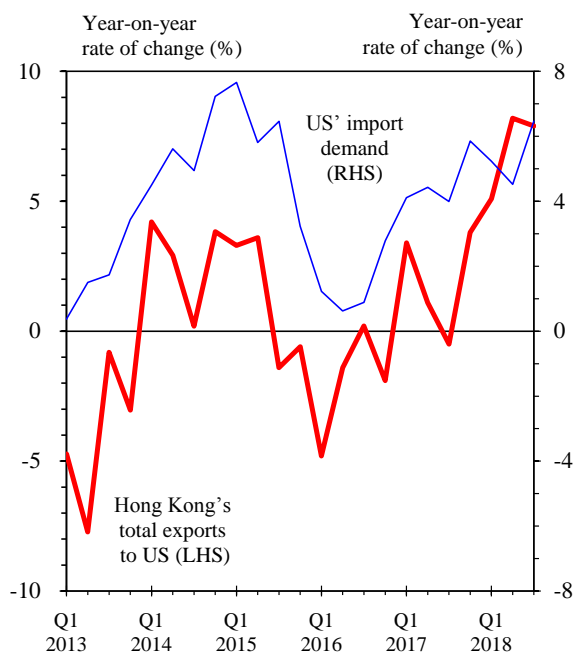


Diagram 2.7 : Exports to Japan showed a decline

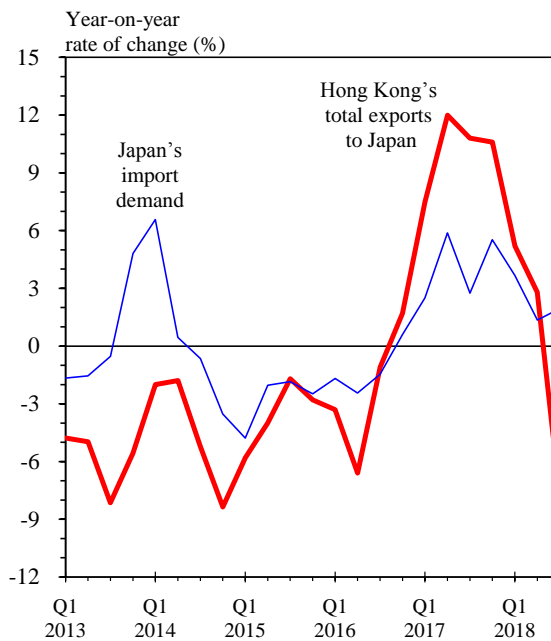


Diagram 2.8 : Exports to India showed a discernible increase

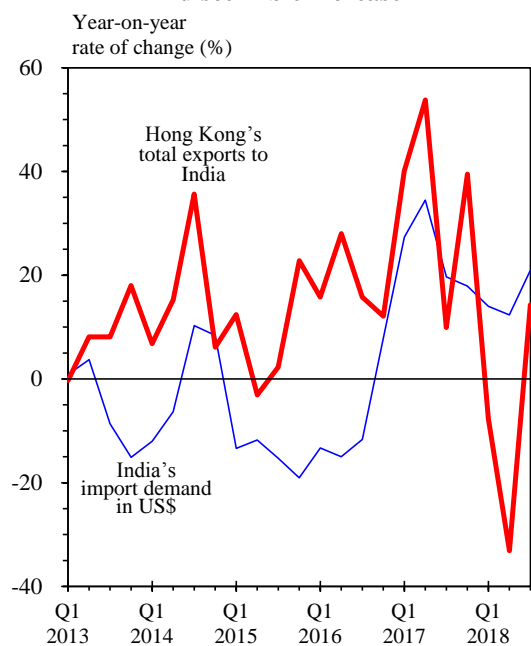


Diagram 2.9 : Exports to Taiwan registered a noticeable decline

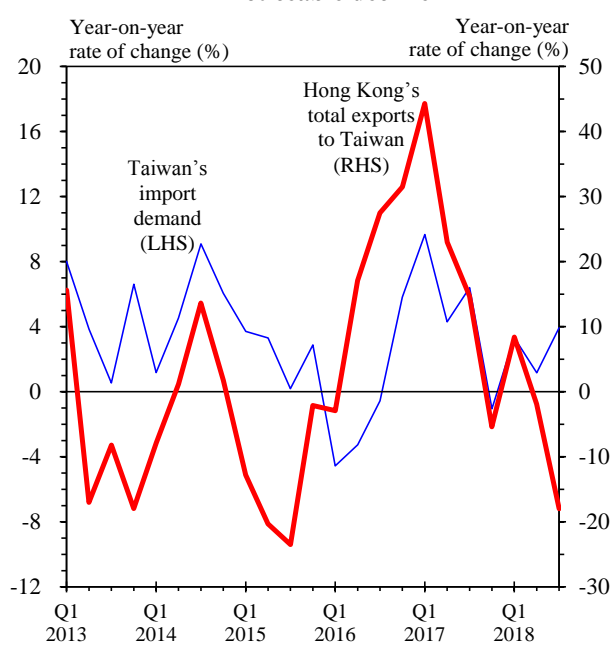


Diagram 2.10 : Exports to Korea picked up in growth

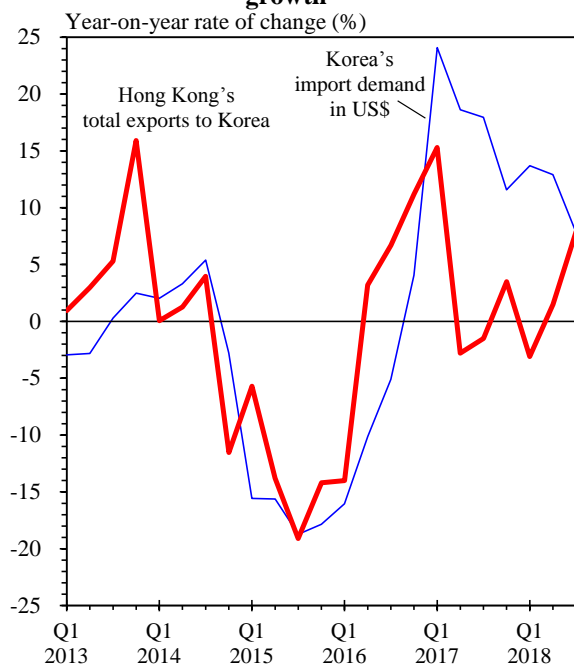
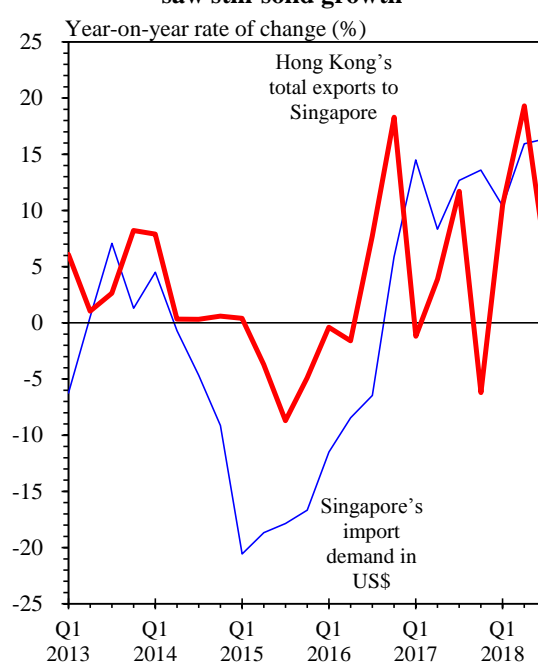


Diagram 2.11 : Exports to Singapore saw still-solid growth



Imports of goods

2.8 *Imports of goods* grew notably by 8.8% in real terms over a year earlier in the third quarter, following a 7.6% growth in the preceding quarter. *Retained imports*, which refer to the imports for domestic use and accounted for around one-quarter of total imports, surged by 16.2%, reflecting the firm domestic demand amid favourable job and income conditions. Imports for subsequent *re-exports*⁽⁷⁾ also grew notably.

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

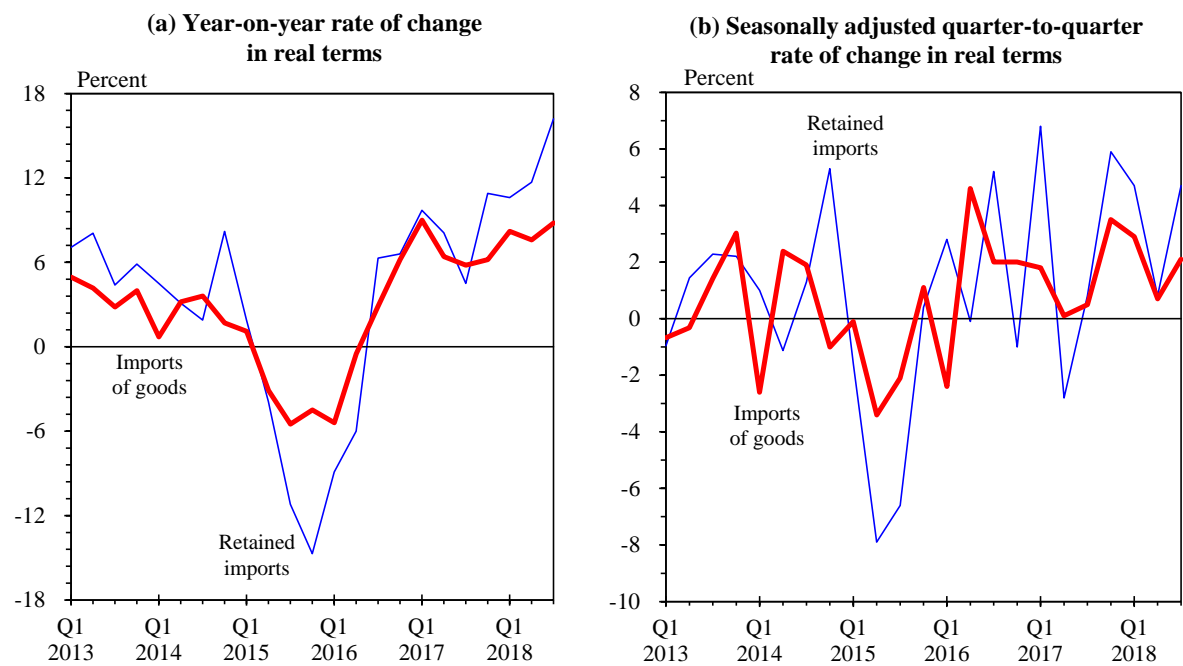
		<u>Imports of goods</u>			<u>Retained imports</u> ^(a)			
		<u>In value terms</u>	<u>In real terms</u> ⁽⁺⁾	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	
2017	Annual	8.7	6.8	1.9	10.1	8.3		1.8
	Q1	10.7	9.0	(1.8)	11.2	9.7	(6.9)	1.1
	Q2	8.2	6.4	(0.1)	10.1	8.1	(-2.9)	2.1
	Q3	7.7	5.8	(0.5)	5.9	4.5	(0.8)	1.9
	Q4	8.5	6.2	(3.5)	13.2	10.9	(6.0)	2.0
2018	Q1	10.6	8.2	(2.9)	12.6	10.6	(4.7)	2.3
	Q2	10.4	7.6	(0.7)	14.9	11.7	(0.8)	3.3
	Q3	11.5	8.8	(2.1)	19.5	16.2	(4.7)	3.1

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 both grew notably

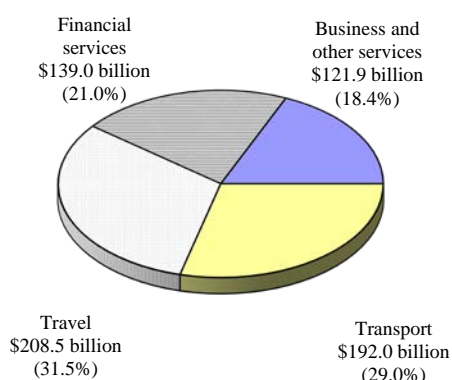


Services trade

Exports of services

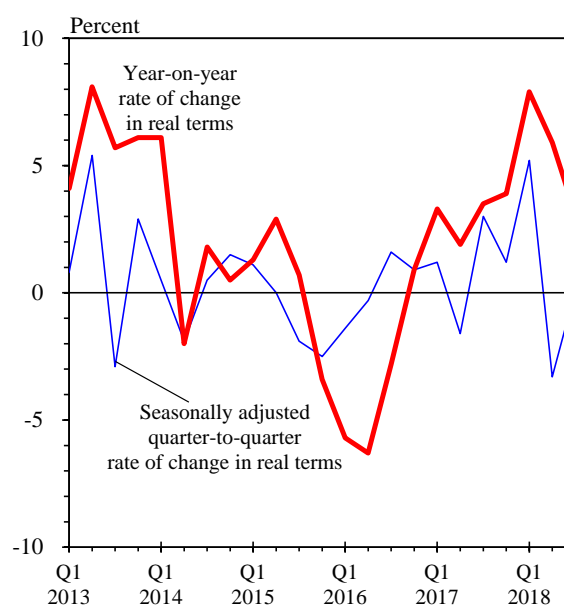
2.9 *Exports of services* expanded by 3.1% year-on-year in real terms in the third quarter, moderated from the 5.9% growth in the second quarter. Underpinned by visible expansion in inbound tourism, exports of travel services grew solidly, albeit at a decelerated rate. Amid heightened external uncertainties and slower momentum of cross-border financial activities, growth in exports of financial services moderated, while exports of transport services, and business and other services recorded only modest increases.

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



Exports of services in the first three quarters of 2018: \$661.4 billion

Diagram 2.14 : Exports of services expanded moderately



**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</u> ^(a)	<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	5.9 (-3.3)	3.0	11.1	6.8	1.7
	Q3	3.1 (0.1)	1.9	4.9	3.6	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

2.10 *Imports of services* grew moderately by 3.4% in real terms in the third quarter over a year earlier, following a 0.1% marginal decline in the preceding quarter. Imports of travel services recorded a solid growth, underpinned by the sustained rise in household incomes. Imports of transport services, and business and other services increased moderately, supported by expansion in regional trading activities. Imports of manufacturing services picked up somewhat, thanks to growth in outward processing activities in the region.

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

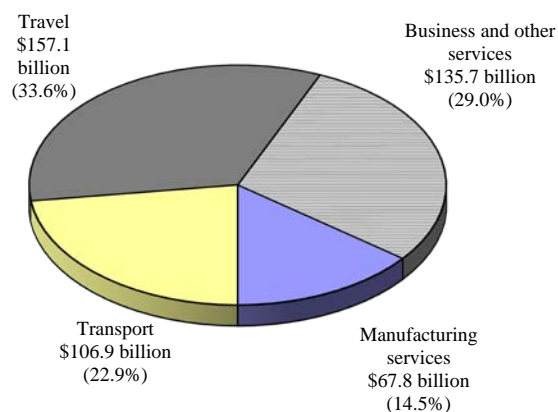


Diagram 2.16 : Imports of services grew moderately

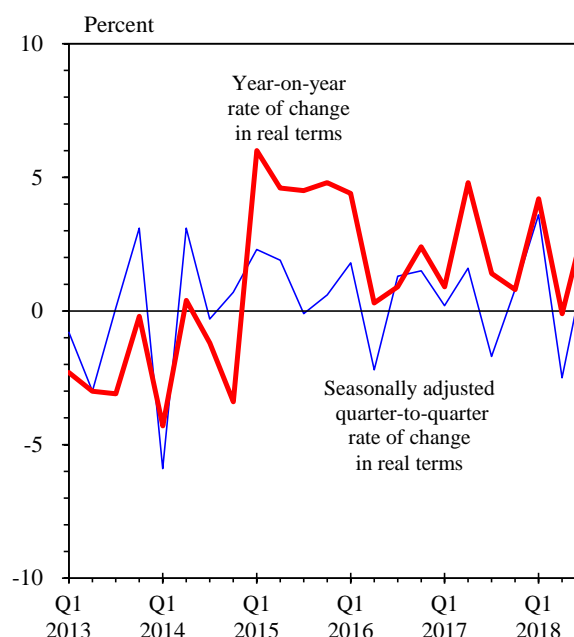


Table 2.5 : Imports of services by major service group (year-on-year rate of change in real terms (%))

Of which :

		Imports of services	Travel ⁽⁺⁾	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	-0.1 (-2.5)	-4.1	1.7	1.6	2.7
	Q3	3.4 (1.8)	3.7	2.9	3.8	3.2

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

2.11 Based on the GDP accounting framework, the goods deficit in the third quarter widened from a year earlier, as growth in imports of goods outstripped that in exports of goods. Over the same period, the services surplus widened slightly. The combined goods and services account registered a surplus of \$10 billion in the third quarter of 2018, equivalent to 0.7% of total import value, smaller than the surplus of \$37 billion or 2.9% of total import value in the third 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
	Q3	1,177	225	1,230	162	-53	63	10	0.7

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

2.12 The Government continued to enhance co-operation with the Mainland. In the 4th Plenary Session of the Hong Kong/Shanghai Co-operation Conference convened in August, fifteen co-operation agreements, covering the areas of legal services, education, trade and commerce, innovation and technology, culture and finance, were signed. In addition, a Memorandum of Understanding (MOU) was signed with the Chongqing Municipal Commission of Commerce in September. The MOU provides a framework to enhance co-operation of the two places in investment promotion and the business opportunities arising from the Belt and Road Initiative.

2.13 Riding on the unique advantages of Hong Kong, and in view of the opportunities and challenges brought by the Belt and Road (B&R) Initiative, a five-pronged key strategy on continuous engagement with the Mainland and B&R related countries and regions was formulated. It includes enhancing policy co-ordination, fully leveraging Hong Kong's unique advantages, making the best use of Hong Kong's position as the professional services hub, promoting project participation, and establishing partnership and collaboration. Separately, a Steering Committee for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area chaired by the Chief Executive will be established for the overall co-ordination of participation in the development of the Greater Bay Area and identification of opportunities for Hong Kong.

Notes :

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the external trade quantum index series compiled using the chain linking approach, which were first released in March 2015 to replace the previous trade index numbers compiled using the Laspeyres method with a fixed base year. The series are not comparable with the real trade aggregates under GDP (reported in Chapter 1) which are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*. Apart from this, non-monetary gold is recorded as a separate item in the statistics of merchandise trade and not included in the trade aggregates reported in Chapter 2, but is included in the trade aggregates under GDP in accordance to the international compilation standard.

- (2) The Mainland immediately countered with a 25% additional tariff on the same scale of imports from the US.
- (3) In response, the Mainland countered with an additional tariff of 5-10% on US\$60 billion worth of imports from the US starting 24 September 2018. The Mainland authorities indicated that they would respond accordingly should the US insist on further raising the tariff rate on Mainland products.
- (4) The estimate was slightly revised from that in the Half-yearly Economic Report 2018, as the tariff list was refined by the US Government in mid-September.
- (5) After the implementation of an additional 25% tariff covering a total of US\$50 billion worth of imports from the Mainland in July and August, the affected re-exports of the Mainland origin to the US saw a sharp moderation in year-on-year growth in value terms, from 13.4% in the first half of 2018 and 16.8% in July to 5.5% in August and 3.8% in September.
- (6) The IMF released its assessment on the economic impact of the trade conflicts between the US and its major trading partners (notably the Mainland) in its latest World Economic Outlook in October 2018. In the baseline projections on the global economy, the IMF took into account the measures announced by the US so far (i.e. a 10% additional tariff on all aluminum imports, a 25% additional tariff on all steel imports, a 25% additional tariff on US\$50 billion of imports from the Mainland, and a 10% additional tariff on an extra US\$200 billion of imports from the Mainland that will subsequently be raised to 25%). As for the counter measures by US trading partners, the IMF assumed that all of them would respond with counter measures of the same scale, except that in the case of the 10% additional tariff on US\$200 billion of imports from the Mainland that will subsequently be raised to 25%, the Mainland was assumed to respond with an average additional tariff of 7% on US\$60 billion of US products that would subsequently be raised to 17%. Assuming these tariffs to be permanent, the IMF estimated that global GDP level would be lower by 0.1% by 2020 and in the long term. The GDP level of the US would be lower by 0.2% by 2020 and close to 0.3% in the long term, while that of the Mainland would be lower by around 0.5% by 2020 and around 0.3% in the long term. Separately, in a scenario where the US and the Mainland were assumed to slap an additional 25% tariff on all their bilateral trade flows, the IMF estimated that global GDP level would be lower by 0.2% by 2020 and in the long term. The GDP level of the US would be lower by 0.3% by 2020 and close to 0.5% in the long term, while that of the Mainland would be lower by more than 0.9% by 2020 and more than 0.5% in the long term. In the worst case scenario that the trade restrictions were assumed to escalate even further (assuming that the US would also slap an extra 25% tariff on all its imported cars and car parts, prompting retaliatory tariffs by all other economies affected on an equivalent amount of their imports from the US), and also taking into account the adverse effects of all these trade restrictions on global economic confidence and financial conditions, the IMF estimated that global GDP level would be lower by more than 0.8% by 2020 and remain roughly 0.4% lower in the long term. The disruption could be particularly large in the US and the Mainland, as the corresponding GDP levels would be lower by more than 0.9% and 1.6% respectively by 2019.
- (7) 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

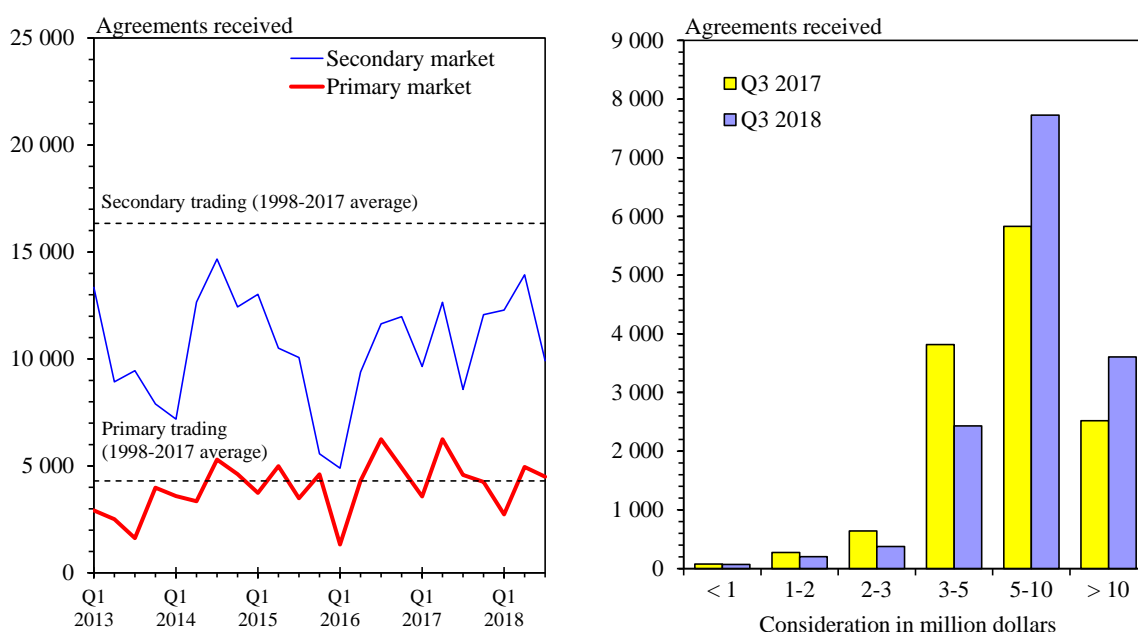
- *The residential property market showed some cool-off in the third quarter of 2018 amid the escalating US-Mainland trade conflicts, global stock market corrections and local interest rate hikes. Trading activities quietened down visibly, while overall flat prices turned to a marginal decline during 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-September 2018.*
- *The commercial and industrial property markets were rather buoyant during the third quarter. Prices and rentals went up further, though trading activities retreated.*
- *Inbound tourism recorded visible expansion in the third quarter, with overall visitor arrivals rising further by 8.4% over a year earlier to 16.1 million.*
- *The logistics sector showed a mixed performance in the third quarter. Total container throughput fell by another 9.1% from a year earlier, while air freight throughput rose marginally by 0.6%.*

Property

3.1 The *residential property market* showed some cool-off in the third quarter of 2018. Despite the continued tight demand-supply balance of flats, market sentiment was dampened by the escalating US-Mainland trade conflicts, global stock market corrections, and hikes in mortgage rates in early August and then in Best Lending Rates in late September by major local banks⁽¹⁾. Trading activities quietened down visibly, while overall flat prices turned to a marginal decline during the quarter.

3.2 The total number of sale and purchase (S&P) agreements for residential property received by the Land Registry fell noticeably by 24% from the preceding quarter to 14 413 in the third quarter, though still 10% above the low base a year earlier. Within the total, primary market transactions decreased by 9% from the preceding quarter and secondary market transactions plunged by 29%. In parallel, total consideration declined by 18% to \$149.1 billion.

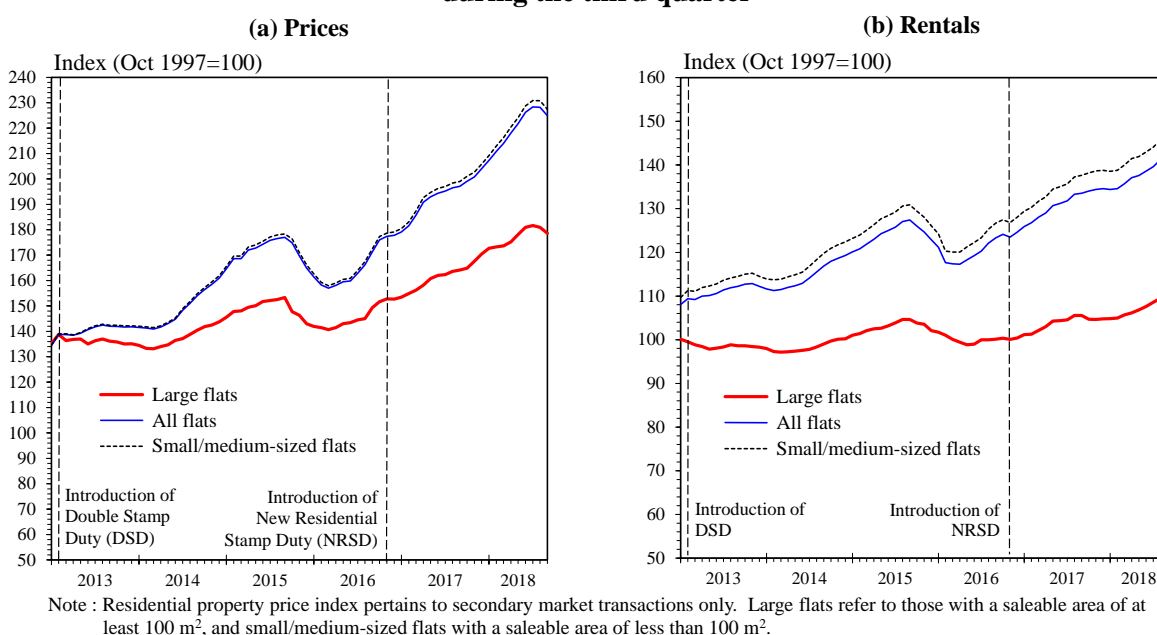
Diagram 3.1 : Trading activities quietened down visibly in the third quarter



3.3 Overall flat prices edged down by 1% during the third quarter, with the month-to-month increase in July being more than offset by decreases in both August and September. Analysed by size, prices of small/medium-sized flats and large flats both dropped by 1% during the quarter. Yet during the first nine months of 2018, overall flat prices still increased by a cumulative 10%.

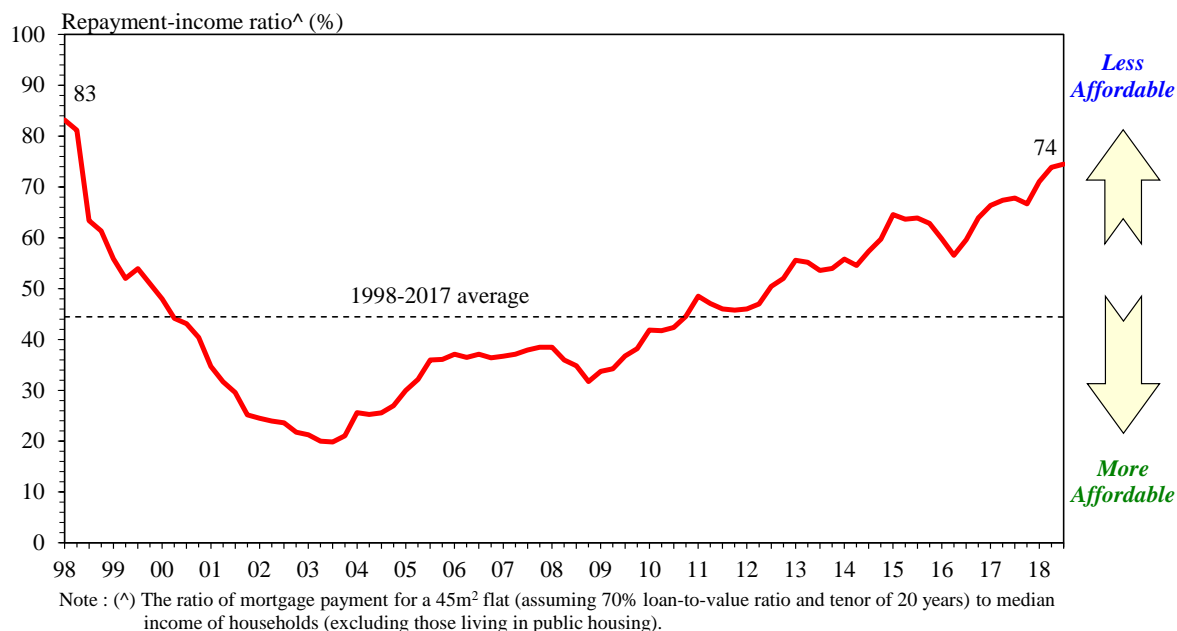
3.4 Meanwhile, the leasing market remained steady. Overall flat rentals recorded a further increase of 2% between June and September, with rentals of small/medium-sized flats and large flats rising by 2% and 3% respectively. During the first nine months, overall flat rentals rose by a cumulative 5%. The average rental yield for residential property stayed at 2.4% in September, virtually unchanged from June.

Diagram 3.2 : Flat prices edged down, while rentals increased further during the third quarter



3.5 Notwithstanding the latest decline, overall flat prices in September still 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) remained elevated at around 74% in the third 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 97%.

Diagram 3.3 : The mortgage payment to income ratio remained elevated



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. In September, the Government announced to put up four residential sites for sale in the fourth quarter of 2018, which are capable of providing a total of about 2 600 flats. 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 three quarters of 2018-19 has an estimated capacity of providing about 9 600 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-September 2018. Another 8 200 units could be added to the total supply after the conversion of a number of residential sites into "disposed sites". In October, the Chief Executive announced various measures and plans on housing and land supply in her Policy Address (**Box 3.1**).

Box 3.1

Latest Government measures on housing and land supply (October 2018)

In her 2018 Policy Address, the Chief Executive announced various measures and plans on housing and land supply, as summarised below.

(1) Housing supply

Overall Situation

- Continue to implement the six new housing initiatives announced in June 2018, including delinking the selling prices of subsidised sale flats (SSFs) from the market prices.
- Increase the ratio of public housing, and undertake that 70% of the housing units on Government's newly developed land will be allocated for public housing development.

Efficient Use of Public Housing Resources

- Suggest the Hong Kong Housing Authority (HKHA) to allow owners of its SSFs with premium unpaid to sublet their flats to needy families.
- Accept the Hong Kong Housing Society (HKHS)'s recommendation of launching a "Flat for Flat Pilot Scheme for Elderly Owners" for its SSFs with premium not yet paid. Under this scheme, owners aged 60 or above who have owned their flats for at least ten years can sell their original flats and then buy a smaller SSF flat in the secondary market without payment of premium.
- Suggest the HKHA to launch a new initiative whereby under-occupation households whose family members are all aged 70 or above are allowed to enjoy lifetime full rent exemption upon their transfer to smaller, new or refurbished units.

Redevelopment of Buildings under the Civil Servants' Co-operative Building Society Scheme (CBS) and HKHS' Aged Housing Estates

- Invite the Urban Renewal Authority to explore redevelopment of suitable sites under CBS to fully utilise the plot ratios of these sites, and to earmark some of the resumed land for public housing development.
- Reallocate a site in Kai Tak originally planned for private housing to HKHS to support redevelopment of its aged housing estates with a view to increasing the supply of public housing units.

Review of the Long Term Housing Strategy

- Review the public/private split of the next ten-year housing supply target, currently at 60:40, under the Long Term Housing Strategy.

Increasing the Supply of Transitional Housing

- Facilitate the implementation of various short-term community initiatives to increase the supply of transitional housing.

Box 3.1 (Cont'd)

(2) Land supply

Lantau Tomorrow

- Launch the “Lantau Tomorrow Vision” and commence a study on phased reclamation in the Central Waters for the construction of artificial islands to increase the land supply for meeting the housing, economic and employment needs of Hong Kong in the medium and long term. The land reserve to be provided by reclamation can be used for improving the living environment, thinning out the existing densely-populated urban areas and renewal of old districts, with 70% of the housing units to be built on the artificial islands being public housing. In addition, the third Core Business District will be developed on the artificial islands to promote the economic development of Hong Kong.

Development of Brownfield Sites in the New Territories

- Complete two studies on brownfield operations within 2018, with a view to formulating development policy and implementation measures.

Land Sharing Pilot Scheme

- Introduce the “Land Sharing Pilot Scheme” that is based on fairness and high transparency for meeting the short to medium-term housing demand. Under the Scheme, the Government would openly invite land sharing applications. Applicants are required to explain clearly in their proposals how the private land they hold could bring about substantial increase in flats. The increased floor areas will be shared between the Government and the applicants, of which not less than 60% to 70% have to be used for public housing development mainly SSFs.
- Applicants should comply with all applicable statutory procedures and land administration regimes, including payment of land premium at full market value to the Government. Meanwhile, the relevant cost of infrastructure facilities that are borne by the applicants to support the development concerned will be deducted from the land premium, subject to assessment by the Government.
- Introduce the pilot scheme in 2019 after making reference to the final report of the Task Force on Land Supply.

Revitalisation of Industrial Buildings

- Reactivate the revitalisation scheme for industrial buildings to provide incentives for owners to convert old industrial buildings into non-industrial uses, and allow the provision of transitional housing within industrial buildings after wholesale conversion.

These measures and plans would help increase land and flat supply in the short, medium and long term for meeting the socio-economic needs of Hong Kong. This would also demonstrate the Government’s determination to meet the public’s demand for housing and address the housing problem facing Hong Kong.

3.8 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⁽²⁾. 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 66 cases per month or 1.3% of total transactions in the third quarter, well below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer's Stamp Duty, *purchases by non-local individuals and non-local companies* also stayed low at 62 cases per month or 1.2% of total transactions in the third quarter, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As an indicator of *investment activities*, purchases subject to the New Residential Stamp Duty stayed at a modest level of 564 cases per month or 11.1% of total transactions in the third 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 46% in the third 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

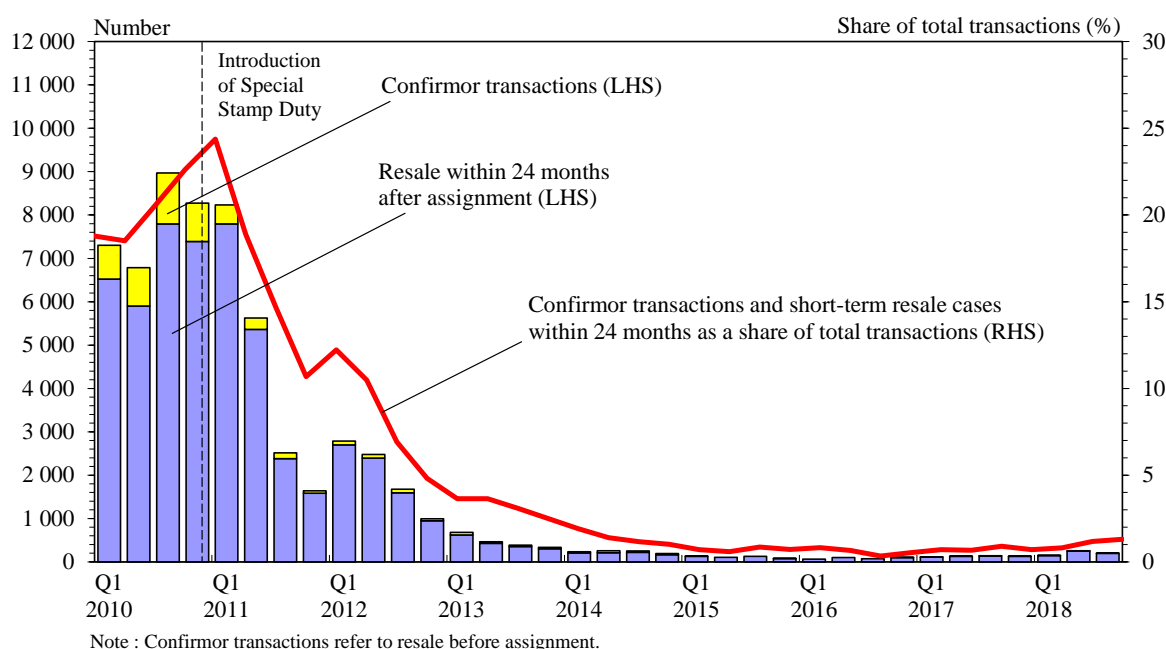


Diagram 3.5 : Purchases by non-local buyers stayed low

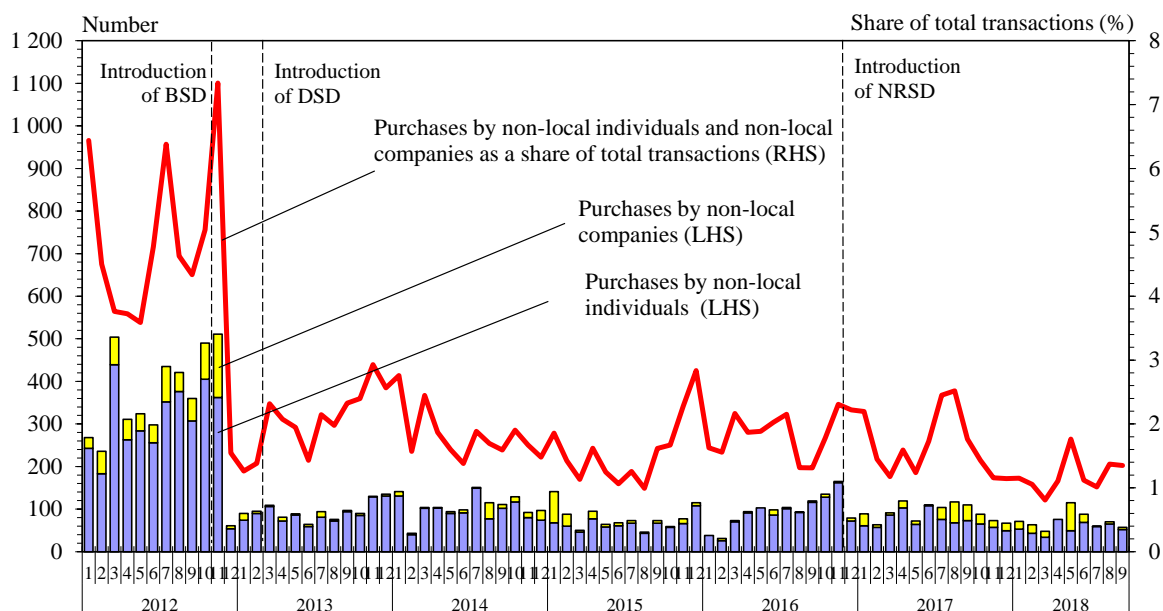
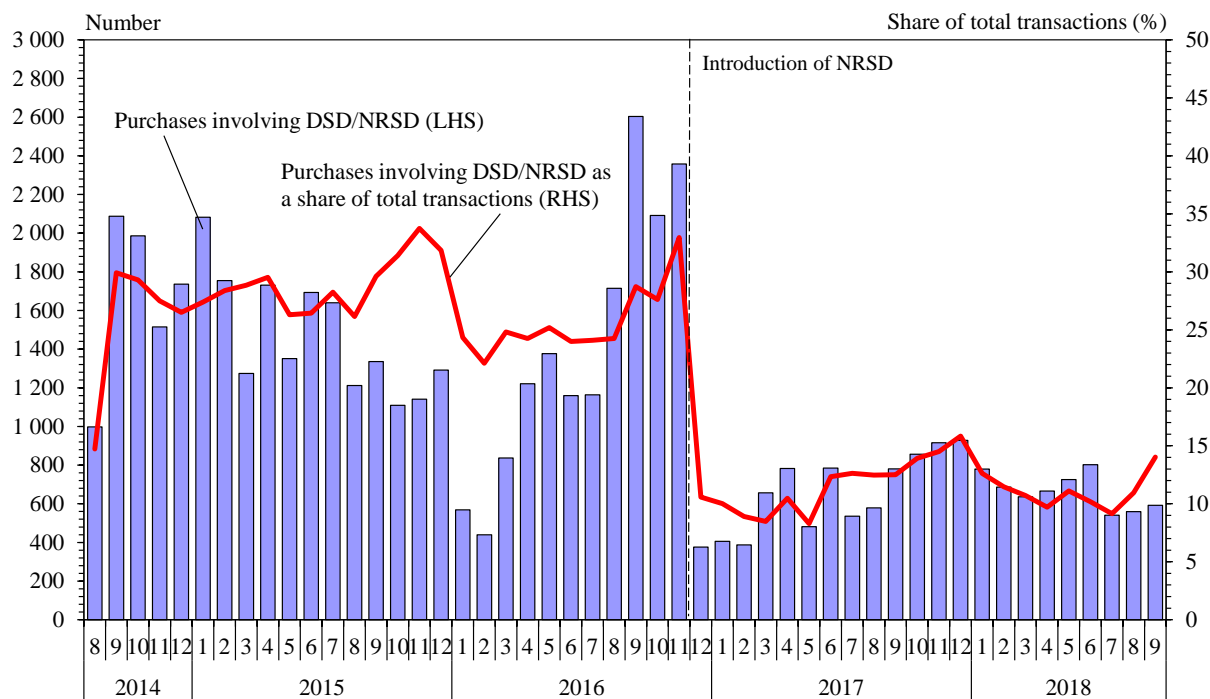


Diagram 3.6 : Investment activities were modest



3.9 Looking ahead, the outlook for the local residential property market would be overshadowed by the changing fundamentals on both the external and domestic fronts. The escalating trade conflicts between the US and the Mainland have cast notable uncertainties on the global and local macroeconomic outlook. As the US monetary policy normalisation process continues, local interest rates are bound to rise further under the Linked Exchange Rate System. On the demand-supply front, the prevailing tight flat demand-supply balance would ease in due course given the expected increase in flat completions in the coming few years.

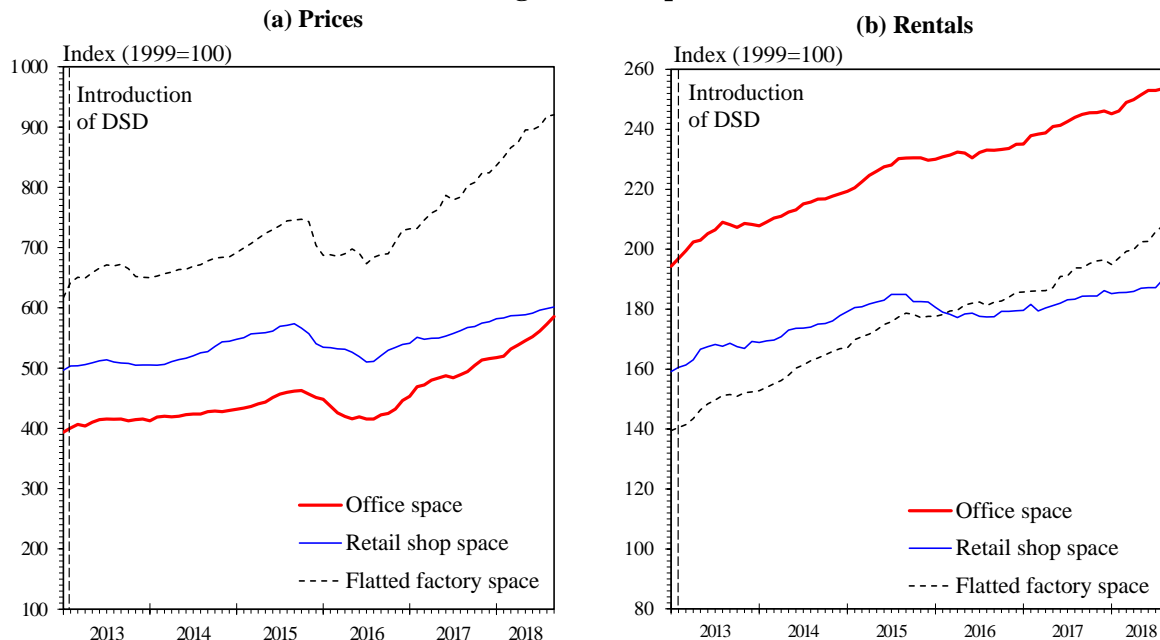
3.10 The *commercial and industrial property markets* were rather buoyant during the third quarter. Prices and rentals of all market segments went up further, though trading activities retreated from the preceding quarter.

3.11 Overall sale prices of *office space* surged by 6% between June and September, with prices of Grade A, B and C office space going up by 6%, 5% and 5% respectively. Over the same period, overall rentals edged up by 1%. Within the total, rentals of Grade A and C office space rose by 1% and 2% respectively, while those of Grade B office space stayed virtually unchanged. Reflecting the price and rental movements, the average rental yields of Grade A, B and C office space fell to 2.3%, 2.5% and 2.6% respectively in September, compared with 2.4%, 2.6% and 2.7% in June. Yet trading activities declined by 17% from the preceding quarter or 5% from a year earlier to 340 cases in the third quarter.

3.12 For *retail shop space*, sale prices and rentals both increased by 2% during the third quarter. The average rental yield stayed at 2.5% in September, virtually unchanged from June. Yet trading activities declined by 30% from the preceding quarter or 18% from a year earlier to 440 cases in the third quarter⁽³⁾.

3.13 As to *flatted factory space*, sale prices and rentals both rose by 3% between June and September. The average rental yield stayed at 2.7% in September, virtually unchanged from June. Yet transactions dropped by a notable 30% from the high base in the preceding quarter or 12% from a year earlier to 1 140 cases in the third quarter.

Diagram 3.7 : Prices and rentals of non-residential properties went up further during the third quarter



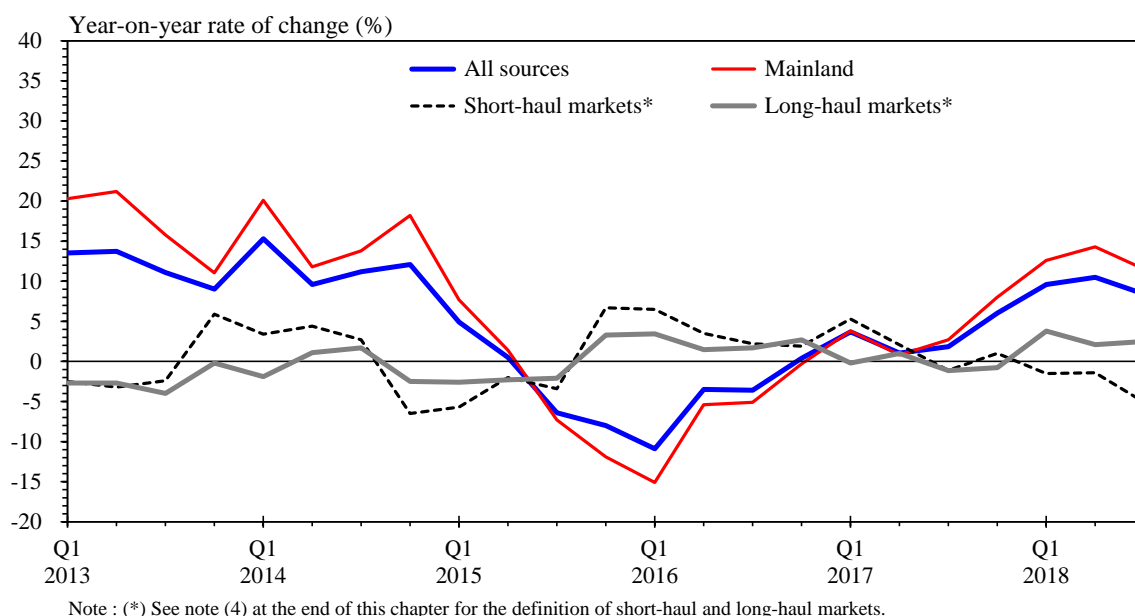
Land

3.14 One residential site and one industrial site, with a total area of about 0.7 hectare, were disposed of in the third quarter, fetching a land premium of about \$4.0 billion. In addition, the tender exercises for five residential sites and one site for high-tier data centre commenced in the quarter. In the third quarter, three land exchange cases and lease modifications of 10 sites were approved.

Tourism

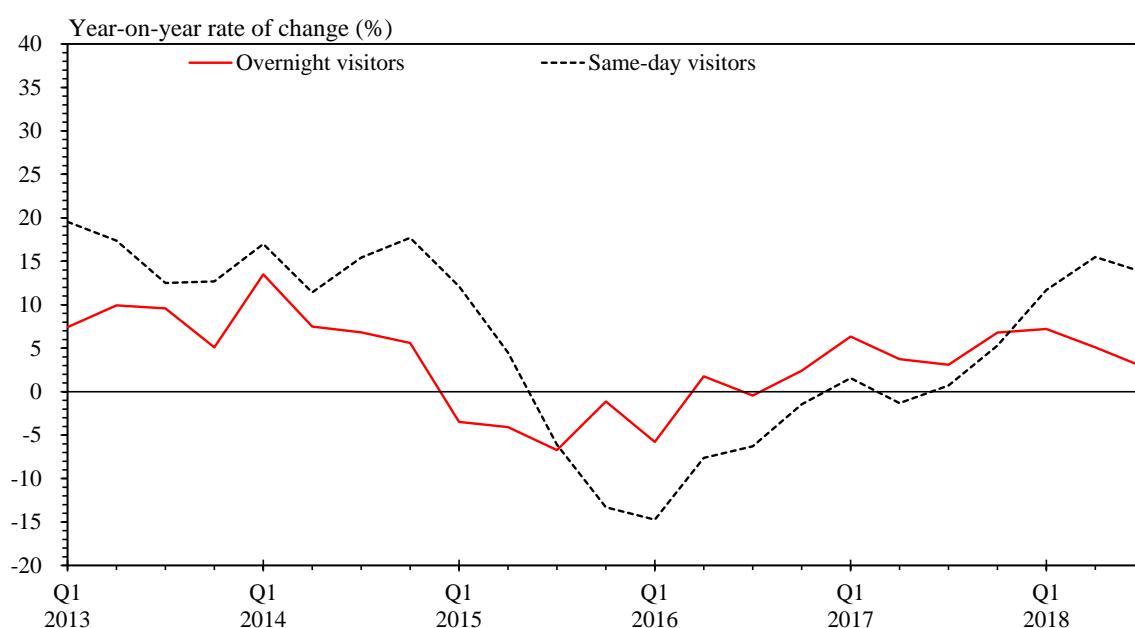
3.15 Inbound tourism recorded visible expansion in the third quarter, with overall *visitor arrivals* rising further by 8.4% over a year earlier to 16.1 million. Mainland visitors, which accounted for 80.5% of the total, surged by 11.5% to 12.9 million. On the other hand, visitor arrivals from long-haul markets increased by 2.5%, while visitor arrivals from short-haul markets declined further by 5.1%⁽⁴⁾.

Diagram 3.8 : Inbound tourism recorded visible expansion in the third quarter



3.16 Analysed by the length of stay, same-day visitor arrivals leapt by 13.7% in the third quarter over a year earlier, while overnight visitor arrivals rose moderately by 2.8%. Reflecting these movements, the share of same-day visitors increased from 51.5% a year earlier to 54.0%, while that of overnight visitors declined from 48.5% to 46.0%.

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

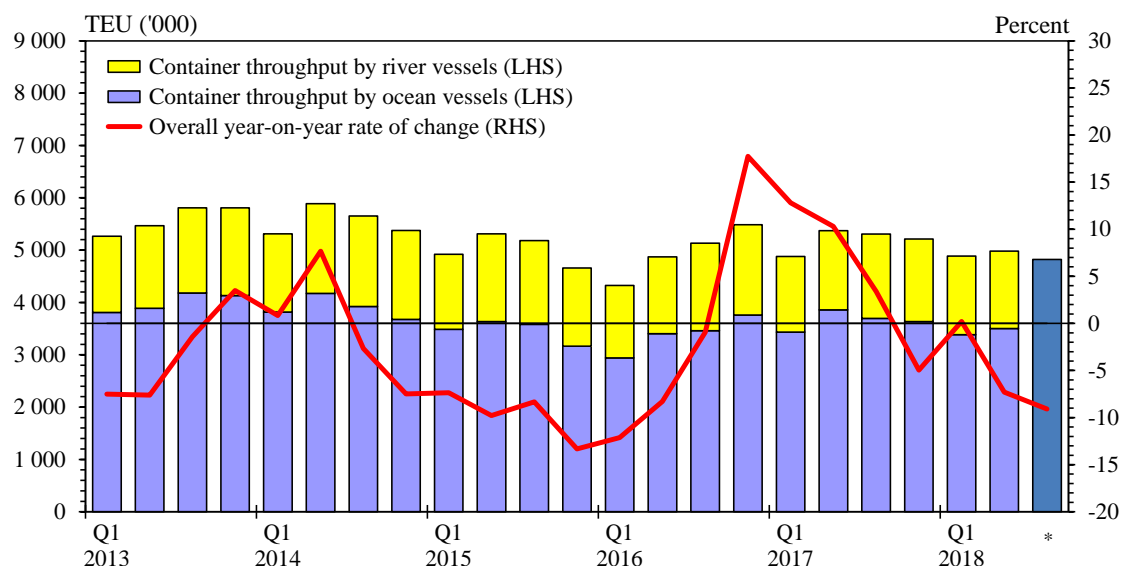


3.17 Along with the increase in overnight visitor arrivals, the average hotel room occupancy rate went up from 89% a year earlier to 91% in the third quarter. The average achieved hotel room rate likewise rose by 6.8% over a year earlier to \$1,271⁽⁵⁾.

Logistics

3.18 The logistics sector showed a mixed performance in the third quarter. Notwithstanding the continued growth in external trade, *total container throughput* fell by another 9.1% from a year earlier to 4.8 million twenty-foot equivalent units (TEUs), with both direct and transshipment cargoes recording declines. While the value of trade handled at the Hong Kong port edged up by 1.5%, its share in total trade contracted further from 18.0% a year earlier to 16.5%.

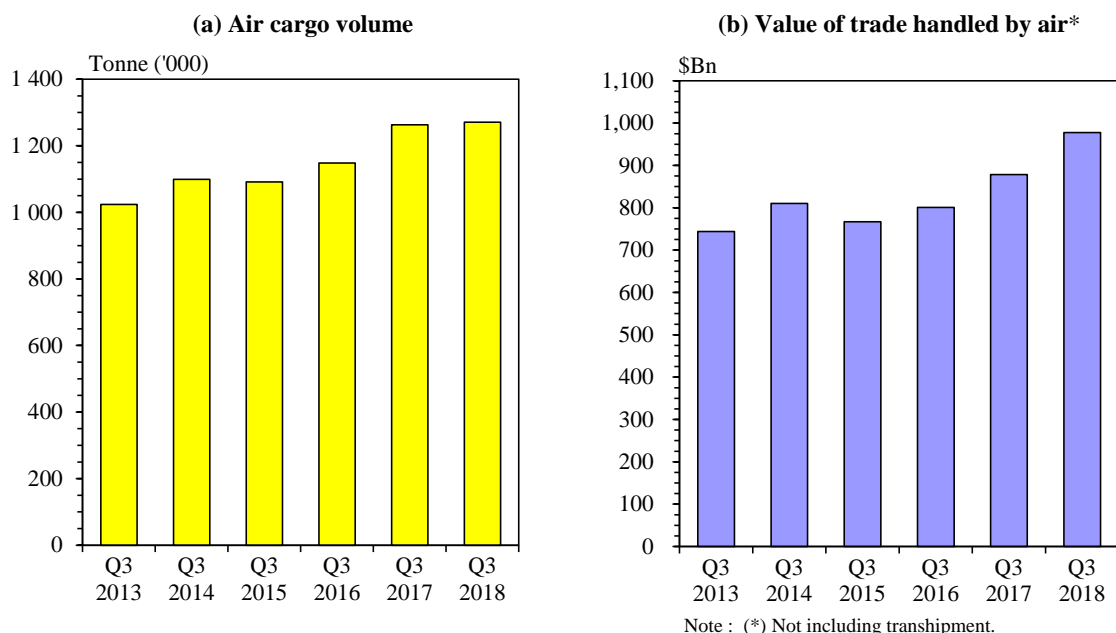
Diagram 3.10 : Container throughput continued to fall in the third quarter



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

3.19 Meanwhile, *air freight throughput* rose marginally by 0.6% over a year earlier to around 1.3 million tonnes in the third quarter. The value of trade by air soared by 11.3%, and its share in total trade edged up from 41.0% a year earlier to 41.3%.

**Diagram 3.11 : Air cargo throughput and value of trade handled by air
grew further in the third quarter**



3.20 In her Policy Address, the Chief Executive introduced various measures to support and enhance the development of high value-added maritime services. These measures include, among others, formulating tax measures to foster ship leasing business, providing tax concessions for the marine insurance sector, offering support on the provision of dispute resolution services to the global maritime industry, and injecting \$200 million into the Maritime and Aviation Training Fund.

Transport

3.21 Traffic flows for most major modes of transport increased in the third quarter. Air passenger traffic rose by another 2.5% over a year earlier to 19.1 million trips, and water-borne passenger trips by 1.1% to 6.8 million. As to land-based cross-boundary traffic, passenger trips increased by 4.8% to 57.2 million, while average daily vehicle movements decreased by 5.7% to 42 700.

Innovation and technology

3.22 In her Policy Address, the Chief Executive announced a series of measures to support the development of innovation and technology (I&T). These include, among other things, establishing a \$2 billion “Re-industrialisation Funding Scheme” to subsidise manufacturers to set up smart production lines in Hong Kong and allocating \$2 billion for building manufacturing facilities required by dedicated advanced manufacturing sector in industrial estates. The Government would also promote scientific research and technology transfer by enhancing the funding support for Technology Transfer Offices of local universities, State Key Laboratories, Hong Kong branches of the Chinese National Engineering Research Centre and the Technology Start-up Support Scheme for Universities under the Innovation and Technology Fund. In addition, to create a fervid I&T atmosphere, the Government would allocate \$500 million for organising an annual “I&T City Grand Challenge” in the next five years.

3.23 Separately, the Government signed an innovation and technology cooperation arrangement and a research funding agreement with the Ministry of Science and Technology in September. The arrangement would serve as an action guide and framework for the two sides to enhance cooperation in six areas, namely scientific research, development of platforms, nurturing of talents, transfer of results and incubation of I&T industry, integration into national development strategies, and cultivation of an I&T atmosphere. Meanwhile, the agreement set out the modus operandi of the new Mainland-Hong Kong Joint Funding Scheme.

Creative industries

3.24 In her Policy Address, the Chief Executive announced the plan to provide another one-off injection of \$1 billion into the Film Development Fund to boost development of the film industry through enriching and diversifying the talent pool, enhancing local production, market expansion and building audience.

Environment

3.25 With the Producer Responsibility Scheme on Waste Electrical and Electronic Equipment coming into effect on 1 August, sellers of regulated electrical equipment are now required to arrange free statutory removal service for customers who purchase a new item. The scheme would facilitate proper recycling of electrical and electronic equipment including air-conditioners, refrigerators, washing machines, televisions, computers, printers, scanners and monitors.

3.26 In her Policy Address, the Chief Executive announced a number of initiatives to improve air quality, combat climate change and encourage waste reduction and recycling. The Government would review the scope of the Pilot Green Transport Fund with a view to further facilitating the transport sector's wider use of green transport technologies, tighten the emission standards for newly registered motor cycles to Euro IV in 2020, progressively phase out Euro IV diesel commercial vehicles by end-2023, fully fund a trial of retrofitting Euro IV and Euro V franchised buses with enhanced selective catalytic reduction systems to reduce their emissions, and continue to encourage the use of new energy vehicles. In addition to taking the lead in the development of renewable energy, the Policy Address also reiterated the Government's plan to legislate Municipal Solid Waste (MSW) charging, and pledged to provide an additional provision of around \$300 million to \$400 million for the 2019-20 financial year to beef up various waste reduction and recycling measures, thereby complementing MSW charging implementation.

Notes :

- (1) In early August, most local banks adjusted upward the interest rate caps for new HIBOR-based mortgage plans by 10-20 basis points and that for new Best Lending Rate (BLR)-based mortgage rates by 10 basis points. In late September, following the rate hike by the US Federal Reserve, major local banks raised their BLRs, mostly by 12.5 basis points.
- (2) 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. For details of the measures promulgated in 2018, see Box 3.1 in the Half-yearly Economic Report 2018 and Box 3.1 of this report.
- (3) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (4) Short-haul markets refer to North Asia, South and Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In the third quarter of 2018, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 80.5%, 12.9% and 6.6% of total visitors.
- (5) The figures on hotel room occupancy and achieved room rate do not include guesthouses.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *In tandem with the US monetary policy normalisation, Hong Kong dollar interest rates picked up further in the third quarter of 2018, albeit still at rather low levels. Following the interest rate hike by the US Federal Open Market Committee in late September, the Hong Kong Monetary Authority (HKMA) adjusted the Base Rate upward from 2.25% to 2.50%. The Hong Kong dollar interbank interest rates generally went up. Interest rates on the retail front also increased, with major local banks raising their Best Lending Rates for the first time since 2006.*
- *The Hong Kong dollar spot exchange rate stayed weak against the US dollar during most of the third quarter, before regaining some strength in late September. Meanwhile, as the US dollar continued to strengthen against most major currencies, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices rose further by 4.0% and 3.6% respectively.*
- *Total loans and advances switched to a mild decline of 1.1% during the third quarter, partly reflecting weaker credit demand amid heightened uncertainties in the external environment. Within the total, loans for use in and outside Hong Kong dropped by 1.2% and 0.9% respectively.*
- *The local stock market consolidated further in the third quarter amid the heightened external risks. Market sentiment was dampened by the escalating US-Mainland trade conflicts and concerns over faster-than-expected US interest rate hikes. The Hang Seng Index closed the quarter at 27 789, 4.0% lower than at end-June. Trading activities cooled off further, while fund raising activities picked up notably.*

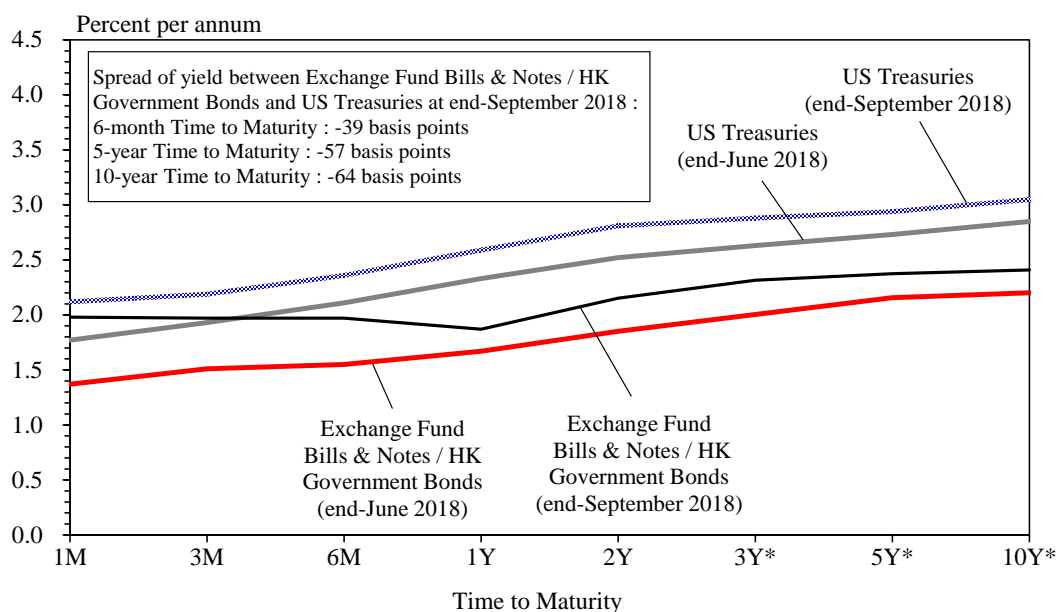
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Office of the Government Economist.*

Interest rates and exchange rates

4.1 In tandem with the US monetary policy normalisation, Hong Kong dollar interest rates picked up further in the third quarter of 2018, albeit still at rather low levels. The US Federal Open Market Committee raised the target range for the Federal Funds Rate from 1.75-2.00% to 2.00-2.25% in late September. Consequently, the HKMA adjusted the *Base Rate* under the Discount Window upward from 2.25% to 2.50%⁽¹⁾. The *Hong Kong dollar interbank interest rates* (HIBORs) generally went up, reflecting funding demand related to Initial Public Offering (IPO) and seasonal liquidity needs, and also reduced interbank liquidity after the repeated triggering of the weak-side Convertibility Undertaking. The overnight HIBOR increased sharply from 2.70% at end-June to 3.88% at end-September, and the three-month HIBOR from 2.10% to 2.28%.

4.2 Both *Hong Kong dollar* and *US dollar* yields rose during the third quarter, with the former recording larger increases at the short tenor. Reflecting the relative movements, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills narrowed from 56 basis points at end-June to 39 basis points at end-September, while the negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes narrowed marginally from 65 basis points to 64 basis points.

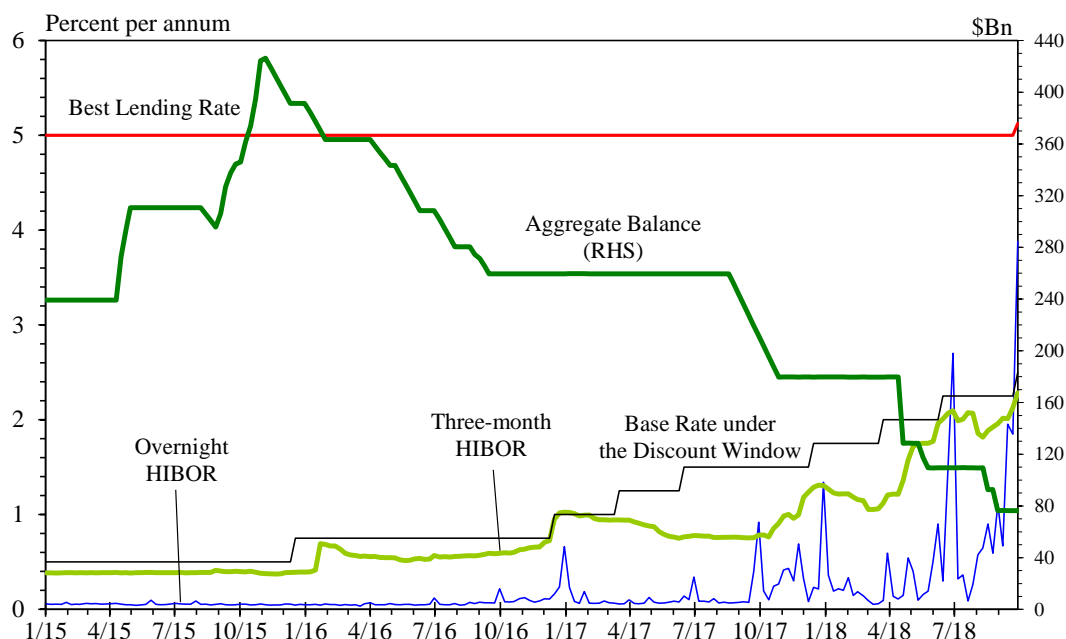
Diagram 4.1 : Both Hong Kong dollar and US dollar yields rose during the third quarter, with the former recording larger increases at the short tenor



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

4.3 Interest rates on the retail front also increased. Following the interest rate hike in the US in September, major local banks raised their *Best Lending Rates*, mostly by 12.5 basis points, marking the first hike since 2006. At end-September, there were three Best Lending Rates in the market, at 5.125%, 5.375% and 5.500%. The *average savings deposit rate* quoted by the major local banks edged up from 0.01% at end-June to 0.08% at end-September. Likewise, the one-year *time deposit rate* quoted by the major banks for deposits of less than \$100,000 increased from 0.15% to 0.25%. Some banks also raised their preferential interest rates for time deposits across different tenors. Reflecting the higher deposit rates and interbank rates, the *composite interest rate*⁽²⁾, which indicates the average cost of funds for retail banks, picked up from 0.62% at end-June to 0.76% at end-September.

**Diagram 4.2 : Hong Kong dollar interest rates picked up further
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* stayed weak against the US dollar during most of the third quarter, before regaining some strength in late September. The weak-side Convertibility Undertaking was triggered several times in August, and in response the HKMA purchased a total of \$33.1 billion worth of Hong Kong dollars, bringing the Aggregate Balance down from \$109.5 billion at end-June to \$76.4 billion at end-September. The Hong Kong dollar closed the quarter at 7.828, compared with 7.846 at end-June. Meanwhile, the discounts of the 3-month and 12-month *Hong Kong dollar forward rates* narrowed from 128 pips and 415 pips (each pip is equivalent to HK\$0.0001) at end-June to 103 pips and 355 pips respectively at end-September.

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 continued to strengthen against most major currencies, including the euro, pound sterling and renminbi (RMB), the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ rose further by 4.0% and 3.6% respectively during the third quarter.

Diagram 4.3 : Hong Kong dollar stayed weak against the US dollar during most of the third quarter, before regaining some strength in late September (end for the week)

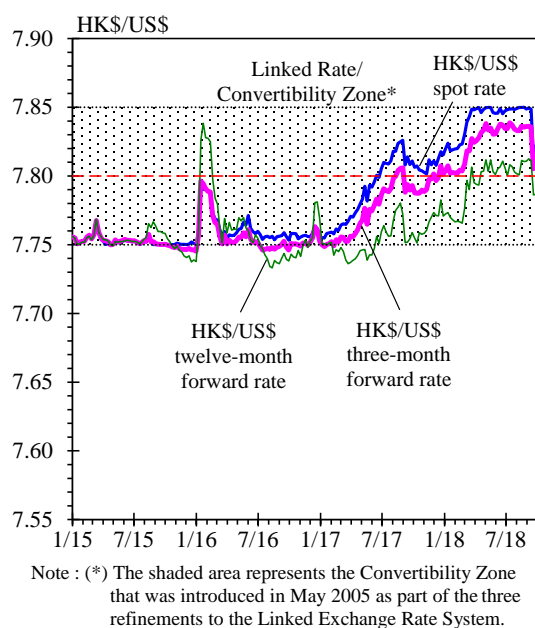
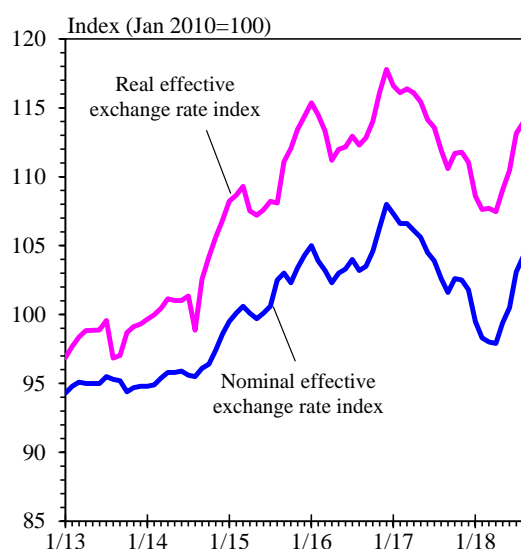


Diagram 4.4 : The trade-weighted nominal and real effective exchange rate indices rose further (average for the month)



Money supply and banking sector

4.6 The Hong Kong dollar broad *money supply* (HK\$M3) increased slightly by 0.6% over end-June to \$7,322 billion⁽⁴⁾ at end-September, while the seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1) declined by 4.3% to \$1,574 billion. Meanwhile, *total deposits* with authorised institutions (AIs)⁽⁵⁾ expanded by 1.1% to \$13,106 billion, with Hong Kong dollar deposits and foreign currency deposits increasing by 0.7% and 1.6% respectively.

Diagram 4.5 : Broad money supply increased slightly, while narrow money supply declined during the third quarter

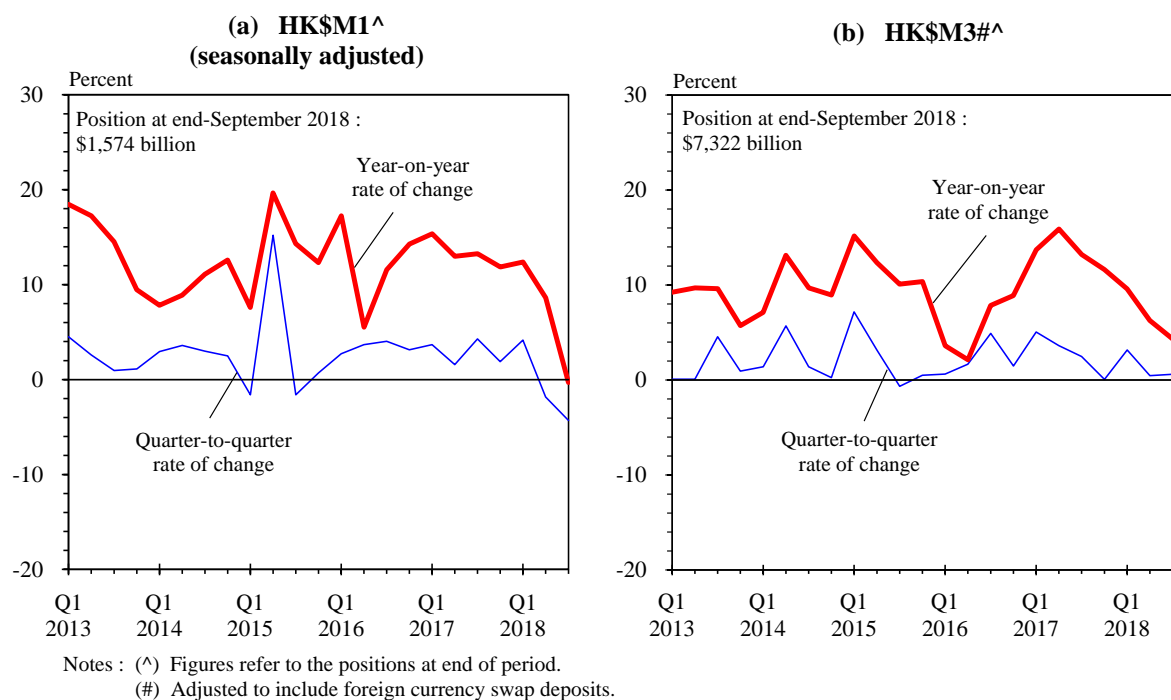


Table 4.1 : Hong Kong dollar money supply and total money supply

		<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
	Q3	-4.3	-3.0	0.5	1.0	0.6	1.0
Total amount at end-September 2018 (\$Bn)		1,574	2,445	7,299	14,117	7,322	14,175
% change over a year earlier		-0.3	2.2	4.2	4.7	4.3	4.7

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 *Total loans and advances* switched to a mild decline during the third quarter, partly reflecting weaker credit demand amid heightened uncertainties in the external environment. Total loans and advances declined by 1.1% from end-June to \$9,697 billion at end-September, with the 2.9% drop in foreign currency loans more than offsetting the 0.2% increase in Hong Kong dollar loans. Reflecting the relative movements in deposits and loans, the loan-to-deposit ratio for Hong Kong dollar decreased from 85.4% at end-June to 85.0% at end-September, and that for foreign currencies from 65.2% to 62.3%.

4.8 Both loans for use in and outside Hong Kong declined during the third quarter. Loans for use in Hong Kong (including trade finance) fell by 1.2% from end-June to \$6,779 billion at end-September, and loans for use outside Hong Kong by 0.9% to \$2,918 billion. Within the former, loans to most economic sectors recorded declines. Trade finance and loans to manufacturing dropped by 8.2% and 4.3% respectively. Loans to wholesale and retail trade also declined by 3.5%. Loans to stockbrokers and loans to financial concerns fell by 31.0% and 5.6% respectively, alongside the consolidation of the local stock market. As for property-related lending, loans to building, construction, property development and investment and loans for purchase of residential property rose by 2.4% and 2.5% respectively.

All loans and advances for use in Hong Kong

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

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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	98.46	0.98	0.56
2018	Q1	98.36	1.09	0.55
	Q2	98.41	1.06	0.53

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 Performance of the different segments of *offshore RMB business* remained mixed in the third quarter. RMB trade settlement transactions handled by banks in Hong Kong rose by 7.4% over a year earlier to RMB1,070.8 billion in the third quarter. Total RMB deposits (including customer deposits and outstanding certificates of deposit) also increased by 2.6% over end-June to RMB650.7 billion at end-September. Meanwhile, RMB financing activities stayed generally soft. RMB bond issuance expanded mildly from RMB7.4 billion in the preceding quarter to RMB8.0 billion in the third quarter (excluding the issuance of RMB5.0 billion by the Ministry of Finance), while outstanding RMB bank loans dropped by 5.6% from end-June to RMB116.3 billion at end-September.

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

As at end of period		Interest rates on ^(a)				Number of AIs engaged in RMB business	Amount of cross-border RMB trade settlement ^(c) (RMB Mn)
		Demand and savings deposits (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	Savings deposits ^(b) (%)	Three-month time deposits ^(b) (%)	
2017	Q1	131,103	376,169	507,272	0.25	0.53	141
	Q2	142,517	383,560	526,077	0.25	0.53	140
	Q3	153,368	382,099	535,468	0.25	0.53	137
	Q4	159,698	399,439	559,137	0.25	0.53	137
2018	Q1	159,509	394,808	554,317	0.25	0.53	136
	Q2	167,016	417,505	584,521	0.25	0.53	137
	Q3	181,117	419,212	600,329	0.25	0.53	137
% change in 2018 Q3 over 2017 Q3		18.1	9.7	12.1	N.A.	N.A.	N.A.
% change in 2018 Q3 over 2018 Q2		8.4	0.4	2.7	N.A.	N.A.	N.A.

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 applicable.

The debt market

4.11 As to the *debt market*, total gross issuance of Hong Kong dollar debt securities contracted by 3.3% from the preceding quarter to \$873.5 billion in the third quarter, mainly dragged by the 32.6% plunge in private sector debt issuance⁽⁶⁾. Total outstanding balance of Hong Kong dollar debt securities edged down by 0.3% from end-June to \$1,819.0 billion at end-September. This was equivalent to 24.8% of HK\$M3 or 20.5% of Hong Kong dollar-denominated assets of the banking sector⁽⁷⁾.

4.12 As to the Government Bond (“GB”) Programme, a total of \$1.8 billion worth of institutional GBs were issued through tenders in the third quarter. At end-September, the total outstanding amount of Hong Kong dollar bonds under the GB Programme was \$96.4 billion, comprising 12 institutional issues totaling \$80.6 billion and three retail issues (one iBond and two Silver Bonds) totaling \$15.8 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^(a) (\$Bn)**

		Exchange Fund paper	Statutory bodies/ government- owned corporations	Govern- ment	Public sector total	AIs ^(b)	Local corporations	Non-MDBs overseas borrowers ^(c)	Private sector total	MDBs ^(c)	Total
New Issuance											
2017	Annual	3,000.4	21.5	19.6	3,041.6	185.9	9.3	95.3	290.5	3.2	3,335.3
	Q1	709.7	9.7	1.8	721.3	54.2	4.4	17.7	76.4	1.7	799.3
	Q2	718.1	8.6	10.7	737.4	41.6	1.3	40.1	83.1	1.6	822.0
	Q3	766.5	2.0	0.6	769.1	44.6	2.7	19.9	67.2	0.0	836.3
	Q4	806.1	1.2	6.5	813.8	45.4	0.9	17.5	63.8	0.0	877.6
2018	Q1	791.9	7.2	1.8	801.0	63.1	2.7	31.3	97.1	2.4	900.4
	Q2	805.4	6.2	6.5	818.1	40.7	7.2	34.5	82.3	2.4	902.8
	Q3	811.5	4.7	1.8	818.0	37.0	2.2	16.3	55.5	0.0	873.5
% change in 2018 Q3 over 2017 Q3		5.9	133.1	200.0	6.4	-17.1	-18.0	-18.3	-17.5	0.0	4.4
% change in 2018 Q3 over 2018 Q2		0.8	-23.9	-72.3	*	-9.0	-69.6	-52.7	-32.6	-100.0	-3.3
Outstanding (as at end of period)											
2017	Q1	964.6	54.4	104.6	1,123.6	281.9	103.2	228.3	613.4	11.8	1,748.8
	Q2	965.6	52.0	112.3	1,129.9	266.9	100.7	242.7	610.3	11.4	1,751.6
	Q3	1,014.6	52.8	102.8	1,170.2	261.1	98.7	244.4	604.2	10.8	1,785.2
	Q4	1,048.5	53.6	106.3	1,208.4	241.1	99.0	243.7	583.8	9.9	1,802.1
2018	Q1	1,050.6	55.9	99.7	1,206.2	219.4	95.8	258.3	573.4	12.2	1,791.9
	Q2	1,053.9	54.5	106.2	1,214.5	219.1	102.0	274.6	595.7	14.2	1,824.5
	Q3	1,058.0	56.9	97.9	1,212.8	219.1	101.8	271.5	592.4	13.8	1,819.0
% change in 2018 Q3 over 2017 Q3		4.3	7.7	-4.8	3.6	-16.1	3.2	11.1	-1.9	28.2	1.9
% change in 2018 Q3 over 2018 Q2		0.4	4.4	-7.8	-0.1	0.0	-0.2	-1.1	-0.6	-2.8	-0.3

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

(a) The debt securities statistics are reclassified in accordance with the latest international statistical standards set forth in the *Handbook of Securities Statistics* published by the Bank for International Settlements, International Monetary Fund and European Central Bank. They may not be comparable with statistics previously published in this report. Historical statistics reclassified under the new standards are available upon request.

(b) AIs : Authorised institutions.

(c) MDBs : Multilateral Development Banks.

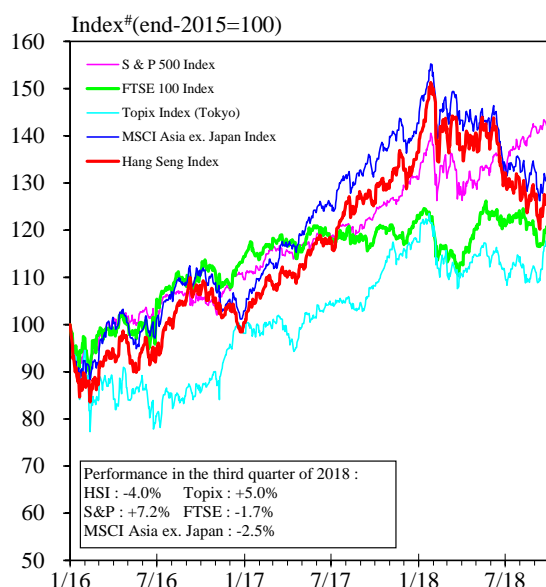
(*) Change of less than $\pm 0.05\%$.

The stock and derivatives markets

4.13 The *local stock market* consolidated further in the third quarter amid the heightened external risks. Market sentiment was dampened by the escalating US-Mainland trade conflicts and concerns over faster-than-expected US interest rate hikes. The Hang Seng Index (HSI) plunged to 26 345 on 12 September, the lowest level since mid-July 2017, before rebounding somewhat to close the quarter at 27 789, 4.0% lower than at end-June. The HSI at end-September 2018 had dropped by 7.1% from end-2017 and by 16.2% from the recent peak in late January. In parallel, *market capitalisation* declined by 2.8% from end-June to \$32.2 trillion at end-September. The local stock market ranked the sixth largest in the world and the third largest in Asia⁽⁸⁾.

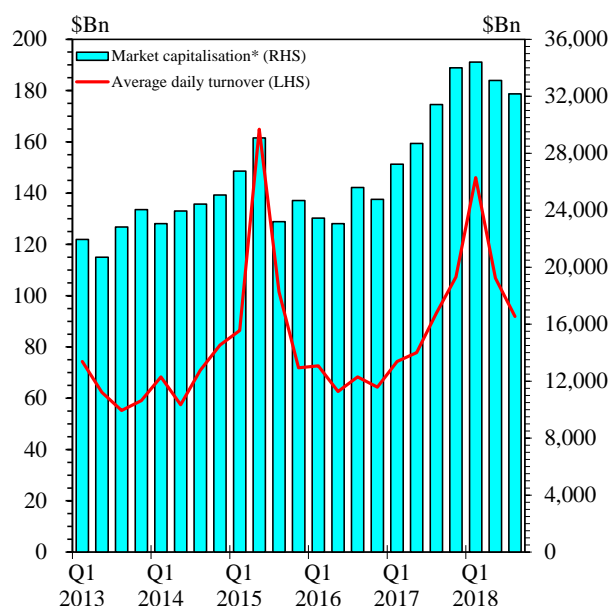
4.14 Against an increasingly cautious market atmosphere, trading activities cooled off further in the third quarter. *Average daily turnover* in the securities market shrank by another 14.0% from the preceding quarter or 1.4% from a year earlier to \$91.9 billion. Within the total, the average daily trading value of unit trusts (including Exchange-Traded Funds), equities, derivative warrants and callable bull/bear contracts⁽⁹⁾ all fell, by 22.5%, 15.5%, 6.5% and 2.9% respectively from the preceding quarter. As to futures and options⁽¹⁰⁾, the average daily trading volume edged up by 0.6%. Within the total, trading of Hang Seng China Enterprises Index futures and HSI options rose by 7.4% and 1.5% respectively, while that of stock options and HSI futures declined by 5.2% and 0.2% respectively.

Diagram 4.6 : The local stock market consolidated further in the third quarter



Note : (#) Position at end of month.

Diagram 4.7 : Market capitalisation declined and trading activities cooled off further



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
	Q3	235 121	46 949	150 507	456 615	1 128 978
% change in 2018 Q3 over 2017 Q3		85.2	8.4	35.0	-3.6	24.7
% change in 2018 Q3 over 2018 Q2		-0.2	1.5	7.4	-5.2	0.6

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

4.15 Fund raising activities picked up notably in the third quarter, notwithstanding the local stock market consolidation. *Total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and GEM⁽¹¹⁾, surged by 252.6% over the preceding quarter or 78.1% year-on-year to \$253.2 billion. Within the total, the amount of funds raised through IPOs soared by 602.3% over the preceding quarter to \$191.1 billion, buttressed by the listings of several companies from the emerging and innovative sectors. Taking the first nine months of 2018 as a whole, total equity capital raised increased markedly by 40.9% over a year earlier to \$445.9 billion, and the amount of funds raised through IPOs by 177.1% to \$242.7 billion. Hong Kong ranked the first globally in terms of the amount of funds raised through IPOs in the period.

4.16 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-September, a total of 1 115 Mainland enterprises (including 261 H-share companies, 164 “Red Chip” companies and 690 private enterprises) were listed on the Main Board and GEM, accounting for 49% of the total number of listed companies and 68% of total market capitalisation. In the third quarter, Mainland-related stocks accounted for 80% of equity turnover and 94% of total equity fund raised in the Hong Kong stock exchange.

Fund management and investment funds

4.17 Along with the stock market consolidation, performance of the fund management business⁽¹²⁾ was generally lacklustre in the third quarter. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹³⁾ edged up by 0.7% over end-June to \$858.3 billion at end-September. The gross retail sales of *mutual funds* dropped by 9.7% from the preceding quarter or 23.9% from a year earlier to US\$19.6 billion in the third quarter⁽¹⁴⁾.

Insurance sector

4.18 The *insurance sector*⁽¹⁵⁾ showed some pick-up in the second quarter of 2018. Gross premium income from long-term business rose by 7.5% over a year earlier. Within the total, premium income from non-investment linked plans (which accounted for 88% of total premium for this segment) went up by 4.9%, and that from investment linked plans leapt by 38.0%. As to general business, gross and net premium rose solidly by 7.7% and 7.3% respectively.

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

		General business			Premium for long-term business [^]					Gross premium from long-term business and general business
		Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	
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
	Q2	12,401	8,740	472	35,232	4,490	76	75	39,873	52,274
% change in 2018 Q2 over 2017 Q2		7.7	7.3	N.A.	4.9	38.0	35.7	-63.8	7.5	7.5

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 applicable.

Highlights of policy and market developments

4.19 The HKMA introduced several initiatives to strengthen Hong Kong's competitiveness as an international financial centre. In July, the HKMA announced the plan to set up an Academy of Finance (AoF) in around mid-2019. The AoF would serve as a centre of excellence for promoting financial leadership development and a repository of knowledge and centre for monetary and financial research, in particular applied research in cross-sectoral areas. As to promoting smart banking and electronic payment in Hong Kong, the HKMA launched the Faster Payment System (FPS) in September. The FPS supports real-time payments in Hong Kong dollar and RMB and enables customers of participating banks and stored-value facilities to transfer or receive funds with the use of a mobile number or an email address. The FPS would bring new opportunities to the retail payment industry and promote financial innovations.

4.20 Separately, in September, the Securities and Futures Commission (SFC) announced a strategic framework to promote the development of green finance in Hong Kong. The framework includes, among others, enhancing the consistent and comparable disclosure of environmental information, particularly on climate-related risks and opportunities, by listed companies. In addition, the SFC would work to facilitate the development of a wider range of green investment opportunities through internationally-compatible disclosure guidance to ensure the credibility of green product offerings in Hong Kong and work closely with the Hong Kong Exchanges and Clearing Limited on how it can develop and promote the listing and trading of green financial products. The framework would help provide a strong foundation for the further development of green finance in Hong Kong. Meanwhile, the Hong Kong Green Finance Association, which was officially launched in September, would serve as a platform to mobilise private sector resources and talents to assist the Government in developing green finance policies, and to promote the adoption of best market practices in green finance.

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-September 2018, there were 152 licensed banks, 18 restricted licence banks and 17 deposit-taking companies in Hong Kong. Altogether, 187 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.

- (6) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (7) Assets of the banking sector include notes and coins, amount due from AIs in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposit (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.
- (8) The ranking is based on the figures compiled by the World Federation of Exchanges and the London Stock Exchanges Group.
- (9) Given the relatively small share (less than 0.5% of the daily turnover in the securities market), trading of debt securities and its movements were not analysed.
- (10) At end-September 2018, there were 96 classes of stock options contracts and 86 classes of stock futures contracts.
- (11) At end-September 2018, there were 1 885 and 383 companies listed on the Main Board and GEM respectively.
- (12) With the de-authorisation of the remaining retail hedge fund in the second quarter, there was no SFC-authorised retail hedge fund at end-September 2018.
- (13) At end-September 2018, there were 15 approved trustees. On MPF products, 29 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 467 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 289 000 employers, 2.62 million employees and 207 000 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-September 2018, the survey covered a total of 1 313 active authorised funds.
- (15) At end-September 2018, there were 161 authorised insurers in Hong Kong. Within this total, 48 were engaged in long-term insurance business, 94 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 23 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

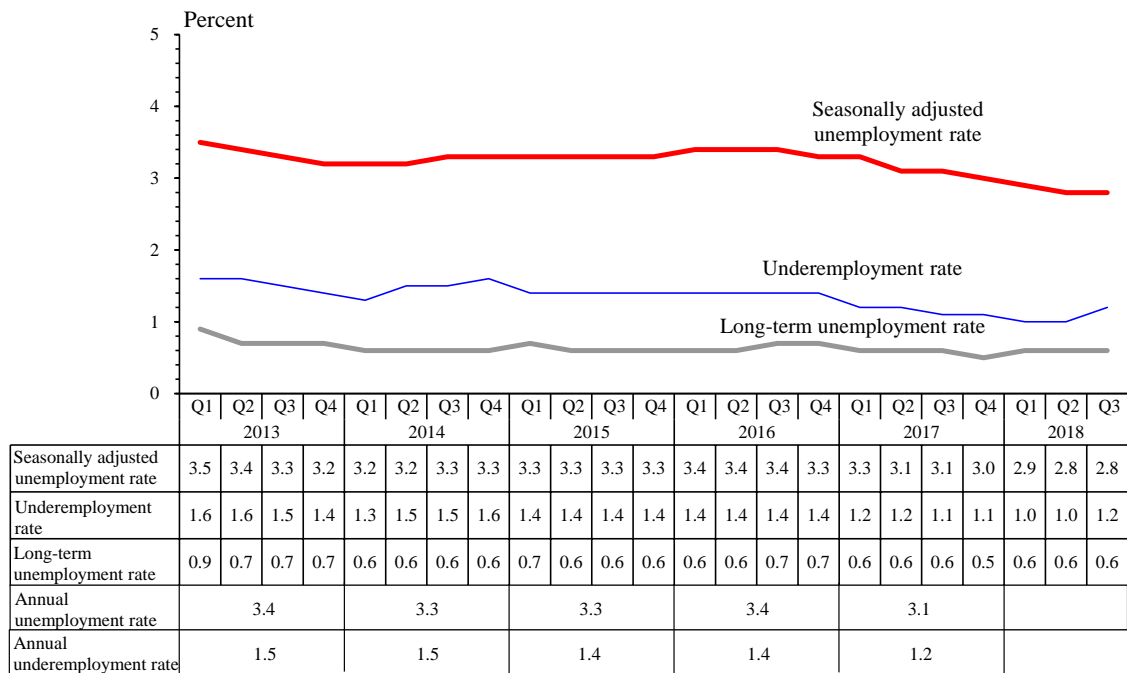
Summary

- *The labour market remained tight in the third quarter of 2018. The seasonally adjusted unemployment rate held stable at 2.8%, the lowest level in 20 years. The underemployment rate likewise stayed low at 1.2%, though going up slightly from the preceding quarter.*
- *Riding on the solid expansion of the local economy, labour demand stayed sturdy, as reflected by the sustained visible growth in total employment and further increase in the number of private sector vacancies.*
- *Amid favourable labour market conditions, nominal wages and payroll registered further solid and broad-based increases, translating into real improvements after discounting inflation. Earnings of grassroots workers stayed on the rise, thanks to the tight manpower situation in the lower-skilled segment.*

Overall labour market situation⁽¹⁾

5.1 As the local economy sustained above-trend growth, the labour market remained tight in the third quarter of 2018, with the seasonally adjusted *unemployment rate*⁽²⁾ staying at a 20-year low of 2.8%. Total employment and labour force grew further on a year-on-year basis. While the *underemployment rate*⁽³⁾ went up slightly by 0.2 percentage point, it was still at a low level of 1.2%. Data collected from private sector establishments likewise indicated sturdy labour demand, as reflected by continued visible growth in employment and further increase in the number of private sector vacancies. Supported by favourable labour market conditions, wages and earnings registered further solid and across-the-board improvements. Earnings of grassroots workers stayed on the rise and witnessed another quarter of real increase after discounting inflation, on the back of the tight manpower situation in the lower-skilled segment.

Diagram 5.1 : The labour market remained tight in the third quarter of 2018



Labour force and total employment

5.2 On the supply side, the *labour force*⁽⁴⁾ expanded by 1.2% year-on-year to 3 992 400 in the third quarter of 2018, outstripping the increase of 0.8% in the working-age population (i.e. land-based non-institutional population aged 15 and above), thanks to the 0.2 percentage-point increase in labour force participation rate to 61.2%.

5.3 On the demand side, *total employment*⁽⁵⁾ continued to grow visibly by 1.5% year-on-year to 3 874 600 in the third quarter of 2018, on the back of solid expansion of the local economy. Analysed by sector, faster increases in employment were seen in such sectors as human health activities, social work activities, decoration, repair and maintenance for buildings, and information and communications.

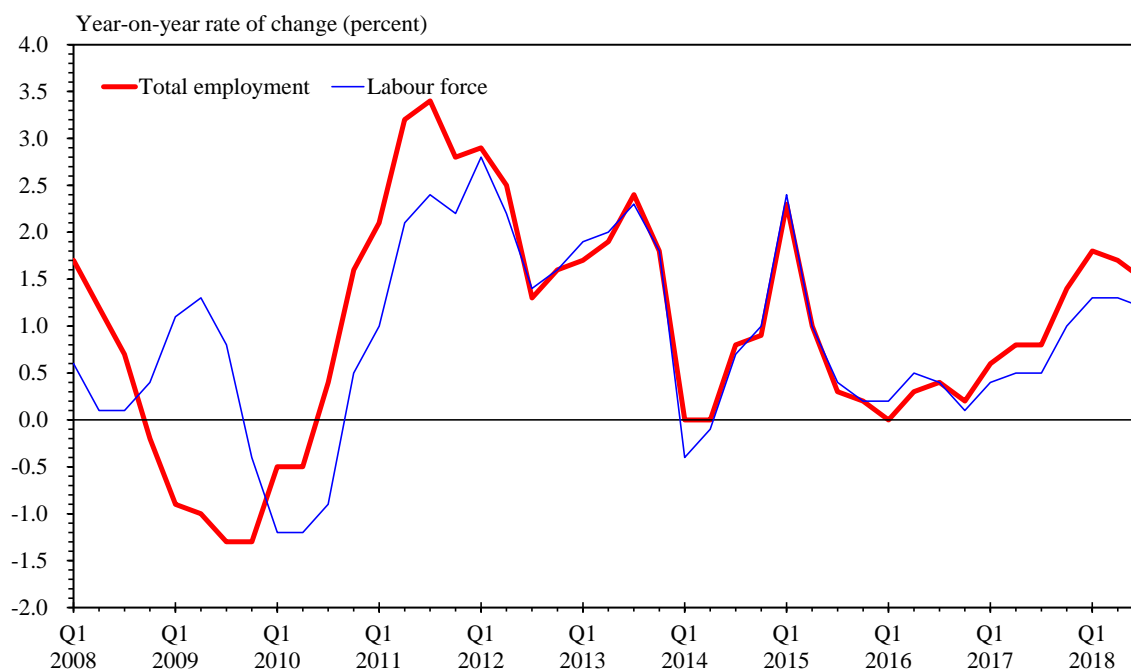
**Table 5.1 : The labour force, and persons employed,
unemployed and underemployed**

		<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
	Q2	3 982 200 (1.3)		3 869 800 (1.7)		112 400	41 400
<i>Three months ending</i>							
2018	Jul	3 987 400 (1.1)		3 872 700 (1.5)		114 700	44 100
	Aug	3 999 800 (1.2)		3 882 400 (1.6)		117 400	45 500
	Sep	3 992 400 (1.2)		3 874 600 (1.5)		117 800	47 300
		<§>		<§>			

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.
 () % change over a year earlier.
 < > Seasonally adjusted quarter-to-quarter % change for the third quarter of 2018.
 § Change less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Total employment sustained visible year-on-year growth
in the third 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>2018 Q3</u>
<u>Male</u>								
15-24	37.8	37.8	39.1	39.5	38.1	39.0	38.6	40.8
<i>of which:</i>								
15-19	11.0	11.1	11.7	12.9	9.9	9.3	10.4	11.4
20-24	62.5	61.4	62.0	60.7	59.2	60.7	59.3	62.8
25-29	93.8	93.4	93.7	92.9	92.6	92.2	92.5	93.2
30-39	96.9	96.5	96.5	96.4	96.6	96.9	96.1	96.5
40-49	95.5	94.7	95.1	95.0	95.2	95.5	95.3	95.0
50-59	86.9	86.7	86.6	86.0	86.7	87.3	86.4	86.9
≥ 60	27.0	28.0	28.5	29.9	30.4	31.2	31.9	32.2
Overall	69.2	68.8	68.8	68.6	68.3	68.7	68.4	68.8
<u>Female</u>								
15-24	40.0	39.3	41.4	41.9	41.5	40.8	40.7	43.6
<i>of which:</i>								
15-19	11.5	12.5	12.8	12.3	11.8	11.1	12.9	14.8
20-24	64.2	61.4	63.6	63.6	61.8	60.5	59.3	63.2
25-29	86.5	86.3	85.7	86.2	86.5	87.3	85.2	87.6
30-39	78.4	78.9	78.4	78.0	79.0	80.2	80.7	78.6
40-49	72.8	73.0	73.7	73.4	73.8	74.1	74.3	73.4
50-59	56.2	57.2	58.3	59.7	60.4	61.1	60.7	61.3
≥ 60	9.7	10.7	11.4	12.3	13.7	14.3	14.7	14.3
Overall	54.5	54.5	54.7	54.8	55.1	55.4	55.3	55.1
<u>Both genders combined</u>								
15-24	38.9	38.5	40.2	40.7	39.8	39.9	39.7	42.2
<i>of which:</i>								
15-19	11.3	11.8	12.3	12.6	10.8	10.1	11.6	13.1
20-24	63.4	61.4	62.8	62.2	60.5	60.6	59.3	63.0
25-29	89.6	89.4	89.2	89.2	89.3	89.5	88.5	90.2
30-39	85.9	86.0	85.7	85.4	86.0	86.8	86.8	85.7
40-49	82.5	82.3	82.7	82.4	82.6	82.9	82.9	82.2
50-59	71.1	71.4	71.8	72.2	72.7	73.3	72.7	73.2
≥ 60	18.0	19.0	19.6	20.7	21.7	22.4	22.9	22.9
Overall	61.2	61.1	61.1	61.1	61.1	61.4	61.2	61.2

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

5.4 In tandem with the seasonal entry of school leavers into the labour market, the number of unemployed persons increased by 5 400 over the preceding quarter to 117 800 in the third quarter of 2018. Yet, on a year-on-year comparison to net out seasonal fluctuations, the figure went down visibly by 8.9% or 11 600 persons. The seasonally adjusted unemployment rate remained unchanged at a 20-year low of 2.8% compared to the second quarter of 2018, reflecting continued tight labour market conditions.

5.5 On a quarter-to-quarter comparison, movements of unemployment rates (not seasonally adjusted) varied across sectors. Relatively visible decreases in unemployment rates were seen in the decoration, repair and maintenance for buildings (down 1.1 percentage points), warehousing and support activities for transportation (down 0.8 percentage point), information and communications, and social work activities (both down 0.7 percentage point) sectors. On the other hand, relatively noticeable increases in unemployment rates were seen in the foundation and superstructure segment of the construction sector (up 0.7 percentage point), and education sector (up 0.6 percentage point). On a year-on-year comparison, unemployment situation in many major sectors improved on the back of solid local economic performance. In particular, notable year-on-year decreases in unemployment rates were seen in the sectors of accommodation services (down 1.6 percentage points), decoration, repair and maintenance for buildings (down 1.4 percentage points), and information and communications (down 1.3 percentage points). For the *low paying sectors*⁽⁶⁾ as a whole, the unemployment rate edged down by 0.1 percentage point from the preceding quarter to 2.6%, and was 0.4 percentage point below the year-ago level.

5.6 Analysed by skill segment, the unemployment rates of the lower-skilled and higher-skilled segments in the third quarter both remained the same as in the preceding quarter, at 3.0% and 1.7% respectively. Compared to a year earlier, the unemployment rate of the lower-skilled segment decreased by 0.4 percentage point, while that of the higher-skilled segment remained unchanged.

5.7 Analysed by age and educational attainment, unemployment situation across different groups generally improved compared to a year earlier. Visible year-on-year decreases in unemployment rates were observed among younger persons aged 20-29 (down 0.7 percentage point) and people with lower-secondary education (down 0.7 percentage point).

Diagram 5.3 : Many major sectors recorded year-on-year improvement in unemployment situation in the third quarter of 2018

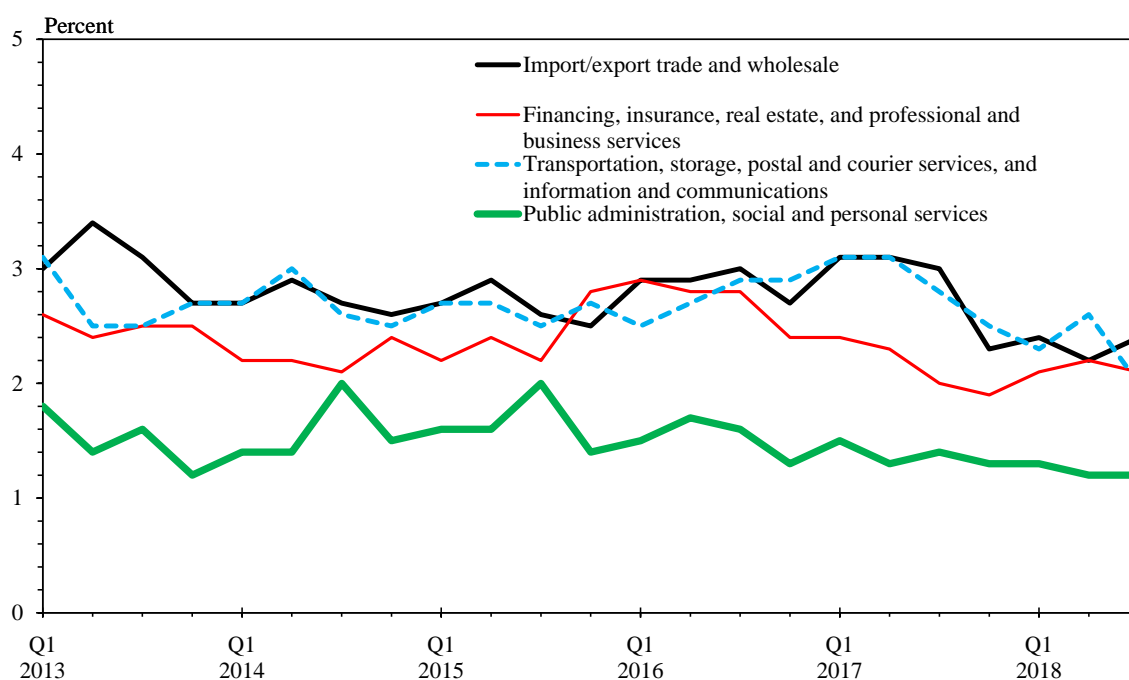
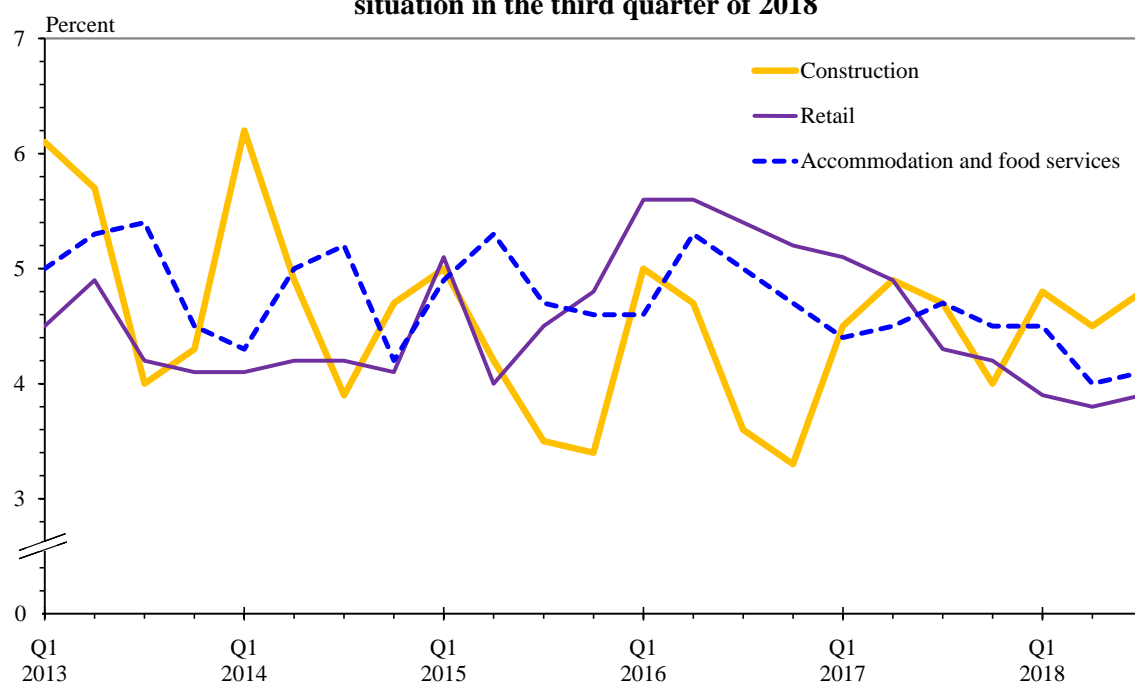


Table 5.3 : Unemployment rates by major economic sector

	<u>2017</u>				<u>2018</u>		
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Import/export trade and wholesale	3.1	3.1	3.0	2.3	2.4	2.2	2.4
Retail	5.1	4.9	4.3	4.2	3.9	3.8	3.9
Accommodation and food services	4.4	4.5	4.7	4.5	4.5	4.0	4.1
Transportation, storage, postal and courier services	3.3	3.0	2.5	2.5	2.3	2.6	2.0
Information and communications	2.5	3.3	3.3	2.7	2.3	2.7	2.0
Financing and insurance	2.1	1.9	1.7	1.3	1.6	1.7	1.6
Real estate	1.9	2.3	2.1	2.0	2.3	2.2	2.3
Professional and business services	2.8	2.6	2.1	2.3	2.4	2.5	2.3
Public administration, social and personal services	1.5	1.3	1.4	1.3	1.3	1.2	1.2
Manufacturing	2.6	2.3	2.8	2.7	3.3	3.0	3.8
Construction	4.5	4.9	4.7	4.0	4.8	4.5	4.8
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)	3.0 (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 lower-skilled segment decreased from a year earlier, while that of the higher-skilled segment held stable

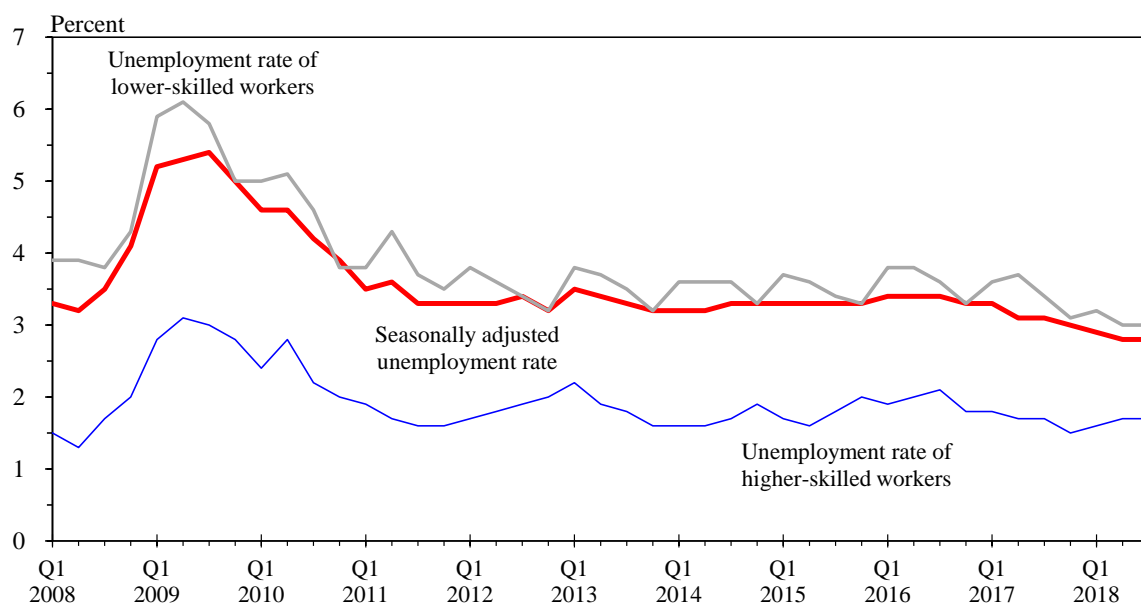


Table 5.4 : Unemployment rates* by skill segment

	<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>Q3</u>
<u>Higher-skilled segment</u>	1.8	1.7	1.7	1.5	1.6	1.7	1.7
Managers and administrators	1.4	0.9	1.1	0.8	1.2	1.2	1.4
Professionals	1.8	1.5	1.5	1.2	1.1	1.0	1.4
Associate professionals	2.1	2.2	2.2	2.1	1.9	2.2	1.9
<u>Lower-skilled segment^</u>	3.6	3.7	3.4	3.1	3.2	3.0	3.0
Clerical support workers	3.3	3.7	3.5	3.1	3.3	3.1	3.1
Service and sales workers	4.2	4.6	4.2	3.8	3.9	3.8	3.5
Craft and related workers	4.5	4.2	4.1	4.0	4.8	4.2	4.4
Plant and machine operators and assemblers	3.0	1.9	1.8	1.3	1.5	1.8	1.8
Elementary occupations	3.2	3.0	2.7	2.6	2.5	2.3	2.2

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>Q3</u>
<u>Age</u>							
15-24	8.3	8.1	10.5	7.8	8.0	8.9	10.5
<i>of which:</i>							
15-19	11.9	13.0	10.1	10.8	9.6	12.2	10.7
20-24	7.8	7.5	10.6	7.4	7.8	8.5	10.4
25-29	3.9	4.2	4.8	4.0	3.9	3.5	3.9
30-39	2.1	2.2	2.2	1.8	1.9	2.1	1.8
40-49	2.6	2.8	2.5	2.1	2.2	2.2	2.3
50-59	3.4	2.8	2.4	2.6	2.6	2.6	2.3
≥ 60	2.3	2.6	2.4	2.0	2.1	1.8	2.1
<u>Educational attainment</u>							
Primary education and below	3.3	3.3	2.8	2.5	2.9	2.6	3.1
Lower secondary education	4.7	4.4	3.9	3.3	3.4	3.5	3.2
Upper secondary education [^]	3.0	3.2	3.0	2.9	2.8	2.8	2.6
Post-secondary education	2.9	2.8	3.4	2.5	2.6	2.7	3.2

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

[^] Including craft courses.

Source : General Household Survey, Census and Statistics Department.

5.8 Other indicators measuring the intensity of unemployment generally reflected a tight labour market. Comparing the third quarter of 2018 with a year earlier, the number of long-term unemployed persons (i.e. unemployed for six months or longer) decreased by 1 900 to 23 500, with the long-term unemployment rate staying low at 0.6%. The share of long-term unemployment in total unemployment was 19.9%, little changed from a year earlier. Meanwhile, the median duration of unemployment shortened from 63 days to 58 days, and 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) decreased significantly by 4.8 percentage points from a year earlier to 42.8%.

Box 5.1

Voluntary part-time employees in Hong Kong

Working on a part-time basis voluntarily has become increasingly popular. Over the past two decades, the number of voluntary part-time (VPT) employees⁽¹⁾ almost quadrupled, outpacing the growth in other forms of employment⁽²⁾ by a significant degree. This note discusses some salient observations on the substantial increase in VPT employees.

At 245 300 in 2017, the number of VPT employees accounted for 7% of total employment (**Chart 1a**), compared to only 2% in 1997. Despite the ups and downs in economic cycles, the number of VPT employees generally stayed on the rise over the past 20 years, but the extent of increase differed across age groups. Mature VPT employees (aged 50 and above) registered the most significant increase, from only 12 400 in 1997 to 109 900 (almost nine-fold) in 2017. Young VPT employees (aged 15-24) likewise witnessed a visible increase, from 7 900 to 52 600. For the prime working age group (aged 25-49), the increase in number of VPT employees from 44 200 in 1997 to 82 700 in 2017 was also rather sizeable, albeit less drastic in percentage terms. As a result, the ratios of VPT employees to employment (referred as VPT ratios hereafter) of different age groups rose by various degrees over the past 20 years (**Chart 1b**).

Chart 1a: Number of VPT employees and its share in total employment

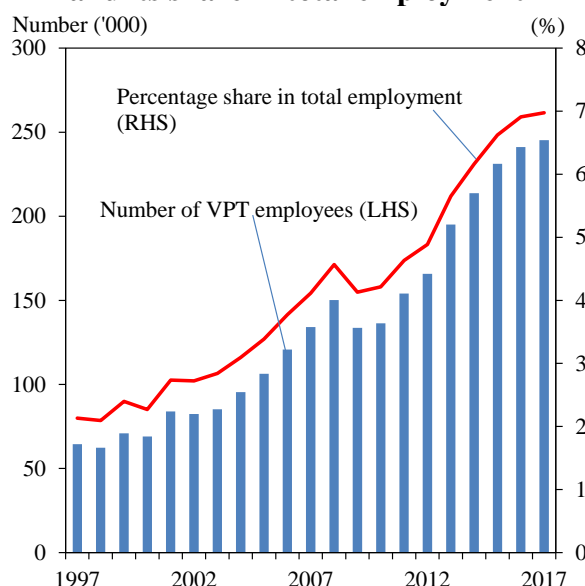
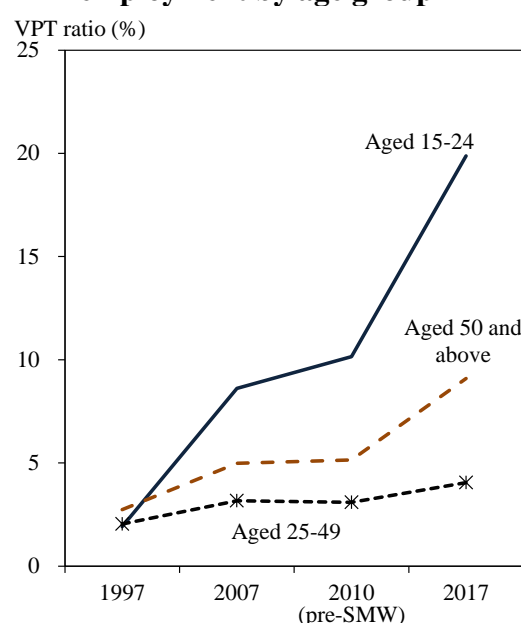


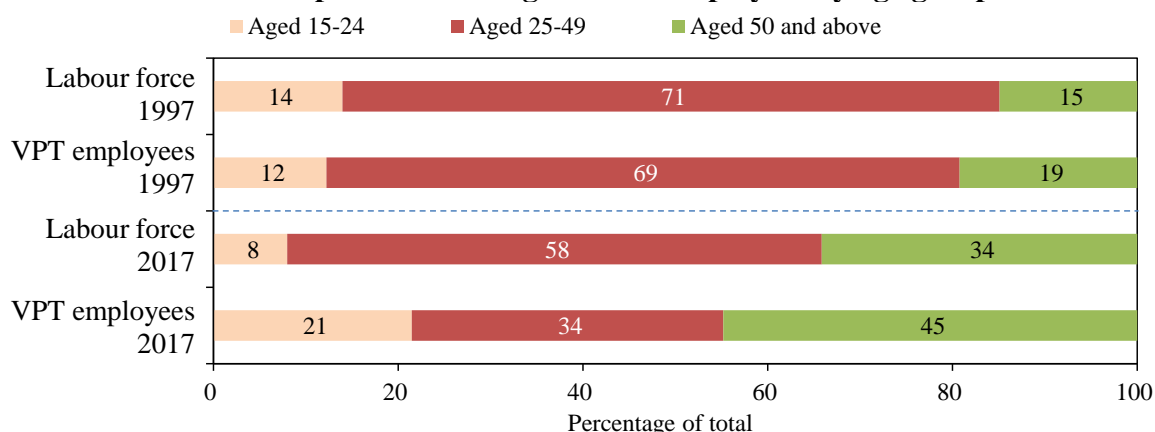
Chart 1b: Share of VPT employees in employment by age group



Source: General Household Survey, Census and Statistics Department.

The different extent of increases across age groups mentioned above can also be seen from the compositional change in the VPT workforce. As shown in **Chart 2**, the share of mature VPT employees in all VPT employees increased markedly from 19% in 1997 to 45% in 2017. Youths became a larger group within VPT employees as well, despite their dwindling share in the total labour force.

- (1) Charts and statistics in this article are based on the General Household Survey (GHS) conducted by the Census and Statistics Department. According to GHS, voluntary part-time employees refer to employees working less than 35 hours voluntarily during the 7 days before enumeration for reasons other than vacation and underemployment. All charts and statistics in this article exclude foreign domestic helpers.
- (2) Other forms of employment include full-time or underemployed employees, self-employed, employers and unpaid family workers.

Box 5.1 (Cont'd)**Chart 2: Compositional change of VPT employees by age group**

Source: General Household Survey, Census and Statistics Department.

It is worth noting that for both the prime working age and mature persons, the shares of population⁽³⁾ working as full-time employees went up along with the continued increase in VPT employees in the past 20 years. This suggested that VPT employment was complementary to full-time employment, and contributed to the increase in overall employment over the period. As for youths, the share of population engaging in full-time employment fell between 1997 and 2017, but this was mainly due to enhanced availability of local tertiary education.

Reasons behind the increase in VPT employees

The reasons behind the significant increase in mature VPT employees are manifold. These days mature persons generally have better health conditions and are much better educated, allowing them to have greater autonomy in shaping the mode of working to meet their circumstances⁽⁴⁾ whilst also making the opportunity cost of not working higher. Yet many of them may face constraints for working on a full-time basis due to physical issues or family obligations. According to GHS, more than 70% of the mature male VPT employees in 2017 cited “permanent sickness, disablement, old age or partially retired” as the major reason of working less than 35 hours voluntarily (*Chart 3*), while more than half of the mature female VPT employees (56%) cited “too busy with housework”. The availability of part-time jobs had given these people an alternative way to participate in the workforce.

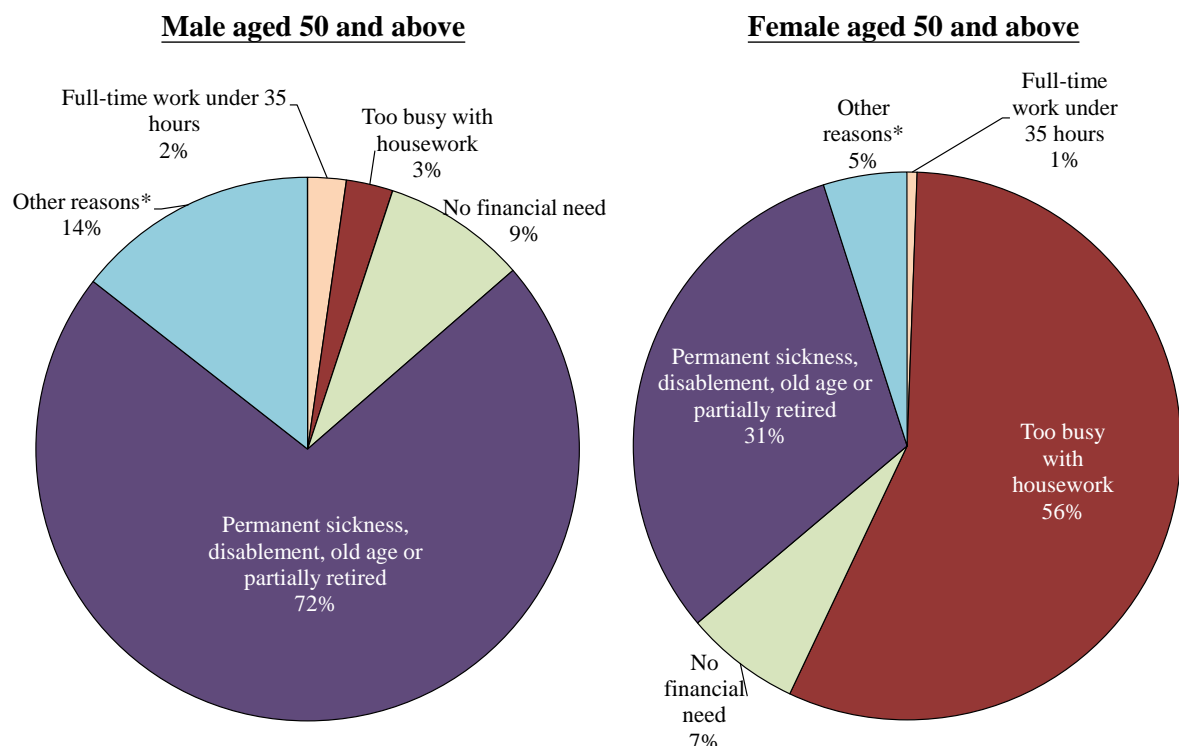
The brighter income prospects in recent years should also be relevant. The more attractive remuneration in the lower-skilled segment, in particular after the implementation of Statutory Minimum Wage (SMW) since 2011, might have enticed more mature persons to enter or re-enter the labour market.

(3) In this note, population is based on land-based non-institutional population in GHS.

(4) For a detailed discussion of the increase in elderly employment, see Box 6.1 in 2016 Economic Background and 2017 Prospects.

Box 5.1 (Cont'd)

Chart 3: Reasons why mature VPT employees were not available for further work in 2017



Note: (*) “Other reasons” in the above charts is a residual category after excluding “permanent sickness, disablement, old age or partially retired”, “too busy with housework”, “full-time work under 35 hours”, and “no financial need”. It covers reasons such as “too busy with personal business” and “injured on duty”, among others.

Source: General Household Survey, Census and Statistics Department.

As to young people, thanks to enhanced educational pathways and increased opportunities for further studies, the share of population aged 20-24 attending full-time courses more than doubled from 20% in 1997 to 45% in 2017, and that of population aged 15-19 also stayed on the rise. For youths who are taking full-time courses but also want to either gain working experience or ease financial burden, taking VPT jobs is a practical option. According to GHS, 80% of VPT employees aged 15-24 in 2017 indicated “too busy with school” as the main reason of not pursuing further work, suggesting that they were probably full-time students.

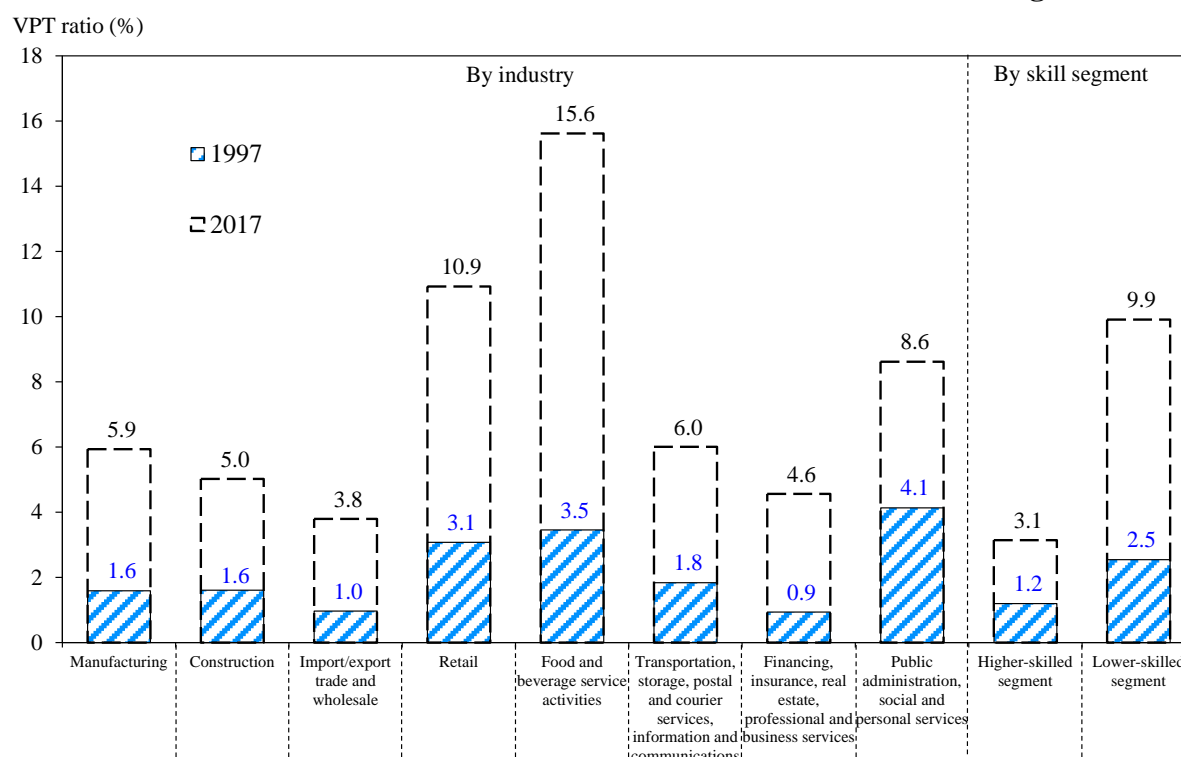
On the demand side, employers have generally become more receptive to engaging VPT employees over time. For some employers, a larger pool of part-time employees can provide greater flexibility in manpower adjustment along business cycles. In addition, VPT employees could probably be an alternate solution when employers faced difficulties in hiring full-time employees under tight manpower situation.

Box 5.1 (Cont'd)

Observation by skill and by industry segment

Generally speaking, jobs with a higher degree of divisibility tend to be more amenable to VPT employment. Reflecting this, the VPT ratio in the lower-skilled segment, which went up markedly from 2.5% in 1997 to 9.9% in 2017, was persistently higher than that in the higher-skilled segment (*Chart 4*). That said, part-time employment also became more common for higher-skilled jobs, with the VPT ratio more than doubling from only 1.2% in 1997 to 3.1% in 2017. The uptrend in VPT ratio was across industries as well. Specifically, the VPT ratios in the retail sector and food and beverage service activities sector rose markedly from just above 3% in 1997, to 10.9% and 15.6% respectively in 2017.

Chart 4: The increases in VPT ratio were across industries and skill segments



Note: Statistics in 1997 are based on Hong Kong Standard Industrial Classification (HSIC) version 1.1, while those in 2017 are based on HSIC version 2.0. Industry groups in the above chart are based on the closest classification of the two versions as far as possible.

Source: General Household Survey, Census and Statistics Department.

Conclusion

The availability of employment on a voluntary part-time basis has been an important way of unleashing Hong Kong's latent labour force over the past two decades. With the local labour force set to dwindle soon amid an ageing population, a more flexible working environment may encourage more people to stay longer in or re-join the labour force. The Government will continue to create a supportive working environment for people with diverse background and aspirations, so as to facilitate their participation in the labour force.

Profile of underemployment

5.9 Compared to the preceding quarter, the underemployment rate increased by 0.2 percentage point to a still-low level of 1.2% in the third quarter of 2018, while the number of underemployed persons went up by 5 900 to 47 300. Analysed by sector, relatively apparent increases in underemployment rates were found in the transportation, and food and beverage service activities sectors. Analysed by occupational category, the underemployment rate of the lower-skilled segment, which comprised a predominant portion of underemployed persons, went up by 0.2 percentage point to 1.7%, while that of the higher-skilled segment stayed low at 0.4%.

Profile of employment in establishments

5.10 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only up to June or the second quarter of 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 recorded a further visible increase of 1.4% over a year earlier to 2 871 500 in June on the back of sustained above-trend economic growth. Labour demand in the consumption- and tourism-related sectors continued to pick up, thanks to the buoyant performance of inbound tourism and resilient local consumption. Specifically, employment in the accommodation and food services sector grew at a much accelerated pace of 3.2%, while that in retail sector also picked up slightly to grow by 1.6%. Appreciable increases were also seen in human health services (up 3.4%), and professional and business services (excluding cleaning and similar services) (up 3.3%). Yet, the secular downtrend in manufacturing employment continued (down 3.8% year-on-year), while employment in cleaning and similar services (down 1.6%) and import/export trade and wholesale (down 0.6%) also decreased. Analysed by establishment size, employment in large enterprises and *small and medium-sized enterprises (SMEs)*⁽⁷⁾ both increased by 1.4% in June 2018 over a year earlier. As for the civil service, employment grew further by 2.1%.

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>	<u>Jun</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)	537 700 (-0.6)
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)	272 100 (1.6)
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)	290 600 (3.2)
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)	179 800 (1.2)
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)	108 200 (1.5)
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)	744 700 (2.2)
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)	521 400 (2.1)
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)	89 800 (-3.8)
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)	116 100 (2.9)
<i>All establishments surveyed in the private sector^(b)</i>	<i>2 842 400 (1.0)</i>	<i>2 836 500 (1.0) <0.3></i>	<i>2 831 400 (0.8) <§></i>	<i>2 843 800 (1.0) <0.5></i>	<i>2 857 900 (1.0) <0.2></i>	<i>2 867 400 (1.1) <0.4></i>	<i>2 871 500 (1.4) <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>	<i>171 300 (2.1)</i>

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

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

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

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

() % change over a year earlier.

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

§ Change less than 0.05%.

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

Vacancies

5.12 On the back of tightening labour market conditions, the number of job vacancies in private sector establishments increased notably by 13.8% year-on-year to 79 200 in June 2018.

5.13 Vacancies in most of the selected industries recorded further year-on-year increases in June 2018. In particular, robust increases in vacancies were observed in human health services (up 111%), arts, entertainment and recreation (up 53.5%), transportation, storage, postal and courier services (up 30.9%), residential care and social work services (up 22.6%), and information and communications (up 19.9%). On the other hand, vacancies in construction sites (covering manual workers only) plummeted by 61.5%, but the concurrent employment gain in this segment conceivably signalled that some previous vacancies had been filled. Meanwhile, the sector of cleaning and similar services recorded a modest decrease in job openings (down 1.4%). Analysed by occupational category, vacancies in the higher-skilled and lower-skilled segments registered similar increases, by 14.0% and 13.7% respectively. Analysed by the size of establishment, large enterprises saw a faster increase of 17.5% in vacancies, while SMEs registered an 8.1% increase. As for the civil service, the number of job openings rebounded by 5.9% to 8 920.

5.14 The manpower situation continued to tighten in June 2018. The ratio of job vacancies per 100 unemployed persons edged up further from 69 in March 2018 to 70 in June 2018, notably higher than the year-ago level of 55. Specifically, the ratio of the higher-skilled segment increased from 90 a year earlier to 102 in June 2018, and that of the lower-skilled segment rose appreciably from 53 to 73 over the same period. Manpower shortage was rather acute in many sectors. As an illustration, the ratios of job vacancies per 100 unemployed persons exceeded 100 in many sectors in June 2018, including the residential care and social work services, human health services, accommodation services, education, cleaning and similar services, arts, entertainment and recreation, financing and insurance, real estate, and food and beverage services sectors.

Table 5.7 : Vacancies by major economic sector

	<u>Number of vacancies</u>							Vacancy rate in <u>Jun 2018</u> (%)
	<u>Annual Average</u>	<u>2017</u>					<u>2018</u>	
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	
Import/export trade and wholesale	7 400 (5.9)	7 530 (8.8)	7 320 (5.5)	7 610 (8.3)	7 150 (1.0)	7 600 (0.8)	7 780 (6.2)	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)	7 980 (12.7)	2.8
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)	14 360 (8.6)	4.7
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)	4 660 (30.9)	2.5
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)	3 250 (19.9)	2.9
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)	20 160 (8.7)	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)	17 250 (31.4)	3.2
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)	2 950 (28.9)	3.2
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)	580 (-61.5)	0.5
<i>All establishments surveyed in the private sector^(b)</i>	<i>71 310 (3.7)</i>	<i>70 460 (0.2)</i>	<i>69 590 (2.0)</i>	<i>71 150 (2.6)</i>	<i>74 040 (10.3)</i>	<i>76 880 (9.1)</i>	<i>79 200 (13.8)</i>	<i>2.7</i>
		<i><0.9></i>	<i><-0.9></i>	<i><3.8></i>	<i><5.8></i>	<i><0.3></i>	<i><3.5></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>8 920 (5.9)</i>	<i>4.9</i>

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

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

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

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

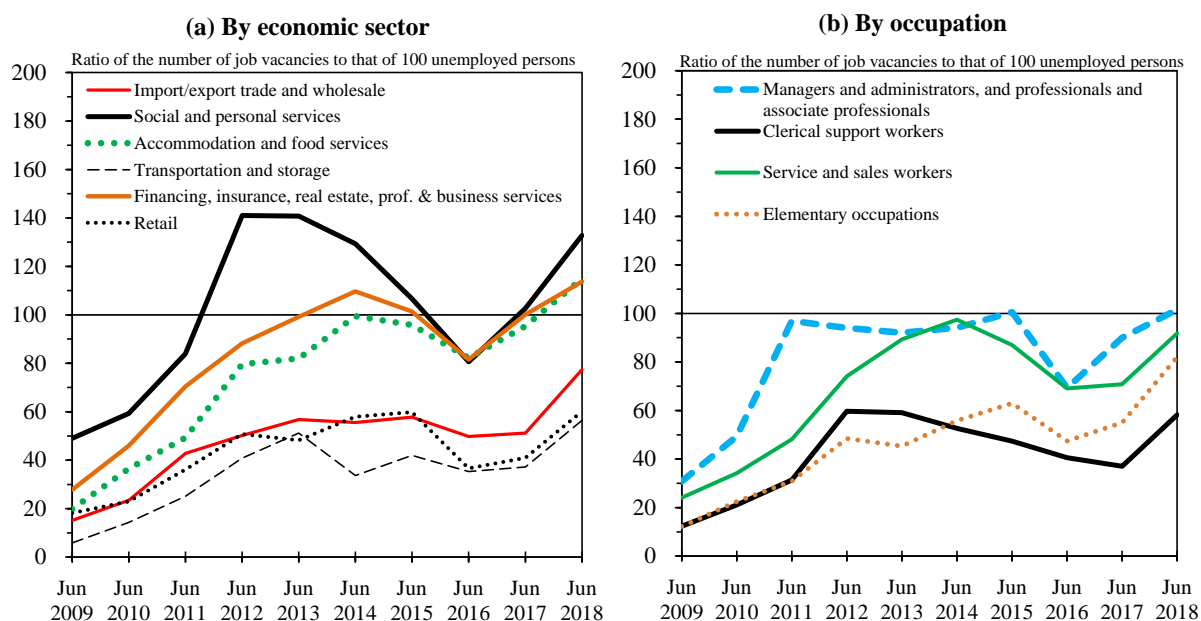
() % change over a year earlier.

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

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

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

Diagram 5.5 : Manpower situation tightened further in June 2018



5.15 The vacancy rate for private sector establishments, measured in terms of the percentage of job vacancies to total employment opportunities, showed a further marginal increase, from 2.6% in March 2018 to 2.7% in June 2018, which was 0.3 percentage point higher than in June 2017. Most of the sectors recorded higher vacancy rates as compared to a year earlier, with visible increases seen in arts, entertainment and recreation, human health services, and residential care and social work services sectors.

5.16 The vacancy registration figures compiled by the Labour Department (LD), despite its smaller sample size, may provide some hints on the latest developments in the labour market. The number of private sector job vacancies registered at LD averaged 127 900 per month in the third quarter of 2018. While the figure was broadly stable on a year-on-year comparison, it was 44.7% higher than the average for the 10-year period 2008-2017.

Wages and earnings

5.17 Wages continued to record solid growth on the back of favourable labour market conditions. The *wage index*, which covers regular payment to employees at the supervisory level or below, increased by 3.8% year-on-year in June 2018. After adjusting for inflation⁽⁸⁾, the real wage index rose by 1.2%.

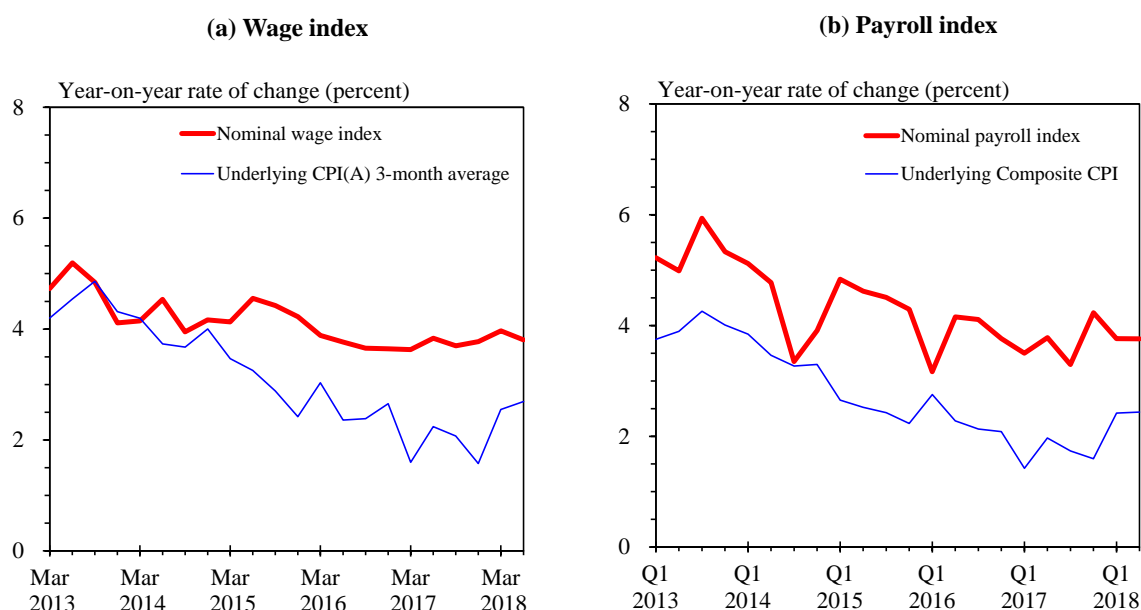
5.18 Nominal wages posted further gains across all selected economic sectors and occupations in June, with relatively notable wage gains seen in the accommodation and food service activities (up 4.7% year-on-year), professional and business services (up 4.5%), and real estate leasing and maintenance management (up 4.4%) sectors. Analysed by occupation, service workers (up 4.6%), miscellaneous non-production workers (up 4.5%), and craftsmen (up 4.3%) recorded relatively appreciable wage growth during the period.

5.19 According to the Salary Indices for Managerial and Professional Employees, compensation among workers at the upper end of the employment spectrum coherently went up further. The Salary Index covering staff remaining in the same occupation and the same company over the period increased markedly by 4.8% in nominal terms or 2.6% in real terms in June 2018 over a year earlier. The broader-based index, which also includes the newly recruited and promoted employees, recorded an increase of 3.5% in nominal terms or 1.2% in real terms.

5.20 *Labour earnings*⁽⁹⁾, as measured by the index of payroll per person engaged, including overtime pay, discretionary bonuses and other irregular payments, likewise sustained a solid increase of 3.8% in the second quarter of 2018. After adjusting for inflation, real earnings improved by 1.6%.

5.21 Labour earnings generally improved across sectors. In the second quarter, relatively visible increases in earnings were observed in the accommodation and food service activities (up 5.0% year-on-year), real estate activities (up 4.5%), and professional and business services (up 4.4%) sectors.

Diagram 5.6 : Wages and earnings sustained solid year-on-year growth



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.

5.22 More recent statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, indicated that the *average monthly employment earnings*⁽¹⁰⁾ of full-time employees (excluding foreign domestic helpers) of the lowest-three-decile group stayed on the rise, up by 4.2% in the third quarter of 2018 over a year earlier, translating into a real improvement of 1.3% after discounting inflation. For the overall income situation, riding on the solid employment and labour earnings growth in the past year or so, the median monthly household income (excluding foreign domestic helpers) increased markedly by 8.7% in the third quarter of 2018 over a year earlier, representing an increase of 6.1% in real terms after netting out inflation.

Highlights of labour-related measures and policy developments

5.23 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job-seekers on the spot. In the first three quarters of 2018, LD organised 15 large-scale job fairs in various districts. A total of 458 participating organisations offered more than 37 200 job opportunities in the retail, catering, property management, transport and other industries. There were also 22 training bodies joining the job fairs to introduce job-related training courses and accept applications on the spot. Apart from large-scale job fairs, district-based job fairs are organised at LD's job centres from time to time to assist job-seekers in finding employment. Recruitment activities are also staged by catering, retail and construction employers at the three industry-based recruitment centres regularly for interviewing job-seekers on the spot.

5.24 Adopting an evidence-based approach, the Minimum Wage Commission (MWC) reviewed the Statutory Minimum Wage (SMW) rate having regard to thorough analyses and assessment of the relevant social, economic and employment data, information from researches and/or surveys as well as the views of stakeholder groups and the community received during MWC's consultation exercise completed in June 2018. MWC has completed the review and submitted its recommendation report to the Chief Executive in Council in October.

5.25 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 (CPIs) 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. The CPI(C), meanwhile, reflects consumer prices for the relatively high expenditure group and is thus used as the price deflator for salary of managerial and professional employees.
- (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

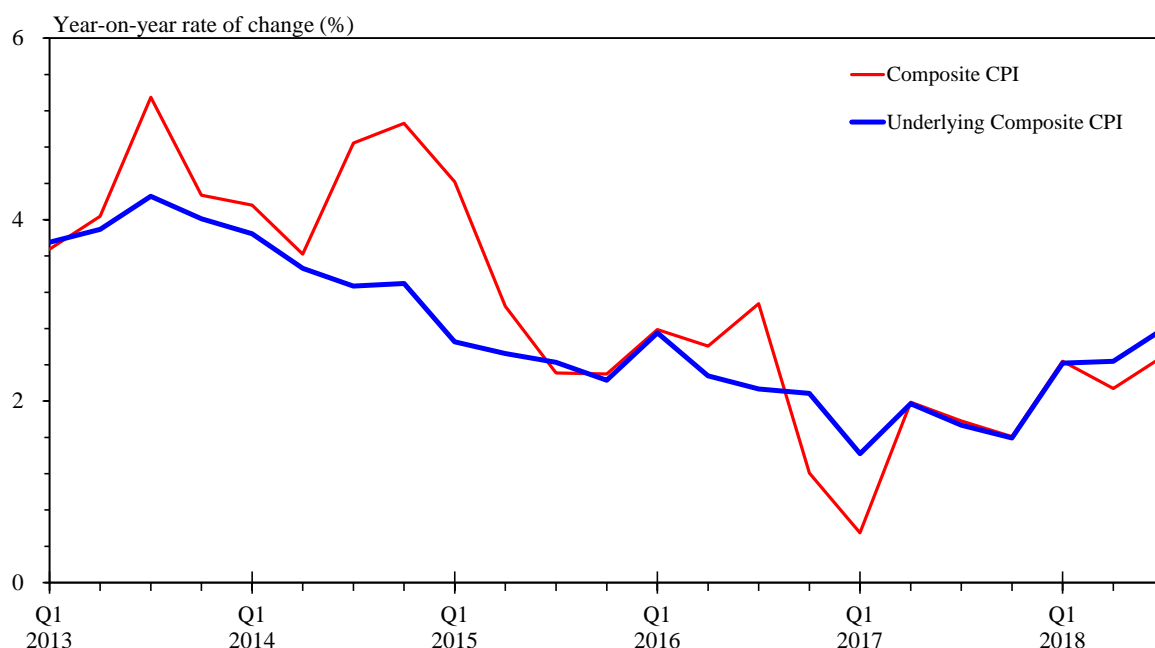
- *Pressures on consumer prices continued to build up in the third quarter of 2018, as the economy had expanded at an above-trend rate for eight consecutive quarters. The year-on-year increase in the underlying Composite Consumer Price Index (Composite CPI)⁽¹⁾, which nets out the effects of the Government's one-off relief measures, was 2.8%, up from 2.4% in the second quarter. The headline Composite CPI inflation rate likewise rose from 2.1% to 2.5% over the period.*
- *Domestically, the rises in fresh-letting residential rentals over the past year or so continued to feed through to consumer price inflation in the third quarter. Special factors in September, including the upward adjustment in public housing rentals and a reversion to increase in school fees as the effects of the government subsidy schemes introduced a year earlier dissipated, also contributed to the higher consumer price inflation in the third quarter as a whole. Local cost pressures on factor inputs, while still largely contained, have turned more visible. While wages and earnings continued to register solid gains amid a tight labour market, rental pressures faced by businesses, albeit broadly moderate, edged up against the broad uptrend in rentals of retail premises and offices.*
- *External price pressures largely held steady in the third quarter. While the inflation rates in many of our major import suppliers continued to inch up⁽²⁾, the impacts were largely offset by the appreciation of the Hong Kong dollar along with the US dollar. The further increase in international oil prices has added to the external price pressures, but only to a limited extent given the small share of fuels in overall imports. Overall, import prices continued to record a moderate year-on-year increase in the third quarter.*

Consumer prices

6.1 Pressures on consumer prices continued to build up in the third quarter of 2018, as the pace of economic growth had been above-trend for eight consecutive quarters. Domestically, the rises in fresh-letting residential rentals over the past year or so continued to feed through, leading to faster year-on-year increases in the private housing rental components of the underlying consumer price indices. Local cost pressures on factor inputs, while still largely contained, have turned more visible. Wages and earnings continued to register solid gains, though sustained labour productivity growth provided some alleviation. Rental pressures faced by businesses, albeit broadly moderate, edged up against the broad uptrend in rentals of retail premises and offices. Meanwhile, external price pressures largely held steady. While the inflation rates in many of our major import suppliers continued to inch up, the impacts were largely offset by the appreciation of the Hong Kong dollar along with the US dollar. The further increase in international oil prices has added to the external price pressures, but only to a limited extent given the small share of fuels in overall imports. Import prices continued to record a moderate year-on-year increase in overall terms in the third quarter.

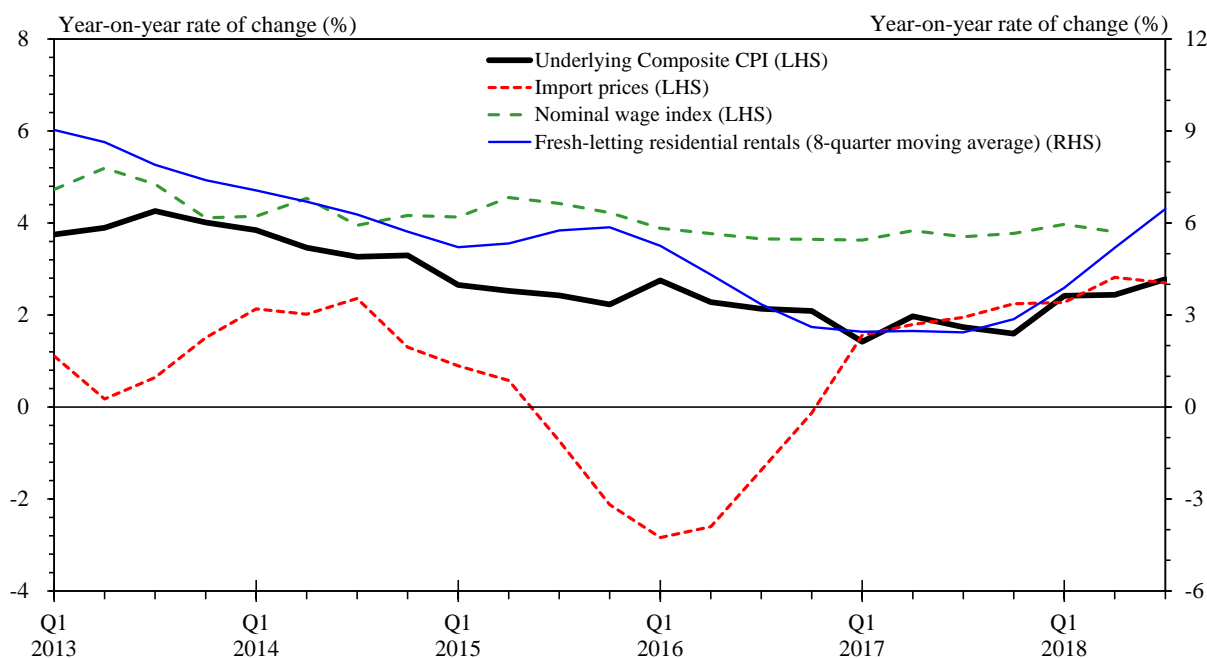
6.2 Underlying consumer price inflation, in terms of the year-on-year rate of change in the underlying Composite CPI which nets out the effects of the Government's one-off relief measures, averaged 2.8% in the third quarter, up from 2.4% in the previous quarter. In particular, it went up to 3.1% in September from 2.7% and 2.6% respectively in July and August, mainly on account of special factors including the upward adjustment in public housing rentals and a reversion to increase in school fees as the effects of the government subsidy schemes introduced a year earlier dissipated. Likewise, headline Composite CPI inflation rose to 2.5% in the third quarter from 2.1% in the previous quarter. The headline inflation rate was lower than the underlying inflation rate in both the second and third quarters of 2018, thanks to the upward adjustment in the ceiling of the Government's rates concession starting from the second quarter.

Diagram 6.1 : Consumer price inflation went up in the third 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 : The sustained rises in fresh-letting residential rentals continued to pass through, and external price pressures largely held steady



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.

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
	H1	1.7	1.3	1.2	1.2	1.4
	H2	1.7	1.7	1.9	1.5	1.7
	Q1	1.4	0.5	0.1	0.6	0.9
	Q2	2.0	2.0	2.3	1.8	1.9
	Q3	1.7	1.8	2.1	1.6	1.6
	Q4	1.6	1.6	1.6	1.5	1.7
2018	H1	2.4	2.3	2.5	2.2	2.2
	Q1	2.4	2.4	2.6	2.4	2.4
	Q2	2.4	2.1	2.4	2.1	2.0
	Q3	2.8	2.5	2.8	2.4	2.2

(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
	Q3	0.5	0.5	0.7	0.5	0.4

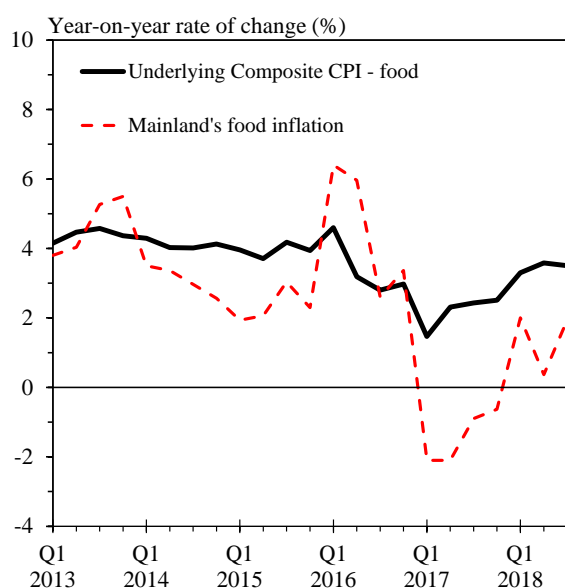
Notes : (a) Underlying consumer price inflation is calculated by netting out the effects of all relevant one-off measures introduced since 2007, including the waiver and Government's payment of public housing rentals, rates concession, suspension and subsequent abolition of Employees Retraining Levy,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

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

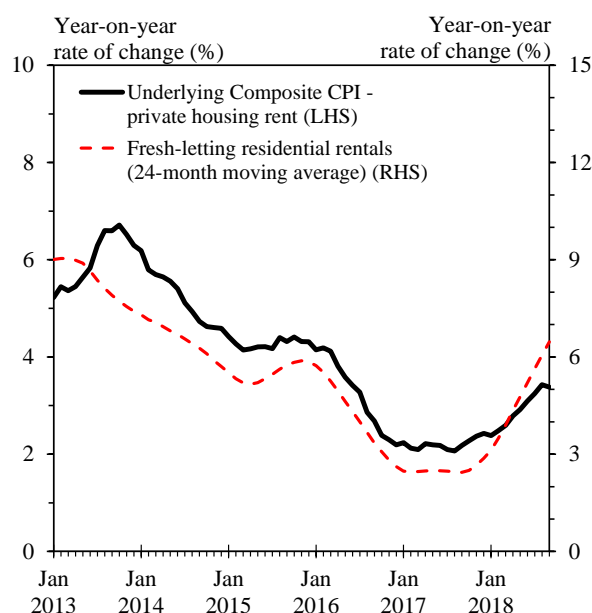
6.3 A component-based analysis also revealed further build-up of inflationary pressures in the third quarter. Private housing rent, the single component with the largest weighting in the Composite CPI, increased at a faster rate as the rises in fresh-letting residential rentals in the past year or so continued to feed through. Public housing rent also showed a larger increase for the third quarter as a whole, due to the upward adjustment in public housing rentals in September. Prices of food, the component with the largest weighting other than housing, continued to rise faster than the overall inflation rate. The increase in prices of miscellaneous services accelerated, mainly due to the larger increase in charges for package tours in the third quarter and a reversion to increase in school fees in September. Prices of clothing and footwear rose slightly faster, and so did prices of miscellaneous goods notwithstanding the drag from lower gold prices. On the other hand, prices of durable goods stayed on a downtrend.

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

(a) Prices of food continued to rise faster than average



(b) Private housing rentals saw faster increase



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

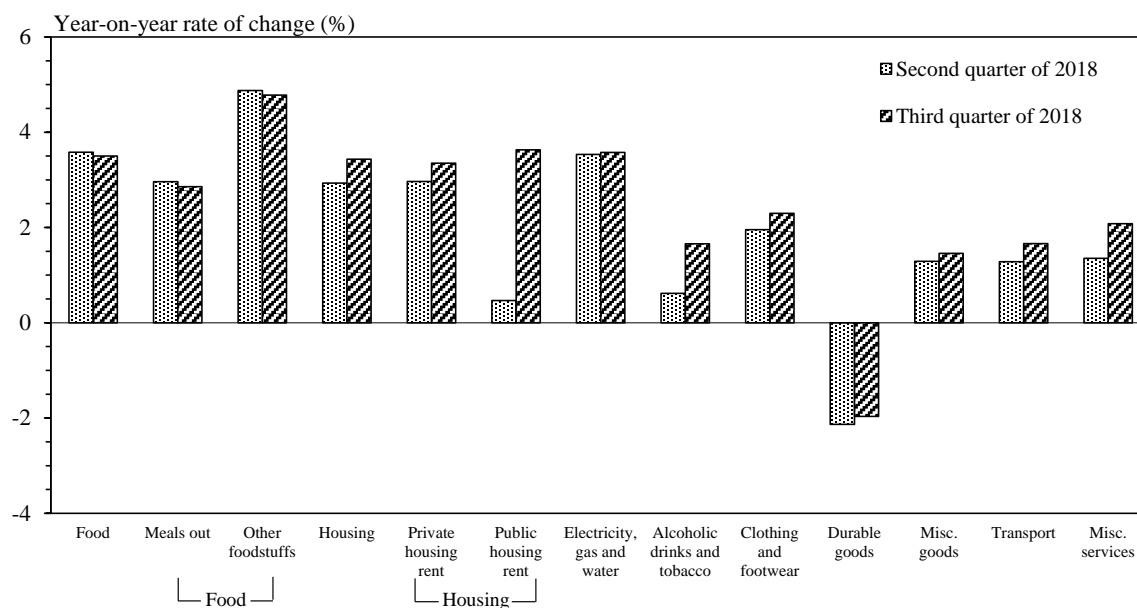
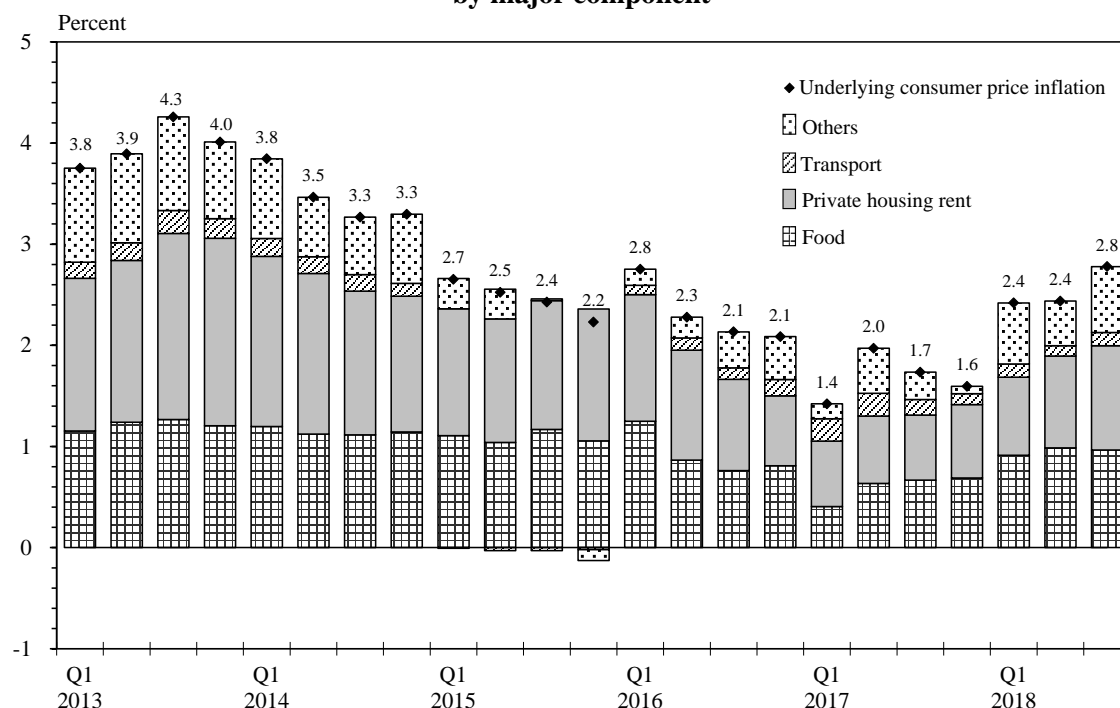


Diagram 6.4 (b) : Contribution to underlying consumer price inflation by major component



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>	<u>Q3</u>
Food	27.29	2.2	1.5	2.3	2.4	2.5	3.3	3.6	3.5
<i>Meals bought away from home</i>	17.74	2.7	2.8	2.7	2.7	2.7	3.0	3.0	2.9
<i>Other foodstuffs</i>	9.55	1.1	-1.1	1.4	2.0	2.2	3.8	4.9	4.8
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)	3.4 (2.5)
<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)	3.4 (2.3)
<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)	3.6 (4.1)
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)	3.6 (3.8)
Alcoholic drinks and tobacco	0.54	0.6	2.3	1.0	-0.2	-0.6	0.3	0.6	1.7
Clothing and footwear	3.21	-0.4	-1.9	-1.4	1.0	0.6	2.3	2.0	2.3
Durable goods	4.65	-3.2	-3.6	-3.6	-3.3	-2.3	-2.1	-2.1	-2.0
Miscellaneous goods	3.56	1.4	2.3	1.8	0.5	0.9	1.1	1.3	1.5
Transport	7.98	2.3	2.9	2.9	2.0	1.4	1.7	1.3	1.7
Miscellaneous services	15.81	0.9	0.6	2.2	0.9	-0.1	1.7	1.4	2.1
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)	2.8 (2.5)

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.

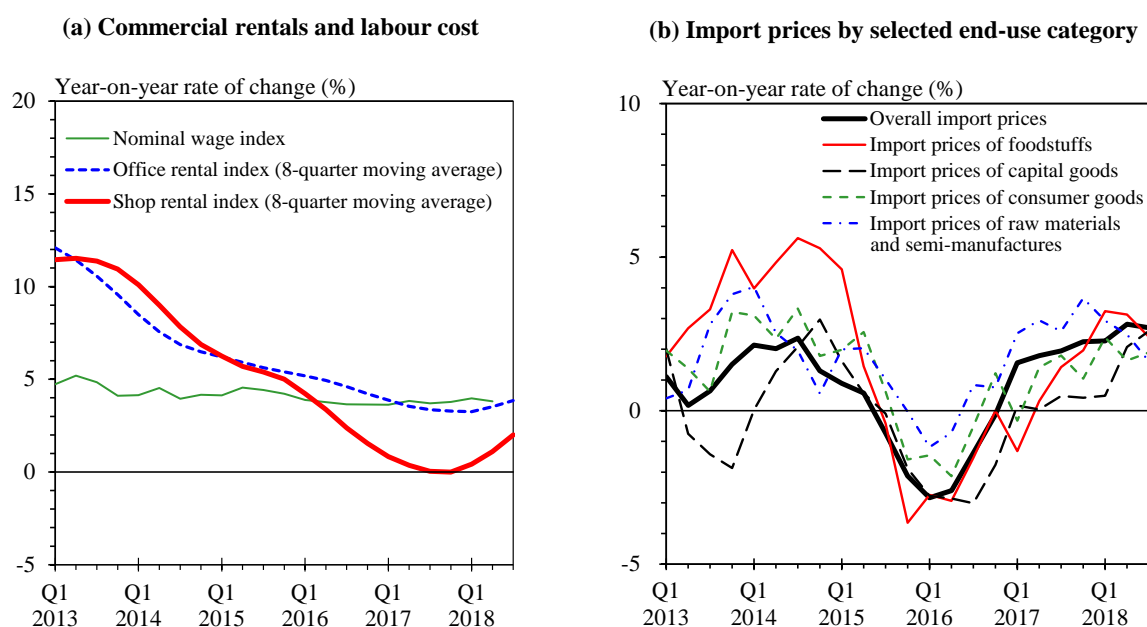
() Figures in brackets represent the headline rates of change before netting out the effect of Government's one-off relief measures.

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

Costs of factor inputs and import prices

6.4 Local cost pressures on factor inputs, while still largely contained, have turned more visible in the third quarter. Wages and earnings continued to register solid gains amid a tight labour market, though sustained labour productivity growth provided some alleviation on a unit-cost basis. Rental pressures faced by businesses, albeit broadly moderate, edged up against the broad uptrend in rentals of retail premises and offices. On an eight-quarter moving average basis that is more relevant to the actual rental costs faced by businesses, the year-on-year increases in rentals of retail premises and offices both ticked up slightly in the third quarter.

**Diagram 6.5 : Local cost pressures inched up,
while external price pressures largely held steady**



6.5 External price pressures largely held steady in the third quarter. While the inflation rates in many of our major import suppliers continued to inch up, the impacts were largely offset by the appreciation of the Hong Kong dollar along with the US dollar. The further increase in international oil prices has added to the external price pressures, but only to a limited extent given the small share of fuels in overall imports. Overall, import prices rose moderately further by 2.7% year-on-year in the third quarter, marginally lower than the 2.8% in the preceding quarter. The increases in import prices of all major end-use categories stayed largely moderate, except for those of fuels which surged further by 34.4%.

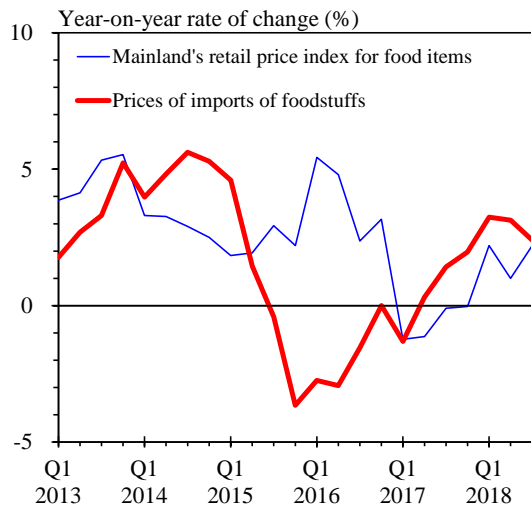
**Table 6.3 : Prices of imports by end-use category
(year-on-year rate of change (%))**

		<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
	H1	-0.5	0.6	2.7	31.5	0.1	1.7
	H2	1.7	1.4	3.1	19.1	0.4	2.1
	Q1	-1.3	-0.3	2.5	46.1	0.2	1.6
	Q2	0.3	1.4	2.9	19.8	*	1.8
	Q3	1.4	1.8	2.6	17.6	0.5	1.9
	Q4	2.0	1.0	3.7	21.0	0.4	2.2
2018	H1	3.2	2.0	2.7	23.3	1.3	2.6
	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
	Q3	2.4	1.9	1.6	34.4	2.6	2.7

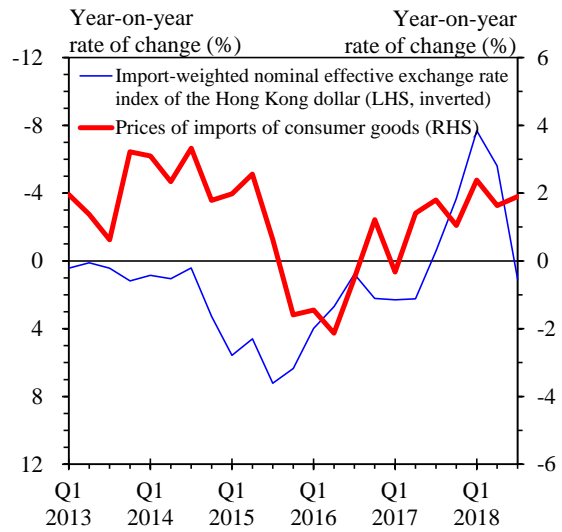
Note : (*) Change within $\pm 0.05\%$.

Diagram 6.6 : Import prices by end-use category

(a) Import prices of foodstuffs remained moderate

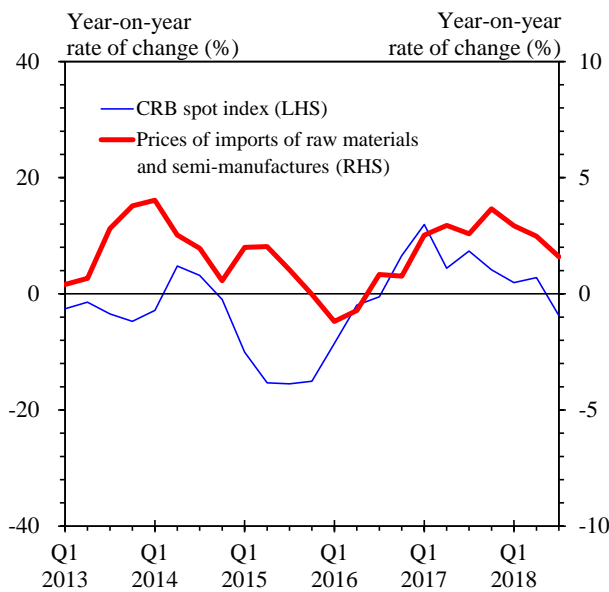


(b) Import prices of consumer goods continued to increase moderately

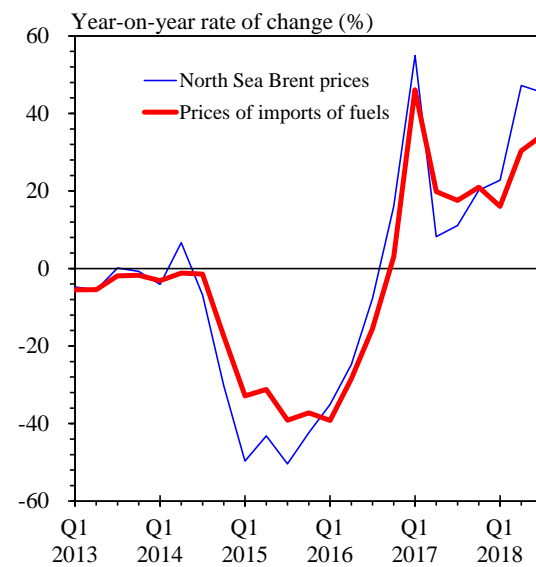


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Increase of import prices of raw materials and semi-manufactures remained modest



(d) Import prices of fuels surged further



Output prices

6.6 Output prices, as measured by the *Producer Price Indices*⁽³⁾, continued to record year-on-year increases in most of the selected sectors in the second quarter of 2018 amid favourable business conditions. Output prices for the manufacturing sector continued to rise steadily. Among the selected service sectors, output prices for accommodation services staged a further sharp increase amid sustained strong growth in visitor arrivals. On the back of sturdy global demand and active regional trade flows, output prices for air transport kept increasing visibly, while those for courier services and land transport showed accelerated increases. Output prices for water transport continued to rise, though at a decelerated pace due to a high base of comparison. On the other hand, due to intense competition and technological advancement, output prices for telecommunications services continued to fall.

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>	<u>Q2</u>
Manufacturing	1.3	3.8	4.2	3.7	3.7	3.5	3.8	3.7
Selected service sectors ^(a)								
Accommodation services	-2.1	2.0	1.6	1.5	2.3	2.6	4.5	4.7
Land transport	1.6	1.0	1.8	1.2	0.5	0.4	0.7	1.2
Water transport	-12.4	3.3	-1.0	5.2	5.6	3.6	3.6	0.6
Air transport	-9.9	2.4	-3.5	3.4	4.2	5.6	9.7	9.6
Telecommunications	-2.8	-3.2	-2.9	-2.5	-2.9	-4.4	-3.5	-2.3
Courier services	2.1	3.8	3.6	2.2	2.0	7.4	3.3	3.9

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

GDP deflator

6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*⁽⁴⁾ rose by 3.7% in the third quarter from a year ago, slower than the 4.0% increase in the preceding quarter. The *terms of trade*⁽⁵⁾ slightly improved from a year earlier as export prices increased at a slightly faster pace than import prices. The year-on-year increase in domestic demand deflator was 3.5% in the third quarter, marginally down from the 3.6% in the second quarter.

Diagram 6.7 : GDP deflator

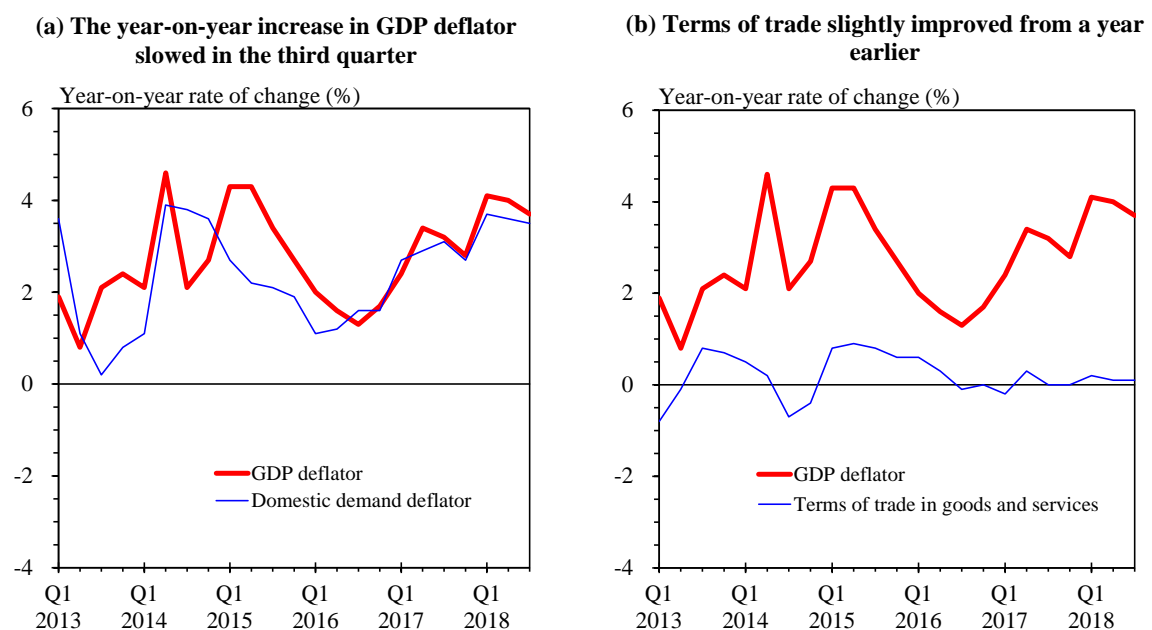


Table 6.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))

	<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> [#]	<u>Q3</u> ⁺
Private consumption expenditure	1.5	2.4	1.9	2.1	2.7	2.8	4.3	3.6	2.9
Government consumption expenditure	3.7	2.4	3.8	2.4	1.8	1.6	1.6	3.0	3.8
Gross domestic fixed capital formation	-0.1	4.8	5.4	6.1	4.8	3.2	2.8	4.1	5.1
Total exports of goods ^{&}	-1.4	1.6	1.5	1.5	1.6	2.1	2.7	2.5	2.0
Imports of goods ^{&}	-1.8	1.8	1.8	1.5	1.6	2.1	2.6	2.6	2.5
Exports of services ^{&}	-2.0	2.8	1.7	2.4	2.8	4.2	5.3	5.2	5.2
Imports of services ^{&}	-1.3	1.9	0.7	0.1	2.5	4.0	5.8	4.4	1.6
Gross Domestic Product	1.7	2.9	2.4	3.4	3.2	2.8	4.1	4.0	3.7
			<0.9>	<1.1>	<0.3>	<0.5>	<2.1>	<1.0>	<0.2>
Total final demand ^{&}	-0.6	2.2	1.9	2.0	2.2	2.5	3.4	3.2	2.8
Domestic demand	1.4	2.8	2.7	2.9	3.1	2.7	3.7	3.6	3.5
Terms of trade in goods and services ^{&}	0.2	0.1	-0.2	0.3	*	*	0.2	0.1	0.1

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

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

(#) Revised figures.

(+) Preliminary figures.

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

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

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 (unless specified) 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>	<u>Q3</u>
Selected developed economies									
US ^	1.7	1.6	1.8	1.6	1.5	1.6	1.7	1.9	2.0
Canada	1.4	1.6	1.9	1.3	1.4	1.8	2.1	2.3	2.7
EU	0.3	1.7	1.8	1.7	1.7	1.7	1.5	1.8	2.2
Japan	-0.1	0.5	0.3	0.4	0.6	0.6	1.3	0.6	1.1
Selected major emerging economies									
Mainland China	2.0	1.6	1.4	1.4	1.6	1.8	2.1	1.8	2.3
Russia	7.1	3.7	4.6	4.2	3.4	2.6	2.2	2.4	3.0
India	4.9	3.3	3.6	2.2	3.0	4.6	4.6	4.8	3.9
Brazil	8.7	3.4	4.9	3.6	2.6	2.8	2.8	3.3	4.4
Selected Asian economies									
Hong Kong	2.4	1.5	0.5	2.0	1.8	1.6	2.4	2.1	2.5
Singapore	-0.5	0.6	0.6	0.8	0.4	0.5	0.2	0.3	0.7
Taiwan	1.4	0.6	0.8	0.6	0.7	0.4	1.6	1.7	1.7
Korea	1.0	1.9	2.1	1.9	2.3	1.5	1.3	1.5	1.6
Malaysia	2.1	3.8	4.2	3.8	3.6	3.5	1.8	1.3	0.5
Thailand	0.2	0.7	1.3	0.1	0.4	0.9	0.6	1.3	1.5
Indonesia	3.5	3.8	3.6	4.3	3.8	3.5	3.3	3.3	3.1
Philippines	1.3	2.9	2.9	2.8	2.7	3.0	3.9	4.8	6.3
Vietnam	2.7	3.5	5.0	3.3	3.1	2.7	2.8	3.8	4.1
Macao	2.4	1.2	0.9	0.9	1.3	1.8	2.5	3.0	3.4

Note: (^) Refers to the core PCE deflator.

- (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.

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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> Q4 [#]	Q1 [#]	<u>2018</u> Q2 [#]	Q3 [#]
Private consumption expenditure	1,502,768	1,593,091	1,649,664	1,782,567	477,768	476,424	489,758	475,197
Government consumption expenditure	214,216	231,263	247,615	262,116	65,776	71,178	67,565	70,726
Gross domestic fixed capital formation	530,916	537,205	536,010	581,018	163,307	143,310	152,801	157,984
Building and construction	244,047	262,780	283,444	304,842	80,296	81,093	76,442	77,199
Costs of ownership transfer Machinery, equipment and intellectual property products	43,967	45,846	45,131	68,294	20,771	18,550	22,003	15,723
Changes in inventories	7,473	-20,580	447	11,065	5,886	-1,857	2,045	12,458
Total exports of goods ^{&}	3,986,769	3,889,225	3,892,886	4,191,267	1,155,569	1,016,870	1,067,278	1,176,501
Imports of goods ^{&}	4,237,700	4,066,527	4,022,579	4,377,940	1,201,380	1,093,822	1,159,031	1,229,899
Exports of services ^{&}	829,085	808,948	764,839	811,396	216,240	230,650	205,590	225,150
Imports of services ^{&}	573,522	574,345	578,106	600,506	161,604	155,742	149,515	162,136
GDP	2,260,005	2,398,280	2,490,776	2,660,983	721,562	687,011	676,491	725,981
<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	733,894	711,171	733,081	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	2,084,546	1,936,575	1,985,037	2,118,016
Total final demand excluding re-exports ^(a)	4,116,670	4,139,786	4,190,864	4,491,147	1,225,521	1,167,095	1,167,495	1,230,481
Domestic demand	2,255,373	2,340,979	2,433,736	2,636,766	712,737	689,055	712,169	716,365
Private	1,929,514	1,991,436	2,062,392	2,242,869	612,625	578,105	613,736	615,354
Public	325,859	349,543	371,344	393,897	100,112	110,950	98,433	101,011
External demand	4,815,854	4,698,173	4,657,725	5,002,663	1,371,809	1,247,520	1,272,868	1,401,651

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:	
					Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]	10 years 2007 to 2017 [#]	5 years 2012 to 2017 [#]
Private consumption expenditure	3.3	4.8	2.0	5.5	6.3	8.8	6.0	5.2	4.1	4.0
Government consumption expenditure	3.1	3.4	3.3	3.4	3.2	3.9	4.3	3.3	3.0	3.2
Gross domestic fixed capital formation	-0.1	-3.2	-0.1	3.5	3.1	4.2	1.1	8.2	2.4	0.5
Building and construction	9.3	2.2	5.9	1.7	-2.6	1.9	-1.6	-0.3	4.3	2.9
Costs of ownership transfer	6.9	-8.3	-2.9	22.3	6.2	11.9	0.7	-1.0	-5.1	-3.5
Machinery, equipment and intellectual property products	-8.7	-7.7	-6.3	1.8	9.9	6.1	4.9	21.2	1.4	-2.2
Total exports of goods ^{&}	0.8	-1.7	1.6	5.9	3.4	5.2	4.6	5.0	3.0	2.9
Imports of goods ^{&}	1.5	-2.7	0.7	7.0	5.4	6.9	6.3	7.6	4.2	3.2
Exports of services ^{&}	1.6	0.3	-3.5	3.2	3.9	7.9	5.9	3.1	3.7	1.5
Imports of services ^{&}	-2.2	5.0	2.0	1.9	0.8	4.2	-0.1	3.4	0.3	0.9
GDP	2.8	2.4	2.2	3.8	3.4	4.6	3.5	2.9	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	4.5	5.4	4.2	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	4.3	5.8	4.9	5.6	3.3	2.9
Total final demand excluding re-exports ^(a)	0.6	0.1	1.5	4.4	4.5	5.6	4.6	5.7	2.9	2.1
Domestic demand	2.9	1.6	2.6	5.4	6.0	6.2	4.9	7.5	3.6	3.3
Private	2.6	1.3	2.5	5.8	7.2	6.4	5.5	8.6	3.4	3.3
Public	4.6	2.9	3.0	2.9	-1.0	5.1	1.3	1.7	4.6	3.4
External demand	1.0	-1.4	0.7	5.5	3.5	5.6	4.8	4.7	3.2	2.7

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

	<u>2013</u>		<u>2014</u>		<u>2015</u>		<u>2016[#]</u>		<u>2017[#]</u>	
	\$Mn	%	\$Mn	%	\$Mn	%	\$Mn	%	\$Mn	%
	share		share		share		share		share	
Agriculture, fishing, mining and quarrying	1,225	0.1	1,496	0.1	1,630	0.1	1,898	0.1	1,736	0.1
Manufacturing	30,156	1.4	27,885	1.3	26,716	1.1	26,844	1.1	27,326	1.1
Electricity, gas and water supply, and waste management	35,119	1.7	35,636	1.6	34,653	1.5	34,414	1.4	35,086	1.4
Construction	83,288	4.0	96,205	4.4	107,902	4.6	124,932	5.2	129,791	5.1
Services	1,948,292	92.9	2,044,750	92.7	2,154,541	92.7	2,229,568	92.2	2,363,222	92.4
<i>Import/export,</i>										
<i>wholesale and retail trades</i>	523,741	25.0	531,541	24.1	527,822	22.7	525,526	21.7	550,267	21.5
<i>Accommodation^(a) and</i>										
<i>food services</i>	75,413	3.6	78,725	3.6	78,134	3.4	79,682	3.3	82,909	3.2
<i>Transportation, storage,</i>										
<i>postal and courier services</i>	125,465	6.0	137,658	6.2	150,073	6.5	149,719	6.2	153,602	6.0
<i>Information and</i>										
<i>communications</i>	76,145	3.6	77,761	3.5	80,813	3.5	84,208	3.5	87,584	3.4
<i>Financing and insurance</i>	346,248	16.5	367,989	16.7	409,933	17.6	429,082	17.7	484,562	18.9
<i>Real estate, professional and</i>										
<i>business services</i>	225,789	10.8	239,434	10.9	252,714	10.9	266,139	11.0	275,569	10.8
<i>Public administration, social</i>										
<i>and personal services</i>	356,326	17.0	379,588	17.2	407,405	17.5	436,565	18.1	466,135	18.2
<i>Ownership of premises</i>	219,166	10.4	232,053	10.5	247,648	10.6	258,649	10.7	262,595	10.3
GDP at basic prices	2,098,080	100.0	2,205,972	100.0	2,325,443	100.0	2,417,657	100.0	2,557,161	100.0
Taxes on products	75,314	--	83,236	--	95,433	--	84,357	--	113,221	--
Statistical discrepancy (%)	-1.6	--	-1.3	--	-0.9	--	-0.5	--	-0.4	--
GDP at current market prices	2,138,305	--	2,260,005	--	2,398,280	--	2,490,776	--	2,660,983	--

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>	
							Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Agriculture, fishing, mining and quarrying	-3.2	4.9	-6.0	-6.8	-2.0	-0.5	-2.4	-2.1	-4.8	-3.6
Manufacturing	-0.8	0.1	-0.4	-1.5	-0.4	0.4	0.3	0.8	1.1	1.6
Electricity, gas and water supply, and waste management	1.4	-2.9	0.8	-2.6	-0.8	0.6	5.0	*	4.2	4.4
Construction	8.3	4.2	13.0	5.4	5.1	2.3	2.0	-2.6	3.5	-1.8
Services	1.8	2.7	2.5	1.7	2.3	3.5	3.6	3.4	4.4	3.8
<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>3.8</i>	<i>3.6</i>	<i>6.4</i>	<i>5.8</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>2.2</i>	<i>3.9</i>	<i>5.9</i>	<i>3.8</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>5.0</i>	<i>4.9</i>	<i>4.9</i>	<i>4.3</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>4.2</i>	<i>2.9</i>	<i>3.1</i>	<i>3.3</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>5.7</i>	<i>5.9</i>	<i>6.8</i>	<i>5.1</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>2.1</i>	<i>1.6</i>	<i>2.1</i>	<i>2.0</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>3.9</i>	<i>3.2</i>	<i>3.4</i>	<i>2.9</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>0.9</i>	<i>0.9</i>	<i>1.0</i>	<i>1.0</i>
Taxes on products	-10.4	-6.4	6.7	7.1	-9.0	12.5	-1.2	10.0	15.6	4.7
GDP in chained (2016) dollars	1.7	3.1	2.8	2.4	2.2	3.8	3.6	3.4	4.6	3.5

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>	
						Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Current account ^(a)	32,475	31,453	79,553	98,664	114,946	59,733	15,985	16,564	15,591
Goods	-216,592	-250,931	-177,302	-129,693	-186,673	-16,567	-45,811	-76,952	-91,753
Services	229,424	255,563	234,603	186,733	210,890	53,283	54,636	74,908	56,075
Primary income	40,519	46,607	44,376	62,593	110,734	28,182	12,332	24,160	56,590
Secondary income	-20,876	-19,786	-22,124	-20,969	-20,005	-5,165	-5,172	-5,552	-5,321
Capital and financial account ^(a)	-86,308	-73,785	-128,642	-101,104	-155,044	-89,585	-32,013	-44,572	-45,878
Capital account	-1,609	-748	-216	-374	-646	-147	-366	-75	-838
Financial account	-84,699	-73,037	-128,426	-100,730	-154,397	-89,437	-31,647	-44,497	-45,039
Financial non-reserve assets	-26,810	66,052	153,570	-91,874	96,111	-33,836	41,847	29,288	-93,542
<i>Direct investment</i>	-50,250	-85,718	794,800	447,758	167,473	13,217	121,806	-19,745	68,101
<i>Portfolio investment</i>	-386,077	-64,384	-970,938	-469,591	305,014	-13,462	-13,650	-245,652	-158,118
<i>Financial derivatives</i>	54,661	118,359	99,178	36,327	39,646	10,997	19,685	-3,849	546
<i>Other investment</i>	354,856	97,795	230,531	-106,368	-416,022	-44,588	-85,995	298,535	-4,071
Reserve assets	-57,890	-139,089	-281,996	-8,856	-250,509	-55,601	-73,494	-73,786	48,503
Net errors and omissions	53,833	42,332	49,089	2,440	40,098	29,852	16,028	28,009	30,287
Overall Balance of Payments	57,890	139,089	281,996	8,856	250,509	55,601	73,494	73,786	-48,503

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>	
						Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
Total exports of goods	3,926,059	3,986,769	3,889,225	3,892,886	4,191,267	1,155,569	1,016,870	1,067,278	1,176,501
Imports of goods	4,142,651	4,237,700	4,066,527	4,022,579	4,377,940	1,201,380	1,093,822	1,159,031	1,229,899
Goods trade balance	-216,592 (-5.2)	-250,931 (-5.9)	-177,302 (-4.4)	-129,693 (-3.2)	-186,673 (-4.3)	-45,811 (-3.8)	-76,952 (-7.0)	-91,753 (-7.9)	-53,398 (-4.3)
Exports of services	812,640	829,085	808,948	764,839	811,396	216,240	230,650	205,590	225,150
Imports of services	583,216	573,522	574,345	578,106	600,506	161,604	155,742	149,515	162,136
Services trade balance	229,424 (39.3)	255,563 (44.6)	234,603 (40.8)	186,733 (32.3)	210,890 (35.1)	54,636 (33.8)	74,908 (48.1)	56,075 (37.5)	63,014 (38.9)
Exports of goods and services	4,738,699	4,815,854	4,698,173	4,657,725	5,002,663	1,371,809	1,247,520	1,272,868	1,401,651
Imports of goods and services	4,725,867	4,811,222	4,640,872	4,600,685	4,978,446	1,362,984	1,249,564	1,308,546	1,392,035
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>	8,825 <0.6>	-2,044 <-0.2>	-35,678 <-2.7>	9,616 <0.7>

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> Q4 [#]	<u>2017</u> Q1 [#]	<u>2018</u> Q2 [#]	<u>2018</u> Q3 [#]
<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	1,105,177	987,978	1,045,394	1,135,570
Imports of goods	4,394,928	4,471,810	4,289,991	4,240,000	4,586,052	1,255,717	1,143,416	1,213,623	1,286,546
Goods trade balance	-578,538 (-13.2)	-594,352 (-13.3)	-510,728 (-11.9)	-463,362 (-10.9)	-530,615 (-11.6)	-150,540 (-12.0)	-155,438 (-13.6)	-168,229 (-13.9)	-150,976 (-11.7)
Exports of services	1,058,584	1,079,989	1,052,355	1,010,316	1,066,446	295,817	288,165	260,309	297,676
Imports of services	467,214	481,005	484,326	489,914	511,614	136,452	134,771	127,758	137,084
Services trade balance	591,370 (126.6)	598,984 (124.5)	568,029 (117.3)	520,402 (106.2)	554,832 (108.4)	159,365 (116.8)	153,394 (113.8)	132,551 (103.8)	160,592 (117.1)
Exports of goods and services	4,874,974	4,957,447	4,831,618	4,786,954	5,121,883	1,400,994	1,276,143	1,305,703	1,433,246
Imports of goods and services	4,862,142	4,952,815	4,774,317	4,729,914	5,097,666	1,392,169	1,278,187	1,341,381	1,423,630
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>	8,825 <0.6>	-2,044 <-0.2>	-35,678 <-2.7>	9,616 <0.7>
<u>Rates of change in real terms (%)</u>									
Total exports of goods	6.5	0.8	-1.9	1.4	5.6	3.0	5.1	4.5	5.0
Imports of goods	7.2	0.9	-2.7	0.6	6.2	4.6	6.5	6.0	7.3
Exports of services	4.9	1.2	-0.3	-2.1	2.9	3.4	6.8	5.3	3.0
Imports of services	1.5	1.8	5.3	2.4	3.3	2.2	4.7	-0.3	3.3

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>	
							Q4	Q1	Q2	Q3
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All markets	3.6	3.2	-1.8	-0.5	8.0	3,875,898	6.8	9.7	9.0	9.0
Mainland of China	4.9	1.5	-2.1	0.4	8.4	2,105,829	6.0	12.6	11.3	11.1
United States	-2.1	3.1	0.2	-5.3	1.9	330,198	6.1	7.4	11.4	9.7
India	7.9	13.1	8.1	14.6	35.9	158,635	38.9	-6.3	-34.1	10.7
Japan	-6.1	-2.8	-6.6	-4.9	10.0	128,474	13.2	7.0	5.9	-6.3
Taiwan	-4.3	2.5	-18.0	14.6	19.9	89,371	-0.7	11.9	-0.7	-16.6
Vietnam	15.5	14.0	14.7	-5.8	10.3	79,632	7.7	0.1	7.5	15.5
Germany	-5.1	-1.7	-3.2	-5.1	10.8	73,912	21.3	12.4	13.2	-6.2
Netherlands	1.1	12.7	10.2	10.3	11.5	63,982	1.2	0.1	16.4	7.4
Singapore	4.7	2.2	-2.3	4.8	-0.4	61,023	-8.5	8.9	17.5	4.2
Korea	9.0	-2.7	-12.8	-0.6	4.9	56,672	5.9	-1.8	1.3	6.5
Rest of the world	5.4	7.6	-1.8	-3.3	3.8	728,169	4.8	9.2	12.8	9.7

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>			
	(% change)				(% change)	(\$Mn)	Q4	Q1	Q2	Q3
							(% change over a year earlier)			
All sources	3.8	3.9	-4.1	-0.9	8.7	4,357,004	8.5	10.6	10.4	11.5
Mainland of China	5.5	2.3	-0.1	-3.4	5.9	2,030,145	5.8	7.8	9.3	9.5
Taiwan	6.9	14.7	-8.6	6.4	12.9	329,678	16.2	15.1	14.8	3.0
Singapore	*	5.8	-5.7	6.4	10.1	288,107	-0.1	8.8	9.4	7.8
Japan	-8.1	0.9	-9.9	-5.2	2.7	253,394	0.6	0.5	6.2	5.7
Korea	3.4	10.6	-2.0	14.0	28.5	252,056	20.0	13.3	28.5	18.3
United States	7.4	*	-3.9	-2.0	3.4	213,737	0.9	6.2	3.3	16.1
Malaysia	4.7	16.7	-7.9	-3.7	26.8	114,877	62.0	97.9	80.3	78.6
India	6.7	10.0	-13.7	11.9	15.8	107,412	3.1	-12.3	-28.1	1.3
Thailand	6.4	13.7	-3.7	-2.7	8.5	89,641	8.3	4.2	5.8	8.8
Philippines	2.5	22.0	10.3	5.8	27.6	76,275	20.9	5.3	13.8	1.7
Rest of the world	3.2	-0.3	-10.6	-3.1	7.0	601,681	11.2	14.4	6.3	14.6

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>	
							Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
	(% change)				(% change)	(\$Mn)	(% change over a year earlier)			
Exports of services	6.4	2.0	-2.4	-5.5	6.1	811,396	8.2	13.5	11.5	8.4
Transport	-2.5	2.2	-6.8	-5.3	8.1	236,459	6.5	7.8	8.6	8.2
Travel	17.7	-1.5	-5.8	-9.0	1.8	259,544	5.1	15.9	13.9	7.4
Financial services	6.1	7.0	8.5	-6.8	13.0	156,552	22.9	25.0	20.7	13.9
Other services	1.4	4.7	1.6	2.3	4.0	158,841	4.2	4.9	4.9	4.5
Imports of services	-1.9	-1.7	0.1	0.7	3.9	600,506	4.9	10.2	4.4	5.1
Transport	-1.4	1.5	-5.9	-2.1	3.3	135,775	5.2	9.4	5.4	4.0
Travel	5.7	3.7	4.7	4.8	5.6	197,874	6.0	14.7	1.0	4.0
Manufacturing [^]	-16.5	-20.2	-2.7	-2.0	0.8	88,892	*	4.7	6.2	7.8
Other services	3.2	3.5	2.2	-0.1	4.0	177,965	6.0	8.7	6.9	5.7

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>	
							Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
	(% change)				(% change)	(\$Mn)	(% change over a year earlier)			
Exports of services	5.5	2.0	-2.6	-4.0	5.6	1,066,446	7.2	11.7	10.2	7.6
Transport	-2.5	2.2	-6.8	-5.3	8.1	236,459	6.5	7.8	8.6	8.2
Travel	17.7	-1.5	-5.8	-9.0	1.8	259,544	5.1	15.9	13.9	7.4
Trade-related	2.1	1.9	-3.0	0.6	3.9	296,548	4.6	5.1	5.6	5.2
Other services	4.7	6.6	6.4	-2.4	9.0	273,895	14.1	16.6	12.9	10.1
Imports of services	2.6	3.0	0.7	1.2	4.4	511,614	5.8	11.1	4.1	4.6
Transport	-1.4	1.5	-5.9	-2.1	3.3	135,775	5.2	9.4	5.4	4.0
Travel	5.7	3.7	4.7	4.8	5.6	197,874	6.0	14.7	1.0	4.0
Trade-related	-2.7	2.8	0.1	-0.9	3.3	34,541	3.8	5.0	4.9	4.1
Other services	4.8	3.6	2.7	0.1	4.1	143,424	6.6	9.5	7.4	6.1

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> Q4	Q1	<u>2018</u> Q2	Q3
<u>('000)</u>									
All sources	54 298.8	60 838.8	59 307.6	56 654.9	58 472.2	15 837.0	15 609.7	14 996.4	16 075.7
Mainland of China	40 745.3	47 247.7	45 842.4	42 778.1	44 445.3	11 946.6	12 181.3	11 507.6	12 942.0
South and Southeast Asia	3 718.0	3 614.8	3 559.1	3 701.8	3 626.2	1 050.4	817.5	970.2	698.3
Taiwan	2 100.1	2 031.9	2 015.8	2 011.4	2 010.8	508.0	460.6	488.2	491.4
Europe	1 893.7	1 863.3	1 829.4	1 904.9	1 901.5	553.6	494.6	472.0	412.3
United States	1 109.8	1 130.6	1 181.0	1 211.5	1 215.6	340.3	305.8	337.9	282.9
Japan	1 057.0	1 078.8	1 049.3	1 092.3	1 230.0	322.5	326.6	289.4	313.1
Others	3 674.9	3 871.9	3 830.7	3 954.8	4 042.9	1 115.5	1 023.1	931.1	935.8
<u>(% change over a year earlier)</u>									
All sources	11.7	12.0	-2.5	-4.5	3.2	6.0	9.6	10.5	8.4
Mainland of China	16.7	16.0	-3.0	-6.7	3.9	8.0	12.6	14.3	11.5
South and Southeast Asia	1.8	-2.8	-1.5	4.0	-2.0	-3.4	-2.0	-2.0	-7.1
Taiwan	0.5	-3.2	-0.8	-0.2	*	2.3	-6.0	-1.8	-4.7
Europe	1.4	-1.6	-1.8	4.1	-0.2	-1.3	3.0	2.1	1.7
United States	-6.3	1.9	4.5	2.6	0.3	-3.2	4.8	6.8	5.9
Japan	-15.7	2.1	-2.7	4.1	12.6	4.3	2.1	10.0	-3.5
Others	0.5	5.4	-1.1	3.2	2.2	4.3	1.9	-3.8	-2.1

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> Q4	Q1	<u>2018</u> Q2	Q3
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	4 874	1 243	4 977	6 441
Commercial property	233	276	303	125	39	81	144
<i>of which :</i>							
Office space	164	153	198	85	32	50	97
Other commercial premises ^(b)	69	123	105	41	7	31	47
Industrial property ^(c)	30	78	105	0	8	5	12
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	30	5	23	0	8	2	12
Storage premises ^(d)	0	73	83	0	0	3	0
Production of public housing							
(in units)							
Rental housing flats ^(e)	10 147	21 755	11 268	8 268	3 793	3 436	N.A.
Subsidised sales flats ^(e)	1 326	229	2 788	0	248	699	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	78.6	270.3	168.4	N.A.
Commercial property	319.0	312.4	488.6	31.2	24.3	53.5	N.A.
Industrial property ^(f)	225.3	76.2	62.5	18.7	29.5	12.5	N.A.
Other properties	555.4	235.1	227.1	63.8	29.7	32.1	N.A.
Total	1 993.0	1 269.4	1 651.1	192.3	353.8	266.5	N.A.
Agreements for sale and purchase of property							
(Number)							
Residential property ^(g)	55 982	54 701	61 591	16 320	15 015	18 881	14 413
Primary market	16 826	16 793	18 645	4 250	2 734	4 948	4 495
Secondary market	39 156	37 908	42 946	12 070	12 281	13 933	9 918
Selected types of non-residential properties ^(h)							
Office space	1 470	1 105	1 955	454	408	412	342
Other commercial premises	2 067	1 523	2 198	598	568	630	439
Flatted factory space	3 407	2 727	5 135	1 524	1 573	1 639	1 142

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> Q4	Q1	<u>2018</u> Q2 [#]	Q3 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	296.8	286.1	333.9	348.0	364.3	383.8	392.7
Office space	448.9	426.9	487.1	511.1	522.8	545.4	573.3
Shopping space	559.2	526.9	558.4	573.6	584.0	589.1	598.9
Flatted factory space	723.9	692.7	778.1	818.6	850.6	888.4	913.1
Property rental indices ^(b) :							
Residential flats	172.8	168.2	182.6	187.1	187.9	191.9	196.3
Office space	226.7	232.3	241.8	245.7	246.8	251.5	253.8
Shopping space	182.5	178.6	182.5	185.0	185.4	186.7	189.1
Flatted factory space	174.4	181.4	190.7	195.9	197.1	201.7	207.2
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	15.5	-3.6	16.7	13.7	15.7	15.2	15.7
Office space	6.1	-4.9	14.1	17.7	12.5	12.8	17.2
Shopping space	7.3	-5.8	6.0	7.3	6.8	6.9	6.5
Flatted factory space	8.4	-4.3	12.3	15.4	15.5	15.5	15.8
Property rental indices ^(b) :							
Residential flats	8.3	-2.7	8.6	8.3	6.3	5.7	6.1
Office space	6.1	2.5	4.1	5.0	4.1	4.7	4.1
Shopping space	5.4	-2.1	2.2	3.1	2.9	3.0	3.0
Flatted factory space	8.9	4.0	5.1	6.4	6.0	7.2	7.4

Table 13 : Monetary aggregates

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<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)

	2015	2016	2017	2017 Q4	Q1	2018 Q2	Q3
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	1,253,380	1,428,775	1,598,014	1,598,014	1,656,884	1,660,700	1,602,519
M2 ^(a)	5,765,549	6,280,230	7,010,345	7,010,345	7,229,517	7,262,507	7,299,268
M3 ^(a)	5,778,772	6,292,666	7,024,514	7,024,514	7,245,943	7,279,273	7,321,701
Total money supply (\$Mn)							
M1	1,971,146	2,213,970	2,431,461	2,431,461	2,473,438	2,519,925	2,445,424
M2	11,618,441	12,508,127	13,755,255	13,755,255	13,935,534	13,979,948	14,116,664
M3	11,655,019	12,551,331	13,803,837	13,803,837	13,987,761	14,032,525	14,175,405
Deposit (\$Mn)							
HK\$	5,312,403	5,809,060	6,484,616	6,484,616	6,680,610	6,715,033	6,763,012
Foreign currency	5,437,346	5,918,240	6,267,872	6,267,872	6,230,670	6,243,395	6,342,585
Total	10,749,749	11,727,300	12,752,488	12,752,488	12,911,280	12,958,428	13,105,597
Loans and advances (\$Mn)							
HK\$	4,152,589	4,479,107	5,359,983	5,359,983	5,557,010	5,735,843	5,746,301
Foreign currency	3,381,951	3,544,284	3,953,686	3,953,686	4,095,020	4,070,768	3,950,718
Total	7,534,540	8,023,390	9,313,668	9,313,668	9,652,030	9,806,611	9,697,019
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) ^(b)							
Trade-weighted	101.3	104.1	104.2	102.3	98.6	99.3	104.0
Import-weighted	101.7	104.2	104.2	102.3	98.6	99.3	103.8
Export-weighted	100.9	104.1	104.3	102.3	98.7	99.3	104.1
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	12.2	14.0	11.8	11.8	12.4	10.5	-0.3
M2 ^(a)	10.3	8.9	11.6	11.6	9.6	6.2	4.2
M3 ^(a)	10.4	8.9	11.6	11.6	9.6	6.3	4.3
Total money supply							
M1	15.4	12.3	9.8	9.8	11.0	9.6	2.2
M2	5.5	7.7	10.0	10.0	7.8	5.0	4.7
M3	5.5	7.7	10.0	10.0	7.8	5.0	4.7
Deposit							
HK\$	10.7	9.3	11.6	11.6	9.4	5.8	4.2
Foreign currency	3.1	8.8	5.9	5.9	4.2	3.5	5.5
Total	6.7	9.1	8.7	8.7	6.8	4.7	4.8
Loans and advances							
HK\$	3.8	7.9	19.7	19.7	20.2	17.2	12.4
Foreign currency	3.2	4.8	11.6	11.6	8.6	3.0	0.4
Total	3.5	6.5	16.1	16.1	15.0	10.9	7.2
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) ^(b)							
Trade-weighted	5.5	2.8	0.1	-3.8	-7.7	-5.8	1.3
Import-weighted	5.9	2.5	*	-3.7	-7.7	-5.6	1.1
Export-weighted	5.2	3.2	0.2	-3.9	-7.6	-6.0	1.4

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

(b) Period average.

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

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

	(%)							
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2017</u>		<u>2018</u>	
					Q3	Q4	Q1	Q2
Services Industry								
Import and export trade	0.1	-3.9	-2.5	2.3	2.1	1.4	4.8	5.8
Wholesale	1.5	-4.9	-1.0	2.8	2.0	4.0	5.6	7.9
Retail	-0.2	-3.7	-8.1	2.2	4.1	5.8	14.4	12.4
Transportation	6.1	-4.3	-6.5	7.1	9.6	6.9	10.5	8.6
<i>within which:</i>								
Land transport	6.9	5.4	3.6	1.8	1.2	2.0	3.9	6.5
Water transport	6.8	-7.7	-11.2	5.6	10.7	-1.6	5.5	-0.8
Air transport	5.3	-5.1	-7.0	10.0	12.2	14.2	16.3	15.4
Warehousing and storage	11.9	12.7	12.1	14.1	18.5	19.1	17.3	12.5
Courier	5.4	-5.9	5.5	19.1	16.9	22.8	13.7	2.4
Accommodation services ^(a)	6.5	-6.6	-1.1	6.0	5.0	8.5	10.8	16.4
Food services	3.5	3.9	2.9	5.0	5.0	6.7	10.0	6.7
Information and communications	5.9	10.8	0.6	2.9	4.3	6.3	10.3	5.5
<i>within which:</i>								
Telecommunications	10.7	19.6	-0.8	-3.5	0.1	0.1	10.8	5.5
Film entertainment	-11.7	-3.1	-4.5	4.3	3.2	3.5	1.8	5.7
Banking	5.9	8.3	8.1	-0.1	10.9	18.2	11.1	7.9
Financing (except banking)	6.7	19.0	-6.0	7.2	8.0	10.6	28.9	8.0
<i>within which:</i>								
Financial markets and asset management	8.9	19.0	-8.7	1.6	5.3	5.4	38.8	9.9
<i>within which: Asset management</i>	11.0	7.0	4.1	4.4	8.2	7.8	24.9	6.7
Insurance	18.2	11.7	21.8	11.8	10.9	11.9	8.7	6.5
Real estate	17.0	8.1	16.5	14.2	-1.2	11.3	7.2	1.6
Professional, scientific and technical services	7.6	5.3	3.3	1.9	2.3	2.6	6.2	4.7
Administrative and support services	7.3	7.4	0.9	1.5	2.6	3.0	2.9	2.9
Services Domain								
Tourism, convention and exhibition services	-0.9	-5.0	-8.1	0.7	-0.1	4.6	12.1 ⁺	13.6 ⁺
Computer and information technology services	-1.8	-4.2	-3.5	1.4	2.2	1.1	4.0	2.1

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> Q4	Q1	<u>2018</u> Q2	Q3
<u>(%)</u>									
Labour force participation rate	61.2	61.1	61.1	61.1	61.1	60.9	61.4	61.2	61.2
Seasonally adjusted unemployment rate ^(a)	3.4	3.3	3.3	3.4	3.1	3.0	2.9	2.8	2.8
Underemployment rate	1.5	1.5	1.4	1.4	1.2	1.1	1.0	1.0	1.2
<u>('000)</u>									
Population of working age	6 297.5	6 340.1	6 383.7	6 420.9	6 463.3	6 481.9	6 493.9	6 507.3	6 519.4
Labour force	3 855.1	3 871.1	3 903.2	3 920.1	3 946.6	3 950.2	3 984.4	3 982.2	3 992.4
Persons employed	3 724.0	3 743.5	3 773.8	3 787.1	3 823.2	3 840.3	3 872.4	3 869.8	3 874.6
Persons unemployed	131.1	127.6	129.4	133.0	123.4	109.8	112.1	112.4	117.8
Persons underemployed	58.3	56.8	53.3	54.7	45.6	42.4	38.9	41.4	47.3
<u>(% change over a year earlier)</u>									
Population of working age	0.7	0.7	0.7	0.6	0.7	0.4	0.7	0.8	0.8
Labour force	1.9	0.4	0.8	0.4	0.7	1.0	1.3	1.3	1.2
Persons employed	1.8	0.5	0.8	0.4	1.0	1.4	1.8	1.7	1.5
Persons unemployed	5.5	-2.7	1.4	2.8	-7.2	-10.3	-11.5	-10.6	-8.9
Persons underemployed	1.9	-2.6	-6.1	2.5	-16.5	-22.3	-20.3	-10.2	5.4

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

Table 16 : Employment in selected major industries

Selected major industries	2013	2014	2015	2016	2017	2017		2018		(No.)
	(% change)					Sep	Dec	Mar	Jun	
						(% change over a year earlier)				
Manufacturing	-3.0	-1.2	-2.8	-3.6	-3.3	-3.4	-3.6	-3.9	-3.8	89 833
Construction sites (covering manual workers only)	11.2	4.4	14.9	13.3	10.1	12.7	9.2	2.6	2.9	116 051
Import and export trade	-0.2	0.1	-1.4	-0.7	-0.4	-0.5	-0.7	-0.5	-0.6	477 613
Wholesale	-2.0	-0.3	-1.4	-0.8	-0.6	-0.3	-0.4	-0.5	-0.9	60 109
Retail	2.3	2.2	-0.5	-1.1	0.5	0.2	0.6	1.4	1.6	272 111
Food and beverage services	0.9	2.4	0.1	-0.2	0.3	0.4	0.1	1.7	3.0	249 872
Accommodation services ^(a)	5.0	3.2	-1.1	-2.1	0.3	0.5	0.8	3.1	4.5	40 720
Transportation, storage, postal and courier services	2.0	2.7	1.6	0.5	0.2	0.5	0.8	0.6	1.2	179 769
Information and communications	5.1	2.7	1.1	0.7	0.9	0.9	-0.2	-0.3	1.5	108 229
Financing and insurance	1.0	2.3	2.3	0.8	1.5	1.9	2.0	2.5	2.4	228 953
Real estate	1.6	0.6	1.7	-0.1	1.3	1.3	1.4	1.8	2.0	133 054
Professional and business services (excluding cleaning and similar services)	4.5	2.7	2.4	1.9	2.1	1.4	1.8	2.7	3.3	301 631
Cleaning and similar services	1.6	0.2	2.4	0.5	0.7	0.6	0.1	-1.5	-1.6	81 030
Education	2.8	4.4	3.9	2.3	1.6	1.4	1.6	2.0	1.9	202 469
Human health services	5.2	4.3	4.5	4.3	3.5	3.2	3.5	3.3	3.4	128 505
Residential care and social work services	0.5	0.6	2.8	3.0	1.0	1.4	1.5	0.8	1.6	64 235
Arts, entertainment, recreation and other services	1.6	5.9	0.9	-2.2	-0.6	-0.2	0.9	0.9	1.3	126 161
Civil service ^(b)	1.3	1.0	0.7	1.2	1.6	1.9	2.2	2.3	2.1	171 335
Others ^(c)	3.5	3.1	-1.0	0.8	2.1	1.1	0.2	0.2	-1.6	11 195

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> Sep	<u>2017</u> Dec	<u>2018</u> Mar	<u>2018</u> Jun
<u>(Number)</u>									
Building sites									
Private sector	41 308	44 024	50 372	60 243	65 985	66 764	68 442	67 872	68 108
Public sector ^(a)	9 860	11 212	15 470	16 030	21 660	22 388	22 921	22 491	22 103
Sub-total	51 168	55 236	65 842	76 273	87 645	89 152	91 363	90 363	90 211
Civil engineering sites									
Private sector	1 322	1 414	1 609	1 386	979	892	1 010	1 470	1 475
Public sector ^(a)	26 813	26 145	27 652	30 141	30 050	31 422	30 388	28 890	24 365
Sub-total	28 135	27 559	29 261	31 526	31 029	32 314	31 398	30 360	25 840
Total	79 303	82 795	95 103	107 799	118 674	121 466	122 761	120 723	116 051
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	9.6	6.6	14.4	19.6	9.5	9.3	8.2	3.5	7.8
Public sector ^(a)	-6.8	13.7	38.0	3.6	35.1	47.8	27.5	6.4	9.5
Sub-total	6.0	8.0	19.2	15.8	14.9	16.9	12.5	4.2	8.2
Civil engineering sites									
Private sector	-6.2	7.0	13.8	-13.9	-29.3	-33.1	-17.3	32.4	63.2
Public sector ^(a)	24.0	-2.5	5.8	9.0	-0.3	3.9	1.6	-3.2	-14.7
Sub-total	22.2	-2.0	6.2	7.7	-1.6	2.3	0.8	-1.9	-12.3
Total	11.2	4.4	14.9	13.3	10.1	12.7	9.2	2.6	2.9

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						Q3	Q4	Q1	Q2
(in nominal terms)									
Manufacturing	3.3	5.3	5.2	3.5	3.4	3.6	3.9	3.4	3.8
Import/export and wholesale trade	3.3	2.8	3.7	2.3	2.9	3.3	3.3	3.5	3.3
Retail trade	6.7	4.2	3.5	2.4	3.3	3.4	3.3	3.5	3.3
Transportation, storage, postal and courier services	5.4	3.3	4.3	3.3	3.4	3.7	2.8	3.2	3.7
Accommodation ^(a) and food service activities	6.7	5.2	5.8	5.1	4.7	5.6	4.1	4.8	5.0
Information and communications	5.4	5.1	4.4	3.4	3.3	3.5	3.6	3.2	3.4
Financial and insurance activities	4.6	6.3	4.0	2.7	3.0	3.2	2.8	3.0	3.1
Real estate activities	5.9	4.7	5.1	4.2	4.3	4.2	4.3	4.3	4.5
Professional and business services	7.1	6.9	5.8	5.1	4.2	4.3	4.5	4.6	4.4
Social and personal services	3.6	1.6	6.7	2.5	3.1	-0.7	5.8	2.8	3.1
All selected industry sections surveyed	5.4	4.3	4.6	3.7	3.7	3.3	4.2	3.8	3.8
(in real terms)									
Manufacturing	-0.9	0.9	2.1	1.0	2.0	1.8	2.2	1.0	1.7
Import/export and wholesale trade	-1.0	-1.5	0.7	-0.1	1.4	1.5	1.7	1.1	1.2
Retail trade	2.3	-0.1	0.5	*	1.8	1.6	1.7	1.1	1.2
Transportation, storage, postal and courier services	1.0	-1.0	1.3	0.9	1.9	1.9	1.1	0.8	1.5
Accommodation ^(a) and food service activities	2.3	0.8	2.7	2.6	3.2	3.7	2.4	2.3	2.8
Information and communications	1.0	0.7	1.4	1.0	1.9	1.7	2.0	0.7	1.3
Financial and insurance activities	0.4	1.9	0.7	0.3	1.6	1.4	1.1	0.6	1.0
Real estate activities	1.4	0.2	2.0	1.7	2.8	2.3	2.7	1.9	2.3
Professional and business services	2.6	2.3	2.8	2.6	2.7	2.5	2.8	2.1	2.2
Social and personal services	-0.8	-2.7	3.6	0.1	1.6	-2.5	4.1	0.3	1.0
All selected industry sections surveyed	1.1	-0.1	1.5	1.3	2.3	1.5	2.6	1.3	1.6

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						Sep	Dec	Mar	Jun
(in nominal terms)									
Manufacturing	4.7	4.9	4.0	4.0	3.7	3.7	3.9	3.7	3.8
Import/export, wholesale and retail trades	2.9	2.5	3.1	2.7	3.0	2.9	3.0	3.1	3.0
Transportation	3.9	4.8	4.4	3.5	2.9	2.9	2.8	3.7	3.2
Accommodation ^(a) and food service activities	5.7	4.7	5.4	4.9	4.7	4.8	4.7	4.8	4.7
Financial and insurance activities ^(b)	4.4	3.2	3.2	3.4	3.5	3.5	3.6	3.3	3.6
Real estate leasing and maintenance management	9.3	4.5	3.4	3.7	4.1	4.4	4.5	4.7	4.4
Professional and business services	5.9	6.7	6.9	4.7	4.7	4.4	4.6	4.9	4.5
Personal services	6.2	7.8	6.5	5.5	4.2	4.0	4.0	3.8	4.1
All industries surveyed	4.7	4.2	4.4	3.7	3.8	3.7	3.8	4.0	3.8
(in real terms)									
Manufacturing	-0.1	-1.6	0.2	1.4	2.2	2.2	2.2	1.0	1.2
Import/export, wholesale and retail trades	-1.7	-3.9	-0.6	0.3	1.6	1.4	1.3	0.4	0.4
Transportation	-0.6	-1.9	0.6	1.0	1.5	1.4	1.1	0.9	0.6
Accommodation ^(a) and food service activities	1.1	-1.8	1.5	2.3	3.3	3.3	3.0	2.0	2.1
Financial and insurance activities ^(b)	0.1	-3.7	-0.5	0.9	2.1	2.0	1.9	0.5	1.0
Real estate leasing and maintenance management	4.5	-1.9	-0.4	1.1	2.6	2.9	2.8	1.9	1.8
Professional and business services	1.5	*	2.9	2.3	3.2	2.8	2.9	2.1	1.8
Personal services	1.5	1.1	2.6	3.0	2.7	2.5	2.3	1.0	1.4
All industries surveyed	0.1	-2.4	0.6	1.2	2.3	2.2	2.1	1.2	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:	
			Q4	Q1	Q2	Q3	10 years 2007 to 2017	5 years 2012 to 2017
GDP deflator [#]	1.7	2.9	2.8	4.1	4.0	3.7	2.1	2.6
Domestic demand deflator [#]	1.4	2.8	2.7	3.7	3.6	3.5	2.3	2.2
Consumer Price Indices ^(a) :								
Composite CPI	2.4	1.5	1.6	2.4	2.1	2.5	3.2	3.1
CPI(A)	2.8	1.5	1.6	2.6	2.4	2.8	3.5	3.8
CPI(B)	2.3	1.4	1.5	2.4	2.1	2.4	3.2	2.9
CPI(C)	2.1	1.5	1.7	2.4	2.0	2.2	3.0	2.6
Unit Value Indices :								
Total exports of goods	-1.7	1.8	2.2	2.3	2.7	2.5	2.4	0.7
Imports of goods	-1.7	1.9	2.2	2.3	2.8	2.7	2.4	0.5
Terms of Trade Index ^(b)	*	-0.1	*	*	-0.1	-0.2	*	0.2
Producer Price Index for all manufacturing industries	1.3	3.8	3.5	3.8	3.7	N.A.	1.5	-0.5
Tender Price Indices :								
Public sector building projects	1.0	-0.3	-0.7	-1.3	-2.8	N.A.	7.1	4.1
Public housing projects	-0.7	0.3	-0.8	-1.9	-1.7	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:	
					Q4	Q1	Q2	Q3	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)	1.6 (1.6)	2.4 (2.4)	2.1 (2.4)	2.5 (2.8)	3.2 (3.2)	3.1 (2.8)
Food	27.29	4.0	3.4	2.2	2.5	3.3	3.6	3.5	4.4	3.6
<i>Meals bought away from home</i>	17.74	4.2	3.3	2.7	2.7	3.0	3.0	2.9	3.9	3.8
<i>Food, excluding meals bought away from home</i>	9.55	3.4	3.6	1.1	2.2	3.8	4.9	4.8	5.3	3.2
Housing ^(a)	34.29	5.1	3.7	2.0	2.4	2.5	2.0	2.5	4.5	4.8
<i>Private housing rent</i>	29.92	4.7	3.4	1.8	2.4	2.5	1.9	2.3	4.7	4.4
<i>Public housing rent</i>	1.94	10.9	7.2	3.0	0.4	0.4	0.4	4.1	2.5	11.0
Electricity, gas and water	2.67	8.4	1.0	-1.7	*	8.3	3.7	3.8	1.5	5.8
Alcoholic drinks and tobacco	0.54	1.3	1.5	0.6	-0.6	0.3	0.6	1.7	5.2	2.3
Clothing and footwear	3.21	-1.8	-3.4	-0.4	0.6	2.3	2.0	2.3	1.2	-0.6
Durable goods	4.65	-5.6	-5.4	-3.2	-2.3	-2.1	-2.1	-2.0	-3.5	-4.4
Miscellaneous goods	3.56	0.9	1.5	1.4	0.9	1.1	1.3	1.5	2.4	1.7
Transport	7.98	-0.3	1.6	2.3	1.4	1.7	1.3	1.7	1.9	1.6
Miscellaneous services	15.81	1.1	2.3	0.9	-0.1	1.7	1.4	2.1	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:	
				Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]	10 years 2007 to 2017 [#]	5 years 2012 to 2017 [#]
Private consumption expenditure	1.2	1.5	2.4	2.8	4.3	3.6	2.9	2.0	2.1
Government consumption expenditure	4.4	3.7	2.4	1.6	1.6	3.0	3.8	3.5	3.9
Gross domestic fixed capital formation	4.5	-0.1	4.8	3.2	2.8	4.1	5.1	3.0	1.8
Total exports of goods	-0.7	-1.4	1.6	2.1	2.7	2.5	2.0	1.9	*
Imports of goods	-1.4	-1.8	1.8	2.1	2.6	2.6	2.5	2.1	-0.2
Exports of services	-2.8	-2.0	2.8	4.2	5.3	5.2	5.2	1.2	-0.3
Imports of services	-4.6	-1.3	1.9	4.0	5.8	4.4	1.6	0.8	-0.7
Gross Domestic Product	3.6	1.7	2.9	2.8	4.1	4.0	3.7	2.1	2.6
Total final demand	*	-0.6	2.2	2.5	3.4	3.2	2.8	2.0	0.7
Domestic demand	2.2	1.4	2.8	2.7	3.7	3.6	3.5	2.3	2.2

