



2018 Economic Background and 2019 Prospects

Government of the Hong Kong
Special Administrative Region

***2018 ECONOMIC BACKGROUND
AND
2019 PROSPECTS***

OFFICE OF THE GOVERNMENT ECONOMIST
FINANCIAL SECRETARY'S OFFICE
GOVERNMENT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION

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CALENDAR OF EVENTS OF SIGNIFICANCE FOR THE HONG KONG ECONOMY IN 2018

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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE IN 2018

Summary

- *The Hong Kong economy grew by 3.0% for 2018 as a whole, marking the second year of above-trend growth. Yet, this was slower than the 3.8% growth in 2017. Growth remained strong at 4.1% on a year-on-year basis in the first half of the year amid the favourable global economic environment. Yet, alongside moderating global economic growth and increasing external uncertainties, particularly those stemming from the US-Mainland trade conflict and US interest rate hikes, the pace of growth decelerated to 2.8% in the third quarter and further to 1.3% in the fourth quarter.*
- *Hong Kong's total exports of goods grew moderately for 2018 as a whole following the strong growth in 2017. Yet, the notable growth in the first three quarters was followed by a virtual halt in the fourth quarter, as global economic growth momentum eased and as the elevated US-Mainland trade conflict took its toll. Exports to many major markets recorded decelerated growth or even declines in the fourth quarter.*
- *Exports of services grew solidly for 2018 as a whole, faster than the moderate growth in 2017. Growth picked up further in the first half of 2018, before slowing noticeably in the second half. Underpinned by the surge in visitor arrivals, exports of travel services registered the strongest annual growth since 2013 despite the visible deceleration in the second half of the year due to softer per capita visitor spending. Exports of financial services grew notably, thanks to the particularly strong growth in the first half of the year amid buoyant cross-border financial activities. Meanwhile, exports of transport, business and other services saw only modest growth.*
- *Domestic demand was broadly resilient in 2018. Private consumption expenditure maintained notable growth for the year as a whole on the back of solid gains in wages and earnings, but the growth rate eased successively through the year amid asset market corrections. Investment expenditure grew modestly for another year, within which machinery and equipment acquisition expanded visibly while building and construction expenditure recorded a marginal decline.*
- *The labour market showed further tightening in 2018, with further growth in both the labour force and total employment. The unemployment rate declined to 2.8%, the lowest in more than 20 years. Wages and earnings continued to post appreciable real gains across most of the major sectors.*
- *Local stock prices underwent a sharp correction since early 2018 amid concerns about US interest rate hikes, US-Mainland trade tensions and*

later also moderating global economic growth. The Hang Seng Index closed the year 22.0% lower than its peak in January. The residential property market remained buoyant in the first half of 2018, but underwent a consolidation thereafter. Flat prices have reverted to a decline since August, though still recorded a gain of 2% for the whole year.

- *Consumer price inflation went up in 2018, as the economy recorded another year of above-trend growth. Underlying consumer price inflation accelerated from 1.7% in 2017 to a still-moderate level of 2.6% in 2018.*

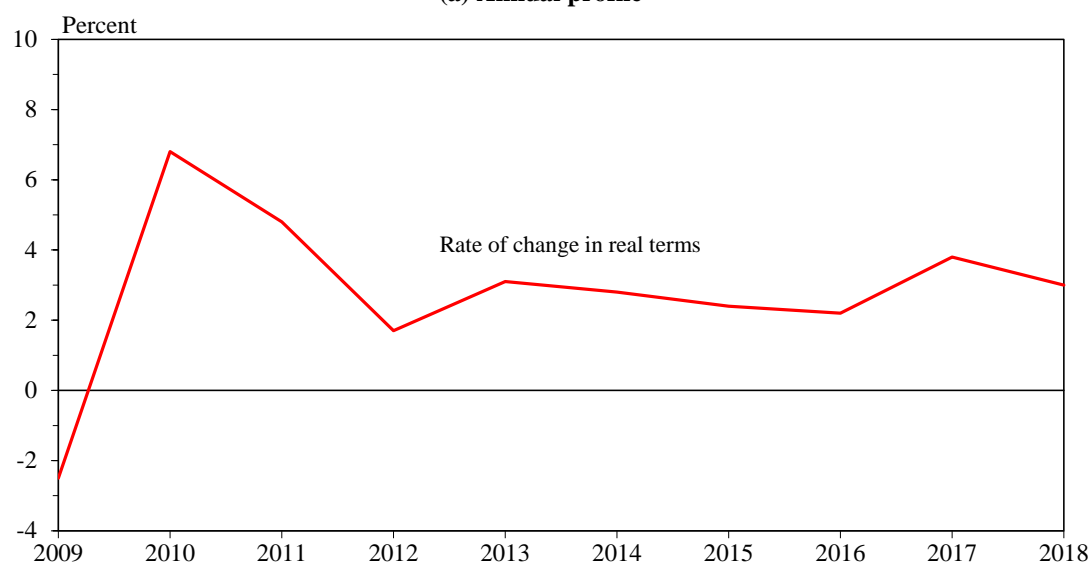
Overall situation

1.1 The Hong Kong economy recorded another year of above-trend growth for 2018 as a whole. Strong growth was sustained in the first half of the year amid the favourable global economic environment. Yet, in the face of easing global economic growth, the US-Mainland trade conflict and successive US interest rate hikes, Hong Kong's economic growth decelerated visibly in the second half and particularly in the fourth quarter. Exports of goods grew moderately for 2018 as a whole, but slowed sharply to a virtual halt in the fourth quarter as the US-Mainland trade conflict took its toll. Exports of services grew solidly for the year as a whole, but likewise the momentum eased visibly in the second half amid mounting external headwinds. While growth in private consumption expenditure decelerated successively through 2018 amid asset market corrections, there was still notable growth for the whole year. Investment expenditure recorded modest expansion. Despite the external challenges, the labour market showed further tightening in 2018, with further growth in both the labour force and total employment. Wages and earnings continued to post appreciable real gains. Consumer price inflation went up in 2018, as the economy recorded another year of above-trend growth.

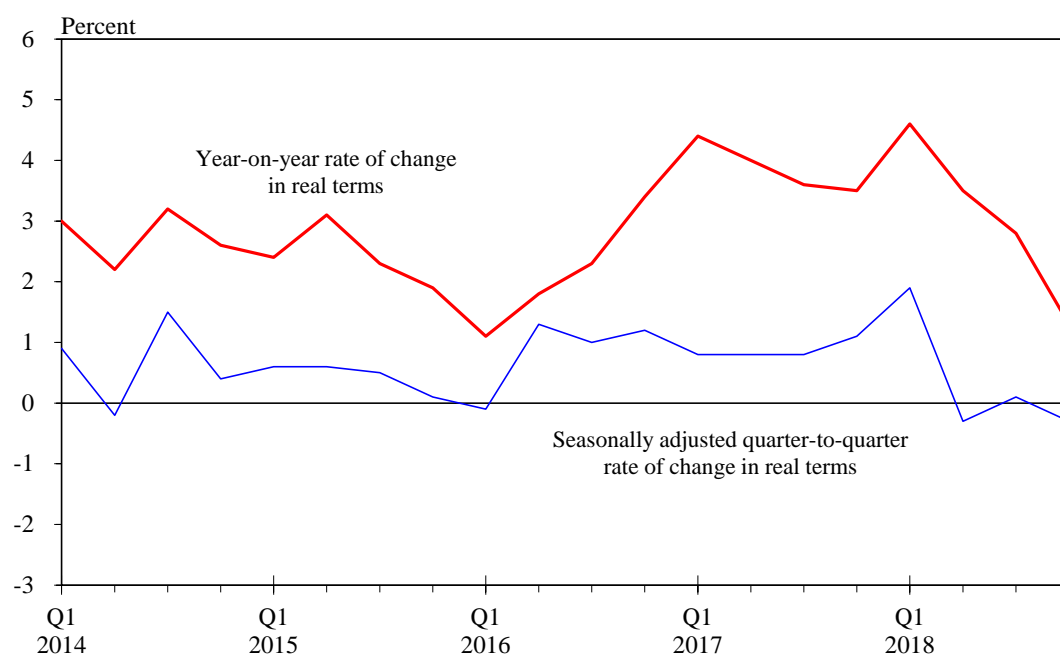
1.2 *Gross Domestic Product (GDP)*⁽¹⁾ grew by 3.0% in real terms for 2018 as a whole. While faster than the trend growth of 2.8% over the past ten years for the second year, this was slower than the 3.8% growth in 2017. In terms of the quarterly profile, real GDP grew visibly on a year-on-year basis by 4.6% in the first quarter and 3.5% in the second quarter, but the growth pace moderated to 2.8% in the third quarter (revised from the preliminary estimate of 2.9%) and further to 1.3% in the fourth quarter. On a seasonally adjusted quarter-to-quarter basis⁽²⁾, real GDP grew strongly by 1.9% in the first quarter (revised from the earlier estimate of 2.1%), before easing noticeably to record changes of -0.3% (revised from the earlier estimate of -0.2%), 0.1% and -0.3% respectively in the following three quarters.

Diagram 1.1 : The Hong Kong economy recorded above-trend growth for the second year in 2018, notwithstanding the deceleration in the second half

(a) Annual profile



(b) Quarterly profile



The external sector

1.3 *Total exports of goods* compiled under the GDP accounting framework grew moderately by 3.5% in real terms in 2018, slower than the 6.5% growth in 2017. The year-on-year growth averaged a notable 5.0% in the first three quarters, but weakened visibly to virtually zero in the fourth quarter as global economic expansion weakened and as the escalated US-Mainland trade conflict took its toll.

1.4 Analysed by major market, by reference to external merchandise trade statistics, exports to the US grew notably in 2018, underpinned by buoyant import demand there. However, the growth pace moderated in the fourth quarter, as those re-exports affected by the additional tariffs imposed by the US during the year showed a sharp slowdown. Exports to the EU recorded strong growth amid further economic expansion of the region. Yet, exports to Japan declined modestly for 2018 as a whole, dragged by the fall in the second half. Meanwhile, exports to other Asian markets were mixed in 2018, and many markets experienced decelerated growth or even declines in the fourth quarter, as moderating global economic growth and escalated US-Mainland trade tensions weighed on regional trade flows. In particular, exports to the Mainland grew solidly for 2018 as a whole, but reverted to a year-on-year decline in the fourth quarter. Exports to Singapore, Vietnam and Korea grew by varying degrees, whereas those to Taiwan registered a decline. Exports to India fell sharply, but the figures may have been distorted by various government tax measures there.

1.5 *Exports of services* grew solidly by 4.9% in real terms in 2018, after modest growth of 2.9% in 2017. Yet, after a robust expansion of 6.7% in the first half of 2018, growth moderated to 3.2% in the second half amid mounting external headwinds. Underpinned by the surge in visitor arrivals, exports of travel services registered the strongest annual growth since 2013 despite the visible deceleration in the second half of the year due to softer per capita visitor spending. Exports of financial services grew notably, thanks to particularly strong growth in the first half of the year amid buoyant cross-border financial activities. Meanwhile, exports of transport, business and other services saw only modest growth.

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

	<u>2017[#]</u>	<u>2018⁺</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>	<u>Q4⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>										
Private consumption expenditure	5.5	5.6	3.7 (0.7)	5.8 (1.9)	6.3 (1.8)	6.3 (1.8)	8.9 (3.2)	6.0 (-0.9)	4.8 (0.6)	3.1 (0.2)
Government consumption expenditure	2.8	4.2	2.3 (0.3)	2.7 (1.2)	3.6 (1.6)	2.8 (-0.3)	4.3 (1.8)	4.3 (1.0)	3.3 (0.7)	5.0 (1.4)
Gross domestic fixed capital formation	2.9	2.2	5.4	6.8	-2.7	2.7	4.4	2.1	9.2	-5.4
Building and construction	-0.5	-0.7	5.6	-0.2	-2.7	-4.4	2.5	-0.3	1.1	-6.0
Costs of ownership transfer	21.1	-10.0	75.9	51.3	-13.8	5.6	10.0	2.5	-1.1	-43.7
Machinery, equipment and intellectual property products	3.8	9.1	-6.4	7.7	0.2	11.6	6.1	4.9	21.0	4.6
Total exports of goods ^{&}	6.5	3.5	10.0 (1.5)	5.7 (-0.1)	6.5 (1.0)	4.3 (2.2)	5.2 (1.8)	4.7 (-0.4)	5.0 (1.2)	-0.2 (-2.7)
Imports of goods ^{&}	7.3	4.9	10.5 (1.0)	6.3 (0.2)	6.8 (1.8)	6.0 (2.9)	6.9 (1.6)	6.3 (-0.2)	7.7 (3.1)	-0.8 (-5.0)
Exports of services ^{&}	2.9	4.9	3.1 (1.1)	1.8 (-1.7)	3.1 (2.7)	3.7 (1.3)	7.6 (5.3)	5.6 (-3.6)	3.4 (0.5)	2.9 (0.7)
Imports of services ^{&}	2.1	2.2	1.0 (0.5)	5.1 (1.4)	1.6 (-1.7)	0.9 (0.7)	4.2 (3.8)	0.2 (-2.5)	2.5 (0.7)	2.0 (0.1)
Gross Domestic Product	3.8	3.0	4.4 (0.8)	4.0 (0.8)	3.6 (0.8)	3.5 (1.1)	4.6 (1.9)	3.5 (-0.3)	2.8 (0.1)	1.3 (-0.3)
<i>Change in the main price indicators (%)</i>										
GDP deflator	3.0	3.7	2.6 (0.9)	3.4 (1.0)	3.2 (0.3)	2.7 (0.6)	3.9 (1.9)	3.9 (0.8)	3.9 (0.6)	3.4 (0.2)
Composite CPI										
Headline	1.5	2.4	0.5 (*)	2.0 (0.6)	1.8 (0.3)	1.6 (0.6)	2.4 (0.8)	2.1 (0.4)	2.5 (0.6)	2.6 (0.7)
Underlying[^]	1.7	2.6	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 (0.6)	2.9 (0.7)
Change in nominal GDP (%)	6.9	6.9	7.0	7.5	6.9	6.3	8.7	7.5	6.8	4.7

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

(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and 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 Government's one-off relief measures.

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

The domestic sector

1.6 Domestic demand was broadly resilient in 2018. For 2018 as a whole, *private consumption expenditure* grew notably by 5.6% in real terms, slightly faster than its 5.5% growth in 2017. The solid growth in wages and earnings continued to underpin local consumer sentiment in 2018. Yet the wealth effect from asset prices seemed to have turned from a boost to a drag over the course of the year along with the corrections of the local stock market and property market, and led to some moderation in the growth of private consumption expenditure in the second half. Meanwhile, *government consumption expenditure* grew by 4.2% in real terms in 2018, higher than its 2.8% growth in 2017.

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

Of which :

		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	2.9	5.8	6.9	4.8	4.0	1.5	5.5
	H1	4.0	2.6	-1.1	6.0	4.3	5.2	-0.2	4.8
	H2	6.1	3.1	11.8	7.7	5.3	3.0	3.2	6.3
	Q1	3.8	2.6	-1.4	5.7	4.3	-0.8	1.3	3.7
	Q2	4.3	2.6	-0.5	6.4	4.3	11.5	-1.8	5.8
	Q3	5.8	3.7	9.0	8.1	5.0	3.8	1.9	6.3
	Q4	6.4	2.5	14.0	7.3	5.7	2.1	4.3	6.3
2018	Annual	6.2	2.1	13.9	11.0	4.0	3.2	8.2	5.6
	H1	8.4	4.0	23.9	13.9	5.2	2.5	11.6	7.4
	H2	4.1	0.1	6.2	8.3	2.9	4.0	5.1	3.9
	Q1	9.6	4.1	25.7	13.9	6.5	7.4	12.6	8.9
	Q2	7.3	3.9	21.7	13.9	4.0	-2.2	10.5	6.0
	Q3	4.9	0.9	8.7	10.5	3.2	3.5	5.0	4.8
	Q4	3.3	-0.6	4.4	6.5	2.5	4.5	5.3	3.1

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

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

Diagram 1.2 : Private consumption expenditure grew notably for 2018 as whole

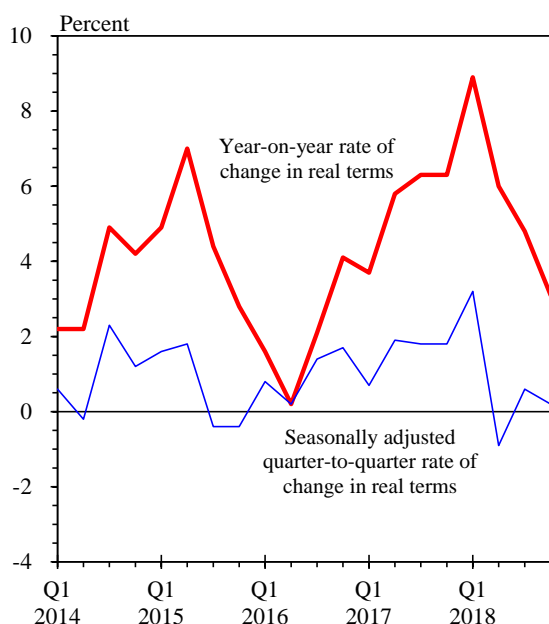
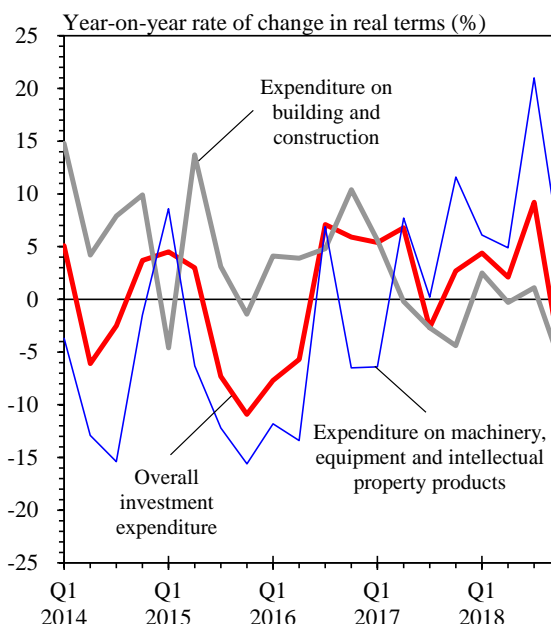


Diagram 1.3 : Overall investment spending grew modestly in 2018



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* grew modestly by 2.2% in real terms in 2018, following 2.9% growth in 2017. Specifically, expenditure on acquisitions of machinery, equipment and intellectual property products picked up to grow by 9.1%, whereas building and construction expenditure contracted marginally by 0.7%. Within the latter, private sector building and construction activities recorded marginal growth, while public sector building and construction works fell modestly albeit to a still high level. Separately, the costs of ownership transfer declined in 2018 as trading activities in the property market quieted down, especially in the second half of the year. It is worth noting that private sector investment slackened sharply to a decline in the fourth quarter, conceivably reflecting weakened business sentiment amid the challenging external environment (See **Box 1.1** on Business sentiment in Hong Kong).

Box 1.1

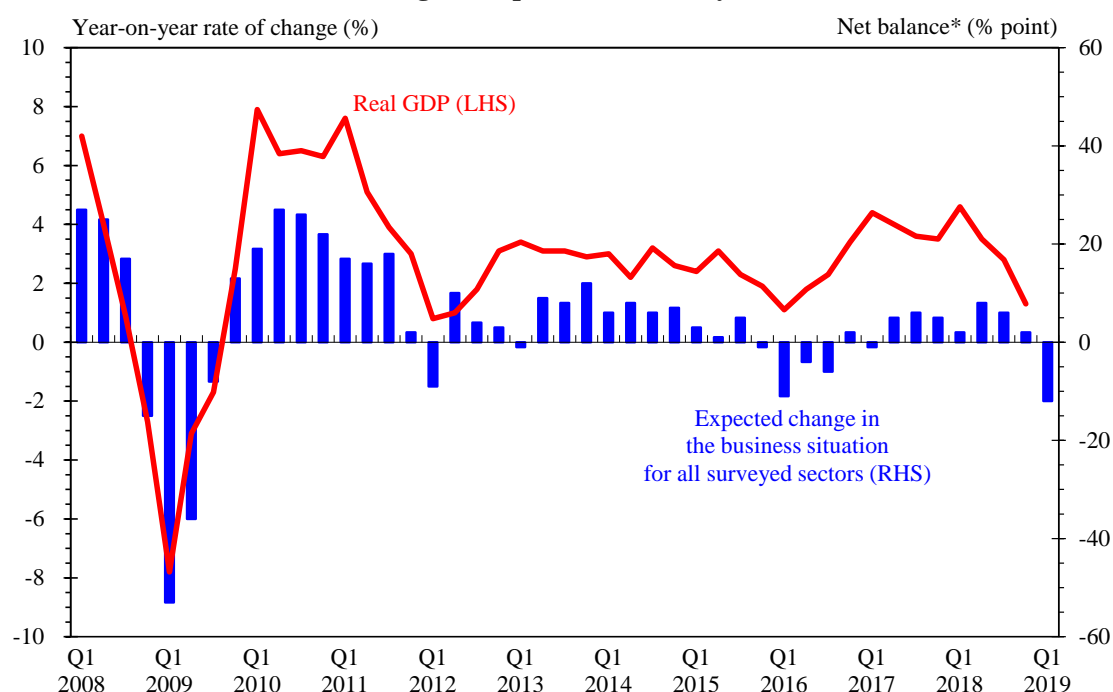
Business sentiment in Hong Kong

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 results from the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during early December 2018 to mid-January 2019, business sentiment among large enterprises in Hong Kong turned very cautious in the face of various external uncertainties (**Chart 1**). The proportion of large enterprises expecting a weaker business situation in the first quarter of 2019 outweighed the proportion of those expecting a better situation by 12 percentage points (i.e. a net balance of -12), worsening markedly from the positive net balance of 2 percentage points in the preceding quarter. This high degree of cautiousness was uncommon, similar to that revealed in the first quarter of 2016 when economic growth slowed to 1.1%.

All ten sectors surveyed reported negative net balances (**Table 1**). Specifically, the net balance in “import/export trade and wholesale” fell sharply in the negative zone, conceivably reflecting the concerns over the moderation in global economic growth and the US-Mainland trade tensions. The net balance in “real estate” stayed negative as the property market continued to consolidate. The net balances of “retail”, “accommodation and food services”, “transportation, storage and courier services”, “information and communications” and “financing and insurance” fell markedly and dipped into the negative region, while that of “construction” remained deep in the negative zone. Large enterprises in “professional and business services” and “manufacturing” also became more cautious. Nonetheless, overall hiring sentiment of large enterprises was still broadly positive, with many sectors surveyed continuing to expect employment to increase in the first quarter of 2019 (**Table 2**).

Chart 1 : Large enterprises turned very cautious



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 was cautious in all sectors surveyed

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2017	2018				2019
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	-1	-10	-5	+23	-1	-3
Construction	-16	-16	-13	-10	-26	-23
Import/export trade and wholesale	+1	-4	+5	-1	-5	-23
Retail	+24	+20	+4	-1	+19	-6
Accommodation and food services	+13	-3	-7	-10	+17	-5
Transportation, storage and courier services	-7	-5	-8	+5	+8	-13
Information and communications	+16	-2	+20	+16	+16	-3
Financing and insurance	+13	+21	+28	+23	+13	-8
Real estate	+6	0	+11	+1	-6	-5
Professional and business services	+7	+2	-2	+3	-2	-7

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

Table 2 : Hiring sentiment among large enterprises was still positive in general

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2017	2018				2019
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	+13	-10	+15	+3	+13	+12
Construction	-9	-7	-8	+18	-6	-3
Import/export trade and wholesale	+1	-2	+2	-7	-1	-6
Retail	+3	-1	+7	+11	+13	+4
Accommodation and food services	+5	+5	+7	+13	+14	+9
Transportation, storage and courier services	+2	+9	+8	+10	+16	+11
Information and communications	+10	-8	+9	0	+15	-11
Financing and insurance	+13	+24	+26	+21	+12	+20
Real estate	+18	+5	+5	+4	+18	+7
Professional and business services	+5	+4	+2	-1	+3	-4

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 compiles a set of diffusion indices on a monthly basis⁽²⁾ to gauge the general direction of change in their views on business situation versus the preceding month. The overall index on business receipts stayed visibly below the boom-bust line of 50 in recent months (*Chart 2a*). Nonetheless, employment situation stayed broadly stable and credit situation remained highly accommodative. Separately, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ fell further in the contractionary zone in the first quarter of 2019 to the lowest level in about three years.

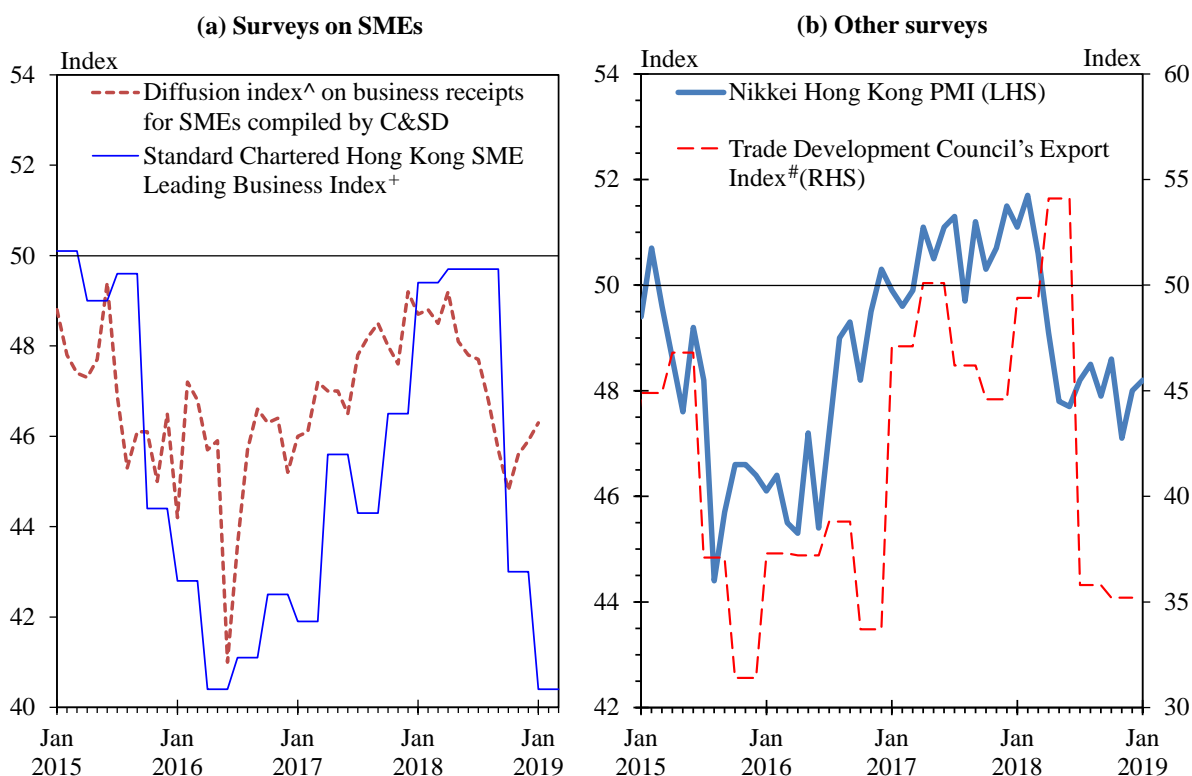
As for other surveys in the public domain, the Hong Kong Trade Development Council (HKTDC)’s Export Index⁽⁴⁾ fell slightly to 35.2 in the fourth quarter of 2018, having plunged to 35.8 in the third quarter (*Chart 2b*), suggesting that traders surveyed remained very cautious about the near-term outlook. Moreover, more than half (54.4%) of traders surveyed in this latest round believed that the ongoing trade tensions between the US and the Mainland would bring negative effects on their export performance, and almost one-half reported that their export performance had already 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 tenth consecutive month in January 2019.

(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 revealed cautious business sentiment



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

The labour sector

1.8 The labour market tightened further in 2018 as the economy recorded another year of above-trend growth. Both the labour force and total employment expanded further throughout the year. The *seasonally adjusted unemployment rate* edged down progressively in the first half of 2018, and remained in the rest of the year at 2.8%, the lowest level in more than 20 years, notwithstanding the increasing external headwinds. The *underemployment rate* also edged down by 0.1 percentage point to 1.1% in 2018, matching its low level in 1997. Amid tight labour market conditions, wages and earnings continued to post appreciable real gains across most of the major sectors. Meanwhile, earnings of grassroots workers sustained solid growth in the year.

The asset markets

1.9 The *local stock market* underwent a sharp correction during 2018 amid concerns about the US-Mainland trade conflict, US interest rate hikes, and more recently also moderating global economic growth. Extending its rally in 2017, the Hang Seng Index (HSI) surged to an all-time high of 33 154 on 26 January 2018. It then plunged to 24 586 on 30 October 2018, its lowest level since May 2017, before closing the year at 25 846, down 13.6% from a year earlier or a sharp 22.0% from its peak in January. The average daily turnover rose from \$88.2 billion in 2017 to \$107.4 billion in 2018. The total amount of initial public offering (IPO) funds raised in the Hong Kong stock market more than doubled from \$128.5 billion in 2017 to \$288.0 billion in 2018, making Hong Kong the largest IPO centre in the world. Meanwhile, credit growth, in terms of the year-on-year increase in loans for use in Hong Kong (including trade finance), moderated to 5.4% at end-December 2018, from 15.5% a year earlier.

1.10 The *residential property* market remained buoyant in the first half of 2018, but underwent a consolidation in the second half. While the tight demand-supply balance of flats continued to render support, market sentiment was dampened by various uncertainties, including elevated US-Mainland trade tensions, continued US interest rate hikes and the subsequent increase in local Best Lending Rates in September, and volatility in the global stock markets. The number of transactions, in terms of the total number of sales and purchase agreements for residential property received by the Land Registry, fell by 7% to 57 247 for 2018 as a whole, mainly due to the plunge in the second half. Flat prices have reverted to a decline since August, though they still recorded a gain of 2% for the whole year. Notwithstanding their recent decline, flat prices in December 2018 still exceeded their 1997 peak by 107%. The index of home

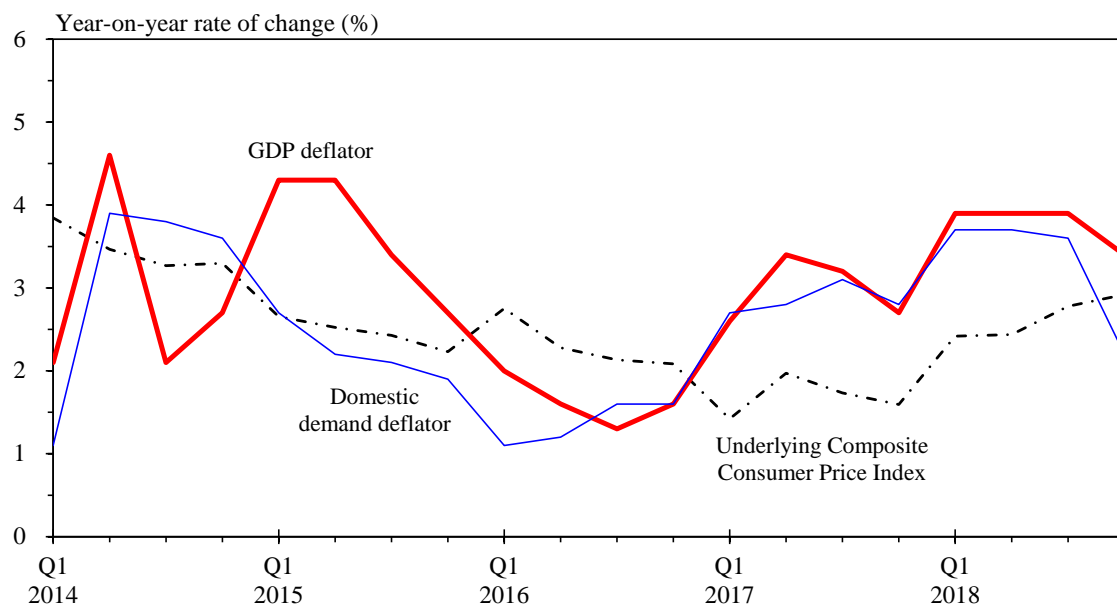
purchase affordability remained elevated at around 69% in the fourth quarter, significantly above its long-term average of 44% over 1998-2017. The leasing market also showed signs of cooling-off towards the end of 2018. With the gains during the first three quarters partially offset by the decline during the fourth quarter, flat rentals rose by a modest 3% between December 2017 and December 2018. As for commercial and industrial property, rentals for offices and flatted factories both increased by 4% during the whole year 2018, and those for retail premises by 2%.

Inflation

1.11 Consumer price inflation went up in 2018, as the local economy continued to grow at an above-trend rate for the year as a whole. Netting out the effects of the Government's one-off relief measures, *underlying consumer price inflation* accelerated from 1.7% in 2017 to a still-moderate level of 2.6% in 2018. *Headline consumer price inflation* likewise picked up from 1.5% to 2.4%. Locally, the earlier increases in fresh-letting residential rentals translated into a faster increase in the private housing rental component of consumer price inflation through 2018 until the final months. As for cost pressures, while wages and earnings sustained solid growth amid tight labour market conditions, labour costs on a unit cost basis were largely contained by the concurrent improvement in labour productivity. The rental cost pressure faced by businesses, though broadly moderate, intensified slightly amid the general uptrend in rentals of retail premises and offices. External price pressures also edged up. Imported inflation rose more visibly in the first half of 2018, reflecting robust global economic conditions, the depreciation of the Hong Kong dollar along with the US dollar on a year-on-year basis, and to a lesser extent the increase in international oil prices. Nonetheless, the strengthening of the Hong Kong dollar along with the US dollar, together with the softening in international prices of various food and commodity items amid moderating global growth, reined in further acceleration of imported inflation in the second half of the year.

1.12 The *GDP deflator* rose by 3.7% in 2018, higher than its 3.0% increase in 2017. The terms of trade saw a marginal improvement in 2018, as export prices rose slightly faster than import prices. Taking out the external trade components, the domestic demand deflator rose by 3.3% in 2018, up from 2.9% in 2017, reflecting the higher price pressures in the economy.

Diagram 1.4 : Consumer price inflation went up in 2018, as the economy recorded another year of above-trend growth



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

GDP by major economic sector

1.13 The net output of the services sector grew solidly by 3.7% in real terms year-on-year in the first three quarters of 2018 combined, largely matching the growth pace of overall GDP. The growth rates in the first, second and third quarters were 4.4%, 3.7% and 3.2% respectively.

1.14 Analysing the performances of major service sectors, the net output of wholesale and retail trades grew briskly in the first three quarters combined, particularly in the first half thanks to strong local consumption and vibrant inbound tourism. The net output of accommodation and food services grew solidly. The net output of financing and insurance showed appreciable growth, with a relatively higher growth rate in the first half of the year. Alongside active regional production and trading activities, the net output of import/export trade grew visibly. Transportation, storage, postal and courier services, information and communications, and public administration, social and personal services generally showed moderate growth in net output. The net output of real estate, professional and business services expanded mildly. As for the secondary sector, the manufacturing and construction sectors both saw modest growth in net output.

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

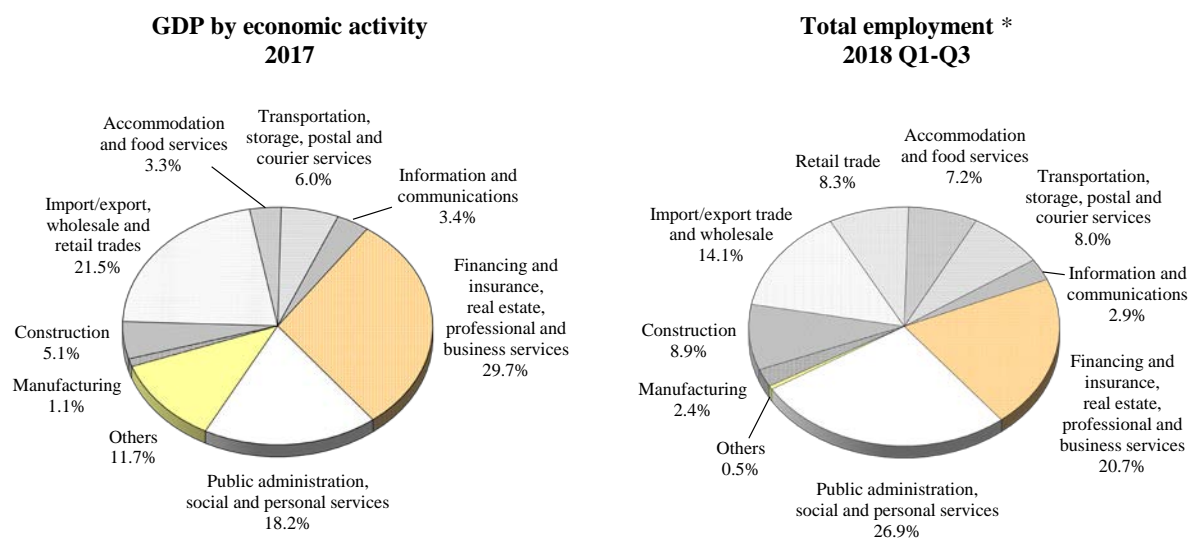
	<u>2017</u>	<u>2018</u>	<u>2017</u>				<u>2018</u>		
		<u>Q1-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Manufacturing	0.4	1.3	0.2	0.4	0.3	0.8	1.1	1.6	1.2
Construction	-1.3	1.9	4.5	-0.7	-3.2	-5.5	4.1	-0.8	2.4
Services ^(b)	3.6	3.7	3.7	3.4	3.7	3.6	4.4	3.7	3.2
Import/export, wholesale and retail trades	4.2	5.6	4.4	3.8	4.3	4.2	6.3	5.8	5.1
Import and export trade	4.2	5.0	5.2	4.2	4.0	3.8	5.1	4.7	5.2
Wholesale and retail trades	3.9	8.3	0.9	2.4	5.7	6.0	11.2	9.9	4.3
Accommodation ^(c) and food services	2.0	4.6	1.2	0.9	1.8	4.1	6.0	4.3	3.5
Transportation, storage, postal and courier services	4.8	3.5	4.9	4.8	4.9	4.7	4.9	4.0	1.5
Transportation and storage	4.7	3.7	4.7	4.6	4.9	4.5	4.9	4.4	1.8
Postal and courier services	7.7	-0.3	8.1	7.9	7.4	7.4	5.6	-2.1	-5.0
Information and communications	4.0	3.2	4.5	4.1	4.3	3.0	3.2	3.4	3.2
Financing and insurance	5.7	5.0	5.4	5.2	5.9	6.2	6.6	4.8	3.7
Real estate, professional and business services	2.1	1.9	3.8	1.7	1.7	1.3	2.1	2.1	1.5
Real estate	2.5	2.1	6.7	2.0	0.3	0.7	1.7	2.6	2.2
Professional and business services	1.8	1.7	1.2	1.5	3.0	1.7	2.5	1.7	0.9
Public administration, social and personal services	3.1	2.9	2.6	2.8	3.6	3.2	3.1	2.5	3.0

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

- (a) The GDP figures shown in this table are compiled from the production approach, while those shown in Table 1.1 are compiled from the expenditure approach. For details, see Note (1) to this chapter.
- (b) In the context of value-added contribution to GDP, the services sectors include ownership of premises as well, which is analytically a service activity.
- (c) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

1.15 The services sector is the mainstay of the Hong Kong economy, accounting for 92.4% of GDP in 2017 and providing 88.2% of total employment in the first three quarters of 2018. As the Mainland economy is rebalancing towards services- and consumption-led growth and continues with further opening-up, there are ample opportunities for service providers in Hong Kong. Hong Kong has been proactively participating in the Belt and Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area (the Greater Bay Area). In August, the Central Government introduced the Regulations for Application of Residence Permit for Hong Kong, Macao and Taiwan Residents, which would provide convenience for Hong Kong residents studying, working and living in the Mainland on a long-term basis. The commissioning of the Hong Kong Section of the Guangdong-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge would further enhance the flows of people and goods between Hong Kong and other cities in the Greater Bay Area.

Diagram 1.5 : The services sector continued to be the key driver of the economy



Note : (*) Figures refer to the Composite Employment Estimates, which are compiled based on results of the General Household Survey and the Quarterly Survey of Employment and Vacancies. Figures for 2018 are averages for the first three quarters of the year.

Other economic developments

1.16 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. On land supply, the Government is determined to identify and produce land and build a land reserve to help resolve the challenge of land supply shortage. Several plans were presented, including the Lantau Tomorrow Vision, development of brownfield sites, land sharing and revitalisation of industrial buildings. On nurturing talent, the Government will allocate resources to further enhance the quality of education and respond to the aspirations of teachers, principals and parents. On economic development, the Government will strengthen its role 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 growth. The Government also proposed initiatives conducive to the development of the maritime industry, insurance industry, film industry, Chinese medicine sector, etc. The Government will also allocate additional funding for university research, re-industrialisation, applications of technology in public services and fostering an enabling environment for innovation and technology.

1.17 Following President Xi’s instruction to promote scientific and technological collaboration between Hong Kong and the Mainland, in May 2018 the Ministry of Science and Technology and the Ministry of Finance promulgated provisions on opening up science and technology funding of the Central Government for application by higher education institutions and research institutions in Hong Kong. In September 2018, the Arrangement on Enhancing Innovation and Technology Co-operation between the Mainland and Hong Kong, which will serve as an action guide and framework for the two places to take forward the various innovation and technology co-operation initiatives in the coming few years, was signed. In November 2018, the Government and the Chinese Academy of Sciences (CAS) signed a memorandum of understanding, confirming that the CAS will establish an affiliated institution in Hong Kong, with a view to facilitating its research institutions to establish their presence in the research clusters on healthcare technologies and artificial intelligence and robotics technologies to be set up by the Government at the Hong Kong Science Park.

1.18 On developments in the financial sector, the enhancement of Listing Rules to facilitate the listing of emerging and innovative enterprises took effect on 30 April 2018. The rules would help enhance the breadth and depth of Hong Kong’s securities market. In May 2018, the People’s Bank of China announced a series of measures to further enhance cross-border fund flow

management, which would support Hong Kong's development as the global offshore RMB business hub. Separately, the Hong Kong Monetary Authority and the Financial Services Regulatory Authority of the Abu Dhabi Global Market signed a Co-operation Agreement in June 2018 to enhance fintech collaboration.

1.19 Hong Kong's economic freedom and competitiveness continue to win international recognition. Hong Kong was ranked as the world's freest economy by the Heritage Foundation for 25 years in a row and by the Fraser Institute since its report on economic freedom was first published in 1996. Moreover, Hong Kong was ranked as the world's second most competitive economy, and the most competitive in Asia, in the International Institute for Management Development's World Competitiveness Yearbook 2018. On ease of doing business, Hong Kong was ranked fourth globally according to the World Bank's Doing Business 2019 Report, moving up one place from the preceding report. All these reaffirmed the favourable business environment for overseas companies to set up their regional headquarters and offices, and for all businesses to flourish. Indeed, the number of business operations in Hong Kong with parent companies overseas and in the Mainland hit a record high of 8 754 in 2018, up 6.4% as compared to 2017.

Notes :

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

CHAPTER 2 : ECONOMIC OUTLOOK FOR 2019 AND THE MEDIUM TERM

Summary

- *The global economy sustained strong growth in the first half of 2018, but lost some momentum in the second half amid the escalation of the US-Mainland trade conflict and other headwinds. In 2019, global economic growth is likely to decelerate. The growth momentum of the US economy is expected to moderate as the effects of fiscal stimulus would gradually fade and as financial conditions have tightened. Economic growth in Europe is set to slow further after several years of above-trend growth. For the Mainland, the economy may likewise experience some mild deceleration amid the unfavourable external environment, but the reduced reliance on exports over the years and implementation of counter-cyclical policy measures should help ensure a solid growth.*
- *In addition to decelerating growth, the global economy is facing notable uncertainties. The rise of trade protectionism is a key threat. The US-Mainland trade tensions are still fraught with uncertainties. The uncertain path of the US monetary policy may give rise to larger volatility in the global financial and asset markets. Other developments such as Brexit, geopolitical tensions and domestic politics in some advanced economies also warrant close attention.*
- *The external environment facing the Hong Kong economy in 2019 is challenging. Moderating growth in many of our key trading partners would weigh on Hong Kong's exports of goods and services, which had already experienced a sharp deceleration in the latter part of 2018. Trade relations between the Mainland and the US are a key source of uncertainty for Hong Kong's export outlook. On the positive side, inbound tourism is likely to sustain its uptrend.*
- *As for domestic demand, consumer sentiment has turned more cautious in recent months and may remain so in the near term amid moderating economic growth and softer asset prices, though the full employment situation should continue to provide some support. Investment expenditure may also lose some momentum as business sentiment has become less sanguine in the face of various external uncertainties.*
- *Considering that global economic growth is likely to decelerate, and also taking into account the boosting effect from the measures in the 2019-20 Budget, the Hong Kong economy is forecast to grow by 2-3% in 2019, compared with the 3.0% growth in 2018 and the average annual growth of 2.8% in the past 10 years. The growth forecast is predicated on the*

assumption that the US-Mainland trade tensions would not escalate from the tariff measures announced so far or might even ease somewhat.

- *On the outlook of consumer price inflation in 2019, the recent moderation in residential rentals could have a mitigating effect. The expected moderate economic growth may also contain the upward pressures on local costs. At the same time, moderating global economic growth and the earlier strengthening of the US dollar vis-à-vis other major currencies should help keep external price pressures in check. The underlying Composite Consumer Price Index is forecast to increase by an average of 2.5% in 2019, slightly slower than the increase of 2.6% in 2018.*
- *Looking beyond the short-term challenges, the medium-term outlook for the Hong Kong economy is bright. Asia, given the huge growth potential of the emerging market economies in the region including notably the Mainland, will remain the fastest growing region and an important engine of global economic growth in the coming years. With its strong competitive edges, Hong Kong is well positioned to leverage on the continuous eastward shift of the global economic gravity. Going forward, the deepening reforms and opening-up in the Mainland will result in sustainable and high quality growth, which will be highly beneficial to Hong Kong. In particular, the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Bay Area development will bring about enormous opportunities. To capitalise on these opportunities, the Government will actively perform its role as a “facilitator” and “promoter”, and spare no effort in tackling the supply-side constraints in the economy and raising the overall competitiveness and productivity. Overall, the trend GDP growth rate in real terms is forecast at 3% per annum from 2020 to 2023. The trend rate of underlying consumer price inflation is forecast at 2.5% per annum over the same period.*

Major external developments

2.1 The global economy sustained strong growth in the first half of 2018, but lost some momentum in the second half amid the various headwinds. The US-Mainland trade conflict has weighed on global economic sentiment since the third quarter, and its impacts on international trade flows, investment activities and financial markets have turned increasingly evident. Asia's production and trading activities moderated noticeably in the latter part of the year. The continued normalisation of monetary policy in major advanced economies, particularly the successive rate hikes in the US, led to reversals in global capital flows and elevated volatility in the global financial markets. In 2019, global economic growth is anticipated to decelerate.

2.2 In addition to the moderation in growth momentum, the global economy is also facing high uncertainties. The most serious threat is the rise of trade protectionism. Of particular note is the US-Mainland trade conflict, which could further dampen global economic growth should it drag on or deteriorate. The uncertain path of the US interest rates could give rise to larger asset market volatility as market expectations swing in response to the evolving situation. Other developments such as Brexit, geopolitical tensions and domestic politics in some advanced economies may also have bearing on the global economy and financial markets.

Global economic outlook

2.3 The Mainland economy expanded by 6.6% in 2018, attaining the full-year growth target of around 6.5% set at the beginning of the year. The overall economic situation held resilient, despite some growth deceleration in the second half amid easing global economic momentum and the trade conflict with the US. Going into 2019, while the Mainland's exports would be affected by the unfavourable external environment, the economy's reliance on external demand has reduced significantly over the years as a result of continued structural transformation. Moreover, the strengthening of counter-cyclical policy measures and reform initiatives should also help ensure economic stability. The 2018 Central Economic Work Conference, which set the overall strategy for economic work for 2019, stressed the importance of pursuing high-quality development with further opening-up, so as to put the economy on a more balanced and sustainable growth path. As such, the Mainland economy should be able to maintain a solid, albeit slightly moderated, growth in 2019. In mid-January the International Monetary Fund (IMF) projected the Mainland economy to grow by 6.2% in 2019. At such a forecast growth pace, the Mainland would continue to outperform other major

economies and contribute over 30% of global economic growth.

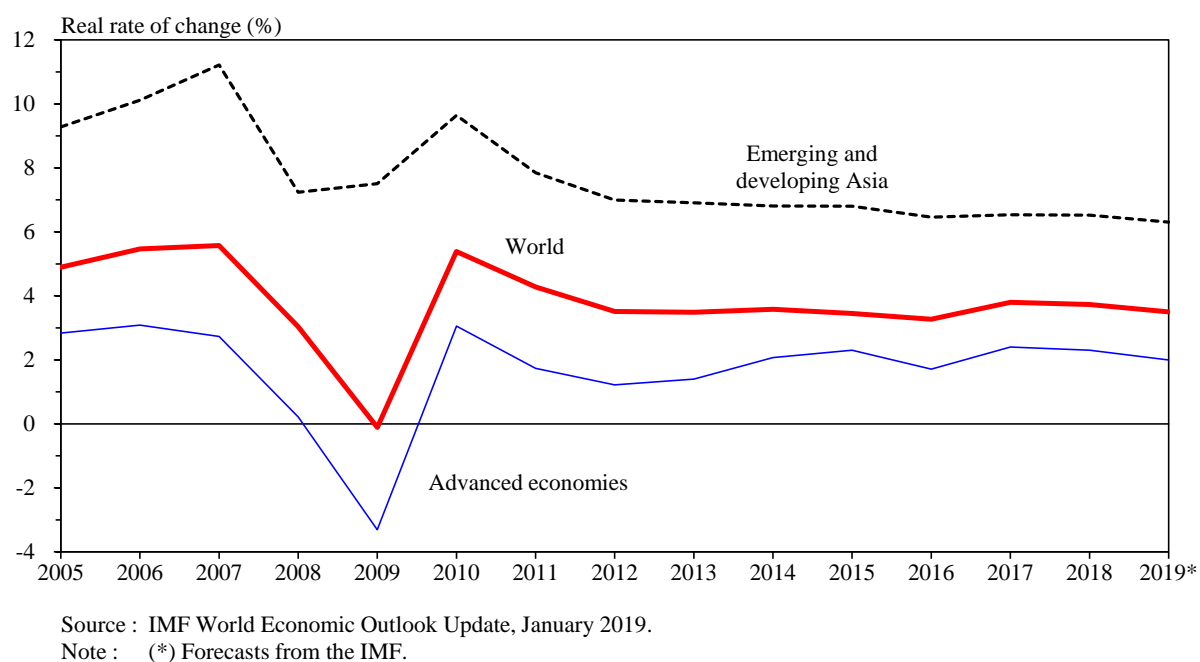
2.4 As for the major advanced economies, the US economy picked up to record a strong growth in 2018, partly boosted by the expansionary fiscal policy. The labour market was robust, showing notable job gains and faster wage growth. The US Federal Reserve (Fed) hiked interest rate four times and continued to scale back its balance sheet as planned during the year. Looking ahead into 2019, the growth momentum is expected to moderate as the effects of fiscal stimulus would gradually fade and as financial conditions have tightened. The trade measures introduced by the US together with the countermeasures by its trading partners, if continued, will also pose a drag on US's economic growth. The partial US federal government shutdown earlier on showed that disputes in domestic politics could also impinge on sentiment. In recent months, various indicators on economic sentiment have already retreated from their previous highs.

2.5 The euro area economy saw its growth decelerating over the course of 2018, after several years of above-trend growth. Going forward, the European Central Bank's (ECB) pledge to keep its policy rate at the present ultra-low level at least through the summer of 2019 should render some support to the economy, but growth would continue to be constrained by weakened sentiment and a more difficult global environment. Moreover, it remains highly uncertain as to whether Brexit could proceed in an orderly manner, considering the difficulties in reaching any deal acceptable to both the EU and the British parliament. In the unfortunate event of a "no-deal Brexit", the resulting uncertainties and disruptions would have significant repercussions on economic activities and sentiment in both the EU and UK, with adverse spill-over effects on the global economy. Other political developments in Europe, most notably the European Parliament election in May 2019 and the ongoing social unrest in France, also deserve a close watch.

2.6 Japan's economy decelerated to show a modest growth in 2018, with particularly visible moderation in the second half. Looking ahead, the economy will probably continue to grow modestly in 2019, given the various structural issues such as the ageing population and huge public debts, and moderating external demand. Moreover, the planned sales tax hike in October 2019 may pose an additional drag on domestic demand unless the Government would implement counteracting fiscal measures as planned. For other high-income Asian economies, growth rates in Singapore, Taiwan and Korea, which have already seen some deceleration of late, are also likely to stay moderate in 2019 in the face of the various external uncertainties.

2.7 Emerging market economies as a whole continued to record notable growth in 2018, but the momentum in many of them eased somewhat in the latter part of the year. Production and export activities in many emerging market economies in Asia have been dented by the US-Mainland trade conflict since the third quarter. Many ASEAN economies, including Malaysia, Thailand and the Philippines, saw slower albeit still solid growth in the second half of 2018. India's growth, while still robust, also moderated somewhat in the third quarter. Separately, the tighter financial conditions in advanced economies induced capital outflows from the emerging market economies, causing serious financial stress to those with weak fundamentals like Turkey and Argentina around mid-2018. To alleviate the downward pressures on their currencies and to tame capital outflows, many central banks in Asia raised interest rates by varying magnitudes during 2018, contributing to the tightening of the global financial conditions. Looking ahead in 2019, the deceleration in global economic growth and elevated uncertainties may continue to weigh on the performance of emerging market economies.

Diagram 2.1 : Global economic growth is expected to decelerate in 2019



2.8 On the whole, in January the IMF revised down its growth forecast for the global economy in 2019 to 3.5%, slower than the estimated growth of 3.7% in 2018. The downward revision reflected carry over from softer global economic momentum in the second half of 2018 and weakening financial market sentiment. Growth in the advanced economies was forecast to moderate from 2.3% in 2018 to 2.0% in 2019, and that in emerging market economies from 4.6% to 4.5%. Within the emerging market economies, those in Asia combined was projected to grow at a notable rate of 6.3% in 2019, but

likewise slightly slower than its growth of 6.5% in 2018.

2.9 The IMF assessed that the risks to the near-term outlook remained skewed to the downside. In particular, the IMF warned of a sharper-than-expected escalation of trade tensions, an abrupt tightening in global financial conditions, a “no-deal Brexit”, and geopolitical tensions in various regions as potential downside risks. Nonetheless, the IMF believed that if countries could resolve their differences through negotiations without raising trade barriers any further, the improved confidence and easier financial conditions could reinforce each other, and global economic growth could turn out to be better than expected.

Table 2.1 : Growth forecasts for major economies in 2019

	2019		
	<u>2018</u>[*]	<u>IMF</u>[*]	Private sector <u>forecast</u>[^]
	(%)	(%)	(%)
World (PPP ^{##} weighted)	3.7	3.5	-
Advanced economies	2.3	2.0	-
US	2.9	2.5	2.5
Euro area	1.8 [#]	1.6	1.3
UK	1.4 [#]	1.5	1.4
Japan	0.7 [#]	1.1	0.9
Emerging market and developing economies	4.6	4.5	-
Emerging and developing Asia	6.5	6.3	-
Mainland China	6.6 [#]	6.2	6.2
India [~]	7.3	7.5	7.3
ASEAN-5 [§]	5.2	5.1	-
Middle East and North Africa ⁺	2.4	2.4	-

Notes : (*) IMF World Economic Outlook Update, January 2019.
 (^) Average forecasts as at February 2019.
 (-) Not available.
 (#) Actual figures.
 (##) PPP refers to purchasing power parity.
 (~) India's GDP growth refers to fiscal year.
 (§) Includes Indonesia, Malaysia, the Philippines, Thailand and Vietnam.
 (+) Based on “Middle East, North Africa, Afghanistan, and Pakistan” as defined by the IMF.

Monetary conditions and exchange rate movements

2.10 The global monetary environment has become more complicated, as the directions of monetary policy in major advanced economies have turned more uncertain amid the expected deceleration of global economic growth. In the US, the median forecast of the federal funds rate by the Federal Open Market Committee (FOMC) participants in December 2018 pointed to two more hikes of 25 basis points each in 2019. Yet, after the latest FOMC meeting in late January 2019, Fed Chair Powell said that the Fed would be “patient” on future interest-rate decisions, and that it was evaluating the appropriate timing to end the scaling back of its balance sheet. For other central banks, the ECB gradually trimmed the size of its net asset purchase program in 2018 and ended the program altogether in December 2018, while the Bank of England and Bank of Canada raised their benchmark interest rates in 2018. Nonetheless, in their latest meetings, these central banks noted the prospect of moderating growth and increased downside risks to the global economy. Meanwhile, the financial markets have generally expected a much slower pace of further monetary policy normalisation by these major central banks in 2019, if any at all.

2.11 The US dollar has strengthened against many major currencies since the second quarter of 2018, underpinned by continued US interest rate hikes amid strong US economic growth. The Hong Kong dollar, which follows closely the movements of the US dollar under the Linked Exchange Rate System, also appreciated against the currencies of many of Hong Kong’s trading partners. The nominal trade-weighted effective exchange rate index of the Hong Kong dollar in December 2018 rose by 4% over a year earlier.

2.12 Due in large part to the strengthening of the US dollar, the renminbi (RMB) depreciated by 4% against the US dollar and Hong Kong dollar year-on-year in December 2018. Nonetheless, RMB remained relatively stable against a basket of major currencies. According to the Bank for International Settlements, the effective exchange rate index of RMB actually appreciated by 1% over the period.

2.13 The direction of exchange rate movements in 2019 will, as always, be subject to various uncertainties, including the comparative strengths of economic growth across major economies and monetary policy decisions of major central banks. Uncertainties surrounding Brexit may also have impacts on the movements of the euro and pound sterling. As of early 2019, the US dollar was still stronger than its year-ago level. As for the RMB, as the market-oriented reform of the exchange rate formation mechanism deepens

further, and given the sound fundamentals of the Mainland economy, the RMB exchange rate should be able to maintain stability at a reasonable level. Hong Kong's export performance going forward, as in previous years, is likely to be affected more by global demand conditions than by exchange rate movements.

Diagram 2.2 : The direction of exchange rate movements in 2019 will, as always, be subject to various uncertainties

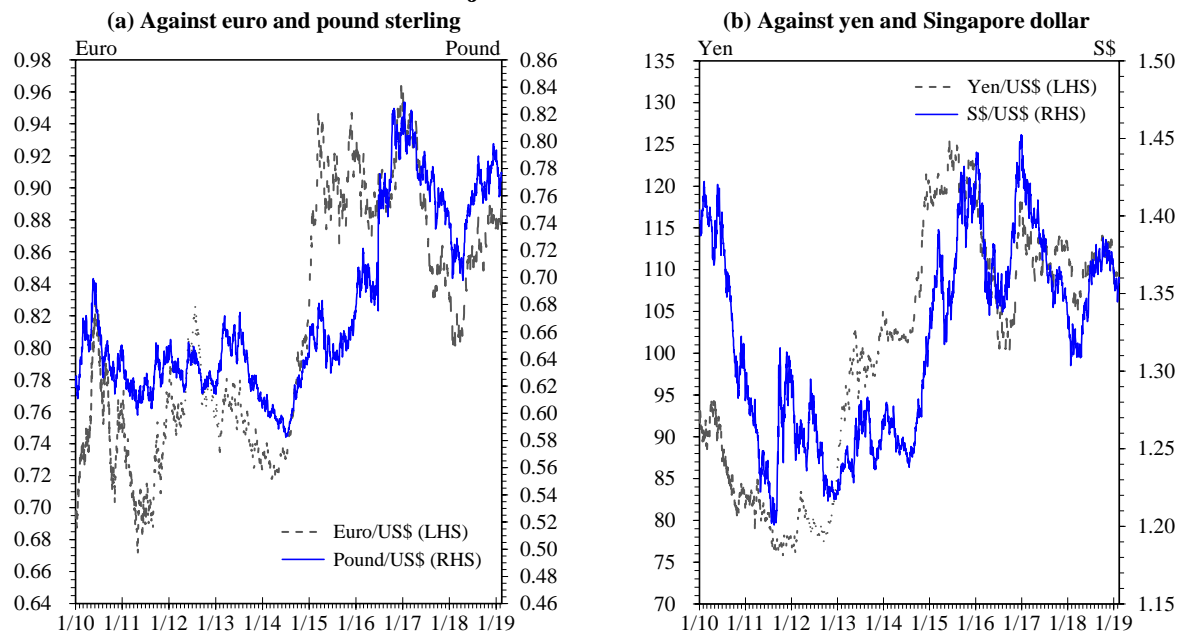
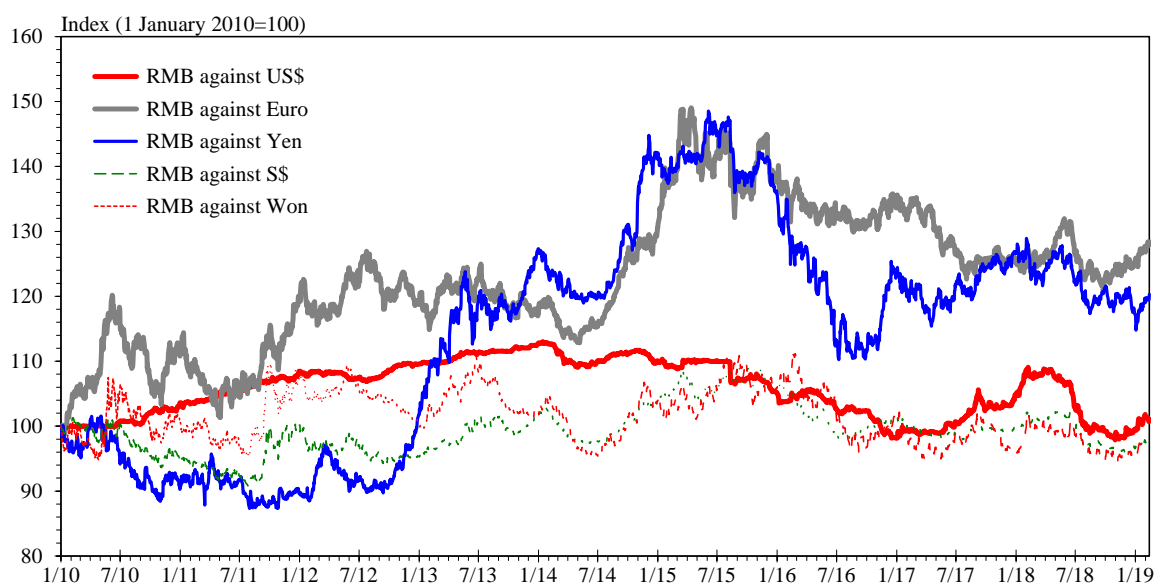


Diagram 2.3 : The RMB exchange rate should be able to maintain stability at a reasonable level



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

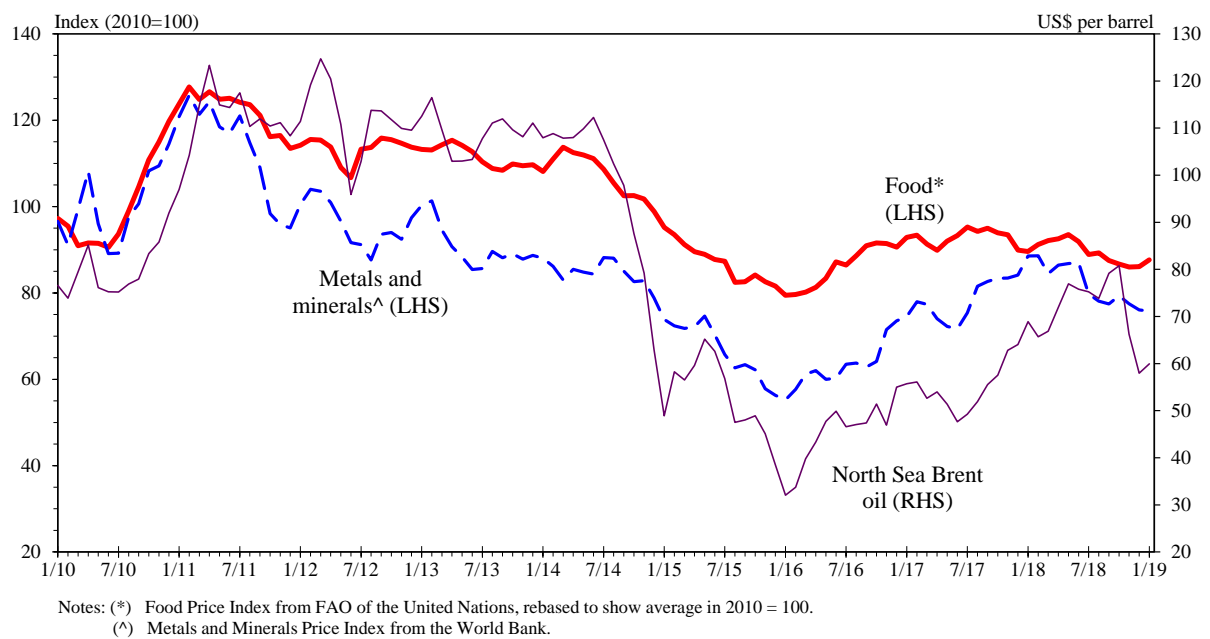
World inflation and global commodity prices

2.14 Global inflation edged up in 2018. The acceleration was more noticeable in the first half of the year amid robust global economic growth and to a lesser extent higher international oil prices. Yet, weaker global food and commodity prices in tandem with easing global growth helped contain inflationary pressure in the second half. Looking ahead, global inflationary pressure is likely to stay broadly moderate in 2019 as global growth is expected to decelerate. In January the IMF forecast inflation rate in the advanced economies to decline from 2.0% in 2018 to 1.7% in 2019, though inflation rate in the emerging market economies is expected to edge up.

2.15 International crude oil prices went higher during most of 2018 before showing a visible retreat during the fourth quarter amid concerns about slowing demand. Likewise, prices of many manufacturing-related commodities, such as industrial-used metals, softened in the second half of 2018 as global demand turned weaker. Global food prices also eased somewhat since around mid-2018 according to the Food and Agriculture Organization (FAO) of the United Nations.

2.16 Looking ahead, while the expected moderation in global economic growth should contain the upside risks to global commodity prices in 2019, uncertainties remain. For international oil prices, how the various supply-side factors, such as the production decisions of the oil-producing economies and the geopolitical tensions in the oil-producing regions, will evolve remains to be seen. Moreover, international food and commodity prices are sensitive to unpredictable short-term supply shocks stemming from factors such as adverse weather conditions.

Diagram 2.4 : The expected moderation in global economic growth should contain the upside risks to global commodity prices in 2019, but uncertainties remain



Outlook for the Hong Kong economy in 2019

2.17 Global economic growth has lost some steam since mid-2018, and is envisaged to decelerate in 2019. The expected moderation in growth momentum in many of Hong Kong's key trading partners would dampen Hong Kong's exports. Moreover, if the US-Mainland trade tensions are to drag on or deteriorate, the impacts on Hong Kong's external trade would become even more significant. Indeed, exports of goods already eased sharply in recent months alongside the slowdown in regional trade. On the contrary, if the US and the Mainland could make some progress in resolving their trade conflict, it could boost sentiment and stimulate production and trading activity in the region, and our exports may have a better performance.

Diagram 2.5 : The expected moderation in growth momentum in many of Hong Kong's key trading partners would dampen Hong Kong's exports

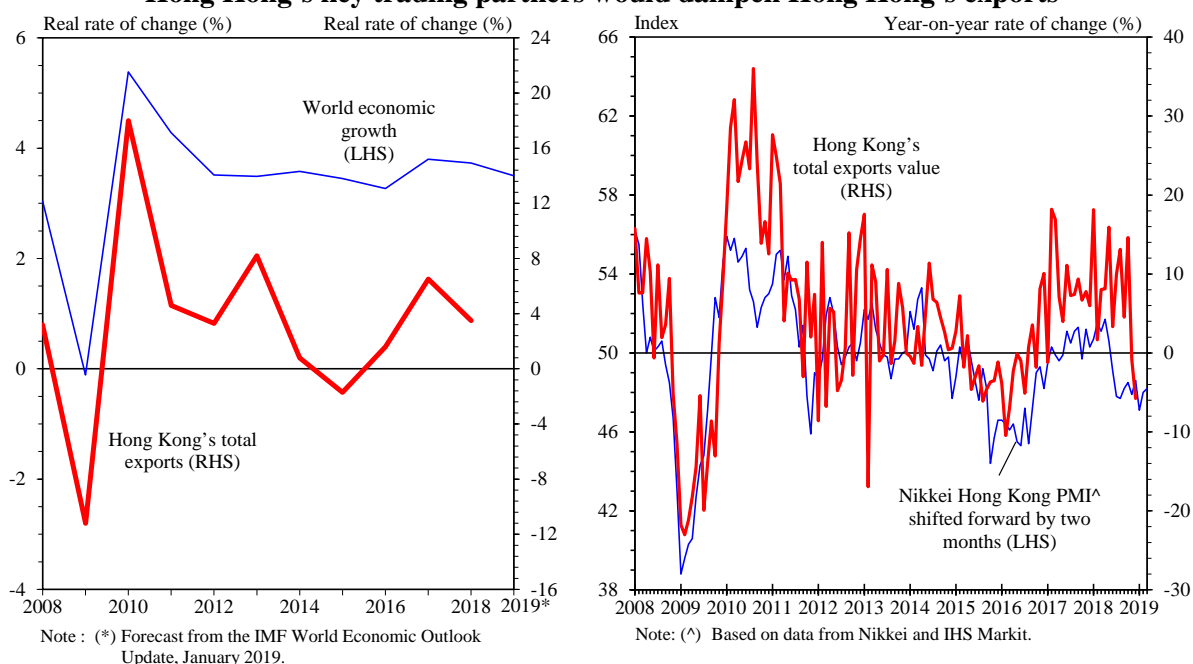
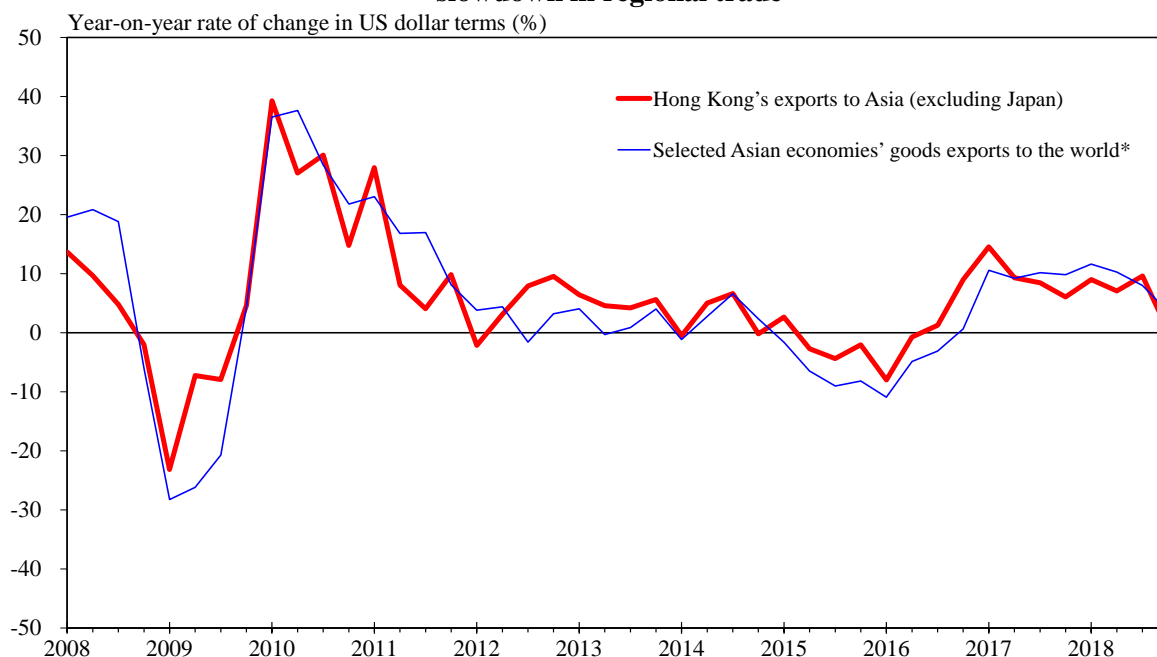


Diagram 2.6 : Exports of goods eased sharply in the fourth quarter of 2018 alongside the slowdown in regional trade



Note : (*) "Selected Asian economies" include the Mainland of China, Hong Kong, Singapore, Korea, Taiwan, Japan, Indonesia, Malaysia, Thailand and the Philippines. Trade figure for the fourth quarter of 2018 are based on the information available as of mid-February 2019.

2.18 Exports of services decelerated noticeably in the second half of 2018. Looking ahead, moderating global growth may continue to restrain external demand for our services. Among the key components, exports of transport services may continue to be held back by the expected weaker performance of regional trade and cargo flows. The global and local financial markets may be subject to larger volatilities amid the complicated global monetary environment, which may not augur well for exports of financial services. On the positive side, helped by the commencement of the large-scale cross-boundary infrastructures last year, inbound tourism is likely to stay vibrant, helping to support exports of travel services.

2.19 Hong Kong's domestic demand was broadly resilient in 2018, but faced increasing pressures over the course of the year. The corrections of the local stock market and property market led to a moderated growth in private consumption expenditure in the second half. Conceivably dampened by the deteriorated business environment, private sector investment slackened sharply to a decline in the fourth quarter. Looking ahead, the growth in private consumption expenditure is likely to remain moderate in the near term amid various external uncertainties and weaker wealth effect, though the full employment situation should continue to provide some support. Investment expenditure may also be affected by the cautious business sentiment. Nonetheless, the Government's various policy initiatives as unveiled in the

2019-20 Budget should render some support to the economy.

Diagram 2.7 : Private consumption expenditure growth is likely to remain moderate in the near term

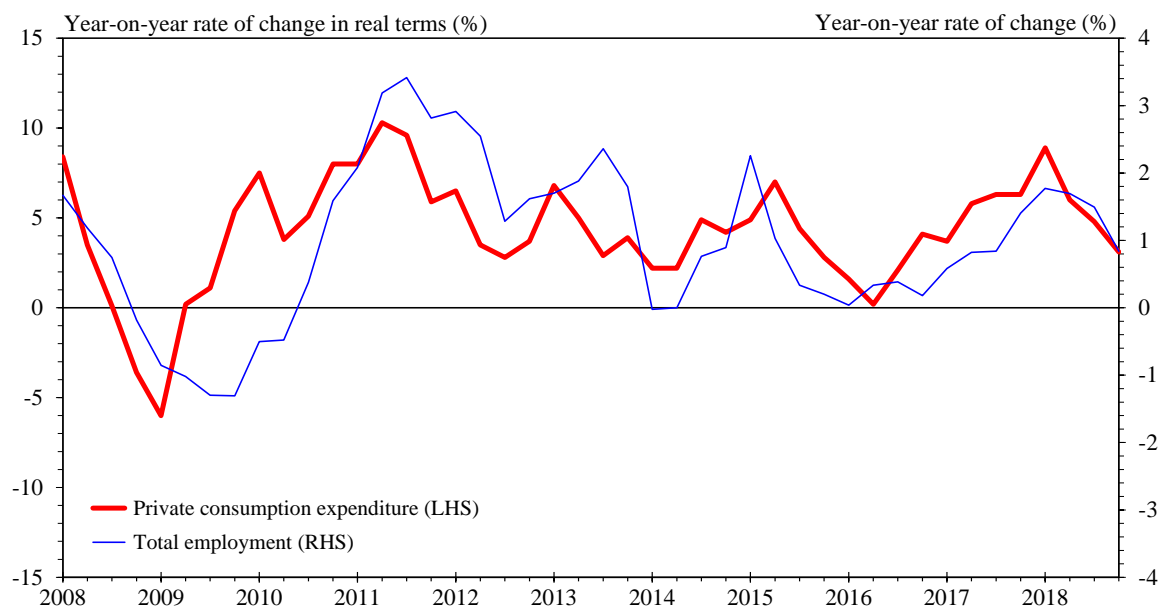


Diagram 2.8 : The corrections in the local asset markets led to a moderated growth in private consumption expenditure in the second half of 2018

(a) Housing wealth

(b) Equity wealth

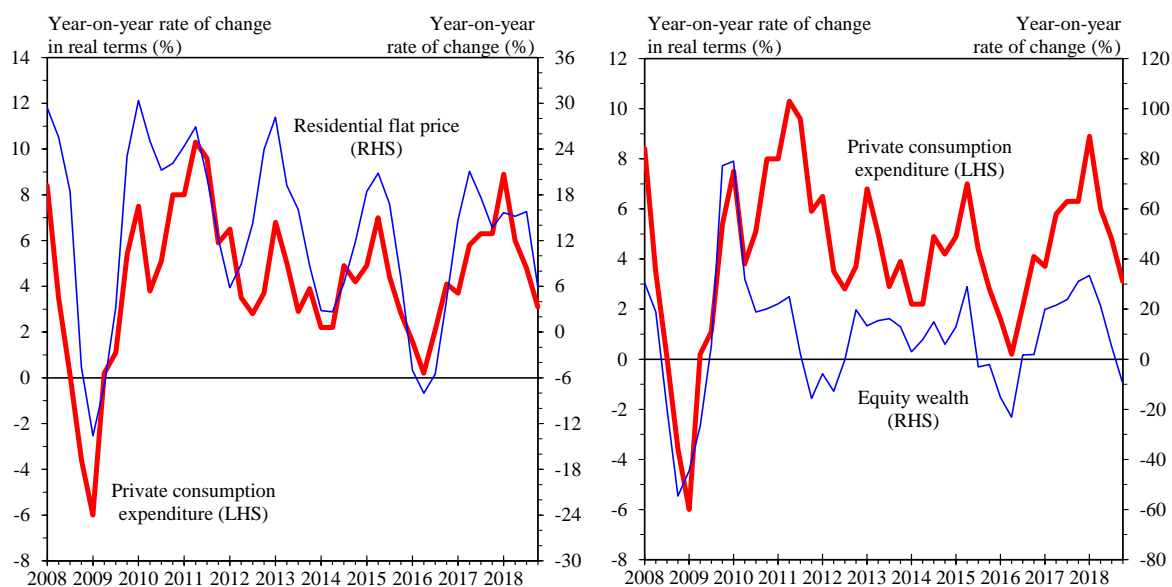
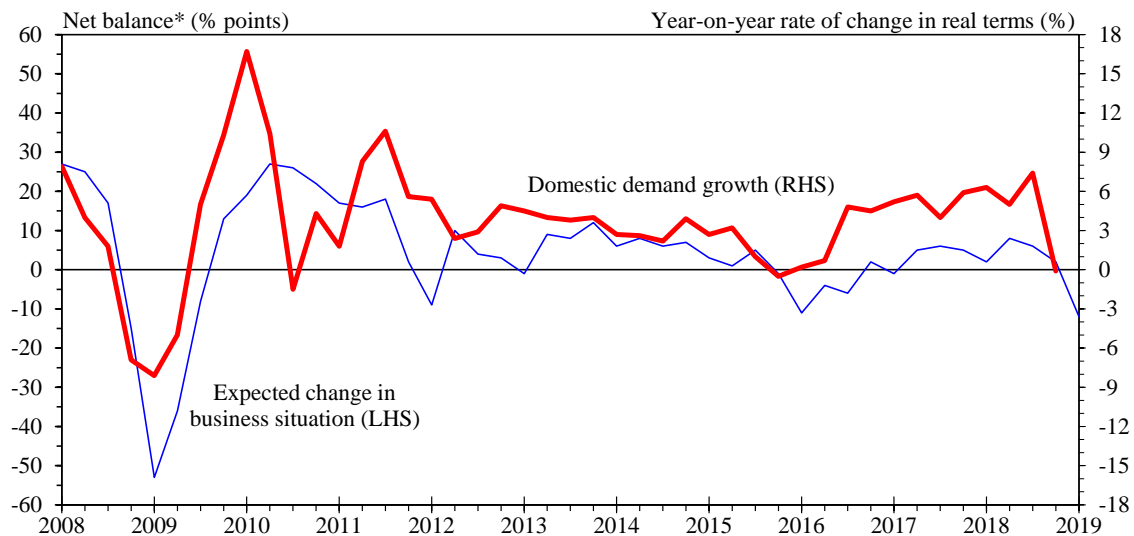
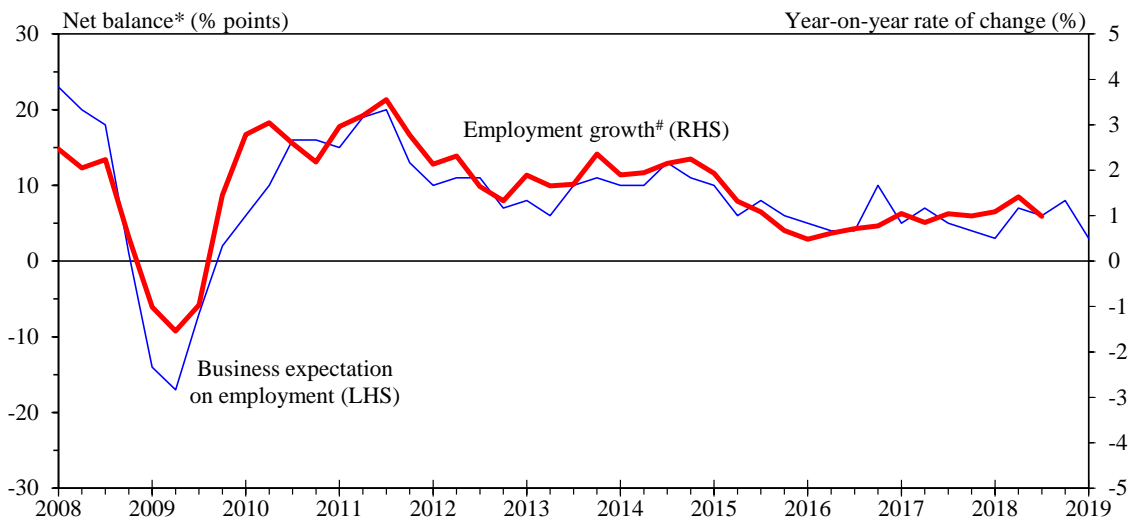


Diagram 2.9 : Business sentiment has weakened recently



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

Diagram 2.10 : Overall hiring sentiment was still broadly positive

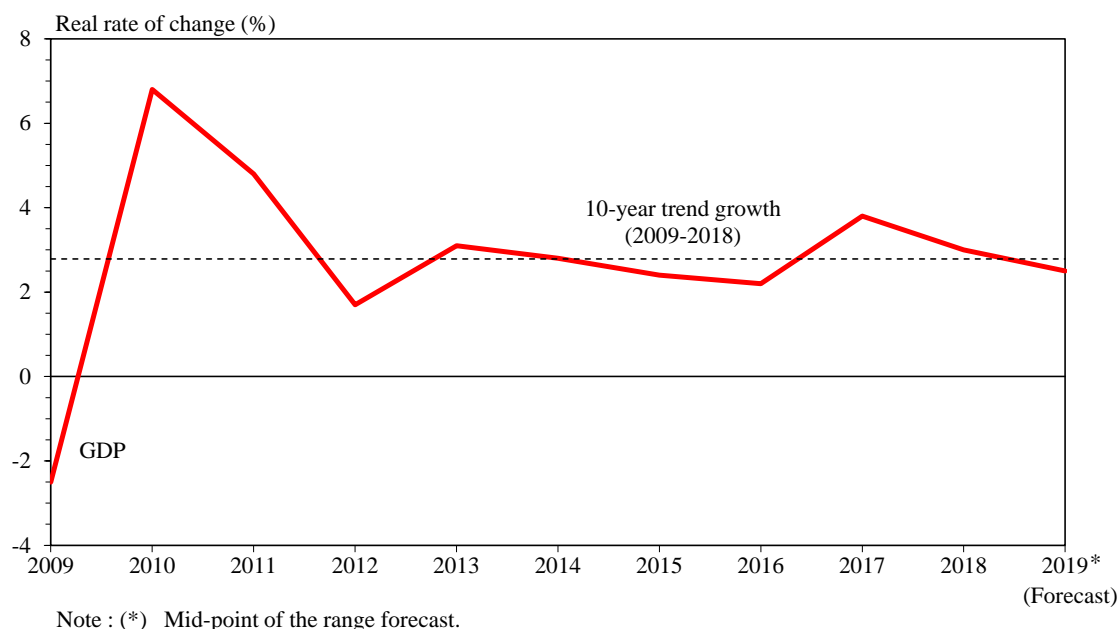


Notes : (*) Net balance indicates the direction of expected change in number of persons engaged versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing “up” over that choosing “down”. A positive sign indicates a likely upward trend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

(#) Employment in the private sector.

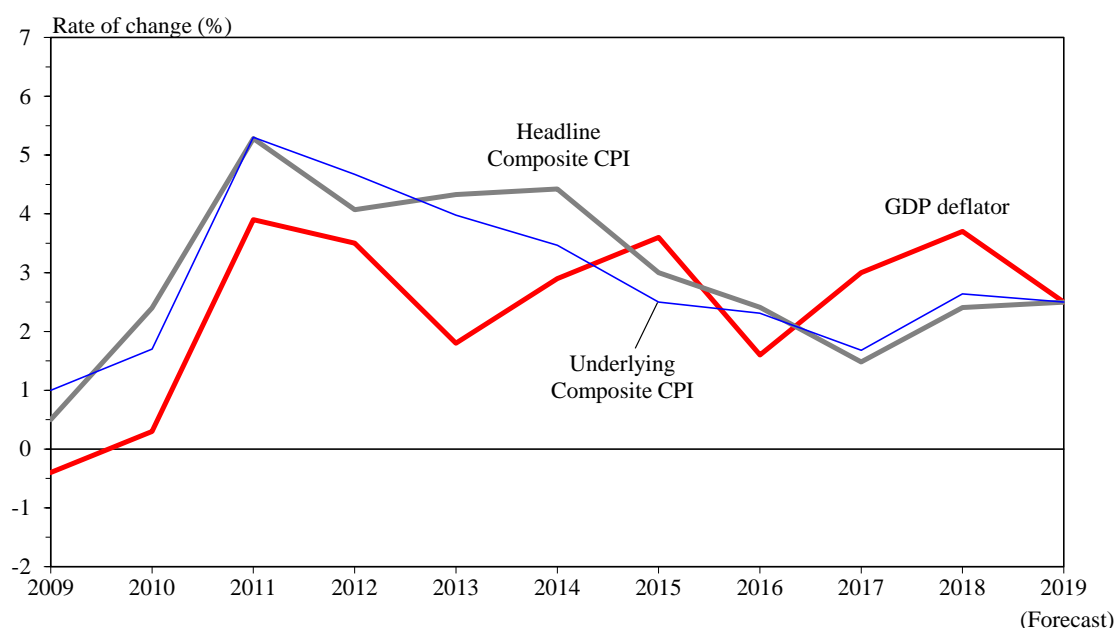
2.20 In sum, Hong Kong's economic outlook for 2019 is subject to notable challenges. Considering that global economic growth is likely to decelerate, and also taking into account the boosting effect from the measures in the 2019-20 Budget, the Hong Kong economy is forecast to grow by 2-3% in 2019, compared with the 3.0% growth in 2018 and the average annual growth of 2.8% in the past 10 years. The growth forecast is predicated on the assumption that the US-Mainland trade tensions would not escalate from the tariff measures announced so far or might even ease somewhat. There are both downside and upside risks to the forecast. If the US-Mainland trade tensions drag on or even intensify, Hong Kong's economic performance may turn out to be worse than expected. On the other hand, if the US and the Mainland can largely resolve their trade conflict and remove some or all of the additional tariffs introduced earlier, this would give a strong boost to sentiment and it is possible that Hong Kong's economic growth would be better than forecast. The Government will stay vigilant to the developments in the external environment, for their possible implications on the local economic and employment situations. For comparison, the latest forecasts by private sector analysts for Hong Kong's economic growth in 2019 mostly fall within the range of 2.0-2.8%, averaging around 2.4%, and that by the IMF is 2.9%.

Diagram 2.11 : The Hong Kong economy is forecast to grow by 2-3% in 2019



2.21 Underlying consumer price inflation in Hong Kong went up in 2018 as the economy recorded another year of above-trend growth. Going forward, the recent moderation in fresh-letting residential rentals could help ease the overall inflation in the months ahead. The expected moderate economic growth would also contain the upward pressures on domestic costs in 2019. Amid moderating global economic growth, inflation expectations of our major import sources are well anchored at modest or moderate levels (see **Box 2.1**). This, coupled with the earlier strengthening of the US dollar, should help keep external price pressures in check. Overall, underlying consumer price inflation is forecast at 2.5% in 2019, slightly slower than the 2.6% in 2018. Taking into account the effects of the Government's one-off measures, the headline consumer price inflation is forecast at 2.5% in 2019, as compared to 2.4% in 2018. For reference, the latest forecasts for consumer price inflation in 2019 by private sector analysts average 2.3%, while that by the IMF is 2.1%. The GDP deflator is forecast to rise by 2.5% in 2019, on par with consumer price inflation.

Diagram 2.12 : Underlying consumer price inflation is forecast to ease slightly to 2.5% in 2019



Forecast rate of change in 2019 (%)

Gross Domestic Product (GDP)

<i>Real GDP</i>	2 to 3
<i>Nominal GDP</i>	4.5 to 5.5
<i>Per capita GDP in real terms</i>	1.3 to 2.3
<i>Per capita GDP at current market prices</i>	HK\$396,300 – 400,100 (US\$50,800 – 51,300)

Composite Consumer Price Index

<i>Underlying</i>	2.5
<i>Headline</i>	2.5

GDP Deflator	2.5
---------------------	------------

Forecast on Hong Kong's real GDP growth in 2019 recently made by other selected parties

	(%)
Asian Development Bank (December 2018)	2.8
IMF (January 2019)	2.9
Average forecast by private sector analysts [#]	2.4

Note : (#) Real GDP growth forecasts by private sector analysts mostly fall between 2.0% and 2.8%.

Box 2.1

Inflation expectations in major economies

Inflation expectations in major economies are worth monitoring for at least two important reasons. As a small and open economy, Hong Kong is highly dependent on imports, particularly for foodstuffs and consumer goods. As such, inflation in major economies, which are also Hong Kong's key import sources, has strong bearing on the external price pressures faced by Hong Kong. Moreover, major central banks would play close attention to inflation expectations to decide the future path of their monetary policy. This box article summarises the various measures of inflation expectation in these economies.

There are two broad types of gauge of inflation expectation. The first type is the survey-based measures, under which professional forecasters, enterprises or other individuals are enquired about their expected inflation rates in an upcoming period. The second type is the market-based measures, under which the expected level of inflation is derived from the breakeven inflation rate implied by the transactions of various financial instruments, such as inflation-indexed bond⁽¹⁾ or inflation swap⁽²⁾. The two different gauges have their own strengths and limitations. For instance, while survey-based gauges are more direct measures of inflation expectation, they are usually published at a lower frequency and only of relatively short horizon. On the other hand, market-based gauges can provide high-frequency information, but such information can be obscured by other factors such as varying conditions of trading liquidity or inflation risk premium of the financial instruments concerned. While these measures need to be interpreted with caution, they can nonetheless provide valuable information about the prevailing inflation expectation of an economy.

In the US, inflation climbed up in 2018 on the back of the strong economy, but remained close to the Federal Reserve's (Fed) 2% target. Core personal consumption expenditure (PCE) inflation edged up from 1.6% in 2017 to an average of 1.9% in the first eleven months of 2018, and core CPI inflation from 1.8% in 2017 to 2.1% in 2018. Looking ahead into 2019, survey-based gauges showed that respondents expected inflation to remain at a largely steady and moderate level. For instance, according to the Fourth Quarter 2018 Survey of Professional Forecasters conducted by the Federal Reserve Bank of Philadelphia, core PCE inflation and core CPI inflation were expected to be 2.1% and 2.4% respectively in 2019 (*Chart 1a*). Beyond the short term, results from the same survey suggested that PCE inflation over the next 5 years was expected to average around 2%, which is the Fed's target. For market-based gauges, breakeven inflation rates implied by the US Treasury Inflation Protected Securities (TIPS) and inflation swap suggested that the average inflation would stay in the vicinity of the Fed's target in the upcoming 5-year period (2019-2023) (*Chart 1b*).

In the euro area, inflation was modest in 2018, with core CPI inflation averaging 1.0%. According to the European Central Bank's (ECB) Survey of Professional Forecasters for the first quarter of 2019, respondents, on average, expected that core CPI inflation would go up

-
- (1) For an inflation-indexed bond, the principal and coupon payments are linked to the actual inflation rate over a specified period. In contrast, payments of a non-inflation-indexed bond are not affected by inflation, yet investors will price in a premium that compensates for their expected level of inflation. The difference in yield of these bonds of the same maturity would be the "breakeven inflation rate" that can be taken as a measure of inflation expectation for a specified period.
 - (2) Inflation swaps are contracts in which future cash flows would be exchanged between two investors. In a typical inflation swap, one investor would pay a pre-defined amount, usually a fixed percentage of the notional amount of the swap, while the other investor would pay a variable amount, usually depending on the realised inflation rate before the day of exchange. The fixed rate of the swap would be a proxy of the expected inflation rate.

Box 2.1 (Cont'd)

somewhat to 1.3% in 2019. As for the longer term, the same survey suggested that core CPI inflation was expected to be 1.7% in 2023 (*Chart 2*). Separately, latest information from inflation swap suggested an expected level of inflation of slightly above 1.0% in the coming 5 years (*Chart 3*). These indicators showed that inflation in the euro area should stay either modest or moderate in the years ahead, being somewhat below or close to the ECB's inflation target (i.e. below but close to 2%).

Chart 1: Both survey-based and market-based gauges suggested short- and medium-term inflation expectations in the US near the Fed's 2% target

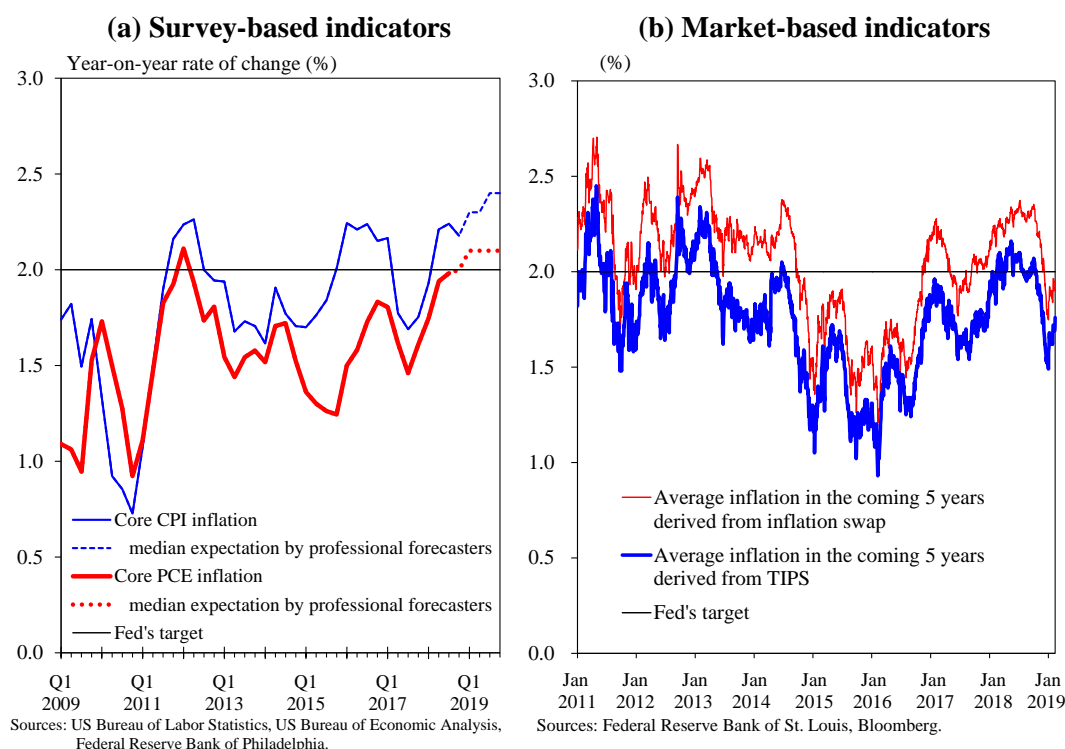


Chart 2: Surveyed views suggested that inflation in the euro area was expected to stay moderate in the next few years

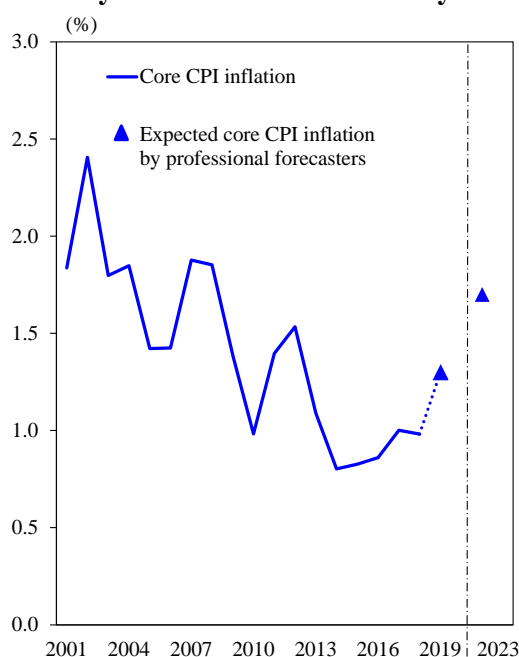
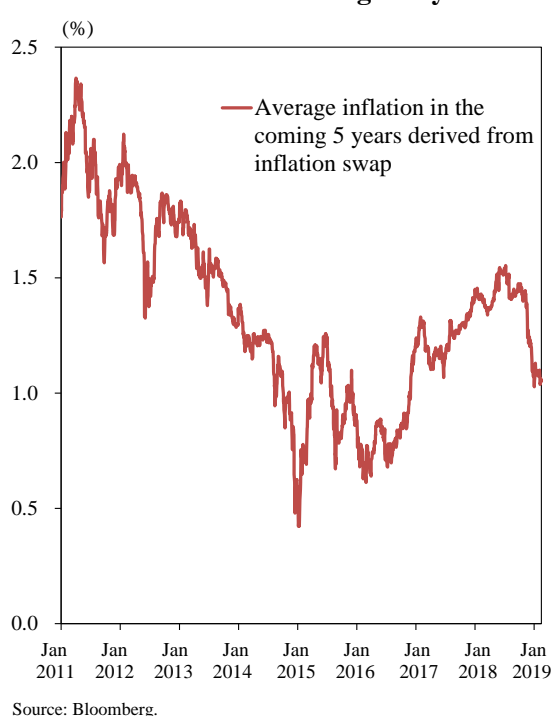


Chart 3: Market-based gauge suggested modest inflation expectation in the euro area in the coming five years



Box 2.1 (Cont'd)

In Japan, core CPI inflation averaged 0.4% in 2018. Overall CPI inflation was also modest at 1.0%. According to the Tankan survey conducted by the Bank of Japan in December 2018, enterprises generally envisaged only mild inflationary pressures in 2019 and beyond. Their expected annual increase in general prices⁽³⁾ in 2019, 2021 and 2023 only averaged 0.9%, 1.1% and 1.2% respectively (*Chart 4*). Meanwhile, market-based measures suggested that price pressures were expected to be rather subdued in the upcoming 5-year period from 2019 to 2023 (*Chart 5*).

Chart 4: Japan's enterprises saw only mild inflation in the years to come

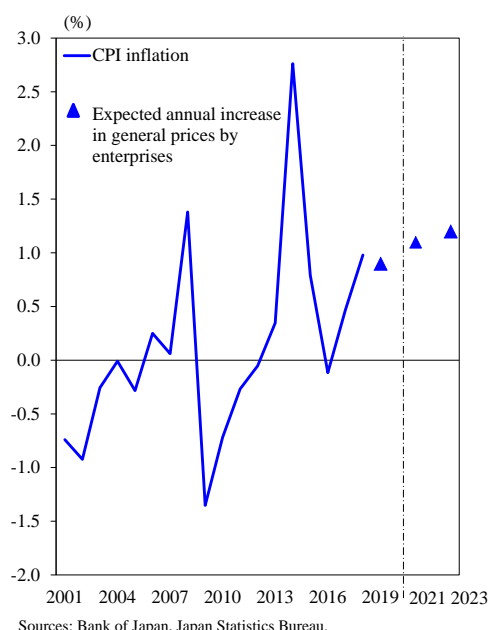
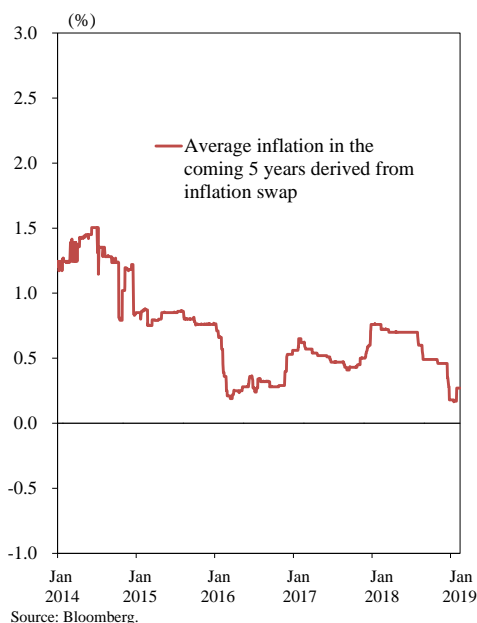


Chart 5: Market-based gauge suggested Japan's inflation expectation in the coming five years was subdued



In the Mainland, CPI inflation stood at a moderate level of 2.1% in 2018. While information on inflation expectation in the Mainland is relatively scanty, the Urban Depositor Survey conducted by the People's Bank of China, which collects depositors' views on the economic performance in the coming quarter, could provide some hints on the near-term inflation outlook. In the latest survey for the fourth quarter of 2018, the Price Expectation Index⁽⁴⁾ for the next quarter (i.e. the first quarter of 2019) was 64.3%, only slightly higher than the 63.7% in the preceding quarter, signalling that the urban depositors surveyed generally expected inflation in the Mainland to stay moderate in early 2019.

In sum, the various gauges of inflation expectation in the US, the euro area and Japan showed that inflation rates in these economies are generally expected to stay at some modest-to-moderate levels in the short to medium term. If materialised, these should be a stabilising factor for the external price pressures faced by Hong Kong going forward. That said, there are other factors that could also affect Hong Kong's imported inflation, such as exchange rates and global food and commodity prices. Separately, while the prevailing inflation expectations in these economies may suggest that the central banks concerned are not under notable pressure to tighten significantly their monetary policy in the period ahead, their policy decisions would still be much affected by the upcoming economic data given the heightened uncertainty surrounding the global outlook.

- (3) According to the Tankan survey, the annual rate of change in general prices is measured by the annual rate of change in CPI after netting out the effects of changes due to institutional factors such as the consumption tax.
- (4) Price Expectation Index is a diffusion index reflecting respondents' judgment on prices in the next quarter. A reading above 50% means the respondents expect an increase in prices, while a reading below 50% means the contrary.

Medium-term outlook for the Hong Kong economy

2.22 Looking beyond the short-term challenges, the medium-term outlook for the Hong Kong economy is bright. Asia, given the huge growth potential of the emerging market economies in the region including notably the Mainland, will remain the fastest growing region and an important engine of global economic growth in the coming years. With our strong competitive edges in institutional framework, geographical location, global connectivity, and status as an international businesses and financial centre with professionals of high calibre, Hong Kong is well positioned to leverage on the continuous eastward shift of the global economic gravity.

2.23 Our nation has made remarkable achievements in its economic development and is now the world's second largest economy. The rebalancing and restructuring of the economy towards technology- and services-led growth has achieved notable progress over the years. Going forward, the Mainland will remain steadfast in deepening reforms and opening-up, and the resulting sustainable and high quality growth will be highly beneficial to the Hong Kong economy. In particular, the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area Development will bring about enormous opportunities especially considering our strength in the provision of higher-end services.

2.24 Many other developing Asian economies also possess huge growth potential in the medium term. With the Free Trade Agreement and the Investment Agreement forged between Hong Kong and ASEAN, Hong Kong is well-prepared to seize the business opportunities emerged from the rise of the ASEAN economies.

2.25 Meanwhile, the advanced economies should be able to attain moderate growth in the medium term, though their growth prospects will increasingly be constrained by structural issues. For the US economy, the fiscal boost from the tax reform will dissipate further and economic growth will gradually gravitate towards its potential growth rate. Other issues such as rising public debts and trade policy uncertainties could also hamper investment and productivity growth in the medium term. Growth prospects in the euro area would be contained by the high levels of government debts and unemployment rates in some member economies. Euro-skeptic sentiment could also be a possible hindrance to further economic cooperation and deeper integration of the euro area economies. Uncertainty surrounding Brexit and fiscal health of some member states could also extend into the medium term. For Japan, its long-term growth potential is still restrained by issues such as

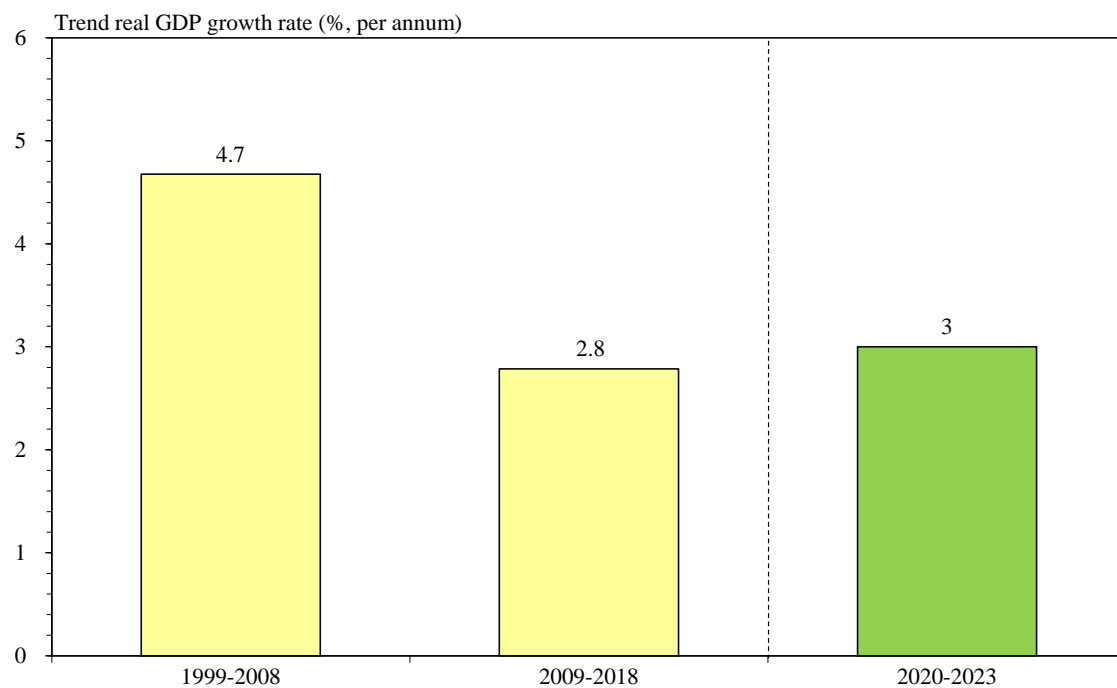
public debt overhang and population ageing.

2.26 The Government will continue to strengthen its role as a “facilitator” and “promoter” in developing the economy, to enhance our core competitive edges, and to spare no effort in addressing the supply-side bottlenecks on land and human capital. In particular, the Government is determined to increase land supply and build a land reserve, and to nurture talent through investing in education and training. The Government will continue to enhance Hong Kong’s growth potential through spearheading innovation and technology and strengthening Hong Kong’s ties with other economies. The Government will also strive to develop new areas of economic growth, and continue to strengthen the competitiveness of the pillar industries.

2.27 Having considered the developments on the external and domestic fronts, the Hong Kong economy is expected to attain a trend growth of 3% per annum in real terms from 2020 to 2023. The medium-term projection is predicated on the assumption that the current adverse external developments will not significantly affect global economic growth beyond 2019. However, if the various existing external risk factors linger on or even intensify with repercussions on the global economy beyond the short term, the growth rate of the Hong Kong economy over the medium term could turn out to be lower than projected.

2.28 The outlook for inflation in the medium term will hinge on a host of factors. Externally, inflation expectations in the major economies are still well anchored. Locally, continued efforts in boosting productivity (through driving innovation and technology and raising human capital quality, for examples) should effectively expand our productive capacity, thereby helping to keep local cost pressures in check. The expected increase in land and housing supply will also help contain rental cost pressures. However, the movements of international food and commodity prices, which are usually volatile, would cause uncertainties about inflation outlook. Taking all these factors into account, the trend rate of underlying consumer price inflation in Hong Kong from 2020 to 2023 is forecast to stay moderate, at 2.5% per annum.

Diagram 2.13 : Medium-term trend growth forecast at 3% per annum



CHAPTER 3 : THE EXTERNAL SECTOR

Summary

- *The global economy sustained strong growth in the first half of 2018, but the momentum eased in the second half in the face of increasing headwinds. The rise of trade protectionism, particularly the US-Mainland trade conflict, has seriously affected global economic sentiment since the third quarter, and its impacts on international trade flows, investment activities and financial markets gradually surfaced. Separately, the withdrawal of monetary accommodation in major advanced economies (in particular successive rate hikes by the US) led to tightening financial conditions and increasing volatility in the global financial markets. As the external environment deteriorated, exports of many Asian economies moderated noticeably in the latter part of the year.*
- *Hong Kong's merchandise exports, albeit slowed visibly in the fourth quarter of 2018, still grew solidly by 4.9% in real terms⁽¹⁾ for the year as a whole. This was slower than the strong increase of 6.2% in 2017. Exports to the US and EU recorded notable growth. Exports to the Mainland grew solidly, while those to other Asian markets were mixed. As global economic growth moderated and the elevated US-Mainland trade conflict took its toll, merchandise exports to many major markets showed decelerated growth or even declines in the fourth quarter.*
- *Exports of services likewise grew solidly by 4.9% in real terms for 2018 as a whole, with the strong growth in the first half followed by a sharp deceleration in the second half. This was faster than the 2.9% growth in 2017. Underpinned by the surge in visitor arrivals, exports of travel services registered the strongest annual growth since 2013 despite the visible deceleration in the second half of the year due to softer per capita visitor spending. Exports of financial services grew notably, thanks to the particularly strong growth in the first half of the year amid buoyant cross-border financial activities. Meanwhile, exports of transport, business and other services saw only modest growth.*
- *In 2018, economic ties between Hong Kong and the Mainland strengthened further. An agreement was signed under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) to further liberalise the trade in goods between the two places, and consensus was reached on the working targets for the next phase of liberalisation on trade in services. The new policies and initiatives implemented during the year, alongside the commissioning of the large-scale cross-boundary infrastructures, would further facilitate the flows of people and goods*

between Hong Kong and other cities in the Guangdong-Hong Kong-Macao Greater Bay Area. Separately, the Free Trade Agreement (FTA) with Georgia was signed in 2018, and the FTA and Investment Agreement negotiations with Australia and the Maldives concluded.

Goods trade

Total exports of goods

3.1 Hong Kong's *merchandise exports* grew solidly by 4.9% in real terms in 2018, though decelerated from the strong 6.2% increase in the preceding year. Merchandise exports grew by 6.6% year-on-year in the first three quarters combined, but weakened visibly to a marginal growth of 0.2% in the fourth quarter, as global economic growth moderated and the escalated US-Mainland trade conflict took its toll.

3.2 The global economy, after growing notably in the first half of 2018, lost some momentum in the second half. Growth among different economies also turned less even. The Mainland economy grew solidly by 6.6% in 2018, achieving its official growth target of around 6.5%, notwithstanding some deceleration in the second half of the year. Thanks partly to the fiscal stimulus, the US economy picked up to grow briskly with visible job gains. Economic activities in the euro area and Japan expanded further, but at a decelerated pace especially in the second half of the year. Many other Asian economies recorded solid growth, but their growth paces inevitably eased in the second half of the year amid increasing external uncertainties.

3.3 The rise of trade protectionism was a major adverse development of the global economy in 2018 (see **Box 3.1** on recent developments in trade protectionism). In particular, the US imposed additional tariffs of 10% or 25% on a wide range of Mainland products worth around US\$250 billion (around half of the Mainland's exports to the US) during the year⁽²⁾. The impacts of the US-Mainland trade conflict on the Hong Kong economy have already surfaced, as reflected in the visible slowdown in merchandise exports in the fourth quarter. Trade flows through Hong Kong that were affected directly by the additional tariffs⁽³⁾ experienced a sharp downturn, while those not falling in the additional tariffs lists were also dampened as global growth moderated and as the trade conflict and associated uncertainties weighed on global economic sentiment and disrupted global supply chains.

Box 3.1

Recent developments in trade protectionism

Over the past year or so, trade protectionism has become a key threat to the stability of the global economy. The trade conflict between the US and the Mainland, the world's two largest economies, was particularly worrisome. The increased trade barriers, together with the uncertainty engendered, have not only affected trade flows, but also heightened financial volatility around the globe, with adverse implications for consumer confidence and business sentiment. This note provides an update to **Box 2.3** in the Third Quarter Economic Report 2017 and examines the recent developments of trade protectionism by reviewing the latest statistics compiled by World Trade Organization (WTO) on Group of Twenty (G20⁽¹⁾) trade measures.

The latest WTO Monitoring Report on G20 Trade Measures⁽²⁾, published on 22 November 2018, covers new trade and trade-related measures implemented by G20 members between mid-May and mid-October 2018 (the review period). Three types of measures are of particular interest here. The first type refers to trade restrictive measures, encompassing actions such as tariff increases, customs procedures and quantitative restrictions. An increase in the number of this type of measures may signal more trade restrictions implemented by G20 members. The second type refers to trade facilitating measures, including actions like reduction or elimination in tariffs and simplified customs procedures. A rise in the number of this type of measures may point to less trade restrictions. The third type of measures refers to trade remedy actions⁽³⁾ (both initiated and terminated⁽⁴⁾), including investigations of antidumping and countervailing duties. While these investigations do not necessarily lead to the actual implementation of measures, a rise in number of investigations initiated can be an early indicator of potential trade barriers going forward.

The report showed a significant increase in the use of trade restrictive measures among G20 members during the review period. On average, 8.0 new measures per month were introduced during the review period, higher than 5.6 per month in the preceding review period (mid-October 2017 to mid-May 2018) or 6.1 per month during 2012 and 2017 (**Table 1**). Among these 40 new trade restrictive measures introduced during the review period, 34 of them were import restrictive measures, of which around three quarters were tariff increases. Moreover, the trade coverage of these import restrictive measures, at US\$481 billion (3.5% of the value of G20 merchandise imports), was more than six times the trade coverage of the measures introduced during the preceding review period (**Chart 1**).

-
- (1) G20 comprises 19 countries plus the EU. These countries are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the UK and the US. They together account for more than 80% of gross world output, around three quarters of global trade, and are home to almost two-thirds of the world's population.
 - (2) The WTO Monitoring Report on G20 Trade Measures neither seeks to pronounce itself on whether a trade measure is protectionist nor questions the explicit right of Members to take certain trade measures. Its coverage may also have limitations. Yet, it can still shed light on the latest trend of trade measures implemented by G20 members that facilitate the flow of trade as well as measures that restrict it. https://www.wto.org/english/news_e/news18_e/g20_wto_report_november18_e.pdf
 - (3) According to many WTO Members, trade remedy measures are taken to address market distortions resulting from trade practices in another trading partner. WTO Members are permitted to impose duties to offset what is perceived to be injurious dumping or subsidisation of products exported from one Member to another. Termination means either the termination of the investigation (without imposition of a measure) or elimination of the imposed measure.
 - (4) WTO Monitoring Report on G20 Trade Measures counted anti-dumping or countervailing investigation involving imports from n countries/customs territories as n investigations. Similarly, a termination of an imposed measure on imports from n countries/customs territories is counted as n terminations.

Box 3.1 (Cont'd)

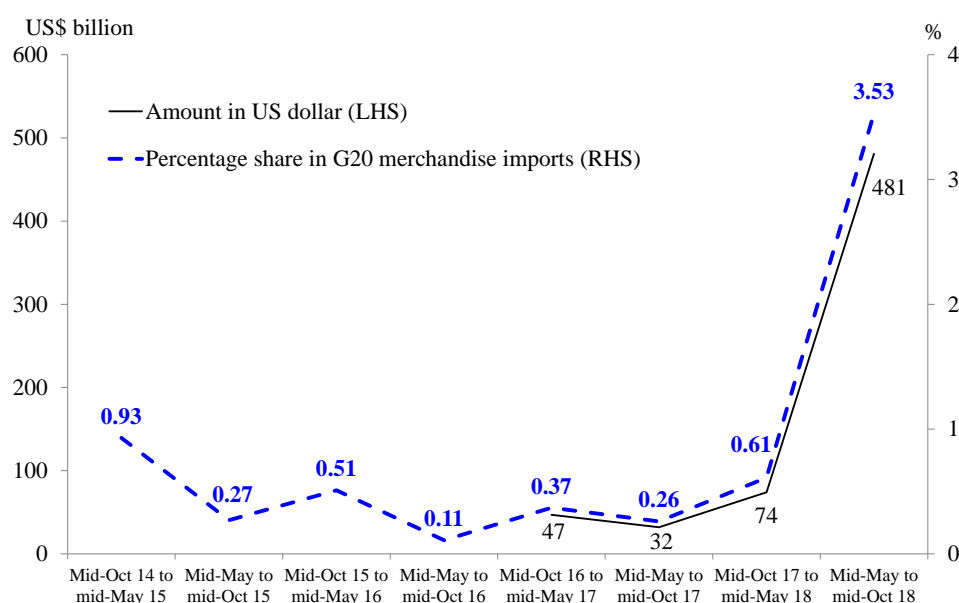
Table 1: Summary of trade measures implemented by G20

Average per month								
	2012	2013	2014	2015	2016	2017	mid-Oct 17 to mid-May 18	mid-May to mid-Oct 18
Restrictive measures	6.5	6.9	5.7	7.6	4.8	5.2	5.6	8.0
Facilitating measures	7.8	5.6	6.5	7.4	6.3	6.8	6.7	6.6
Remedy actions:								
- initiations	16.8	23.2	21.5	17.5	21.8	21.5	22.1	17.0
- terminations	13.4	12.8	14.3	12.6	11.9	9.3	11.0	12.0

Note: Some past data have been revised, as a result of the changes undertaken in the WTO Trade Monitoring Database to fine-tune and update the available information.

Source: WTO Secretariat.

Chart 1: Trade coverage of the import restrictive measures implemented by G20



Note: Figures are estimated by the WTO. The trade coverage of the import-restrictive measures refers to the amount of annual imports of the products affected by the measures. Prior to the review period of mid-October 2016 to mid-May 2017, only percentage shares of G20 merchandise imports are available.

Source: WTO Secretariat.

Among the import-restrictive measures introduced during the review period, the US' actions and the subsequent countermeasures by its trading partners made up the major parts. Of particular note are those related to the trade conflict between the US and the Mainland. The US imposed additional 25% tariffs on US\$50 billion worth of Mainland products in two batches starting 6 July and 23 August 2018 respectively, and an additional 10% tariff on another US\$200 billion worth of Mainland products starting 24 September 2018. According to the WTO, these three measures together accounted for over half of the total estimated trade coverage during the review period. The countermeasures undertaken by the Mainland effective on the same dates accounted for around an additional 20%. Separately, the US imposed tariffs on imports of steel and aluminium products from the EU, Canada, and Mexico starting 1 June 2018, and this was subsequently met by countermeasures from these economies.

Box 3.1 (Cont'd)

Meanwhile, the number of new trade facilitating measures was relatively stable. On average, 6.6 new measures per month were implemented during the review period, similar to the average of 6.7 per month in both the preceding review period and during 2012 to 2017. Among the 33 new trade facilitating measures introduced during the review period, over 80% of them were related to reduction or elimination of import tariffs. While the estimated trade coverage of these import facilitating measures implemented during the review period more than doubled as compared to the preceding review period to US\$216 billion (or 1.6% of the value of G20 merchandise imports), the amount was still less than half of that covered by trade restrictive measures implemented in the same period.

On trade remedy measures, G20 members initiated on average 17.0 trade remedy investigations per month during the review period, lower than the 22.1 per month in the preceding period. The trade coverage of the trade remedy investigations initiated during the review period was estimated at US\$25 billion (or 0.18% of the value of G20 merchandise imports), less than half of that recorded in the preceding review period. Meanwhile, the average number of terminations edged up to 12.0 per month during the review period, from 11.0 per month in the preceding period. The trade coverage of terminations was valued at US\$6 billion (or 0.04% of the value of G20 merchandise imports), similar to the figure in the preceding review period. Among these 85 trade remedy measures initiated during the review period, almost three quarters of them were initiations of anti-dumping investigations, and over 40% of them were related to iron and steel or the related products.

To sum up, trade barriers have increased significantly during the review period, as evidenced by far more extensive trade coverage of the new trade restrictive measures implemented. The escalated trade tensions among economic giants and the implementation of additional tariffs on a sizable amount of imports have weighed on global trade expansion and heightened financial volatility, denting global economic sentiment and economic outlook.

Looking forward, trade protectionism will continue to be a key threat to the global economy in 2019. Trade negotiations between the US and its major economic partners (including the Mainland, the EU, Japan and the UK) are either ongoing or pending. Given the complexity involved, the outcomes are highly unpredictable at the juncture. Also, the US Department of Commerce submitted its report on the results of the Section 232 investigation on US automobile and automobile part imports in early 2019, adding further uncertainty to global trade and economic outlook. Separately, G20 leaders in the latest summit in Buenos Aires expressed support for necessary reform of WTO to improve its functioning. The future developments in the reform and potential implications for the rule-based multilateral trade system warrant close attention.

3.4 Separately, the withdrawal of monetary accommodation in the advanced economies led to tightening financial conditions and increasing volatility in the global financial markets. The US Federal Reserve (Fed) hiked interest rate four times and continued to scale back its balance sheet as planned in 2018. Higher US interest rates and the resultant stronger US dollar, together with the withdrawal of monetary accommodation in other advanced economies (most notably the European Central Bank's phase-out of its monthly net asset purchases that ended in December 2018), wrecked financial havoc in some emerging market economies with weak fundamentals, such as Argentina, Turkey and Pakistan, around mid-2018. In Asia, to alleviate the downward pressures on their currencies and to tame capital outflows, central banks in India, Indonesia, the Philippines and Thailand raised interest rates by varying magnitudes during the year. In the fourth quarter of 2018, the US stock market showed large fluctuations, as market participants were increasingly worried about a possible slowdown in the US economy amid elevated US-Mainland trade tensions and further normalisation of US monetary policy.

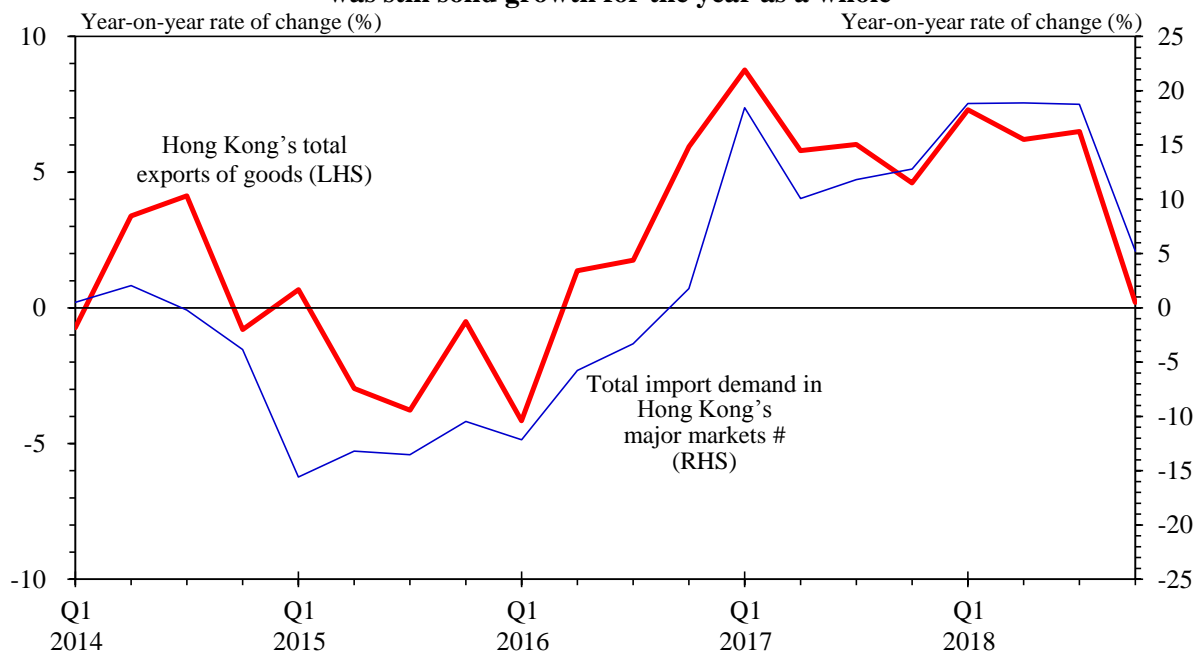
**Table 3.1 : Total exports of goods
(year-on-year rate of change (%))**

		In value terms	In real terms ^(a)		Change in prices
2017	Annual	8.0	6.2		1.8
	Q1	10.3	8.8	(-0.1)	1.6
	Q2	7.4	5.8	(1.5)	1.6
	Q3	8.0	6.0	(0.4)	1.9
	Q4	6.8	4.6	(2.4)	2.2
2018	Annual	7.3	4.9		2.4
	Q1	9.7	7.3	(2.1)	2.3
	Q2	9.0	6.2	(1.2)	2.7
	Q3	9.0	6.5	(1.0)	2.5
	Q4	2.2	0.2	(-3.9)	2.3

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

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

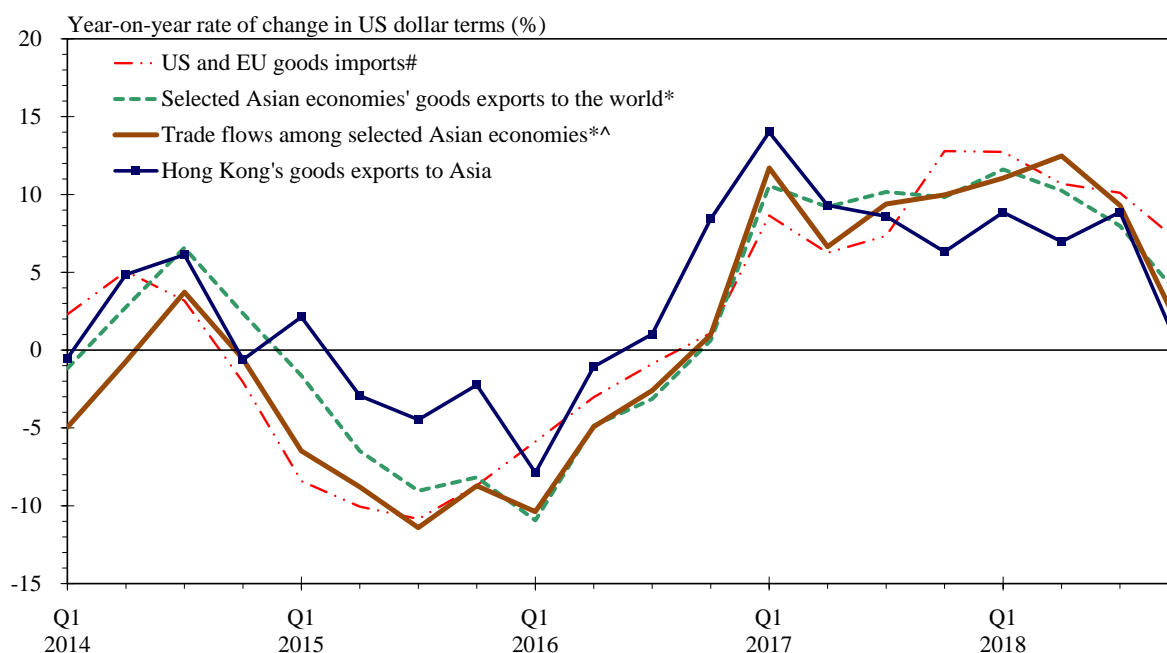
Diagram 3.1 : Merchandise exports decelerated markedly towards the end of 2018 , but there was still solid growth for the year as a whole



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 fourth quarter of 2018 is based on statistics for October and November 2018.

Diagram 3.2 : Regional trade flows moderated visibly in the fourth quarter of 2018 amid the deteriorating external environment



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 figure for the US for the fourth quarter of 2018 is based on the information available as of mid-February 2019.

Diagram 3.3 : Exports to many major markets recorded decelerated growth or even declines in the fourth quarter of 2018

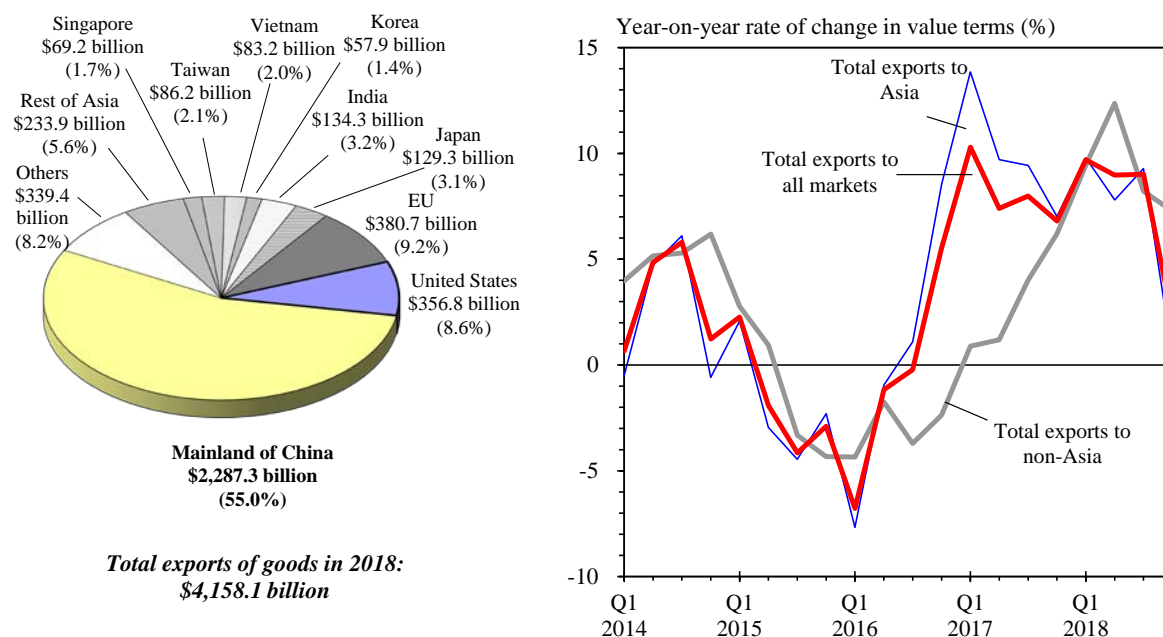


Table 3.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))

		2017					2018			
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4
Mainland of China	5.4	9.3	3.9	6.0	3.0	5.2	9.4	7.7	7.1	-2.3
United States	1.9	3.4	1.1	-0.5	3.8	6.1	5.1	8.2	7.9	3.1
European Union	4.6	3.0	1.3	5.0	8.5	8.2	9.1	7.2	7.9	8.5
India	35.1	40.1	53.8	9.9	39.5	-13.4	-7.6	-33.1	14.3	-21.5
Japan	10.3	7.5	12.0	10.8	10.6	-1.3	5.2	2.8	-7.8	-4.1
Taiwan	16.1	44.3	23.0	14.7	-5.4	-4.8	8.4	-1.9	-18.0	-6.7
Vietnam	8.7	10.8	11.9	6.8	5.9	5.2	0.9	7.3	16.7	-2.9
Singapore	1.8	-1.2	3.9	11.7	-6.2	15.1	10.5	19.3	5.6	25.2
Korea	3.3	15.3	-2.8	-1.5	3.5	2.5	-3.1	1.5	7.9	3.4
Overall*	6.2	8.8	5.8	6.0	4.6	4.9	7.3	6.2	6.5	0.2

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

3.5 Among the major advanced markets, exports to the US grew notably in 2018, underpinned by buoyant import demand there. However, the growth pace moderated in the fourth quarter, as those re-exports affected by the additional tariffs imposed by the US showed a sharp slowdown. Exports to the EU recorded a strong growth amid further economic expansion of the region. Yet, exports to Japan declined modestly for 2018 as a whole, dragged by the fall in the second half amid the economic slowdown in this market.

3.6 Exports to other Asian markets were mixed in 2018, and many markets experienced decelerated growth or even declines in the fourth quarter, as moderating global economic growth and escalated US-Mainland trade tensions weighed on regional trade flows. Exports to the Mainland grew solidly for 2018 as a whole, but reverted to a year-on-year decline in the fourth quarter. In Southeast Asia, exports to Singapore grew strongly⁽⁴⁾. Those to Vietnam also expanded solidly for the year as a whole, but a moderate decline was recorded in the fourth quarter. Exports to Korea grew modestly. On the other hand, exports to Taiwan registered a decline due to the steep fall in exports of foodstuffs. Exports to India fell sharply, but the figures may have been distorted by various government measures there, such as the implementation of goods and services tax in July 2017 and increase in import tariffs on some consumer goods items in September 2018.

3.7 To cope with the rise of trade protectionism, the Government has been maintaining close contact with the trade and has taken a number of targeted measures to assist them in market promotion and development, alleviate the financing burden of small and medium-sized enterprises (SMEs), and strengthen protection for Hong Kong exporters affected by the US's tariff measures. Specific measures include the setting up of a liaison platform by the Trade and Industry Department to maintain close relationship with the industry, facilitating trade promotion and development of the Mainland and ASEAN markets, strengthening various funding schemes for SMEs, and implementing special enhanced measures by the Hong Kong Export Credit Insurance Corporation. Also, the Government advanced the launch of the ASEAN Programme and enhanced the Mainland Programme under the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) in August 2018 to provide funding support to individual non-listed Hong Kong enterprises to undertake projects for enhancing their competitiveness and furthering business development in the ASEAN and Mainland markets. The application period of the special concessionary measures under the SME Financing Guarantee Scheme operated by the HKMC Insurance Limited has been extended and additional support measures have been introduced.

Diagram 3.4 : Exports to the Mainland grew solidly for 2018 as a whole

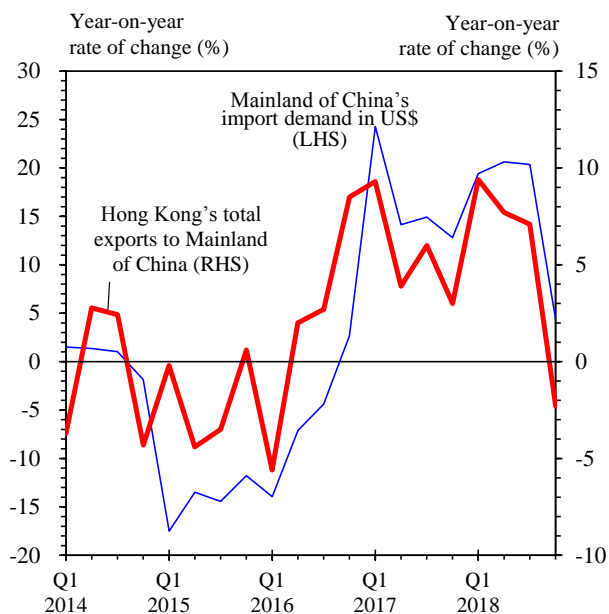


Diagram 3.5 : Exports to the EU recorded strong growth

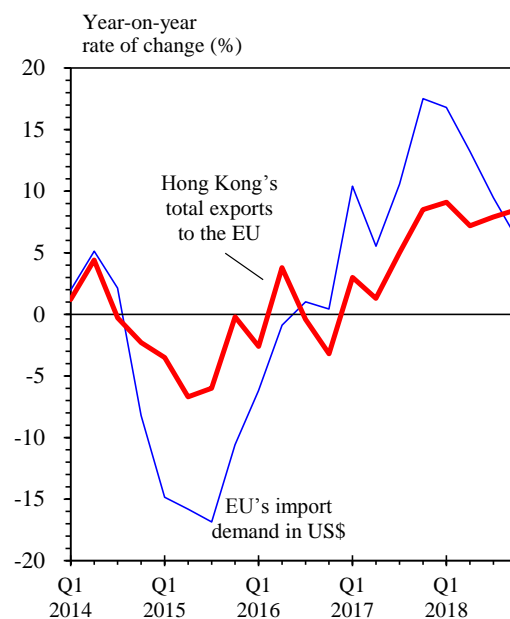


Diagram 3.6 : Exports to the US grew notably for 2018 as a whole

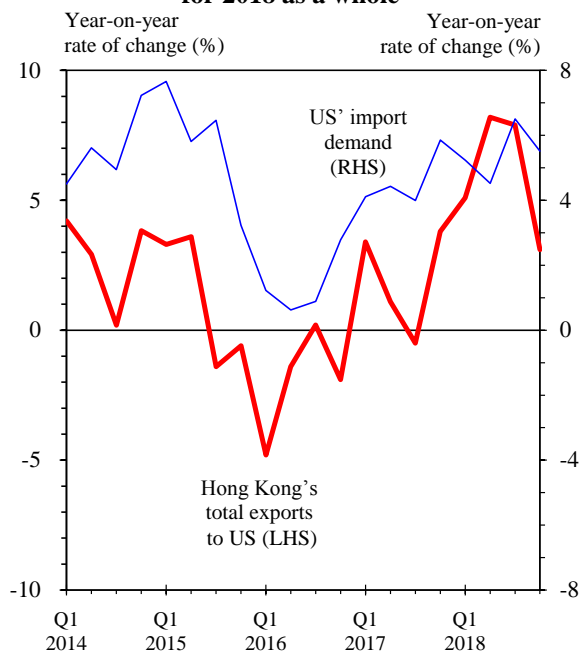


Diagram 3.7 : Exports to Japan turned to a fall in the second half of 2018

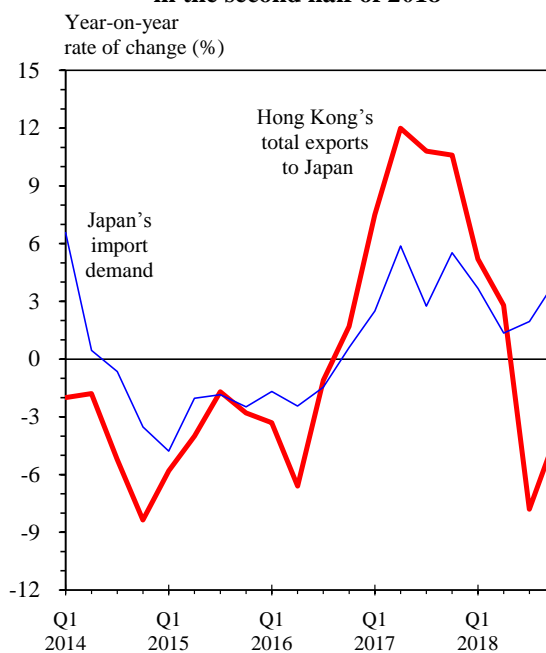


Diagram 3.8 : Exports to India recorded a sharp fall

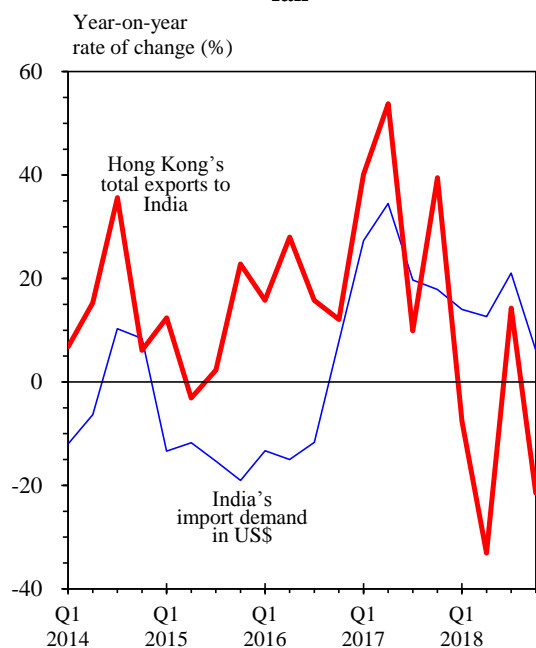


Diagram 3.9 : Exports to Taiwan registered a decline

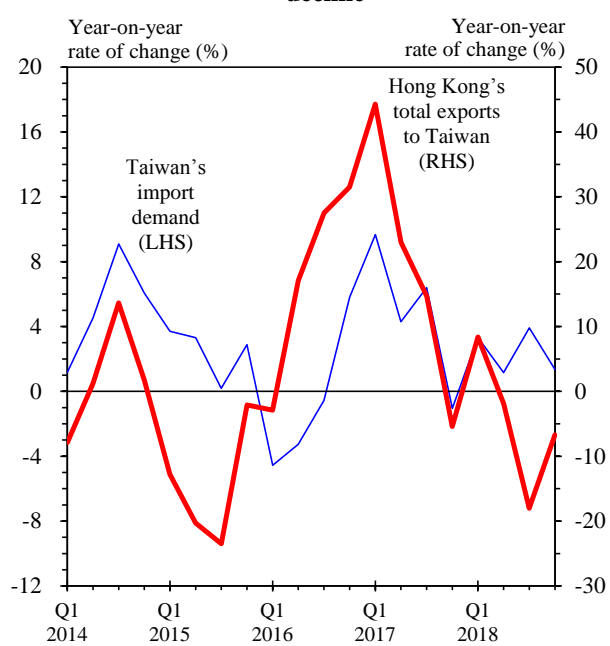


Diagram 3.10 : Exports to Korea grew modestly

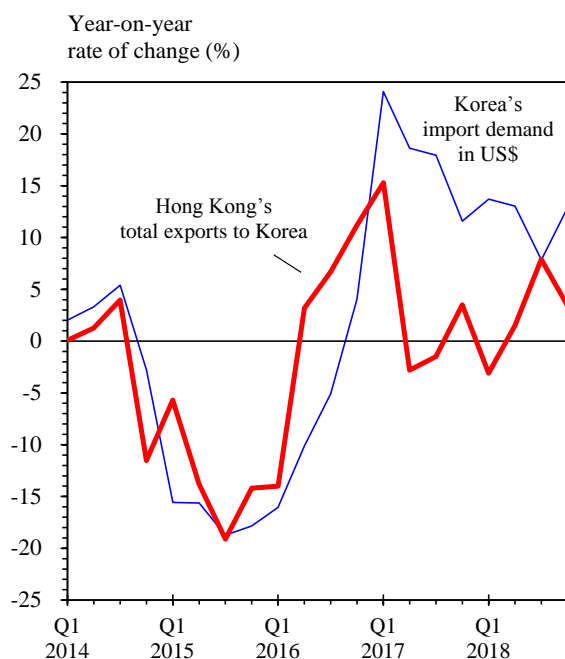
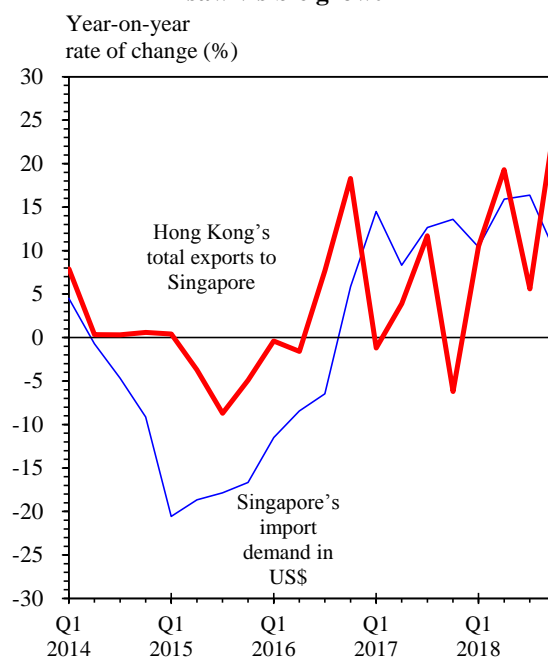


Diagram 3.11 : Exports to Singapore saw visible growth



Imports of goods

3.8 *Imports of goods* expanded notably by 5.9% in real terms in 2018, after the 6.8% growth in the preceding year, on the back of rapid growth in retained imports and solid expansion in re-exports⁽⁵⁾. In particular, *retained imports*, which refer to the imports for domestic use and accounted for around one-quarter of total imports, grew strongly by 8.7% in real terms, thanks to the robust domestic demand in the first three quarters. However, imports of goods turned to a marginal fall of 0.4% in the fourth quarter as both retained imports and imports for subsequent re-exports weakened.

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

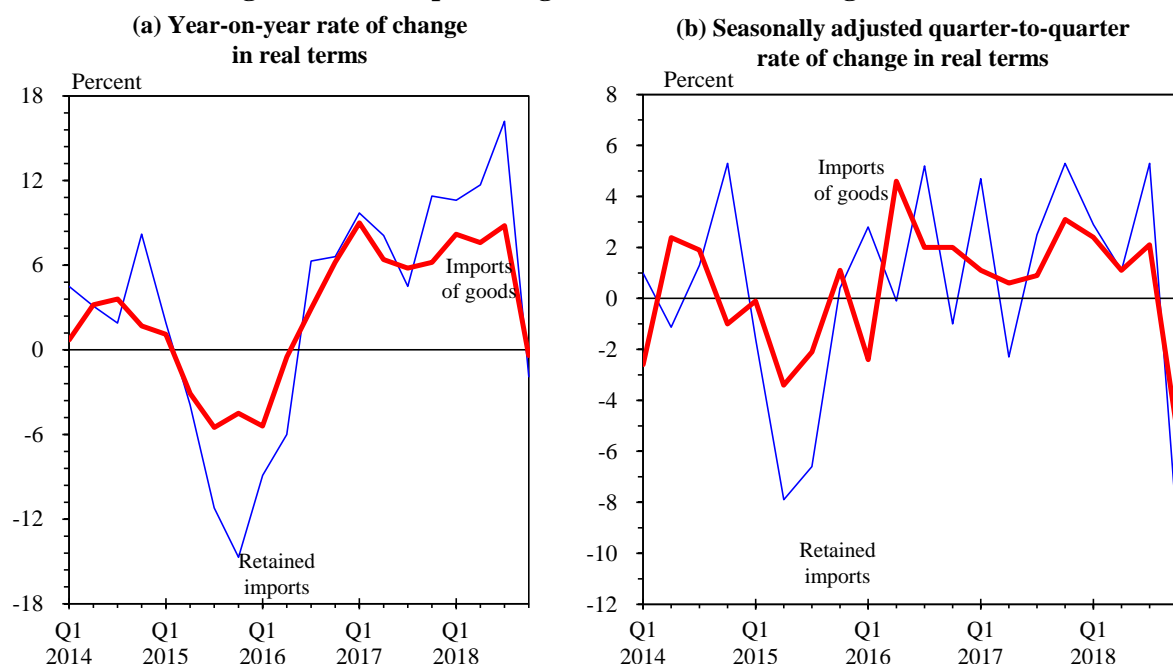
		<u>Imports of goods</u>				<u>Retained imports^(a)</u>			
		<u>In value terms</u>	<u>In real terms⁽⁺⁾</u>		<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>		<u>Change in prices</u>
2017	Annual	8.7	6.8		1.9	10.1	8.3		1.8
	Q1	10.7	9.0	(1.1)	1.6	11.2	9.7	(4.7)	1.1
	Q2	8.2	6.4	(0.6)	1.8	10.1	8.1	(-2.3)	2.1
	Q3	7.7	5.8	(0.9)	1.9	5.9	4.5	(2.5)	1.9
	Q4	8.5	6.2	(3.1)	2.2	13.2	10.9	(5.3)	2.0
2018	Annual	8.4	5.9		2.6	11.6	8.7		2.9
	Q1	10.6	8.2	(2.4)	2.3	12.6	10.6	(2.9)	2.3
	Q2	10.4	7.6	(1.1)	2.8	14.9	11.7	(1.1)	3.3
	Q3	11.5	8.8	(2.1)	2.7	19.5	16.2	(5.3)	3.1
	Q4	1.8	-0.4	(-5.4)	2.5	0.9	-1.9	(-9.4)	2.8

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

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

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

Diagram 3.12 : Imports of goods recorded notable growth in 2018

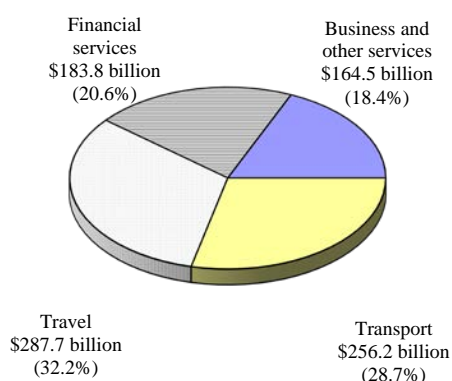


Services trade

Exports of services

3.9 *Exports of services* grew solidly by 4.9% in real terms in 2018 after the modest growth of 2.9% in 2017. Yet, after the robust expansion of 6.7% in the first half of the year, growth moderated to 3.2% in the second half amid mounting external headwinds. Underpinned by the surge in visitor arrivals, exports of travel services registered the strongest annual growth since 2013 despite the visible deceleration in the second half due to softer per capita visitor spending. Exports of financial services grew notably, thanks to the particularly strong growth in the first half of the year amid buoyant cross-border financial activities. Meanwhile, exports of transport, business and other services saw only modest growth in 2018.

Diagram 3.13 : Travel, transport and financial services together constituted over 80% of exports of services



Exports of services in 2018:
\$892.3 billion

Diagram 3.14 : Exports of services grew solidly in 2018

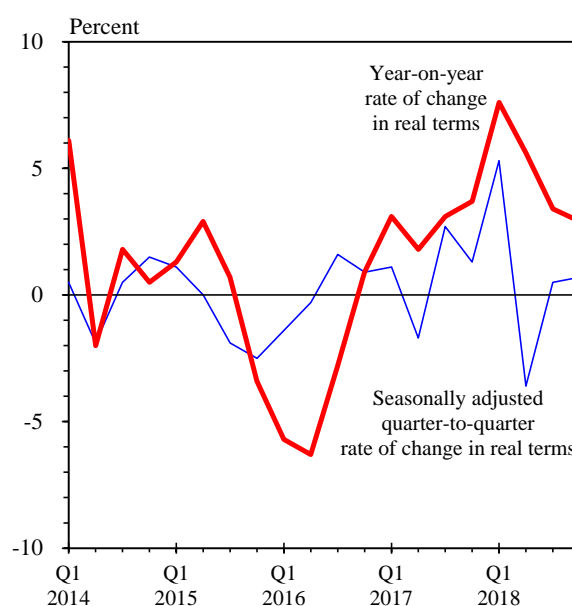


Table 3.4 : Exports of services by major service group (year-on-year rate of change in real terms (%))

		<i>Of which :</i>				
		Exports <u>of services</u>	<u>Transport</u>	<u>Travel</u> ^(a)	Financial <u>services</u>	Business and <u>other services</u>
2017	Annual	2.9	6.5	1.5	3.1	0.1
	Q1	3.1 (1.1)	8.7	1.3	0.8	0.5
	Q2	1.8 (-1.7)	7.5	-1.9	1.9	-0.3
	Q3	3.1 (2.7)	6.4	1.8	3.5	0.2
	Q4	3.7 (1.3)	3.7	4.3	6.8	-0.1
2018	Annual	4.9	2.5	8.3	6.0	1.5
	Q1	7.6 (5.3)	4.0	12.8	10.0	1.4
	Q2	5.6 (-3.6)	3.0	10.6	5.8	1.7
	Q3	3.4 (0.5)	2.2	5.0	4.4	1.9
	Q4	2.9 (0.7)	0.9	5.3	3.2	1.2

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*.

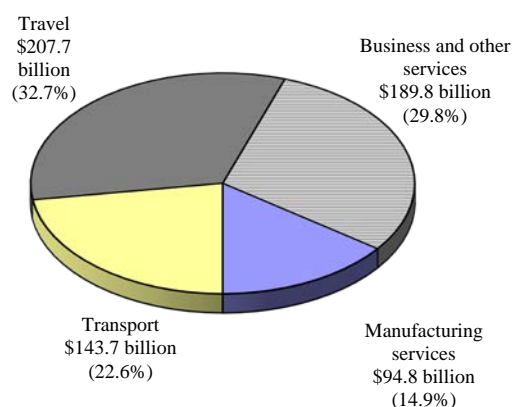
(a) Comprising mainly inbound tourism receipts.

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

Imports of services

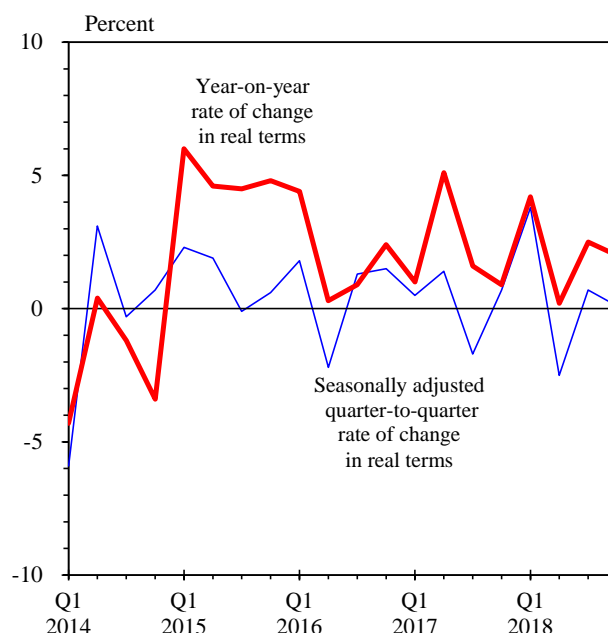
3.10 *Imports of services* grew modestly by 2.2% in real terms in 2018, similar to the 2.1% growth in 2017. Within the total, imports of travel services, while fluctuating over the course of the year, grew modestly for the year as a whole. Imports of transport services, and business and other services also saw modest growth amid expansion in regional trading activities. Imports of manufacturing services showed little change, as the expansion in outward processing activities in the region in the first three quarters was roughly offset by the decline in the fourth quarter.

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



Imports of services in 2018:
\$635.9 billion

Diagram 3.16 : Imports of services grew modestly in 2018



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

Of which :

		<u>Imports of services</u>	<u>Travel</u> ⁽⁺⁾	<u>Transport</u>	<u>Manufacturing services</u> ^(^)	<u>Business and other services</u>
2017	Annual	2.1	4.0	2.9	-3.0	1.9
	Q1	1.0 (0.5)	-0.1	2.6	-0.3	1.7
	Q2	5.1 (1.4)	11.1	4.1	-2.7	2.7
	Q3	1.6 (-1.7)	3.5	2.5	-3.5	1.6
	Q4	0.9 (0.7)	1.8	2.6	-4.6	1.8
2018	Annual	2.2	2.0	3.1	0.1	2.8
	Q1	4.2 (3.8)	6.4	4.3	0.3	3.4
	Q2	0.2 (-2.5)	-4.1	1.8	4.4	2.3
	Q3	2.5 (0.7)	2.6	3.3	*	3.3
	Q4	2.0 (0.1)	3.5	3.2	-3.5	2.4

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

(+) 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.

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

Goods and services balance

3.11 Compiled based on the change of ownership principle, the goods deficit widened somewhat in 2018, as imports of goods outpaced exports of goods. As the services surplus was larger than the goods deficit, the combined goods and services account registered a slight surplus of HK\$2 billion in 2018, compared with the surplus of HK\$29 billion in 2017.

Table 3.6 : 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	4,213	813	4,391	606	-179	207	29	0.6
	Q1	945	203	1,000	141	-55	62	7	0.7
	Q2	996	185	1,061	144	-66	41	-25	-2.1
	Q3	1,107	208	1,121	156	-14	52	37	2.9
	Q4	1,165	217	1,209	164	-44	53	9	0.7
2018	Annual	4,458	892	4,712	636	-254	256	2	*
	Q1	1,021	230	1,096	156	-75	73	-2	-0.1
	Q2	1,069	205	1,158	152	-89	53	-36	-2.7
	Q3	1,186	225	1,238	161	-52	64	12	0.8
	Q4	1,183	232	1,220	166	-38	66	28	2.0

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.

(*) Within $\pm 0.05\%$.

Other developments

3.12 Economic ties between Hong Kong and the Mainland strengthened further in 2018. In May, the First Plenary of the Hong Kong-Sichuan Co-operation Conference was held, reaching consensus on eleven co-operation areas including the Belt and Road Initiative, economic and trade fronts, innovation and technology (I&T), finance, and youth development. In August, the Fourth Plenary Session of the Hong Kong-Shanghai Co-operation Conference was convened. Consensus was reached on sixteen co-operation areas, and fifteen co-operation agreements, covering the areas of legal services, education, trade and commerce, I&T, culture and finance, were signed. In October, the Fourth Plenary Session of the Hong Kong-Beijing Co-operation Conference in Beijing was convened. Consensus was reached in eight co-operation areas, including the Belt and Road Initiative, economic and trade co-operation, services industries and I&T. In November, the Third Plenary Session of the Hong Kong/Fujian Co-operation Conference was held, reaching consensus on enhancing co-operation in ten areas. Three co-operation agreements covering youth exchanges, the Belt and Road Initiative as well as I&T were signed.

3.13 In December 2018, the Mainland and Hong Kong Economic and Trade Co-operation Committee convened its first meeting. The Agreement on Trade in Goods was signed under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). The Agreement consolidated and updated the commitments on liberalisation and facilitation of trade in goods under CEPA. Starting from 1 January 2019, among other facilitating measures, goods of Hong Kong origin imported into the Mainland would fully enjoy zero tariff through enhanced arrangement for rules of origin. In addition, two new liberalisation measures for legal services and testing and certification would be implemented on 1 March 2019. Consensus was also reached on the working targets for the next phase of liberalisation on trade in services.

3.14 The Government has been proactively participating in the developments of the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Bay Area (the Greater Bay Area) to grasp the vast opportunities arising. In June 2018, the first Belt and Road Joint Conference was convened by the Government with the National Development and Reform Commission, the Hong Kong and Macao Affairs Office of the State Council as well as other relevant central ministries. As for the Greater Bay Area, to advance the development of the Greater Bay Area and strengthen co-ordination, the first plenary meeting of the leading group for the development of the Greater Bay

Area was held in August. In the same month, the Central Government introduced Regulations for Application of Residence Permit for Hong Kong, Macao and Taiwan Residents, which would provide convenience for Hong Kong residents studying, working, and living in the Mainland on a long-term basis. The commissioning of the large-scale cross-boundary infrastructures in 2018, namely the Hong Kong-Zhuhai-Macao Bridge and the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, would also enhance the movements of people and goods between Hong Kong and other cities in the Greater Bay Area.

3.15 To promote Hong Kong's status as an international trading hub and further expand our network of trade connections, the Government continued to negotiate and sign Free Trade Agreements (FTAs) in 2018. In June, the FTA between Hong Kong and Georgia was signed, marking Hong Kong's first FTA with a country in the Caucasus. The FTA was comprehensive in scope, encompassing trade in goods and services, investment, dispute settlement mechanism and other related areas. During the year, Hong Kong also concluded the FTA and Investment Agreement negotiations with Australia and the Maldives respectively.

3.16 To foster cooperation between Hong Kong and other jurisdictions in preventing double taxation and fiscal evasion, the Government continued with its efforts in expanding Hong Kong's tax treaty network. Three comprehensive avoidance of double taxation agreements (CDTA) came into force in 2018, namely those with Finland, India and Saudi Arabia.

Notes :

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the external trade quantum index series compiled using the chain linking approach, which were first released in March 2015 to replace the previous trade index numbers compiled using the Laspeyres method with a fixed base year. The series are not comparable with the real trade aggregates under GDP (reported in Chapter 1) which are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*. Apart from this, non-monetary gold is recorded as a separate item in the statistics of merchandise trade and not included in the trade aggregates reported in Chapter 3, but is included in the trade aggregates under GDP in accordance to the international compilation standard.

- (2) The Mainland immediately took countermeasures on imports from the US on the same dates.
- (3) It is crudely estimated that, with reference to the annual merchandise trade figures for 2017, around HK\$134.5 billion worth of Hong Kong's re-exports of the Mainland origin to the US were affected by the various batches of additional tariffs introduced by the US, equivalent to around 3.5% of Hong Kong's total exports of goods. The value of these re-exports plunged to a year-on-year decline of 6.3% in the fourth quarter of 2018, in contrast to the increase of 12.3% in the first three quarters combined. The slowdown was much sharper than that in the year-on-year growth in value of total exports of goods to all markets, to 2.2% from 9.2% over the same period.
- (4) The value of merchandise exports to Association of Southeast Asian Nations (ASEAN) grew by 8.5% in 2018, after expanding by 7.6% in 2017.
- (5) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

CHAPTER 4 : DEVELOPMENTS IN SELECTED SECTORS

Summary

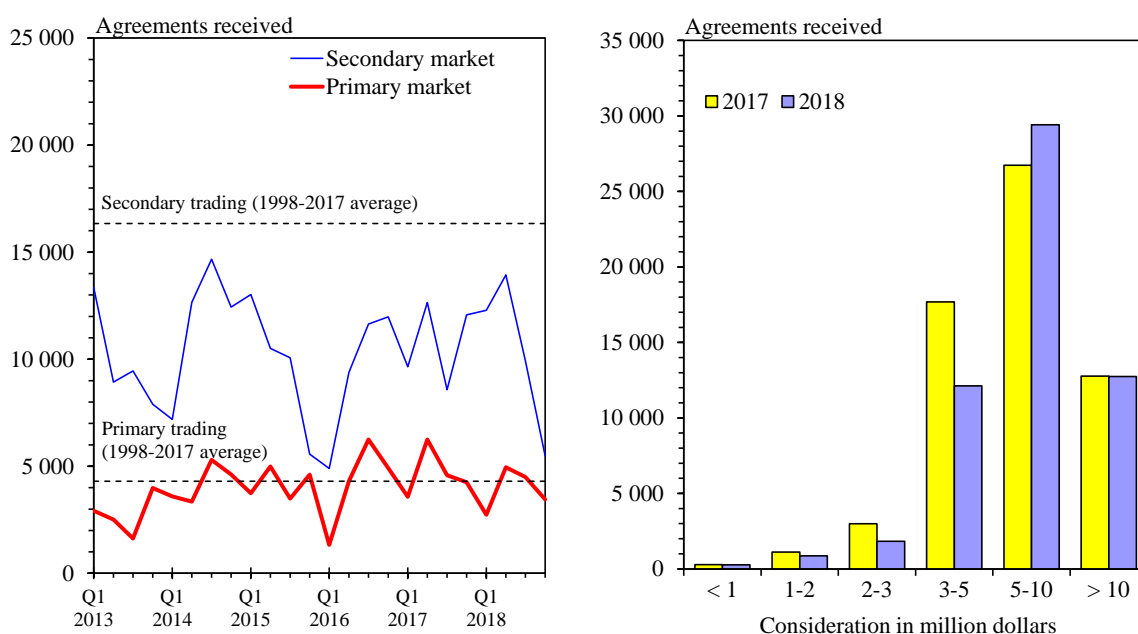
- *The residential property market remained buoyant in the first half of 2018, but underwent a consolidation in the second half. While the tight demand-supply balance of flats continued to render support, market sentiment was dampened by various uncertainties, including elevated US-Mainland trade tensions, continued US interest rate hikes and the subsequent increase in local Best Lending Rates in September, as well as volatility in the global stock markets. Trading activities quietened down in the second half of 2018. Flat prices had reverted to a decline since August, though still recording a gain of 2% for the whole year.*
- *Reflecting the Government's sustained efforts to increase land and flat supply, total private flat supply in the coming three to four years would stay at a high level of 93 000 units as estimated at end-2018. Meanwhile, the various demand-management measures yielded notable results, with speculative activities and non-local demand remaining low, and investment activities staying modest in the year.*
- *The commercial and industrial property markets were generally active in most of 2018, though also showing some cool-off towards the end of the year. Prices and rentals recorded further gains during 2018 as a whole while trading activities in the different market segments quietened down by varying degrees.*
- *Performance of inbound tourism remained vibrant in 2018, mainly supported by the continued rally in Mainland visitors. Overall visitor arrivals rose by another 11.4% to a record 65.1 million.*
- *The logistics sector put up a mixed performance in 2018. Total container throughput relapsed to a decline of 5.7%, while air freight throughput rose modestly by 1.6%.*

Property

4.1 The *residential property market* remained buoyant in the first half of 2018, but underwent a consolidation in the second half. While the tight demand-supply balance of flats continued to render support, market sentiment was dampened by various uncertainties, including elevated US-Mainland trade tensions, continued US interest rate hikes and the subsequent increase in local Best Lending Rates in September, as well as volatility in the global stock market. Trading activities quietened down in the second half, while flat prices had reverted to a decline since August.

4.2 Trading activities were buoyant in the first half of 2018 before turning very quiet in the second half. For the year as a whole, the total number of sale and purchase (S&P) agreements for residential property received by the Land Registry fell by 7% to 57 247, much below the long-term average of 82 583 from 1998 to 2017. Within the total, primary and secondary market transactions decreased by 16% and 3% respectively. Meanwhile, total consideration edged up by 1% to \$559.3 billion.

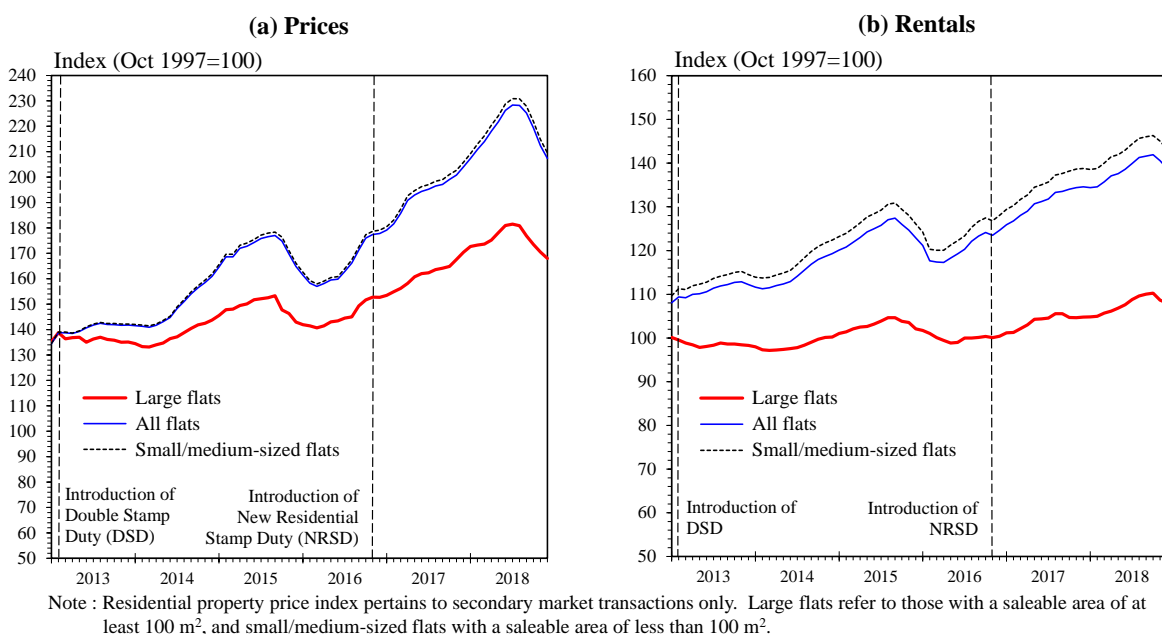
Diagram 4.1 : Trading activities were buoyant in the first half of 2018 before turning very quiet in the second half



4.3 Flat prices in December 2018 on average retreated by 9% from the peak in July. Yet there was still an increase of 2% for the whole year, mainly reflecting the hefty gain in the first half of the year. Analysed by size, prices of small/medium-sized flats rose by 2% during 2018, while prices of large flats edged down by 1%.

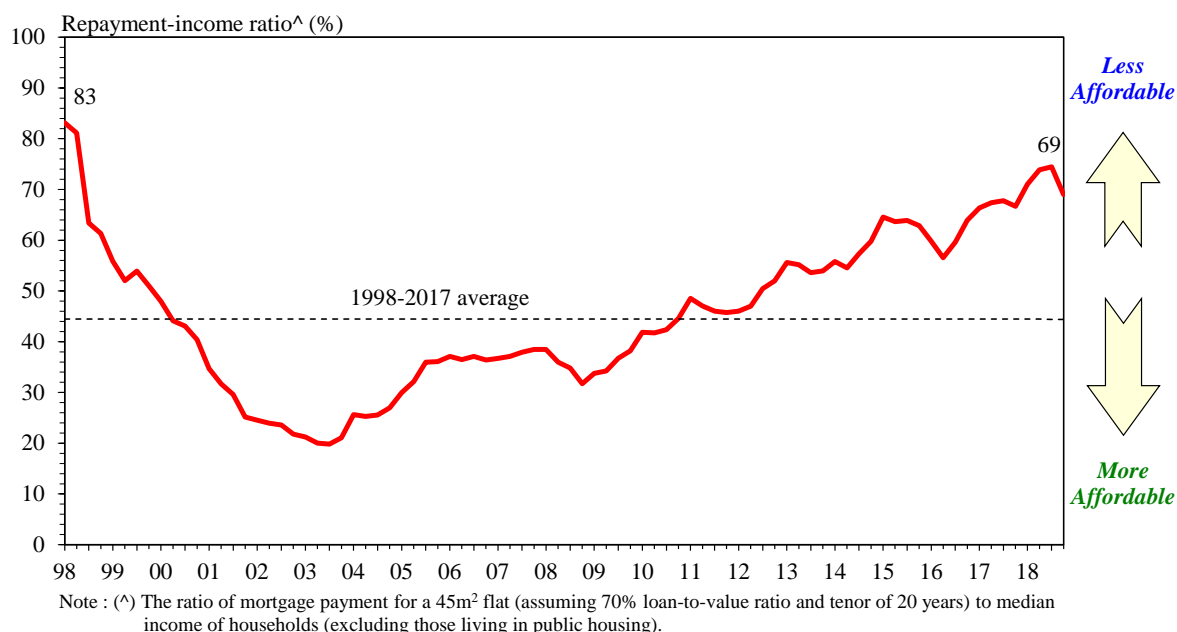
4.4 The leasing market also showed signs of cool-off towards the end of 2018. With the gains during the first three quarters partially offset by the decline during the fourth quarter, flat rentals on average rose by a modest 3% between December 2017 and December 2018. Rentals of small/medium-sized flats and large flats both rose by 3%. Reflecting the relative movements of flat prices and rentals, the average rental yield for residential property increased marginally to 2.6% in December 2018 from 2.5% a year earlier.

Diagram 4.2 : Flat prices reverted to a decline since August, while rentals also fell towards the end of 2018



4.5 Notwithstanding their recent decline, flat prices in December 2018 still exceeded their 1997 peak by 107%. 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) was around 69% in the fourth quarter, still significantly above its 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 90%.

Diagram 4.3 : The mortgage payment to income ratio remained elevated



4.6 Raising flat supply through increasing land supply is a key policy of the Government. As announced in December 2018, a total of 13 sites were sold or would be put up for sale in 2018-19 by the Government under the Land Sale Programme, capable of providing about 6 500 units in total. Combining the various sources (including Government land sale, railway property development projects, the Urban Renewal Authority's projects, and private development and redevelopment projects), the total private housing land supply in 2018-19 has an estimated capacity of providing about 13 900 units. In October, the Chief Executive announced various measures and plans on housing and land supply in her Policy Address (*see Box 3.1 of the Third Quarter Economic Report 2018*). Separately, in December, the Task Force on Land Supply submitted its report on overall land supply strategy and land supply options to the Government⁽¹⁾.

4.7 Reflecting the Government's sustained efforts in raising land supply, the *total supply of flats* in the private sector 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) would stay at a high level of 93 000 units as estimated at end-2018. Another 6 100 units could be added to the total supply after the conversion of a number of residential sites into "disposed sites".

4.8 The demand-supply balance of private flats remained tight for the time being despite some relative improvement during 2018. The gross completions of private flats amounted to 21 000 units in 2018. After netting off demolition of 900 units, the net completions of 20 100 units were above the take-up of 11 600 units⁽²⁾ in the same year. As a result, the vacancy rate rose from 3.7% at end-2017 to 4.3% at end-2018, yet still below the long-term average of 5.0% over 1998-2017. The Rating and Valuation Department forecasts gross completions at 20 400 units in 2019 and 20 200 units in 2020⁽³⁾, above the average of 17 700 units per annum over 1998-2017.

4.9 Over the past several years, the Government has also put forward demand-management and macro-prudential measures to dampen speculative, investment and non-local demand, and to reduce the possible risks to financial stability arising from an exuberant property market⁽⁴⁾. 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 62 cases per month or 1.2% of total transactions in 2018, 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 effect of the Buyer's Stamp Duty, *purchases by non-local individuals and non-local companies* also stayed low at 69 cases per month or 1.3% of total transactions in 2018, 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 596 cases per month or 11.1% of total transactions in 2018, markedly lower than the monthly average of 1 412 cases subject to Double Stamp Duty or 26.5% in January to November 2016. As to *mortgage lending*, the average loan-to-value ratio of new mortgages was 47% in 2018, 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 4.4 : Speculative activities stayed subdued

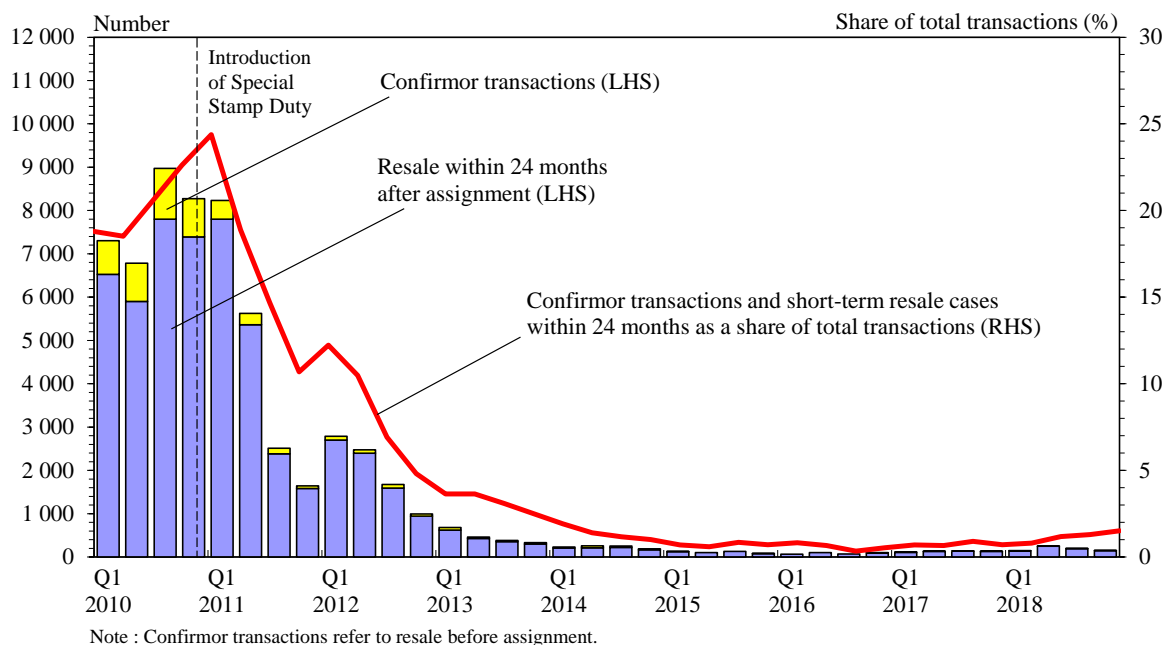


Diagram 4.5 : Purchases by non-local buyers stayed low

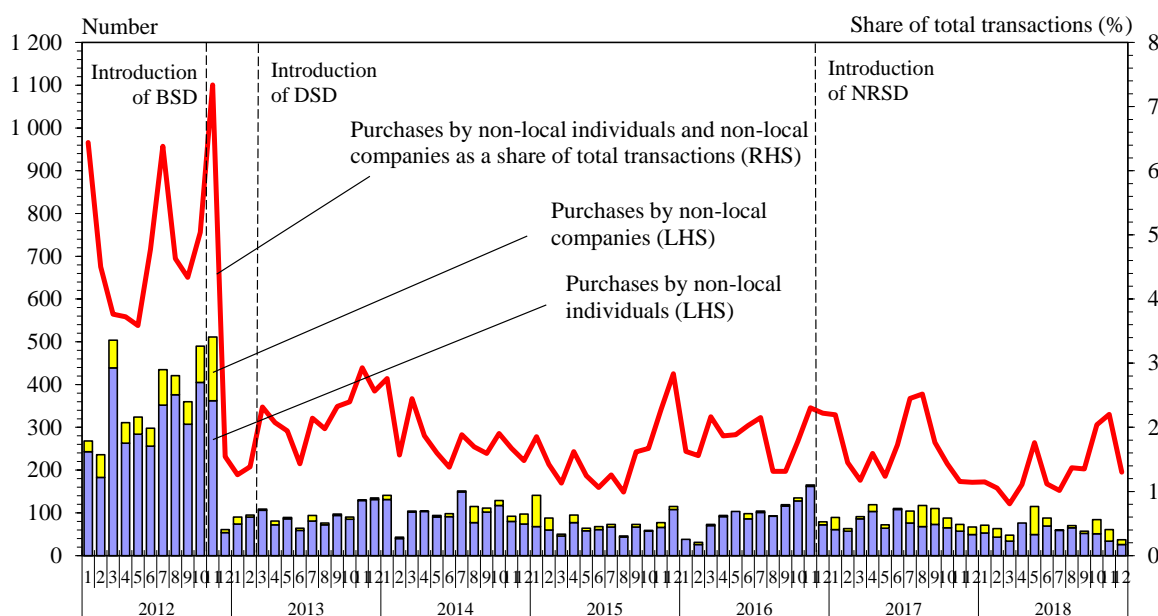
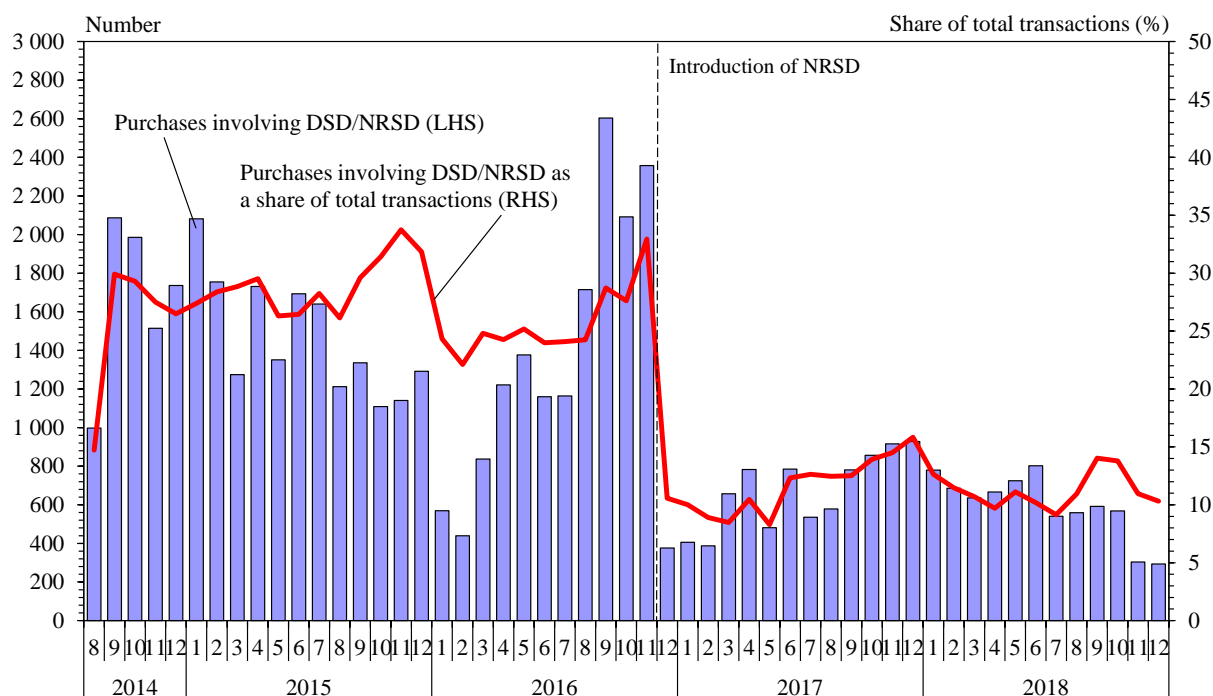


Diagram 4.6 : Investment activities were modest



4.10 Looking ahead, the expected increase in residential flat completions in the coming years would continue to help restore the demand-supply balance progressively over time. Moreover, market sentiment could be affected by the high uncertainties surrounding the economic prospects, the US-Mainland trade conflict, global financial conditions, Brexit and geopolitical tensions.

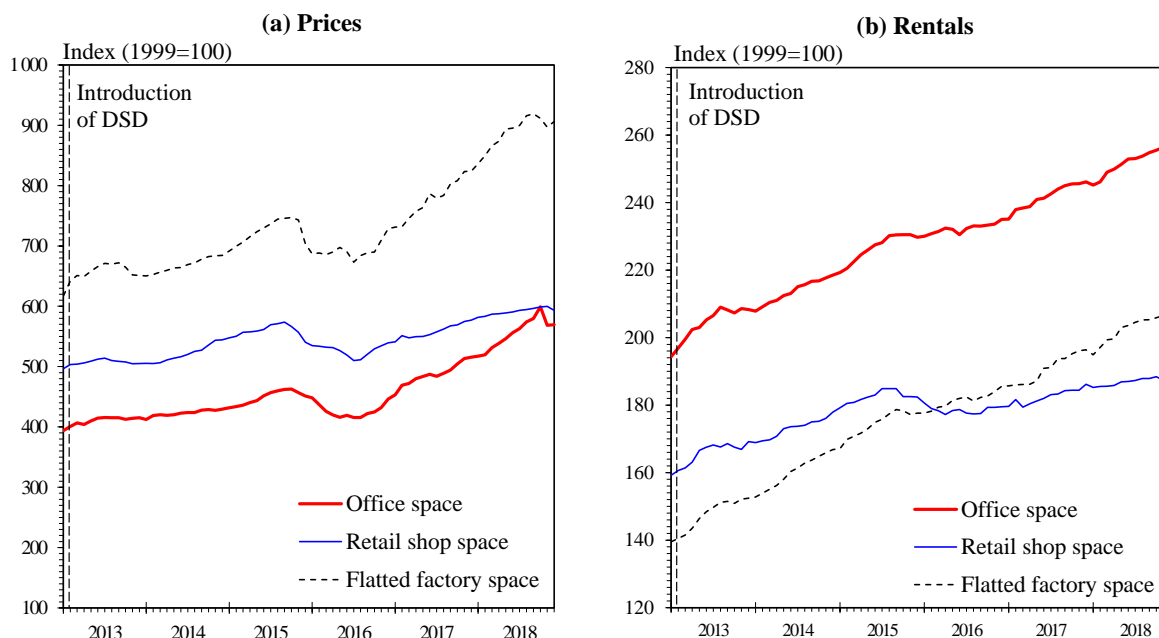
4.11 The *commercial* and *industrial property markets* were generally active during most of 2018, though also showing some cool-off towards the end of the year. Prices and rentals recorded further gains during 2018 as a whole while trading activities in the different market segments quietened down by varying degrees.

4.12 Prices of *office space* in December 2018 on average rose by a notable 10% over December 2017. Analysed by office class, prices of Grade A and B office space rose by 24% and 7% respectively, while prices of Grade C office edged down by 1%. Meanwhile, office rentals on average increased by 4%, with those of Grade A, B and C office space rising by 5%, 4% and 3% respectively. The average rental yields of Grade A, B and C office space were 2.2%, 2.7% and 2.9% respectively in December 2018, compared with 2.6%, 2.7% and 2.8% a year earlier. Yet transactions plunged by 32% to 1 330 cases in 2018. As the take-up of 265 800 m² exceeded the completion of 179 200 m², the vacancy rate fell from 9.5% at end-2017 to 8.6% at end-2018, below the long-term average of 9.7% over 1998-2017.

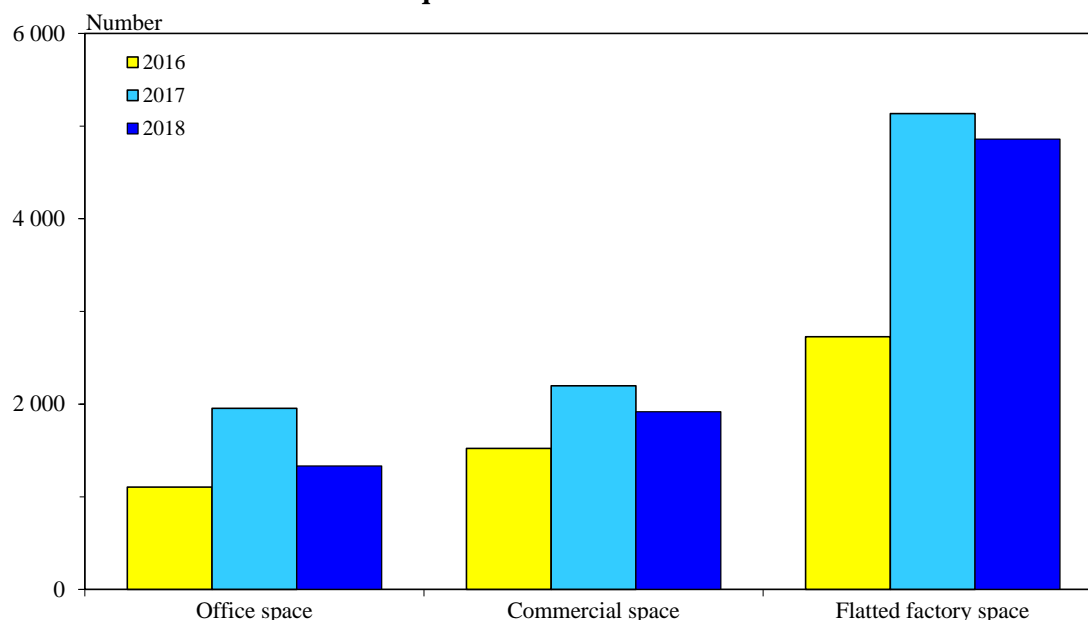
4.13 Supported by the largely solid retail sales performance, prices and rentals of *retail shop space* increased by 3% and 2% respectively between December 2017 and December 2018. As a result, the average rental yield edged down from 2.5% to 2.4%. Yet trading activities fell by 13% to 1 920 cases in 2018⁽⁵⁾. The take-up of retail shop space of 45 700 m² was much lower than the completion of 125 000 m². As a result, the vacancy rate went up from 9.0% at end-2017 to 9.4% at end-2018, above the long-term average of 8.8% over 1998-2017.

4.14 Prices and rentals of *flatted factory space* rose by 10% and 4% respectively between December 2017 and December 2018. The average rental yield edged down from 2.9% to 2.7% over the period. Yet transactions declined by 5% to 4 860 cases in 2018. As to the demand-supply balance, with a negative take-up of 7 500 m² and a completion of 41 100 m², the vacancy rate rose further from 6.1% at end-2017 to 6.3% at end-2018, yet still below the long-term average of 7.5% over 1998-2017.

Diagram 4.7 : Prices and rentals of non-residential properties recorded further gains during 2018



**Diagram 4.8 : Transactions for commercial and industrial properties
quietened down in 2018**



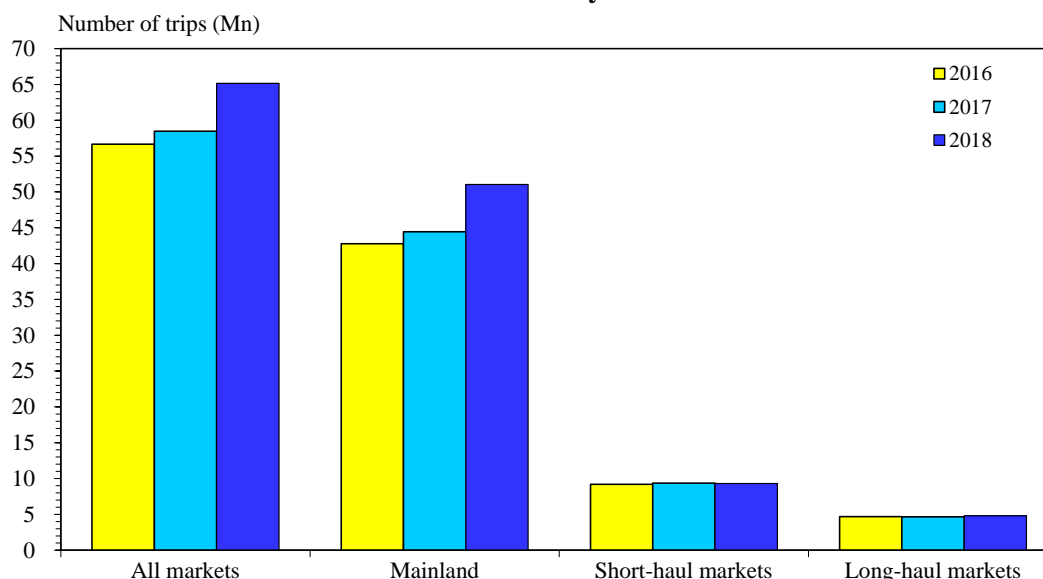
Land

4.15 Nineteen sites with a total area of about 14.6 hectares were disposed of in 2018, fetching a land premium of about \$81.9 billion. Among these sites, there were 11 residential sites, two industrial sites, one site for logistics development purposes, four sites for petrol filling station and one site for high-tier data centre. In addition, the tender exercises for another two residential sites and one commercial/hotel site commenced in the fourth quarter. Regarding exchange of land, 14 sites with a total area of about 8.9 hectares were approved in 2018. As to lease modifications, a total of 57 sites were approved.

Tourism

4.16 Performance of inbound tourism remained vibrant in 2018, with overall *visitor arrivals* rising by another 11.4% to a record 65.1 million. The Mainland market continued to provide the major growth impetus, as visitor arrivals from this source soared by 14.8% to 51.0 million. Growth was particularly strong in the fourth quarter, fuelled by the commencement of operation of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link in late September and the Hong Kong-Zhuhai-Macao Bridge in late October. Meanwhile, visitor arrivals from the long-haul markets increased moderately by 2.9% in 2018, while those from the short-haul markets fell slightly by 0.6%⁽⁶⁾. Visitor spending, in terms of exports of travel services, grew notably by 8.3% in 2018.

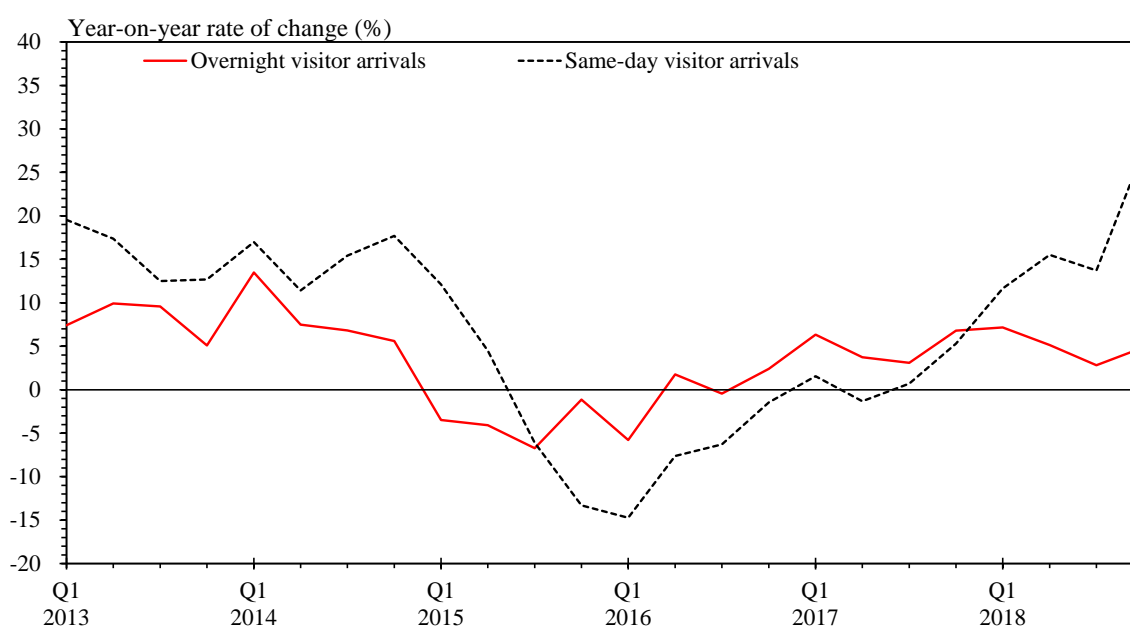
**Diagram 4.9 : Performance of inbound tourism remained vibrant in 2018
on the back of a continued rally in Mainland visitors**



Note : See note (6) at the end of this chapter for the definition of short-haul and long-haul markets.

4.17 Analysed by the length of stay, same-day visitor arrivals rose sharply by 17.3% in 2018, while overnight visitor arrivals grew moderately by 4.9%. Reflecting these movements, the share of same-day visitors rose from 52.3% in 2017 to 55.1% in 2018, while that of overnight visitors declined from 47.7% to 44.9%.

**Diagram 4.10 : Same-day visitor arrivals rose sharply,
while overnight visitor arrivals grew moderately in 2018**

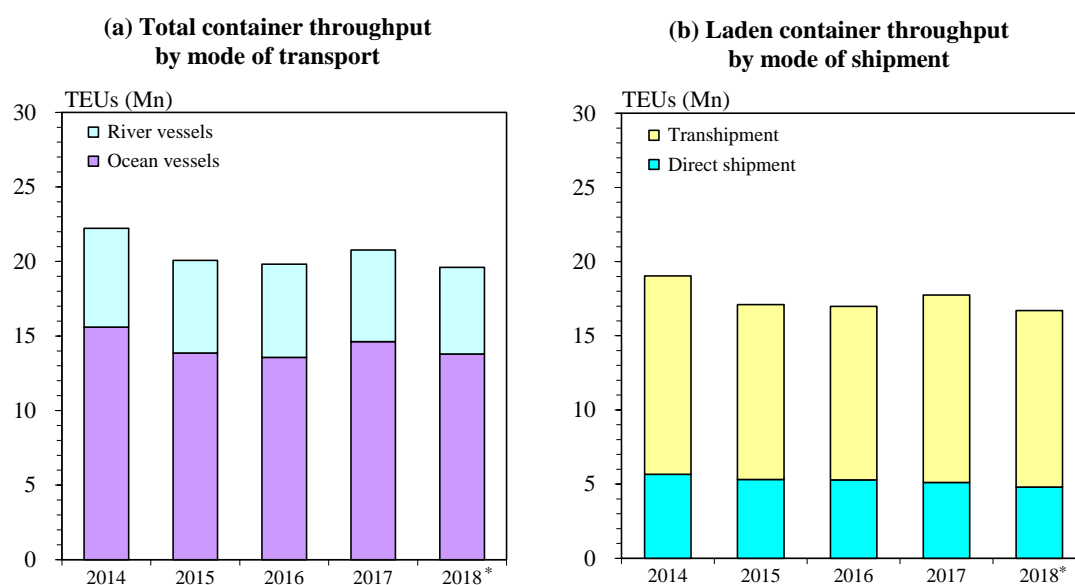


4.18 In tandem with the increase in overnight visitor arrivals, the average hotel room occupancy rate rose from 89% in 2017 to 91% in 2018, and the average achieved hotel room rate also increased by 6.8% to \$1,375⁽⁷⁾.

Logistics

4.19 The logistics sector put up a mixed performance in 2018. *Total container throughput* relapsed to a decline of 5.7% to 19.6 million twenty-foot equivalent units (TEUs) in 2018. Within the laden container throughput, direct shipment and transshipment fell by 5.8% and 5.9% respectively. The value of trade handled at the Hong Kong port increased by 2.5% in 2018, yet its share in total trade by value shrank further from 18.1% in 2017 to 17.2% in 2018.

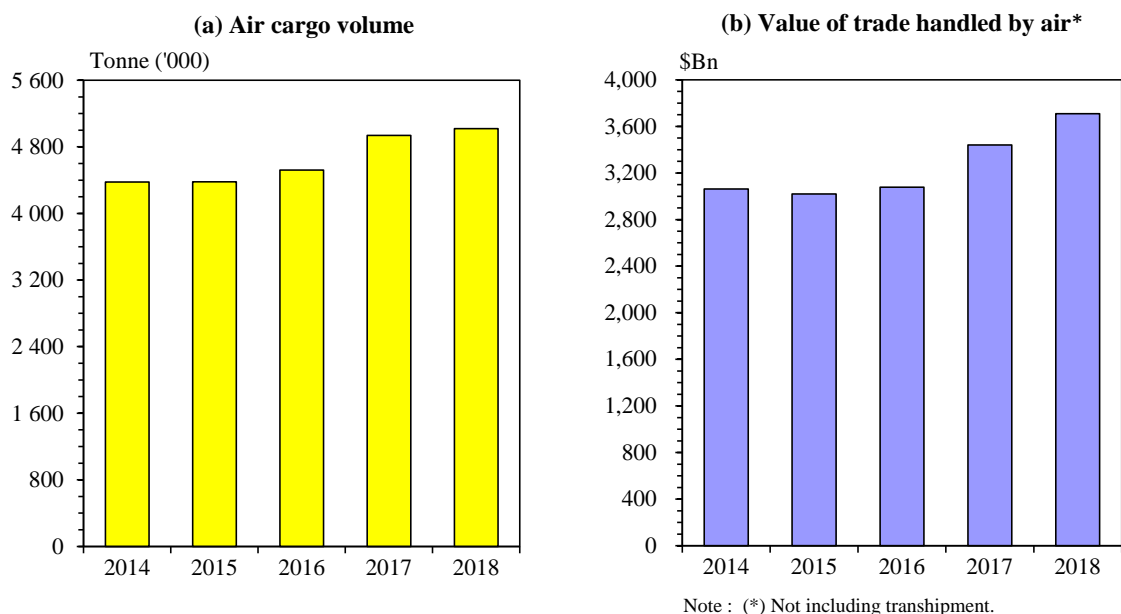
Diagram 4.11 : Container throughput relapsed to a decline in 2018



Note : (*) Total container throughput for 2018 is the preliminary estimate by Hong Kong Maritime and Port Board. Its breakdown by mode of transport and the laden container throughput by mode of shipment are crudely estimated from the profile in the first eleven months of 2018.

4.20 By comparison, *air freight throughput* fared better, rising modestly by 1.6% to 5.0 million tonnes in 2018. The value of trade by air leapt by another 7.8% while its share in total trade remained virtually unchanged at 41.8%.

Diagram 4.12 : Air cargo throughput and the value of trade handled by air registered further increase in 2018



Transport

4.21 Traffic flows for different major modes of transport recorded a mixed performance in 2018. Air passenger traffic rose by 2.5% to 74.7 million trips. While land-based cross-boundary passenger trips increased by 6.3% to 235.6 million, water-borne passenger trips fell by 4.4% to 25.7 million, conceivably reflecting some substitution of passenger trips following the commencement of operation of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge. Meanwhile, the number of average daily cross-boundary vehicle movements decreased by 2.2% to 42 966.

4.22 The Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link commenced operation in September and the Hong Kong-Zhuhai-Macao Bridge in October. These two important cross-boundary transport infrastructure projects would further enhance the connectivity between Hong Kong and the Mainland and help facilitate the flow of people and goods within the Greater Bay Area.

Environment

4.23 In November 2018, the Government introduced the Waste Disposal (Charging for Municipal Solid Waste) (Amendment) Bill 2018 into the Legislative Council. Municipal Solid Waste (MSW) charging aims at

providing financial incentives to drive behavioural and cultural changes, and encouraging different sectors of the community to cherish resources and proactively practise waste reduction at source and clean recycling. Specifically, the Bill proposed two charging modes, namely “charging by designated garbage bags” and “charging by weight”, based on the “polluter-pays” principle and the existing waste collection system. The Government would put in place a preparatory period of 12 to 18 months after the passage of the Bill to provide time for the public to prepare for the eventual implementation of the regime.

4.24 In the fourth quarter of 2018, the Legislative Council approved two regulations aiming at improving air quality in Hong Kong. The first one was the Air Pollution Control (Fuel for Vessels) Regulation (Cap 311AB), which requires all non-exempted vessels to use low-sulphur marine fuel or other compliant fuels when sailing or berthing within Hong Kong waters. The second one was the Air Pollution Control (Non-road Mobile Machinery) (Emission) (Amendment) Regulation 2018, which tightens the statutory emission standards in phases for newly approved non-road vehicles to tally with the latest emission standards of the relevant class of road vehicles. Both regulations took effect on 1 January 2019.

Notes :

- (1) The Task Force recommended that the Government accord priority to studying and implementing eight land supply options, namely “Developing Brownfield Sites”, “Tapping into Private Agricultural Land Reserve in the New Territories”, “Alternative Uses of Sites under Private Recreational Leases”, “Near-shore Reclamation Outside Victoria Harbour”, “Developing the East Lantau Metropolis”, “Developing Caverns and Underground Space”, “More New Development Areas in the New Territories” and “Developing the River Trade Terminal Site”.
- (2) Take-up figures represent the net increase in the number of units occupied. The figures are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year’s demolition and the year-end vacancy figures. Take-up should not be confused with the sales of new developments, and it bears no direct relationship to the number of units sold by developers. Negative take-up means that there is a decrease in the number of units occupied (i.e. property previously occupied was released during the year and remained vacant at the year-end). Also, take-up, demolition, completion and vacancy figures on residential and non-residential properties are preliminary figures from the Rating and Valuation Department, and are subject to revision.
- (3) Forecast completions in 2019 and 2020 are preliminary figures only, and are subject to revision upon the availability of more data.
- (4) 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 the Third Quarter Economic Report 2018.

- (5) The figures on transaction and vacancy rate refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (6) Short-haul markets refer to North Asia, South and Southeast Asia, Taiwan and Macao, but exclude the Mainland. Long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In 2018, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for 78.3%, 14.3% and 7.4% respectively of total visitors.
- (7) The figures on hotel room occupancy and achieved room rate do not include guesthouses.

CHAPTER 5 : THE FINANCIAL SECTOR[#]

Summary

- *In tandem with the US monetary policy normalisation, Hong Kong dollar interest rates generally went up in 2018, but were still at rather low levels. Following the interest rate hikes by the US Federal Open Market Committee, the Hong Kong Monetary Authority (HKMA) adjusted upward the Base Rate under the Discount Window four times by a total of 100 basis points to 2.75% at the end of 2018. Interest rates on the retail front picked up slightly, with major local banks raising their Best Lending Rates for the first time since 2006.*
- *Mainly dragged by carry trade activities amid widening negative Hong Kong dollar-US dollar interest rate spreads, the Hong Kong dollar spot exchange rate generally weakened against the US dollar in 2018. With the weak-side Convertibility Undertaking triggered 27 times during the year, the HKMA purchased a total of \$103.5 billion worth of Hong Kong dollars, bringing the Aggregate Balance down from \$179.8 billion at end-2017 to \$78.6 billion at end-2018.*
- *As the US dollar strengthened against most major currencies including the euro, pound sterling and renminbi, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices increased by 3.5% and 4.5% respectively during 2018.*
- *Total loans and advances showed decelerated growth of 4.4% during 2018, reflecting the weaker loan demand since the third quarter amid moderating economic growth. Within the total, loans for use in and outside Hong Kong rose by 5.4% and 2.0% respectively.*
- *The local stock market underwent a sharp correction in 2018 amid concerns about the US interest rate hikes, escalating US-Mainland trade tensions and more recently also moderating global economic growth. The Hang Seng Index closed the year at 25 846, down by 13.6% from a year earlier or a sharp 22.0% from the all-time high in January. Trading activities were buoyant in early 2018 before cooling off gradually over the course of the year, while fund raising activities were largely active.*

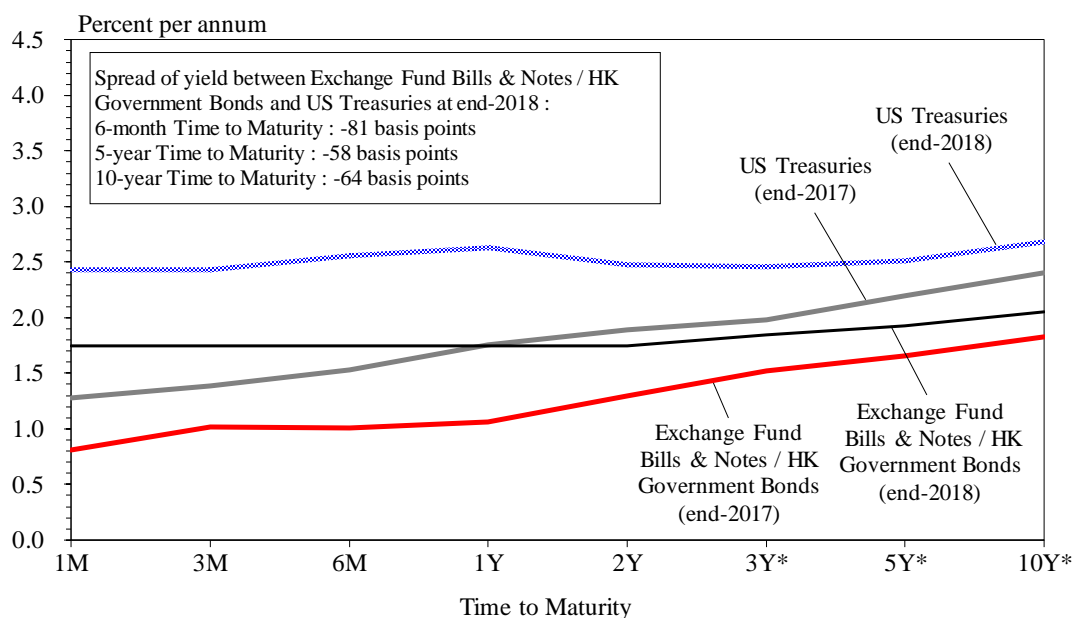
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority and the Office of the Government Economist.*

Interest rates and exchange rates

5.1 In tandem with the US monetary policy normalisation, Hong Kong dollar interest rates generally went up in 2018, but were still at rather low levels. The US Federal Open Market Committee raised the target range for the Federal Funds Rate four times by a total of 100 basis points to 2.25-2.50% during the year. Consequently, the HKMA adjusted upward the *Base Rate* under the Discount Window from 1.75% to 2.75%⁽¹⁾. As to *Hong Kong dollar interbank interest rates*, the overnight HIBOR rose from 1.34% at end-2017 to 4.60% at end-2018, and three-month HIBOR from 1.31% to 2.33%.

5.2 Both the *US dollar* and *Hong Kong dollar yield curves* flattened in 2018, as short- to medium-term yields rose more than longer-term yields. Reflecting the smaller increases in Hong Kong dollar yields than the US dollar counterparts, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills widened from 52 basis points at end-2017 to 81 basis points at end-2018, and that between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes from 57 basis points to 64 basis points.

Diagram 5.1 : Both the US dollar and Hong Kong dollar yield curves flattened in 2018

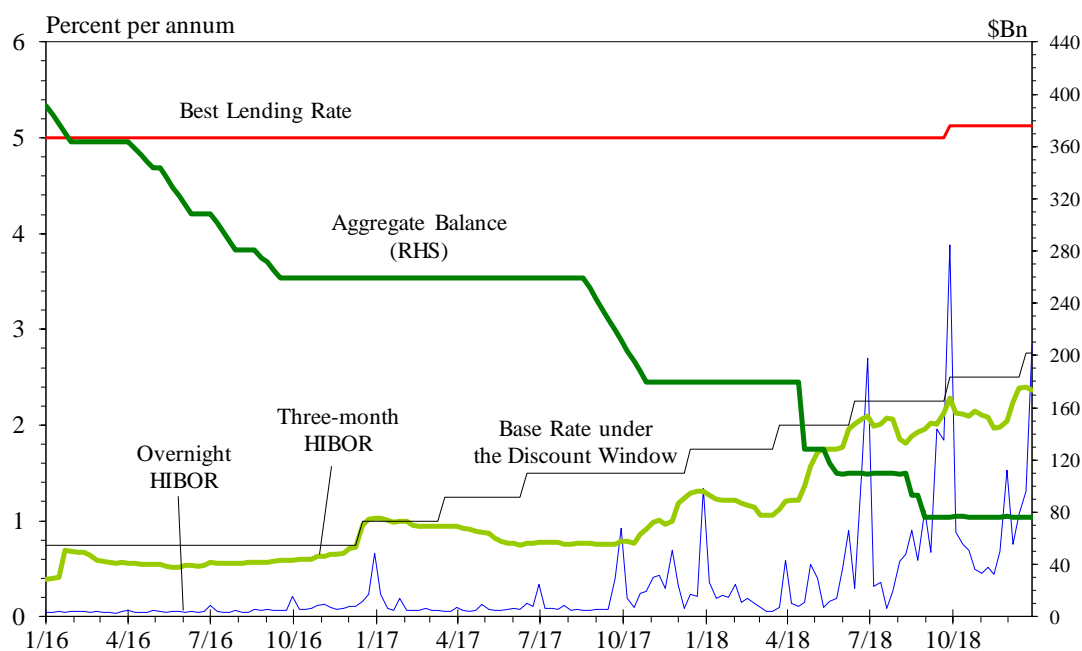


Note : (*) With the HKMA stopping new issuance of Exchange Fund Notes of tenors of three years or above since January 2015, the Hong Kong dollar yields for tenor of 3 years and above refer to those for Hong Kong Government Bonds.

5.3 Interest rates on the retail front picked up slightly. Following the interest rate hike in US in September, major local banks raised their *Best Lending Rates* for the first time since 2006, mostly by 12.5 basis points. At end-2018, there were three Best Lending Rates in the market, at 5.125%,

5.375% and 5.500% respectively. Likewise, the *average savings deposit rate* and the one-year *time deposit rate* quoted by the major banks for deposits of less than \$100,000 rose from 0.01% and 0.15% at end-2017 to 0.13% and 0.33% respectively at end-2018. The *composite interest rate*⁽²⁾, which indicates the average cost of funds for retail banks, also rose from 0.38% to 0.89%.

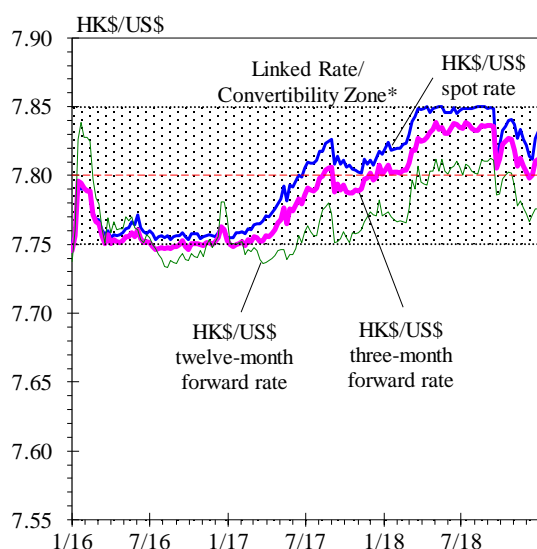
**Diagram 5.2 : Hong Kong dollar interest rates picked up in 2018
(end for the week)**



5.4 The *Hong Kong dollar spot exchange rate* generally weakened against the US dollar during 2018. Mainly dragged by carry trade activities amid widening negative Hong Kong dollar-US dollar interest rate spreads, the spot rate weakened in early 2018 and stayed close to 7.85 during most of the first three quarters. After regaining some strength from late September to November due to unwinding of interest carry trade, it weakened again towards the end of the year, amid repatriation of proceeds raised in initial public offerings (IPOs), note-issuance activities ahead of holidays, and possibly some re-building of interest carry positions. The Hong Kong dollar spot exchange rate closed the year at 7.831, compared with 7.814 at end-2017. With the weak-side Convertibility Undertaking triggered 27 times during 2018, the HKMA purchased a total of \$103.5 billion worth of Hong Kong dollars, bringing the Aggregate Balance down from \$179.8 billion at end-2017 to \$78.6 billion at end-2018. The *Hong Kong dollar forward rates* also registered larger discounts. The discounts of the 3-month and 12-month forward rates widened from 141 pips and 445 pips (each pip is equivalent to HK\$0.0001) at end-2017 to 210 pips and 565 pips at end-2018.

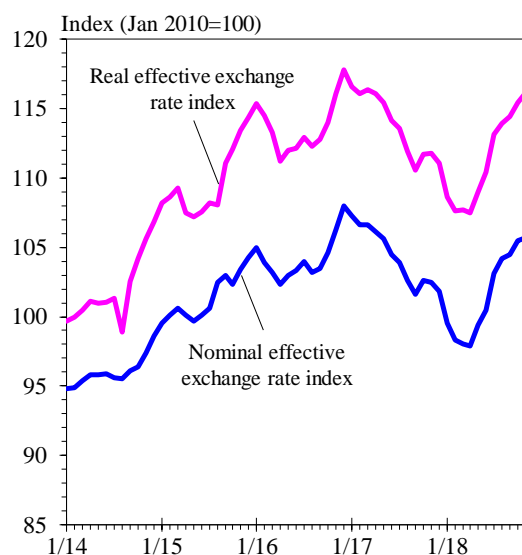
5.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar strengthened against most major currencies including the euro, pound sterling and renminbi (RMB), the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ increased by 3.5% and 4.5% respectively during 2018.

Diagram 5.3 : Hong Kong dollar generally weakened against the US dollar during 2018 (end for the week)



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

Diagram 5.4 : The trade-weighted nominal and real effective exchange rate indices increased alongside with the US dollar (average for the month)



Money supply and banking sector

5.6 The Hong Kong dollar broad *money supply* (HK\$M3) increased moderately by 3.7% over a year earlier to \$7,284 billion⁽⁴⁾ at end-2018, while the seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1) declined by 2.6% to \$1,566 billion. Meanwhile, *total deposits* with authorised institutions (AIs)⁽⁵⁾ grew by 5.0% to \$13,386 billion, within which Hong Kong dollar deposits and foreign currency deposits increased by 3.6% and 6.4% respectively.

Diagram 5.5 : Broad money supply increased moderately while narrow money supply declined during 2018

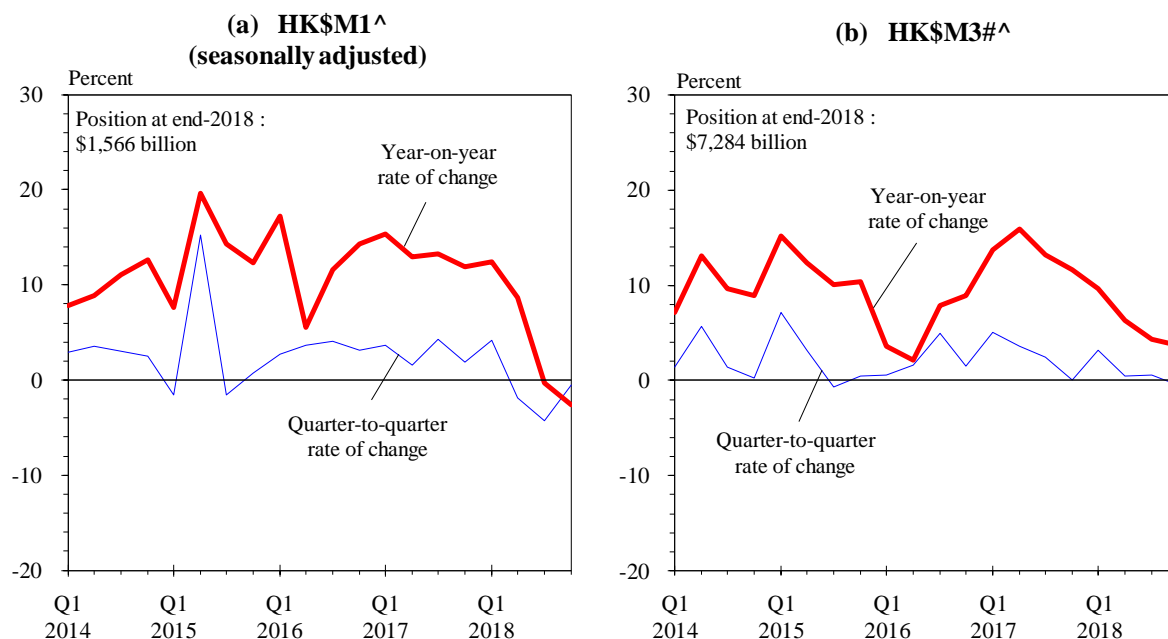


Table 5.1 : Hong Kong dollar money supply and total money supply

		<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
	Q4	-0.5	-1.0	-0.5	1.6	-0.5	1.6
Total amount at end-2018 (\$Bn)		1,566	2,422	7,262	14,348	7,284	14,404
% change over a year earlier		-2.6	-0.4	3.6	4.3	3.7	4.3

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

5.7 *Total loans and advances* showed decelerated growth in 2018, reflecting the weaker loan demand since the third quarter amid moderating economic growth. With the increase in the first half partially offset by a decline in the second half, total loans and advances rose by a moderated 4.4% over a year earlier to \$9,723 billion at end-2018. Within the total, Hong Kong dollar loans went up by 8.9%, while foreign currency loans declined by 1.7%. Reflecting the corresponding movements in loans and deposits, the loan-to-deposit ratio for Hong Kong dollar increased from 82.7% a year earlier to 86.9% at end-2018, while that for foreign currency dropped from 63.1% to 58.3%.

5.8 Both loans for use in and outside Hong Kong grew at slower paces. Loans for use in Hong Kong (including trade finance) rose by 5.4% over a year earlier to \$6,865 billion at end-2018, and loans for use outside Hong Kong by 2.0% to \$2,858 billion. Within the loans for use in Hong Kong, loans to most economic sectors recorded slower increases or declines. Reflecting the increasingly less favourable external environment, trade finance fell by 7.6%. Loans to manufacturing, wholesale and retail trade increased by 8.5% and 0.6% respectively. Loans to financial concerns registered decelerated growth of 6.0%, while loans to stockbrokers plummeted by 25.0% alongside the stock market correction. Notwithstanding the property market consolidation in the second half, loans to building, construction, property development and investment and loans for purchase of residential property still increased by 4.8% and 9.0% respectively.

Table 5.2 : Loans and advances

All loans and advances for use in Hong Kong

		Loans to :									
% change during the quarter		Trade finance	Manu- facturing	Whole- sale and retail trade	Building, construction, property development and investment	Purchase of residential property ^(a)	Financial concerns	Stock- brokers	Total ^(b)	All loans and advances for use outside Hong Kong ^(c)	Total loans and advances
2017	Q1	2.6	4.6	1.6	4.9	1.6	12.1	9.7	4.0	6.0	4.6
	Q2	4.5	5.3	2.8	4.9	2.4	11.7	-7.6	5.2	5.9	5.4
	Q3	4.1	4.7	-3.0	3.4	2.3	5.9	13.1	2.7	1.4	2.3
	Q4	-2.6	3.0	-2.1	2.5	1.5	13.5	16.7	2.8	3.2	2.9
2018	Q1	5.7	3.3	4.9	2.8	1.9	6.1	3.7	3.6	3.7	3.6
	Q2	5.1	9.6	0.5	-2.3	2.3	3.4	15.6	1.7	1.4	1.6
	Q3	-8.2	-4.3	-3.5	2.4	2.5	-5.6	-31.0	-1.2	-0.9	-1.1
	Q4	-9.4	0.1	-1.2	1.9	2.0	2.4	-9.2	1.3	-2.1	0.3
Total amount at end-2018 (\$Bn)		457	318	412	1,542	1,372	871	66	6,865	2,858	9,723
% change over a year earlier		-7.6	8.5	0.6	4.8	9.0	6.0	-25.0	5.4	2.0	4.4

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

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

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

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

5.9 The Hong Kong banking sector held resilient in 2018. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying at a high level of 20.2% at end-September 2018. The ratio of classified loans to total loans for retail banks edged down from 0.56% at end-2017 to 0.54% at end-September 2018, and the delinquency ratio for credit card lending from 0.22% to 0.21%. The delinquency ratio for residential mortgage loans also declined marginally from 0.03% at end-2017 to 0.02% at end-2018.

Table 5.3 : 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
	Q3	98.36	1.09	0.54

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

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

5.10 Different segments of *offshore RMB business* showed diverse performance in 2018. RMB trade settlement transactions handled by banks in Hong Kong rebounded by a solid 7.5% to RMB4,206.2 billion in 2018. Meanwhile, total RMB deposits (including customer deposits and outstanding certificates of deposit) rose by 6.4% over a year earlier to RMB657.7 billion at end-2018. As to RMB-related financing activities, RMB bond issuance surged from RMB20.6 billion in 2017 to RMB41.9 billion in 2018, while outstanding RMB bank loans dropped by 26.9% from RMB144.5 billion at end-2017 to RMB105.6 billion at end-2018.

Table 5.4 : 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	813,750
	Q2	142,517	383,560	526,077	0.25	0.53	140	920,424
	Q3	153,368	382,099	535,468	0.25	0.53	137	997,068
	Q4	159,698	399,439	559,137	0.25	0.53	137	1,182,650
2018	Q1	159,509	394,808	554,317	0.25	0.53	136	1,007,895
	Q2	167,016	417,505	584,521	0.25	0.53	137	1,013,743
	Q3	181,117	419,212	600,329	0.25	0.53	137	1,070,825
	Q4	194,432	420,585	615,017	0.25	0.53	136	1,113,741
% change over a year earlier		21.7	5.3	10.0	N.A.	N.A.	N.A.	-5.8

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

5.11 The Hong Kong dollar *debt market* expanded further in 2018, on the back of steady growth in new issuance of Exchange Fund papers. Total gross issuance increased by 6.6% to \$3,555.1 billion, with the increase of 7.6% in public sector debt issuance more than offsetting the decline of 4.4% in private sector debt issuance⁽⁶⁾. As new issuance was larger than repayment upon maturity, total outstanding amount of debt securities rose by 2.4% over a year earlier to another record high of \$1,844.5 billion at end-2018, equivalent to 25.3% of HK\$M3 or 20.8% of Hong Kong dollar-denominated assets of the banking sector⁽⁷⁾.

5.12 As to the Government Bond (“GB”) Programme, a total of \$16.6 billion worth of institutional GBs were issued through tenders in 2018. The third batch of Silver Bond with an issue size of \$3.0 billion was also issued in December. At end-2018, the total outstanding amount of Hong Kong dollar bonds under the GB Programme was \$105.9 billion, comprising 12 institutional issues totaling \$87.1 billion and four retail issues (one iBond and three Silver Bonds) totaling \$18.8 billion. In addition, three US dollar sukuk, each with an issue size of US\$1.0 billion, were outstanding under the Programme.

**Table 5.5 : New issuance and outstanding value of
Hong Kong dollar debt securities^(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	Annual	3,233.0	19.8	19.6	3,272.3	174.6	12.6	90.6	277.8	5.0	3,555.1
	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
	Q4	824.1	1.7	9.5	835.3	33.8	0.6	8.5	42.9	0.2	878.4
% change in 2018 over 2017		7.7	-8.2	*	7.6	-6.1	35.0	-4.9	-4.4	54.8	6.6
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
	Q4	1,062.7	54.5	107.4	1,224.6	238.2	100.3	267.6	606.1	13.9	1,844.5
% change at end-2018 over end-2017		1.4	1.5	1.0	1.3	-1.2	1.3	9.8	3.8	40.7	2.4

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

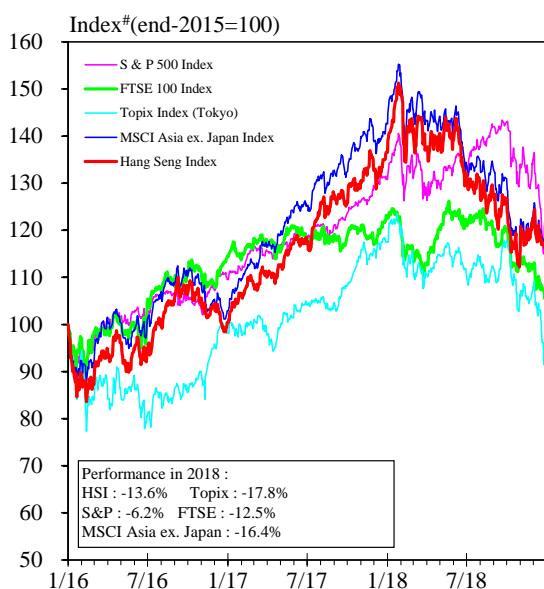
- (a) The debt securities statistics are reclassified in accordance with the latest international statistical standards set forth in the *Handbook of Securities Statistics* published by the Bank for International Settlements, International Monetary Fund and European Central Bank. They may not be comparable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

5.13 The *local stock market* underwent a sharp correction in 2018. Extending the rally in 2017, the Hang Seng Index (HSI) surged to an all-time high of 33 154 on 26 January 2018, but fell sharply through the rest of the year amid concerns about the US interest rate hikes, escalating US-Mainland trade tensions and more recently also moderating global economic growth. The HSI plunged to 24 586 on 30 October 2018, the lowest level since May 2017, and closed the year at 25 846, down by 13.6% from a year earlier or a sharp 22.0% from the peak in January. In parallel, *market capitalisation* shrank by 12.0% during the year to \$29.9 trillion. At end-2018, the local stock market ranked the fifth largest in the world and the third largest in Asia⁽⁸⁾.

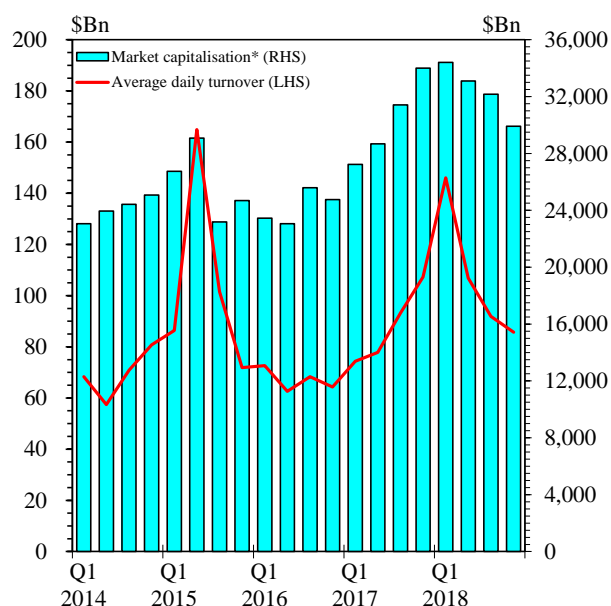
5.14 Trading activities were buoyant in early 2018 before cooling off gradually over the course of the year. For the year as a whole, *average daily turnover* in the securities market surged by 21.7% to a record high of \$107.4 billion. Within the total, the average daily trading value of callable bull/bear contracts, derivative warrants and equities⁽⁹⁾ leapt by 54.5%, 28.5% and 20.1% respectively, while that of unit trusts (including Exchange-Traded Funds) declined by 3.1%. As to futures and options⁽¹⁰⁾, the average daily trading volume jumped by 38.4%, with trading of HSI futures, Hang Seng China Enterprises Index futures, HSI options and stock options soaring by 83.9%, 30.3%, 26.1% and 20.7% respectively.

Diagram 5.6 : The local stock market underwent a sharp correction in 2018



Note : (#) Position at end of month.

Diagram 5.7 : Market capitalisation shrank, while trading activities cooled off gradually during 2018



Note : (*) Position at end of quarter.

**Table 5.6 : 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	Annual	234 424	51 693	152 241	517 395	1 203 996
	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	1 128 977
	Q4	261 361	54 716	166 070	468 198	1 222 845
% change in 2018 Q4 over 2017 Q4		70.2	17.4	43.6	-11.0	20.9
% change in 2018 over 2017		83.9	26.1	30.3	20.7	38.4

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

5.15 Fund raising activities were largely active in 2018, though given the nature of the business showing noticeable fluctuations from quarter to quarter. For the year as a whole, *total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and GEM⁽¹¹⁾, declined by 6.4% to \$544.1 billion. Yet, within the total, the amount of funds raised through IPOs soared by 124.1% to \$288.0 billion, due mainly to the listings of several companies from the emerging and innovative sectors. In 2018, Hong Kong regained the top position globally in terms of the amount of funds raised through IPOs.

5.16 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-2018, a total of 1 146 Mainland enterprises (including 267 H-share companies, 164 “Red Chip” companies and 715 private enterprises) were listed on the Main Board and GEM, accounting for 50% of the total number of listed companies and 68% of total market capitalisation. Mainland-related stocks accounted for 80% of equity turnover and 86% of total equity fund raised in the Hong Kong stock exchange in 2018.

5.17 In December, the Securities and Futures Commission (SFC) released consultation conclusions on proposals to enhance the over-the-counter (OTC) derivatives regime and to address conduct risks posed by dealings with group affiliates and other connected persons. According to the proposals, licensed corporations that are contracting parties to non-centrally cleared OTC derivative transactions or are licensed for Type 9 (i.e. asset management) regulated activity will be subject to risk mitigation requirements, and licensed corporations providing client clearing services for OTC derivative transactions will be subject to segregation, portability and disclosure requirements. The risk mitigation requirements would become effective on 1 September 2019, while the client clearing requirements would become effective when the new Type 11 (i.e. dealing in OTC derivative products or advising on OTC derivative products) and Type 12 (i.e. providing client clearing services for OTC derivative transactions) regulated activities take effect.

Fund management and investment funds

5.18 Dragged by the stock market correction, the fund management business⁽¹²⁾ showed lacklustre performance in 2018. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹³⁾ fell by 3.6% from a year earlier to \$813.0 billion at end-2018. The gross retail sales of *mutual funds* also dropped by 2.4% to US\$87.3 billion in 2018⁽¹⁴⁾.

5.19 In November, the SFC issued guidance on the regulatory standards expected of virtual asset portfolio managers and fund distributors. In particular, the SFC would impose licensing conditions on firms which manage or intend to manage portfolios investing in virtual assets, irrespective of whether the virtual assets meet the definition of “securities” or “futures contracts”. The guidance would help regulate the management and distribution of virtual asset funds and protect investors’ interests. Furthermore, the SFC is exploring a conceptual framework for the potential regulation of virtual asset trading platform operators.

5.20 The SFC also released consultation conclusions on proposed amendments to the Code on Unit Trusts and Mutual Funds in December. Major amendments include strengthening requirements for key operators (management companies, trustees and custodians), providing greater flexibility and enhanced safeguards for funds’ investment activities (particularly in relation to derivatives, securities lending, and repo and reverse repo

transactions), and introducing new fund types such as active Exchange-Traded Funds. The amendments, which have been effective since 1 January 2019, would help ensure the regulations governing public funds to be fully aligned with international standards and would be conducive to the development of the retail fund industry in Hong Kong.

Insurance sector

5.21 The *insurance sector*⁽¹⁵⁾ showed further expansion in the third quarter of 2018. Gross premium income from long-term business rose by another 3.6% over a year earlier. Within the total, premium income from non-investment linked plans (which accounted for 87% of total premium for this segment) edged up by 1.6%, while that from investment linked plans jumped by 19.1%. As to general business, gross and net premium went up by 2.2% and 4.4% respectively.

Table 5.7 : 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
	Q3	12,624	8,713	-219	32,342	4,440	70	129	36,981	49,605
% change in 2018 Q3 over 2017 Q3		2.2	4.4	N.A.	1.6	19.1	11.1	63.3	3.6	3.2

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

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

N.A. Not applicable.

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-2018, there were 152 licensed banks, 18 restricted licence banks and 16 deposit-taking companies in Hong Kong. Altogether, 186 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-2018, there were 96 classes of stock options contracts and 78 classes of stock futures contracts.
- (11) At end-2018, there were 1 926 and 389 companies listed on the Main Board and GEM respectively.
- (12) With the de-authorisation of the remaining retail hedge fund in the second quarter of 2018, there was no SFC-authorised retail hedge fund at end-2018.
- (13) At end-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 290 000 employers, 2.63 million employees and 208 000 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-2018, the survey covered a total of 1 319 active authorised funds.
- (15) At end-2018, there were 161 authorised insurers in Hong Kong. Within this total, 49 were engaged in long-term insurance business, 93 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 23 countries and territories (including Hong Kong).

CHAPTER 6 : THE LABOUR SECTOR

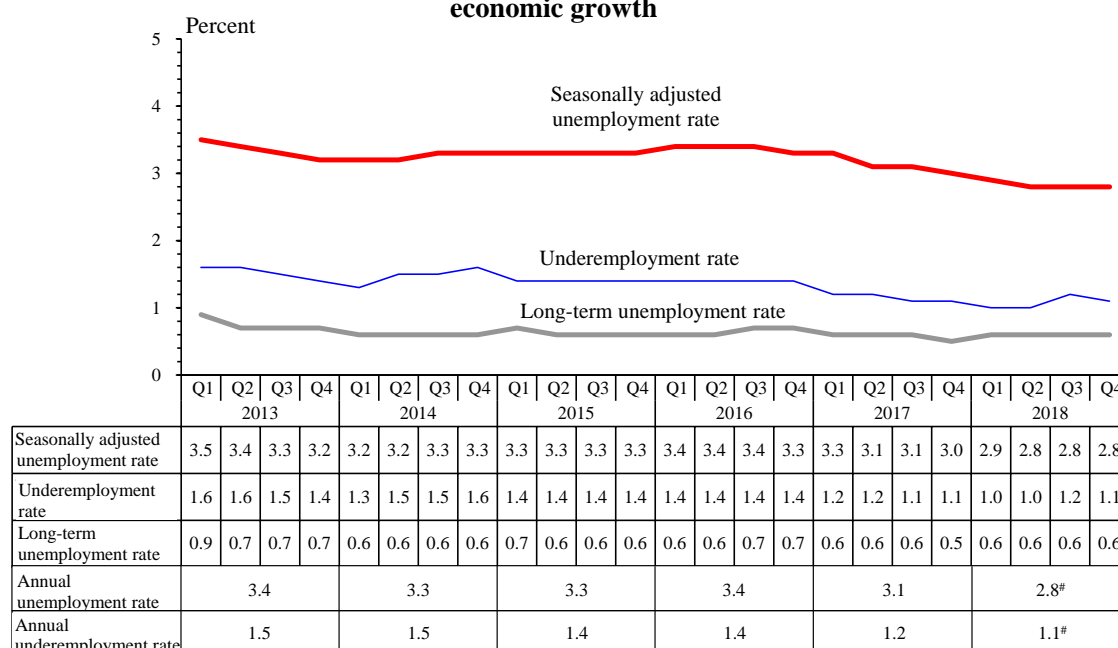
Summary

- *The labour market showed further tightening on the back of another year of above-trend economic growth in 2018. Despite the visible slowdown in economic activities towards the end of the year, labour market conditions remained resilient in the fourth quarter. The unemployment rate for 2018 as a whole declined by 0.3 percentage point to 2.8%, while the underemployment rate edged down by 0.1 percentage point to 1.1%, both being the lowest in more than 20 years.*
- *Reflecting the sturdy labour demand, total job opportunities in the private sector establishments increased further. Employment in the majority of service sectors witnessed solid growth in the first three quarters of 2018, while the number of private sector vacancies went up considerably by 11.0% year-on-year after the modest rebound in 2017.*
- *Amid the tight labour market conditions, wages and earnings continued to post appreciable real gains across most of the major sectors. Meanwhile, earnings of grassroots workers sustained solid growth in the year.*

Overall labour market situation⁽¹⁾

6.1 The labour market tightened further in 2018, thanks to another year of above-trend economic growth. Both labour force and total employment expanded further throughout the year, with the latter reaching a new annual high of 3.87 million. The seasonally adjusted quarterly *unemployment rate*⁽²⁾ edged down progressively in the first half of 2018, and remained at a low level of 2.8% in the rest of the year notwithstanding the moderating economic growth. The unemployment rate declined by 0.3 percentage point to 2.8% for the year as a whole, the lowest level in more than 20 years. In parallel, the *underemployment rate*⁽³⁾ edged down by 0.1 percentage point to 1.1%, matching the low level in 1997. Data collected from private sector establishments likewise pointed to a further increase in employment opportunities amid sturdy labour demand, as manifested by the solid job gains in many service sectors and a remarkable increase in the number of vacancies. Thanks to the persistently tight manpower situation, overall wages and earnings posted appreciable real gains in the first three quarters of 2018. Earnings of low-income workers also registered further solid growth in the year.

Diagram 6.1 : The labour market tightened in 2018 on the back of another year of above-trend economic growth



Note : # Provisional figures.

Labour force and total employment

6.2 On the supply side, the *labour force*⁽⁴⁾ grew moderately by 1.0% in 2018 to 3 984 300. The increase was mainly attributable to the 0.8% gain in the working-age population (i.e. land-based non-institutional population aged 15 and above). Meanwhile, the labour force participation rate, at 61.2%, was broadly the same as in 2017.

6.3 On the demand side, *total employment*⁽⁵⁾ expanded by 1.3% to another annual high of 3 872 300 in 2018, following the 1.0% gain in 2017. Employment growth picked up notably to 1.8% year-on-year in the first quarter amid vibrant economic expansion, before moderating progressively through the year to a still solid 0.8% in the fourth quarter.

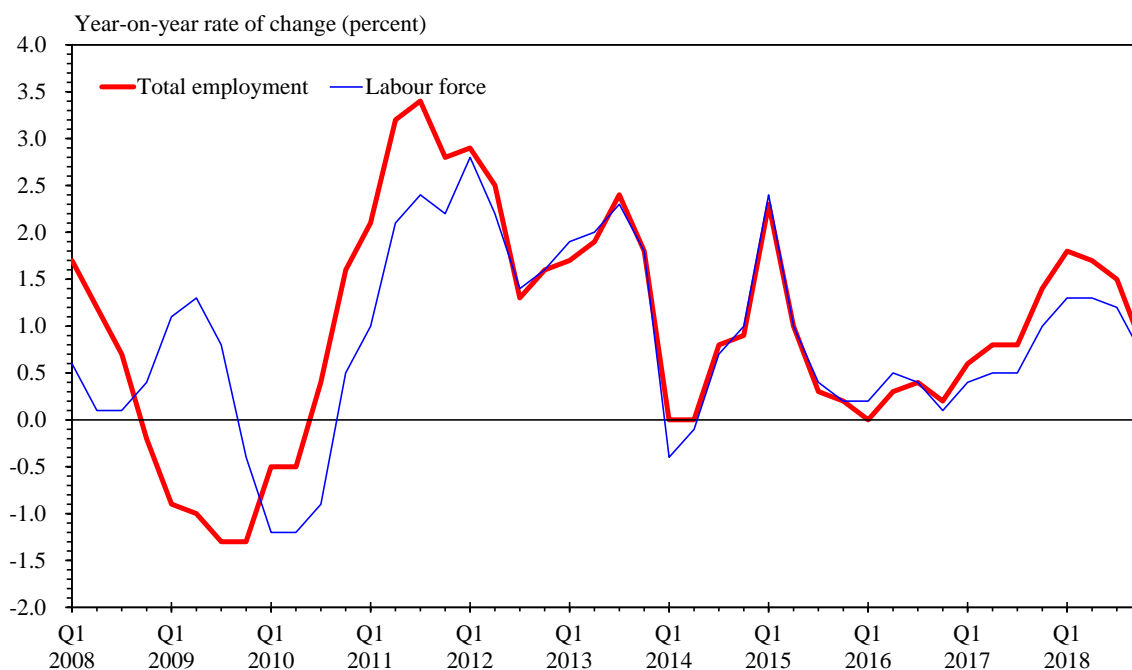
Table 6.1 : The labour force, and persons employed, unemployed and underemployed

		<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	Annual [#]	3 984 300 (1.0)	3 872 300 (1.3)	111 900	43 000
	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
	Q3	3 992 400 (1.2)	3 874 600 (1.5)	117 800	47 300
	Q4	3 978 000 (0.7)	3 872 600 (0.8)	105 400	44 500
		<-0.1>	<-0.1>		

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.
 () % change over a year earlier.
 < > Seasonally adjusted quarter-to-quarter % change for the fourth quarter of 2018.
 # Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Diagram 6.2 : Total employment increased at a faster pace in 2018



**Table 6.2 : 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[#]</u>
<u>Male</u>						
15-24	37.8	37.8	39.1	39.5	38.1	39.5
<i>of which:</i>						
15-19	11.0	11.1	11.7	12.9	9.9	10.6
20-24	62.5	61.4	62.0	60.7	59.2	60.8
25-29	93.8	93.4	93.7	92.9	92.6	92.5
30-39	96.9	96.5	96.5	96.4	96.6	96.3
40-49	95.5	94.7	95.1	95.0	95.2	95.1
50-59	86.9	86.7	86.6	86.0	86.7	86.8
≥ 60	27.0	28.0	28.5	29.9	30.4	31.8
Overall	69.2	68.8	68.8	68.6	68.3	68.5
<u>Female</u>						
15-24	40.0	39.3	41.4	41.9	41.5	41.5
<i>of which:</i>						
15-19	11.5	12.5	12.8	12.3	11.8	12.6
20-24	64.2	61.4	63.6	63.6	61.8	61.1
25-29	86.5	86.3	85.7	86.2	86.5	86.7
30-39	78.4	78.9	78.4	78.0	79.0	79.7
40-49	72.8	73.0	73.7	73.4	73.8	74.1
50-59	56.2	57.2	58.3	59.7	60.4	61.2
≥ 60	9.7	10.7	11.4	12.3	13.7	14.4
Overall	54.5	54.5	54.7	54.8	55.1	55.2
<u>Both genders combined</u>						
15-24	38.9	38.5	40.2	40.7	39.8	40.5
<i>of which:</i>						
15-19	11.3	11.8	12.3	12.6	10.8	11.5
20-24	63.4	61.4	62.8	62.2	60.5	61.0
25-29	89.6	89.4	89.2	89.2	89.3	89.4
30-39	85.9	86.0	85.7	85.4	86.0	86.3
40-49	82.5	82.3	82.7	82.4	82.6	82.7
50-59	71.1	71.4	71.8	72.2	72.7	73.1
≥ 60	18.0	19.0	19.6	20.7	21.7	22.7
Overall	61.2	61.1	61.1	61.1	61.1	61.2

Note : # Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Box 6.1

Degree-educated persons⁽¹⁾⁽²⁾ in the labour market

Similar to many other advanced economies, Hong Kong's labour force has become better educated over time. **Chart 1(a)** shows the evolvement in education profile⁽³⁾ of our labour force over the past twenty years. While the share of labour force having attended upper secondary or post-secondary non-degree education stayed broadly the same in 2017 as in 1997, there was a notable increase in the share of labour force having attended degree education. Specifically, the proportion of those with undergraduate education more than doubled from 10.8% to 25.5%, while the corresponding proportion with post-graduate education⁽⁴⁾ increased by almost four times from 1.5% to 7.3%.

Chart 1(a): Labour force by highest education level attended

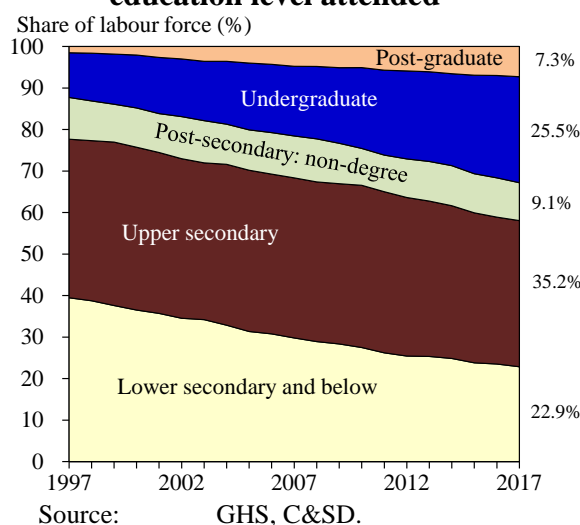
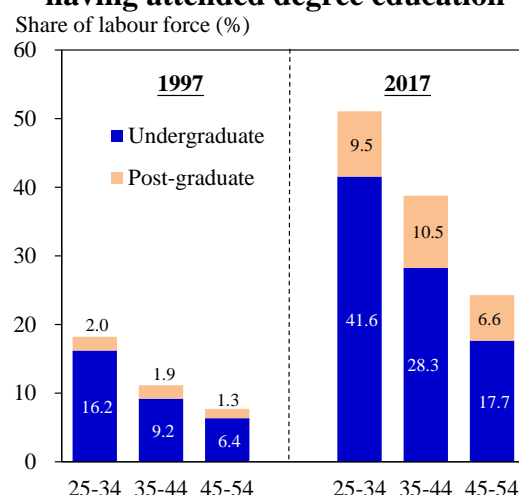


Chart 1(b): Percentage of labour force having attended degree education



Workers with degree education by age group

The rise in share of persons with degree education in the labour force was widespread across age groups. As shown in **Chart 1(b)**, workers in different prime working age groups were all substantially better educated than their counterparts 20 years ago. Specifically, 41.6% of the labour force aged 25-34 attended undergraduate education in 2017 and 9.5% had post-graduate education, way above the corresponding figures of 16.2% and 2.0% two decades ago. Workers in other age groups also witnessed a notable improvement in education level over the same period.

Comparing workers' education profile across different prime working age groups in the same year, it is noted that the share of labour force with degree education was higher among younger generations in both 1997 and 2017. Moreover, this educational difference between workers in different age groups has widened over time. In 2017, the share of workers aged 25-34 with degree education was around 12 percentage points higher than the corresponding figure for those aged 35-44 and around 27 percentage points higher than that for those aged 45-54, while the differences in 1997 were only around 7 and 11 percentage points respectively.

- (1) Figures in this article are from the General Household Survey (GHS) conducted by the Census and Statistics Department (C&SD) and exclude foreign domestic helpers.
- (2) In this article, degree-educated persons refer to those who have attended education at undergraduate level or above.
- (3) The education profile is based on the highest level of education ever attended by a person in school or other educational institution, regardless of whether he/she had completed the course.
- (4) Post-graduate education includes not only master and doctoral degree courses, but also other post-graduate formal courses, such as post-graduate diploma and certificate courses.

Box 6.1 (Cont'd)

Several factors may have contributed to the appreciable increase in the share of degree-educated persons in the local labour market. Firstly, the Government's initiatives to broaden access to higher education and the associated investment over the years have opened up a lot more opportunities for the younger generations to receive university education. Secondly, the continued upgrading of the economy has also created large number of high-skilled jobs that needed to be filled by higher-educated persons, who tend to be more versatile, productive and adaptable to changes. Thirdly, from the perspective of students and even existing workers, they also have strong incentive to pursue university education due to the good job prospect and earnings premium enjoyed by university graduates in general⁽⁵⁾.

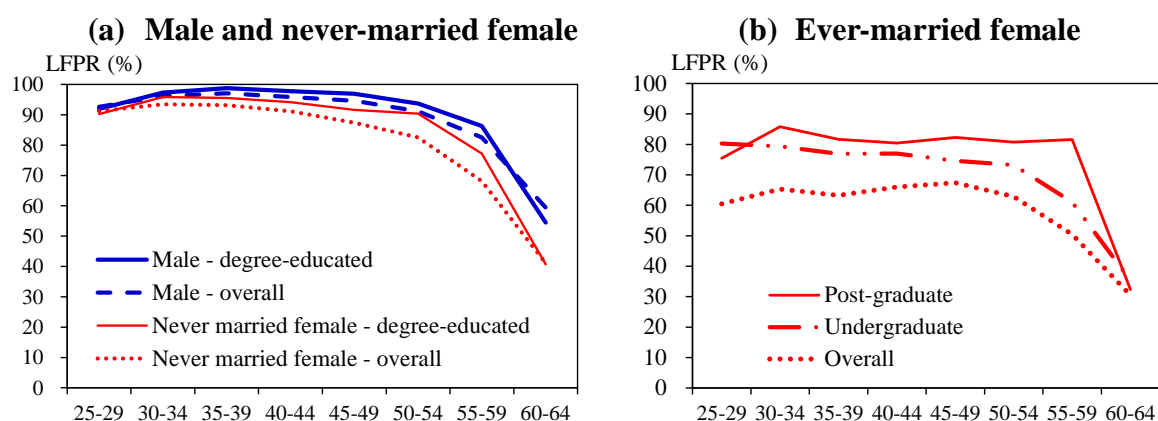
Labour force participation rate

Higher level of education is typically associated with better remuneration from work and thus higher opportunity cost of not working. As such, education profile would have effect on the labour force participation rate (LFPR), though by varying degrees for different groups of people.

Analysing by gender, the LFPR of men with degree education was broadly the same as the overall male LFPR in 2017 (*Chart 2(a)*), conceivably because of their traditional breadwinning role in the family. A similar observation was made for never-married women, with the LFPR of those with degree education being only slightly above the overall LFPR of never-married women.

As for ever-married women, the level of education seems to play a more important role in their decision to work (*Chart 2(b)*). LFPR of ever-married women with post-graduate education was higher than the LFPR of those with undergraduate education (except for those aged 25-29 as some of them were conceivably still in full-time post-graduate education), and both were substantially higher than the overall LFPR of ever-married women.

Chart 2: LFPR by highest education level attended in 2017



Note: Figures for younger age groups are not shown because many of them were still in full-time education.

Source: GHS, C&SD.

(5) For detailed discussion, see Box 5.1 in the Half-yearly Economic Report 2017.

Box 6.1 (Cont'd)

Unemployment and underemployment situation

The unemployment rate of degree-educated workers has been persistently lower than the overall figure (*Chart 3(a)*), reflecting their better employment situation than their less educated peers. In 2017, the unemployment rate of those with undergraduate education was 2.8%, and that of those with post-graduate education was even lower at 1.7%. The underemployment rates of those with undergraduate or post-graduate education remained below 1% over the past two decades, which compared favourably to the overall underemployment situation (*Chart 3(b)*).

Chart 3(a): Unemployment rate by highest education level attended

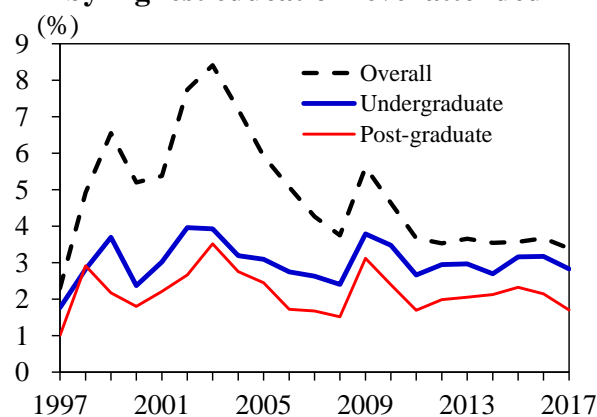
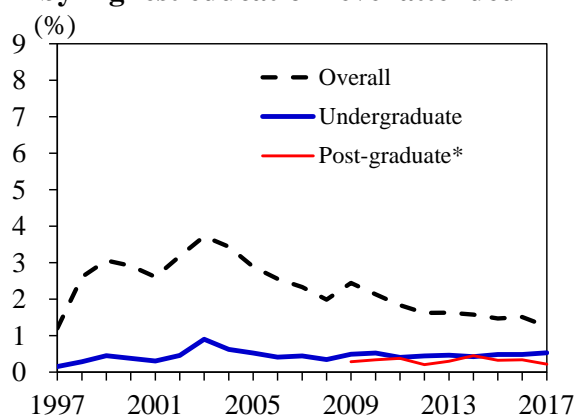


Chart 3(b): Underemployment rate by highest education level attended



Note: (*) Due to data availability and large sampling error, underemployment rate for the post-graduate educated persons only started in 2009 in the chart.

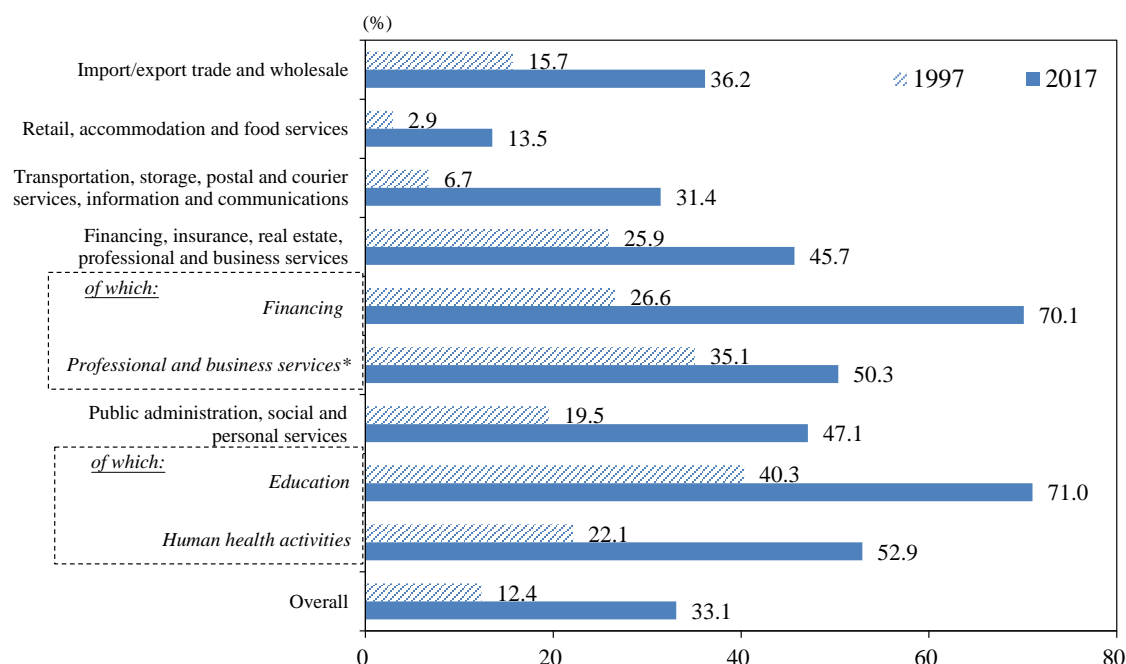
Source: GHS, C&SD.

Employment of degree-educated workers by industry

Analysed by industry, the share of workers with degree education was higher in education (71.0%), financing (70.1%) and human health activities (52.9%) (*Chart 4*). While the job nature of these industries may have already dictated that people engaged therein need higher qualifications, it is interesting to note that these industries also recorded a generally faster increase in the share of higher-educated workers between 1997 and 2017. The continued upgrading of these industries may be a major reason for the increase. Also relevant may be the relative high pay of jobs in these industries, which makes the investment of time and money in pursuing a degree worthwhile.

Box 6.1 (Cont'd)

Chart 4: Share of employed persons with degree education by industry



Notes: 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.

(*) Excluding cleaning and similar activities.

Source: GHS, C&SD.

Concluding remarks

Education profile of Hong Kong's labour force has improved significantly in the past two decades, especially among the younger generations. This upgrade of human capital would help enhance our productive capacity and competitiveness, which is particularly important as Hong Kong continues to move towards a higher value-added and knowledge-based economy amid increasing competition from the region. In this regard, the Government will continue to nurture our home-grown talents by investing vigorously in education and training.

Profile of unemployment

6.4 The labour market tightened further in 2018 amid sustained economic growth, with the annual unemployment rate falling by 0.3 percentage point to 2.8%, the lowest since 1997. The average number of unemployed persons fell by 11 500 to 111 900 in tandem.

6.5 Comparing 2018 with 2017, as manpower situation tightened further across a wide range of business activities, most of the major service sectors recorded declines in their respective unemployment rates, notably in the accommodation services (down 1.7 percentage points), warehousing and support activities for transportation (down 1.0 percentage point), retail (down 0.8 percentage point), and cleaning and similar activities (down 0.7 percentage point) sectors. On the other hand, the unemployment rate of the construction sector went up by 0.3 percentage point to 4.7% in 2018, mainly reflecting the rise in the foundation and superstructure sub-sector. Nevertheless, the figure was still 1.0 percentage point below the average level of 5.7% over the 10-year period 2008-2017. For the *low-paying sectors*⁽⁶⁾ as a whole, the unemployment rate fell by 0.5 percentage point to 2.6% in 2018, the lowest annual level since the implementation of the Statutory Minimum Wage (SMW) in 2011. Analysed by skill segment, the unemployment rates for the higher- and lower-skilled segments decreased by 0.1 and 0.4 percentage point to 1.6% and 3.0% respectively. Analysed by age, declines in unemployment rate were witnessed across most age groups, visibly for those aged 25-29.

6.6 In terms of the quarterly profile, the seasonally adjusted unemployment rate edged down from 3.0% in the fourth quarter of 2017 to 2.9% and 2.8% respectively in the first and second quarters of 2018, and held unchanged in the remaining two quarters. Comparing the fourth quarter of 2018 with a year earlier, notable declines in unemployment rate were recorded in the arts, entertainment and recreation, and accommodation and food services sectors. Analysed by occupational category, discernible drops in unemployment rate were observed among clerical support workers, associate professionals, and service and sales workers. Analysed by other socio-economic attributes, apparent decreases in unemployment rate were seen among persons aged 25-29 and those with upper secondary education.

Diagram 6.3 : The unemployment situation in most of the major service sectors continued to improve in 2018

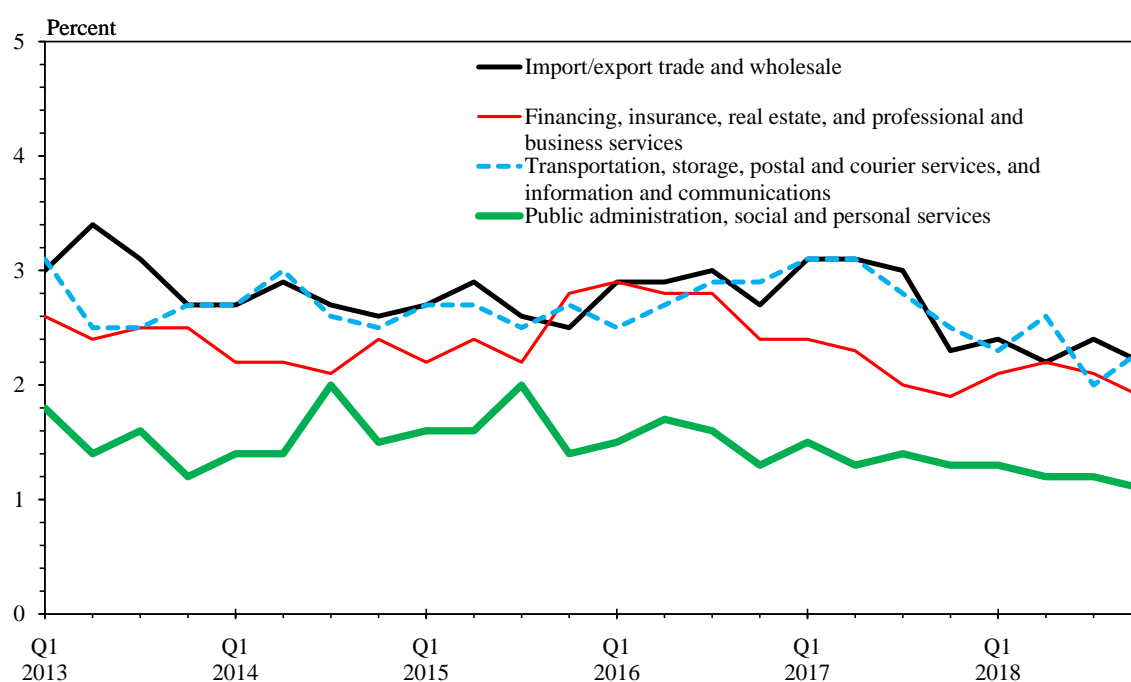
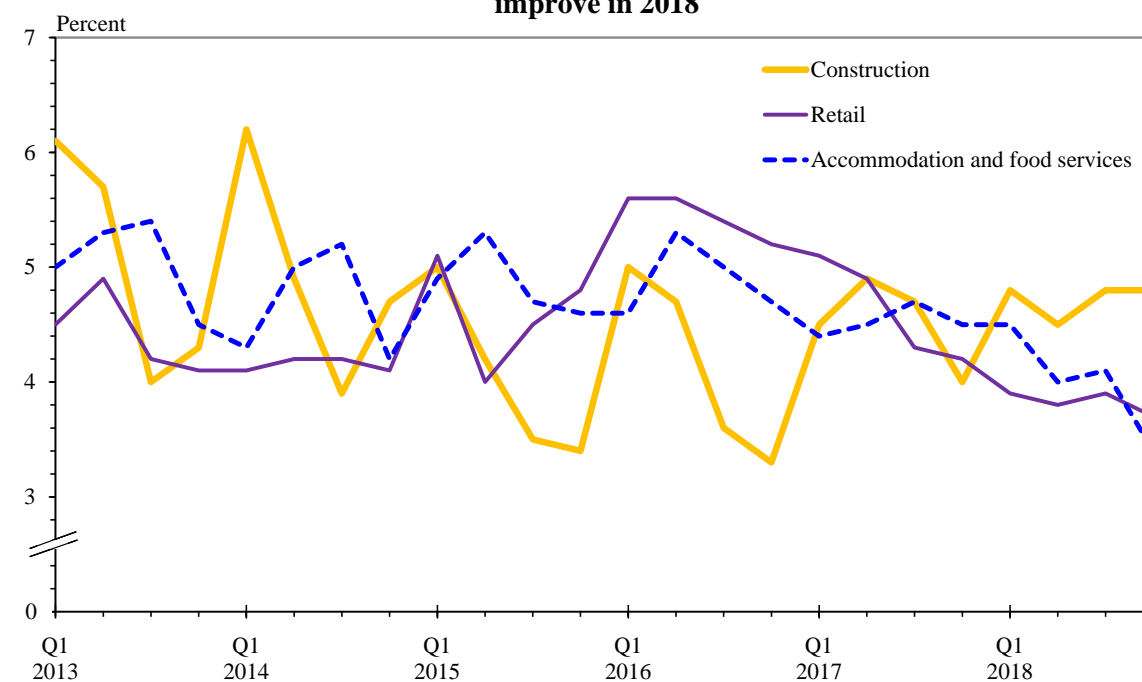


Table 6.3 : Unemployment rates by major economic sector

	<u>2017</u>					<u>2018</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u> [#]	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Import/export trade and wholesale	2.8	3.1	3.1	3.0	2.3	2.3	2.4	2.2	2.4	2.2
Retail	4.6	5.1	4.9	4.3	4.2	3.8	3.9	3.8	3.9	3.7
Accommodation and food services	4.5	4.4	4.5	4.7	4.5	4.0	4.5	4.0	4.1	3.4
Transportation, storage, postal and courier services	2.9	3.3	3.0	2.5	2.5	2.3	2.3	2.6	2.0	2.3
Information and communications	2.9	2.5	3.3	3.3	2.7	2.3	2.3	2.7	2.0	2.3
Financing and insurance	1.7	2.1	1.9	1.7	1.3	1.7	1.6	1.7	1.6	1.7
Real estate	2.2	1.9	2.3	2.1	2.0	2.1	2.3	2.2	2.3	1.6
Professional and business services	2.5	2.8	2.6	2.1	2.3	2.3	2.4	2.5	2.3	2.1
Public administration, social and personal services	1.4	1.5	1.3	1.4	1.3	1.2	1.3	1.2	1.2	1.1
Manufacturing	2.6	2.6	2.3	2.8	2.7	3.3	3.3	3.0	3.8	3.2
Construction	4.4	4.5	4.9	4.7	4.0	4.7	4.8	4.5	4.8	4.8
Overall*	3.1	3.2 (3.3)	3.2 (3.1)	3.3 (3.1)	2.8 (3.0)	2.8	2.8 (2.9)	2.8 (2.8)	3.0 (2.8)	2.7 (2.8)

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

() Seasonally adjusted unemployment figures.

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Diagram 6.4 : The unemployment rates of the higher-skilled and lower-skilled segments both went lower in 2018

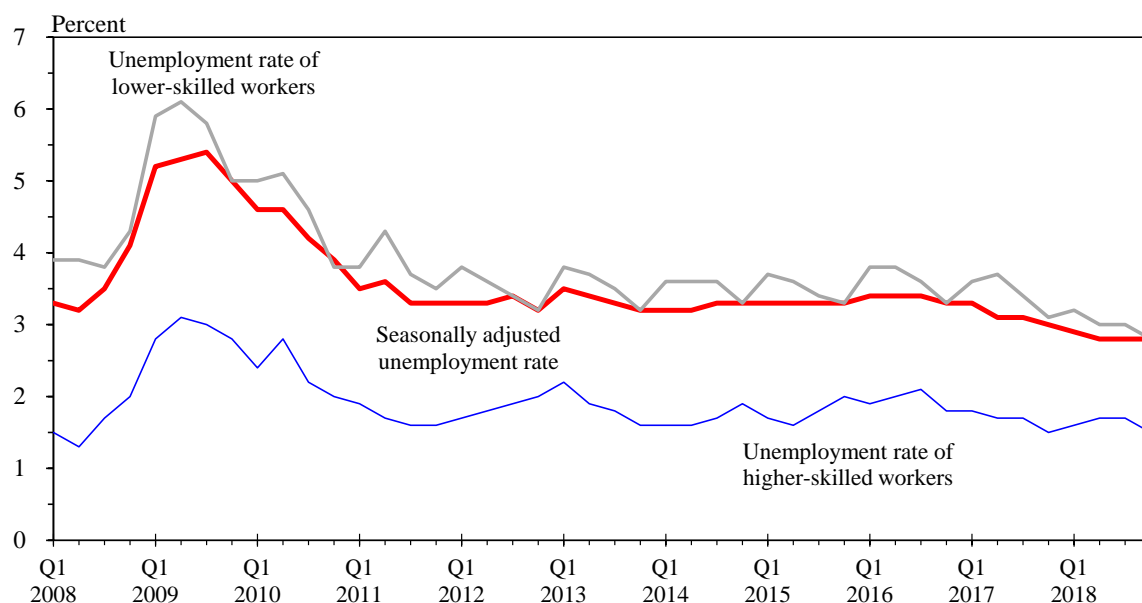


Table 6.4 : Unemployment rates* by skill segment

		<u>2017</u>					<u>2018</u>			
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual[#]</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
<u>Higher-skilled segment</u>	1.7	1.8	1.7	1.7	1.5	1.6	1.6	1.7	1.7	1.5
Managers and administrators	1.1	1.4	0.9	1.1	0.8	1.3	1.2	1.2	1.4	1.3
Professionals	1.6	1.8	1.5	1.5	1.2	1.3	1.1	1.0	1.4	1.5
Associate professionals	2.2	2.1	2.2	2.2	2.1	2.0	1.9	2.2	1.9	1.7
<u>Lower-skilled segment[^]</u>	3.4	3.6	3.7	3.4	3.1	3.0	3.2	3.0	3.0	2.8
Clerical support workers	3.4	3.3	3.7	3.5	3.1	3.0	3.3	3.1	3.1	2.3
Service and sales workers	4.2	4.2	4.6	4.2	3.8	3.6	3.9	3.8	3.5	3.4
Craft and related workers	4.2	4.5	4.2	4.1	4.0	4.3	4.8	4.2	4.4	3.8
Plant and machine operators and assemblers	2.0	3.0	1.9	1.8	1.3	1.7	1.5	1.8	1.8	1.7
Elementary occupations	2.9	3.2	3.0	2.7	2.6	2.4	2.5	2.3	2.2	2.6

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

[^] Including other occupations.

[#] Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Table 6.5 : Unemployment rates* by age and educational attainment

	<u>2017</u>					<u>2018</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual[#]</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
<u>Age</u>										
15-24	8.5	8.3	8.1	10.5	7.8	8.7	8.0	8.9	10.5	7.5
<i>of which:</i>										
15-19	11.1	11.9	13.0	10.1	10.8	10.4	9.6	12.2	10.7	8.9
20-24	8.2	7.8	7.5	10.6	7.4	8.5	7.8	8.5	10.4	7.3
25-29	4.2	3.9	4.2	4.8	4.0	3.7	3.9	3.5	3.9	3.5
30-39	2.2	2.1	2.2	2.2	1.8	1.9	1.9	2.1	1.8	1.8
40-49	2.5	2.6	2.8	2.5	2.1	2.2	2.2	2.2	2.3	2.1
50-59	2.9	3.4	2.8	2.4	2.6	2.5	2.6	2.6	2.3	2.6
≥ 60	2.2	2.3	2.6	2.4	2.0	2.0	2.1	1.8	2.1	1.9
<u>Educational attainment</u>										
Primary education and below	3.0	3.3	3.3	2.8	2.5	2.8	2.9	2.6	3.1	2.8
Lower secondary education	4.1	4.7	4.4	3.9	3.3	3.4	3.4	3.5	3.2	3.5
Upper secondary education [^]	3.1	3.0	3.2	3.0	2.9	2.7	2.8	2.8	2.6	2.6
Post-secondary education	2.9	2.9	2.8	3.4	2.5	2.7	2.6	2.7	3.2	2.4

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

^ Including craft courses.

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

6.7 Indicators measuring the intensity of unemployment remained generally stable in 2018. Comparing 2018 with 2017, the long-term unemployment rate stayed unchanged at 0.6%, and the number of long-term unemployed persons (i.e. unemployed for six months or longer) remained broadly the same at 23 600. While the share of long-term unemployment in total unemployment went up from 19.2% to 21.1%, it was still below the 10-year average of 22.5% for 2008-2017. The median duration of unemployment shortened slightly from 66 days in 2017 to 65 days in 2018, whereas the proportion of dismissal or lay-offs among the total number of unemployed persons fell by 2.3 percentage points to 45.8%.

Profile of underemployment

6.8 The underemployment situation improved slightly in 2018. The number of underemployed persons decreased by 2 600 to 43 000, and the underemployment rate inched down by 0.1 percentage point to 1.1%, same as the low level seen in 1997. On the quarterly profile, the underemployment rate edged down from 1.1% in the fourth quarter of 2017 to 1.0% in the first two quarters of 2018. It rose to 1.2% in the third quarter, yet fell back slightly to 1.1% in the fourth quarter. Comparing the fourth quarter of 2018 with a year earlier, a discernable increase in underemployment rate was witnessed in the transportation sector, whereas a visible decrease was seen in the education sector. Analysed by occupational category, the underemployment rate of the lower-skilled segment remained unchanged at 1.6%. As for the higher-skilled segment which constituted a relatively small proportion of underemployed persons, the underemployment rate edged up by 0.1 percentage point to a still low level of 0.4%.

Box 6.2

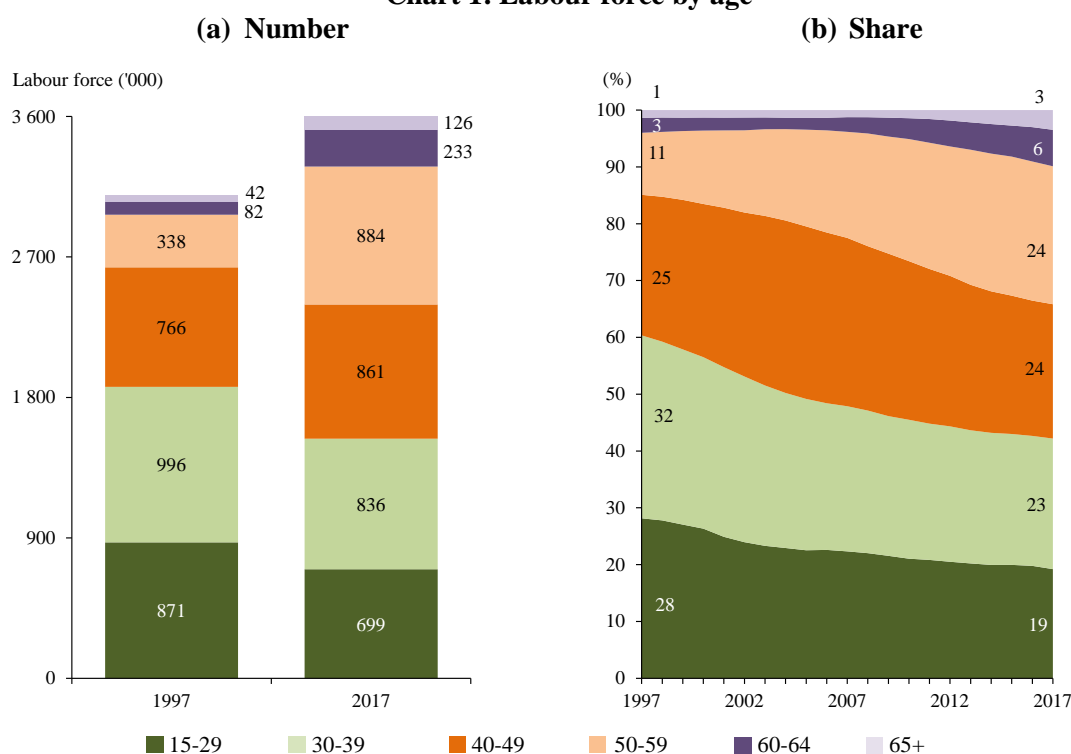
Some structural changes in the labour force amid population ageing

Many of the developed economies are facing the challenges of population ageing. Hong Kong is no exception. According to figures⁽¹⁾ from the Census and Statistics Department (C&SD), the population in Hong Kong is ageing rapidly as many of the post-war baby boomers have reached their fifties and sixties. In particular, the number of persons aged 50-59 increased by 128% in the two decades to 2017, and those aged 60 or above by 84%, substantially above the 12% growth in the total population over the same period. In terms of share, those aged 50-59 and 60 or above accounted for 17% and 25% respectively of the total population in 2017, up significantly from 9% and 15% in 1997. The trend of ageing has seemingly affected the age profile and years of service pattern of the labour force.

Age profile of the labour force

Hong Kong's labour force aged considerably amid the demographic changes in the underlying population. **Chart 1(a)** compares the age profile of our labour force in 2017 with that in 1997. While the total labour force increased by 18% over this 20-year period, this gain was mainly attributable to the older age groups. Specifically, the labour force aged 50-59 (up by 162%), 60-64 (up by 186%), and 65 or above (up by 201%) combined more than doubled over this period. In contrast, the number of those in the younger age groups (i.e. under 30) declined.

Chart 1: Labour force by age



Note: Figures may not add up to 100% due to rounding.

Source: General Household Survey, C&SD.

(1) Figures quoted in this article exclude foreign domestic helpers. Also, as figures for 2018 from Annual Earnings and Hours Survey (AEHS) are not yet available, for the sake of comparison, figures in this article are presented up to 2017 only.

Box 6.2 (Cont'd)

Echoing the change in number, the share of workers in their fifties recorded a significant increase from 11% in 1997 to 24% in 2017. Meanwhile, the share of those aged 60-64 went up from 3% to 6%, and that of those aged 65 or above from 1% to 3%. On the other hand, the share of labour force under 30 years old dwindled over the period in tandem with the decline in number, and the proportion of those aged 40-49 remained relatively stable.

The increases in labour force participation rate (LFPR) among older age groups have also played a part in the upsurge in the number of older workers. Specifically, the LFPR of those aged 50-59 increased by 9.7 percentage points over 1997 to 72.2% in 2017, and that of those aged 60-64 by 14.9 percentage points to 45.2%. The LFPR of those aged 65 or above also went up, though to a lesser extent, by 4.5 percentage points to 11.0% over the same period.

The marked increases in LFPR of the older age groups are conceivably attributable to a number of factors. First, older workers nowadays can choose to stay in the labour force longer because of their generally improved health conditions. Also, as Hong Kong has transformed into a highly service-oriented and knowledge-based economy, there are more physically-less-demanding jobs, thereby providing more employment opportunities for older workers. Furthermore, the largely favourable macroeconomic environment in recent years and the brighter income prospects in the lower-skilled segment upon the implementation of the Statutory Minimum Wage in 2011 have also attracted more people in these age groups to stay in or re-enter the labour market.

Employees' years of service

The changing demographics may also have some bearing on the years of service patterns among different age groups in the labour force. Conceivably, as life expectancy lengthens and general health conditions improve, some older workers may have different retirement preference compared to their previous generations. This would have an impact on the years of service patterns in the labour force, especially among the older age groups.

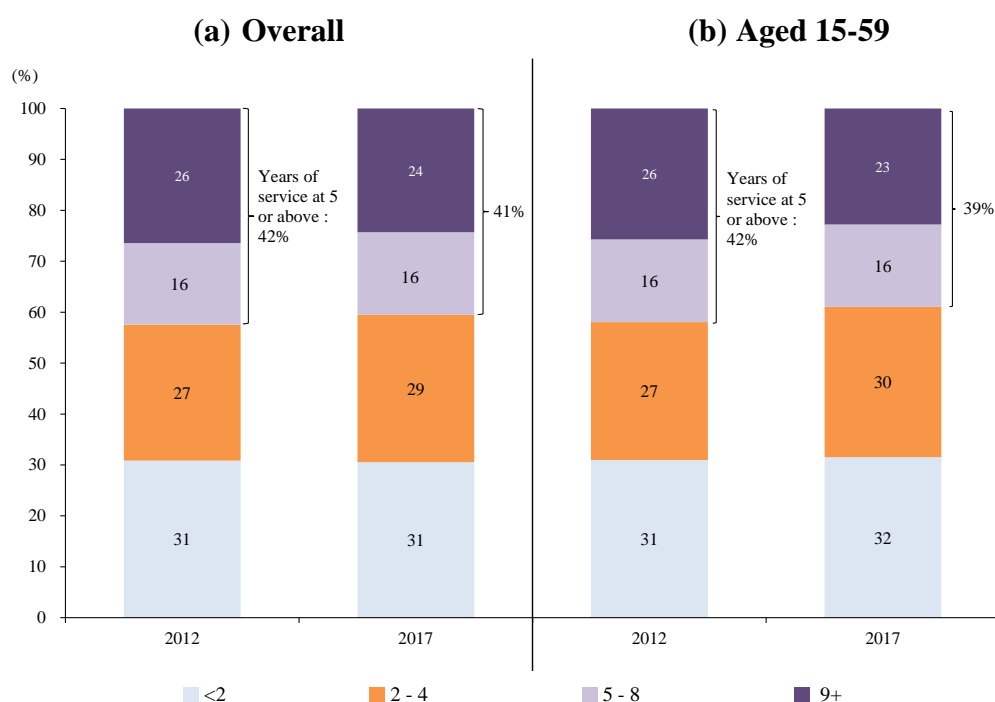
The AEHS conducted by C&SD regularly collects information on the years of service of employees in the private sector, though the relevant figures⁽²⁾ are only available starting from 2012. While there are likely some year-to-year fluctuations in the patterns due to employees entering or exiting the labour market or changing jobs over time, some broad inferences on the years of service patterns can still be drawn from the data available.

From a broad perspective, the proportions of employees with different years of service remained largely stable between 2012 and 2017 (*Chart 2(a)*). Specifically, those with years of service at less than 2 years, and at 2-4 years each accounted for roughly 30% of all employees, while those with longer years of service (i.e. those with years of service at 5-8 years, and at 9 years or above) roughly took up the remaining 40% in both 2012 and 2017.

(2) AEHS figures exclude government employees, as well as student interns, work experience students and live-in domestic workers as exempted by the Minimum Wage Ordinance.

Box 6.2 (Cont'd)

Chart 2: Proportion of employees with different years of service

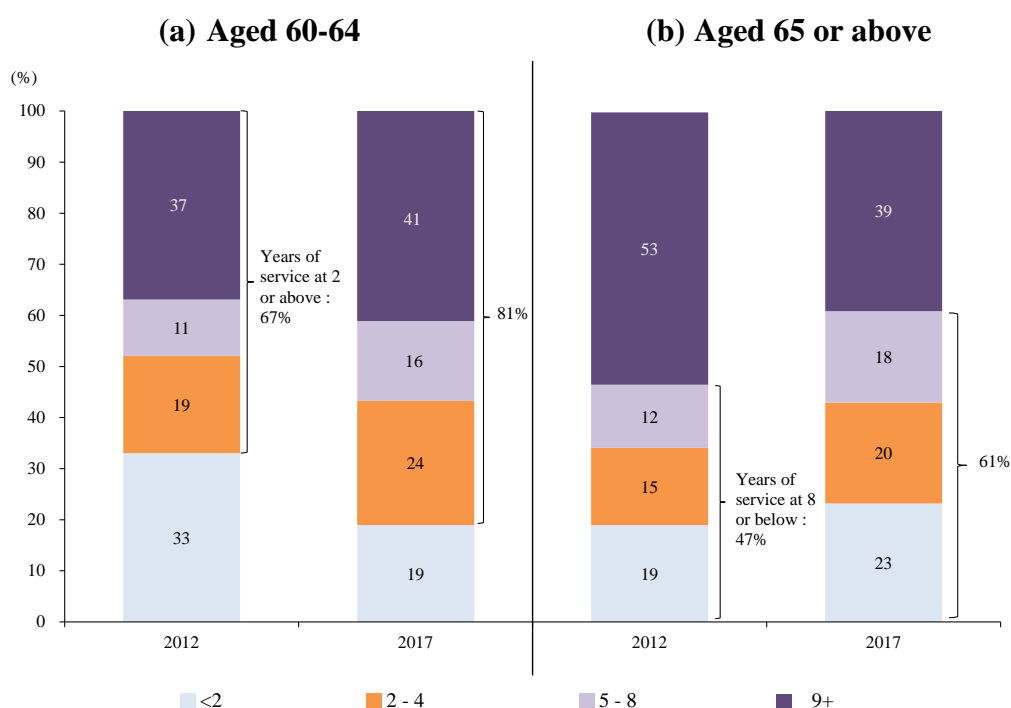


Note: Figures may not add up to 100% due to rounding.

Source: AEHS, C&SD.

A somewhat different picture emerged when analysed by age group. While the shares of employees with different years of service showed little change for employees aged 15-59 between 2012 and 2017 (*Chart 2(b)*), broadly similar to the overall situation, noticeable changes are observed for those aged 60-64, and 65 or above (*Chart 3*).

Chart 3: Proportion of older employees with different years of service



Note: Figures may not add up to 100% due to rounding.

Source: AEHS, C&SD.

Box 6.2 (Cont'd)

For employees aged 60-64, the years of service went up on average between 2012 and 2017 (*Chart 3(a)*). Specifically, the proportion of employees with less than 2 years of service decreased significantly by 14 percentage points over the 5-year period, whereas the shares of those with years of service at 2-4 years, 5-8 years, and 9 years or above all increased, possibly due to some workers choosing to delay their retirement.

As for employees aged 65 or above, the proportions of those with years of service at less than 2 years, 2-4 years, and 5-8 years all increased between 2012 and 2017, but the proportion of those with 9 or more years of service dipped by 14 percentage points (*Chart 3(b)*). This might reflect that some older employees might have re-entered the labour market or switched jobs after “retiring” from their previous jobs.

Concluding remarks

With our population ageing fast, older workers are envisaged to take up an even larger proportion in our labour force down the road. In this regard, the Government will continue to provide employment support for them through Labour Department’s various job centres, as well as programmes and resources targeted at mature workers.

Profile of employment in establishments

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

6.10 Total employment in private sector establishments posted further solid growth of 1.0% over a year earlier to 2 871 700 in September 2018, backed by sustained economic growth. Analysed by industry, employment in professional and business services (excluding cleaning and similar services) (up 3.5%), human health services (up 3.2%), and financing and insurance (up 2.8%) recorded notable growth. On the other hand, employment at construction sites (covering manual workers only) (down 11.4%) slackened upon the completion of some major infrastructural projects, while employment in manufacturing continued its secular downtrend (down 2.8%). Thanks to resilient local consumption demand and visible expansion in inbound tourism, employment growth in the accommodation and food services, and retail sectors picked up successively, to 3.4% and 2.2% year-on-year respectively in September 2018. Analysed by establishment size, employment in *small and medium-sized enterprises (SMEs)*⁽⁷⁾ went up by 1.4% in September 2018, visibly faster than in large enterprises (0.7%). Taking the first three quarters of 2018 together, total employment in private sector establishments grew solidly by 1.2% year-on-year, following the 1.0% growth for 2017 as a whole. As for the civil service, employment increased by 2.1% in September 2018 and by 2.2% in the first nine months of 2018 combined over the respective period a year earlier.

Table 6.6 : 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>	<u>Sep</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)	535 900 (-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)	273 100 (2.2)
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)	293 100 (3.4)
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)	180 000 (0.6)
Information and communications	106 900 (0.9)	107 300 (1.5)	106 600 (1.4)	106 600 (0.9)	107 100 (-0.2)	106 900 (-0.3)	108 200 (1.5)	109 100 (2.3)
Financing, insurance, real estate, professional and business services	731 100 (1.6)	728 300 (2.0)	728 600 (1.5)	730 900 (1.4)	736 700 (1.6)	742 800 (2.0)	744 700 (2.2)	749 000 (2.5)
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)	523 000 (2.0)
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)	89 400 (-2.8)
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)	107 600 (-11.4)
<i>All establishments surveyed in the private sector^(b)</i>	<i>2 842 400 (1.0)</i>	<i>2 836 500 (1.0)</i>	<i>2 831 400 (0.8)</i>	<i>2 843 800 (1.0)</i>	<i>2 857 900 (1.0)</i>	<i>2 867 400 (1.1)</i>	<i>2 871 500 (1.4)</i>	<i>2 871 700 (1.0)</i>
		<0.3>	<§>	<0.5>	<0.2>	<0.4>	<0.3>	<0.1>
<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>	<i>172 600 (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

6.11 The number of private sector vacancies went up by 10.1% over a year earlier to 78 340 in September 2018. Taking the first three quarters of 2018 together, job vacancies in the private sector rose markedly by 11.0% year-on-year after a 3.7% gain in 2017, reflecting the further tightening in manpower situation.

6.12 A majority of the selected sectors recorded year-on-year increases in the number of vacancies in September 2018. More specifically, visible rises in vacancies were observed in arts, entertainment and recreation (up 42.3%), education (up 25.0%), transportation, storage, postal and courier services (up 24.5%), and professional and business services (excluding cleaning and similar services) (up 20.6%). In contrast, vacancies at construction sites (covering manual workers only) fell noticeably by 38.0%, reflecting an ease-back in demand for manual workers at construction sites following the completion of some major infrastructural projects. In terms of occupational category, vacancies of higher-skilled (up 10.9%) and lower-skilled (up 9.7%) occupations both registered notable increases. Taking the first three quarters of 2018 together, vacancies in both skill segments went up, by 13.8% and 9.7% respectively over a year earlier. Analysed by establishment size, visible increases in vacancies were seen in both large enterprises (up 10.7%) and SMEs (up 9.2%) in September 2018. As for the civil service, the number of job openings rose further by 14.8% to 9 450.

6.13 The ratio of job vacancies per 100 unemployed persons in September 2018, at 66, was notably above the level at 55 a year ago. Analysed by skill segment, the ratios for lower-skilled and higher-skilled jobs, standing at 74 and 96 respectively in September 2018, were both higher than their corresponding year-ago levels at 60 and 87. Manpower shortage was seen in many sectors and particularly acute in the residential care and social work services, human health services, cleaning and similar services, accommodation services, arts, entertainment and recreation, and financing and insurance sectors, with their corresponding ratios far exceeding 100.

Table 6.7 : Vacancies by major economic sector

	<u>Annual average</u>	<u>Number of vacancies</u>					<u>2018</u>			<u>Vacancy rate in Sep 2018 (%)</u>
		<u>2017</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</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)	7 570 (-0.6)		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)	8 010 (-1.4)		2.9
Accommodation ^(a) and food services	13 350 (1.6)	13 670 (5.7)	13 220 (1.4)	12 630 (-4.5)	13 910 (4.1)	14 380 (5.2)	14 360 (8.6)	14 260 (12.9)		4.6
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)	4 480 (24.5)		2.4
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)	2 790 (1.4)		2.5
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)	20 540 (12.6)		2.7
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)	17 050 (14.3)		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)	2 900 (29.4)		3.1
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)	520 (-38.0)		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>78 340 (10.1)</i>		<i>2.7</i>
		<i><1.0></i>	<i><-1.1></i>	<i><3.9></i>	<i><5.9></i>	<i><0.4></i>	<i><3.3></i>	<i><0.1></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>9 450 (14.8)</i>		<i>5.2</i>

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

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

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

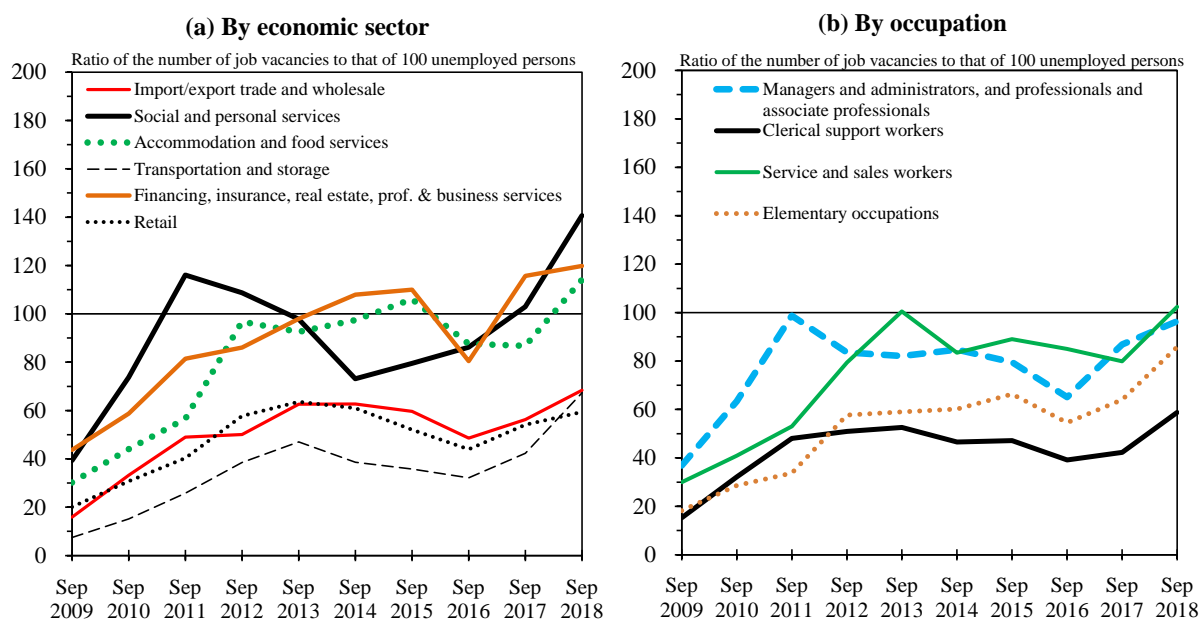
(c) These figures cover only vacancies for those staff to be employed on civil service terms of appointment.

() % change over a year earlier.

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

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

Diagram 6.5 : Manpower situation tightened further in September 2018



6.14 The vacancy rate for private sector establishments, measured in terms of the percentage of job vacancies to total employment opportunities, stayed at 2.7% in September 2018, unchanged from June 2018 but 0.3 percentage point above the year-ago level. The majority of the sectors recorded higher vacancy rates compared to a year earlier, with a notable increase observed in the arts, entertainment and recreation sector.

6.15 The vacancy registration figures compiled by the Labour Department (LD), notwithstanding its smaller sample size, may provide some hints on the latest developments in the labour market. The number of private sector job vacancies averaged 120 600 per month in the fourth quarter of 2018, broadly similar to the level a year ago. For 2018 as a whole, the monthly average number of private sector vacancies increased by 3.5% to 122 400, echoing the continued tightness in the labour market.

Wages and earnings

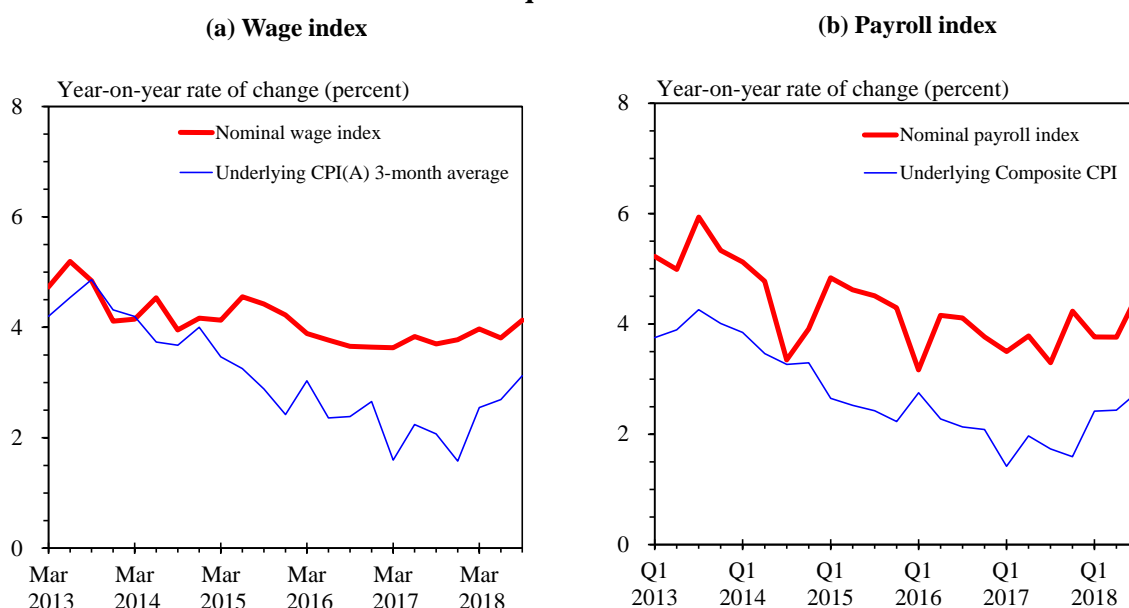
6.16 Overall wages and earnings increased further in both nominal and real terms in the first three quarters of 2018, on the back of tight labour market conditions. The *wage index* for all selected industry sections, which covers regular payment to employees at the supervisory level and below, rose by 4.1% year-on-year in September 2018 and by 4.0% for the first nine months of 2018 combined, further to the 3.8% gain recorded for 2017 as a whole. After adjusting for inflation⁽⁸⁾, real wages increased by 1.0% in the first nine months of 2018.

6.17 The increase in nominal wage was across-the-board. Analysed by sector, appreciable increases were seen in the transportation (up 5.8%), accommodation and food service activities (up 4.5%), and professional and business services (up 4.5%) sectors in September 2018 over a year earlier. Analysed by occupation, craftsmen and operatives (up 7.0%), and service workers (up 4.6%) enjoyed notable wage growth.

6.18 *Labour earnings*⁽⁹⁾, as measured by the index of payroll per person engaged for all selected industry sections, including overtime pay, discretionary bonuses and other irregular payments, increased solidly by 4.6% year-on-year in the third quarter of 2018. Taking the first three quarters of 2018 together, nominal labour earnings rose by 4.0%, following the 3.7% increase for 2017 as a whole. After discounting inflation, overall payroll saw a real improvement of 1.6% in the first three quarters of 2018.

6.19 There was further improvement in labour earnings across all selected sectors in the third quarter of 2018. Visible year-on-year increases were seen in social and personal services (up 7.8%), accommodation and food service activities (up 5.6%), and transportation, storage, postal and courier services (up 4.8%).

Diagram 6.6 : Overall wages and earnings sustained appreciable real growth in the first three quarters 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.

6.20 More recent statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, revealed that *average monthly employment earnings*⁽¹⁰⁾ of full-time employees engaged in elementary occupations (excluding foreign domestic helpers) recorded a nominal increase of 3.6% in the fourth quarter of 2018 over a year earlier. For the year as a whole, the increase averaged 4.8% in nominal terms or 2.1% in real terms. Meanwhile, average monthly employment earnings of full-time employees (excluding foreign domestic helpers) in the lowest three decile groups combined registered a solid growth of 4.2% for 2018 as a whole, translating into a real increase of 1.5% after discounting inflation. For the overall income situation, the median monthly household income (excluding foreign domestic helpers) sustained notable growth in 2018, up by 6.7% in nominal terms or 4.2% in real terms.

Highlights of labour-related measures and policy developments in 2018

6.21 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job seekers on the spot. In 2018, LD organised 19 large-scale job fairs in various districts. A total of 550 participating organisations offered more than 42 500 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 frequently at LD's job centres to assist job seekers in finding employment in their locality. Recruitment activities are also staged by catering, retail and construction employers at the three industry-based recruitment centres regularly for interviewing job seekers on the spot.

6.22 On completion of a new round of review of the Statutory Minimum Wage (SMW) rate, the Minimum Wage Commission (MWC) submitted its recommendation report to the Chief Executive (CE) in Council on 31 October 2018. The CE in Council has adopted the recommendation of MWC to raise the SMW rate from its prevailing level of \$34.5 per hour by 8.7% to \$37.5 per hour. Subject to the approval by the Legislative Council, the revised SMW rate will take effect from 1 May 2019.

6.23 To improve employees' working hours arrangements, LD is engaging its industry-based tripartite committees in formulating sector-specific working hours guidelines on suggested working hours arrangements, overtime compensation arrangements, and good working hours management measures, for employers' reference and adoption.

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 to March 2011. Starting from the reference quarter of January to March 2011, all the labour force statistics by occupation, unless otherwise specified, are compiled based on the ISCO-08.

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

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

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

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

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

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

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

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

CHAPTER 7 : PRICES

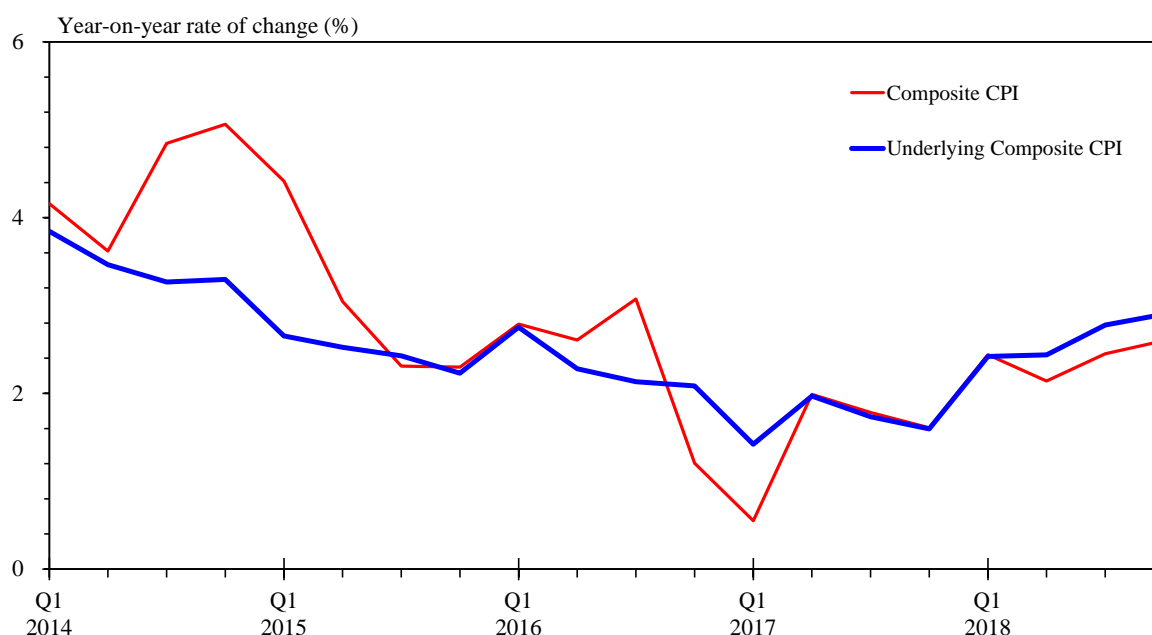
Summary

- *Consumer price inflation went up in 2018, as the economy recorded another year of above-trend growth. The increase in underlying Composite Consumer Price Index (Composite CPI)⁽¹⁾, which nets out the effects of the Government's one-off relief measures to reflect the underlying inflation trend, accelerated from 1.7% in 2017 to a still-moderate level of 2.6% in 2018. Likewise, the increase in headline Composite CPI went up from 1.5% to 2.4%.*
- *Locally, the earlier increases in fresh-letting residential rentals were translated into a faster increase in the private housing rental component of consumer price inflation through 2018 until the final months. As to cost pressures, wages and earnings sustained solid growth amid tight labour market conditions, though labour cost on a unit cost basis was largely contained by the concurrent improvement in labour productivity. The rental cost pressure faced by businesses, though being broadly moderate, intensified slightly amid the general uptrend in rentals of retail premises and offices.*
- *External price pressures also edged up. Imported inflation rose more visibly in the first half of 2018, reflecting the robust global economic conditions, the depreciation of the Hong Kong dollar along with the US dollar on a year-on-year basis, and to a lesser extent the increase in international oil prices. Nonetheless, the strengthening of the Hong Kong dollar along with the US dollar, together with the softening in international prices of various food and commodity items amid moderating global growth, reined in further acceleration of imported inflation in the second half of the year.*

Consumer prices

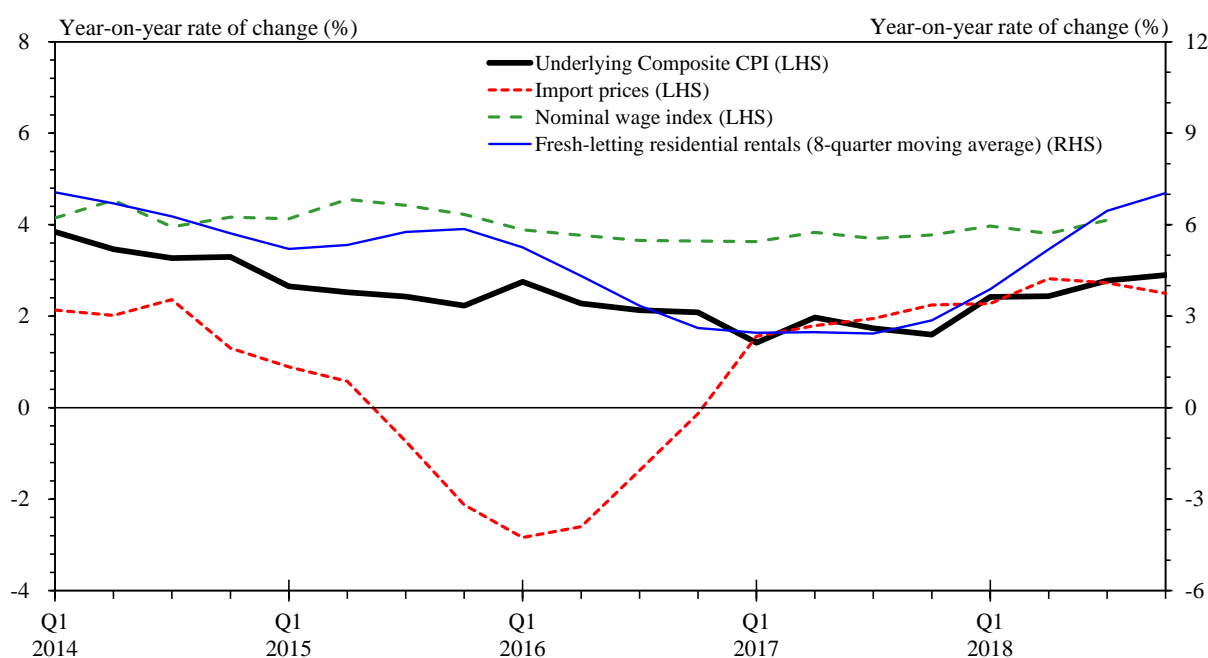
7.1 Underlying inflation went up in 2018, as the economy recorded another year of above-trend growth. Locally, the earlier rises in fresh-letting residential rentals were gradually fed into the private housing rental component of consumer price inflation through the year until the final months. As to cost pressures, wages and earnings registered solid gains amid tight labour conditions, though labour cost when reckoned on a unit cost basis was largely contained by the concurrent improvement in labour productivity. Rental cost pressure for businesses, though being largely moderate, turned slightly more apparent over the course of the year amid the general uptrend in rentals of retail premises and offices. Externally, the increase in import prices on the whole was moderate in 2018, but was somewhat faster than in 2017. The acceleration was more notable in the first half of the year due to the robust global economic conditions, the weaker Hong Kong dollar along with the US dollar compared with a year earlier, and to a lesser extent higher global oil prices. Nonetheless, the strengthening of the Hong Kong dollar alongside the US dollar, together with the general easing in international prices of many foodstuffs and commodity items amid moderating global growth, helped contain the external price pressures in the second half of the year.

Diagram 7.1: Underlying inflation went up in 2018, as the economy continued to grow at an above-trend rate for the year as a whole



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

Diagram 7.2: Earlier rises in fresh-letting residential rentals continued to feed through during most of 2018; import prices increased at a somewhat faster rate



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

7.2 Underlying consumer price inflation, in terms of the year-on-year rate of change in the underlying Composite CPI, which nets out the effects of the Government's one-off relief measures to more genuinely reflect the underlying inflation trend, rose from 1.7% in 2017 to 2.6% in 2018 as the local economy continued to grow at an above-trend rate for 2018 as a whole. It was still at a moderate level compared with the average annual rate of 2.9% in the past ten years. The quarterly figures, though sometimes distorted by temporary factors, showed that underlying inflation picked up visibly to 2.4% in both the first and second quarters and further to 2.8% in the third quarter, before stabilising at 2.9% in the fourth quarter when both the global and local economies saw moderated growth. Headline consumer price inflation also picked up from 1.5% in 2017 to 2.4% in 2018. The lower headline inflation rate as compared to the underlying rate was due to the upward adjustment in the ceiling of the Government's rates concession from the second quarter of 2018.

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

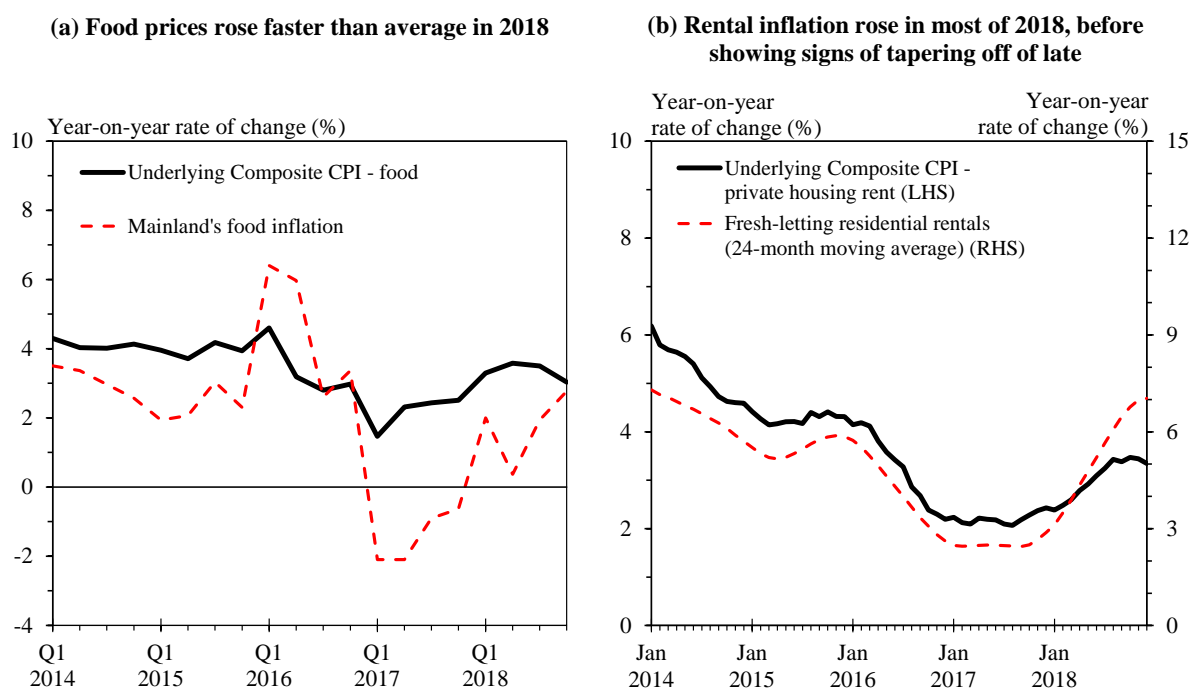
		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying^(a)</u>	<u>Headline</u>			
2017	Annual	1.7	1.5	1.5	1.4	1.5
	H1	1.7	1.3	1.2	1.2	1.4
	H2	1.7	1.7	1.9	1.5	1.7
	Q1	1.4	0.5	0.1	0.6	0.9
	Q2	2.0	2.0	2.3	1.8	1.9
	Q3	1.7	1.8	2.1	1.6	1.6
	Q4	1.6	1.6	1.6	1.5	1.7
2018	Annual	2.6	2.4	2.7	2.3	2.2
	H1	2.4	2.3	2.5	2.2	2.2
	H2	2.9	2.5	2.9	2.4	2.3
	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
	Q4	2.9	2.6	3.1	2.4	2.3
(seasonally adjusted quarter-to-quarter rate of change (%))						
2017	Q1	0.1	*	-0.1	*	0.2
	Q2	0.6	0.6	0.7	0.7	0.6
	Q3	0.3	0.3	0.4	0.3	0.2
	Q4	0.6	0.6	0.5	0.5	0.7
2018	Q1	0.8	0.8	0.9	0.9	0.7
	Q2	0.8	0.4	0.6	0.4	0.3
	Q3	0.6	0.6	0.7	0.5	0.5
	Q4	0.7	0.7	0.8	0.7	0.8

Notes : (a) Underlying consumer price inflation is calculated by netting out the effects of the Government's 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 $\pm 0.05\%$.

7.3 An analysis of the major components of the underlying Composite CPI suggested that price pressures increased moderately on a broad front, with the private housing rent and food components being the two main contributors to the increase in overall inflation. The annual increase in private housing rent accelerated from an average of 2.2% in 2017 to 3.1% in 2018, as the earlier rises in fresh-letting residential rentals gradually fed through over the course of the year until the final two months. Prices of food, the component with the largest weight other than housing, continued to rise at a rate faster than the overall inflation rate, particularly for prices of basic foodstuffs. As to other major components, public housing rent turned in a smaller annual increase of 3.6% in 2018, notwithstanding the upward adjustment in public housing rentals in September. Prices of electricity, gas and water reverted to an increase in 2018, reflecting the upward adjustments in electricity charge, higher international energy prices, and to a lesser extent also the low base of comparison for electricity charge due to the special fuel rebate in January and February 2017. Prices of clothing and footwear also resumed a moderate increase. Prices of miscellaneous services rose at a slightly faster pace, mainly reflecting the larger increases in charges for package tours. Meanwhile, prices of durable goods, while still on a general downtrend, saw a narrower decline.

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



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

Diagram 7.4 (a) : Most components in the underlying Composite CPI rose faster in 2018

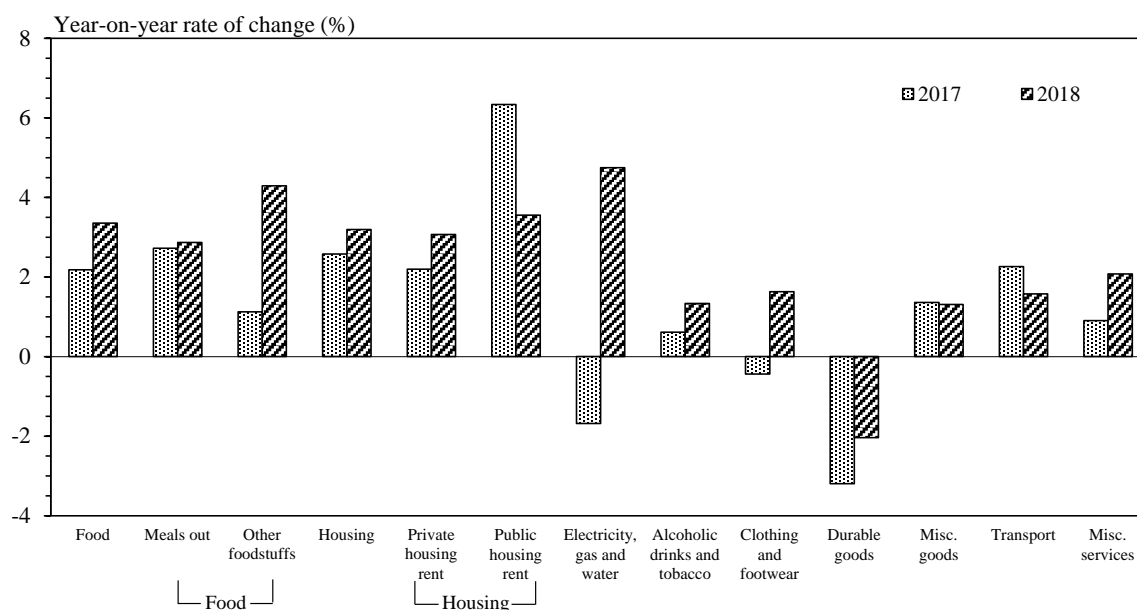
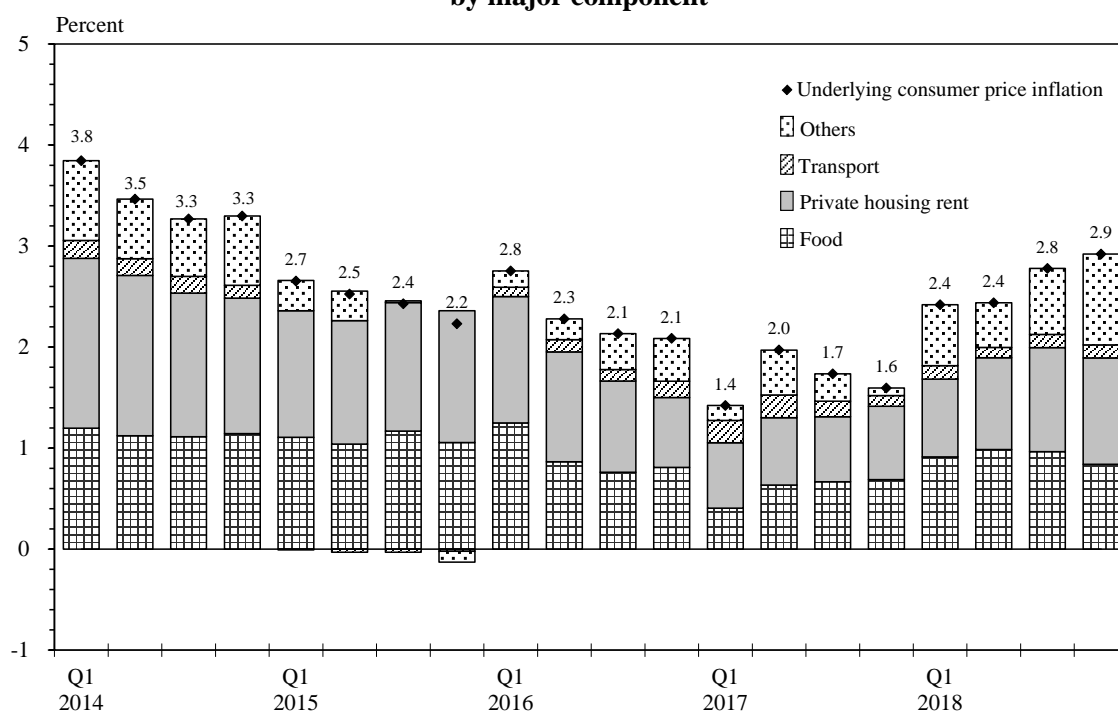


Diagram 7.4 (b) : Contribution to underlying consumer price inflation by major component



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

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2017</u>	<u>Annual</u>	<u>2018</u>			
				<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Food	27.29	2.2	3.4	3.3	3.6	3.5	3.0
<i>Meals bought away from home</i>	17.74	2.7	2.9	3.0	3.0	2.9	2.6
<i>Other foodstuffs</i>	9.55	1.1	4.3	3.8	4.9	4.8	3.7
Housing ^(a)	34.29	2.6 (2.0)	3.2 (2.5)	2.5 (2.5)	2.9 (2.0)	3.4 (2.5)	3.9 (3.0)
<i>Private housing rent</i>	29.92	2.2 (1.8)	3.1 (2.2)	2.5 (2.5)	3.0 (1.9)	3.4 (2.3)	3.4 (2.4)
<i>Public housing rent</i>	1.94	6.3 (3.0)	3.6 (4.1)	0.1 (0.4)	0.5 (0.4)	3.6 (4.1)	10.1 (11.6)
Electricity, gas and water	2.67	-1.7 (-1.7)	4.7 (4.9)	8.4 (8.3)	3.5 (3.7)	3.6 (3.8)	3.7 (4.0)
Alcoholic drinks and tobacco	0.54	0.6	1.3	0.3	0.6	1.7	2.7
Clothing and footwear	3.21	-0.4	1.6	2.3	2.0	2.3	0.1
Durable goods	4.65	-3.2	-2.0	-2.1	-2.1	-2.0	-1.9
Miscellaneous goods	3.56	1.4	1.3	1.1	1.3	1.5	1.4
Transport	7.98	2.3	1.6	1.7	1.3	1.7	1.7
Miscellaneous services	15.81	0.9 (0.9)	2.1 (2.1)	1.7 (1.7)	1.4 (1.4)	2.1 (2.1)	3.1 (3.0)
All items	100.00	1.7 (1.5)	2.6 (2.4)	2.4 (2.4)	2.4 (2.1)	2.8 (2.5)	2.9 (2.6)

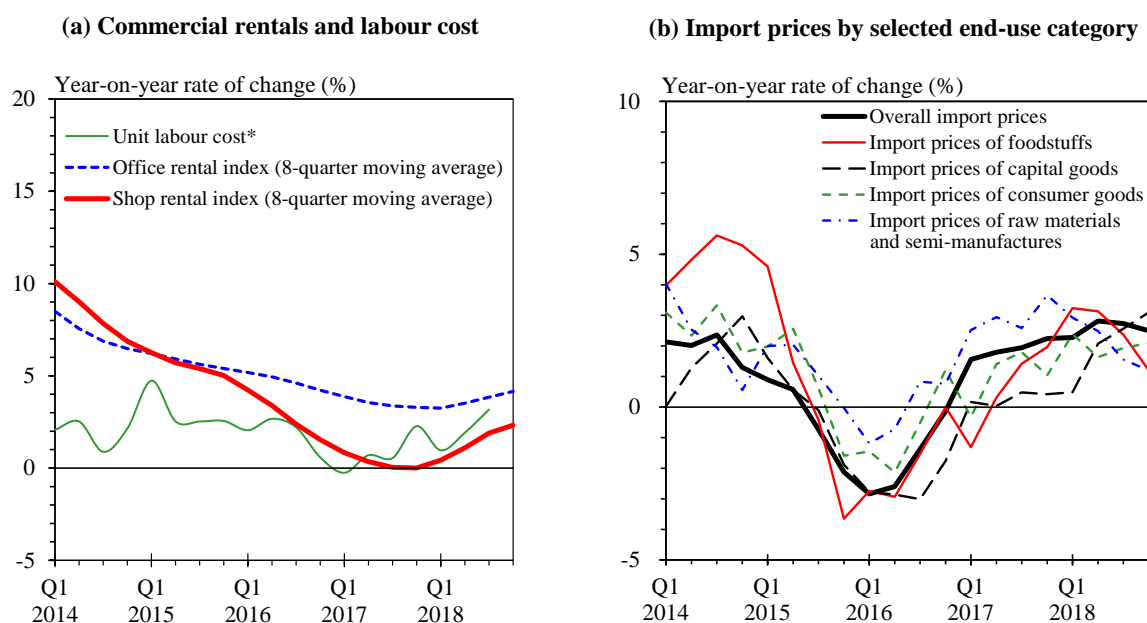
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public housing rents as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public housing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

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

Costs of factor inputs and import prices

7.4 Local cost pressures built up mildly during 2018, on the back of the relatively robust economic conditions during most of the year. Wages and earnings sustained solid growth amid tight labour market conditions. Nonetheless, the increase in labour cost on a unit cost basis was contained by continued improvement in labour productivity. Commercial rental pressure, while being still largely moderate, became slightly more apparent as the rentals of retail premise and office generally went up over the past year or so. Using the eight-quarter moving average to better reflect the actual expenses incurred by businesses, the year-on-year increases in shop and office rentals ticked up in 2018, reversing their broad downtrends in recent years.

Diagram 7.5 : Local cost pressures built up mildly; external price pressures also edged up



Note : (*) Unit labour cost is defined as the average cost of labour per unit of output (i.e. total labour cost divided by the output). The total labour cost, in the form of an index, is estimated by multiplying the per capita nominal payroll index with the total employment. The output refers to the Gross Domestic Product in chained (2016) dollar.

7.5 External price pressures also edged up. Import prices on the whole increased by 2.6% in 2018, faster than the 1.9% increase in 2017. The year-on-year increase picked up to 2.3% in the first quarter and further to 2.8% in the second quarter, due to rising inflation in many of our major import sources⁽²⁾ amid robust global economic growth, depreciation of the Hong Kong dollar along with the US dollar compared with a year earlier, and to a lesser extent higher global oil prices. Yet, stabilising inflation in our major import suppliers, the stronger Hong Kong dollar along with the US dollar, and the softening in international prices of various food and commodity items combined saw the increase in import prices hold steady at 2.6% in the second half of the year. Analysed by major end-use category, import prices of foodstuffs, capital goods and consumer goods saw somewhat faster increases of 2.4%, 2.1% and 2.0% respectively in 2018. Import prices of raw materials and semi-manufactures rose modestly further. Import prices of fuels continued to post double-digit rise, along with generally higher world oil prices.

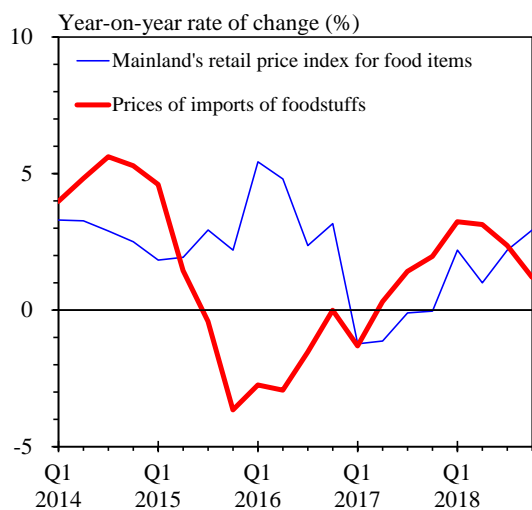
**Table 7.3 : Prices of imports by end-use category
(year-on-year rate of change (%))**

		<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	Annual	2.4	2.0	2.0	24.9	2.1	2.6
	H1	3.2	2.0	2.7	23.3	1.3	2.6
	H2	1.8	2.0	1.4	26.6	2.8	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
	Q4	1.2	2.1	1.2	19.5	3.1	2.5

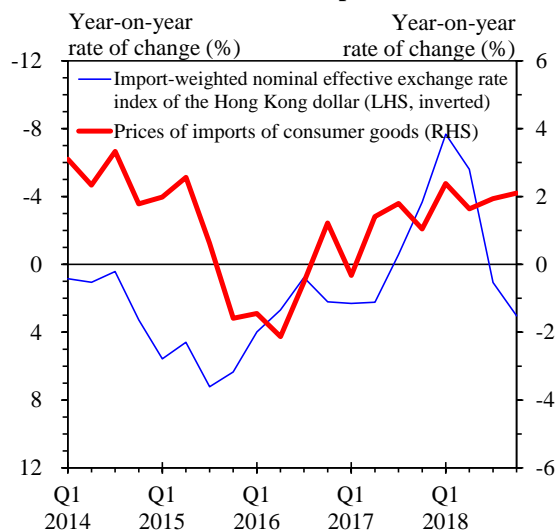
Note : (*) Change within $\pm 0.05\%$.

Diagram 7.6 : Import prices by end-use category

(a) The increase in import prices of food picked up in the first half of 2018 before showing some moderation

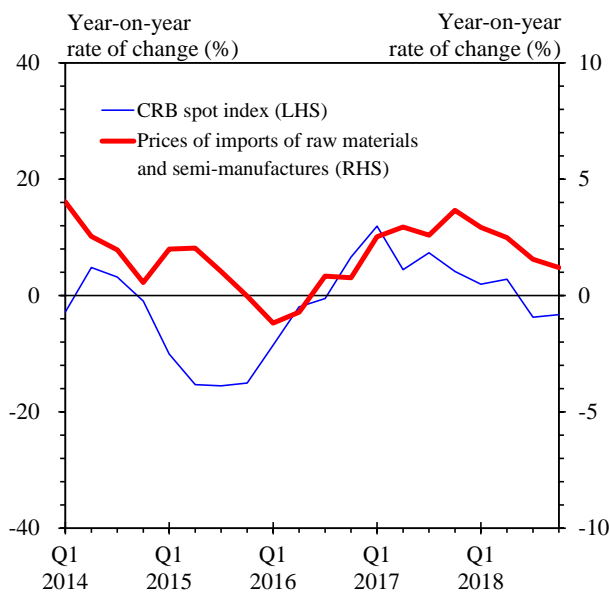


(b) Import prices of consumer goods continued to inch up

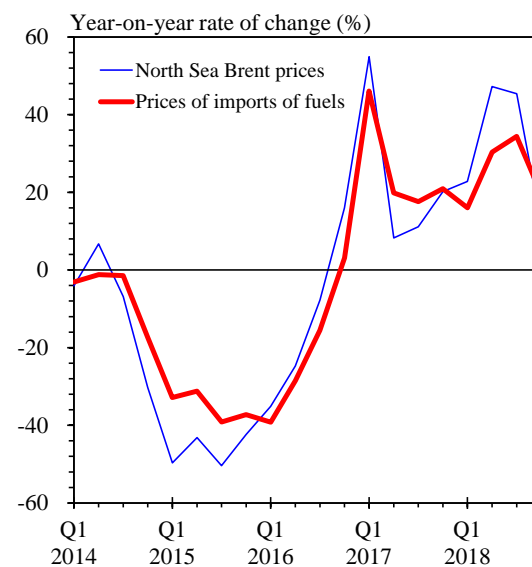


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Increase in import prices of raw materials and semi-manufactures moderated in recent quarters



(d) Import prices of fuels rose visibly throughout 2018



Output prices

7.6 Output prices, as measured by the *Producer Price Indices*⁽³⁾, in most sectors registered year-on-year increases of varying degrees in the first three quarters of 2018. For the manufacturing sector, output prices rose solidly in the first half of 2018, before slowing to a marginal increase in the third quarter. Among the selected service sectors, output prices for accommodation services sustained solid increases throughout the first three quarters, in tandem with the robust growth in inbound tourism. Thanks to continued expansion in regional trading activities, output prices for air transport saw further notable rise, while those for land and water transport went up moderately. Output prices for courier services, albeit relapsing to a notable decline in the third quarter, still recorded a marginal increase for the first three quarters as a whole. Meanwhile, output prices for telecommunications continued their perennial downtrend, reflecting the keen competition in the sector.

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

<u>Industry group</u>	<u>Annual</u>	<u>2017</u>					<u>2018</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Manufacturing	3.8	4.2	3.7	3.7	3.5	2.5	3.8	3.7	*
Selected service sectors ^(a)									
Accommodation services	2.0	1.6	1.5	2.3	2.6	4.4	4.5	4.7	3.9
Land transport	1.0	1.8	1.2	0.5	0.4	1.3	0.7	1.2	2.0
Water transport	3.3	-1.0	5.2	5.6	3.6	1.8	3.6	0.6	1.3
Air transport	2.4	-3.5	3.4	4.2	5.6	9.3	9.7	9.6	8.7
Telecommunications	-3.2	-2.9	-2.5	-2.9	-4.4	-3.0	-3.5	-2.3	-3.4
Courier services	3.8	3.6	2.2	2.0	7.4	0.3	3.3	3.9	-6.3

Notes : (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.

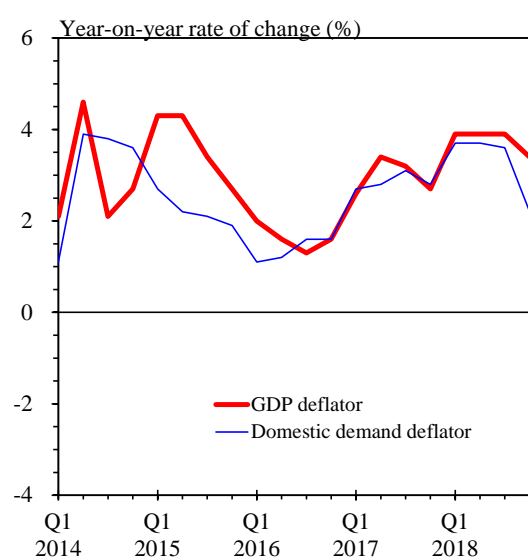
(*) Change within $\pm 0.05\%$.

GDP deflator

7.7 As a broad measure of the overall change in prices in the economy, the increase in *GDP deflator*⁽⁴⁾ picked up from 3.0% in 2017 to 3.7% in 2018. The *terms of trade*⁽⁵⁾ saw a marginal improvement in 2018, as export prices rose slightly faster than import prices. Taking out the external trade components, the domestic demand deflator rose by 3.3% in 2018, up from 2.9% in 2017, reflecting the higher price pressures in the economy.

Diagram 7.7 : GDP deflator

(a) The increase in GDP deflator picked up in 2018



(b) Terms of trade improved marginally in 2018

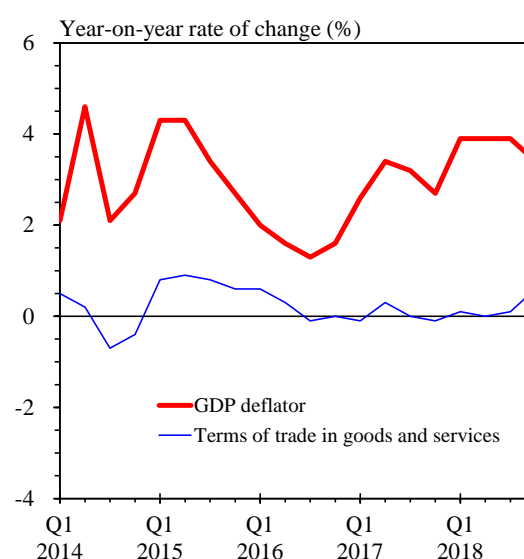


Table 7.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))

		<u>2017</u>					<u>2018</u>				
	<u>Annual</u> [#]	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Annual</u> ⁺	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> ⁺	
Private consumption expenditure	2.5	1.9	2.2	3.0	3.0	3.2	4.2	3.7	2.9	2.1	
Government consumption expenditure	2.5	4.0	2.5	1.7	1.7	3.1	1.8	3.0	3.8	3.8	
Gross domestic fixed capital formation	4.5	5.3	5.8	4.2	3.1	3.8	2.9	4.2	5.5	2.7	
Total exports of goods ^{&}	1.7	1.5	1.5	1.6	2.1	2.2	2.7	2.5	2.0	1.8	
Imports of goods ^{&}	1.8	1.8	1.5	1.6	2.1	2.3	2.6	2.6	2.5	1.8	
Exports of services ^{&}	3.2	2.0	3.0	3.4	4.5	4.7	5.0	4.9	4.7	4.2	
Imports of services ^{&}	2.6	0.6	0.5	3.6	5.4	2.7	6.3	5.0	0.7	-0.5	
Gross Domestic Product	3.0	2.6 <0.9>	3.4 <1.0>	3.2 <0.3>	2.7 <0.6>	3.7	3.9 <1.9>	3.9 <0.8>	3.9 <0.6>	3.4 <0.2>	
Total final demand ^{&}	2.2	1.9	2.1	2.3	2.6	2.8	3.3	3.2	2.8	2.2	
Domestic demand	2.9	2.7	2.8	3.1	2.8	3.3	3.7	3.7	3.6	2.2	
Terms of trade in goods and services ^{&}	*	-0.1	0.3	*	-0.1	0.2	0.1	*	0.1	0.6	

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

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

(#) Revised figures.

(+) Preliminary figures.

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

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

Notes :

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

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

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

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

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

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

	<u>2017</u>					<u>2018</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Selected developed economies										
US [^]	1.8	2.2	1.8	1.7	1.8	2.1	1.9	2.2	2.2	2.2
Canada	1.6	1.9	1.3	1.4	1.8	2.3	2.1	2.3	2.7	2.0
EU	1.7	1.8	1.7	1.7	1.7	1.9	1.5	1.8	2.2	2.0
Japan	0.5	0.3	0.4	0.6	0.6	1.0	1.3	0.6	1.1	0.9
Selected major emerging economies										
Mainland China	1.6	1.4	1.4	1.6	1.8	2.1	2.1	1.8	2.3	2.2
Russia	3.7	4.6	4.2	3.4	2.6	2.9	2.2	2.4	3.0	3.9
India	3.3	3.6	2.2	3.0	4.6	4.0	4.6	4.8	3.9	2.6
Brazil	3.4	4.9	3.6	2.6	2.8	3.7	2.8	3.3	4.4	4.1
Selected Asian economies										
Hong Kong	1.5	0.5	2.0	1.8	1.6	2.4	2.4	2.1	2.5	2.6
Singapore	0.6	0.6	0.8	0.4	0.5	0.4	0.2	0.3	0.7	0.5
Taiwan	0.6	0.8	0.6	0.7	0.4	1.4	1.6	1.7	1.7	0.5
Korea	1.9	2.2	1.9	2.2	1.4	1.5	1.1	1.5	1.6	1.8
Malaysia	3.8	4.2	3.8	3.6	3.5	1.0	1.8	1.3	0.5	0.3
Thailand	0.7	1.3	0.1	0.4	0.9	1.1	0.6	1.3	1.5	0.8
Indonesia	3.8	3.6	4.3	3.8	3.5	3.2	3.3	3.3	3.1	3.2
Philippines	2.9	2.9	2.8	2.7	3.0	5.2	3.9	4.8	6.3	5.9
Vietnam	3.5	5.0	3.3	3.1	2.7	3.5	2.8	3.8	4.1	3.4
Macao	1.2	0.9	0.9	1.3	1.8	3.0	2.5	3.0	3.4	3.1

Note: (^) Refer to the core CPI inflation.

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

Calendar of Events of Significance for the Hong Kong Economy in 2018

1 Jan	The commitments in liberalisation of trade in goods and services under the “Hong Kong Special Administrative Region and Macao Special Administrative Region Closer Economic Partnership Arrangement” came into effect.
3 Jan	The Hong Kong Quality Assurance Agency (HKQAA) announced the launch of its Green Finance Certification Scheme to provide third-party conformity assessments for issuers on their green debt instruments.
10 Jan	The Hong Kong Monetary Authority (HKMA) announced that the countercyclical capital buffer (CCyB) for Hong Kong would increase to 2.5% from 1.875% with effect from 1 January 2019. The CCyB is an integral part of the Basel 3 regulatory capital framework designed to increase the resilience of the banking sector in periods of excess credit growth.
11 Jan	HKMA launched a consultation on Open Application Programming Interfaces (API) framework, setting out HKMA’s intended approach to Open API for the banking industry in Hong Kong. The proposed Open API framework comprises a selection of Open API functions and deployment timeframe, technical standards, third-party service provider governance, facilitation measures and the maintenance models.
15-16 Jan	The Government and the Hong Kong Trade Development Council (HKTDC) co-organised the 11th Asian Financial Forum, with the theme “Steering Growth and Pioneering Innovation: Asia and Beyond”, discussing global economic trends, developments in financial innovations and investment opportunities, which attracted over 3 000 participants, including government leaders, regulators, financial and business leaders and investors from all over the world.
17 Jan	The Government announced the tendering of 10-year Government Bonds (GBs), totalling \$1.2 billion, through the re-opening of an existing 10-year GB issue under the Institutional Bond Issuance Programme of the GB Programme.
19 Jan	The Stamp Duty (Amendment) Ordinance 2018 was published in the Gazette. The law has retrospective effect from 5 November 2016. The Ordinance introduced the New Residential Stamp Duty (NRSD) at a flat rate of 15% for residential property transactions, in lieu of the doubled ad valorem stamp duty (DSD).
22-27 Jan	The Chief Executive (CE) visited Zurich, Lucerne and Davos, Switzerland to meet with senior government officials, members of the business sector and professionals to update them on the latest developments of Hong Kong, and attend the World Economic Forum Annual Meeting in Davos.
23 Jan	The International Monetary Fund (IMF) released a Staff Report on its assessment of Hong Kong’s economic and financial positions. IMF commended that Hong Kong was well placed to navigate through both external and domestic challenges given the strong policy frameworks and ample buffers, including strong fiscal reserves and robust regulatory and supervisory frameworks, which had been built and strengthened further over the last decade. IMF underlined its continued support for the Linked Exchange Rate System.

CE and Swiss Federal Councillor met in Bern to strengthen bilateral cooperation in the

area of financial markets and to exchange views on international financial and tax matters. Authorities and private sector representatives from Hong Kong and Switzerland signed three Memorandums of Understanding during the meeting.

- 26 Jan Hong Kong and Maldives concluded the negotiations on Free Trade Agreement (FTA) and Investment Promotion and Protection Agreement. Maldives is on the “maritime route” under the Belt and Road Initiative.
- 30 Jan CE in Council approved the Lok Ma Chau Loop Outline Zoning Plan. The Lok Ma Chau Loop will be developed as “Hong Kong-Shenzhen Innovation and Technology Park” with a key base for scientific research, and for uses of higher education and cultural and creative industries.
- The Hong Kong Housing Authority (HA) considered the outcome of the review of the Green Form Subsidised Home Ownership Scheme (GSH) pilot project and endorsed regularising the Scheme.
- 31 Jan HKMA announced the launch of the upgraded version of the Fintech Career Accelerator Scheme (FCAS 2.0), with a view to enhancing the fintech talent pool in Hong Kong to meet the growing demands from the industry.
- 31 Jan-4 Feb CE visited Beijing to attend the Seminar on “Strategies and Opportunities under the Belt and Road Initiative - Leveraging Hong Kong’s Advantages, Meeting the Country’s Needs”, and call on ministries of the Central People’s Government and other organisations.
- 2 Feb The Heritage Foundation ranked Hong Kong as the world’s freest economy for the 24th consecutive year.
- 3 Feb The Government held a seminar entitled “Strategies and Opportunities under the Belt and Road Initiative – Leveraging Hong Kong’s Advantages, Meeting the Country’s Needs”, bringing together over 500 representatives from the business and professional services sector in Hong Kong as well as state-owned enterprises to facilitate the forging of strategic partnerships in taking forward Belt and Road-related work.
- 28 Feb The Financial Secretary (FS) delivered the 2018-19 Budget. The Budget initiatives were underpinned by three main objectives: (i) diversified economy; (ii) investing for the future; and (iii) caring and sharing.
- The 2017 Economic Background and 2018 Prospects was published along with the 2018-19 Budget. Hong Kong’s real Gross Domestic Product (GDP) growth in 2018 was forecast to be 3-4%. The headline and underlying consumer price inflation rates were forecast to be 2.2% and 2.5% respectively.
- FS tasked HKMA to study the idea of establishing an Academy of Finance (AoF) in Hong Kong.
- 1 Mar The Government announced the 2018-19 Land Sale Programme (LSP). The LSP included 27 residential sites (capable of providing about 15 200 flats) and four commercial/hotel sites.
- 7 Mar The Government announced the tendering of 15-year GBs, totalling \$0.6 billion, through the re-opening of an existing 15-year GB issue under the Institutional Bond Issuance Programme of the GB Programme.

9 Mar	HKMA and the Polish Financial Supervision Authority exchanged a Memorandum of Understanding (MoU) to enhance fintech collaboration between the two authorities, with a view to strengthening co-operation between the two places in promoting innovative financial services.
19 Mar	Hong Kong and India signed an agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.
21 Mar	Hong Kong and the United Kingdom (UK) issued joint statement on closer collaboration on trade and economic matters to forge broader and deeper collaboration on a number of priority areas.
22 Mar	HKMA announced an upward adjustment of the Base Rate by 25 basis points to 2.00%, according to a pre-set formula. The increase in the Base Rate followed the 25-basis-point upward shift in the target range for the US federal funds rate on 21 March in the US.
23 Mar	FS announced the Caring and Sharing Scheme of the 2018-19 Budget. Under the Scheme, an eligible person will receive \$4,000, and one who receives tax/rates concession will get the difference between \$4,000 and the amount of tax/rates concession received.
24 Mar	Invest Hong Kong and the Department for International Trade of the UK signed a MoU pledging co-operation on investment promotion, with a particular focus on innovation and technology (I&T) and other emerging sectors.
29 Mar	<p>To realise the planning intention of developing the “North Lantau Corridor” for economic and housing developments as highlighted in the Sustainable Lantau Blueprint, the draft Siu Ho Wan Outline Zoning Plan was exhibited for public inspection under section 5 of the Town Planning Ordinance to facilitate the topside development of Siu Ho Wan railway depot, which covers public and private housing of no less than 14 000 units upon full development, as well as provision of community facilities.</p> <p>HA launched the Sale of Home Ownership Scheme (HOS) Flats 2018 and White Form Secondary Market Scheme (WSM) 2018 concurrently. For HOS 2018, a total of 4 431 subsidised sales flats (SSFs) in Hoi Lok Court in Cheung Sha Wan, Kai Long Court in Kai Tak and Yu Tai Court in Tung Chung were put up for pre-sale.</p>
29-30 Mar	CE visited Shenzhen, Zhongshan and Zhuhai to officiate at the inauguration ceremony of Harmonia College of the Chinese University of Hong Kong, Shenzhen, visit places in Zhongshan and Zhuhai, and meet with leaders of the Shenzhen, Zhongshan and Zhuhai Municipal Governments separately.
1 Apr	<p>The two-tiered profits tax rates regime under the Inland Revenue (Amendment) (No. 3) Ordinance 2018 came into effect. The profits tax rates for the first \$2 million of profits are lowered to 8.25% for corporations and 7.5% for unincorporated businesses (i.e. partnership and sole proprietorships). Profits above \$2 million of corporations and unincorporated businesses continue to be taxed at the rates of 16.5% and 15% respectively.</p> <p>The Government launched the Working Family Allowance Scheme, so as to implement a series of enhancements to the Low-income Working Family Allowance Scheme to further encourage self-reliance and ease inter-generational poverty.</p>

8-10 Apr	CE visited Hainan to attend the Boao Forum for Asia Annual Conference 2018 and meet with other senior officials attending the Conference.
12 Apr	HKMA's weak-side Convertibility Undertaking (CU) of HK\$7.85 against the USD was triggered during London trading hours. Since the first triggering on 12 April, the weak-side CU has been triggered 27 times during 2018.
13-16 Apr	A Smart City zone was set up under the International ICT Expo organised by HKTDC to publicise the major strategies and initiatives in the Smart City Blueprint for Hong Kong and various smart city technologies and solutions.
18 Apr	The Government announced the tendering of 3-year GBs, totalling \$4 billion, through the re-opening of an existing 10-year GB issue under the Institutional Bond Issuance Programme of the GB Programme.
20 Apr	The Stamp Duty (Amendment) (No.2) Ordinance 2018 was published in the Gazette. The law has retrospective effect from 12 April 2017. The Ordinance tightened the exemption arrangement for Hong Kong permanent residents (HKPRs) under the NRSD regime. Under the tightened exemption arrangement, the acquisition of more than one residential property under a single instrument is no longer exempted and is subject to the NRSD rate of 15%, even if the purchaser is a HKPR acting on his own behalf and does not own any other residential property in Hong Kong at the time of acquisition.
24 Apr	The European Commission published its 20th annual report on Hong Kong, which continued to affirm the co-operation between the European Union (EU) and Hong Kong in areas including trade, investment and the dialogue on issues of mutual interest, while recognising as well Hong Kong's strategic importance as a trading and investment partner for the EU.
24-26 Apr	CE visited Jakarta, Indonesia to deliver an address at a luncheon organised by HKTDC and to meet with senior officials of the Indonesian Government.
26 Apr	The Task Force on Land Supply appointed by CE in September 2017 launched a five-month public engagement exercise from 26 April 2018 to 26 September 2018 to invite all sectors of society to offer their views on 18 land supply options and other land supply-related issues.
27 Apr	HA endorsed converting the public rental housing development at Lai Chi Kok Road-Tonkin Street Phase 1 (i.e. Blocks 1 to 4) to a GSH project. This is the first regularised GSH project (i.e. Lai Tsui Court) which was subsequently launched in December 2018.
30 Apr	The Stock Exchange of Hong Kong Limited implemented the new listing regime to facilitate the listing of companies from emerging and innovative sectors, including pre-revenue / pre-profit biotech companies and high growth and innovative companies that have weighted voting rights structures.
2 May	Airport Authority Hong Kong (AAHK) awarded the right to develop and manage an integrated retail, dining and entertainment development in SKYCITY. Developing SKYCITY will have a significant strategic value to the economy and social development of Hong Kong and Lantau. SKYCITY development will generate investment, business and employment opportunities for Hong Kong, enhance the attractiveness and competitiveness of the Hong Kong International Airport (HKIA) as a

global aviation hub and promote the further development of tourism.

- 3-5 May FS attended the 51st Annual Meeting of the Asian Development Bank in Manila, the Philippines.
- 4 May The Banking (Disclosure) (Amendment) Rules 2018 and the Banking (Specification of Multilateral Development Bank) (Amendment) Notice 2018 were gazetted to implement some recent international standards on banking regulation in Hong Kong.
- 9 May HKMA issued guidelines to banks on Credit Risk Management for Personal Lending Business. The guidelines allow banks to adopt innovative technology to manage credit risks related to personal lending business, in a bid to improve customer experience in the digital environment.
- 10 May The Government launched a three-year Pilot Bond Grant Scheme, under which eligible first-time issuers may receive a grant for covering half of the bond issuance expenses capped at \$2.5 million for at most two issuances.
- The Legislative Council passed the Appropriation Bill.
- 11 May The Government released the preliminary GDP figures for the first quarter of 2018. The Hong Kong economy turned in a robust growth of 4.7% over a year earlier. External demand picked up as the global economy maintained broad-based momentum. Domestic demand also strengthened, buttressed by favourable labour market conditions and positive business sentiment.
- In the May review of the economic forecast for 2018, the forecast real GDP growth was maintained at 3-4%. The forecast rates of underlying and headline consumer price inflation for 2018 were maintained at 2.5% and 2.2% respectively.
- CE and the Secretary of the CPC Sichuan Provincial Committee co-chaired the high-level meeting cum First Plenary Session of the Hong Kong-Sichuan Co-operation Conference in Chengdu, Sichuan Province. Consensus was reached in 11 co-operation areas and seven co-operation agreements covering various areas including higher education, vocational training were signed.
- 13-14 May CE visited Bangkok, Thailand to attend and deliver a keynote speech at the opening of the Ministerial Segment of the 74th session of the United Nations Economic and Social Commission for Asia and the Pacific.
- 14-15 May In support of President Xi Jinping's instruction to support the development of Hong Kong into an international I&T hub, the Ministry of Science and Technology (MOST) and the Ministry of Finance (MoF) announced new policy that allows universities and research institutions in Hong Kong to apply funding to undertake central fiscal science and technology projects and grants could be remitted for use in Hong Kong. The "Forum on Mainland-Hong Kong Cooperation in I&T" organised by the Government was held on 15 May in Hong Kong to introduce the new policy.
- 15 May CE in Council approved the Kai Tak Outline Zoning Plan. The amended plan served to optimise the development intensity of scarce urban land to meet the acute demand for housing and commercial land, and enhance the land use proposals facilitating preservation of heritage and promoting sports and recreation activities. It would bring about an addition of about 10 900 flats and 330 000 square metres of commercial floorspace.

For the third consecutive year, HKIA received the “Best Global Airport” honour at the Asian Freight, Logistics and Supply Chain Awards by Asia Cargo News.

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| 16 May | The Government announced the tendering of 5-year GBs, totalling \$2.5 billion, through the re-opening of an existing 10-year GB issue under the Institutional Bond Issuance Programme of the GB Programme. |
| 16-17 May | CE visited Huizhou and Guangzhou to meet with leaders of the Guangdong Provincial Government and the Huizhou and Guangzhou Municipal Governments to discuss the preparatory work for the future development of the Guangdong-Hong Kong-Macao Greater Bay Area (the Greater Bay Area). |
| 18 May | The Banking (Amendment) Ordinance 2018 (Commencement) Notice 2018 and the Banking (Exposure Limits) Rules were gazetted to modernise section 87 of the Banking Ordinance in relation to a prescribed limit on equity exposures incurred by authorised institutions. |
| 24 May | Hong Kong ranked second globally in the International Institute for Management Development’s World Competitiveness Yearbook 2018. |
| | Hong Kong and Finland signed an agreement for the elimination of double taxation with respect to taxes on income and the prevention of tax evasion and avoidance. |
| 29 May | HKMA and Invest Hong Kong jointly hosted a seminar on overseas treasury management in Guangzhou on “Guangdong-Hong Kong-Macao Greater Bay Area – New Opportunities arising from Overseas Treasury Management” to promote the advantages of establishing Corporate Treasury Centres and conducting financing activities in Hong Kong to corporations in Guangdong Province. |
| 30 May | HKMA published a revised Guideline on Authorization of Virtual Banks following the completion of a public consultation. |
| 30 May-3 Jun | FS visited Dublin, Ireland to promote co-operation between Hong Kong and Ireland in financial technology and aircraft leasing business. |
| 1 Jun | The Hong Kong Exchanges and Clearing Limited became a Partner of the United Nations Sustainable Stock Exchanges Initiative, committing to further promote sustainable and transparent capital markets. |
| 6 Jun | AAHK awarded the right to develop and manage a premium logistics centre at Kwo Lo Wan in the South Cargo Precinct of HKIA. It will be the third largest warehouse in Hong Kong and help grasping the business opportunities arising from the robust development of cross-boundary e-commerce. |
| 8 Jun | The Securities and Futures Commission (SFC) and the China Banking and Insurance Regulatory Commission (CBIRC) entered into a MoU to enhance cooperation in supervising cross-boundary regulated entities. |
| 12 Jun | The first Belt and Road Joint Conference was convened by the Government with relevant Mainland authorities to co-ordinate the follow up work on the implementation of the measures set out in “The Arrangement between the National Development and Reform Commission and the Government of the Hong Kong Special Administrative Region for Advancing Hong Kong’s Full Participation in and Contribution to the Belt and Road Initiative”. |

14 Jun	<p>HKMA announced an upward adjustment of the Base Rate by 25 basis points to 2.25%, according to a pre-set formula. The increase in the Base Rate followed the 25-basis-point upward shift in the target range for the US federal funds rate on 13 June in the US.</p> <p>HKMA and the International Capital Market Association co-hosted the 2018 Green and Social Bond Principles Annual General Meeting and Conference in Hong Kong. This is an established, high-profile gathering for leaders in the green bond market and the growing social and sustainable bond markets and other asset classes in sustainable finance.</p>
14-25 Jun	CE visited Belgium, France, Switzerland and Germany to meet with senior officials of the European Commission, the Belgian Government, the French Government and members of the French Parliament; to speak at seminars on the development of the Greater Bay Area, the Belt and Road Initiative and property technology.
15 Jun	<p>The Government launched the Green Bond Grant Scheme to subsidise eligible green bond issuers in obtaining certification under the Green Finance Certification Scheme established by the HKQAA.</p> <p>HKMA and the Research Bureau of the People's Bank of China (PBoC) jointly hosted a seminar on "Mainland and Hong Kong Green Finance Opportunities" in Hong Kong to discuss the developments and opportunities in the Mainland and Hong Kong green finance markets.</p>
22 Jun	The Inland Revenue Ordinance (Amendment of Schedule 16) Notice 2018 came into operation to address issue of potential loss of profits tax exemption status of offshore venture capital funds when investing under the Innovation and Technology Venture Fund, thereby encouraging offshore venture capital funds to participate in the Innovation and Technology Venture Fund and invest in local technology start-ups.
25 Jun	The Government launched the Technology Talent Admission Scheme to provide a fast-track arrangement for eligible technology companies/institutes to admit non-local technology talent to undertake research and development work in Hong Kong.
25-27 Jun	CE visited Beijing to report to the Vice Premier of the State Council the views and suggestions on matters relating to the development plan for the Greater Bay Area.
26 Jun	<p>MoF announced the issuance of RMB sovereign bonds totalling RMB5 billion, with tenors of two and five years, in Hong Kong.</p> <p>HKMA and the Financial Services Regulatory Authority of the Abu Dhabi Global Market signed a Co-operation Agreement to enhance fintech collaboration between the two authorities, with a view to encouraging and enabling innovation in financial services in both markets, and supporting innovative financial businesses in expanding to each other's jurisdictions.</p>
27 Jun	MoF announced the tendering in Hong Kong of a total of RMB4.5 billion RMB Sovereign Bonds of the Central People's Government with tenors ranging from two to five years.
28 Jun	The Government and HKTDC co-organised the third Belt and Road Summit, with participation of close to 5 000 government, professional and business leaders from the Mainland as well as countries and regions along and related to the Belt and Road. Over

520 one-to-one business-matching meetings with over 230 projects were arranged.

Hong Kong and Georgia signed an FTA. This is the first FTA between Hong Kong and a country in the Caucasus. The agreement will bring to Hong Kong's traders and businessmen legal certainty and better market access to the Georgian market, as well as enhance the trade and investment flows between the two economies.

- 29 Jun CE announced the following six new housing initiatives –
- (a) revising the pricing mechanism for HOS to the effect that the selling prices of these flats will no longer be linked to market prices of private flats, and amending the method of assessing affordability;
 - (b) inviting the Urban Renewal Authority (URA) to assign its redevelopment project at Ma Tau Wai Road as a “Starter Homes” pilot project;
 - (c) re-allocating nine private housing sites for public housing development;
 - (d) amending the Rating Ordinance to introduce “Special Rates” on vacant first-hand private residential units;
 - (e) amending the Lands Department Consent Scheme to improve sales practices; and
 - (f) setting up a task force to assist the community to take forward transitional housing projects.
- 1 Jul O-PARK1 started to receive food waste. It is the first organic resources recovery centre in Hong Kong to convert food waste to electricity, also one of the largest facilities of its kind in Asia, marking a new milestone in Hong Kong's journey of turning waste into energy. O-PARK1 can export about 14 million kWh of surplus electricity per year, an equivalent of the energy consumption of about 3 000 households. It is also estimated that some 25 000 tons of greenhouse gas emissions can be reduced each year.
- 3 Jul HKIA took home the eighth “Top Asian Airport Efficiency Excellence Award” from the Air Transport Research Society.
- 11 Jul Upon the expiry of the 30-year “Build-Operate-Transfer” franchise, the ownership of the Tate's Cairn Tunnel was transferred to the Government.
- The Government announced the tendering of 10-year GBs, totalling \$1.2 billion, through the re-opening of an existing 10-year GB issue under the Institutional Bond Issuance Programme of the GB Programme.
- 13 Jul The Inland Revenue (Amendment) (No. 6) Ordinance 2018 came into effect. The amendment ordinance seeks to implement the minimum standards of the Base Erosion and Profit Shifting package promulgated by the Organisation for Economic Co-operation and Development and codify the transfer pricing principles into the Inland Revenue Ordinance. Moreover, it extended the 50% profits tax concession for captive insurers and professional reinsurers from offshore to onshore risks with effect from the 2018-19 assessment year, and extended the half-rate profits tax concessions under the corporate treasury centre regime to profits derived from domestic transactions.
- 16 Jul The Finance Committee of the Legislative Council approved the 2018-19 Civil Service Pay Adjustment. The adjustment rates ranged from 4.06% to 4.51%, and took retrospective effect from 1 April 2018.

- 17 Jul Based on the revised pricing mechanism for HOS announced by CE, HA approved the revised selling prices (average selling prices of flats reduced from 70% to 52% of the then assessed market values) and sales arrangements for Sale of HOS Flats 2018.
- CBIRC announced that under the China Risk Oriented Solvency System, the capital requirement of a Mainland insurer would be reduced when ceding business to a qualified professional reinsurer in Hong Kong (the preferential treatment). The preferential treatment would facilitate co-operation between the Mainland and Hong Kong in cross-border reinsurance business and foster the development of reinsurance business in Hong Kong.
- HKMA, on the basis of the advice of an Experts Group, has submitted a recommendation to FS to proceed with the setting up of an AoF in Hong Kong. The Experts Group recommends that the AoF should perform two functions: (i) as a centre of excellence for promoting financial leadership development; and (ii) as a repository of knowledge and centre for monetary and financial research, in particular applied research in cross-sectoral areas.
- 18 Jul HKMA published the Open API Framework for the Hong Kong banking sector.
- 20 Jul CE visited Shenzhen to call on Mainland officials, meet with Hong Kong people who have set up businesses in Longgang District, as well as visit Ping An Technology (Shenzhen) Co Ltd and the Institute of Robotics and Intelligent Manufacturing of the Chinese University of Hong Kong, Shenzhen.
- 23 Jul HKMA launched Open API on its official website to provide convenient access by the public. Around 130 sets of information covering all financial data and important information published on HKMA's website will be made available for Open API by phases.
- 24 Jul HKMA and the three note-issuing banks announced the issue of the 2018 new series Hong Kong banknotes. The new banknotes have incorporated advanced security features. Their placement on the banknotes is uniform across all five denominations.
- 25-28 Jul CE visited Beijing to call on Mainland officials, meet with young people from Hong Kong who have joined internship programmes in the Mainland and attend a performance by the Sing Fai Cantonese Opera Promotion Association from Hong Kong.
- 26 Jul Under the "Space Sharing Scheme for Youth", Cyberport officially opened its Smart-Space 8 in Tsuen Wan, with 20 000 square feet of co-working space to accommodate about 140 start-ups.
- 30 Jul The open-ended fund companies (OFCs) regime, which introduces a new corporate fund structure in addition to the unit trust form, came into operation to facilitate fund domiciliation in Hong Kong. With effect from the same date, all OFCs can enjoy profits tax exemption subject to meeting certain conditions.
- 1 Aug The Government's measure to cap the import and export declaration charge at \$200 took effect.

To support Hong Kong enterprises in exploring and developing the Association of Southeast Asian Nations (ASEAN) and Mainland markets, the Government rolled out enhancement measures on the Dedicated Fund on Branding, Upgrading and Domestic

Sales (BUD Fund), including launching the ASEAN Programme and increasing the cumulative funding ceiling per enterprise for the Mainland Programme. The Government also rolled out enhancement measures on the SME Export Marketing Fund, including doubling the cumulative funding ceiling per small and medium enterprises (SME) and the maximum funding per application, to assist SMEs in exploring markets and new business opportunities.

- 7 Aug HKMA, in collaboration with 11 financial regulators and related organisations, announced the initiative of the Global Financial Innovation Network (GFIN). Building on the UK Financial Conduct Authority’s proposal earlier in the year, GFIN seeks to provide a more efficient way for innovative firms to interact with regulators, helping them navigate between jurisdictions as they look to scale new ideas. It will also create a framework for co-operation between financial services regulators on innovation related topics, and sharing different experiences and approaches.
- 10 Aug The Government released the preliminary GDP figures for the second quarter of 2018. The Hong Kong economy expanded by 3.5% over a year earlier. Riding on the robust global economy, external demand remained sturdy, though there seemed to be some moderation towards the end of the quarter. Domestic demand also expanded visibly. Labour market conditions stayed favourable, while inflation was still moderate.
- In the August update of the economic forecast for 2018, the forecast real GDP growth was maintained at 3-4%. The forecast rates of underlying and headline consumer price inflation for 2018 were maintained at 2.5% and 2.2% respectively.
- 14 Aug The Government held a sharing session on the investment environment of overseas economic and trade co-operation zones. Over 200 representatives of the State-owned Assets Supervision and Administration Commission of the State Council, state-owned enterprises, Hong Kong chambers of commerce and enterprises as well as professional bodies joined the session to explore collaboration opportunities under the Belt and Road Initiative.
- 15 Aug CE attended the first plenary meeting of the leading group for the development of the Greater Bay Area (the leading group) as a member in Beijing. The meeting was hosted and convened by the Vice Premier of the State Council to discuss and plan for priority areas of work for the next stage of the Greater Bay Area’s development. The leading group serves as a top-tier body to co-ordinate and advance the development of the Greater Bay Area.
- 15-16 Aug HKMA and the State-owned Assets Supervision and Administration Commission of the State Council co-organised the “Connecting Belt & Road, Capturing Opportunities Together” High-level Roundtable in Hong Kong. The event aims to conduct in-depth discussions on how Hong Kong can facilitate Central State-owned Enterprises’ investment and expansion in Belt & Road countries.
- 22 Aug The Government launched the “Postdoctoral Hub” programme and the “Reindustrialisation and Technology Training Programme” (\$500 million in total) to nurture and pool together technology talent. The “Postdoctoral Hub” programme provides funding support to eligible organisations for recruiting up to two postdoctoral talent for research and development work. The “Reindustrialisation and Technology Training Programme” subsidises local companies on a 2:1 matching basis to train their staff in advanced technologies, especially those related to “Industry 4.0”.

- 24 Aug CE and the Mayor of Shanghai co-chaired the Fourth Plenary Session of the Hong Kong-Shanghai Co-operation Conference in Hong Kong. Consensus was reached in 16 co-operation areas and 15 co-operation agreements covering various areas including legal services, education were signed.
- Delivery versus Payment (DvP) settlement was fully implemented in Bond Connect. All trades under the Bond Connect began to be settled on a DvP basis.
- 31 Aug In accordance with the Payment Systems and Stored Value Facilities Ordinance, HKMA published in the Gazette notices to designate two relevant retail payment systems, as well as to declare activities that are allowed to be carried out through the relevant designated systems.
- 1 Sep The Convention on Mutual Administrative Assistance in Tax Matters entered into force in Hong Kong to enable Hong Kong to more effectively discharge its obligations on international tax co-operation.
- 2-7 Sep FS led a business mission to Tel Aviv and Jerusalem of Israel to showcase Hong Kong's unique strengths, and to promote stronger economic ties and I&T collaboration between Hong Kong and Israel.
- 5 Sep CE attended the 12th Pan-Pearl River Delta Regional Co-operation and Development Forum and Trade Fair and the 2018 Pan-Pearl River Delta Regional Co-operation Chief Executive Joint Conference in Guangzhou, Guangdong Province. The meetings focused on the theme of "Greater Bay Area: Driving Innovation, Collaboration and Opportunities".
- 9 Sep HKMA and the Central Bank of Brazil signed a Co-operation Agreement to enhance collaboration between the two central banks involving fintech issues, with a view to encouraging and enabling innovation in financial services in both markets, and supporting innovative financial businesses in expanding to each other's jurisdictions.
- 14 Sep The Development Bureau launched "Construction 2.0" initiative to transform the industry through "Innovation", "Professionalisation" and "Revitalisation". "Construction 2.0" seeks to uplift the capacity and sustainability of the industry, increase productivity, enhance regulation and quality assurance, improve site safety, and reduce environmental impact.
- 17 Sep HKMA announced the launch of the Faster Payment System (FPS). The FPS operates on a round-the-clock basis and connects banks and stored-value facility (SVF) operators on the same platform. It enables the public to transfer funds anytime, anywhere, across different banks or SVFs with funds available almost immediately. The FPS went into full operation on 30 September.
- 18-19 Sep FS attended in Tianjin the World Economic Forum's Annual Meeting of the New Champions 2018, also known as the Summer Davos forum, and spoke at a session titled "China's Bay Area economy".
- 20 Sep Governor of PBoC and Chief Executive of HKMA signed a "Memorandum of Co-operation on Using Central Moneymarkets Unit for Issuance of PBoC Bills", for the tendering and issuance of PBoC bills through Central Moneymarkets Unit (CMU) BID, HKMA's CMU bond tendering platform.

The Innovation and Technology Bureau and MOST signed the "Arrangement on

Enhancing Innovation and Technology Cooperation between the Mainland and Hong Kong” (the Arrangement), which enhances co-operation between Hong Kong and the Mainland in scientific research, development of platform, nurturing of talents, transfer of result and incubation of I&T industry, etc. Besides, the two sides signed an agreement on jointly funded projects, which sets out the framework and modus operandi of the Mainland–Hong Kong Joint Funding Scheme to encourage collaboration between Hong Kong and provinces of the Mainland in the area of scientific research. The Arrangement serves as an action guide for the two parties to take forward the various I&T co-operation initiatives and marks a milestone in I&T collaboration between the two sides.

- 21 Sep SFC published its strategic framework to contribute to the development of Hong Kong as a leading centre for green finance and to connect green finance flows between the Mainland and the rest of the world.
- The Hong Kong Green Finance Association, a member of the International Network of Financial Centres for Sustainability convened by the United Nations Environment Programme, was launched to support the development of green finance in Hong Kong.
- 22 Sep CE visited Guangzhou to host the opening ceremony for the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link.
- 23 Sep The Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link commenced service, which would link up the three rapidly-developing cities in the Greater Bay Area. In addition to enhancing the high speed passenger transport network in the Greater Bay Area and promoting the economic, social and cultural exchanges in the area, it would also link Hong Kong with the Capital Economic Circle and the Yangtze River Delta Region through the Beijing-Guangzhou Passenger Line and the Hangzhou-Fuzhou-Shenzhen Passenger Line, thereby strengthening the synergy effect among the regions, creating more development opportunities and promoting sustainable growth in trades including tourism, commerce and professional services.
- 26 Sep Hong Kong was once again ranked as the freest economy in the world by the Fraser Institute, retaining the top rank since 1996.
- 27 Sep HKMA announced an upward adjustment of the Base Rate by 25 basis points to 2.50%, according to a pre-set formula. The increase in the Base Rate followed the 25-basis-point upward shift in the target range for the US federal funds rate on 26 September in the US.
- 28 Sep MoF announced the issuance of RMB sovereign bonds totalling RMB5 billion, with tenors of two and five years, and US dollar sovereign bonds totalling US\$3 billion, with tenors of five to thirty years, in Hong Kong.
- 1 Oct The new Scheme of Control Agreement signed between the Government and the CLP Power Hong Kong Limited and Castle Peak Power Company Limited commenced.
- 2 Oct The Development Bureau launched the \$1 billion Construction Innovation and Technology Fund to encourage wider adoption of innovative construction methods and technology by contractors, subcontractors and consultants with a view to promoting productivity, uplifting build quality, improving site safety and enhancing environmental performance. The Fund also supports manpower development initiatives to build up the capacity of construction practitioners to leverage I&T to drive the transformation

and continuous improvement of the industry.

The Government announced the tendering of 3-year GBs, totalling \$4 billion, through the re-opening of an existing 10-year GB issue under the Institutional Bond Issuance Programme of the GB Programme.

3 Oct HA re-opened the application of Sale of HOS Flats 2018 from 3 to 16 October 2018 upon adjustment of the selling prices based on the revised pricing mechanism announced in late June. The alienation restrictions were also tightened by debarring resale in the open market upon payment of premium during the first five years from first assignment. During the two application periods in March/April and October 2018, some 272 000 applications were received.

MoF announced the tendering in Hong Kong of a total of RMB4.5 billion RMB Sovereign Bonds of the Central People's Government with tenors ranging from two to five years.

3-4 Oct The first Annual Summit of the Global Maritime Forum was held in Hong Kong to explore the future of global maritime trade. The Summit has attracted around 200 maritime and port industry leaders, decision-makers and government representatives from over 30 countries and international maritime organisations to attend.

8 Oct SFC signed a MoU with the Financial Conduct Authority of the UK on mutual recognition of funds to facilitate the distribution of eligible funds in each other's market.

10 Oct CE presented "The Chief Executive's 2018 Policy Address", announcing a raft of measures to boost land supply, nurture talent and diversify the economy.

The number of business operations in Hong Kong with parent companies overseas and in the Mainland hit the record high of 8 754 in 2018, according to a joint survey conducted by Invest Hong Kong and the Census and Statistics Department.

The Government announced the tendering of 3-year GBs, totalling \$4 billion, through the re-opening of an existing 10-year GB issue under the Institutional Bond Issuance Programme of the GB Programme.

10-13 Oct FS visited Bali, Indonesia, to attend the Annual Meetings of IMF and the World Bank Group as a member of the Chinese delegation.

14-19 Oct FS visited Port Moresby, Papua New Guinea for the Asia-Pacific Economic Cooperation (APEC) Finance Ministers' Meeting.

16 Oct CE in Council approved the Hung Shui Kiu and Ha Tsuen Outline Zoning Plan. Strategically located in the Northwest New Territories, the Hung Shui Kiu New Development Area will become a "Regional Economic and Civic Hub" for accommodating a population of 218 000 (including 176 000 new population) and providing about 150 000 new employment opportunities upon full development.

19 Oct The Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules were gazetted to impose loss-absorbing capacity requirements on authorised institutions to tie-in with international developments.

22-23 Oct	CE visited Zhuhai to attend the opening ceremony of the Hong Kong-Zhuhai-Macao Bridge.
23-25 Oct	CE visited Beijing and Hebei to meet with leaders of the Hebei Provincial Government and other Mainland officials, and attend the 4th Hong Kong/Beijing Co-operation Conference and the Beijing-Hong Kong Economic Co-operation Symposium.
24 Oct	The Hong Kong-Zhuhai-Macao Bridge commenced operation. The Bridge serves as the unprecedented cross-boundary transport infrastructure connecting Guangdong, Hong Kong and Macao and is the longest bridge-cum-tunnel sea-crossing in the world, bringing the Western Pearl River Delta region (PRD) within three hours' drive from Hong Kong. With the development of the Greater Bay Area, the Bridge will be instrumental in enhancing the flow of people, goods and capital, as well as technological collaboration within the region. The Bridge will enhance Hong Kong's position as a trade and logistics hub, and also accelerate the economic integration of the PRD and its neighbouring provinces.
26 Oct	HKMA announced that it has designated nine authorized institutions as Primary Liquidity Providers for offshore RMB market in Hong Kong.
29 Oct-2 Nov	CE visited Japan to meet with senior government officials, members of parliament, members of the business and political sectors and professionals in Japan, speak at the a symposium and dinner organised by HKTDC and a promotional event organised by the Hong Kong Tourism Board, as well as at a forum on financial co-operation between the Greater Bay Area and Japanese enterprises. The third Hong Kong Fintech Week drew more than 8 000 attendees from over 50 economies, more than 260 world-class speakers, 100 exhibitors, 60 start-ups and 1,000-plus business matching meetings. With activities held in Shenzhen, it was the world's first cross-border fintech event. It showcased Hong Kong in the context of the many opportunities that exist in the Greater Bay Area.
31 Oct	PBoC announced the issuance of bills totalling RMB20 billion, with tenors of three months and one year, in Hong Kong. Hong Kong's global ranking in the World Bank's Doing Business 2019 Report moved up one place to 4th this year, re-affirming Hong Kong's position as one of the world's easiest places to do business. The Minimum Wage Commission submitted its recommendation and report to CE in Council upon completing a review of the Statutory Minimum Wage rate. HKMA announced the official launch of eTradeConnect, a blockchain-based trade finance platform developed by a consortium of twelve major banks in Hong Kong. Formerly known as the Hong Kong Trade Finance Platform, eTradeConnect aims to improve trade efficiency, build better trust among trade participants, reduce risks and facilitate trade counterparties to obtain financing by digitising trade documents, automating trade finance processes and leveraging the features of blockchain technology.
2 Nov	The Inland Revenue (Amendment) (No.7) Ordinance 2018 was gazetted for implementing the enhanced tax deduction for expenditures on qualifying research and development (R&D) activities incurred by enterprises on or after 1 April 2018 in Hong Kong. The deduction is 300% for enterprises' first \$2 million qualifying R&D

expenditure and 200% for the remaining amount. There is no cap on the amount of tax deduction.

- 4-6 Nov CE visited Shanghai to attend the opening ceremony of the inaugural China International Import Expo, speak in a parallel session of the Hongqiao International Economic and Trade Forum, attend the launch ceremony of the Shanghai Hong Kong University Alliance at Fudan University.
- 8 Nov The Government and the Chinese Academy of Sciences (CAS) signed the “Memorandum of Understanding on Establishing Affiliated Institution by the Chinese Academy of Sciences in Hong Kong”. The MoU confirms that CAS will establish an affiliated institution in Hong Kong with a view to facilitating its Guangzhou Institutes of Biomedicine and Health and Institute of Automation to respectively establish their presence in the research clusters on healthcare technologies and on artificial intelligence and robotics technologies to be set up by the Government at the Hong Kong Science Park. The institution will also serve as the Secretariat of the Greater Bay Area Academician Alliance to be set up in Hong Kong, which will help encourage academicians of CAS and the Chinese Academy of Engineering based in the Greater Bay Area to actively participate in developing the Area, thereby bringing prominent scientific talent to contribute to the country’s technological advancement.
- 10-12 Nov CE led a delegation and visited Shenzhen and Beijing to meet with the state leaders and visit exhibitions on the 40th anniversary of the country’s reform and opening up, and attend a seminar co-organised by the National Development and Reform Commission and the Hong Kong and Macao Affairs Office of the State Council.
- 14 Nov The Inland Revenue (Amendment) (No. 5) Bill 2018 was passed to give effect to concessionary tax measures proposed in the 2018-19 Budget, including allowing enterprises to claim tax deduction for capital expenditure incurred for procuring environmental protection installations in full in one year instead of over five years to encourage enterprises to procure and use such installations.
- The Inland Revenue (Amendment) (No.9) Ordinance was enacted by LegCo to provide for, inter alia, enhancements to the Qualifying Debt Instrument Scheme, by extending the available profits tax exemption to cover debt instruments of any duration and allowing debt instruments listed on the Stock Exchange of Hong Kong Limited to be qualified for tax exemption.
- 15 Nov Hong Kong and Australia announced the successful conclusion of the FTA and Investment Agreement negotiations. The two agreements will provide Hong Kong’s trade and investment with Australia with legal certainty and better access to the Australian market. They will help further enhance trade and investment flows between Hong Kong and Australia, thus bringing benefits to Hong Kong’s economy.
- The Legislative Council passed a resolution under the Loan Ordinance authorising the Government to borrow from any person from time to time for the purposes of the Capital Works Reserve Fund such sums not exceeding in total \$100 billion or equivalent, being the maximum amount of all borrowings that may be outstanding by way of principal at any time to implement the Government Green Bond Programme and finance projects with environmental benefits under the Public Works Programme.
- 15-19 Nov CE visited Port Moresby in Papua New Guinea to meet with the Prime Minister of Papua New Guinea and attend the APEC 2018 Economic Leaders’ Meeting.

- 16 Nov The Government released the preliminary GDP figures for the third quarter of 2018. The Hong Kong economy grew solidly by 2.9% over a year earlier, marking the eighth consecutive quarter of above-trend growth. 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 price inflation went up slightly.
- In the November update of the economic forecast for 2018, the forecast real GDP growth was revised to 3.2%. The forecast rates of underlying and headline consumer price inflation for 2018 were revised to 2.7% and 2.4% respectively.
- The Banking (Amendment) Ordinance 2018 (Commencement) (No. 2) Notice 2018, the Banking (Exposure Limits) Rules, the Banking (Capital) (Amendment) Rules 2018 and the Banking (Disclosure) (Amendment) (No. 2) Rules 2018 were gazetted to implement certain international standards on banking regulation in Hong Kong.
- 19 Nov The Commission on Poverty announced the updated poverty line and poverty situation in Hong Kong in 2017. Alongside the increase in wages, there was a general increase of the poverty line thresholds by household size. In 2017, the poverty rate after recurrent cash policy intervention remained at 14.7%, the same level as that of 2016, and the size of the poor population was 1 008 800 persons.
- 19-21 Nov FS visited Beijing to meet with Central Government officials in charge of financial and monetary policies to discuss issues of mutual interest.
- 20-21 Nov The Government and HKTDC jointly hosted the Eighth Asian Logistics and Maritime Conference, attracting over 2 200 business leaders and industry practitioners from 34 countries and regions.
- 26-28 Nov The World Trade Organization conducted Trade Policy Review of Hong Kong, China (HKC). Members commended HKC for its free and open trade regime.
- 28 Nov The Chief Secretary for Administration and the Vice-Governor of Fujian Province co-chaired the Third Plenary Session of the Hong Kong-Fujian Co-operation Conference in Fuzhou. Consensus was reached on enhancing co-operation in 10 areas. The notes of meeting and three agreements covering co-operation on youth exchanges, Belt and Road Initiative as well as information and technology were also signed.
- The Government announced the tendering of 5-year GBs, totalling \$2.5 billion, through the re-opening of an existing 10-year GB issue under the Institutional Bond Issuance Programme of the GB Programme.
- 28 Nov-3 Dec FS visited Buenos Aires, Argentina to attend the Group of Twenty Leaders' Summit as a member of the Chinese delegation.
- 3-8 Dec "Business of Design Week" (BODW) was held in Hong Kong. It is the world's largest annual design event of Asia and one of the leading design events. Melbourne was the partner city for the 2018 edition. Over 170 000 persons participated in the BODW 2018, the BODW City Programme and other concurrent events.
- 7 Dec The 12th annual Structured Dialogue meeting between Hong Kong and the EU was held in Brussels. The two sides discussed a wide range of subjects and identified areas for further co-operation. The meeting comprehensively reviewed all aspects of,

and gave further impetus to, even closer EU-Hong Kong cooperation.

- 10 Dec CE visited Zhuhai to attend the 17th Exchange Forum on “Business Cooperation in Guangdong-Hong Kong-Macao Greater Bay Area”.
- 11 Dec The Insurance Authority (IA) organised the inaugural Asian Insurance Forum to discuss the direction and strategies for the future development of the insurance industry, with a special focus on the Belt and Road Initiative and the Greater Bay Area development, which attracted over 400 representatives from international and local financial regulators, industry leaders, academics and professionals to participate.
- IA set up the Belt and Road Insurance Exchange Facilitation to pool together key stakeholders to unleash synergies and to promote exchange of intelligence, forge alliances and facilitate networking.
- 12 Dec The Government organised the “Belt and Road: Hong Kong – IN” Forum, successfully bringing together more than 650 representatives from professional bodies, chambers of commerce, start-ups, creative industries as well as young entrepreneurs.
- The Government, the Hong Kong Tourism Board and the Travel Industry Council of Hong Kong jointly organised the Hong Kong International Tourism Convention, promoting tourism exchange amongst Belt and Road countries and Regions and the Greater Bay Area, attracting over 1000 participants covering government officials, representatives of tourism authorities and trade members from the Mainland including the Greater Bay Area as well as 34 countries, including the Belt and Road countries.
- 13 Dec The Government announced the subscription and allocation results of the third Silver Bond issued under the retail part of the GB Programme. The Silver Bond targets Hong Kong residents aged 65 or above. Some 45 500 valid applications were received for a total subscription of \$6.2 billion in principal amount of bonds. The final issue amount was \$3 billion with a tenor of three years.
- 14 Dec The Mainland and Hong Kong Economic and Trade Co-operation Committee was established. The first meeting was jointly convened by FS and the International Trade Representative and Vice Minister of Commerce. Discussions were held on five work priorities, namely the enhancement and implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), supporting Hong Kong’s participation in the Belt and Road Initiative, jointly promoting the economic and trade co-operation of the Greater Bay Area, supporting Hong Kong’s participation in regional economic co-operation and promoting exchanges between both sides on other economic and trade matters.
- Hong Kong and the Mainland signed the Agreement on Trade in Goods under the framework of the CEPA, providing for the full implementation of zero tariff on goods of Hong Kong origin imported into the Mainland, strengthening the commitments on trade facilitation and in particular setting out measures to expedite customs clearance of goods with a view to facilitating movement of goods in the Greater Bay Area.
- 20 Dec HKMA announced an upward adjustment of the Base Rate by 25 basis points to 2.75%, according to a pre-set formula. The increase in the Base Rate followed the 25-basis-point upward shift in the target range for the US federal funds rate on 19 December in the US.

- 21 Dec The Government announced the Long Term Housing Strategy Annual Progress Report 2018. Based on the latest projection, the total housing supply target for the ten-year period from 2019-20 to 2028-29 is 450 000 units. To better address the persistent demand for public housing, the public-private split of new housing supply is revised from 60:40 in past years to 70:30. Accordingly, the public housing supply target is 315 000 units, while the private housing supply target is 135 000 units.
- 28 Dec HA launched the Sale of GSH flats for the pre-sale of 2 545 new SSFs in Lai Tsui Court in Cheung Sha Wan, the first regularised project under GSH.
- 31 Dec After studying all opinions received during the public engagement exercise held between April and September 2018 and detailed analysis, the Task Force on Land Supply submitted a report to the Government, entitled “Striving for Multi-pronged Land Supply”, to tender recommendations on land supply strategy and land supply options that are worthy of priority studies and implementation.
- URA announced the pre-sale of 450 units of the “Starter Homes” pilot project at Ma Tau Wai Road.

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

	(\$Mn)					
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Private consumption expenditure	1,013,615	1,090,234	1,224,402	1,314,969	1,413,058	1,502,768
Government consumption expenditure	152,512	157,371	168,517	185,310	198,572	214,216
Gross domestic fixed capital formation	339,552	386,852	455,294	517,411	515,516	530,916
Building and construction	123,746	139,249	179,341	204,860	211,130	244,047
Costs of ownership transfer	24,238	38,035	36,099	34,074	39,389	43,967
Machinery, equipment and intellectual property products	191,568	209,568	239,854	278,477	264,997	242,902
Changes in inventories	22,941	37,522	11,739	-3,662	-1,673	7,473
Total exports of goods ^{&}	2,454,394	3,021,492	3,406,765	3,632,957	3,926,059	3,986,769
Imports of goods ^{&}	2,351,386	2,995,928	3,464,968	3,779,686	4,142,651	4,237,700
Exports of services ^{&}	501,303	625,719	710,716	764,026	812,640	829,085
Imports of services ^{&}	473,686	546,930	578,035	594,266	583,216	573,522
GDP	1,659,245	1,776,332	1,934,430	2,037,059	2,138,305	2,260,005
Per capita GDP (\$)	237,960	252,887	273,549	284,899	297,860	312,609
GNI	1,709,007	1,813,928	1,987,256	2,066,514	2,178,824	2,306,612
Per capita GNI (\$)	245,096	258,240	281,019	289,019	303,504	319,056
Total final demand	4,484,317	5,319,190	5,977,433	6,411,011	6,864,172	7,071,227
Total final demand excluding re-exports ^(a)	2,823,844	3,235,971	3,604,705	3,828,055	4,025,243	4,116,670
Domestic demand	1,528,620	1,671,979	1,859,952	2,014,028	2,125,473	2,255,373
Private	1,327,688	1,449,592	1,614,010	1,737,274	1,827,460	1,929,514
Public	200,932	222,387	245,942	276,754	298,013	325,859
External demand	2,955,697	3,647,211	4,117,481	4,396,983	4,738,699	4,815,854

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>2015</u>	<u>2016</u>	<u>2017[#]</u>	<u>2018[#]</u>			<u>2018</u>	
					Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Private consumption expenditure	1,593,091	1,649,941	1,785,340	1,945,011	476,825	490,434	474,123	503,629
Government consumption expenditure	231,263	247,973	261,307	280,797	71,519	67,485	70,231	71,562
Gross domestic fixed capital formation	537,205	535,216	576,013	610,912	143,061	152,688	157,986	157,177
Building and construction	262,780	283,447	297,337	306,954	80,683	75,253	74,847	76,171
Costs of ownership transfer	45,846	44,517	65,810	67,487	17,761	22,003	15,731	11,992
Machinery, equipment and intellectual property products	228,579	207,252	212,866	236,471	44,617	55,432	67,408	69,014
Changes in inventories	-20,580	447	10,973	6,311	-2,785	1,810	12,396	-5,110
Total exports of goods ^{&}	3,889,225	3,892,886	4,212,774	4,457,931	1,021,102	1,068,500	1,185,651	1,182,678
Imports of goods ^{&}	4,066,527	4,022,579	4,391,306	4,711,981	1,095,977	1,157,721	1,237,796	1,220,487
Exports of services ^{&}	808,948	764,839	812,937	892,259	229,744	205,043	225,370	232,102
Imports of services ^{&}	574,345	578,106	605,506	635,923	156,407	151,763	161,376	166,377
GDP	2,398,280	2,490,617	2,662,532	2,845,317	687,082	676,476	726,585	755,174
<i>Per capita GDP (\$)</i>	<i>328,924</i>	<i>339,478</i>	<i>360,206</i>	<i>381,870</i>	--	--	--	--
GNI	2,442,656	2,553,210	2,778,084	N.A.	711,242	733,066	768,311	N.A.
<i>Per capita GNI (\$)</i>	<i>335,010</i>	<i>348,010</i>	<i>375,838</i>	<i>N.A.</i>	--	--	--	--
Total final demand	7,039,152	7,091,302	7,659,344	8,193,221	1,939,466	1,985,960	2,125,757	2,142,038
Total final demand excluding re-exports ^(a)	4,139,786	4,190,705	4,498,975	4,835,254	1,168,746	1,169,492	1,231,936	1,265,080
Domestic demand	2,340,979	2,433,577	2,633,633	2,843,031	688,620	712,417	714,736	727,258
Private	1,991,436	2,062,056	2,241,450	2,427,485	577,142	613,770	613,725	622,848
Public	349,543	371,521	392,183	415,546	111,478	98,647	101,011	104,410
External demand	4,698,173	4,657,725	5,025,711	5,350,190	1,250,846	1,273,543	1,411,021	1,414,780

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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Private consumption expenditure	0.2	6.1	8.4	4.1	4.6	3.3
Government consumption expenditure	2.3	3.4	2.5	3.6	2.7	3.1
Gross domestic fixed capital formation	-3.5	7.7	10.2	6.8	2.6	-0.1
Building and construction	-5.5	5.7	15.7	7.2	-4.3	9.3
Costs of ownership transfer	-2.9	27.2	-20.9	-17.8	-28.1	6.9
Machinery, equipment and intellectual property products	-2.2	6.5	12.3	10.2	11.3	-8.7
Total exports of goods ^{&}	-11.2	18.0	4.6	3.3	8.2	0.8
Imports of goods ^{&}	-7.0	19.9	6.7	4.6	9.9	1.5
Exports of services ^{&}	1.7	15.3	5.7	2.7	6.0	1.6
Imports of services ^{&}	-12.9	10.0	-0.2	2.2	-2.1	-2.2
GDP	-2.5	6.8	4.8	1.7	3.1	2.8
Per capita GDP	-2.7	6.0	4.1	0.6	2.7	2.0
RGNI	-4.6	3.7	4.8	-0.2	4.0	2.7
Per capita RGNI	-4.8	2.9	4.1	-1.3	3.6	1.9
Total final demand	-6.1	14.0	5.3	3.4	6.6	1.6
Total final demand excluding re-exports ^(a)	-3.5	11.0	4.7	3.2	4.2	0.6
Domestic demand	0.5	7.1	6.5	3.9	4.1	2.9
Private	-0.1	6.6	6.7	3.6	4.1	2.6
Public	4.5	10.2	5.5	5.8	3.7	4.6
External demand	-9.1	17.6	4.8	3.2	7.8	1.0

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.

(^) Average annual rate of change for the 10-year period 2007-2017.

(~) Average annual rate of change for the 5-year period 2012-2017.

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

									(%)	
	<u>2015</u>	<u>2016</u>	<u>2017[#]</u>	<u>2018[#]</u>	<u>2018</u>				Average annual rate of change:	
					Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]	10 years 2008 to 2018 [#]	5 years 2013 to 2018 [#]
Private consumption expenditure	4.8	2.0	5.5	5.6	8.9	6.0	4.8	3.1	4.4	4.2
Government consumption expenditure	3.4	3.4	2.8	4.2	4.3	4.3	3.3	5.0	3.1	3.4
Gross domestic fixed capital formation	-3.2	-0.1	2.9	2.2	4.4	2.1	9.2	-5.4	2.5	0.3
Building and construction	2.2	5.9	-0.5	-0.7	2.5	-0.3	1.1	-6.0	3.3	3.2
Costs of ownership transfer	-8.3	-2.9	21.1	-10.0	10.0	2.5	-1.1	-43.7	-5.0	0.7
Machinery, equipment and intellectual property products	-7.7	-6.4	3.8	9.1	6.1	4.9	21.0	4.6	2.5	-2.2
Total exports of goods ^{&}	-1.7	1.6	6.5	3.5	5.2	4.7	5.0	-0.2	3.1	2.1
Imports of goods ^{&}	-2.7	0.7	7.3	4.9	6.9	6.3	7.7	-0.8	4.3	2.3
Exports of services ^{&}	0.3	-3.5	2.9	4.9	7.6	5.6	3.4	2.9	3.7	1.2
Imports of services ^{&}	5.0	2.0	2.1	2.2	4.2	0.2	2.5	2.0	0.4	1.8
GDP	2.4	2.2	3.8	3.0	4.6	3.5	2.8	1.3	2.8	2.8
Per capita GDP	1.5	1.5	3.1	2.2	--	--	--	--	2.1	2.1
RGNI	3.8	3.2	5.8	N.A.	5.3	3.6	5.0	N.A.	2.6[^]	3.9[~]
Per capita RGNI	2.9	2.6	5.0	N.A.	--	--	--	--	1.9[^]	3.2[~]
Total final demand	-0.4	1.3	5.6	4.0	5.8	4.9	5.6	0.1	3.4	2.4
Total final demand excluding re-exports ^(a)	0.1	1.5	4.6	4.0	5.7	4.6	5.6	0.5	3.0	2.1
Domestic demand	1.6	2.6	5.2	4.5	6.3	5.0	7.4	-0.1	3.9	3.3
Private	1.3	2.5	5.7	4.8	6.4	5.5	8.1	-0.2	3.8	3.4
Public	2.9	3.1	2.2	2.8	5.5	2.1	2.9	0.6	4.5	3.1
External demand	-1.4	0.7	5.9	3.8	5.6	4.8	4.8	0.2	3.2	2.0

**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	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% 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	27,423	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	35,076	1.4
Construction	83,288	4.0	96,205	4.4	107,902	4.6	124,932	5.2	129,754	5.1
Services	1,948,292	92.9	2,044,750	92.7	2,154,541	92.7	2,229,766	92.2	2,362,186	92.4
<i>Import/export, wholesale and retail trades</i>	<i>523,741</i>	<i>25.0</i>	<i>531,541</i>	<i>24.1</i>	<i>527,822</i>	<i>22.7</i>	<i>525,526</i>	<i>21.7</i>	<i>549,468</i>	<i>21.5</i>
<i>Accommodation^(a) and food services</i>	<i>75,413</i>	<i>3.6</i>	<i>78,725</i>	<i>3.6</i>	<i>78,134</i>	<i>3.4</i>	<i>79,682</i>	<i>3.3</i>	<i>83,621</i>	<i>3.3</i>
<i>Transportation, storage, postal and courier services</i>	<i>125,465</i>	<i>6.0</i>	<i>137,658</i>	<i>6.2</i>	<i>150,073</i>	<i>6.5</i>	<i>149,719</i>	<i>6.2</i>	<i>153,470</i>	<i>6.0</i>
<i>Information and communications</i>	<i>76,145</i>	<i>3.6</i>	<i>77,761</i>	<i>3.5</i>	<i>80,813</i>	<i>3.5</i>	<i>84,208</i>	<i>3.5</i>	<i>87,237</i>	<i>3.4</i>
<i>Financing and insurance</i>	<i>346,248</i>	<i>16.5</i>	<i>367,989</i>	<i>16.7</i>	<i>409,933</i>	<i>17.6</i>	<i>429,082</i>	<i>17.7</i>	<i>484,389</i>	<i>18.9</i>
<i>Real estate, professional and business services</i>	<i>225,789</i>	<i>10.8</i>	<i>239,434</i>	<i>10.9</i>	<i>252,714</i>	<i>10.9</i>	<i>266,139</i>	<i>11.0</i>	<i>274,898</i>	<i>10.8</i>
<i>Public administration, social and personal services</i>	<i>356,326</i>	<i>17.0</i>	<i>379,588</i>	<i>17.2</i>	<i>407,405</i>	<i>17.5</i>	<i>436,763</i>	<i>18.1</i>	<i>466,102</i>	<i>18.2</i>
<i>Ownership of premises</i>	<i>219,166</i>	<i>10.4</i>	<i>232,053</i>	<i>10.5</i>	<i>247,648</i>	<i>10.6</i>	<i>258,649</i>	<i>10.7</i>	<i>263,001</i>	<i>10.3</i>
GDP at basic prices	2,098,080	100.0	2,205,972	100.0	2,325,443	100.0	2,417,855	100.0	2,556,176	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	--	-0.3	--
GDP at current market prices	2,138,305	--	2,260,005	--	2,398,280	--	2,490,617	--	2,662,532	--

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>		
							Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
Agriculture, fishing, mining and quarrying	-3.2	4.9	-6.0	-6.8	-2.0	-5.2	-6.1	-4.2	-3.0	-1.1
Manufacturing	-0.8	0.1	-0.4	-1.5	-0.4	0.4	0.8	1.1	1.6	1.2
Electricity, gas and water supply, and waste management	1.4	-2.9	0.8	-2.6	-0.8	0.9	0.3	3.6	4.2	-4.3
Construction	8.3	4.2	13.0	5.4	5.1	-1.3	-5.5	4.1	-0.8	2.4
Services	1.8	2.7	2.5	1.7	2.3	3.6	3.6	4.4	3.7	3.2
<i>Import/export,</i>										
<i>wholesale and retail trades</i>	1.9	3.3	1.2	-1.1	0.6	4.2	4.2	6.3	5.8	5.1
<i>Accommodation^(a) and</i>										
<i>food services</i>	1.8	3.6	2.2	-1.9	0.5	2.0	4.1	6.0	4.3	3.5
<i>Transportation, storage,</i>										
<i>postal and courier services</i>	0.9	4.1	2.9	3.3	3.0	4.8	4.7	4.9	4.0	1.5
<i>Information and</i>										
<i>communications</i>	2.8	4.0	3.9	4.0	4.1	4.0	3.0	3.2	3.4	3.2
<i>Financing and insurance</i>	0.8	7.7	5.3	6.1	4.2	5.7	6.2	6.6	4.8	3.7
<i>Real estate, professional and</i>										
<i>business services</i>	3.1	-4.0	1.9	0.7	2.8	2.1	1.3	2.1	2.1	1.5
<i>Public administration, social</i>										
<i>and personal services</i>	2.1	2.5	2.4	2.5	3.0	3.1	3.2	3.1	2.5	3.0
<i>Ownership of premises</i>	1.1	0.3	0.8	0.6	0.5	1.0	1.0	1.1	1.2	1.1
Taxes on products	-10.4	-6.4	6.7	7.1	-9.1	12.5	9.9	16.1	5.6	-2.2
GDP in chained (2016) dollars	1.7	3.1	2.8	2.4	2.2	3.8	3.5	4.6	3.5	2.8

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

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

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

	<u>2014</u>		<u>2015</u>		<u>2016</u>		<u>2017[#]</u>		<u>Annual percentage change (%)</u>		
	% share		% share		% share		% share				
	\$Bn in total ⁽¹⁾		\$Bn in total ⁽¹⁾		\$Bn in total ⁽¹⁾		\$Bn in total ⁽¹⁾		2015	2016	2017 [#]
<u>Value added at current prices</u>											
<i>Four Key Industries</i>	1,269.3	57.5	1,330.9	57.2	1,367.5	56.6	1,460.0	57.1	4.9	2.7	6.8
Financial services	368.0	16.7	409.9	17.6	429.1	17.7	484.4	18.9	11.4	4.7	12.9
Tourism	112.5	5.1	116.4	5.0	112.4	4.7	114.4	4.5	3.4	-3.4	1.7
Trading and logistics	515.7	23.4	517.4	22.3	523.1	21.6	549.0	21.5	0.3	1.1	5.0
Professional services and other producer services ⁽²⁾	273.2	12.4	287.2	12.3	302.9	12.5	312.3	12.2	5.1	5.5	3.1
<i>Other selected industries⁽³⁾</i>	202.0	9.2	207.5	8.9	214.6	8.9	226.3	8.9	2.7	3.4	5.4
Cultural and creative industries	109.7	5.0	108.9	4.7	109.6	4.5	112.2	4.4	-0.7	0.6	2.3
Medical services	36.2	1.6	38.9	1.7	42.1	1.7	46.8	1.8	7.5	8.2	11.2
Education services	26.1	1.2	28.1	1.2	30.1	1.2	32.3	1.3	7.6	7.3	7.2
Innovation and technology	15.8	0.7	16.7	0.7	17.1	0.7	18.3	0.7	5.8	2.2	7.3
Testing and certification services	6.5	0.3	7.0	0.3	7.3	0.3	7.5	0.3	8.1	4.4	2.6
Environmental industries	7.8	0.4	7.9	0.3	8.4	0.3	9.2	0.4	1.1	6.7	9.8
Nominal GDP at basic prices	2,206.0	100.0	2,325.4	100.0	2,417.9	100.0	2,556.2	100.0	5.4	4.0	5.7

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

- (1) Refers to percentage share in nominal GDP at basic prices. Such GDP figure is slightly different from the commonly used one, i.e. valued at current market prices, in which taxes on products are included.
- (2) Other producer services refer to producer services other than financial services, tourism, trading and logistics and professional services.
- (3) The other selected industries reflect the direct contribution of these industries in the private sector only. Some of them are service domains straddling across different industries. For example, “innovation and technology” activities may exist in any industry and organisation. The term “industry” is used to denote the aggregate of the economic activities concerned for easy general understanding.
- (4) Since innovation and technology involves significant non-routine activities, persons engaged in these activities are measured by the volume of labour input to innovation and technology in full-time equivalent terms (in terms of man-years).
- (5) Figures refer to Composite Employment Estimates.
- (#) Figures are subject to revision later on as more data become available.

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

	<u>2014</u>		<u>2015</u>		<u>2016</u>		<u>2017[#]</u>		<u>Annual percentage change (%)</u>		
	Number	% share	Number	% share	Number	% share	Number	% share			
	('000)	in total	('000)	in total	('000)	in total	('000)	in total	2015	2016	2017 [#]
<u>Employment</u>											
<i>Four Key Industries</i>	1 780.1	47.5	1 781.1	47.2	1 775.3	46.9	1 780.5	46.6	0.1	-0.3	0.3
Financial services	236.4	6.3	246.7	6.5	253.1	6.7	258.5	6.8	4.3	2.6	2.1
Tourism	271.3	7.2	265.9	7.0	259.8	6.9	257.7	6.7	-2.0	-2.3	-0.8
Trading and logistics	764.8	20.4	746.9	19.8	730.7	19.3	727.5	19.0	-2.3	-2.2	-0.4
Professional services and other producer services ⁽²⁾	507.7	13.6	521.7	13.8	531.8	14.0	536.9	14.0	2.8	1.9	1.0
<i>Other selected industries⁽³⁾</i>	466.7	12.5	475.1	12.6	480.9	12.7	494.4	12.9	1.8	1.2	2.8
Cultural and creative industries	213.1	5.7	213.9	5.7	212.8	5.6	213.4	5.6	0.4	-0.5	0.3
Medical services	87.5	2.3	89.5	2.4	91.4	2.4	98.4	2.6	2.3	2.2	7.6
Education services	76.8	2.1	79.3	2.1	82.6	2.2	85.6	2.2	3.3	4.1	3.7
Innovation and technology ⁽⁴⁾	33.7	0.9	35.1	0.9	35.8	0.9	37.0	1.0	4.2	2.1	3.3
Testing and certification services	13.5	0.4	13.6	0.4	14.0	0.4	14.3	0.4	0.4	2.8	2.4
Environmental industries	42.1	1.1	43.8	1.2	44.3	1.2	45.7	1.2	3.8	1.3	3.2
Total employment⁽⁵⁾	3 744.2	100.0	3 774.5	100.0	3 787.8	100.0	3 823.9	100.0	0.8	0.4	1.0

**Table 6 : 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> Q4 [#]	Q1 [#]	<u>2018</u> Q2 [#]	Q3 [#]
Current account ^(a)	32,475	31,453	79,553	98,664	123,900	21,661	17,070	15,328	48,005
Goods	-216,592	-250,931	-177,302	-129,693	-178,532	-43,545	-74,875	-89,221	-52,145
Services	229,424	255,563	234,603	186,733	207,431	52,600	73,337	53,280	63,994
Primary income	40,519	46,607	44,376	62,593	115,552	17,923	24,160	56,590	41,726
Secondary income	-20,876	-19,786	-22,124	-20,969	-20,551	-5,318	-5,552	-5,321	-5,570
Capital and financial account ^(a)	-86,308	-73,785	-128,642	-101,104	-76,488	9,831	-44,572	-45,878	-27,476
Capital account	-1,609	-748	-216	-374	-645	-366	-75	-838	-135
Financial account	-84,699	-73,037	-128,426	-100,730	-75,843	10,197	-44,497	-45,039	-27,341
Financial non-reserve assets	-26,810	66,052	153,570	-91,874	174,666	83,691	29,288	-93,542	-69,064
<i>Direct investment</i>	-50,250	-85,718	794,800	447,758	186,887	115,727	-19,745	68,101	137,615
<i>Portfolio investment</i>	-386,077	-64,384	-970,938	-469,591	264,159	-23,312	-245,652	-158,118	-77,220
<i>Financial derivatives</i>	54,661	118,359	99,178	36,327	61,763	22,138	-3,849	546	11,240
<i>Other investment</i>	354,856	97,795	230,531	-106,368	-338,144	-30,862	298,535	-4,071	-140,698
Reserve assets	-57,890	-139,089	-281,996	-8,856	-250,509	-73,494	-73,786	48,503	41,723
Net errors and omissions	53,833	42,332	49,089	2,440	-47,413	-31,492	27,503	30,550	-20,529
Overall Balance of Payments	57,890	139,089	281,996	8,856	250,509	73,494	73,786	-48,503	-41,723

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

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

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

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

(\$Mn)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017[#]</u>	<u>2018[#]</u>			<u>2018</u>		
						Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]	
Total exports of goods	3,986,769	3,889,225	3,892,886	4,212,774	4,457,931	1,021,102	1,068,500	1,185,651	1,182,678	
Imports of goods	4,237,700	4,066,527	4,022,579	4,391,306	4,711,981	1,095,977	1,157,721	1,237,796	1,220,487	
Goods trade balance	-250,931 (-5.9)	-177,302 (-4.4)	-129,693 (-3.2)	-178,532 (-4.1)	-254,050 (-5.4)	-74,875 (-6.8)	-89,221 (-7.7)	-52,145 (-4.2)	-37,809 (-3.1)	
Exports of services	829,085	808,948	764,839	812,937	892,259	229,744	205,043	225,370	232,102	
Imports of services	573,522	574,345	578,106	605,506	635,923	156,407	151,763	161,376	166,377	
Services trade balance	255,563 (44.6)	234,603 (40.8)	186,733 (32.3)	207,431 (34.3)	256,336 (40.3)	73,337 (46.9)	53,280 (35.1)	63,994 (39.7)	65,725 (39.5)	
Exports of goods and services	4,815,854	4,698,173	4,657,725	5,025,711	5,350,190	1,250,846	1,273,543	1,411,021	1,414,780	
Imports of goods and services	4,811,222	4,640,872	4,600,685	4,996,812	5,347,904	1,252,384	1,309,484	1,399,172	1,386,864	
Goods and services trade balance	4,632 <0.1>	57,301 <1.2>	57,040 <1.2>	28,899 <0.6>	2,286 < * >	-1,538 <-0.1>	-35,941 <-2.7>	11,849 <0.8>	27,916 <2.0>	

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.

(*) Within $\pm 0.05\%$.

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017[#]</u>	<u>2018[#]</u>		<u>2018</u>			
						Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]	
<u>At current market prices (\$Mn)</u>										
Total exports of goods	3,877,458	3,779,263	3,776,638	4,055,437	4,289,167	987,970	1,045,394	1,135,541	1,120,262	
Imports of goods	4,471,810	4,289,991	4,240,000	4,586,052	4,911,101	1,143,416	1,213,623	1,286,546	1,267,516	
Goods trade balance	-594,352 (-13.3)	-510,728 (-11.9)	-463,362 (-10.9)	-530,615 (-11.6)	-621,934 (-12.7)	-155,446 (-13.6)	-168,229 (-13.9)	-151,005 (-11.7)	-147,254 (-11.6)	
Exports of services	1,079,989	1,052,355	1,010,316	1,073,707	1,165,372	288,549	260,989	299,522	316,312	
Imports of services	481,005	484,326	489,914	514,193	541,152	134,641	128,701	136,668	141,142	
Services trade balance	598,984 (124.5)	568,029 (117.3)	520,402 (106.2)	559,514 (108.8)	624,220 (115.4)	153,908 (114.3)	132,288 (102.8)	162,854 (119.2)	175,170 (124.1)	
Exports of goods and services	4,957,447	4,831,618	4,786,954	5,129,144	5,454,539	1,276,519	1,306,383	1,435,063	1,436,574	
Imports of goods and services	4,952,815	4,774,317	4,729,914	5,100,245	5,452,253	1,278,057	1,342,324	1,423,214	1,408,658	
Goods and services trade balance	4,632 <0.1>	57,301 <1.2>	57,040 <1.2>	28,899 <0.6>	2,286 < * >	-1,538 <-0.1>	-35,941 <-2.7>	11,849 <0.8>	27,916 <2.0>	
<u>Rates of change in real terms (%)</u>										
Total exports of goods	0.8	-1.9	1.4	5.6	3.5	5.1	4.5	5.0	-0.4	
Imports of goods	0.9	-2.7	0.6	6.2	4.6	6.5	6.0	7.3	-0.9	
Exports of services	1.2	-0.3	-2.1	3.3	4.2	6.6	5.0	3.2	2.4	
Imports of services	1.8	5.3	2.4	3.0	2.6	4.7	-0.5	3.0	3.0	

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.
 (*) Within $\pm 0.05\%$.

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>			<u>2018</u>		
	(% change)				(% change)	(\$Mn)	Q1	Q2	Q3	Q4
							(% change over a year earlier)			
All markets	3.2	-1.8	-0.5	8.0	7.3	4,158,106	9.7	9.0	9.0	2.2
Mainland of China	1.5	-2.1	0.4	8.4	8.6	2,287,303	12.6	11.3	11.1	0.8
United States	3.1	0.2	-5.3	1.9	8.1	356,797	7.4	11.4	9.7	3.9
India	13.1	8.1	14.6	35.9	-15.3	134,339	-6.3	-34.1	10.7	-25.6
Japan	-2.8	-6.6	-4.9	10.0	0.7	129,318	7.0	5.9	-6.3	-2.5
Taiwan	2.5	-18.0	14.6	19.9	-3.6	86,172	11.9	-0.7	-16.6	-7.3
Vietnam	14.0	14.7	-5.8	10.3	4.5	83,225	0.1	7.5	15.5	-3.9
Germany	-1.7	-3.2	-5.1	10.8	3.0	76,104	12.4	13.2	-6.2	-4.3
Netherlands	12.7	10.2	10.3	11.5	11.5	71,312	0.1	16.4	7.4	20.3
Singapore	2.2	-2.3	4.8	-0.4	13.3	69,150	8.9	17.5	4.2	23.0
Thailand	13.4	-0.1	-2.3	12.9	11.9	60,582	1.5	17.0	12.3	16.8
Rest of the world	6.3	-2.8	-3.2	3.3	10.0	803,805	8.9	11.6	9.3	10.1

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

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>			<u>2018</u>		
							Q1	Q2	Q3	Q4
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All sources	3.9	-4.1	-0.9	8.7	8.4	4,721,399	10.6	10.4	11.5	1.8
Mainland of China	2.3	-0.1	-3.4	5.9	7.7	2,186,267	7.8	9.3	9.5	4.4
Taiwan	14.7	-8.6	6.4	12.9	2.7	338,445	15.1	14.8	3.0	-16.6
Singapore	5.8	-5.7	6.4	10.1	9.0	314,126	8.8	9.4	7.8	10.3
Korea	10.6	-2.0	14.0	28.5	10.4	278,314	13.3	28.5	18.3	-12.7
Japan	0.9	-9.9	-5.2	2.7	2.6	259,964	0.5	6.2	5.7	-1.9
United States	*	-3.9	-2.0	3.4	8.1	231,128	6.2	3.3	16.1	7.0
Malaysia	16.7	-7.9	-3.7	26.8	64.6	189,090	97.9	80.3	78.6	24.3
India	10.0	-13.7	11.9	15.8	-14.0	92,397	-12.3	-28.1	1.3	-13.0
Thailand	13.7	-3.7	-2.7	8.5	2.8	92,108	4.2	5.8	8.8	-7.0
Philippines	22.0	10.3	5.8	27.6	1.1	77,129	5.3	13.8	1.7	-14.3
Rest of the world	-0.3	-10.6	-3.1	7.0	10.1	662,431	14.4	6.3	14.6	5.9

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

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

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017[#]</u>	<u>2018[#]</u>		<u>2018</u>			
	(% change)				(% change)	(\$Mn)	Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
							(% change over a year earlier)			
Exports of services	2.0	-2.4	-5.5	6.3	9.8	892,259	13.0	10.8	8.3	7.2
Transport	2.2	-6.8	-5.3	8.6	7.9	256,216	7.8	8.6	8.4	6.8
Travel	-1.5	-5.8	-9.0	1.9	10.7	287,693	15.4	13.3	7.6	7.2
Financial services	7.0	8.5	-6.8	14.6	15.8	183,848	23.4	17.1	12.1	10.7
Other services	4.7	1.6	2.3	2.8	4.8	164,502	4.9	4.9	5.0	4.3
Imports of services	-1.7	0.1	0.7	4.7	5.0	635,923	10.8	5.3	3.3	1.5
Transport	1.5	-5.9	-2.1	3.7	5.4	143,672	9.5	5.4	4.3	3.0
Travel	3.7	4.7	4.8	5.6	5.0	207,703	14.7	1.0	2.9	2.3
Manufacturing [^]	-20.2	-2.7	-2.0	3.5	3.8	94,771	4.8	9.2	3.9	-1.6
Other services	3.5	2.2	-0.1	5.2	5.4	189,777	10.4	8.6	2.7	1.3

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

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

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

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

**Table 10a : Exports and imports of services by component based on the standards stipulated in the *System of National Accounts 2008* , other than the change of ownership principle
(at current market prices)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017[#]</u>	<u>2018[#]</u>			<u>2018</u>		
							Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
	(% change)			(% change)	(\$Mn)		(% change over a year earlier)			
Exports of services	2.0	-2.6	-4.0	6.3	8.5	1,165,372	11.3	9.6	7.5	6.2
Transport	2.2	-6.8	-5.3	8.6	7.9	256,216	7.8	8.6	8.4	6.8
Travel	-1.5	-5.8	-9.0	1.9	10.7	287,693	15.4	13.3	7.6	7.2
Trade-related	1.9	-3.0	0.6	5.8	4.7	316,192	5.1	5.6	5.2	3.5
Other services	6.6	6.4	-2.4	9.3	11.2	305,271	15.8	11.2	9.3	8.2
Imports of services	3.0	0.7	1.2	5.0	5.2	541,152	11.8	4.6	3.2	2.1
Transport	1.5	-5.9	-2.1	3.7	5.4	143,672	9.5	5.4	4.3	3.0
Travel	3.7	4.7	4.8	5.6	5.0	207,703	14.7	1.0	2.9	2.3
Trade-related	2.8	0.1	-0.9	2.9	4.2	35,809	5.0	4.9	4.8	2.4
Other services	3.6	2.7	0.1	5.8	5.7	153,968	11.6	9.5	2.2	1.0

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

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

Table 11 : Incoming visitors by source

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>		<u>2018</u>		
						Q1	Q2	Q3	Q4
<u>('000)</u>									
All sources	60 838.8	59 307.6	56 654.9	58 472.2	65 147.6	15 609.7	14 996.4	16 075.7	18 465.8
Mainland of China	47 247.7	45 842.4	42 778.1	44 445.3	51 038.2	12 181.3	11 507.6	12 942.0	14 407.4
South and Southeast Asia	3 614.8	3 559.1	3 701.8	3 626.2	3 571.8	817.5	970.2	698.3	1 085.7
Taiwan	2 031.9	2 015.8	2 011.4	2 010.8	1 925.2	460.6	488.2	491.4	485.1
Europe	1 863.3	1 829.4	1 904.9	1 901.5	1 937.6	494.6	472.0	412.3	558.7
United States	1 130.6	1 181.0	1 211.5	1 215.6	1 304.2	305.8	337.9	282.9	377.6
Japan	1 078.8	1 049.3	1 092.3	1 230.0	1 287.8	326.6	289.4	313.1	358.6
Others	3 871.9	3 830.7	3 954.8	4 042.9	4 082.7	1 023.1	931.1	935.8	1 192.6
<u>(% change over a year earlier)</u>									
All sources	12.0	-2.5	-4.5	3.2	11.4	9.6	10.5	8.4	16.6
Mainland of China	16.0	-3.0	-6.7	3.9	14.8	12.6	14.3	11.5	20.6
South and Southeast Asia	-2.8	-1.5	4.0	-2.0	-1.5	-2.0	-2.0	-7.1	3.4
Taiwan	-3.2	-0.8	-0.2	*	-4.3	-6.0	-1.8	-4.7	-4.5
Europe	-1.6	-1.8	4.1	-0.2	1.9	3.0	2.1	1.7	0.9
United States	1.9	4.5	2.6	0.3	7.3	4.8	6.8	5.9	11.0
Japan	2.1	-2.7	4.1	12.6	4.7	2.1	10.0	-3.5	11.2
Others	5.4	-1.1	3.2	2.2	1.0	1.9	-3.8	-2.1	6.9

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

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

Table 12 : Property market

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Completion of new property by the private sector							
('000 m ² of internal floor area)							
Residential property ^(a) (in units)	7 157	13 405	9 449	10 149	8 254	15 719	11 280
Commercial property	235	189	197	226	161	161	233
<i>of which :</i>							
Office space	151	124	155	136	123	104	164
Other commercial premises ^(b)	84	65	42	90	39	57	69
Industrial property ^(c)	3	21	105	170	85	116	30
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	3	21	32	46	85	36	30
Storage premises ^(d)	0	0	73	123	0	80	0
Production of public housing							
(in units)							
Rental housing flats ^(e)	19 021	6 385	17 787	9 778	20 898	5 634	10 147
Subsidised sales flats ^(e)	370	1 110	0	0	0	0	1 310
Building plans with consent to commence work in the private sector							
('000 m ² of usable floor area)							
Residential property	546.8	570.5	580.6	796.4	816.0	647.1	893.3
Commercial property	178.3	158.4	133.6	210.2	309.5	290.3	319.0
Industrial property ^(f)	97.1	34.3	109.3	70.7	138.1	105.9	225.3
Other properties	253.2	459.2	232.7	428.9	136.4	217.1	555.4
Total	1 075.4	1 222.4	1 056.2	1 506.1	1 400.1	1 260.4	1 993.0
Agreements for sale and purchase of property							
(Number)							
Residential property ^(g)	115 092	135 778	84 462	81 333	50 676	63 807	55 982
Primary market	16 161	13 646	10 880	12 968	11 046	16 857	16 826
Secondary market	98 931	122 132	73 582	68 365	39 630	46 950	39 156
Selected types of non-residential properties ^(h)							
Office space	2 521	3 591	3 071	3 269	1 685	1 271	1 470
Other commercial premises	5 359	7 639	5 980	7 282	4 305	3 092	2 067
Flatted factory space	5 554	8 206	7 619	9 731	4 271	3 016	3 407

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

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

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

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

Table 12 : Property market (Cont'd)

	<u>2016</u>	<u>2017</u>	<u>2018</u>		<u>2018</u>		
				Q1	Q2	Q3	Q4
Completion of new property by the private sector							
('000 m ² of internal floor area)							
Residential property ^(a) (in units)	14 595	17 791	20 968	1 243	4 977	6 441	8 307
Commercial property	276	303	304	39	81	144	40
<i>of which :</i>							
Office space	153	198	179	32	50	97	0
Other commercial premises ^(b)	123	105	125	7	32	47	40
Industrial property ^(c)	78	105	44	8	5	12	19
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	5	23	41	8	2	12	19
Storage premises ^(d)	73	83	3	0	3	0	0
Production of public housing							
(in units)							
Rental housing flats ^(e)	21 755	11 268	N.A.	3 793	3 436	7 184	N.A.
Subsidised sales flats ^(e)	229	2 788	N.A.	248	699	3 233	N.A.
Building plans with consent to commence work in the private sector							
('000 m ² of usable floor area)							
Residential property	645.8	872.8	N.A.	270.3	168.4	114.8	N.A.
Commercial property	312.4	488.6	N.A.	24.3	53.5	19.1	N.A.
Industrial property ^(f)	76.2	62.5	N.A.	29.5	12.5	44.1	N.A.
Other properties	235.1	227.1	N.A.	29.7	32.1	17.9	N.A.
Total	1 269.4	1 651.1	N.A.	353.8	266.5	195.8	N.A.
Agreements for sale and purchase of property							
(Number)							
Residential property ^(g)	54 701	61 591	57 247	15 015	18 881	14 413	8 938
Primary market	16 793	18 645	15 633	2 734	4 948	4 495	3 456
Secondary market	37 908	42 946	41 614	12 281	13 933	9 918	5 482
Selected types of non-residential properties ^(h)							
Office space	1 105	1 955	1 332	408	412	343	169
Other commercial premises	1 523	2 198	1 918	568	631	444	275
Flatted factory space	2 727	5 135	4 860	1 573	1 632	1 171	484

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 13 : Property prices and rentals

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	121.3	150.9	182.1	206.2	242.4	256.9	296.8
Office space	179.8	230.4	297.9	334.7	409.8	423.0	448.9
Shopping space	193.1	257.2	327.4	420.5	506.8	521.2	559.2
Flatted factory space	216.3	284.4	385.0	489.8	655.4	668.0	723.9
Property rental indices ^(b) :							
Residential flats	100.4	119.7	134.0	142.6	154.5	159.5	172.8
Office space	135.7	147.6	169.9	188.3	204.1	213.7	226.7
Shopping space	110.9	122.9	134.3	151.3	165.5	173.1	182.5
Flatted factory space	99.4	108.9	118.6	131.9	147.3	160.1	174.4
<u>(% change)</u>							
Property price indices :							
Residential flats ^(a)	0.7	24.4	20.7	13.2	17.6	6.0	15.5
Office space	-9.6	28.1	29.3	12.4	22.4	3.2	6.1
Shopping space	0.5	33.2	27.3	28.4	20.5	2.8	7.3
Flatted factory space	-8.3	31.5	35.4	27.2	33.8	1.9	8.4
Property rental indices ^(b) :							
Residential flats	-13.2	19.2	11.9	6.4	8.3	3.2	8.3
Office space	-12.7	8.8	15.1	10.8	8.4	4.7	6.1
Shopping space	-4.6	10.8	9.3	12.7	9.4	4.6	5.4
Flatted factory space	-9.1	9.6	8.9	11.2	11.7	8.7	8.9

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

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

For residential property, changes in rentals cover only new tenancies for which rentals are freshly determined.

For non-residential property, changes in rentals cover also lease renewals upon which rentals may be revised.

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

(+) Provisional figures.

Table 13 : Property prices and rentals (Cont'd)

	<u>2016</u>	<u>2017</u>	<u>2018⁺</u>		<u>2018</u>		
				Q1	Q2	Q3 [#]	Q4 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	286.1	333.9	377.3	364.3	383.8	392.9	368.3
Office space	426.9	487.1	555.2	522.8	546.9	572.2	579.0
Shopping space	526.9	558.4	591.3	584.0	589.0	594.8	597.3
Flatted factory space	692.7	778.1	888.6	850.6	887.6	911.4	904.9
Property rental indices ^(b) :							
Residential flats	168.2	182.6	193.0	187.9	191.9	196.3	195.6
Office space	232.3	241.8	252.0	246.8	251.4	253.8	256.0
Shopping space	178.6	182.5	187.0	185.4	186.6	187.7	188.2
Flatted factory space	181.4	190.7	202.4	197.1	202.1	205.0	205.5
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	-3.6	16.7	13.0	15.7	15.2	15.8	5.8
Office space	-4.9	14.1	14.0	12.5	13.1	17.0	13.3
Shopping space	-5.8	6.0	5.9	6.8	6.9	5.8	4.1
Flatted factory space	-4.3	12.3	14.2	15.5	15.4	15.6	10.5
Property rental indices ^(b) :							
Residential flats	-2.7	8.6	5.7	6.3	5.7	6.1	4.5
Office space	2.5	4.1	4.2	4.1	4.6	4.1	4.2
Shopping space	-2.1	2.2	2.5	2.9	3.0	2.2	1.7
Flatted factory space	4.0	5.1	6.1	6.0	7.4	6.3	4.9

Table 14 : Monetary aggregates

	2009	2010	2011	2012	2013	2014	2015
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	671,241	730,093	794,726	920,920	1,000,344	1,116,675	1,253,380
M2 ^(a)	3,587,717	3,866,788	4,046,216	4,537,384	4,795,130	5,225,773	5,765,549
M3 ^(a)	3,604,843	3,878,193	4,055,404	4,545,590	4,806,012	5,236,188	5,778,772
Total money supply (\$Mn)							
M1	901,819	1,017,227	1,127,320	1,377,359	1,510,895	1,708,724	1,971,146
M2	6,602,310	7,136,271	8,057,530	8,950,005	10,056,437	11,011,372	11,618,441
M3	6,626,843	7,156,260	8,081,079	8,970,396	10,085,243	11,048,944	11,655,019
Deposit (\$Mn)							
HK\$	3,373,595	3,617,183	3,740,240	4,176,200	4,390,953	4,800,330	5,312,403
Foreign currency	3,007,445	3,245,081	3,851,020	4,120,234	4,789,109	5,272,804	5,437,346
Total	6,381,040	6,862,265	7,591,260	8,296,434	9,180,062	10,073,135	10,749,749
Loans and advances (\$Mn)							
HK\$	2,401,323	2,824,445	3,160,002	3,333,059	3,606,018	4,000,361	4,152,589
Foreign currency	887,160	1,403,281	1,920,659	2,233,751	2,850,795	3,275,910	3,381,951
Total	3,288,483	4,227,726	5,080,661	5,566,810	6,456,813	7,276,271	7,534,540
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) ^(b)							
Trade-weighted	101.9	99.5	94.6	94.9	94.9	96.0	101.3
Import-weighted	102.2	99.2	93.9	94.2	94.7	96.0	101.7
Export-weighted	101.6	99.8	95.4	95.6	95.1	95.9	100.9
<u>(% change)</u>							
Hong Kong dollar money supply							
M1	36.7	8.8	8.9	15.9	8.6	11.6	12.2
M2 ^(a)	10.7	7.8	4.6	12.1	5.7	9.0	10.3
M3 ^(a)	10.5	7.6	4.6	12.1	5.7	9.0	10.4
Total money supply							
M1	39.6	12.8	10.8	22.2	9.7	13.1	15.4
M2	5.3	8.1	12.9	11.1	12.4	9.5	5.5
M3	5.2	8.0	12.9	11.0	12.4	9.6	5.5
Deposit							
HK\$	11.2	7.2	3.4	11.7	5.1	9.3	10.7
Foreign currency	-0.5	7.9	18.7	7.0	16.2	10.1	3.1
Total	5.3	7.5	10.6	9.3	10.7	9.7	6.7
Loans and advances							
HK\$	2.0	17.6	11.9	5.5	8.2	10.9	3.8
Foreign currency	-4.7	58.2	36.9	16.3	27.6	14.9	3.2
Total	0.1	28.6	20.2	9.6	16.0	12.7	3.5
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) ^(b)							
Trade-weighted	1.2	-2.4	-4.9	0.3	*	1.2	5.5
Import-weighted	0.9	-2.9	-5.3	0.3	0.5	1.4	5.9
Export-weighted	1.5	-1.8	-4.4	0.2	-0.5	0.8	5.2

Definition of Terms :

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

Total Money Supply:

- M1: Legal tender notes and coins with the public, plus customers' demand deposits with licensed banks.
- M2: M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit issued by licensed banks and held outside the monetary sector, 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 14 : Monetary aggregates (Cont'd)

	<u>2016</u>	<u>2017</u>	<u>2018</u>		<u>2018</u>		
				Q1	Q2	Q3	Q4
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	1,428,775	1,598,014	1,555,731	1,656,884	1,660,700	1,602,519	1,555,731
M2 ^(a)	6,280,230	7,010,345	7,262,451	7,229,517	7,262,507	7,299,268	7,262,451
M3 ^(a)	6,292,666	7,024,514	7,284,322	7,245,943	7,279,273	7,321,701	7,284,322
Total money supply (\$Mn)							
M1	2,213,970	2,431,461	2,421,598	2,473,438	2,519,925	2,445,424	2,421,598
M2	12,508,127	13,755,255	14,348,059	13,935,534	13,979,948	14,116,664	14,348,059
M3	12,551,331	13,803,837	14,403,688	13,987,761	14,032,525	14,175,405	14,403,688
Deposit (\$Mn)							
HK\$	5,809,060	6,484,616	6,715,262	6,680,610	6,715,033	6,763,012	6,715,262
Foreign currency	5,918,240	6,267,872	6,671,119	6,230,670	6,243,395	6,342,585	6,671,119
Total	11,727,300	12,752,488	13,386,381	12,911,280	12,958,428	13,105,597	13,386,381
Loans and advances (\$Mn)							
HK\$	4,479,107	5,359,983	5,836,238	5,557,010	5,735,840	5,746,301	5,836,238
Foreign currency	3,544,284	3,953,686	3,886,385	4,095,020	4,070,702	3,950,718	3,886,385
Total	8,023,390	9,313,668	9,722,623	9,652,030	9,806,542	9,697,019	9,722,623
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) ^(b)							
Trade-weighted	104.1	104.2	101.8	98.6	99.3	104.0	105.5
Import-weighted	104.2	104.2	101.7	98.6	99.3	103.8	105.4
Export-weighted	104.1	104.3	101.9	98.7	99.3	104.1	105.7
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	14.0	11.8	-2.6	12.4	10.5	-0.3	-2.6
M2 ^(a)	8.9	11.6	3.6	9.6	6.2	4.2	3.6
M3 ^(a)	8.9	11.6	3.7	9.6	6.3	4.3	3.7
Total money supply							
M1	12.3	9.8	-0.4	11.0	9.6	2.2	-0.4
M2	7.7	10.0	4.3	7.8	5.0	4.7	4.3
M3	7.7	10.0	4.3	7.8	5.0	4.7	4.3
Deposit							
HK\$	9.3	11.6	3.6	9.4	5.8	4.2	3.6
Foreign currency	8.8	5.9	6.4	4.2	3.5	5.5	6.4
Total	9.1	8.7	5.0	6.8	4.7	4.8	5.0
Loans and advances							
HK\$	7.9	19.7	8.9	20.2	17.2	12.4	8.9
Foreign currency	4.8	11.6	-1.7	8.6	3.0	0.4	-1.7
Total	6.5	16.1	4.4	15.0	10.9	7.2	4.4
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) ^(b)							
Trade-weighted	2.8	0.1	-2.3	-7.7	-5.8	1.3	3.1
Import-weighted	2.5	*	-2.4	-7.7	-5.6	1.1	3.0
Export-weighted	3.2	0.2	-2.3	-7.6	-6.0	1.4	3.3

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

(b) Period average.

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

Table 15 : 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>		
					Q4	Q1	Q2	Q3
Services Industry								
Import and export trade	0.1	-3.9	-2.5	2.3	1.4	4.8	5.8	3.0
Wholesale	1.5	-4.9	-1.0	2.8	4.0	5.6	7.9	3.2
Retail	-0.2	-3.7	-8.1	2.2	5.8	14.4	12.4	6.5
Transportation	6.1	-4.3	-6.5	7.1	6.9	10.5	8.6	6.2
<i>within which:</i>								
Land transport	6.9	5.4	3.6	1.8	2.0	3.9	6.5	3.5
Water transport	6.8	-7.7	-11.2	5.6	-1.6	5.5	-0.8	3.6
Air transport	5.3	-5.1	-7.0	10.0	14.2	16.3	15.4	8.7
Warehousing and storage	11.9	12.7	12.1	14.1	19.1	17.3	12.5	8.9
Courier	5.4	-5.9	5.5	19.1	22.8	13.7	2.4	-11.9
Accommodation services ^(a)	6.5	-6.6	-1.1	6.0	8.5	10.8	16.4	10.4
Food services	3.5	3.9	2.9	5.0	6.7	10.0	6.7	5.5
Information and communications	5.9	10.8	0.6	2.9	6.3	10.3	5.5	3.0
<i>within which:</i>								
Telecommunications	10.7	19.6	-0.8	-3.5	0.1	10.8	5.5	0.2
Film entertainment	-11.7	-3.1	-4.5	4.3	3.5	1.8	5.7	-0.9
Banking	5.9	8.3	8.1	-0.1	18.2	11.1	7.9	7.1
Financing (except banking)	6.7	19.0	-6.0	7.2	10.6	28.9	8.0	6.6
<i>within which:</i>								
Financial markets and asset management	8.9	19.0	-8.7	1.6	5.4	38.8	9.9	5.5
<i>within which: Asset management</i>	11.0	7.0	4.1	4.4	7.8	24.9	6.7	-3.7
Insurance	18.2	11.7	21.8	11.8	11.9	8.7	6.5	6.9
Real estate	17.0	8.1	16.5	14.2	11.3	7.2	1.6	23.5
Professional, scientific and technical services	7.6	5.3	3.3	1.9	2.6	6.2	4.7	4.9
Administrative and support services	7.3	7.4	0.9	1.5	3.0	2.9	2.9	4.3
Services Domain								
Tourism, convention and exhibition services	-0.9	-5.0	-8.1	0.7	4.6	12.1 ⁺	13.6 ⁺	8.2 ⁺
Computer and information technology services	-1.8	-4.2	-3.5	1.4	1.1	4.0	2.1	1.8

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 figures.

Table 16 : Labour force characteristics

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018⁺</u>		<u>2018</u>		
						Q1	Q2	Q3	Q4
<u>(%)</u>									
Labour force participation rate	61.1	61.1	61.1	61.1	61.2	61.4	61.2	61.2	60.9
Seasonally adjusted unemployment rate ^(a)	3.3	3.3	3.4	3.1	2.8	2.9	2.8	2.8	2.8
Underemployment rate	1.5	1.4	1.4	1.2	1.1	1.0	1.0	1.2	1.1
<u>('000)</u>									
Population of working age	6 340.1	6 383.7	6 420.9	6 463.3	6 513.9	6 493.9	6 507.3	6 519.4	6 535.1
Labour force	3 871.1	3 903.2	3 920.1	3 946.6	3 984.3	3 984.4	3 982.2	3 992.4	3 978.0
Persons employed	3 743.5	3 773.8	3 787.1	3 823.2	3 872.3	3 872.4	3 869.8	3 874.6	3 872.6
Persons unemployed	127.6	129.4	133.0	123.4	111.9	112.1	112.4	117.8	105.4
Persons underemployed	56.8	53.3	54.7	45.6	43.0	38.9	41.4	47.3	44.5
<u>(% change over a year earlier)</u>									
Population of working age	0.7	0.7	0.6	0.7	0.8	0.7	0.8	0.8	0.8
Labour force	0.4	0.8	0.4	0.7	1.0	1.3	1.3	1.2	0.7
Persons employed	0.5	0.8	0.4	1.0	1.3	1.8	1.7	1.5	0.8
Persons unemployed	-2.7	1.4	2.8	-7.2	-9.3	-11.5	-10.6	-8.9	-4.0
Persons underemployed	-2.6	-6.1	2.5	-16.5	-5.7	-20.3	-10.2	5.4	4.8

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

(+) Provisional figures.

Table 17 : Employment in selected major industries

Selected major industries	2013	2014	2015	2016	2017	2017	2018			
						Dec	Mar	Jun	Sep	(No.)
	(% change)					(% change over a year earlier)				
Manufacturing	-3.0	-1.2	-2.8	-3.6	-3.3	-3.6	-3.9	-3.8	-2.8	89 442
Construction sites (covering manual workers only)	11.2	4.4	14.9	13.3	10.1	9.2	2.6	2.9	-11.4	107 603
Import and export trade	-0.2	0.1	-1.4	-0.7	-0.4	-0.7	-0.5	-0.6	-0.6	476 020
Wholesale	-2.0	-0.3	-1.4	-0.8	-0.6	-0.4	-0.5	-0.9	-1.0	59 902
Retail	2.3	2.2	-0.5	-1.1	0.5	0.6	1.4	1.6	2.2	273 115
Food and beverage services	0.9	2.4	0.1	-0.2	0.3	0.1	1.7	3.0	3.1	251 611
Accommodation services ^(a)	5.0	3.2	-1.1	-2.1	0.3	0.8	3.1	4.5	5.8	41 514
Transportation, storage, postal and courier services	2.0	2.7	1.6	0.5	0.2	0.8	0.6	1.2	0.6	180 016
Information and communications	5.1	2.7	1.1	0.7	0.9	-0.2	-0.3	1.5	2.3	109 092
Financing and insurance	1.0	2.3	2.3	0.8	1.5	2.0	2.5	2.4	2.8	231 192
Real estate	1.6	0.6	1.7	-0.1	1.3	1.4	1.8	2.0	1.9	133 922
Professional and business services (excluding cleaning and similar services)	4.5	2.7	2.4	1.9	2.1	1.8	2.7	3.3	3.5	303 074
Cleaning and similar services	1.6	0.2	2.4	0.5	0.7	0.1	-1.5	-1.6	-1.2	80 861
Education	2.8	4.4	3.9	2.3	1.6	1.6	2.0	1.9	1.8	202 230
Human health services	5.2	4.3	4.5	4.3	3.5	3.5	3.3	3.4	3.2	129 820
Residential care and social work services	0.5	0.6	2.8	3.0	1.0	1.5	0.8	1.6	0.9	63 894
Arts, entertainment, recreation and other services	1.6	5.9	0.9	-2.2	-0.6	0.9	0.9	1.3	1.8	127 012
Civil service ^(b)	1.3	1.0	0.7	1.2	1.6	2.2	2.3	2.1	2.1	172 633
Others ^(c)	3.5	3.1	-1.0	0.8	2.1	0.2	0.2	-1.6	0.9	11 408

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 18 : 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> Dec	Mar	<u>2018</u> Jun	Sep
<u>(Number)</u>									
Building sites									
Private sector	41 308	44 024	50 372	60 243	65 985	68 442	67 872	68 108	63 600
Public sector ^(a)	9 860	11 212	15 470	16 030	21 660	22 921	22 491	22 103	21 264
Sub-total	51 168	55 236	65 842	76 273	87 645	91 363	90 363	90 211	84 864
Civil engineering sites									
Private sector	1 322	1 414	1 609	1 386	979	1 010	1 470	1 475	1 889
Public sector ^(a)	26 813	26 145	27 652	30 141	30 050	30 388	28 890	24 365	20 850
Sub-total	28 135	27 559	29 261	31 526	31 029	31 398	30 360	25 840	22 739
Total	79 303	82 795	95 103	107 799	118 674	122 761	120 723	116 051	107 603
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	9.6	6.6	14.4	19.6	9.5	8.2	3.5	7.8	-4.7
Public sector ^(a)	-6.8	13.7	38.0	3.6	35.1	27.5	6.4	9.5	-5.0
Sub-total	6.0	8.0	19.2	15.8	14.9	12.5	4.2	8.2	-4.8
Civil engineering sites									
Private sector	-6.2	7.0	13.8	-13.9	-29.3	-17.3	32.4	63.2	111.8
Public sector ^(a)	24.0	-2.5	5.8	9.0	-0.3	1.6	-3.2	-14.7	-33.6
Sub-total	22.2	-2.0	6.2	7.7	-1.6	0.8	-1.9	-12.3	-29.6
Total	11.2	4.4	14.9	13.3	10.1	9.2	2.6	2.9	-11.4

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

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

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

(%)

	2013	2014	2015	2016	2017	2017		2018	
Selected industry sections						Q4	Q1	Q2	Q3
(in nominal terms)									
Manufacturing	3.3	5.3	5.2	3.5	3.4	3.9	3.4	3.8	3.8
Import/export and wholesale trades	3.3	2.8	3.7	2.3	2.9	3.3	3.5	3.3	3.2
Retail trade	6.7	4.2	3.5	2.4	3.3	3.3	3.5	3.3	3.1
Transportation, storage, postal and courier services	5.4	3.3	4.3	3.3	3.4	2.8	3.2	3.7	4.8
Accommodation ^(a) and food service activities	6.7	5.2	5.8	5.1	4.7	4.1	4.8	5.0	5.6
Information and communications	5.4	5.1	4.4	3.4	3.3	3.6	3.2	3.4	3.2
Financial and insurance activities	4.6	6.3	4.0	2.7	3.0	2.8	3.0	3.1	3.2
Real estate activities	5.9	4.7	5.1	4.2	4.3	4.3	4.3	4.5	4.3
Professional and business services	7.1	6.9	5.8	5.1	4.2	4.5	4.6	4.4	4.5
Social and personal services	3.6	1.6	6.7	2.5	3.1	5.8	2.8	3.1	7.8
All selected industry sections surveyed	5.4	4.3	4.6	3.7	3.7	4.2	3.8	3.8	4.6
(in real terms)									
Manufacturing	-0.9	0.9	2.1	1.0	2.0	2.2	1.0	1.7	1.3
Import/export and wholesale trades	-1.0	-1.5	0.7	-0.1	1.4	1.7	1.1	1.2	0.7
Retail trade	2.3	-0.1	0.5	*	1.8	1.7	1.1	1.2	0.6
Transportation, storage, postal and courier services	1.0	-1.0	1.3	0.9	1.9	1.1	0.8	1.5	2.3
Accommodation ^(a) and food service activities	2.3	0.8	2.7	2.6	3.2	2.4	2.3	2.8	3.1
Information and communications	1.0	0.7	1.4	1.0	1.9	2.0	0.7	1.3	0.7
Financial and insurance activities	0.4	1.9	0.7	0.3	1.6	1.1	0.6	1.0	0.7
Real estate activities	1.4	0.2	2.0	1.7	2.8	2.7	1.9	2.3	1.8
Professional and business services	2.6	2.3	2.8	2.6	2.7	2.8	2.1	2.2	2.0
Social and personal services	-0.8	-2.7	3.6	0.1	1.6	4.1	0.3	1.0	5.2
All selected industry sections surveyed	1.1	-0.1	1.5	1.3	2.3	2.6	1.3	1.6	2.1

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 20 : 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						Dec	Mar	Jun	Sep
(in nominal terms)									
Manufacturing	4.7	4.9	4.0	4.0	3.7	3.9	3.7	3.8	3.9
Import/export, wholesale and retail trades	2.9	2.5	3.1	2.7	3.0	3.0	3.1	3.0	3.2
Transportation	3.9	4.8	4.4	3.5	2.9	2.8	3.7	3.2	5.8
Accommodation ^(a) and food service activities	5.7	4.7	5.4	4.9	4.7	4.7	4.8	4.7	4.5
Financial and insurance activities ^(b)	4.4	3.2	3.2	3.4	3.5	3.6	3.3	3.6	3.7
Real estate leasing and maintenance management	9.3	4.5	3.4	3.7	4.1	4.5	4.7	4.4	4.2
Professional and business services	5.9	6.7	6.9	4.7	4.7	4.6	4.9	4.5	4.5
Personal services	6.2	7.8	6.5	5.5	4.2	4.0	3.8	4.1	3.9
All industries surveyed	4.7	4.2	4.4	3.7	3.8	3.8	4.0	3.8	4.1
(in real terms)									
Manufacturing	-0.1	-1.6	0.2	1.4	2.2	2.2	1.0	1.2	0.5
Import/export, wholesale and retail trades	-1.7	-3.9	-0.6	0.3	1.6	1.3	0.4	0.4	-0.1
Transportation	-0.6	-1.9	0.6	1.0	1.5	1.1	0.9	0.6	2.4
Accommodation ^(a) and food service activities	1.1	-1.8	1.5	2.3	3.3	3.0	2.0	2.1	1.1
Financial and insurance activities ^(b)	0.1	-3.7	-0.5	0.9	2.1	1.9	0.5	1.0	0.4
Real estate leasing and maintenance management	4.5	-1.9	-0.4	1.1	2.6	2.8	1.9	1.8	0.8
Professional and business services	1.5	*	2.9	2.3	3.2	2.9	2.1	1.8	1.1
Personal services	1.5	1.1	2.6	3.0	2.7	2.3	1.0	1.4	0.5
All industries surveyed	0.1	-2.4	0.6	1.2	2.3	2.1	1.2	1.2	0.8

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 21 : 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 22 : 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 23 : Rates of change in prices

	(%)							
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
GDP deflator	-0.4	0.3	3.9	3.5	1.8	2.9	3.6	1.6
Domestic demand deflator	-0.8	2.2	4.5	4.2	1.4	3.1	2.2	1.4
Consumer Price Indices ^(a) :								
Composite CPI	0.5	2.4	5.3	4.1	4.3	4.4	3.0	2.4
CPI(A)	0.4	2.7	5.6	3.6	5.1	5.6	4.0	2.8
CPI(B)	0.5	2.3	5.2	4.3	4.1	4.2	2.9	2.3
CPI(C)	0.6	2.1	5.1	4.1	3.8	3.5	2.1	2.1
Unit Value Indices :								
Total exports of goods	1.1	4.7	8.0	3.4	1.3	2.0	0.1	-1.7
Imports of goods	-0.1	6.4	8.1	3.3	0.9	1.9	-0.4	-1.7
Terms of Trade Index ^(b)	1.3	-1.7	-0.1	0.1	0.4	0.1	0.5	*
Producer Price Index for all manufacturing industries	-1.7	6.0	8.3	0.1	-3.1	-1.7	-2.7	1.3
Tender Price Indices :								
Public sector								
building projects	-15.9	12.5	11.6	8.3	6.6	7.3	5.9	1.0
Public housing projects	-6.8	6.7	10.1	6.4	9.3	8.0	12.5	-0.7

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.

(^) Average annual rate of change for the 10-year period 2007-2017.

(~) Average annual rate of change for the 5-year period 2012-2017.

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

	(%)							
	<u>2017</u>	<u>2018</u>	<u>2018</u>				<u>Average annual rate of change:</u>	
			Q1	Q2	Q3	Q4	10 years 2008 to 2018	5 years 2013 to 2018
GDP deflator [#]	3.0	3.7	3.9	3.9	3.9	3.4	2.4	3.0
Domestic demand deflator [#]	2.9	3.3	3.7	3.7	3.6	2.2	2.4	2.6
Consumer Price Indices ^(a) :								
Composite CPI	1.5	2.4	2.4	2.1	2.5	2.6	3.0	2.7
CPI(A)	1.5	2.7	2.6	2.4	2.8	3.1	3.4	3.3
CPI(B)	1.4	2.3	2.4	2.1	2.4	2.4	2.9	2.6
CPI(C)	1.5	2.2	2.4	2.0	2.2	2.3	2.7	2.3
Unit Value Indices :								
Total exports of goods	1.8	2.4	2.3	2.7	2.5	2.3	2.3	0.9
Imports of goods	1.9	2.6	2.3	2.8	2.7	2.5	2.2	0.8
Terms of Trade Index ^(b)	-0.1	-0.1	*	-0.1	-0.2	-0.1	*	0.1
Producer Price Index for all manufacturing industries	3.8	N.A.	3.8	3.7	*	N.A.	1.5 [^]	-0.5 [~]
Tender Price Indices :								
Public sector building projects	-0.3	N.A.	-1.3	-2.8	-3.7	N.A.	7.1 [^]	4.1 [~]
Public housing projects	0.3	N.A.	-1.9	-1.7	N.A.	N.A.	7.2 [^]	5.7 [~]

Table 24 : Rates of change in Composite Consumer Price Index

(%)

	Weight	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
All items	100.00	0.5 (1.0)	2.4 (1.7)	5.3 (5.3)	4.1 (4.7)	4.3 (4.0)	4.4 (3.5)	3.0 (2.5)
Food	27.29	1.3	2.4	7.0	5.8	4.4	4.1	4.0
<i>Meals bought away from home</i>	17.74	1.6	1.7	5.2	5.4	4.4	4.6	4.2
<i>Food, excluding meals bought away from home</i>	9.55	0.9	3.5	9.9	6.5	4.4	3.4	3.4
Housing ^(a)	34.29	3.7	0.4	7.2	5.6	6.7	6.7	5.1
<i>Private housing rent</i>	29.92	3.6	0.9	7.2	6.8	6.3	6.0	4.7
<i>Public housing rent</i>	1.94	9.5	-7.8	11.9	-7.1	16.0	18.3	10.9
Electricity, gas and water	2.67	-25.3	43.3	-4.2	-8.2	6.9	14.9	8.4
Alcoholic drinks and tobacco	0.54	18.7	3.4	17.1	3.0	1.5	6.5	1.3
Clothing and footwear	3.21	2.7	1.8	6.8	3.1	1.7	0.9	-1.8
Durable goods	4.65	-3.0	-2.7	-3.8	-1.4	-4.3	-3.4	-5.6
Miscellaneous goods	3.56	2.3	2.4	3.8	2.2	2.2	2.3	0.9
Transport	7.98	-0.9	2.0	4.4	3.0	2.3	2.0	-0.3
Miscellaneous services	15.81	-2.1	2.0	3.5	2.8	3.7	3.0	1.1

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".

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

(%)										
	Weight	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2018</u>				Average annual rate of change:	
					Q1	Q2	Q3	Q4	10 years 2008 to 2018	5 years 2013 to 2018
All items	100.00	2.4 (2.3)	1.5 (1.7)	2.4 (2.6)	2.4 (2.4)	2.1 (2.4)	2.5 (2.8)	2.6 (2.9)	3.0 (2.9)	2.7 (2.5)
Food	27.29	3.4	2.2	3.4	3.3	3.6	3.5	3.0	3.8	3.4
<i>Meals bought away from home</i>	17.74	3.3	2.7	2.9	3.0	3.0	2.9	2.6	3.6	3.5
<i>Food, excluding meals bought away from home</i>	9.55	3.6	1.1	4.3	3.8	4.9	4.8	3.7	4.1	3.2
Housing ^(a)	34.29	3.7	2.0	2.5	2.5	2.0	2.5	3.0	4.3	4.0
<i>Private housing rent</i>	29.92	3.4	1.8	2.2	2.5	1.9	2.3	2.4	4.3	3.6
<i>Public housing rent</i>	1.94	7.2	3.0	4.1	0.4	0.4	4.1	11.6	6.3	8.6
Electricity, gas and water	2.67	1.0	-1.7	4.9	8.3	3.7	3.8	4.0	2.7	5.4
Alcoholic drinks and tobacco	0.54	1.5	0.6	1.3	0.3	0.6	1.7	2.7	5.3	2.2
Clothing and footwear	3.21	-3.4	-0.4	1.6	2.3	2.0	2.3	0.1	1.3	-0.6
Durable goods	4.65	-5.4	-3.2	-2.0	-2.1	-2.1	-2.0	-1.9	-3.5	-3.9
Miscellaneous goods	3.56	1.5	1.4	1.3	1.1	1.3	1.5	1.4	2.0	1.5
Transport	7.98	1.6	2.3	1.6	1.7	1.3	1.7	1.7	1.8	1.4
Miscellaneous services	15.81	2.3	0.9	2.1	1.7	1.4	2.1	3.0	1.9	1.9

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

(%)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Private consumption expenditure	-1.4	1.4	3.6	3.2	2.7	2.9	1.2
Government consumption expenditure	0.7	-0.2	4.5	6.2	4.3	4.7	4.4
Gross domestic fixed capital formation	0.3	5.8	6.8	6.4	-2.9	3.1	4.5
Total exports of goods	0.3	4.3	7.8	3.2	-0.1	0.7	-0.7
Imports of goods	-1.4	6.3	8.4	4.3	-0.3	0.8	-1.4
Exports of services	-9.4	8.2	7.5	4.7	0.4	0.4	-2.8
Imports of services	-3.8	4.9	5.9	0.6	0.3	0.5	-4.6
Gross Domestic Product	-0.4	0.3	3.9	3.5	1.8	2.9	3.6
Total final demand	-1.3	4.1	6.7	3.7	0.4	1.4	*
Domestic demand	-0.8	2.2	4.5	4.2	1.4	3.1	2.2

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

	(%)								
	<u>2016</u>	<u>2017[#]</u>	<u>2018[#]</u>	<u>2018</u>				Average annual rate of change:	
				Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]	10 years 2008 to 2018 [#]	5 years 2013 to 2018 [#]
Private consumption expenditure	1.5	2.5	3.2	4.2	3.7	2.9	2.1	2.1	2.3
Government consumption expenditure	3.7	2.5	3.1	1.8	3.0	3.8	3.8	3.4	3.7
Gross domestic fixed capital formation	-0.3	4.5	3.8	2.9	4.2	5.5	2.7	3.2	3.1
Total exports of goods	-1.4	1.7	2.2	2.7	2.5	2.0	1.8	1.7	0.5
Imports of goods	-1.8	1.8	2.3	2.6	2.6	2.5	1.8	1.9	0.3
Exports of services	-2.0	3.2	4.7	5.0	4.9	4.7	4.2	1.4	0.7
Imports of services	-1.3	2.6	2.7	6.3	5.0	0.7	-0.5	0.7	*
Gross Domestic Product	1.6	3.0	3.7	3.9	3.9	3.9	3.4	2.4	3.0
Total final demand	-0.6	2.2	2.8	3.3	3.2	2.8	2.2	1.9	1.2
Domestic demand	1.4	2.9	3.3	3.7	3.7	3.6	2.2	2.4	2.6

