



First Quarter Economic Report 2019

Government of the Hong Kong
Special Administrative Region

FIRST QUARTER ECONOMIC REPORT 2019

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

Summary

- *The Hong Kong economy expanded modestly by 0.6% in the first quarter of 2019 over a year earlier, slower than its growth of 1.2% in the preceding quarter. Exports were adversely affected by the weaker performance of the global economy and various external headwinds. Domestic demand also lacked momentum, reflecting the cautious local economic sentiment amid a challenging external environment. The modest year-on-year growth also reflected the high base of comparison in the same quarter of last year when the economy grew strongly by 4.6%.*
- *The uncertainties stemming from US-Mainland trade tensions and other external developments continued to dampen production and trading activities in Asia. As a result, total exports of goods weakened further to show a decline in the first quarter, similar to the situations in many other Asian economies. Exports of services also recorded decelerated growth, yet sustained expansion of inbound tourism continued to provide support.*
- *Domestic demand weakened in the first quarter compared with a year earlier. Private consumption expenditure only showed marginal expansion, reflecting partly the cautious local consumer sentiment and partly the exceptionally high base of comparison in the same quarter of last year. Overall investment expenditure continued to fall as business sentiment has turned cautious since the latter part of last year.*
- *The labour market remained tight. The seasonally adjusted unemployment rate held steady at a low level of 2.8% and the underemployment rate was likewise at a low level of 1.0%. Wages and earnings continued to record real gains.*
- *In contrast to the performance of the real economy, the local stock market staged a strong rebound in the first quarter as investor sentiment improved along with the reported progress of the US-Mainland trade talks during the quarter and receding concerns about further US interest rate hikes. The residential property market also rebounded, with trading activities picking up notably and flat prices reverting to an increase.*
- *Consumer price inflation went down slightly in the first quarter. The increase in the private housing rental component of consumer price inflation remained steady, following the consolidation of fresh-letting residential rentals earlier on. Local cost pressures were largely steady, while external price pressures showed some easing.*

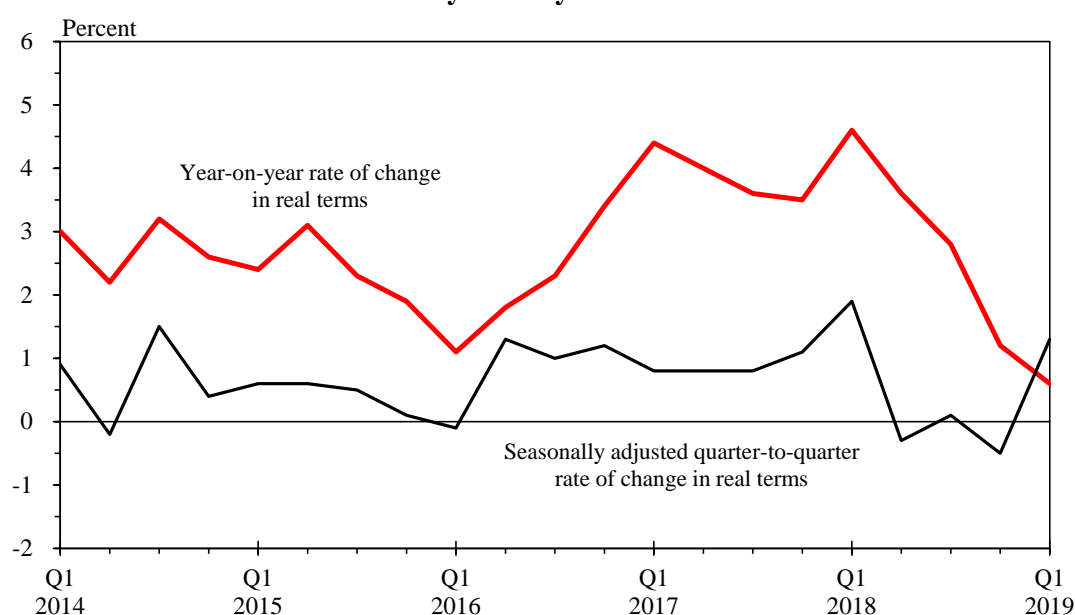
Overall situation

1.1 The Hong Kong economy expanded modestly by 0.6% in the first quarter of 2019 over a year earlier, slower than its growth of 1.2% in the preceding quarter. The weaker performance of the global economy and various external headwinds continued to weigh on Hong Kong's exports. Similar to the situations in many other Asian economies, total exports of goods weakened further to record a decline. Growth in exports of services also decelerated, yet sustained expansion in inbound tourism continued to provide support. Domestic demand lacked momentum. Private consumption expenditure only showed marginal expansion in the face of the challenging economic environment, though this was also partly due to the exceptionally high base of comparison in the same quarter of last year. Overall investment expenditure continued to fall as business sentiment has turned cautious since the latter part of last year. Meanwhile, the labour market remained tight. Consumer price inflation went down slightly.

1.2 The weaker performance of the global economy, as evident in the latter part of last year, continued in the first quarter of 2019. Other external headwinds, including the uncertainties stemming from the US trade policy, Brexit and geopolitical tensions also persisted. On US-Mainland trade tensions in particular, while the trade negotiations between the two sides made progress in the first quarter this year, the additional tariffs already implemented, together with the associated uncertainties, remained a dampener on global trade. In view of the weakened economic outlook and subdued inflation, major central banks, including the US Federal Reserve and the European Central Bank, have adopted a more accommodative monetary policy stance. Waning expectations of further monetary policy normalisation by the major central banks helped fuel investor sentiment, leading to a rebound in global stock markets in the first quarter. In April, the International Monetary Fund (IMF), while further revising down its global economic growth forecast for 2019⁽¹⁾, envisaged that growth could pick up in the second half of the year after a weak start in the first half. However, the IMF also pointed out that a further escalation of trade tensions and the associated uncertainty could further weaken global growth.

1.3 In the first quarter of 2019, *Gross Domestic Product* (GDP)⁽²⁾ grew by 0.6% in real terms over a year earlier (revised from the advance estimate of 0.5%), slower than its growth of 1.2% in the preceding quarter. The modest year-on-year growth also reflected the high base of comparison in the same quarter of last year, when the economy grew strongly by 4.6%. On a seasonally adjusted quarter-to-quarter comparison⁽³⁾, real GDP grew by 1.3% in the first quarter (revised from the advance estimate of 1.2%) against the low base of comparison in the preceding quarter when a contraction of 0.5% was recorded.

Diagram 1.1 : Real GDP growth eased to 0.6% in the first quarter on a year-on-year basis



The external sector

1.4 *Total exports of goods* compiled under the GDP accounting framework weakened further to record a year-on-year decline of 4.1% in real terms in the first quarter of 2019, after showing virtually no change in the preceding quarter, as the uncertainties stemming from US-Mainland trade tensions and other external developments continued to dampen production and trading activities in Asia. The weak export performance was similar to the situations in many other economies in the region. Analysed by major market, and with reference to external merchandise trade statistics, exports to the US declined noticeably, especially for products directly affected by the additional tariffs imposed by the US last year. Exports to the Mainland posted an enlarged decrease. Exports to most other major markets in Asia also fell, though by varying degrees. On the other hand, exports to the EU, which were less affected by the trade frictions, increased.

1.5 Growth in *exports of services* also decelerated, from 3.3% year-on-year in real terms in the preceding quarter to 1.1% in the first quarter. Underpinned by the surge in visitor arrivals, exports of travel services saw further solid growth, albeit at a somewhat decelerated rate amid softer per capita visitor spending. Exports of financial services declined modestly amid less active global financial activities. Exports of transport services and business and other services likewise saw modest decreases.

**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>2018</u>				<u>2019</u>
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	5.6	5.5	8.9 (3.2)	6.0 (-1.0)	4.8 (0.5)	2.7 (*)	0.2 (0.7)
Government consumption expenditure	2.8	4.2	4.2 (1.7)	4.3 (1.1)	3.3 (0.6)	4.9 (1.3)	4.5 (1.4)
Gross domestic fixed capital formation	2.9	2.0	4.7	1.9	8.6	-5.8	-7.1
Building and construction	-0.5	-0.6	2.2	-0.9	1.3	-4.9	-3.5
Costs of ownership transfer	21.1	-8.3	12.5	4.8	0.7	-43.2	-38.0
Machinery, equipment and intellectual property products	3.8	8.9	5.5	4.2	21.0	4.7	-1.8
Total exports of goods ^{&}	6.5	3.6	5.2 (1.8)	4.7 (-0.4)	5.1 (1.3)	* (-2.5)	-4.1 (-2.4)
Imports of goods ^{&}	7.3	4.9	6.9 (1.6)	6.3 (-0.2)	7.7 (3.1)	-0.5 (-4.7)	-4.7 (-2.7)
Exports of services ^{&}	2.9	4.9	7.9 (5.6)	5.5 (-3.9)	3.0 (0.4)	3.3 (1.3)	1.1 (3.5)
Imports of services ^{&}	2.1	2.3	4.0 (3.7)	0.5 (-2.2)	2.5 (0.5)	2.1 (0.2)	-0.8 (0.8)
Gross Domestic Product	3.8	3.0	4.6 (1.9)	3.6 (-0.3)	2.8 (0.1)	1.2 (-0.5)	0.6 (1.3)
<i>Change in the main price indicators (%)</i>							
GDP deflator	3.0	3.6	3.8 (1.8)	3.7 (0.8)	3.8 (0.6)	3.4 (0.3)	3.4 (1.6)
Composite CPI							
Headline	1.5	2.4	2.4 (0.8)	2.1 (0.4)	2.5 (0.6)	2.6 (0.7)	2.2 (0.5)
Underlying[^]	1.7	2.6	2.4 (0.8)	2.4 (0.8)	2.8 (0.6)	2.9 (0.7)	2.7 (0.6)
<i>Change in nominal GDP (%)</i>	6.9	6.8	8.6	7.3	6.8	4.7	4.0

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

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

(#) Revised figures.

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

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

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

The domestic sector

1.6 Domestic demand was lacklustre in the first quarter compared with the same period of last year. *Private consumption expenditure* expanded by a meagre 0.2% year-on-year in real terms in the first quarter of 2019 after an increase of 2.7% in the preceding quarter. The marginal year-on-year growth has to be viewed against the high base of comparison resulting from the exceptionally strong growth of 8.9% in the same quarter of last year, though it also reflected the adverse impacts of the various external uncertainties on local consumer sentiment. The late arrival of the Easter holidays (which started in mid-April this year but in late March last year) also dragged down the year-on-year comparison of residents' expenditure abroad. Meanwhile, *government consumption expenditure* continued to grow solidly by 4.5% in the first quarter, after 4.9% growth in the preceding quarter.

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

		Total consumer spending in the domestic market ^(a)	<i>Of which :</i>						
			<u>Food</u>	<u>Durables</u>	<u>Non- durables</u>	<u>Services</u>	<u>Residents’ expenditure abroad</u>	<u>Visitor spending</u>	<u>Private consumption expenditure^(b)</u>
2018 Annual		6.1	2.1	13.9	11.0	4.0	3.4	8.6	5.5
	Q1	9.6	4.1	25.7	13.9	6.7	6.1	12.5	8.9
	Q2	7.3	3.9	21.7	13.9	4.0	-2.4	10.5	6.0
	Q3	4.9	0.9	8.7	10.5	3.2	3.3	4.7	4.8
	Q4	3.0	-0.6	4.4	6.5	2.3	6.8	7.0	2.7
2019	Q1	0.9	-1.2	-6.1	4.5	1.2	-1.0	4.4	0.2

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

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

Diagram 1.2 : Private consumption expenditure showed meagre expansion

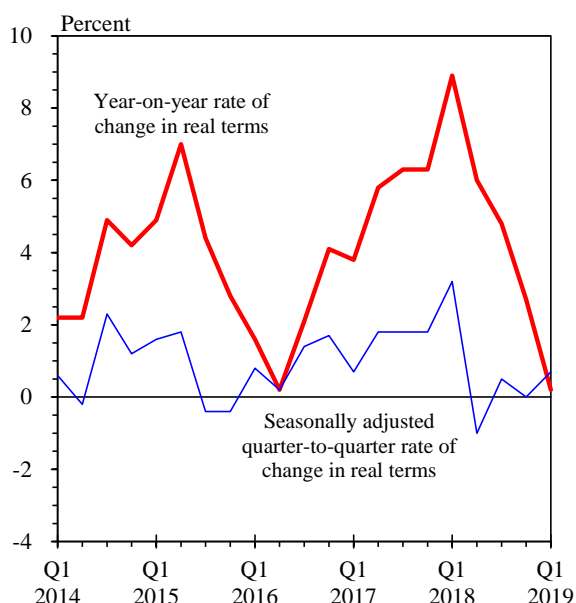
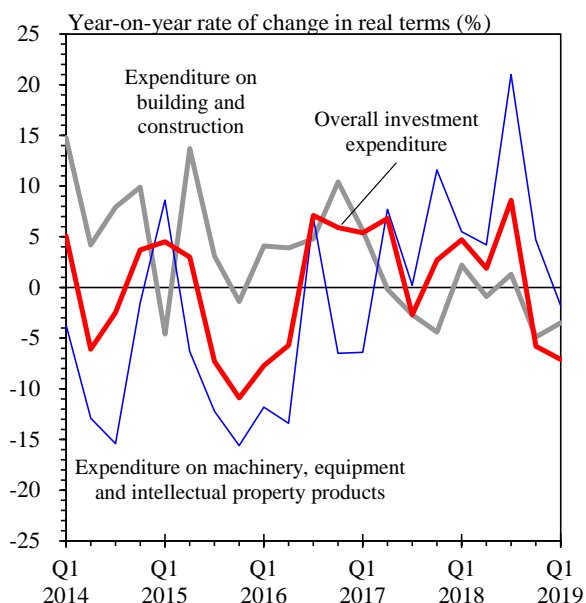


Diagram 1.3 : Overall investment spending continued to fall



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* fell further by 7.1% in real terms in the first quarter, following a decline of 5.8% in the preceding quarter, as business sentiment has turned cautious amid the external uncertainties since the latter part of last year. Within the total, expenditure on acquisitions of machinery, equipment and intellectual property products switched to a decline of 1.8%, dragged down by weakened spending by the private sector. Expenditure on building and construction recorded a further fall of 3.5% as spending by both the private and public sectors contracted. Meanwhile, as the number of property transactions remained below its year-ago level, the costs of ownership transfer continued to fall. Nonetheless, business sentiment in Hong Kong, albeit still cautious, displayed some relative improvement in March and April (see **Box 1.1** for an analysis of business sentiments).

Box 1.1

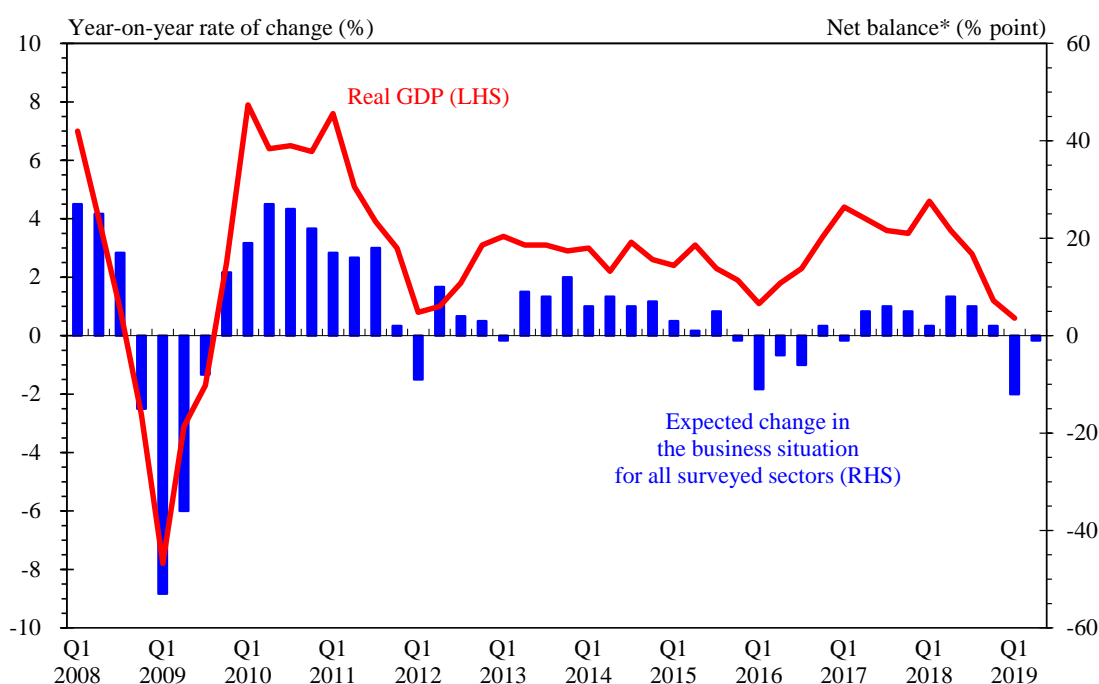
Business sentiment in Hong Kong

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

According to the results from the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during early March to mid-April, business sentiment among large enterprises in Hong Kong, while still cautious amid the uncertain external environment, improved notably in relative terms (*Chart 1*). The proportion of large enterprises expecting a weaker business situation in the second quarter of 2019 outweighed the proportion of those expecting a better situation by just 1 percentage point (i.e. a net balance of -1), much better than the negative net balance of -12 percentage points in the prior quarter.

Large enterprises in many sectors saw relative improvement in business sentiment (*Table 1*). Specifically, the negative net balances in “import/export trade and wholesale” and “transportation, storage and courier services” narrowed significantly, conceivably due to the reported progress in the US-Mainland trade talks during the survey period. Large enterprises in “professional and business services” and “manufacturing” likewise turned somewhat less pessimistic about business outlook. The net balances in “information and communications” and “financing and insurance” turned positive, and so did that in “real estate” as the property market rebounded. On the other hand, the net balance of “construction” stayed deep in the negative zone. Large enterprises in “retail” and “accommodation and food services” became slightly more cautious. Meanwhile, overall hiring sentiment of large enterprises remained largely positive, with many sectors surveyed continuing to expect employment to increase in the second quarter of 2019 (*Table 2*).

Chart 1 : Business sentiment among large enterprises improved visibly in relative terms



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 saw relative improvement of varying extents in many sectors surveyed

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	-10	-5	+23	-1	-3	-1
Construction	-16	-13	-10	-26	-23	-22
Import/export trade and wholesale	-4	+5	-1	-5	-23	-8
Retail	+20	+4	-1	+19	-6	-8
Accommodation and food services	-3	-7	-10	+17	-5	-9
Transportation, storage and courier services	-5	-8	+5	+8	-13	-1
Information and communications	-2	+20	+16	+16	-3	+13
Financing and insurance	+21	+28	+23	+13	-8	+9
Real estate	0	+11	+1	-6	-5	+6
Professional and business services	+2	-2	+3	-2	-7	-4

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

Table 2 : Hiring sentiment among large enterprises remained largely positive

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

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 climbed up somewhat in recent months, though still in the contractionary zone (*Chart 2a*), suggesting that sentiment among SMEs improved in relative terms as compared to the fourth quarter of 2018. Employment situation stayed broadly stable and credit situation remained highly accommodative. Separately, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ rebounded sharply in the second quarter of 2019, albeit still in the contractionary zone.

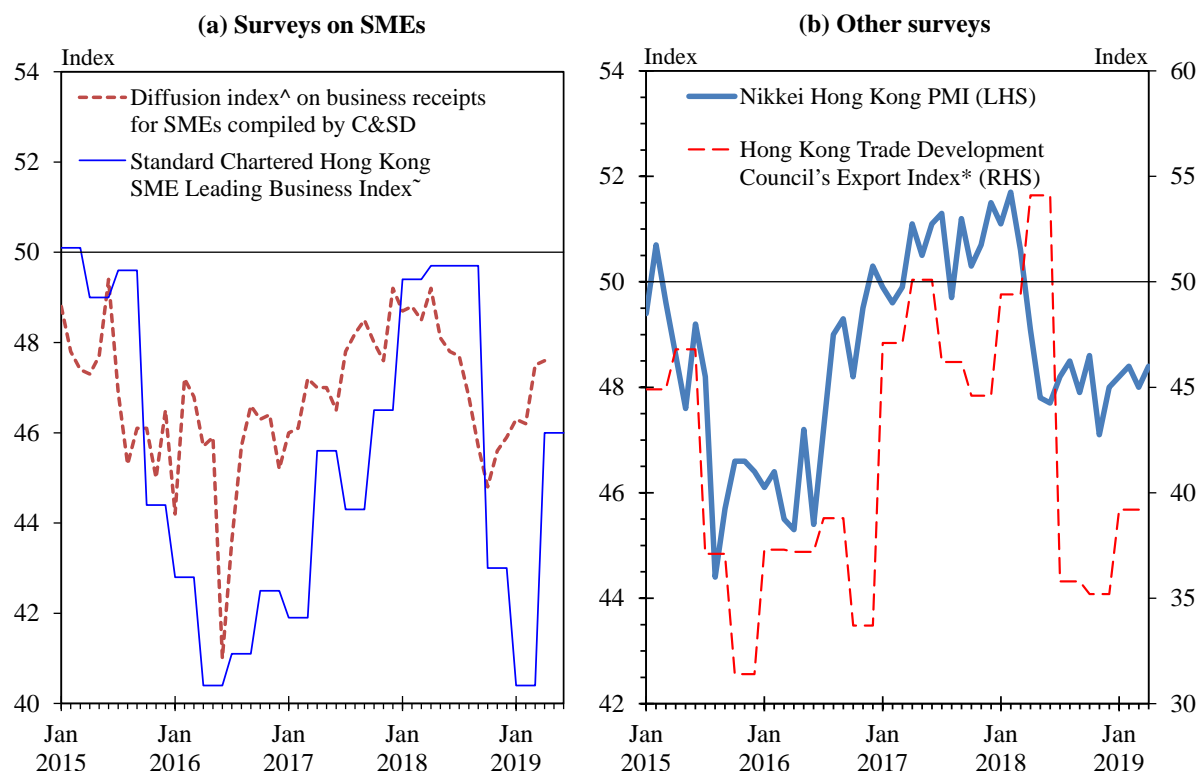
As for other surveys in the public domain, while the Hong Kong Trade Development Council’s Export Index⁽⁴⁾ stayed deep below the 50 threshold at 39.2 in the first quarter of 2019 (*Chart 2b*), it was somewhat higher than the 35.2 in the fourth quarter of 2018. This suggested that traders’ confidence slightly improved in relative terms in mid-February when the survey was conducted, along with the reported progress in the US-Mainland trade talks. While there were still more than half (51.7%) of surveyed traders in this latest round believed that the ongoing US-Mainland trade tensions would bring negative effects on their near-term export performance, the share was somewhat lower than the 54.4% in the preceding quarter. Separately, the monthly Nikkei Purchasing Managers’ Index (PMI) of Hong Kong⁽⁵⁾, which gauges the performance of the private sector’s business activity, held below 50 for the thirteenth consecutive month in April 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 : Most of the other survey indicators also pointed to some relative improvement in 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, these survey findings taken together suggest that business sentiment in Hong Kong, albeit still cautious, displayed some relative improvement between February and April when these surveys were conducted. 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 Hong Kong Trade Development Council's 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 remained tight in the first quarter of 2019. The *seasonally adjusted unemployment rate* held steady at a low level of 2.8%. The *underemployment rate* was likewise at a low level of 1.0%. Meanwhile, on the back of the tight manpower situation, wages and earnings registered further year-on-year growth in real terms across most of the major sectors.

The asset markets

1.9 Following the sharp correction in 2018, the *local stock market* staged a strong rebound in the first quarter of 2019, as investor sentiment received a boost from easing concerns about US-Mainland trade tensions during the quarter and receding expectations of further interest rate hikes in the US. The Hang Seng Index soared and closed the quarter at 29 051, up by 12.4% from end-2018. The average daily turnover of the stock market surged from \$85.7 billion in the preceding quarter to \$101.1 billion in the first quarter. Credit growth, in terms of the year-on-year increase in loans for use in Hong Kong (including trade finance), slowed to 3.9% at end-March 2019 from 5.4% at end-December 2018, conceivably reflecting the softer demand for loans amid moderation in local economic expansion.

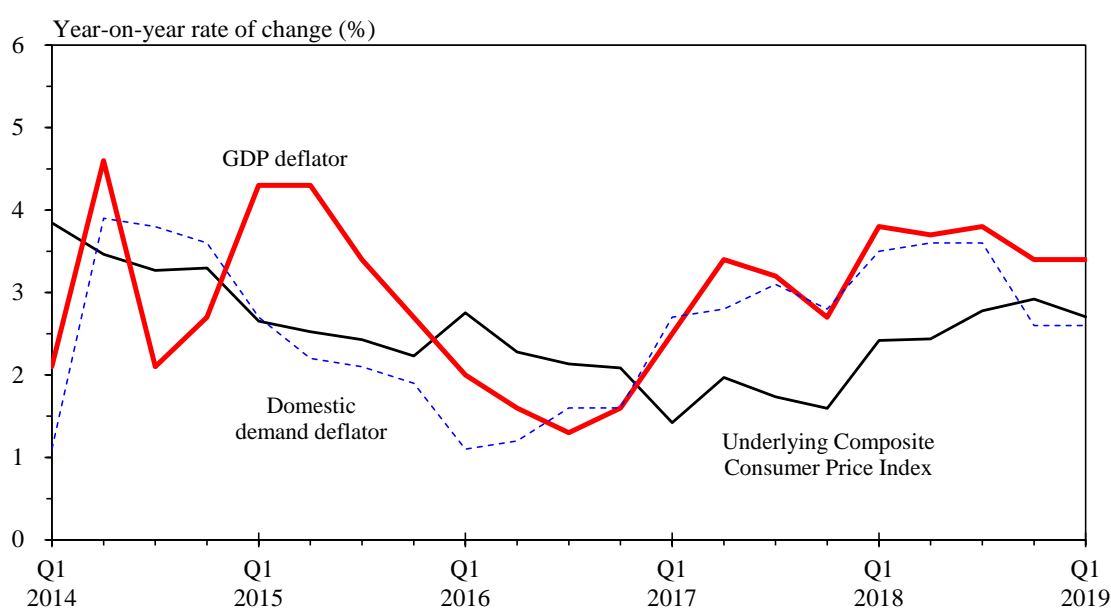
1.10 The *residential property market* rebounded in the first quarter. Trading activities picked up notably. The number of residential property transactions, in terms of the total number of sale and purchase agreements for residential property received by the Land Registry, jumped by 55% from 8 900 in the fourth quarter of 2018 to 13 900 in the first quarter of 2019, yet was still 8% lower than a year earlier when the market was very buoyant. Flat prices reverted to an increase of 5% during the first quarter, and the level in March 2019 exceeded the 1997 peak by 118%. The index of home purchase affordability remained elevated at around 69% in the first quarter. Meanwhile, flat rentals on average were little changed during the first quarter, with the increase in March offsetting the decreases in January and February. Rentals for offices and flatted factories increased by 4% and 2% respectively during the quarter, while those for retail premises declined by 1%.

Inflation

1.11 Consumer price inflation went down slightly in the first quarter. Netting out the effects of the Government's one-off relief measures, *underlying consumer price inflation* eased to 2.7% in the first quarter from 2.9% in the preceding quarter. *Headline consumer price inflation* went down to 2.2% from 2.6%. Locally, the increase in the private housing rental component of consumer price inflation remained steady following the consolidation of fresh-letting residential rentals earlier on. Meanwhile, the increases in wages and earnings amid a tight labour market were accompanied by sustained labour productivity growth. This, coupled with the moderate increase in commercial rental costs, has helped keep the cost pressures faced by businesses largely in check. External price pressures showed some easing, thanks to lower inflation rates in many of our major import sources, the general softening in global commodity and energy prices, and the year-on-year appreciation of the Hong Kong dollar along with the US dollar against other major currencies.

1.12 The year-on-year rate of increase in the *GDP deflator* was 3.4% in the first quarter, the same as its increase in the preceding quarter. The terms of trade improved further as export prices rose somewhat faster than import prices. Taking out the external trade components, the increase in the domestic demand deflator held steady at 2.6%.

Diagram 1.4 : Consumer price inflation went down slightly in the first quarter



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

GDP by major economic sector

1.13 The net output of the services sector turned in a solid growth of 3.4% in real terms in 2018, but slightly slower than its 3.6% growth in 2017. As for the quarterly profile, the growth rates were 4.4% and 3.7% in the first and second quarters respectively, but moderated to 3.1% in the third quarter and further to 2.4% in the fourth quarter alongside moderating global economic growth and increasing external uncertainties in the second half. Analysed by major service sector, net output of import and export trade continued to record visible growth for 2018 as a whole, notwithstanding the sharp deceleration in the final quarter amid intensified external headwinds. Net output of wholesale and retail trades grew notably in 2018 and that of accommodation and food services showed slightly faster growth, thanks to solid local consumption and strong inbound tourism. While net output of the financing and insurance sector grew appreciably in 2018, its growth decelerated over the course of the year. Net output of real estate grew moderately for the year as a whole, but declined marginally in the fourth quarter amid the consolidation of the property market. Net outputs of transportation, storage, postal and courier services, information and communications, professional and business services, and public administration, social and personal services showed modest to moderate growth in 2018. As for the secondary sector, net output of the construction sector registered a marginal increase for the year as a whole, while that of the manufacturing sector expanded modestly.

**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</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Manufacturing	0.4	1.3	0.2	0.4	0.3	0.8	1.1	1.6	1.2	1.2
Construction	-1.3	0.1	4.4	-0.7	-3.2	-5.5	3.8	-1.3	2.6	-4.4
Services ^(b)	3.6	3.4	3.7	3.4	3.7	3.6	4.4	3.7	3.1	2.4
Import/export, wholesale and retail trades	4.2	4.5	4.4	3.8	4.3	4.2	6.0	5.7	5.2	2.0
Import and export trade	4.2	4.1	5.2	4.2	4.0	3.8	4.9	4.7	5.3	2.1
Wholesale and retail trades	3.9	6.3	0.9	2.4	5.7	6.0	11.1	9.9	4.3	1.9
Accommodation ^(c) and food services	2.0	3.9	1.2	0.9	1.8	4.1	6.2	4.3	3.6	1.7
Transportation, storage, postal and courier services	4.8	3.5	4.9	4.8	4.9	4.7	5.2	4.1	1.4	3.4
Transportation and storage	4.7	3.6	4.7	4.6	4.9	4.5	5.1	4.5	1.8	3.3
Postal and courier services	7.7	1.1	8.1	7.9	7.4	7.4	6.0	-2.0	-5.3	4.3
Information and communications	4.0	3.8	4.5	4.1	4.3	3.0	3.2	3.6	3.4	4.9
Financing and insurance	5.7	4.6	5.4	5.2	5.9	6.2	6.7	4.9	3.6	3.5
Real estate, professional and business services	2.1	1.5	3.8	1.7	1.7	1.3	2.2	2.0	1.3	0.7
Real estate	2.5	1.4	6.7	2.0	0.3	0.7	2.0	2.3	1.8	-0.2
Professional and business services	1.8	1.6	1.2	1.5	3.0	1.7	2.5	1.7	0.9	1.5
Public administration, social and personal services	3.2	2.9	2.7	2.9	3.7	3.3	3.2	2.5	3.0	3.2

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

(a) The GDP figures shown in this table are compiled from the production approach, while those shown in Table 1.1 are compiled from the expenditure approach. For details, see Note (2) to this chapter.

(b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity.

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

Other economic developments

1.14 In the 2019-20 Budget Speech, the Financial Secretary highlighted five major developments in the global political and economic landscape, covering US-China relations, international co-operation, developing Asia, national development, and innovation and technology (I&T), and charted the direction of Hong Kong's future economic development in response. The Financial Secretary pledged to develop a diversified economy spanning from financial services to I&T and to expand market coverage through the development of the Guangdong-Hong Kong-Macao Greater Bay Area and the Belt and Road Initiatives. The Financial Secretary also promised to make Hong Kong a more ideal place to live by providing adequate resources to support measures to increase land and housing supply as well as the operation and development of the public healthcare system. The Budget also continued to provide resources to build a caring society.

1.15 Along the direction of “supporting enterprises, safeguarding jobs, stabilising the economy, strengthening livelihoods”, the Budget unveiled a range of measures to relieve people's burden and to provide support for enterprises, while committed to maintaining a sound fiscal position. To relieve people's burden, the Budget announced a series of one-off measures, such as a salaries tax rebate, a rates waiver and extra allowances to social security recipients. To provide support to enterprises, the Financial Secretary pledged to, among other measures, inject another \$1 billion into the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) and further extend its geographical scope. The application period of the special concessionary measures under the SME Financing Guarantee Scheme was also extended to 30 June 2020 to help SMEs facing liquidity problems.

Notes :

- (1) The table below presents a more detailed comparison between the growth forecasts made by the IMF in April 2019 and those three months ago.

	<u>2018</u>	<u>January round</u>	<u>2019</u> <u>April round</u>
	(%)	(%)	(%)
World (PPP ^{##} weighted)	3.6	3.5	3.3
Advanced economies	2.2	2.0	1.8
US	2.9 [#]	2.5	2.3
Euro area	1.9 [#]	1.6	1.3
UK	1.4 [#]	1.5	1.2
Japan	0.8 [#]	1.1	1.0
Emerging market and developing economies	4.5	4.5	4.4
Emerging and developing Asia	6.4	6.3	6.3
Mainland China	6.6 [#]	6.2	6.3
India [^]	7.0 [#]	7.5	7.3
ASEAN-5 ^{\$}	5.2	5.1	5.1
Middle East and North Africa ⁺	1.8	2.4	1.5

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

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

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *The weaker performance of the global economy, having become evident in the latter part of 2018, continued in the first quarter of 2019. The US economy grew solidly due partly to a surge in inventory, but its private consumption and fixed investment actually slowed. Growth in the euro area economy remained modest. In Asia, the Mainland economy held stable despite external headwinds. The Japanese economy expanded slowly, and other high-income Asian economies showed moderated growth. In contrast, developing Asian economies generally stayed resilient thanks to solid domestic demand. Manufacturing and trading activities in the region remained weak in general amid uncertainties stemming from US-Mainland trade tensions and other external developments.*
- *Similar to the situations in many other economies in Asia, Hong Kong's merchandise exports weakened further in the first quarter, recording a year-on-year decline of 4.2% in real terms⁽¹⁾. Exports to the US declined noticeably, especially for products directly affected by the additional tariffs imposed by the US last year. Exports to the major markets in Asia mostly decreased, though by varying degrees, while those to the EU, which were less affected by the trade frictions, increased.*
- *Growth in exports of services also decelerated, to 1.1% year-on-year in real terms in the first quarter. Underpinned by the surge in visitor arrivals, exports of travel services registered further solid growth, albeit at a somewhat decelerated rate due to softer per capita visitor spending. Exports of financial services declined modestly amid less active global financial activities. Exports of transport services, and business and other services relapsed to modest decreases.*
- *The Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area was promulgated by the Central Government in February. Hong Kong, Guangzhou, Shenzhen and Macao are identified as the four core cities as well as core engines for regional development. Furthermore, eight policy measures were introduced by the Central Government in March to facilitate Hong Kong residents to pursue their careers and live in the Mainland cities of the Greater Bay Area, and make the flow of people and goods within the Greater Bay Area more convenient.*

Goods trade

Total exports of goods

2.1 Hong Kong's *merchandise exports* turned from a year-on-year increase of 0.2% in real terms in the preceding quarter to a 4.2% fall in the first quarter of 2019, as uncertainties stemming from US-Mainland trade tensions and other external developments continued to dampen manufacturing and trading activities in Asia.

2.2 The weaker performance of the global economy, as evident in the latter part of last year, continued in the first quarter of 2019. The US economy grew solidly, partly supported by a temporary surge in inventory, but its private consumption and fixed investment actually slowed. Growth in the euro area economy remained modest, with the performance of major constituent economies dampened by various factors including the decline in industrial production in Germany, social tensions in France, and fiscal issues in Italy. Meanwhile, Brexit remained in a muddle, though the deadline has been extended to end-October this year. In Asia, the Mainland economy held stable notwithstanding the downward pressures from reduced global economic momentum and trade tensions with the US, and maintained growth at 6.4%. Economic activities in Japan weakened, as growth in retail sales moderated and both industrial production and exports contracted. The other high-income Asian economies showed slower growth, while the Asian emerging market economies generally stayed resilient thanks to solid domestic demand. In the face of various external headwinds, manufacturing and trading activities in the region remained weak in general.

2.3 The global trading environment continued to face uncertainties created by the US trade policy. On US-Mainland trade tensions, the US delayed the tariff hike on imports from the Mainland originally scheduled on 1 January this year, and trade negotiations between the two sides made progress in the first quarter. However, the additional tariffs already implemented, together with the associated uncertainties, continued to disrupt manufacturing and trading activities in Asia. Besides, a new round of bilateral trade negotiations between the US and Japan began in April. The trade disputes between the EU and US continued, with both sides threatening to impose additional tariffs on selected imports from each other.

2.4 In view of the weakened economic outlook and subdued inflation, major central banks have adopted a more accommodative monetary policy

stance. The US Federal Reserve (The Fed) has kept the target range of interest rate unchanged at 2.25-2.5% so far this year, and repeatedly emphasised “patience” in determining future rate adjustments (see **Box 2.1** on the neutral interest rate in the US). It also announced its plan to cease the balance sheet scale-back by the end of September 2019. In March, the European Central Bank extended its pledge to keep its policy rates at the current levels at least until the end of this year, and announced a new series of monetary operations to provide additional funding to banks later this year. In April, the Bank of Japan specified its intention to maintain its interest rates at the current extremely low levels at least through around spring 2020. Waning expectations of further monetary policy normalisation by the major central banks helped fuel financial market sentiment, leading to a rebound in the global stock markets in the first quarter.

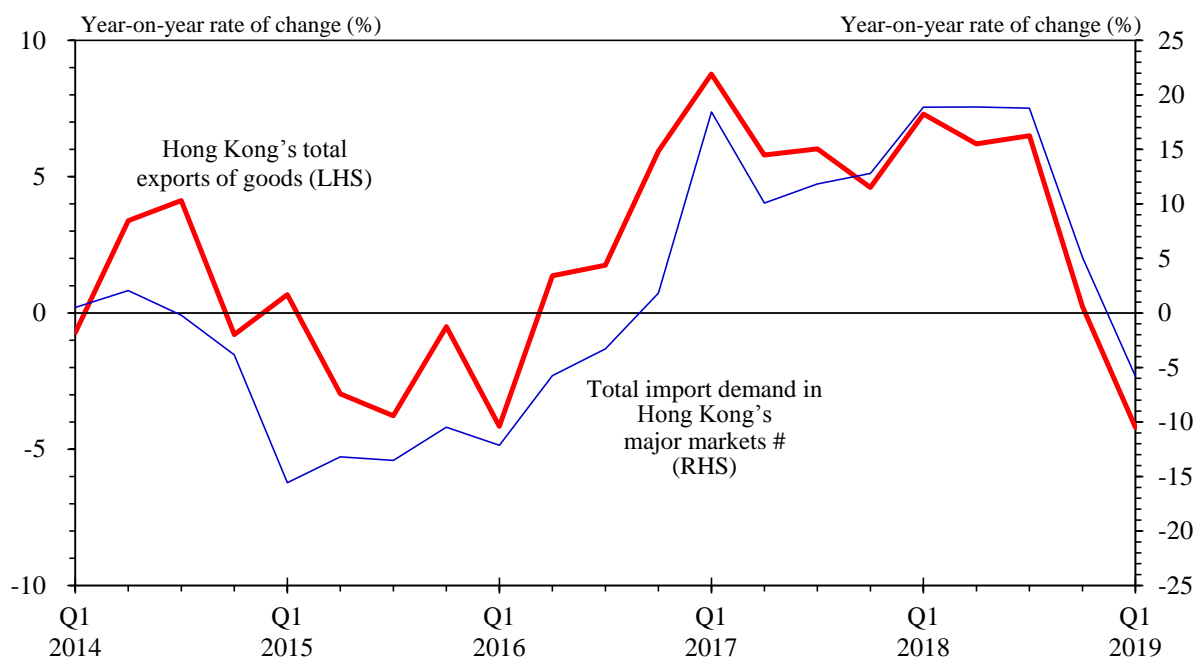
**Table 2.1 : Total exports of goods
(year-on-year rate of change (%))**

	In value terms	In real terms ^(a)	Change in prices
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
2019 Q1	-2.4	-4.2 (-2.8)	2.2

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

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

Diagram 2.1 : Merchandise exports weakened further in the first quarter of 2019



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 first quarter of 2019 is based on statistics for January and February 2019.

Box 2.1

The neutral interest rate in the US: Estimations and implications

The neutral interest rate is one of the economic factors which the Federal Reserve (the Fed) considers in making policy decision. After the FOMC meeting in March 2019, Fed Chair Powell stated that the federal funds rate was within the broad range of estimated neutral interest rate, and reasserted that the Fed would be patient in adjusting interest rate⁽¹⁾. This article examines the estimation of the US neutral interest rate and its relations with major economic trends, in the hope of shedding more light on the future path of the US interest rate policy.

The neutral interest rate, also known as “the natural rate of interest” in economics literature, refers to the level of interest rate at which economic growth is on par with its potential and inflation is stable. In other words, it is the level of interest rate which would neither speed up nor slow down economic growth⁽²⁾. Yet, the neutral interest rate is only a theoretical construct. It cannot be observed directly and it has to be estimated by econometric methods.

Economics literature suggests that there are quite a number of econometric methods for estimating the neutral interest rate (e.g. Neiss and Nelson, 2003⁽³⁾; and Edge, Kiley and Laforte, 2008⁽⁴⁾). This article will focus on the methodology in the seminal paper by Laubach and Williams (2003)⁽⁵⁾ as an example for illustration⁽⁶⁾. In gist, this article made use of Kalman filter⁽⁷⁾ to jointly estimate three time-varying and unobserved variables (namely, real neutral interest rate, real potential GDP and its trend growth rate) by employing five observable data series (including federal funds rate, real GDP, core inflation, and the relative prices of oil and non-energy imports).

The econometric model involves two core equations, namely the IS curve and the Phillips curve. The IS curve relates output gap⁽⁸⁾ to its own lags and the lagged “real rate gap” (i.e. the gap between the actual and neutral interest rates in real terms). The Phillips curve links the core inflation to its own lags, the lagged output gap, and the relative prices of oil and non-energy imports. Together with assumptions on transition equations, a joint estimation of the whole model is performed by Kalman filter. From the estimation, the neutral real interest rate (r^*) can then be decomposed into two parts, namely potential GDP growth (g^*) and other determinants (z) which captures factors such as shifts in fiscal policy and changes in global supply of savings. The equation is shown as follows:

$r_t^* = cg_t^* + z_t$, where c is estimated as a positive coefficient.

-
- (1) Federal Open Market Committee (FOMC) (2019) “Transcript of Chairman Powell’s Press Conference, March 20, 2019”, Washington, 20 March 2019.
 - (2) Powell, J.H., (2018) “Federal Reserve’s Framework for Monitoring Financial Stability”, a speech at the Economic Club of New York, New York, 28 November 2018.
 - (3) Neiss, K.S., Nelson, E., (2003) “The Real-Interest-Rate Gap as an Inflation Indicator” *Macroeconomic Dynamics*, 7(2), 239-262.
 - (4) Edge, R., Kiley, M., Laforte, J-P., (2008) “Natural Rate Measures in an Estimated DSGE Model of the U.S. Economy”, *Journal of Economic Dynamics and Control*, 32(8), 2512-2535.
 - (5) Laubach, T. and Williams J.C., (2003) “Measuring the Natural Rate of Interest,” *Review of Economics and Statistics*, 85(4), 1063-70.
 - (6) The authors of this paper are currently senior Fed officials. Thomas Laubach is the Director of the Division of Monetary Affairs. John Williams is the President of the Federal Reserve Bank of New York and currently serves as Vice Chairman of the FOMC. This paper has also been frequently cited by top Fed officials, as in former Fed Chair Yellen’s speech “The Economic Outlook and Monetary Policy” in December 2015 and the then-Governor (current Chair) Powell’s speech “A View from the Fed” in November 2016.
 - (7) Kalman filter enables researchers to obtain estimates of the unobserved variables through “filtering” the noise in observed variables given the model specification.
 - (8) Output gap refers to the difference between the actual GDP and the potential GDP in real terms.

Box 2.1 (Cont'd)

Based on the model above, the Federal Reserve Bank of New York (New York Fed) regularly updates its estimates of the real neutral interest rate in the US. The corresponding nominal neutral interest rate can be derived by summing up the estimated real neutral interest rate and the expected inflation as proxied by the four-quarter moving average of the core PCE inflation⁽⁹⁾.

The latest estimate of real neutral interest rate by the New York Fed was at around 0.8% in the fourth quarter of 2018. With the expected inflation at 2.0%, the nominal neutral interest rate was estimated at 2.8%, which was the same as the median projection of the federal funds rate over the longer run by the FOMC participants in their meeting in March 2019. With the current target range of the federal funds rate at 2.25-2.5%, this largely matches Powell's view that the current policy rate is in the broad range of the estimated neutral interest rate.

Taking a historical perspective, the estimates of both real and nominal neutral interest rates have been on a general downtrend in the past three decades, with particularly sharp declines after the Global Financial Crisis in 2007-08 (*Chart 1*). In specific, the annual average of estimated real neutral interest rate eased from 3.5% in 1988 to 2.4% in 2007, and fell further to 0.8% in 2018. Likewise, the annual average of estimated nominal neutral interest rate fell from 7.4% in 1988 to 4.6% in 2007, and declined further to 2.6% in 2018.

Chart 1: The estimates of both real and nominal neutral interest rates have been on a general downtrend in the past three decades

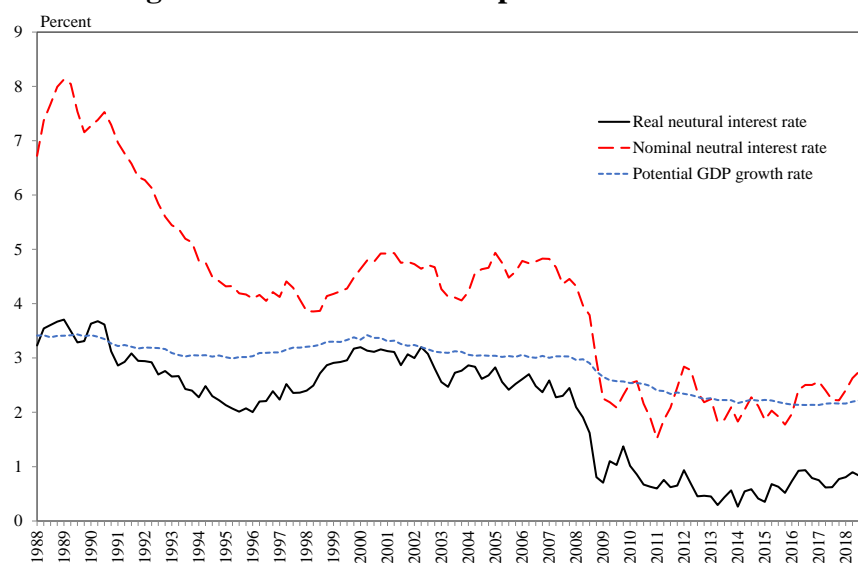


Table 1: Contributions of the change in real neutral interest rate (r^*) from the two components

Period	Change in r^*	Contributed from	
		Potential GDP growth (g^*)	Other determinants (z)
2007 annual as compared to 1988 annual	-1.1	-0.5	-0.6
2018 annual as compared to 2007 annual	-1.6	-1.1	-0.5

Source: New York Fed's estimates of r^* , g^* , z and c as published in February 2019.

Note: The estimated value of c is 1.290.

(9) This refers to the annualised quarter-to-quarter rate of change in the implicit price deflator of personal consumption expenditure (PCE) excluding food and energy items. This follows the treatment in a recent paper by Holston, Laubach and Williams (2017) in conversion between interest rates in real terms and in nominal terms.

Holston, K., Laubach, T. and Williams J.C., (2017) "Measuring the Natural Rate of Interest: International Trends and Determinants," *Journal of International Economics*, 108, 59-75.

Box 2.1 (Cont'd)

To analyse the factors behind its general downtrend, **Table 1** shows the contributions to the decline in the real neutral interest rate by potential GDP growth (g^*) and other determinants (z) in the past three decades. Specifically, the real neutral interest rate fell by 1.1 percentage points from 1988 to 2007, of which around 0.5 percentage point was due to moderation in potential GDP growth. More recently, the real neutral interest rate dropped sharply by 1.6 percentage points from 2007 to 2018, of which around 1.1 percentage points was due to slowdown in potential GDP growth. In gist, the slower potential economic growth contributed nearly 60% of the decline in the real neutral interest rate in the past three decades.

While the model as in Laubach and Williams (2003) did not offer more explanations behind the general downtrend in the neutral interest rate, other economics literature generally attributed its decline to the following factors:-

- **Lower growth in labour force:** As manpower is a major factor input for economic output, a slower growth in labour force would inevitably contain the potential GDP growth, and thus, the neutral interest rate of an economy. In the US, the general downtrend in population growth, coupled with the gradual retirement of the baby-boomer generation, led to slower labour force growth in the past three decades. In specific, growth in the US labour force decelerated from 1.2% p.a. in 1989-2007 to 0.5% p.a. in 2008-2018.
- **Moderated growth in labour productivity⁽¹⁰⁾:** As measured by output produced per hour worked, labour productivity growth moderated from 2.3% p.a. in 1989-2007 to 1.3% p.a. in 2008-2018. Given that labour productivity is another key propellant of economic growth, its growth moderation in recent decades inevitably contained the potential growth of the US economy, and hence, the neutral interest rate.
- **“Global savings glut”:** Former Fed Chair Bernanke posited in a lecture⁽¹¹⁾ in 2005 that the accumulation of foreign exchange reserves in emerging Asian market economies since mid-1990s, especially after the Asian Financial Crisis in late 1990s, helped increase the supply of funds in advanced economies, thus driving down the US neutral interest rate. Yet, he acknowledged in an article⁽¹²⁾ in 2015 that the trend had reverted somewhat after the Global Financial Crisis, as reflected in the general shrinkage in the US current account deficit and the current account surplus in emerging Asian market economies⁽¹³⁾. This implies that the downward pressure on the US neutral interest rate from “global saving glut” eased somewhat in the more recent period.

Looking ahead, potential GDP growth in the US is likely to stay at the current low level. The median projection of the FOMC meeting in March 2019 suggested that real GDP growth in the US would be at 1.9% p.a. in the longer run, which is even slightly slower than the growth of 2.2% p.a. in the past two decades⁽¹⁴⁾. Hence, the US neutral interest rate should stay at a relatively low level in the period ahead. Given that the prevailing policy rate is in the broad range of the estimated neutral rate, the Fed should have no hurry to adjust its interest rate in the near term, though their decision would still hinge on future economic data.

(10) For more details on the deceleration in productivity growth in the US, please refer to “Box 2.1 Productivity growth slowdown in the US and its economic implications” in *Third Quarter Economic Report 2016*.

(11) Bernanke B.S., (2005) “The Global Saving Glut and the US Current Account Deficit” Speech at the Sandridge Lecture, Richmond, 10 March 2005.

(12) Bernanke B.S., (2015) “Why Are Interest Rates So Low, Part 3: The Global Savings Glut” *Brookings Blog*, 1 April 2015.

(13) Based on the IMF’s World Economic Outlook database in April 2019, the US current account deficit shrank from US\$806 billion in 2006 to US\$469 billion in 2018. Likewise, the current account balance of emerging and developing Asia also turned from a surplus of US\$273 billion in 2006 to a deficit of US\$25 billion in 2018.

(14) The US Congressional Budget Office also projected in January 2019 that potential GDP growth would slow to 1.9% p.a. in 2019-2028.

Diagram 2.2 : Regional trade flows remained weak in the face of various external headwinds

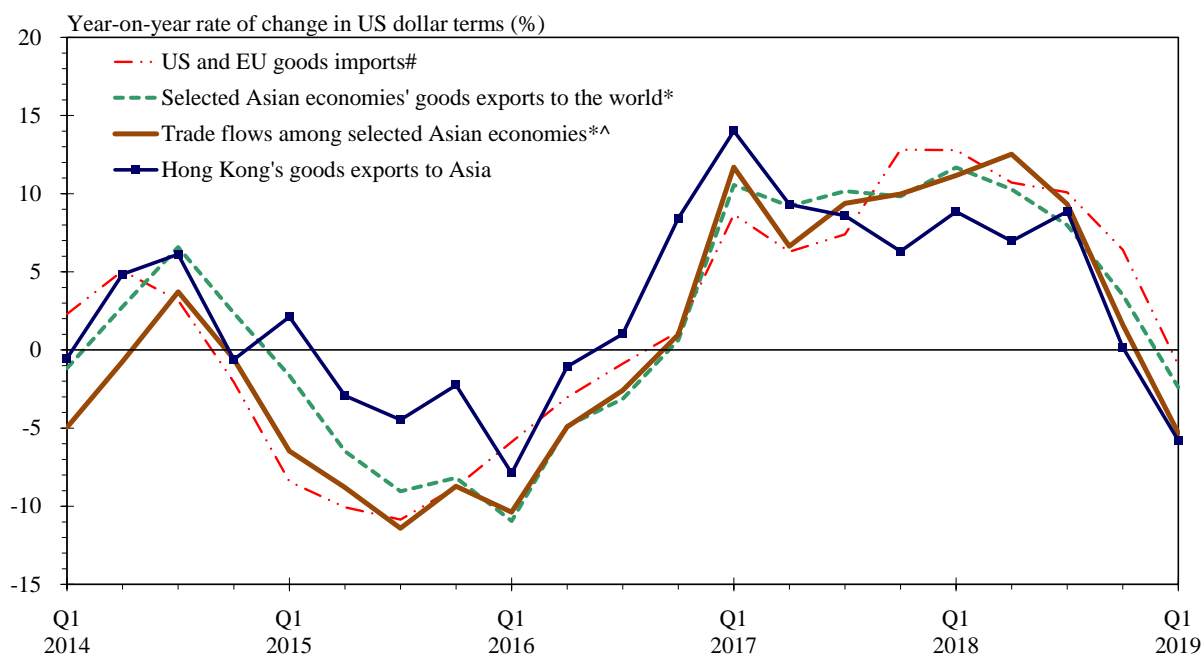
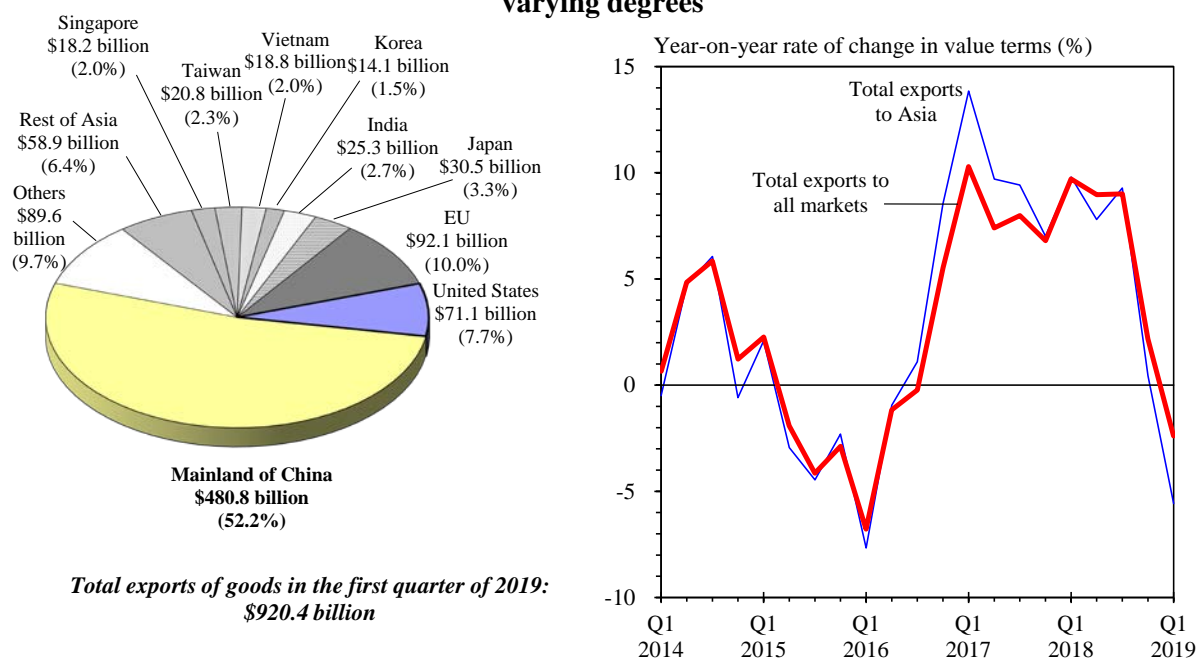


Diagram 2.3 : Merchandise exports to many markets in Asia showed decreases of varying degrees



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

	<u>Annual</u>	<u>Q1</u>	<u>2018</u> <u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>2019</u> <u>Q1</u>
Mainland of China	5.2	9.4	7.7	7.1	-2.3	-8.9
United States	6.1	5.1	8.2	7.9	3.1	-9.9
European Union	8.2	9.1	7.2	7.9	8.5	9.0
India	-13.4	-7.6	-33.1	14.3	-21.5	-28.6
Japan	-1.3	5.2	2.8	-7.8	-4.1	-5.8
Taiwan	-4.8	8.4	-1.9	-18.0	-6.7	-10.1
Vietnam	5.2	0.9	7.3	16.7	-2.9	-1.6
Singapore	15.1	10.5	19.3	5.6	25.2	22.5
Korea	2.5	-3.1	1.5	7.9	3.4	4.7
Overall*	4.9	7.3	6.2	6.5	0.2	-4.2

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

2.5 Analysing by major market, merchandise exports to the US weakened further to show a sharp year-on-year decline. In addition to the tariff measures introduced last year⁽²⁾, the weaker consumption and investment demand there should also be a contributory factor. Exports to the EU, which were less disrupted by the trade frictions, recorded solid growth.

2.6 In the face of slower global economic growth and US-Mainland trade tensions, manufacturing and trading activities in Asia remained weak in general in the first quarter. Exports to many markets in Asia showed decreases of varying degrees. Specifically, exports to the Mainland and to Japan posted larger year-on-year decreases. Exports to Taiwan declined visibly, due to the plunge in exports of foodstuffs. Exports to India showed further sharp contraction, as the effects of the increases in import tariffs in the latter part of last year continued to play out. Exports to Vietnam registered a moderate decline. On the other hand, exports to Singapore and Korea increased.

Diagram 2.4 : Exports to the Mainland posted a larger decrease

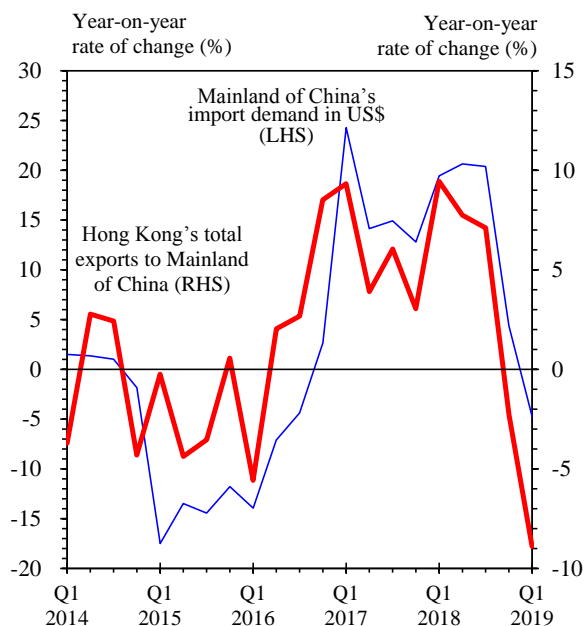


Diagram 2.5 : Exports to the EU recorded solid growth

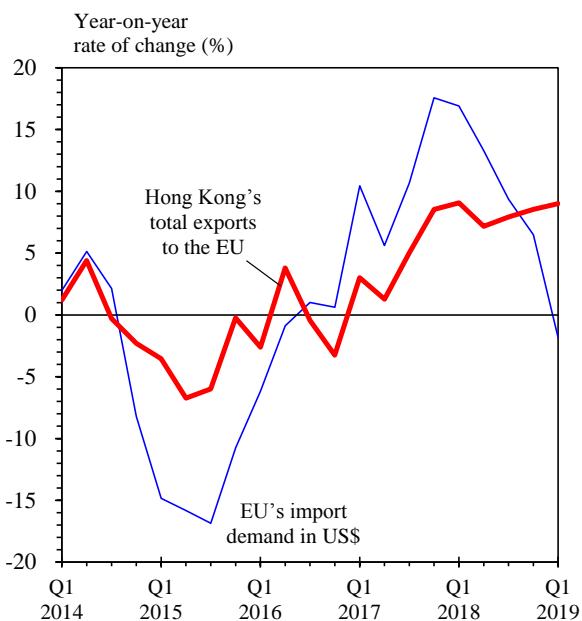


Diagram 2.6 : Exports to the US weakened further to show a sharp decline

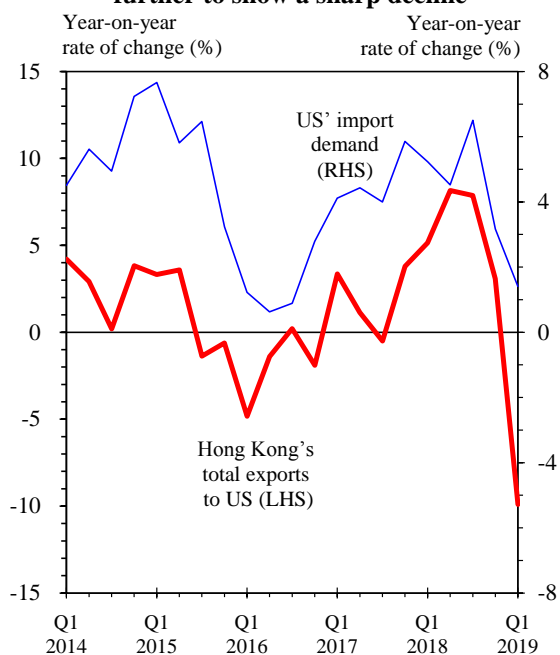


Diagram 2.7 : Exports to Japan registered a larger decline

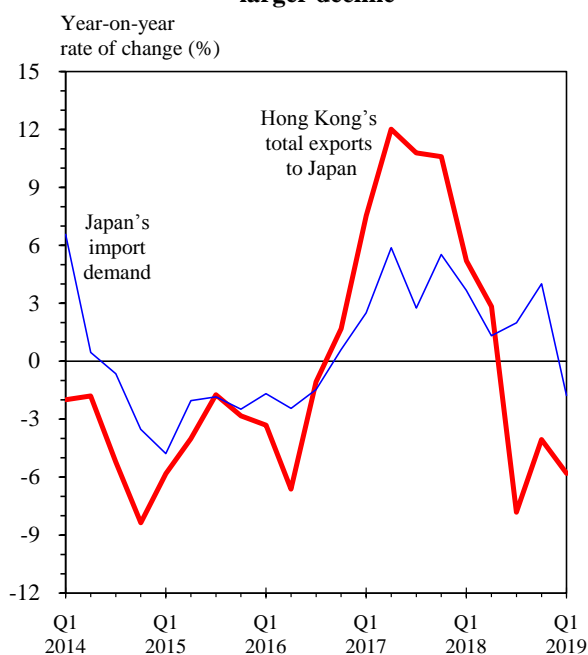


Diagram 2.8 : Exports to India showed further sharp contraction

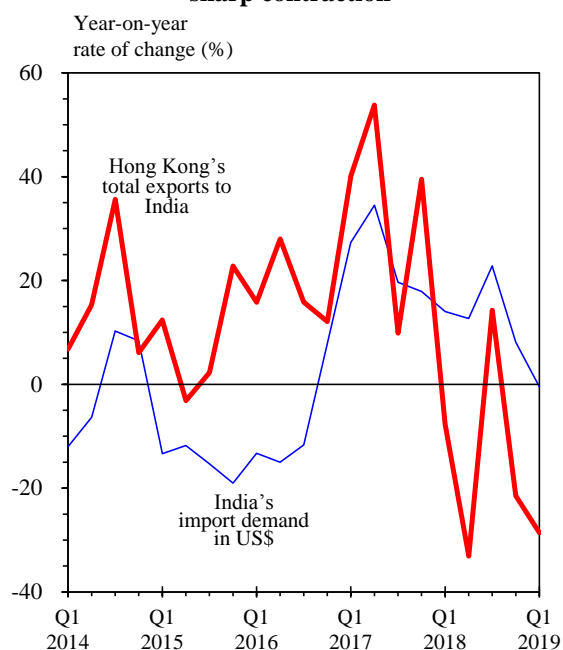


Diagram 2.9 : Exports to Taiwan declined visibly

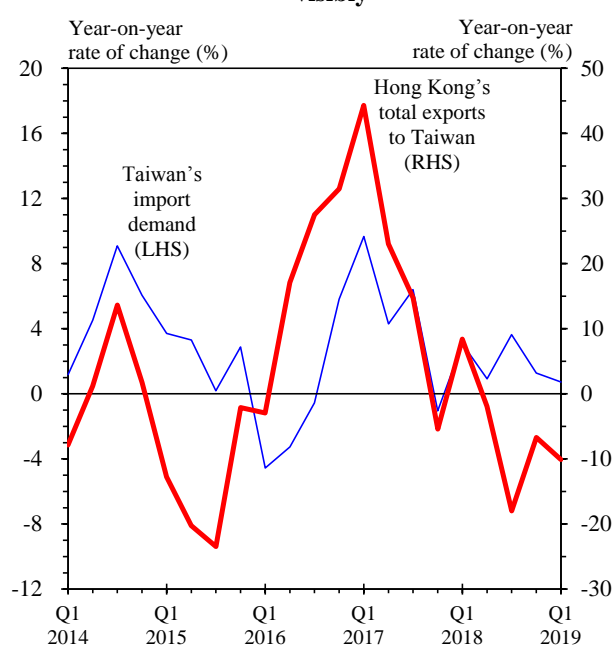


Diagram 2.10 : Exports to Korea grew moderately

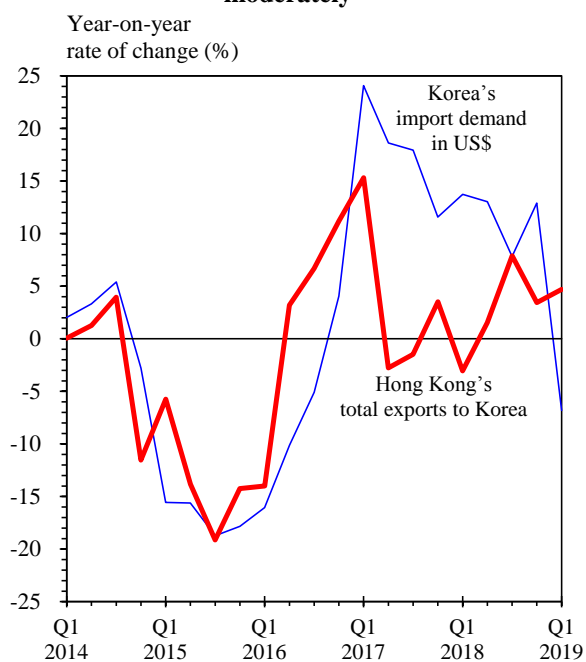
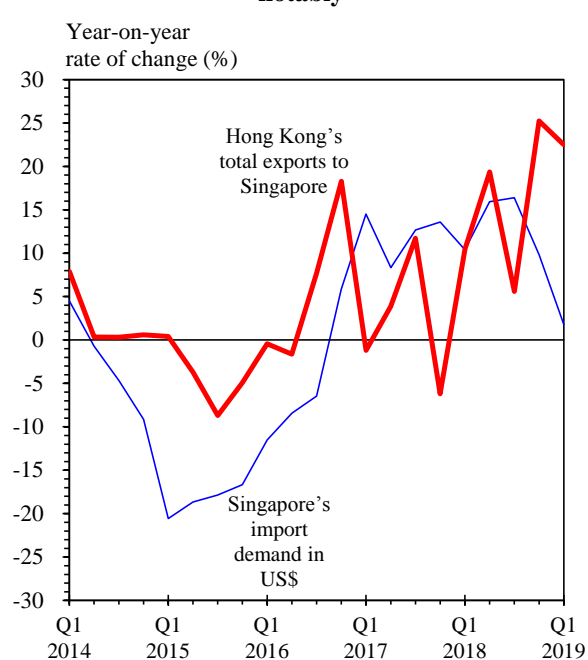


Diagram 2.11 : Exports to Singapore increased notably



Imports of goods

2.7 *Imports of goods* fell by 5.0% in real terms in the first quarter, after a 0.4% decrease in the preceding quarter. Amid the weak domestic demand, *retained imports*, which refer to the imports for domestic use and accounted for around one-quarter of total imports, recorded an enlarged decrease of 6.7%. Imports for subsequent *re-exports*⁽³⁾ turned to decrease alongside the weak trade flows in Asia.

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

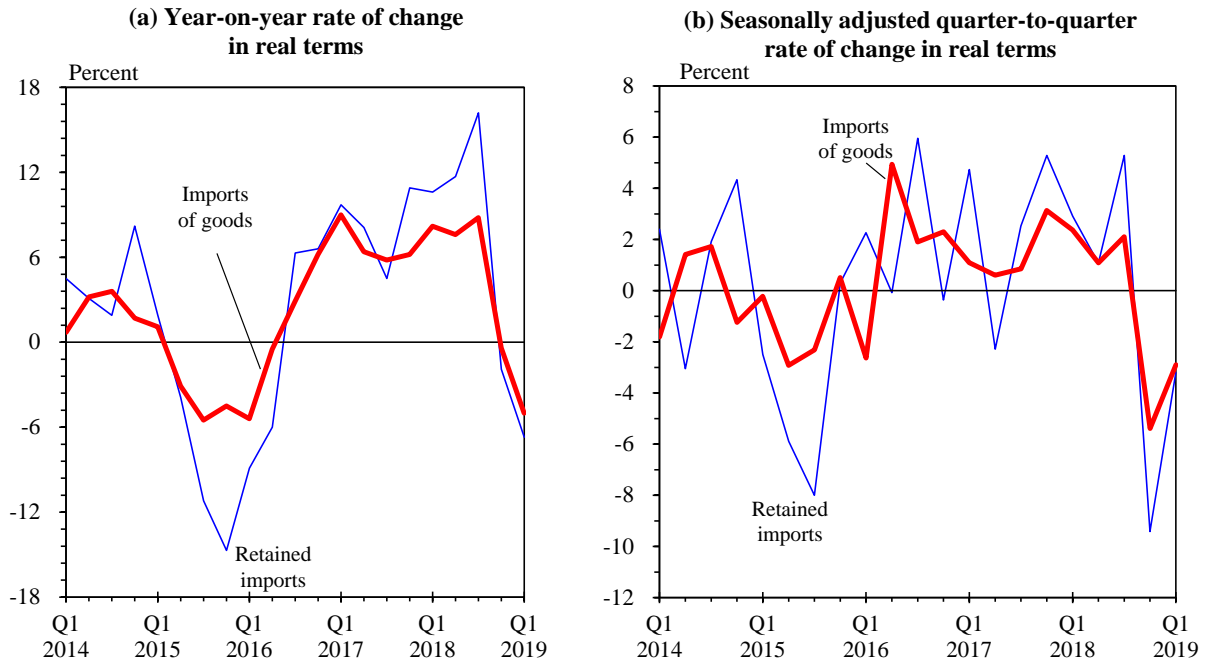
		<u>Imports of goods</u>				<u>Retained imports</u> ^(a)			
		<u>In value terms</u>	<u>In real terms</u> ⁽⁺⁾		<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>		<u>Change in prices</u>
2018	Annual	8.4	5.9		2.6	11.6	8.7		2.9
	Q1	10.6	8.2	(2.4)	2.3	12.6	10.6	(2.9)	2.3
	Q2	10.4	7.6	(1.1)	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
2019	Q1	-3.2	-5.0	(-2.9)	2.2	-4.8	-6.7	(-3.2)	2.1

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

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

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

Diagram 2.12 : Imports of goods saw a larger decrease in the first quarter

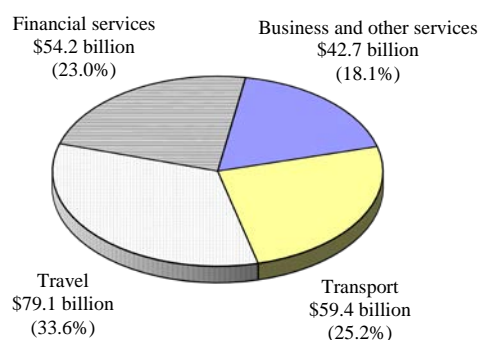


Services trade

Exports of services

2.8 Likewise the growth in *exports of services* decelerated, from 3.3% in the fourth quarter of 2018 to 1.1% in the first quarter of 2019. Underpinned by a strong increase of 16.8% in visitor arrivals, exports of travel services registered further solid growth, albeit at a somewhat decelerated rate, amid softer per capita visitor spending. Exports of financial services declined modestly amid less active global financial activities. Exports of transport services, and business and other services likewise saw modest decreases.

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



Exports of services in the first quarter of 2019:
\$235.4 billion

Diagram 2.14 : Exports of services recorded decelerated growth in the first quarter

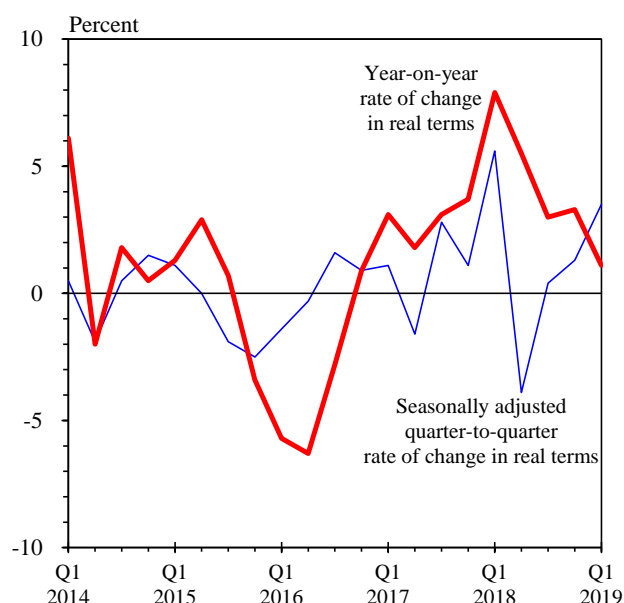


Table 2.4 : Exports of services by major service group (year-on-year rate of change in real terms (%))

		Of which :				
		Exports of services	Transport	Travel ^(a)	Financial services	Business and other services
2018	Annual	4.9	2.5	8.7	5.7	1.3
	Q1	7.9 (5.6)	4.1	12.7	9.6	1.5
	Q2	5.5 (-3.9)	2.9	10.6	7.0	1.6
	Q3	3.0 (0.4)	2.0	4.7	2.1	2.0
	Q4	3.3 (1.3)	1.0	7.2	3.7	0.3
2019	Q1	1.1 (3.5)	-0.9	4.4	-0.4	-0.5

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

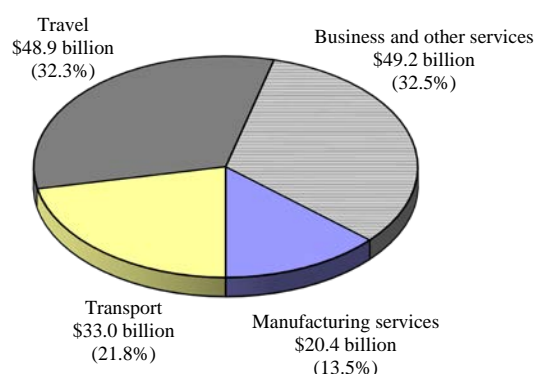
(a) Comprising mainly inbound tourism receipts.

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

Imports of services

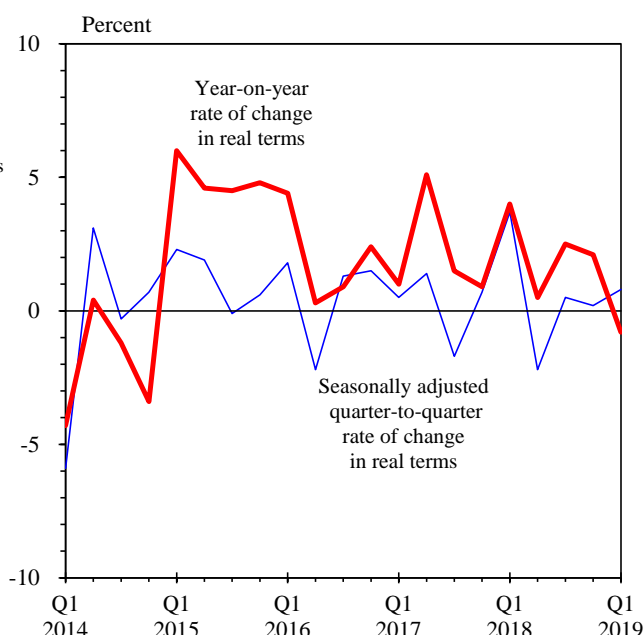
2.9 *Imports of services* fell by 0.8% year-on-year in real terms in the first quarter, having increased by 2.1% in the preceding quarter. Imports of travel services declined, partly due to the late arrival of the Easter holidays (which started in mid-April this year but in late March last year) distorting the year-on-year comparison. Imports of transport services also decreased. Imports of manufacturing services continued to fall, reflecting weakened outward processing activities. In contrast, imports of business and other services showed a faster increase.

Diagram 2.15 : Travel, business and other services together constituted over 60% of imports of services



Imports of services in the first quarter of 2019:
\$151.6 billion

Diagram 2.16 : Imports of services fell modestly in the first quarter



**Table 2.5 : 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>
2018	Annual	2.3	2.3	3.4	-0.6	2.9
	Q1	4.0 (3.7)	6.0	4.4	0.3	3.5
	Q2	0.5 (-2.2)	-3.8	1.9	4.4	3.0
	Q3	2.5 (0.5)	2.1	3.4	0.1	3.5
	Q4	2.1 (0.2)	5.4	3.9	-6.3	1.8
2019	Q1	-0.8 (0.8)	-1.4	-0.8	-6.3	2.1

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

(+) Comprising mainly outbound travel spending.

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

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

Goods and services balance

2.10 Based on the GDP accounting framework, the goods deficit in the first quarter narrowed from a year earlier, as the decline of goods imports was larger than that of goods exports. Over the same period, the services surplus widened. As the services surplus was larger than the goods deficit, the combined goods and services account registered a small surplus of \$19 billion in the first quarter of 2019, equivalent to 1.5% of total import value, whereas the account was broadly balanced in the first quarter of 2018.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			<u>As % of imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2018	Annual	4,461	891	4,716	635	-254	256	2	*
	Q1	1,021	231	1,096	156	-75	75	#	*
	Q2	1,069	205	1,158	152	-89	53	-36	-2.7
	Q3	1,186	224	1,238	161	-52	63	12	0.8
	Q4	1,185	231	1,224	166	-39	65	26	1.9
2019	Q1	997	235	1,062	152	-65	84	19	1.5

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

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

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

(#) Within $\pm \$0.5$ billion.

Other developments

2.11 The Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (the Plan) was promulgated by the Central Government in February. The Plan sets out the directions guiding the development of the Greater Bay Area. Hong Kong, Guangzhou, Shenzhen and Macao are identified as the four core cities as well as core engines for regional development. The Plan clearly supports Hong Kong in consolidating and enhancing its status as international financial, transportation and trade centres as well as an international aviation hub, strengthening its status as a global offshore Renminbi business hub and its role as an international asset and risk

management centre, making great efforts to develop innovation and technology industries as well as international legal and dispute resolution services. These are all conducive to developing Hong Kong into an international metropolis with enhanced competitiveness. Furthermore, eight policy measures were introduced by the Central Government in March to facilitate Hong Kong residents to pursue their careers and live in the Mainland cities of the Greater Bay Area, and make the flow of people and goods within the Greater Bay Area more convenient (see **Box 2.2** on the Development of the Guangdong-Hong Kong-Macao Greater Bay Area and Opportunities for Hong Kong).

2.12 The gradual development of the Belt and Road into an economic and trade co-operation corridor spanning Europe, Asia and Africa has strengthened ties between different regions along the route, and created greater room for Hong Kong's economic and social development. The Government has been playing the role of "facilitator" and "promoter" to proactively implement policies and measures to seize the opportunities brought by the Belt and Road Initiative. In April, the Chief Executive led the Hong Kong delegation to the Belt and Road Forum for International Cooperation held in Beijing. The Government will continue to encourage the Mainland and other Belt and Road economies to leverage on Hong Kong's strengths, including professional services and talent.

2.13 The Government strives to expand market coverage of Hong Kong's network of Free Trade Agreements to create more room for development for Hong Kong. The Hong Kong - Georgia Free Trade Agreement entered into force in February. Moreover, Hong Kong and Australia signed a Free Trade Agreement and an Investment Agreement in March, providing Hong Kong products, services, service providers and investors with legal certainty and more favourable access to the Australian market, whilst creating more business opportunities and enhancing trade and investment flows between the two places. Separately, the Hong Kong Economic and Trade Office in Bangkok commenced operation in February. The opening of the Government's third Economic and Trade Office in the ASEAN region will further strengthen Hong Kong's economic and trade relations with the ASEAN region for more new business opportunities.

Box 2.2

The Development of the Guangdong-Hong Kong-Macao Greater Bay Area and Opportunities for Hong Kong

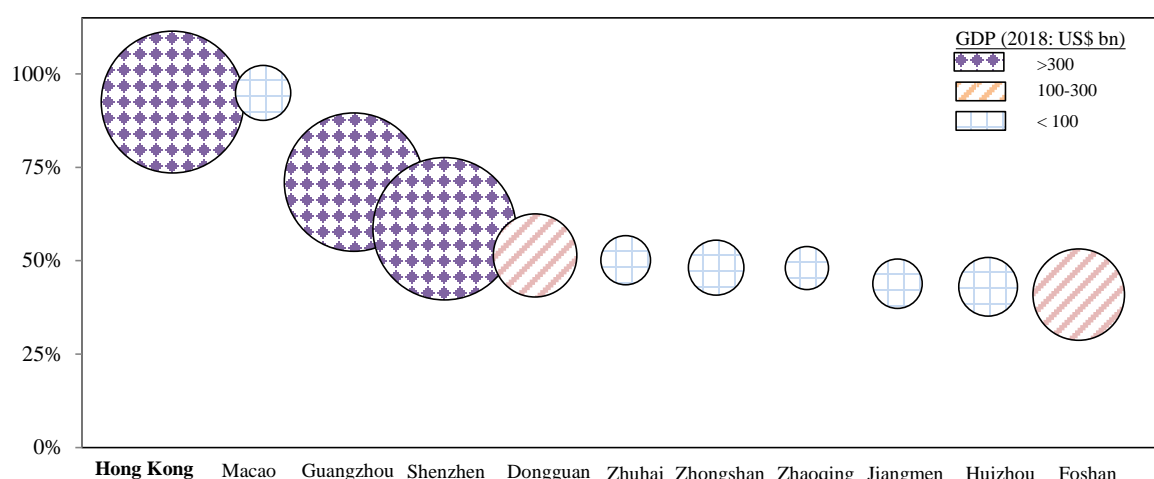
The development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) is a national strategy that breaks new ground in China's pursuit of opening up on all fronts in a new era. Hong Kong has long maintained close economic links with Guangdong Province and Macao, thanks to geographical proximity as well as strong cultural and historical ties. The development of the GBA will further deepen the co-operation in the region, thereby unleashing its full economic potential. This article discusses the opportunities for Hong Kong arising from the development of the GBA.

The GBA: An overview

The GBA comprises the two Special Administrative Regions (SARs) of Hong Kong and Macao and nine municipalities in Guangdong Province, namely Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing. The area is one of the most open and economically vibrant regions in China, with a total population of 71 million and a combined gross domestic product (GDP) of around US\$1.6 trillion in 2018 (accounting for roughly 5% and 12% of national total respectively).

The GBA cities exhibit noticeable diversity in economic structure and development. In terms of economic structure, Hong Kong and Macao are highly service-oriented, with services sector accounting for over 90% of their respective GDP, distinctly higher than in the rest of the GBA (*Chart 1*). Guangzhou, Shenzhen, Dongguan and Zhuhai also have sizeable services sectors which represent more than half of their GDP, while the remaining cities are generally more reliant on the industrial sector. The economies in the GBA vary in size as well. Hong Kong, Guangzhou and Shenzhen each had GDP of above US\$300 billion in 2018, followed by Foshan and Dongguan in the US\$120-150 billion range, and the remaining cities at around US\$30-60 billion.

Chart 1 : Shares of services sector in the economy (2017)



Note: The sizes of the bubbles represent the relative size of GDP in US dollar terms in 2018 of the respective cities.

Sources: Census and Statistics Department, Hong Kong SAR; National Bureau of Statistics, China; and Statistics and Census Service, Macao SAR.

Box 2.2 (Cont'd)

Opportunities arising from the development of the GBA

In February 2019, the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (ODP) was promulgated. While noting the development gap among cities in the GBA, the ODP also highlighted the complementarity of the cities and the importance of co-ordinated economic development, and provided guiding directions for development with a view to establishing the GBA as a world-class city cluster as well as a globally influential innovation and technology (I&T) hub.

The development of the GBA will bring about a range of opportunities for Hong Kong, particularly in the two aspects of (1) identifying new areas of growth and fostering diversified development of the economy; and (2) expanding the space for living and development of Hong Kong residents.

(1) Identify new areas of growth and foster diversified development

The ODP puts special emphasis on establishing the GBA as an international I&T hub. Thanks to its world-renowned universities, strong research and development capabilities, and robust intellectual property protection regime, Hong Kong possesses a solid science and technology foundation and an outstanding talent pool, and is well placed to participate in I&T development in the GBA and reap the benefits thus arisen. To support the I&T sector, the Hong Kong SAR Government has put in place various initiatives such as promoting research through the provision of tax incentives, research grants and co-operation with enterprises and institutions in the Mainland and overseas, and measures to nurture, attract and retain I&T talents. Special co-operation platforms to support I&T activities in the region, including the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop, will be established. Measures to facilitate the cross-boundary flow of innovation elements such as talents, capital, information and technologies will also be introduced.

At the same time, the development of the GBA will inject new impetus to Hong Kong's pillar industries and support their diversification into areas with good potential, thereby strengthening the city's position as global financial, transportation and trade centres as well as an international aviation hub.

- Hong Kong has long been an international financial centre, a global offshore Renminbi business hub, and a premier location for asset management, risk management and financing activities. Taking advantage of its strong connectivity with other cities in the GBA, Hong Kong can provide high value-added financial services to businesses and people in the region and become an investment and financing platform for enterprises, especially those in high-technology industries. Moreover, Hong Kong can capitalise on new areas of growth in the financial sector arising from the development of the GBA, particularly green finance and financial technologies.
- Hong Kong's vibrant and world-class professional services sectors will also be able to tap into the huge growth potential offered by the GBA. For instance, Hong Kong, as an international aviation hub, can offer aviation management training, value-added freight, aircraft leasing and aviation financing services in support of building an airport cluster of global significance in the GBA. On the maritime sector, Hong Kong can develop sophisticated maritime services such as ship management and leasing, ship finance and marine insurance, and provide these services to Mainland and Macao enterprises. Furthermore, Hong Kong can leverage on its renowned legal system to provide dispute resolution, arbitration and mediation services of international standard to businesses and individuals in the GBA.

Box 2.2 (Cont'd)

(2) Expand the space for living and development

The GBA creates a vibrant space that offers quality living, work opportunities and leisure travelling for people in the region. As stated in the ODP, the relevant government departments of Hong Kong and in the Mainland have been fostering co-operation in social security, with a view to providing Hong Kong residents working and living in Guangdong Province with the same treatment as Mainland residents in livelihood areas such as education, medical care, elderly care, housing and transport.

The development of the GBA also encompasses further improving the connectivity between Hong Kong and other cities in the region. The Hong Kong-Zhuhai-Macao Bridge and the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, both commenced operation in 2018, have substantially shortened the commute time between Hong Kong and other parts of the GBA. Such large-scale cross-boundary infrastructures, combined with the ongoing efforts to streamline and simplify customs procedures between Hong Kong and the Mainland, will facilitate the flow of people and goods within the region and bring about great convenience to the people of Hong Kong.

Furthermore, the development of the GBA enables Hong Kong's talents, including young people, to participate in the advancement of China's economy and seize opportunities in such areas as employment, entrepreneurship, internship and cultural exchange.

Recent developments

To take forward the development of the GBA, the Central Government, the Guangdong Provincial Government and the Hong Kong SAR Government have recently rolled out various policy measures, including:

- Launching two funding schemes, namely the Funding Scheme for Youth Entrepreneurship in the GBA and Funding Scheme for Experiential Programmes at Innovation and Entrepreneurial Bases in the GBA, by the Hong Kong SAR Government to subsidise Hong Kong-based non-governmental organisations to provide entrepreneurial support, incubation services and experiential programmes for local young people and to provide youth start-ups with seed funding;
- Allowing higher education and research institutes in Hong Kong and Macao which conduct, lead or join projects under the Guangdong Provincial Science and Technology Programme to receive direct cross-boundary funding from the Programme; and
- Introducing preferential tax policies to Hong Kong residents by the Central Government, such as providing tax concessions to non-Mainland (including Hong Kong) high-level and urgently-needed talents working in the GBA to offset the higher individual income tax burden in the Mainland, and clarifying the calculation of the number of days of residence for individuals without domicile in the Mainland for determining individual income tax obligation.

Conclusion

The development of the GBA will bring about huge development potentials to Hong Kong as the GBA strives to become an international first-class bay area for living, working and travelling by 2035. To seize these opportunities, the Hong Kong SAR Government will continue to liaise proactively with its Guangdong and Macao counterparts and relevant ministries of the Central Government for introducing more measures to facilitate connectivity, flow of people, goods and capital, as well as promote complementary economic development in the GBA.

Notes :

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the external trade quantum index series compiled using the chain linking approach, which were first released in March 2015 to replace the previous trade index numbers compiled using the Laspeyres method with a fixed base year. The series are not comparable with the real trade aggregates under GDP (reported in Chapter 1) which are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*. Apart from this, non-monetary gold is recorded as a separate item in the statistics of merchandise trade and not included in the trade aggregates reported in Chapter 2, but is included in the trade aggregates under GDP in accordance to the international compilation standard.
- (2) It is crudely estimated that, with reference to the annual merchandise trade figures for 2017, Hong Kong's re-exports of the Mainland origin to the US affected by the various batches of additional tariffs introduced by the US in the third quarter of 2018 were equivalent to around 3.5% of Hong Kong's total exports of goods. The value of these re-exports turned to a year-on-year decline of 6.3% in the fourth quarter of 2018 and plunged by 22.9% in the first quarter of 2019, in contrast to the increase of 12.3% in the first three quarters of 2018 combined. The slowdown was much sharper than that in the value of total exports of goods to all markets, which decelerated to a 2.2% growth in the fourth quarter of 2018 and slackened further to a 2.4% decline in the first quarter of 2019, from the increase of 9.2% in the first three quarters of 2018 combined.
- (3) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

Summary

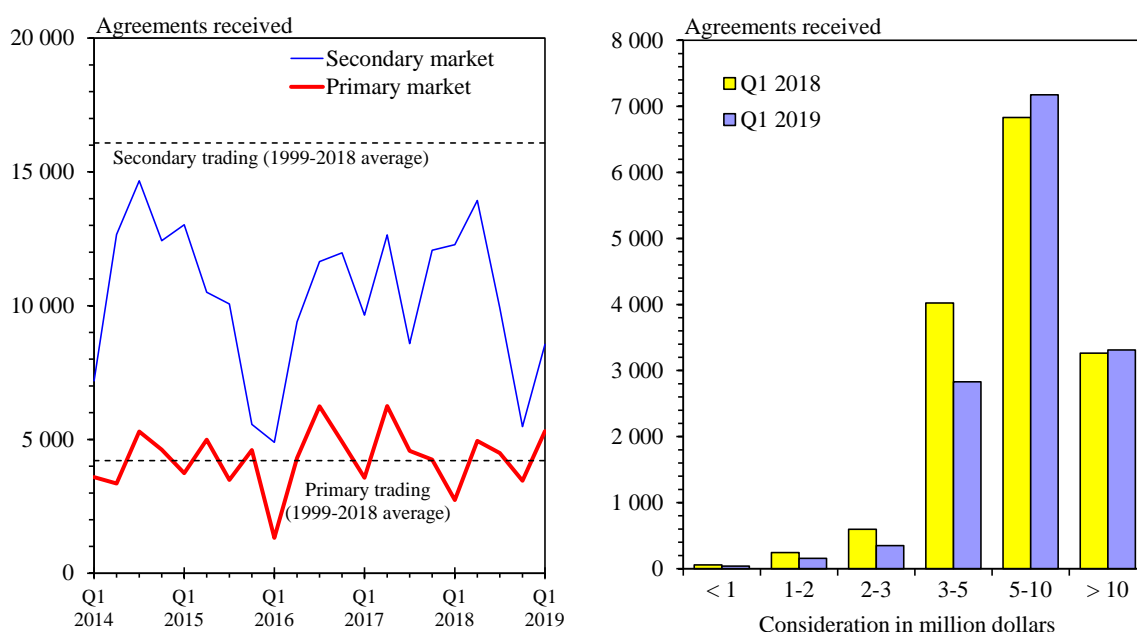
- *The residential property market rebounded in the first quarter of 2019, after undergoing a consolidation in the second half of 2018. During the quarter, easing concerns about US-Mainland trade tensions, the revival in global stock markets, and dissipated expectations of further interest rate hikes in the US, all lent support to market sentiment. Trading activities picked up notably from a very low level in the preceding quarter, while flat prices rebounded strongly by 5% during the quarter.*
- *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-March 2019.*
- *In contrast to the residential property market, the commercial and industrial property markets were generally lacklustre in the first quarter, with thin trading. Prices saw further declines during the quarter, while rentals exhibited diverse movements in different market segments.*
- *Inbound tourism showed further brisk expansion in the first quarter, buttressed by the continued surge in Mainland visitors. Overall visitor arrivals soared by 16.8% over a year earlier to 18.2 million.*
- *Dragged by the weak external trade performance, the logistics sector was generally tepid in the first quarter. Total container throughput fell further by 9.2% from a year earlier, and air freight throughput by 5.4%.*

Property

3.1 The *residential property market* rebounded in the first quarter of 2019, after undergoing a consolidation in the second half of 2018. During the quarter, easing concerns about US-Mainland trade tensions, the revival in global stock markets, and dissipated expectations of further interest rate hikes in the US, all lent support to market sentiment. Trading activities picked up notably from a very low level in the preceding quarter, while flat prices rebounded strongly during the quarter.

3.2 The total number of sale and purchase agreements for residential property received by the Land Registry jumped by 55% over the low base in the preceding quarter to 13 863 in the first quarter, yet was still 8% lower than a year earlier when the market was very buoyant. Within the total, primary and secondary market transactions soared by 54% and 56% respectively over the preceding quarter. In parallel, total consideration surged by 43% to \$126.9 billion.

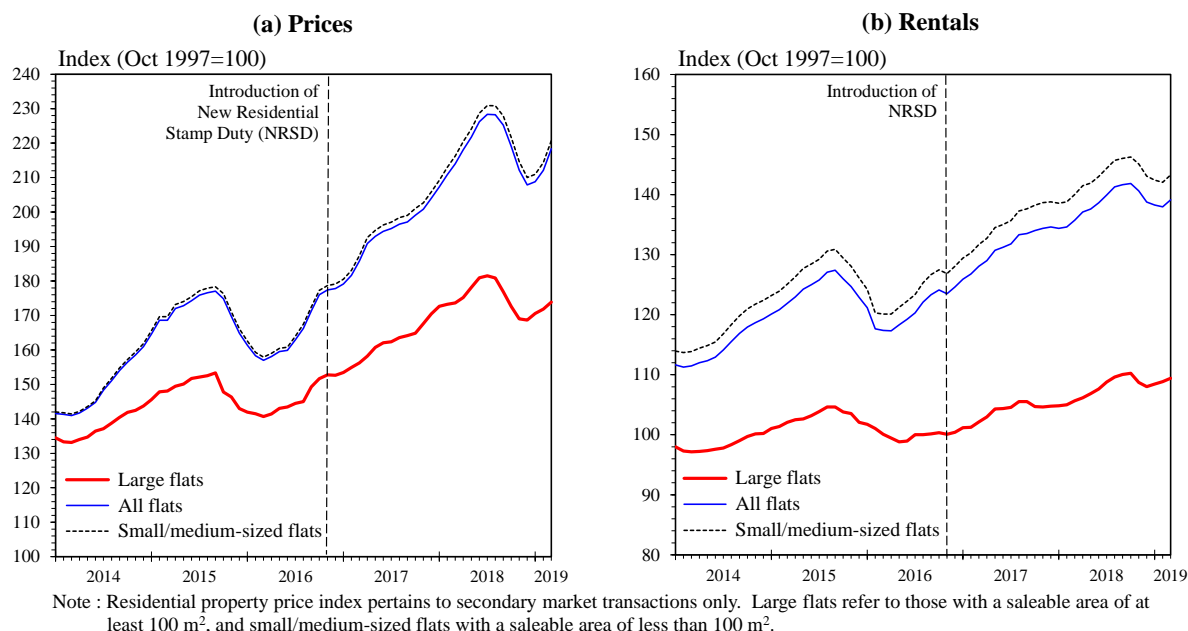
Diagram 3.1 : Trading activities picked up notably in the first quarter



3.3 Supported by the revival in market sentiment, flat prices on average rebounded notably by 5% between December 2018 and March 2019, with the monthly gain accelerating through the first quarter. Analysed by size, prices of small/medium-sized flats and large flats rose by 5% and 3% respectively. Nonetheless, flat prices in March were still 4% lower than the recent peak in July 2018.

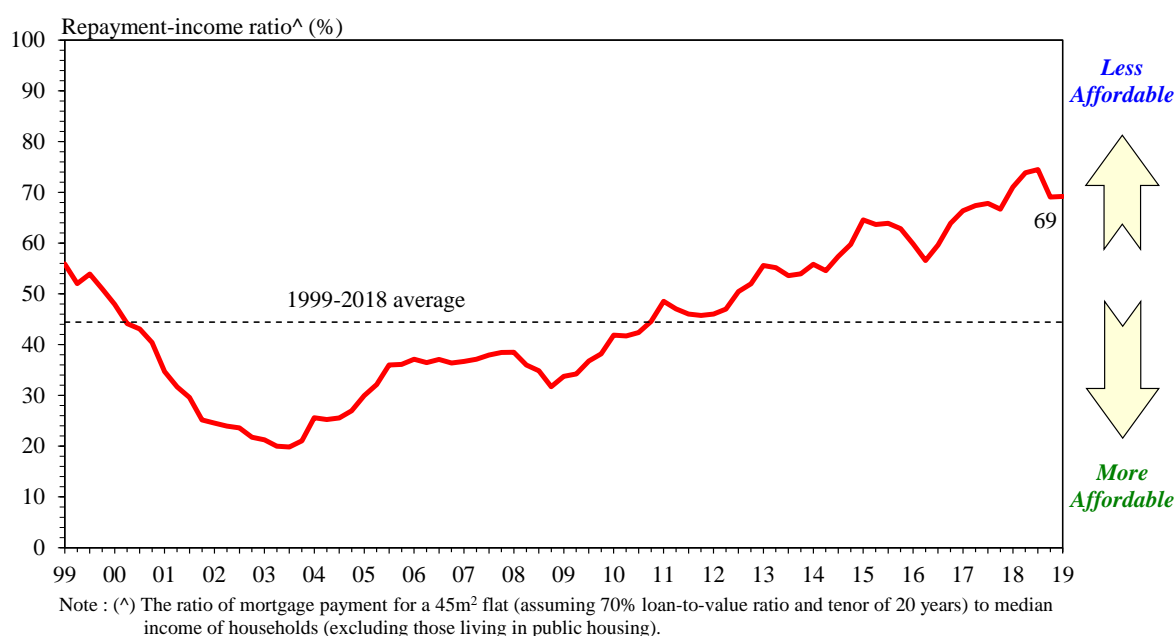
3.4 The leasing market also showed signs of stabilisation in the first quarter. Flat rentals on average were little changed during the first quarter, with the increase in March offsetting the decreases in January and February. Analysed by size, rentals of small/medium-sized flats were virtually flat, while those of large flats edged up by 1%. Reflecting the relative movements of flat prices and rentals, the average rental yield for residential property declined marginally from 2.6% in December 2018 to 2.5% in March 2019.

Diagram 3.2 : Flat prices rebounded notably during the first quarter, while rentals were little changed



3.5 As a result of the general rise over the past several years, flat prices in March 2019 exceeded the 1997 peak by 118%. The index of home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) remained elevated at around 69% in the first quarter, significantly above the long-term average of 44% over 1999-2018. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 90%.

Diagram 3.3 : The index of home purchase affordability remained elevated



3.6 Raising flat supply through increasing land supply is a key policy of the Government. In February, the Government announced the 2019-20 Land Sale Programme, which comprises 15 residential sites capable of providing about 8 900 flats in total. Combining the various sources (including Government land sale, railway property development projects, the Urban Renewal Authority's projects, and private development and redevelopment projects), the total private housing land supply in 2019-20 has an estimated capacity of providing about 15 500 units.

3.7 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-March 2019. Another 5 700 units could be added to the total supply after the conversion of a number of residential sites into "disposed sites". Also, the annual average completions of private residential flats are projected at about 18 800 units in 2019-2023, an increase of around 20% over the past five years.

3.8 Over the past several years, the Government has also implemented 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⁽¹⁾. These measures have yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) remained low at 55 cases per month or 1.0% of total transactions in the first quarter, well below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer's Stamp Duty, *purchases by non-local individuals and non-local companies* also stayed low at 41 cases per month or 0.8% of total transactions in the first quarter, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As an indicator of *investment activities*, purchases subject to the New Residential Stamp Duty stayed at a modest level of 350 cases per month or 6.5% of total transactions in the first quarter, markedly lower than the monthly average of 1 412 cases subject to Double Stamp Duty or 26.5% in January to November 2016. As to *mortgage lending*, the average loan-to-value ratio of new mortgages was 47% in the first quarter, likewise considerably below the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority.

Diagram 3.4 : Speculative activities stayed subdued

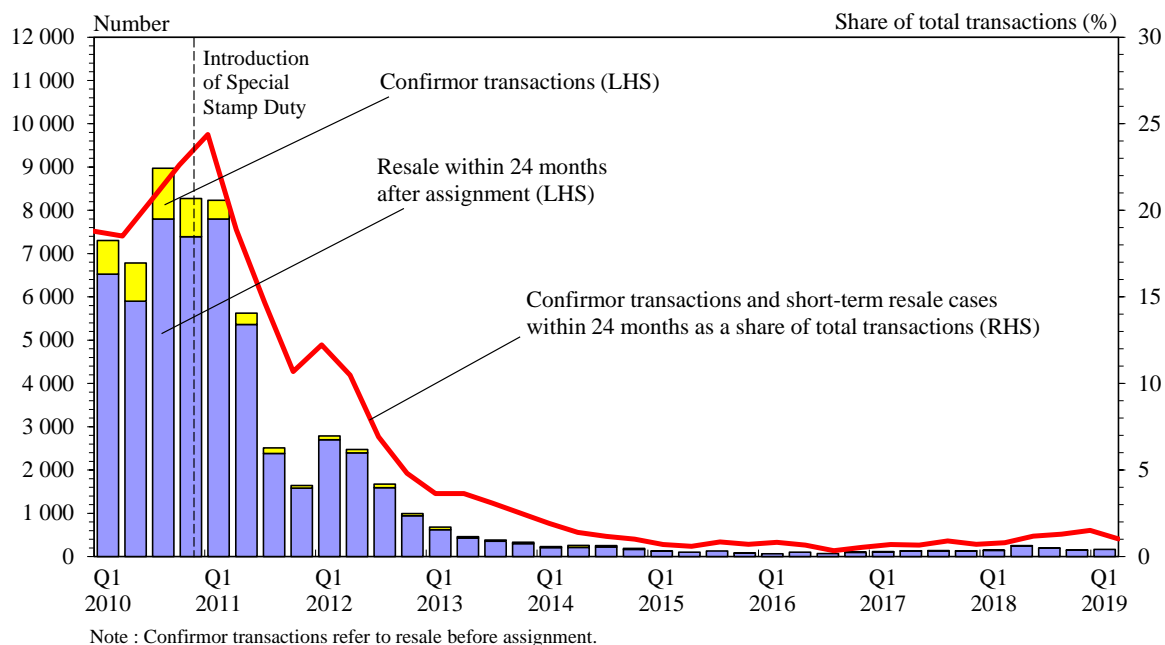


Diagram 3.5 : Purchases by non-local buyers stayed low

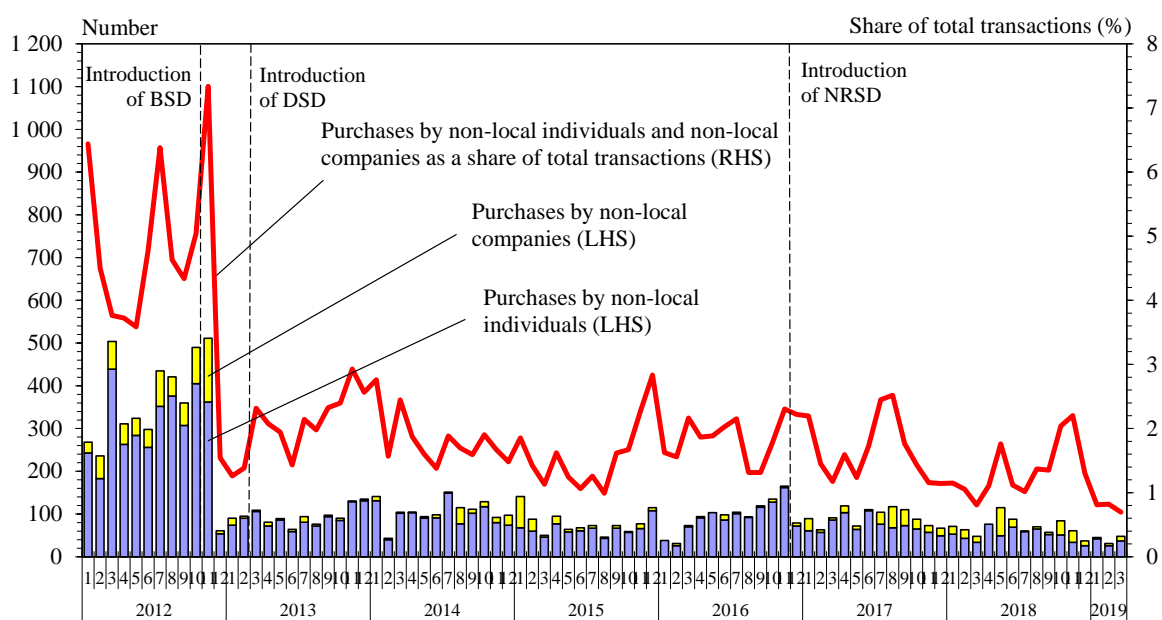
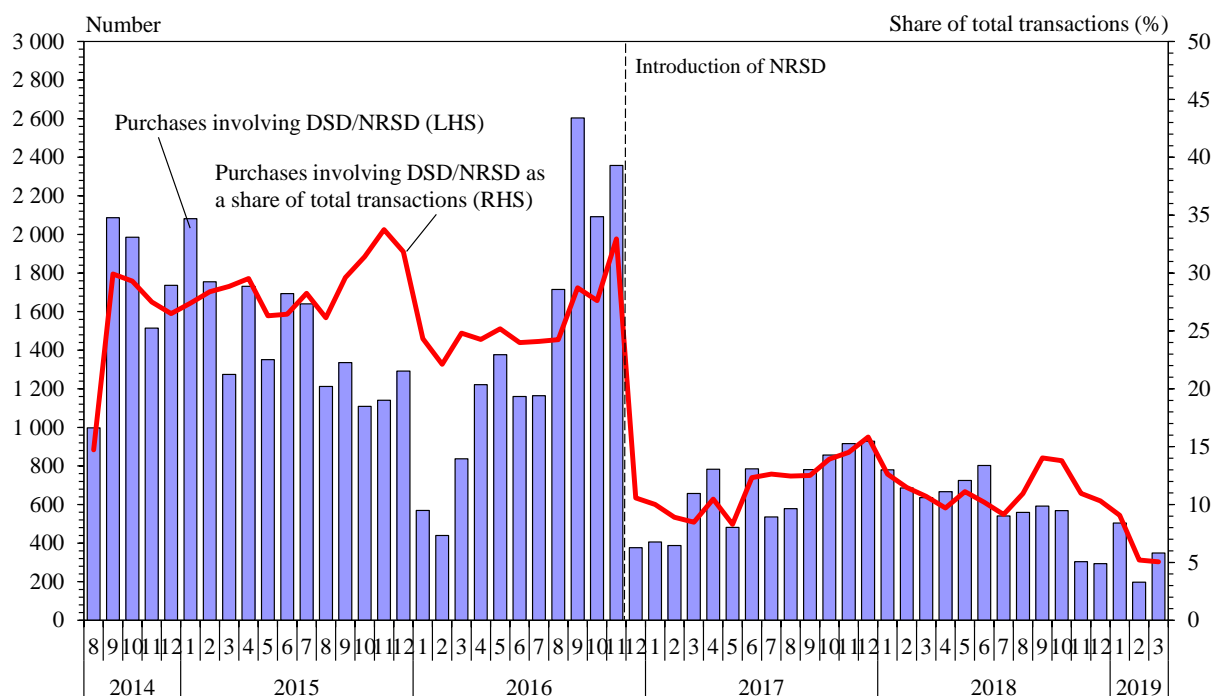


Diagram 3.6 : Investment activities were modest



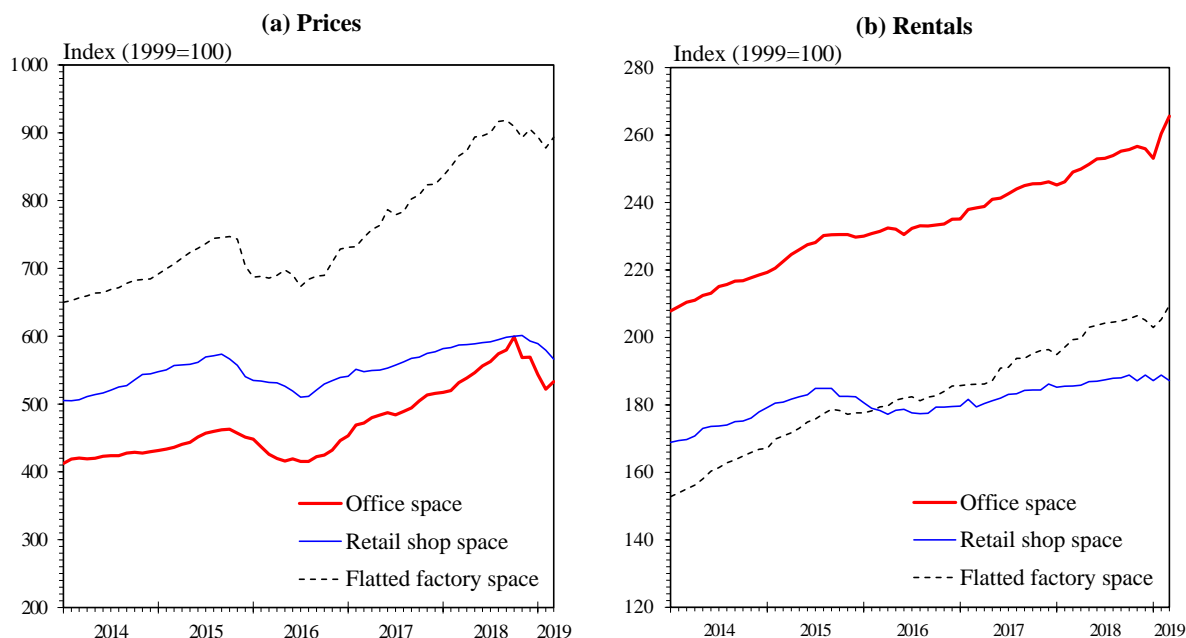
3.9 In contrast to the residential property market, the *commercial* and *industrial property markets* were generally lacklustre in the first quarter, with thin trading. Prices saw further declines during the quarter, while rentals exhibited diverse movements in different market segments.

3.10 Prices of *office space* on average fell by 6% between December 2018 and March 2019. Analysed by office class, prices of Grade A and B office space declined by 13% and 6% respectively, while prices of Grade C office space were virtually flat. Meanwhile, office rentals on average increased by 4%, with those of Grade A, B and C office space rising by 4%, 3% and 2% respectively. The average rental yields of Grade A, B and C office space were 2.6%, 3.0% and 2.9% respectively in March 2019, compared with 2.2%, 2.7% and 2.9% in December 2018. Transactions for office space rebounded by 23% from the recent low in the preceding quarter to 210 cases in the first quarter, but still plummeted by 50% from a year earlier.

3.11 Prices and rentals of *retail shop space* declined by 5% and 1% respectively during the first quarter. As a result, the average rental yield edged up from 2.4% to 2.5%. Meanwhile, trading activities decreased by 2% from the preceding quarter or 51% from a year earlier to a low of 280 cases in the first quarter⁽²⁾.

3.12 Prices of *flatted factory space* in March 2019 edged down by 1% from December 2018, while rentals rose by 2%. Reflecting these movements, the average rental yield edged up from 2.7% to 2.8%. Transactions increased by 15% over the preceding quarter to 550 cases in the first quarter, but were still 65% below a year earlier.

Diagram 3.7 : Prices of non-residential properties saw further declines during the first quarter, while rentals exhibited diverse movements



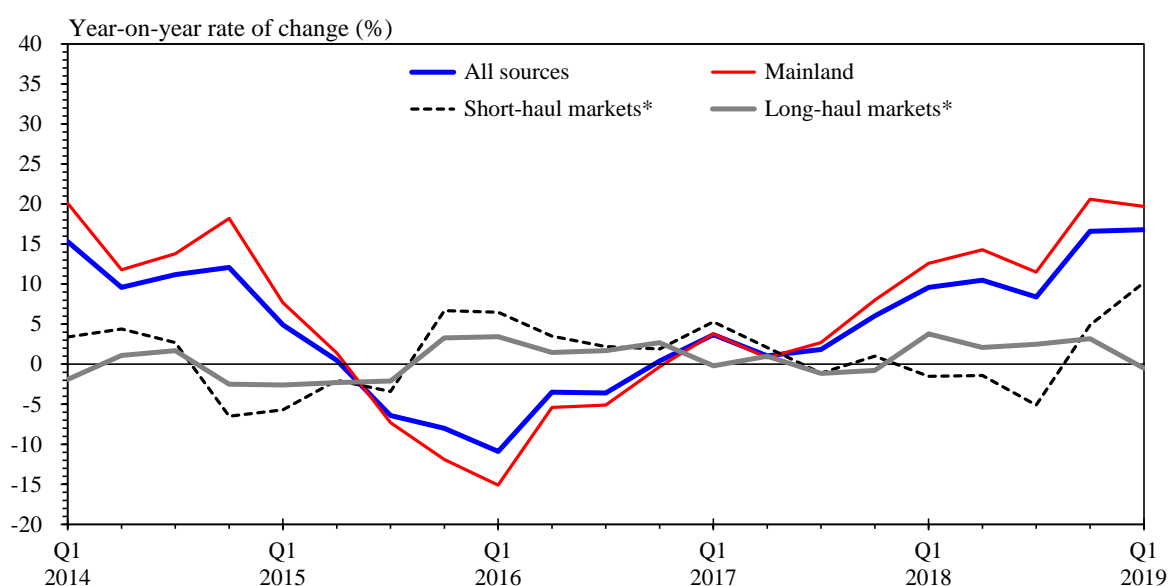
Land

3.13 Five residential sites, with a total area of about 7.5 hectares, were disposed of in the first quarter, fetching a land premium of about \$28.8 billion. In addition, the tender exercises for one residential site, one commercial/hotel site and three sites for petrol filling station commenced in the quarter. In the first quarter, one land exchange case and lease modifications of eight sites were approved.

Tourism

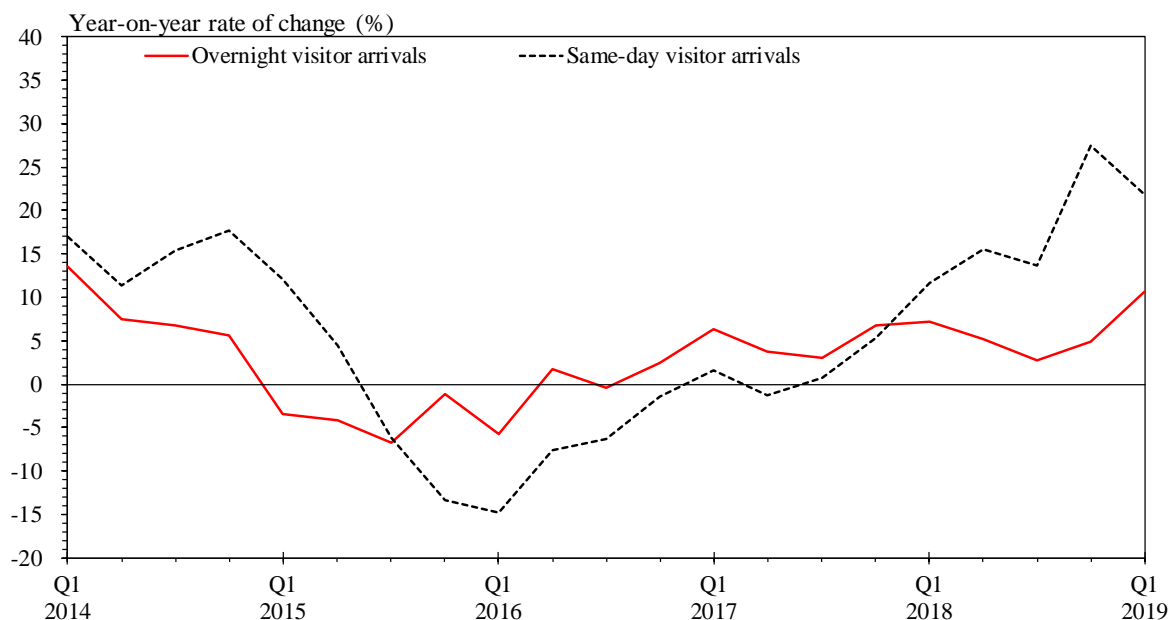
3.14 Inbound tourism showed further brisk expansion in the first quarter, buttressed by the continued surge in Mainland visitors. Overall *visitor arrivals* soared by 16.8% over a year earlier to 18.2 million. Mainland visitors, which accounted for 80.0% of the total, increased sharply by 19.7% to 14.6 million, partly boosted by the commencement of the two large cross-boundary transport links in the latter part of last year. As for other markets, visitor arrivals from short-haul markets rose by 10.2%, while visitor arrivals from long-haul markets dropped mildly by 0.5%⁽³⁾. Visitor spending, as measured by exports of travel services, rose by another 4.4% year-on-year in real terms in parallel.

Diagram 3.8 : Inbound tourism showed further brisk expansion in the first quarter



3.15 Analysed by the length of stay, same-day and overnight visitor arrivals in the first quarter increased sharply by 21.8% and 10.7% respectively over a year earlier. Reflecting these movements, the share of same-day visitors rose from 55.0% a year earlier to 57.4%, while that of overnight visitors declined from 45.0% to 42.6%.

Diagram 3.9 : Both same-day visitor arrivals and overnight visitor arrivals increased sharply in the first quarter

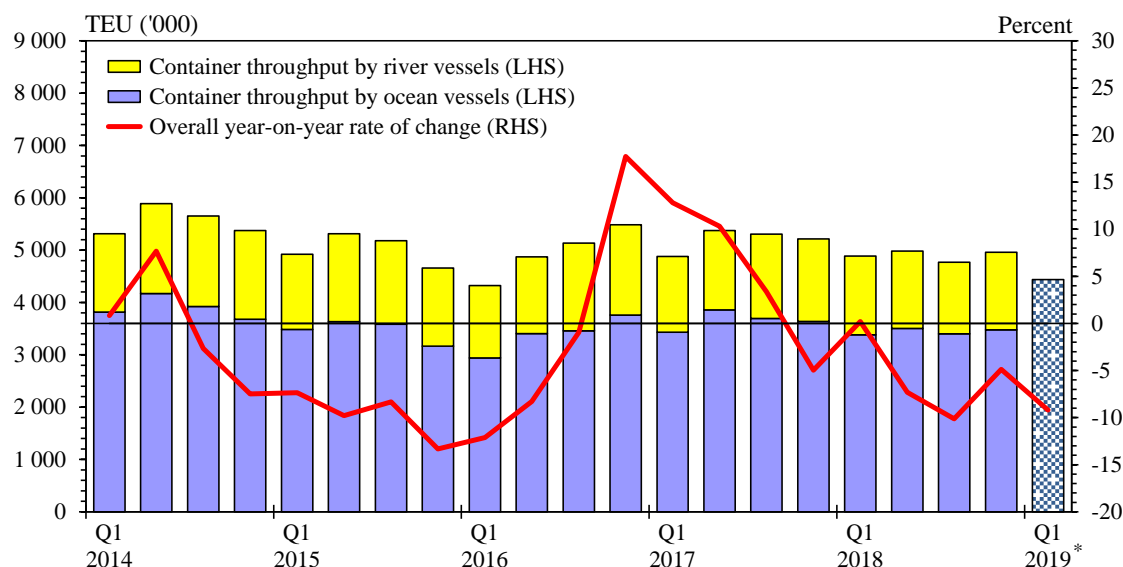


3.16 Supported by the notable increase in overnight visitors, the average hotel room occupancy rate rose from 91% a year earlier to 92% in the first quarter. The average achieved hotel room rate also increased by 1.6% over a year earlier to \$1,393⁽⁴⁾.

Logistics

3.17 Dragged by the weak external trade performance, the logistics sector was generally tepid in the first quarter. *Total container throughput* fell further by 9.2% from a year earlier to 4.4 million twenty-foot equivalent units (TEUs), reflecting the declines in both direct and transshipment cargoes handled. In parallel, the value of trade handled at the Hong Kong port fell by 7.3%, and its share in total trade contracted from 18.1% a year earlier to 17.3%.

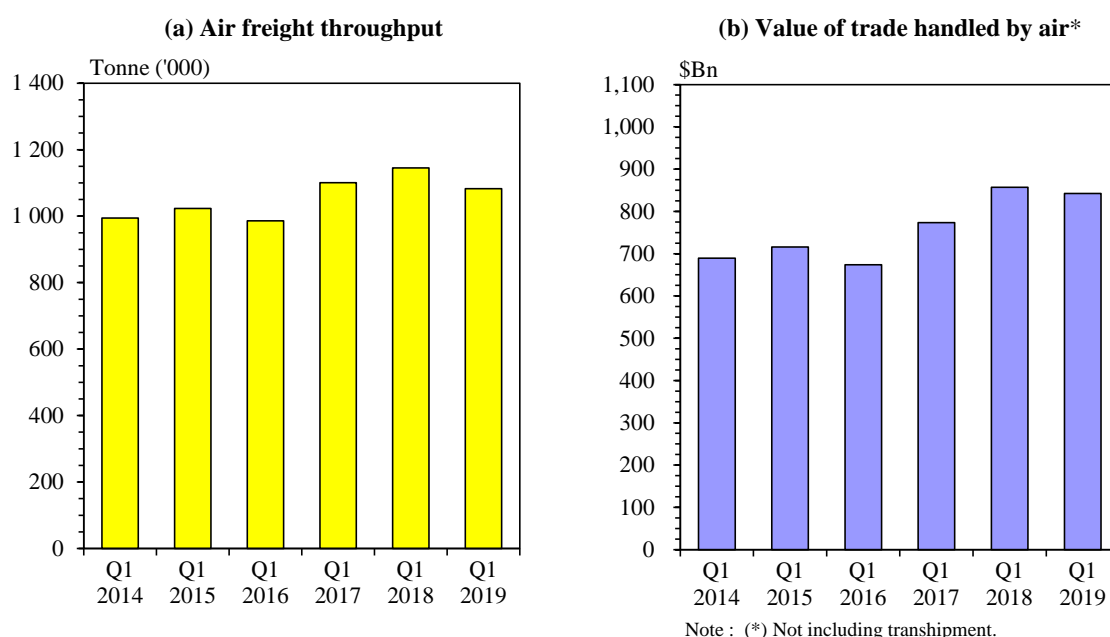
Diagram 3.10 : Container throughput fell further in the first quarter



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

3.18 *Air freight throughput* declined by 5.4% from a year earlier to 1.1 million tonnes in the first quarter. The value of trade by air likewise fell by 1.7%, but its share in total trade rose from 42.5% a year earlier to 43.0%.

Diagram 3.11 : Air freight throughput and value of trade handled by air declined in the first quarter



Note : (*) Not including transshipment.

Transport

3.19 Traffic flows for different modes of transport showed a mixed performance in the first quarter. Air passenger traffic rose by another 2.5%

over a year earlier to 18.8 million trips. Water-borne passenger trips plummeted by another 28.4% to 4.7 million, whereas land-based cross-boundary passenger trips increased notably by 17.2% to 65.3 million, conceivably reflecting the substitution of passenger trips following the operation of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge. Meanwhile, average daily cross-boundary vehicle movements rose by 2.1% to 42 624 (see **Box 3.1** for the characteristics of cross-boundary trip makers).

Innovation and technology

3.20 In the 2019-20 Budget, the Financial Secretary announced various measures to support the development of innovation and technology (I&T) in Hong Kong. These include, among others, setting aside \$5.5 billion for the development of Cyberport 5 to accommodate more technology companies and start-ups, and \$16 billion for University Grants Committee-funded universities to enhance or refurbish campus facilities, in particular for the provision of additional facilities essential for R&D activities. In addition, the Technology Voucher Programme will be regularised and the funding ceiling for each applicant will be doubled, from \$200,000 to \$400,000, to encourage the wider adoption of technology to improve efficiency and services. These measures would be conducive to promoting I&T development and strengthening Hong Kong's long-term economic competitiveness.

Environment

3.21 In the first quarter, the Government rolled out a range of policies to promote wider use of electric vehicles (EVs) in Hong Kong. The eligibility criteria of minimum ownership and licensed periods of old private cars under the "One-for-One Replacement" Scheme for electric private cars were cut by half (to 18 months and 10 months respectively) from January 2019 to the end of the Scheme in March 2021. Also, the Financial Secretary announced various measures in the 2019-20 Budget to increase the provision of charging facilities for EVs, including installing over 1 000 additional public EV chargers at Government car parks by 2022, identifying suitable on-street parking spaces to install EV chargers on a trial basis, and exploring ways for encouraging the installation of EV charging facilities at car parks in existing buildings as well as potential locations for setting up pilot quick charging stations for EVs.

Box 3.1

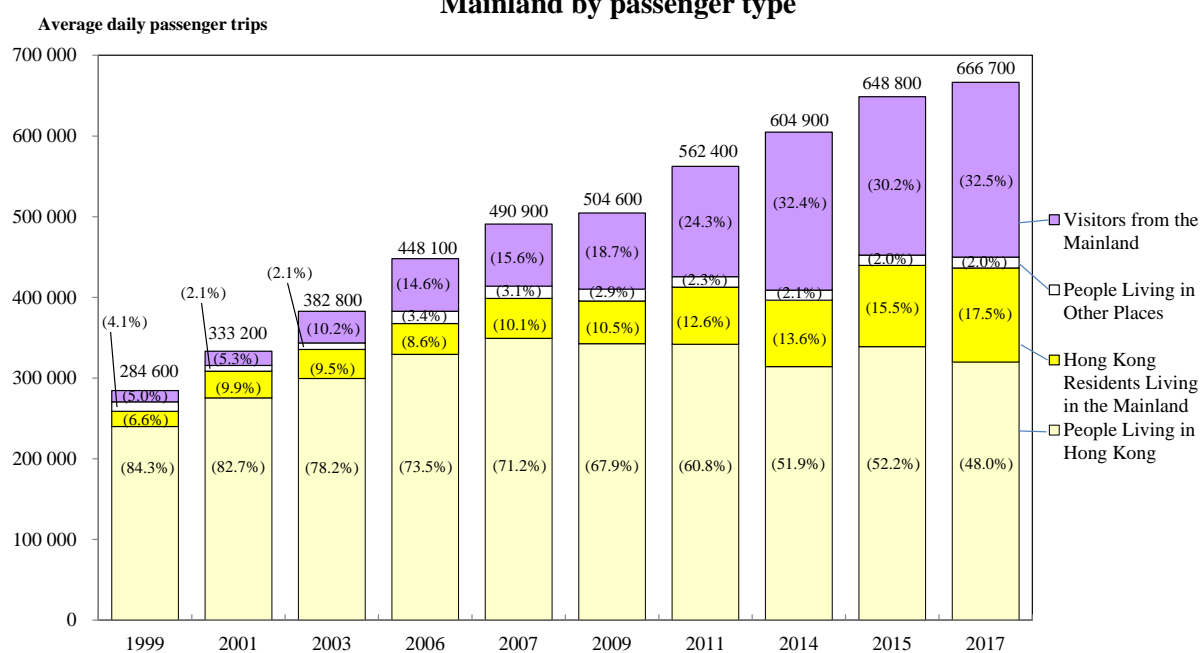
Characteristics of cross-boundary trip makers

To have a better understanding of cross-boundary travel activities, the Planning Department has been conducting surveys, once every 1-3 years, since 1999 to collect information on characteristics of cross-boundary trips and demographic profiles of trip makers. The latest survey, the tenth round of the series and entitled *Cross-boundary Travel Survey 2017* (the Survey), was conducted in November 2017, and the report was released in February 2019. This article summarises the results of the Survey.

Reflecting the closer ties and integration between Hong Kong and the Mainland in various socio-economic aspects, cross-boundary passenger trips have been on an uninterrupted rise over the past few decades. These trips reached a daily average of 666 700 in 2017⁽¹⁾, representing an increase of 3% over 2015. Compared with 1999 when the survey was first conducted, the number of these trips in 2017 surged by a cumulative 134%, equivalent to an average annual growth of 5%.

Yet trips made by different types of trip maker showed varied performance in 2017. Trips made by Hong Kong residents living in the Mainland increased further, by 16% over 2015 to a daily average of 116 600 and trips made by visitors from the Mainland by 10% to 216 600. Their shares in total trips also rose to 17.5% and 32.5% respectively. On the other hand, trips made by people living in Hong Kong declined by 6% to 319 800 per day in 2017. Its share also shrank to 48.0%, though still the largest among all types of trip maker. Meanwhile, trips made by people living in other places, which accounted for a meagre 2.0% of total trips, rose by 6% to a daily average of 13 600. The major purposes of these trips (e.g. leisure, visiting relatives and friends, work and business) are analysed in the ensuing paragraphs.

Chart 1: Average daily passenger trips between Hong Kong and the Mainland by passenger type



Notes : Figures in brackets refer to the percentage share of average daily passenger trips between Hong Kong and the Mainland.
Figures may not add up due to rounding.

(1) Figures on cross-boundary passenger trips in this box article refer to the daily average in the two-week survey period, unless otherwise specified.

Box 3.1 (Cont'd)***People living in Hong Kong (319 800 trips or 48.0% of the total)***

Among the cross-boundary passenger trips made by people living in Hong Kong, the most common purpose is for leisure. The number of trips for leisure accounted for 45.7% of the total in 2017 and grew by 6% over 2015. This was followed by trips for visiting relatives and friends (with a share of 28.8%), business (14.4%) and work (5.2%).

Visitors from the Mainland (216 600 trips or 32.5% of the total)

A majority of cross-boundary passenger trips made by Mainland visitors are for leisure purpose. Such trips jumped by 15% over 2015 to 145 900 in 2017, equal to 67.4% of the total. The remaining Mainland visitor trips were for visiting relatives and friends (14.3% of the total), business (8.7%) and work (0.9%).

Hong Kong residents living in the Mainland (116 600 trips or 17.5% of the total)

By comparison, the purposes of the cross-boundary passenger trips made by Hong Kong residents living in the Mainland are more diverse. Schooling was a major purpose, with such trips jumping by 35% over 2015 to 53 000 in 2017 and equal to 45.4% of the total. This was followed by trips for work, with a share of 19.8%. Relatively speaking, leisure, visiting relatives and friends, and business were less important purposes for trips made by Hong Kong residents living in the Mainland, having shares of 15.8%, 8.8% and 3.3% respectively.

Table 1: Distribution of different types of passenger trips between Hong Kong and the Mainland by trip purpose

	Trips made by people living in Hong Kong		Trips made by visitors from the Mainland		Trips made by Hong Kong residents living in the Mainland	
	2015	2017	2015	2017	2015	2017
Leisure	40.6%	45.7%	64.8%	67.4%	15.5%	15.8%
Schooling	*	*	*	*	39.0%	45.4%
Visiting relatives and friends	30.4%	28.8%	17.1%	14.3%	10.2%	8.8%
Business	16.8%	14.4%	7.6%	8.7%	3.9%	3.3%
Work	7.1%	5.2%	1.1%	0.9%	23.2%	19.8%
Other purposes	5.1%	5.9%	9.5%	8.8%	8.2%	7.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Notes : Figures might not add up to the corresponding total due to rounding.

(*) As their shares are less than 0.5%, the figures have been included in trips for “other purposes”.

Notes :

- (1) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 in the 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 in the 2012 Economic Background and 2013 Prospects and Box 3.1 in the First Quarter Economic Report 2013. For details of the measures promulgated in 2014, see Box 4.1 in the 2013 Economic Background and 2014 Prospects. For details of the measures promulgated in 2015, see Box 3.1 of the First Quarter Economic Report 2015. For details of the measures promulgated in 2016, see note (1) at the end of Chapter 4 in the 2016 Economic Background and 2017 Prospects. For details of the measures promulgated in 2017, see note (3) at the end of Chapter 3 in the First Quarter Economic Report 2017, note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2017 and Box 3.1 of the Third Quarter Economic Report 2017. 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.
- (2) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (3) Short-haul markets refer to North Asia, South and Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In the first quarter of 2019, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 80%, 14% and 6% of total visitors.
- (4) The figures on hotel room occupancy and achieved room rate do not include guesthouses.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *Hong Kong dollar interest rates stayed at low levels in the first quarter of 2019. The short-dated Hong Kong dollar interbank interest rates generally declined in the first two months before rebounding somewhat in March. Meanwhile, interest rates on the retail front stayed at low levels.*
- *The Hong Kong dollar spot exchange rate weakened against the US dollar again during the first quarter, mainly driven by carry trade activities amid widening negative Hong Kong dollar-US dollar interest rate spreads.*
- *As the US dollar depreciated against major currencies including renminbi and pound sterling, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices both declined by 2.0% during the first quarter.*
- *Total loans and advances grew by 2.3% during the first quarter, within which loans for use in and outside Hong Kong increased by 2.2% and 2.7% respectively.*
- *The local stock market staged a strong rebound in the first quarter. During the quarter, investment sentiment received a boost from easing concerns about US-Mainland trade tensions and receding expectations of further interest rate hikes in the US. The Hang Seng Index soared by 12.4% over end-2018 to 29 051 at end-March 2019, the largest quarterly gain since the third quarter of 2009. Trading activities also picked up in the first quarter, while fund raising activities turned subdued.*

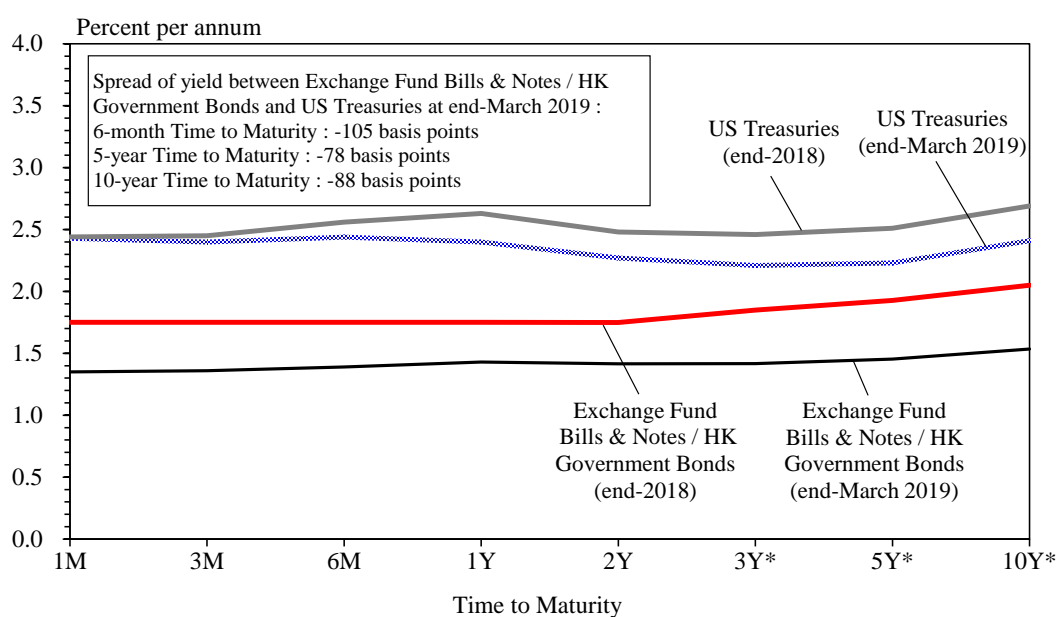
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Office of the Government Economist.*

Interest rates and exchange rates

4.1 Hong Kong dollar interest rates stayed at low levels in the first quarter of 2019. The short-dated *Hong Kong dollar interbank interest rates* (HIBORs) generally declined in the first two months, before rebounding somewhat in March due partly to the tightening of the interbank liquidity after the repeated triggering of the weak-side Convertibility Undertaking and partly to quarter-end funding demand. For the quarter as a whole, the overnight HIBOR dropped from 4.60% at end-2018 to 2.67% at end-March 2019, and the three-month HIBOR from 2.33% to 1.76%. Meanwhile, as the US Federal Open Market Committee kept the target range for the Federal Funds Rate unchanged at 2.25-2.50% during the quarter, the *Base Rate* under the Discount Window operated by the HKMA remained unchanged at 2.75%⁽¹⁾ at end-March 2019.

4.2 During the first quarter, both the *US dollar* and *Hong Kong dollar yield curves* shifted downward and flattened slightly. Reflecting these relative movements, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills widened from 81 basis points at end-2018 to 105 basis points at end-March 2019, and that between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes from 64 basis points to 88 basis points.

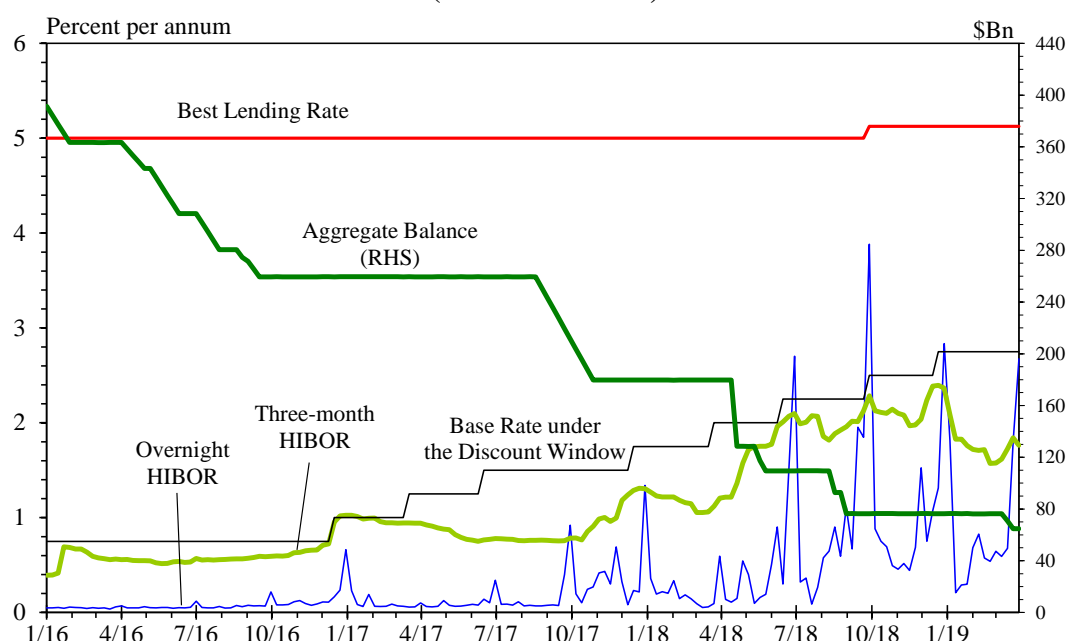
Diagram 4.1 : Both the US dollar and Hong Kong dollar yield curves shifted downward and flattened slightly



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

4.3 Interest rates on the retail front also stayed at low levels. The three *Best Lending Rates* in the market remained unchanged at 5.125%, 5.375% and 5.500% in the first quarter. The *average savings deposit rate* and *one-year time deposit rate* quoted by the major banks for deposits of less than \$100,000 also stayed low at 0.13% and 0.33% respectively. The *composite interest rate*⁽²⁾, which indicates the average cost of funds for retail banks, decreased slightly from 0.89% at end-2018 to 0.82% at end-March 2019.

**Diagram 4.2 : Hong Kong dollar interest rates stayed at low levels
in the first quarter
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* weakened against the US dollar again during the first quarter, mainly driven by carry trade activities amid widening negative Hong Kong dollar-US dollar interest rate spreads. The Hong Kong dollar spot exchange rate closed the quarter at 7.850, compared with 7.831 at end-2018. The weak-side Convertibility Undertaking was triggered eight times in March, and in response the HKMA purchased a total of \$22.1 billion Hong Kong dollars, bringing the Aggregate Balance down from \$76.4 billion at end-2018 to \$64.8 billion at end-March 2019. Meanwhile, the *Hong Kong dollar forward rates* registered larger discounts. The discount of 3-month forward rate widened slightly from 210 pips (each pip is equivalent to HK\$0.0001) at end-2018 to 211 pips at end-March 2019, while the discount of 12-month forward rate increased from 565 pips to 630 pips.

4.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar depreciated against major currencies including renminbi (RMB) and pound sterling, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ both declined by 2.0% during the first quarter.

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

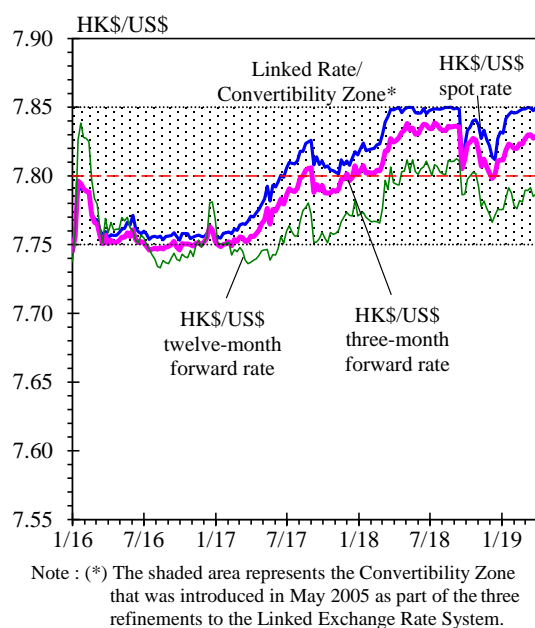
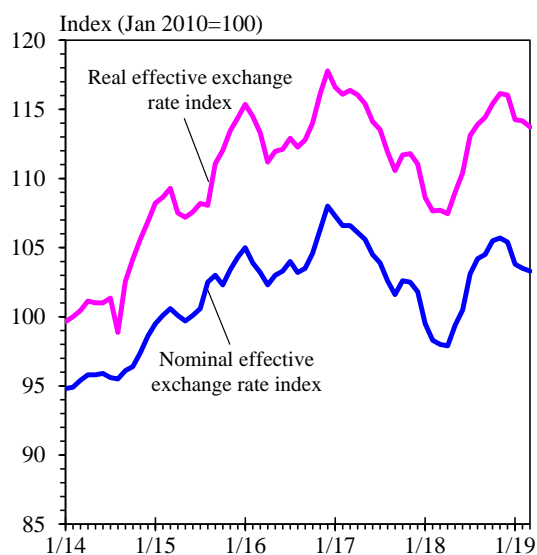


Diagram 4.4 : The trade-weighted nominal and real effective exchange rate indices declined (average for the month)



Money supply and banking sector

4.6 The monetary aggregates returned to growth in the first quarter. The Hong Kong dollar broad *money supply* (HK\$M3) expanded by 2.4% over end-2018 to \$7,462 billion⁽⁴⁾ at end-March 2019, and the seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1) by 2.2% to \$1,600 billion. Meanwhile, *total deposits* with authorised institutions (AIs)⁽⁵⁾ increased by 1.3% to \$13,559 billion. Among the total, Hong Kong dollar deposits rose by 2.4%, while foreign currency deposits edged up by 0.1%.

Diagram 4.5 : The monetary aggregates returned to growth in the first quarter

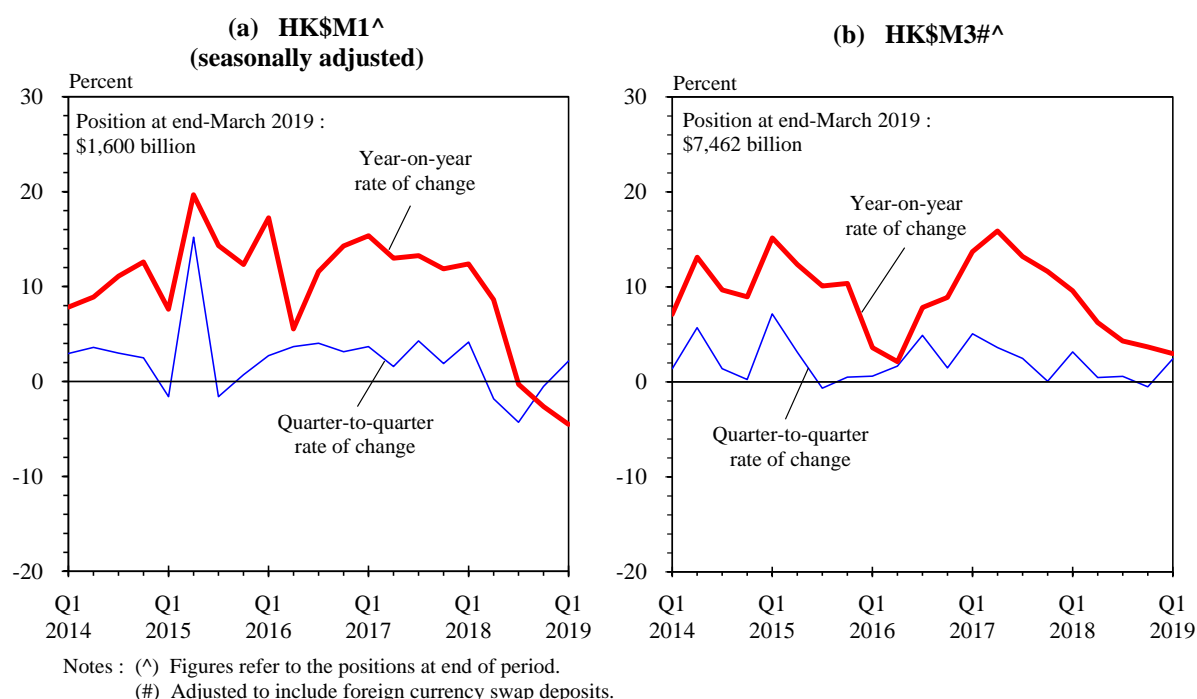


Table 4.1 : Hong Kong dollar money supply and total money supply

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
% change during the quarter		<u>HK\$[^]</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
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
2019	Q1	2.2	-0.1	2.5	1.0	2.4	1.0
Total amount at end-March 2019 (\$Bn)		1,600	2,419	7,442	14,485	7,462	14,545
% change over a year earlier		-4.5	-2.2	2.9	3.9	3.0	4.0

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 *Total loans and advances* grew by 2.3% over end-2018 to \$9,948 billion at end-March 2019. Within the total, Hong Kong dollar loans expanded by 3.5%, while foreign currency loans edged up by 0.6%. Reflecting the relative movements in deposits and loans, the loan-to-deposit ratio for Hong Kong dollar increased from 86.9% at end-2018 to 87.8% at end-March 2019, the highest level since April 2003, and that for foreign currencies from 58.3% to 58.5%.

4.8 Both loans for use in and outside Hong Kong recorded moderate growth in the first quarter. Specifically, loans for use in Hong Kong (including trade finance) rose by 2.2% over end-2018 to \$6,923 billion at end-March 2019, and loans for use outside Hong Kong by 2.7% to \$3,025 billion. Within the former, trade finance went up by 6.8% during the first quarter, following a decline in the second half of 2018. Loans to financial concerns and loans to stockbrokers rose by 3.5% and 12.9% respectively along with the stock market rally. On the other hand, loans to wholesale and retail trade and loans to manufacturing declined by 4.9% and 1.5% respectively. As for property-related lending, loans to building, construction, property development and investment and loans for purchase of residential property increased by 1.5% and 1.3% respectively.

Table 4.2 : Loans and advances

All loans and advances for use in Hong Kong

		Loans to :									
% change during the quarter		Trade finance	Manu- facturing	Whole- sale and retail trade	Building, construction, property development and investment	Purchase of residential property ^(a)	Financial concerns	Stock- brokers	Total ^(b)	All loans and advances for use outside Hong Kong ^(c)	Total loans and advances
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	*	-2.3	2.3	3.4	15.6	1.7	1.4	1.6
	Q3	-8.2	-4.3	-3.0	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
2019	Q1	6.8	-1.5	-4.9	1.5	1.3	3.5	12.9	2.2	2.7	2.3
Total amount at end-March 2019 (\$Bn)		487	295	371	1,549	1,389	887	75	6,923	3,025	9,948
% change over a year earlier		-6.6	3.8	-8.1	3.5	8.3	3.3	-18.1	3.9	1.0	3.1

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

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

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

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

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

4.9 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 20.3% at end-2018. Also, asset quality of the local banking sector stayed healthy. The ratio of classified loans to total loans for retail banks decreased from 0.54% at end-September 2018 to 0.50% at end-2018. The delinquency ratio for credit card lending remained virtually unchanged at a low level of 0.21% at end-2018. The delinquency ratio for residential mortgage loans also stayed low at 0.02% at end-March 2019, same as end-2018.

Table 4.3 : Asset quality of retail banks*

(as % of total loans)

<u>As at end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2017	Q1	97.94	1.35	0.70
	Q2	98.22	1.10	0.68
	Q3	98.35	1.02	0.62
	Q4	98.46	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
	Q4	98.30	1.20	0.50

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

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

4.10 Different segments of *offshore RMB business* showed diverse performance in the first quarter. RMB trade settlement transactions handled by banks in Hong Kong increased by 20.2% over a year earlier to RMB1,211.3 billion in the first quarter. Total RMB deposits (including customer deposits and outstanding certificates of deposit) fell modestly by 2.7% from end-2018 to RMB639.9 billion at end-March 2019. As to RMB financing activities, RMB bond issuance went down from RMB7.0 billion in the preceding quarter (excluding the issuance of RMB5.0 billion by the Ministry of Finance) to RMB6.1 billion in the first quarter, while outstanding RMB bank loans increased by 8.8% over end-2018 to RMB114.9 billion at end-March 2019.

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

As at end of period		Interest rates on ^(a)					Number of AIs engaged in RMB business	Amount of cross-border RMB trade settlement ^(c) (RMB Mn)
		Demand and savings deposits (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	Savings deposits ^(b) (%)	Three-month time deposits ^(b) (%)		
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
2019	Q1	210,156	392,082	602,238	0.25	0.53	136	1,211,303
% change in 2019 Q1 over 2018 Q1		31.8	-0.7	8.6	N.A.	N.A.	N.A.	20.2
% change in 2019 Q1 over 2018 Q4		8.1	-6.8	-2.1	N.A.	N.A.	N.A.	8.8

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

4.11 The Hong Kong dollar *debt market* expanded moderately in the first quarter. Total gross issuance of Hong Kong dollar debt securities rose by 4.7% over the preceding quarter to \$919.8 billion, with the surge of 126.5% in private sector debt issuance⁽⁶⁾ more than offsetting the decline of 1.7% in public sector debt issuance. At end-March 2019, total outstanding amount of Hong Kong dollar debt securities increased by 1.1% over end-2018 to \$1,865.2 billion, equivalent to 25.0% of HK\$M3 or 20.5% of Hong Kong dollar-denominated assets of the banking sector⁽⁷⁾.

4.12 As to the Government Bond (“GB”) programme, a total of \$2.1 billion worth of institutional GBs were issued through tenders in the first quarter. At end-March 2019, the total outstanding amount of Hong Kong dollar bonds under the GB Programme was \$94.7 billion, comprising 13 institutional issues totaling \$76.0 billion and four retail issues (one iBond and three Silver Bonds) totaling \$18.7 billion. In addition, three US dollar sukuks, each with an issue size of US\$1.0 billion, were outstanding under the Programme.

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

		Exchange Fund paper	Statutory bodies/ government- owned corporations	Govern- ment	Public sector total	AIs ^(b)	Local corporations	Non-MDBs overseas borrowers ^(c)	Private sector total	MDBs ^(c)	Total
New Issuance											
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
2019	Q1	811.4	7.6	2.1	821.1	53.5	8.3	35.3	97.2	1.5	919.8
% change in 2019 Q1 over 2018 Q1		2.5	5.5	16.7	2.5	-15.1	214.4	12.7	0.1	-36.7	2.2
% change in 2019 Q1 over 2018 Q4		-1.5	351.3	-77.9	-1.7	58.2	1 307.7	316.5	126.5	552.2	4.7
Outstanding (as at end of period)											
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
2019	Q1	1,066.5	56.9	96.2	1,219.7	246.0	100.1	285.1	631.1	14.4	1,865.2
% change in 2019 Q1 over 2018 Q1		1.5	1.8	-3.5	1.1	12.1	4.5	10.4	10.1	17.7	4.1
% change in 2019 Q1 over 2018 Q4		0.4	4.5	-10.4	-0.4	3.3	-0.2	6.5	4.1	3.8	1.1

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.

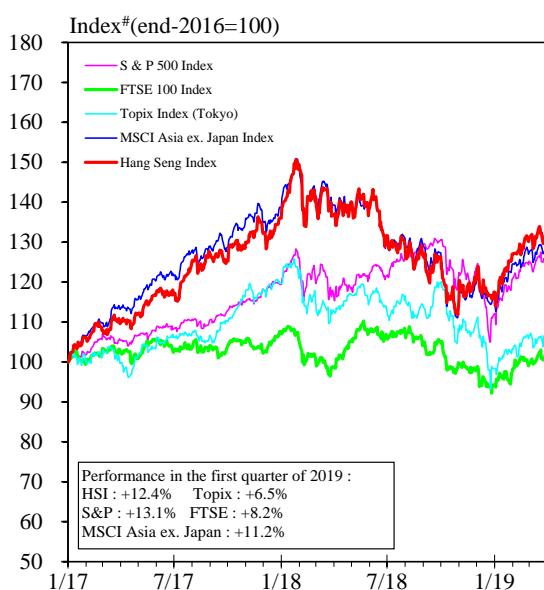
(c) MDBs : Multilateral Development Banks.

The stock and derivatives markets

4.13 Following the sharp correction in 2018, the *local stock market* staged a strong rebound in the first quarter of 2019. During the quarter, investment sentiment received a boost from easing concerns about US-Mainland trade tensions and receding expectations of further interest rate hikes in the US. The Hang Seng Index (HSI) soared by 12.4% over end-2018 to 29 051 at end-March 2019, the largest quarterly gain since the third quarter of 2009. In parallel, *market capitalisation* expanded by 13.1% to \$33.8 trillion. At end-March, the local stock market ranked the fifth largest in the world and the third largest in Asia⁽⁸⁾.

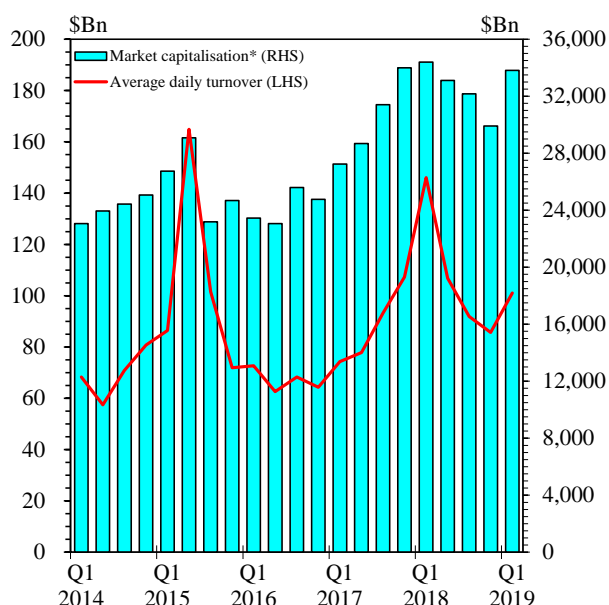
4.14 Trading activities also picked up in the first quarter. *Average daily turnover* in the securities market surged by 18.0% over the preceding quarter to \$101.1 billion, though 30.8% lower than the high base a year earlier. Within the total, the average daily trading value of unit trusts (including Exchange-Traded Funds), derivative warrants, callable bull/bear contracts and equities⁽⁹⁾ leapt by 27.8%, 20.9%, 19.6% and 16.3% respectively over the preceding quarter. As to futures and options⁽¹⁰⁾, the average daily trading volume retreated by 2.9%. Within the total, trading of HSI futures, Hang Seng China Enterprises Index futures and HSI options fell by 15.1%, 10.8% and 9.3% respectively, while that of stock options rose by 12.8%.

Diagram 4.6 : The local stock market staged a strong rebound in the first quarter



Note : (#) Position at end of month.

Diagram 4.7 : Market capitalisation expanded, while trading activities picked up



Note : (*) Position at end of quarter.

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

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	Hang Seng China Enterprises <u>Index futures</u>	Stock <u>options</u>	Total futures and <u>options traded*</u>
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
2019	Q1	222 008	49 636	148 193	528 062	1 187 529
% change in 2019 Q1 over 2018 Q1		8.2	-15.7	-2.4	-20.6	-11.5
% change in 2019 Q1 over 2018 Q4		-15.1	-9.3	-10.8	12.8	-2.9

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

4.15 Fund raising activities turned subdued in the first quarter, though such businesses are volatile by nature. *Total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and GEM⁽¹¹⁾, plunged by 57.8% from the preceding quarter or 66.2% from a year earlier to \$40.8 billion in the first quarter. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) plummeted by 54.7% from the preceding quarter to \$20.3 billion. Yet Hong Kong still ranked the second globally in terms of the amount of funds raised through IPOs in the period.

4.16 Mainland enterprises continued to play an important role in the Hong Kong stock market. At end-March, a total of 1 171 Mainland enterprises (including 270 H-share companies, 173 “Red Chip” companies and 728 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. In the first quarter, Mainland-related stocks accounted for 80% of equity turnover and 82% of total equity fund raised in the Hong Kong stock exchange.

Fund management and investment funds

4.17 Along with the stock market rally, the performance of fund management business⁽¹²⁾ improved notably in the first quarter. The aggregate

net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹³⁾ expanded by 9.9% over end-2018 to \$893.3 billion at end-March 2019. For *mutual funds*, the gross retail sales leapt by 77.5% over the preceding quarter to US\$23.4 billion in the first quarter⁽¹⁴⁾, though still 28.8% below the high base a year earlier.

Insurance sector

4.18 The *insurance sector*⁽¹⁵⁾ registered modest growth in 2018. For 2018 as a whole, gross premium income from long-term business increased by 3.7%, within which premium income from non-investment linked plans (which accounted for 89% of total premium for this segment) inched up by 0.8% while that from investment linked plans jumped by 37.0%. As to general business, gross and net premium rose by 11.3% and 6.6% respectively.

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

		General business			Premium for long-term business [^]					Gross premium from long-term business and general business
		Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	
2017	Annual	48,137	33,068	-792	142,905	12,710	253	507	156,375	204,512
	Q1	13,947	9,482	383	41,436	2,161	57	168	43,822	57,769
	Q2	11,516	8,144	-14	33,584	3,254	56	207	37,101	48,617
	Q3	12,358	8,349	-562	31,819	3,727	63	79	35,688	48,046
	Q4	10,316	7,093	-599	36,066	3,568	77	53	39,764	50,080
2018	Annual	53,555	35,262	583	144,091	17,410	274	422	162,197	215,752
	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
	Q4	13,035	7,240	496	36,734	4,228	65	86	41,113	54,148
% change in 2018 Q4 over 2017 Q4		26.4	2.1	N.A.	1.9	18.5	-15.6	62.3	3.4	8.1
% change in 2018 over 2017		11.3	6.6	N.A.	0.8	37.0	8.3	-16.8	3.7	5.5

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

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

N.A. Not applicable.

Notes :

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

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

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

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

M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks 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-March 2019, there were 155 licensed banks, 18 restricted licence banks and 16 deposit-taking companies in Hong Kong. Altogether, 189 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-March 2019, there were 96 classes of stock options contracts and 78 classes of stock futures contracts.
- (11) At end-March 2019, there were 1 959 and 387 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-March 2019.
- (13) At end-March 2019, there were 15 approved trustees. On MPF products, 29 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 476 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 291 000 employers, 2.63 million employees and 209 000 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-March 2019, the survey covered a total of 1 352 active authorised funds.
- (15) At end-March 2019, there were 162 authorised insurers in Hong Kong. Within this total, 49 were engaged in long-term insurance business, 94 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 23 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

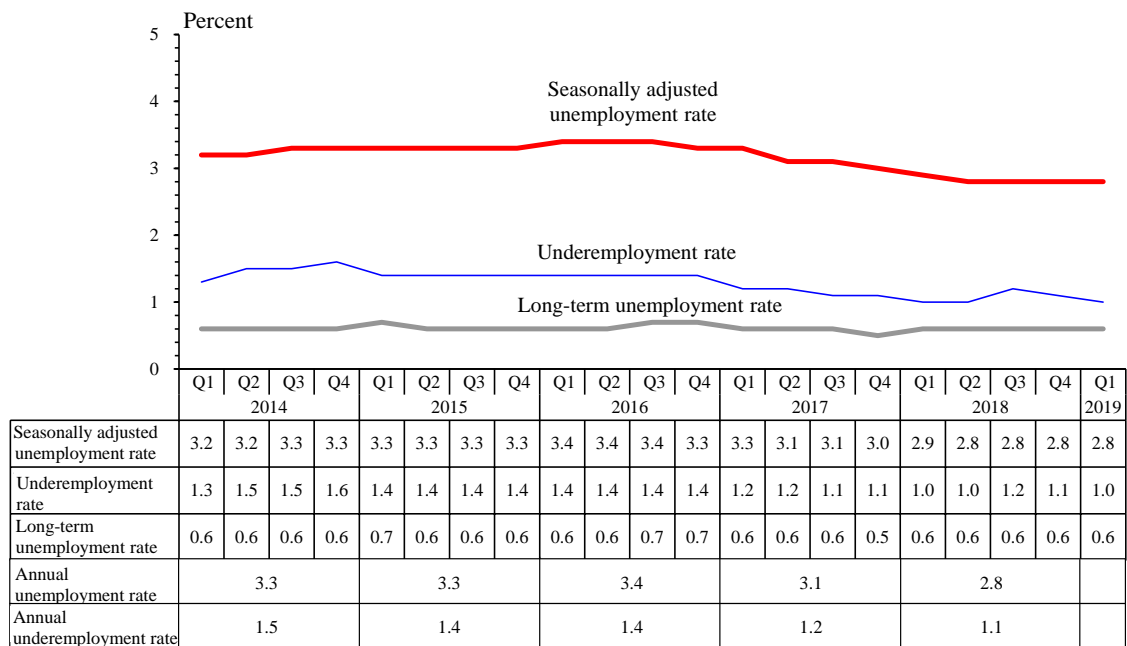
Summary

- *The labour market stayed tight in the first quarter of 2019. The seasonally adjusted unemployment rate held steady at a low level of 2.8% and the underemployment rate was likewise at a low level of 1.0%.*
- *Labour demand held firm, as manifested by the further increase in job opportunities in the private sector. Many major service sectors continued to see sturdy growth in employment and vacancies.*
- *On the back of the tight manpower situation, wages and payroll recorded further solid growth in the fourth quarter of 2018, yielding real improvement across most of the major sectors. Earnings of grassroots workers continued to see real gains in the first quarter of 2019.*

Overall labour market situation⁽¹⁾

5.1 The labour market remained tight in the first quarter of 2019. The seasonally adjusted *unemployment rate*⁽²⁾ stayed low at 2.8%, whereas the *underemployment rate*⁽³⁾ edged down by 0.1 percentage point from the preceding quarter to 1.0%. While the labour force as enumerated from households declined mildly year-on-year in the first quarter, data collected from private sector establishments indicated that labour demand remained sturdy at end-2018, as shown by solid job gains and increases in vacancies across many service sectors. Backed by tight labour market conditions, wages and earnings continued to grow solidly in the fourth quarter of 2018, translating into real increases across most of the major sectors. Earnings of grassroots workers witnessed further real improvement in the first quarter of 2019.

Diagram 5.1 : The labour market remained tight upon entering 2019



Labour force and total employment

5.2 The *labour force*⁽⁴⁾ declined slightly by 0.3% year-on-year in the first quarter of 2019. This was mainly due to a dip in the labour force participation rate from 61.4% a year ago to 60.7%, which more than offset the 0.7% increase in the working-age population (i.e. land-based non-institutional population aged 15 and above). *Total employment*⁽⁵⁾ decreased slightly by 0.3% to 3 860 400 in tandem.

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

		<u>Labour force</u>		<u>Persons employed</u>		<u>Persons unemployed^(a)</u>	<u>Persons underemployed</u>
2018	Annual	3 979 000 (0.8)		3 867 000 (1.1)		112 000	43 200
	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

Three months ending

2019	Jan	3 974 400 (0.1)		3 872 600 (0.3)		101 800	42 200
	Feb	3 969 200 (-0.3)		3 866 700 (-0.1)		102 500	40 300
	Mar	3 970 800 (-0.3)		3 860 400 (-0.3)		110 400	38 900
		<-0.4>		<-0.4>			

- 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 first quarter of 2019.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Labour force and total employment declined slightly
in the first quarter of 2019**

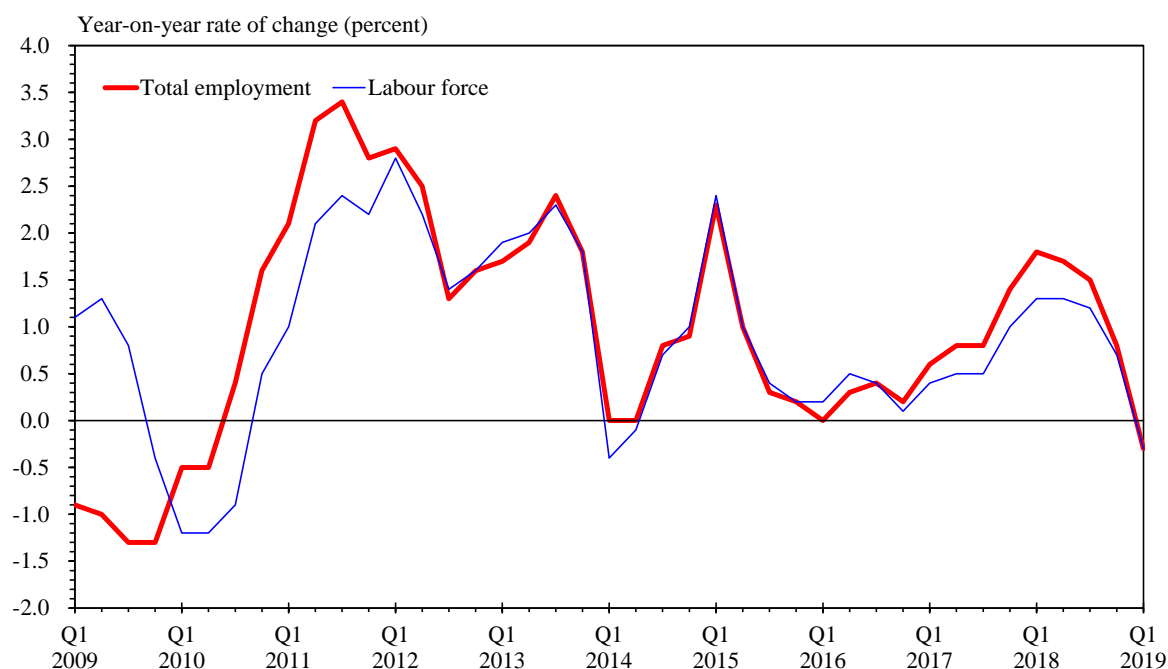


Table 5.2 : Labour force participation rates by gender and by age group (%)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2018 Q1</u>	<u>2019 Q1</u>
<u>Male</u>							
15-24	37.8	39.1	39.5	38.1	39.2	39.0	38.3
<i>of which:</i>							
15-19	11.1	11.7	12.9	9.9	10.4	9.3	10.5
20-24	61.4	62.0	60.7	59.2	60.2	60.7	58.3
25-29	93.4	93.7	92.9	92.6	92.9	92.2	91.6
30-39	96.5	96.5	96.4	96.6	96.4	96.9	96.2
40-49	94.7	95.1	95.0	95.2	95.1	95.5	93.8
50-59	86.7	86.6	86.0	86.7	86.9	87.3	86.1
≥ 60	28.0	28.5	29.9	30.4	32.1	31.2	32.1
Overall	68.8	68.8	68.6	68.3	68.5	68.7	67.7
<u>Female</u>							
15-24	39.3	41.4	41.9	41.5	41.1	40.8	39.9
<i>of which:</i>							
15-19	12.5	12.8	12.3	11.8	12.0	11.1	11.8
20-24	61.4	63.6	63.6	61.8	60.4	60.5	58.6
25-29	86.3	85.7	86.2	86.5	86.6	87.3	86.4
30-39	78.9	78.4	78.0	79.0	79.3	80.2	79.5
40-49	73.0	73.7	73.4	73.8	74.1	74.1	74.5
50-59	57.2	58.3	59.7	60.4	61.5	61.1	61.1
≥ 60	10.7	11.4	12.3	13.7	14.5	14.3	15.7
Overall	54.5	54.7	54.8	55.1	55.1	55.4	55.0
<u>Both genders combined</u>							
15-24	38.5	40.2	40.7	39.8	40.2	39.9	39.1
<i>of which:</i>							
15-19	11.8	12.3	12.6	10.8	11.2	10.1	11.1
20-24	61.4	62.8	62.2	60.5	60.3	60.6	58.5
25-29	89.4	89.2	89.2	89.3	89.5	89.5	88.8
30-39	86.0	85.7	85.4	86.0	86.1	86.8	86.2
40-49	82.3	82.7	82.4	82.6	82.7	82.9	82.4
50-59	71.4	71.8	72.2	72.7	73.2	73.3	72.6
≥ 60	19.0	19.6	20.7	21.7	22.9	22.4	23.5
Overall	61.1	61.1	61.1	61.1	61.2	61.4	60.7

Source : General Household Survey, Census and Statistics Department.

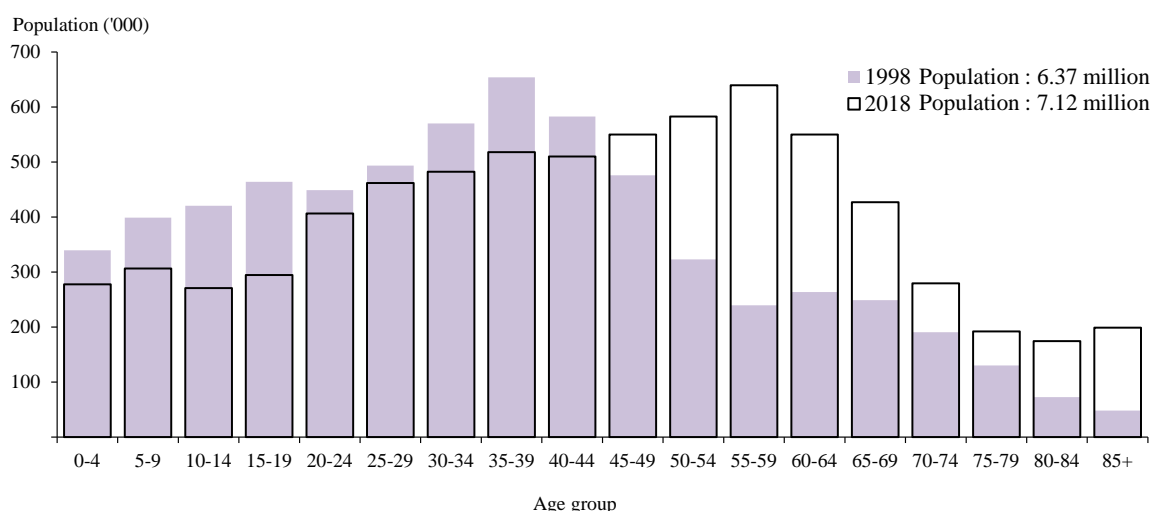
Box 5.1

Effect of population ageing on the overall labour force participation rate⁽¹⁾

Similar to many other developed economies, the population in Hong Kong showed a continued ageing trend over the past couple of decades as a result of low fertility rate and increasing longevity. According to the demographic statistics from the Census and Statistics Department (C&SD), persons aged 65 and above accounted for 17.8% of the total population in 2018, up visibly from 10.8% in 1998 and 13.2% in 2008.

After the rapid growth in the latter half of the 20th Century, Hong Kong's total population increased at a more modest pace in the past two decades, cumulatively by around 0.8 million between 1998 and 2018. A considerable change in the age composition was also observed over the period. As seen in **Chart 1**, the population distribution in 1998 had a relatively long right tail, with younger age groups taking up a larger share of the population. Since then, the population distribution had moved rightwards due to the ageing trend. Post-war baby boomers who were entering their prime age during the 1990s (i.e. those in their thirties and forties then) represented the largest proportion of the total population (35.9%) in 1998. This cohort still contributes a sizable share of our population today (30.7% in 2018), but they are now much older (aged 50-69). Meanwhile, there were fewer younger persons in 2018 compared with 1998, with the proportion of persons aged 19 and below decreasing from 25.5% to 16.3%.

Chart 1: Population distributions in 1998 and 2018



Source: Demographic Statistics Section, C&SD.

Decomposing the changes in overall labour force participation rate (LFPR)⁽²⁾

The change in age composition discussed above has an effect on the overall LFPR. Since mature persons typically have lower LFPR, an increase in their proportion would exert downward pressure on the overall LFPR. In particular, as the baby boomers age, they would eventually retire and leave the labour market.

(1) Figures quoted in this article exclude foreign domestic helpers.

(2) LFPR refers to the proportion of land-based non-institutional population aged 15 and above participating in the labour market.

Box 5.1 (Cont'd)

In order to gauge the effect of population ageing on the overall LFPR, this article conducts a “shift-share” analysis to estimate the effect of changing age composition on the overall LFPR, holding the LFPRs of individual age group constant. Specifically, the following formula⁽³⁾ is used:

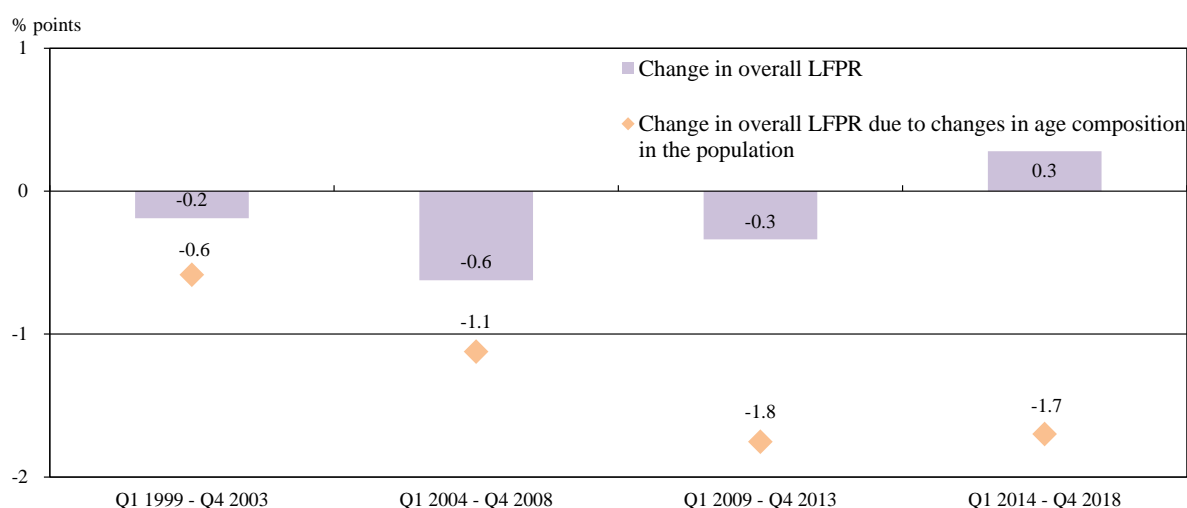
$$\sum_i \sum_{q=q_b}^{q_e} \frac{LFPR_{i,q+1} + LFPR_{i,q}}{2} \times (share_{i,q+1} - share_{i,q})$$

where $LFPR_{i,q}$ denotes the LFPR of age group i in quarter q , $share_{i,q}$ denotes the share of age group i in the land-based non-institutional population aged 15 and above in quarter q , and q_b and q_e denote the beginning and the end of the period under analysis respectively.

The term under summation in the formula measures the change in LFPR (in percentage point) as a result of a change in the share of a specific age group between two consecutive quarters. An estimate of the change in overall LFPR due to the changes in age composition in the population can then be found by adding up all of the terms over different age groups and quarters in the period under analysis.

The formula is applied for four consecutive 5-year periods during 1999 - 2018 to examine the changes in LFPR due to the shifting age profile of the population over time. The results are shown in **Chart 2** below.

Chart 2: Contribution of population ageing to change in overall LFPR



Source: Internal estimates using figures from General Household Survey (GHS), C&SD.

Salient observations

It is shown in **Chart 2** that changes in the age profile of the population had a negative effect on the overall LFPR during 1999-2018. This drag on LFPR actually worsened over time, from 0.6 percentage point in 1999-2003 to 1.7 to 1.8 percentage points in the recent decade (i.e. 2009-2018).

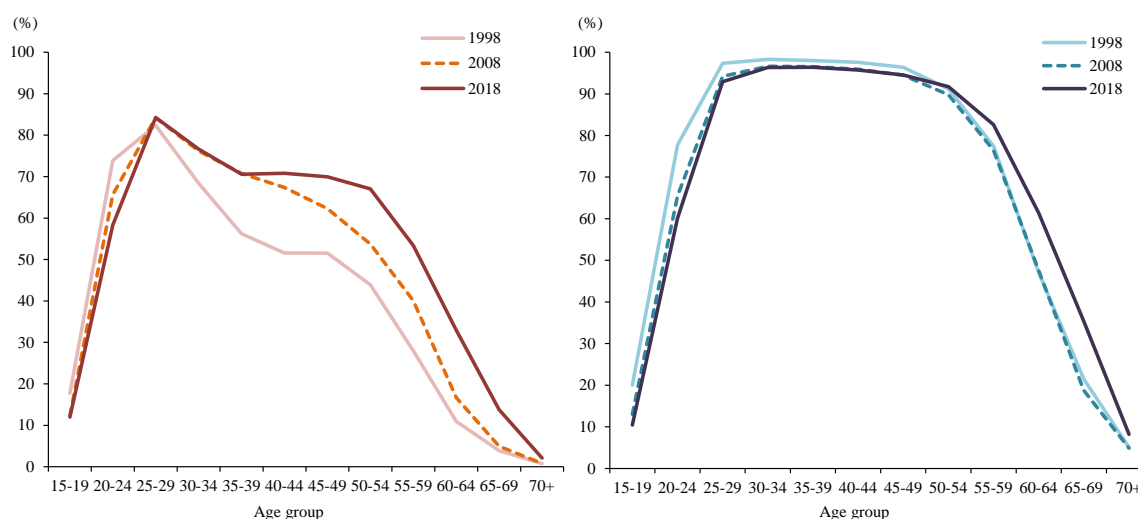
Despite the downward pressure posed by population ageing, the overall LFPR decreased only slightly during the first three 5-year periods and even increased in the last 5-year period (i.e. 2014-2018). This suggested that, besides age composition, other factors have also been in play.

(3) In this specification, the age-specific LFPRs are held constant only quarter to quarter, in order to avoid the potential sensitivity to the choice of baseline.

Box 5.1 (Cont'd)

The increase in LFPR of female and that of mature workers over the past two decades have been the major factors that helped mitigate the fall in overall LFPR caused by the changing age profile of the population (*Chart 3*). Specifically, the LFPR of female increased from 45.6% in 1998 to 49.7% in 2008, and further to 50.8% in 2018, with rises seen across age groups except those aged 15-24 (*Chart 3(a)*). Meanwhile, the LFPR of male aged 50 and above went up from 47.8% and 51.1% in 1998 and 2008 respectively to 54.3% in 2018 (*Chart 3(b)*). While such increases were driven in part by the evolving socio-characteristics of the specific groups (such as higher educational attainment and longer life expectancy compared with twenty years ago), the largely stable macroeconomic environment since the recovery from the 2008-2009 Global Financial Tsunami and the implementation of the Statutory Minimum Wage in 2011 also played a part in enticing women and mature workers to stay in the labour force longer or to re-enter the labour market through providing job opportunities and better income prospects. On the other hand, with ample and more diverse higher education opportunities available, many youngsters delayed work to pursue further education, resulting in lower youth LFPR.

Chart 3: LFPR by age group in 1998, 2008 and 2018
(a) Female **(b) Male**



Source: GHS, C&SD.

Final remarks

According to C&SD's projection, Hong Kong's population will age at a more rapid pace in the years to come. For instance, the share of working age population (i.e. those aged 15-64) hovered at around 70% in the past 20 years. However, with the baby boomers approaching their retirement age, this share is projected to fall to about 62% in 2028 and 58% in 2038. At the same time, the share of persons aged 65 and above, having risen from about 11% in 1998 to around 18% in 2018, is projected to increase visibly further to about 26% and 32% in 2028 and 2038 respectively. As a result of population ageing, the labour force is expected to shrink. These trends, if not properly addressed, may pose a cap on our economic growth potential, particularly so in view of the already tight manpower situation in recent years. While encouraging more people, especially female home-makers and mature persons to participate in the labour market will to some extent help mitigate the negative effect of population ageing, continued productivity enhancement will be an ever more important driver for future economic growth. In this regard, apart from promoting innovation and technology, the Government will continue to invest vigorously in education and training, and to attract foreign talent to Hong Kong, in order to strengthen our human capital pool.

Profile of unemployment

5.3 The number of unemployed persons increased by 5 000 over the preceding quarter to 110 400 in the first quarter of 2019. Nevertheless, the seasonally adjusted unemployment rate held unchanged at a low level of 2.8%, reflecting continued tightness in the labour market.

5.4 Compared with the preceding quarter, movements of unemployment rate (not seasonally adjusted) varied across sectors in the first quarter. Notable declines were seen in the warehousing and support activities for transportation (down 0.5 percentage point), public administration (down 0.3 percentage point), and financing (down 0.3 percentage point) sectors. On the other hand, discernible increases in unemployment rate were observed in social work activities (up 1.2 percentage points), insurance (up 1.1 percentage points), and decoration, repair and maintenance for buildings (up 1.0 percentage point), with the latter conceivably reflecting the usual wind-down of renovation activities around the Lunar New Year. On a year-on-year comparison, the unemployment situation improved in many major service sectors. Specifically, the sustained expansion in inbound tourism saw the unemployment rate in the consumption- and tourism-related segment as a whole (viz. retail, accommodation, and food services) go down by 0.6 percentage point to 3.6%. For the *low-paying sectors*⁽⁶⁾ as a whole, the unemployment rate increased slightly by 0.2 percentage point over the preceding quarter to 2.5%, but was 0.3 percentage point below its year-ago level.

5.5 Analysed by skill segment, the unemployment rate of the lower-skilled segment edged up by 0.1 percentage point from the preceding quarter to 2.9%, while that of the higher-skilled segment increased by 0.4 percentage point to 1.9%. Compared with a year earlier, the unemployment rate of the lower-skilled segment fell by 0.3 percentage point, while that of the higher-skilled segment went up by 0.3 percentage point.

5.6 As for other socio-economic attributes, the unemployment situation improved in many groups compared with a year earlier. In particular, visible year-on-year decreases in the unemployment rate were observed among persons aged 15-24 (down 1.0 percentage point) and those with non-degree tertiary education (down 0.6 percentage point).

Diagram 5.3 : The unemployment situation improved on a year-on-year basis in many major service sectors in the first quarter of 2019

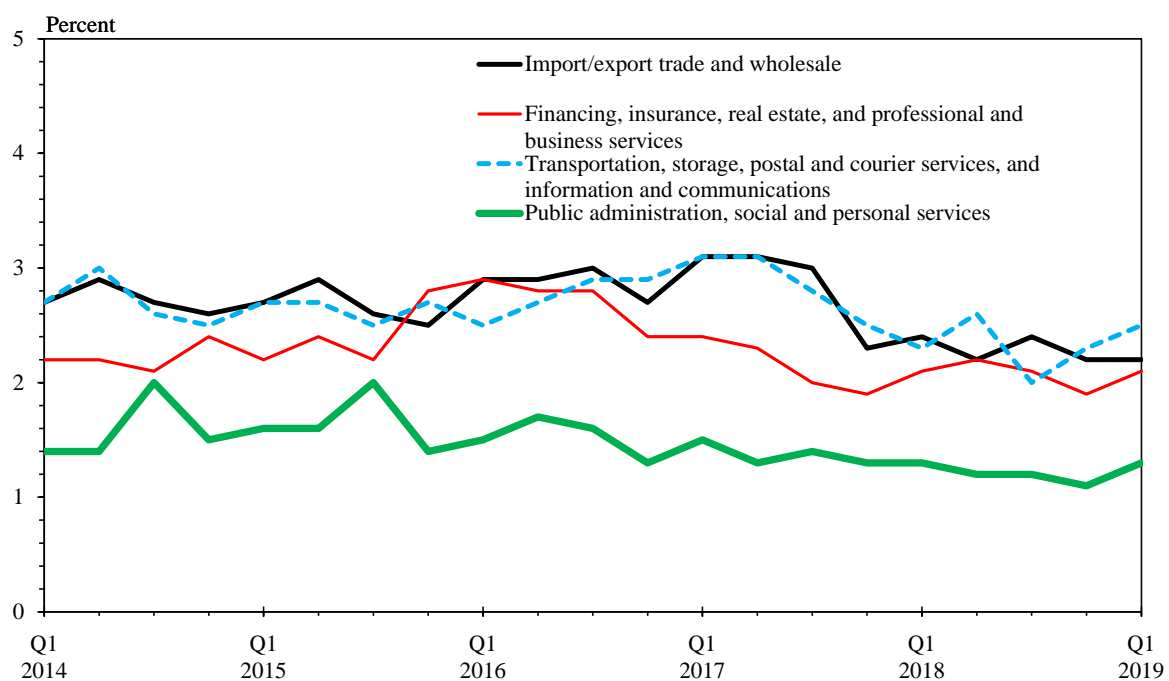
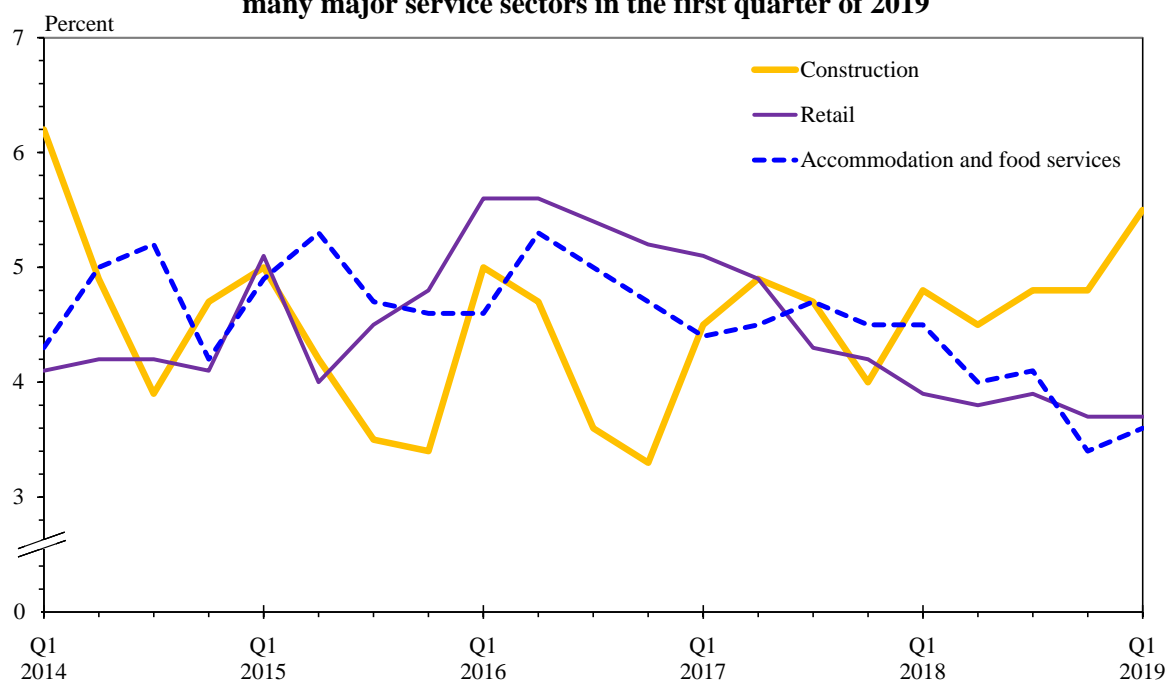


Table 5.3 : Unemployment rates by major economic sector

	<u>2018</u>				<u>2019</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Import/export trade and wholesale	2.4	2.2	2.4	2.2	2.2
Retail	3.9	3.8	3.9	3.7	3.7
Accommodation and food services	4.5	4.0	4.1	3.4	3.6
Transportation, storage, postal and courier services	2.3	2.6	2.0	2.3	2.4
Information and communications	2.3	2.7	2.0	2.3	2.7
Financing and insurance	1.6	1.7	1.6	1.7	1.7
Real estate	2.3	2.2	2.3	1.6	2.0
Professional and business services	2.4	2.5	2.3	2.1	2.5
Public administration, social and personal services	1.3	1.2	1.2	1.1	1.3
Manufacturing	3.3	3.0	3.8	3.2	3.1
Construction	4.8	4.5	4.8	4.8	5.5
Overall*	2.8 (2.9)	2.8 (2.8)	3.0 (2.8)	2.7 (2.8)	2.8 (2.8)

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

() Seasonally adjusted unemployment rates.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.4 : The unemployment rates of the higher-skilled and lower-skilled segments stayed at low levels in the first quarter of 2019

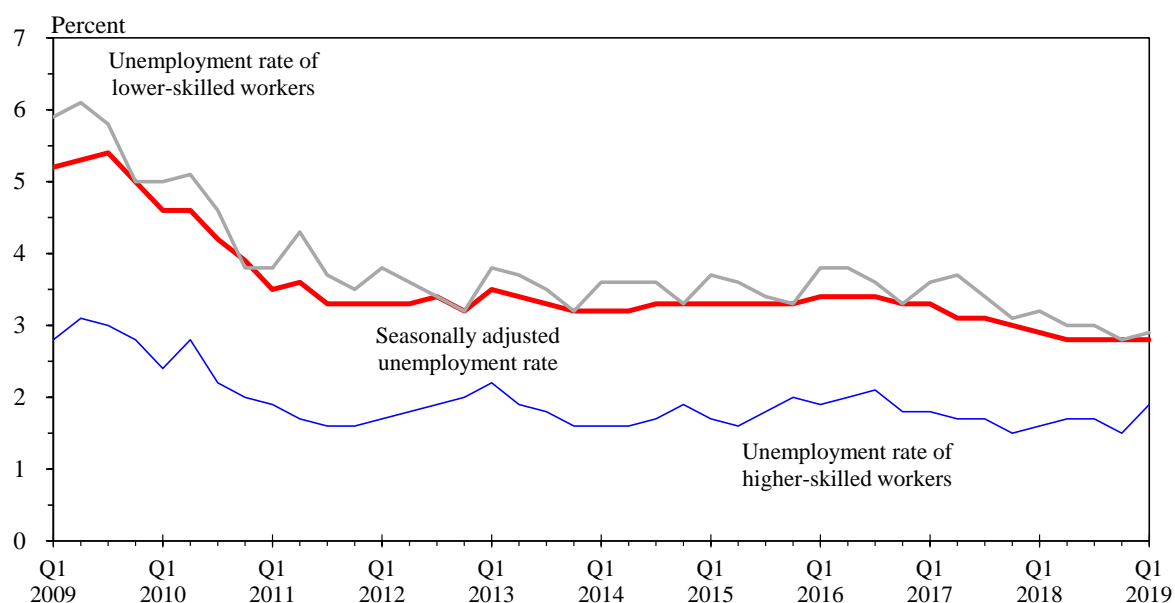


Table 5.4 : Unemployment rates* by skill segment

	<u>2018</u>				<u>2019</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<u>Higher-skilled segment</u>	1.6	1.7	1.7	1.5	1.9
Managers and administrators	1.2	1.2	1.4	1.3	1.4
Professionals	1.1	1.0	1.4	1.5	1.6
Associate professionals	1.9	2.2	1.9	1.7	2.4
<u>Lower-skilled segment^</u>	3.2	3.0	3.0	2.8	2.9
Clerical support workers	3.3	3.1	3.1	2.3	2.2
Service and sales workers	3.9	3.8	3.5	3.4	3.2
Craft and related workers	4.8	4.2	4.4	3.8	4.7
Plant and machine operators and assemblers	1.5	1.8	1.8	1.7	2.4
Elementary occupations	2.5	2.3	2.2	2.6	2.8

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

^ Including other occupations.

Source : General Household Survey, Census and Statistics Department.

Table 5.5 : Unemployment rates* by age and educational attainment

	<u>2018</u>				<u>2019</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<u>Age</u>					
15-24	8.0	8.9	10.5	7.5	7.0
<i>Of which:</i>					
15-19	9.6	12.2	10.7	8.9	7.5
20-24	7.8	8.5	10.4	7.3	6.9
25-29	3.9	3.5	3.9	3.5	3.9
30-39	1.9	2.1	1.8	1.8	1.9
40-49	2.2	2.2	2.3	2.1	2.2
50-59	2.6	2.6	2.3	2.6	2.6
≥ 60	2.1	1.8	2.1	1.9	2.4
<u>Educational attainment</u>					
Primary education and below	2.9	2.6	3.1	2.8	2.7
Lower secondary education	3.4	3.5	3.2	3.5	3.9
Upper secondary education^	2.8	2.8	2.6	2.6	2.5
Post-secondary education	2.6	2.7	3.2	2.4	2.6

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

^ Including craft courses.

Source : General Household Survey, Census and Statistics Department.

5.7 Indicators of the intensity of unemployment also pointed to a tight labour market. Comparing the first quarter of 2019 with a year earlier, the number of long-term unemployed persons (i.e. unemployed for six months or longer) decreased from 24 200 to 23 200, with the long-term unemployment rate staying low at 0.6%. The share of long-term unemployment in total unemployment went down by 0.6 percentage point to 21.0% as a result of the smaller percentage decline in the total number of unemployed persons over the same period. Meanwhile, the median duration of unemployment shortened from 69 days to 64 days, and the proportion of dismissal or lay-offs among the total number of unemployed persons (not including first-time job-seekers and re-entrants into the labour force) declined by 1.8 percentage points to 46.5%.

Profile of underemployment

5.8 The underemployment rate edged down by 0.1 percentage point from the preceding quarter to 1.0% in the first quarter of 2019, matching the low level observed in the third quarter of 1997 and the first two quarters of 2018. The number of underemployed persons likewise decreased by 5 600 to 38 900. On a year-on-year comparison, a notable decline in underemployment rate was seen in the decoration, repair and maintenance for buildings sector, whereas a discernible increase was observed in the information and communications sector. Analysed by occupational category, while the underemployment rate of the higher-skilled segment edged up by 0.1 percentage point to 0.4% in the first quarter, that of the lower-skilled segment, which accounted for a lion share of underemployment, remained unchanged at 1.4%.

Box 5.2

Business performance and operating situation of low-paying sectors⁽¹⁾ in 2017

The objective of the Statutory Minimum Wage (SMW) implemented since May 2011 is to forestall excessively low wages, while ensuring that the labour market flexibility, economic growth and competitiveness of Hong Kong are not unduly jeopardised, and at the same time minimising the loss of low-paid jobs. Though setting and raising a wage floor would be conducive to improving the earnings of grassroots employees, labour costs borne by enterprises would also be inevitably pushed up. If enterprises opt to mitigate the additional operating expenses by downsizing, the stability of the employment market may be compromised, with particularly serious impacts on grassroots employees that have lower skills and weaker bargaining power.

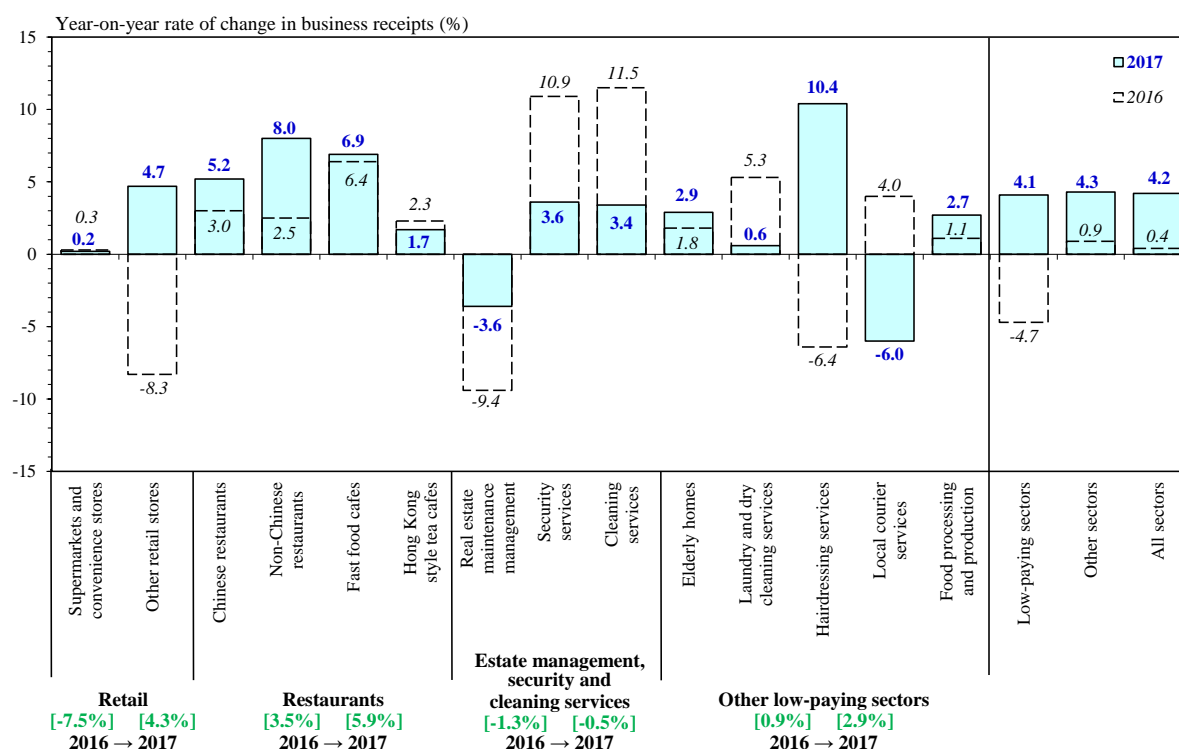
How enterprises will cope with the additional operating expenses hinges crucially on the macroeconomic environment. Fortunately, labour demand has remained solid amid sustained expansion of the Hong Kong economy since 2011. This has relieved to a large extent the pressure that might have been brought about by SMW on the labour market. In view of the potential impact of the business performance of enterprises on the labour market, this article seeks to analyse, based on the results of the 2017 Annual Survey of Economic Activities⁽²⁾ released by the Census and Statistics Department (C&SD), the business performance and operating situation of low-paying sectors (LPS) which hire more low-paid employees and the small and medium-sized enterprises (SMEs) in these sectors⁽³⁾.

In 2017, the Hong Kong economy picked up to a notable growth of 3.8% amid a favourable external environment. As the overall business environment turned better during the year, the overall business receipts of enterprises improved visibly. Among them, the business receipts of LPS rebounded by 4.1%, similar to the growth in business receipts of all sectors taken together. Thanks to the revival in inbound tourism and the strengthened local consumption demand, the business receipts of the retail sector, which accounted for nearly 70% of the business receipts of LPS, reverted to an increase. Business receipts of the restaurants sector also registered an accelerated growth (*Chart 1*).

-
- (1) The low-paying sectors referred to in this article are the same as those identified by the Minimum Wage Commission. Details can be found in the 2018 Report of the Minimum Wage Commission.
 - (2) The statistics of the Annual Survey of Economic Activities cited in this article are in value terms and only pertain to enterprises with employees. SMEs refer to enterprises with fewer than 50 persons engaged.
 - (3) For the business performance of enterprises in LPS in previous years, please see Box 6.1 in the 2012 Economic Background and 2013 Prospects, and Boxes 5.1 in the First Quarter Economic Reports from 2014 onwards.

Box 5.2 (Cont'd)

Chart 1: Business receipts of LPS as a whole rebounded amid a notable expansion of the Hong Kong economy in 2017



Note: [] Figures in brackets denote the year-on-year rate of change in business receipts of all enterprises in that sector in the specified year.

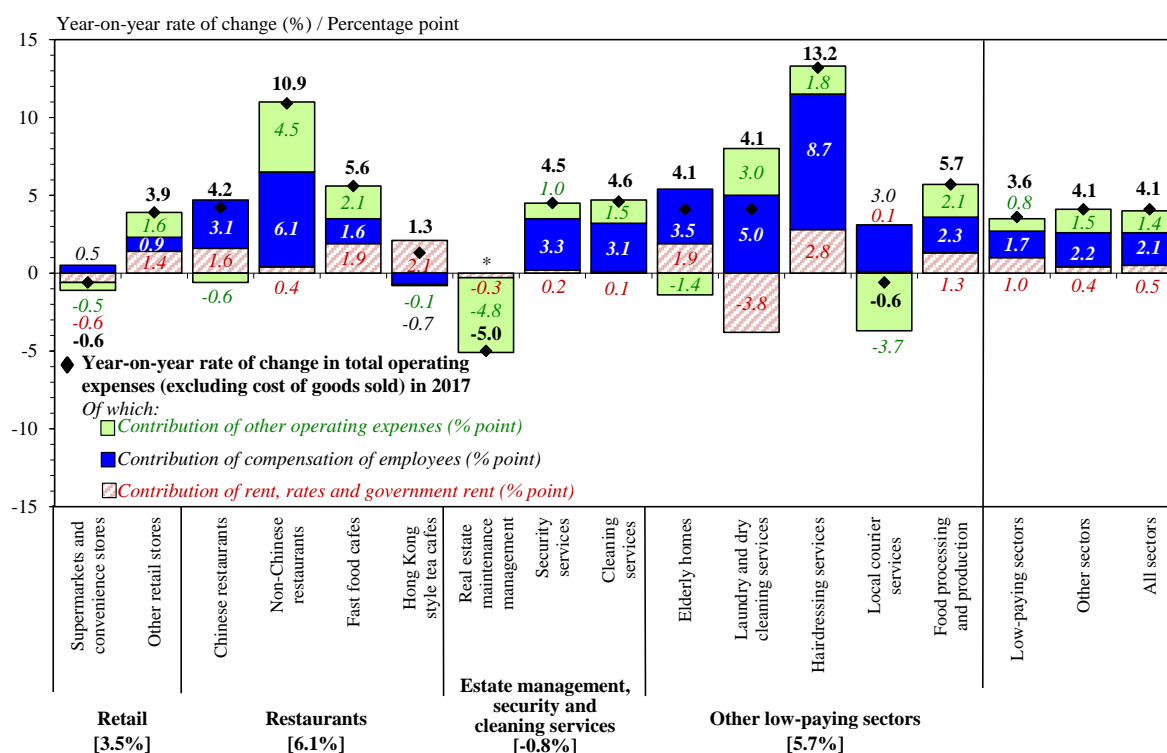
Source: Annual Survey of Economic Activities, C&SD.

Operating costs

In 2017, due to the steady rise in labour earnings amid the progressively tightened labour market, labour costs of enterprises generally went up. The total operating expenses of all sectors increased by 4.1% and those of the LPS by 3.6%, of which about half (2.1 percentage points and 1.7 percentage points respectively) were attributable to staff costs. Among the LPS, save for the retail sector which was more affected by rentals and other operating expenses, the increases in total operating expenses of labour-intensive LPS, such as restaurants, security services, cleaning services, elderly homes, laundry and dry cleaning services as well as hairdressing services, were noticeably more affected by staff costs. Meanwhile, operating expenses of real estate maintenance management and local courier services decreased along with business contraction. Apart from staff costs, the rebound in rentals of retail space and commercial premises in 2017 added to the rental burden of the retail and restaurants sectors. Furthermore, the generally faster growth in business activities in various sectors compared with 2016 also led to increases in other operating expenses (*Chart 2*).

Box 5.2 (Cont'd)

Chart 2: In 2017, about half of the increases in total operating expenses of all sectors and the LPS were attributable to staff costs



Notes: The sum of the individual items may not add up to the totals due to rounding.

[] Figures in brackets denote the year-on-year rate of change in total operating expenses of all enterprises in that sector in 2017.

(*) Within ± 0.05 percentage point.

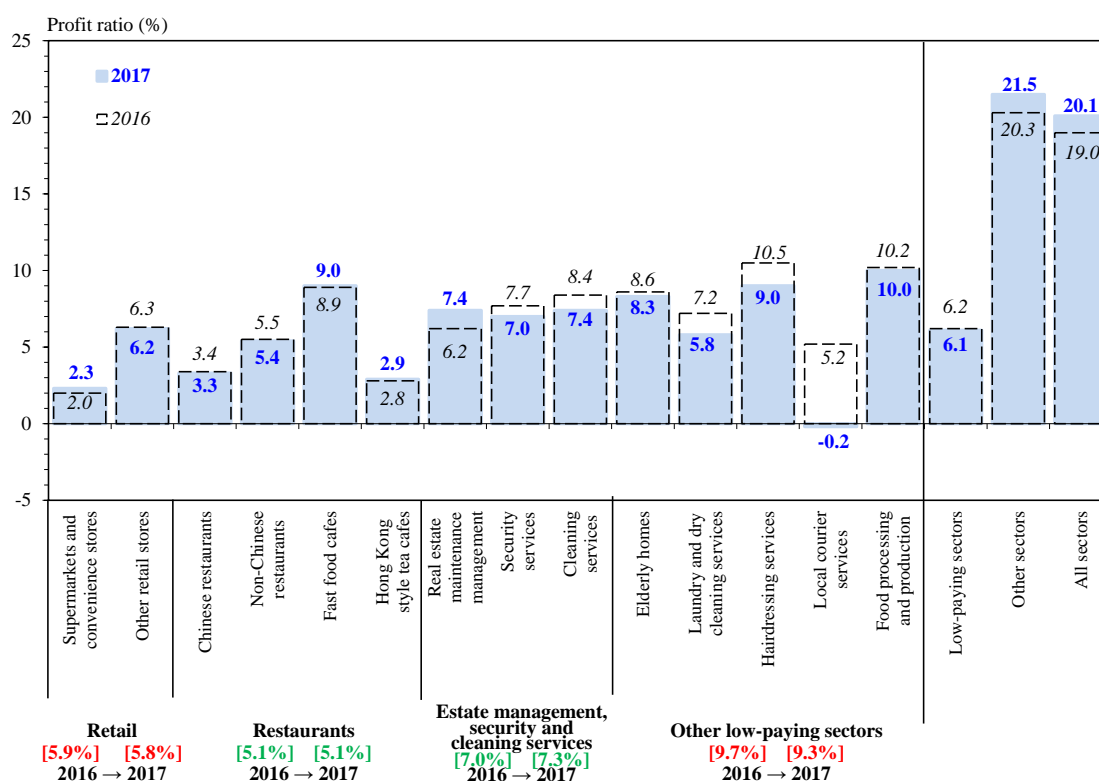
Source: Annual Survey of Economic Activities, C&SD.

Profitability

Although business receipts of LPS as a whole improved in 2017, with operating expenses rising correspondingly, the profit ratio held steady at 6.1%. Within LPS, the profit ratios of most sub-sectors were similar to those in the previous year (**Chart 3**). As to non-LPS, the financing, insurance, real estate, professional and business services sector saw improved profitability in 2017 compared with 2016, whereas the profit ratios of other sub-sectors remained broadly the same.

Box 5.2 (Cont'd)

Chart 3: The overall profitability of LPS in 2017 was similar to that in 2016



Note: [] Figures in brackets denote the profit ratio of all enterprises in that sector in the specified year.

Source: Annual Survey of Economic Activities, C&SD.

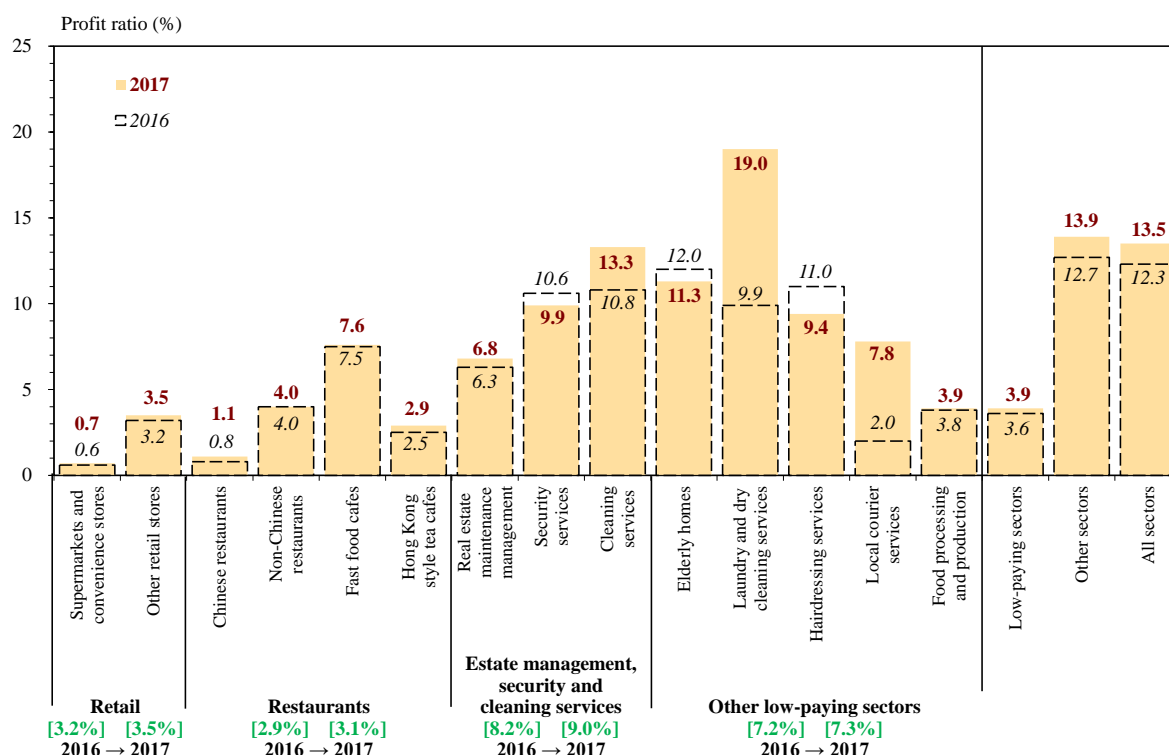
SMEs

The business receipts of SMEs in LPS rebounded by 4.6% in 2017, which was slightly higher than that of LPS as a whole. Yet, the increase in the total operating expenses of these SMEs (4.9%) was also higher than that of LPS as a whole. Besides the retail sector which was more affected by rentals and other operating expenses, the increases in total operating expenses of SMEs in many LPS were mainly driven by staff costs. The overall profit ratio of SMEs in LPS was 3.9% in 2017, slightly up by 0.3 percentage point from that in 2016 (*Chart 4*). That said, profits of SMEs in individual sub-sectors of LPS (such as supermarkets and convenience stores as well as Chinese restaurants) remained meagre, with profit ratios of only 0.7% and 1.1% respectively.

Although the overall profitability of SMEs in LPS fared slightly better in 2017, their profitability was still mostly weaker than that of their respective sectors. Compared with large enterprises, SMEs are constrained by resources and may not be able to benefit from economies of scale and more effective management. They are also generally less capable of passing on and coping with increases in operating costs, and have less flexibility in deploying their resources. For instance, the overall profit ratio of SMEs in the restaurants sector remained low at 3.1% in 2017, which was also lower than the profit ratio of the restaurants sector as a whole (5.1%). Among these SMEs in the restaurants sector, Chinese restaurants recorded even thinner profits in overall terms. Given the above, SMEs have less room for manoeuvre than large enterprises when facing adverse changes in the business environment and may need to resort to downsizing, which will in turn affect the labour market to a certain extent.

Box 5.2 (Cont'd)

Chart 4: SMEs remained relatively weak in overall profitability



Note: [] Figures in brackets denote the profit ratio of SMEs in that sector in the specified year.

Source: Annual Survey of Economic Activities, C&SD.

Concluding remarks

The Hong Kong economy has witnessed sustained expansion since the implementation of SMW despite the volatile external environment. This has to a large extent alleviated the potential impact brought about by SMW on the employment situation and operation of enterprises.

While the current low-unemployment environment should continue to lend support to local consumption, the business landscapes for different sectors are still facing challenges amid the various external uncertainties, more so for SMEs whose profitability is generally weaker. With the SMW uprated to \$37.5 per hour starting from 1 May 2019, how different sectors will fare down the road warrants continued close monitoring.

Profile of employment in establishments

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

5.10 Private sector employment registered further solid growth of 0.7% in December 2018 over a year earlier to 2 879 300, despite the slower economic growth towards the end of 2018. Increases in employment were seen in many service sectors, notably in accommodation services (up 5.9%), human health services (up 3.7%), food and beverage services (up 3.5%), and professional and business services (excluding cleaning and similar services) (up 3.2%). Yet employment at construction sites (covering manual workers only) recorded a sharp decrease (down 16.1%) upon the completion of some major infrastructural projects. Analysed by establishment size, employment in *small and medium-sized enterprises (SMEs)*⁽⁷⁾ went up visibly by 2.1%, whereas that in large enterprises fell slightly by 0.3%. For 2018 as a whole, total private sector employment expanded by 1.1%, broadly the same as the 1.0% growth in 2017. As for the civil service, employment growth was 2.0% year-on-year in December 2018, and 2.1% for 2018 as a whole.

Table 5.6 : Employment by major economic sector

	<u>2017</u>					<u>2018</u>				
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</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)	536 600 (-0.6)	538 400 (-0.5)	537 700 (-0.6)	535 900 (-0.6)	534 400 (-0.7)
Retail	267 900 (0.5)	267 300 (0.4)	267 800 (0.6)	267 100 (0.2)	269 300 (0.6)	272 600 (1.7)	271 000 (1.4)	272 100 (1.6)	273 100 (2.2)	274 100 (1.8)
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)	291 000 (3.1)	286 200 (1.9)	290 600 (3.2)	293 100 (3.4)	294 300 (3.8)
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)	179 800 (0.6)	179 200 (0.6)	179 800 (1.2)	180 000 (0.6)	180 100 (-0.1)
Information and communications	106 900 (0.9)	107 300 (1.5)	106 600 (1.4)	106 600 (0.9)	107 100 (-0.2)	108 500 (1.5)	106 900 (-0.3)	108 200 (1.5)	109 100 (2.3)	109 900 (2.6)
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)	747 700 (2.3)	742 800 (2.0)	744 700 (2.2)	749 000 (2.5)	754 300 (2.4)
Social and personal services	512 800 (1.4)	510 300 (1.0)	510 800 (1.5)	512 500 (1.4)	517 400 (1.9)	523 000 (2.0)	520 000 (1.9)	521 400 (2.1)	523 000 (2.0)	527 700 (2.0)
Manufacturing	92 900 (-3.3)	94 500 (-3.4)	93 400 (-2.8)	92 000 (-3.4)	91 400 (-3.6)	90 100 (-3.0)	90 900 (-3.9)	89 800 (-3.8)	89 400 (-2.8)	90 100 (-1.5)
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)	111 800 (-5.8)	120 700 (2.6)	116 100 (2.9)	107 600 (-11.4)	103 000 (-16.1)
<i>All establishments surveyed in the private sector^(b)</i>	2 842 400 (1.0)	2 836 500 (1.0)	2 831 400 (0.8)	2 843 800 (1.0)	2 857 900 (1.0)	2 872 500 (1.1)	2 867 400 (1.1)	2 871 500 (1.4)	2 871 700 (1.0)	2 879 300 (0.7)
		<0.3>	<\$>	<0.5>	<0.2>		<0.4>	<0.3>	<\$>	<\$>
<i>Civil service^(c)</i>	168 700 (1.6)	167 700 (0.9)	167 900 (1.4)	169 000 (1.9)	170 300 (2.2)	172 300 (2.1)	171 500 (2.3)	171 300 (2.1)	172 600 (2.1)	173 700 (2.0)

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

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

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

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

() % change over a year earlier.

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

\$ Change less than 0.05%.

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

Vacancies

5.11 Private sector vacancies went up by 5.6% in December 2018 over a year earlier to 78 190. For 2018 as a whole, the number of job openings went up by 9.6% to an average of 78 150, echoing the further tightening in manpower situation during the year.

5.12 Analysed by economic sector, year-on-year increases in the number of vacancies were observed in many sectors in December 2018, notably in arts, entertainment and recreation (up 38.0%), transportation, storage, postal and courier services (up 23.4%), residential care and social work services (up 19.5%), accommodation services (up 17.7%), and education (up 16.3%). Meanwhile, vacancies at construction sites (covering manual workers only) fell by 37.9%, reflecting the ease-back in demand for manual workers at construction sites after the completion of some major infrastructural projects. A visible decrease in vacancies was also observed in human health services (down 28.6%), but this should be viewed against the concurrent gain in employment. In terms of occupational categories, vacancies for higher-skilled and lower-skilled occupations increased further by 2.3% and 7.2% respectively in December 2018. Analysed by establishment size, vacancies went up in both SMEs (up 6.2%) and large enterprises (up 5.2%) in December 2018. As for the civil service, the number of job openings increased by 24.8% year-on-year to 9 950 in December 2018.

5.13 Reflecting the tight labour market, the ratio of job vacancies per 100 unemployed persons went up notably from the year-ago level of 67 to 74 in December 2018. This increase was mainly driven by the lower-skilled segment, where the ratio rose from 67 to 79. The ratio in the higher-skilled segment remained at a high level of 104 over the period. For 2018 as a whole, the overall ratio increased markedly from 58 in the preceding year to 70, with the corresponding ratios in the higher- and lower-skilled segments rising from 88 and 59 to 102 and 73 respectively. Manpower shortage was observed in many sectors and was particularly acute in residential care and social work services, human health services, accommodation services, and arts, entertainment and recreation, where the ratios well exceeded 100 in December 2018.

Table 5.7 : Vacancies by major economic sector

	Number of vacancies										Vacancy rate in Dec 2018 (%)
	2017					2018					
	Annual average	Mar	Jun	Sep	Dec	Annual average	Mar	Jun	Sep	Dec	
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)	7 490 (1.2)	7 600 (0.8)	7 780 (6.2)	7 570 (-0.6)	7 030 (-1.7)	1.3
Retail	7 640 (0.5)	7 540 (-1.6)	7 080 (-0.2)	8 130 (-1.8)	7 800 (5.8)	8 220 (7.6)	8 110 (7.6)	7 980 (12.7)	8 010 (-1.4)	8 770 (12.4)	3.1
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)	14 230 (6.5)	14 380 (5.2)	14 360 (8.6)	14 260 (12.9)	13 910 (8)	4.5
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)	4 360 (22.7)	4 040 (12.2)	4 660 (30.9)	4 480 (24.5)	4 250 (23.4)	2.3
Information and communications	2 740 (3.6)	2 720 (6.6)	2 710 (9.6)	2 750 (-2.8)	2 770 (2.1)	2 980 (9.1)	3 120 (14.6)	3 250 (19.9)	2 790 (1.4)	2 780 (0.5)	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)	20 130 (9.3)	19 830 (6.5)	20 160 (8.7)	20 540 (12.6)	19 980 (9.3)	2.6
Social and personal services	14 490 (3.2)	13 460 (-5.7)	13 130 (-7.9)	14 920 (5.0)	16 440 (22.5)	16 980 (17.2)	16 140 (19.9)	17 250 (31.4)	17 050 (14.3)	17 490 (6.4)	3.2
Manufacturing	2 420 (3.9)	2 570 (-11.0)	2 290 (0.2)	2 240 (6.6)	2 610 (26.0)	2 850 (17.5)	2 610 (1.6)	2 950 (28.9)	2 900 (29.4)	2 940 (12.9)	3.2
Construction sites (covering manual workers only)	1 070 (45.3)	570 (-40.8)	1 510 (176.2)	830 (40.4)	1 370 (62.0)	700 (-34.6)	850 (49.8)	580 (-61.5)	520 (-38.0)	850 (-37.9)	0.8
All establishments surveyed in the private sector ^(b)	71 310 (3.7)	70 460 (0.2)	69 590 (2.0)	71 150 (2.6)	74 040 (10.3)	78 150 (9.6)	76 880 (9.1)	79 200 (13.8)	78 340 (10.1)	78 190 (5.6)	2.6
		<1.2>	<-1.0>	<3.8>	<5.6>		<0.7>	<3.4>	<§>	<1.3>	
Civil service ^(c)	8 320 (-3.6)	8 660 (7.1)	8 420 (-5.4)	8 230 (-5.9)	7 980 (-9.6)	8 960 (7.7)	7 540 (-13.0)	8 920 (5.9)	9 450 (14.8)	9 950 (24.8)	5.4

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.

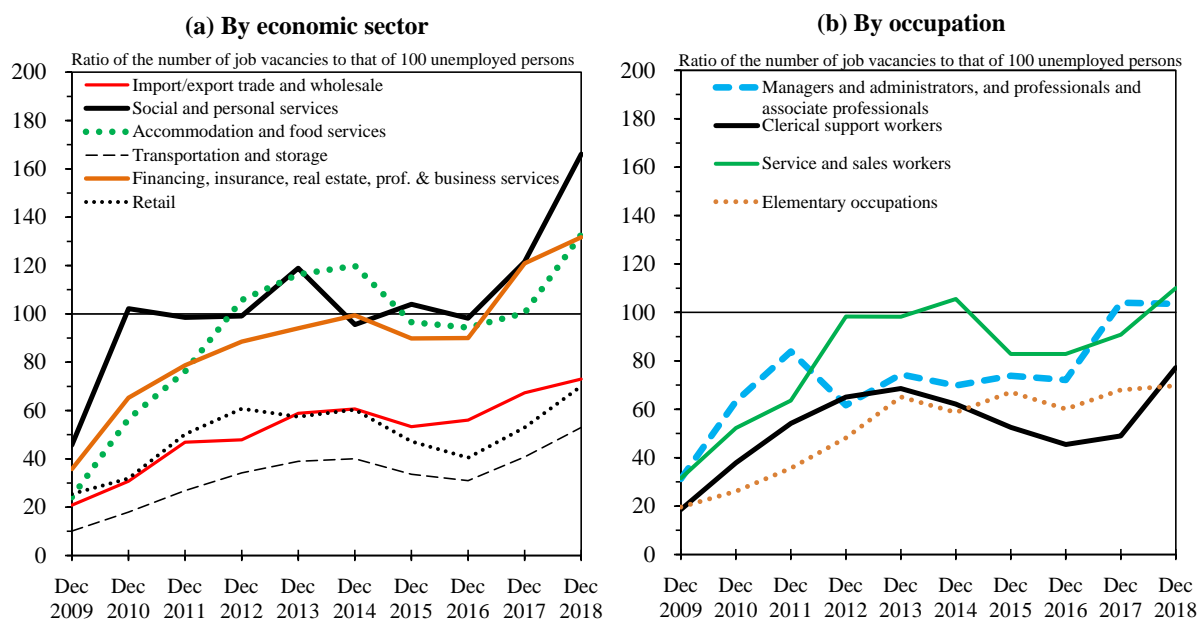
() % change over a year earlier.

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

§ 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.

Diagram 5.5 : Tightening in manpower situation was broad-based in December 2018



5.14 The vacancy rate for private sector establishments, measured in terms of the percentage of job vacancies to total employment opportunities, edged down from 2.7% in September 2018 to 2.6% in December 2018, but was 0.1 percentage point higher than its year-ago level. Visible year-on-year increases in vacancy rate were seen in the arts, entertainment and recreation, and residential care and social work services sectors. For 2018 as a whole, the private sector vacancy rate went up from 2.4% in the preceding year to 2.6%.

5.15 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 registered at LD averaged 111 700 per month in the first quarter of 2019, down by 5 900 year-on-year, mainly due to the fewer vacancies in the finance, retail, and restaurants sectors.

Wages and earnings

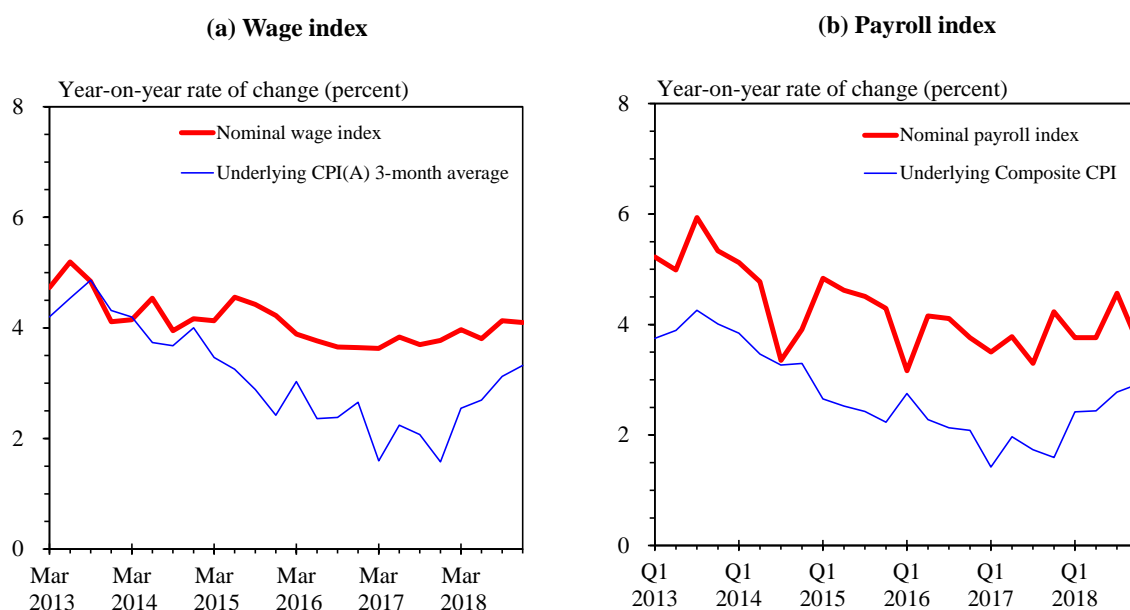
5.16 Both nominal wages and payroll recorded solid growth in 2018 on the back of persistently tight labour market conditions. The nominal *wage index* for all selected industry sections, which covers regular payment to employees at the supervisory level or below, increased by 4.1% year-on-year in December 2018 and by 4.0% for 2018 as a whole, following the 3.8% gain in 2017. After adjusting for inflation⁽⁸⁾, real wages rose by 1.0% in 2018.

5.17 Nominal wages continued to increase across all selected economic sectors and occupations in December 2018, with appreciable year-on-year growth recorded in the transportation (up 5.9%), and accommodation and food service activities (up 4.8%) sectors. Analysed by occupation, craftsmen and operatives (up 7.2%), and service workers (up 4.6%) saw visible gains in their wages.

5.18 *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, went up by 3.7% year-on-year in nominal terms in the fourth quarter of 2018. For 2018 as a whole, nominal earnings rose by 3.9%, translating into a real improvement of 1.5%.

5.19 Nominal payroll increased further across-the-board in the fourth quarter of 2018, notably in the accommodation and food service activities (up 5.7%), professional and business services (up 4.8%), and transportation, storage, postal and courier services (up 4.8%) sectors.

Diagram 5.6 : Overall wage and earnings posted solid real gains in 2018



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

5.20 More recent statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, indicated that the *average monthly employment earnings*⁽¹⁰⁾ of full-time employees (excluding foreign domestic helpers) in the lowest three decile groups combined increased by 4.2% in the first quarter of 2019 over a year earlier, translating into a real increase of 1.6% after discounting inflation. For the overall income situation, the median monthly household income (excluding foreign domestic helpers) increased by 4.0% in nominal terms or 1.8% in real terms in the first quarter of 2019.

Highlights of labour-related measures and policy developments

5.21 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job seekers on the spot. In the first quarter of 2019, LD organised five large-scale job fairs in North District, Kowloon Tong and Mong Kok. A total of 202 participating organisations offered more than 16 800 job opportunities in the retail, catering, property management, transport and other industries. There were also 17 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.

5.22 The Chief Executive in Council adopted the recommendation of the Minimum Wage Commission to raise the Statutory Minimum Wage (SMW) rate by 8.7% from \$34.5 to \$37.5 per hour. With the approval of the Legislative Council for the related subsidiary legislation, the revised SMW rate of \$37.5 per hour came into force on 1 May 2019. LD is launching territory-wide publicity activities to enhance public awareness of the revised SMW rate.

5.23 To improve employees' working hours arrangements, LD is engaging its 11 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 – March 2011. Starting from the reference quarter of January – March 2011, all the labour force statistics by occupation, unless otherwise specified, are compiled based on the ISCO-08.

- (2) For a person aged 15 or above to be classified as unemployed, he or she should: (a) not have a job and not be performing any work for pay or profit during the reference period (i.e. seven days before enumeration); (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 fourth-term 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 6 : PRICES

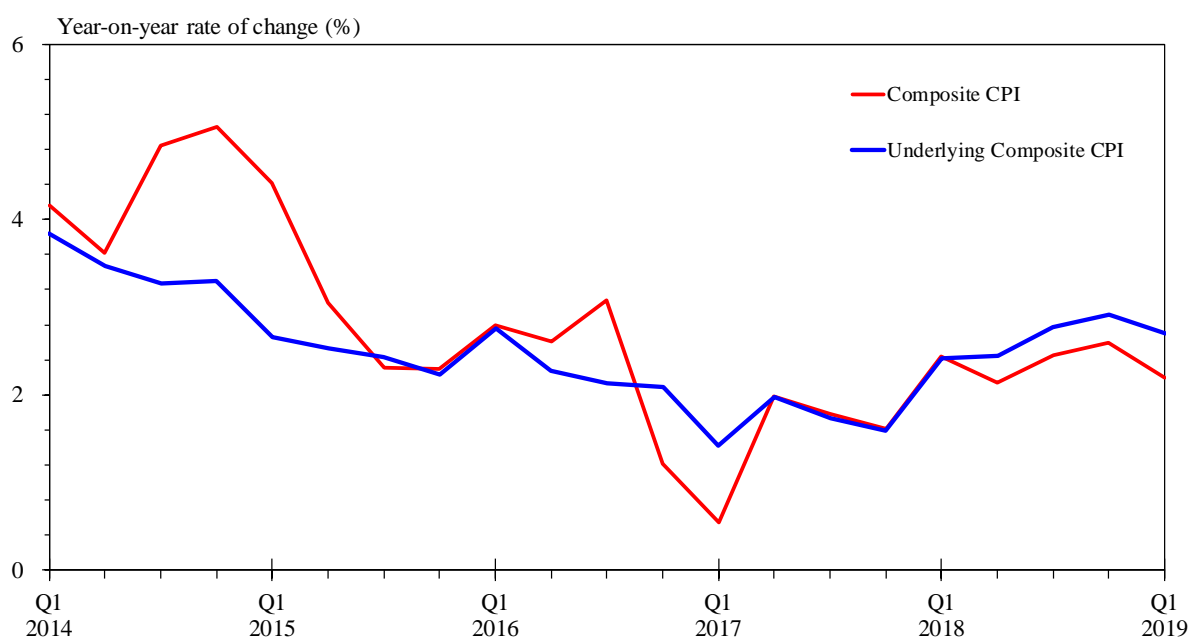
Summary

- *Consumer price inflation went down slightly in the first quarter of 2019. The year-on-year increase in the underlying Composite Consumer Price Index (Composite CPI)⁽¹⁾, which nets out the effects of the Government's one-off relief measures to reflect the underlying inflation trend, edged down from 2.9% in the fourth quarter of 2018 to 2.7% in the first quarter of 2019. The increase in the headline Composite CPI eased by a slightly larger magnitude from 2.6% to 2.2% over the period.*
- *Locally, the increase in the private housing rental component of consumer price inflation remained steady in the first quarter following the consolidation of fresh-letting residential rentals earlier on. Meanwhile, the increases in wages and earnings amid a tight labour market were accompanied by sustained labour productivity growth. This, coupled with the moderate increase in commercial rental costs, has helped keep the cost pressures faced by businesses largely in check.*
- *External price pressures showed some easing in the first quarter. Against the background of reduced global economic momentum, inflation rates in many of our major import sources⁽²⁾ declined, and global commodity and energy prices generally softened. Moreover, the Hong Kong dollar appreciated along with the US dollar against other major currencies on a year-on-year basis. All these have helped alleviate external price pressures. Overall, import prices recorded a slower year-on-year increase in the first quarter.*

Consumer prices

6.1 Consumer price inflation went down slightly in the first quarter of 2019. Domestically, the increase in the private housing rental component of consumer price inflation remained steady following the consolidation of fresh-letting residential rentals earlier on. As to business cost pressures, while wages and earnings continued to increase amid a tight labour market, sustained labour productivity growth has helped keep the increase in labour cost in check. The rises in commercial rental costs remained moderate. Meanwhile, external price pressures showed some easing. Against the background of reduced global economic momentum, inflation rates in many of our major import suppliers declined, and global commodity and energy prices generally softened. Together with the appreciation of the Hong Kong dollar along with the US dollar against other major currencies on a year-on-year basis, these have helped alleviate external price pressures. In overall terms, import prices recorded a slower year-on-year increase in the first quarter.

Diagram 6.1: Consumer price inflation went down slightly in the first quarter



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.

6.2 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 reflect the underlying inflation trend, eased from 2.9% in the preceding quarter to 2.7% in the first quarter. The headline consumer price inflation rate eased by a slightly larger magnitude from 2.6% to 2.2%. In addition to economic fundamentals, the easing inflation was partly due to the late arrival of the Easter holidays (which started in mid-April this year but in late March last year), leading to smaller year-on-year increases in prices of such items as package tours in the quarter. The Government's Electricity Charges Relief Scheme which took effect starting this year has also helped lower headline inflation rate.

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

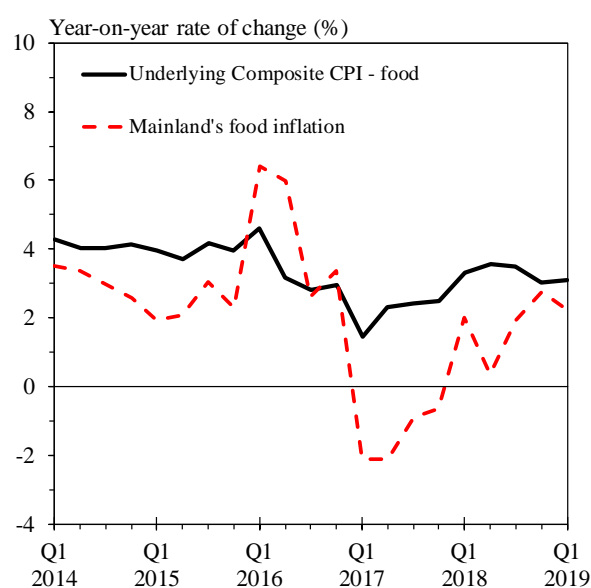
		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying^(a)</u>	<u>Headline</u>			
2018	Annual	2.6	2.4	2.7	2.3	2.2
	H1	2.4	2.3	2.5	2.2	2.2
	H2	2.9	2.5	2.9	2.4	2.3
	Q1	2.4	2.4	2.6	2.4	2.4
	Q2	2.4	2.1	2.4	2.1	2.0
	Q3	2.8	2.5	2.8	2.4	2.2
	Q4	2.9	2.6	3.1	2.4	2.3
2019	Q1	2.7	2.2	2.6	2.1	2.0
(seasonally adjusted quarter-to-quarter rate of change (%))						
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
2019	Q1	0.6	0.5	0.4	0.4	0.4

Note : (a) Underlying consumer price inflation is calculated by netting out the effects of all Government's one-off relief 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.

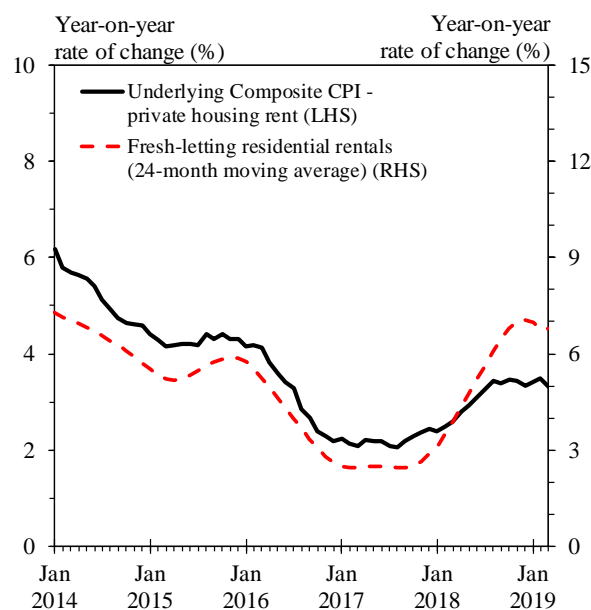
6.3 Analysed by major component of the underlying Composite CPI, the rise in the private housing rental component held steady at 3.4% in the first quarter, as the consolidation of fresh-letting residential rentals earlier on began to feed through. Prices of food, the component with the largest weight other than housing, also rose steadily by 3.1%, with the faster increase in prices of basic foodstuffs largely offset by the smaller increase in prices of meals bought away from home. As to other major components, prices of miscellaneous goods and transport rose moderately further, while those of clothing and footwear declined slightly from the year-ago levels. Prices of miscellaneous services rose at a slower pace, mainly due to the much smaller increase in the charges for package tours, as prices of many other components such as school fees and household services continued to post steady increases. Prices of electricity, gas and water also recorded a more moderate increase, reflecting the general year-on-year declines in global energy prices in recent months. Prices of durable goods continued to stay on a secular downtrend.

Diagram 6.2 : Food and private housing rental components of the underlying Composite CPI

(a) Food prices rose steadily in the first quarter of 2019



(b) Rental inflation was largely stable



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

Diagram 6.3 (a) : Prices of many components of the underlying Composite CPI recorded steady to slower increases in the first quarter of 2019

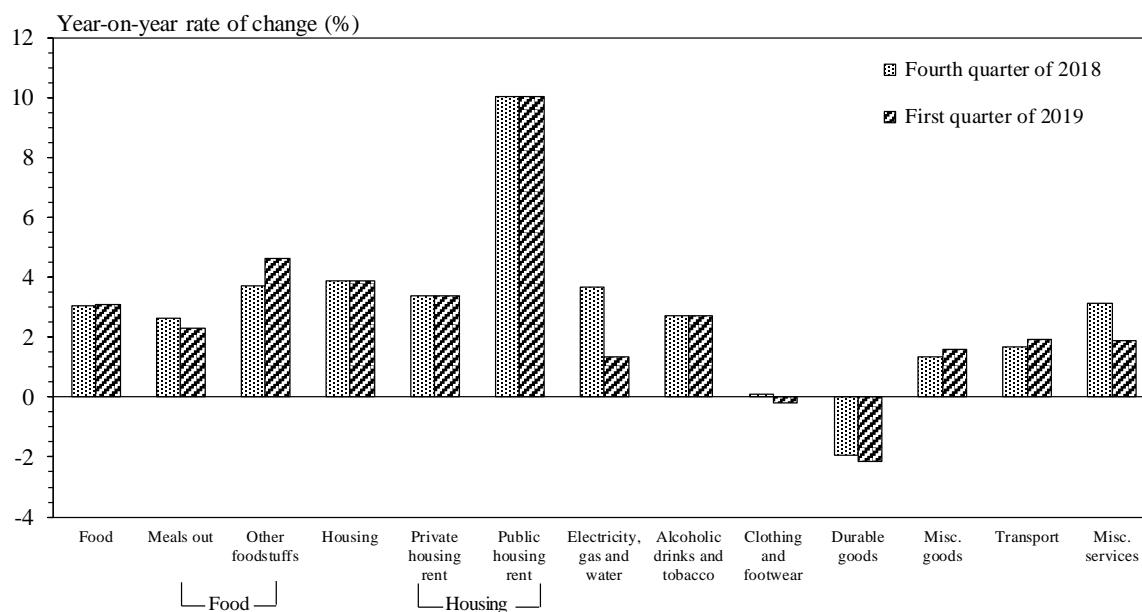
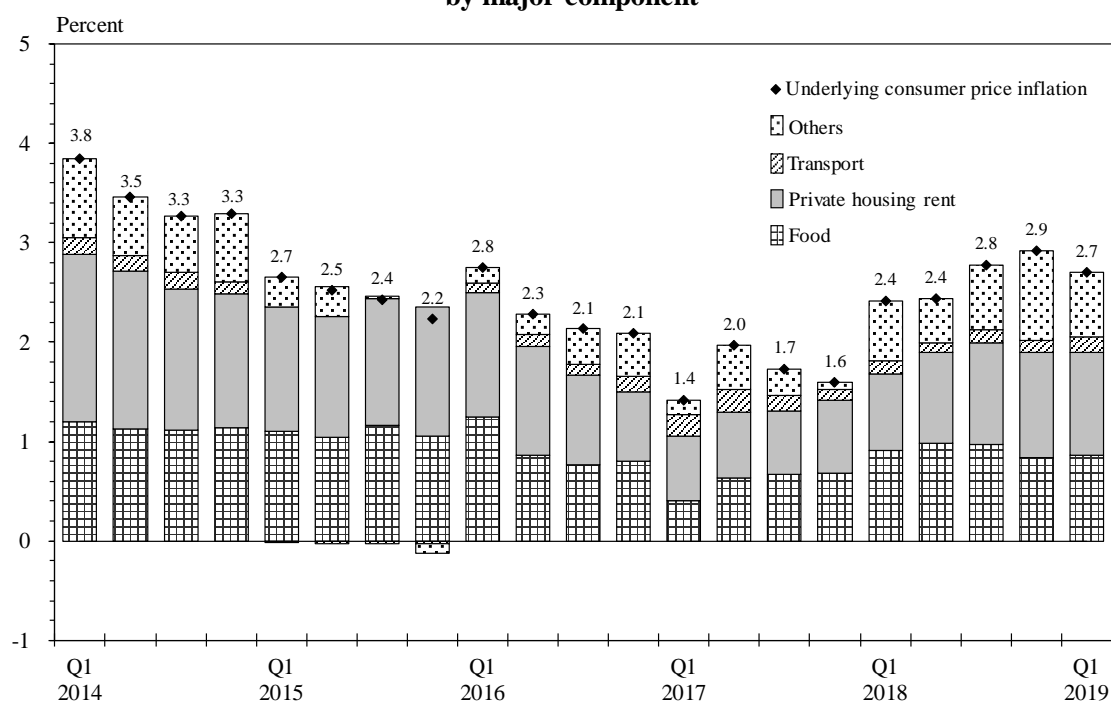


Diagram 6.3 (b) : Contribution to underlying consumer price inflation by major component



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

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2017</u>	<u>Annual</u>	<u>2018</u>		<u>2019</u>		
				<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Food	27.29	2.2	3.4	3.3	3.6	3.5	3.0	3.1
<i>Meals bought away from home</i>	17.74	2.7	2.9	3.0	3.0	2.9	2.6	2.3
<i>Other foodstuffs</i>	9.55	1.1	4.3	3.8	4.9	4.8	3.7	4.6
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)	3.9 (2.9)
<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)	3.4 (2.3)
<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)	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)	1.4 (-4.9)
Alcoholic drinks and tobacco	0.54	0.6	1.3	0.3	0.6	1.7	2.7	2.7
Clothing and footwear	3.21	-0.4	1.6	2.3	2.0	2.3	0.1	-0.2
Durable goods	4.65	-3.2	-2.0	-2.1	-2.1	-2.0	-1.9	-2.1
Miscellaneous goods	3.56	1.4	1.3	1.1	1.3	1.5	1.4	1.6
Transport	7.98	2.3	1.6	1.7	1.3	1.7	1.7	1.9
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)	1.9 (1.8)
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)	2.7 (2.2)

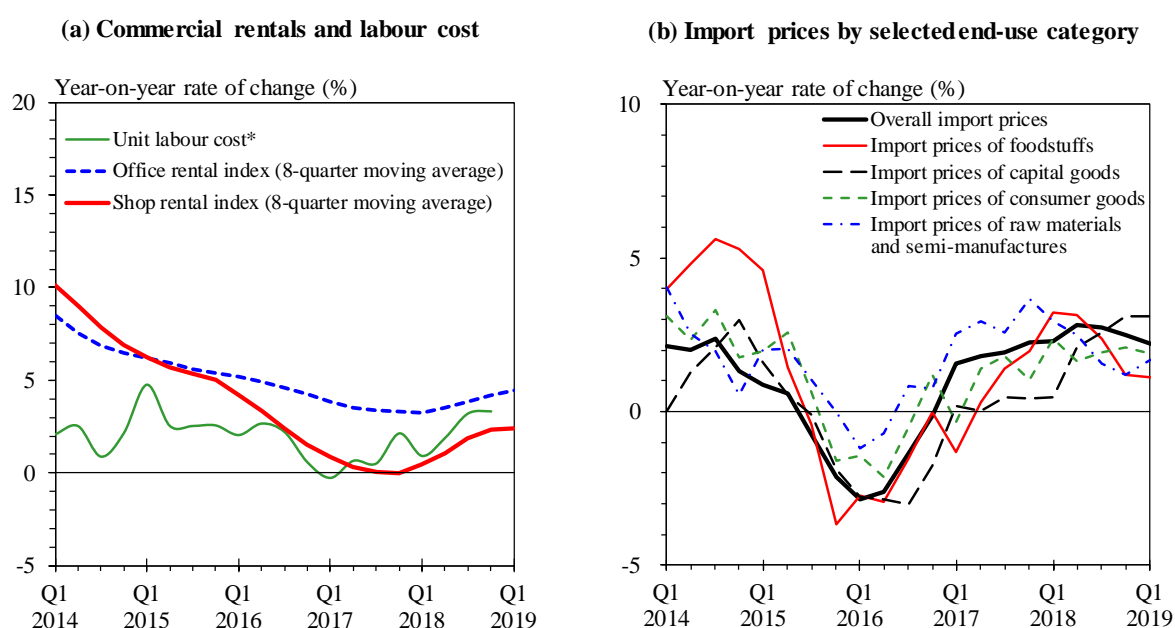
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public housing rents as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public housing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

6.4 Local cost pressures were largely steady in the first quarter of 2019. On labour costs, while wages and earnings increased further amid a tight labour market, sustained labour productivity growth has helped keep the increase in labour cost in check. Commercial rental cost pressures increased slightly following the continued rises in rentals of offices and retail premises, but were still generally moderate as reflected by the year-on-year increases in the eight-quarter moving averages of office and shop rentals.

**Diagram 6.4 : Local cost pressures were largely steady;
external price pressures showed some easing**



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 (2017) dollar.

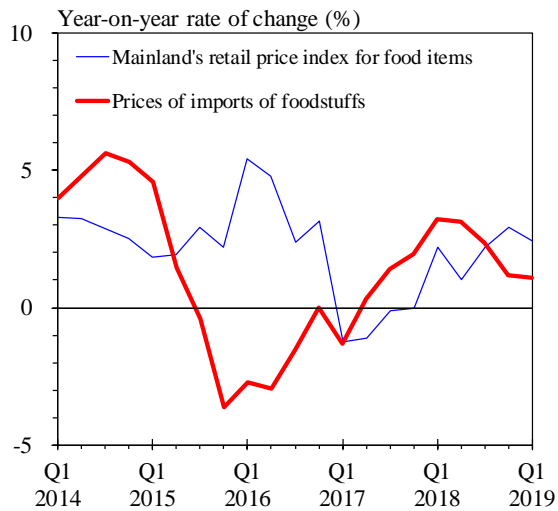
6.5 External price pressures showed some easing in the first quarter. Against the background of reduced global economic momentum, inflation rates in many of our major import sources declined, and global commodity and energy prices generally softened. Together with the year-on-year appreciation of the Hong Kong dollar along with the US dollar against other major currencies, these have helped tame the external price pressures. Import prices on the whole rose by 2.2% year-on-year in the first quarter, slower than the 2.5% in the preceding quarter. Analysed by major end-use category, import prices of foodstuffs and consumer goods posted slightly slower increases of 1.1% and 1.9% respectively. Import prices of raw materials and semi-manufactures showed a somewhat faster increase, while those of capital goods rose steadily further. The increase in import prices of fuels decelerated visibly, along with the softened global oil prices.

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

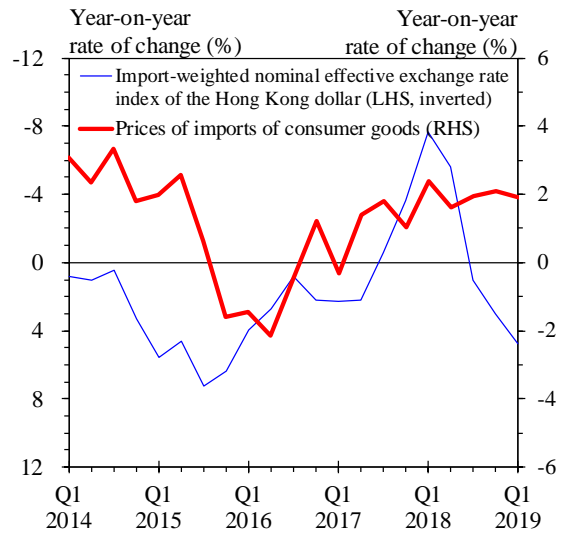
		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2018	Annual	2.4	2.0	2.0	24.9	2.1	2.6
	H1	3.2	2.0	2.7	23.3	1.3	2.6
	H2	1.8	2.0	1.4	26.6	2.8	2.6
	Q1	3.2	2.4	2.9	16.0	0.5	2.3
	Q2	3.1	1.6	2.5	30.4	2.1	2.8
	Q3	2.4	1.9	1.6	34.4	2.6	2.7
	Q4	1.2	2.1	1.2	19.5	3.1	2.5
2019	Q1	1.1	1.9	1.7	1.3	3.1	2.2

Diagram 6.5: Import prices by end-use category

(a) Increase in import prices of food eased slightly

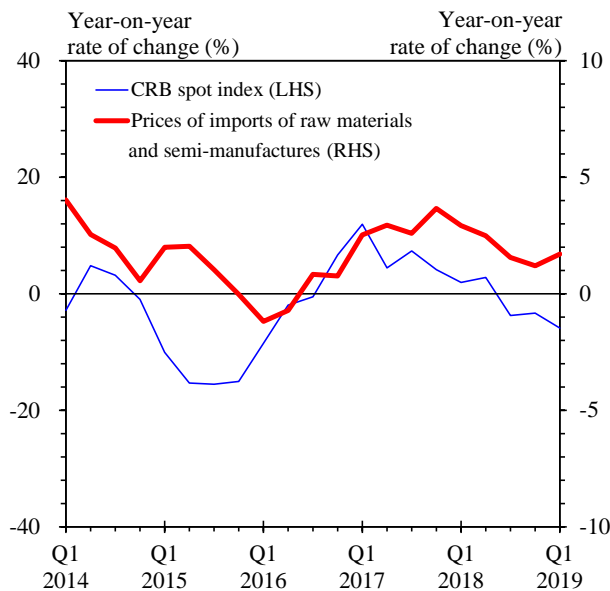


(b) Import prices of consumer goods saw a slightly smaller increase

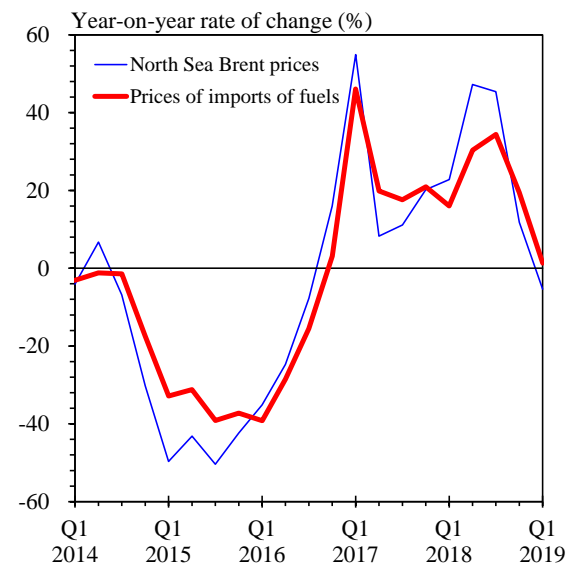


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

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



(d) Increase in import prices of fuels decelerated visibly



Output prices

6.6 Output prices, as measured by the *Producer Price Indices*⁽³⁾, saw diverse movements across sectors in 2018. For the manufacturing sector, the increase in output prices slowed visibly in the second half of the year. Among the selected services sectors, output prices for accommodation services increased solidly throughout the year, thanks to the strong growth in visitor arrivals. Amid the expansion in regional trading activities in the majority of 2018, output prices for air transport rose markedly for the year as a whole, while those for land transport and water transport saw modest to moderate increases. Yet, output prices for courier services relapsed to a sharp fall in the second half of 2018, leading to a moderate decrease for the year as a whole. Meanwhile, output prices for telecommunications stayed on a secular downtrend due to the keen competition and technological advance.

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

<u>Industry group</u>	<u>Annual</u>	<u>2017</u>				<u>Annual</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>
Manufacturing	3.8	4.2	3.7	3.7	3.5	2.0	3.8	3.7	*	0.3
Selected service sectors ^(a)										
Accommodation services	2.0	1.6	1.5	2.3	2.6	4.4	4.5	4.7	3.9	4.5
Land transport	1.0	1.8	1.2	0.5	0.4	1.4	0.7	1.2	2.0	1.5
Water transport	3.3	-1.0	5.2	5.6	3.6	2.5	3.6	0.6	1.3	4.4
Air transport	2.4	-3.5	3.4	4.2	5.6	8.1	9.7	9.6	8.7	4.6
Telecommunications	-3.2	-2.9	-2.5	-2.9	-4.4	-3.4	-3.5	-2.3	-3.4	-4.7
Courier services	3.8	3.6	2.2	2.0	7.4	-2.5	3.3	3.9	-6.3	-10.3

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.

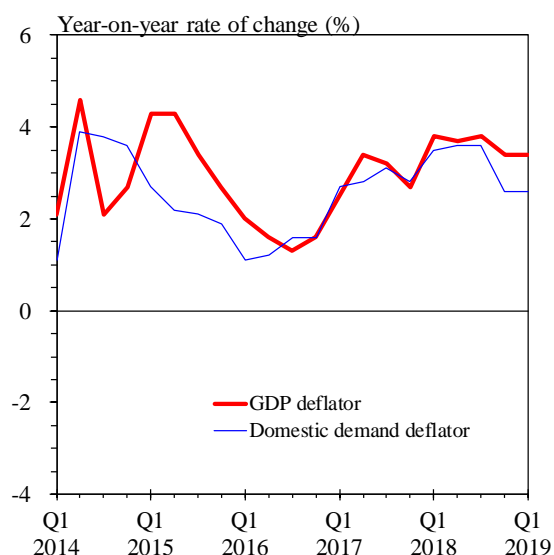
(*) Change within $\pm 0.05\%$.

GDP deflator

6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*⁽⁴⁾ rose by 3.4% in the first quarter of 2019 over a year earlier, the same as its increase in the preceding quarter. The *terms of trade*⁽⁵⁾ improved further as export prices rose somewhat faster than import prices. Taking out the external trade components, the domestic demand deflator saw a year-on-year increase of 2.6% in the first quarter, the same as that in the preceding quarter.

Diagram 6.6: GDP deflator

(a) The year-on-year increase in GDP deflator was the same as that in the preceding quarter



(b) Terms of trade improved further

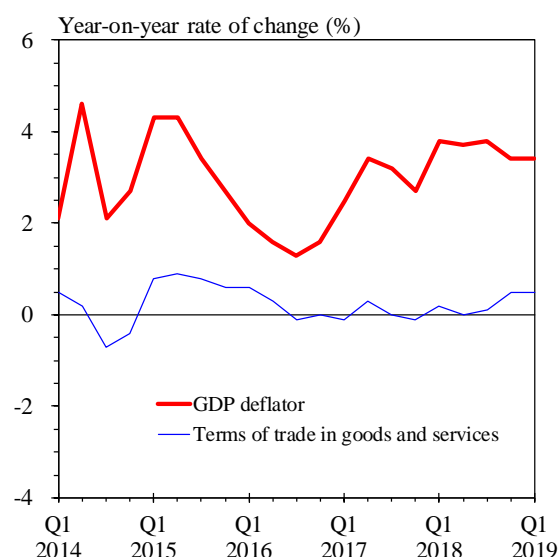


Table 6.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))

	<u>2017</u>			<u>2018</u>			<u>2019</u>
	<u>Annual</u> [#]	<u>Annual</u> [#]	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [#]
Private consumption expenditure	2.5	3.1	4.0	3.6	2.8	2.3	2.0
Government consumption expenditure	2.5	3.1	2.0	3.0	3.8	3.8	4.1
Gross domestic fixed capital formation	4.5	4.1	2.4	4.0	6.0	3.9	3.8
Total exports of goods ^{&}	1.7	2.2	2.7	2.5	2.0	1.7	1.8
Imports of goods ^{&}	1.8	2.3	2.5	2.6	2.5	1.8	1.7
Exports of services ^{&}	3.2	4.5	5.2	5.0	4.8	3.4	1.0
Imports of services ^{&}	2.6	2.6	6.2	4.7	0.7	-0.6	-2.1
Gross Domestic Product	3.0	3.6	3.8 <1.8>	3.7 <0.8>	3.8 <0.6>	3.4 <0.3>	3.4 <1.6>
Total final demand ^{&}	2.2	2.8	3.2	3.1	2.8	2.2	2.0
Domestic demand	2.9	3.3	3.5	3.6	3.6	2.6	2.6
Terms of trade in goods and services ^{&}	*	0.2	0.2	*	0.1	0.5	0.5

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.

< > 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>2019</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>Q1</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	2.1
Canada	1.6	1.9	1.3	1.4	1.8	2.3	2.1	2.3	2.7	2.0	1.6
EU	1.7	1.8	1.7	1.7	1.7	1.9	1.5	1.9	2.2	2.0	1.6
Japan	0.5	0.3	0.4	0.6	0.6	1.0	1.3	0.6	1.1	0.9	0.3
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	1.8
Russia	3.7	4.6	4.2	3.4	2.6	2.9	2.2	2.4	3.0	3.9	5.2
India	3.3	3.6	2.2	3.0	4.6	3.9	4.6	4.8	3.9	2.6	2.5
Brazil	3.4	4.9	3.6	2.6	2.8	3.7	2.8	3.3	4.4	4.1	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	2.2
Singapore	0.6	0.6	0.8	0.4	0.5	0.4	0.2	0.3	0.7	0.5	0.5
Taiwan	0.6	0.8	0.6	0.7	0.4	1.3	1.6	1.7	1.7	0.5	0.3
Korea	1.9	2.2	1.9	2.2	1.4	1.5	1.1	1.5	1.6	1.8	0.5
Malaysia	3.8	4.2	3.8	3.6	3.5	1.0	1.8	1.3	0.5	0.3	-0.3
Thailand	0.7	1.3	0.1	0.4	0.9	1.1	0.6	1.3	1.5	0.8	0.7
Indonesia	3.8	3.6	4.3	3.8	3.5	3.2	3.3	3.3	3.1	3.2	2.6
Philippines	2.9	2.9	2.8	2.7	3.0	5.2	3.9	4.8	6.3	5.9	3.8
Vietnam	3.5	5.0	3.3	3.1	2.7	3.5	2.8	3.8	4.1	3.4	2.6
Macao	1.2	0.9	0.9	1.3	1.8	3.0	2.5	3.0	3.4	3.1	2.9

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.

Statistical Appendix

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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>		<u>2019</u>
					Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Private consumption expenditure	1,593,091	1,649,941	1,785,499	1,942,606	489,827	473,745	503,072	486,529
Government consumption expenditure	231,263	247,973	261,474	280,980	67,525	70,291	71,573	77,881
Gross domestic fixed capital formation	537,205	535,216	575,991	611,616	152,192	158,088	158,452	137,858
Building and construction	262,780	283,447	297,343	307,600	74,758	74,975	77,387	79,691
Costs of ownership transfer	45,846	44,517	65,810	67,484	22,003	15,731	11,989	11,032
Machinery, equipment and intellectual property products	228,579	207,252	212,838	236,532	55,431	67,382	69,076	47,135
Changes in inventories	-20,580	447	10,973	5,939	1,585	12,669	-4,424	-6,934
Total exports of goods ^{&}	3,889,225	3,892,886	4,212,774	4,461,275	1,068,500	1,186,197	1,185,476	997,146
Imports of goods ^{&}	4,066,527	4,022,579	4,391,306	4,715,580	1,157,721	1,237,864	1,224,018	1,062,217
Exports of services ^{&}	808,948	764,839	812,937	891,367	205,032	224,415	231,233	235,371
Imports of services ^{&}	574,345	578,106	605,506	635,320	151,680	161,189	166,460	151,595
GDP	2,398,280	2,490,617	2,662,836	2,842,883	675,260	726,352	754,904	714,039
<i>Per capita GDP (\$)</i>	<i>328,924</i>	<i>339,478</i>	<i>360,247</i>	<i>381,544</i>	--	--	--	--
GNI	2,442,656	2,553,210	2,778,388	2,984,508	731,850	768,078	774,053	N.A.
<i>Per capita GNI (\$)</i>	<i>335,010</i>	<i>348,010</i>	<i>375,879</i>	<i>400,551</i>	--	--	--	--
Total final demand	7,039,152	7,091,302	7,659,648	8,193,783	1,984,661	2,125,405	2,145,382	1,927,851
Total final demand excluding re-exports ^(a)	4,139,786	4,190,705	4,499,279	4,833,300	1,168,193	1,231,641	1,265,851	1,186,589
Domestic demand	2,340,979	2,433,577	2,633,937	2,841,141	711,129	714,793	728,673	695,334
Private	1,991,436	2,062,056	2,241,582	2,425,070	612,464	613,727	623,876	576,831
Public	349,543	371,521	392,355	416,071	98,665	101,066	104,797	118,503
External demand	4,698,173	4,657,725	5,025,711	5,352,642	1,273,532	1,410,612	1,416,709	1,232,517

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.

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

**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>			<u>2019</u>	Average annual rate of change:	
					Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]	10 years 2008 to 2018 [#]	5 years 2013 to 2018 [#]
Private consumption expenditure	4.8	2.0	5.6	5.5	6.0	4.8	2.7	0.2	4.4	4.2
Government consumption expenditure	3.4	3.4	2.8	4.2	4.3	3.3	4.9	4.5	3.1	3.4
Gross domestic fixed capital formation	-3.2	-0.1	2.9	2.0	1.9	8.6	-5.8	-7.1	2.4	0.3
Building and construction	2.2	5.9	-0.5	-0.6	-0.9	1.3	-4.9	-3.5	3.3	3.2
Costs of ownership transfer	-8.3	-2.9	21.1	-8.3	4.8	0.7	-43.2	-38.0	-4.8	1.1
Machinery, equipment and intellectual property products	-7.7	-6.4	3.8	8.9	4.2	21.0	4.7	-1.8	2.5	-2.3
Total exports of goods ^{&}	-1.7	1.6	6.5	3.6	4.7	5.1	*	-4.1	3.1	2.1
Imports of goods ^{&}	-2.7	0.7	7.3	4.9	6.3	7.7	-0.5	-4.7	4.4	2.3
Exports of services ^{&}	0.3	-3.5	2.9	4.9	5.5	3.0	3.3	1.1	3.7	1.2
Imports of services ^{&}	5.0	2.0	2.1	2.3	0.5	2.5	2.1	-0.8	0.5	1.8
GDP	2.4	2.2	3.8	3.0	3.6	2.8	1.2	0.6	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	4.0	3.6	4.9	2.1	N.A.	2.7	3.9
Per capita RGNI	2.9	2.6	5.0	3.2	--	--	--	--	2.0	3.1
Total final demand	-0.4	1.3	5.6	4.0	4.9	5.6	0.3	-2.5	3.4	2.4
Total final demand excluding re-exports ^(a)	0.1	1.5	4.6	4.0	4.6	5.5	0.5	-0.4	3.0	2.1
Domestic demand	1.6	2.6	5.2	4.4	5.0	7.3	-0.3	-1.3	3.9	3.3
Private	1.3	2.5	5.7	4.8	5.5	8.1	-0.4	-2.0	3.8	3.4
Public	2.9	3.1	2.2	2.6	2.0	2.7	0.5	2.3	4.5	3.1
External demand	-1.4	0.7	5.9	3.8	4.8	4.8	0.5	-3.1	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	%	\$Mn	%	\$Mn	%	\$Mn	%	\$Mn	%
	share		share		share		share		share	
Agriculture, fishing, mining and quarrying	1,225	0.1	1,496	0.1	1,630	0.1	1,898	0.1	1,736	0.1
Manufacturing	30,156	1.4	27,885	1.3	26,716	1.1	26,844	1.1	27,299	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	34,978	1.4
Construction	83,288	4.0	96,205	4.4	107,902	4.6	124,932	5.2	129,714	5.1
Services	1,948,292	92.9	2,044,750	92.7	2,154,541	92.7	2,229,939	92.2	2,359,065	92.4
<i>Import/export,</i>										
<i>wholesale and retail trades</i>	523,741	25.0	531,541	24.1	527,822	22.7	525,526	21.7	548,636	21.5
<i>Accommodation^(a) and</i>										
<i>food services</i>	75,413	3.6	78,725	3.6	78,134	3.4	79,682	3.3	83,507	3.3
<i>Transportation, storage,</i>										
<i>postal and courier services</i>	125,465	6.0	137,658	6.2	150,073	6.5	149,742	6.2	153,359	6.0
<i>Information and</i>										
<i>communications</i>	76,145	3.6	77,761	3.5	80,813	3.5	84,208	3.5	86,891	3.4
<i>Financing and insurance</i>	346,248	16.5	367,989	16.7	409,933	17.6	429,082	17.7	482,191	18.9
<i>Real estate, professional and</i>										
<i>business services</i>	225,789	10.8	239,434	10.9	252,714	10.9	266,139	11.0	274,822	10.8
<i>Public administration, social</i>										
<i>and personal services</i>	356,326	17.0	379,588	17.2	407,405	17.5	436,912	18.1	465,492	18.2
<i>Ownership of premises</i>	219,166	10.4	232,053	10.5	247,648	10.6	258,649	10.7	264,166	10.3
GDP at basic prices	2,098,080	100.0	2,205,972	100.0	2,325,443	100.0	2,418,028	100.0	2,552,792	100.0
Taxes on products	75,314	--	83,236	--	95,433	--	83,743	--	110,698	--
Statistical discrepancy (%)	-1.6	--	-1.3	--	-0.9	--	-0.4	--	*	--
GDP at current market prices	2,138,305	--	2,260,005	--	2,398,280	--	2,490,617	--	2,662,836	--

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

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

(%)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017[#]</u>	<u>2018[#]</u>	<u>2018</u>			
							Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Agriculture, fishing, mining and quarrying	4.9	-6.0	-6.8	-2.0	-5.2	-1.5	-5.9	-2.1	-0.1	2.5
Manufacturing	0.1	-0.4	-1.5	-0.4	0.4	1.3	1.1	1.6	1.2	1.2
Electricity, gas and water supply, and waste management	-2.9	0.8	-2.6	-0.8	0.9	0.2	3.1	3.9	-4.6	-0.7
Construction	4.2	13.0	5.4	5.1	-1.3	0.1	3.8	-1.3	2.6	-4.4
Services	2.7	2.5	1.7	2.3	3.6	3.4	4.4	3.7	3.1	2.4
<i>Import/export,</i>										
<i>wholesale and retail trades</i>	3.3	1.2	-1.1	0.6	4.2	4.5	6.0	5.7	5.2	2.0
<i>Accommodation^(a) and</i>										
<i>food services</i>	3.6	2.2	-1.9	0.5	2.0	3.9	6.2	4.3	3.6	1.7
<i>Transportation, storage,</i>										
<i>postal and courier services</i>	4.1	2.9	3.3	3.0	4.8	3.5	5.2	4.1	1.4	3.4
<i>Information and</i>										
<i>communications</i>	4.0	3.9	4.0	4.1	4.0	3.8	3.2	3.6	3.4	4.9
<i>Financing and insurance</i>	7.7	5.3	6.1	4.2	5.7	4.6	6.7	4.9	3.6	3.5
<i>Real estate, professional and</i>										
<i>business services</i>	-4.0	1.9	0.7	2.8	2.1	1.5	2.2	2.0	1.3	0.7
<i>Public administration, social</i>										
<i>and personal services</i>	2.5	2.4	2.5	3.0	3.2	2.9	3.2	2.5	3.0	3.2
<i>Ownership of premises</i>	0.3	0.8	0.6	0.5	1.0	1.0	0.9	1.0	1.0	0.9
Taxes on products	-6.4	6.7	7.1	-9.1	12.5	-2.2	16.9	7.7	-0.6	-27.6
GDP in chained (2017) dollars	3.1	2.8	2.4	2.2	3.8	3.0	4.6	3.6	2.8	1.2

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

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

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

	(\$Mn)								
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017[#]</u>	<u>2018[#]</u>		<u>2018</u>		
						Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Current account ^(a)	31,453	79,553	98,664	123,900	121,937	18,429	15,400	47,715	40,393
Goods	-250,931	-177,302	-129,693	-178,532	-254,305	-74,875	-89,221	-51,667	-38,542
Services	255,563	234,603	186,733	207,431	256,047	74,696	53,352	63,226	64,773
Primary income	46,607	44,376	62,593	115,552	141,625	24,160	56,590	41,726	19,149
Secondary income	-19,786	-22,124	-20,969	-20,551	-21,430	-5,552	-5,321	-5,570	-4,987
Capital and financial account ^(a)	-73,785	-128,642	-101,104	-76,488	-184,040	-44,572	-45,878	-27,476	-66,114
Capital account	-748	-216	-374	-645	-1,522	-75	-838	-135	-474
Financial account	-73,037	-128,426	-100,730	-75,843	-182,518	-44,497	-45,039	-27,341	-65,641
Financial non-reserve assets	66,052	153,570	-91,874	174,666	-174,959	29,288	-93,542	-69,064	-41,642
<i>Direct investment</i>	-85,718	794,800	447,758	186,887	239,071	-19,745	68,101	137,615	53,101
<i>Portfolio investment</i>	-64,384	-970,938	-469,591	264,159	-587,682	-245,652	-158,118	-77,220	-106,692
<i>Financial derivatives</i>	118,359	99,178	36,327	61,763	15,545	-3,849	546	11,240	7,609
<i>Other investment</i>	97,795	230,531	-106,368	-338,144	158,107	298,535	-4,071	-140,698	4,341
Reserve assets	-139,089	-281,996	-8,856	-250,509	-7,559	-73,786	48,503	41,723	-23,999
Net errors and omissions	42,332	49,089	2,440	-47,413	62,104	26,144	30,478	-20,239	25,721
Overall Balance of Payments	139,089	281,996	8,856	250,509	7,559	73,786	-48,503	-41,723	23,999

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

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

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

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

	(\$Mn)								
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017[#]</u>	<u>2018[#]</u>		<u>2018</u>		<u>2019</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Total exports of goods	3,986,769	3,889,225	3,892,886	4,212,774	4,461,275	1,068,500	1,186,197	1,185,476	997,146
Imports of goods	4,237,700	4,066,527	4,022,579	4,391,306	4,715,580	1,157,721	1,237,864	1,224,018	1,062,217
Goods trade balance	-250,931 (-5.9)	-177,302 (-4.4)	-129,693 (-3.2)	-178,532 (-4.1)	-254,305 (-5.4)	-89,221 (-7.7)	-51,667 (-4.2)	-38,542 (-3.1)	-65,071 (-6.1)
Exports of services	829,085	808,948	764,839	812,937	891,367	205,032	224,415	231,233	235,371
Imports of services	573,522	574,345	578,106	605,506	635,320	151,680	161,189	166,460	151,595
Services trade balance	255,563 (44.6)	234,603 (40.8)	186,733 (32.3)	207,431 (34.3)	256,047 (40.3)	53,352 (35.2)	63,226 (39.2)	64,773 (38.9)	83,776 (55.3)
Exports of goods and services	4,815,854	4,698,173	4,657,725	5,025,711	5,352,642	1,273,532	1,410,612	1,416,709	1,232,517
Imports of goods and services	4,811,222	4,640,872	4,600,685	4,996,812	5,350,900	1,309,401	1,399,053	1,390,478	1,213,812
Goods and services trade balance	4,632 <0.1>	57,301 <1.2>	57,040 <1.2>	28,899 <0.6>	1,742 < * >	-35,869 <-2.7>	11,559 <0.8>	26,231 <1.9>	18,705 <1.5>

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017[#]</u>	<u>2018[#]</u>		<u>2018</u>		<u>2019</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
<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	1,045,394	1,135,541	1,120,262	957,823
Imports of goods	4,471,810	4,289,991	4,240,000	4,586,052	4,911,101	1,213,623	1,286,546	1,267,516	1,103,590
Goods trade balance	-594,352 (-13.3)	-510,728 (-11.9)	-463,362 (-10.9)	-530,615 (-11.6)	-621,934 (-12.7)	-168,229 (-13.9)	-151,005 (-11.7)	-147,254 (-11.6)	-145,767 (-13.2)
Exports of services	1,079,989	1,052,355	1,010,316	1,073,707	1,164,903	260,978	298,990	315,443	295,647
Imports of services	481,005	484,326	489,914	514,193	541,227	128,618	136,426	141,958	131,175
Services trade balance	598,984 (124.5)	568,029 (117.3)	520,402 (106.2)	559,514 (108.8)	623,676 (115.2)	132,360 (102.9)	162,564 (119.2)	173,485 (122.2)	164,472 (125.4)
Exports of goods and services	4,957,447	4,831,618	4,786,954	5,129,144	5,454,070	1,306,372	1,434,531	1,435,705	1,253,470
Imports of goods and services	4,952,815	4,774,317	4,729,914	5,100,245	5,452,328	1,342,241	1,422,972	1,409,474	1,234,765
Goods and services trade balance	4,632 <0.1>	57,301 <1.2>	57,040 <1.2>	28,899 <0.6>	1,742 < * >	-35,869 <-2.7>	11,559 <0.8>	26,231 <1.9>	18,705 <1.5>
<u>Rates of change in real terms (%)</u>									
Total exports of goods	0.8	-1.9	1.4	5.6	3.5	4.6	5.0	-0.4	-4.7
Imports of goods	0.9	-2.7	0.6	6.2	4.6	6.0	7.3	-0.9	-5.1
Exports of services	1.2	-0.3	-2.1	3.3	4.3	4.9	3.0	2.7	0.9
Imports of services	1.8	5.3	2.4	3.0	2.8	-0.1	2.9	3.7	0.1

Notes: (#) Figures are subject to revision later on as more data become available.
 () As a percentage of the total value of imports of goods/services.
 < > As a percentage of the total value of imports of goods and services.
 (*) Within $\pm 0.05\%$.

**Table 7 : 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>			<u>2019</u>
							Q2	Q3	Q4	Q1
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All markets	3.2	-1.8	-0.5	8.0	7.3	4,158,106	9.0	9.0	2.2	-2.4
Mainland of China	1.5	-2.1	0.4	8.4	8.6	2,287,303	11.3	11.1	0.8	-6.6
United States	3.1	0.2	-5.3	1.9	8.1	356,797	11.4	9.7	3.9	-8.5
India	13.1	8.1	14.6	35.9	-15.3	134,339	-34.1	10.7	-25.6	-28.4
Japan	-2.8	-6.6	-4.9	10.0	0.7	129,318	5.9	-6.3	-2.5	-3.2
Taiwan	2.5	-18.0	14.6	19.9	-3.6	86,172	-0.7	-16.6	-7.3	-11.3
Vietnam	14.0	14.7	-5.8	10.3	4.5	83,225	7.5	15.5	-3.9	0.1
Germany	-1.7	-3.2	-5.1	10.8	3.0	76,104	13.2	-6.2	-4.3	0.2
Netherlands	12.7	10.2	10.3	11.5	11.5	71,312	16.4	7.4	20.3	11.8
Singapore	2.2	-2.3	4.8	-0.4	13.3	69,150	17.5	4.2	23.0	17.7
Thailand	13.4	-0.1	-2.3	12.9	11.9	60,582	17.0	12.3	16.8	8.2
Rest of the world	6.3	-2.8	-3.2	3.3	10.0	803,805	11.6	9.3	10.1	14.5

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

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>		<u>2018</u>		<u>2019</u>	
							Q2	Q3	Q4	Q1
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All sources	3.9	-4.1	-0.9	8.7	8.4	4,721,399	10.4	11.5	1.8	-3.2
Mainland of China	2.3	-0.1	-3.4	5.9	7.7	2,186,267	9.3	9.5	4.4	-0.4
Taiwan	14.7	-8.6	6.4	12.9	2.7	338,445	14.8	3.0	-16.6	-16.9
Singapore	5.8	-5.7	6.4	10.1	9.0	314,126	9.4	7.8	10.3	0.5
Korea	10.6	-2.0	14.0	28.5	10.4	278,314	28.5	18.3	-12.7	-23.4
Japan	0.9	-9.9	-5.2	2.7	2.6	259,964	6.2	5.7	-1.9	-3.4
United States	*	-3.9	-2.0	3.4	8.1	231,128	3.3	16.1	7.0	5.4
Malaysia	16.7	-7.9	-3.7	26.8	64.6	189,090	80.3	78.6	24.3	-8.2
India	10.0	-13.7	11.9	15.8	-14.0	92,397	-28.1	1.3	-13.0	-14.7
Thailand	13.7	-3.7	-2.7	8.5	2.8	92,108	5.8	8.8	-7.0	-13.6
Philippines	22.0	10.3	5.8	27.6	1.1	77,129	13.8	1.7	-14.3	-13.1
Rest of the world	-0.3	-10.6	-3.1	7.0	10.1	662,431	6.3	14.6	5.9	5.7

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

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

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017[#]</u>	<u>2018[#]</u>			<u>2018</u>		<u>2019</u>
							Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
Exports of services	2.0	-2.4	-5.5	6.3	9.6	891,367	10.8	7.9	6.8	2.0
Transport	2.2	-6.8	-5.3	8.6	7.9	256,217	8.7	8.3	6.8	0.6
Travel	-1.5	-5.8	-9.0	1.9	11.1	288,730	13.3	7.3	8.9	5.6
Financial services	7.0	8.5	-6.8	14.6	14.9	182,316	17.1	10.5	6.5	-1.5
Other services	4.7	1.6	2.3	2.8	4.5	164,104	4.8	5.2	3.3	2.2
Imports of services	-1.7	0.1	0.7	4.7	4.9	635,320	5.2	3.2	1.6	-2.8
Transport	1.5	-5.9	-2.1	3.7	5.5	143,709	5.4	4.1	3.3	-3.1
Travel	3.7	4.7	4.8	5.6	4.7	207,232	0.7	1.9	3.6	-5.1
Manufacturing^	-20.2	-2.7	-2.0	3.5	3.0	94,093	9.2	4.1	-4.4	-6.2
Other services	3.5	2.2	-0.1	5.2	5.7	190,286	8.8	3.4	1.3	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 9a : Exports and imports of services by component based on the standards stipulated in the *System of National Accounts 2008* , other than the change of ownership principle
(at current market prices)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017[#]</u>	<u>2018[#]</u>		<u>2018</u>				<u>2019</u>
							Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]	
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)				
Exports of services	2.0	-2.6	-4.0	6.3	8.5	1,164,903	9.6	7.3	5.9	2.1	
Transport	2.2	-6.8	-5.3	8.6	7.9	256,217	8.7	8.3	6.8	0.6	
Travel	-1.5	-5.8	-9.0	1.9	11.1	288,730	13.3	7.3	8.9	5.6	
Trade-related	1.9	-3.0	0.6	5.8	4.9	316,682	5.6	5.8	3.5	2.5	
Other services	6.6	6.4	-2.4	9.3	10.5	303,274	11.1	8.4	5.1	-0.1	
Imports of services	3.0	0.7	1.2	5.0	5.3	541,227	4.5	3.0	2.7	-2.3	
Transport	1.5	-5.9	-2.1	3.7	5.5	143,709	5.4	4.1	3.3	-3.1	
Travel	3.7	4.7	4.8	5.6	4.7	207,232	0.7	1.9	3.6	-5.1	
Trade-related	2.8	0.1	-0.9	2.9	4.4	35,881	5.0	5.4	2.5	2.1	
Other services	3.6	2.7	0.1	5.8	6.0	154,405	9.7	2.9	1.0	1.2	

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

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

Table 10 : Incoming visitors by source

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>		<u>2018</u>		<u>2019</u>
						Q2	Q3	Q4	Q1
<u>('000)</u>									
All sources	60 838.8	59 307.6	56 654.9	58 472.2	65 147.6	14 996.4	16 075.7	18 465.8	18 234.4
Mainland of China	47 247.7	45 842.4	42 778.1	44 445.3	51 038.2	11 507.6	12 942.0	14 407.4	14 582.2
South and Southeast Asia	3 614.8	3 559.1	3 701.8	3 626.2	3 571.8	970.2	698.3	1 085.7	871.9
Taiwan	2 031.9	2 015.8	2 011.4	2 010.8	1 925.2	488.2	491.4	485.1	464.9
Europe	1 863.3	1 829.4	1 904.9	1 901.5	1 937.6	472.0	412.3	558.7	486.8
United States	1 130.6	1 181.0	1 211.5	1 215.6	1 304.2	337.9	282.9	377.6	310.1
Japan	1 078.8	1 049.3	1 092.3	1 230.0	1 287.8	289.4	313.1	358.6	359.3
Others	3 871.9	3 830.7	3 954.8	4 042.9	4 082.7	931.1	935.8	1 192.6	1 159.1
<u>(% change over a year earlier)</u>									
All sources	12.0	-2.5	-4.5	3.2	11.4	10.5	8.4	16.6	16.8
Mainland of China	16.0	-3.0	-6.7	3.9	14.8	14.3	11.5	20.6	19.7
South and Southeast Asia	-2.8	-1.5	4.0	-2.0	-1.5	-2.0	-7.1	3.4	6.6
Taiwan	-3.2	-0.8	-0.2	*	-4.3	-1.8	-4.7	-4.5	0.9
Europe	-1.6	-1.8	4.1	-0.2	1.9	2.1	1.7	0.9	-1.6
United States	1.9	4.5	2.6	0.3	7.3	6.8	5.9	11.0	1.4
Japan	2.1	-2.7	4.1	12.6	4.7	10.0	-3.5	11.2	10.0
Others	5.4	-1.1	3.2	2.2	1.0	-3.8	-2.1	6.9	13.3

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

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

Table 11 : 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 11 : Property market (Cont'd)

	<u>2016</u>	<u>2017</u>	<u>2018</u>		<u>2018</u>		<u>2019</u>
				Q2	Q3	Q4	Q1
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	4 977	6 441	8 307	971
Commercial property	276	303	304	81	144	40	92
<i>of which :</i>							
Office space	153	198	179	50	97	0	66
Other commercial premises ^(b)	123	105	125	32	47	40	25
Industrial property ^(c)	78	105	44	5	12	19	12
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	5	23	41	2	12	19	12
Storage premises ^(d)	73	83	3	3	0	0	0
Production of public housing							
(in units)							
Rental housing flats ^(e)	21 755	11 268	20 137	3 436	7 184	5 724	N.A.
Subsidised sales flats ^(e)	229	2 788	4 863	699	3 233	683	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	703.0	168.4	114.8	149.5	N.A.
Commercial property	312.4	488.6	109.2	53.5	19.1	12.4	N.A.
Industrial property ^(f)	76.2	62.5	98.4	12.5	44.1	12.4	N.A.
Other properties	235.1	227.1	91.9	32.1	17.9	12.2	N.A.
Total	1 269.4	1 651.1	1 002.5	266.5	195.8	186.5	N.A.
Agreements for sale and purchase of property							
(Number)							
Residential property ^(g)	54 701	61 591	57 247	18 881	14 413	8 938	13 863
Primary market	16 793	18 645	15 633	4 948	4 495	3 456	5 313
Secondary market	37 908	42 946	41 614	13 933	9 918	5 482	8 550
Selected types of non-residential properties ^(h)							
Office space	1 105	1 955	1 331	412	344	167	205
Other commercial premises	1 523	2 198	1 925	631	444	282	277
Flatted factory space	2 727	5 135	4 851	1 632	1 164	482	553

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

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

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

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

N.A. Not yet available.

Table 12 : Property prices and rentals

	<u>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 12 : Property prices and rentals (Cont'd)

	<u>2016</u>	<u>2017</u>	<u>2018[#]</u>		<u>2018</u>		<u>2019</u>
				Q2	Q3	Q4 [#]	Q1 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	286.1	333.9	377.3	383.8	392.9	368.3	368.4
Office space	426.9	487.1	555.2	546.9	572.2	578.8	532.8
Shopping space	526.9	558.4	591.5	589.0	595.1	598.0	578.2
Flatted factory space	692.7	778.1	888.1	887.6	911.8	902.5	888.4
Property rental indices ^(b) :							
Residential flats	168.2	182.6	193.0	191.9	196.3	195.6	192.9
Office space	232.3	241.8	252.1	251.4	254.1	256.1	259.7
Shopping space	178.6	182.5	187.0	186.6	187.8	188.2	187.7
Flatted factory space	181.4	190.7	202.3	202.1	204.5	205.7	205.9
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	-3.6	16.7	13.0	15.2	15.8	5.8	1.1
Office space	-4.9	14.1	14.0	13.1	17.0	13.2	1.9
Shopping space	-5.8	6.0	5.9	6.9	5.8	4.3	-1.0
Flatted factory space	-4.3	12.3	14.1	15.4	15.7	10.2	4.4
Property rental indices ^(b) :							
Residential flats	-2.7	8.6	5.7	5.7	6.1	4.5	2.7
Office space	2.5	4.1	4.3	4.6	4.2	4.2	5.2
Shopping space	-2.1	2.2	2.5	3.0	2.3	1.7	1.2
Flatted factory space	4.0	5.1	6.1	7.4	6.0	5.0	4.5

Table 13 : 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 13 : Monetary aggregates (Cont'd)

	2016	2017	2018	Q2	2018 Q3	Q4	2019 Q1
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	1,428,775	1,598,014	1,555,731	1,660,700	1,602,519	1,555,731	1,583,172
M2 ^(a)	6,280,230	7,010,345	7,262,451	7,262,507	7,299,268	7,262,451	7,441,529
M3 ^(a)	6,292,666	7,024,514	7,284,322	7,279,273	7,321,701	7,284,322	7,461,791
Total money supply (\$Mn)							
M1	2,213,970	2,431,461	2,421,598	2,519,925	2,445,424	2,421,598	2,418,572
M2	12,508,127	13,755,255	14,348,059	13,979,948	14,116,664	14,348,059	14,485,182
M3	12,551,331	13,803,837	14,403,688	14,032,525	14,175,405	14,403,688	14,545,033
Deposit (\$Mn)							
HK\$	5,809,060	6,484,616	6,715,262	6,715,033	6,763,012	6,715,262	6,879,508
Foreign currency	5,918,240	6,267,872	6,671,119	6,243,395	6,342,585	6,671,119	6,679,751
Total	11,727,300	12,752,488	13,386,381	12,958,428	13,105,597	13,386,381	13,559,259
Loans and advances (\$Mn)							
HK\$	4,479,107	5,359,983	5,836,238	5,735,840	5,746,301	5,836,238	6,038,281
Foreign currency	3,544,284	3,953,686	3,886,385	4,070,702	3,950,718	3,886,385	3,909,729
Total	8,023,390	9,313,668	9,722,623	9,806,542	9,697,019	9,722,623	9,948,011
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) ^(b)							
Trade-weighted	104.1	104.2	101.8	99.3	104.0	105.5	103.5
Import-weighted	104.2	104.2	101.7	99.3	103.8	105.4	103.3
Export-weighted	104.1	104.3	101.9	99.3	104.1	105.7	103.7
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	14.0	11.8	-2.6	10.5	-0.3	-2.6	-4.4
M2 ^(a)	8.9	11.6	3.6	6.2	4.2	3.6	2.9
M3 ^(a)	8.9	11.6	3.7	6.3	4.3	3.7	3.0
Total money supply							
M1	12.3	9.8	-0.4	9.6	2.2	-0.4	-2.2
M2	7.7	10.0	4.3	5.0	4.7	4.3	3.9
M3	7.7	10.0	4.3	5.0	4.7	4.3	4.0
Deposit							
HK\$	9.3	11.6	3.6	5.8	4.2	3.6	3.0
Foreign currency	8.8	5.9	6.4	3.5	5.5	6.4	7.2
Total	9.1	8.7	5.0	4.7	4.8	5.0	5.0
Loans and advances							
HK\$	7.9	19.7	8.9	17.2	12.4	8.9	8.7
Foreign currency	4.8	11.6	-1.7	3.0	0.4	-1.7	-4.5
Total	6.5	16.1	4.4	10.9	7.2	4.4	3.1
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) ^(b)							
Trade-weighted	2.8	0.1	-2.3	-5.8	1.3	3.1	5.0
Import-weighted	2.5	*	-2.4	-5.6	1.1	3.0	4.8
Export-weighted	3.2	0.2	-2.3	-6.0	1.4	3.3	5.1

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

(b) Period average.

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

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

	(%)							
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>		<u>2018</u>		
					Q1	Q2	Q3	Q4
Services Industry								
Import and export trade	-3.9	-2.5	2.3	3.7	4.8	5.8	3.0	1.6
Wholesale	-4.9	-1.0	2.8	4.3	5.6	7.9	3.2	0.7
Retail	-3.7	-8.1	2.2	8.7	14.4	12.4	6.5	2.3
Transportation	-4.3	-6.5	7.1	8.0	10.5	8.6	6.2	7.2
<i>within which:</i>								
Land transport	5.4	3.6	1.8	5.3	3.9	6.5	3.5	7.3
Water transport	-7.7	-11.2	5.6	4.4	5.5	-0.8	3.6	9.4
Air transport	-5.1	-7.0	10.0	11.3	16.3	15.4	8.7	6.0
Warehousing and storage	12.7	12.1	14.1	12.7	17.3	12.5	8.9	12.8
Courier	-5.9	5.5	19.1	-0.7	13.7	2.4	-11.9	-4.7
Accommodation services ^(a)	-6.6	-1.1	6.0	10.8	10.8	16.4	10.4	7.0
Food services	3.9	2.9	5.0	6.0	10.0	6.7	5.5	2.3
Information and communications	10.8	0.6	2.9	3.1	10.3	5.5	3.0	-4.8
<i>within which:</i>								
Telecommunications	19.6	-0.8	-3.5	2.2	10.8	5.5	0.2	-6.4
Film entertainment	-3.1	-4.5	4.3	3.1	1.8	5.7	-0.9	6.1
Banking	8.3	8.1	-0.1	6.8	11.1	7.9	7.1	1.2
Financing (except banking)	19.0	-6.0	7.2	10.3	28.9	8.0	6.6	-0.3
<i>within which:</i>								
Financial markets and asset management	19.0	-8.7	1.6	11.6	38.8	9.9	5.5	-3.7
<i>within which: Asset management</i>	7.0	4.1	4.4	3.7	24.9	6.7	-3.7	-9.6
Insurance	11.7	21.8	11.8	8.7	8.7	6.5	6.9	12.3
Real estate	8.1	16.5	14.2	5.2	7.2	1.6	23.5	-8.2
Professional, scientific and technical services	5.3	3.3	1.9	3.3	6.2	4.7	4.9	-2.0
Administrative and support services	7.4	0.9	1.5	3.5	2.9	2.9	4.3	3.8
Services Domain								
Tourism, convention and exhibition services	-5.0	-8.1	0.7	10.2 ⁺	12.1 ⁺	13.6 ⁺	8.2 ⁺	7.6 ⁺
Computer and information technology services	-4.2	-3.5	1.4	2.9	4.0	2.1	1.8	3.9

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

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

(+) Provisional figures.

Table 15 : Labour force characteristics

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>		<u>2018</u>		<u>2019</u>
						Q2	Q3	Q4	Q1
<u>(%)</u>									
Labour force participation rate	61.1	61.1	61.1	61.1	61.2	61.2	61.2	60.9	60.7
Seasonally adjusted unemployment rate ^(a)	3.3	3.3	3.4	3.1	2.8	2.8	2.8	2.8	2.8
Underemployment rate	1.5	1.4	1.4	1.2	1.1	1.0	1.2	1.1	1.0
<u>('000)</u>									
Population of working age	6 340.1	6 383.7	6 420.9	6 463.3	6 506.4	6 507.3	6 519.4	6 535.1	6 540.5
Labour force	3 871.1	3 903.2	3 920.1	3 946.6	3 979.0	3 982.2	3 992.4	3 978.0	3 970.8
Persons employed	3 743.5	3 773.8	3 787.1	3 823.2	3 867.0	3 869.8	3 874.6	3 872.6	3 860.4
Persons unemployed	127.6	129.4	133.0	123.4	112.0	112.4	117.8	105.4	110.4
Persons underemployed	56.8	53.3	54.7	45.6	43.2	41.4	47.3	44.5	38.9
<u>(% change over a year earlier)</u>									
Population of working age	0.7	0.7	0.6	0.7	0.7	0.8	0.8	0.8	0.7
Labour force	0.4	0.8	0.4	0.7	0.8	1.3	1.2	0.7	-0.3
Persons employed	0.5	0.8	0.4	1.0	1.1	1.7	1.5	0.8	-0.3
Persons unemployed	-2.7	1.4	2.8	-7.2	-9.2	-10.6	-8.9	-4.0	-1.5
Persons underemployed	-2.6	-6.1	2.5	-16.5	-5.3	-10.2	5.4	4.8	-0.1

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

Table 16 : Employment in selected major industries

Selected major industries	2014	2015	2016	2017	2018	2018				(No.)
	(% change)					Mar	Jun	Sep	Dec	
						(% change over a year earlier)				
Manufacturing	-1.2	-2.8	-3.6	-3.3	-3.0	-3.9	-3.8	-2.8	-1.5	90 097
Construction sites (covering manual workers only)	4.4	14.9	13.3	10.1	-5.8	2.6	2.9	-11.4	-16.1	103 017
Import and export trade	0.1	-1.4	-0.7	-0.4	-0.6	-0.5	-0.6	-0.6	-0.6	474 758
Wholesale	-0.3	-1.4	-0.8	-0.6	-0.9	-0.5	-0.9	-1.0	-1.2	59 676
Retail	2.2	-0.5	-1.1	0.5	1.7	1.4	1.6	2.2	1.8	274 077
Food and beverage services	2.4	0.1	-0.2	0.3	2.8	1.7	3.0	3.1	3.5	252 044
Accommodation services ^(a)	3.2	-1.1	-2.1	0.3	4.8	3.1	4.5	5.8	5.9	42 234
Transportation, storage, postal and courier services	2.7	1.6	0.5	0.2	0.6	0.6	1.2	0.6	-0.1	180 139
Information and communications	2.7	1.1	0.7	0.9	1.5	-0.3	1.5	2.3	2.6	109 935
Financing and insurance	2.3	2.3	0.8	1.5	2.6	2.5	2.4	2.8	2.8	233 480
Real estate	0.6	1.7	-0.1	1.3	2.0	1.8	2.0	1.9	2.4	134 972
Professional and business services (excluding cleaning and similar services)	2.7	2.4	1.9	2.1	3.2	2.7	3.3	3.5	3.2	305 568
Cleaning and similar services	0.2	2.4	0.5	0.7	-1.4	-1.5	-1.6	-1.2	-1.5	80 304
Education	4.4	3.9	2.3	1.6	1.8	2.0	1.9	1.8	1.6	204 658
Human health services	4.3	4.5	4.3	3.5	3.4	3.3	3.4	3.2	3.7	132 044
Residential care and social work services	0.6	2.8	3.0	1.0	1.0	0.8	1.6	0.9	0.7	63 903
Arts, entertainment, recreation and other services	5.9	0.9	-2.2	-0.6	1.4	0.9	1.3	1.8	1.6	127 054
Civil service ^(b)	1.0	0.7	1.2	1.6	2.1	2.3	2.1	2.1	2.0	173 730
Others ^(c)	3.1	-1.0	0.8	2.1	*	0.2	-1.6	0.9	0.7	11 355

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

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

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>		<u>2018</u>		
						Mar	Jun	Sep	Dec
<u>(Number)</u>									
Building sites									
Private sector	44 024	50 372	60 243	65 985	65 700	67 872	68 108	63 600	63 218
Public sector ^(a)	11 212	15 470	16 030	21 660	21 604	22 491	22 103	21 264	20 556
Sub-total	55 236	65 842	76 273	87 645	87 303	90 363	90 211	84 864	83 774
Civil engineering sites									
Private sector	1 414	1 609	1 386	979	1 729	1 470	1 475	1 889	2 083
Public sector ^(a)	26 145	27 652	30 141	30 050	22 816	28 890	24 365	20 850	17 160
Sub-total	27 559	29 261	31 526	31 029	24 546	30 360	25 840	22 739	19 243
Total	82 795	95 103	107 799	118 674	111 849	120 723	116 051	107 603	103 017
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	6.6	14.4	19.6	9.5	-0.4	3.5	7.8	-4.7	-7.6
Public sector ^(a)	13.7	38.0	3.6	35.1	-0.3	6.4	9.5	-5.0	-10.3
Sub-total	8.0	19.2	15.8	14.9	-0.4	4.2	8.2	-4.8	-8.3
Civil engineering sites									
Private sector	7.0	13.8	-13.9	-29.3	76.6	32.4	63.2	111.8	106.2
Public sector ^(a)	-2.5	5.8	9.0	-0.3	-24.1	-3.2	-14.7	-33.6	-43.5
Sub-total	-2.0	6.2	7.7	-1.6	-20.9	-1.9	-12.3	-29.6	-38.7
Total	4.4	14.9	13.3	10.1	-5.8	2.6	2.9	-11.4	-16.1

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

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

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

(%)

	2014	2015	2016	2017	2018	2018			
Selected industry sections						Q1	Q2	Q3	Q4
(in nominal terms)									
Manufacturing	5.3	5.2	3.5	3.4	4.0	3.4	3.8	3.8	4.0
Import/export and wholesale trades	2.8	3.7	2.3	2.9	3.2	3.5	3.3	3.2	2.8
Retail trade	4.2	3.5	2.4	3.3	3.0	3.5	3.3	3.1	2.6
Transportation, storage, postal and courier services	3.3	4.3	3.3	3.4	4.1	3.2	3.7	4.8	4.8
Accommodation ^(a) and food service activities	5.2	5.8	5.1	4.7	5.3	4.8	5.0	5.6	5.7
Information and communications	5.1	4.4	3.4	3.3	3.3	3.2	3.4	3.2	3.3
Financial and insurance activities	6.3	4.0	2.7	3.0	3.1	3.0	3.1	3.2	3.3
Real estate activities	4.7	5.1	4.2	4.3	4.3	4.3	4.5	4.3	4.1
Professional and business services	6.9	5.8	5.1	4.2	4.6	4.6	4.4	4.5	4.8
Social and personal services	1.6	6.7	2.5	3.1	4.3	2.8	3.1	7.8	2.9
All selected industry sections surveyed	4.3	4.6	3.7	3.7	3.9	3.8	3.8	4.6	3.7
(in real terms)									
Manufacturing	0.9	2.1	1.0	2.0	1.6	1.0	1.7	1.3	1.4
Import/export and wholesale trades	-1.5	0.7	-0.1	1.4	0.8	1.1	1.2	0.7	0.2
Retail trade	-0.1	0.5	*	1.8	0.6	1.1	1.2	0.6	*
Transportation, storage, postal and courier services	-1.0	1.3	0.9	1.9	1.6	0.8	1.5	2.3	2.1
Accommodation ^(a) and food service activities	0.8	2.7	2.6	3.2	2.8	2.3	2.8	3.1	3.0
Information and communications	0.7	1.4	1.0	1.9	0.8	0.7	1.3	0.7	0.7
Financial and insurance activities	1.9	0.7	0.3	1.6	0.7	0.6	1.0	0.7	0.7
Real estate activities	0.2	2.0	1.7	2.8	1.9	1.9	2.3	1.8	1.5
Professional and business services	2.3	2.8	2.6	2.7	2.2	2.1	2.2	2.0	2.1
Social and personal services	-2.7	3.6	0.1	1.6	1.8	0.3	1.0	5.2	0.3
All selected industry sections surveyed	-0.1	1.5	1.3	2.3	1.5	1.3	1.6	2.1	1.1

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

(%)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2018</u>			
Selected industry sections						Mar	Jun	Sep	Dec
(in nominal terms)									
Manufacturing	4.9	4.0	4.0	3.7	3.6	3.7	3.8	3.9	4.0
Import/export, wholesale and retail trades	2.5	3.1	2.7	3.0	3.0	3.1	3.0	3.2	3.0
Transportation	4.8	4.4	3.5	2.9	4.7	3.7	3.2	5.8	5.9
Accommodation ^(a) and food service activities	4.7	5.4	4.9	4.7	4.6	4.8	4.7	4.5	4.8
Financial and insurance activities ^(b)	3.2	3.2	3.4	3.5	3.5	3.3	3.6	3.7	3.8
Real estate leasing and maintenance management	4.5	3.4	3.7	4.1	4.4	4.7	4.4	4.2	4.2
Professional and business services	6.7	6.9	4.7	4.7	4.4	4.9	4.5	4.5	4.2
Personal services	7.8	6.5	5.5	4.2	4.1	3.8	4.1	3.9	3.9
All industries surveyed	4.2	4.4	3.7	3.8	4.0	4.0	3.8	4.1	4.1
(in real terms)									
Manufacturing	-1.6	0.2	1.4	2.2	0.8	1.0	1.2	0.5	0.9
Import/export, wholesale and retail trades	-3.9	-0.6	0.3	1.6	0.1	0.4	0.4	-0.1	*
Transportation	-1.9	0.6	1.0	1.5	1.7	0.9	0.6	2.4	2.8
Accommodation ^(a) and food service activities	-1.8	1.5	2.3	3.3	1.7	2.0	2.1	1.1	1.7
Financial and insurance activities ^(b)	-3.7	-0.5	0.9	2.1	0.6	0.5	1.0	0.4	0.8
Real estate leasing and maintenance management	-1.9	-0.4	1.1	2.6	1.4	1.9	1.8	0.8	1.2
Professional and business services	*	2.9	2.3	3.2	1.5	2.1	1.8	1.1	1.2
Personal services	1.1	2.6	3.0	2.7	1.1	1.0	1.4	0.5	0.8
All industries surveyed	-2.4	0.6	1.2	2.3	1.0	1.2	1.2	0.8	1.0

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

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

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

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

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

(HK\$)

Industry sections	May – Jun 2017			May – Jun 2018		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing ^(a)	13,300	16,100	24,200	13,900	16,900	26,000
Electricity and gas supply; sewerage, waste management and remediation activities	20,000	26,500	42,200	21,000	27,800	45,300
Construction	17,300	22,100	27,000	18,000	22,800	28,400
Import and export trade	12,900	17,500	26,900	13,500	18,300	27,500
Wholesale	11,100	14,300	19,300	11,500	14,900	19,700
Retail trade	10,400	13,000	17,200	10,600	13,500	17,600
<i>within which:</i>						
Supermarkets and convenience stores	6,800	11,000	13,600	7,400	11,500	14,400
Other retail stores	10,700	13,300	18,000	11,300	13,800	18,200
Land transport	14,100	18,200	27,100	14,000	18,900	28,500
Other transportation, storage, postal and courier services ^(b)	13,300	17,500	23,800	14,000	18,400	24,700
Restaurants	10,000	12,400	16,100	10,600	13,100	17,000
<i>within which:</i>						
Hong Kong style tea cafes	10,600	12,300	16,500	11,400	13,000	16,900
Chinese restaurants	11,600	13,800	18,600	12,300	14,400	19,400
Restaurants, other than Chinese	11,000	13,000	16,600	11,500	13,500	17,000
Fast food cafes ^(c)	4,400	9,300	12,000	4,800	9,700	13,100
Accommodation ^(d) and other food service activities	12,000	14,900	19,500	12,500	15,500	19,400
Information and communications	14,700	21,600	33,000	15,400	22,800	35,000
Financing and insurance	17,100	26,900	45,000	18,000	27,500	45,500
Real estate activities ^(e)	13,600	21,500	31,900	14,500	22,300	34,000
Estate management, security and cleaning services	9,500	11,700	14,300	9,600	12,400	15,200
<i>within which:</i>						
Real estate maintenance management	11,600	12,900	15,900	12,000	13,500	16,500
Security services ^(f)	10,600	12,300	14,600	11,100	12,800	15,600
Cleaning services	7,600	9,100	10,200	7,500	9,200	10,400
Membership organisations ^(g)	9,600	12,900	20,000	10,200	13,100	21,000
Professional, scientific and technical services	14,800	22,100	34,600	15,200	23,300	36,000
Administrative and support services activities	12,000	16,200	25,000	12,500	16,500	26,300
Travel agency, reservation service and related activities	11,500	14,100	20,000	11,800	14,800	21,000
Education and public administration (excluding the Government)	13,800	27,500	49,400	14,000	28,400	50,900
Human health activities; and beauty and body prettifying treatment	13,500	18,200	40,000	13,500	18,800	41,100
Miscellaneous activities	10,000	12,000	15,700	10,400	12,400	16,300
<i>within which:</i>						
Elderly homes	11,300	13,100	16,000	12,000	13,700	16,600
Laundry and dry cleaning services	8,200	11,100	14,700	8,900	11,500	15,500
Hairdressing and other personal services	9,700	11,500	15,600	10,200	12,000	16,300
Local courier services	8,000	10,200	14,000	8,100	10,600	14,300
Food processing and production	9,600	12,000	17,000	10,000	12,400	17,800
Other activities not classified above	11,200	15,000	23,300	11,900	15,600	24,500
All industry sections above	12,100	16,800	26,300	12,600	17,500	27,300

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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

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

(HK\$)

Industry sections	May – Jun 2017			May – Jun 2018		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing ^(a)	50.5	65.4	97.4	52.8	68.8	101.7
Electricity and gas supply; sewerage, waste management and remediation activities	74.2	102.3	153.3	76.0	107.3	169.1
Construction	73.2	93.2	114.3	75.5	96.7	118.8
Import and export trade	54.4	75.0	113.9	56.5	78.9	116.3
Wholesale	48.4	60.5	81.3	50.2	63.5	84.3
Retail trade	41.6	49.3	64.8	44.1	51.3	66.2
<i>within which:</i>						
Supermarkets and convenience stores	39.0	43.8	49.2	41.2	45.8	50.3
Other retail stores	42.3	51.0	68.3	44.8	54.0	69.7
Land transport	52.4	75.0	115.5	54.6	77.6	120.0
Other transportation, storage, postal and courier services ^(b)	49.5	64.5	88.2	51.6	67.9	93.4
Restaurants	42.0	47.0	58.7	44.7	49.9	62.5
<i>within which:</i>						
Hong Kong style tea cafes	43.1	47.8	58.1	45.0	49.2	60.0
Chinese restaurants	43.0	49.2	65.8	44.8	50.9	68.7
Restaurants, other than Chinese	43.3	49.0	61.7	45.2	50.1	63.3
Fast food cafes ^(c)	40.2	42.6	46.8	43.0	46.5	51.7
Accommodation ^(d) and other food service activities	43.5	52.9	69.3	45.0	53.9	70.4
Information and communications	58.3	83.8	128.5	62.1	90.2	134.4
Financing and insurance	67.8	105.1	180.2	72.2	107.5	185.2
Real estate activities ^(e)	60.7	85.7	136.9	61.3	88.2	141.4
Estate management, security and cleaning services	37.5	41.8	54.0	38.6	43.6	54.0
<i>within which:</i>						
Real estate maintenance management	37.6	41.4	57.7	39.4	44.1	59.7
Security services ^(f)	37.3	40.9	49.2	39.3	43.0	52.6
Cleaning services	36.7	41.8	46.2	37.8	42.7	48.7
Membership organisations ^(g)	40.0	52.9	81.2	42.6	53.8	87.5
Professional, scientific and technical services	61.2	89.6	148.1	64.2	94.0	155.6
Administrative and support services activities	46.7	66.7	103.2	48.4	68.0	106.3
Travel agency, reservation service and related activities	47.2	62.5	83.4	48.4	64.1	87.8
Education and public administration (excluding the Government)	66.4	127.5	216.3	65.7	130.5	220.0
Human health activities; and beauty and body prettifying treatment	59.3	84.0	158.5	61.9	86.0	168.5
Miscellaneous activities	41.2	48.4	64.4	42.5	49.4	67.2
<i>within which:</i>						
Elderly homes	38.9	47.4	63.0	40.1	50.0	66.3
Laundry and dry cleaning services	39.4	45.3	60.7	40.9	47.1	62.9
Hairdressing and other personal services	44.7	48.8	66.3	45.6	50.0	68.4
Local courier services	40.6	47.8	58.6	42.0	49.9	60.0
Food processing and production	40.3	47.0	64.5	41.9	48.4	69.5
Other activities not classified above	48.4	61.1	96.0	51.0	64.3	99.7
All industry sections above	48.1	68.0	107.5	50.0	70.5	111.1

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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

Table 22 : Rates of change in prices

	(%)							
	<u>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.

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

	(%)							
	<u>2017</u>	<u>2018</u>	<u>2018</u>		<u>2019</u>		Average annual rate of change:	
			Q2	Q3	Q4	Q1	10 years 2008 to 2018	5 years 2013 to 2018
GDP deflator [#]	3.0	3.6	3.7	3.8	3.4	3.4	2.4	2.9
Domestic demand deflator [#]	2.9	3.3	3.6	3.6	2.6	2.6	2.4	2.6
Consumer Price Indices ^(a) :								
Composite CPI	1.5	2.4	2.1	2.5	2.6	2.2	3.0	2.7
CPI(A)	1.5	2.7	2.4	2.8	3.1	2.6	3.4	3.3
CPI(B)	1.4	2.3	2.1	2.4	2.4	2.1	2.9	2.6
CPI(C)	1.5	2.2	2.0	2.2	2.3	2.0	2.7	2.3
Unit Value Indices :								
Total exports of goods	1.8	2.4	2.7	2.5	2.3	2.2	2.3	0.9
Imports of goods	1.9	2.6	2.8	2.7	2.5	2.2	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	2.0	3.7	*	0.3	N.A.	1.2	0.5
Tender Price Indices :								
Public sector building projects	-0.3	-2.9	-2.8	-3.7	-4.0	N.A.	3.1	2.1
Public housing projects	0.3	-1.9	-1.7	-2.9	-1.1	N.A.	4.2	3.5

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

(%)										
	Weight	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2018</u>			<u>2019</u>	Average annual rate of change:	
					Q2	Q3	Q4	Q1	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)	2.1 (2.4)	2.5 (2.8)	2.6 (2.9)	2.2 (2.7)	3.0 (2.9)	2.7 (2.5)
Food	27.29	3.4	2.2	3.4	3.6	3.5	3.0	3.1	3.8	3.4
<i>Meals bought away from home</i>	17.74	3.3	2.7	2.9	3.0	2.9	2.6	2.3	3.6	3.5
<i>Food, excluding meals bought away from home</i>	9.55	3.6	1.1	4.3	4.9	4.8	3.7	4.6	4.1	3.2
Housing ^(a)	34.29	3.7	2.0	2.5	2.0	2.5	3.0	2.9	4.3	4.0
<i>Private housing rent</i>	29.92	3.4	1.8	2.2	1.9	2.3	2.4	2.3	4.3	3.6
<i>Public housing rent</i>	1.94	7.2	3.0	4.1	0.4	4.1	11.6	11.6	6.3	8.6
Electricity, gas and water	2.67	1.0	-1.7	4.9	3.7	3.8	4.0	-4.9	2.7	5.4
Alcoholic drinks and tobacco	0.54	1.5	0.6	1.3	0.6	1.7	2.7	2.7	5.3	2.2
Clothing and footwear	3.21	-3.4	-0.4	1.6	2.0	2.3	0.1	-0.2	1.3	-0.6
Durable goods	4.65	-5.4	-3.2	-2.0	-2.1	-2.0	-1.9	-2.1	-3.5	-3.9
Miscellaneous goods	3.56	1.5	1.4	1.3	1.3	1.5	1.4	1.6	2.0	1.5
Transport	7.98	1.6	2.3	1.6	1.3	1.7	1.7	1.9	1.8	1.4
Miscellaneous services	15.81	2.3	0.9	2.1	1.4	2.1	3.0	1.8	1.9	1.9

**Table 24 : 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 24 : 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>			<u>2019</u>	Average annual rate of change:	
				Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]	10 years 2008 to 2018 [#]	5 years 2013 to 2018 [#]
Private consumption expenditure	1.5	2.5	3.1	3.6	2.8	2.3	2.0	2.1	2.3
Government consumption expenditure	3.7	2.5	3.1	3.0	3.8	3.8	4.1	3.4	3.7
Gross domestic fixed capital formation	-0.3	4.5	4.1	4.0	6.0	3.9	3.8	3.2	3.2
Total exports of goods	-1.4	1.7	2.2	2.5	2.0	1.7	1.8	1.7	0.5
Imports of goods	-1.8	1.8	2.3	2.6	2.5	1.8	1.7	1.9	0.3
Exports of services	-2.0	3.2	4.5	5.0	4.8	3.4	1.0	1.3	0.6
Imports of services	-1.3	2.6	2.6	4.7	0.7	-0.6	-2.1	0.7	-0.1
Gross Domestic Product	1.6	3.0	3.6	3.7	3.8	3.4	3.4	2.4	2.9
Total final demand	-0.6	2.2	2.8	3.1	2.8	2.2	2.0	1.9	1.2
Domestic demand	1.4	2.9	3.3	3.6	3.6	2.6	2.6	2.4	2.6

