



Third Quarter Economic Report 2019

Government of the Hong Kong
Special Administrative Region

THIRD QUARTER ECONOMIC REPORT 2019

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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

- *The Hong Kong economy contracted by 2.9% year-on-year in the third quarter of 2019, representing an abrupt deterioration from its mild growth of 0.4% in the preceding quarter. The local social incidents took a heavy toll on consumption- and tourism-related sectors, dealing a very severe blow to an economy which had already been weakened by a synchronised global economic slowdown and escalated US-Mainland trade tensions. On a seasonally adjusted quarter-to-quarter comparison, the economy contracted significantly by 3.2% in the third quarter, having shrunk by 0.5% in the preceding quarter. Thus the economy has entered a technical recession in the third quarter, the first time since 2009.*
- *Total exports of goods registered an enlarged year-on-year decline in real terms in the third quarter, reflecting the further slackening of manufacturing and trading activities worldwide. Exports of services deteriorated sharply to mark the biggest year-on-year drop since the second quarter of 2003, with inbound tourism suffering a severe setback. Other services exports also declined by varying extents amid softening global economic growth and shrinking trade flows.*
- *Domestic demand worsened significantly in the third quarter. Private consumption expenditure weakened sharply to record its first year-on-year decline in more than 10 years, as the local social incidents caused serious disruptions to consumption-related activities and subdued economic prospects weighed on consumer sentiment. The decline in overall investment expenditure steepened. Machinery and equipment acquisition plunged amid very pessimistic business sentiment, while building and construction activities fell further.*
- *The labour market showed signs of easing as economic conditions worsened. The seasonally adjusted unemployment rate edged up to 2.9% in the third quarter, while the underemployment rate held steady at 1.0%. The unemployment rates for the consumption-related sectors, which were hard hit by the local social incidents, showed more visible increases. While earnings of low-income workers continued to increase over a year earlier, there was moderation in overall earnings growth.*
- *The local stock market underwent a sharp correction during the third quarter, with the Hang Seng Index falling by 8.6%. The residential property market likewise softened somewhat. With most buyers turning more cautious and sellers generally adopting softer stances in price negotiations, flat prices recorded a decline of 3% during the quarter amid*

thinner trading.

- *Consumer price inflation went up further in the third quarter, mainly driven by an accelerated increase in pork prices as a result of the reduced supply of fresh pork. Price pressures on other major consumer price index components remained largely moderate.*

Overall situation

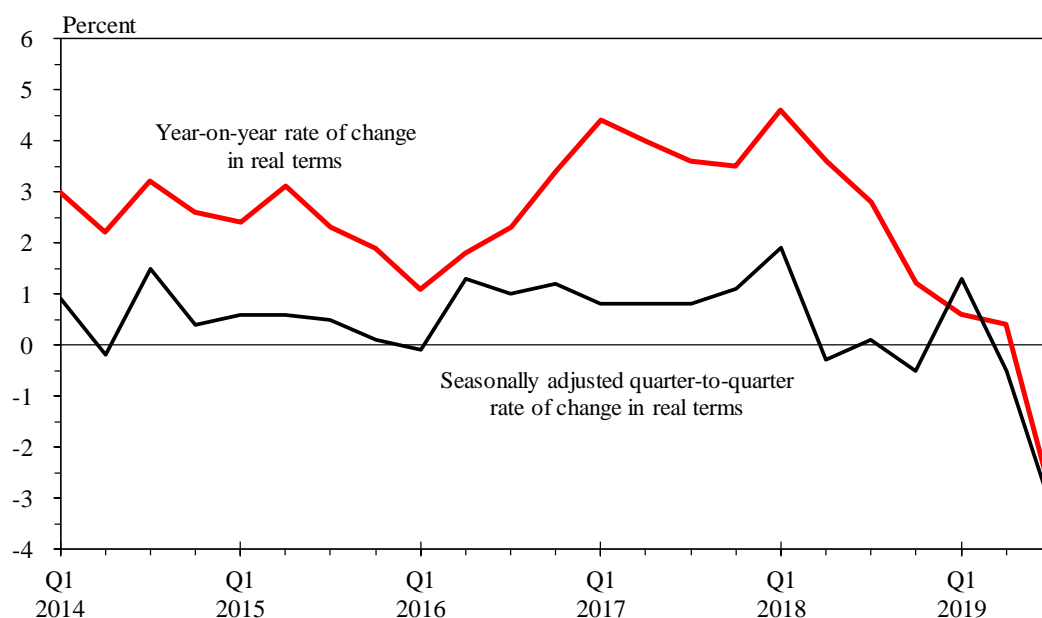
1.1 The Hong Kong economy contracted by 2.9% in the third quarter of 2019 from a year earlier, representing an abrupt deterioration from its mild growth of 0.4% in the preceding quarter, and marking the first year-on-year contraction for an individual quarter since the Great Recession of 2009. The local social incidents took a heavy toll on consumption- and tourism-related sectors, dealing a very severe blow to an economy which had already been weakened by a synchronised global economic slowdown and escalated US-Mainland trade tensions. Total exports of goods registered an enlarged year-on-year decline, reflecting the further slackening of manufacturing and trading activities worldwide. Exports of services deteriorated sharply, with inbound tourism suffering a severe setback. As for domestic demand, private consumption expenditure weakened sharply to record its first year-on-year decline in more than 10 years as the local social incidents caused serious disruptions to consumption-related activities. Meanwhile, overall investment expenditure remained in the doldrums amid very pessimistic business sentiment. The worsening economic conditions have added pressures on the labour market. The seasonally adjusted unemployment rate edged up to 2.9% in the third quarter, with those sectors hard hit by the local social incidents showing more visible increases in their unemployment rates. Consumer price inflation went up further, primarily due to an accelerated increase in pork prices.

1.2 The external environment turned even more austere in the third quarter as the global economy entered a synchronised slowdown with heightened uncertainties. US-Mainland trade tensions escalated in August, after the US announced additional tariffs on the remaining US\$300 billion worth of Mainland products. Some of the additional tariffs have become effective since 1 September, thereby further dampening global trade flows. The Brexit process achieved little progress in the third quarter, while geopolitical tensions in the Middle East intensified. To counteract the mounting downside risks facing the economic outlook, many major central banks have lowered interest rates or shifted to a more accommodative monetary policy stance. While these actions may provide some cushioning effect, they are probably not enough to reverse the trend of decelerating global growth. In

mid-October, the International Monetary Fund (IMF) lowered its global economic growth forecast for 2019 to a 10-year low of 3.0%⁽¹⁾, the fifth downward revision.

1.3 In the third quarter of 2019, *Gross Domestic Product* (GDP)⁽²⁾ fell by 2.9% in real terms over a year earlier (the same as the advance estimate), deteriorating sharply from its growth of 0.4% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison⁽³⁾, real GDP decreased significantly by 3.2% in the third quarter (the same as the advance estimate) after a 0.5% decline in the preceding quarter. With two consecutive quarters of contraction, the economy has entered a technical recession in the third quarter, the first time since the Great Recession of 2009.

Diagram 1.1 : Real GDP contracted notably in the third quarter of 2019



The external sector

1.4 *Total exports of goods* compiled under the GDP accounting framework registered an enlarged year-on-year decline of 7.1% in real terms in the third quarter, after a 5.4% fall in the preceding quarter, as the external environment turned more austere amid a slowing global economy and intensified US-Mainland trade tensions. The decline was the largest for an individual quarter since the third quarter of 2009. External merchandise trade statistics showed that export performance worsened progressively towards the end of the quarter. Analysed by market, exports to the US continued to fall noticeably, and those to the EU worsened sharply to record a double-digit decline. Exports to many major Asian markets, including the Mainland and Japan, also registered declines of varying degrees.

1.5 *Exports of services* deteriorated sharply, falling by 13.8% year-on-year in real terms in the third quarter, the biggest decline since the second quarter of 2003. This followed a 1.1% contraction in the preceding quarter. As continued protests involving violence dealt a severe blow to inbound tourism, exports of travel services plunged by 32.2%. The fall in exports of transport services widened visibly, reflecting subdued cargo and passenger flows. Exports of financial services as well as business and other services also fell due to weaker cross-border financial and commercial activities amid softening global economic growth.

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

	<u>2017[#]</u>	<u>2018[#]</u>	<u>2018</u>				<u>2019</u>		
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
Private consumption expenditure	5.6	5.5	8.9 (3.2)	6.0 (-1.0)	4.8 (0.5)	2.7 (*)	0.4 (0.9)	1.3 (-0.1)	-3.4 (-4.1)
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)	4.0 (0.6)	5.9 (2.5)
Gross domestic fixed capital formation	2.9	2.0	4.7	1.9	8.6	-5.8	-7.0	-10.8	-16.3
Building and construction	-0.5	-0.6	2.2	-0.9	1.3	-4.9	-3.5	-9.3	-5.7
Costs of ownership transfer	21.1	-8.3	12.5	4.8	0.7	-43.2	-38.0	-12.9	-21.8
Machinery, equipment and intellectual property products	3.8	8.9	5.5	4.2	21.0	4.7	-1.7	-12.1	-26.6
Total exports of goods ^{&}	6.5	3.6	5.2 (1.8)	4.7 (-0.4)	5.1 (1.3)	* (-2.5)	-3.7 (-2.1)	-5.4 (-2.0)	-7.1 (-0.6)
Imports of goods ^{&}	7.3	4.9	6.9 (1.6)	6.3 (-0.2)	7.7 (3.1)	-0.5 (-4.7)	-4.2 (-2.3)	-6.7 (-2.8)	-11.2 (-1.9)
Exports of services ^{&}	2.9	4.9	7.9 (5.6)	5.5 (-3.9)	3.0 (0.4)	3.3 (1.3)	0.8 (3.2)	-1.1 (-5.8)	-13.8 (-12.5)
Imports of services ^{&}	2.1	2.3	4.0 (3.7)	0.5 (-2.2)	2.5 (0.5)	2.1 (0.2)	-1.5 (0.1)	1.3 (0.5)	-4.0 (-4.7)
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)	0.4 (-0.5)	-2.9 (-3.2)
<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)	3.2 (1.4)	2.9 (0.5)	2.5 (0.3)
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)	3.0 (1.2)	3.3 (1.0)
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)	2.9 (1.0)	3.3 (0.9)
<i>Change in nominal GDP (%)</i>	6.9	6.8	8.6	7.3	6.8	4.7	3.8	3.4	-0.5

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

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

(#) Revised figures.

() 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 contracted significantly in the third quarter. *Private consumption expenditure* weakened sharply, falling by 3.4% in real terms, its first year-on-year decline since the first quarter of 2009, after expanding modestly by 1.3% in the preceding quarter. The decline was mainly attributable to the serious disruptions to consumption-related activities caused by the local social incidents, although consumer sentiment was also affected by the subdued economic outlook. Partly counteracting this development was the solid growth of *government consumption expenditure* at 5.9% in the third quarter, faster than its growth of 4.0% 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>					Residents’ expenditure abroad	Visitor spending	Private consumption expenditure ^(b)
			<u>Food</u>	<u>Durables</u>	<u>Non- durables</u>	<u>Services</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	1.0	-1.2	-6.1	4.5	1.3	-0.4	3.9	0.4	
	Q2	0.4	-4.8	-6.4	0.1	2.8	11.4	1.1	1.3	
	Q3	-7.8	-12.1	-16.6	-21.9	-0.1	2.2	-31.7	-3.4	

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 the first year-on-year decline since the first quarter of 2009

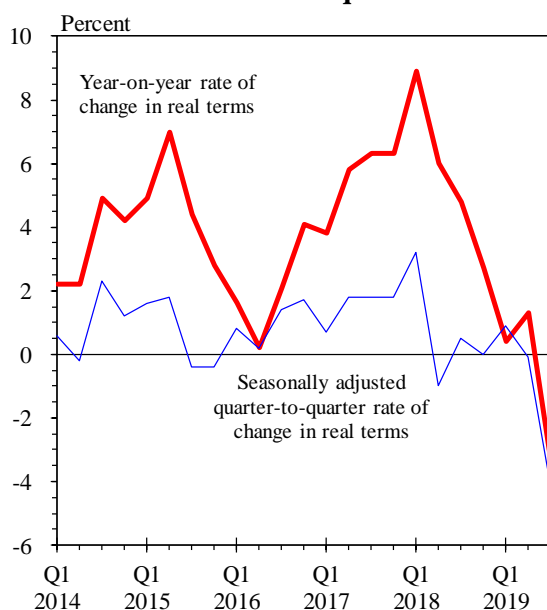
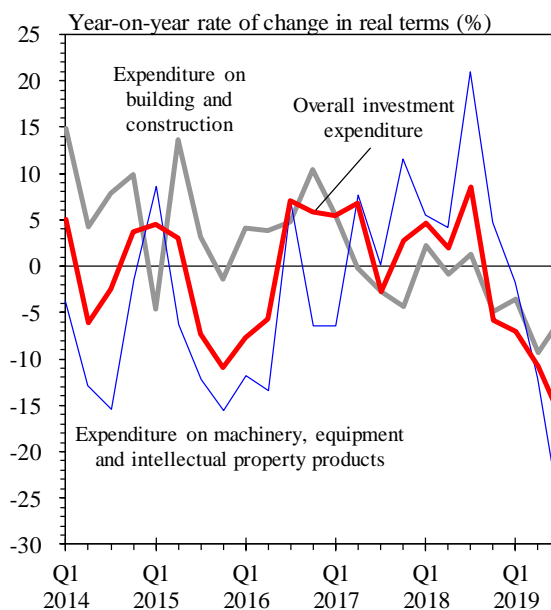


Diagram 1.3 : The fall in overall investment spending steepened



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* fell markedly by 16.3% year-on-year in real terms in the third quarter, representing a further widening from its 10.8% decline in the preceding quarter and the biggest quarterly drop since the second quarter of 1999. Within the total, expenditure on acquisitions of machinery, equipment and intellectual property products plunged by 26.6% as mounting external headwinds and the local social incidents inflicted considerable uncertainties on near-term business prospects (see **Box 1.1** for an analysis of business sentiment). Meanwhile, expenditure on building and construction continued to decline by 5.7%. In addition to slower private sector building activity amid subdued local economic conditions, spending by the public sector also shrank as new projects had yet to generate sufficient output to offset the completion of some major infrastructure projects.

Box 1.1

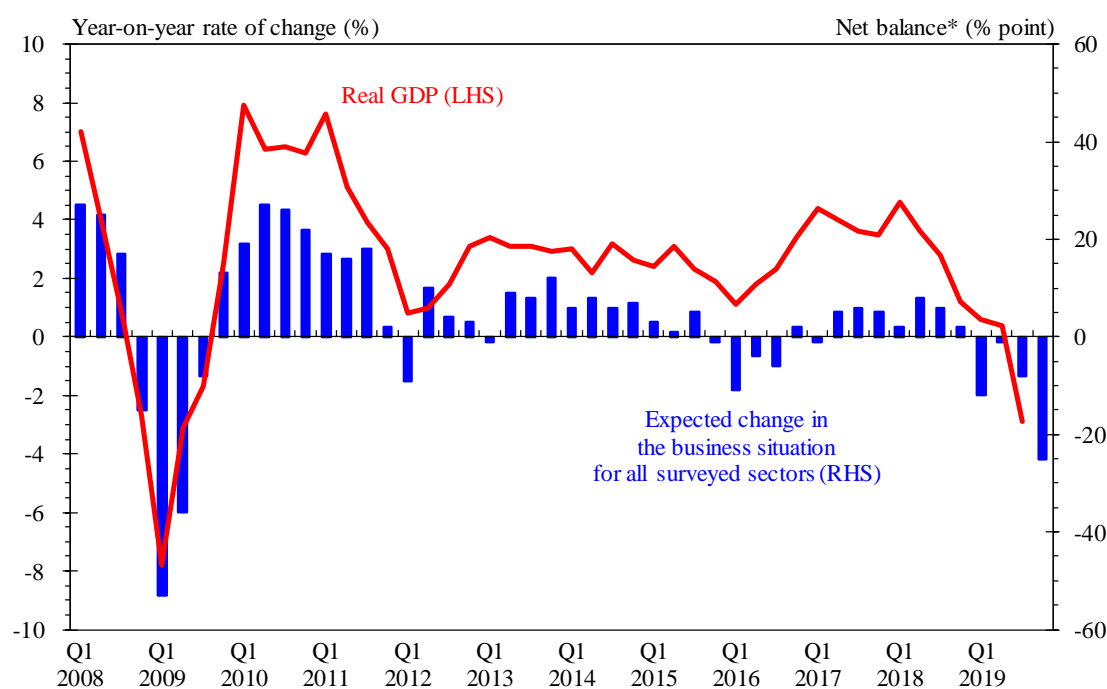
Business sentiment in Hong Kong

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. Latest results of various surveys all pointed to a further worsening of business sentiment in recent months.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during early September to mid-October, business sentiment among large enterprises in Hong Kong worsened markedly (**Chart 1**). The proportion of large enterprises expecting a weaker business situation in the fourth quarter of 2019 as compared to the third quarter outweighed the proportion of those expecting a better situation by 25 percentage points (i.e. a net balance of -25), representing a sharp deterioration from the net balance of -8 in the previous round and the worst reading since the second quarter of 2009.

Business sentiment among large enterprises worsened across all surveyed sectors amid the notable headwinds stemming from the local social incidents, a weakening global economy and US-Mainland trade tensions (**Table 1**). Large enterprises in “retail” and “accommodation and food services” were particularly pessimistic, as their businesses were hard hit by the serious disruptions arising from the local social incidents. On the other hand, US-Mainland trade tensions and unfavourable global economic conditions continued to cloud the outlook of the trade-related sectors, with the net balances in “import/export trade and wholesale”, “manufacturing”, “transportation, storage and courier services” falling deeper in the negative zone. The net balances in other major sectors were all negative except for “information and communications”. Meanwhile, overall hiring sentiment of large enterprises also weakened visibly, with many surveyed sectors expecting fewer employment in the fourth quarter of 2019 (**Table 2**).

Chart 1 : Business sentiment among large enterprises worsened visibly



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 sharp deterioration in most sectors

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2018		2019			
	Q3	Q4	Q1	Q2	Q3	Q4
Manufacturing	+23	-1	-3	-1	-8	-24
Construction	-10	-26	-23	-22	-7	-45
Import/export trade and wholesale	-1	-5	-23	-8	-8	-23
Retail	-1	+19	-6	-8	-24	-61
Accommodation and food services	-10	+17	-5	-9	-17	-44
Transportation, storage and courier services	+5	+8	-13	-1	-9	-26
Information and communications	+16	+16	-3	+13	+10	+6
Financing and insurance	+23	+13	-8	+9	-6	-21
Real estate	+1	-6	-5	+6	-10	-12
Professional and business services	+3	-2	-7	-4	-3	-25
All sectors above	+6	+2	-12	-1	-8	-25

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 of large enterprises weakened visibly across many sectors

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2018		2019			
	Q3	Q4	Q1	Q2	Q3	Q4
Manufacturing	+3	+13	+12	-6	+8	+5
Construction	+18	-6	-3	-6	+10	-20
Import/export trade and wholesale	-7	-1	-6	-4	-5	-9
Retail	+11	+13	+4	+1	0	-21
Accommodation and food services	+13	+14	+9	+12	+19	-13
Transportation, storage and courier services	+10	+16	+11	+6	+6	0
Information and communications	0	+15	-11	+11	-3	-6
Financing and insurance	+21	+12	+20	+12	+9	+11
Real estate	+4	+18	+7	+6	+7	-6
Professional and business services	-1	+3	-4	-8	+2	-2
All sectors above	+6	+8	+3	+1	+4	-7

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, at 33.3 in October, stayed sharply below the 50 divide albeit bouncing back somewhat from 32.1 in August, a record low since survey results were available in June 2011 (*Chart 2a*). Employment situation also saw some weakening, though credit situation remained highly accommodative. Likewise, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ slipped further in the contractionary zone to a record low since the index was launched in 2012.

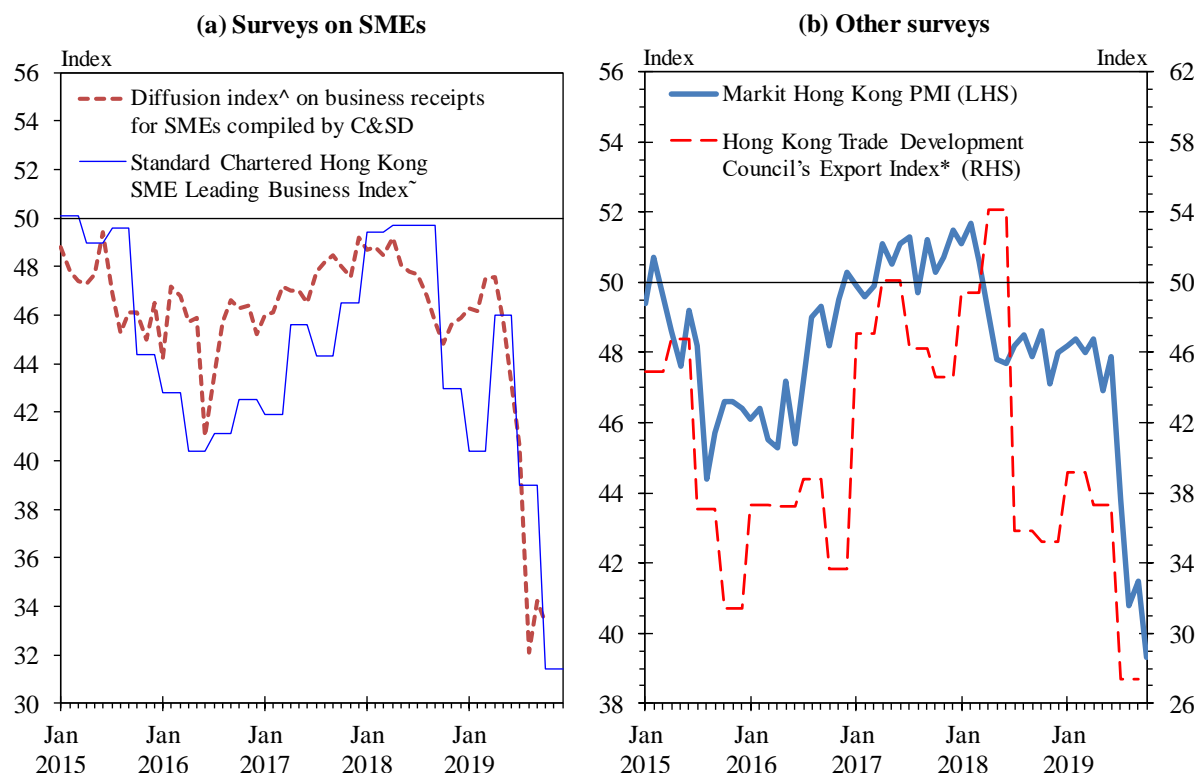
As for other surveys in the public domain, the Hong Kong Trade Development Council's Export Index⁽⁴⁾ plunged to 27.4 in the third quarter of 2019 from 37.3 in the previous quarter (*Chart 2b*), the lowest since the global financial crisis of 2008-2009. Among the traders surveyed in this latest round, 61.0% of them believed that US-Mainland trade tensions would negatively affect their near-term export performance, up from the 54.7% in the preceding quarter. Separately, the Markit Purchasing Managers' Index (PMI) of Hong Kong⁽⁵⁾, which gauges the performance of the private sector's business activity, fell in the contractionary zone to 39.3 in October 2019, the lowest level since November 2008.

(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 the “Recruitment Sentiment”, “Investment Sentiment”, “Business Condition”, “Profit Margin”, and “Global Economy” for the next quarter.

Box 1.1 (Cont'd)

Chart 2 : Most of the other survey indicators also pointed to very pessimistic 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 an upward trend and an optimistic outlook, while a reading below 50 indicates a downward trend and a pessimistic outlook.

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 has turned very pessimistic of late. The Government will stay vigilant and closely monitor the various external and domestic developments, for their possible ramifications on Hong Kong’s business and employment situation.

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- (4) The Hong Kong Trade Development Council’s Export Index is designed to gauge the prospects of the near-term export performance of Hong Kong traders. The business confidence survey is conducted on a quarterly basis, with 500 participating Hong Kong traders from six major industry sectors interviewed, namely electronics, clothing, jewellery, timepieces, toys and machinery.
- (5) According to the press release by IHS Markit, the Markit Hong Kong PMI is compiled according to monthly replies to questionnaires sent to purchasing executives in around 400 companies. It is a composite index based on five individual indices with the following weights: New Orders (30%); Output (25%); Employment (20%); Suppliers’ Delivery Times (15%); and Stocks of Purchases (10%), 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 worsening economic conditions have added pressures on the labour market. After staying at 2.8% for five quarters, the *seasonally adjusted unemployment rate* edged up to 2.9% in the third quarter, whereas the *underemployment rate* held steady at 1.0%. The sectors hard hit by the local social incidents, particularly retail and food and beverage services, saw more visible increases in unemployment rates. Overall labour demand also slackened, as reflected by the first year-on-year decline in private sector employment in almost a decade and the concurrent noticeable drop in vacancies. According to the General Household Survey, while earnings of low-income workers continued to increase in the third quarter over a year earlier, there was moderation in overall earnings growth.

The asset markets

1.9 The *local stock market* underwent a sharp correction in the third quarter. The local social incidents, together with uncertainties associated with US-Mainland trade tensions and softening global economic growth, significantly dampened investment sentiment. The Hang Seng Index slid by 8.6% from end-June to 26 092 at end-September, the largest quarterly loss since the third quarter of 2015. Average daily turnover in the securities market declined by 18.7% from the preceding quarter to \$77.0 billion. Credit growth, in terms of the year-on-year increase in loans for use in Hong Kong (including trade finance), was 7.4% at end-September 2019, higher than its 4.5% growth at end-June.

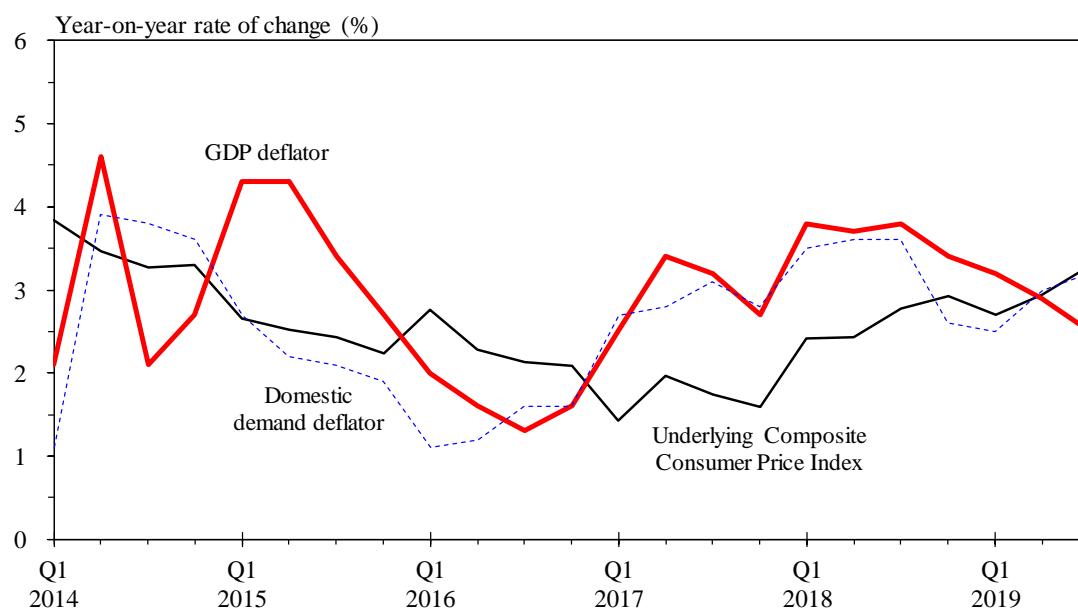
1.10 The *residential property market* softened somewhat in the third quarter, as sentiment was dented by the local social incidents, escalated US-Mainland trade tensions and a weaker global economy. Most buyers turned more cautious and sellers generally adopted softer stances in price negotiations. 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, plunged by 40% from its hectic level in the preceding quarter or 14% from a year earlier to 12 336 in the third quarter. Flat prices declined by 3% during the quarter, but were still 6% higher than in December 2018. The index of home purchase affordability remained elevated at around 73%. The leasing market for residential property held relatively steady, with flat rentals edging up by 1% during the quarter. Meanwhile, the commercial and industrial property markets also turned quieter. Trading activities fell markedly for all major market segments. Prices decreased during the quarter, while rentals exhibited diverse movements.

Inflation

1.11 Consumer price inflation went up further in the third quarter, mainly driven by an accelerated increase in pork prices amid the reduced supply of fresh pork. *Underlying consumer price inflation*, which nets out the effects of the Government's one-off relief measures, rose from 2.9% in the second quarter to 3.3% in the third quarter, of which the increase in pork prices directly contributed 1.0 percentage point. Price pressures on other major consumer price index components remained largely moderate. The year-on-year increase in private housing rentals has been generally moderating since late 2018. On business costs, labour costs continued to increase steadily, whereas pressures on commercial rental costs eased slightly amid a weak economy. External price pressures eased further. In tandem with slower global economic growth, inflation in many major import sources moderated, and international commodity and energy prices remained generally soft. These factors, together with the appreciation of the Hong Kong dollar along with the US dollar against other major currencies over the past year or so, helped reduce price pressures on imports somewhat. Meanwhile, *headline consumer price inflation* went up from 3.0% in the second quarter to 3.3% in the third quarter.

1.12 The year-on-year rate of increase in the *GDP deflator* moderated somewhat to 2.5% in the third quarter, from 2.9% in the preceding quarter. The terms of trade deteriorated slightly from a year earlier as export prices rose somewhat slower than import prices. Taking out the external trade components, the increase in the domestic demand deflator went higher to 3.2%.

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



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

GDP by major economic sector

1.13 The net output of the services sector expanded by 1.3% year-on-year in real terms in the second quarter of 2019, decelerating further from its 1.9% growth in the first quarter. The net outputs of many major service sectors showed weakening of varying degrees. Specifically, the net output of import and export trade fell further alongside sluggish regional trade flows amid continued US-Mainland trade tensions, and that of transportation, storage, postal and courier services also grew at a slower pace. The net output of wholesale and retail trades saw an enlarged decrease and that of accommodation and food services turned to a decline, as local consumption as well as tourist spending turned weaker amid various headwinds. On the other hand, the net outputs of professional and business services, financing and insurance, and information and communications picked up slightly to show moderate to solid increases, whereas that of public administration, social and personal services rose steadily. The net output of real estate, which covers activities of private sector developers and property agencies, grew only mildly alongside the softening residential property market in May and June. As for the secondary sector, the net output of the construction sector fell markedly, while that of the manufacturing sector only increased marginally.

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

	<u>2018</u>	<u>Q1</u>	<u>Q2</u>	<u>2018</u> <u>Q3</u>	<u>Q4</u>	<u>2019</u> <u>Q1</u>	<u>Q2</u>
Manufacturing	1.3	1.1	1.6	1.2	1.2	1.4	0.4
Construction	0.1	3.8	-1.3	2.6	-4.4	-2.6	-9.0
Services ^(b)	3.4	4.4	3.7	3.1	2.4	1.9	1.3
Import/export, wholesale and retail trades	4.5	6.0	5.7	5.2	2.0	-0.8	-3.7
Import and export trade	4.1	4.9	4.7	5.3	2.1	-0.3	-3.3
Wholesale and retail trades	6.3	11.1	9.9	4.3	1.9	-2.9	-5.4
Accommodation ^(c) and food services	3.9	6.2	4.3	3.6	1.7	2.8	-1.3
Transportation, storage, postal and courier services	3.5	5.2	4.1	1.4	3.4	2.4	2.0
Transportation and storage	3.6	5.1	4.5	1.8	3.3	2.8	2.3
Postal and courier services	1.1	6.0	-2.0	-5.3	4.3	-4.9	-3.1
Information and communications	3.8	3.2	3.6	3.4	4.9	4.8	6.1
Financing and insurance	4.6	6.7	4.9	3.6	3.5	3.0	3.7
Real estate, professional and business services	1.5	2.2	2.0	1.3	0.7	1.7	1.6
Real estate	1.4	2.0	2.3	1.8	-0.2	1.2	0.5
Professional and business services	1.6	2.5	1.7	0.9	1.5	2.2	2.5
Public administration, social and personal services	2.9	3.2	2.5	3.0	3.2	3.4	3.3

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 The Fraser Institute once again ranked Hong Kong as the world's freest economy in its 2019 *Economic Freedom of the World* report, which was released in September. Among the five areas of assessment, Hong Kong was ranked first in "Freedom to trade internationally" and "Regulation", a vivid manifestation of Hong Kong's long-standing and steadfast commitment to building a free economy with a level playing field. Separately, the World Economic Forum released its 2019 *Global Competitiveness Report* in early October. Hong Kong was ranked third globally, up four places from last year. Among the 12 pillars of assessment, Hong Kong was ranked first in "Macroeconomic stability", "Health", "Product market" and "Financial system", third in "Infrastructure" and "ICT adoption", and fifth in "Institutions", reflecting Hong Kong's competitive edges in these aspects (see **Box 1.2** for an analysis of Hong Kong's competitiveness in selected aspects). Moreover, the World Bank published its *Doing Business 2020* report in late October. Hong Kong was ranked the third easiest place to do business, up one place from last year. Over the past ten years, Hong Kong has maintained its position within the top five in the *Doing Business* report, re-affirming our favourable business environment for overseas companies to set up their regional headquarters and offices, and for all businesses to flourish. Indeed, the number of business operations in Hong Kong with parent companies overseas and in the Mainland reached 9 040 in 2019, a new record high.

1.15 To counter the challenging external and local economic environment, in August the Financial Secretary announced a series of measures to support enterprises, especially small and medium enterprises (SMEs), safeguard jobs and relieve people's financial burden. The package of helping measures, excluding public works expenses, cost a total of about \$19.1 billion. Measures to support enterprises, amongst others, included waivers of certain government fees and charges and reducing the rental for most short-term tenancies of government land. Additional funds will be injected into the Dedicated Fund on Branding, Upgrading and Domestic Sales and the SME Export Marketing Fund respectively to help SMEs develop in the Mainland and overseas markets and grasp business opportunities. A new loan guarantee product will also be launched under the SME Financing Guarantee Scheme (SFGS) to provide a 90% guarantee for approved loans. In September, another round of helping measure was announced. These included enhancements to the SFGS such as a principal moratorium of up to 12 months during which only interest payments have to be made. In October, the Financial Secretary announced a third round of measures costing over \$2 billion to support hard-hit sectors such as retail, catering, transport and tourism.

1.16 The Chief Executive delivered the 2019 Policy Address in October, focusing on four aspects of work, namely housing, land supply, improving people's livelihood and economic development. The more salient points are highlighted below.

- The Chief Executive identified housing and land supply as the top priorities and announced various measures and plans on these policy areas. Specific housing policies include, among others, raising the mortgage cap for first-time home buyers under the Mortgage Insurance Programme of the Hong Kong Mortgage Corporation Insurance Limited, increasing the number of transitional housing and Youth Hostel projects, and launching more "Starter Homes" (SH). As to land supply, the Government would also resume private land for developing public housing and SH, announce a proposed framework for the Land Sharing Pilot Scheme, and re-plan the coastal development of Tuen Mun West. These measures and plans would demonstrate the Government's determination to increase the supply of housing land in a persistent manner, and help different groups meet their home ownership aspirations.
- On improving people's livelihood, and to enable more effective and efficient use of public resources, the Chief Executive has advocated cross-sector and cross-profession collaboration as well as public-private partnership, adhering to the principles of pro-child, pro-family, pro-work, respecting the choices of beneficiaries and embracing public health. Various initiatives in line with these principles were introduced this year, including proposals to enhance welfare support, boost healthcare and provide further assistance to students. The 152 new initiatives announced in the last two Policy Addresses have largely been completed or are progressing on schedule.
- On economic development, the Government is mindful of the pressure borne by SMEs and members of the public amid an economic downturn, and will keep abreast of the situation and roll out additional support measures when necessary. Beyond the short term, the Government, while maintaining a free market economy, proactively plays the roles of "facilitator" and "promoter" and makes every effort to increase land supply, invest in nurturing talent, promote external affairs, improve the business environment and implement tax concession measures with a view to enhancing the competitiveness of Hong Kong. In parallel, the Government capitalises on the opportunities brought by the Belt & Road Initiative and the development of the Guangdong-Hong Kong-Macao

Greater Bay Area, with the aim of creating new growth areas for the Hong Kong economy and opening up more markets for Hong Kong's enterprises and professional services.

Box 1.2

Hong Kong's competitiveness in selected aspects

Hong Kong's competitiveness is frequently discussed in the media. What is competitiveness of an economy? Is the Hong Kong economy competitive? This box article first outlines the views of academics and government agencies on the concept of competitiveness, as well as how international research institutes measure competitiveness. This is then followed by a discussion on Hong Kong's relative strengths and weaknesses as highlighted by competitiveness reports benchmarking economies worldwide.

The concept of competitiveness

The discussion on competitiveness of economies became more prevalent towards the end of the 20th century. Yet there were debates among academics about whether competitiveness of an economy can be defined and if there are precise ways to gauge it. Paul Krugman, a Nobel Prize winner, was cautious about considering the concept of competitiveness at the economy level. He found it problematic to draw an analogy between economies and firms, given that economies were not competing in a zero-sum game as firms did since an economy can create positive spill-overs for other economies. Meanwhile, Michael Porter, a professor at Harvard University and pioneer in studying competitive advantages, stipulated that an economy with a business-friendly environment supporting firms to compete efficiently and fairly in local and global markets make up an economy's competitiveness. Nonetheless, both concurred that productivity was the driving force behind economic growth.

From time to time, government agencies also published studies on competitiveness. While many of these studies narrowed their scopes down to particular aspects of their respective economy, they generally linked productivity with competitiveness. For instance, the US' "The competitiveness and innovative capacity of the United States" report remarked that "the concepts of productivity and competitiveness often go hand in hand". The above US' report together with other reports by the European Commission⁽¹⁾, the UK⁽²⁾ and Ireland⁽³⁾ attempted to assess competitiveness through a range of productivity drivers in a broad manner and identify ways to increase the competitiveness of their economy. Their objectives, in general, were to attain economic and wage growth, which would lead to better well-being of people and sustainable development.

Benchmarking competitiveness

Some international research institutes have developed frameworks to systematically assess and rank the competitiveness of economies worldwide, using a wide portfolio of quantitative and qualitative indicators. The International Institute for Management Development's World Competitiveness Yearbook (WCY) and the World Economic Forum's Global Competitiveness Report (GCR) are widely quoted. Both of them have over 20 years of publication and cover a wide spectrum of aspects with transparent methodology.

(1) European Commission. "Competitiveness proofing". Retrieved from the European Commission website.

(2) UK Department for Business Innovation and Skills. (2012). "Benchmarking UK Competitiveness in the Global Economy". *BIS Economics Paper No. 19*.

(3) Irish National Competitiveness Council. (2016). "Review of Competitiveness Frameworks".

Box 1.2 (Cont'd)

There are differences in WCY's and GCR's frameworks, but the aspects covered are largely comparable. The WCY defines competitiveness as "the extent to which an economy fosters an environment where enterprises can achieve sustainable growth, generate jobs and, ultimately, increase welfare". It includes 20 sub-factors under four competitiveness factors. The GCR presents competitiveness as "the set of institutions, policies and factors that determine the level of productivity of an economy". It covers 12 pillars grouped under four components. Despite the differences, many aspects are common in both frameworks, namely institutions, fiscal health, basic infrastructure, trade and investment regime, market size, business environment, financial system, healthcare, human capital, labour market, ICT infrastructure, and innovation capacity (*Table 1*). Aspects not considered by GCR or with lower weighting include societal framework, productivity and efficiency, and attitudes and values of the economy.

Table 1: Common aspects in WCY 2019 and GCR 2019

<u>Aspects</u>	<u>WCY 2019 sub-factors</u>	<u>GCR 2019 pillars</u>
Institutions	- Institutional framework	- Institutions
Fiscal health	- Public finance - Tax policy	- Macroeconomic stability
Basic infrastructure	- Basic infrastructure	- Infrastructure
Trade and investment regime	- Business legislation - International trade - International investment	- Product market
Market size	- Domestic economy	- Market size
Business environment	- Business legislation - Management practices - Tax policy	- Business dynamism
Financial system	- Finance	- Financial system
Healthcare	- Health and environment	- Health
Human capital	- Education	- Skills
Labour market	- Labour market - Employment	- Labour market
ICT infrastructure	- Technological infrastructure	- ICT adoption
Innovation capacity	- Scientific infrastructure	- Innovation capability

Note: Some sub-factors include indicators related to more than one aspect and thus may appear more than once.

Hong Kong's competitiveness among global economies

Hong Kong was ranked 2nd globally in the WCY 2019 and 3rd in the GCR 2019, vividly reflecting the recognition of Hong Kong's competitiveness on the international stage in overall terms. As for different aspects, Hong Kong was generally ranked high in institutions, fiscal health, basic infrastructure, trade and investment regime and financial system (*Table 2*).

Table 2: Hong Kong's strengths in WCY 2019 and GCR 2019

<u>Aspects</u>	<u>WCY 2019 sub-factors</u>		<u>GCR 2019 pillars</u>	
Institutions	- Institutional framework	8 th	- Institutions	5 th
Fiscal health	- Public finance - Tax policy	1 st 2 nd	- Macroeconomic stability	1 st
Basic infrastructure	- Basic infrastructure	3 rd	- Infrastructure	3 rd
Trade and investment regime	- Business legislation - International trade - International investment	1 st 4 th 4 th	- Product market	1 st
Financial system	- Finance	1 st	- Financial system	1 st

Box 1.2 (Cont'd)

At the same time, the two reports shed light on areas where Hong Kong needs to catch up. These include our market size, human capital, and innovation capacity. That being said, some of these assessments may not be adequately reflecting the uniqueness of Hong Kong's situation. As a small economy, our domestic market size is inherently small. However, our free trade regime and preferential treatments for accessing the Mainland market under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), coupled with opportunities arising from the Greater Bay Area development and the Belt and Road initiative should help but were not taken into account. Besides, our Government expenditure on education is deemed low in terms of percentage of GDP given our low tax rate, but it is arguable if the quality of education should be measured by expenditure (*Table 3*).

Table 3: Hong Kong's weaknesses in WCY 2019 and GCR 2019

Aspects	WCY 2019 sub-factors		GCR 2019 pillars	
Market size	- Domestic economy	18 th	- Market size	28 th
Human capital	- Education	16 th	- Skills	20 th
Innovation capacity	- Scientific infrastructure	23 rd	- Innovation capability	26 th

Apart from the above, our rankings in business environment, healthcare, labour market, and ICT infrastructure appear to be rather different in the two reports. The divergences stemmed largely from the different choice and/or source of indicators. For instance, GCR solely assesses life expectancy under its "health" pillar, while WCY also looks into environmental issues. These may also reflect the somewhat different focus of the two reports (*Table 4*).

Table 4: Hong Kong's aspects with different results in WCY 2019 and GCR 2019

Aspects	WCY 2019 sub-factors		GCR 2019 pillars	
Business environment	- Business legislation - Management practices - Tax policy	1 st 3 rd 2 nd	- Business dynamism	15 th
Healthcare	- Health and environment	20 th	- Health	1 st
Labour market	- Labour market - Employment	6 th 17 th	- Labour market	7 th
ICT infrastructure	- Technological infrastructure	18 th	- ICT adoption	3 rd

As a result, different indicators and weightings assigned may produce different assessments on Hong Kong's competitiveness. This reflects the complexity in assessing competitiveness as competitiveness itself is not well-defined. Nonetheless, the two highly regarded competitiveness reports have both rated Hong Kong as one of the most competitive economies in the world. Our core strengths rest with our fine tradition of the rule of law; a simple tax regime and low tax rates; an efficient public sector; high-quality infrastructure; open and flexible markets; a business-friendly environment with a level playing field and a vibrant financial services sector. Meanwhile, the Government is also working hard to nurture talent and promote innovation and technology, in order to provide a more favourable environment for Hong Kong's long-term economic development.

Notes :

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

	<u>2018</u>	<u>July round</u>	<u>2019</u> <u>October round</u>
	(%)	(%)	(%)
World (PPP ^{##} weighted)	3.6	3.2	3.0
Advanced economies	2.3	1.9	1.7
US	2.9 [#]	2.6	2.4
Euro area	1.9 [#]	1.3	1.2
UK	1.4 [#]	1.3	1.2
Japan	0.8 [#]	0.9	0.9
Emerging market and developing economies	4.5	4.1	3.9
Emerging and developing Asia	6.4	6.2	5.9
Mainland China	6.6 [#]	6.2	6.1
India [^]	6.8 [#]	7.0	6.1
ASEAN-5 ^{\$}	5.2	5.0	4.8
Middle East and North Africa ⁺	1.6	1.0	0.5

- 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 external environment turned even more austere in the third quarter of 2019 as the global economy entered a synchronised slowdown with heightened uncertainties. US economic growth slackened further, and the economy of the euro area stayed weak. The Mainland economy, though remaining largely resilient, also showed further growth deceleration. US-Mainland trade tensions escalated in August, adding further strains to the already weak global economy. The Brexit process achieved little progress in the quarter, while geopolitical tensions in the Middle East intensified. These heightened uncertainties have led to gyrations in the global financial markets. Many central banks have taken steps to ease monetary policy in the face of increasing downside risks to the economic outlook.*
- *Hong Kong's merchandise exports registered an enlarged year-on-year decline of 7.2% in real terms⁽¹⁾ in the third quarter amid further slackening of manufacturing and trading activities worldwide. This was the largest decline for an individual quarter in a decade. Exports to the US continued to fall noticeably, and those to the EU worsened sharply to record a double-digit decline. Exports to many major Asian markets, including the Mainland and Japan, also registered declines of varying degrees.*
- *Exports of services deteriorated sharply, falling by 13.8% year-on-year in real terms in the third quarter, the biggest decline since the second quarter of 2003. This was mainly due to continued protests involving violence, which dealt a severe blow to inbound tourism and led to a plunge of 32.2% in exports of travel services. The fall in exports of transport services widened visibly, reflecting subdued cargo and passenger flows. Exports of financial services as well as business and other services also fell, due to weaker cross-border financial and commercial activities amid softening global economic growth.*
- *The Fifth Protocol to the Comprehensive Avoidance of Double Taxation Arrangement with the Mainland was signed in July. By providing tax relief to eligible Hong Kong and Mainland teachers and researchers working on the other side, the Protocol would promote academic exchange and co-operation in research and development between the two places. The Government also continued to make efforts to explore the opportunities brought about by the Belt and Road Initiatives and the development of the Guangdong-Hong Kong-Macao Greater Bay Area.*

Goods trade

Total exports of goods

2.1 Hong Kong's *merchandise exports* fell by an enlarged 7.2% in real terms in the third quarter of 2019 over a year earlier, after a 6.1% decrease in the preceding quarter. The decline was the largest for an individual quarter since the third quarter of 2009. Slowing global economic growth and escalated US-Mainland trade tensions in the quarter continued to weigh on manufacturing and trading activities worldwide, leading to a progressive worsening of Hong Kong's export performance towards the end of the quarter.

2.2 According to the International Monetary Fund (IMF), the global economy was in a synchronised slowdown with nearly 90% of the economies expected to see slower growth in 2019. There were also signs that the weakness in manufacturing was gradually spilling over to services. US economic growth slackened further in the third quarter to 2.0% year-on-year from 2.3% in the second quarter, mainly reflecting a marked deceleration in private investment (see **Box 2.1** for an analysis of near-term outlook for the US economy). The economy of the euro area stayed weak, along with flagging business sentiment and low inflation. The Mainland economy, though still on track to attain the official growth target of 6-6.5% for 2019 as a whole, also saw growth decelerating further to 6.0% in the third quarter amid continued trade tensions. In Japan, retail sales (especially those on consumer durables) picked up ahead of the consumption tax rate hike in October, but industrial production and goods export were still sluggish. Production and trading activities in most other Asian economies remained weak.

2.3 US-Mainland trade tensions escalated in August, as the US announced additional tariffs on the remaining US\$300 billion worth of imports from the Mainland and designated the Mainland as a currency manipulator, and the Mainland responded with countermeasures. Some of the additional tariffs⁽²⁾ took effect on 1 September. Nonetheless, bilateral trade relations have turned better since mid-September. Subsequent to the progress achieved from the high-level trade talks in early October, the US suspended the hike of additional tariff rate from 25% to 30% on US\$250 billion worth of Mainland products originally scheduled for 15 October, whereas the Mainland reportedly agreed to increase its purchase of US agricultural products, though the exact size of purchase was still subject to deliberation. The two sides have been making progress towards sealing the first-phase trade agreement.

2.4 The Brexit process achieved little progress in the third quarter. At the UK government's request in October, the EU agreed to extend Brexit deadline until 31 January 2020, with options for the UK to leave earlier if ratification of the agreement could be finished earlier. The UK parliament subsequently passed a bill to pave the way for a snap election to be held on 12 December. The development of Brexit remained fluid. Separately, geopolitical tensions in the Middle East intensified in recent months.

2.5 To mitigate the increasing downside risks to the economic outlook, many major central banks have taken steps to ease monetary policy. The US Federal Reserve has cut the target range for the federal funds rate three times since July 2019, by a total of 75 basis points to 1.50-1.75 %, and Fed Chair Powell said in the post-meeting press conference in late October that the current stance of monetary policy likely remained appropriate. The European Central bank lowered the interest rate on the deposit facility by 10 basis points to -0.5% in September, and started another round of bond buying at 20 billion euros per month from 1 November for an unlimited period. Central banks in many other advanced economies and developing economies also lowered their interest rates. While these actions may render some cushion against the impact of various headwinds, they are probably not enough for reversing the trend of decelerating global growth. In mid-October, the IMF lowered its global economic growth forecast for 2019 to 3.0%, the fifth downward revision and marking the slowest growth pace since the Great Recession of 2009.

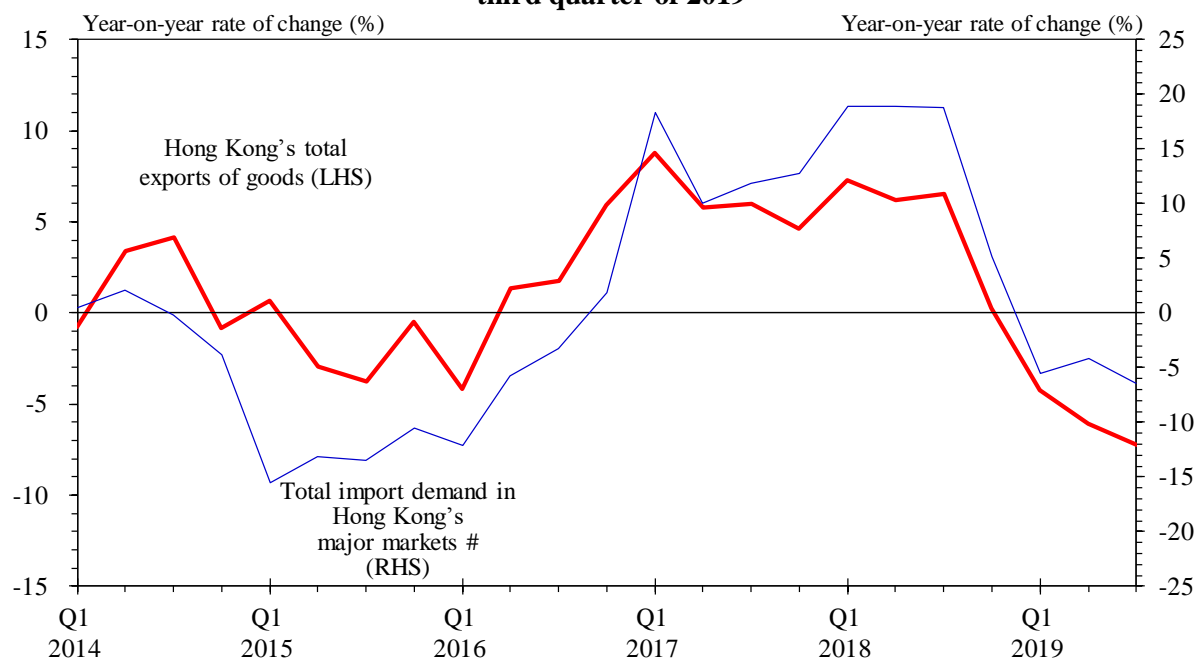
**Table 2.1 : Total exports of goods
(year-on-year rate of change (%))**

		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
	Q2	-4.7	-6.1 (-0.5)	1.9
	Q3	-6.4	-7.2 (-0.2)	0.9

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*.

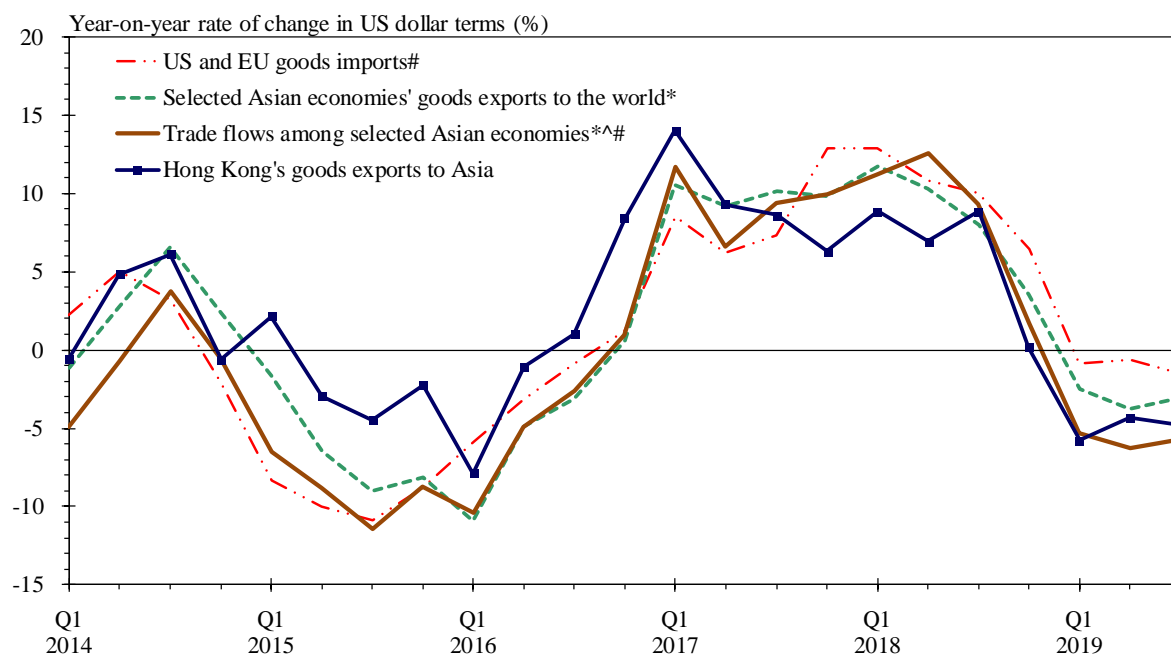
Diagram 2.1 : Merchandise exports registered an enlarged decline in the third quarter of 2019



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.

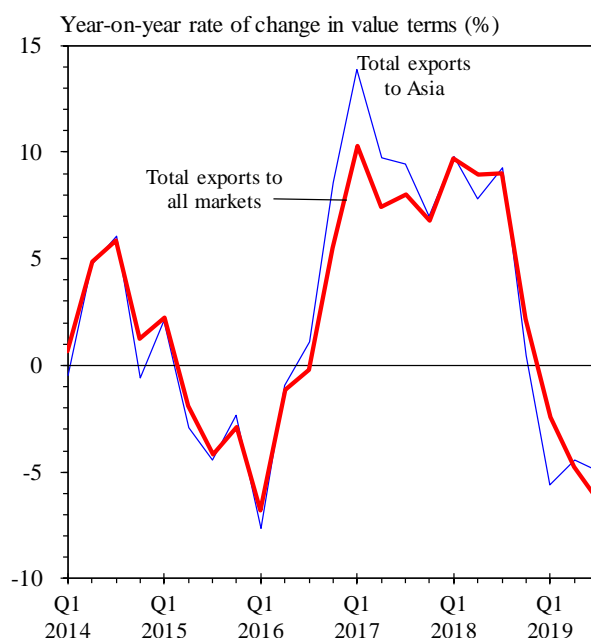
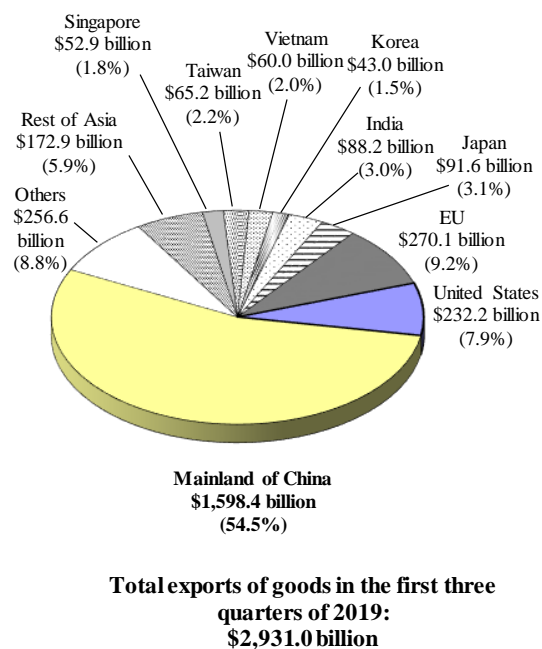
- (#) Import demand figure for the third quarter of 2019 is based on statistics for July and August 2019.

Diagram 2.2 : Regional trade flows weakened further amid softer global demand and escalated US-Mainland trade tensions



- Notes :
- (*) “Selected Asian economies” include the Mainland of China, Hong Kong, Singapore, Korea, Taiwan, Japan, Indonesia, Malaysia, Thailand and the Philippines.
 - (^) The trade flows were measured by the sum of the individual economies’ exports of goods to the other nine economies within the “selected Asian economies”.
 - (#) Trade figures for the EU and “selected Asian economies” for the third quarter of 2019 are based on the information available as of early November 2019.

Diagram 2.3 : Merchandise exports to some major Asian economies fell further



Box 2.1

Near-term outlook for the US economy

The US economy saw a progressive deceleration in the first three quarters of 2019, reflecting the dampening impacts of slower global economic growth, rising trade tensions and the dissipation of earlier fiscal stimulus effects. In the face of increasing downside risks to the economic outlook, the Federal Reserve (the Fed) has shifted to a more accommodative monetary stance and lowered interest rates thrice since late July 2019. Yet, some international organisations still marked down their US economic growth forecasts for 2019 of late, suggesting that the Fed's policy easing alone is probably not enough to totally offset the downward pressures on the economy. This box article briefly examines the recent situation of the US economy and its near-term outlook.

Recent US economic performance

After recording an above-trend growth of 2.9% in 2018 thanks in part to the fiscal stimulus, US economic growth moderated progressively on entering 2019, from 2.7% year-on-year in the first quarter, to 2.3% in the second quarter and 2.0% in the third quarter, with slowing private investment and weakening exports. Headwinds stemming from trade tensions have led to a widespread slowdown in manufacturing and trading activities as well as some softening in economic sentiment. Industrial production eased visibly to record only a modest 0.2% expansion in the third quarter over a year earlier, while total exports barely grew. Sentiment indicators also worsened in recent months, with ISM manufacturing PMI hovering at its lowest level in more than 10 years. Nevertheless, personal consumption expenditure (PCE) held up relatively well and remained a key growth driver. The labour market was likewise resilient, with the unemployment rate staying close to its 50-year low in October. Inflation pressure remained muted, with the core PCE inflation staying below the Fed's target of 2% in recent months.

Trade tensions remain a major source of downside risks

International organisations and the US Congressional Budget Office (CBO) lowered their US economic growth forecasts for 2019 to a range of 2.4-2.6% in the recent past and generally expected a further moderation to around 2% in 2020 (*Table 1*). Specifically, in mid-October the International Monetary Fund (IMF) projected US economic growth to moderate to 2.1% in 2020 from a forecast 2.4% in 2019. The Organisation for Economic Co-operation and Development (OECD) and the CBO made similar projections earlier on. Private sector analysts are generally less optimistic, on average forecasting lower growth of 2.3% in 2019 and 1.8% in 2020.

Table 1: US economic growth forecasts by the CBO, OECD and IMF

Year	2017	2018	2019	2020
CBO (Aug 2019)			2.6	2.1
OECD (Sep 2019)			2.4	2.0
IMF (Oct 2019)	2.4*	2.9*	2.4	2.1
Private sector analysts^ (Oct 2019)			2.3	1.8

Notes: (*) Actual figures.
(^) Average forecast.

Box 2.1 (Cont'd)

Bumpy trade relations with its major trading partners, particularly the Mainland, continue to cloud US economic outlook. Indeed, most forecasters noted that uncertainties associated with trade tensions would remain a major downside risk. For instance, the IMF assessed that, compared to a scenario with no additional tariffs, trade tensions would lower the US real GDP level by about 0.2% in 2020 via the direct trade impact, and by almost 0.6% if the spillover effects on business confidence, market reaction and productivity were also considered. While the US and the Mainland could hopefully seal a first-phase trade agreement in the near term, bilateral trade relations are still fraught with uncertainties as the two sides have yet to resolve differences in certain thorny issues.

US policy responses

Amid muted inflation pressures in the US, the Fed has taken steps to ease monetary policy to counteract the increasing downside risks to the economic outlook. Since late July 2019, the Fed has cut the target range of the federal fund rate three times by a total of 75 basis points. After the Fed Chair Powell said in the post-meeting press conference in late October that the current stance of monetary policy likely remained appropriate, the market generally expected that the US might pause interest rate cut in the near term. Separately, the Fed concluded the balance sheet scale-back in August 2019, two months earlier than previously indicated.

On fiscal policy, according to the latest projections by the CBO and the IMF, the fading effect of the 2017 US tax reform will more or less offset the boost from higher federal discretionary spending granted by the Bipartisan Budget Act of 2019. In August the CBO projected that US federal fiscal deficit would edge up to 4.6% of GDP in 2020 from 4.5% in 2019. In mid-October the IMF expected the US general government primary deficit⁽¹⁾ to stay flat at 4.3% of potential GDP in 2020, the same as in 2019. Given the presidential election next year, it remains to be seen whether the US federal government will roll out fresh fiscal stimulus to support the economy.

Concluding remarks

The near-term US economic outlook remains overshadowed by US' evolving trade relations with its major partners. While the recent monetary policy easing may help provide some cushioning effect to various headwinds, they are probably not enough to reverse the trend of decelerating growth in the US. This would inevitably add strains on the global economic scene. Uncertainties surrounding the future course of US monetary policy could also bring about global financial and asset market volatility from time to time. Given that the performance of the US economy and US policy responses would carry significant implications for the Hong Kong economy, the Government will closely monitor the situation.

(1) After adjusting for the effects of the economic cycle and excluding net interest payment.

**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>Q1</u>	<u>2019</u> <u>Q2</u>	<u>Q3</u>
Mainland of China	5.2	9.4	7.7	7.1	-2.3	-8.9	-7.7	-7.2
United States	6.1	5.1	8.2	7.9	3.1	-9.9	-14.4	-15.3
European Union	8.2	9.1	7.2	7.9	8.5	9.0	-1.7	-12.0
India	-13.4	-7.6	-33.1	14.3	-21.5	-28.6	-1.5	-12.7
Japan	-1.3	5.2	2.8	-7.8	-4.1	-5.8	-7.3	-3.6
Taiwan	-4.8	8.4	-1.9	-18.0	-6.7	-10.1	-3.2	23.9
Vietnam	5.2	0.9	7.3	16.7	-2.9	-1.6	-6.6	-3.3
Singapore	15.1	10.5	19.3	5.6	25.2	22.5	10.3	-0.1
Korea	2.5	-3.1	1.5	7.9	3.4	4.7	10.0	-5.2
Overall*	4.9	7.3	6.2	6.5	0.2	-4.2	-6.1	-7.2

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*.

2.6 Analysed by market, merchandise exports to the US saw a further noticeable year-on-year decline in the third quarter, due to moderating import demand in this market and also the expanded scope of US' additional tariffs on the Mainland's products starting September⁽³⁾. Meanwhile, dragged by faltering economic performance of major European economies, exports to the EU worsened sharply to record a double-digit decline.

2.7 Likewise, exports to the Asian economies were generally lacklustre as manufacturing and trading activities in most parts of the region continued to be dampened by soft global demand and escalated US-Mainland trade tensions during the quarter. Exports to the Mainland continued to fall visibly. Exports to Vietnam and India remained weak. As for the higher-income Asian economies, exports to both Singapore and Korea softened to register declines, with the latter falling by a larger extent. Exports to Taiwan grew notably, thanks mainly to the pick-up in exports of raw materials and semi-manufacturers. Meanwhile, exports to Japan posted a narrower decline, conceivably due to a temporary pick-up in household spending especially of consumer durables ahead

of the consumption tax rate hike (see **Box 2.2** for an analysis of the Mainland's direct investment in selected Asian economies).

Diagram 2.4 : Exports to the Mainland continued to fall visibly

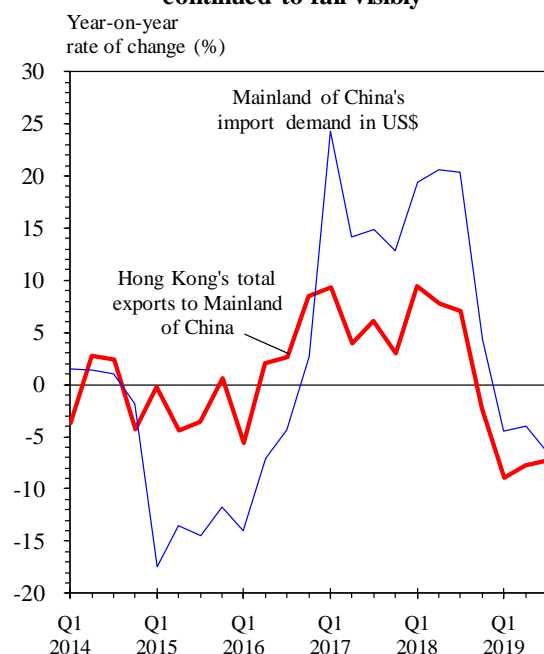


Diagram 2.5 : Exports to the EU worsened sharply to record a double-digit decline

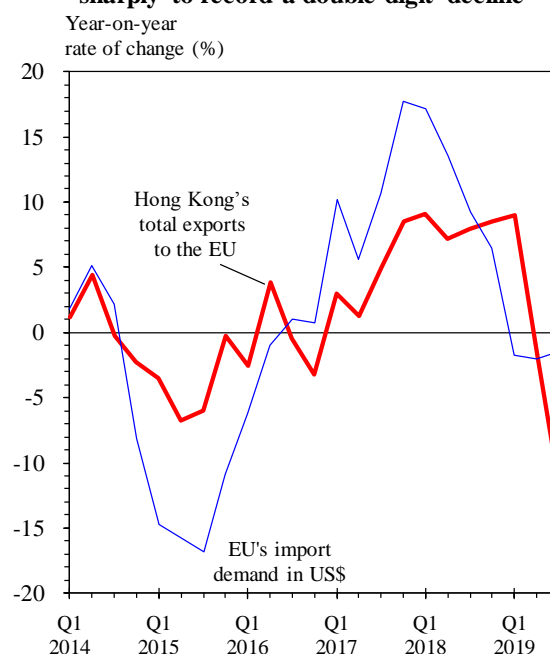


Diagram 2.6 : Exports to the US saw a further noticeable decline

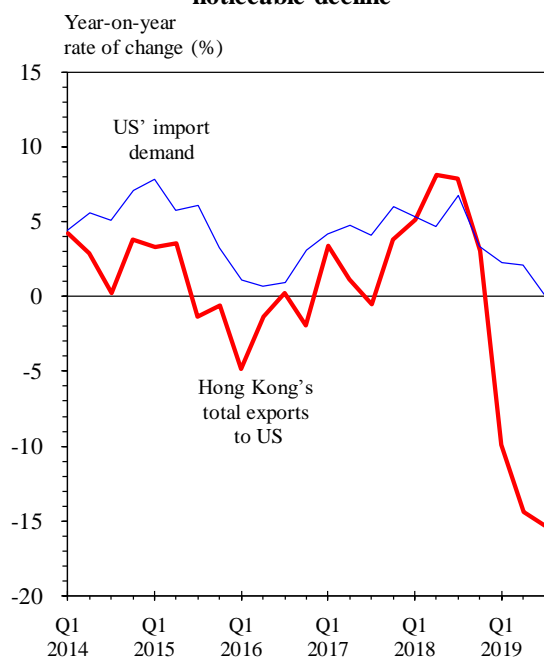


Diagram 2.7 : Exports to Japan posted a narrower decline ahead of the consumption tax rate hike

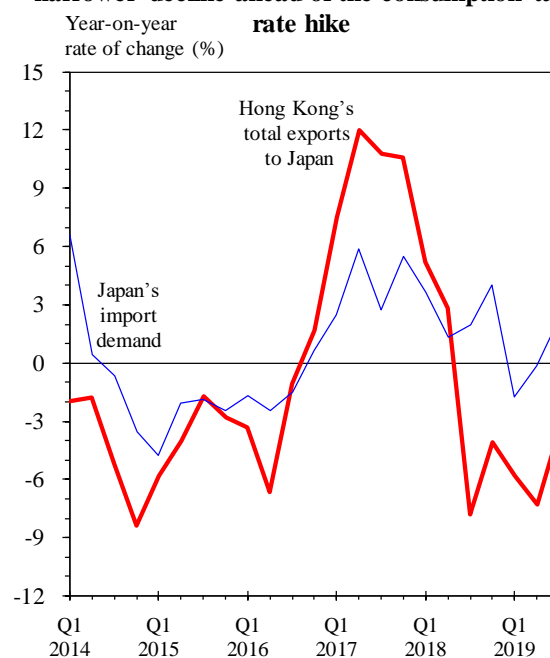


Diagram 2.8 : Exports to India weakened further

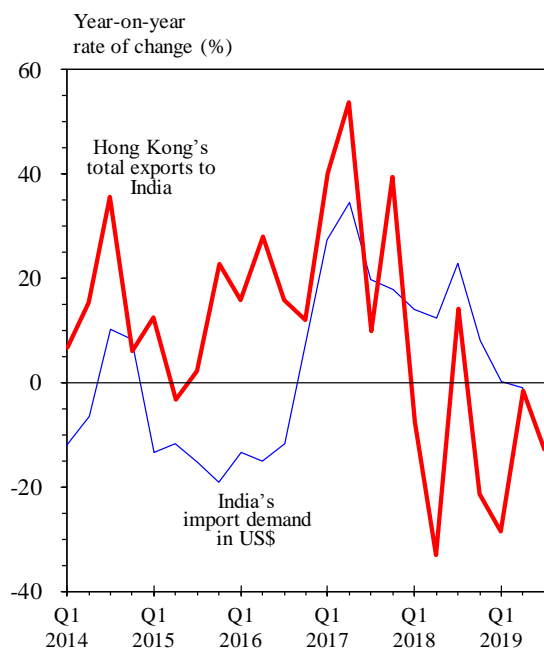


Diagram 2.9 : Exports to Taiwan registered notable growth

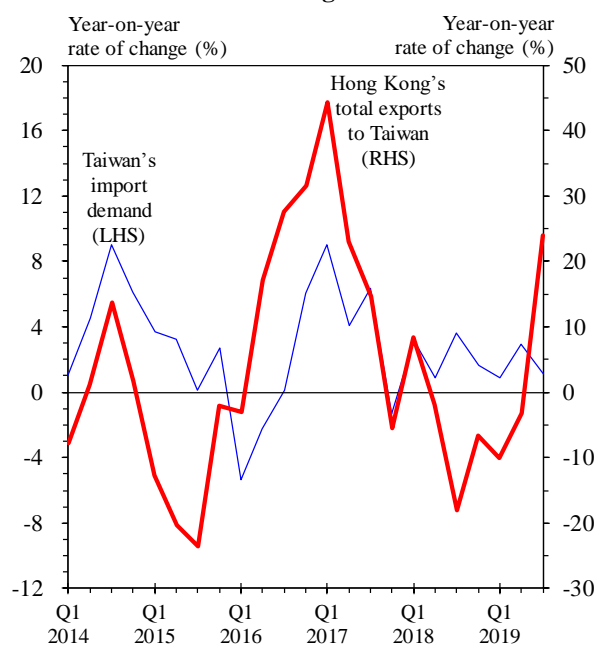


Diagram 2.10 : Exports to Korea turned to a decline

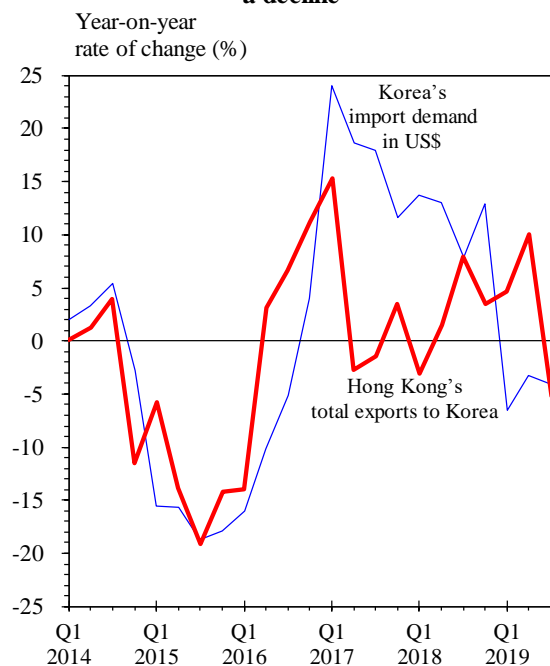
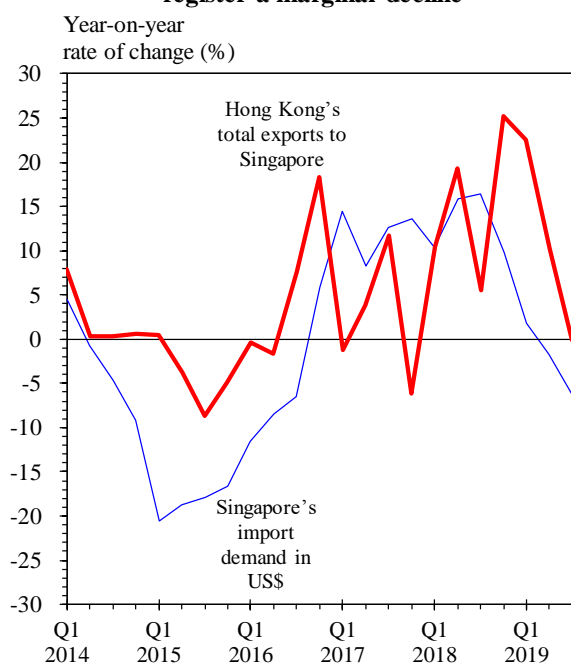


Diagram 2.11 : Exports to Singapore softened to register a marginal decline



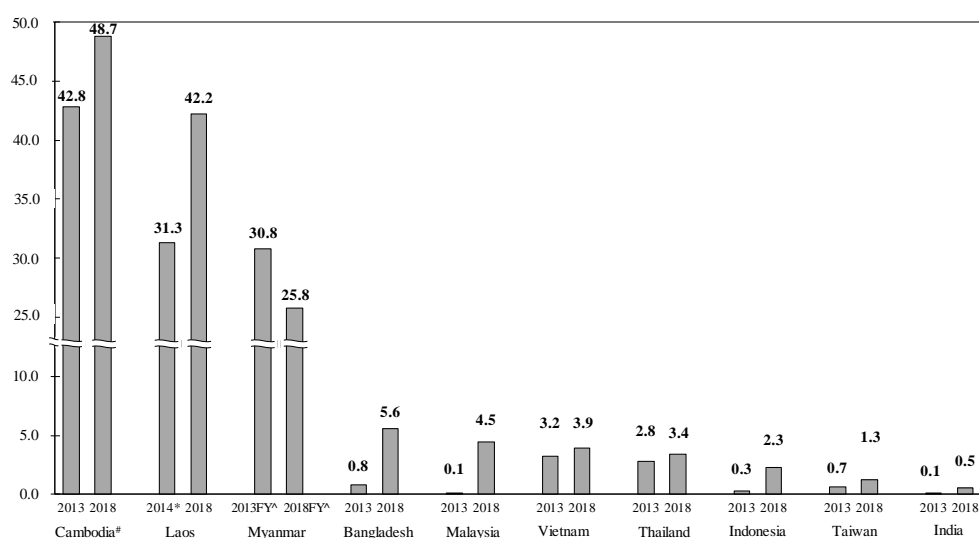
Box 2.2

The Mainland's Direct Investment in selected Asian economies

With the Mainland pressing ahead with its “going global” strategy, Chinese enterprises have been more proactive in exploring investment opportunities worldwide, particularly in Asia. Total stock of the Mainland's outward direct investment (ODI) grew rapidly at 24.6% per annum during the five-year period from 2014 to 2018 and reached US\$1,982 billion, with nearly two-thirds of such investment destined for Asia. While most of the Mainland's ODI went to Hong Kong⁽¹⁾, which is a key conduit connecting the Mainland with the rest of the world, Chinese enterprises have also been building a stronger presence in many other Asian economies. This box article summarises some salient observations on the recent situation of the Mainland's direct investment in selected Asian economies.

The stock of the Mainland's ODI in Asia ex-Hong Kong underwent a strong growth of 20.1% per annum during 2014-2018, amounting to US\$176 billion as at end-2018. The majority of such investment went to ASEAN economies and other emerging market (EM) economies in Asia. In the case of ASEAN in particular, the stock of the Mainland's ODI expanded even faster at 23.6% per annum during 2014-2018 and reached US\$103 billion, making ASEAN one of the top recipients⁽²⁾. From the angle of many ASEAN economies, the significance of the Mainland as a source of foreign direct investment (FDI) has been on the rise (*Chart 1*). Chinese enterprises have increased their investment in some South Asian economies as well.

Chart 1: The Mainland's FDI in selected Asian economies (shares in cumulative FDI in destination economies at period end, %)



- Notes:
- * The earliest year when data are available.
 - ^ Financial year (e.g. 2013FY refers to the period from 1 April 2013 to 31 March 2014).
 - # Include fixed assets investment only.

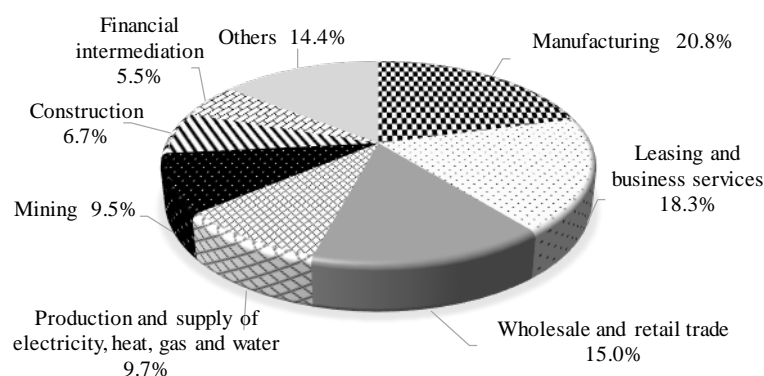
Sources: National Bank of Cambodia, Ministry of Planning and Investment (Laos), Directorate of Investment and Company Administration (Myanmar), Bangladesh Bank, Bank Negara Malaysia, General Statistics Office (Vietnam), Bank of Thailand, Indonesia Investment Coordinating Board, Ministry of Economic Affairs (Taiwan), Department for Promotion of Industry and Internal Trade (India).

- (1) Around 86% or US\$1,100 billion of the Mainland's ODI stock in Asia was in Hong Kong at end-2018.
 (2) By comparison, stocks of the Mainland's ODI in the EU and US amounted to US\$91 billion and US\$76 billion as at end-2018 respectively.

Box 2.2 (Cont'd)

The Mainland's investment in the Asian EM economies has been diversified across sectors. For instance, Chinese enterprises' investment in ASEAN economies has spanned primary industries (e.g. mining), manufacturing, construction and various services sectors (e.g. leasing and business services, wholesale and retail trades, and financial intermediation) (*Chart 2*).

Chart 2: Stock of the Mainland's ODI in ASEAN economies by economic activity as at end-2018



Source: Ministry of Commerce.

The presence of the Mainland's investment across a wide range of sectors in the Asian EM economies can be attributed to a number of factors. First, the fast-growing consumption markets in the Asian EM economies have generated ample business opportunities, attracting investment from Chinese enterprises and other foreign investors. Amid the continuous shift of economic gravity from West to East, the Asian EM economies have become important contributors to global economic growth, with the incomes and spending power of their residents rising in tandem. Domestic demand has emerged as a significant growth driver in many Asian EM economies⁽³⁾, and Chinese enterprises in related sectors (e.g. wholesale and retail trade) were motivated to set up their businesses in these expanding markets.

Moreover, with the progression of the Belt and Road Initiative, the Mainland's investment in infrastructure facilities (e.g. transportation and logistics, power supply, telecommunications, etc.) has become more prominent in some Asian EM economies. Bangladesh, for example, recorded FDI inflows of US\$1.0 billion from the Mainland in 2018, a ten-fold increase relative to the previous year, and around 80% of the Mainland's investment inflows that year went to the power sector. In Indonesia, the recent increase of FDI inflows from the Mainland has also been linked to various infrastructure projects.

Industrial upgrading of the Mainland has also played a role in shaping its investment in the Asian EM economies. Thanks to increased investment in research and development as well as the Mainland Government's policy support, many Mainland manufacturers have successfully moved up the value chain with stronger focus on product innovation and advanced manufacturing activities. Consequently, some of their traditional manufacturing activities were relocated to nearby EM economies such as Vietnam⁽⁴⁾, leading to an increase in the Mainland's ODI in those economies.

(3) For more details on the rising importance of domestic demand in the Asian EM economies, please refer to "Box 2.2 Private consumption expenditure as an engine of growth in the Asian emerging market economies" in *Half-yearly Economic Report 2019*.

(4) Manufacturing-oriented FDI accounted for 57.5% of Vietnam's cumulative registered foreign capital as at end-2018.

Box 2.2 (Cont'd)

Amid the ongoing two-way opening-up of the Mainland economy, Chinese enterprises will continue to actively seek business opportunities abroad, and their investment in the Asian economies is expected to grow steadily in the coming future. Being the pivotal gateway of the Mainland, Hong Kong will also stand to benefit. The Government will continue to closely cooperate with other Asian economies through various government-to-government platforms, with a view to creating a favourable environment for investors. Currently, Hong Kong has already signed 21 Investment Promotion and Protection Agreements with foreign economies, including ASEAN and some other Asian economies. These agreements help enhance two-way investment flows between Hong Kong and these economies, thereby supporting the development of Hong Kong as an investment conduit for the Mainland.

Imports of goods

2.8 *Imports of goods* dropped noticeably by 10.9% year-on-year in real terms in the third quarter, after a 7.4% decrease in the preceding quarter. *Retained imports*, which refer to the imports for domestic use and account for around a quarter of total imports, plummeted by 21.5%, reflecting the visible weakening in domestic demand. Imports for subsequent *re-exports*⁽⁴⁾ also fell markedly in tandem with the enlarged decline in merchandise exports.

**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	10.7	8.7		2.1
	Q1	10.6	8.2	(2.4)	2.3	11.8	10.6	(2.9)	1.5
	Q2	10.4	7.6	(1.1)	2.8	14.0	11.7	(1.1)	2.5
	Q3	11.5	8.8	(2.1)	2.7	18.6	16.2	(5.3)	2.3
	Q4	1.8	-0.4	(-5.4)	2.5	0.2	-1.9	(-9.4)	2.0
2019	Q1	-3.2	-5.0	(-2.9)	2.2	-4.8	-6.7	(-3.2)	2.1
	Q2	-5.7	-7.4	(-1.0)	1.9	-8.5	-10.9	(-3.0)	2.0
	Q3	-10.1	-10.9	(-1.6)	1.0	-20.2	-21.5	(-5.7)	1.4

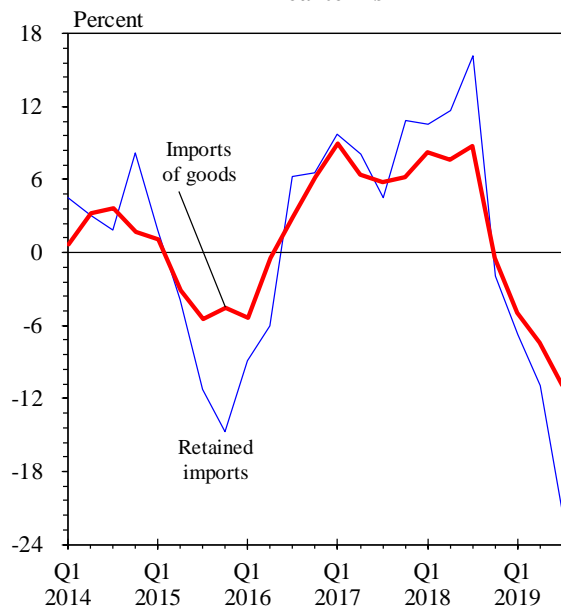
Notes : (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

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

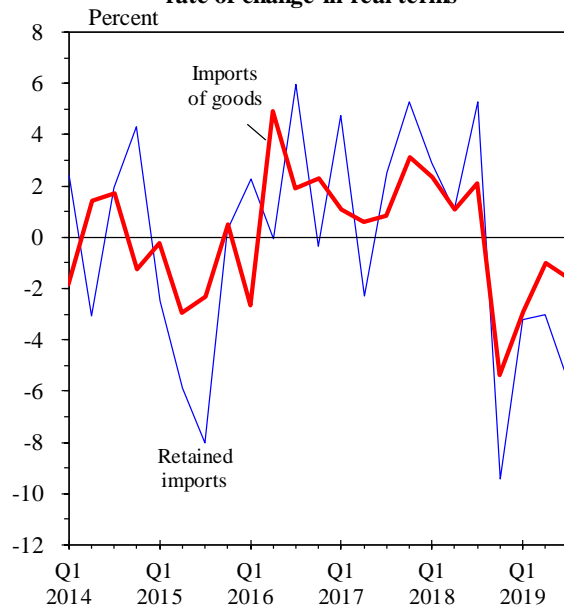
() Seasonally adjusted quarter-to-quarter rate of change.

Diagram 2.12 : Imports of goods dropped noticeably in the third quarter

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



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

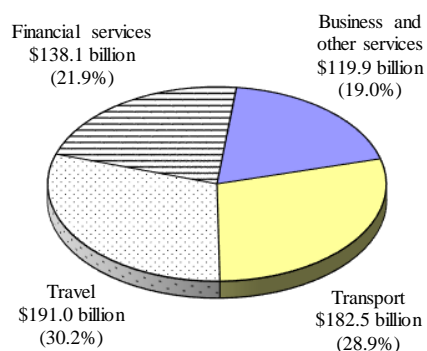


Services trade

Exports of services

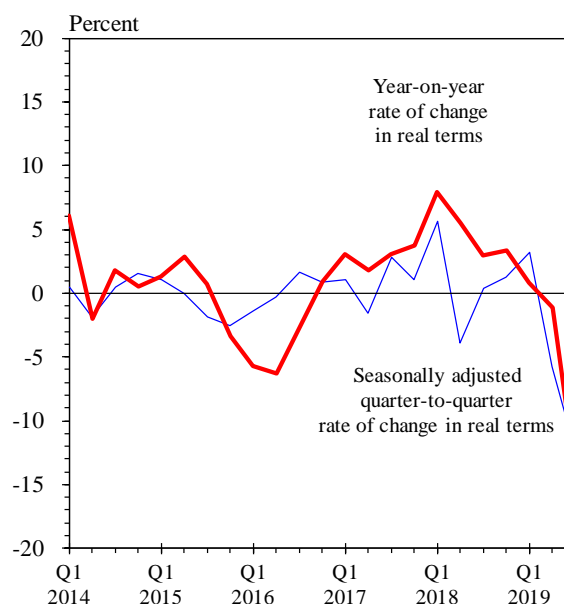
2.9 *Exports of services* deteriorated sharply, falling by 13.8% year-on-year in real terms in the third quarter of 2019, the biggest fall since the second quarter of 2003. This followed a 1.1% contraction in the preceding quarter. Exports of travel services plunged by 32.2%, as continued protests involving violence led to a fall of 26.0% in visitor arrivals, and softening global economic growth and exchange rate movements dampened per capita visitor spending. This constituted a major reason for the sharp fall in exports of services in the third quarter. The fall in exports of transport services widened visibly, reflecting subdued cargo and passenger flows. Exports of financial services as well as business and other services also fell due to weaker cross-border financial and commercial activities amid softening global economic growth.

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



Exports of services in the first three quarters of 2019:
\$631.5 billion

Diagram 2.14 : Exports of services fell sharply in the third quarter



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

		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Transport</u>	<u>Travel^(a)</u>	<u>Financial services</u>	<u>Business and other services</u>
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	0.8 (3.2)	-0.5	3.9	-0.6	-1.3
	Q2	-1.1 (-5.8)	-3.5	1.1	1.1	-2.8
	Q3	-13.8 (-12.5)	-8.9	-32.2	-0.9	-5.2

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

(a) Comprising mainly inbound tourism receipts.

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

Imports of services

2.10 *Imports of services* switched to a decline of 4.0% year-on-year in real terms in the third quarter. Imports of travel services slowed visibly to register only modest growth, as worsened economic sentiment weighed on spending of residents travelling abroad. Imports of manufacturing services continued to fall sharply, reflecting the slack in outward processing activities amid sagging global demand. The fall in imports of transport services steepened alongside the further slackening of trade flows. Imports of business and other services turned to a decline amid the sluggish economic environment.

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

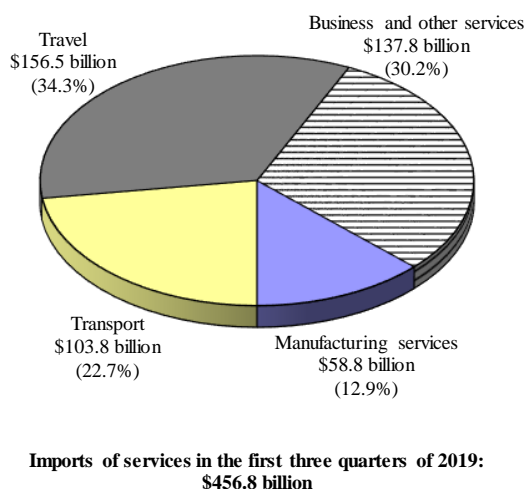
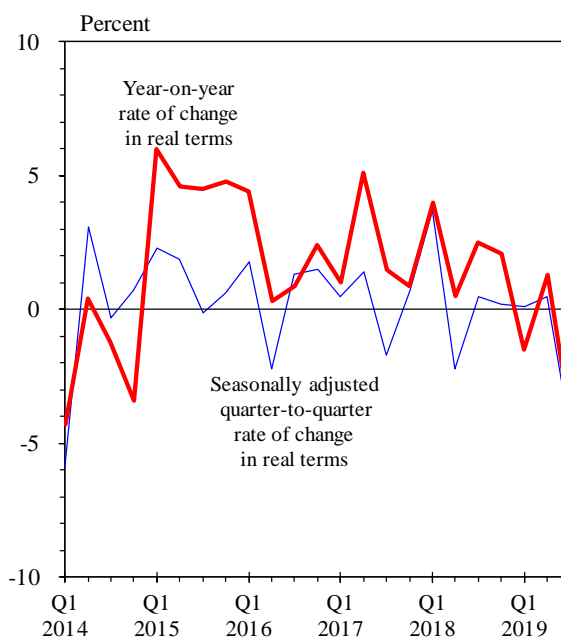


Diagram 2.16 : Imports of services switched to a decline in the third quarter



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

Of which :

		Imports of services	Travel ⁽⁺⁾	Transport	Manufacturing services ^(^)	Business and other services
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	-1.5 (0.1)	-0.7	-0.9	-11.0	1.0
	Q2	1.3 (0.5)	10.2	-0.4	-17.9	2.6
	Q3	-4.0 (-4.7)	0.9	-5.1	-17.3	-1.1

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*.

(+) Comprising mainly outbound travel spending.

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

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

Goods and services balance

2.11 Based on the GDP accounting framework, the goods account was virtually balanced in the third quarter, in contrast to a deficit of \$52 billion recorded a year ago, as the fall in goods imports outpaced that in goods exports. Over the same period, the services surplus dwindled to \$39 billion. The combined goods and services balance recorded a surplus of \$39 billion in the third quarter of 2019, equivalent to 3.0% of total import value, larger than the surplus of \$12 billion, or 0.8% of total import value, in the third 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	1,000	235	1,067	151	-67	84	17	1.4
	Q2	1,025	203	1,098	151	-73	52	-21	-1.7
	Q3	1,113	193	1,114	154	#	39	39	3.0

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

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

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

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

Other developments

2.12 The Government continued to enhance economic cooperation with the Mainland for supporting Hong Kong people and businesses to explore new growth opportunities. In July, the Fifth Protocol to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the Fifth Protocol) was signed. Through providing tax relief to eligible Hong Kong and Mainland teachers and researchers working on the other side, the Fifth Protocol would promote academic exchange and co-operation in research and development between the two places, and further drive the development of the Guangdong-Hong Kong-Macao Greater Bay Area. In addition, the Fifth Protocol follows the latest international standard and incorporates measures to prevent tax treaty abuse, which form part of the base erosion and profit shifting package promulgated by the Organisation for Economic Co-operation and Development in October 2015.

2.13 The Government has been sparing no efforts to grasp the opportunities brought about by the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area (Greater Bay Area). The Fourth Belt and Road Summit was held in September, to explore and discuss collaboration opportunities under the Initiative with over 700 one-on-one business-matching meetings for more than 240 projects taken place. In the same month, the Chief Executive led the HKSAR Government delegation to participate in the 2019 Pan-Pearl River Delta (PPRD) Regional Co-operation Chief Executive Joint Conference to discuss various matters with other government leaders of the PPRD provinces/regions, including making use of the PPRD platform to connect with the development of the Greater Bay Area, and jointly developing the New Western Land-Sea Corridor and pursuing close co-operation under the Belt and Road Initiative. In late September, the 11th Hong Kong Macao Co-operation High-Level meeting was held, the first one after the promulgation of the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area. Both sides reviewed the achievements made since last meeting and had in-depth discussion on further collaboration.

2.14 Economic relations between Hong Kong and its trading partners have been further enhanced. In July, the Investment Agreement between Hong Kong and Chile came into force, giving additional assurance to investors and facilitate investment flows between the two places. In the same month, Invest Hong Kong signed a Memorandum of Understanding with the Qatar Financial Centre Authority on investment promotion, which offers a basis for enhancing the existing ties beneficial to attracting bilateral foreign direct investment. In September, Hong Kong signed a comprehensive avoidance of double taxation agreement (CDTA) with Estonia, which is the 42nd CDTA Hong Kong signed with its trading partners. The CDTA will reinforce economic and trade connections between the two economies, and offer additional business or investment incentives.

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) In August 2019, the US announced 10% additional tariffs on the remaining US\$300 billion worth of Mainland's products, with the new measures effective in two batches starting from 1 September 2019 and 15 December 2019 respectively. Later in the month, the tariff rate was raised to 15%. The US also announced to raise the rate of additional tariffs worth about US\$250 billion of Mainland's imports from 25% to 30%. The measure had been scheduled to take effect on 15 October 2019, but it was subsequently suspended after the principal-level trade talks between the two sides held on 10-11 October.
- (3) It is crudely estimated that, based on the annual merchandise trade figures for 2018 (without taking into account the temporary exemptions of 437 Mainland products as announced by the US in September 2019 and the new tariff measures that became effective on 1 September 2019), Hong Kong's re-exports of the Mainland origin to the US directly 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 re-exports directly affected turned to a year-on-year decline of 6.3% in the fourth quarter of 2018, before plunging by 22.9% in the first quarter of 2019, 30.6% in the second quarter of 2019 and 30.2% in the third quarter of 2019, in contrast to the increase of 12.3% in the first three quarters of 2018 combined. The performance was much worse than total exports of goods to all markets, which decelerated to a 2.2% growth in the fourth quarter of 2018 and slackened further to decline by 2.4% in the first quarter of 2019, 4.7% in the second quarter of 2019 and 6.4% in the third quarter of 2019, compared to the increase of 9.2% in the first three quarters of 2018 combined. The ratio of Hong Kong's re-exports directly affected has increased to 6.0% after a new batch of US' tariff measures became effective in September 2019.
- (4) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

Summary

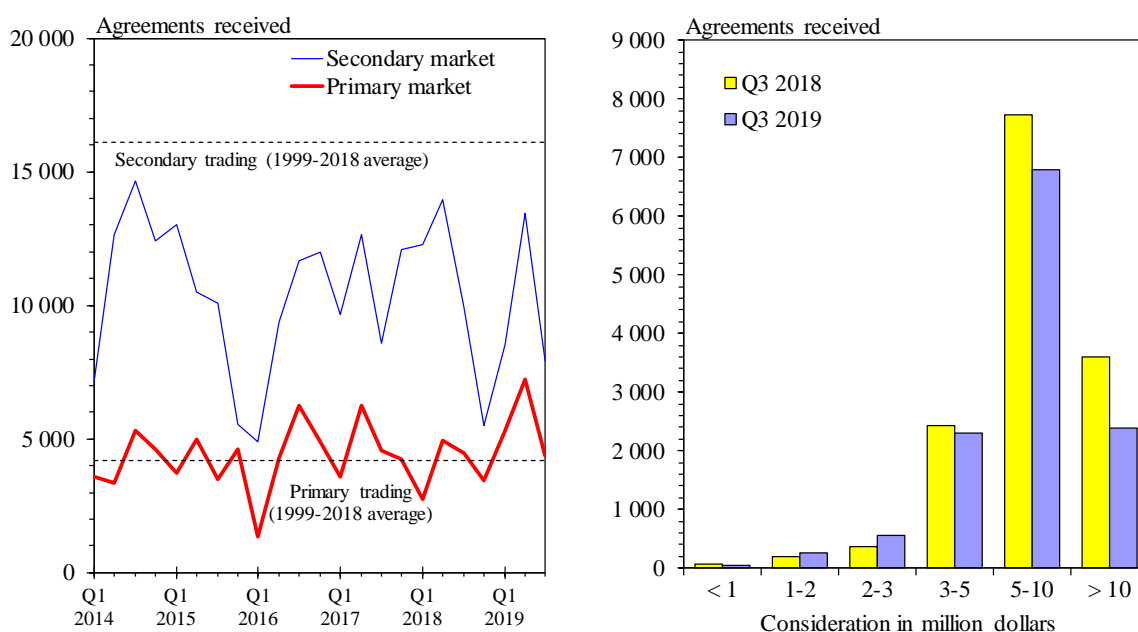
- *The residential property market softened further during the third quarter of 2019, as sentiment was dampened by the prolonged local social incidents, escalated US-Mainland trade tensions and weaker global economy. Trading activities slowed down visibly. With most buyers turning more cautious and sellers generally adopting softer stances in price negotiations, flat prices recorded a decline of 3% 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-September.*
- *Amid subdued local economic conditions, the commercial and industrial property markets also turned quieter in the third quarter. Trading activities fell markedly for all major market segments. Prices decreased during the quarter, while rentals exhibited diverse movements.*
- *Inbound tourism was hard hit by the local social incidents in the third quarter. Overall visitor arrivals plunged by 26.0% from a year earlier to 11.9 million, the sharpest decline since the second quarter of 2003.*
- *In parallel with shrinking trade flows, performance of the logistics sector remained tepid in the third quarter. Total container throughput fell by another 3.5% from a year earlier, and air freight throughput by 8.6%.*

Property

3.1 The *residential property market* softened further during the third quarter of 2019. The prolonged local social incidents, escalated US-Mainland trade tensions during the quarter and a weaker global economy all dampened market sentiment. Trading activities slowed down visibly. With most buyers turning more cautious and sellers generally adopting softer stances in price negotiations, flat prices on average declined by 3%.

3.2 The total number of sale and purchase (S&P) agreements for residential property received by the Land Registry plunged by 40% from the hectic level in the preceding quarter or 14% from a year earlier to 12 336 in the third quarter. Within the total, primary and secondary market transactions plummeted by 39% and 41% respectively from the preceding quarter. In parallel, total consideration fell sharply by 44% to \$108.3 billion.

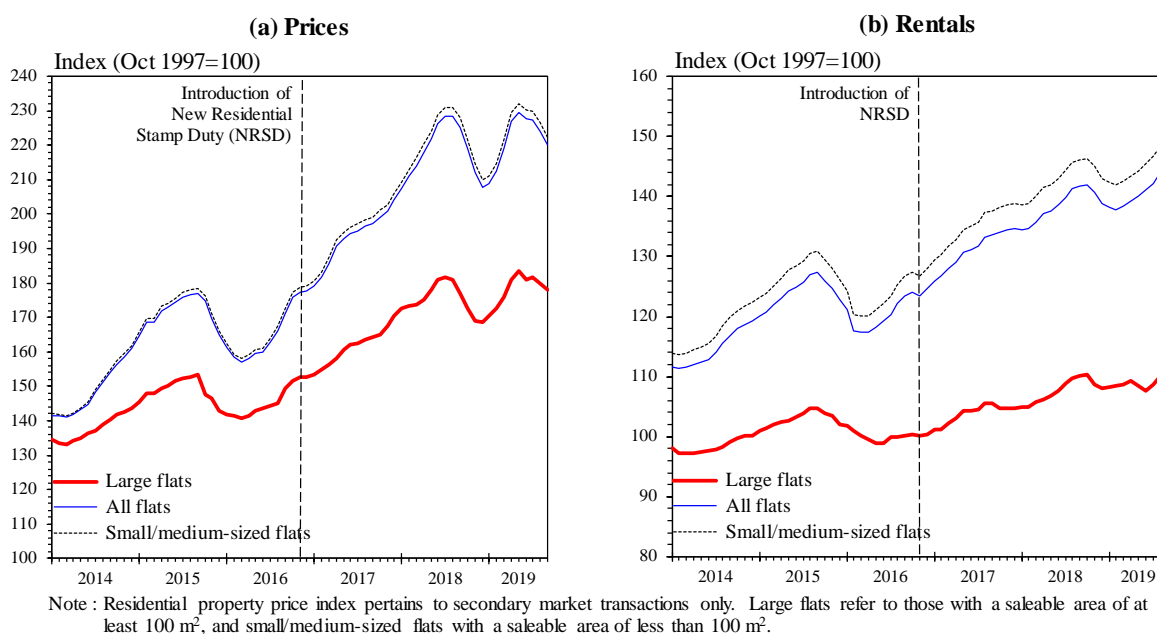
Diagram 3.1 : Trading activities plunged in the third quarter



3.3 Flat prices on average declined by 3% between June and September. As sentiment turned increasingly cautious during the quarter, flat prices declined by 1% in August after recording little change in July, and the decline widened to 2% in September. Analysed by size, prices of small/medium-sized flats and large flats in September decreased by 3% and 2% respectively from June. On the whole, flat prices in September have retreated by 4% from the recent peak in May, but were still 6% higher than in December 2018.

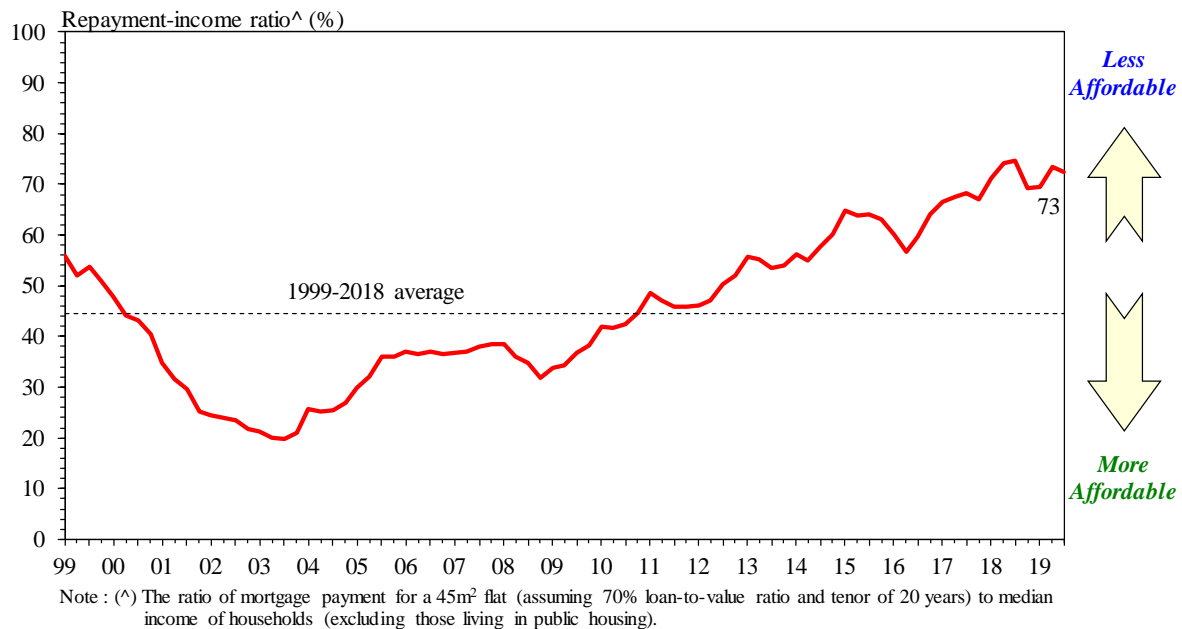
3.4 The leasing market for residential property held relatively steady, but there were also signs of cool-off towards the end of the quarter. Flat rentals on average edged up by 1% during the third quarter, with the rises in the first two months partially offset by the decline in September. Analysed by size, rentals of small/medium-sized flats in September increased by 1% over June, while those of large flats were little changed. During the first three quarters of 2019, flat rentals on average rose by a cumulative 2%. Reflecting the movements of prices and rentals, the average rental yield for residential property edged up from 2.4% in June to 2.5% in September.

Diagram 3.2 : Flat prices declined during the third quarter, while rentals edged up



3.5 Notwithstanding the recent decline, flat prices in September 2019 still exceeded the 1997 peak by 120%. 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 73% in the third 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 94%.

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 September, the Government announced to put up two residential sites for sale in the fourth quarter of 2019, which are capable of providing about 980 units in total. Combining the various sources (including Government land sale, railway property development projects, and private development and redevelopment projects), the total private housing land supply in the first three quarters of 2019-20 is estimated to have a capacity to produce about 9 230 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-September. Another 5 200 units could be added to the total supply after the conversion of a number of residential sites into "disposed sites". In October, the Chief Executive announced various measures and plans on housing and land supply in her Policy Address (**Box 3.1**).

Box 3.1

Latest Government measures on housing and land supply (October 2019)

In her 2019 Policy Address, the Chief Executive announced various measures and plans on housing and land supply, as summarised below.

(1) Housing policy

Provide Assistance to Home Buyers

- Raise the cap on the value of the properties eligible for a mortgage loan of maximum cover of 90% loan-to-value ratio from \$4 million to \$8 million for first-time home buyers under the Mortgage Insurance Programme (MIP) of the Hong Kong Mortgage Corporation (HKMC) Insurance Limited.
- Raise the cap on the value of the properties eligible for a mortgage loan of maximum cover of 80% loan-to-value ratio from \$6 million to \$10 million under the MIP of the HKMC Insurance Limited.

Transitional Housing and Youth Hostel Projects

- Set aside \$5 billion to increase the number of transitional housing projects substantially to provide a total of 10 000 units within the next three years.
- Provide 3 300 youth hostel places and relax the prevailing requirement to allow tenants of the Youth Hostel Scheme to submit/retain their applications for public rental housing (PRH) and continue to accumulate points under the Quota and Points System.

Public Housing, Starter Homes (SH) and Other Housing

- Propose Hong Kong Housing Authority (HKHA) to actively prepare for accelerating the sale of the existing 42 000 unsold flats in the 39 estates under the Tenants Purchase Scheme.
- Put up about 12 000 flats under the Home Ownership Scheme and Green Form Subsidised Home Ownership Scheme for pre-sale next year.
- Suggest HKHA further raise the quota of the White Form Secondary Market Scheme in 2020.
- Launch the second SH for Hong Kong Residents pilot project at the Anderson Road site, enlisting private developers to provide about 1 000 SH units for sale.
- Entrust the Urban Renewal Authority (URA) with a new mission to provide more SH or other types of subsidised sale flats in its redevelopment projects.
- URA plans to announce early next year the commencement of the redevelopment of Civil Servants' Co-operative Building Society Scheme buildings as a pilot project.
- Invite HKHA to explore the feasibility of redeveloping its factory estates for public housing use.

Box 3.1 (Cont'd)

Subsidies for Low-income Households

- Invite the Community Care Fund to launch in the next financial year two rounds of grants of the one-off living subsidy for low-income households not living in PRH and not receiving Comprehensive Social Security Assistance (CSSA).
- Increase the maximum rates of rent allowance for CSSA households.

(2) Land supply

- Expedite planning work and then invoke the Lands Resumption Ordinance to resume three types of private land for developing public housing and SH :
 - Brownfield sites in the New Territories that may have development potential;
 - Land zoned for high-density housing development in statutory outline zoning plans, but without any development plans yet; and
 - Land located in Chai Kwo Ling Village, Ngau Chi Wan Village and Chuk Yuen United Village.
- Announce a proposed framework for the Land Sharing Pilot Scheme with the target of accepting applications in early 2020.
- Establish a platform for professionals and young people to take part in the development of the Kau Yi Chau Artificial Islands under the Lantau Tomorrow Vision, and to explore how to link up the housing development plans on the artificial islands with the housing needs of Hong Kong people.
- Re-plan the coastal development of Tuen Mun West, including exploring the feasibility of developing the coastal areas which also cover the River Trade Terminal into residential areas.
- Review over 300 “Government, Institution or Community” sites that are earmarked for standalone public facility with a view to developing them under the “single site, multiple use” model, and assist non-governmental organisations to optimise their under-utilised sites.

These measures and plans would demonstrate the Government’s determination to increase the supply of housing land in a persistent manner. They would help different groups meet their home ownership aspirations and ease the housing-related hardships facing many households.

3.8 Over the past several years, the Government has also implemented demand-side 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 58 cases per month or 1.3% of total transactions in the third quarter, well below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer's Stamp Duty, *purchases by non-local individuals and non-local companies* also stayed low at 69 cases per month or 1.5% of total transactions in the third quarter, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As an indicator of *investment activities*, purchases subject to the New Residential Stamp Duty stayed at a modest level of 358 cases per month or 7.8% of total transactions in the third quarter, markedly lower than the monthly average of 1 412 cases subject to Double Stamp Duty or 26.5% in January to November 2016. As to *mortgage lending*, the average loan-to-value ratio of new mortgages was 46% in the third quarter, likewise considerably below the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority.

Diagram 3.4 : Speculative activities stayed subdued

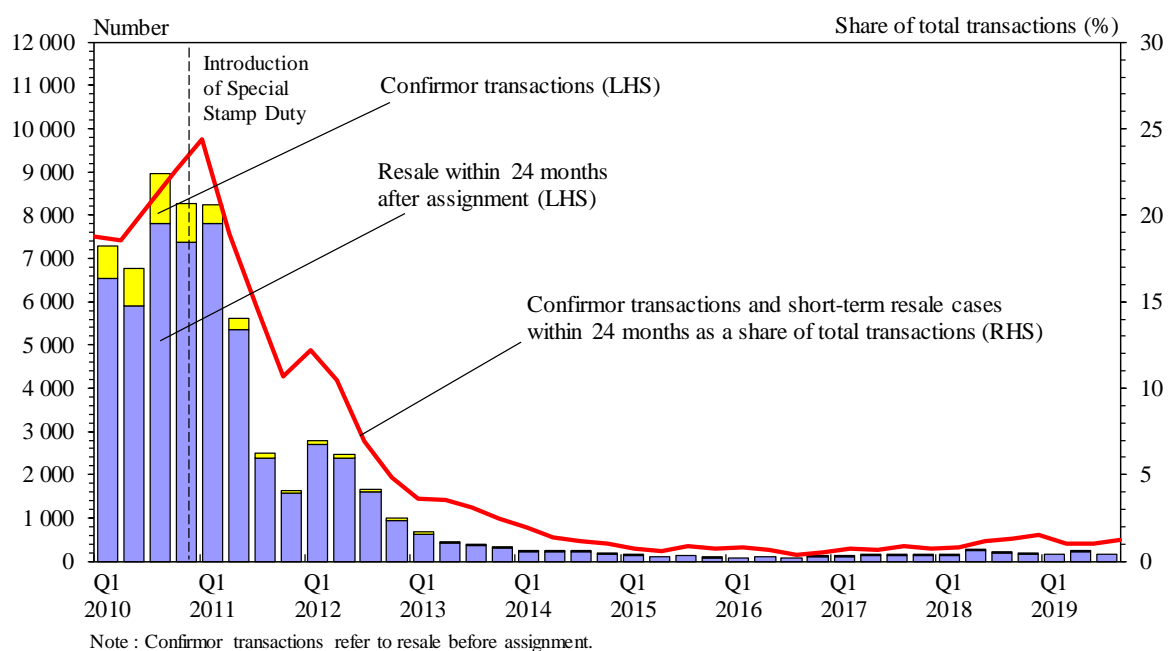


Diagram 3.5 : Purchases by non-local buyers stayed low

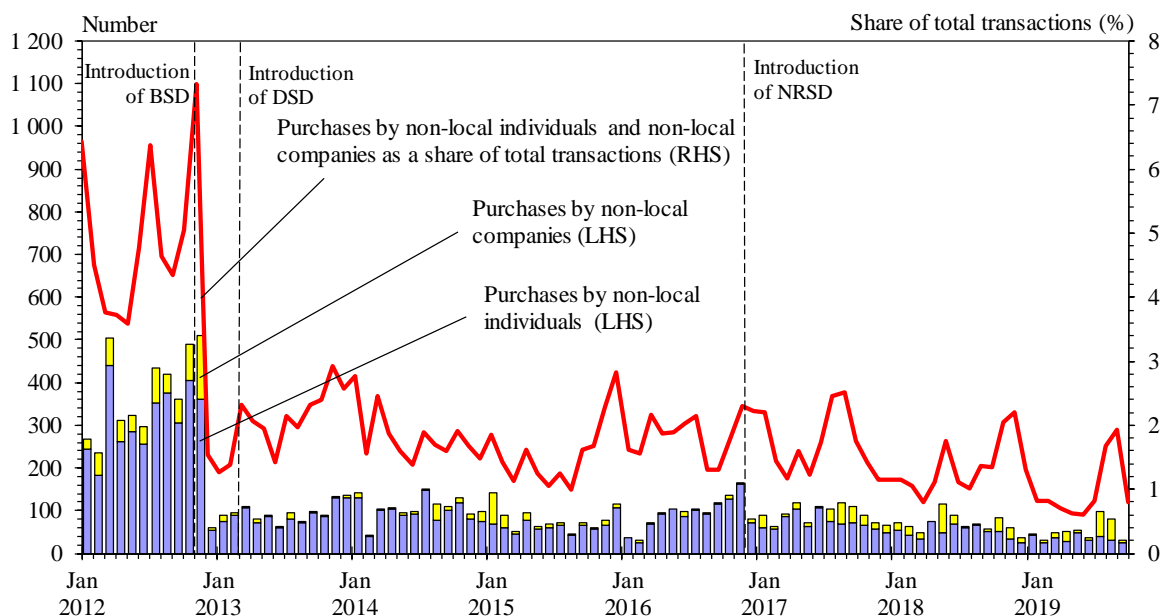
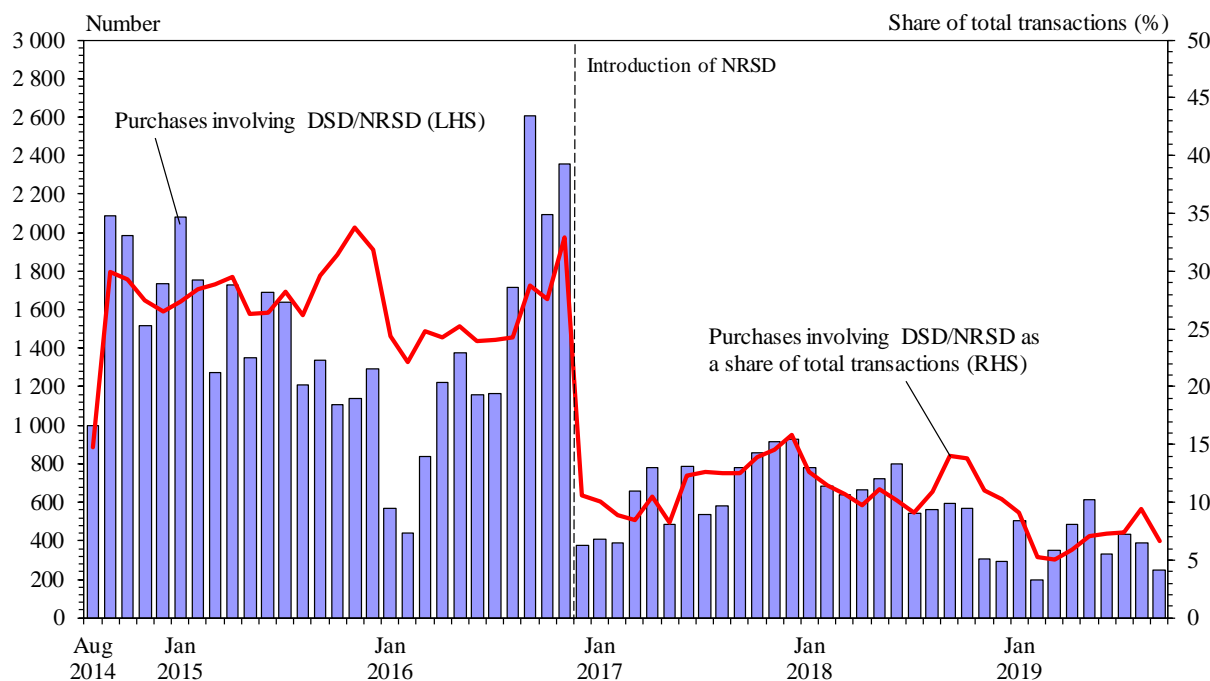


Diagram 3.6 : Investment activities were modest



3.9 Amid subdued local economic conditions, the *commercial* and *industrial property markets* also turned quieter in the third quarter. Trading activities fell markedly for all major market segments. Prices decreased during the quarter, while rentals exhibited diverse movements.

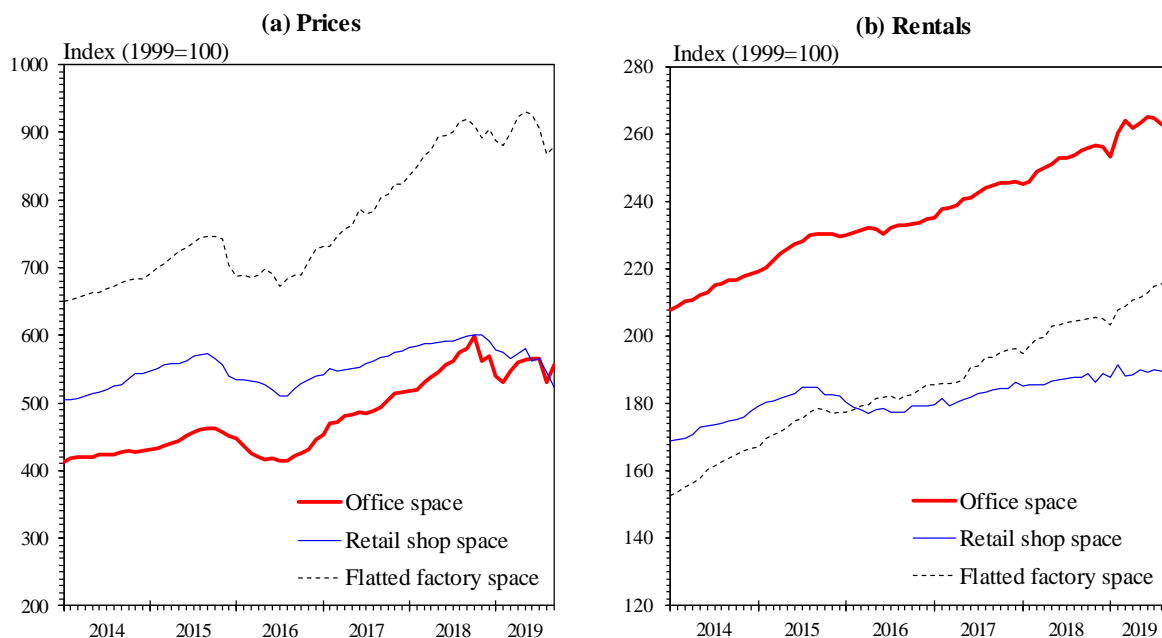
3.10 Prices of *office space* on average decreased by 2% between June and September. Analysed by office class, prices of Grade A office space were little changed and prices of Grade B office space increased by 8%, while prices

of Grade C office space decreased by 2%. Over the same period, office rentals on average decreased by 1%. Within the total, rentals of Grade A office space decreased by 1%, while those of Grade B and C office space were little changed. The average rental yields of Grade A, B and C office space were 2.5%, 2.4% and 2.7% respectively in September, compared with 2.6%, 2.6% and 2.7% in June. The volume of sales transactions for office space plunged by 46% from the preceding quarter or by 45% from a year earlier to 190 cases in the third quarter.

3.11 Affected by the sharp deterioration in retail sales in the third quarter, prices of *retail shop space* declined by 7% between June and September, while rentals were little changed. There were reports that some landlords had granted rental concessions to tenants recently to help them tide over the difficult environment brought by continued social incidents, which have not been shown in the rentals figures. The average rental yield edged up from 2.7% in June to 2.8% in September. Meanwhile, sales transactions fell sharply by 38% from the preceding quarter or by 36% from a year earlier to 290 cases in the third quarter⁽²⁾.

3.12 Prices of *flatted factory space* fell by 5% during the third quarter, while rentals increased by 1%. The average rental yield rose from 2.8% in June to 3.0% in September. Meanwhile, sales transactions plummeted by 49% from the preceding quarter or by 61% from a year earlier to 450 cases in the third quarter.

Diagram 3.7 : Prices of non-residential properties decreased during the third quarter, while rentals exhibited diverse movements



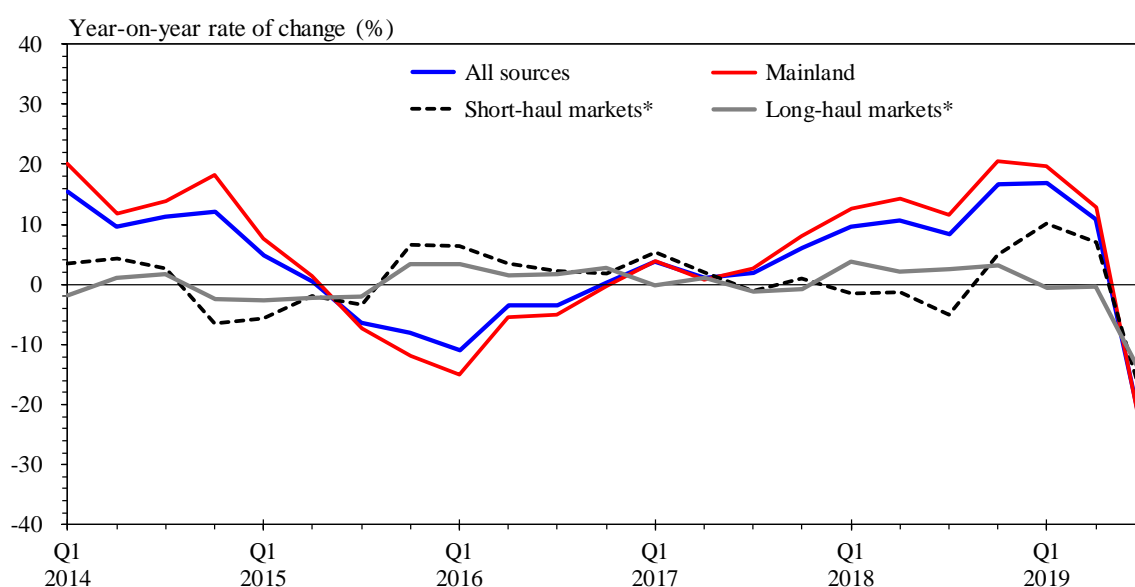
Land

3.13 Two residential sites and one commercial/hotel site, with a total area of about 2.9 hectares, were disposed of in the third quarter, fetching land premium of about \$15.4 billion. In addition, the tender exercises for one residential site, one commercial site, and five sites for petrol filling station commenced in the quarter. In the third quarter, lease modifications of eight sites were approved.

Tourism

3.14 Inbound tourism was hard hit by the local social incidents in the third quarter. Overall *visitor arrivals* plunged by 26.0% from a year earlier to 11.9 million, the sharpest decline since the second quarter of 2003. As the mass demonstrations got more violent, the fall in visitor arrivals accelerated from 4.8% in July to 39.1% and 34.2% in August and September respectively. Mainland visitors, which accounted for 78.7% of the total, plummeted by 27.7% to 9.4 million in the third quarter. Visitor arrivals from short-haul markets and long-haul markets also decreased notably, by 20.7% and 16.0% respectively⁽³⁾. Visitor spending, as measured by exports of travel services, fell drastically in tandem, by 32.2% in real terms in the third quarter from a year earlier.

Diagram 3.8 : Inbound tourism was hard hit in the third quarter

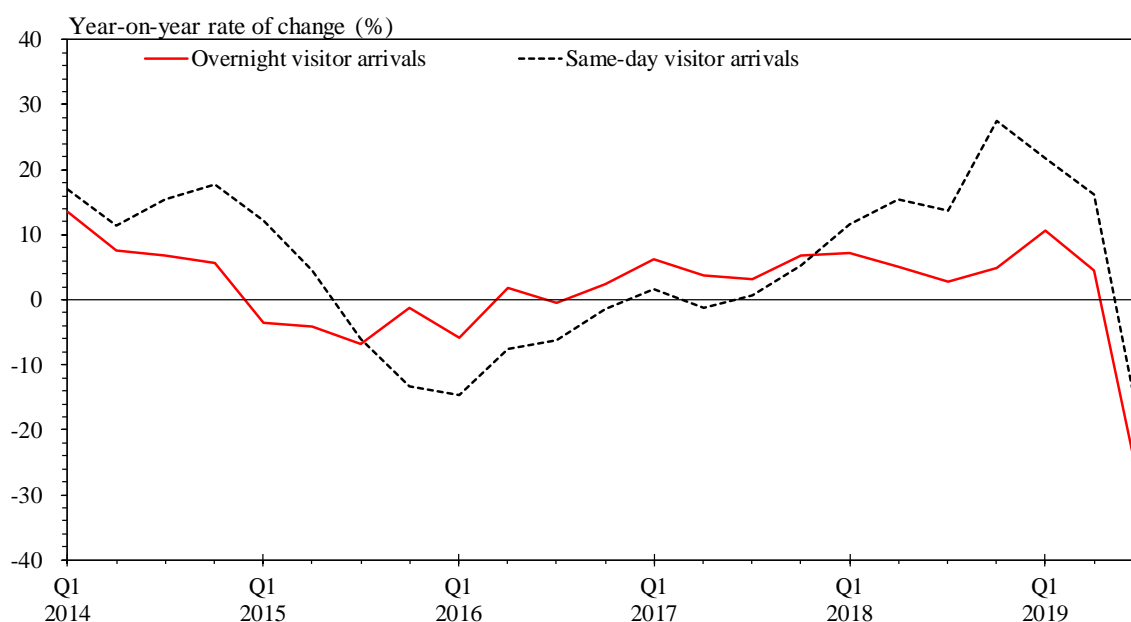


Note : (*) See note (3) at the end of this chapter for the definition of short-haul and long-haul markets.

3.15 Analysed by the length of stay, both same-day visitor arrivals and overnight visitor arrivals plummeted in the third quarter, by 21.8% and 30.9% respectively from a year earlier. Reflecting these movements, the share of

same-day visitors rose from 54.0% a year earlier to 57.0%, while that of overnight visitors declined from 46.0% to 43.0%.

Diagram 3.9 : Both same-day visitors and overnight visitors plummeted in the third quarter

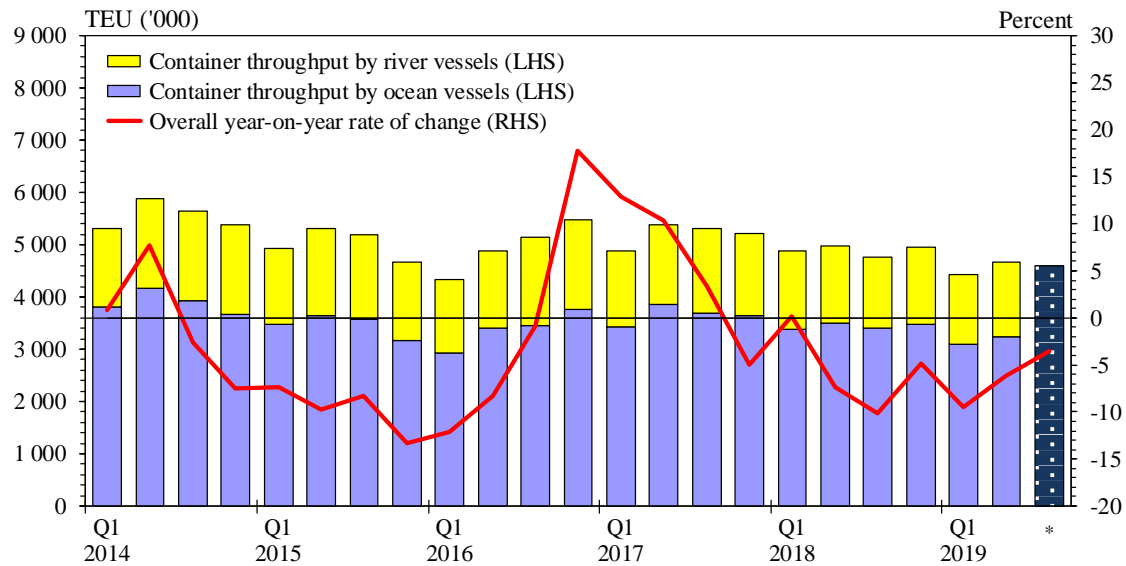


3.16 The hotel sector suffered a sharp fall in business as a result. The average hotel room occupancy rate fell distinctly from 91% a year earlier to 72% in the third quarter. The average achieved hotel room rate dropped visibly by 16.2% from a year earlier to \$1,065 in tandem⁽⁴⁾.

Logistics

3.17 In parallel with shrinking trade flows, performance of the logistics sector remained tepid in the third quarter. *Total container throughput* fell by another 3.5% from a year earlier to 4.6 million twenty-foot equivalent units (TEUs). The value of trade handled at the Hong Kong port fell by 11.9%, and its share in total trade contracted from 16.5% a year earlier to 15.9%.

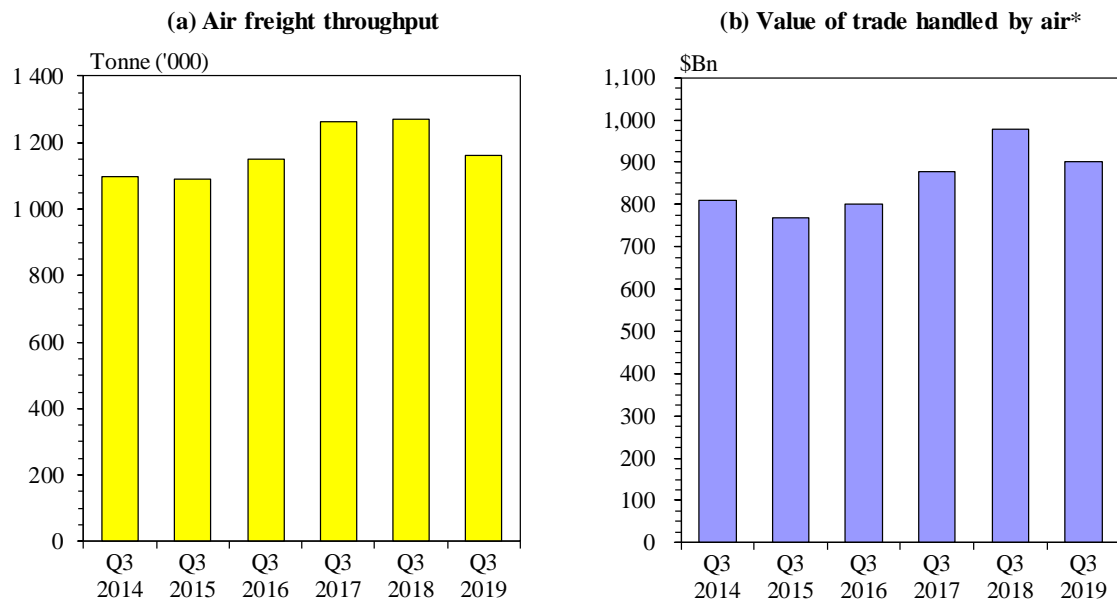
Diagram 3.10 : Container throughput fell further in the third quarter



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

3.18 *Air freight throughput* declined further by 8.6% from a year earlier to 1.2 million tonnes in the third quarter. The value of trade by air likewise declined by 7.7%, but its share in total trade edged up from 41.3% a year earlier to 41.6%.

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



Note : (*) Not including transshipment.

Transport

3.19 Cross-boundary traffic flows for most major modes of transport fell in the third quarter, alongside the sharp drop in visitor arrivals. Air passenger traffic slackened and fell by 7.8% from a year earlier to 17.6 million trips, while water-borne passenger trips plummeted by another 44.5% to 3.8 million. As to land-based traffic, passenger trips switched to a decline of 4.4% to 54.7 million, while average daily vehicle movements rose by 3.0% to 43 936.

Innovation and technology

3.20 In her Policy Address, the Chief Executive announced a series of measures to support the development of innovation and technology. These include, among other things, extending the coverage of the Technology Talent Admission Scheme to companies outside the Hong Kong Science and Technology Parks Corporation and Cyberport and to cover new technology areas. The Government would also extend the coverage of the Researcher Programme, Postdoctoral Hub and Public Sector Trial Scheme to all technology companies conducting research and development activities. In addition, the Government would inject \$500 million into the Social Innovation and Entrepreneurship Development Fund to further promote social innovation.

Environment

3.21 In July, the Government launched a three-month consultation to solicit public views on the findings of the review on the Air Quality Objectives (AQOs), in which the AQOs for sulphur dioxide and fine suspended particulates were recommended to be tightened. The Government would make the final recommendations on the proposed new AQOs after taking into account views gathered during the public consultation.

3.22 In her Policy Address, the Chief Executive announced that the Cleaner Production Partnership Programme would be extended to March 2025 with funding of \$300 million to encourage Hong Kong-owned factories to adopt cleaner production technologies, thereby continually improving the regional environmental quality. In addition, the Government would prepare a \$2 billion pilot subsidy scheme to promote installation of electric vehicle charging-enabling infrastructure in car parks of eligible existing private residential buildings.

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. For details of the measures promulgated in 2019, see Box 3.1 of this report.
- (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 third quarter of 2019, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 79%, 14% and 7% of total visitors.
- (4) The figures on hotel room occupancy and achieved room rate do not include guesthouses.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *The US Federal Open Market Committee lowered the target range for the Federal Funds Rate twice in the third quarter, first by 25 basis points to 2.00-2.25% in July and then by another 25 basis points to 1.75-2.00% in September. Consequently, the HKMA adjusted the Base Rate under the Discount Window downwards twice to 2.25%. Hong Kong dollar interbank interest rates were broadly stable during the quarter, while interest rates on the retail front remained at low levels.*
- *The Hong Kong dollar spot exchange rate traded within the range of 7.789 and 7.847 against the US dollar during the third quarter. As the US dollar strengthened against most major currencies including the euro, pound sterling and renminbi, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices rose further by 1.7% and 1.6% respectively during the third quarter.*
- *Total loans and advances grew by 1.7% during the third quarter, within which loans for use in and outside Hong Kong increased by 1.9% and 1.4% respectively.*
- *The local stock market underwent a sharp correction in the third quarter. The local social incidents, together with the uncertainties associated with the US-Mainland trade tensions during the quarter and softening global economic growth, dealt a severe blow to investment sentiment. The Hang Seng Index slid by 8.6% from end-June to 26 092 at end-September, the largest quarterly loss since the third quarter of 2015. Market capitalisation and trading activities also declined during the quarter.*

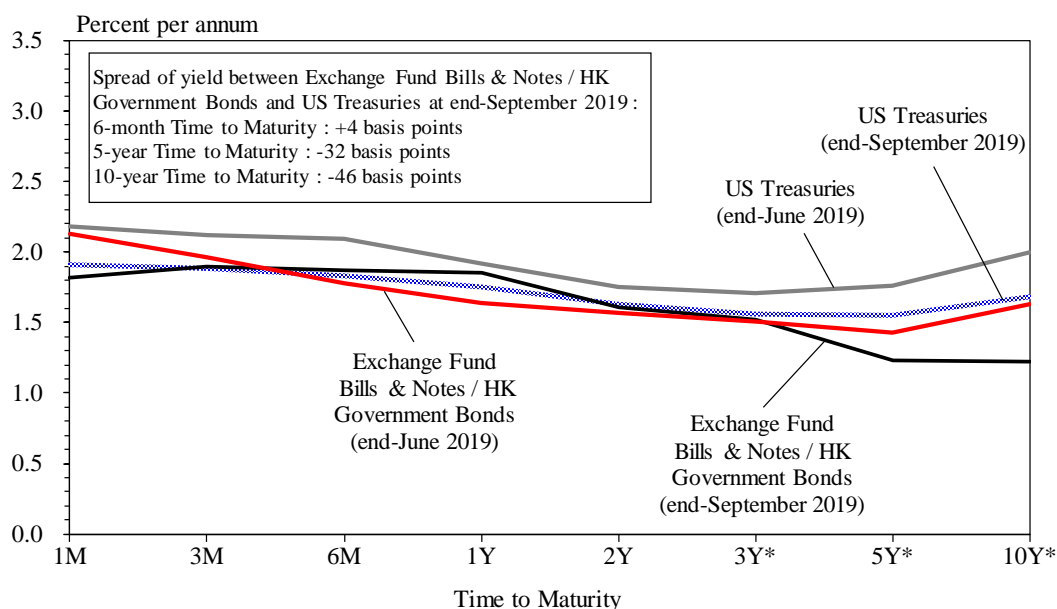
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Office of the Government Economist.*

Interest rates and exchange rates

4.1 The US Federal Open Market Committee lowered the target range for the Federal Funds Rate twice in the third quarter, first by 25 basis points to 2.00-2.25% in July and then by another 25 basis points to 1.75-2.00% in September. Consequently, the HKMA adjusted the *Base Rate* under the Discount Window downwards twice to 2.25%⁽¹⁾. *Hong Kong dollar interbank interest rates* (HIBORs) were broadly stable in the quarter. The overnight HIBOR edged up from 2.97% at end-June to 3.04% at end-September, while the 3-month HIBOR decreased slightly from 2.46% to 2.26%.

4.2 The *US dollar yield curve* shifted downwards between end-June and end-September. Meanwhile, *Hong Kong dollar yields* rose at tenors between 6 months and 3 years, but fell at both the shorter and longer ends. Reflecting these movements, the yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills turned from negative 31 basis points at end-June to positive 4 basis points at end-September, while the negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes widened from 37 basis points to 46 basis points.

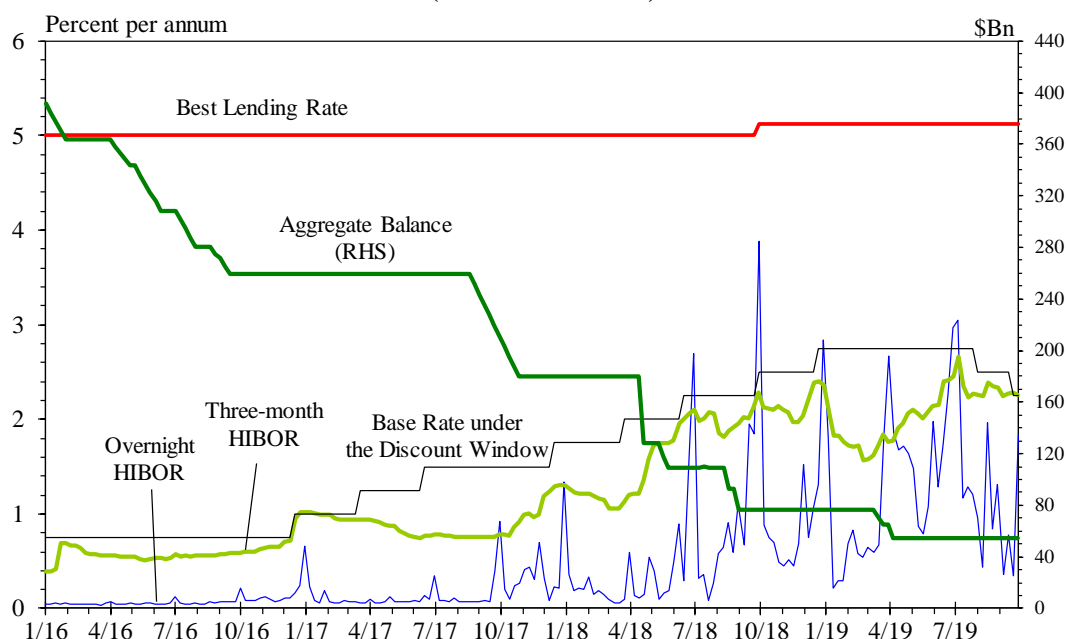
Diagram 4.1 : The US dollar yield curve shifted downwards, while Hong Kong dollar yields showed diverse movements for different tenors



Note : (*) With the HKMA stopping new issuance of Exchange Fund Notes of tenors of 3 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 remained at low levels. The three *Best Lending Rates* in the market stayed unchanged at 5.125%, 5.375% and 5.500% respectively during the third 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 remained unchanged at 0.13% and 0.33% respectively. The *composite interest rate*⁽²⁾, which indicates the average cost of funds for retail banks, increased from 0.95% at end-June to 1.02% at end-September, still a low level by historical standards.

Diagram 4.2 : Interbank interest rates were broadly stable during the quarter, while interest rates on the retail front remained at low levels (end for the week)



4.4 The *Hong Kong dollar spot exchange rate* traded within the range of 7.789 and 7.847 against the US dollar during the third quarter. The Hong Kong dollar spot exchange rate closed the third quarter at 7.841, compared with 7.807 at end-June. The discount of 3-month *Hong Kong dollar forward rate* widened from 28 pips (each pip is equivalent to HK\$0.0001) at end-June to 63 pips at end-September, while the discount of 12-month forward rate narrowed from 205 pips to 60 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 strengthened against most major currencies including the euro, pound sterling and renminbi (RMB), the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ rose further by 1.7% and 1.6% respectively during the third quarter.

Diagram 4.3 : The Hong Kong dollar traded within the range of 7.789 and 7.847 against the US dollar during the third quarter (end for the week)

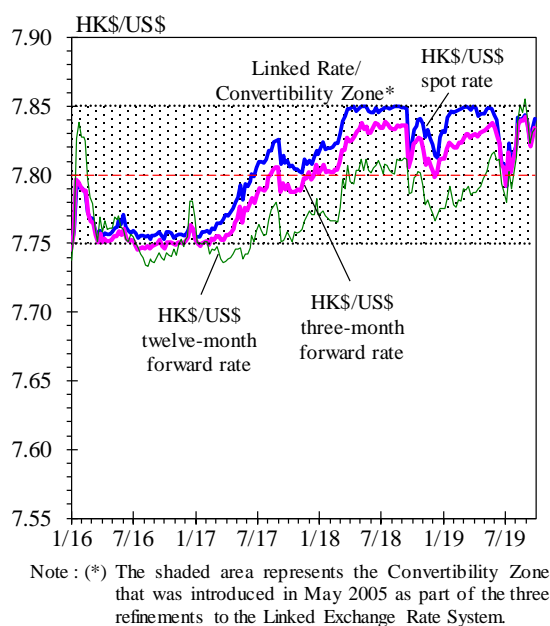
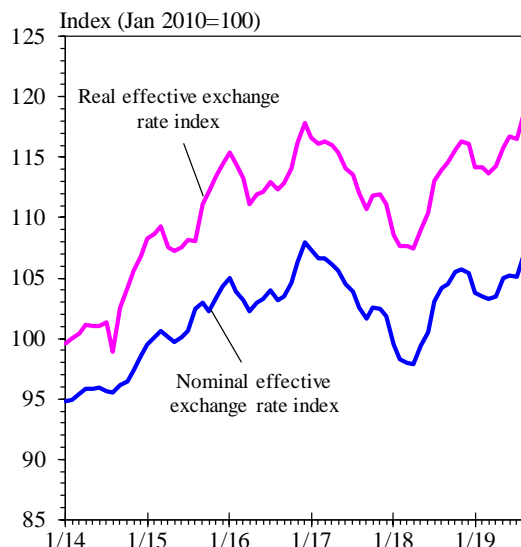


Diagram 4.4 : The trade-weighted nominal and real effective exchange rate indices rose further (average for the month)



Money supply and banking sector

4.6 The monetary aggregates declined in the third quarter. The Hong Kong dollar broad *money supply* (HK\$M3) declined by 1.1% from end-June to \$7,457 billion⁽⁴⁾ at end-September, while the seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1) dropped by another 3.7% to \$1,520 billion. Meanwhile, *total deposits* with authorized institutions (AIs)⁽⁵⁾ edged down by 0.1% to \$13,593 billion, with the 1.0% decline in Hong Kong dollar deposits more than offsetting the 0.8% increase in foreign currency deposits.

Diagram 4.5 : The monetary aggregates declined in the third quarter

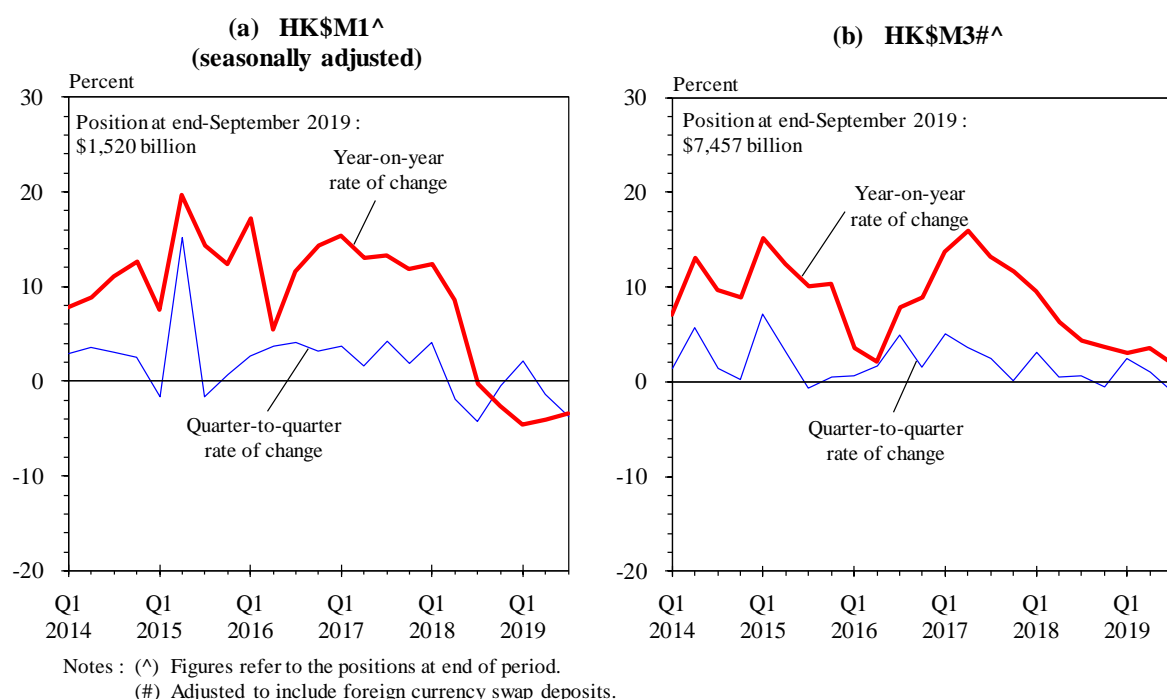


Table 4.1 : Hong Kong dollar money supply and total money supply

% change during the quarter		<u>M1</u>		<u>M2</u>		<u>M3</u>	
		<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
	Q2	-1.4	0.4	1.0	0.4	1.0	0.3
	Q3	-3.7	1.7	-1.0	-0.2	-1.1	-0.3
Total amount at end-September 2019 (\$Bn)		1,520	2,469	7,441	14,508	7,457	14,548
% change over a year earlier		-3.4	1.0	1.9	2.8	1.8	2.6

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 *Total loans and advances* grew by 1.7% over end-June to \$10,309 billion at end-September. Within the total, Hong Kong dollar loans edged up by 0.4%, while foreign currency loans rose by 3.8%. Reflecting the relative movements in deposits and loans, the loan-to-deposit ratio for Hong Kong dollar rose further from 89.3% at end-June to 90.6% at end-September, the highest level since March 2002, and that for foreign currencies from 58.9% to 60.7%.

4.8 Both loans for use in and outside Hong Kong registered modest growth in the third quarter. Specifically, loans for use in Hong Kong (including trade finance) grew by 1.9% over end-June to \$7,217 billion at end-September, and loans for use outside Hong Kong by 1.4% to \$3,092 billion. Within the former, loans to different economic sectors showed a mixed performance. Loans to wholesale and retail trade recorded a decelerated growth of 0.6% as the retail sector was hard hit by the ongoing local social incidents. Dragged by the austere external trade environment, loans to trade finance and loans to manufacturing switched to declines of 1.9% and 0.3% respectively. Meanwhile, loans to stockbrokers declined by 0.7% while loans to financial concerns picked up by 1.4%. As for property-related lending, loans to building, construction, property development and investment increased slightly by 0.6%, while loans for purchase of residential property registered an accelerated increase of 3.9%.

Table 4.2 : Loans and advances

All loans and advances for use in Hong Kong

% change during the quarter		Loans to :							All loans and advances for use outside Hong Kong ^(c)		Total loans and advances
		Trade finance	Manu- facturing	Whole- sale and retail trade	Building, construction, property development and investment	Purchase of residential property ^(a)	Financial concerns	Stock- brokers			
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	-3.4	2.4	2.5	-5.6	-31.0	-1.2	-0.9	-1.1
	Q4	-9.4	0.1	-0.7	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
	Q2	3.2	3.3	3.4	1.6	3.4	-0.3	-12.6	2.3	0.8	1.8
	Q3	-1.9	-0.3	0.6	0.6	3.9	1.4	-0.7	1.9	1.4	1.7
Total amount at end-September 2019 (\$Bn)		494	304	386	1,583	1,492	897	65	7,217	3,092	10,309
% change over a year earlier		-1.9	-1.6	-1.4	5.2	10.9	6.8	-11.0	7.4	3.7	6.3

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 remained resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 20.6% at end-June. In October, the HKMA has reduced the applicable jurisdictional countercyclical capital buffer ratio for Hong Kong from 2.5% to 2.0%. Asset quality of the local banking sector stayed healthy. The ratio of classified loans to total loans for retail banks edged up from 0.52% at end-March to 0.54% at end-June, and the delinquency ratio for credit card lending from 0.21% to 0.23%. Nonetheless, these are still low levels by historical standards. Meanwhile, the delinquency ratio for residential mortgage loans stayed low at 0.02% at end-September.

Table 4.3 : Asset quality of retail banks*

(as % of total loans)

<u>At end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2018	Q1	98.36	1.09	0.55
	Q2	98.41	1.06	0.53
	Q3	98.36	1.09	0.54
	Q4	98.28	1.21	0.51
2019	Q1	98.28	1.20	0.52
	Q2	98.26	1.20	0.54

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

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

4.10 Different segments of the *offshore RMB business* recorded a mixed performance in the third quarter. RMB trade settlement transactions handled by banks in Hong Kong jumped by 31.8% over a year earlier to RMB1,411.4 billion. Total RMB deposits (including customer deposits and outstanding certificates of deposit) rose moderately by 2.6% over end-June to RMB644.1 billion at end-September. As to RMB financing activities, RMB bond issuance amounted to RMB5.4 billion in the third quarter (excluding the issuance of RMB5.0 billion by the Ministry of Finance), compared with RMB11.3 billion in the previous quarter. Meanwhile, outstanding RMB bank loans increased by 27.6% over end-June to RMB141.4 billion at end-September.

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

<u>At end of period</u>		<u>Interest rates on^(a)</u>					<u>Number of AIs engaged in RMB business</u>	<u>Amount of cross-border RMB trade settlement^(c)</u> (RMB Mn)
		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Savings deposits^(b)</u> (%)	<u>Three-month time deposits^(b)</u> (%)		
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
	Q2	214,540	389,697	604,236	0.25	0.53	136	1,338,610
	Q3	207,338	416,106	623,443	0.25	0.53	136	1,411,384
% change in 2019 Q3 over 2018 Q3		14.5	-0.7	3.9	N.A.	N.A.	N.A.	31.8
% change in 2019 Q3 over 2019 Q2		-3.4	6.8	3.2	N.A.	N.A.	N.A.	5.4

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not applicable.

The debt market

4.11 As to the Hong Kong dollar *debt market*, total gross issuance of Hong Kong dollar debt securities increased by 9.2% over the preceding quarter to \$985.2 billion in the third quarter, as public sector and private sector debt issuance⁽⁶⁾ rose by 9.3% and 7.7% respectively. Total outstanding amount of Hong Kong dollar debt securities edged up by 0.1% over end-June to \$1,863.9 billion at end-September, equivalent to 25.0% of HK\$M3 or 19.7% of Hong Kong dollar-denominated assets of the banking sector⁽⁷⁾.

4.12 As to the Government Bond (“GB”) Programme, a total of \$0.8 billion worth of institutional GBs were issued through tenders in the third quarter. In July, the fourth batch of Silver Bond with a size of \$3.0 billion was issued. At end-September, the total outstanding amount of Hong Kong dollar bonds under the GB Programme was \$93.7 billion, comprising 13 institutional issues totaling \$84.8 billion and three retail issues (all Silver Bonds) totaling \$8.9 billion. In addition, two US dollar sukuks, each with an issue size of US\$1.0 billion, were outstanding under the GB 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
	Q2	826.6	5.3	8.0	839.9	39.0	5.4	16.9	61.3	1.3	902.5
	Q3	911.8	2.2	3.8	917.8	37.4	2.3	26.3	66.0	1.4	985.2
% change in 2019 Q3 over 2018 Q3		12.4	-52.7	111.1	12.2	1.0	4.3	61.4	18.9	N.A.	12.8
% change in 2019 Q3 over 2019 Q2		10.3	-58.2	-52.5	9.3	-4.1	-57.7	55.6	7.7	11.2	9.2
Outstanding (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
	Q2	1,071.3	54.5	94.2	1,220.0	254.3	98.9	274.5	627.7	15.1	1,862.8
	Q3	1,076.8	53.3	93.7	1,223.7	245.8	98.5	279.4	623.8	16.4	1,863.9
% change in 2019 Q3 over 2018 Q3		1.8	-6.3	-4.3	0.9	12.2	-3.2	2.9	5.3	18.5	2.5
% change in 2019 Q3 over 2019 Q2		0.5	-2.1	-0.6	0.3	-3.3	-0.3	1.8	-0.6	8.6	0.1

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 : Authorized institutions.

(c) MDBs : Multilateral Development Banks.

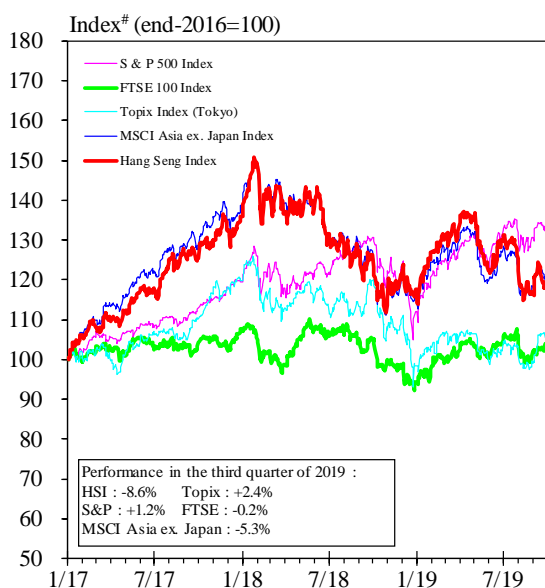
N.A. Not applicable.

The stock and derivatives markets

4.13 The *local stock market* underwent a sharp correction in the third quarter. The local social incidents, together with the uncertainties associated with the US-Mainland trade tensions during the quarter and softening global economic growth, dealt a severe blow to investment sentiment. The Hang Seng Index (HSI) slid by 8.6% from end-June to 26 092 at end-September, the largest quarterly loss since the third quarter of 2015. *Market capitalisation* declined by 6.4% to \$30.6 trillion in parallel. The local stock market ranked the sixth largest in the world and the third largest in Asia⁽⁸⁾.

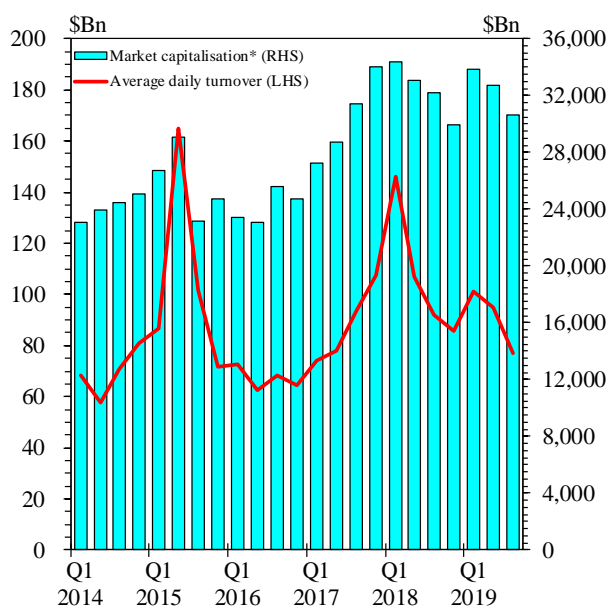
4.14 Trading activities turned quieter amid the cautious market atmosphere. *Average daily turnover* in the securities market contracted by 18.7% from the preceding quarter or 16.2% from a year earlier to \$77.0 billion. Within the total, the average daily trading value of derivative warrants, equities, unit trusts (including Exchange-Traded Funds) and callable bull/bear contracts⁽⁹⁾ all fell, by 35.8%, 17.6%, 12.1% and 11.3% respectively from the preceding quarter. As to futures and options⁽¹⁰⁾, the average daily trading volume also declined by 15.6%. Within the total, trading of stock options, HSI futures and Hang Seng China Enterprises Index futures dropped by 21.5%, 14.2% and 13.4% respectively, while that of HSI options rose by 4.8%.

Diagram 4.6 : The local stock market underwent a sharp correction in the third quarter



Note : (#) Position at end of month.

Diagram 4.7 : Both market capitalisation and trading declined



Note : (*) Position at end of quarter.

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

		Hang Seng Index futures	Hang Seng Index options	Hang Seng China Enterprises Index futures	Stock options	Total futures and options traded*
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
	Q2	234 927	52 802	150 770	488 012	1 172 684
	Q3	201 554	55 351	130 513	382 998	990 111
% change in 2019 Q3 over 2018 Q3		-14.3	17.9	-13.3	-16.1	-12.3
% change in 2019 Q3 over 2019 Q2		-14.2	4.8	-13.4	-21.5	-15.6

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

4.15 Fund raising activities were rather tepid in the third quarter amid the local stock market correction. *Total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and GEM⁽¹¹⁾, plunged by 22.9% from the preceding quarter or 68.5% from the high base a year earlier to \$80.3 billion. Yet, within the total, the amount of funds raised through initial public offerings (IPOs) rose by 10.4% over the preceding quarter to \$55.9 billion due mainly to one gigantic listing in late September. Taking the first three quarters together, total equity capital raised plunged by 48.7% from a year earlier to \$229.5 billion, within which the amount of funds raised through IPOs fell by 47.4% to \$127.8 billion. Hong Kong ranked third globally in terms of the amount of funds raised through IPOs in the first nine months of 2019.

4.16 Mainland enterprises continued to play an important role in the Hong Kong stock market. At end-September, a total of 1 201 Mainland enterprises (including 275 H-share companies, 174 “Red Chip” companies and 752 private enterprises) were listed on the Main Board and GEM, accounting for 50% of the total number of listed companies and 68% of total market capitalisation. Mainland-related stocks accounted for 77% of equity turnover and 41% of total equity fund raised in the Hong Kong stock exchange in the third quarter.

4.17 In late September, the Securities and Futures Commission (SFC) launched a three-month consultation on the proposal to introduce a regulatory

regime for depositaries of SFC-authorised collective investment schemes. Depositaries would be licensed by or registered with the SFC for a new type of regulated activity and be subject to the ongoing supervision of the related authorities. The consultation paper set out the proposed licensing, financial resources and other relevant requirements for such depositaries operating in Hong Kong. The introduction of the regulatory regime would help align with international practice, provide better protection for scheme assets and safeguard the interests of retail investors.

Fund management and investment funds

4.18 Performance of the fund management business⁽¹²⁾ was mixed in the third quarter. Reflecting the local stock market correction, the aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹³⁾ edged down by 0.6% from end-June to \$905.0 billion at end-September. Meanwhile, the monthly average gross retail sales of *mutual funds* rose by 8.5% over the second quarter or 25.0% over a year earlier to US\$8.7 billion in July and August⁽¹⁴⁾.

Insurance sector

4.19 The *insurance sector*⁽¹⁵⁾ recorded a vibrant performance in the second quarter. Gross premium income from long-term business soared by 29.1% over a year earlier, mainly driven by the surge of 36.8% in premium income from non-investment linked plans (which accounted for 94% of total premium for this segment) following the implementation of tax deductions for qualifying deferred annuity premiums in April 2019. As to general business, gross and net premium rose by 12.4% and 9.6% respectively.

4.20 To promote voluntary retirement savings, the Government has tasked the Insurance Authority to launch the qualifying deferred annuity policies (QDAPs), which enable policyholders to receive a stable stream of income and give them greater certainty and control in planning for their retirement life. Premiums for QDAPs are eligible for tax deduction. Market response to QDAPs has been overwhelmingly positive. For the six months since the launch on 1 April 2019, there have been around 71 000 QDAPs, generating \$5.2 billion annualised premiums in total.

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	
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
2019	Q1	16,587	11,378	44	45,601	2,646	50	81	48,378	64,965
	Q2	13,939	9,575	388	48,191	3,169	53	79	51,492	65,431
% change in 2019 Q2 over 2018 Q2		12.4	9.6	-17.8	36.8	-29.4	-30.3	5.3	29.1	25.2

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

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

Notes :

- (1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher. Between 9 October 2008 and 31 March 2009, this formula for determination of the Base Rate was temporarily changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points and by removing the other leg relating to the moving averages of the relevant interbank interest rates. After a review of the appropriateness of the new Base Rate formula, the narrower 50 basis point spread over the FFTR was retained while the HIBOR leg was re-instated in the calculation of the Base Rate after 31 March 2009.
- (2) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movements in various deposit rates, interbank and other interest rates to closely track the average cost of funds for banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector. Since June 2019, the composite interest rate has been calculated based on the new local “Interest rate risk in the banking book” framework. As such, the figures are not strictly comparable with those of previous months.
- (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. Moreover, monetary statistics are subject to volatilities due to a wide range of transient factors, such as IPO-related funding demand, and business and investment-related activities, caution is required when interpreting the statistics, especially at a monthly frequency.

- (5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-September 2019, there were 164 licensed banks, 17 restricted licence banks and 15 deposit-taking companies in Hong Kong. Altogether, 196 AIs (excluding representative offices) from 31 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, 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 Exchange Group.
- (9) Given the relatively small share (less than 0.5% of the daily turnover in the securities market), trading of debt securities and its movements were not analysed.
- (10) At end-September 2019, there were 95 classes of stock options contracts and 79 classes of stock futures contracts.
- (11) At end-September 2019, there were 2 013 and 382 companies listed on the Main Board and GEM respectively.

- (12) After 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-September 2019.
- (13) At end-September 2019, there were 15 approved trustees. On MPF products, 27 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 441 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 290 000 employers, 2.64 million employees and 215 000 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-August 2019, the survey covered a total of 1 332 active authorised funds.
- (15) At end-September 2019, there were 162 authorised insurers in Hong Kong. Within this total, 50 were engaged in long-term insurance business, 91 in general insurance business, and 21 in composite insurance business. These authorised insurers come from 22 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

Summary

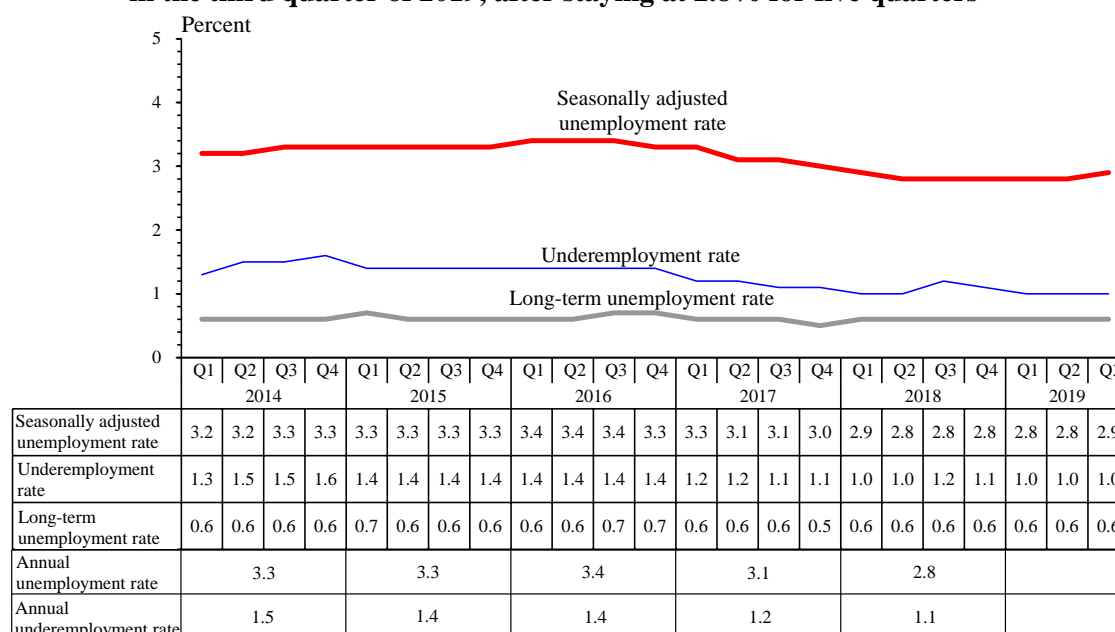
- *The labour market showed signs of easing in the third quarter of 2019 as economic conditions continued to worsen. The seasonally adjusted unemployment rate edged up to 2.9% in the third quarter after staying at 2.8% for five quarters, although the underemployment rate held steady at 1.0%. The unemployment rates in those sectors hard hit by the local social incidents saw more visible increases.*
- *Overall labour demand eased somewhat, as reflected in the year-on-year decline in private sector employment in June, for the first time in almost a decade, and the concurrent noticeable drop in vacancies. Looking at individual sectors, the fall in labour demand in import/export trade and wholesale enlarged amid shrinking trade flows, while labour demand at construction sites showed further visible decline due to falling construction activities. Labour demand in retail trade and food and beverage services also slackened amid a weak consumption market.*
- *Nominal wages and earnings stayed on the rise in the second quarter, with solid gains recorded in many sectors. However, those in import/export trade and wholesale and in retail trade continued to see relatively modest increases. Based on results of the General Household Survey, while earnings of low-income workers continued to increase in the third quarter, there was moderation in overall earnings growth.*

Overall labour market situation⁽¹⁾

5.1 The worsening economic conditions have added pressures on the labour market. The seasonally adjusted *unemployment rate*⁽²⁾ edged up to 2.9% in the third quarter of 2019 after staying at 2.8% for five quarters, although the *underemployment rate*⁽³⁾ held steady at 1.0%. The unemployment rates in those sectors hard hit by the local social incidents saw more visible increases. Reflecting easing labour demand even before the recent social incidents, private sector employment declined in June, for the first time in almost a decade along with a noticeable drop in vacancies. Looking at individual sectors, the fall in labour demand in import/export trade and wholesale enlarged amid shrinking trade flows, while labour demand at construction sites showed further noticeable decline due to falling construction activities. Labour demand in retail trade and food and beverage services also slackened amid a weak consumption market.

Nominal wages and earnings stayed on the rise in the second quarter, with solid gains recorded in many sectors. However, those in import/export trade and wholesale and in retail trade continued to see relatively modest growth. Based on results of the General Household Survey, while earnings of low-income workers continued to increase in the third quarter, there was moderation in overall earnings growth.

Diagram 5.1 : The seasonally adjusted unemployment rate edged up to 2.9% in the third quarter of 2019, after staying at 2.8% for five quarters



Labour force and total employment

5.2 While the working-age population (i.e. land-based non-institutional population aged 15 and above) increased by 0.8% year-on-year in the third quarter of 2019, the *labour force*⁽⁴⁾ declined slightly by 0.2% due to a decline in labour force participation rate from the year-ago level of 61.1% to 60.5%.

5.3 *Total employment*⁽⁵⁾ decreased slightly by 0.3% year-on-year in the third quarter of 2019. Analysed by sector, the decline in employment of the import/export trade and wholesale sector enlarged amid shrinking trade flows. Employment of the retail, and food and beverage services sectors slackened in the face of weak local consumption and plunging visitor arrivals caused by the local social incidents. Employment of the construction sector continued to decline due to subdued construction activities.

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	3 975 400 (1.1)		3 863 900 (1.5)		111 600	38 800
	Q2	3 969 400 (1.0)		3 856 900 (1.4)		112 500	41 400
	Q3	3 985 100 (1.0)		3 867 000 (1.3)		118 100	47 400
	Q4	3 973 400 (0.6)		3 867 700 (0.7)		105 700	44 500
2019	Q1	3 970 800 (-0.1)		3 860 400 (-0.1)		110 400	38 900
	Q2	3 985 000 (0.4)		3 870 700 (0.4)		114 300	41 200
<i>Three months ending</i>							
2019	Jul	3 985 800 (0.2)		3 867 300 (0.1)		118 500	40 700
	Aug	3 984 200 (-0.2)		3 863 600 (-0.3)		120 600	41 000
	Sep	3 975 700 (-0.2)		3 855 400 (-0.3)		120 300	41 500
		<-0.4>		<-0.4>			

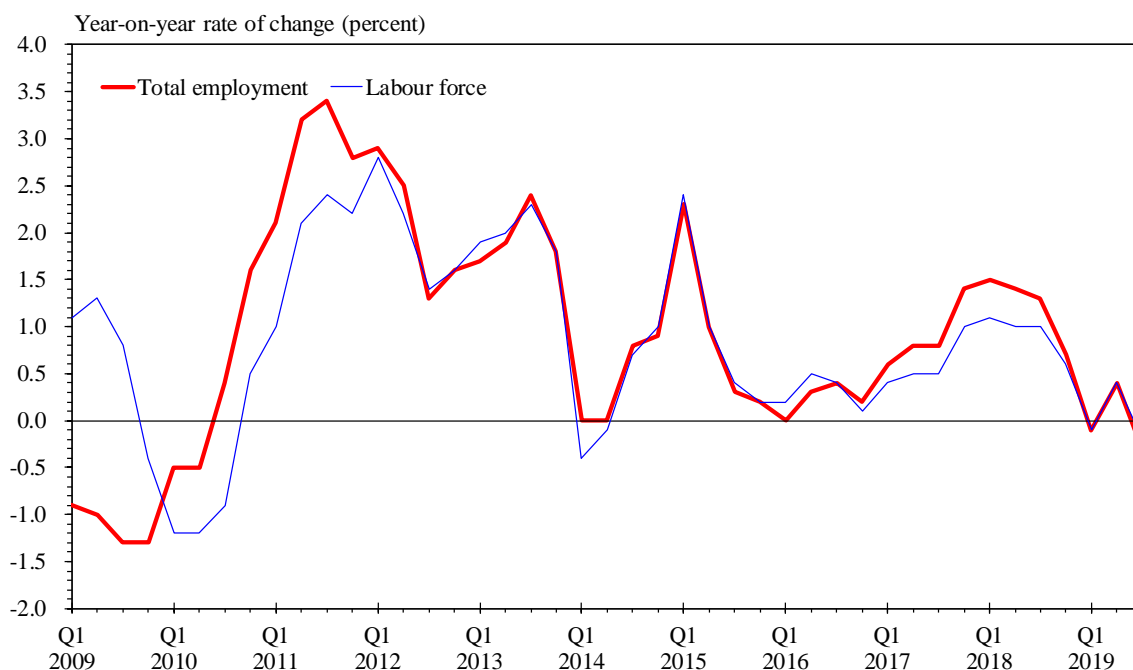
Notes : (a) These include first-time job-seekers and re-entrants into the labour force.

() % change over a year earlier.

< > Seasonally adjusted quarter-to-quarter % change for the third quarter of 2019.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.2 : Labour force and total employment declined slightly on a year-on-year basis in the third 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>2019 Q1</u>	<u>2019 Q2</u>	<u>2019 Q3</u>
<u>Male</u>								
15-24	37.8	39.1	39.5	38.1	39.2	38.3	39.1	42.0
<i>of which:</i>								
15-19	11.1	11.7	12.9	9.9	10.4	10.5	11.2	14.8
20-24	61.4	62.0	60.7	59.2	60.2	58.3	59.2	62.1
25-29	93.4	93.7	92.9	92.6	92.9	91.6	90.7	91.2
30-39	96.5	96.5	96.4	96.6	96.4	96.2	95.7	95.8
40-49	94.7	95.1	95.0	95.2	95.1	93.8	93.7	94.1
50-59	86.7	86.6	86.0	86.7	86.9	86.1	85.6	83.9
≥ 60	28.0	28.5	29.9	30.4	32.1	32.1	32.0	30.7
Overall	68.8	68.8	68.6	68.3	68.5	67.7	67.5	67.1
<u>Female</u>								
15-24	39.3	41.4	41.9	41.5	41.1	39.9	39.6	43.2
<i>of which:</i>								
15-19	12.5	12.8	12.3	11.8	12.0	11.8	12.5	13.5
20-24	61.4	63.6	63.6	61.8	60.4	58.6	57.6	63.5
25-29	86.3	85.7	86.2	86.5	86.6	86.4	86.3	87.5
30-39	78.9	78.4	78.0	79.0	79.3	79.5	79.3	79.2
40-49	73.0	73.7	73.4	73.8	74.1	74.5	74.0	72.6
50-59	57.2	58.3	59.7	60.4	61.5	61.1	62.3	62.6
≥ 60	10.7	11.4	12.3	13.7	14.5	15.7	16.1	15.5
Overall	54.5	54.7	54.8	55.1	55.1	55.0	55.1	55.1
<u>Both genders combined</u>								
15-24	38.5	40.2	40.7	39.8	40.2	39.1	39.3	42.6
<i>of which:</i>								
15-19	11.8	12.3	12.6	10.8	11.2	11.1	11.8	14.2
20-24	61.4	62.8	62.2	60.5	60.3	58.5	58.4	62.8
25-29	89.4	89.2	89.2	89.3	89.5	88.8	88.3	89.2
30-39	86.0	85.7	85.4	86.0	86.1	86.2	85.8	85.8
40-49	82.3	82.7	82.4	82.6	82.7	82.4	82.0	81.4
50-59	71.4	71.8	72.2	72.7	73.2	72.6	73.0	72.3
≥ 60	19.0	19.6	20.7	21.7	22.9	23.5	23.7	22.7
Overall	61.1	61.1	61.1	61.1	61.2	60.7	60.7	60.5

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

5.4 After staying at 2.8% for five quarters, the seasonally adjusted unemployment rate went up marginally to 2.9% in the third quarter of 2019, as economic conditions worsened. Also contributed by the entry of school leavers into the labour market, the number of unemployed persons (not seasonally adjusted) increased by 6 100 over the preceding quarter to 120 300.

5.5 Analysed by sector, the unemployment rate (not seasonally adjusted) of the consumption- and tourism-related sectors as a whole (viz. retail, accommodation and food services) rose visibly to 4.9% in the third quarter (up 1.0 percentage point quarter-to-quarter or 0.9 percentage point year-on-year) alongside weak local consumption and plunging visitor arrivals caused by the local social incidents (see **Box 5.1** for a detailed analysis). The unemployment rate of the construction sector eased somewhat to 4.2% (down 0.8 percentage point quarter-to-quarter or 0.6 percentage point year-on-year) after trending generally upwards for a year or so, yet this has to be viewed in conjunction with the continued decline in employment of the sector. The unemployment rate of the import/export trade and wholesale sector went down slightly by 0.2 percentage point quarter-to-quarter to 2.4% or showed little change on a year-on-year basis, having been on the rise in the first half of the year. Again, this has to be viewed together with the noticeable decline in employment of the sector amid shrinking trade flows. For the *low-paying sectors*⁽⁶⁾ as a whole, the unemployment rate went up to 2.9%, 0.3 percentage point higher than both the preceding quarter and a year earlier.

5.6 Analysed by skill segment, the unemployment rate of the higher-skilled workers edged up by 0.1 percentage point over the preceding quarter to 2.0% in the third quarter, while that of the lower-skilled workers remained stable at 3.0%. Compared with a year earlier, the unemployment rate of the higher-skilled workers rose by 0.3 percentage point, while that of the lower-skilled workers held unchanged.

5.7 Analysed by other socio-economic attributes, visible year-on-year increases in unemployment rates were observed among persons aged 30-39 (up 0.5 percentage point) and those with lower secondary education (up 0.4 percentage point), whereas notable year-on-year decreases were observed among persons aged 20-29 (down 0.4 percentage point) and those with post-secondary (non-degree) education or primary and below education (both down 0.7 percentage point).

Diagram 5.3 : The unemployment rates of the retail, accommodation and food services sectors continued to rise in the third quarter of 2019

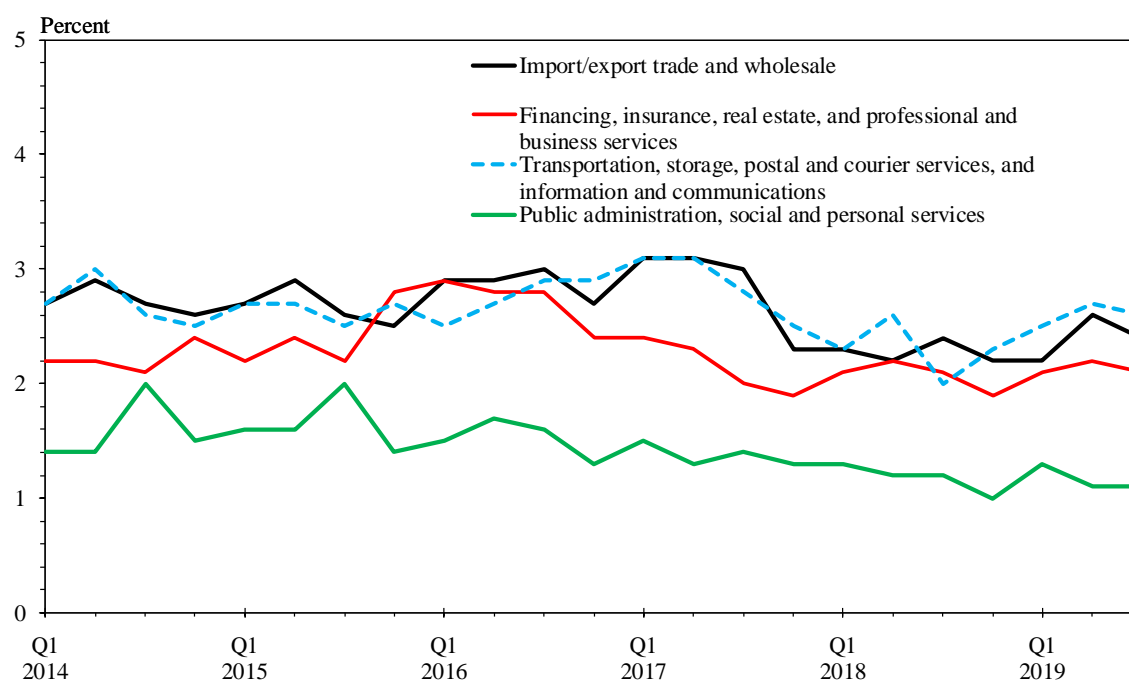
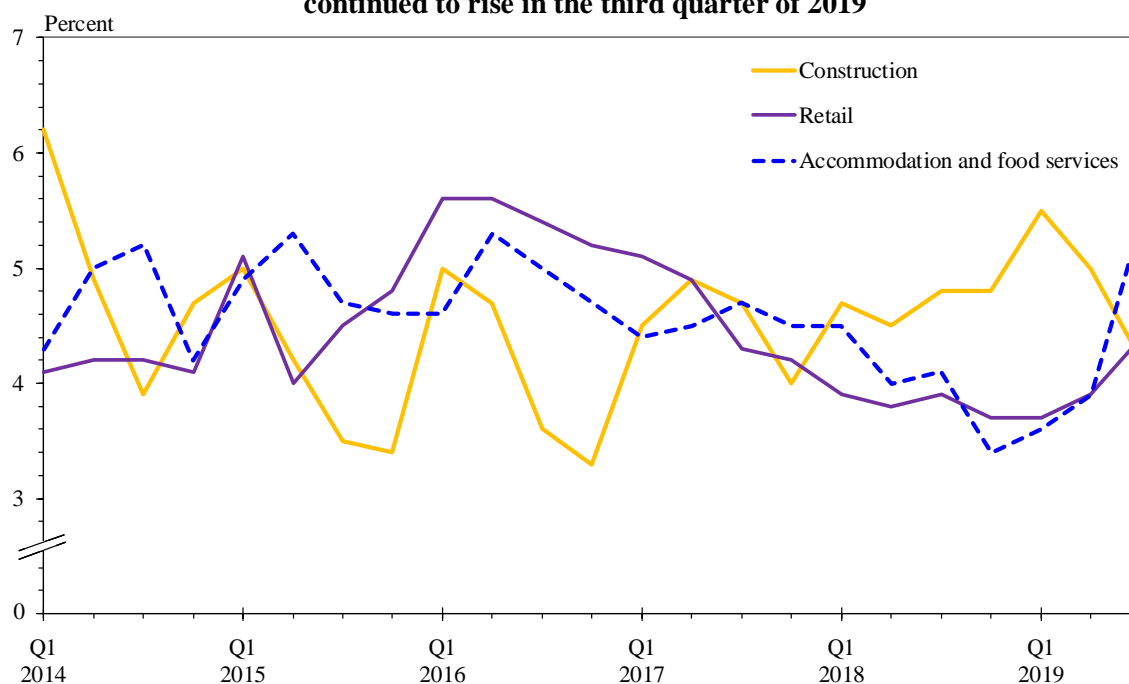


Table 5.3 : Unemployment rates by major economic sector

	<u>2018</u>				<u>2019</u>		
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Import/export trade and wholesale	2.3	2.2	2.4	2.2	2.2	2.6	2.4
Retail	3.9	3.8	3.9	3.7	3.7	3.9	4.4
Accommodation and food services	4.5	4.0	4.1	3.4	3.6	3.9	5.4
Transportation, storage, postal and courier services	2.3	2.6	2.0	2.3	2.4	2.4	2.3
Information and communications	2.3	2.7	2.0	2.3	2.7	3.5	3.2
Financing and insurance	1.6	1.7	1.6	1.7	1.7	1.9	1.8
Real estate	2.3	2.2	2.3	1.6	2.0	1.9	1.9
Professional and business services	2.4	2.6	2.4	2.1	2.5	2.6	2.5
Public administration, social and personal services	1.3	1.2	1.2	1.0	1.3	1.1	1.1
Manufacturing	3.2	3.0	3.8	3.3	3.1	2.9	3.5
Construction	4.7	4.5	4.8	4.8	5.5	5.0	4.2
Overall*	2.8 (2.9)	2.8 (2.8)	3.0 (2.8)	2.7 (2.8)	2.8 (2.8)	2.9 (2.8)	3.0 (2.9)

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

() Seasonally adjusted unemployment rates.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.4 : The unemployment rate of higher-skilled workers edged up while that of lower-skilled workers held stable in the third quarter of 2019

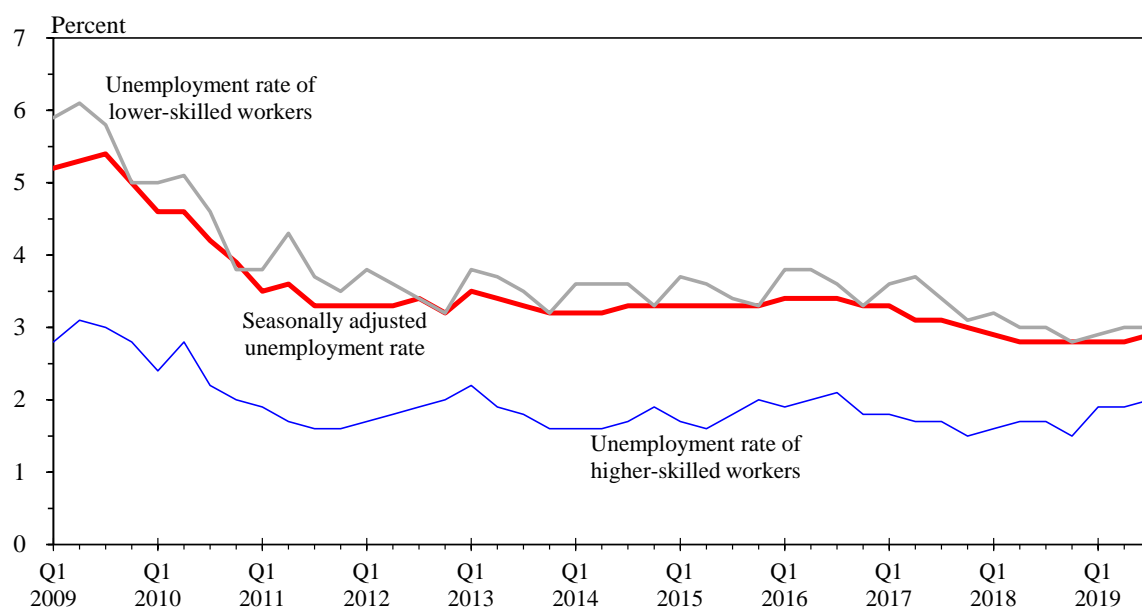


Table 5.4 : Unemployment rates* by skill segment

	<u>2018</u>				<u>2019</u>		
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
<u>Higher-skilled segment</u>	1.6	1.7	1.7	1.5	1.9	1.9	2.0
Managers and administrators	1.2	1.2	1.4	1.3	1.4	1.6	1.8
Professionals	1.1	1.0	1.4	1.5	1.6	1.7	1.1
Associate professionals	2.0	2.2	1.9	1.7	2.4	2.2	2.4
<u>Lower-skilled segment^</u>	3.2	3.0	3.0	2.8	2.9	3.0	3.0
Clerical support workers	3.3	3.1	3.1	2.3	2.2	2.8	2.6
Service and sales workers	3.9	3.8	3.5	3.4	3.2	3.4	4.1
Craft and related workers	4.8	4.2	4.4	3.8	4.7	4.8	4.6
Plant and machine operators and assemblers	1.5	1.8	1.8	1.7	2.4	1.7	2.1
Elementary occupations	2.5	2.3	2.3	2.6	2.8	2.5	2.0

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>Q2</u>	<u>Q3</u>
<u>Age</u>							
15-24	8.0	8.9	10.5	7.6	7.0	7.9	10.1
<i>of which:</i>							
15-19	9.6	12.2	10.7	8.9	7.5	10.2	12.1
20-24	7.8	8.5	10.5	7.5	6.9	7.5	9.8
25-29	3.9	3.5	3.9	3.5	3.9	3.9	3.7
30-39	1.9	2.1	1.8	1.8	1.9	2.1	2.3
40-49	2.1	2.2	2.3	2.1	2.2	2.4	2.1
50-59	2.6	2.6	2.3	2.6	2.6	2.7	2.6
≥ 60	2.1	1.8	2.1	1.9	2.4	2.1	2.2
<u>Educational attainment</u>							
Primary education and below	2.9	2.6	3.1	2.8	2.7	2.5	2.4
Lower secondary education	3.4	3.5	3.2	3.5	3.9	4.0	3.6
Upper secondary education [^]	2.8	2.8	2.6	2.6	2.5	2.7	2.8
Post-secondary education	2.6	2.7	3.2	2.4	2.6	2.7	3.1

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

^ Including craft courses.

Source : General Household Survey, Census and Statistics Department.

5.8 Other indicators for the intensity of unemployment, however, improved slightly in the third quarter. Compared with a year earlier, the number of long-term unemployed persons (i.e. unemployed for six months or longer) decreased by 600 to 22 900, with the long-term unemployment rate staying low at 0.6%. The share of long-term unemployment in total unemployment decreased by 0.8 percentage point to 19.0%, and the median duration of unemployment shortened from 58 days to 54 days. Meanwhile, the proportion of dismissal or lay-offs in the total number of unemployed persons (not including first-time job-seekers and re-entrants into the labour force) fell by 6.0 percentage points to 36.9%.

Box 5.1

The latest employment situations of the consumption- and tourism-related sectors

The consumption market has stayed weak since late 2018, in tandem with the economic slowdown. The recent social incidents with intensifying violence have dealt an additional severe blow to the consumption- and tourism-related sectors. This note takes a closer look at the latest employment situations of the retail, accommodation and food services sectors, which have experienced a plunge in business in recent months⁽¹⁾. These sectors together have employed around 600 000 people or about 15% of the economy total, with around 80% of the persons engaged in these sectors being lower-skilled workers. However, when interpreting the labour market statistics, we have to bear in mind that these indicators usually lag behind the changes in economic conditions.

The recent social incidents have not only deterred visitors from coming to Hong Kong but also caused a fall-off in consumption by local residents, leading to a precipitous decline in business of the retail, accommodation and food services sectors. Inbound tourism, which directly contributes almost 40% of the combined value-added of these sectors⁽²⁾, saw a sharp contraction in the third quarter, as visitor arrivals plummeted by 26% year-on-year⁽³⁾ and per capita visitor spending continued to weaken.

The impact on the unemployment situation of these sectors has gradually surfaced. The unemployment rate⁽⁴⁾ of these sectors taken together rose from 3.4% early this year to 3.9% in the second quarter and 4.9% in the third quarter, the highest in more than two years.

Retail

The unemployment rate of the retail sector generally edged down during 2018 and employment grew solidly (*Chart 1a*). However, as retail sales began to weaken in late 2018, employment in the sector, according to SEV data, slipped into a mild decline in June this year. The situation deteriorated visibly in recent months due to the social incidents, with the unemployment rate of the sector rising to 4.4% in the third quarter, 1.0 percentage point higher than the low level of 3.4% early this year. Indeed, retail sales volume declined by 22.9% year-on-year in August and September combined, the largest on record for a two-month period (*Chart 1b*). The austere situation, if continues, will inevitably lead to significant job loss in this sector.

-
- (1) Apart from the three sectors discussed in this note, other sectors such as transportation, travel agencies, and import/export trade and wholesale have also been directly or indirectly hard hit by the local social incidents.
 - (2) Latest available statistics indicated that inbound tourism directly contributed 31%, 22% and 86% respectively to the value-added of the retail sector, food and beverage services and accommodation services in 2017.
 - (3) Visitor arrivals, which showed a year-on-year increase of 14% in the first half of 2019, switched to a year-on-year decline since mid-July. The decline widened further from 37% in August and September combined to over 40% in October.
 - (4) All sectoral unemployment rates cited in this article are *not* seasonally adjusted. Hence, when interpreting the comparisons over time in this article, it should be mindful that they are subject to the effect of seasonality.

Box 5.1 (Cont'd)

Chart 1a: Unemployment rate of the retail sector rose visibly in recent months

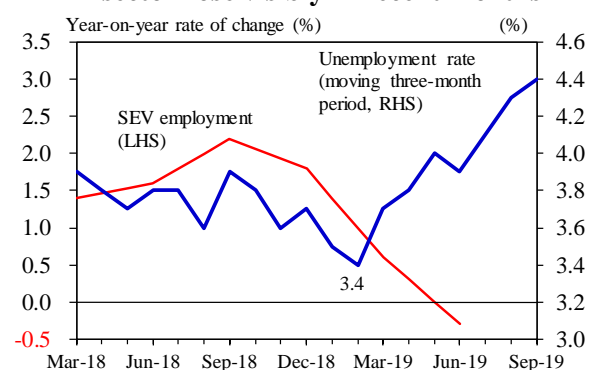
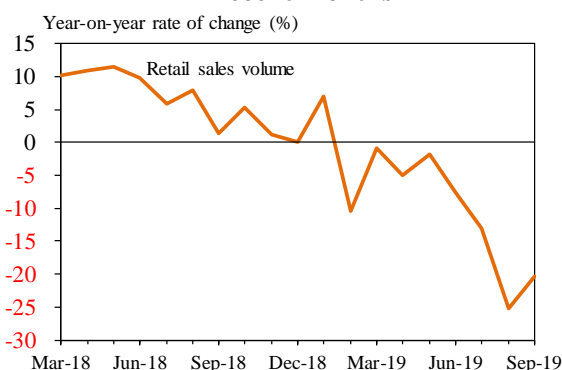


Chart 1b: Retail sales saw record declines in recent months



Sources: Quarterly Survey of Employment and Vacancies (SEV), General Household Survey (GHS), and Monthly Survey of Retail Sales, Census and Statistics Department (C&SD).

Food and beverage services⁽⁵⁾

The labour market conditions of the food and beverage services sector were likewise favourable back in 2018, with the unemployment rate trending downwards and employment registering notable growth (**Chart 2a**). However, mirroring the situation facing the retail trade, the industry's business receipts⁽⁶⁾ began to weaken in late 2018 and deteriorated sharply in the third quarter of 2019 due to the social incidents, particularly in August and September (**Chart 2b**). The sharp fall in business in the third quarter was the largest since the outbreak of SARS in 2003. The unemployment rate of this sector started to rise since early 2019, and worsened markedly after the outbreak of the social incidents, from 4.3% in the second quarter to a six-year high of 6.0% in the third quarter. As for employment in the sector, SEV data showed a moderation in growth in June. However, closures and lay-offs in this sector have been widely reported in media in recent months, pointing to a possible marked deterioration in the upcoming data.

Chart 2a: Unemployment rate of the food and beverage services sector rose to a six-year high

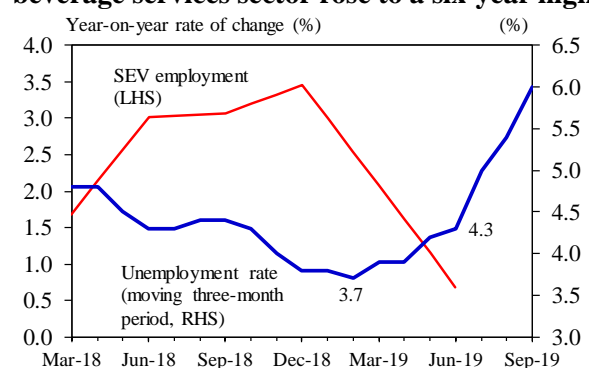
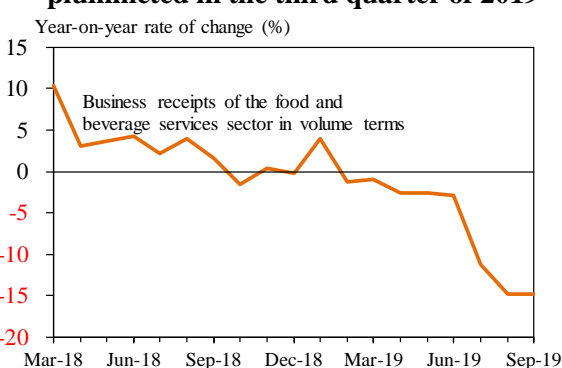


Chart 2b: Business receipts of the sector plummeted in the third quarter of 2019



Sources: SEV, GHS, and Quarterly Survey of Restaurant Receipts and Purchases, C&SD.

- (5) For clarification, "food and beverage services" sector is a sub-set of the "retail, accommodation and food services" sectors.
- (6) Based on the Quarterly Survey of Restaurant Receipts and Purchases which has the same industry coverage as "food and beverage services" in GHS.

Box 5.1 (Cont'd)

Accommodation services

The labour market conditions of the accommodation services sector were buoyant in 2018 and the early months of 2019, alongside the strong growth in business receipts of the sector. Unemployment rate of the sector decreased visibly from 2.9% in the first quarter of 2018 to 1.5% in February – April 2019 (**Chart 3a**). Employment in the sector attained notable growth in 2018 and also in early 2019. However, business receipts of the sector weakened noticeably in the second quarter of 2019, and conceivably deteriorated drastically in the third quarter alongside the plunge in overnight visitor arrivals (**Chart 3b**). Indeed, the average hotel room occupancy rate fell markedly to an average of 65% in August and September, down sharply by 25 percentage points from a year earlier. Against this background, the unemployment rate of the sector rose to 2.5% in the third quarter, 1.0 percentage point higher than that in February – April, and is likely to go up further if the social incidents with violence continue.

Chart 3a: Unemployment rate of the accommodation services sector has been going higher

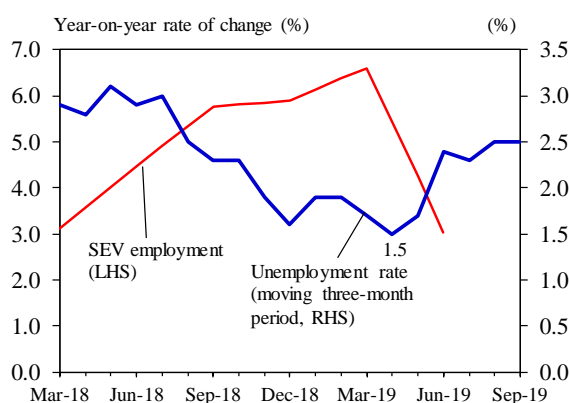
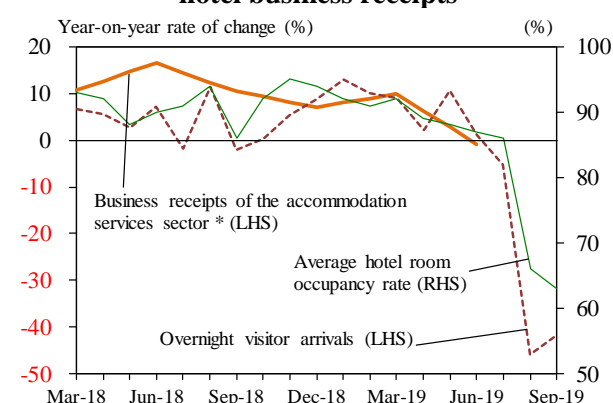


Chart 3b: The recent plunges in overnight visitor arrivals and average hotel room occupancy rate conceivably have led to a sharp contraction in hotel business receipts



Note: (*) Business receipts are based on quarterly figures.

Sources: SEV, GHS, and Quarterly Survey of Service Industries, C&SD.
Hong Kong Tourism Board.

Remarks

As the response of the labour market usually lags behind the changes in economic situation, the various employment-related indicators discussed in this note have yet to fully reflect the increasingly austere economic situation of late. The local social incidents with violence have darkened the business prospects for the consumption- and tourism-related sectors (see **Box 1.1** on business sentiment) and the job and income prospects for the workers concerned, with most of them being lower-skilled. The Government will continue to monitor the developments closely and roll out measures to support business and safeguard jobs.

Profile of underemployment

5.9 The underemployment situation remained largely stable in the third quarter of 2019. Compared with the preceding quarter, the underemployment rate stayed at 1.0%, with the number of underemployed persons little changed at 41 500. Analysed by sector, an apparent increase over the preceding quarter was seen in manufacturing whereas a visible decrease was observed in decoration, repair and maintenance for buildings. On a year-on-year basis, overall underemployment rate declined by 0.2 percentage point. Analysed by sector, visible decreases in underemployment rates from a year earlier were seen in the arts, entertainment and recreation, and decoration, repair and maintenance for buildings sectors. Analysed by occupational category, the underemployment rate of the lower-skilled segment fell by 0.2 percentage point from a year earlier to 1.5%, while that of the higher-skilled segment stayed unchanged at 0.4%.

Profile of employment in establishments

5.10 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only up to June 2019. To bring the analysis more up-to-date, attempts have been made wherever possible by drawing reference to information from supplementary sources.

5.11 Private sector employment decreased by 0.3% year-on-year to 2 863 700 in June 2019, marking its first decline since September 2009. Looking at individual sectors, the decrease in employment in import/export trade and wholesale enlarged (down 4.8%) amid shrinking trade flows, and that at construction sites (covering manual workers only) recorded another noticeable decline (down 11.5%) in tandem with falling construction activities. Reflecting the sustained weakness in the consumption market, employment in retail slipped into a mild decline (down 0.3%), while the growth in employment in food and beverage services moderated (up 0.7%). Analysed by establishment size, employment in *small and medium-sized enterprises (SMEs)*⁽⁷⁾ decreased by 1.8%, whereas that in large enterprises rose by 1.0%. As for the civil service, employment grew by 2.3% over a year earlier.

Table 5.6 : Employment by major economic sector

	<u>2018</u>					<u>2019</u>	
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>
Import/export trade and wholesale	536 600 (-0.6)	538 400 (-0.5)	537 700 (-0.6)	535 900 (-0.6)	534 400 (-0.7)	519 300 (-3.6)	511 700 (-4.8)
Retail	272 600 (1.7)	271 000 (1.4)	272 100 (1.6)	273 100 (2.2)	274 100 (1.8)	272 600 (0.6)	271 200 (-0.3)
Accommodation ^(a) and food services	291 000 (3.1)	286 200 (1.9)	290 600 (3.2)	293 100 (3.4)	294 300 (3.8)	294 000 (2.7)	293 500 (1.0)
Transportation, storage, postal and courier services	179 800 (0.6)	179 200 (0.6)	179 800 (1.2)	180 000 (0.6)	180 100 (-0.1)	180 700 (0.8)	180 300 (0.3)
Information and communications	108 500 (1.5)	106 900 (-0.3)	108 200 (1.5)	109 100 (2.3)	109 900 (2.6)	110 600 (3.4)	110 900 (2.5)
Financing, insurance, real estate, professional and business services	747 700 (2.3)	742 800 (2.0)	744 700 (2.2)	749 000 (2.5)	754 300 (2.4)	759 000 (2.2)	760 700 (2.2)
Social and personal services	523 000 (2.0)	520 000 (1.9)	521 400 (2.1)	523 000 (2.0)	527 700 (2.0)	530 900 (2.1)	533 400 (2.3)
Manufacturing	90 100 (-3.0)	90 900 (-3.9)	89 800 (-3.8)	89 400 (-2.8)	90 100 (-1.5)	88 500 (-2.6)	87 400 (-2.7)
Construction sites (covering manual workers only)	111 800 (-5.8)	120 700 (2.6)	116 100 (2.9)	107 600 (-11.4)	103 000 (-16.1)	107 400 (-11.0)	102 700 (-11.5)
<i>All establishments surveyed in the private sector^(b)</i>	<i>2 872 500 (1.1)</i>	<i>2 867 400 (1.1) <0.4></i>	<i>2 871 500 (1.4) <0.4></i>	<i>2 871 700 (1.0) <§></i>	<i>2 879 300 (0.7) <§></i>	<i>2 874 300 (0.2) <-0.1></i>	<i>2 863 700 (-0.3) <-0.1></i>
<i>Civil service^(c)</i>	<i>172 300 (2.1)</i>	<i>171 500 (2.3)</i>	<i>171 300 (2.1)</i>	<i>172 600 (2.1)</i>	<i>173 700 (2.0)</i>	<i>174 900 (2.0)</i>	<i>175 300 (2.3)</i>

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

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

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

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

() % change over a year earlier.

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

§ Change less than 0.05%.

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

Vacancies

5.12 The vacancy situation likewise slackened. The number of job vacancies in the private sector fell noticeably by 7.2% over a year earlier to 73 460 in June 2019, reversing the 3.5% increase in March.

5.13 Analysed by economic sector, year-on-year declines in vacancies were observed in many sectors in June, including food and beverage services (down 24.2%), arts, entertainment and recreation (down 23.3%), import/export trade and wholesale (down 16.9%), human health services (down 15.7%), transportation, storage, postal and courier services (down 12.2%), real estate (down 11.8%), and accommodation services (down 11.2%). On the other hand, vacancies at construction sites (covering manual workers only) rose by 33.6%, but it should be viewed in conjunction with the noticeable decrease in employment level. In terms of occupational categories, vacancies in the higher-skilled and lower-skilled segments decreased by 5.1% and 8.3% respectively. Analysed by establishment size, vacancies in large enterprises and SMEs dropped by 4.6% and 11.6% respectively. In contrast, the number of job openings in the civil service rose by 15.0% to 10 260.

5.14 Reflecting the easing labour demand, the ratio of job vacancies per 100 unemployed persons went down from the year-ago level of 70 to 64 in June. The ratio in the higher-skilled segment declined from 101 to 82, and that in the lower-skilled segment likewise from 73 to 68. Yet, manpower shortage remained acute in some sectors, such as the residential care and social work services, and human health services sectors, where the ratios remained well above 100.

Table 5.7 : Vacancies by major economic sector

	<u>Number of vacancies</u>							Vacancy rate in <u>Jun 2019</u> (%)
	<u>Annual Average</u>	<u>2018</u>					<u>2019</u>	
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	
Import/export trade and wholesale	7 490 (1.2)	7 600 (0.8)	7 780 (6.2)	7 570 (-0.6)	7 030 (-1.7)	6 800 (-10.5)	6 470 (-16.9)	1.2
Retail	8 220 (7.6)	8 110 (7.6)	7 980 (12.7)	8 010 (-1.4)	8 770 (12.4)	8 350 (2.9)	7 650 (-4.1)	2.7
Accommodation ^(a) and food services	14 230 (6.5)	14 380 (5.2)	14 360 (8.6)	14 260 (12.9)	13 910 (§)	14 700 (2.3)	11 190 (-22.1)	3.7
Transportation, storage, postal and courier services	4 360 (22.7)	4 040 (12.2)	4 660 (30.9)	4 480 (24.5)	4 250 (23.4)	4 780 (18.2)	4 090 (-12.2)	2.2
Information and communications	2 980 (9.1)	3 120 (14.6)	3 250 (19.9)	2 790 (1.4)	2 780 (0.5)	2 950 (-5.4)	3 040 (-6.3)	2.7
Financing, insurance, real estate, professional and business services	20 130 (9.3)	19 830 (6.5)	20 160 (8.7)	20 540 (12.6)	19 980 (9.3)	20 570 (3.7)	20 130 (-0.1)	2.6
Social and personal services	16 980 (17.2)	16 140 (19.9)	17 250 (31.4)	17 050 (14.3)	17 490 (6.4)	17 860 (10.6)	17 220 (-0.2)	3.1
Manufacturing	2 850 (17.5)	2 610 (1.6)	2 950 (28.9)	2 900 (29.4)	2 940 (12.9)	2 490 (-4.6)	2 660 (-9.7)	3.0
Construction sites (covering manual workers only)	700 (-34.6)	850 (49.8)	580 (-61.5)	520 (-38.0)	850 (-37.9)	870 (2.0)	780 (33.6)	0.7
<i>All establishments surveyed in the private sector^(b)</i>	<i>78 150 (9.6)</i>	<i>76 880 (9.1)</i>	<i>79 200 (13.8)</i>	<i>78 340 (10.1)</i>	<i>78 190 (5.6)</i>	<i>79 580 (3.5)</i>	<i>73 460 (-7.2)</i>	<i>2.5</i>
		<0.5>	<4.4>	<-0.6>	<1.2>	<-1.3>	<-6.3>	
<i>Civil service^(c)</i>	<i>8 960 (7.7)</i>	<i>7 540 (-13.0)</i>	<i>8 920 (5.9)</i>	<i>9 450 (14.8)</i>	<i>9 950 (24.8)</i>	<i>9 820 (30.2)</i>	<i>10 260 (15.0)</i>	<i>5.5</i>

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

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

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

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

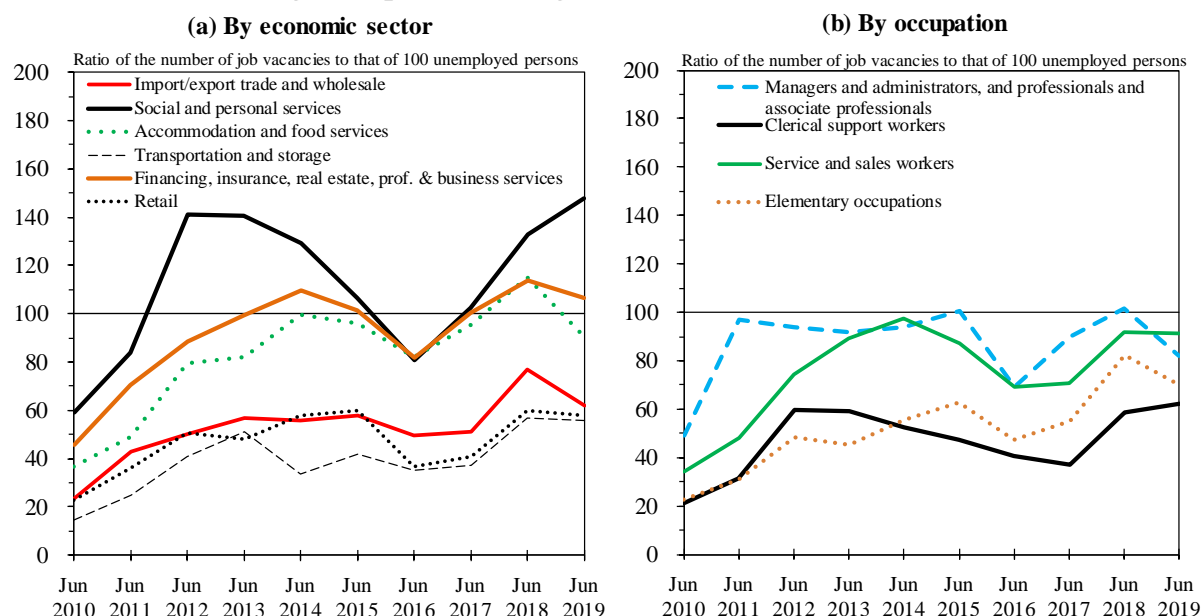
() % change over a year earlier.

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

§ 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 : Manpower situation generally eased in June 2019,
though manpower shortage remained acute in some sectors**



5.15 The vacancy rate for private sector establishments, measured in terms of the percentage of job vacancies to total employment opportunities, decreased by 0.2 percentage point from a year ago to 2.5% in June. Most sectors recorded declines in vacancy rates, with noticeable falls observed in the arts, entertainment and recreation, food and beverage services, and accommodation services sectors. Meanwhile, a notable increase in vacancy rate was seen in the residential care and social work services sector.

5.16 The vacancy registration figures compiled by the Labour Department (LD) may provide some hints on the latest developments in the labour market. The number of private sector job vacancies registered at LD went down further by 11.2% year-on-year to an average of 113 600 per month in the third quarter, with declines seen across most sectors. The decline in the third quarter was larger than that of 6.7% in the second quarter.

Wages and earnings

5.17 Nominal wages stayed on the rise in June 2019. The nominal *wage index* for all selected industry sections, which covers regular payment to employees at the supervisory level or below, went up by 3.8% year-on-year. However, due to the higher inflation rate driven by the surge in pork prices, real wages recorded a marginal decline of 0.1% after adjusting for inflation⁽⁸⁾.

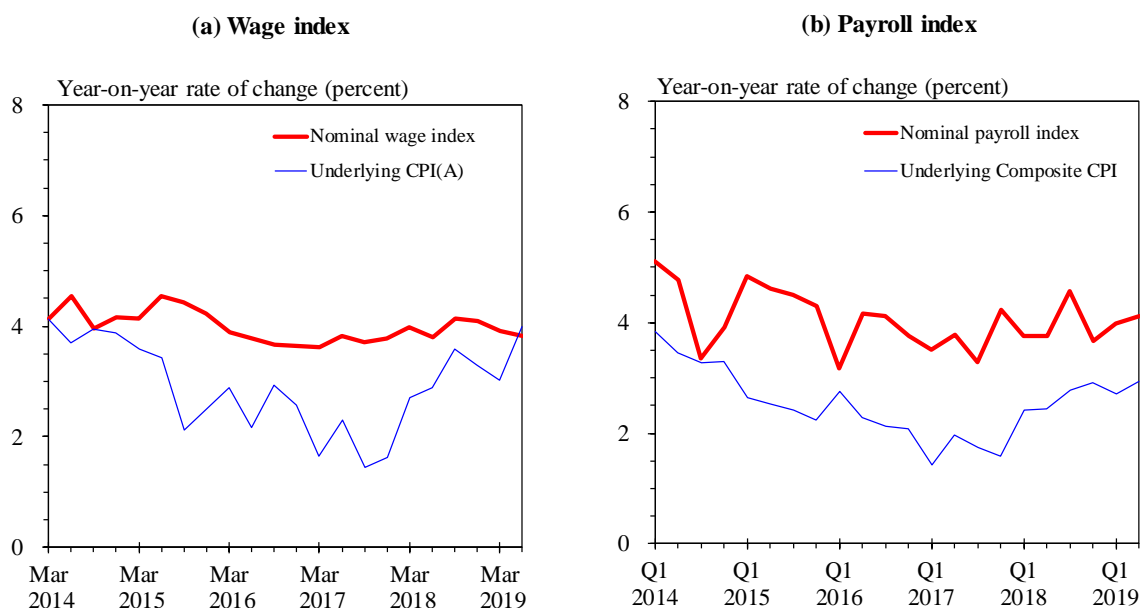
5.18 Analysed by selected industries, continued solid gains in nominal wages in June were recorded in such sectors as transportation (up 5.4%), accommodation and food service activities (up 4.4%), and real estate leasing and maintenance management (up 4.1%). Yet, wage growth in import/export, wholesale and retail trades remained relatively modest (up 2.5%). Analysed by occupation, craftsmen and operatives saw appreciable nominal wage growth (up 6.4%).

5.19 According to the Salary Indices for Managerial and Professional Employees, average salaries of the middle-level managerial and professional employees maintained solid year-on-year growth in June 2019. The Salary Index covering staff remaining in the same occupation and the same company in two consecutive years went up by 4.7% in nominal terms or 1.7% in real terms. The broader-based index, which also includes newly recruited and promoted employees, recorded an increase of 3.4% in nominal terms or 0.5% in real terms.

5.20 *Labour earnings*⁽⁹⁾, as measured by the index of payroll per person engaged for all selected industry sections, which also covers overtime pay, discretionary bonuses and other irregular payments, sustained a year-on-year increase of 4.1% in nominal terms in the second quarter. After adjusting for inflation, the growth in real terms was 1.1%.

5.21 Analysed by selected sectors, more notable increases in labour earnings were recorded in accommodation and food service activities (up 5.3%), and transportation, storage, postal and courier services (up 4.8%). Similar to the situation in wage growth, increases in labour earnings in import/export and wholesale trades (up 2.7%) and retail trade (up 2.5%) remained relatively modest amid subdued businesses.

**Diagram 5.6 : Wages and earnings stayed on the rise
in the second quarter of 2019**



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

5.22 More recent statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, indicated that the *average monthly employment earnings*⁽¹⁰⁾ of full-time employees (excluding foreign domestic helpers) of the lowest three decile groups combined increased by 3.8% year-on-year in nominal terms in the third quarter, similar to the 3.7% increase in the second quarter. However, this was somewhat lower than the inflation rate measured in terms of the Consumer Price Index (A) in the third quarter, which was driven up by the surge in pork prices. Separately, the average monthly employment earnings of all full-time employees (excluding foreign domestic helpers) increased by 4.7% year-on-year in nominal terms in the third quarter, visibly slower than the 8.4% growth in the second quarter. Meanwhile, the median monthly household income (excluding foreign domestic helpers) slipped into a year-on-year decline of 1.0% in nominal terms in the third quarter from an increase of 5.6% in the second quarter, partly reflecting the high base of comparison in the same quarter last year (when there was a year-on-year increase of 8.4%) and the drag from demographic changes. Another factor was the abruptly worsened economic situation in the third quarter, although more observations would be needed to ascertain the extent of such impact.

Highlights of labour-related measures and policy developments

5.23 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job seekers on the spot. In the first three quarters of 2019, LD organised 12 large-scale job fairs in North District, Kowloon Tong, Mong Kok, Wanchai, Sha Tin, Yau Tong and Sham Shui Po. A total of 382 participating organisations offered more than 29 800 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.

5.24 The increase of the Statutory Minimum Wage (SMW) rate to \$37.5 per hour with effect from 1 May 2019 has been operating smoothly. In September 2019, the Minimum Wage Commission conducted focused consultation meetings with stakeholders of low-paying sectors to gauge their views of the implementation and uprating of SMW.

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 2017 – January 2018 to October – December 2018 have been revised to take into account the final end-2018 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. The CPI(C), meanwhile, reflects consumer prices for the relatively high expenditure group and is thus used as the price deflator for salary of managerial and professional employees.
- (9) In addition to wages, which include all regular and guaranteed payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (10) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.

CHAPTER 6 : PRICES

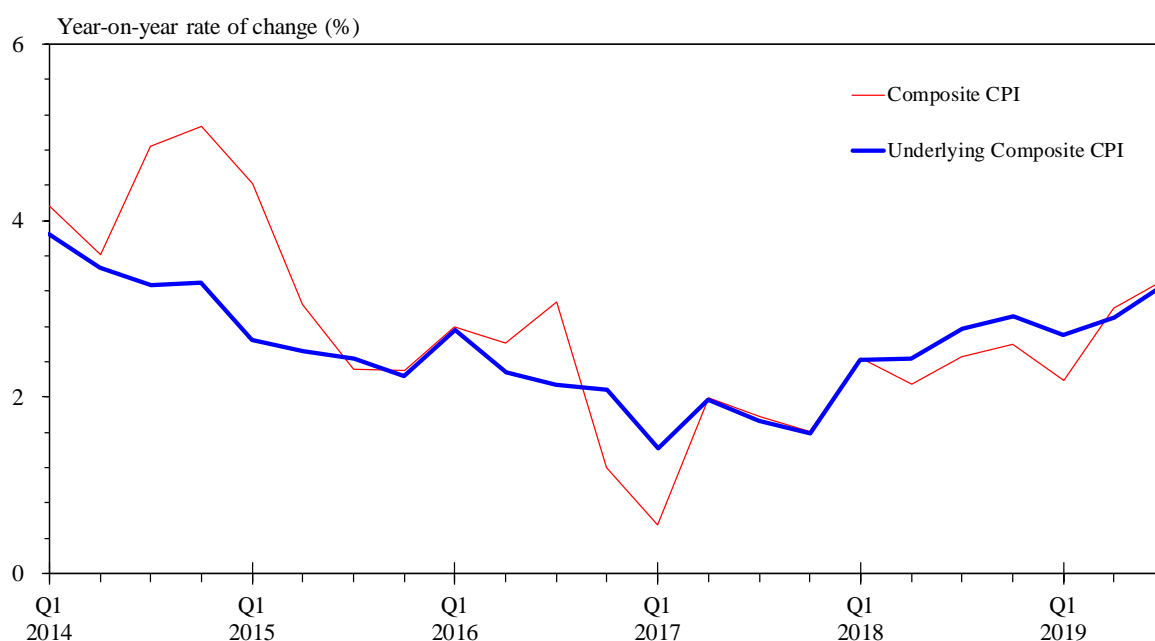
Summary

- *Consumer price inflation went up further in the third quarter of 2019, mainly due to an accelerated increase in pork prices amid continued disruptions to the supply of fresh pork. 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, rose from 2.9% in the second quarter to 3.3% in the third quarter, to which the increase in pork prices directly contributed 1.0 percentage point. Price pressures on other major consumer price index components remained largely moderate along with subdued local economic conditions. The headline Composite CPI inflation rate likewise went up from 3.0% to 3.3%.*
- *Domestically, the year-on-year increase in private housing rentals has been generally moderating since late 2018. On business costs, labour costs continued to increase steadily, whereas pressures on commercial rental costs eased slightly amid a weak economy.*
- *External price pressures eased further in the third quarter. In tandem with slower global economic growth, inflation in many major import sources⁽²⁾ moderated, and international commodity and energy prices remained generally soft. These, together with the appreciation of the Hong Kong dollar along with the US dollar against other major currencies over the past year or so, helped reduce somewhat price pressures on imports.*

Consumer prices

6.1 Consumer price inflation went up further in the third quarter of 2019, mainly driven by an accelerated increase in pork prices amid continued disruptions to the supply of fresh pork. Domestically, the year-on-year increase in private housing rentals has been generally moderating since late 2018. As to business costs, wages and earnings continued to rise steadily, while pressures on commercial rental costs eased slightly amid a weak economy. Reportedly some landlords of commercial properties offered temporary rental relief to help their tenants get through the difficult business environment in view of the local social incidents. Meanwhile, external price pressures abated further. Against the backdrop of slower global economic growth, inflation in many major import sources moderated, and global commodity and energy prices remained generally soft. These, together with the strengthening of the Hong Kong dollar along with the US dollar vis-à-vis other major currencies in the past year or so, helped mitigate somewhat price pressures on imports.

Diagram 6.1: Consumer price inflation went up further in the third 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, went up further from 2.9% in the second quarter to 3.3% in the third quarter. Nevertheless, the pick-up was mainly due to continued disruptions to the supply of fresh pork that led to a sharp increase in pork prices, which directly contributed 1.0 percentage point to the underlying inflation rate in the third quarter (See **Box 6.1** for details of the impact of surging pork prices on consumer price inflation). Price pressures on other major consumer price index components stayed largely moderate amid subdued local economic conditions. Meanwhile, the headline Composite CPI inflation rate went up from 3.0% to 3.3%.

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	H1	2.8	2.6	3.0	2.4	2.4
	Q1	2.7	2.2	2.6	2.1	2.0
	Q2	2.9	3.0	3.3	2.8	2.8
	Q3	3.3	3.3	3.9	3.1	3.0

(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
	Q2	1.0	1.2	1.2	1.2	1.1
	Q3	0.9	1.0	1.3	0.8	0.7

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.

Box 6.1

Impact of surging pork prices on consumer price inflation

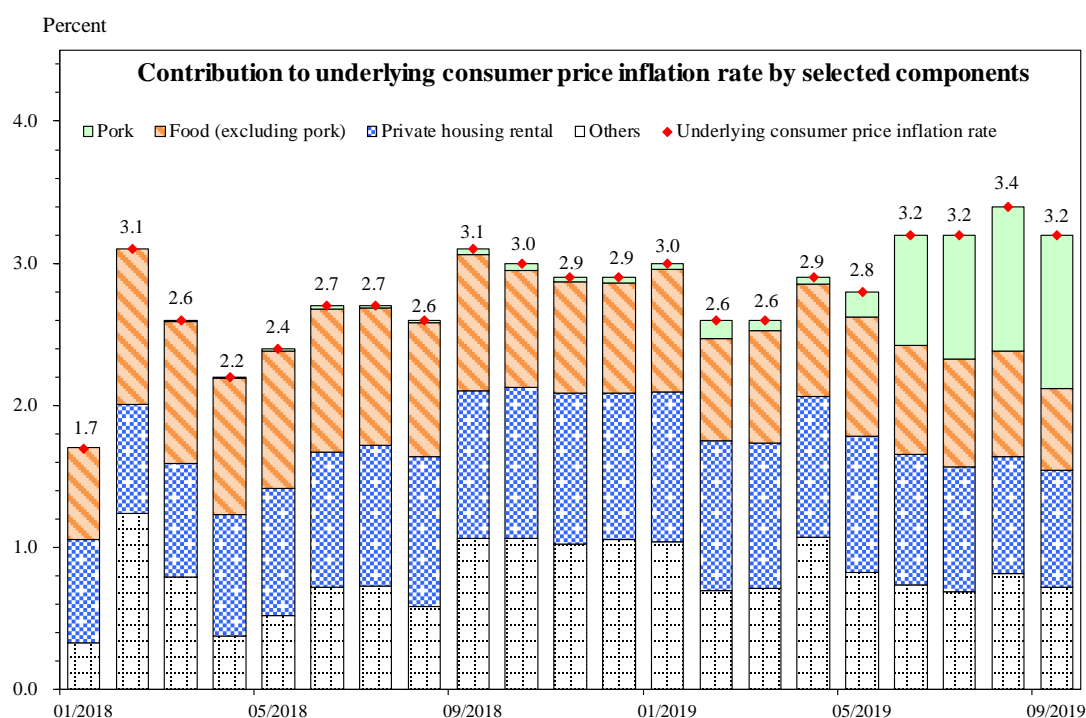
Further to the occurrence of two African Swine Fever (ASF) cases in Hong Kong in May 2019, the supply of live pigs from the Mainland has remained at a low level and prices of fresh pork has surged in the past few months. This box article examines the direct impact of surging pork prices on inflation and its possible spillover effects on prices of other related food items.

Direct impact on consumer price inflation

The Mainland is the major source of live pigs for Hong Kong, contributing over 90% of the total supply in 2018. The supply of live pigs from the Mainland has tumbled since mid-May 2019. Despite the largely steady supply from local pig farms, the overall average daily supply⁽¹⁾ of live pigs plunged from almost 4 000 in the first four months of 2019 to around 3 000 in May and further to about 1 800 during June – September.

Amid disruptions to the supply of live pigs, the year-on-year price increase for the pork component⁽²⁾ of the Composite CPI picked up from an average of 6.1% in January – April 2019 to 15.2% in May, then jumped to 66.1% in June and further to 84.7% in the third quarter. With a weighting of 1.08% in the Composite CPI, the surge in pork prices directly contributed 1.0 percentage point to the underlying inflation rate in the third quarter. This was markedly larger than the virtually zero contribution in 2018 and 0.2 percentage point contribution in the first half of 2019. As price pressures on other major consumer price index components stayed largely moderate alongside subdued local economic conditions, the accelerated increase in pork prices was the main culprit behind the rise in underlying consumer price inflation in the third quarter of 2019 (*Chart 1*).

Chart 1: The rise in underlying inflation in the third quarter of 2019 mainly reflected higher pork prices



Source: Census and Statistics Department.

- (1) The average daily supply in a particular month is computed by dividing the total monthly supply by the number of calendar days in the month.
- (2) The pork component in the Composite CPI is mainly constituted of fresh pork, with minor contribution from chilled pork.

Box 6.1 (Cont'd)

Spillover effects on other food items

Direct impact aside, the surge in pork prices could also add price pressures on other basic foodstuffs, as some consumers may substitute other types of meat (e.g. beef and frozen meat) for fresh pork. Indeed, prices of beef and frozen meat rose by 5.5% and 4.3% respectively in the third quarter, faster than the corresponding increases of 4.2% and 3.2% in the first half of the year. Nonetheless, the resultant impact on overall CPI inflation was limited partly due to their small weightings⁽³⁾.

Furthermore, prices of meals bought away from home could show a larger increase if restaurants were to pass on the higher pork prices to customers. Yet, the year-on-year increase in this particular Composite CPI component remained moderate at 2.1% in the third quarter, broadly on par with that in the first half of this year. Conceivably, subdued local economic conditions have made it difficult for restaurants to raise prices in recent months.

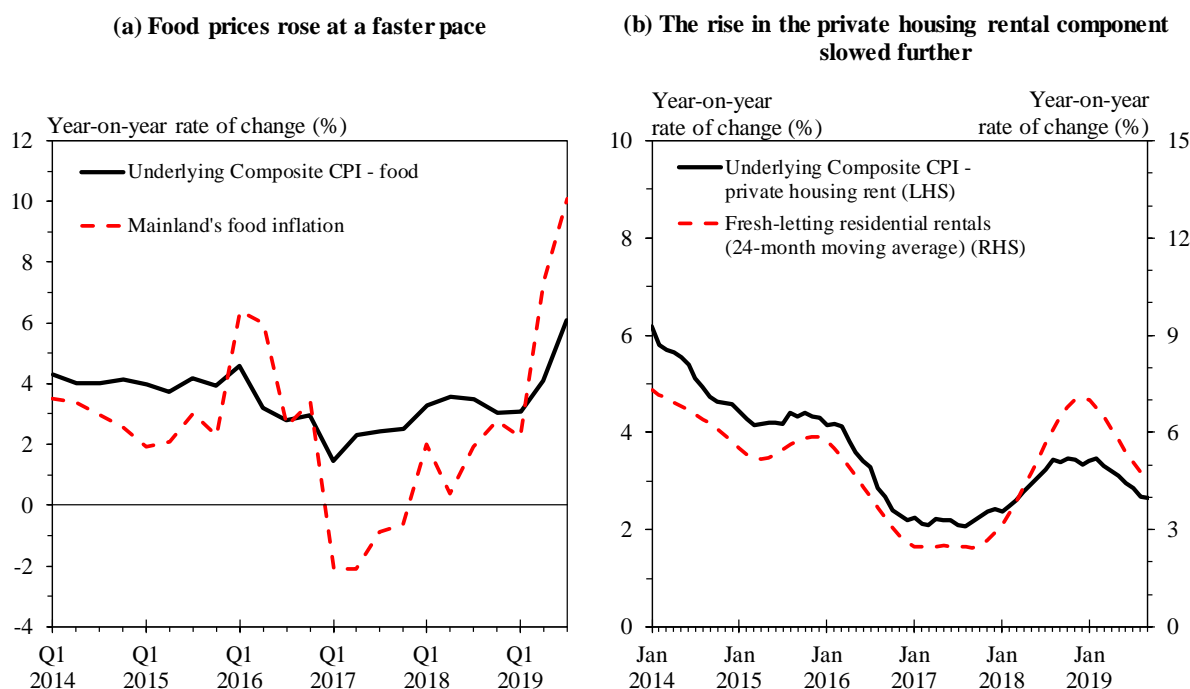
Conclusion

The increase in underlying consumer price inflation from 2.9% in the second quarter to 3.3% in the third quarter was mainly attributable to the direct impact of the upsurge in pork prices. Looking ahead, as it takes time for the supply of live pigs to return to normal levels, pork prices and thus overall consumer price inflation will likely stay somewhat elevated in the coming months. The Government will continue to monitor the inflation situation closely, particularly the impact on the lower-income people.

(3) The combined contribution to the underlying inflation rate from beef (weighting: 0.21%) and frozen meat (weighting: 0.41%) was less than 0.1 percentage point in the third quarter.

6.3 Analysed by major component of the underlying Composite CPI, prices of food, the component with the largest weight other than housing, rose at a faster year-on-year rate of 6.1% in the third quarter, within which prices of basic foodstuffs rose visibly by 13.4%, the largest increase since the fourth quarter of 2008, reflecting the surge in pork prices amid the reduced supply of fresh pork. On the other hand, the rise in the private housing rental component narrowed further to 2.7%, as the generally slower increase in fresh-letting residential rentals since late 2018 continued to feed through. The public housing rental component also saw a smaller increase as the effect of upward adjustment in public housing rentals in September last year began to dissipate. Meanwhile, prices of miscellaneous goods and prices of transport rose moderately. Prices of electricity, gas and water, and prices of miscellaneous services rose at a slower pace, with the latter due to the smaller increase in charges for package tours. Prices of clothing and footwear continued to fall, while prices of durable goods stayed on a secular downtrend.

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



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

Diagram 6.3 (a) : Price pressures on many major underlying consumer price index components stayed largely moderate in the third quarter of 2019

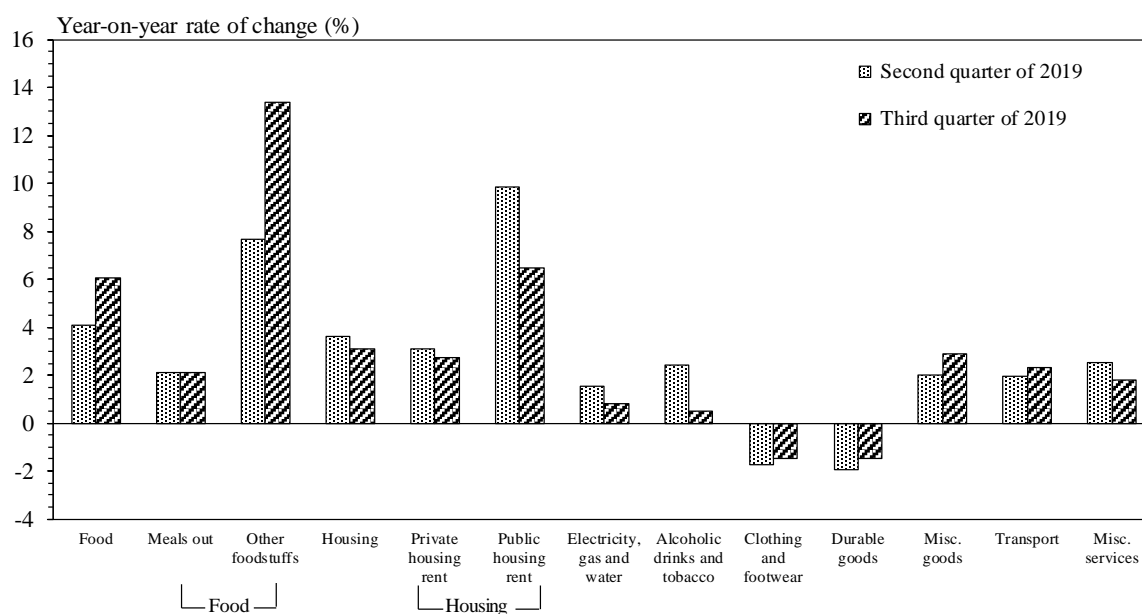
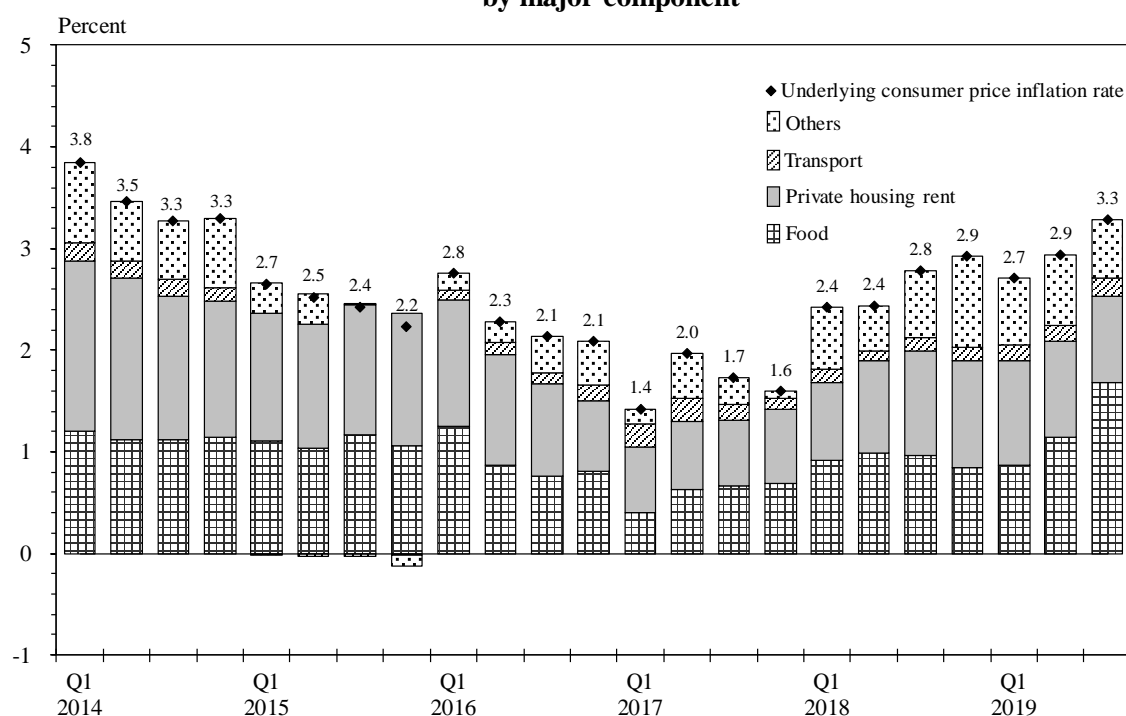


Diagram 6.3 (b) : Contribution to underlying consumer price inflation rate by major component



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

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>Annual</u>	<u>2018</u>				<u>2019</u>		
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Food	27.29	3.4	3.3	3.6	3.5	3.0	3.1	4.1	6.1
<i>Meals bought away from home</i>	17.74	2.9	3.0	3.0	2.9	2.6	2.3	2.1	2.1
<i>Other foodstuffs</i>	9.55	4.3	3.8	4.9	4.8	3.7	4.6	7.7	13.4
Housing ^(a)	34.29	3.2 (2.5)	2.5 (2.5)	2.9 (2.0)	3.4 (2.5)	3.9 (3.0)	3.9 (2.9)	3.6 (4.2)	3.1 (3.7)
<i>Private housing rent</i>	29.92	3.1 (2.2)	2.5 (2.5)	3.0 (1.9)	3.4 (2.3)	3.4 (2.4)	3.4 (2.3)	3.1 (3.8)	2.7 (3.4)
<i>Public housing rent</i>	1.94	3.6 (4.1)	0.1 (0.4)	0.5 (0.4)	3.6 (4.1)	10.1 (11.6)	10.1 (11.6)	9.8 (10.9)	6.5 (6.9)
Electricity, gas and water	2.67	4.7 (4.9)	8.4 (8.3)	3.5 (3.7)	3.6 (3.8)	3.7 (4.0)	1.4 (-4.9)	1.5 (-4.8)	0.8 (-5.6)
Alcoholic drinks and tobacco	0.54	1.3	0.3	0.6	1.7	2.7	2.7	2.4	0.5
Clothing and footwear	3.21	1.6	2.3	2.0	2.3	0.1	-0.2	-1.7	-1.5
Durable goods	4.65	-2.0	-2.1	-2.1	-2.0	-1.9	-2.1	-2.0	-1.5
Miscellaneous goods	3.56	1.3	1.1	1.3	1.5	1.4	1.6	2.0	2.9
Transport	7.98	1.6	1.7	1.3	1.7	1.7	1.9	2.0	2.3
Miscellaneous services	15.81	2.1 (2.1)	1.7 (1.7)	1.4 (1.4)	2.1 (2.1)	3.1 (3.0)	1.9 (1.8)	2.5 (2.5)	1.8 (1.7)
All items	100.00	2.6 (2.4)	2.4 (2.4)	2.4 (2.1)	2.8 (2.5)	2.9 (2.6)	2.7 (2.2)	2.9 (3.0)	3.3 (3.3)

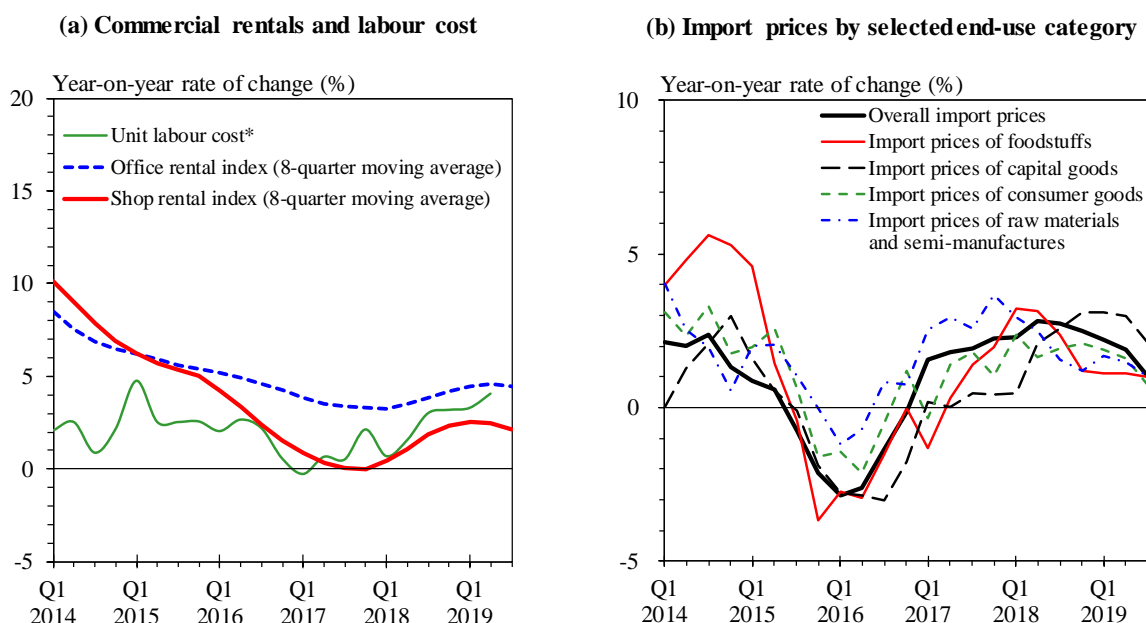
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public housing rents as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public housing 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 stable in the third quarter of 2019. Nominal wages and earnings continued to see steady increases despite some signs of easing in the labour market, whereas the pressures on commercial rental costs eased slightly amid sluggish local economic conditions. As a proxy for the rental costs faced by businesses, the year-on-year increases in the eight-quarter moving averages of office and shop rentals narrowed somewhat to 4.5% and 2.2% respectively in the third quarter. Reportedly, in response to the local social incidents, some landlords of commercial properties provided tenants with temporary rental relief in recent months to help alleviate their cost burdens, particularly those in the consumption- and tourism-related sectors.

**Diagram 6.4 : Local cost pressures were largely stable;
external price pressures eased further**



Note : (*) Unit labour costs 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.

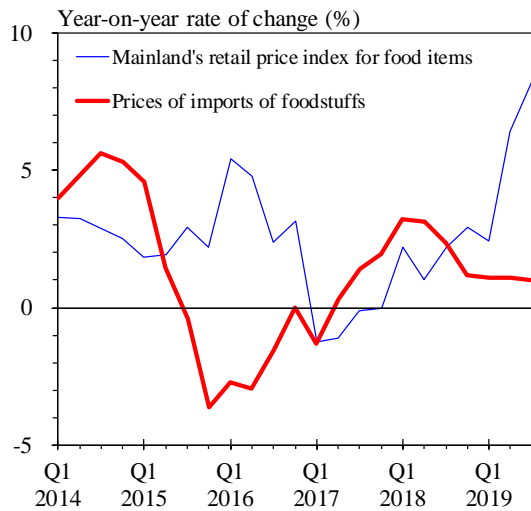
6.5 External price pressures eased further in the third quarter. In tandem with slower global economic growth, inflation in many major import sources moderated and global commodity and energy prices stayed generally soft. These, together with the appreciation of the Hong Kong dollar along with the US dollar against other major currencies over the past year or so, saw the increase in overall import prices moderating from 1.9% year-on-year in the second quarter to 1.0% in the third quarter. The increases in import prices of all major end-use categories showed moderation of varying degrees. Specifically, the increases in import prices of foodstuffs edged down to 1.0%, while those of capital goods, raw materials and semi-manufactures, and consumer goods eased to 2.1%, 1.0% and 0.7% respectively. As international oil prices went sharply lower than their year-ago levels, import prices of fuels recorded an enlarged decline of 11.3%.

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

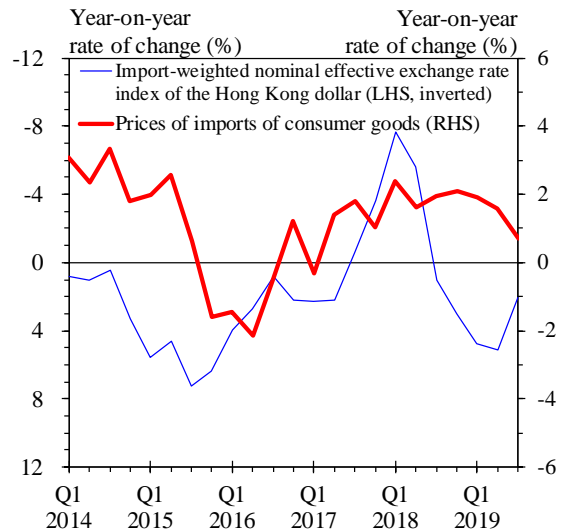
		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2018	Annual	2.4	2.0	2.0	24.9	2.1	2.6
	H1	3.2	2.0	2.7	23.3	1.3	2.6
	H2	1.8	2.0	1.4	26.6	2.8	2.6
	Q1	3.2	2.4	2.9	16.0	0.5	2.3
	Q2	3.1	1.6	2.5	30.4	2.1	2.8
	Q3	2.4	1.9	1.6	34.4	2.6	2.7
	Q4	1.2	2.1	1.2	19.5	3.1	2.5
2019	H1	1.1	1.7	1.6	-0.7	3.0	2.0
	Q1	1.1	1.9	1.7	1.3	3.1	2.2
	Q2	1.1	1.6	1.5	-2.2	3.0	1.9
	Q3	1.0	0.7	1.0	-11.3	2.1	1.0

Diagram 6.5: Import prices by end-use category

(a) Increase in import prices of foodstuffs edged down

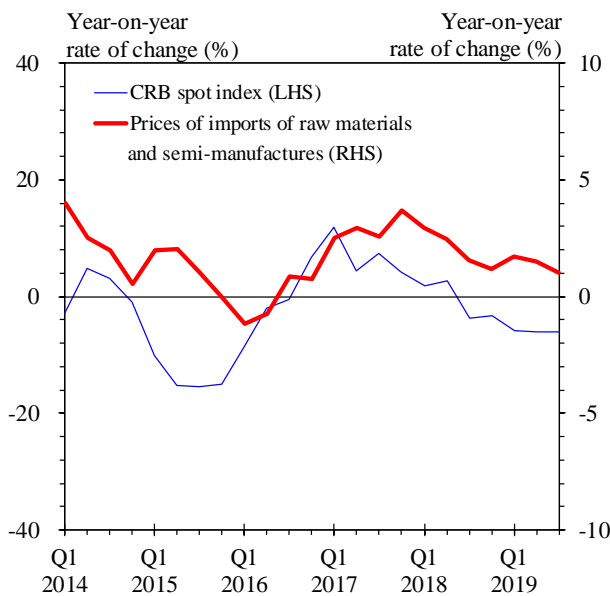


(b) Increase in import prices of consumer goods eased

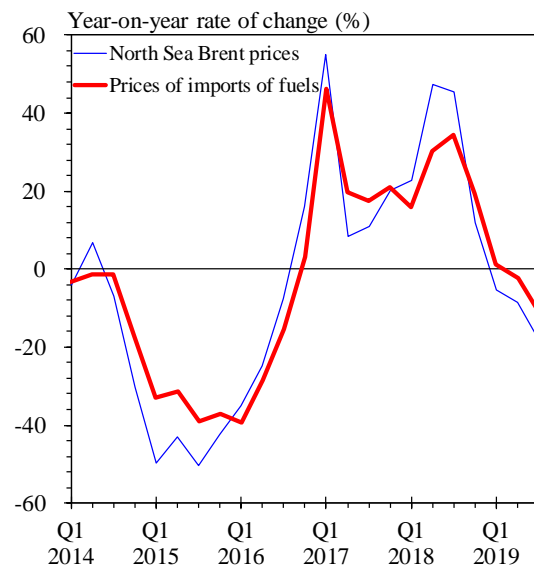


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

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



(d) Import prices of fuels recorded an enlarged decline



Output prices

6.6 Output prices, as measured by the *Producer Price Indices*⁽³⁾, generally softened in the second quarter of 2019. For the manufacturing sector, output prices continued to show a modest increase. Among the selected service sectors, output prices for accommodation services relapsed into a decline as inbound tourism slackened. As regional trade flows slowed further amid a weaker global economy and escalated US-Mainland trade tensions, output prices for air transport recorded an enlarged decline and those for water transport softened to show a decrease. The increase in output prices for land transport also eased. On the other hand, output prices for courier services reverted to a modest increase after declining for three consecutive quarters. Meanwhile, output prices for telecommunications services stayed on the secular downtrend and registered a deeper decline, owing to technological advancement and keen competition.

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

	<u>2017</u>		<u>2018</u>				<u>2019</u>	
<u>Industry group</u>	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Manufacturing	3.8	2.0	3.8	3.7	*	0.3	0.7	0.8
Selected service sectors ^(a)								
Accommodation services	2.0	4.4	4.5	4.7	3.9	4.5	1.0	-1.5
Land transport	1.0	1.4	0.7	1.2	2.0	1.5	2.0	1.6
Water transport	3.3	2.5	3.6	0.6	1.3	4.4	2.1	-1.4
Air transport	2.4	8.1	9.7	9.6	8.7	4.6	-0.7	-2.9
Telecommunications	-3.2	-3.4	-3.5	-2.3	-3.4	-4.7	-2.6	-3.8
Courier services	3.8	-2.5	3.3	3.9	-6.3	-10.3	-4.9	0.5

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.

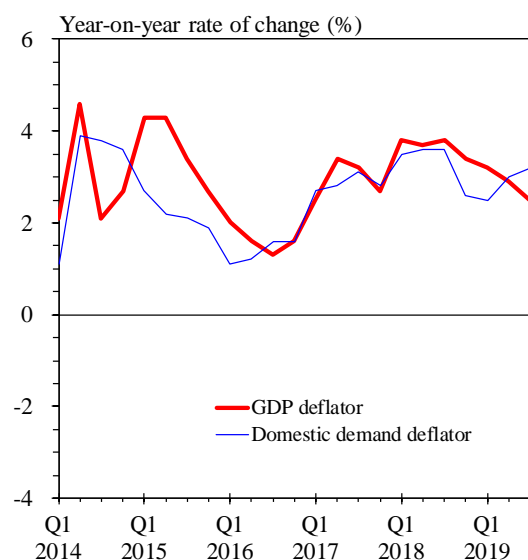
(*) Change within $\pm 0.05\%$.

GDP deflator

6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*⁽⁴⁾ rose by 2.5% in the third quarter of 2019 over a year earlier, 0.4 percentage point lower than in the preceding quarter. The *terms of trade*⁽⁵⁾ deteriorated slightly over a year earlier as the rise in export prices was somewhat slower than that in import prices. Taking out the external trade components, the domestic demand deflator saw a year-on-year increase of 3.2% in the third quarter, 0.2 percentage point larger than in the preceding quarter.

Diagram 6.6: GDP deflator

(a) The year-on-year increase in GDP deflator was lower than in the preceding quarter



(b) Terms of trade deteriorated slightly over a year earlier

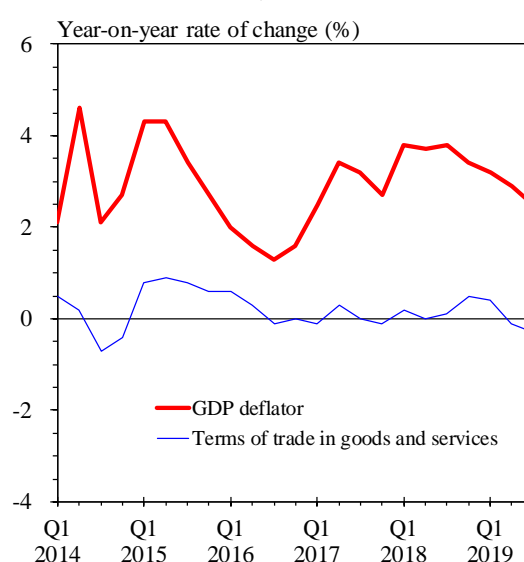


Table 6.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))

	<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>	<u>Q2[#]</u>	<u>Q3[#]</u>
Private consumption expenditure	2.5	3.1	4.0	3.6	2.8	2.3	1.9	2.7	3.2
Government consumption expenditure	2.5	3.1	2.0	3.0	3.8	3.8	4.1	4.6	4.5
Gross domestic fixed capital formation	4.5	4.1	2.4	4.0	6.0	3.9	3.8	2.7	1.9
Total exports of goods ^{&}	1.7	2.2	2.7	2.5	2.0	1.7	1.8	1.4	1.0
Imports of goods ^{&}	1.8	2.3	2.5	2.6	2.5	1.8	1.7	1.7	1.3
Exports of services ^{&}	3.2	4.5	5.2	5.0	4.8	3.4	1.0	0.3	-0.2
Imports of services ^{&}	2.6	2.6	6.2	4.7	0.7	-0.6	-1.7	-1.5	-0.2
Gross Domestic Product	3.0	3.6	3.8 <1.8>	3.7 <0.8>	3.8 <0.6>	3.4 <0.3>	3.2 <1.4>	2.9 <0.5>	2.5 <0.3>
Total final demand ^{&}	2.2	2.8	3.2	3.1	2.8	2.2	2.0	1.9	1.6
Domestic demand	2.9	3.3	3.5	3.6	3.6	2.6	2.5	3.0	3.2
Terms of trade in goods and services ^{&}	*	0.2	0.2	*	0.1	0.5	0.4	-0.1	-0.3

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

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

([^]) 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
<i>Per capita GDP (\$)</i>	<i>237,960</i>	<i>252,887</i>	<i>273,549</i>	<i>284,899</i>	<i>297,860</i>	<i>312,609</i>
GNI	1,709,007	1,813,928	1,987,256	2,066,514	2,178,824	2,306,612
<i>Per capita GNI (\$)</i>	<i>245,096</i>	<i>258,240</i>	<i>281,019</i>	<i>289,019</i>	<i>303,504</i>	<i>319,056</i>
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> Q4 [#]	Q1 [#]	<u>2019</u> Q2 [#]	Q3 [#]
Private consumption expenditure	1,593,091	1,649,941	1,785,499	1,942,606	503,072	486,905	509,566	472,275
Government consumption expenditure	231,263	247,973	261,474	280,980	71,573	77,880	73,487	77,808
Gross domestic fixed capital formation	537,205	535,216	575,991	611,616	158,452	137,927	139,360	134,833
Building and construction	262,780	283,447	297,343	307,600	77,387	79,684	69,388	71,706
Costs of ownership transfer	45,846	44,517	65,810	67,484	11,989	11,032	17,801	10,664
Machinery, equipment and intellectual property products	228,579	207,252	212,838	236,532	69,076	47,211	52,171	52,463
Changes in inventories	-20,580	447	10,973	5,939	-4,424	-7,440	-3,414	-592
Total exports of goods ^{&}	3,889,225	3,892,886	4,212,774	4,461,275	1,185,476	1,000,455	1,025,024	1,113,208
Imports of goods ^{&}	4,066,527	4,022,579	4,391,306	4,715,580	1,224,018	1,067,013	1,098,029	1,113,555
Exports of services ^{&}	808,948	764,839	812,937	891,367	231,233	234,817	203,474	193,221
Imports of services ^{&}	574,345	578,106	605,506	635,320	166,460	151,017	151,424	154,367
GDP	2,398,280	2,490,617	2,662,836	2,842,883	754,904	712,514	698,044	722,831
<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	774,053	735,520	759,063	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	2,145,382	1,930,544	1,947,497	1,990,753
Total final demand excluding re-exports ^(a)	4,139,786	4,190,705	4,499,279	4,833,300	1,265,851	1,185,992	1,164,647	1,156,291
Domestic demand	2,340,979	2,433,577	2,633,937	2,841,141	728,673	695,272	718,999	684,324
Private	1,991,436	2,062,056	2,241,582	2,425,070	623,876	575,117	618,060	575,227
Public	349,543	371,521	392,355	416,071	104,797	120,155	100,939	109,097
External demand	4,698,173	4,657,725	5,025,711	5,352,642	1,416,709	1,235,272	1,228,498	1,306,429

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:	
					Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]	10 years 2008 to 2018 [#]	5 years 2013 to 2018 [#]
Private consumption expenditure	4.8	2.0	5.6	5.5	2.7	0.4	1.3	-3.4	4.4	4.2
Government consumption expenditure	3.4	3.4	2.8	4.2	4.9	4.5	4.0	5.9	3.1	3.4
Gross domestic fixed capital formation	-3.2	-0.1	2.9	2.0	-5.8	-7.0	-10.8	-16.3	2.4	0.3
Building and construction	2.2	5.9	-0.5	-0.6	-4.9	-3.5	-9.3	-5.7	3.3	3.2
Costs of ownership transfer	-8.3	-2.9	21.1	-8.3	-43.2	-38.0	-12.9	-21.8	-4.8	1.1
Machinery, equipment and intellectual property products	-7.7	-6.4	3.8	8.9	4.7	-1.7	-12.1	-26.6	2.5	-2.3
Total exports of goods ^{&}	-1.7	1.6	6.5	3.6	*	-3.7	-5.4	-7.1	3.1	2.1
Imports of goods ^{&}	-2.7	0.7	7.3	4.9	-0.5	-4.2	-6.7	-11.2	4.4	2.3
Exports of services ^{&}	0.3	-3.5	2.9	4.9	3.3	0.8	-1.1	-13.8	3.7	1.2
Imports of services ^{&}	5.0	2.0	2.1	2.3	2.1	-1.5	1.3	-4.0	0.5	1.8
GDP	2.4	2.2	3.8	3.0	1.2	0.6	0.4	-2.9	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	2.1	1.0	0.7	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	0.3	-2.3	-3.7	-7.8	3.4	2.4
Total final demand excluding re-exports ^(a)	0.1	1.5	4.6	4.0	0.5	-0.4	-2.5	-8.1	3.0	2.1
Domestic demand	1.6	2.6	5.2	4.4	-0.3	-1.2	-1.8	-7.2	3.9	3.3
Private	1.3	2.5	5.7	4.8	-0.4	-2.1	-1.8	-9.0	3.8	3.4
Public	2.9	3.1	2.2	2.6	0.5	3.5	-2.0	3.7	4.5	3.1
External demand	-1.4	0.7	5.9	3.8	0.5	-2.9	-4.7	-8.2	3.2	2.0

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

	<u>2014</u>		<u>2015</u>		<u>2016</u>		<u>2017[#]</u>		<u>2018[#]</u>	
	\$Mn	%	\$Mn	%	\$Mn	%	\$Mn	%	\$Mn	%
Agriculture, fishing, mining and quarrying	1,496	0.1	1,630	0.1	1,898	0.1	1,736	0.1	1,762	0.1
Manufacturing	27,885	1.3	26,716	1.1	26,844	1.1	27,299	1.1	27,749	1.0
Electricity, gas and water supply, and waste management	35,636	1.6	34,653	1.5	34,414	1.4	34,978	1.4	35,339	1.3
Construction	96,205	4.4	107,902	4.6	124,932	5.2	129,714	5.1	120,536	4.5
Services	2,044,750	92.7	2,154,541	92.7	2,229,760	92.2	2,357,363	92.4	2,516,762	93.1
<i>Import/export,</i>										
<i>wholesale and retail trades</i>	531,541	24.1	527,822	22.7	525,526	21.7	548,636	21.5	575,902	21.3
<i>Accommodation^(a) and</i>										
<i>food services</i>	78,725	3.6	78,134	3.4	79,682	3.3	83,507	3.3	91,148	3.4
<i>Transportation, storage,</i>										
<i>postal and courier services</i>	137,658	6.2	150,073	6.5	149,742	6.2	153,359	6.0	159,724	5.9
<i>Information and</i>										
<i>communications</i>	77,761	3.5	80,813	3.5	84,208	3.5	86,891	3.4	91,141	3.4
<i>Financing and insurance</i>	367,989	16.7	409,933	17.6	428,903	17.7	480,488	18.8	536,877	19.9
<i>Real estate, professional and</i>										
<i>business services</i>	239,434	10.9	252,714	10.9	266,139	11.0	274,822	10.8	280,674	10.4
<i>Public administration, social</i>										
<i>and personal services</i>	379,588	17.2	407,405	17.5	436,912	18.1	465,492	18.2	497,990	18.4
<i>Ownership of premises</i>	232,053	10.5	247,648	10.6	258,649	10.7	264,166	10.4	283,308	10.5
GDP at basic prices	2,205,972	100.0	2,325,443	100.0	2,417,849	100.0	2,551,090	100.0	2,702,148	100.0
Taxes on products	83,236	--	95,433	--	83,743	--	110,698	--	118,131	--
Statistical discrepancy (%)	-1.3	--	-0.9	--	-0.4	--	*	--	0.8	--
GDP at current market prices	2,260,005	--	2,398,280	--	2,490,617	--	2,662,836	--	2,842,883	--

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>		<u>2019</u>	
							Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Agriculture, fishing, mining and quarrying	4.9	-6.0	-6.8	-2.0	-5.2	-1.5	-0.1	2.5	1.6	1.4
Manufacturing	0.1	-0.4	-1.5	-0.4	0.4	1.3	1.2	1.2	1.4	0.4
Electricity, gas and water supply, and waste management	-2.9	0.8	-2.6	-0.8	0.9	0.2	-4.6	-0.7	-0.5	-1.3
Construction	4.2	13.0	5.4	5.1	-1.3	0.1	2.6	-4.4	-2.6	-9.0
Services	2.7	2.5	1.7	2.3	3.6	3.4	3.1	2.4	1.9	1.3
<i>Import/export, wholesale and retail trades</i>	3.3	1.2	-1.1	0.6	4.2	4.5	5.2	2.0	-0.8	-3.7
<i>Accommodation^(a) and food services</i>	3.6	2.2	-1.9	0.5	2.0	3.9	3.6	1.7	2.8	-1.3
<i>Transportation, storage, postal and courier services</i>	4.1	2.9	3.3	3.0	4.8	3.5	1.4	3.4	2.4	2.0
<i>Information and communications</i>	4.0	3.9	4.0	4.1	4.0	3.8	3.4	4.9	4.8	6.1
<i>Financing and insurance</i>	7.7	5.3	6.1	4.2	5.7	4.6	3.6	3.5	3.0	3.7
<i>Real estate, professional and business services</i>	-4.0	1.9	0.7	2.8	2.1	1.5	1.3	0.7	1.7	1.6
<i>Public administration, social and personal services</i>	2.5	2.4	2.5	3.0	3.2	2.9	3.0	3.2	3.4	3.3
<i>Ownership of premises</i>	0.3	0.8	0.6	0.5	1.0	1.0	1.0	0.9	1.1	0.9
Taxes on products	-6.4	6.7	7.1	-9.1	12.5	-2.2	-0.6	-27.6	-28.2	-7.9
GDP in chained (2017) dollars	3.1	2.8	2.4	2.2	3.8	3.0	2.8	1.2	0.6	0.4

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>		<u>2019</u>	
						Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Current account ^(a)	31,453	79,553	98,664	123,900	121,937	47,715	40,393	35,107	34,951
Goods	-250,931	-177,302	-129,693	-178,532	-254,305	-51,667	-38,542	-66,558	-73,005
Services	255,563	234,603	186,733	207,431	256,047	63,226	64,773	83,800	52,050
Primary income	46,607	44,376	62,593	115,552	141,625	41,726	19,149	23,006	61,019
Secondary income	-19,786	-22,124	-20,969	-20,551	-21,430	-5,570	-4,987	-5,141	-5,113
Capital and financial account ^(a)	-73,785	-128,642	-101,104	-76,488	-184,040	-27,476	-66,114	-5,018	-66,571
Capital account	-748	-216	-374	-645	-1,522	-135	-474	-242	-155
Financial account	-73,037	-128,426	-100,730	-75,843	-182,518	-27,341	-65,641	-4,777	-66,416
Financial non-reserve assets	66,052	153,570	-91,874	174,666	-174,959	-69,064	-41,642	28,182	-38,101
<i>Direct investment</i>	-85,718	794,800	447,758	186,887	239,071	137,615	53,101	-72,323	75,834
<i>Portfolio investment</i>	-64,384	-970,938	-469,591	264,159	-587,682	-77,220	-106,692	-222,922	-34,190
<i>Financial derivatives</i>	118,359	99,178	36,327	61,763	15,545	11,240	7,609	8,608	546
<i>Other investment</i>	97,795	230,531	-106,368	-338,144	158,107	-140,698	4,341	314,819	-80,291
Reserve assets	-139,089	-281,996	-8,856	-250,509	-7,559	41,723	-23,999	-32,959	-28,315
Net errors and omissions	42,332	49,089	2,440	-47,413	62,104	-20,239	25,721	-30,089	31,621
Overall Balance of Payments	139,089	281,996	8,856	250,509	7,559	-41,723	23,999	32,959	28,315

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>	
						Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
Total exports of goods	3,986,769	3,889,225	3,892,886	4,212,774	4,461,275	1,185,476	1,000,455	1,025,024	1,113,208
Imports of goods	4,237,700	4,066,527	4,022,579	4,391,306	4,715,580	1,224,018	1,067,013	1,098,029	1,113,555
Goods trade balance	-250,931 (-5.9)	-177,302 (-4.4)	-129,693 (-3.2)	-178,532 (-4.1)	-254,305 (-5.4)	-38,542 (-3.1)	-66,558 (-6.2)	-73,005 (-6.6)	-347 (*)
Exports of services	829,085	808,948	764,839	812,937	891,367	231,233	234,817	203,474	193,221
Imports of services	573,522	574,345	578,106	605,506	635,320	166,460	151,017	151,424	154,367
Services trade balance	255,563 (44.6)	234,603 (40.8)	186,733 (32.3)	207,431 (34.3)	256,047 (40.3)	64,773 (38.9)	83,800 (55.5)	52,050 (34.4)	38,854 (25.2)
Exports of goods and services	4,815,854	4,698,173	4,657,725	5,025,711	5,352,642	1,416,709	1,235,272	1,228,498	1,306,429
Imports of goods and services	4,811,222	4,640,872	4,600,685	4,996,812	5,350,900	1,390,478	1,218,030	1,249,453	1,267,922
Goods and services trade balance	4,632 <0.1>	57,301 <1.2>	57,040 <1.2>	28,899 <0.6>	1,742 < * >	26,231 <1.9>	17,242 <1.4>	-20,955 <-1.7>	38,507 <3.0>

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

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

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

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

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

Table 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> Q4 [#]	<u>2018</u> Q1 [#]	<u>2019</u> Q2 [#]	<u>2019</u> Q3 [#]
<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	1,120,262	957,823	991,475	1,056,447
Imports of goods	4,471,810	4,289,991	4,240,000	4,586,052	4,911,101	1,267,516	1,103,590	1,138,562	1,149,576
Goods trade balance	-594,352 (-13.3)	-510,728 (-11.9)	-463,362 (-10.9)	-530,615 (-11.6)	-621,934 (-12.7)	-147,254 (-11.6)	-145,767 (-13.2)	-147,087 (-12.9)	-93,129 (-8.1)
Exports of services	1,079,989	1,052,355	1,010,316	1,073,707	1,164,903	315,443	294,622	258,570	265,602
Imports of services	481,005	484,326	489,914	514,193	541,227	141,958	131,613	132,438	133,966
Services trade balance	598,984 (124.5)	568,029 (117.3)	520,402 (106.2)	559,514 (108.8)	623,676 (115.2)	173,485 (122.2)	163,009 (123.9)	126,132 (95.2)	131,636 (98.3)
Exports of goods and services	4,957,447	4,831,618	4,786,954	5,129,144	5,454,070	1,435,705	1,252,445	1,250,045	1,322,049
Imports of goods and services	4,952,815	4,774,317	4,729,914	5,100,245	5,452,328	1,409,474	1,235,203	1,271,000	1,283,542
Goods and services trade balance	4,632 <0.1>	57,301 <1.2>	57,040 <1.2>	28,899 <0.6>	1,742 < * >	26,231 <1.9>	17,242 <1.4>	-20,955 <-1.6>	38,507 <3.0>
<u>Rates of change in real terms (%)</u>									
Total exports of goods	0.8	-1.9	1.4	5.6	3.5	-0.4	-4.7	-6.5	-8.0
Imports of goods	0.9	-2.7	0.6	6.2	4.6	-0.9	-5.1	-7.7	-11.8
Exports of services	1.2	-0.3	-2.1	3.3	4.3	2.7	0.5	-1.6	-11.2
Imports of services	1.8	5.3	2.4	3.0	2.8	3.7	-0.1	4.7	-1.4

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>	
							Q4	Q1	Q2	Q3
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All markets	3.2	-1.8	-0.5	8.0	7.3	4,158,106	2.2	-2.4	-4.7	-6.4
Mainland of China	1.5	-2.1	0.4	8.4	8.6	2,287,303	0.8	-6.6	-5.3	-5.6
United States	3.1	0.2	-5.3	1.9	8.1	356,797	3.9	-8.5	-13.3	-14.1
India	13.1	8.1	14.6	35.9	-15.3	134,339	-25.6	-28.4	-3.0	-12.6
Japan	-2.8	-6.6	-4.9	10.0	0.7	129,318	-2.5	-3.2	-5.9	-2.7
Taiwan	2.5	-18.0	14.6	19.9	-3.6	86,172	-7.3	-11.3	-5.2	21.3
Vietnam	14.0	14.7	-5.8	10.3	4.5	83,225	-3.9	0.1	-5.8	-2.9
Germany	-1.7	-3.2	-5.1	10.8	3.0	76,104	-4.3	0.2	-12.5	-6.6
Netherlands	12.7	10.2	10.3	11.5	11.5	71,312	20.3	11.8	-2.3	-11.3
Singapore	2.2	-2.3	4.8	-0.4	13.3	69,150	23.0	17.7	5.3	-3.9
Thailand	13.4	-0.1	-2.3	12.9	11.9	60,582	16.8	8.2	-12.3	-11.6
Rest of the world	6.3	-2.8	-3.2	3.3	10.0	803,805	10.1	14.5	1.3	-6.8

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

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>		<u>2018</u>		<u>2019</u>	
							Q4	Q1	Q2	Q3
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All sources	3.9	-4.1	-0.9	8.7	8.4	4,721,399	1.8	-3.2	-5.7	-10.1
Mainland of China	2.3	-0.1	-3.4	5.9	7.7	2,186,267	4.4	-0.4	-3.9	-8.7
Taiwan	14.7	-8.6	6.4	12.9	2.7	338,445	-16.6	-16.9	-4.7	-0.4
Singapore	5.8	-5.7	6.4	10.1	9.0	314,126	10.3	0.5	-8.6	-16.2
Korea	10.6	-2.0	14.0	28.5	10.4	278,314	-12.7	-23.4	-27.7	-24.1
Japan	0.9	-9.9	-5.2	2.7	2.6	259,964	-1.9	-3.4	-6.1	-1.9
United States	*	-3.9	-2.0	3.4	8.1	231,128	7.0	5.4	-1.5	-13.3
Malaysia	16.7	-7.9	-3.7	26.8	64.6	189,090	24.3	-8.2	-9.9	-28.9
India	10.0	-13.7	11.9	15.8	-14.0	92,397	-13.0	-14.7	-20.4	-23.6
Thailand	13.7	-3.7	-2.7	8.5	2.8	92,108	-7.0	-13.6	-3.2	-13.2
Philippines	22.0	10.3	5.8	27.6	1.1	77,129	-14.3	-13.1	-20.4	-8.8
Rest of the world	-0.3	-10.6	-3.1	7.0	10.1	662,431	5.9	5.7	3.0	-4.6

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

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

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017[#]</u>	<u>2018[#]</u>		<u>2018</u> Q4 [#]	Q1 [#]	<u>2019</u> Q2 [#]	Q3 [#]
	(% change)			(% change)	(\$Mn)		(% change over a year earlier)			
Exports of services	2.0	-2.4	-5.5	6.3	9.6	891,367	6.8	1.8	-0.8	-13.9
Transport	2.2	-6.8	-5.3	8.6	7.9	256,217	6.8	0.3	-4.4	-11.2
Travel	-1.5	-5.8	-9.0	1.9	11.1	288,730	8.9	5.1	1.4	-32.4
Financial services	7.0	8.5	-6.8	14.6	14.9	182,316	6.5	-0.8	1.3	-1.5
Other services	4.7	1.6	2.3	2.8	4.5	164,104	3.3	1.3	-0.2	-3.0
Imports of services	-1.7	0.1	0.7	4.7	4.9	635,320	1.6	-3.2	-0.2	-4.2
Transport	1.5	-5.9	-2.1	3.7	5.5	143,709	3.3	-3.0	-2.0	-4.7
Travel	3.7	4.7	4.8	5.6	4.7	207,232	3.6	-4.4	6.7	*
Manufacturing [^]	-20.2	-2.7	-2.0	3.5	3.0	94,093	-4.4	-10.9	-17.7	-17.6
Other services	3.5	2.2	-0.1	5.2	5.7	190,286	1.3	1.4	2.7	-1.5

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 merchandising under the standards stipulated in the *System of National Accounts 2008*.

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

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

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

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017[#]</u>	<u>2018[#]</u>		<u>2018</u>		<u>2019</u>	
							Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
Exports of services	2.0	-2.6	-4.0	6.3	8.5	1,164,903	5.9	1.8	-0.9	-11.2
Transport	2.2	-6.8	-5.3	8.6	7.9	256,217	6.8	0.3	-4.4	-11.2
Travel	-1.5	-5.8	-9.0	1.9	11.1	288,730	8.9	5.1	1.4	-32.4
Trade-related	1.9	-3.0	0.6	5.8	4.9	316,682	3.5	1.7	-1.5	-3.5
Other services	6.6	6.4	-2.4	9.3	10.5	303,274	5.1	*	0.8	-1.5
Imports of services	3.0	0.7	1.2	5.0	5.3	541,227	2.7	-1.9	3.0	-1.8
Transport	1.5	-5.9	-2.1	3.7	5.5	143,709	3.3	-3.0	-2.0	-4.7
Travel	3.7	4.7	4.8	5.6	4.7	207,232	3.6	-4.4	6.7	*
Trade-related	2.8	0.1	-0.9	2.9	4.4	35,881	2.5	-1.3	-5.9	-9.0
Other services	3.6	2.7	0.1	5.8	6.0	154,405	1.0	2.0	4.7	0.4

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.

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

Table 10 : Incoming visitors by source

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2018</u> Q4	Q1	<u>2019</u> Q2	Q3
<u>('000)</u>									
All sources	60 838.8	59 307.6	56 654.9	58 472.2	65 147.6	18 465.8	18 234.4	16 637.5	11 891.6
Mainland of China	47 247.7	45 842.4	42 778.1	44 445.3	51 038.2	14 407.4	14 582.2	12 991.3	9 356.0
South and Southeast Asia	3 614.8	3 559.1	3 701.8	3 626.2	3 571.8	1 085.7	871.9	1 028.5	555.0
Taiwan	2 031.9	2 015.8	2 011.4	2 010.8	1 925.2	485.1	464.9	459.1	354.8
Europe	1 863.3	1 829.4	1 904.9	1 901.5	1 937.6	558.7	486.8	462.7	359.3
United States	1 130.6	1 181.0	1 211.5	1 215.6	1 304.2	377.6	310.1	338.1	231.4
Japan	1 078.8	1 049.3	1 092.3	1 230.0	1 287.8	358.6	359.3	315.2	243.7
Others	3 871.9	3 830.7	3 954.8	4 042.9	4 082.7	1 192.6	1 159.1	1 042.7	791.5
<u>(% change over a year earlier)</u>									
All sources	12.0	-2.5	-4.5	3.2	11.4	16.6	16.8	10.9	-26.0
Mainland of China	16.0	-3.0	-6.7	3.9	14.8	20.6	19.7	12.9	-27.7
South and Southeast Asia	-2.8	-1.5	4.0	-2.0	-1.5	3.4	6.6	6.0	-20.5
Taiwan	-3.2	-0.8	-0.2	*	-4.3	-4.5	0.9	-6.0	-27.8
Europe	-1.6	-1.8	4.1	-0.2	1.9	0.9	-1.6	-2.0	-12.9
United States	1.9	4.5	2.6	0.3	7.3	11.0	1.4	0.1	-18.2
Japan	2.1	-2.7	4.1	12.6	4.7	11.2	10.0	8.9	-22.2
Others	5.4	-1.1	3.2	2.2	1.0	6.9	13.3	12.0	-15.4

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> Q4	Q1	<u>2019</u> Q2	Q3
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	8 307	971	4 763	4 366
Commercial property	276	303	304	40	93	203	34
<i>of which :</i>							
Office space	153	198	179	0	66	180	7
Other commercial premises ^(b)	123	105	125	40	27	23	27
Industrial property ^(c)	78	105	44	19	13	0	14
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	5	23	41	19	13	0	14
Storage premises ^(d)	73	83	3	0	0	0	0
Production of public housing							
(in units)							
Rental housing flats ^(e)	21 755	11 268	20 137	5 724	1 314	1 466	N.A.
Subsidised sales flats ^(e)	229	2 788	4 863	683	4 506	1 698	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	149.5	214.0	84.4	N.A.
Commercial property	312.4	488.6	109.2	12.4	12.1	328.4	N.A.
Industrial property ^(f)	76.2	62.5	98.4	12.4	14.6	0.0	N.A.
Other properties	235.1	227.1	91.9	12.2	37.4	41.9	N.A.
Total	1 269.4	1 651.1	1 002.5	186.5	278.2	454.7	N.A.
Agreements for sale and purchase of property							
(Number)							
Residential property ^(g)	54 701	61 591	57 247	8 938	13 863	20 657	12 336
Primary market	16 793	18 645	15 633	3 456	5 313	7 226	4 400
Secondary market	37 908	42 946	41 614	5 482	8 550	13 431	7 936
Selected types of non-residential properties ^(h)							
Office space	1 105	1 955	1 331	167	207	349	189
Other commercial premises	1 523	2 198	1 926	283	277	460	286
Flatted factory space	2 727	5 135	4 852	483	678	895	452

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 over a year earlier)</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> Q4	Q1	<u>2019</u> Q2 [#]	Q3 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	286.1	333.9	377.3	368.3	368.9	394.3	387.1
Office space	426.9	487.1	554.7	576.9	539.3	563.0	550.8
Shopping space	526.9	558.4	591.4	597.5	572.8	571.8	544.9
Flatted factory space	692.7	778.1	888.1	902.2	889.1	926.7	884.7
Property rental indices ^(b) :							
Residential flats	168.2	182.6	193.0	195.6	192.4	195.3	198.7
Office space	232.3	241.8	252.2	256.4	259.3	263.5	263.7
Shopping space	178.6	182.5	187.0	188.0	189.3	189.3	189.4
Flatted factory space	181.4	190.7	202.3	205.4	206.7	212.0	215.1
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	-3.6	16.7	13.0	5.8	1.3	2.7	-1.5
Office space	-4.9	14.1	13.9	12.9	3.2	2.9	-3.7
Shopping space	-5.8	6.0	5.9	4.2	-1.9	-2.9	-8.4
Flatted factory space	-4.3	12.3	14.1	10.2	4.5	4.4	-3.0
Property rental indices ^(b) :							
Residential flats	-2.7	8.6	5.7	4.5	2.4	1.8	1.2
Office space	2.5	4.1	4.3	4.4	5.1	4.8	3.8
Shopping space	-2.1	2.2	2.5	1.6	2.1	1.4	0.9
Flatted factory space	4.0	5.1	6.1	4.8	4.9	4.9	5.2

Table 13 : Monetary aggregates

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<u>(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 over a year earlier)</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	2018 Q4	Q1	2019 Q2	Q3
<u>(at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	1,428,775	1,598,014	1,555,731	1,555,731	1,583,172	1,566,091	1,546,402
M2 ^(a)	6,280,230	7,010,345	7,262,451	7,262,451	7,441,529	7,515,464	7,441,069
M3 ^(a)	6,292,666	7,024,514	7,284,322	7,284,322	7,461,791	7,536,687	7,457,142
Total money supply (\$Mn)							
M1	2,213,970	2,431,461	2,421,598	2,421,598	2,418,572	2,428,901	2,469,077
M2	12,508,127	13,755,255	14,348,059	14,348,059	14,485,182	14,536,903	14,507,927
M3	12,551,331	13,803,837	14,403,688	14,403,688	14,545,033	14,594,039	14,547,864
Deposit (\$Mn)							
HK\$	5,809,060	6,484,616	6,715,262	6,715,262	6,879,508	6,955,188	6,884,808
Foreign currency	5,918,240	6,267,872	6,671,119	6,671,119	6,679,751	6,652,789	6,707,716
Total	11,727,300	12,752,488	13,386,381	13,386,381	13,559,259	13,607,977	13,592,524
Loans and advances (\$Mn)							
HK\$	4,479,107	5,359,983	5,836,238	5,836,238	6,038,281	6,210,439	6,237,338
Foreign currency	3,544,284	3,953,686	3,886,385	3,886,385	3,909,729	3,921,139	4,071,466
Total	8,023,390	9,313,668	9,722,623	9,722,623	9,948,011	10,131,579	10,308,804
Nominal Effective Exchange Rate Indices							
(Jan 2010 = 100) ^(b)							
Trade-weighted	104.1	104.2	101.8	105.5	103.5	104.6	106.3
Import-weighted	104.2	104.2	101.7	105.4	103.3	104.4	105.9
Export-weighted	104.1	104.3	101.9	105.7	103.7	104.8	106.7
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	14.0	11.8	-2.6	-2.6	-4.4	-5.7	-3.5
M2 ^(a)	8.9	11.6	3.6	3.6	2.9	3.5	1.9
M3 ^(a)	8.9	11.6	3.7	3.7	3.0	3.5	1.8
Total money supply							
M1	12.3	9.8	-0.4	-0.4	-2.2	-3.6	1.0
M2	7.7	10.0	4.3	4.3	3.9	4.0	2.8
M3	7.7	10.0	4.3	4.3	4.0	4.0	2.6
Deposit							
HK\$	9.3	11.6	3.6	3.6	3.0	3.6	1.8
Foreign currency	8.8	5.9	6.4	6.4	7.2	6.6	5.8
Total	9.1	8.7	5.0	5.0	5.0	5.0	3.7
Loans and advances							
HK\$	7.9	19.7	8.9	8.9	8.7	8.3	8.5
Foreign currency	4.8	11.6	-1.7	-1.7	-4.5	-3.7	3.1
Total	6.5	16.1	4.4	4.4	3.1	3.3	6.3
Nominal Effective Exchange Rate Indices							
(Jan 2010 = 100) ^(b)							
Trade-weighted	2.8	0.1	-2.3	3.1	5.0	5.3	2.2
Import-weighted	2.5	*	-2.4	3.0	4.8	5.1	2.0
Export-weighted	3.2	0.2	-2.3	3.3	5.1	5.5	2.5

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>		<u>2019</u>	
					Q3	Q4	Q1	Q2
Services Industry								
Import and export trade	-3.9	-2.5	2.3	3.7	3.0	1.6	-3.1	-6.3
Wholesale	-4.9	-1.0	2.8	4.3	3.2	0.7	-6.1	-5.2
Retail	-3.7	-8.1	2.2	8.7	6.5	2.3	-1.2	-4.2
Transportation	-4.3	-6.5	7.1	8.0	6.2	7.2	1.9	0.4
<i>within which:</i>								
Land transport	5.4	3.6	1.8	5.3	3.5	7.3	7.8	5.2
Water transport	-7.7	-11.2	5.6	4.4	3.6	9.4	3.5	3.0
Air transport	-5.1	-7.0	10.0	11.3	8.7	6.0	-1.0	-2.5
Warehousing and storage	12.7	12.1	14.1	12.7	8.9	12.8	4.3	4.8
Courier	-5.9	5.5	19.1	-0.7	-11.9	-4.7	-11.0	-3.5
Accommodation services ^(a)	-6.6	-1.1	6.0	10.8	10.4	7.0	9.8	-0.9
Food services	3.9	2.9	5.0	6.0	5.5	2.3	3.1	-0.5
Information and communications	10.8	0.6	2.9	3.1	3.0	-4.8	1.9	1.3
<i>within which:</i>								
Telecommunications	19.6	-0.8	-3.5	2.2	0.2	-6.4	-4.0	-1.0
Film entertainment	-3.1	-4.5	4.3	3.1	-0.9	6.1	0.3	7.8
Banking	8.3	8.1	-0.1	6.8	7.1	1.2	0.2	4.6
Financing (except banking)	19.0	-6.0	7.2	10.3	6.6	-0.3	-5.8	2.9
<i>within which:</i>								
Financial markets and asset management	19.0	-8.7	1.6	11.6	5.5	-3.7	-6.5	2.6
<i>within which : Asset management</i>	7.0	4.1	4.4	3.7	-3.7	-9.6	-0.8	7.1
Insurance	11.7	21.8	11.8	8.7	6.9	12.3	13.2	19.8
Real estate	7.0	10.4	10.2	5.4	16.2	-2.9	15.4	21.9
Professional, scientific and technical services	5.3	3.3	1.9	3.3	4.9	-2.0	2.7	2.1
Administrative and support services	7.4	0.9	1.5	3.5	4.3	3.8	4.2	3.3
Services Domain								
Tourism, convention and exhibition services	-5.0	-8.1	0.8	11.0	7.9	8.3	4.0 ⁺	1.1 ⁺
Computer and information technology services	-4.2	-3.5	1.4	2.9	1.8	3.9	-2.6	-7.0

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

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

(+) Provisional figures.

Table 15 : Labour force characteristics

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2018</u> Q4	Q1	<u>2019</u> Q2	Q3
<u>(%)</u>									
Labour force participation rate	61.1	61.1	61.1	61.1	61.2	60.8	60.7	60.7	60.5
Seasonally adjusted unemployment rate ^(a)	3.3	3.3	3.4	3.1	2.8	2.8	2.8	2.8	2.9
Underemployment rate	1.5	1.4	1.4	1.2	1.1	1.1	1.0	1.0	1.0
<u>('000)</u>									
Population of working age	6 340.1	6 383.7	6 420.9	6 463.3	6 506.4	6 535.7	6 540.5	6 566.5	6 570.5
Labour force	3 871.1	3 903.2	3 920.1	3 946.6	3 979.0	3 973.4	3 970.8	3 985.0	3 975.7
Persons employed	3 743.5	3 773.8	3 787.1	3 823.2	3 867.0	3 867.7	3 860.4	3 870.7	3 855.4
Persons unemployed	127.6	129.4	133.0	123.4	112.0	105.7	110.4	114.3	120.3
Persons underemployed	56.8	53.3	54.7	45.6	43.2	44.5	38.9	41.2	41.5
<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	1.0	0.8
Labour force	0.4	0.8	0.4	0.7	0.8	0.6	-0.1	0.4	-0.2
Persons employed	0.5	0.8	0.4	1.0	1.1	0.7	-0.1	0.4	-0.3
Persons unemployed	-2.7	1.4	2.8	-7.2	-9.2	-3.7	-1.0	1.6	1.9
Persons underemployed	-2.6	-6.1	2.5	-16.5	-5.3	4.8	0.2	-0.6	-12.4

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

Table 16 : Employment in selected major industries

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2018</u>		<u>2019</u>		
						Sep	Dec	Mar	Jun	
Selected major industries	(% change)					(% change over a year earlier)				(No.)
Manufacturing	-1.2	-2.8	-3.6	-3.3	-3.0	-2.8	-1.5	-2.6	-2.7	87 386
Construction sites (covering manual workers only)	4.4	14.9	13.3	10.1	-5.8	-11.4	-16.1	-11.0	-11.5	102 723
Import and export trade	0.1	-1.4	-0.7	-0.4	-0.6	-0.6	-0.6	-3.7	-5.1	453 479
Wholesale	-0.3	-1.4	-0.8	-0.6	-0.9	-1.0	-1.2	-2.1	-3.1	58 261
Retail	2.2	-0.5	-1.1	0.5	1.7	2.2	1.8	0.6	-0.3	271 222
Food and beverage services	2.4	0.1	-0.2	0.3	2.8	3.1	3.5	2.1	0.7	251 558
Accommodation services ^(a)	3.2	-1.1	-2.1	0.3	4.8	5.8	5.9	6.6	3.0	41 958
Transportation, storage, postal and courier services	2.7	1.6	0.5	0.2	0.6	0.6	-0.1	0.8	0.3	180 293
Information and communications	2.7	1.1	0.7	0.9	1.5	2.3	2.6	3.4	2.5	110 949
Financing and insurance	2.3	2.3	0.8	1.5	2.6	2.8	2.8	3.2	3.5	237 018
Real estate	0.6	1.7	-0.1	1.3	2.0	1.9	2.4	2.3	1.7	135 283
Professional and business services (excluding cleaning and similar services)	2.7	2.4	1.9	2.1	3.2	3.5	3.2	2.3	2.1	307 924
Cleaning and similar services	0.2	2.4	0.5	0.7	-1.4	-1.2	-1.5	-1.1	-0.6	80 523
Education	4.4	3.9	2.3	1.6	1.8	1.8	1.6	1.6	1.8	206 191
Human health services	4.3	4.5	4.3	3.5	3.4	3.2	3.7	4.3	4.5	134 342
Residential care and social work services	0.6	2.8	3.0	1.0	1.0	0.9	0.7	0.9	1.7	65 325
Arts, entertainment, recreation and other services	5.9	0.9	-2.2	-0.6	1.4	1.8	1.6	1.2	1.1	127 556
Civil service ^(b)	1.0	0.7	1.2	1.6	2.1	2.1	2.0	2.0	2.3	175 281
Others ^(c)	3.1	-1.0	0.8	2.1	*	0.9	0.7	0.5	4.7	11 717

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>		<u>2019</u>	
						Sep	Dec	Mar	Jun
<u>(Number)</u>									
Building sites									
Private sector	44 024	50 372	60 243	65 985	65 700	63 600	63 218	67 430	64 174
Public sector ^(a)	11 212	15 470	16 030	21 660	21 604	21 264	20 556	19 167	18 222
Sub-total	55 236	65 842	76 273	87 645	87 303	84 864	83 774	86 597	82 396
Civil engineering sites									
Private sector	1 414	1 609	1 386	979	1 729	1 889	2 083	2 488	2 612
Public sector ^(a)	26 145	27 652	30 141	30 050	22 816	20 850	17 160	18 363	17 715
Sub-total	27 559	29 261	31 526	31 029	24 546	22 739	19 243	20 851	20 327
Total	82 795	95 103	107 799	118 674	111 849	107 603	103 017	107 448	102 723
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	6.6	14.4	19.6	9.5	-0.4	-4.7	-7.6	-0.7	-5.8
Public sector ^(a)	13.7	38.0	3.6	35.1	-0.3	-5.0	-10.3	-14.8	-17.6
Sub-total	8.0	19.2	15.8	14.9	-0.4	-4.8	-8.3	-4.2	-8.7
Civil engineering sites									
Private sector	7.0	13.8	-13.9	-29.3	76.6	111.8	106.2	69.3	77.1
Public sector ^(a)	-2.5	5.8	9.0	-0.3	-24.1	-33.6	-43.5	-36.4	-27.3
Sub-total	-2.0	6.2	7.7	-1.6	-20.9	-29.6	-38.7	-31.3	-21.3
Total	4.4	14.9	13.3	10.1	-5.8	-11.4	-16.1	-11.0	-11.5

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

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

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

	(%)								
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2018</u>		<u>2019</u>	
Selected industry sections						Q3	Q4	Q1	Q2
(in nominal terms)									
Manufacturing	5.3	5.2	3.5	3.4	4.0	3.8	4.0	3.9	4.2
Import/export and wholesale trades	2.8	3.7	2.3	2.9	3.2	3.2	2.8	2.8	2.7
Retail trade	4.2	3.5	2.4	3.3	3.0	3.1	2.6	2.4	2.5
Transportation, storage, postal and courier services	3.3	4.3	3.3	3.4	4.1	4.8	4.8	4.9	4.8
Accommodation ^(a) and food service activities	5.2	5.8	5.1	4.7	5.3	5.6	5.7	5.2	5.3
Information and communications	5.1	4.4	3.4	3.3	3.3	3.2	3.3	4.1	4.3
Financial and insurance activities	6.3	4.0	2.7	3.0	3.1	3.2	3.3	3.2	3.2
Real estate activities	4.7	5.1	4.2	4.3	4.3	4.3	4.1	4.1	4.4
Professional and business services	6.9	5.8	5.1	4.2	4.6	4.5	4.8	4.8	4.1
Social and personal services	1.6	6.7	2.5	3.1	4.3	7.8	2.9	4.1	4.0
All selected industry sections surveyed	4.3	4.6	3.7	3.7	3.9	4.6	3.7	4.0	4.1
(in real terms)									
Manufacturing	0.9	2.1	1.0	2.0	1.6	1.3	1.4	1.6	1.2
Import/export and wholesale trades	-1.5	0.7	-0.1	1.4	0.8	0.7	0.2	0.6	-0.3
Retail trade	-0.1	0.5	*	1.8	0.6	0.6	*	0.1	-0.4
Transportation, storage, postal and courier services	-1.0	1.3	0.9	1.9	1.6	2.3	2.1	2.7	1.7
Accommodation ^(a) and food service activities	0.8	2.7	2.6	3.2	2.8	3.1	3.0	3.0	2.3
Information and communications	0.7	1.4	1.0	1.9	0.8	0.7	0.7	1.8	1.3
Financial and insurance activities	1.9	0.7	0.3	1.6	0.7	0.7	0.7	1.0	0.2
Real estate activities	0.2	2.0	1.7	2.8	1.9	1.8	1.5	1.9	1.4
Professional and business services	2.3	2.8	2.6	2.7	2.2	2.0	2.1	2.5	1.1
Social and personal services	-2.7	3.6	0.1	1.6	1.8	5.2	0.3	1.8	1.0
All selected industry sections surveyed	-0.1	1.5	1.3	2.3	1.5	2.1	1.1	1.8	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>		<u>2019</u>	
Selected industry sections						Sep	Dec	Mar	Jun
(in nominal terms)									
Manufacturing	4.9	4.0	4.0	3.7	3.6	3.9	4.0	3.9	3.7
Import/export, wholesale and retail trades	2.5	3.1	2.7	3.0	3.0	3.2	3.0	2.8	2.5
Transportation	4.8	4.4	3.5	2.9	4.7	5.8	5.9	4.9	5.4
Accommodation ^(a) and food service activities	4.7	5.4	4.9	4.7	4.6	4.5	4.8	4.7	4.4
Financial and insurance activities ^(b)	3.2	3.2	3.4	3.5	3.5	3.7	3.8	3.7	3.8
Real estate leasing and maintenance management	4.5	3.4	3.7	4.1	4.4	4.2	4.2	4.0	4.1
Professional and business services	6.7	6.9	4.7	4.7	4.4	4.5	4.2	4.1	3.9
Personal services	7.8	6.5	5.5	4.2	4.1	3.9	3.9	3.8	3.9
All industries surveyed	4.2	4.4	3.7	3.8	4.0	4.1	4.1	3.9	3.8
(in real terms)									
Manufacturing	-1.6	0.2	1.4	2.2	0.8	0.5	0.9	1.4	-0.1
Import/export, wholesale and retail trades	-3.9	-0.6	0.3	1.6	0.1	-0.1	*	0.4	-1.3
Transportation	-1.9	0.6	1.0	1.5	1.7	2.4	2.8	2.4	1.4
Accommodation ^(a) and food service activities	-1.8	1.5	2.3	3.3	1.7	1.1	1.7	2.2	0.5
Financial and insurance activities ^(b)	-3.7	-0.5	0.9	2.1	0.6	0.4	0.8	1.3	-0.1
Real estate leasing and maintenance management	-1.9	-0.4	1.1	2.6	1.4	0.8	1.2	1.6	0.3
Professional and business services	*	2.9	2.3	3.2	1.5	1.1	1.2	1.6	*
Personal services	1.1	2.6	3.0	2.7	1.1	0.5	0.8	1.4	0.1
All industries surveyed	-2.4	0.6	1.2	2.3	1.0	0.8	1.0	1.4	-0.1

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>			<u>Average annual rate of change:</u>	
			Q4	Q1	Q2	Q3	10 years 2008 to 2018	5 years 2013 to 2018
GDP deflator [#]	3.0	3.6	3.4	3.2	2.9	2.5	2.4	2.9
Domestic demand deflator [#]	2.9	3.3	2.6	2.5	3.0	3.2	2.4	2.6
Consumer Price Indices ^(a) :								
Composite CPI	1.5	2.4	2.6	2.2	3.0	3.3	3.0	2.7
CPI(A)	1.5	2.7	3.1	2.6	3.3	3.9	3.4	3.3
CPI(B)	1.4	2.3	2.4	2.1	2.8	3.1	2.9	2.6
CPI(C)	1.5	2.2	2.3	2.0	2.8	3.0	2.7	2.3
Unit Value Indices :								
Total exports of goods	1.8	2.4	2.3	2.2	1.9	0.9	2.3	0.9
Imports of goods	1.9	2.6	2.5	2.2	1.9	1.0	2.2	0.8
Terms of Trade Index ^(b)	-0.1	-0.1	-0.1	*	-0.1	*	*	0.1
Producer Price Index for all manufacturing industries	3.8	2.0	0.3	0.7	0.8	N.A.	1.2	0.5
Tender Price Indices :								
Public sector building projects	-0.3	-2.9	-4.0	-3.4	-2.4	N.A.	3.1	2.1
Public housing projects	0.3	-1.9	-1.1	-1.8	-1.9	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:	
					Q4	Q1	Q2	Q3	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)	2.6 (2.9)	2.2 (2.7)	3.0 (2.9)	3.3 (3.3)	3.0 (2.9)	2.7 (2.5)
Food	27.29	3.4	2.2	3.4	3.0	3.1	4.1	6.1	3.8	3.4
<i>Meals bought away from home</i>	17.74	3.3	2.7	2.9	2.6	2.3	2.1	2.1	3.6	3.5
<i>Food, excluding meals bought away from home</i>	9.55	3.6	1.1	4.3	3.7	4.6	7.7	13.4	4.1	3.2
Housing ^(a)	34.29	3.7	2.0	2.5	3.0	2.9	4.2	3.7	4.3	4.0
<i>Private housing rent</i>	29.92	3.4	1.8	2.2	2.4	2.3	3.8	3.4	4.3	3.6
<i>Public housing rent</i>	1.94	7.2	3.0	4.1	11.6	11.6	10.9	6.9	6.3	8.6
Electricity, gas and water	2.67	1.0	-1.7	4.9	4.0	-4.9	-4.8	-5.6	2.7	5.4
Alcoholic drinks and tobacco	0.54	1.5	0.6	1.3	2.7	2.7	2.4	0.5	5.3	2.2
Clothing and footwear	3.21	-3.4	-0.4	1.6	0.1	-0.2	-1.7	-1.5	1.3	-0.6
Durable goods	4.65	-5.4	-3.2	-2.0	-1.9	-2.1	-2.0	-1.5	-3.5	-3.9
Miscellaneous goods	3.56	1.5	1.4	1.3	1.4	1.6	2.0	2.9	2.0	1.5
Transport	7.98	1.6	2.3	1.6	1.7	1.9	2.0	2.3	1.8	1.4
Miscellaneous services	15.81	2.3	0.9	2.1	3.0	1.8	2.5	1.7	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:	
				Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]	10 years 2008 to 2018 [#]	5 years 2013 to 2018 [#]
Private consumption expenditure	1.5	2.5	3.1	2.3	1.9	2.7	3.2	2.1	2.3
Government consumption expenditure	3.7	2.5	3.1	3.8	4.1	4.6	4.5	3.4	3.7
Gross domestic fixed capital formation	-0.3	4.5	4.1	3.9	3.8	2.7	1.9	3.2	3.2
Total exports of goods	-1.4	1.7	2.2	1.7	1.8	1.4	1.0	1.7	0.5
Imports of goods	-1.8	1.8	2.3	1.8	1.7	1.7	1.3	1.9	0.3
Exports of services	-2.0	3.2	4.5	3.4	1.0	0.3	-0.2	1.3	0.6
Imports of services	-1.3	2.6	2.6	-0.6	-1.7	-1.5	-0.2	0.7	-0.1
Gross Domestic Product	1.6	3.0	3.6	3.4	3.2	2.9	2.5	2.4	2.9
Total final demand	-0.6	2.2	2.8	2.2	2.0	1.9	1.6	1.9	1.2
Domestic demand	1.4	2.9	3.3	2.6	2.5	3.0	3.2	2.4	2.6

