2020 Economic Background and 2021 Prospects

Government of the Hong Kong
Special Administrative Region

2020 ECONOMIC BACKGROUND
AND
2021 PROSPECTS

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

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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE IN 2020

Summary

- *The Hong Kong economy underwent an extremely difficult year in 2020. Having entered recession in the second half of 2019, the economy saw a visibly enlarged year-on-year contraction of 9.0% in the first half of 2020 as the COVID-19 pandemic dealt a heavy blow to global and local economic activities. The economy showed some improvement in the second half of the year and recorded narrowed contractions of 3.6% and 3.0% respectively in the third and fourth quarters, partly thanks to an improved external environment. However, the performance was highly uneven across sectors. For 2020 as a whole, the economy contracted by 6.1%, the sharpest annual decline on record. This followed a contraction of 1.2% in 2019. As social stability in Hong Kong has been restored, the severe economic contraction last year was mainly due to the fallout from the COVID-19 pandemic.*

- *Hong Kong's total exports of goods picked up over the course of 2020 but still recorded a mild decline for the year as a whole. The fall in the first half of the year, amid significant disruptions to the regional supply chains and plunging global demand, was followed by a visible revival in the second half alongside the recovery of the global economy and the sustained V-shaped rebound of the Mainland economy. Exports to the US and the EU fell sharply for the year as a whole, while those to the Mainland rose notably. Exports to other Asian markets saw mixed performances.*

- *Exports of services posted a record annual decline. Exports of travel services fell drastically as inbound tourism was brought to a standstill by extensive travel restrictions since February 2020. Exports of transport services declined notably as passenger flows tumbled. Exports of business and other services also contracted due to austere global economic environment. Exports of financial services nevertheless expanded moderately thanks to active cross-border financial and fund-raising activities.*

- *Domestic demand took a big hit in 2020. Private consumption expenditure recorded the steepest ever annual decline, as local consumption activities were severely disrupted by the COVID-19 epidemic, job and income conditions worsened and outbound tourism virtually ground to a halt. Overall investment expenditure declined noticeably amid austere business environment and weak construction activity.*

- *The labour market deteriorated sharply in 2020, facing immense pressure during most of the year. The seasonally adjusted unemployment rate surged to 6.6% in the fourth quarter, the highest in 16 years, and reached 5.9% for the year as a whole. The underemployment rate averaged 3.3% in 2020.*

The unemployment rates of the consumption-and tourism-related sectors, the construction sector, and the lower-skilled segment all went up visibly.

- *The local stock market exhibited considerable volatility in 2020, as market sentiment was swayed by concerns over the global economic outlook amid the COVID-19 pandemic and the development of China-US relations. The Hang Seng Index (HSI) closed the year at 27 231, 3.4% lower than end-2019. The residential property market was broadly steady in 2020, notwithstanding some moderate fluctuations in individual months. Trading activities remained generally active since the second quarter, while flat prices showed little change for the year as a whole.*
- *Consumer price inflation receded visibly in 2020, as price pressures on most goods and services eased amid austere global and local economic conditions. The moderated year-on-year increase in prices of basic foodstuffs in the second half of the year against a high base of comparison also contributed. Underlying consumer price inflation eased from an average of 3.0% in 2019 to 1.3% in 2020.*

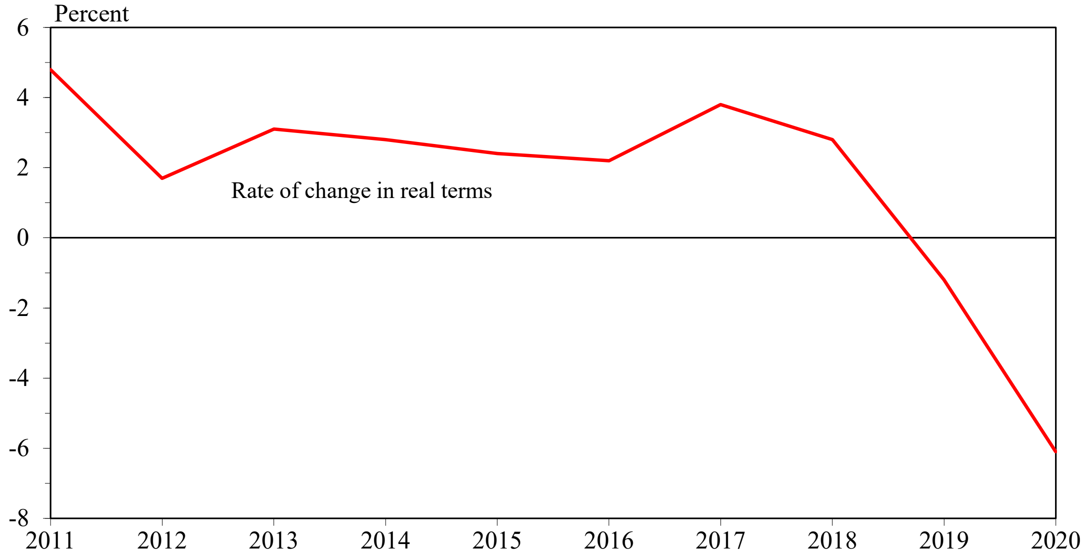
Overall situation

1.1 Amid the onslaught of the COVID-19 pandemic, the Hong Kong economy registered a contraction for the second consecutive year in 2020, the first time on record. The recession was the deepest ever. Having seriously affected by the social unrest in the second half of 2019, the economy deteriorated further to contract sharply in the first half of 2020 as the COVID-19 pandemic inflicted significant impacts on global and local economic activities. The economy showed some improvement in the second half of the year, partly because of the recovery of the global economy and the sustained V-shaped rebound of the Mainland economy. However, the performance was highly uneven across sectors. Total exports of goods picked up over the course of 2020, though still fell mildly for the year as a whole. Exports of services saw a record annual decline, dragged by frozen inbound tourism since February and generally weak cross-boundary transport and business services. As for domestic demand, private consumption expenditure recorded the steepest ever annual decline, as local consumption activities were severely disrupted by the threat of COVID-19 (see ***Box 1.1***), job and income conditions worsened and outbound tourism came to a halt. Overall investment expenditure fell noticeably for the year as a whole amid austere business environment and weak construction activity despite some rebound in the fourth quarter against a low base of comparison. The labour market deteriorated sharply in 2020. Consumer price inflation eased visibly in 2020, as price pressures on many major CPI components receded.

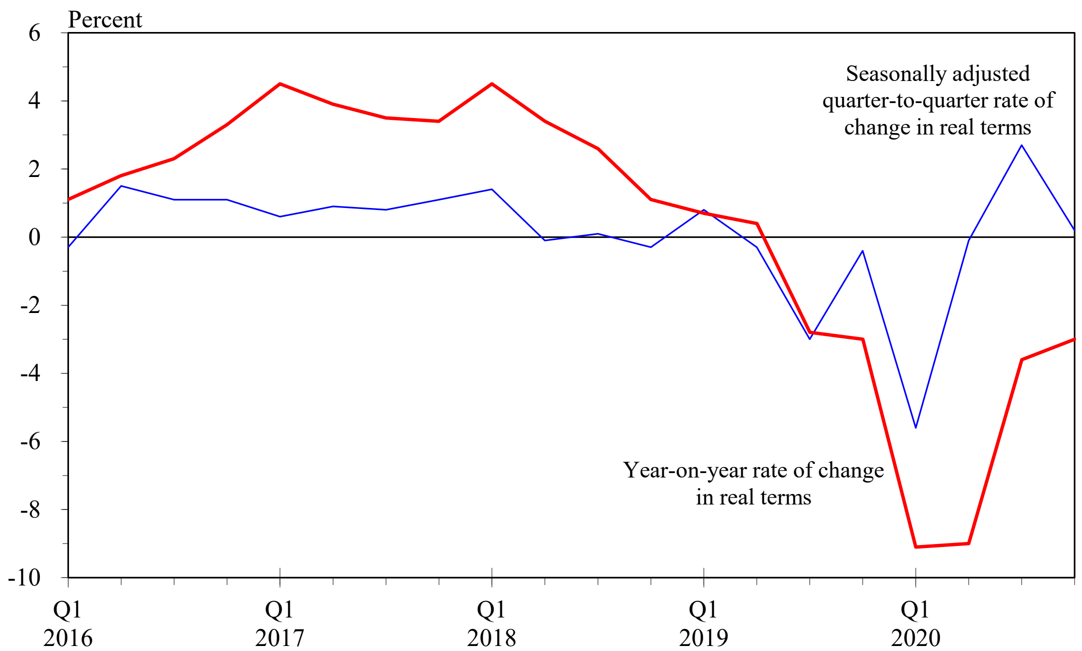
1.2 *Gross Domestic Product* (GDP)[(1)] contracted further by 6.1% in real terms in 2020 after shrinking by 1.2% in 2019. As for the quarterly profile, real GDP fell sharply by 9.1% year-on-year in the first quarter and 9.0% in the second quarter, before showing narrowed declines of 3.6% in the third quarter and 3.0% in the fourth quarter. On a seasonally adjusted quarter-to-quarter basis[(2)], real GDP shrank by 5.6% and 0.1% in the first and second quarters respectively, but bounced back by 2.7% and 0.2% respectively in the following two quarters.

Diagram 1.1 : The Hong Kong economy contracted sharply for 2020 as a whole, despite some improvement in the second half

(a) Annual profile



(b) Quarterly profile



Box 1.1

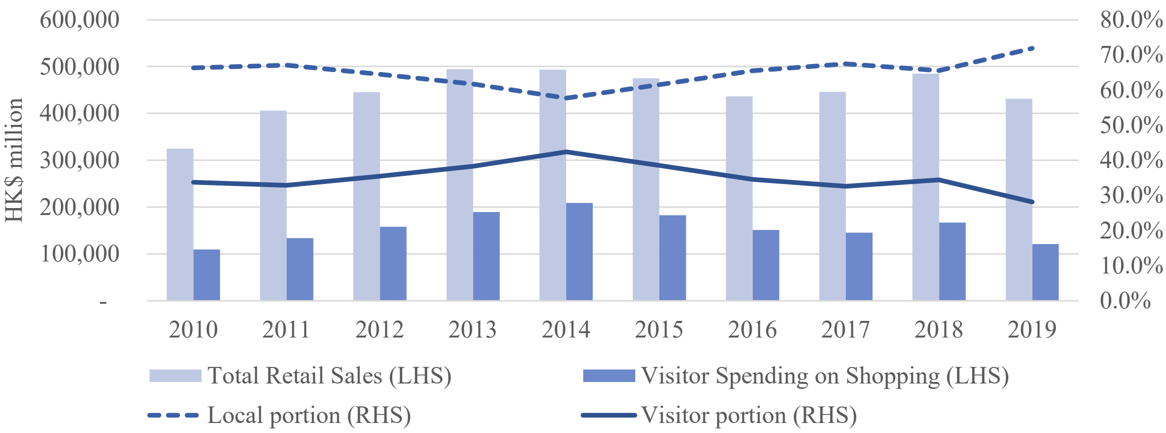
Contribution by local spenders in Hong Kong's retail sales

The COVID-19 pandemic has prompted governments around the world to implement widespread travel restrictions, dealing an unprecedented blow to tourism activities. For Hong Kong, inbound visitors had virtually disappeared since March 2020, and the retail sector had to rely almost solely on local spenders. This box article crudely estimates the contributions by visitors and locals in Hong Kong's retail sales in recent years, and analyses the trend of local retail spending in 2020 when visitors were scant.

To gauge the contribution by local consumers in Hong Kong's retail sales, relevant data were drawn from two surveys, namely the Census and Statistics Department (C&SD)'s Monthly Survey of Retail Sales(1), and the Hong Kong Tourism Board (HKTB)'s Departing Visitor Survey(2). By comparing the total visitors' shopping expenditure with the value of total retail sales, we broadly estimated visitors' contribution in retail sales, and attributed the residual to local spenders(3).

During the 10-year period of 2010-2019, the share of visitor spending in overall retail sales hovered at around 30% to 40% for most of the time (***Chart 1***). However, the share of visitor spending in overall retail sales dipped noticeably to around 28% in 2019, as inbound tourism was seriously disrupted by the local social incidents, with visitor arrivals recording declines since July and falling by 14.2% for the year as a whole.

Chart 1: Contributions by visitors and locals in retail sales value (2010-2019)



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(1) The Monthly Survey of Retail Sales (MRS) collects data for compiling retail sales statistics primarily intended to measure the sales receipts in respect of goods sold by local retail establishments, for gauging the business performance of the local retail sector. Local retail establishments with and without physical shops are covered in MRS and their sales, both through conventional shops and online channels, are included in the retail sales statistics.

(2) HKTB conducts face-to-face interviews with overseas visitors aged 16 and above departing from ten major control points in Hong Kong. Data on shopping expenditure is only available for overnight and same-day visitors. Relevant information for other types of visitors such as cruise passengers, transit/transfer passengers, servicemen and aircrew members is not available.

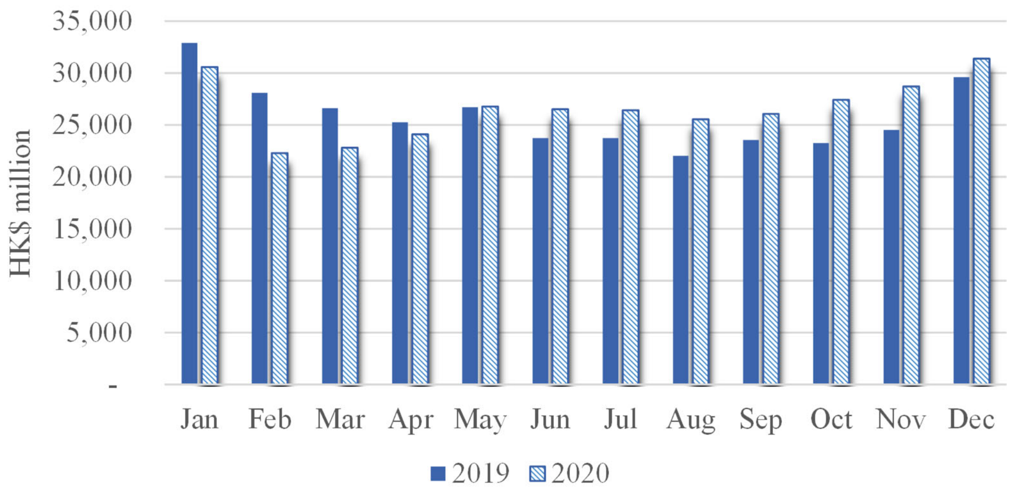
(3) Strictly speaking, these two surveys are not designed in a way for their results to be directly comparable. Hence, the findings in this article are largely based on crude estimations and should be interpreted with caution.

Box 1.1 (Cont'd)

Entering 2020, the COVID-19 outbreak resulted in a wide array of travel restrictions around the world, curbing most cross-boundary flows of people. In Hong Kong, visitor arrivals plummeted by 52.7% and 96.4% year-on-year in January and February 2020 respectively, and had since turned nearly non-existent. For 2020 as a whole, total visitor arrivals plunged by 93.6%. With sharply reduced visitor spending, the value of total retail sales dropped by 33.3% in the first half of 2020, though the decline narrowed to 16.7% in the third quarter and 9.0% in the fourth quarter. For 2020 as a whole, retail sales decreased by 24.3% in value or 25.5% in volume, both the largest annual declines on record.

While the absence of visitors put heavy pressure on Hong Kong's retail sector, some analysts maintained that local spending held largely resilient and rendered some cushion. To look into the situation, we crudely derive the monthly values of retail sales in 2019 and 2020 that were attributable to local spenders, as depicted in ***Chart 2***.

Chart 2: Retail spending by locals has grown year-on-year since May 2020



After taking a dip in early 2020, retail spending by local consumers has sustained year-on-year growth since May 2020. For 2020 as a whole, the value of such retail spending is estimated to grow by about 3%, which is rather admirable considering the austere economic environment during the year. This could be attributed to a number of factors. With outbound tourism suspended during the pandemic, Hong Kong residents might have diverted some of their planned travel spending to the local market. At the same time, technology advancement and the rising popularity of online sales channels enabled local consumers to shop remotely from local retailers with ease, mitigating some of the disruptions caused by the epidemic and the resultant social distancing measures. A lower base of comparison in the latter part of 2019, due to the disruptions of the social incidents, was also a contributory factor.

Although retail spending by local consumers held up well in 2020, the overall business situation of the retail trade remains very challenging as visitor spending has virtually disappeared. Meanwhile, the epidemic situation and austere labour market conditions will likely constrain further revival of local consumption activities for a while. All in all, the retail sector may stage a meaningful recovery only when the COVID-19 pandemic is brought under control so that inbound tourism may gradually recover. The Government will spare no effort in taking all necessary measures to strengthen epidemic control and rolling out the vaccination campaign as soon as possible.

The external sector

1.3 *Total exports of goods* compiled under the GDP accounting framework picked up over the course of 2020, but still fell mildly by 0.3% in real terms for the year as a whole after a decline of 4.6% in 2019. The COVID-19 pandemic caused serious disruptions to the regional supply chains and global demand in the first half of the year. Total exports of goods posted a visibly enlarged year-on-year decline in the first quarter and continued to fall in the second quarter, before resuming growth in the second half alongside the gradual recovery of the global economy led by the Mainland.

1.4 Analysed by major market by reference to external merchandise trade statistics, exports to the US and the EU fell sharply for 2020 as a whole, mainly reflecting the subdued performance in the first half, dragged initially by the epidemic-induced disruptions to supply chains in Asia and later by the plunge in import demand in these markets. Exports to the Mainland rose notably as its economy bounced back strongly after March. Exports to other Asian markets saw mixed performances. Exports to Taiwan and Vietnam saw visible growth, while those to Japan and Korea declined partly due to weakness in exports of consumer goods. Exports to India fell noticeably. Exports to Singapore also declined visibly, weighed by the plunge in exports of capital goods and consumer goods.

1.5 *Exports of services* plummeted further by a record 36.8% in real terms in 2020, having contracted by 10.2% in 2019. Exports of travel services fell drastically by 90.5% as the COVID-19 pandemic resulted in extensive travel restrictions, bringing inbound tourism to a standstill since February 2020. Exports of transport services declined notably as passenger flows plummeted, but the pace of decline moderated somewhat in the second half of the year alongside the improvement in regional trade and cargo flows. Exports of business and other services also contracted amid the austere global economic environment. In contrast, exports of financial services expanded moderately thanks to active cross-border financial and fund-raising activities.

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

	2019#	2020#	2019 Q1#	2019 Q2#	2019 Q3#	2019 Q4#	2020 Q1#	2020 Q2#	2020 Q3#	2020 Q4#
Change in real terms of GDP and its main expenditure components (%)										
Private consumption expenditure	-1.1	-10.1	0.6	1.3	-3.3	-2.9	-10.6	-14.2	-8.2	-7.2
			(0.8)	(0.2)	(-4.1)	(0.3)	(-7.2)	(-3.9)	(2.6)	(1.4)
Government consumption expenditure	5.1	7.8	4.4	3.8	5.9	6.1	8.8	9.7	7.1	5.6
			(0.9)	(0.8)	(2.5)	(1.7)	(3.4)	(1.7)	(0.1)	(0.3)
Gross domestic fixed capital formation	-12.3	-11.5	-5.3	-11.6	-15.1	-16.8	-15.8	-21.4	-10.9	2.6
Building and construction	-6.2	-8.2	-4.3	-11.1	-2.8	-6.5	-11.5	-4.0	-10.5	-6.0
Costs of ownership transfer	-13.4	-3.6	-20.0	-13.4	-22.4	7.6	-32.4	-23.8	25.7	30.3
Machinery, equipment and intellectual property products	-20.0	-19.2	-2.0	-12.2	-26.5	-32.3	-17.9	-43.6	-20.1	7.8
Total exports of goods&	-4.6	-0.3	-3.7	-5.3	-6.9	-2.5	-9.7	-2.2	3.9	5.5
			(-1.7)	(-1.6)	(-1.2)	(2.0)	(-8.5)	(6.2)	(4.9)	(4.1)
Imports of goods&	-7.3	-2.1	-4.2	-6.7	-11.0	-7.0	-11.1	-6.7	1.9	6.9
			(-2.2)	(-2.6)	(-2.0)	(-0.3)	(-6.2)	(1.7)	(7.1)	(5.4)
Exports of services&	-10.2	-36.8	-0.4	-1.3	-14.2	-24.2	-37.4	-45.6	-33.5	-29.3
			(1.0)	(-3.6)	(-13.1)	(-10.6)	(-16.2)	(-16.1)	(6.1)	(-4.9)
Imports of services&	-2.4	-35.1	-1.2	1.8	-4.5	-5.2	-24.5	-44.5	-36.0	-35.5
			(0.3)	(0.5)	(-5.9)	(-0.3)	(-20.0)	(-26.1)	(8.3)	(0.7)
Gross Domestic Product	**-1.2**	**-6.1**	**0.7**	**0.4**	**-2.8**	**-3.0**	**-9.1**	**-9.0**	**-3.6**	**-3.0**
			(0.8)	**(-0.3)**	**(-3.0)**	**(-0.4)**	**(-5.6)**	**(-0.1)**	**(2.7)**	**(0.2)**
Change in the main price indicators (%)										
GDP deflator	**2.4**	**0.8**	**2.7**	**2.7**	**2.3**	**1.8**	**2.8**	**0.8**	**0.8**	**-1.1**
			(0.6)	**(0.8)**	**(0.3)**	**(0.2)**	**(1.3)**	**(-1.2)**	**(0.5)**	**(-1.7)**
Composite CPI										
Headline	**2.9**	**0.3**	**2.2**	**3.0**	**3.3**	**3.0**	**2.0**	**1.3**	**-1.7**	**-0.3**
			(0.4)	**(1.1)**	**(1.0)**	**(0.5)**	**(-0.7)**	**(0.6)**	**(-2.0)**	**(1.7)**
Underlying^	**3.0**	**1.3**	**2.7**	**2.9**	**3.3**	**3.0**	**2.9**	**1.8**	**0.3**	**0.2**
			(0.5)	**(0.9)**	**(1.0)**	**(0.5)**	**(0.5)**	**(-0.1)**	**(-0.6)**	**(0.5)**
Change in **nominal GDP** *(%)*	**1.1**	**-5.4**	**3.4**	**3.0**	**-0.5**	**-1.2**	**-6.5**	**-8.3**	**-2.9**	**-4.1**

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

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

(#) Revised figures.

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

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

The domestic sector

1.6 Domestic demand took a big hit in 2020. *Private consumption expenditure* recorded the steepest ever annual decline of 10.1% in real terms in 2020, after falling by 1.1% in 2019. Local consumption activities were severely disrupted by the COVID-19 epidemic and the resultant social distancing requirements. Worsened job and income conditions also weighed on sentiment. Meanwhile, outbound tourism came to a halt upon the implementation of stringent travel restrictions worldwide. In consequence, private consumption expenditure registered double-digit declines on a year-on-year basis in the first and second quarters of the year, before showing some relative improvement in the second half. In contrast, *government consumption expenditure* rose markedly by 7.8% in real terms in 2020, further to a 5.1% increase in 2019.

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)]	*Of which :* Food	Durables	Non-durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure[(b)]
2019	Annual	-4.3	-8.0	-13.4	-11.3	0.7	4.1	-20.7	-1.1
	H1	0.7	-3.2	-6.2	2.2	2.0	5.7	1.8	0.9
	H2	-9.2	-13.1	-19.9	-24.4	-0.6	2.6	-42.2	-3.1
	Q1	0.9	-1.2	-6.1	4.4	1.3	-0.5	2.1	0.6
	Q2	0.5	-4.8	-6.4	0.1	2.7	12.1	1.3	1.3
	Q3	-7.6	-12.1	-16.3	-21.8	-0.1	2.2	-30.8	-3.3
	Q4	-10.8	-14.1	-22.7	-26.6	-1.2	2.9	-51.9	-2.9
2020	Annual	-13.6	-14.3	-20.8	-27.7	-7.7	-78.5	-90.0	-10.1
	H1	-18.4	-16.3	-37.8	-38.3	-8.6	-69.9	-87.7	-12.4
	H2	-8.3	-11.8	-3.0	-13.8	-6.7	-87.0	-93.8	-7.7
	Q1	-18.3	-16.1	-41.1	-40.2	-6.5	-46.3	-79.9	-10.6
	Q2	-18.5	-16.6	-33.4	-36.4	-10.6	-91.5	-96.6	-14.2
	Q3	-10.1	-12.2	-12.3	-16.8	-7.5	-86.5	-96.4	-8.2
	Q4	-6.6	-11.5	4.7	-11.1	-6.0	-87.4	-90.5	-7.2

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

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

Diagram 1.2 : Private consumption expenditure recorded the steepest ever decline in 2020

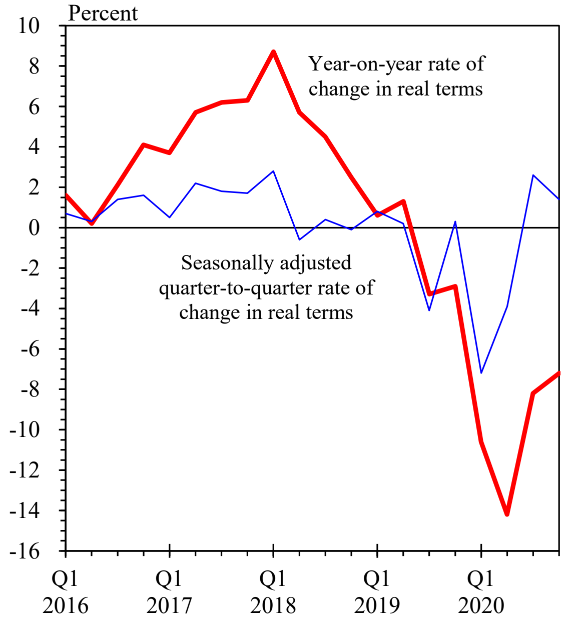
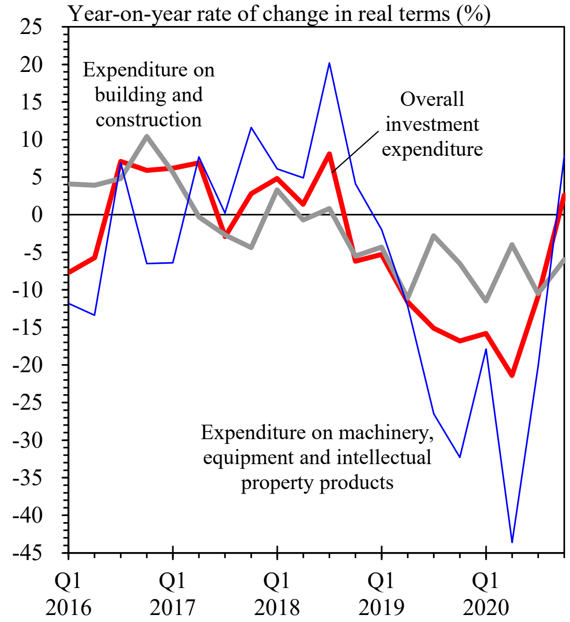


Diagram 1.3 : Overall investment spending continued to fall noticeably in 2020



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* fell noticeably by 11.5% in real terms in 2020 after a 12.3% decline in 2019, notwithstanding some rebound in the fourth quarter against a low base of comparison. Expenditure on acquisitions of machinery, equipment and intellectual property products plummeted by 19.2%, as business sentiment worsened sharply and stayed generally weak through the year amid an exceptionally uncertain business outlook (see ***Box 1.2***). Meanwhile, expenditure on building and construction expenditure recorded a steep fall of 8.2%, with spending from both the private and public sectors shrinking. Separately, the costs of ownership transfer fell for the year as a whole, despite the notable rebound in the second half amid a more active residential property market.

Box 1.2

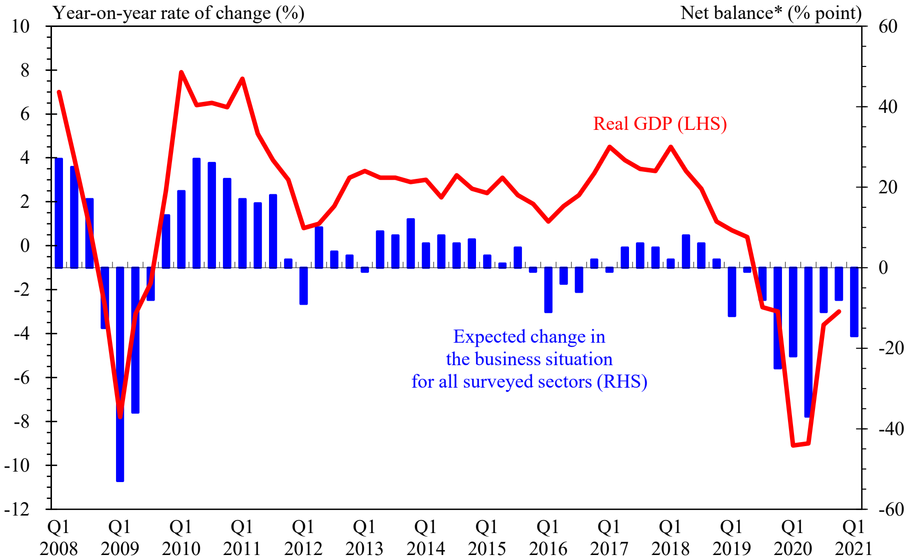
Business sentiment in Hong Kong

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. Survey results generally indicated that business sentiment once improved entering the fourth quarter of 2020, but worsened again amid the fourth wave of the local COVID-19 infections which started in the latter part of November 2020.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)[(1)] conducted during 2 December 2020 to 15 January 2021, business sentiment among large enterprises in Hong Kong turned more negative compared to three months ago (***Chart 1***). The proportion of large enterprises expecting business situation to worsen in the first quarter of 2021 over the fourth quarter of 2020 exceeded the proportion of those expecting improvement by 17 percentage points (i.e. a net balance of -17), down from the net balance of -8 in the previous round.

Business sentiment among large enterprises across all surveyed sectors were negative, reflecting the renewed pressures on economic activities posed by the fourth wave of local epidemic and also concerns about the resurgence of cases in overseas markets. Large enterprises in the "accommodation and food services" sector were deeply concerned about their business outlook for the first quarter of 2021 (***Table 1)***, as they were directly affected by the re-tightening of social distancing measures. Sentiment in "retail" also worsened as the revival of inbound tourism would likely take longer time given the global and local epidemic situation. In view of the challenging economic outlook, the net balances for "transportation, storage and courier services", "construction", "real estate" and "import/export trade and wholesale" slipped in the contractionary zone by varying degrees, while those for "information and communications and "professional and business services" dipped below the boom-bust line. Business sentiment in "manufacturing" and "financing and insurance" showed relative improvement, but still had not reached the positive zone. Hiring sentiment weakened across many sectors, indicating that the labour market would remain under immense pressure in the near term (***Table 2***).

Chart 1 : Business sentiment among large enterprises turned more negative again



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.

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(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 1.2 (Cont'd)

Table 1 : Large enterprises in all sectors expected business situation to worsen in Q1 2021

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2019	2020				2021
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	-24	-27	-23	+9	-8	-5
Construction	-45	-28	-20	-21	-19	-28
Import/export trade and wholesale	-23	-23	-42	-8	-7	-13
Retail	-61	-39	-42	+21	-5	-18
Accommodation and food services	-44	-42	-63	+25	+19	-44
Transportation, storage and courier services	-26	-33	-47	-22	-13	-39
Information and communications	+6	-2	-15	-21	0	-18
Financing and insurance	-21	-16	-32	-14	-13	-10
Real estate	-12	-18	-29	-26	-12	-16
Professional and business services	-25	-13	-37	-18	+4	-13
All sectors above	-25	-22	-37	-11	-8	-17

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 in many sectors

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2019	2020				2021
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	+5	+3	-18	+10	-11	-3
Construction	-20	-25	-22	-10	-10	-16
Import/export trade and wholesale	-9	-10	-13	-3	-2	-16
Retail	-21	-19	-25	-4	-10	-20
Accommodation and food services	-13	-9	-35	+7	-2	-18
Transportation, storage and courier services	0	+1	-17	-2	-8	-21
Information and communications	-6	0	-2	-2	+8	-3
Financing and insurance	+11	+4	-9	+7	0	+6
Real estate	-6	-13	-5	+4	+5	-13
Professional and business services	-2	-8	-12	-4	-5	-4
All sectors above	-7	-8	-17	-1	-4	-11

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), 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 current situation stayed low at 38.1 in January 2021 despite some relative improvement (***Chart 2a***), as the local epidemic situation remained severe. The employment situation of the SMEs surveyed showed renewed signs of weakening since December 2020. Nonetheless, credit conditions were still largely accommodative. Separately, the Standard Chartered Hong Kong SME Leading Business Index(3) for the first quarter of 2021 showed deterioration in business sentiment, reflecting the impact of the fourth wave of local epidemic when the survey was conducted in December.

As for other surveys in the public domain, the Markit Purchasing Managers' Index (PMI) of Hong Kong(4), which gauges the performance of the private sector's business activity, dropped to 47.8 in January 2021 from the recent peak of 50.1 in November 2020. Separately, the Hong Kong Trade Development Council's Export Index(5) rose for the third consecutive quarter to 36.2 in the fourth quarter of 2020, suggesting that exporters were less gloomy about the near-term export performance (***Chart 2b***). The pandemic was identified by 54.9% of the traders surveyed as the biggest threat to their businesses, followed by softening global demand (23.8%) and US-Mainland trade tensions (9.6%).

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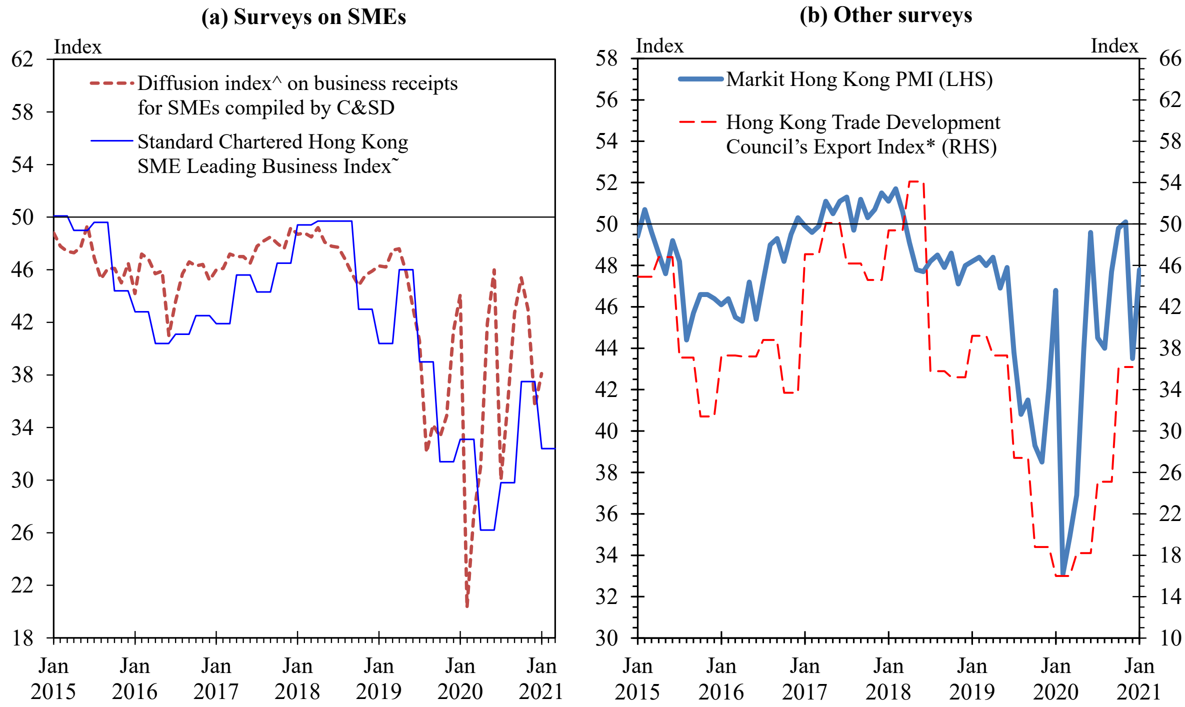
(2) It refers to the results from the Monthly Survey on the Business Situation of SMEs that solicits feedbacks from a panel sample of around 600 SMEs each month.

(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 1.2 (Cont'd)

Chart 2 : Recent surveys pointed to worsened business sentiment after the fourth wave of the local epidemic started in the latter part of November 2020



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 noting 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 worsened again more recently amid the fourth wave of the local epidemic. Concerns about the pandemic situation around the world will likely continue to weigh on business sentiment in the near term. Nevertheless, if mass vaccinations can be carried out progressively and yield the intended results in most economies including Hong Kong, the pandemic may abate gradually over the course of 2021. The Government will stay vigilant and closely monitor various external and local developments, for their possible repercussions on Hong Kong's business and employment situation. Meanwhile, the whole community should also make concerted effort to put the epidemic under control at the soonest possible.

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(4) 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 Suppliers' 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.

(5) 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.

The labour sector

1.8 The labour market deteriorated sharply in 2020 as the economy experienced the most severe recession on record. The pressures faced by the labour market were immense during most of the year, notwithstanding some fluctuations along with the local epidemic situation. The *seasonally adjusted unemployment rate* rose to 6.6% in the fourth quarter of 2020, the highest in 16 years. For the year as a whole, the seasonally adjusted unemployment rate surged by 3.0 percentage points over 2019 to 5.9%, and the underemployment rate by 2.2 percentage points to 3.3%. Unemployment rates of the consumption-and tourism-related sectors, the construction sector, and the lower-skilled segment all went up visibly. Total employment fell at a record rate. Overall wages and labour earnings continued to increase in nominal terms in the first three quarters of 2020, but the year-on-year rates of increase in the third quarter were the slowest in around a decade. The median household income fell markedly in 2020. The Government implemented the Employment Support Scheme and other relief measures during the year to provide cushioning effect to the labour market.

The asset markets

1.9 The *local stock market* exhibited considerable volatility in 2020. The HSI underwent a sharp correction in the first quarter and plunged from a high of 29 056 on 17 January to 21 696 on 23 March amid the severe concerns about the economic fallout from the pandemic, but stabilised in the second quarter alongside the rollout of massive economic support measures by many governments and central banks. It lost some ground again in the third quarter amid the development of China-US relations and concerns over the global economic outlook, before staging a strong rebound in the fourth quarter. The HSI closed the year at 27 231, 3.4% lower than end-2019. Trading in the securities market was very active throughout 2020, with the average daily turnover soaring by 48.6% to $129.5 billion in 2020. The total amount of initial public offering (IPO) funds raised in the Hong Kong stock market rose by 26.5% to $397.5 billion, making Hong Kong the second largest IPO centre in the world. Meanwhile, credit growth, in terms of the year-on-year increase in loans for use in Hong Kong (including trade finance), moderated to 1.6% at end-2020, from 7.1% a year earlier.

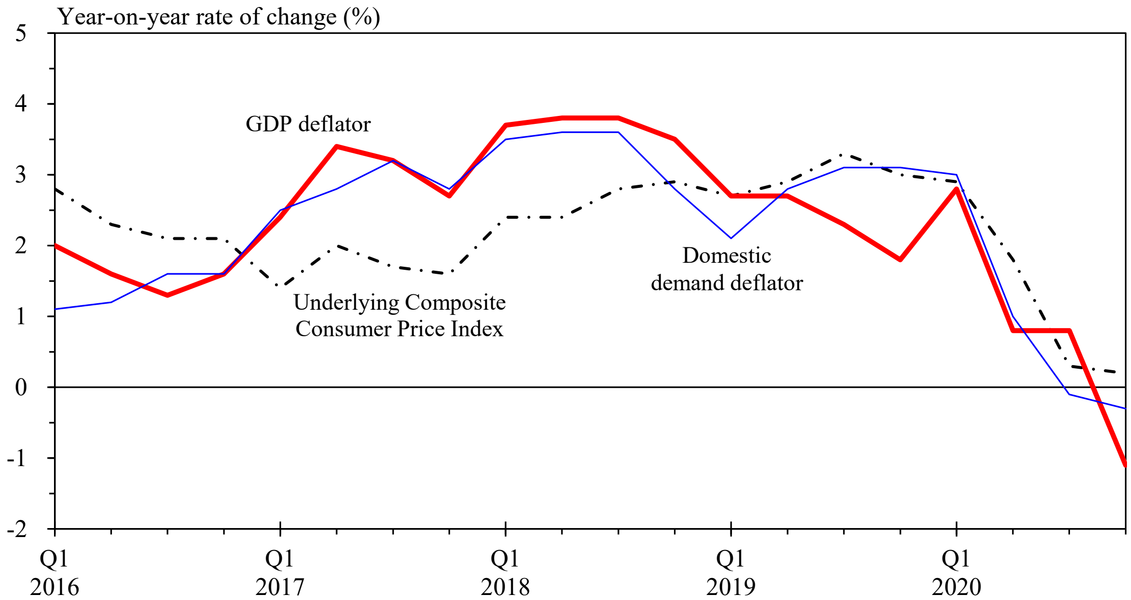
1.10 The *residential property market* was broadly steady in 2020, notwithstanding some moderate fluctuations in individual months. While the COVID-19 pandemic took a heavy toll on the overall economy and market sentiment was swayed by the local epidemic situation, the low local interest rate environment resulting from massive monetary stimulus around the world and firm end-user demand rendered support to the market. The number of transactions, in terms of the total number of sale and purchase agreements for residential property received by the Land Registry, was 59 880 in 2020, little changed from 2019. Flat prices in December 2020 were on average broadly the same as in December 2019. Nevertheless, the index of home purchase affordability remained elevated at around 72% in the fourth quarter, significantly above the long-term average of 45% over 2000-2019. Meanwhile, flat rentals in December 2020 were 6% lower than in December 2019. As for commercial and industrial property, rentals for retail premises and office space fell by 6% and 9% respectively over the same period amid austere business environment, while those for flatted factories increased by 3%.

Inflation

1.11 Consumer price inflation receded visibly in 2020, as price pressures on most goods and services eased amid austere global and local economic conditions. Netting out the effects of the Government's one-off relief measures, *underlying consumer price inflation rate* eased from 3.0% in 2019 to 1.3% in 2020. *Headline consumer price inflation rate* likewise went down from 2.9% to 0.3%. Domestically, among the major components of the underlying consumer price index, private housing rentals stayed on a decelerating trend through 2020 and showed mild declines in the latter part of the year. Food inflation also eased, as the increase in prices of basic foodstuffs moderated in the second half of the year against a high base of comparison, while prices of meals bought away from home saw a narrowed increase amid the local epidemic. As to cost pressures, wage growth decelerated to the slowest in over a decade, while pressures on commercial rental costs softened notably. External price pressures stayed muted in 2020, as inflation rates in many of our key import sources softened and world energy prices fell visibly. Against this backdrop, import prices saw a modest decline for the year as whole.

1.12 As a broad measure of the overall change in prices in the economy, the increase in *GDP deflator* eased from 2.4% in 2019 to 0.8% in 2020. Within the GDP deflator, the terms of trade held virtually unchanged in 2020. Taking out the external trade components, the domestic demand deflator rose by 0.9% in 2020, down from the 2.8% increase in 2019.

Diagram 1.4 : Underlying consumer price inflation eased visibly in 2020



Note : The year-on-year rates of change of the Composite Consumer Price Index are computed from the 2014/15-based series.

GDP by major economic sector

1.13 The net output of the services sector contracted by 5.5% in real terms in the third quarter of 2020 from a year earlier, having shrunk by 9.0% in both the first and second quarters amid the COVID-19 pandemic. For the first three quarters combined, the services sector shrank sharply by 7.8%, having contracted by 0.3% in 2019.

1.14 The net outputs of many major service sectors continued to see year-on-year declines in the third quarter. Specifically, the net output of import and export trade saw a visibly narrowed decline along with the recovery of the global economy. The net output of transportation and storage continued to tumble. The net outputs of wholesale and retail trades as well as accommodation and food services plunged further amid the continued threat of COVID-19 and the resultant social distancing measures. The net output of professional and business services fell further, whereas that of public administration, social and personal services saw a modest decline. The output of real estate, which covers activities of private sector developers and property agencies, registered a much narrowed decline as trading in the residential property market turned more active on a year-on-year basis in that quarter. On the other hand, the net output of postal and courier services posted accelerated growth, conceivably benefiting from the requirement for reduced people contact. The net output of financing and insurance grew further, buttressed by buoyant financial market activity. The net output of information and communications continued to grow modestly. As for the secondary sector, the net output of manufacturing sector saw a widened decline and that of construction sector fell noticeably.

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

	2019	2020	2019				2020		
		Q1-Q3	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	0.4	-5.8	1.4	0.4	0.5	-0.5	-4.6	-5.1	-7.4
Construction	-6.0	-8.8	-3.5	-11.5	-2.5	-6.6	-12.1	-3.5	-10.2
Services[(b)]	-0.3	-7.8	1.7	1.3	-1.7	-2.4	-9.0	-9.0	-5.5
Import/export, wholesale and retail trades	-6.2	-16.2	-1.3	-3.8	-9.7	-8.4	-21.5	-18.7	-9.1
Import and export trade	-4.4	-8.6	-0.9	-3.4	-7.6	-4.8	-12.9	-10.3	-3.6
Wholesale and retail trades	-13.8	-50.1	-3.0	-5.4	-19.8	-23.8	-57.4	-51.9	-39.7
Accommodation[(c)] and food services	-9.2	-45.9	2.7	-1.6	-14.1	-23.2	-47.6	-44.5	-45.2
Transportation, storage, postal and courier services	-1.6	-40.9	2.4	1.9	-2.2	-8.1	-32.3	-49.4	-41.8
Transportation and storage	-1.5	-43.6	2.9	2.2	-2.3	-8.1	-34.0	-52.8	-44.9
Postal and courier services	-4.6	10.1	-6.1	-4.2	1.3	-7.8	-0.5	13.7	18.9
Information and communications	4.7	1.6	4.8	5.8	5.4	2.8	1.6	0.9	2.1
Financing and insurance	2.8	3.6	2.3	3.1	3.3	2.4	2.7	3.0	5.1
Real estate, professional and business services	1.0	-4.9	1.6	1.9	0.5	0.2	-4.6	-5.9	-4.1
Real estate	0.9	-4.1	1.2	0.7	0.5	1.0	-6.8	-4.0	-1.2
Professional and business services	1.2	-5.4	2.1	2.8	0.4	-0.5	-2.7	-7.4	-6.3
Public administration, social and personal services	2.9	-2.3	3.6	3.6	2.0	2.5	-3.2	-3.0	-0.8

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

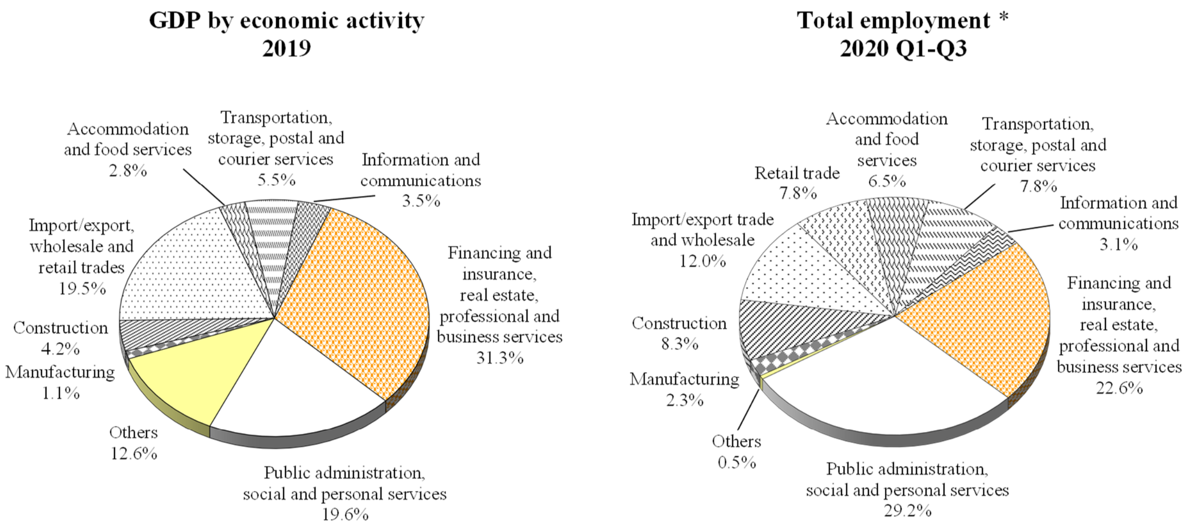
(a) The GDP figures shown in this table are compiled from the production approach, while those shown in Table 1.1 are compiled from the expenditure approach. For details, see Note (1) to this chapter.

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

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

1.15 The services sector is the mainstay of the Hong Kong economy, accounting for 93.4% of GDP in 2019 and providing 88.9% of total employment in the first three quarters of 2020. Hong Kong is a global centre for world trade, finance and business, located strategically at the doorstep of the Mainland's huge and vibrant economy, upholding strengths such as an unfettered flow of capital, talents, goods and information; simple tax system with low tax rates; sound regulatory system; and the rule of law and an independent judiciary. With our unique advantages under "One Country, Two Systems" and strong competitive edges, Hong Kong's services sector is well positioned to leverage on the continuous eastward shift of the global economic gravity and integrate proactively into the new pattern of the national development to seize the enormous opportunities. The Government is committed to playing the role of a "facilitator" and "promoter" in developing the economy, and will join hands with enterprises to explore new market opportunities and assist professional service providers to go beyond Hong Kong.

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



Note : (*) Figures refer to the Composite Employment Estimates, which are compiled based on results of the General Household Survey and the Quarterly Survey of Employment and Vacancies. Figures for 2020 are averages for the first three quarters of the year.

Other economic developments

1.16 The Chief Executive delivered the 2020 Policy Address in November and put forward initiatives in various aspects, including economic development, housing and land supply and improving people's livelihood. The more salient points are highlighted below.

- On economic development, the Government unveiled strategies to inject impetus into the Hong Kong economy. With social stability effectively restored following the enactment of the National Security Law in late June, Hong Kong is well positioned to integrate proactively into the national development given our unique advantages under "One Country, Two Systems" and strong competitive edges. Particularly, Hong Kong can take the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) development as an entry point, and proactively become a "participant" in the domestic circulation of our country and a "facilitator" in international circulation. Playing the dual role well will bring continuous impetus to the economy. Meanwhile, the Government outlined measures to consolidate Hong Kong's status as an international financial and aviation centre, develop Hong Kong into an international innovation and technology hub, while taking forward infrastructure investment and district-based livelihood projects conducive to economic development.

- On housing supply, the Government has identified 330 hectares of land for providing 316 000 public housing units to satisfy the demand for public housing in the coming 10 years. As to land supply, the Government would take forward the development plans along the Northern Link and on MTR Corporation Limited's Siu Ho Wan Depot Site, and the redevelopment of three urban squatter areas and Tai Hang Sai Estate. Studies on the development of Tuen Mun West and the artificial islands in the Central Waters under the Lantau Tomorrow Vision would be conducted to plan for sustainable land supply in the long term. In addition, the Government would expedite the land development progress through rationalising and streamlining approval process and strengthening co-ordination. To help families waiting for public rental housing (PRH) and residents in poor living conditions, the Government has committed to providing 15 000 transitional housing units within three years, launching a trial scheme to provide cash allowance for low-income families awaiting PRH allocation for a prolonged period, and completing the study on tenancy control of subdivided units in the first quarter of 2021. These measures and plans demonstrate the Government's commitment to expedite and increase housing and land supply in the short, medium and long term, and help ease the housing-related hardships facing many households.

- To support people's livelihoods amid the pandemic, the Government makes every effort to create more jobs, increase training and retraining opportunities, step up manpower matching and enhance the safety net of the social welfare system. Specific measures were announced to foster job opportunities in certain sectors particularly suitable for young graduates, including green industry, innovation and technology industry, property management industry, creative industries and legal profession. The Employees Retraining Board also launched a third tranche of the Love Upgrading Special Scheme in January 2021 to further enhance the support to employees affected by the economic downturn. Moreover, the Government launched the GBA Youth Employment Scheme in January 2021 to encourage enterprises with operation in Hong Kong and the GBA to recruit and deploy local university graduates to work in the GBA Mainland cities, with a view to supporting young people to work, pursue their careers and leverage the opportunities for career advancement in the GBA. To alleviate the public's burden of transport expenses, a special temporary measure to relax the monthly public transport expenses threshold under the Public Transport Fare Subsidy Scheme from $400 to $200 will be extended for six months to 30 June 2021. For individuals and families with difficulties coping with daily food expenditure, the Government will regularise the Short-term Food Assistance Service Projects from August 2021.

1.17 The Government has rolled out relief measures of unprecedented scale since early 2020 to relieve the severe impact of the COVID-19 pandemic on the local economy, preserve economic vitality and relieve people's financial burdens. On 14 February, the Government announced the setting up of the Anti-epidemic Fund (AEF) to fund measures for assisting industries and people affected by the epidemic and help enhance Hong Kong's anti-epidemic capabilities. On 26 February, the Government released the 2020-21 Budget, unveiling a whole range of counter-cyclical measures involving over $120 billion to "support enterprises, safeguard jobs, stabilise the economy and relieve people's financial burdens". The Government further announced the second round of AEF measures worth $137.5 billion on 8 April, the third round of AEF and other support measures amounting to $24 billion on 15 September, and secured an injection of $6.4 billion for rolling out the fourth round of measures to provide targeted support to hard-hit sectors on 21 December. Overall, the four rounds of measures under the AEF and the one-off relief measures in the 2020-21 Budget totalled around $320 billion or 11% of GDP. These measures are expected to have a supporting effect of over 5% of GDP on our economy. Separately, the Chief Executive announced in the Policy Address the provision of close to

$600 million of additional support to further help the tourism industry in the form of cash subsidies for licensed travel agents and practitioners of the sector.

1.18 Hong Kong's sound economic fundamentals and institutional framework have been highly regarded internationally. Hong Kong continued to be ranked as the world's freest economy by the Fraser Institute since its report on economic freedom was first published in 1996, and was ranked second in the Heritage Foundation's *2020 Index of Economic Freedom*. Moreover, Hong Kong was ranked fifth globally in the *World Competitiveness Yearbook 2020* published by the International Institute for Management Development (IMD). Furthermore, Hong Kong was ranked higher in IMD's *World Digital Competitiveness Ranking 2020*, at fifth globally which was the highest ranking Hong Kong ever attained, and in the *Global Innovation Index 2020* jointly published by Cornell University, INSEAD and World Intellectual Property Organization by two notches to 11th. Meanwhile, reflecting Hong Kong's business-friendly environment as well as its prominent role as a conduit between the Mainland and the rest of the world, the number of business operations in Hong Kong with parent companies either overseas or in the Mainland remained high despite the global recession, at over 9 000 in 2020.

Notes :

(1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.

(2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.

CHAPTER 2 : ECONOMIC OUTLOOK FOR 2021 AND THE MEDIUM TERM

Summary

- *The global economy took a big hit from the COVID-19 pandemic in 2020. Major economies including the US, the euro area and Japan showed sharp contractions, whereas the Mainland managed to attain positive growth for the year as a whole thanks to the early containment of the epidemic there. Looking ahead, the global economy is expected to stage a rebound in 2021, on the premise that the pandemic would gradually abate alongside the implementation of mass vaccination campaigns. Policy support from central banks and governments around the world, if sustained, would also help the recovery. In late January the International Monetary Fund (IMF) projected the global economy to rebound by 5.5% in 2021 after a 3.5% contraction in 2020, but warned that the recovery would be uneven across economies and subject to exceptional uncertainty.*

- *Apart from the pandemic, the global economic outlook is also subject to a number of risk factors. The economic and foreign policies of the new US administration, particularly those on China-US relations, need to be watched over. Geopolitical tensions, post-Brexit development and financial stress in debt-ridden economies with weak fundamentals also warrant attention.*

- *Hong Kong's exports of goods are likely to benefit from a further revival of the external trading environment in 2021. The Mainland economy is expected to sustain strong growth. The other major economies should see improvement especially in the second half of the year, though this will hinge on whether their mass vaccination campaigns can successfully contain the pandemic. Exports of services should also improve, but the recovery pace will be constrained by the state of cross-border travel, which may take time to gradually return to normal.*

- *The prospects for domestic demand in 2021 will hinge critically on how fast the local epidemic can be contained. Provided that the Government's enhanced efforts to fight the virus and the local vaccination campaign can yield the intended results, the social distancing measures would be gradually removed during the year, underpinning a more solid and broad-based recovery of domestic economic activities.*

- *In sum, the Hong Kong economy is expected to resume growth in 2021, but the breadth and strength of the recovery is subject to the high uncertainty associated with the pandemic. Evolving China-US relations and geopolitical tensions are also risk factors that warrant attention. Taking into account the support from various government measures, the Hong Kong*

economy is forecast to grow by 3.5% to 5.5% in 2021, compared with the record contraction of 6.1% in 2020. The relatively wide range of the growth forecast reflects the high degree of uncertainty facing both the global and local economies.

- *Consumer price inflation is expected to remain modest in 2021. External price pressures are likely to stay tame as the global economy is still struggling to return to the pre-pandemic level of activity. As for domestic cost pressures, the softening in fresh-letting residential rentals over the past year or so will continue to feed through. Commercial rental and labour costs would be kept at bay, as the local economy would likely operate below capacity during most of 2021 after two consecutive years of contraction. Underlying consumer price inflation is forecast at 1% in 2021, down from 1.3% in 2020.*

- *The medium-term outlook for the Hong Kong economy is positive. The Eastward shift of the centre of the global economic gravity is set to continue and the Mainland is expected to remain a major driver of global growth. With our unique advantages under "One Country, Two Systems" and strong competitive edges in high value-added professional and business services, Hong Kong will stand to benefit from this mega trend.*

- *The Government will strive to integrate proactively into the national development, resolve the major supply-side bottlenecks of land and talents, facilitate the development of innovation and technology, and continue to invest in education and training, while further enhancing our connections with the world. Apart from promoting free trade and enhancing our institutional strengths to support Hong Kong's market economy, the Government is committed to playing the role of a "facilitator" and "promoter". The Government will join hands with the private sector to explore new opportunities and assist our citizens and professional service providers to go beyond Hong Kong. Overall, the economy is forecast to grow at a trend rate of 3.3% per annum from 2022 to 2025. The trend rate of underlying consumer price inflation is forecast at 2% per annum over the medium term.*

Major external developments

2.1 The COVID-19 pandemic dealt an unprecedented blow to the global economy in 2020. Major economies including the US, the euro area and Japan showed sharp contractions in the second quarter. While there were distinct initial rebounds in the third quarter, these economies still contracted notably for the year as a whole as the pandemic situation constrained the pace of recovery in the latter part of the year. In contrast, the Mainland economy sustained a V-shaped rebound after putting COVID-19 under control. To alleviate the economic pains and financial market strains, central banks and governments in many major economies provided strong policy support, leading to extremely abundant liquidity and a surge in public debts around the globe (see ***Box 2.1***).

2.2 Looking forward, the pace of global economic recovery hinges critically on the development of the pandemic. While a number of countries have started their mass vaccination campaigns, the progress and effectiveness of these campaigns are subject to uncertainties. If these campaigns proceed as planned, the threat of the pandemic can hopefully abate over the course of 2021, enabling the gradual removal of restrictive measures in most economies. Policy support from central banks and governments around the world, if sustained, will also support the global recovery. As such, the global economy is likely to rebound in 2021, more so in the second half. Apart from the pandemic, other risk factors, including evolving China-US relations, geopolitical tensions, post-Brexit development, and financial stress in debt-ridden economies with weak fundamentals, also warrant attention.

Box 2.1

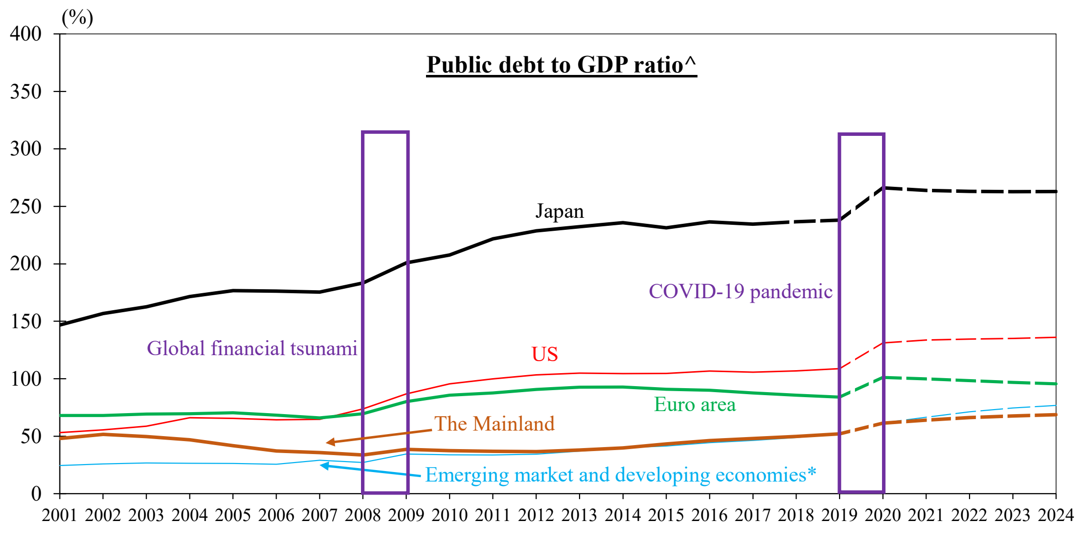
Potential implications of elevated public debt around the globe

To counter the impact of the COVID-19 pandemic, many governments have borrowed huge amounts to finance large-scale relief packages, leading to a surge in public debt around the globe. This has fuelled concerns about global financial stability and whether certain highly-indebted governments would have sufficient fiscal space to ensure macroeconomic stability in case of any future economic crisis. This box article looks into the latest surge in public debt worldwide and examines the potential implications for global financial markets and economic growth, both globally and in Hong Kong.

Overview of the global public debt situation since 2000

Except for Japan, public debt levels in other major economies generally remained relatively stable in the early years of the 2000s. Yet following the onset of the 2008-09 global financial tsunami, public debt levels around the globe rose visibly as many governments implemented huge counter-cyclical measures to support the economy. The public debt to GDP ratio(1) in the US increased from 74% in 2008 to 87% in 2009, and continued to trend upwards in the subsequent years amid persistent fiscal deficits to support the post-crisis economic recovery, reaching 109% in 2019 ***(Chart 1)***. Meanwhile, those in the euro area and Japan increased from 70% and 183% respectively in 2008 to 84% and 238% respectively in 2019. In the Mainland, the ratio rose from 27% in 2008 to 53% in 2019, but remained much lower than other major economies. The average ratio in emerging market and developing economies (weighted by purchasing power parity) increased from 34% to 52% over the same period.

Chart 1: Public debt to GDP ratios rose significantly after the global financial tsunami and the COVID-19 pandemic



Notes: (^) Dashed lines indicate projections.
(*) The ratio from 2015 to 2020 is an average of actual and projected data of individual economies within the group.

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(1) Data on gross public debt to GDP ratios are sourced from the IMF World Economic Outlook database (October 2020).

Box 2.1 (Cont'd)

Entering 2020, the outbreak of COVID-19 dealt a severe blow to the global economy. To help both businesses and individuals endure the crisis, governments around the world swiftly stepped up their policy support. As of end-2020, the US rolled out two major rounds of relief packages amounting to over US$3 trillion, equivalent to around 15% of GDP(2). Meanwhile, a number of European countries, Japan, the Mainland and many emerging market and developing economies also implemented massive relief measures, with the scale of measures in many places exceeding 10% of their GDPs.

Against this backdrop, fiscal deficits in many economies soared in 2020, resulting in a further surge of public debts. The degree of increase in different economies however varied, depending on their epidemic situations and the scale of the support measures implemented. In particular, as shown in ***Chart 1***, the International Monetary Fund (IMF) projected that the public debt to GDP ratio in the US would increase notably to 131% in 2020 (2019: 109%), while those in the euro area and Japan would reach 101% and 266% respectively (2019: 84% and 238%). The projected increase for the Mainland from 53% to 62% was relatively moderate, thanks to the early containment of the disease in March 2020 and the strong economic recovery in the rest of the year. In emerging market and developing economies, due to financial constraints, the ratio was also expected to increase by a relatively lesser extent, to 61% in 2020 (2019: 52%). From 2021 to 2024, the ratios in the US, the euro area and Japan were expected to stay largely stable. For the Mainland and emerging market and developing economies, the IMF projected that the ratios would increase gradually to 77% and 69% respectively by 2024, still lower than other major economies.

Potential implications of surging public debt

Surging public debt would trigger concerns about a government's creditworthiness, which could in turn drive up interest rates to compensate for the risk. Higher interest rates, together with the possibility of higher tax rates to sustain debt service payments, may discourage investment and have negative consequences for economic growth in the medium term. Meanwhile, concerns about governments' ability to repay debt might create turbulence in the financial markets, particularly if emergence of inflationary pressures after a long period of loose monetary policy prompt central banks to start raising interest rates. This is particularly so for those emerging market economies with weaker economic fundamentals and with more debt held by foreign investors, as higher debt service payments may erode investor confidence, which could lead to potential fund outflows amid normalisation of monetary policy in major economies, further increasing their financial vulnerabilities and undermining their economic growth. Moreover, high public debt levels would limit the room for further fiscal support down the road in case there is another major crisis or economic downturn.

Nonetheless, as noted in the IMF's *Fiscal Monitor*, high levels of public debt are not the most immediate risk to the global economy which is still weighed by the pandemic. In fact, the IMF called on governments to avoid premature withdrawal of fiscal support, with the health and education sectors having higher priority. Fiscally constrained economies were encouraged to prioritize their most vulnerable sectors. The World Bank and the IMF also urged creditor governments to suspend debt service payments for the poorest countries to allow them to focus resources on fighting the pandemic.

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(2) In addition to the two major rounds of relief measures rolled out in 2020, on 14 January 2021, US President Biden unveiled a US$1.9 trillion stimulus plan a few days before he was sworn in, which included a substantial increase in direct payments to individuals.

Box 2.1 (Cont'd)

Future trajectory of the global and Hong Kong economies

While global public debt will likely remain elevated in the foreseeable future, the near-term global economic outlook should largely depend on progress in containing the pandemic and vaccinating the population. As long as effective vaccines can be steadily and extensively applied as expected, the global economy should show a more visible recovery in the second half of 2021. Yet, in the subsequent years, global economic growth may increasingly be constrained by high public debt. Meanwhile, financial risks associated with elevated public debt may turn more apparent, adding uncertainties to the global business environment and potentially weighing on investment sentiment. On the other hand, other developments such as continued productivity enhancement stemming from technological advancement may add impetus to the global economy.

Hong Kong's near-term economic outlook also hinges on the epidemic. In the medium term, as a small and open economy, the Hong Kong economy will inevitably be influenced by global economic trends, including the potential repercussions of elevated public debt in many major economies which may surface via both trade and financial channels. We need to stay alert to these possible developments. Yet, with our sound fundamentals and resilient financial system, including a sustained current account surplus and abundant foreign exchange reserves, Hong Kong will be able to cope with the challenges.

Global economic outlook

2.3 The Mainland economy recovered strongly after registering its first ever year-on-year contraction in the first quarter of 2020, thanks to the early containment of the epidemic and a raft of supportive policy measures. For 2020 as a whole, the Mainland economy grew by 2.3%, and was the only major economy with positive annual growth. Looking ahead into 2021, while external uncertainties remain, notably including evolving China-US relations under the new US administration, the role of domestic demand as a growth driver is set to strengthen further under the Mainland's new development pattern of "dual circulation", which puts the domestic market as the mainstay while letting internal and external markets boost each other. Moreover, with Mainland authorities pledging to maintain the continuity, stability and sustainability of macroeconomic policies, the Mainland economy is expected to show notable growth and remain a major driver of the global economy in 2021.

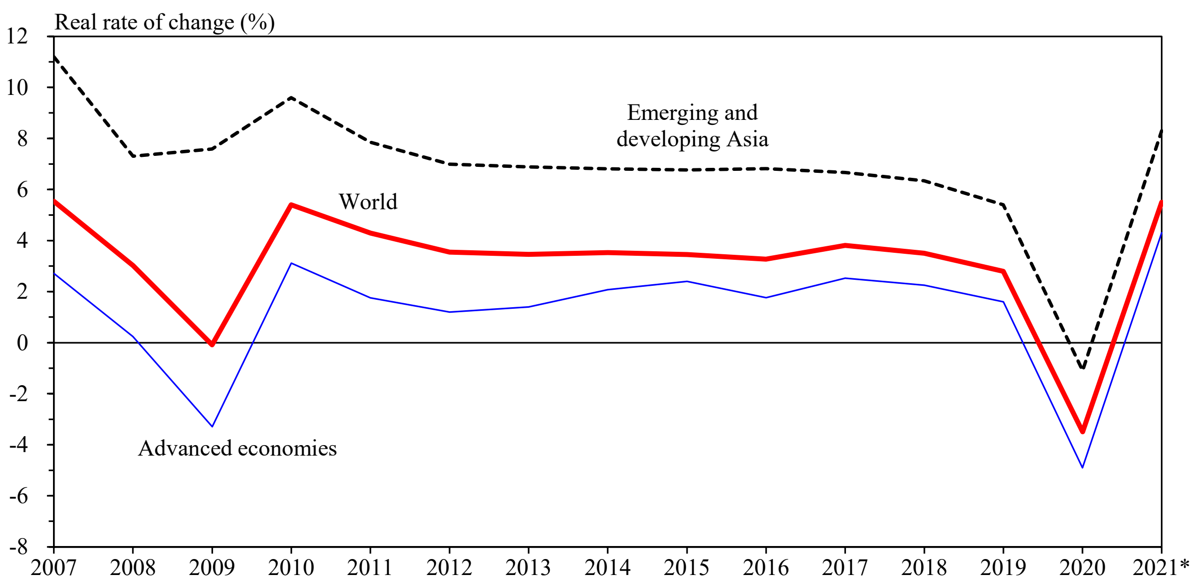
2.4 As for major advanced economies, the US economy saw an unprecedented contraction in the second quarter of 2020 as the pandemic severely disrupted economic activities. While the economy showed a notable initial rebound in the third quarter, the recovery momentum tapered in the latter part of 2020 amid the resurgence of COVID-19 infections and the re-imposition of social distancing measures. Going into 2021, the US economy is expected to gather strength during the year and post a solid recovery as the epidemic can hopefully ease with mass vaccinations gradually yielding results, while highly accommodative monetary policy and the additional fiscal measures rolled out recently would also render support.

2.5 The euro area economy was hard hit by the pandemic, contracting sharply by 6.8% in 2020. The sharp resurgence of COVID infections in a number of European economies since late September and the resultant stringent lockdown measures have led to renewed slackening of economic activity in late 2020 and early this year. Looking ahead, the euro area economy is expected to see a more visible improvement later this year, especially if effective vaccines can be widely deployed. The post-Brexit trade agreement between the EU and the UK has reduced uncertainties on the economic outlook. The envisaged deployment of the "Next Generation EU" recovery fund and the European Central Bank's accommodative policy stance should also render support.

2.6 Japan's economy was likewise hard hit by the fallout from the pandemic in 2020, though the economic contraction narrowed progressively in the second half of the year. Looking ahead, with support from massive fiscal packages and accommodative monetary policy, the economy is expected to bounce back as long as the epidemic can gradually ease during 2021. For other high-income Asian economies, Singapore saw the worst annual performance on record in 2020, and Korea's economy contracted due to weak consumption and exports. Riding on the gradual improving trend in recent months, their economic performance should see more visible revivals in 2021 if the pandemic situation improves.

2.7 As for emerging market economies in Asia, their performance in 2020 varied, depending on their local epidemic situations. In particular, Vietnam sustained growth throughout the year as the epidemic there remained largely contained. On the other hand, Malaysia and the Philippines contracted sharply amid the more severe spread of COVID-19. India also saw a notable contraction, with its production and trading activity dampened heavily as it suffered an especially severe outbreak. Non-Asian emerging market economies likewise deteriorated sharply in 2020, especially those facing particularly austere epidemic situations. In response, many central banks in emerging market economies lowered their policy rates substantially over the past year. Going into 2021, domestic demand and regional trade flows in Asian emerging market economies should see more notable revivals if the expected global recovery materialises. Separately, the situations of certain emerging market economies outside Asia, especially those with weaker fundamentals and marked increases in public debt during the crisis, warrant attention as they may experience financial strains that could have possible spill-over effects on global financial markets.

Diagram 2.1 : The global economy is likely to rebound in 2021



Source : IMF World Economic Outlook Update, January 2021.
Note : (*) Forecasts from the IMF.

2.8 In late January, the IMF forecast that the global economy would rebound by 5.5% in 2021 after an estimated contraction of 3.5% in 2020. The strength of recovery was projected to vary significantly across economies. The advanced economies were forecast to bounce back by 4.3% in 2021, following a contraction of 4.9% in 2020, while emerging market economies were forecast to grow by 6.3% in 2021 after contracting by 2.4% in 2020. Emerging market economies in Asia in particular were projected to grow strongly by 8.3% in 2021, following a modest decline of 1.1% in 2020. Yet, the IMF also warned that the global recovery is subject to exceptional uncertainty, with both downside and upside risks, hinging crucially on the pandemic development, the progress of mass vaccinations and the sustainability of policy support.

Table 2.1 : Growth forecasts for major economies in 2021

		2021		
	2020* (%)	**IMF*** (%)	**UN@** (%)	**Private sector forecast^** (%)
World (PPP## weighted)	-3.5	5.5	4.9	-
Advanced economies	-4.9	4.3	-	-
US	-3.5#	5.1	3.4	4.7
Euro area	-6.8#	4.2	5.0	4.4
UK	-9.9#	4.5	6.8	4.2
Japan	-4.8#	3.1	3.0	2.3
Emerging market and developing economies	-2.4	6.3	-	-
Emerging and developing Asia	-1.1	8.3	-	-
Mainland China	2.3#	8.1	7.2	8.4
India~	-8.0	11.5	7.0	11.1
ASEAN-5§	-3.7	5.2	-	-
Middle East and Central Asia	-3.2	3.0	-	-

Notes : (*) IMF World Economic Outlook Update, January 2021.
(@) United Nations World Economic Situation and Prospects, January 2021.
(^) Average forecasts as at February 2021.
(-) Not available.
(#) Actual figures.
(##) PPP refers to purchasing power parity.
(~) India's GDP growth refers to fiscal year.
(§) Includes Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

Monetary conditions and exchange rate movements

2.9 The global monetary environment has become even more accommodative. The US Federal reserve cut the target range for the federal funds rate twice by a total of 150 basis points to 0.00%-0.25% in March 2020 and increased its purchases of Treasury securities and agency mortgage-backed securities without setting a limit to the amount and duration. The European Central Bank maintained its policy rates at record lows and purchased sovereign bonds and corporate debt through the Pandemic Emergency Purchase Programme, currently set to run for a total of €1.85 trillion till March 2022. In Asia, the Bank of Japan also kept its policy rates at record lows, and a number of central banks in emerging markets lowered their benchmark interest rates substantially when the pandemic arrived. The People's Bank of China lowered the reserve requirement ratios three times and injected RMB1.8 trillion of liquidity through relending and rediscounting operations. The global monetary environment is expected to remain ultra-loose amid notable economic uncertainties.

2.10 The US dollar strengthened against many major currencies in early 2020 on safe-haven demand amid the pandemic, but fell back substantially during the second half of the year after the launch of massive monetary easing and fiscal stimulus by the US authorities. The Hong Kong dollar closely follows the movements of the US dollar under the Linked Exchange Rate System. The nominal trade-weighted effective exchange rate index of the Hong Kong dollar in December 2020 fell by 5% from a year earlier.

2.11 Amid the weakening of the US dollar in 2020, the renminbi (RMB) appreciated by 7% year-on-year against both the US dollar and Hong Kong dollar in December 2020. The RMB also appreciated against a basket of major currencies. According to the Bank for International Settlements, the effective exchange rate index of the RMB appreciated by 4% over the period.

2.12 The direction of exchange rate movements in 2021 will, as always, be subject to various uncertainties, including the recovery paths of major economies and their monetary and fiscal policy responses, as well as geopolitical developments. Recent past experience suggests that Hong Kong's export performance in 2021 will likely hinge more on global demand conditions than on exchange rate movements.

Diagram 2.2 : The direction of exchange rate movements in 2021 will, as always, be subject to various uncertainties

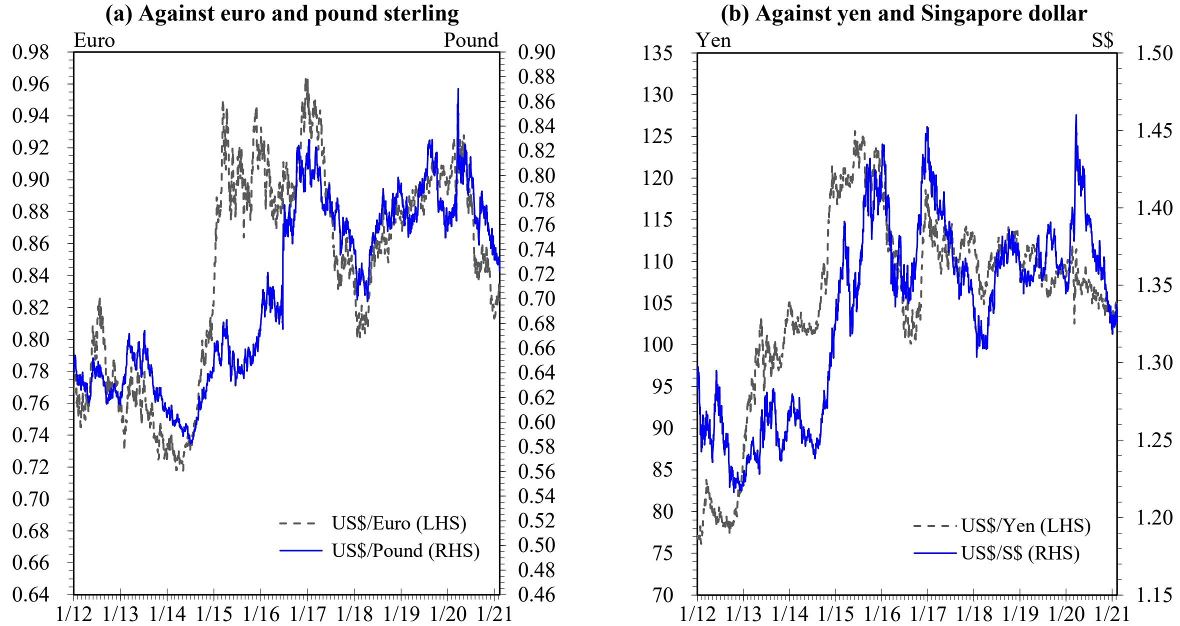
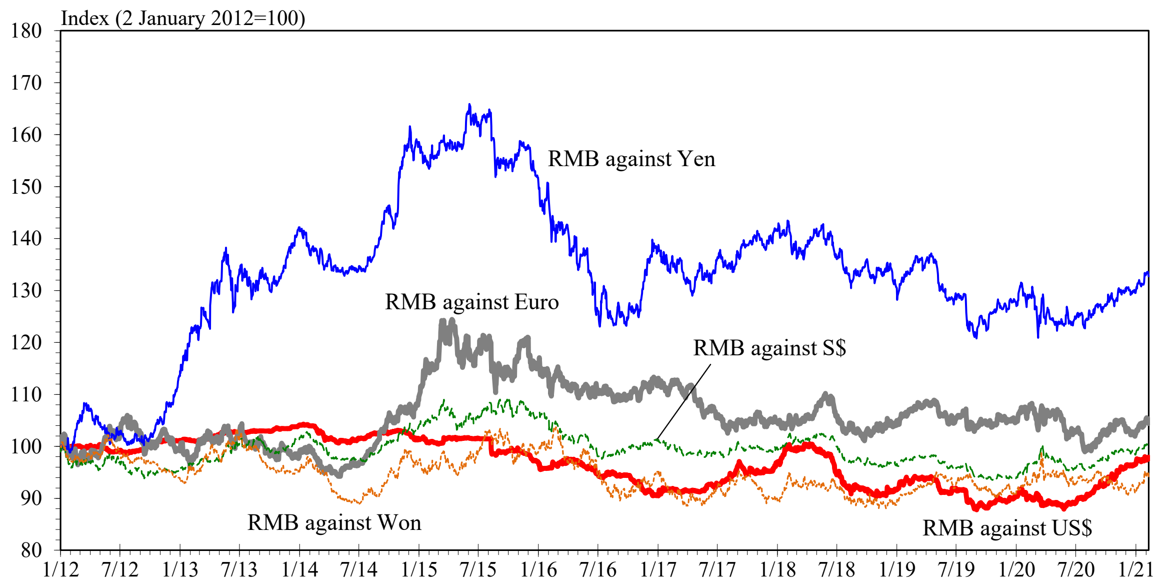


Diagram 2.3 : The RMB exchange rate should be able to maintain stability at a reasonable level



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

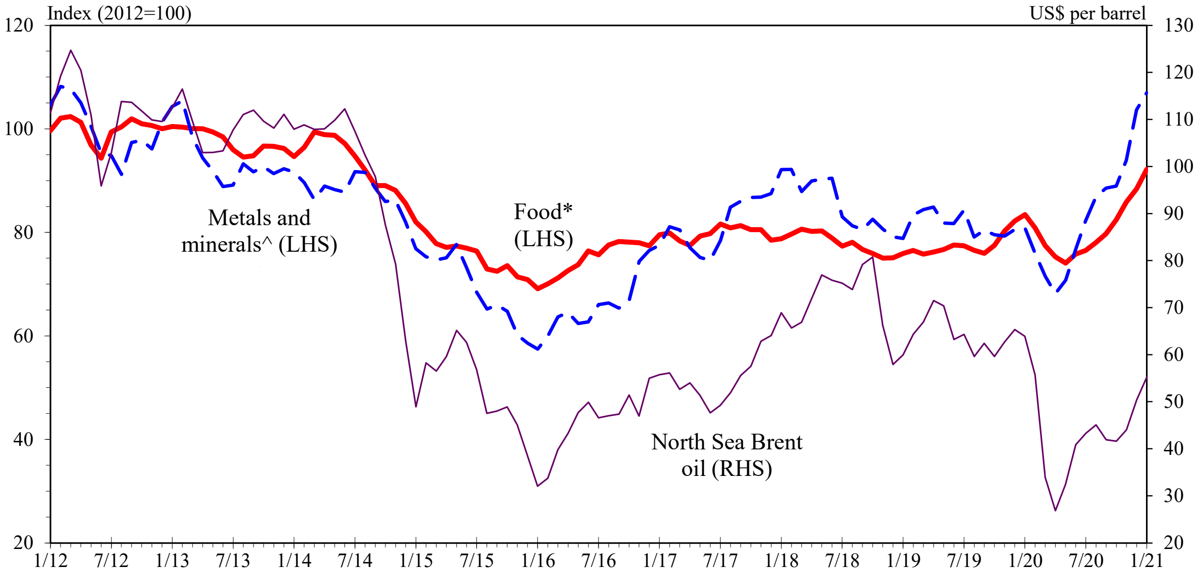
World inflation and global commodity prices

2.13 Global inflation moderated visibly in 2020 as the COVID-19 pandemic led to a plunge in global demand. International commodity and energy prices fell noticeably in the second quarter before rebounding in the second half of the year as the global economy began to emerge from its earlier deep recession. Looking ahead, global inflation is likely to remain largely modest in 2021 as it will take time for global economic activity to return to its pre-pandemic level. In late January the IMF forecast that the inflation rate in advanced economies would remain subdued at 1.3% in 2021, while that in the emerging market economies was projected at just over 4%, lower than the historical average of the group.

2.14 International crude oil prices were highly volatile in 2020. Amid the plunge in economic activities worldwide, crude oil prices plummeted in the latter part of the first quarter, before showing a rebound starting from May amid the reopening of many economies. Production cuts in oil-producing economies also contributed to the rebound. Yet by December 2020, crude oil prices were still sharply below their levels a year ago. Metal prices declined in the first half of the year amid sluggish global demand and rebounded subsequently alongside the global economic recovery. Global food prices likewise showed some easing in the first half of the year before recouping the earlier loss, according to the Food and Agriculture Organization (FAO) of the United Nations.

2.15 Looking ahead, uncertainties about the outlook for international commodity prices in 2021 remain high. For international oil prices, the outlook would hinge on the pace of the global economic recovery, as well as various supply-side factors, such as the production decisions of oil-producing economies and geopolitical tensions in oil-producing regions. Moreover, international food and commodity prices are sensitive to unpredictable short-term supply shocks stemming from factors such as adverse weather conditions.

Diagram 2.4 : The outlook for international commodity prices in 2021 hinges on the pace of the global economic recovery

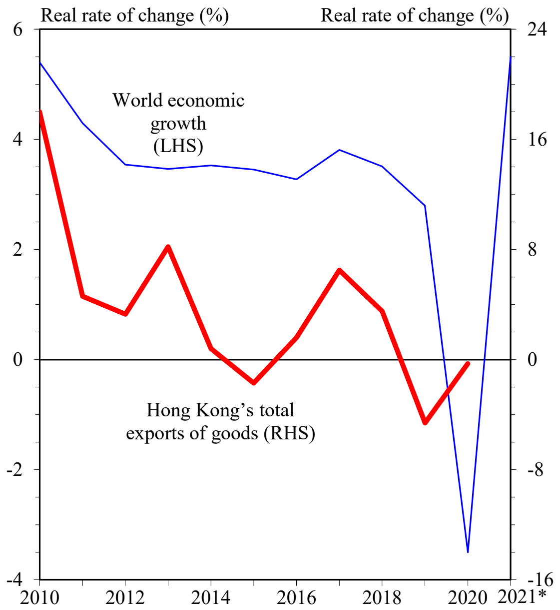


Notes: (*) Food Price Index from FAO of the United Nations, rebased to show average in 2012 = 100.
(^) Metals and Minerals Price Index from the World Bank, rebased to show average in 2012 = 100.

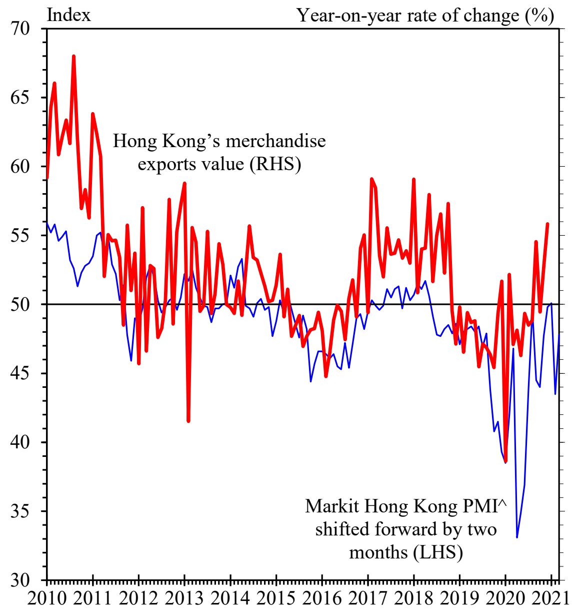
Outlook for the Hong Kong economy in 2021

2.16 The global economy started to recover in the second half of 2020, but its recovery path going forward will hinge crucially on the development of the pandemic. The raging epidemic situations in a number of major advanced economies and the restrictive measures in place may continue to constrain their revival in the near term. Nevertheless, if their mass vaccination campaigns can gradually alleviate the threat of the pandemic, global economic conditions should improve in 2021, particularly so in the second half of the year. Policy support from central banks and governments around the world, if continued, will also help fuel the recovery. Besides, the expected strong growth of the Mainland economy should continue to bode well for Asia's production and trading activities, as well as Hong Kong's merchandise exports. That said, China-US relations under the new US administration still warrant attention.

Diagram 2.5 : A rebound in the global economy should render support to Hong Kong's exports in 2021, but the strength of recovery would hinge on the pandemic development

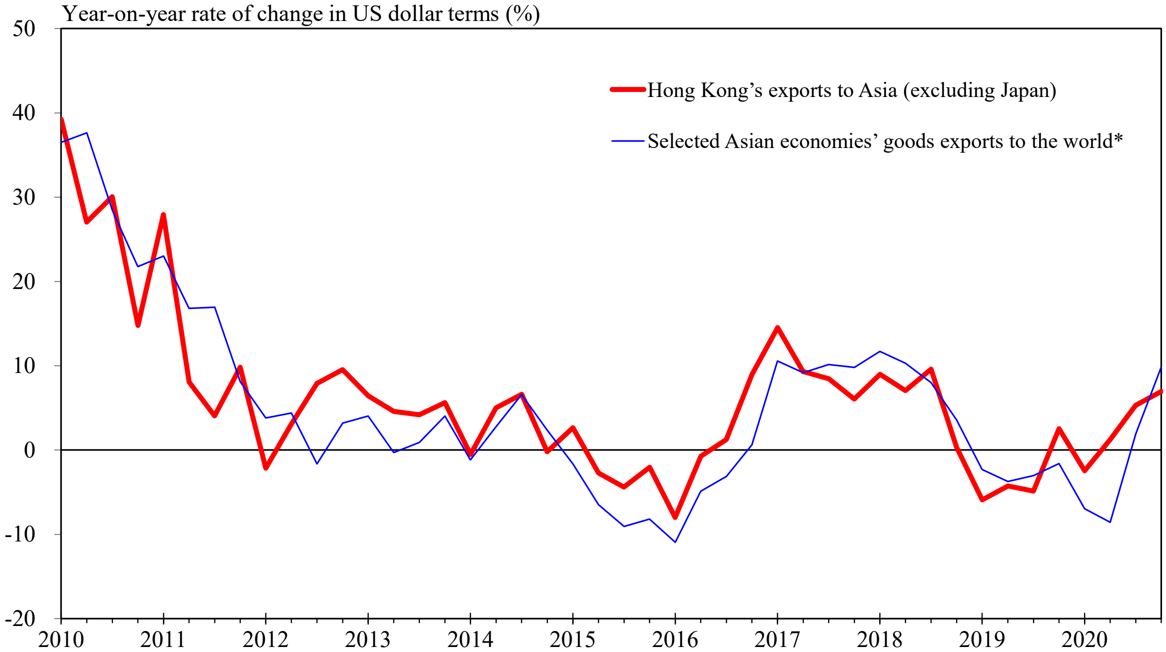


Note : (*) Forecast from the IMF World Economic Outlook Update, January 2021.



Note: (^) Based on data from IHS Markit.

Diagram 2.6 : Regional trade flows were heavily dampened in the first half of 2020, but showed some revival alongside the improved external environment in the second half



Note : (*) "Selected Asian economies" include the Mainland of China, Hong Kong, Singapore, Korea, Taiwan, Japan, Indonesia, Malaysia, Thailand and the Philippines.

2.17 Exports of services posted a record fall in 2020, as inbound tourism was brought to a standstill since February and cross-boundary transport and commercial activities fell distinctly amid austere global economic conditions. Looking into 2021, exports of services should show some recovery amid a more benign external environment. However, the recovery pace would be constrained by the state of cross-border travel, which may take time to gradually return to normal. Inbound tourism will likely remain subdued in the near term, but may begin to recover later this year when vaccinations yield the intended results. Meanwhile, continued revival of regional trade flows would render support to trade-related services, and the improving global economic landscape should help bolster cross-border financial and commercial services.

2.18 Domestic demand took a big hit in 2020, as the threat of COVID-19 and the resultant social distancing requirements severely disrupted local consumption activities and weighed on business sentiment. The sharp deterioration in labour market conditions also dented consumption sentiment. Looking into 2021, the performance of domestic demand will hinge critically on how fast the local epidemic can be contained. Restrictive measures of varying degrees will likely remain in place before the epidemic is effectively under control, inevitably affecting local consumption sentiment and economic activities requiring more people contact. In this regard, putting the epidemic under control at the soonest possible with the concerted effort of the whole community is of pivotal importance to the revival of hard-hit domestic activities and hence the attainment of a full-fledged economic recovery.

2.19 If the Government's enhanced efforts to fight the virus and the local vaccination campaign can yield the intended results, there should be a more solid and broad-based revival of domestic economic activities in the second half of the year. The Government's relief measures and policy initiatives as unveiled in the 2021-22 Budget will help cushion the impact of COVID-19 on the local economy and support a sustained recovery. The Government's continued efforts in raising public and private housing supply, infrastructure investment, as well as promotion of innovation and technology should also underpin investment demand.

Diagram 2.7 : Both private consumption expenditure and total employment saw record declines amid the pandemic

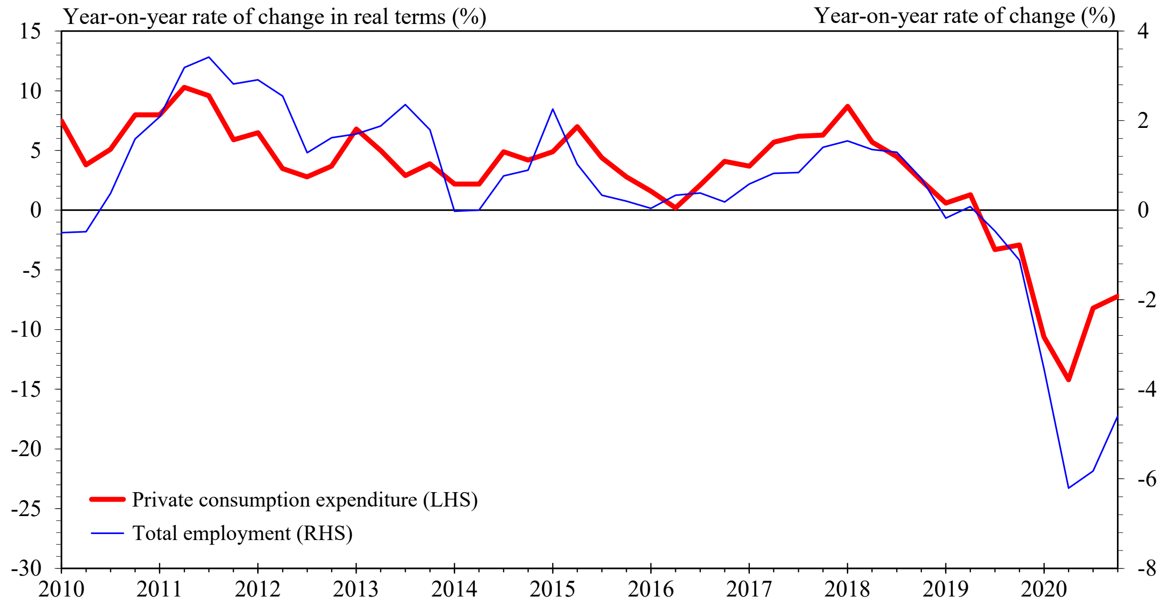
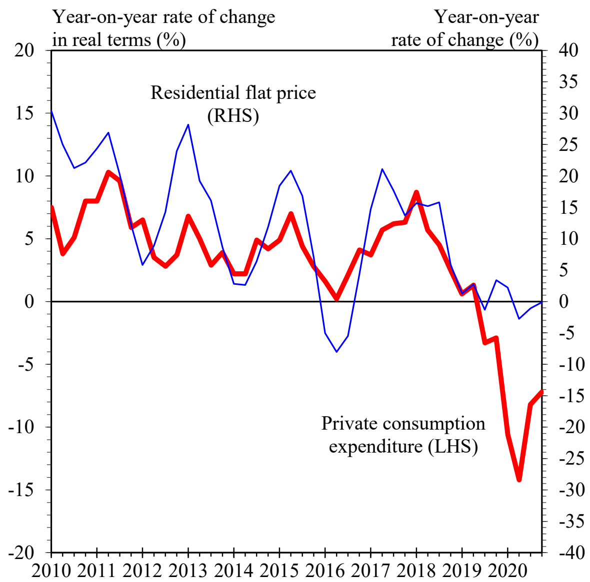


Diagram 2.8 : Wealth effect could hardly render any support to private consumption expenditure as consumption activities were severely disrupted by the pandemic

(a) Housing wealth



(b) Equity wealth

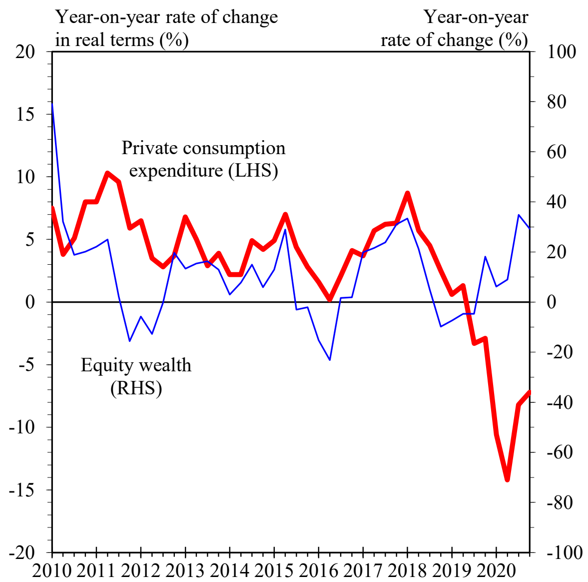
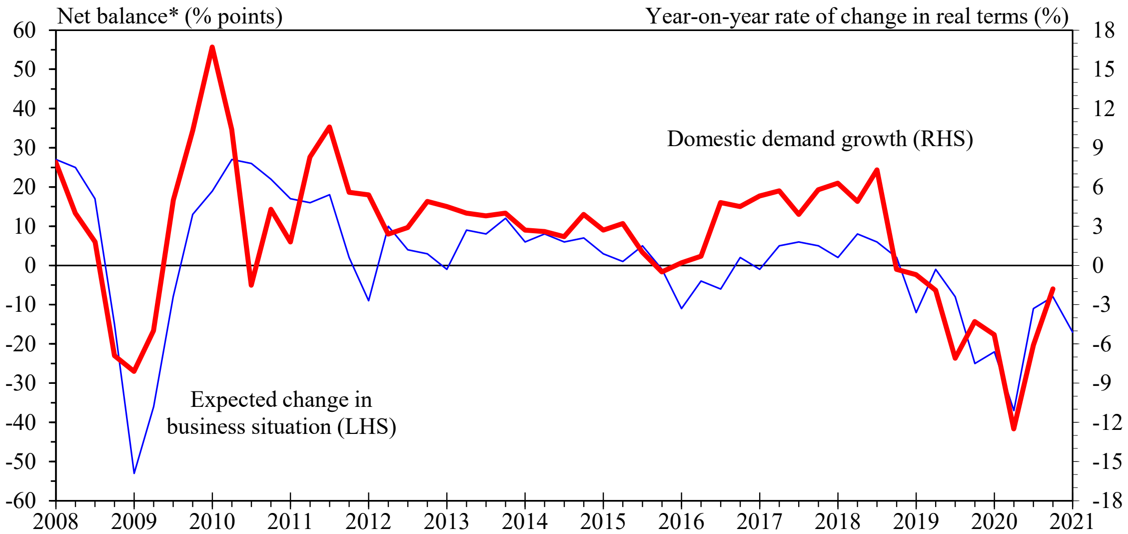
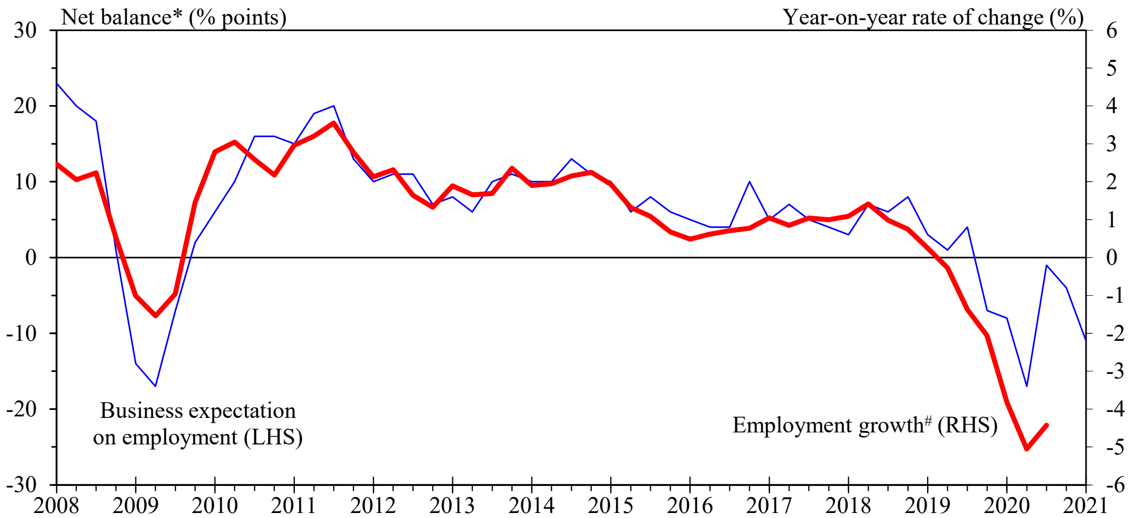


Diagram 2.9 : Business sentiment was generally negative during 2020



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

Diagram 2.10 : Overall hiring sentiment still stayed weak in recent months

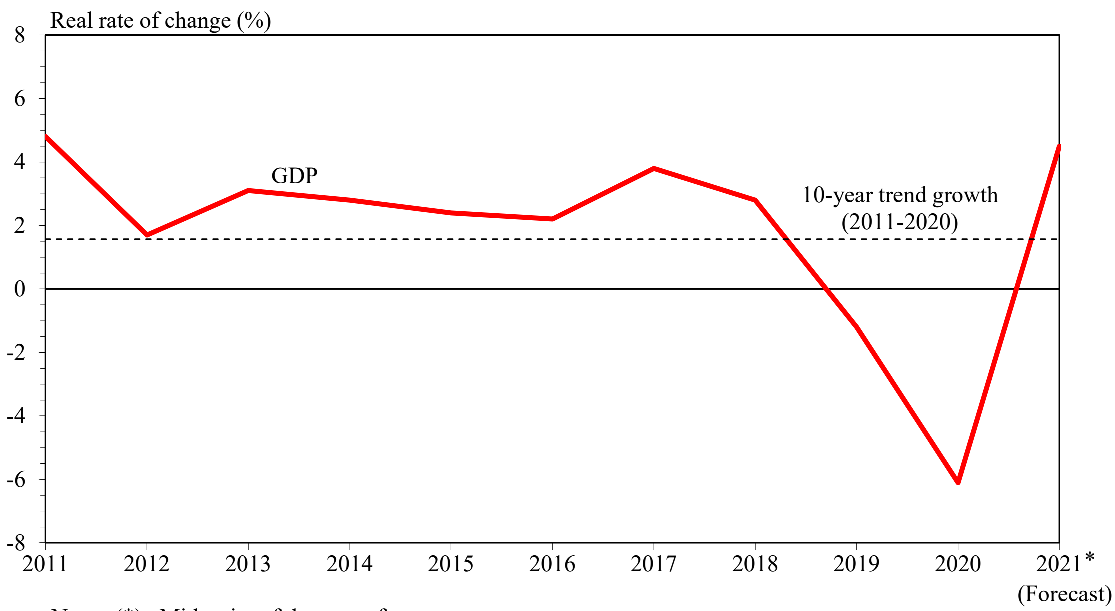


Notes : (*) Net balance indicates the direction of expected change in number of persons engaged versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "up" over that choosing "down". A positive sign indicates a likely upward trend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

2.20 In sum, the Hong Kong economy is expected to resume growth in 2021, but the breadth and strength of the recovery is subject to the high uncertainty associated with the pandemic. Evolving China-US relations and geopolitical tensions are also risk factors that warrant attention. Overall, taking into account the supporting effects from the Government measures, the Hong Kong economy is forecast to grow by 3.5% to 5.5% in 2021, compared with the record contraction of 6.1% in 2020. The range forecast is predicated on the assumptions that the global and local epidemic situations would gradually improve over the course of 2021 along with the progress of mass vaccinations and that China-US tensions would not escalate significantly.

2.21 The relatively wide range of the growth forecast reflects the high uncertainty facing both the global and local economies. The growth outturn could be close to the lower end of the forecast if mass vaccination campaigns around the world only proceed slowly during the year, or if China-US relations deteriorate noticeably under the new US administration. On the other hand, it could be close to the upper end of the range if the pandemic can be largely contained within the first half of the year and some existing trade barriers are lifted. The Government will stay vigilant to the developments. For comparison, the latest forecasts by private sector analysts for Hong Kong's economic growth in 2021 fall within the range of 3.0% to 7.1%, averaging around 4.4%, and that put out by the IMF in October 2020 is 3.7%.

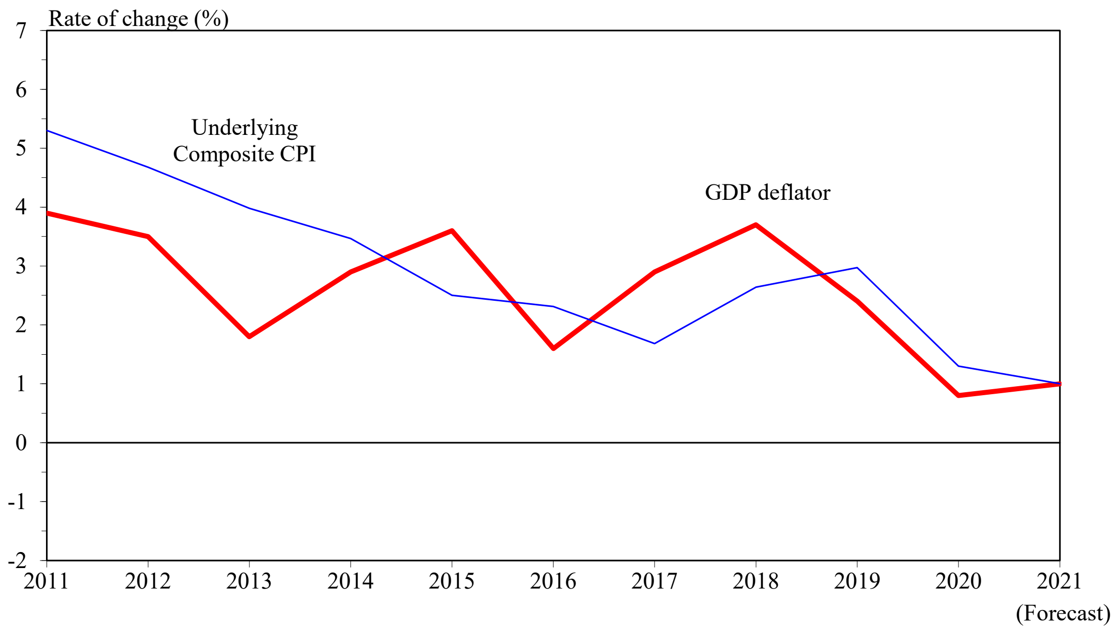
Diagram 2.11 : The Hong Kong economy is forecast to grow by 3.5-5.5% in 2021



Note : (*) Mid-point of the range forecast.

2.22 Underlying consumer price inflation in Hong Kong receded visibly in 2020. Looking ahead, consumer price inflation should remain modest in 2021. External price pressures are likely to stay tame as inflation in our major import suppliers should remain contained when the global economy is still struggling to return to its pre-pandemic activity level. Domestic cost pressures are also likely to be modest. The softening in fresh-letting residential rentals since late 2019 will continue to feed through. Pressures from the commercial rental and labour cost fronts should be limited, as the local economy would likely operate below capacity during most of 2021 after an extended period of severe contraction. Overall, underlying consumer price inflation is forecast at 1% in 2021, down from 1.3% in 2020. For reference, the latest forecasts for consumer price inflation in 2021 by private sector analysts average 1.3%, and that put out by the IMF in October 2020 is 2.4%. The GDP deflator is forecast to rise by 1% in 2021, on par with underlying consumer price inflation.

Diagram 2.12 : Underlying consumer price inflation is forecast to remain modest at 1% in 2021



Forecast rate of change in 2021 (%)

Gross Domestic Product (GDP)	
Real GDP	**3.5 to 5.5**
Nominal GDP	4.5 to 6.5
Per capita GDP in real terms	2.5 to 4.5
Per capita GDP at current market prices	HK$375,100 – 382,200 (US$48,100 – 49,000)
Underlying Composite Consumer Price Index	**1**
GDP Deflator	**1**

Forecast on Hong Kong's real GDP growth in 2021 recently made by other selected parties

	(%)
Asian Development Bank (December 2020)	5.1
IMF (October 2020)	3.7
Average forecast by private sector analysts#	4.4

Note : (#) Real GDP growth forecasts by private sector analysts fall between 3.0% and 7.1%.

Medium-term outlook for the Hong Kong economy

2.23 Looking beyond the current difficulties and uncertainties, the medium-term outlook for the Hong Kong economy is positive. Asia, blessed with the huge growth potential of the emerging market economies especially the Mainland, will remain a major engine of global economic growth in the coming decades, rendering huge development opportunities for Hong Kong. With strong competitive advantages and a premier geographical location, Hong Kong is well-positioned to benefit from the continuous Eastward shift of the centre of global economic gravity.

2.24 The Mainland is definitely the strongest support and backing force for the Hong Kong economy in the medium term. Under the "14th Five-Year Plan" for 2021-2025, our country's increasing emphasis on reform and innovation as the fundamental driving forces for development and the new development pattern of "dual circulation", which takes the domestic market as the mainstay while enabling internal and external markets to boost each other, will open up enormous business opportunities for Hong Kong to tap while contributing to the national development. The Guangdong-Hong Kong-Macao Greater Bay Area will be an important entry point for Hong Kong to participate in the domestic circulation. With our unique advantages under "One Country, Two Systems" and strong competitive edges in high-value added professional and business services, there will be ample opportunities for Hong Kong to seize by playing the role as an "intermediary" and "facilitator" in the development of our country's external circulation.

2.25 As a small and open economy, Hong Kong must also get prepared for the challenges arising from the changing international economic landscape. In the face of rising protectionism and trade barriers, the Government is actively expanding its network of free trade agreements to ensure that Hong Kong's goods and services can enter different markets with better conditions. At present, we are actively seeking to become one of the first batch of economies to join the Regional Comprehensive Economic Partnership Agreement (RCEP) after it enters into force. The closer economic relationship with developing Asian economies can unleash new commercial opportunities for Hong Kong enterprises.

2.26 Major advanced economies are expected to see faster growth in the early years of the medium term as they recover from the deep recession brought about by the pandemic, but their growth prospects in the subsequent years will hinge more on their efforts to address structural issues and mitigate policy uncertainties. Of particular note is the surge in public debts across many advanced and emerging market economies for financing the relief packages to counter the impact of the COVID-19 pandemic, which may pose constraints on their future economic growth. The US economy will likely gradually move towards its long-run potential of moderate growth in the medium term, but its outlook will also depend on the future course of fiscal and monetary policies amid concerns about long-term debt sustainability. The euro area economy is likely to revert back to modest growth after fully recovering from the pandemic, as various structural issues including high government debts in some member economies will keep restraining its growth prospects. EU-UK economic relations in the post-Brexit era and deep-seated socio-political issues in some EU member countries also warrant monitoring. For Japan, its medium-term growth potential will remain capped by various structural issues such as population ageing and elevated public debts.

2.27 China-US relations will remain a key source of uncertainty over the medium term, hinging to a large extent on the policy stance adopted by the new US administration towards China. Until the two sides could satisfactorily resolve their differences on various issues including trade and technology, their evolving relations may weigh on global and local economic sentiments from time to time. Geopolitical tensions in various parts of the world also remain a concern.

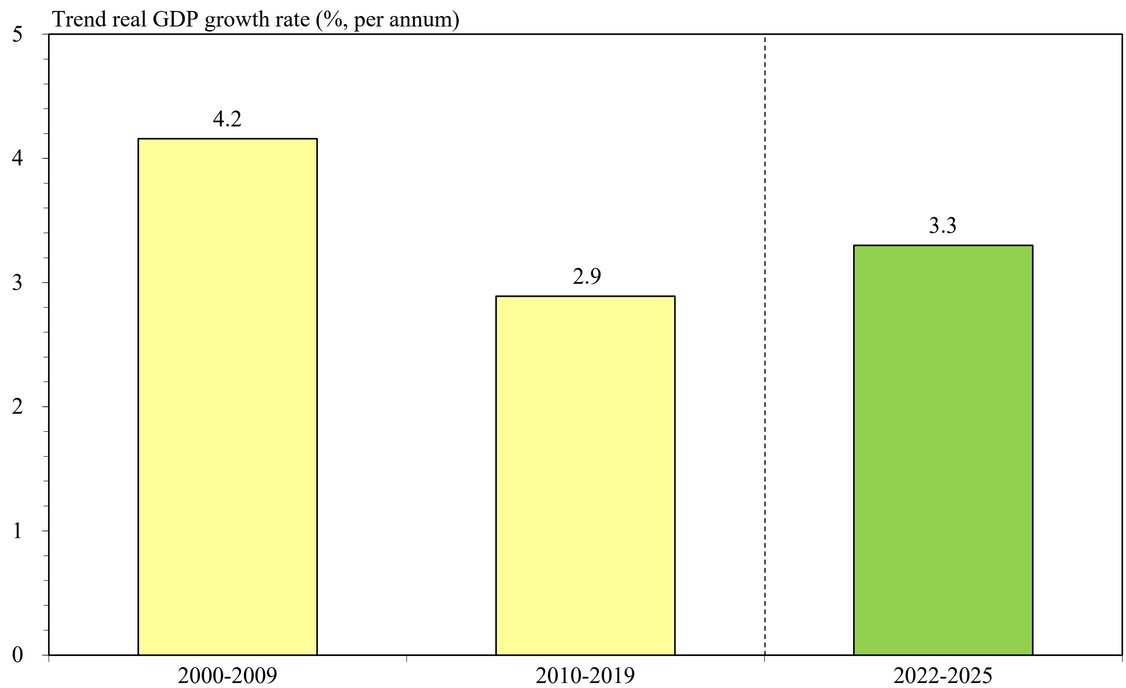
2.28 Locally, the National Security Law has contributed significantly to restoring Hong Kong's stability since its implementation, providing a stable and conducive environment for businesses to thrive and the overall economy to continue to prosper and develop. Local consumption activities might initially record some visible rebound from the lull caused by the epidemic before settling towards their longer-term growth trend. The planned infrastructure spending, if realised, should also render an additional boost to local demand in the coming years.

2.29 Over the medium term, the Government will strive to leverage our unique advantages under "One Country, Two Systems", integrate proactively into the national development, resolve the major bottlenecks of land and talents, facilitate the development of innovation and technology, and continue to invest in education and training. Meanwhile, we will further enhance our connections with the world to explore new opportunities. Apart from promoting free trade and enhancing our institutional strengths to support our market economy, the Government is committed to playing the role of a "facilitator" and "promoter". The Government will join hands with the private sector to explore new opportunities and assist our citizens and professional service providers to go beyond Hong Kong.

2.30 Having considered these external and domestic factors, the Hong Kong economy is expected to grow by 3.3% per annum from 2022 to 2025. This is slightly above the assumed trend growth of 2.8% per annum for 2021 to 2024 as put out a year earlier in the 2020-21 Budget. Apart from the positive factors elaborated above, that the economy should show further catch-up growth after the initial recovery in 2021 also provides support. The threat of the COVID-19 pandemic is expected to disappear over the medium term.

2.31 The inflation outlook for Hong Kong in the medium term will depend on various external and domestic factors. Externally, as the global economy will take time to recover from the deep recession brought about by the pandemic, inflation expectations of our major import sources should remain anchored at moderate levels. Locally, the productivity gain unleashed by the Government's continued efforts in facilitating innovation and technology, nurturing human capital and stepping up land and housing supply should bolster our productive capacity, thus keeping local cost pressures at bay. Yet, international food and commodity prices, as well as exchange rate movements could be volatile amid abundant global liquidity. Taking these factors into account, the trend rate of underlying consumer price inflation in Hong Kong from 2022 to 2025 is forecast to stay moderate, at 2% per annum.

Diagram 2.13 : Medium-term trend growth forecast at 3.3% per annum



Note : The Hong Kong economy plunged into the deepest recession on record amid the pandemic in 2020, in stark contrast to the growth trend in the pre-pandemic years. Hence, the 10-year trend growth for the period 2010 – 2019, instead of 2011 – 2020, is used to better illustrate the underlying growth trajectory in recent years.

CHAPTER 3 : THE EXTERNAL SECTOR

Summary

- *The global economy fell into an unprecedented deep recession in the first half of 2020, and remained constrained by the pandemic in the second half notwithstanding a sharp initial rebound. In contrast to other major economies, the recovery pace of which was tempered by the resurgence of COVID-19 infections in the latter part of the year, the Mainland economy sustained its V-shaped recovery once the COVID-19 outbreak in the first quarter was put under control. Regional trade flows and production activities slackened sharply in the first half of 2020, but revived in tandem with the strengthening of the trading environment led by the visible rebound of the Mainland economy and the improvements in the advanced economies.*

- *Hong Kong's merchandise exports picked up over the course of 2020, though still fell by 0.8% in real terms(1) for the year as a whole. The decline in the first half of the year amid significant disruptions to the regional supply chains and plunging global demand was followed by a visible revival in the second half alongside the recovery of the global economy and the sustained V-shaped rebound of the Mainland economy. Exports to the US and the EU fell sharply for the year as a whole, while those to the Mainland rose notably. Exports to other Asian markets saw mixed performances.*

- *Exports of services plummeted by a record 36.8% in real terms in 2020. Exports of travel services fell drastically as inbound tourism was brought to a standstill by extensive travel restrictions worldwide since February 2020. Exports of transport services declined notably as passenger flows plummeted, but the pace of decline moderated in the second half of the year alongside improved regional trade and cargo flows. Exports of business and other services also contracted, due to the austere global economic environment. In contrast, exports of financial services expanded moderately thanks to active cross-border financial and fund-raising activities.*

- *The Government continued to strengthen Hong Kong's economic links with the Mainland, with the implementation of the Agreement Concerning Amendment to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) Agreement on Trade in Services and the establishment of the Guangdong-Hong Kong-Macao Greater Bay Area Development Office. The Government also made further progress in enhancing trade and investment relations with other economies, particularly ASEAN, as the Free Trade Agreement (FTA) and Investment Agreement (IA) between Hong Kong and ASEAN entered into force in full. Meanwhile, the Government continued to expand its tax treaty network.*

Goods trade

Total exports of goods

3.1 Hong Kong's *merchandise exports* picked up over the course of 2020, but still fell by 0.8% in real terms for 2020 as a whole after a decline of 5.0% in the preceding year. The fallout from the COVID-19 pandemic, including disruptions to the regional supply chains and global demand, was particularly evident in the first half of the year. Merchandise exports volume saw a visibly enlarged year-on-year decline of 9.1% in the first quarter and continued to fall by 3.5% in the second quarter, before resuming growth of 2.3% and 5.9% respectively in the third and fourth quarters alongside the gradual recovery of the global economy led by the Mainland.

3.2 The global economy fell into deep recession in the first half of 2020. The pandemic forced many governments around the world to introduce stringent restrictive measures, including implementing comprehensive travel bans, imposing city and regional lockdowns and closing non-essential businesses, leading to sharp moderation or even shuttering of economic activities in the second quarter. Major economies including the US, the euro area and Japan contracted at an unprecedented pace in the second quarter. Most other Asian economies likewise faced immense downward pressures as regional trade flows and production activities slackened sharply (see ***Box 3.1***).

3.3 As the epidemic in the Mainland has been well contained since March, the Mainland economy staged a strong recovery after registering the first ever contraction in the first quarter of 2020. For the year as a whole, the Mainland economy grew by 2.3%, and was the only major economy showing positive annual growth. The other major economies showed a sharp initial rebound in the third quarter, but experienced a resurgence of COVID-19 infections since late September which weighed on the pace of their recovery in late 2020. The International Monetary Fund estimated that the global economy contracted by 3.5% for 2020 as a whole, representing the worst recession since the Great Depression in the 1930s.

3.4 Central banks and governments in many major economies provided strong policy support in 2020 to alleviate the economic pains and financial market strains amid the COVID-19 pandemic. On monetary policy, the US Federal Reserve (Fed) cut the target range for the federal funds rate twice by a total of 150 basis points to 0.00%-0.25% in March. Moreover, the Fed increased the purchases of Treasury securities and agency mortgage-backed securities without setting a limit to the amount and duration with a view to ensuring financial stability. The European Central Bank maintained its policy rates at record lows and purchased sovereign bonds and corporate debts through the Pandemic Emergency Purchase Programme till March 2022. The Bank of Japan also kept its policy rates at record lows, and a number of central banks in the emerging markets lowered their benchmark interest rates substantially within a short period of time. On fiscal policy, the US rolled out a huge stimulus package in March, and announced another round in December. In July, the European Union (EU) established a €750 billion instrument known as "Next Generation EU", with a view to jumpstarting Europe's recovery and providing support to economic segments most in need.

3.5 China-US relations remained tense throughout 2020. After the signing of the Phase One trade agreement in January 2020, the US halved the additional tariffs on around US$120 billion worth of Mainland products from 15% to 7.5% from mid-February, and the Mainland also scaled back its countermeasures. But trade barriers imposed earlier remained in place. Moreover, the US government imposed sanctions or restrictive measures on an increasing number of Mainland companies during the year. Specific to Hong Kong, in mid-July 2020, former US President Trump signed the "Hong Kong Autonomy Act" into law and issued an executive order to suspend or eliminate different and preferential treatment for Hong Kong under the US law. With effect from 10 November 2020, goods produced in Hong Kong for exports to the US can no longer be marked to indicate "Made in Hong Kong", but must be marked to indicate "Made in China". Apart from taking up the matter bilaterally, the Government has also challenged this US' requirement under the World Trade Organization Dispute Settlement Mechanism to defend Hong Kong's interest. On Brexit, after months of negotiation, the EU and the UK finally reached a trade agreement towards the end of the transition period, ensuring that no tariffs nor quotas would be imposed on the bilateral flows of goods after the UK left the EU on 31 December 2020. However, the agreement has not covered market access for financial services in detail, and the arrangements for the mutual recognition of professional qualifications need to be further deliberated.

Box 3.1

Overview of regional trade development in recent years

The trade performance of Asian economies has been volatile in recent years, with a period of notable growth during 2017-18 eventually derailed by US-Mainland trade tensions and the COVID-19 pandemic. The situation largely resembled the trend of global trade[(1)] over the period. This box article provides a brief overview of the export performance of selected Asian economies in recent years.

Exports of Asian economies expanded rapidly in 2017 and the first half of 2018. For instance, exports of the Mainland grew strongly by 12.5% year-on-year in the first half of 2018[(2)], after an already appreciable increase of 7.9% in 2017. Exports of many other economies in the region showed a similar trend. Yet, signs of weakness emerged in the latter part of 2018 and evolved into a broad-based and significant slowdown in regional trade in 2019 amid softening global economic growth and the escalation of US-Mainland trade tensions. Directly impacted by the tariffs imposed by the US, growth of exports of the Mainland moderated notably to a meagre 0.5% in 2019 (***Table 1***). As the Mainland serves a vital role in the global supply chains, the slowdown in the Mainland's exports inevitably disrupted some of the production and export activities in the region, piling further pressures on the exports of some Asian economies. For instance, exports of Korea, Indonesia and Singapore turned to visible falls of 10.4%, 6.8% and 5.2% respectively in 2019. Vietnam was a visible exception, experiencing sustained notable export growth during this troubled period.

Table 1: Exports of selected Asian economies
(year-on-year rate of change in US dollar terms, %)

Exports of	2017	2018	2019	2020	2019				2020			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
The Mainland	7.9	9.9	0.5	3.6	1.4	-1.0	-0.3	2.0	-13.6	-0.2	8.4	16.7
Japan	8.5	5.7	-4.4	-9.2	-5.7	-6.2	-1.3	-4.4	-4.4	-23.7	-12.0	3.3
Korea	15.8	5.4	-10.4	-5.4	-8.5	-8.7	-12.3	-11.8	-1.9	-20.3	-3.4	4.2
Taiwan	13.0	5.9	-1.5	4.9	-4.2	-2.7	-0.9	1.8	3.7	-2.4	6.0	11.7
Singapore	10.4	10.4	-5.2	-4.2	-2.7	-6.7	-7.8	-3.5	1.7	-14.5	-2.1	-1.7
India	12.8	8.8	-0.1	-14.8	6.7	-1.4	-3.9	-1.9	-12.7	-36.6	-5.3	-4.3
Indonesia	16.3	6.6	-6.8	-2.6	-6.7	-9.3	-7.5	-4.0	1.2	-12.5	-6.5	6.7
Malaysia	14.6	14.4	-3.4	-2.8	-3.6	-4.3	-2.6	-3.1	-2.5	-18.5	3.5	6.6
Philippines	19.7	0.9	2.3	-10.1	-2.0	2.9	2.2	6.2	-5.1	-29.2	-6.5	0.8
Thailand	9.9	6.9	-2.6	-6.0	-1.9	-3.8	-0.5	-4.4	1.0	-15.2	-7.8	-2.0
Vietnam	21.8	13.3	8.4	7.0	5.2	9.1	10.5	8.5	7.8	-6.9	10.7	15.0

Sources : CEIC and internal estimation.

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(1) According to World Trade Organization's data, the value of global merchandise exports rose notably by 10.6% and 9.8% in US dollar terms in 2017 and 2018 respectively, before falling by 2.8% in 2019 and plummeting by 14.0% year-on-year in the first half of 2020.

(2) All growth rates quoted refer to value figures on a year-on-year basis and measured in US dollar terms.

Box 3.1 (Cont'd)

Entering 2020, the COVID-19 outbreak dealt an unprecedented blow to the global economy. Regional trading activities were seriously disrupted as a result, though the degree of disruptions varied across economies. The Mainland's exports fell visibly by 13.6% year-on-year in the first quarter of 2020, as the epidemic brought along large-scale lockdowns with most production activities halted. Nonetheless, industrial activities resumed swiftly in the Mainland thanks to the early containment of the epidemic there. Consequently, exports of the Mainland bounced back to growth since the second quarter and gathered further steam in the rest of the year, achieving a growth of 3.6% for 2020 as a whole.

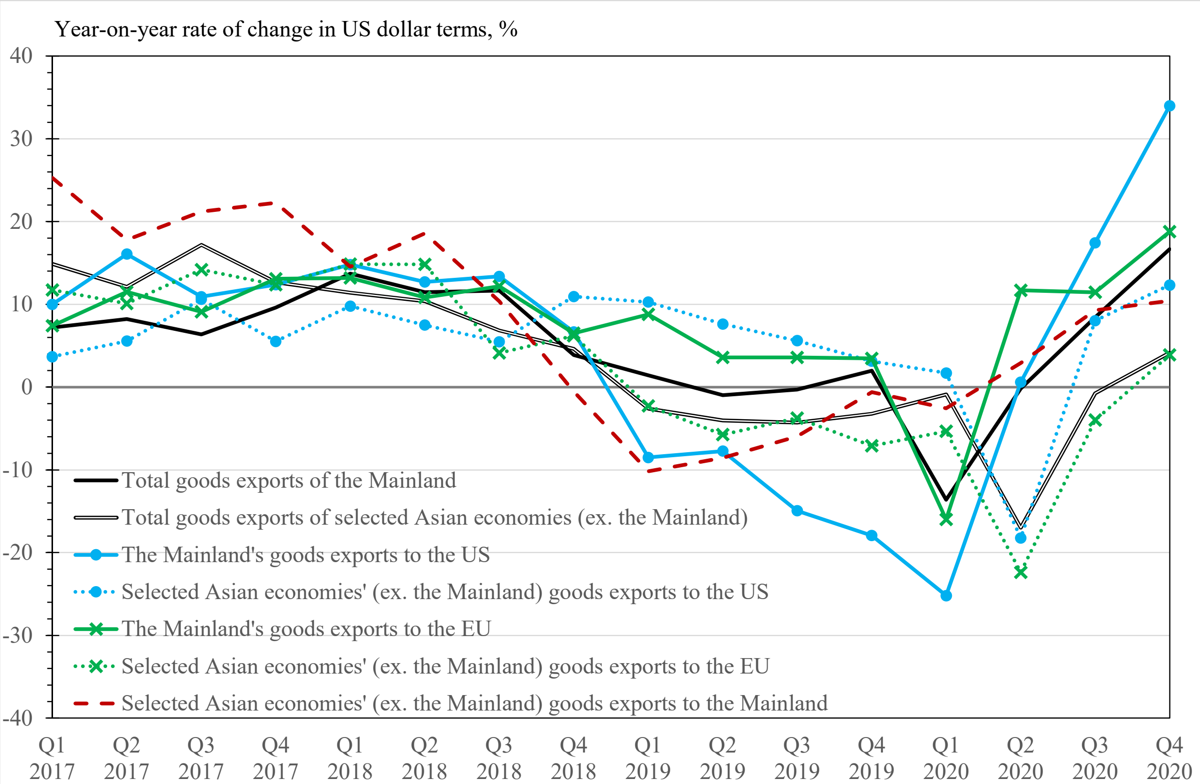
Meanwhile, exports of many other economies in the region remained lacklustre during most of 2020. Indeed, signs of slackening were already seen in some economies in the first quarter, understandably due to the knock-on effect from disruptions of production activities in the Mainland. As COVID-19 turned into a pandemic in mid-March 2020, production and trading activities in the Asian economies were seriously disrupted in the second quarter. At the same time, global demand plummeted as many advanced economies fell into deep recessions. As such, most of the economies in the region saw notable drops in exports in the second quarter. With the global economy recovering gradually in the second half of the year, export performance of Asian economies showed improvement of varying degrees in tandem, but most of them still registered decreases in exports for 2020 as a whole.

An analysis of Asian economies' exports by major markets may offer some insights into how US-Mainland trade tensions and the COVID-19 pandemic affected regional trade flows during 2019-2020 (***Chart 1***). As mentioned earlier, trade tensions between the US and the Mainland cast pressures on export performance of some Asian economies in 2019. Total exports of selected Asian economies (excluding the Mainland) registered year-on-year contractions throughout 2019. Yet, while their exports to the Mainland were particularly weak, those to the US recorded robust growth. This seemed to suggest that some trade diversion might have taken place. On the Mainland side, its exports to the US took a hit as a result of tariffs, but those to the EU continued to grow and even outperformed other Asian economies' exports to the same destination. This conceivably reflected the Mainland exporters' efforts to diversify their markets in the face of the escalated US-Mainland trade tensions.

The pattern of regional trade flows saw a sharp change in 2020 amid the COVID-19 pandemic. Exports of selected Asian economies (excluding the Mainland) to the Mainland have resumed growth on a year-on-year basis since the second quarter, while those to the US and the EU nosedived in the second quarter before showing some recovery in the latter part of the year. This is partly because the Mainland economy reopened much earlier than others. As such, regional production chains involving the Mainland revived more quickly, leading to an increase in relevant trade flows. Besides, the Mainland economy has staged a V-shaped rebound since the second quarter of 2020, resulting in a faster recovery of import demand than other economies.

Box 3.1 (Cont'd)

Chart 1: Exports of selected Asian economies* by major markets



Note : (*) Selected Asian economies include the Mainland, Japan, Korea, Taiwan, Singapore, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam.

Sources : CEIC and internal estimation.

Looking ahead, the World Trade Organization forecast global merchandise trade to return to a growth of 7.2% in 2021, though the pace of recovery is subject to uncertainties, especially the development of the COVID-19 pandemic. As long as the global economy can gradually regain momentum, regional trading activities will likely continue to revive, especially in view of the recent efforts to strengthen economic and trade linkages within the region. In particular, the Regional Comprehensive Economic Partnership (RCEP) was signed on 15 November 2020 by 15 economies, including the Mainland, Japan, Korea, Australia, New Zealand as well as the ASEAN member states. The RCEP is the largest free trade agreement to date covering around 30% of global GDP (see ***Box 3.2*** for detailed discussion on the RCEP). With the Mainland pressing ahead with the "dual circulation" development strategy, its significance as an export destination for other Asian economies should increase further. The Government will strive to be among the first batch of economies joining the RCEP, and continue to safeguard an open and free trade regime to uphold Hong Kong's status as a major regional trading hub.

Box 3.2

RCEP and its Possible Impacts on Hong Kong

After eight years of negotiation, 15 economies in the Asia-Pacific region, comprising the ten Association of Southeast Asian Nations (ASEAN) Member States(1), Mainland China, Japan, Korea, Australia and New Zealand, signed the Regional Comprehensive Economic Partnership (RCEP) Agreement on 15 November 2020. The RCEP is the largest free trade agreement (FTA) in history, covering around one-third of the world's population and accounting for about one-third of the global GDP. The RCEP will take effect 60 days after it is ratified by six ASEAN signatory economies and three non-ASEAN signatory economies. The market currently expects this FTA will enter into force later this year, and will boost the economic integration in the region further. This article discusses the significance of the RCEP to the regional economy and its possible impacts on Hong Kong.

One of the major breakthroughs with the RCEP is the expansion of free-trade network. It marks the first time Mainland China, Japan and Korea are in a single free-trade bloc, though both Mainland China and Korea have yet to reach bilateral FTA with Japan. Under the RCEP, trade among the three places and other RCEP members will be entitled to preferential treatments. In terms of merchandise trade, the RCEP will eventually eliminate more than 90% of tariffs on imports between its members. It will also establish common rules for e-commerce, custom procedures and intellectual property. These will strengthen trade flows between RCEP members by reducing costs of and barriers to trade.

Another breakthrough with the RCEP is the establishment of common rules of origin (ROOs) for merchandise trade among the members, which govern how the origin of a product is determined and thus its eligibility to preferential treatments. Under the RCEP, products produced and shipped across multiple members can enjoy preferential treatments by meeting one single set of ROOs that allows intermediate inputs from the region to be cumulated as regional value content. This will facilitate the developments of new and established supply chains in the region by significantly mitigating the "spaghetti bowl effect", viz. the hindrance to trade caused by the tangled and differentiated ROOs under existing FTAs among RCEP members(2).

Hong Kong, as one of the most externally-oriented economies worldwide, has long had close economic ties with RCEP members (***Table 1***). In particular, Mainland China and ASEAN were Hong Kong's largest and second largest merchandise trading partners in 2020, and the largest and fourth largest services trading partners in 2018(3), respectively.

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(1) ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

(2) For more details on how the "spaghetti bowl effect" affects trade and investment flows, please refer to "Box 2.2 'Spaghetti bowl effect' of free trade agreements" in *Third Quarter Economic Report 2016*.

(3) The rankings are arrived at by taking ASEAN and the European Union as single entities while all other trading partners are considered on an individual economy basis.

Box 3.2 (Cont'd)

Table 1: Hong Kong's close economic ties with RCEP members

Trade with RCEP members	Hong Kong's merchandise trade in 2020		Hong Kong's services trade in 2018	
	Amount (HK$ billion)	Share* (%)	Amount (HK$ billion)	Share* (%)
Mainland China	4,248	51.8	578	39.3
ASEAN	1,034	12.6	137	9.3
Japan	349	4.3	88	6.0
Korea	299	3.7	25	1.7
Australia	49	0.6	47	3.2
New Zealand	9	0.1	4	0.3
Total	**5,988**	**73.0**	**878**	**59.7**

Note: (*) Refer to the share in Hong Kong's corresponding overall total.
Source: Census and Statistics Department.

The RCEP will lower tariffs and cut red tapes of its members, thereby enhancing trade flows in the region. This will benefit Hong Kong's offshore trade and third-party logistics services, given our close ties with these economies as well as our prominence as an international trading centre. In addition, the RCEP will foster trade and investment relations within the region, thereby creating demand for financial and professional services, in which Hong Kong has strong competitiveness.

Hong Kong has already signed FTAs with 13 members (i.e. Mainland China, ten ASEAN Member States, Australia and New Zealand) of the RCEP. Yet, Hong Kong should also join the RCEP in order to reap the full benefits. These include, among others, making Hong Kong's re-exports and domestic exports eligible for all the preferential tariff treatments and trade facilitation measures of the RCEP. The Government expressed strong interest in joining the RCEP as early as in 2018 and has received positive responses. The Government will continue to actively engage RCEP members for commencement of discussions on Hong Kong's accession with the aim of being the first batch of economies joining the RCEP.

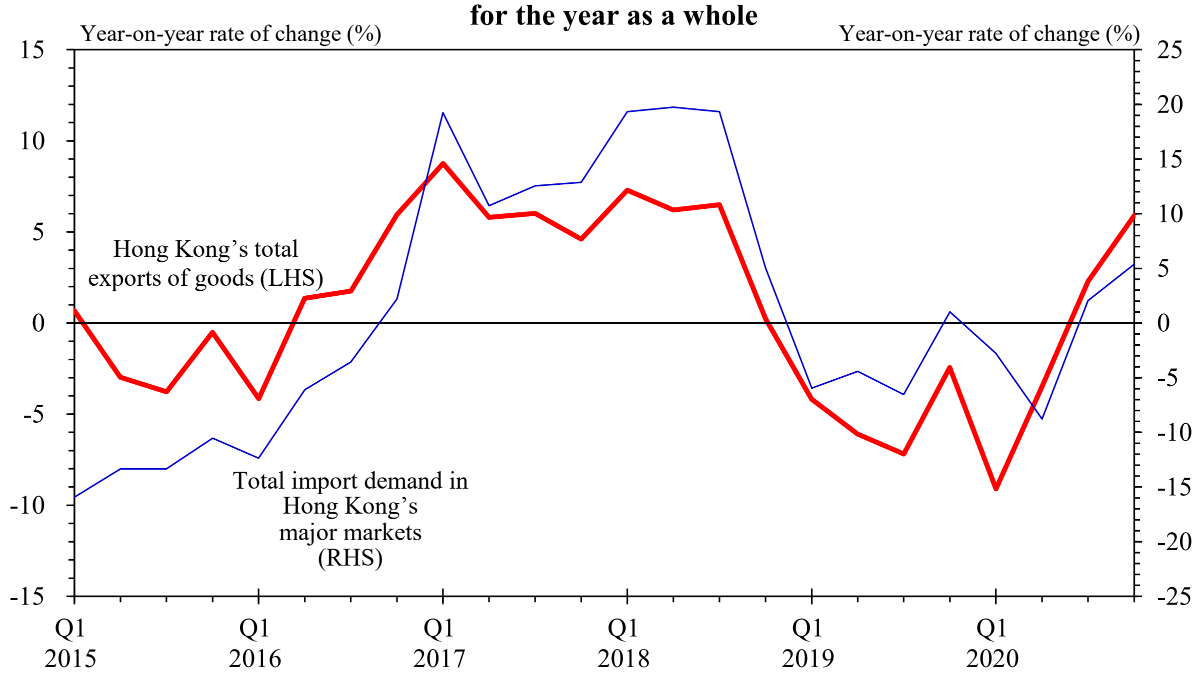
Table 3.1 : Total exports of goods (year-on-year rate of change (%))

		In value terms	In real terms[a]		Change in prices
2019	Annual	-4.1	-5.0		1.1
	Q1	-2.4	-4.2	(-0.7)	2.2
	Q2	-4.7	-6.1	(-1.3)	1.9
	Q3	-6.4	-7.2	(-1.3)	0.9
	Q4	-2.5	-2.4	(0.5)	-0.2
2020	Annual	-1.5	-0.8		-0.6
	Q1	-9.7	-9.1	(-6.1)	-0.7
	Q2	-4.3	-3.5	(4.4)	-1.0
	Q3	1.3	2.3	(3.3)	-0.7
	Q4	5.3	5.9	(4.8)	-0.1

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

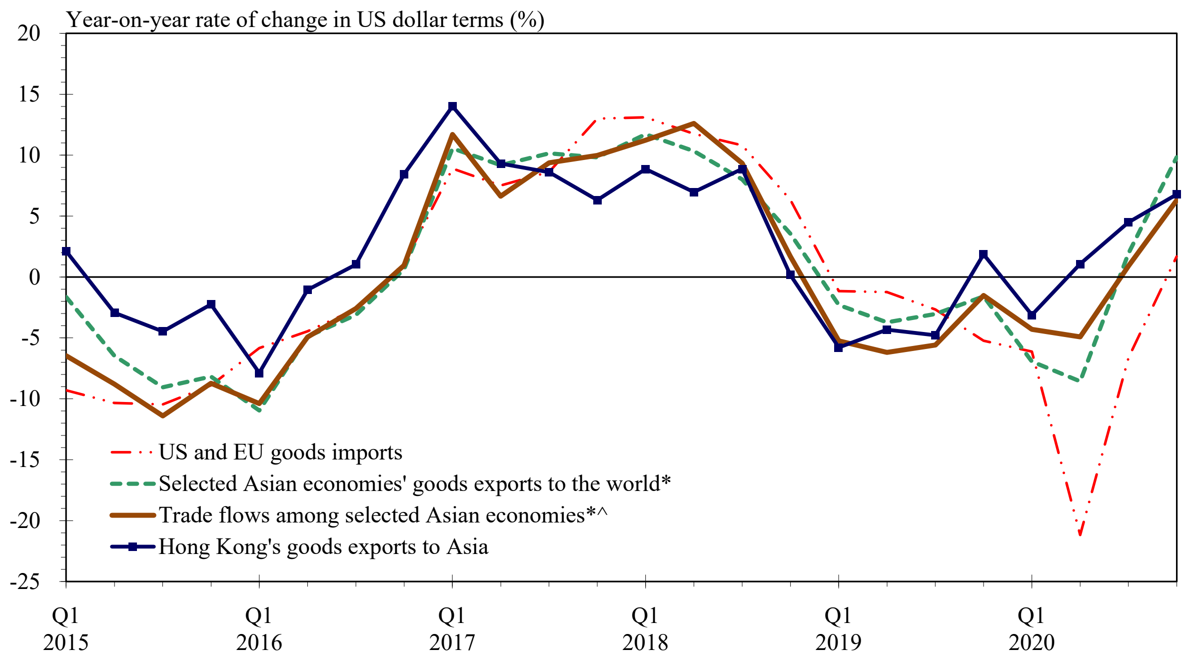
(a) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts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

Diagram 3.1 : Merchandise exports picked up over the course of 2020 but still fell slightly for the year as a whole



Note : 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.

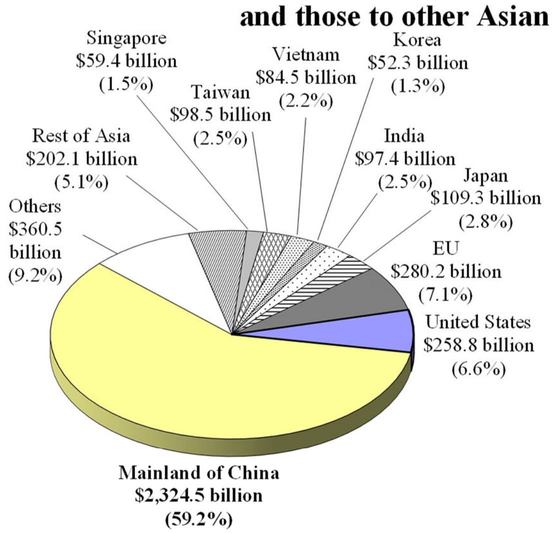
Diagram 3.2 : Regional trade flows slackened sharply in the first half of 2020, but improved thereafter along with the gradual revival of import demand in the US and EU



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".

Diagram 3.3 : Exports to the Mainland rose notably in 2020, and those to other Asian markets saw mixed performance



Total exports of goods in 2020:
$3,927.5 billion

Note : Figures in brackets are individual markets' percentage shares in total exports of goods.

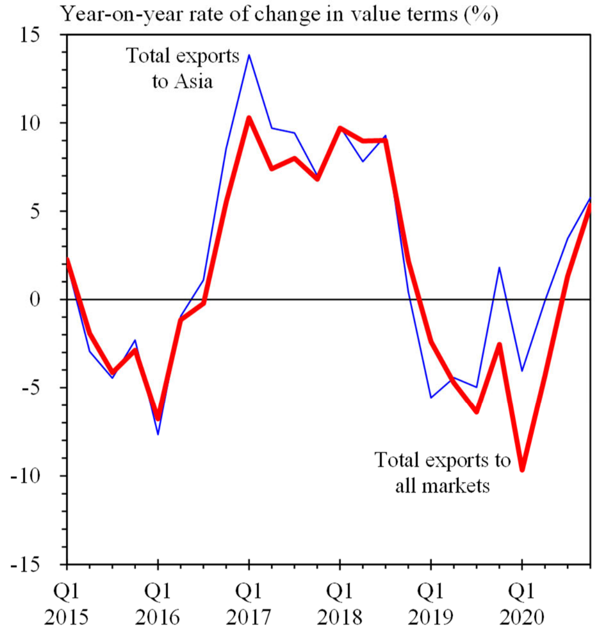


Table 3.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))

	2019					2020				
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4
Mainland of China	-5.1	-8.9	-7.7	-7.2	2.9	5.1	-2.2	5.8	7.2	8.3
United States	-15.5	-9.9	-14.4	-15.3	-21.5	-12.5	-25.9	-17.5	-8.7	1.2
European Union#	-7.4	6.5	-4.2	-13.4	-15.7	-7.3	-24.4	-9.0	-4.1	9.0
India	-11.7	-28.6	-1.5	-12.7	-0.9	-15.5	-0.1	-43.3	-6.7	-11.9
Japan	-7.5	-5.8	-7.3	-3.6	-13.1	-7.2	-15.7	-1.6	-13.6	2.4
Taiwan	4.1	-10.1	-3.2	23.9	9.5	11.3	0.7	20.2	5.5	18.8
Vietnam	-4.2	-1.6	-6.6	-3.3	-5.1	9.8	5.4	-1.2	13.5	20.3
Singapore	8.2	22.5	10.3	-0.1	2.5	-16.6	-14.8	-23.1	-11.5	-16.4
Korea	-0.2	4.7	10.0	-5.2	-8.6	-5.9	-8.9	-10.8	-7.5	4.0
Overall*	-5.0	-4.2	-6.1	-7.2	-2.4	-0.8	-9.1	-3.5	2.3	5.9

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*.

(#) Exports to the EU exclude those to the UK, as the UK formally withdrew from the EU on 31 January 2020. Taking the UK and the EU together, exports decreased by 7.2% in real terms for 2020 as a whole.

3.6 Analysed by major market, exports to the US and the EU fell sharply for 2020 as a whole. This mainly reflected the subdued performance in the first half, dragged initially by the epidemic-induced disruptions to supply chains in Asia and later by the plunge in import demand in the two markets amid the deep economic recession. Exports to these markets, especially those to the EU, showed visible improvement in the second half alongside the gradual revival of their import demand. Re-exports of Mainland origin to these two markets including those affected by US additional tariffs(2) recovered gradually after registering a notable fall in the first quarter, thanks in part to the early resumption of the Mainland's production activities.

3.7 Exports to Asian markets saw mixed performance in 2020. Exports to the Mainland, having registered a modest decline in the first quarter, regained momentum thereafter and rose notably for the year as a whole as the Mainland economy bounced back strongly after March. Exports to Taiwan and Vietnam saw visible growth for 2020 as a whole, while those to Japan and Korea declined partly due to weakness in exports of consumer goods. Exports to India fell noticeably. Exports to Singapore also declined visibly, weighed by the plunge in exports of capital goods and consumer goods.

Diagram 3.4 : Exports to the Mainland rose notably

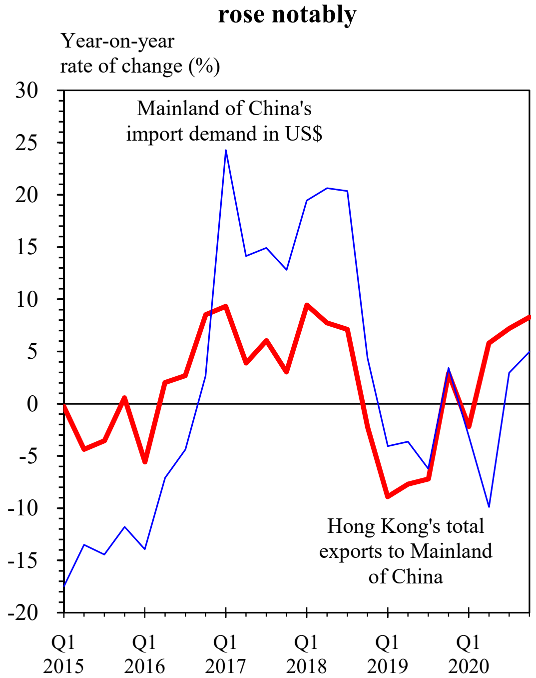


Diagram 3.5 : Exports to the EU fell sharply

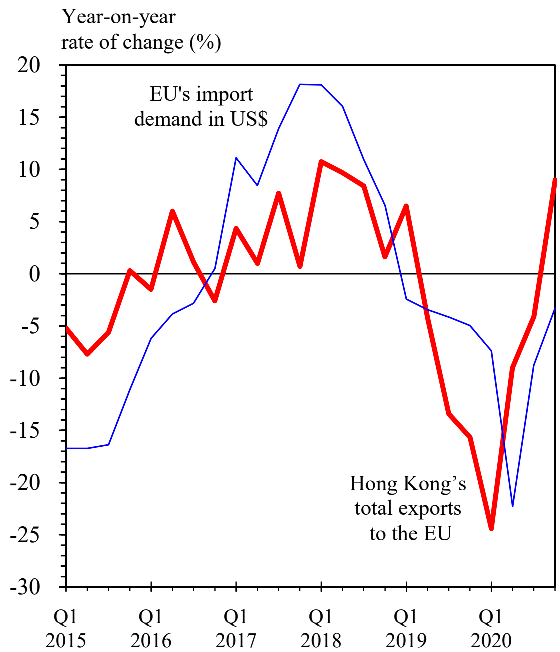


Diagram 3.6 : Exports to the US fell notably

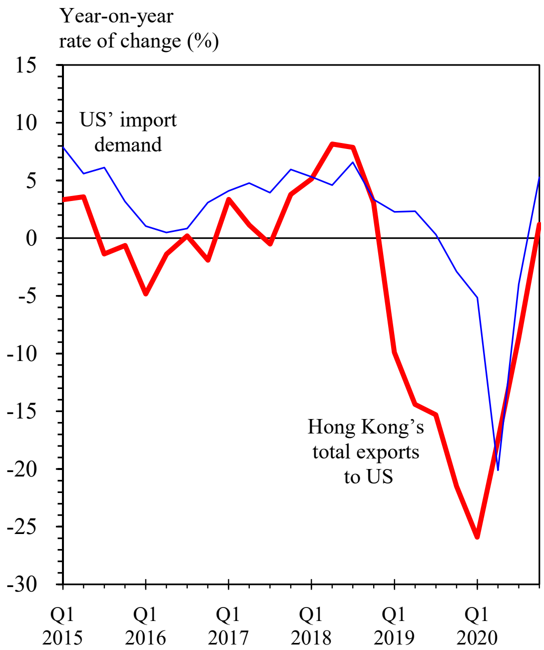


Diagram 3.7 : Exports to Japan declined

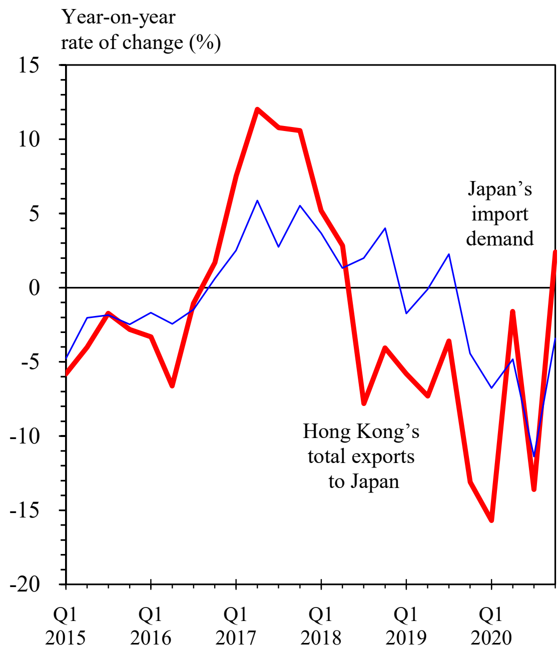


Diagram 3.8 : Exports to India fell noticeably

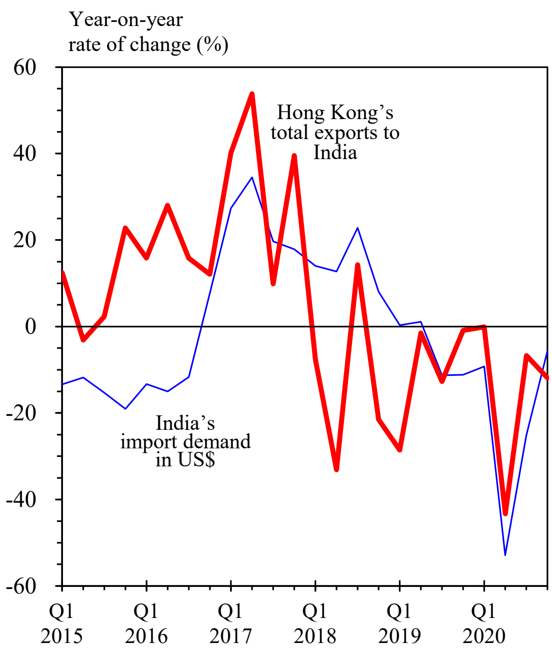


Diagram 3.9 : Exports to Taiwan saw visible growth

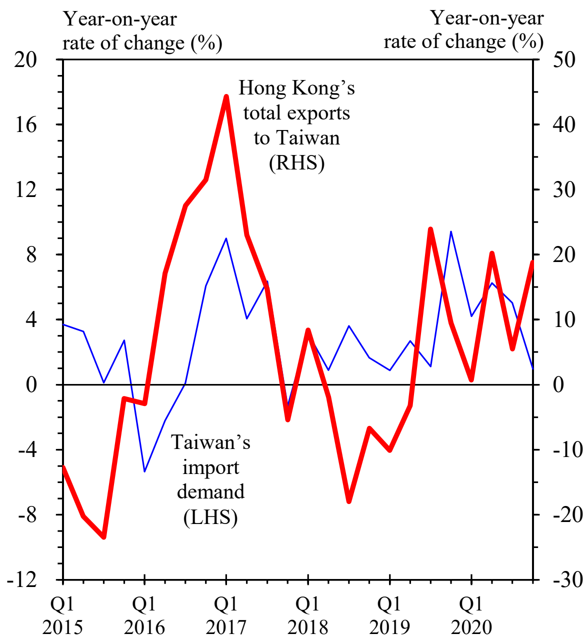


Diagram 3.10 : Exports to Korea fell

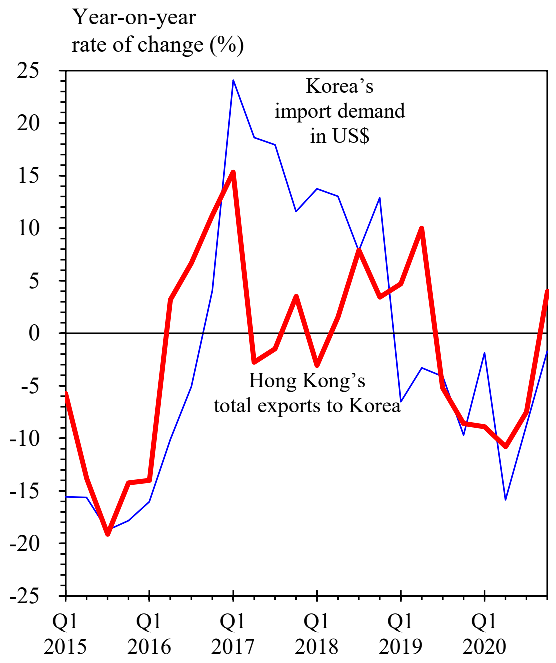
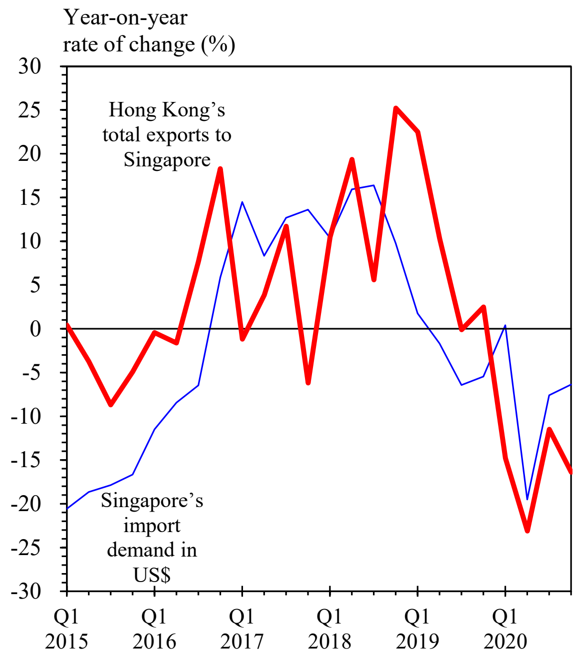


Diagram 3.11 : Exports to Singapore declined visibly



Imports of goods

3.8 *Imports of goods* fell by 2.6% in real terms in 2020, after a decline of 7.6% in 2019. *Retained imports*, which refer to the imports for domestic use and accounted for around one-quarter of total imports in 2019, declined noticeably by 8.8%, reflecting subdued domestic demand amid austere economic conditions. Imports for subsequent *re-exports*(3) also fell for the year as a whole, though rose back moderately in the second half along with the improvement in export performance.

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

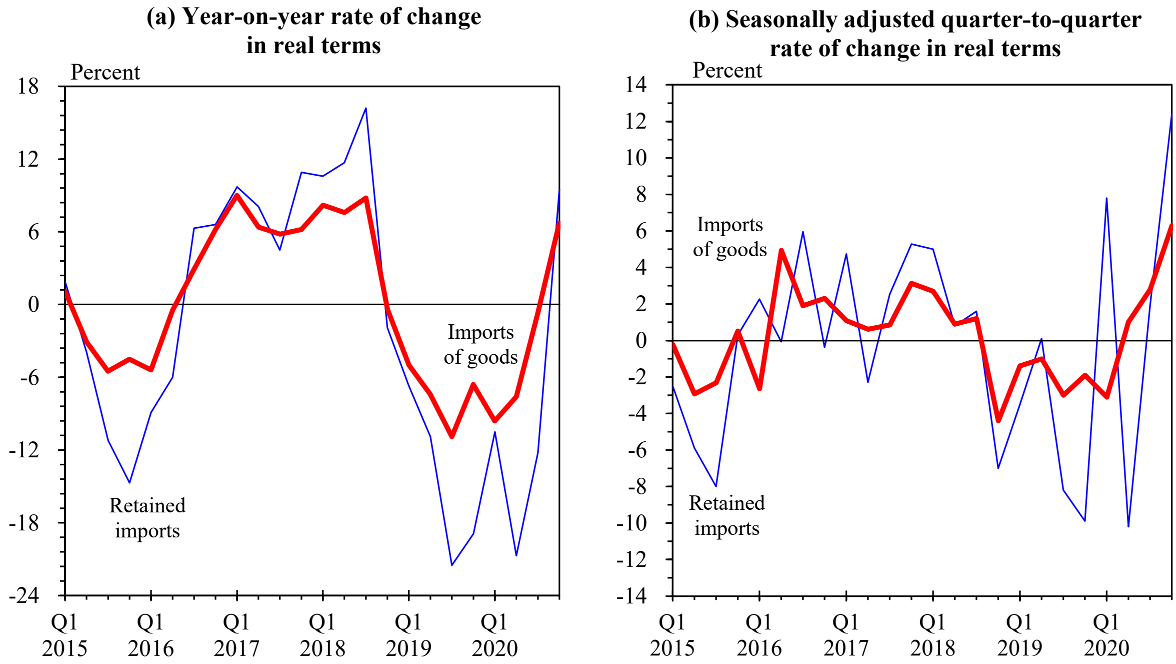
		Imports of goods				Retained imports[a]			
		In value terms	In real terms[+]		Change in prices	In value terms	In real terms		Change in prices
2019	Annual	-6.5	-7.6		1.3	-17.4	-14.7		-3.4
	Q1	-3.2	-5.0	(-1.4)	2.2	-9.1	-6.7	(-3.5)	-2.5
	Q2	-5.7	-7.4	(-1.0)	1.9	-12.6	-10.9	(0.1)	-2.6
	Q3	-10.1	-10.9	(-3.0)	1.0	-24.4	-21.5	(-8.2)	-3.9
	Q4	-6.5	-6.6	(-1.9)	0.1	-22.3	-18.9	(-9.9)	-4.0
2020	Annual	-3.3	-2.6		-0.7	-9.3	-8.8		-0.8
	Q1	-10.0	-9.6	(-3.1)	-0.4	-10.9	-10.5	(7.8)	0.1
	Q2	-8.8	-7.6	(1.0)	-1.0	-23.2	-20.7	(-10.2)	-1.9
	Q3	-1.9	-0.7	(2.8)	-1.2	-13.6	-12.2	(1.9)	-2.3
	Q4	6.6	6.7	(6.3)	-0.1	12.0	9.5	(12.4)	0.5

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

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

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

Diagram 3.12 : Imports of goods fell in 2020



Services trade

Exports of services

3.9 *Exports of services* plummeted by a record 36.8% in real terms in 2020, having contracted by 10.2% in 2019. Exports of travel services fell drastically by 90.5% for 2020 as a whole as the COVID-19 pandemic resulted in extensive travel restrictions and border controls worldwide, bringing inbound tourism to a standstill since February 2020. Exports of transport services declined notably as passenger flows plummeted, but the pace of decline moderated in the second half of the year alongside the improvement in regional trade and cargo flows. Exports of business and other services declined visibly in 2020 amid the austere global economic environment. On the other hand, exports of financial services expanded moderately thanks to active cross-border financial and fund-raising activities.

Diagram 3.13 : The contribution from travel services to total exports of services was meagre in 2020 as inbound tourism was frozen

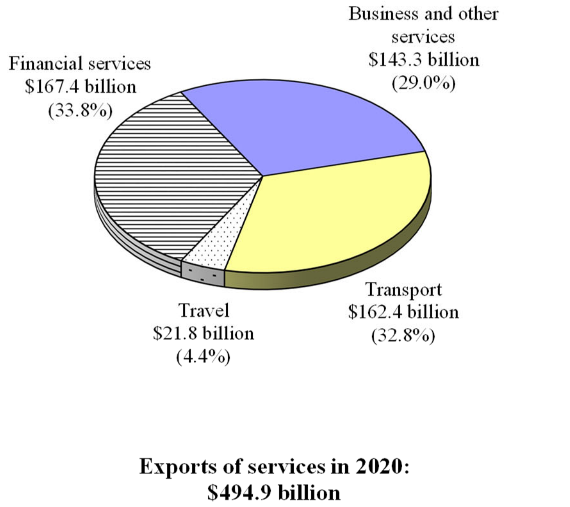


Diagram 3.14 : Exports of services plummeted in 2020

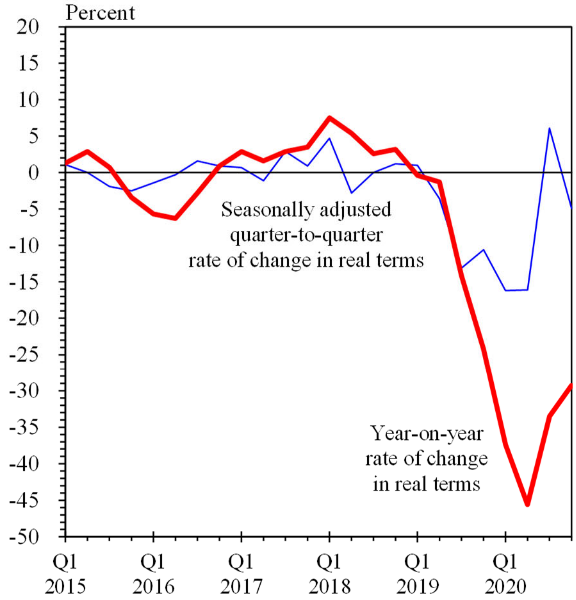


Table 3.4 : Exports of services by major service group (year-on-year rate of change in real terms (%))

		Exports of services		*Of which :* Transport	Travel[(a)]	Financial services	Business and other services
2019	Annual	-10.2		-7.6	-21.0	-2.1	-3.8
	Q1	-0.4	(1.0)	-0.4	2.1	-2.8	-2.6
	Q2	-1.3	(-3.6)	-3.6	1.3	-0.4	-2.3
	Q3	-14.2	(-13.1)	-10.7	-31.3	-2.7	-5.1
	Q4	-24.2	(-10.6)	-15.4	-52.6	-2.1	-5.0
2020	Annual	-36.8		-30.0	-90.5	2.6	-12.0
	Q1	-37.4	(-16.2)	-32.2	-80.6	1.3	-13.7
	Q2	-45.6	(-16.1)	-35.5	-97.1	2.5	-13.1
	Q3	-33.5	(6.1)	-27.1	-97.1	3.6	-10.1
	Q4	-29.3	(-4.9)	-24.2	-91.0	3.5	-11.1

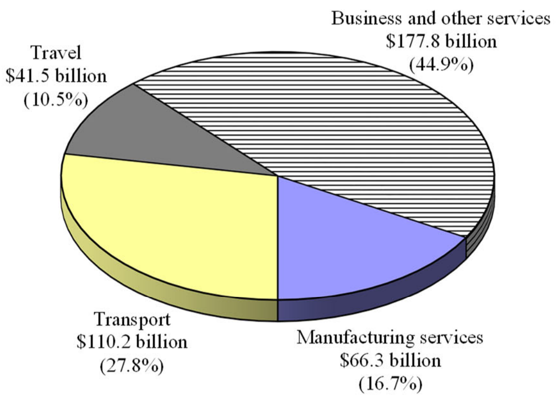
Notes : Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008.*

(a) Comprising mainly inbound tourism receipts.
( ) Seasonally adjusted quarter-to-quarter rate of change.

Imports of services

3.10 *Imports of services* declined markedly by 35.1% in real terms in 2020, after falling by 2.4% in 2019. Imports of travel services dived amid stringent travel restrictions and quarantine measures worldwide during most of the year. Imports of transport services fell sharply as a result of scant passenger traffic, but the rate of decline narrowed in the second half thanks to improved regional trade and cargo flows. Imports of manufacturing services continued its down trend, reflecting the slack in outward processing activities. Imports of business and other services also fell amid the difficult global economic environment.

Diagram 3.15 : The share of travel services almost dissipated in 2020 amid stringent travel restrictions and quarantine measures



Imports of services in 2020: $395.8 billion

Diagram 3.16 : Imports of services declined markedly in 2020

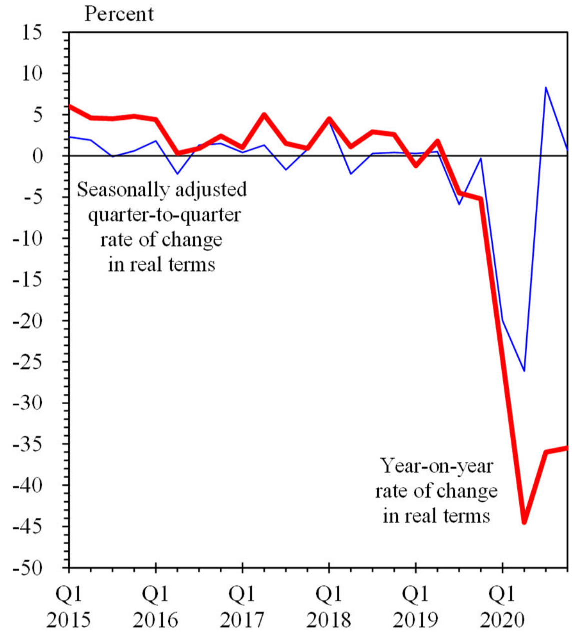


Table 3.5 : Imports of services by major service group
(year-on-year rate of change in real terms (%))

		Imports of services		*Of which :* Travel(+)	Transport	Manufacturing services(^)	Business and other services
2019	Annual	-2.4		3.1	-4.5	-13.4	-1.4
	Q1	-1.2	(0.3)	-0.7	-1.2	-7.6	0.8
	Q2	1.8	(0.5)	10.9	-0.6	-14.2	1.6
	Q3	-4.5	(-5.9)	0.9	-6.5	-15.2	-3.1
	Q4	-5.2	(-0.3)	1.5	-9.6	-15.4	-4.4
2020	Annual	-35.1		-80.3	-20.2	-15.7	-3.8
	Q1	-24.5	(-20.0)	-48.8	-19.7	-22.3	-4.7
	Q2	-44.5	(-26.1)	-92.9	-29.0	-25.2	-4.1
	Q3	-36.0	(8.3)	-88.2	-17.4	-12.4	-1.9
	Q4	-35.5	(0.7)	-88.9	-14.0	-4.4	-4.5

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

(+) 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

3.11 Based on the GDP accounting framework, the goods deficit narrowed further to $47 billion in 2020, reflecting the larger decline in imports of goods than exports of goods. Over the same period, the services surplus shrank notably to $99 billion, as surplus from trade in transport services was reduced and trade in travel services turned from surplus to deficit. The combined goods and services account registered a surplus of $52 billion in 2020, equivalent to 1.1% of total import value, as compared to the surplus of $49 billion which accounted for 1.0% of total import value in 2019.

Table 3.6 : Goods and services balance
($ billion at current market prices)

		Total exports		Imports		Trade balance			
		Goods	Services	Goods	Services	Goods	Services	Combined	As % of imports
2019	Annual	4,293	793	4,419	618	-126	175	49	1.0
	Q1	999	230	1,065	153	-66	77	11	0.9
	Q2	1,024	202	1,096	153	-72	49	-22	-1.8
	Q3	1,114	190	1,114	154	#	36	36	2.8
	Q4	1,156	171	1,144	159	12	12	24	1.9
2020	Annual	4,282	495	4,329	396	-47	99	52	1.1
	Q1	902	144	951	113	-49	31	-18	-1.7
	Q2	1,000	106	1,021	82	-20	24	4	0.3
	Q3	1,159	124	1,128	97	31	27	58	4.7
	Q4	1,221	121	1,230	104	-8	17	9	0.7

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

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

(#) Within ±$0.5 billion.

Other developments

3.12 The Government continued to strengthen Hong Kong's economic links with the Mainland in 2020. The Agreement Concerning Amendment to CEPA Agreement on Trade in Services (Amendment Agreement), implemented since June 2020, further enhances the Mainland's level of liberalisation on trade in services for Hong Kong and lowers the market access thresholds in the Mainland for Hong Kong service suppliers. The Amendment Agreement also introduces new liberalisation measures in a number of important services sectors such as legal services, construction and related engineering services, financial services, testing and certification, television and motion pictures. The new measures make it easier for Hong Kong service suppliers to set up enterprises and develop business in the Mainland, allow more Hong Kong professionals to obtain qualifications to practise in the Mainland and more of Hong Kong's quality services to be provided to the Mainland market. Meanwhile, the Guangdong-Hong Kong-Macao Greater Bay Area Development Office was established within the Constitutional and Mainland Affairs Bureau in November 2020 to strengthen the promotion and co-ordination work of the Hong Kong Special Administrative Region Government on the development of the Greater Bay Area.

3.13 The Government also made further progress in enhancing trade and investment relations with other economies, particularly ASEAN. The FTA and the IA between Hong Kong and ASEAN took effect for the parts relating to the Philippines, Indonesia and Brunei Darussalam in 2020, and the parts relating to Cambodia in February 2021, signifying that the FTA and the IA signed between Hong Kong and the 10 member states of ASEAN have come into effect in full. The two agreements serve as solid platforms for closer economic co-operation and collaboration between Hong Kong and ASEAN. Apart from ASEAN, Hong Kong and Mexico signed an Investment Promotion and Protection Agreement (IPPA) in January 2020 to strengthen mutual investment protection. The agreement will enhance the confidence of investors, expand investment flows and further strengthen the economic and trade ties between the two places. The IPPA between Hong Kong and the United Arab Emirates also entered into force in March 2020, bringing the total number of IPPAs in force between Hong Kong and foreign economies to 21.

3.14 Meanwhile, the Government continued to expand its tax treaty network. After the conclusion of comprehensive avoidance of double taxation agreements (CDTAs) with Serbia and Georgia in August and October 2020 respectively, the total number of CDTAs concluded rose to 45. The CDTAs set out the allocation of taxing rights between Hong Kong and the jurisdictions concerned and will help investors better assess their potential tax liabilities from cross-border economic activities, thereby promoting investment and trade connections between Hong Kong and the rest of the world.

Notes :

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

(2) It is crudely estimated that, based on the annual merchandise trade figures for 2018 (without taking into account the temporary exemptions of some Mainland products as announced by the US in September 2019 and the additional tariff measures that became effective on 1 September 2019), around HK$144 billion worth of Hong Kong's re-exports of Mainland origin to the US were affected by the various batches of additional tariffs introduced by the US in the third quarter of 2018, equivalent to around 3.5% of Hong Kong's total exports of goods. After the implementation of additional tariffs in September 2019, the share of affected re-exports increased to around 6.0% of Hong Kong's total exports of goods. Taken together, the value of the affected re-exports turned from a year-on-year increase of 7.8% in the first three quarters of 2018 to a decline of 3.4% in the fourth quarter of the year, and plunged by 23.8% for 2019 as a whole. It fell further by 29.9% and 13.6% respectively in the first half and the second half of 2020. The performance of these affected re-exports were still far worse than Hong Kong's total exports to all markets, which fell by 6.9% in the first half of 2020 but rose back by 3.3% in the second half.

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

CHAPTER 4 : DEVELOPMENTS IN SELECTED SECTORS

Summary

- *The residential property market was broadly steady in 2020, notwithstanding some moderate fluctuations in individual months. While the COVID-19 pandemic took a heavy toll on the overall economy and market sentiment was swayed by the local epidemic situation from time to time, the low local interest rate environment resulting from massive monetary stimulus around the world and firm end-user demand rendered support to the market. Trading activities remained generally active since the second quarter, while flat prices did not show much change for the year as a whole.*

- *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 92 000 units as estimated at end-2020. Meanwhile, the various demand-side management measures yielded notable results, with speculative activities and non-local demand staying low, and investment activities remaining modest in 2020.*

- *The commercial and industrial property markets weakened further during 2020 amid the deep economic recession and exceptionally uncertain economic outlook. Prices and rentals for major market segments exhibited diverse movements. Trading activities fell to record low levels, but showed some rebound in the latter part of the year following the Hong Kong Monetary Authority (HKMA)'s relaxation of the macro-prudential measures for mortgage loans on non-residential properties in August and the Government's abolition of the Doubled ad valorem Stamp Duty (DSD) on non-residential property transactions in late November.*

- *The COVID-19 pandemic and the resultant stringent travel restrictions and border / boundary control measures implemented by governments worldwide brought the tourism sector to a standstill since February 2020. Overall visitor arrivals plunged by 93.6% to only 3.6 million for the year as a whole, the steepest annual decline on record.*

- *The logistics sector was lacklustre in the first half of 2020 as the COVID-19 pandemic caused significant disruptions to global supply chains and trading activities. Nonetheless, some improvement was seen in the second half along with the revival in regional and global trade flows. For the*

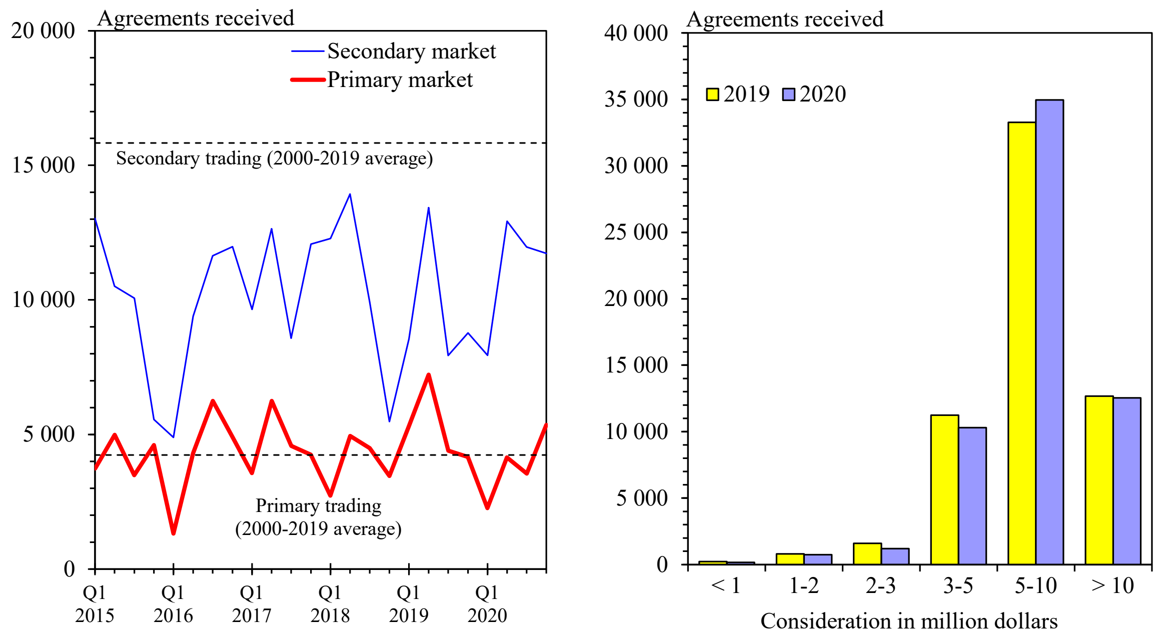
year as a whole, total container throughput declined at a moderate pace of 1.9% while air freight throughput fell by 6.0%.

Property

4.1 The *residential property market* was broadly steady in 2020, notwithstanding some moderate fluctuations in individual months. While the COVID-19 pandemic took a heavy toll on the overall economy and market sentiment was swayed by the local epidemic situation from time to time, the low local interest rate environment resulting from massive monetary stimulus around the world and firm end-user demand rendered support to the market.

4.2 After staying subdued in the first quarter, trading activities showed a sharp rebound in the second quarter and remained generally active since then. For 2020 as a whole, the total number of sale and purchase agreements for residential property received by the Land Registry was 59 880, little changed from 2019. This was higher than the five-year average of 57 864 from 2015 to 2019, though still much below the long-term average of 80 300 from 2000 to 2019. Within the total, primary market transactions dropped by 27% to 15 317, while secondary market transactions rose by 15% to 44 563. Total consideration likewise was little changed at $548.2 billion.

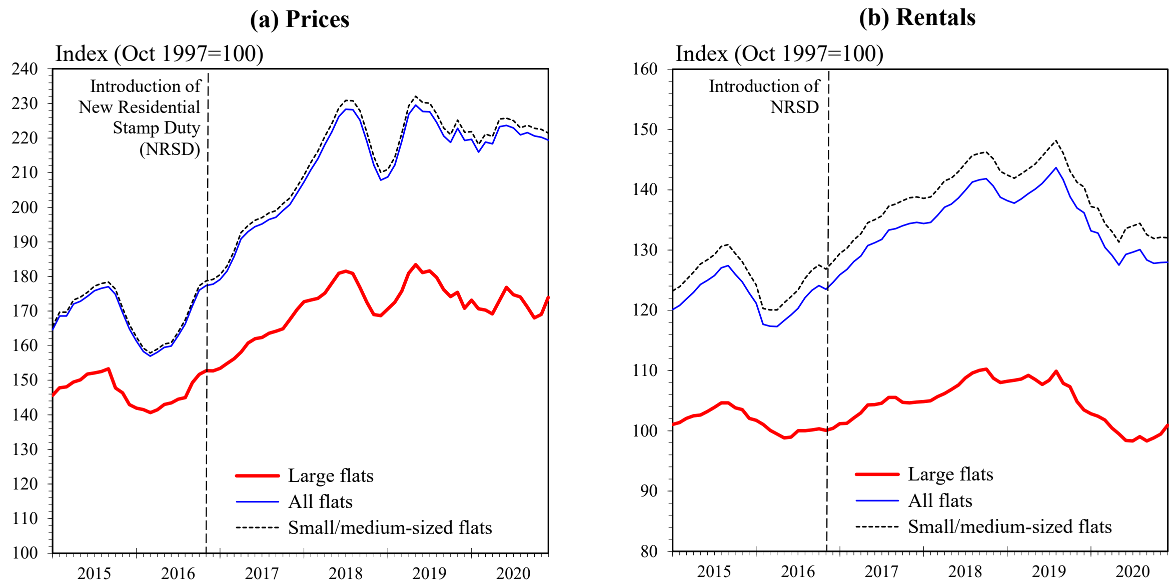
Diagram 4.1 : Trading activities remained generally active since the second quarter of 2020



4.3 Flat prices in December 2020 were on average broadly the same as in December 2019. After staying steady during the first quarter, flat prices increased by 2% during the second quarter, but retreated by a similar extent during the second half of the year. Analysed by size, comparing December 2020 with December 2019, prices of small/medium-sized flats were little changed, while those of large flats rose by 2%. Compared to the recent peak in May 2019, flat prices in December 2020 were 4% lower.

4.4 The leasing market for residential property consolidated further in 2020. Following the noticeable decline in the latter part of 2019, flat rentals on average continued to fall visibly during the first quarter of 2020 before stabilising in the ensuing three quarters. Flat rentals in December 2020 were 6% lower than in December 2019, and 11% below the recent peak in August 2019. Analysed by size, rentals of small/medium-sized flats and large flats declined by 6% and 2% respectively during the year. Reflecting the movements of prices and rentals, the average rental yield for residential property edged down from 2.4% a year earlier to 2.3% in December 2020.

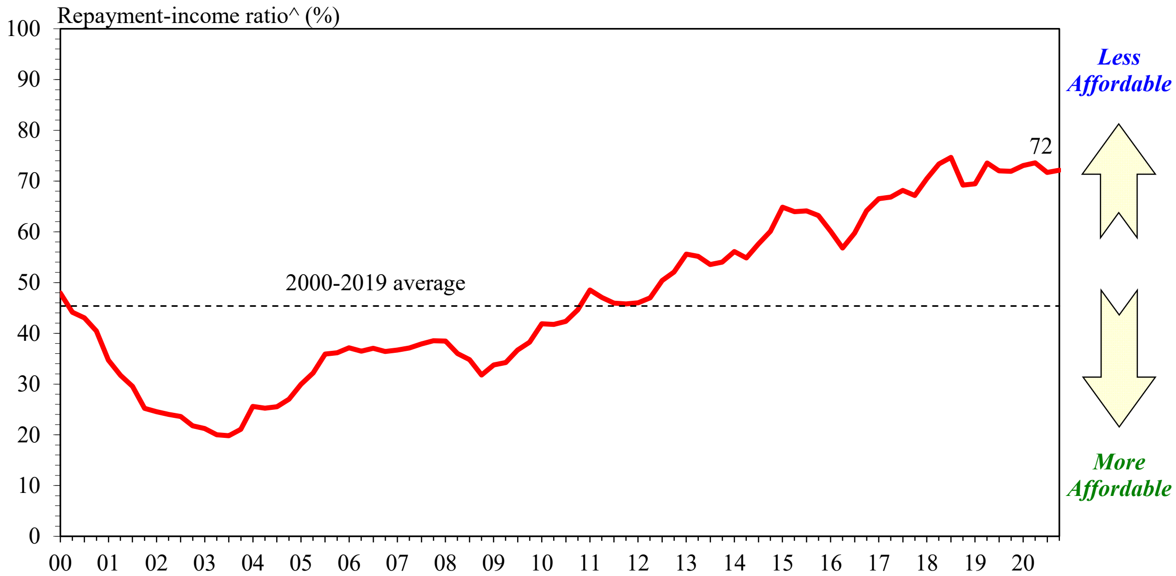
Diagram 4.2 : Flat prices did not show much change for 2020 as a whole, while rentals consolidated further



Note : Residential property price index pertains to secondary market transactions only. Large flats refer to those with a saleable area of at least 100 m^2, and small/medium-sized flats with a saleable area of less than 100 m^2.

4.5 Flat prices in December 2020 exceeded the 1997 peak by 119%. 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 72% in the fourth quarter, significantly above the long-term average of 45% over 2000-2019[(1)]. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 94%.

Diagram 4.3 : The index of home purchase affordability remained elevated



Note : (^) The ratio of mortgage payment for a 45m² flat (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing).

4.6 Raising flat supply through increasing land supply is a policy priority of the Government. As announced in December 2020, a total of nine residential sites were sold or would be put up for sale by the Government under the 2020-21 Land Sale Programme, capable of providing about 4 400 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 2020-21 is estimated to have a capacity to produce about 12 900 units.

4.7 Reflecting the Government's sustained efforts in raising land supply, the *total supply of flats* in the private sector in the coming three to four years (comprising unsold flats of completed projects, flats under construction but not yet sold and flats on disposed sites where construction can start any time) would stay at a high level of 92 000 units as estimated at end-2020. Another 5 900 units could be added to the total supply after the conversion of a number of residential sites into "disposed sites". In November 2020, the Chief Executive announced various measures on housing and land supply in her Policy Address (***Box 4.1***).

Box 4.1

Latest Government measures on housing and land supply (November 2020)

In her 2020 Policy Address, the Chief Executive announced various measures and plans on housing and land supply, as summarised below.

(1) Housing policy

Meeting the 10-year Public Housing Supply Target under the Long Term Housing Strategy

- 330 hectares of land required for providing 316 000 public housing units have been identified to meet the demand for public housing of about 301 000 units under the 10-year Long Term Housing Strategy (2021-22 to 2030-31).

Public housing and Starter Homes (SH)

- Put up about 4 700 Green Form Subsidised Home Ownership Scheme (GSH) flats for sale in phases in 2021.

- Put up over 700 recovered flats from 39 Tenants Purchase Scheme estates for sale together with other flats in the next GSH sale exercise.

- Continue with the redevelopment project adjacent to the eResidence, which has been assigned by the Urban Renewal Authority (URA) as another SH project, and is expected to provide about 260 units for sale in 2024.

- Clear the Shek Lei Interim Housing in late 2022 for public housing development. Subject to approval for relaxation of relevant planning restrictions, the redevelopment is expected to provide about 1 600 units in 2028.

- Complete the necessary studies on redeveloping the Hong Kong Housing Authority's factory estates for public housing use in the first quarter of 2021 and conduct rezoning procedures in accordance with the Town Planning Ordinance. A total of over 3 000 units are expected to be provided in 2031.

Transitional Housing and Other Support Measures

- Propose to inject an additional $3.3 billion into the Funding Scheme to Support Transitional Housing Projects by Non-government Organisations (NGOs). Suitable sites have already been identified for the provision of 13 200 units for the coming three years (2020-21 to 2022-23).

- Launch a pilot scheme to subsidise NGOs to rent suitable rooms in hotels or guesthouses for use as transitional housing.

- Launch a trial scheme in mid-2021 to provide cash allowance for eligible General Applicant households which have been waiting for public rental housing allocation for more than three years without being given the first flat offer.

- Complete the Study on Tenancy Control of Subdivided Units by the first quarter of 2021.

Box 4.1 (Cont'd)

(2) Land supply

Increase Land Supply in the Medium to Long Term

- Provide over 100 000 public and private housing units in the coming 10 to 15 years, including :

  - Over 70 000 housing units from about 90 hectares of housing sites identified along the Northern Link.

  - About 20 000 housing units (of which around 50% will be subsidised sale flats) from the MTR Corporation Limited's Siu Ho Wan Depot Site topside development.

  - A total of 6 300 units from the redevelopment of three urban squatter areas at Cha Kwo Ling, Ngau Chi Wan and Chuk Yuen United Village into high-density public housing.

  - Over 3 300 units from the redevelopment of Tai Hang Sai Estate by the Hong Kong Settlers Housing Corporation Limited and the URA.

Long-term Planning for Sustainable Land Supply

- Prepare for the planning and engineering studies on the development potential of the reclaimed land at Lung Kwu Tan (about 220 hectares) and the coastal area at Tuen Mun West (about 220 hectares). These studies will also review the need for the River Trade Terminal, with a view to increasing the potential of the Tuen Mun West area for residential development and/or other more beneficial uses.

- Conduct studies on the artificial islands in the Central Waters under the Lantau Tomorrow Vision involving the reclamation of 1 000 hectares and the provision of related strategic transport infrastructure.

Expedite the Supply of Public and Private Housing

- Complete the work related to the Development Bureau's review on private land zoned for high-density housing development that are without any specific development plan and their suitability for public housing development by end-2020.

- Set up the Development Projects Facilitation Office to expedite the processing of development approvals of large-scale private residential sites.

- Expand the composition and remit of the Steering Group on Streamlining Development Control to include departments not under the Development Bureau for a more comprehensive review on the development approval processes for both Government and private projects, and rationalising the development-related requirements imposed by different bureaux.

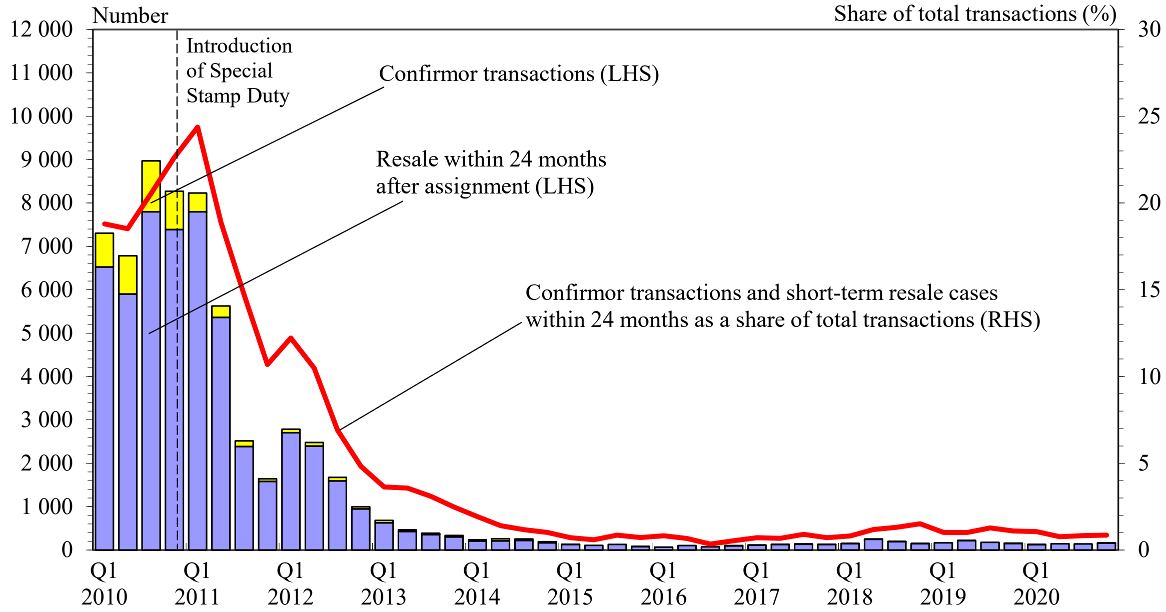
- The Chief Executive will provide personal steer on housing and land supply to ensure all the bureaux and departments concerned will keep pace with each other.

These measures and plans would demonstrate the Government's commitment to expedite and increase housing and land supply in the short, medium and long term. They would help ease the housing-related hardships facing many households.

4.8 The demand-supply balance of private flats stayed tight despite some relative improvement during 2020. The gross completions of private flats surged by 53% to 20 900 units in 2020. After netting off demolition of 900 units, the net completions of 20 000 units were higher than the take-up of 12 500 units[(2)]. As a result, the vacancy rate rose from 3.7% at end-2019 to 4.3% at end-2020, yet still below the long-term average of 4.9% over 2000-2019. The Rating and Valuation Department forecasts gross completions at 18 200 units in 2021 and 20 000 units in 2022[(3)], compared with the average of 14 300 units per annum in the past ten years (2011-2020).

4.9 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[(4)]. These measures have yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) remained low at 47 cases per month or 0.9% of total transactions in 2020, 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 16 cases per month or 0.3% of total transactions in 2020, 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 221 cases per month or 4.1% of total transactions in 2020, markedly lower than the monthly average of 1 412 cases subject to DSD or 26.5% in January to November 2016. As to *mortgage lending*, the average loan-to-value ratio of new mortgages was 57% in 2020, likewise 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 HKMA.

Diagram 4.4 : Speculative activities stayed subdued



Note : Confirmor transactions refer to resale before assignment.

Diagram 4.5 : Purchases by non-local buyers stayed low

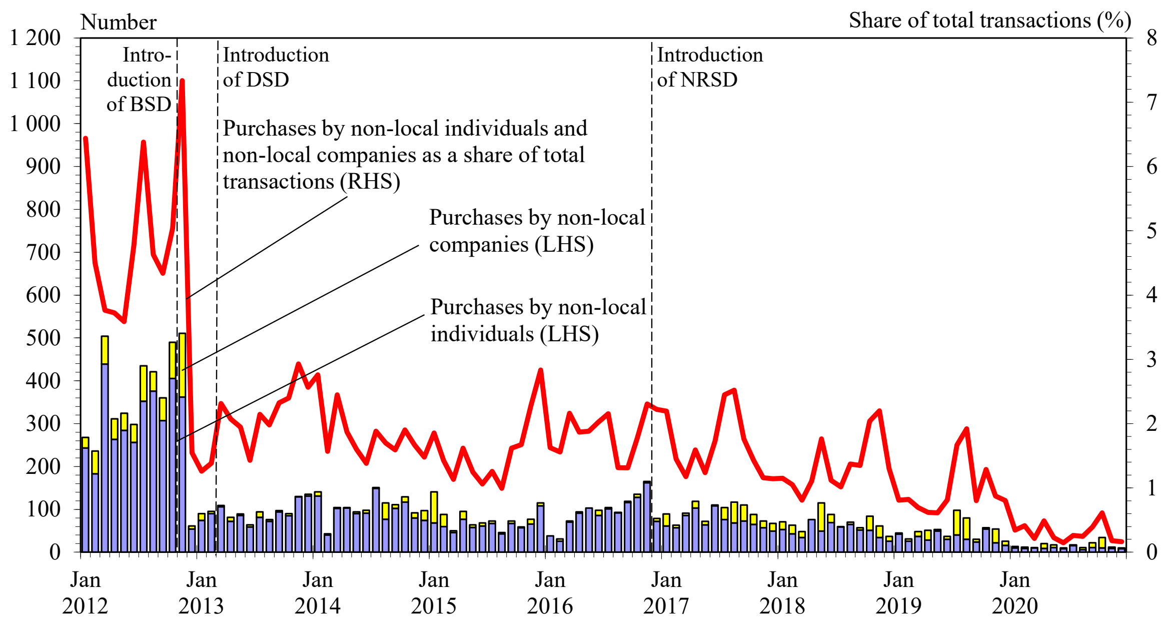
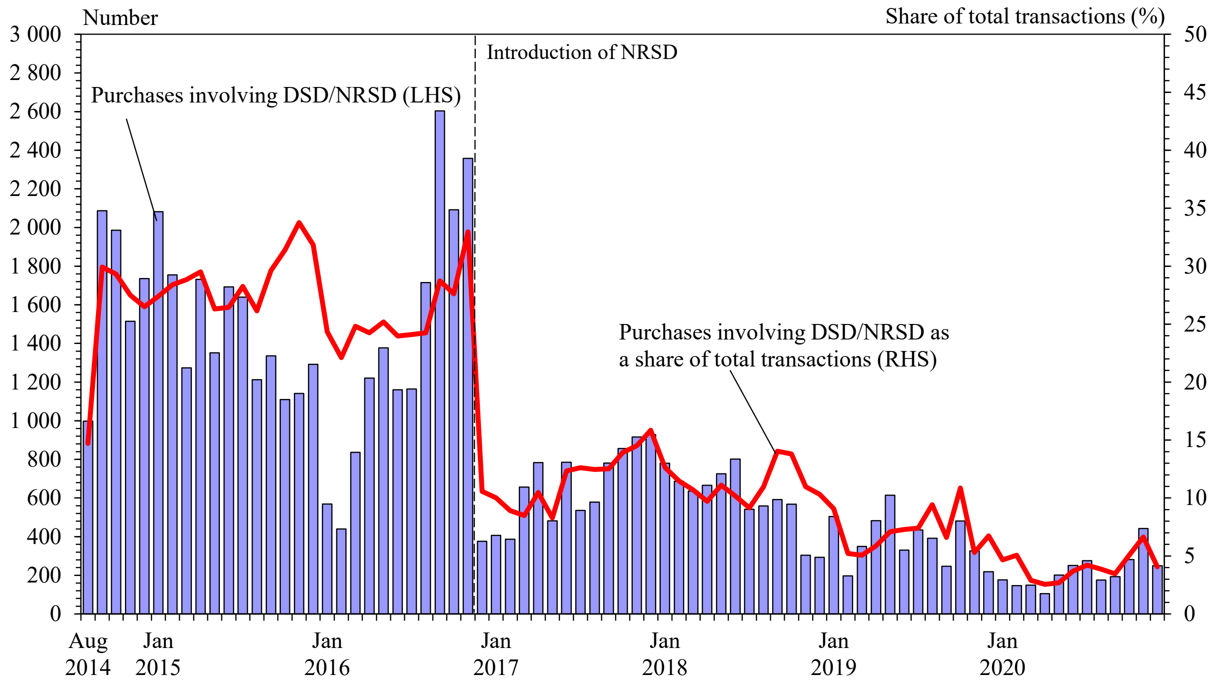


Diagram 4.6 : Investment activities were modest



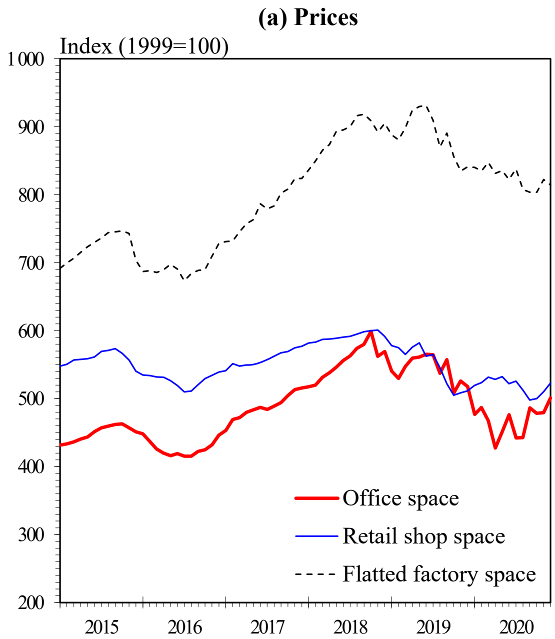
4.10 The *commercial* and *industrial property markets* weakened further during 2020 amid the deep economic recession and exceptionally uncertain economic outlook. Prices and rentals for major market segments exhibited diverse movements. Trading activities fell to record low levels, but showed some rebound in the latter part of the year following the HKMA's relaxation of the macro-prudential measures for mortgage loans on non-residential properties in August[(5)] and the Government's abolition of the DSD on non-residential property transactions in late November.

4.11 Prices of *office space* on average dropped by 3% between December 2019 and December 2020. Analysed by office class, prices of Grade A and B office space declined by 13% and 4% respectively, while prices of Grade C office space edged up by 1%. Over the same period, office rentals on average fell by 9%. Within the total, rentals of Grade A, B and C office space retreated by 9%, 11% and 4% respectively. Compared with the respective peaks in 2018 and 2019, prices of office space in December 2020 on average have plummeted by 16% and rentals by 12%. The average rental yields of Grade A, B and C office space were 2.6%, 2.5% and 2.8% respectively in December, compared with 2.5%, 2.7% and 3.0% a year earlier. Sales transactions for office space shrank by 20% to a record low of 690 cases in 2020. As to the demand-supply balance, with a negative take-up of 286 200 m^2 and a completion of 69 000 m^2, the vacancy rate rose from 9.0% at end-2019 to 11.5% at end-2020, above the long-term average of 9.1% over 2000-2019.

4.12 Amid the austere business environment of the retail trade, prices of *retail shop space* only edged up by 2% between December 2019 and December 2020, while rentals declined by 6%. Prices in December 2020 retreated by 13% from the peak in 2018 and rentals were 10% below the peak in 2019. The average rental yield edged down from 2.8% in December 2019 to 2.6% in December 2020. Sales transactions fell by 2% to a record low of 1 270 cases in 2020[(6)]. With a negative take-up of 108 400 m^2 and a completion of 67 300 m^2, the vacancy rate went up from 10.1% at end-2019 to 11.4% at end-2020, staying above the long-term average of 8.8% over 2000-2019.

4.13 Prices of *flatted factory space* decreased by 3% between December 2019 and December 2020, while rentals went up by 3%. Compared with their peaks in 2019, prices and rentals in December 2020 were 13% and 1% lower respectively. Reflecting the relative movements of prices and rentals during the period, the average rental yield edged up from 3.0% in December 2019 to 3.1% in December 2020. Sales transactions fell by 13% to a record low of 2 120 cases in 2020. With a negative take-up of 109 500 m^2 and a completion of 37 700 m^2, the vacancy rate went up from 5.9% at end-2019 to 6.4% at end-2020, yet still below the long-term average of 7.1% over 2000-2019.

Diagram 4.7 : Prices and rentals of non-residential properties exhibited diverse movements during 2020



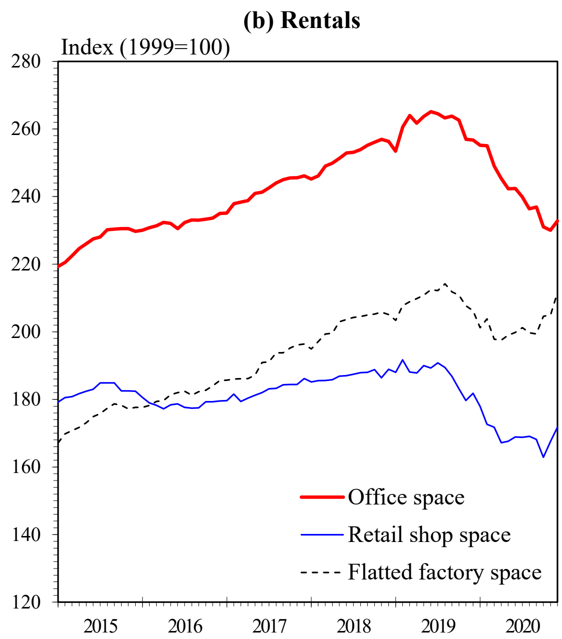
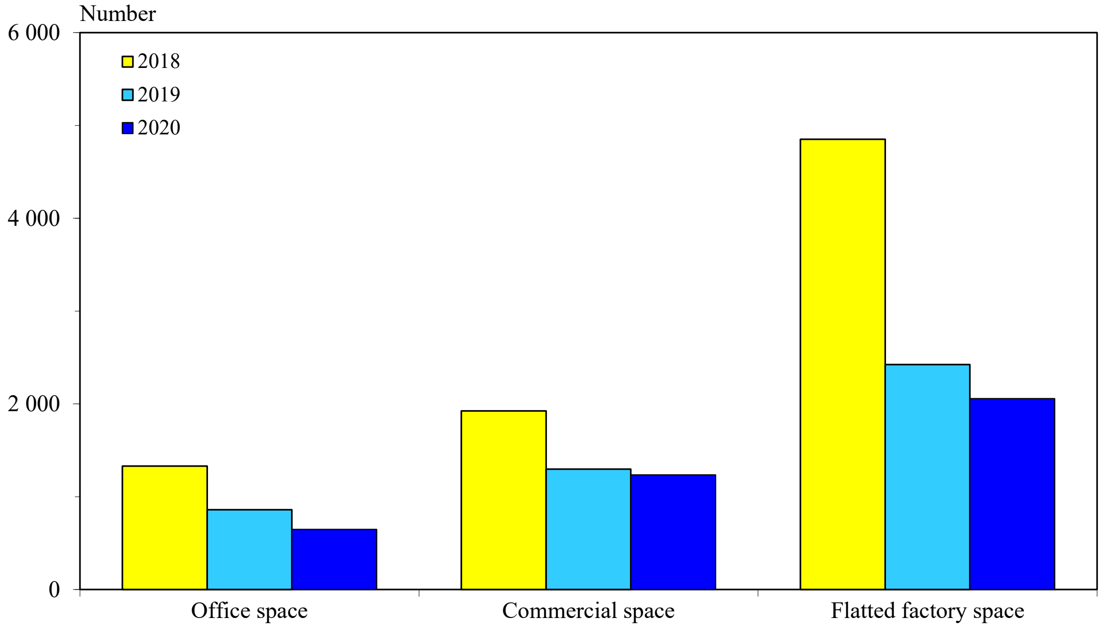


Diagram 4.8 : The volumes of sales transactions for commercial and industrial properties fell to record low levels in 2020



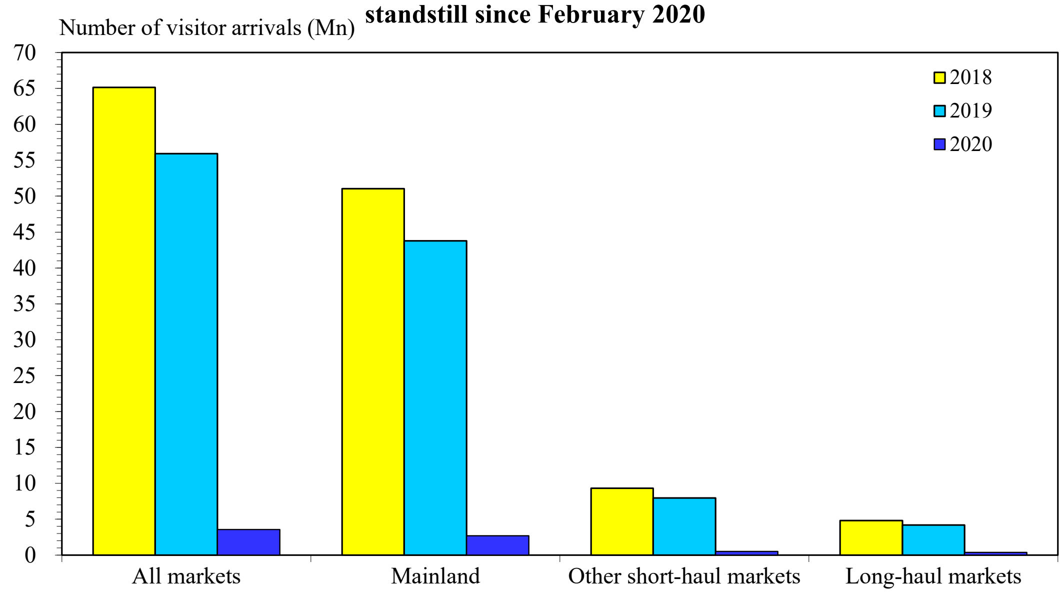
Land

4.14 Fifteen sites with a total area of about 9.8 hectares were disposed of in 2020, fetching a land premium of about $38.8 billion. Among these sites, there were ten residential sites, one industrial site and four sites for petrol filling station. In addition, the tender exercises for one industrial site in Fanling and one commercial site in Central commenced in the fourth quarter. Regarding exchange of land, four sites with a total area of about 1.4 hectares were approved in 2020. As to lease modifications, a total of 53 sites were approved.

Tourism

4.15 The COVID-19 pandemic and the resultant stringent travel restrictions and border / boundary control measures implemented by governments worldwide brought the tourism sector to a standstill since February 2020. Overall *visitor arrivals* plunged by 93.6% to only 3.6 million for the year as a whole, the steepest annual decline on record. Visitors from the Mainland, other short-haul markets and long-haul markets all recorded drastic declines of 93.8%, 93.7% and 91.5% respectively[(7)]. Visitor spending, as measured by exports of travel services, plummeted by 90.5% in real terms.

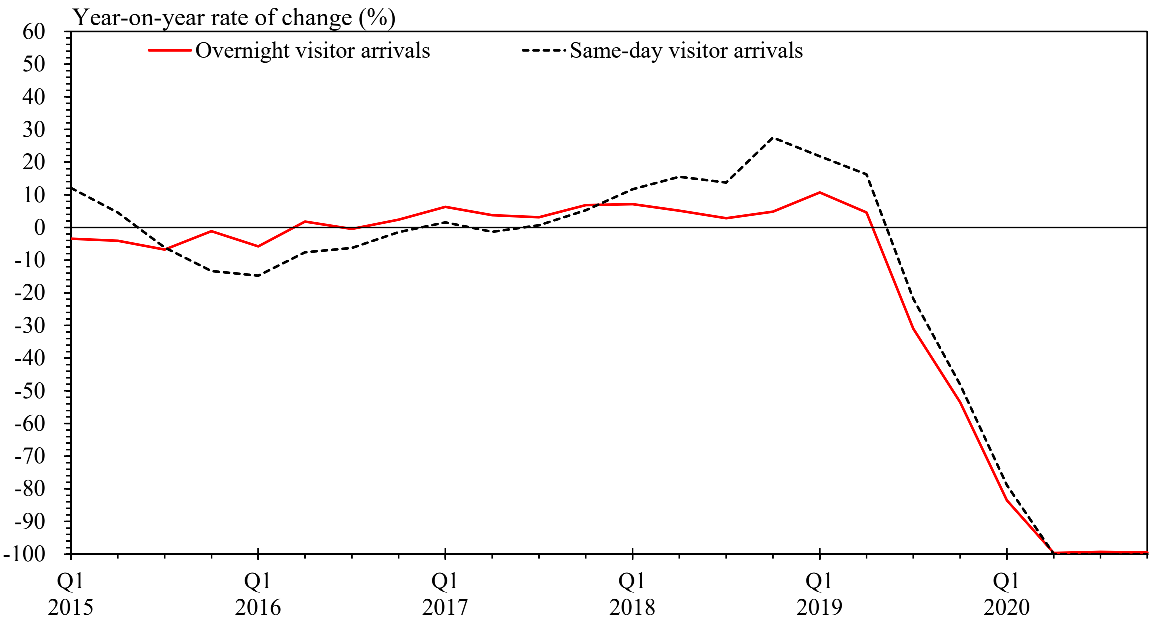
Diagram 4.9 : The COVID-19 pandemic and the resultant stringent travel restrictions and border / boundary control measures implemented by governments worldwide brought the tourism sector to a standstill since February 2020



Note : See note (7) at the end of this chapter for the definition of other short-haul markets and long-haul markets.

4.16 The bulk of visitor arrivals were overnight visitors since the second quarter of 2020, due to the compulsory quarantine arrangements imposed on inbound travellers. Yet mainly reflecting the situation in January, the share of overnight visitors decreased from 42.5% in 2019 to 38.1% in 2020, while that of same-day visitors rose from 57.5% to 61.9%.

Diagram 4.10 : Both overnight visitor arrivals and same-day visitor arrivals dived in 2020

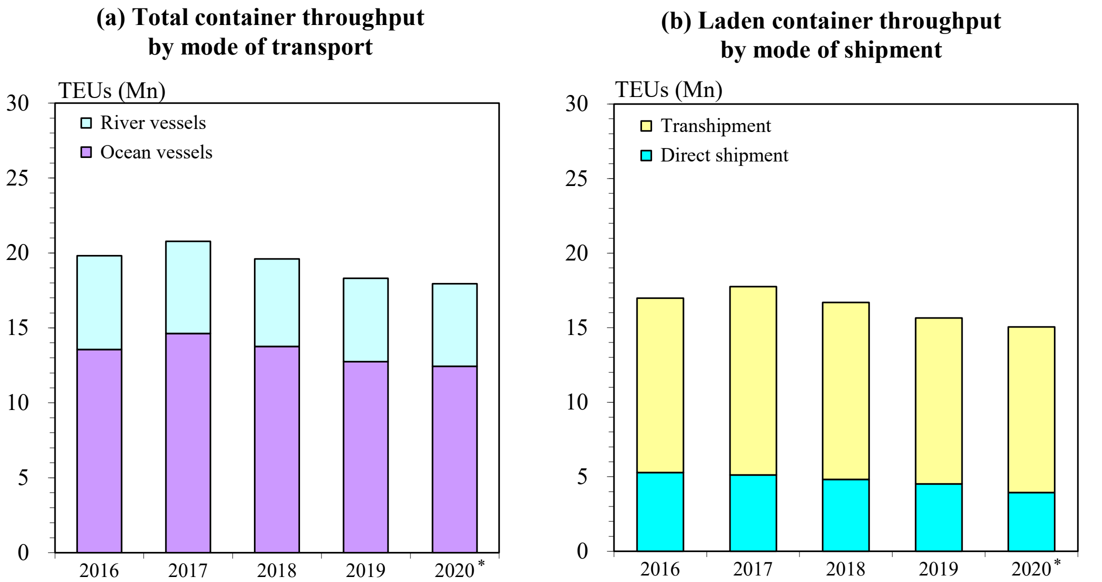


4.17 The plunge in visitor arrivals took a heavy toll on the hotel sector. The average hotel room occupancy rate declined markedly from 79% in 2019 to 46% in 2020. Nonetheless, with support from local residents' "staycation activities" and stricter requirements for certain individuals to undergo compulsory quarantine at hotels in the latter part of the year, the average hotel room occupancy rate rebounded slightly from a low of 38% in the second quarter to 51% and 56% respectively in the third and fourth quarters. The average achieved hotel room rate fell visibly by 26.5% to $887[(8)] in 2020.

Logistics

4.18 The logistics sector was lacklustre in the first half of 2020 as the COVID-19 pandemic caused significant disruptions to global supply chains and trading activities. Nonetheless, some improvement was seen in the second half along with the revival in regional and global trade flows. For 2020 as a whole, *total container throughput* declined at a moderate pace of 1.9% to about 18.0 million twenty-foot equivalent units (TEUs), with the year-on-year rate of change reverting from a decline of 5.3% in the first half to an increase of 1.5% in the second half. Within the laden container throughput, direct shipment declined by 12.7% in 2020, while transhipment edged down by 0.3%. The value of trade handled at the Hong Kong port dropped notably by 14.6% in 2020, and its share in total trade shrank from 16.1% in 2019 to 14.1% in 2020.

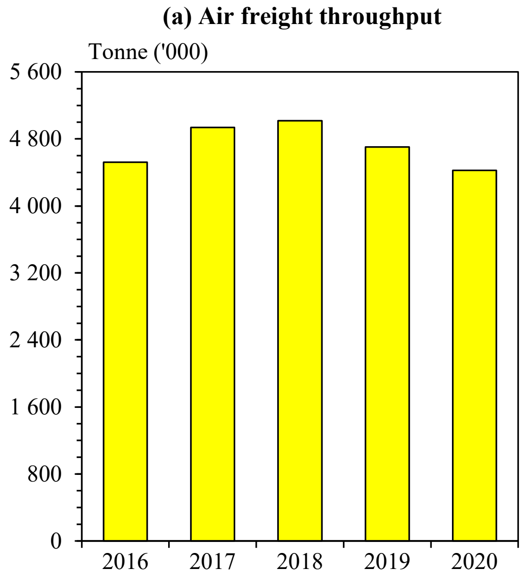
Diagram 4.11 : Container throughput fell in 2020

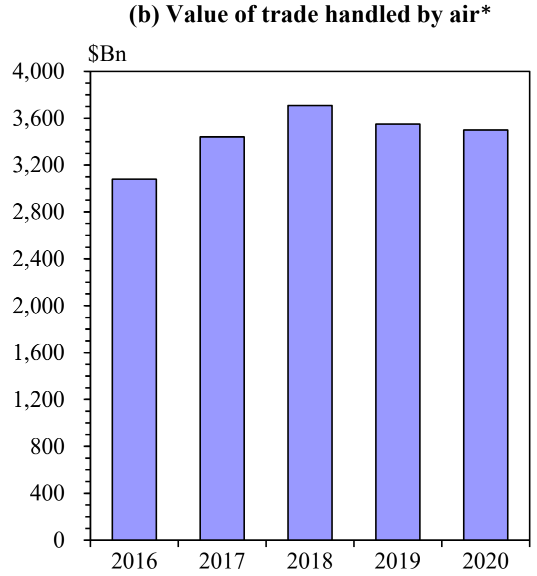


Note : (*) Total container throughput for 2020 is the preliminary estimate by Hong Kong Maritime and Port Board. Its breakdown by mode of transport and the laden container throughput by mode of shipment are crudely estimated from the profile in the first eleven months of 2020.

4.19 *Air freight throughput* fell by 6.0% to 4.4 million tonnes in 2020, with the year-on-year decline narrowing progressively from 10.3% in the first quarter to 2.0% in the fourth quarter. The value of trade by air fell by 1.4% in 2020, but its share in total trade edged up from 42.2% in 2019 to 42.7% in 2020.

Diagram 4.12 : Air freight throughput and the value of trade handled by air both fell in 2020





Note : (*) Not including transhipment.

Transport

4.20 Cross-boundary traffic flows for all modes of passenger transport plummeted in 2020 due to the widespread travel restrictions and boundary control measures implemented in response to the COVID-19 pandemic. Air passenger traffic plunged by 87.7% to only around 8.8 million trips, and water-borne and land-based cross-boundary passenger trips by 93.6% and 92.6% to 1.0 million and 17.5 million respectively. Meanwhile, average daily cross-boundary vehicle movements declined visibly by 55.3% to 19 410.

Innovation and technology

4.21 The Chief Executive announced a series of measures to support the development of innovation and technology in her Policy Address. These include, among other things, jointly developing the Shenzhen/Hong Kong Innovation and Technology Co-operation Zone (comprising the Shenzhen Innovation and Technology Zone (SITZ) and the Hong Kong-Shenzhen Innovation and Technology Park (HSITP) at the Lok Ma Chau Loop) with

Shenzhen with a view to establishing "one zone, two parks", and exploring with Shenzhen the feasibility of allowing the Hong Kong Science and Technology Parks Corporation to lease and manage certain areas of the SITZ before the completion of the first batch of buildings in the HSITP. In addition, the Government would also launch a Global STEM Professorship Scheme, with an estimated funding of $2 billion, to strengthen support for local universities to attract world-class STEM talents to work in Hong Kong.

Creative industries

4.22 In her Policy Address, the Chief Executive announced the plan to provide another injection of $1 billion into the CreateSmart Initiative to further promote the development of the creative sectors in Hong Kong. The proposed additional funding support would sponsor projects that meet the three established strategic foci, namely nurturing talents and facilitating start-ups, expanding markets, and promoting Hong Kong as Asia's creative capital and fostering a creative atmosphere in the community. It would also help the creative sectors adapt to the digitisation trend and the challenges arising from the use of virtual means for exchanges and business activities, and encourage cross-media and cross-sector co-operations.

Environment

4.23 In her Policy Address, the Chief Executive announced that Hong Kong would strive to achieve carbon neutrality before 2050. To this end, the Government would update the "Hong Kong's Climate Action Plan" to set out more proactive strategies and measures to reduce carbon emissions. Various means, including exploring different types of zero-carbon energy and decarbonisation technology, enhancing the energy efficiency of both new and existing buildings, and introducing more stringent energy efficiency standards, would be examined. Furthermore, the Government would develop green finance, build a low-carbon economy, and enhance public education and publicity. Meanwhile, Hong Kong's first roadmap on the popularisation of electric vehicles, with the target of ceasing the sale of new conventional fuel-propelled private cars, would be launched in the first quarter of 2021. The Government has also promulgated a long-term strategy blueprint on waste management in February 2021, and would update the "Clean Air Plan for Hong Kong" in 2021.

Notes :

(1) Starting from the third quarter of 2019, the index of home purchase affordability is calculated based on, among others, the mortgage rates of new mortgage loans with reference to both the Best Lending Rate (BLR) and the Hong Kong Interbank Offered Rate (HIBOR). As such, the data from the third quarter of 2019 onwards may not be strictly comparable with those in previous quarters, which were based on the mortgage rates of new mortgages loans with reference to the BLR only. In addition, the data from the second quarter of 2020 have been revised and may be subject to further revision.

(2) Take-up figures represent the net increase in the number of units occupied. The figures are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures. Take-up should not be confused with the sales of new developments, and it bears no direct relationship to the number of units sold by developers. Negative take-up means that there is a decrease in the number of units occupied (i.e. property previously occupied was released during the year and remained vacant at the year-end). Also, take-up, demolition, completion and vacancy figures on residential and non-residential properties are preliminary figures from the Rating and Valuation Department, and are subject to revision.

(3) Forecast completions in 2021 and 2022 are preliminary figures only, and are subject to revision upon the availability of more data.

(4) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 in the 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 in the 2012 Economic Background and 2013 Prospects and Box 3.1 in the First Quarter Economic Report 2013. For details of the measures promulgated in 2014, see Box 4.1 in the 2013 Economic Background and 2014 Prospects. For details of the measures promulgated in 2015, see Box 3.1 of the First Quarter Economic Report 2015. For details of the measures promulgated in 2016, see note (1) at the end of Chapter 4 in the 2016 Economic Background and 2017 Prospects. For details of the measures promulgated in 2017, see note (3) at the end of Chapter 3 in the First Quarter Economic Report 2017, note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2017 and Box 3.1 of the Third Quarter Economic Report 2017. For details of the measures promulgated in 2018, see Box 3.1 in the Half-yearly Economic Report 2018 and Box 3.1 of the Third Quarter Economic Report 2018. For details of the measures promulgated in 2019, see Box 3.1 of the Third Quarter Economic Report 2019. For details of the measures promulgated in 2020, see Box 4.1 of this report.

(5) On 19 August 2020, the HKMA announced that, with effect from 20 August 2020, the applicable loan-to-value ratio caps for mortgage loans on non-residential properties would be adjusted upward by 10 percentage points, from 40% to 50% for general cases.

(6) The figures on transaction and vacancy rate refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.

(7) Other 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 2020, visitor arrivals from the Mainland, other short-haul and long-haul markets accounted for respective shares of 76%, 14% and 10% of total visitors.

(8) The figures on hotel room occupancy and achieved room rate do not include guesthouses.

CHAPTER 5 : THE FINANCIAL SECTOR[#]

Summary

- *The US Federal Open Market Committee slashed the target range for the Federal Funds Rate by a total of 150 basis points in March 2020, bringing it back to the record low of 0.00-0.25%. The Hong Kong dollar interest rates trended down in tandem. Consequently, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority (HKMA) decreased from 2.49% at end-2019 to 0.50% at end-2020. Meanwhile, interest rates on the retail front stayed at low levels.*

- *The Hong Kong dollar spot exchange rate strengthened against the US dollar in the first quarter of 2020 and then generally stayed close to the strong-side Convertibility Undertaking level throughout the rest of the year. Meanwhile, as the US dollar weakened against most major currencies including the euro, renminbi (RMB), Japanese yen and pound sterling, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices decreased by 4.8% and 5.7% respectively during 2020.*

- *Despite the austere economic conditions, total loans and advances registered a modest growth of 1.2% during 2020. Within the total, loans for use in and outside Hong Kong rose by 1.6% and 0.1% respectively.*

- *The local stock market exhibited considerable volatility in 2020, as market sentiment was swayed by concerns over the global economic outlook amid the COVID-19 pandemic and the development of China-US relations. The Hang Seng Index (HSI) closed the year at 27 231, 3.4% lower than end-2019. Meanwhile, trading in the local stock market was very active, and fund raising activities surged.*

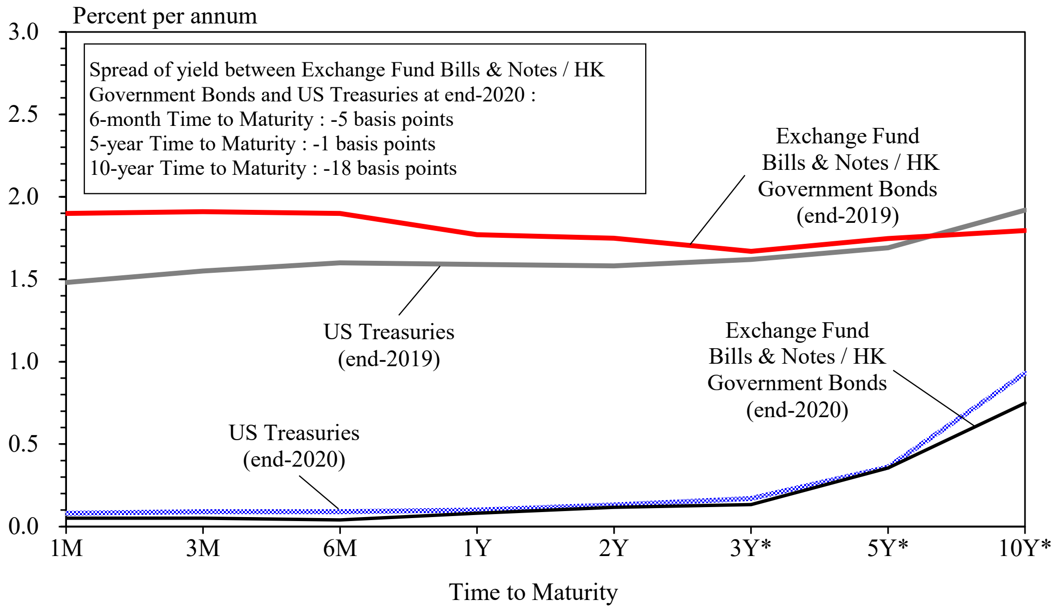
(#) This chapter is jointly prepared by the HKMA and the Office of the Government Economist.

Interest rates and exchange rates

5.1 The US Federal Open Market Committee slashed the target range for the Federal Funds Rate by a total of 150 basis points in March 2020, bringing it back to the record low of 0.00-0.25%. The Hong Kong dollar interest rates trended down in tandem. Amid the repeated triggering of the strong-side Convertibility Undertaking during April to October and the reduced issuance of Exchange Fund Bills by the HKMA[1], the overnight *Hong Kong dollar interbank interest rate* (HIBOR) decreased from 4.56% at end-2019 to 0.04% at end-2020, and the 3-month HIBOR from 2.43% to 0.35%, notwithstanding occasional slight pick-ups due to Initial Public Offering (IPO)-related and quarter-end funding demand. Consequently, the *Base Rate*[2] under the Discount Window operated by the HKMA decreased from 2.49% at end-2019 to 0.50% at end-2020.

5.2 Both *Hong Kong dollar yield curve* and *US dollar yield curve* shifted downwards in 2020, with the former declining by a larger extent at the shorter tenors. Reflecting the relative movements, the yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills switched from positive 30 basis points at end-2019 to negative 5 basis points at end-2020. The negative yield spread between the 10-year Hong Kong Government Bonds and 10-year US Treasury Notes widened from 12 basis points to 18 basis points.

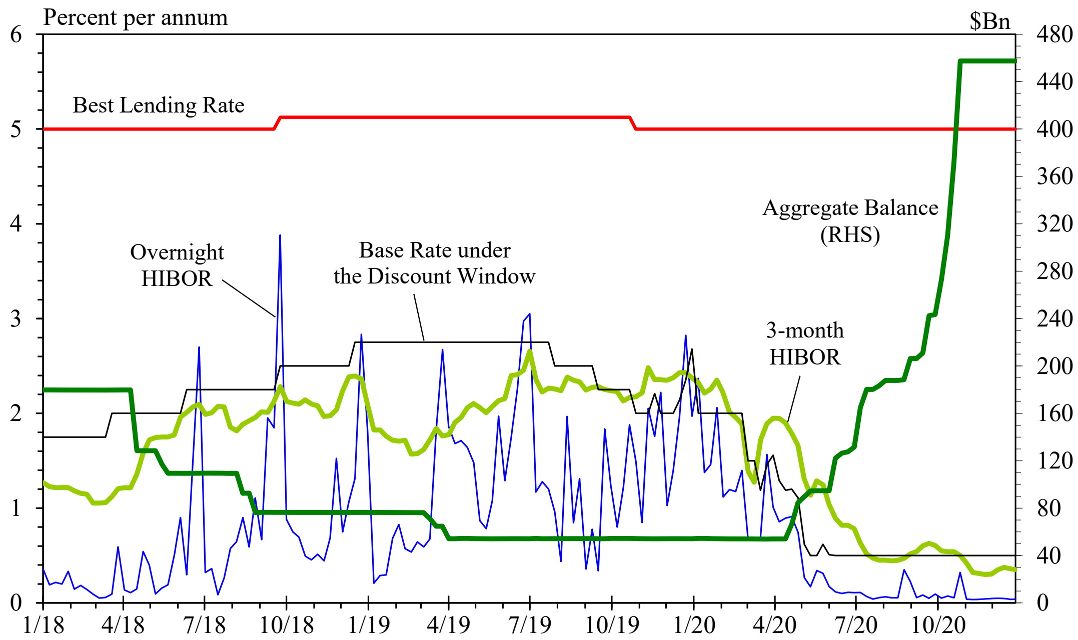
Diagram 5.1 : Both Hong Kong dollar yield curve and US dollar yield curve shifted downwards in 2020, with the former declining by a larger extent at the shorter tenors



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.

5.3 Interest rates on the retail front also stayed at low levels. The *Best Lending Rates* in the market remained unchanged in the range of 5.00% to 5.50% throughout the year despite the lowering of the target range for the Federal Funds Rate. The *average savings deposit rate* for deposits of less than \$100,000 quoted by major banks stayed unchanged at 0.001%, while the 1-year *time deposit rate* declined from 0.31% at end-2019 to 0.14% at end-2020. The *composite interest rate*(3), which indicates the average cost of funds for retail banks, declined from 1.09% a year earlier to 0.28% at end-2020.

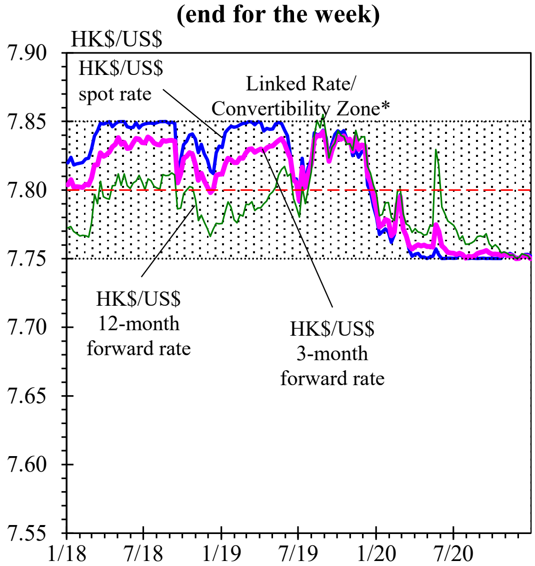
Diagram 5.2 : Interbank interest rates declined during 2020, while interest rates on the retail front stayed at low levels (end for the week)



5.4 The *Hong Kong dollar spot exchange rate* strengthened against the US dollar in the first quarter of 2020 and then generally stayed close to the strong-side Convertibility Undertaking level throughout the rest of the year. The strong-side Convertibility Undertaking was triggered 85 times during April to October 2020, mainly underpinned by strong equity-related demand for Hong Kong dollars including southbound Stock Connect, IPO activities and dividend payments. In response, the HKMA purchased a total of US\$49.5 billion from banks with \$383.5 billion. This, coupled with the reduced issuance of Exchange Fund Bills, saw the Aggregate Balance surged from \$54.3 billion at end-2019 to \$457.5 billion at end-2020. The Hong Kong dollar spot exchange rate closed at 7.752 at end-2020, compared with 7.787 at end-2019. The 3-month *Hong Kong dollar forward rate* turned from a premium of 51 pips (each pip is equivalent to HK\$0.0001) at end-2019 to a discount of 21 pips at end-2020, and the 12-month forward rate from a premium of 135 pips to a discount of 20 pips.

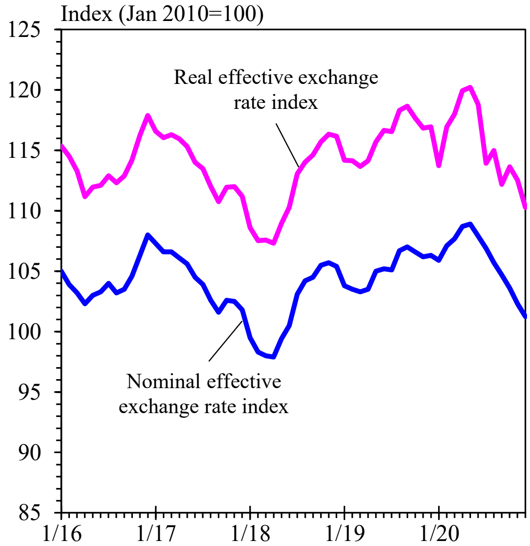
5.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar weakened against most major currencies including the euro, RMB, Japanese yen and pound sterling, the *trade-weighted Hong Kong dollar Nominal* and *Real Effective Exchange Rate Indices*(4) decreased by 4.8% and 5.7% respectively during 2020.

Diagram 5.3 : The Hong Kong dollar strengthened against the US dollar in the first quarter of 2020 and generally stayed close to 7.75 per US dollar throughout the rest of the year (end for the week)



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

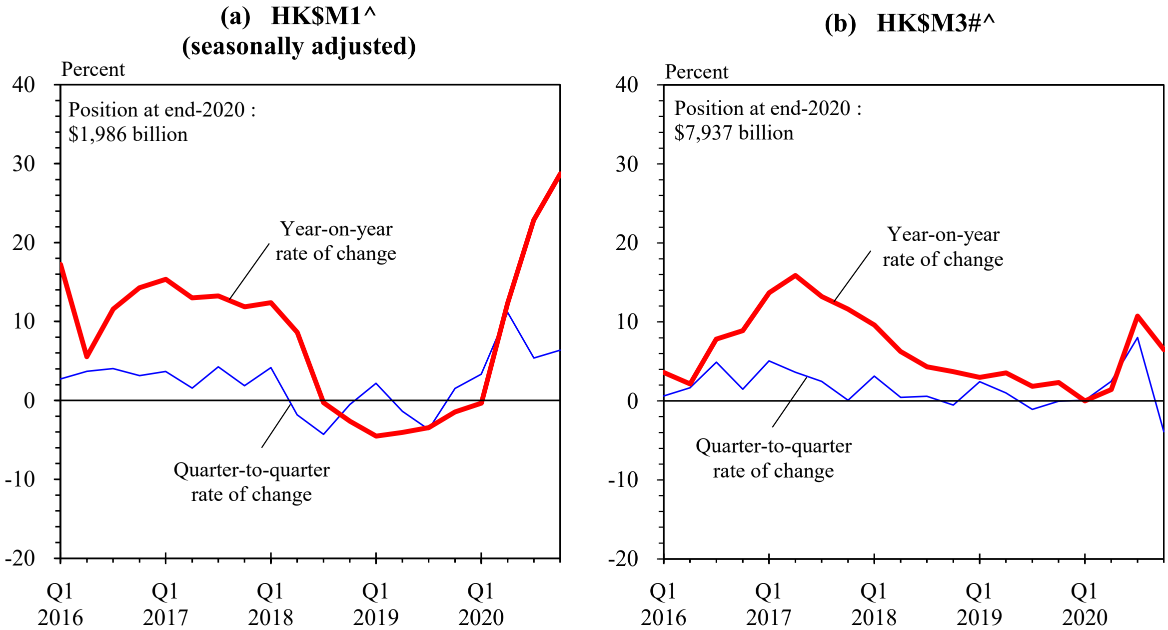
Diagram 5.4 : The trade-weighted nominal and real effective exchange rate indices decreased (average for the month)



Money supply and banking sector

5.6 The monetary aggregates recorded notable growth in 2020. The Hong Kong dollar broad *money supply* (HK$M3) increased by 6.5% over a year earlier to $7,937 billion at end-2020, while the seasonally adjusted Hong Kong dollar narrow money supply (HK$M1) leaped by 28.7% to $1,986 billion(5). Meanwhile, *total deposits* with authorized institutions (AIs)(6) rose moderately by 5.4% to $14,514 billion, within which Hong Kong dollar deposits and foreign currency deposits picked up by 6.2% and 4.6% respectively.

Diagram 5.5 : The monetary aggregates recorded notable growth in 2020



Notes : (^) Figures refer to the positions at end of period.
(#) Adjusted to include foreign currency swap deposits.

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

% change during the quarter		M1 HK$^	M1 Total	M2 HK$#	M2 Total	M3 HK$#	M3 Total
2019	Q1	2.2	-0.1	2.5	1.0	2.4	1.0
	Q2	-1.4	0.4	1.0	0.4	1.0	0.3
	Q3	-3.7	1.7	-1.0	-0.2	-1.1	-0.3
	Q4	1.5	0.6	*	1.6	*	1.6
2020	Q1	3.3	5.2	0.1	0.4	0.1	0.4
	Q2	11.2	8.6	2.5	2.0	2.5	2.0
	Q3	5.4	26.0	8.0	4.9	8.0	4.9
	Q4	6.4	-9.6	-3.9	-1.5	-3.9	-1.5
Total amount at end-2020 ($Bn)		1,986	3,232	7,922	15,607	7,937	15,644
% change over a year earlier		28.7	30.1	6.5	5.8	6.5	5.8

Notes : (^) Seasonally adjusted.

(#) Adjusted to include foreign currency swap deposits.

(*) Change of less than ±0.05%.

5.7 Despite the austere economic conditions, *total loans and advances* registered a modest growth of 1.2% over a year earlier to $10,499 billion at end-2020. Within the total, Hong Kong dollar loans decreased by 1.8%, while foreign currency loans rose by 5.6%. Reflecting the relative movements in loans and deposits, the loan-to-deposit ratio for Hong Kong dollar fell from 90.3% a year earlier to 83.5% at end-2020, while that for foreign currency edged up from 60.4% to 61.0%.

5.8 Both loans for use in and outside Hong Kong saw modest growth in 2020. Specifically, loans for use in Hong Kong (including trade finance) rose by 1.6% over a year earlier to $7,378 billion at end-2020, and loans for use outside Hong Kong edged up by 0.1% to $3,120 billion. Within the former, loans to various economic segments showed mixed performances. Loans to stockbrokers and loans to financial concerns increased by 19.3% and 1.2% respectively, partly reflecting the active trading in the stock market and vibrant IPO activities particularly in the latter half of the year. Meanwhile, loans to manufacturing rose by 2.0% for the year as a whole, mainly contributed by the rise in the first quarter. Yet, loans to trade finance declined by 6.2% amid the heightened uncertainties in the external environment, and loans to wholesale and retail trade fell by 7.5% amid still weak domestic demand. As for property-related lending, loans to building and construction, property development and investment edged up by 0.2%, while loans for purchase of residential property grew visibly by 8.4%.

Table 5.2 : Loans and advances

% change during the quarter		All loans and advances for use in Hong Kong: Loans to : Trade finance	Manu-facturing	Whole-sale and retail trade	Building and construction, property development and investment	Purchase of residential property[a]	Financial concerns	Stock-brokers	Total[b]	All loans and advances for use outside Hong Kong[c]	Total loans and advances
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	3.3	-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
	Q4	-8.2	-0.4	-2.1	3.1	1.6	1.2	-2.9	0.6	0.8	0.7
2020	Q1	6.1	6.5	-1.2	2.5	1.7	7.6	17.0	3.4	1.6	2.8
	Q2	-1.3	-4.3	-0.3	-2.6	1.7	-1.6	16.5	-0.8	2.5	0.2
	Q3	-3.6	-0.5	-3.5	-1.2	2.6	-1.8	296.5	4.7	-0.4	3.2
	Q4	-7.1	0.6	-2.7	1.6	2.0	-2.7	-77.9	-5.3	-3.6	-4.8
Total amount at end-2020 ($Bn)		425	309	350	1,635	1,674	918	75	7,378	3,120	10,499
% change over a year earlier		-6.2	2.0	-7.5	0.2	8.4	1.2	19.3	1.6	0.1	1.2

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

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

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

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

5.9 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying at a high level of 20.3% at end-September 2020. Asset quality of the local banking sector also stayed healthy. Although the ratio of classified loans to total loans for retail banks rose slightly from 0.48% at end-2019 to 0.75% at end-September 2020 and the delinquency ratio for credit card lending from 0.25% to 0.33%, these ratios were still low by historical standards. Meanwhile, the delinquency ratio for residential mortgage loans edged up from 0.03% at end-2019 to 0.04% at end-2020, yet also low by historical standards.

Table 5.3 : Asset quality of retail banks*

(as % of total loans)

At end of period		Pass loans	Special mention loans	Classified loans (gross)
2019	Q1	98.28	1.20	0.52
	Q2	98.26	1.20	0.54
	Q3	98.32	1.16	0.52
	Q4	98.25	1.27	0.48
2020	Q1	97.86	1.60	0.55
	Q2	97.62	1.67	0.71
	Q3	97.64	1.61	0.75

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

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

5.10 *Offshore RMB business* generally recorded solid growth in 2020. RMB trade settlement transactions handled by banks in Hong Kong jumped by 17.6% over a year earlier to RMB6,324.1 billion. Total RMB deposits (including customer deposits and outstanding certificates of deposit) increased visibly by 15.1% over a year earlier to RMB757.2 billion at end-2020. On financing activities, RMB bond issuance totalled RMB43.6 billion in 2020 (excluding the issuances of RMB15.0 billion by the Ministry of Finance), 26.6% higher than in 2019. Meanwhile, outstanding RMB bank loans edged down by 1.0% from a year earlier to RMB152.1 billion at end-2020.

Table 5.4 : Renminbi deposits and cross-border renminbi trade settlement in Hong Kong

At end of period		Demand and savings deposits (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	Interest rates on[a] Savings deposits[b] (%)	Interest rates on[a] Three-month time deposits[b] (%)	Number of AIs engaged in RMB business	Amount of cross-border RMB trade settlement[c] (RMB Mn)
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
	Q4	223,985	408,222	632,207	0.25	0.53	138	1,414,999
2020	Q1	260,629	403,524	664,153	0.25	0.53	140	1,531,343
	Q2	241,113	398,802	639,915	0.22	0.40	140	1,604,512
	Q3	241,432	426,459	667,890	0.16	0.31	141	1,711,958
	Q4	260,024	461,626	721,650	0.16	0.31	141	1,476,247
% change over a year earlier		16.1	13.1	14.1	N.A.	N.A.	N.A.	4.3

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not applicable.

The debt market

5.11 As to the Hong Kong dollar *debt market*, total gross issuance of Hong Kong dollar debt securities edged down by 0.5% from a year earlier to $4,163.6 billion in 2020, with the decline of 2.8% in public sector issuance more than offsetting the increase of 9.5% in private sector debt issuance[7]. Meanwhile, the total outstanding amount of Hong Kong dollar debt securities rose by 5.2% to $2,278.0 billion at end-2020. The amount was equivalent to 28.7% of HK$M3 or 23.8% of Hong Kong dollar-denominated assets of the banking sector[8].

5.12 As to the Government Bond (GB) Programme, a total of $18.2 billion institutional GBs were issued through tenders in 2020. The seventh batch of iBond and the fifth batch of Silver Bond were also issued in November and December respectively, each with an issuance size of $15.0 billion. At end-2020, the total outstanding amount of Hong Kong dollar bonds under the GB Programme was $116.5 billion, comprising 11 institutional issues totaling $80.6 billion and four retail issues (one iBond and three Silver Bonds) totaling $35.9 billion. In addition, one US dollar sukuk with an issuance size of US$1.0 billion was outstanding under the GB Programme.

Table 5.5 : New issuance and outstanding value of Hong Kong dollar debt securities ($Bn)

		Exchange Fund paper	Statutory bodies/ government-owned corporations	Govern -ment	Public sector total	AIs[a]	Local corporations	Non-MDBs overseas borrowers[b]	Private sector total	MDBs[b]	Total
New Issuance											
2019	Annual	3,394.0	24.6	20.4	3,439.0	323.2	39.4	376.2	738.7	6.3	4,184.0
	Q1	811.4	9.8	2.1	823.2	103.0	7.9	127.7	238.7	1.5	1,063.4
	Q2	826.6	10.8	8.0	845.4	75.8	19.8	90.2	185.7	3.1	1,034.2
	Q3	911.8	2.9	3.8	918.4	82.8	6.1	85.5	174.4	1.3	1,094.2
	Q4	844.2	1.2	6.5	851.9	61.6	5.6	72.8	139.9	0.4	992.2
2020	Annual	3,240.7	54.6	48.2	3,343.6	386.6	35.2	386.8	808.6	11.3	4,163.6
	Q1	760.2	6.7	2.5	769.3	83.9	6.9	112.6	203.4	1.1	973.8
	Q2	823.0	22.9	8.2	854.1	76.0	16.9	108.1	201.0	2.4	1,057.5
	Q3	905.1	8.8	1.0	914.9	91.1	6.3	102.5	199.9	5.5	1,120.3
	Q4	752.4	16.4	36.5	805.3	135.7	5.1	63.5	204.3	2.4	1,012.0
% change in 2020 over 2019		-4.5	122.3	136.3	-2.8	19.6	-10.6	2.8	9.5	80.1	-0.5
Outstanding (at end of period)											
2019	Q1	1,066.5	58.4	96.2	1,221.1	337.1	107.7	470.9	915.7	17.6	2,154.4
	Q2	1,071.3	59.2	94.2	1,224.7	346.8	116.7	484.2	947.8	20.0	2,192.5
	Q3	1,076.8	57.1	93.7	1,227.5	339.2	116.8	466.2	922.1	21.1	2,170.7
	Q4	1,082.1	55.9	100.1	1,238.1	331.3	116.8	458.5	906.5	21.2	2,165.9
2020	Q1	1,086.3	58.0	83.2	1,227.6	332.9	115.1	476.3	924.3	20.5	2,172.3
	Q2	1,067.7	72.0	88.5	1,228.2	322.3	122.2	486.0	930.6	20.2	2,179.0
	Q3	1,068.1	71.5	89.5	1,229.0	318.3	123.6	501.9	943.8	24.6	2,197.5
	Q4	1,068.1	81.6	116.5	1,266.2	373.1	123.8	488.5	985.3	26.5	2,278.0
% change at end-2020 over end-2019		-1.3	45.9	16.3	2.3	12.6	6.0	6.5	8.7	24.9	5.2

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

(a) AIs : Authorized institutions.

(b) MDBs : Multilateral Development Banks.

The stock and derivatives markets

5.13 The *local stock market* exhibited considerable volatility in 2020. The HSI underwent a sharp correction in the first quarter and plunged from a high of 29 056 on 17 January to 21 696 on 23 March, the lowest level since late December 2016, as market sentiment was hard hit by the economic fallout of the COVID-19 pandemic. The ensuing massive economic support measures rolled out by many governments and central banks across the world rendered support to market sentiment, and the local stock market stabilised in the second quarter. Yet, it lost some ground again in the third quarter amid concerns over the global economic outlook and the development of China-US relations, before staging a strong rebound in the fourth quarter in tandem with the rally in overseas stock markets. The HSI closed the year at 27 231, 3.4% lower than end-2019. Meanwhile, *market capitalisation* expanded substantially by 24.5% over a year earlier to a record high of $47.5 trillion at end-2020, bolstered by the surge in fund raising activities during the year. The local stock market ranked the fifth largest in the world and the third largest in Asia(9).

5.14 Trading in the local stock market was very active throughout 2020, particularly in the second half of the year. For the year as a whole, *average daily turnover* in the securities market soared by 48.6% to $129.5 billion. Within the total, the average daily trading value of equities, unit trusts (including Exchange-Traded Funds), and callable bull/bear contracts(10) surged by 63.5%, 26.1%, and 16.1% respectively, while that of derivative warrants declined by 7.3% (***Box 5.1***). As to futures and options(11), the average daily trading volume increased by 6.1%. Within the total, trading of stock options and Hang Seng China Enterprises Index futures rose by 19.0% and 4.9% respectively, while that of HSI options and HSI futures fell by 22.2% and 19.8% respectively.

Diagram 5.6 : The local stock market exhibited considerable volatility in 2020

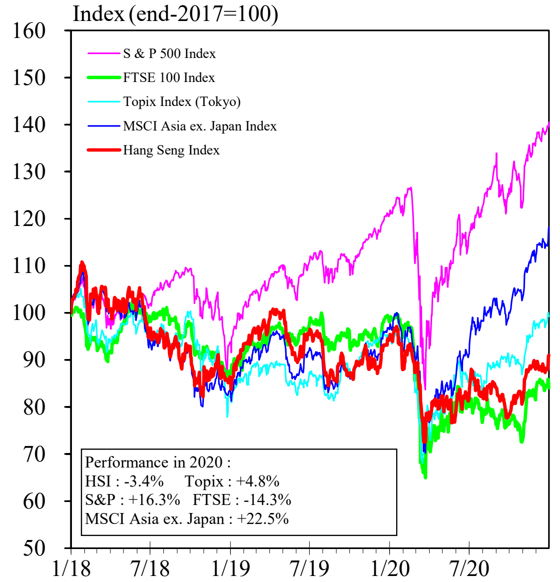
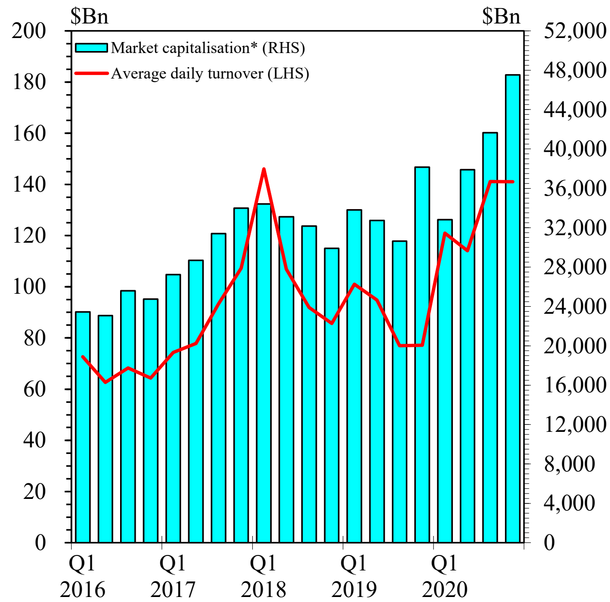


Diagram 5.7 : Market capitalisation reached a record high, bolstered by the surge in fund raising activities, while trading stayed very active



Note : (*) Position at end of quarter.

Table 5.6 : 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*
2019	Annual	208 609	50 678	138 826	442 333	1 068 641
	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
	Q4	177 992	44 767	127 108	378 106	936 911
2020	Annual	167 209	39 405	145 608	526 191	1 133 435
	Q1	210 477	54 632	182 562	537 310	1 298 207
	Q2	161 548	37 321	135 135	465 236	1 048 157
	Q3	165 514	36 501	138 737	562 193	1 152 170
	Q4	131 196	29 237	125 993	536 318	1 031 547
% change in 2020 Q4 over 2019 Q4		-26.3	-34.7	-0.9	41.8	10.1
% change in 2020 over 2019		-19.8	-22.2	4.9	19.0	6.1

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.

Box 5.1

Cash Market Transaction Survey over the decade to 2019

The total turnover of the Hong Kong stock market (including the Main Board and the Growth Enterprise Market) amounted to $21.4 trillion in 2019, the tenth largest in the world and the fifth largest in Asia (after Shenzhen Stock Exchange, Shanghai Stock Exchange, Japan Exchange Group and Korea Exchange). To study the trading composition of the Exchange Participants (EPs) of the Stock Exchange of Hong Kong Limited, the Hong Kong Exchanges and Clearing Limited (HKEX) has been conducting the Cash Market Transaction Survey(1) on an annual basis. Based on the surveys from 2008/09 to 2019(2), this article examines the trends of the trading value by investor type in the past decade, as summarised below:

(1) Turnover value during 2008/09 to 2019

After a notable decline amid the Global Financial Crisis, the turnover value of the Hong Kong stock market stayed at relatively low levels for a few years before rising higher and turning more volatile in recent years. Specifically, the total turnover was relatively low and broadly stable within the range of $13.6-$15.8 trillion between 2008/09 and 2013/14, except for a spike of $19.0 trillion in 2010/11. The stock market recorded higher turnover with considerable volatilities in the ensuing years, averaging $22.7 trillion per annum during 2014/15 to 2019 and ranging widely from $16.4 trillion in 2016 to $26.6 trillion in 2014/15. For the 10-year period as a whole, the market turnover grew at an average annual rate of 4%.

(2) Trading value by investor type

Investors can be categorised into three types – local investors (i.e. those residing/operating in Hong Kong, with Hong Kong as the source of funds), overseas investors (i.e. those residing/operating outside Hong Kong, with the source of funds overseas) and EP principal trading (i.e. trading of the participant firm's own account).

Over the decade under study, overseas investors were generally the largest contributor to the transaction value (***Chart 1***). The share of overseas investor trading to total market turnover rose from 42% in 2008/09 to 46% for the period between 2009/10 and 2012/13. After declining to 39% in 2013/14 and 2014/15, their share rose back gradually to 43% in 2019. Over the same period, the share of local investors trading was largely on a downtrend, declining from 50% in 2008/09 to 30% in 2019, except for a small rebound in 2013/14. As for the share of EP principal trading, it increased rapidly from 9% in 2008/09 to around 16% during 2011/12 to 2013/14 and further to 22-29% in the subsequent years to 2019.

The value of transactions by overseas investors was estimated to have grown at an average annual rate of 4% in the 10-year period up to 2019(3), generally in line with the overall market. In contrast, that for EP principal trading showed a rampant average annual growth of 16% over the same period, whereas that by local investors edged down at an average annual rate of 1%.

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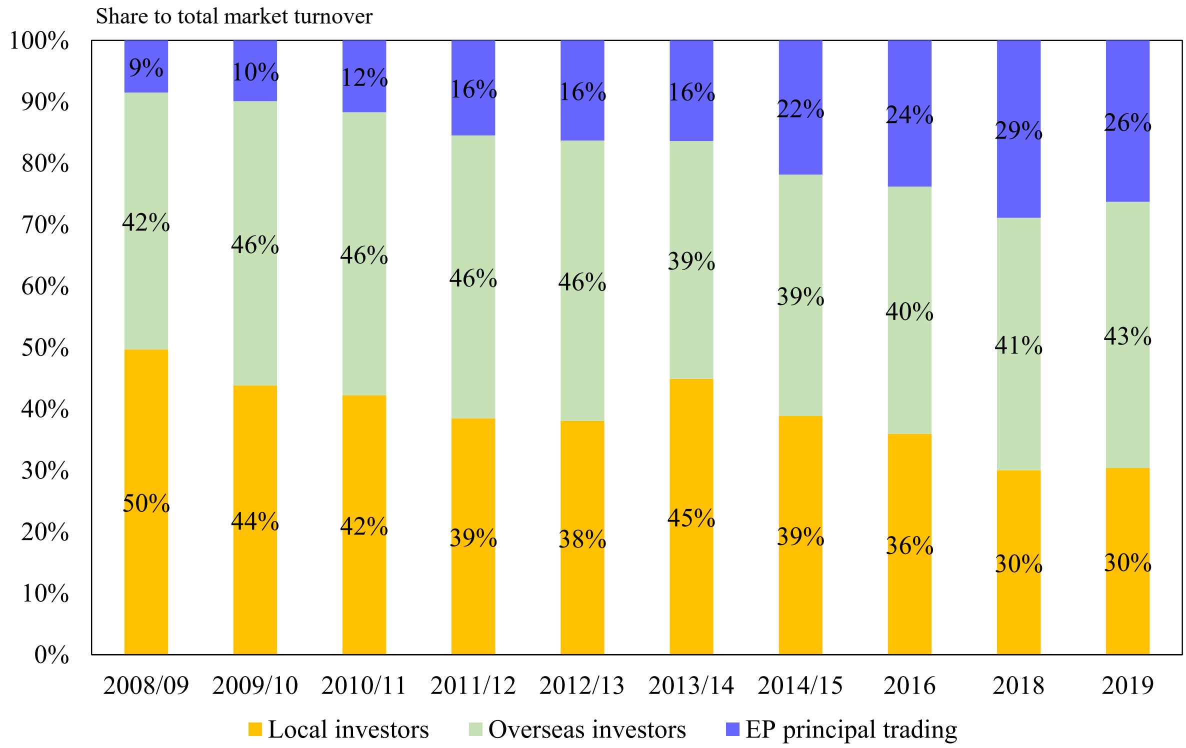
(1) The survey also included Southbound trading through the specialised EPs designated for Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect.

(2) Surveys prior to 2016 covered a 12-month period from October in a year to September in the following year. Staring from 2016, the surveys covered the period from January to December in a year. No survey was conducted for 2017.

(3) The survey only provided the estimated percentage breakdown of trading value for different types of trade, but not the actual trading value. Hence the trading value for a particular type of trade is implied by multiplying the percentage contribution to market turnover by that type of trade by the actual overall market turnover.

Box 5.1 (Cont'd)

Chart 1 : Distribution of HKEX securities market turnover value by investor type



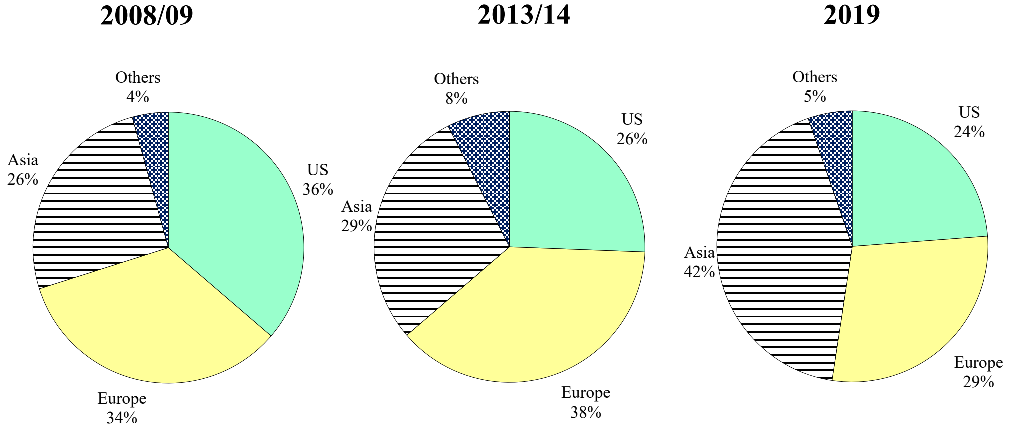
(3) Overseas investors' trading value by fund origin

Further analysing into the transactions by overseas investors, the performance of overseas investors of different fund origins varied rather visibly (***Chart 2***). Specifically, the US investors, which were the largest group of overseas investors before the Global Financial Crisis, saw their share shrinking from 36% in 2008/09 to 24% in 2009/10 and then hovering around this level in most of the subsequent years. The European investors, who took up a slightly smaller share than the US investors in 2008/09, saw their share surpassing the US investors' since 2009/10 but their share trended down gradually since then to 29% in 2019. Meanwhile, the Asian investors have become a much more prominent group, particularly in the few years to 2019. The share of Asian investors trading rose from 26% in 2008/09 to 29% in 2013/14 and more notably to 42% in 2019. The considerable growth in recent years was mainly contributed by the surge in trading by Mainland investors due to the launches of the Shanghai-Hong Kong Stock Connect in 2014 and Shenzhen-Hong Kong Stock Connect in 2016.

In terms of trading value, that of US investors in 2019 was virtually the same as that in 2008/09, notwithstanding some fluctuations during the 10-year period. Over the same period, that of European investors grew by an average annual rate of 3%, though still slower than the 4% growth of total overseas investor trading and resulting in a decline in its share to total overseas investor trading. Trading by Asian investors recorded the most spectacular growth, expanding at an average annual rate of 10% over the decade.

Box 5.1 (Cont'd)

Chart 2 : Distribution of overseas investor trading value by origin



(4) Breakdown by individual and institutional investors

Trading activities other than EP principal trading can also be categorised into those made by institutional investors (i.e. those who are not trading on personal accounts) and those made by individual investors (i.e. those who trade on their personal accounts). In overall terms, after excluding the EP principal trading, trading value by institutional investors was larger than that by individual investors, and the importance was also on the rise. Indeed, its share rose from 68% in 2008/09 to 72% in 2019 (***Table 1***). A closer look also reveals that, in terms of trading value, institutional investors played a dominant role among overseas investors, though their share in total trading by overseas investors declined gradually from 90% in 2008/09 to 85% in 2019 as individual investors have gained importance in recent years. In contrast, for local investors the relative importance of institutional investors and individual investors has been rather even, though the share of trading of institutional investors rose slightly from 49% in 2008/09 to 55% in 2019.

Table 1 : Distribution of HKEX securities market turnover (excluding the EP principal trading) by individual and institutional investors

	2008/09	2013/14	2019
Share in total trading by local investors :			
Individual investors	51%	46%	45%
Institutional investors	49%	54%	55%
Share in total trading by overseas investors :			
Individual investors	10%	13%	15%
Institutional investors	90%	87%	85%
Share in total trading by local and overseas investors :			
Individual investors	**32%**	**30%**	**28%**
Institutional investors	**68%**	**70%**	**72%**

5.15 After a relatively weak start in the first quarter of 2020, fund raising activities surged in the rest of the year. For the year as a whole, *total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and GEM[(12)], leapt by 63.7% to $743.7 billion. Within the total, the amount of funds raised through IPOs rose by 26.5% to $397.5 billion, partly supported by the listings of several new economy companies. Hong Kong ranked second globally in terms of the amount of funds raised through IPOs in 2020.

5.16 Mainland enterprises continued to play an important role in the Hong Kong stock market. At end-2020, a total of 1 319 Mainland enterprises (including 291 H-share companies, 176 "Red Chip" companies and 852 private enterprises) were listed on the Main Board and GEM, accounting for 52% of the total number of listed companies and 80% of total market capitalisation. Mainland-related stocks accounted for 85% of equity turnover and 88% of total equity fund raised in the Hong Kong stock exchange in 2020.

5.17 In December, the Securities and Futures Commission (SFC) announced that it has granted the first licence to a virtual asset trading platform in Hong Kong under the current voluntary opt-in regime, which was launched in November 2019 and only applies to those platforms that trade virtual assets with securities features. The platform will only serve professional investors under the close supervision of the SFC and will be subject to tailor-made requirements similar to those apply to securities brokers and automated trading venues. Meanwhile, in November, the Government launched a three-month public consultation on legislative proposals to enhance anti-money laundering and counter-terrorist financing regulation in Hong Kong. The Government proposed to introduce a mandatory licensing regime for virtual asset services providers (i.e. covering also those platforms that solely trade non-security virtual assets), whereby any person seeking to conduct the regulated business of virtual asset trading platforms in Hong Kong will be required to apply for a licence from the SFC. The Government's continued efforts to enhance the regulatory framework for virtual assets would help protect investors' interests and be conducive to the healthy and orderly development of the virtual asset trading industry.

5.18 In November, the Stock Exchange of Hong Kong Limited (SEHK) reached an agreement with the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) to expand the scope of eligible securities under Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. Specifically, shares of pre-revenue biotech companies that are listed under SEHK's new listing regime and have met certain criteria (i.e. being eligible constituent stocks of the Hang Seng Composite Index, or having corresponding A-shares listed on SSE or SZSE) were included in southbound trading of Stock Connect starting from 28 December 2020. Meanwhile, shares listed on the SSE's Sci-Tech Innovation Board that are constituent stocks of the SSE 180 Index and SSE 380 Index, or have H-share counterparts listed in Hong Kong became eligible for northbound trading of Shanghai-Hong Kong Stock Connect with effect from 1 February 2021. Their corresponding H-shares have also been included in southbound trading of Stock Connect on the same day.

Fund management and investment funds

5.19 Performance of fund management business[(13)] was mixed in 2020. Supported by the rally in the local and global stock markets in the latter part of the year, the aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*[(14)] rose by 17.5% over a year earlier to $1,139.2 billion at end-2020. Meanwhile, gross retail sales of *mutual funds* fell by 12.2% over a year earlier to US$78.9 billion in 2020[(15)].

Insurance sector

5.20 Different segments of the *insurance sector*[(16)] showed diverse performance in the third quarter of 2020. Gross premium income from long-term business plunged by 16.8% from a year earlier. Within the total, premium income from non-investment linked plans (which accounted for 90% of total premium for this segment) plummeted by 19.4%, while that from investment linked plans rose by 20.1%. As to general business, gross and net premium rose by 8.5% and 7.5% respectively.

Table 5.7 : Insurance business in Hong Kong* ($Mn)

	General business			Premium for long-term 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	Gross premium from long-term business and general business
2019 Annual	55,669	37,650	1,127	160,384	11,761	184	387	172,716	228,385
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
Q3	13,838	9,341	424	36,987	2,717	43	162	39,909	53,747
Q4	11,305	7,356	271	29,605	3,229	38	65	32,937	44,242
2020 Q1	18,264	12,221	329	32,453	2,481	23	128	35,085	53,349
Q2	15,219	10,579	295	28,259	2,089	23	67	30,438	45,657
Q3	15,014	10,045	811	29,822	3,264	22	99	33,207	48,221
% change in 2020 Q3 over 2019 Q3	8.5	7.5	91.3	-19.4	20.1	-48.8	-38.9	-16.8	-10.3

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

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

Highlights of policy and market developments

5.21 In December, the Green and Sustainable Finance Cross-Agency Steering Group (Steering Group) launched the Strategic Plan to Strengthen Hong Kong's Financial Ecosystem to Support a Greener and More Sustainable Future, which sets out six key focus areas for strengthening Hong Kong's financial ecosystem on this front. In addition, the Steering Group has agreed to implement five near-term action points, including to (i) establish climate-related disclosure requirements; (ii) aim to adopt the Common Ground Taxonomy which will serve as a reference for the definition of investments that are considered as environmentally sustainable across jurisdictions; (iii) support the proposal of establishing a new Sustainability Standards Board for developing and maintaining a global, uniform set of sustainability reporting standards; (iv) promote climate-focused scenario analysis; and (v) establish a platform to coordinate cross-sectoral capacity building and thought leadership among financial regulators, Government agencies, industry stakeholders and the academia.

Notes :

(1) To help ensure continued smooth operation of the Hong Kong dollar interbank market amid a volatile global macro environment stemming from the COVID-19 pandemic, the HKMA made available more Hong Kong dollar liquidity by reducing the issue size of 91-day Exchange Fund Bills in four regular tenders on 21 April, 28 April, 5 May and 12 May 2020. The issuance of the Bills was reduced by $20 billion in total and the Aggregate Balance increased by the same amount.

(2) 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.

(3) 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.

(4) 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.

(5) 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. As monthly monetary statistics are subject to volatilities due to a wide range of transient factors, such as seasonal and IPO-related funding demand as well as business and investment-related activities, caution is required when interpreting the statistics.

(6) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-2020, there were 161 licensed banks, 17 restricted licence banks and 12 deposit-taking companies in Hong Kong. Altogether, 190 AIs (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.

(7) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.

(8) 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.

(9) The ranking is based on the market capitalisation figures compiled by the World Federation of Exchanges and the London Stock Exchange Group.

(10) 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.

(11) At end-2020, there were 107 classes of stock options contracts and 78 classes of stock futures contracts.

(12) At end-2020, there were 2 170 and 368 companies listed on the Main Board and GEM respectively.

(13) At end-2020, there was one SFC-authorised retail hedge fund with net asset size of US$128 million. The amount of net assets under management represented a 4.1% increase over end-September 2020 and a 20.0% decrease from end-2002, the year when the hedge funds guidelines were first issued.

(14) At end-2020, there were 14 approved trustees. On MPF products, 24 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 408 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 306 000 employers, 2.71 million employees and 230 000 self-employed persons have participated in MPF schemes.

(15) 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-2020, the survey covered a total of 1 264 active authorised funds.

(16) At end-2020, there were 164 authorised insurers in Hong Kong. Within this total, 53 were engaged in long-term insurance business, 91 in general insurance business, and 20

in composite insurance business. These authorised insurers come from 22 countries and territories (including Hong Kong).

CHAPTER 6 : THE LABOUR SECTOR

Summary

- *The labour market deteriorated sharply in 2020 as the economy experienced the most severe recession on record due to the COVID-19 pandemic. The pressures faced by the labour market were immense during most of the year, notwithstanding some fluctuations along with the local epidemic situation.*

- *The seasonally adjusted unemployment rate surged to 4.2% in the first quarter of 2020 and further to 6.2% in the second quarter and 6.6% in the fourth quarter, the highest in 16 years. The underemployment rate also soared, to a post-SARS high of 3.8% in the third quarter and stayed elevated at 3.4% in the fourth quarter. For 2020 as a whole, the unemployment rate averaged 5.9%, 3.0 percentage points higher than in 2019, and the underemployment rate averaged 3.3%, also visibly higher by 2.2 percentage points.*

- *Analysed by sector, the consumption- and tourism-related sectors combined saw their unemployment rate surge to an annual average of 10.0% in 2020, the highest since the SARS episode in 2003, and their underemployment rate to a record annual high of 5.4%. The annual unemployment rate and underemployment rate of the construction sector likewise soared to multi-year highs of 10.3% and 7.7% respectively. Labour market conditions in other major sectors also deteriorated, notably in arts, entertainment and recreation, warehousing and support activities for transportation, and transportation. Analysed by skill segment, the unemployment rates of the lower-skilled workers and higher-skilled workers averaged 6.6% and 3.6% respectively in 2020, up 3.6 percentage points and 1.7 percentage points respectively from 2019. The lower-skilled workers were more severely hit during the current downturn.*

- *Overall labour demand slackened in the first three quarters of 2020. Results of establishment surveys indicated that, after registering the largest year-on-year decline since December 1998 in June 2020, private sector employment fell further in September 2020, and vacancies continued to plunge. More recent statistics from the General Household Survey (GHS) suggested that total employment in the fourth quarter was still notably lower than a year ago, giving a record annual decline of 5.1% for 2020 as a whole.*

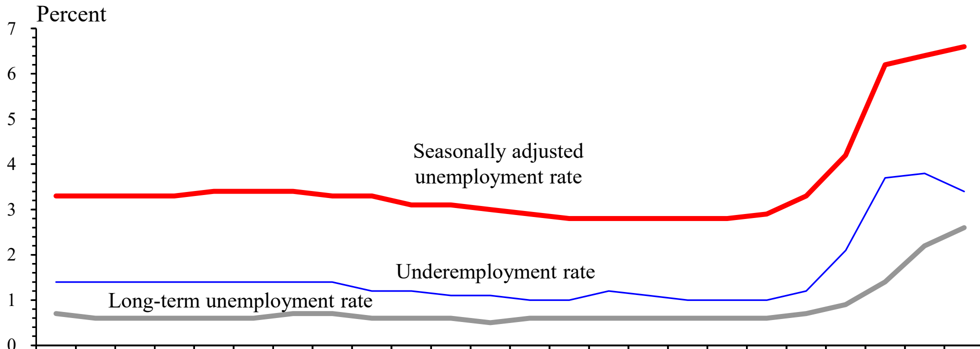
- *Overall wages and labour earnings continued to increase in nominal terms in the first three quarters of 2020 over a year earlier, but the rates of increase*

in the third quarter were the slowest in around a decade. Separately, GHS data showed that the median household income fell markedly in 2020.

Overall labour market situation[(1)]

6.1 The labour market deteriorated sharply in 2020 as the economy experienced the most severe recession on record due to the COVID-19 pandemic. The pressures faced by the labour market were immense during most of the year, notwithstanding some fluctuations along with the local epidemic situation. The seasonally adjusted *unemployment rate*[(2)] surged to 4.2% in the first quarter and further to 6.2% in the second quarter and 6.6% in the fourth quarter, the highest in 16 years. The *underemployment rate*[(3)] also soared, to a post-SARS high of 3.8% in the third quarter and stayed elevated at 3.4% in the fourth quarter. For 2020 as a whole, the unemployment rate and underemployment rate averaged 5.9% and 3.3% respectively, 3.0 and 2.2 percentage points respectively higher than in 2019. Analysed by sector, the unemployment rate of the consumption- and tourism-related sectors (viz., retail, accommodation and food services sectors) combined surged to an annual average of 10.0% in 2020, the highest since the SARS episode in 2003, and the underemployment rate to a record annual high of 5.4%. The unemployment rate and the underemployment rate of the construction sector likewise soared to multi-year highs of 10.3% and 7.7% respectively. Labour market conditions in other major sectors also deteriorated, more visibly in arts, entertainment and recreation, warehousing and support activities for transportation, and transportation. Analysed by skill segment, the unemployment rate of the lower-skilled workers averaged 6.6%, and that of the higher-skilled workers averaged 3.6%, up 3.6 and 1.7 percentage points respectively from 2019. The lower-skilled workers were harder hit during the current downturn. Overall labour demand slackened in the first three quarters of 2020. After registering the largest year-on-year decline since December 1998 in June 2020, private sector employment fell further in September 2020, and vacancies continued to plunge. Though not strictly comparable, more recent statistics from the General Household Survey (GHS) suggested that total employment showed a record annual decline for 2020 as a whole. Overall wages and labour earnings continued to increase in nominal terms in the first three quarters of 2020 over a year earlier, but the rates of increase in the third quarter were the slowest in around a decade. GHS data showed that the median household income fell sharply in 2020.

Diagram 6.1 : The labour market deteriorated sharply in 2020



	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Seasonally adjusted unemployment rate	3.3	3.3	3.3	3.3	3.4	3.4	3.4	3.3	3.3	3.1	3.1	3.0	2.9	2.8	2.8	2.8	2.8	2.8	2.9	3.3	4.2	6.2	6.4	6.6
Underemployment rate	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.2	1.2	1.1	1.1	1.0	1.0	1.2	1.1	1.0	1.0	1.0	1.2	2.1	3.7	3.8	3.4
Long-term unemployment rate	0.7	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.9	1.4	2.2	2.6
Annual unemployment rate	3.3				3.4				3.1				2.8				2.9				5.9 #			
Annual underemployment rate	1.4				1.4				1.2				1.1				1.1				3.3 #			

Note : # Provisional figures.

Table 6.1 : The unemployment rate (seasonally adjusted), underemployment rate and long-term unemployment rate

		Unemployment rate* (%)	Underemployment rate (%)	Long-term unemployment rate (%)
2019	Annual	2.9	1.1	0.6
	Q1	2.8	1.0	0.6
	Q2	2.8	1.0	0.6
	Q3	2.9	1.0	0.6
	Q4	3.3	1.2	0.7
2020	Annual#	5.9	3.3	1.8
	Q1	4.2	2.1	0.9
	Q2	6.2	3.7	1.4
	Q3	6.4	3.8	2.2
	Q4	6.6	3.4	2.6

Notes : * Seasonally adjusted (except for annual figures).

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Labour force and total employment

6.2 The *labour force*[4] declined by an annual record of 2.2% to 3 880 300 in 2020, partly due to a 0.4% decline in the working-age population (i.e. land-based non-institutional population aged 15 and above). The fall in the labour force participation rate from 60.6% in 2019 to a record annual low of 59.5% also contributed, which was in turn a combined result of population ageing and the people's response to the economic downturn. Regarding the situations during the year, the labour force declined by a record 3.1% in March – May 2020, and the labour force participation rate reached a record low of 59.1% in the same period. Nonetheless, the declines in the labour force and the labour force participation rate both narrowed during the second half of 2020 amid the relative improvement in the economy.

6.3 *Total employment*[5] shrank by an annual record of 5.1% to 3 653 200 in 2020. On the quarterly profile, the year-on-year rates of decline in total employment widened to 3.6% in the first quarter and further to a record 6.2% in the second quarter, before narrowing to 5.8% in the third quarter and 4.6% in the fourth quarter. On a quarter-to-quarter comparison, total employment fell sharply by 2.7% each in the first and second quarters. Yet, as the labour market conditions tended to stabilise during September to November before the arrival of the fourth wave of COVID-19 infections, total employment turned to a marginal increase of 0.1% in the third quarter and rose further by 0.6% in the fourth quarter. Analysed by sector, for 2020 as a whole, employment of the consumption- and tourism-related sectors fell markedly amid the austere business situation caused by the epidemic. Employment of the import/export trade and wholesale sector declined considerably, partly continuing its longer-term downward trend and partly reflecting the difficult trading environment especially in the first half of the year. Employment of the construction sector dropped visibly as construction activities slowed. Nevertheless, some sectors saw increases in employment, such as human health activities, postal and courier activities, and financing.

Table 6.2 : The labour force, and persons employed, unemployed and underemployed

		Labour force		Persons employed		Persons unemployed[(a)]	Persons underemployed
2019	Annual	3 966 200	(-0.3)	3 849 900	(-0.4)	116 300	42 000
	Q1	3 967 300	(-0.2)	3 857 000	(-0.2)	110 300	38 900
	Q2	3 974 100	(0.1)	3 860 000	(0.1)	114 100	41 100
	Q3	3 968 900	(-0.4)	3 849 000	(-0.5)	120 000	41 400
	Q4	3 948 700	(-0.6)	3 824 600	(-1.1)	124 200	47 500
2020	Annual[#]	3 880 300	(-2.2)	3 653 200	(-5.1)	227 100	127 100
	Q1	3 882 200	(-2.1)	3 720 000	(-3.6)	162 200	82 800
	Q2	3 861 100	(-2.8)	3 620 400	(-6.2)	240 700	142 900
	Q3	3 884 600	(-2.1)	3 624 800	(-5.8)	259 800	149 100
	Q4	3 893 400	(-1.4)	3 647 700	(-4.6)	245 800	133 800
			<0.2>		<0.6>		

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

( ) % change over a year earlier.

< > Quarter-to-quarter % change for the fourth quarter of 2020.

\# Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Diagram 6.2 : Total employment and labour force both showed record annual declines in 2020, though the year-on-year rates of decline narrowed somewhat in the second half of the year

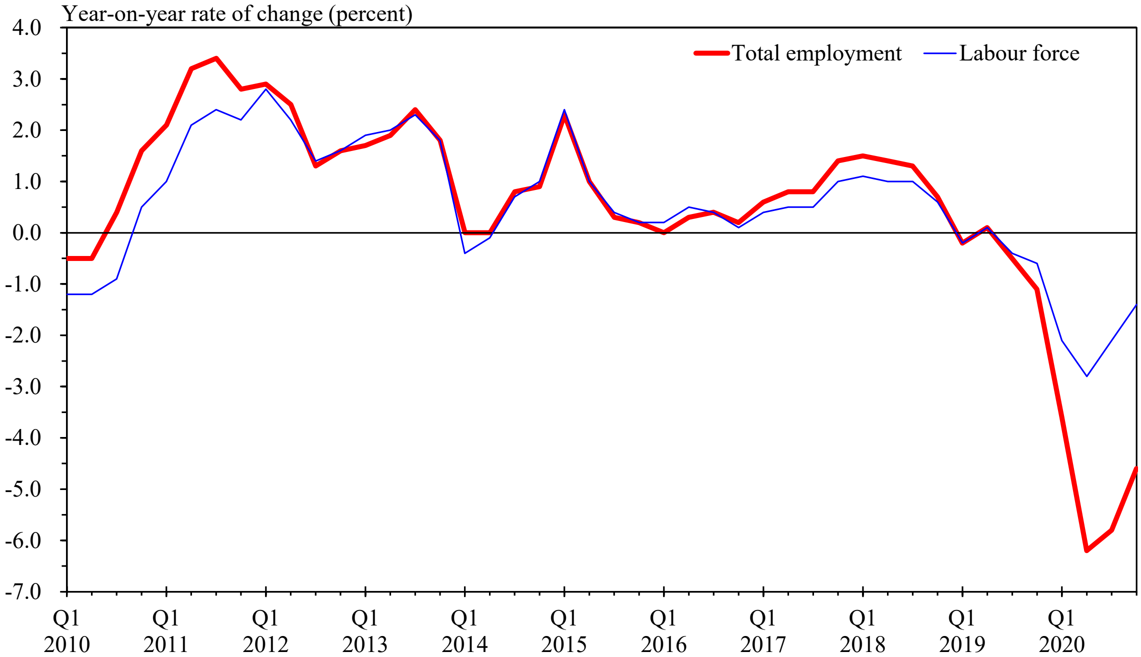


Table 6.3 : Labour force participation rates by gender and by age group (%)

	2015	2016	2017	2018	2019	2020#
Male						
15-24	39.1	39.5	38.1	39.2	39.6	35.7
of which:						
15-19	*11.7*	*12.9*	*9.9*	*10.4*	*11.4*	*7.2*
20-24	*62.0*	*60.7*	*59.2*	*60.2*	*59.8*	*56.6*
25-29	93.7	92.9	92.6	92.9	91.4	90.5
30-39	96.5	96.4	96.6	96.4	95.9	95.0
40-49	95.1	95.0	95.2	95.1	93.9	93.6
50-59	86.6	86.0	86.7	86.9	85.1	84.6
≥ 60	28.5	29.9	30.4	32.1	31.9	31.3
Overall	68.8	68.6	68.3	68.5	67.5	66.2
Female						
15-24	41.4	41.9	41.5	41.1	40.8	37.1
of which:						
15-19	*12.8*	*12.3*	*11.8*	*12.0*	*11.7*	*7.3*
20-24	*63.6*	*63.6*	*61.8*	*60.4*	*60.2*	*57.8*
25-29	85.7	86.2	86.5	86.6	87.2	86.7
30-39	78.4	78.0	79.0	79.3	78.9	78.6
40-49	73.7	73.4	73.8	74.1	73.4	73.2
50-59	58.3	59.7	60.4	61.5	62.2	62.5
≥ 60	11.4	12.3	13.7	14.5	15.5	15.5
Overall	54.7	54.8	55.1	55.1	55.0	54.1
Both genders combined						
15-24	40.2	40.7	39.8	40.2	40.2	36.4
of which:						
15-19	*12.3*	*12.6*	*10.8*	*11.2*	*11.6*	*7.2*
20-24	*62.8*	*62.2*	*60.5*	*60.3*	*60.0*	*57.2*
25-29	89.2	89.2	89.3	89.5	89.1	88.4
30-39	85.7	85.4	86.0	86.1	85.7	85.2
40-49	82.7	82.4	82.6	82.7	81.8	81.5
50-59	71.8	72.2	72.7	73.2	72.7	72.4
≥ 60	19.6	20.7	21.7	22.9	23.3	23.0
Overall	61.1	61.1	61.1	61.2	60.6	59.5

Note : # Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

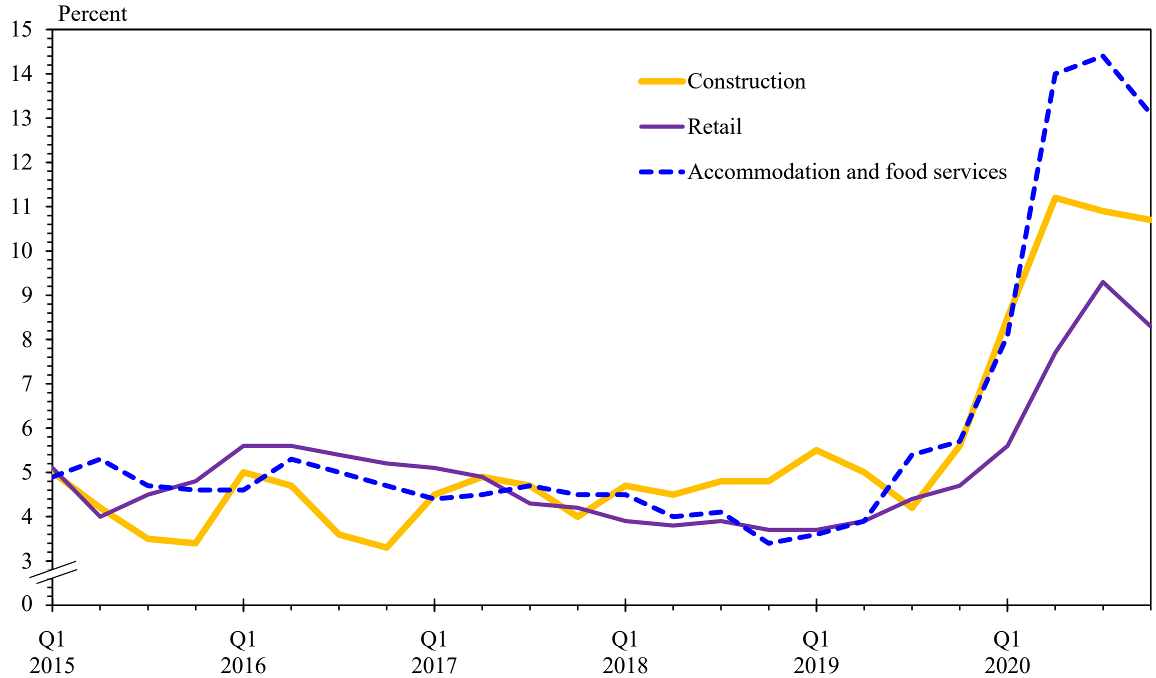
6.4 The unemployment situation deteriorated sharply in 2020. The *seasonally adjusted unemployment rate*(6) surged to 4.2% in the first quarter, and further to 6.2% in the second quarter, 6.4% in the third quarter and 6.6% in the fourth quarter, the highest in 16 years. For 2020 as a whole, the unemployment rate averaged 5.9%, 3.0 percentage points higher than in 2019, and the average number of unemployed persons increased sharply by 110 900 to 227 100.

6.5 Comparing 2020 with 2019, all major sectors recorded increases in unemployment rate. Being hard hit by the fallout from the epidemic, the unemployment rate of the retail, accommodation and food services sectors combined surged by 5.6 percentage points to an average of 10.0% in 2020, an annual high since the SARS episode in 2003. Among these sectors, the unemployment rate of the food and beverage service activities sector went up significantly by 8.1 percentage points to an average of 13.1% in 2020, also a post-SARS annual high. The unemployment rate of the construction sector soared by 5.2 percentage points to an average of 10.3%, as construction activity slowed. Meanwhile, unemployment rates of other sectors went up by varying degrees, with particularly sharp increases in arts, entertainment and recreation (up by 6.6 percentage points over a year earlier to 9.0%), warehousing and support activities for transportation (up by 3.8 percentage points over a year earlier to 6.8%), and transportation (up by 3.1 percentage points over a year earlier to 5.2%). For the *low-paying sectors*(7) as a whole, the unemployment rate went up by 3.0 percentage points to 5.7%.

6.6 Analysed by skill segment, the annual unemployment rate of the lower-skilled workers soared by 3.6 percentage points to 6.6% in 2020 and that of the higher-skilled segment rose by 1.7 percentage points to 3.6%. Among the unemployed persons, while the lower-skilled workers accounted for the majority, the share of the higher-skilled workers increased in the latter part of the year. Increases in unemployment rate were witnessed across all age groups. The most distinct increase was for those aged 15-24, with the annual unemployment rate surging by 7.1 percentage points to a record annual high of 15.6% (See ***Box 6.1*** for a brief analysis on employment situation of fresh graduates and school leavers in economic downturns). The annual unemployment rate for persons aged 25-29 (up by 3.5 percentage points to 7.2%) and persons aged 50-59 (up by 3.4 percentage points to 6.1%) also saw sharp increases. Meanwhile, visible increases in annual unemployment rate were seen across all levels of educational attainment.

6.7 Comparing the latest situation in the fourth quarter of 2020 with a year earlier, all major sectors registered visible increases in unemployment rate (not seasonally adjusted), particularly for arts, entertainment and recreation (up by 6.9 percentage points to 9.0%), retail, accommodation and food services (up by 5.4 percentage points to 10.6%), construction (up by 5.1 percentage points to 10.7%), transportation (up by 4.7 percentage points to 6.7%), and warehousing and support activities for transportation (up by 4.0 percentage points to 7.5%). Analysed by skill segment, the unemployment rate of the lower-skilled segment soared by 3.6 percentage points to 6.9%, and that of the higher-skilled segment increased visibly by 2.4 percentage points to 4.3%. Analysed by age, the unemployment rate among persons aged 15-24 saw the most distinct increase (up by 7.7 percentage points to 17.2%), and those among persons aged 25-29 (up by 3.9 percentage points to 7.8%) and persons aged 50-59 (up by 3.6 percentage points to 6.7%) were also sharp. As for educational attainment, sizable increases in unemployment rate were seen for those with lower secondary education (up by 5.0 percentage points to 9.0%) and upper secondary education (up by 3.6 percentage points to 6.3%).

Diagram 6.3 : All major sectors recorded increases in unemployment rate in 2020, especially for the retail, accommodation and food services sectors and the construction sector



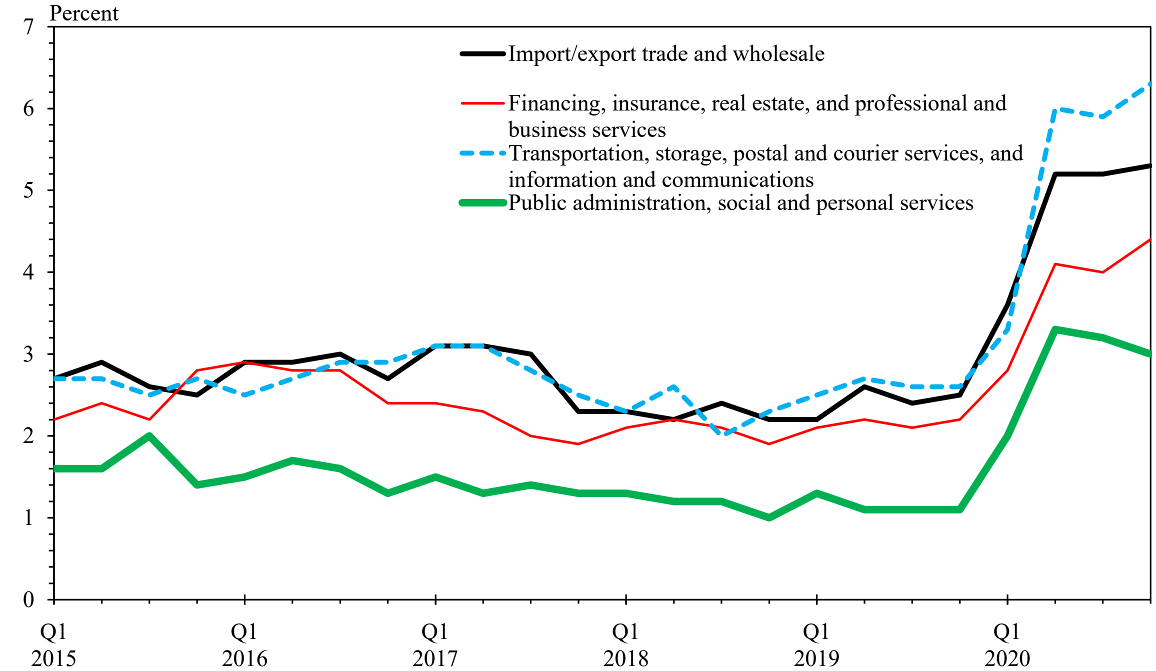


Table 6.4 : Unemployment rates by major economic sector

	2019					2020				
	Annual	Q1	Q2	Q3	Q4	Annual#	Q1	Q2	Q3	Q4
Import/export trade and wholesale	2.4	2.2	2.6	2.4	2.5	4.8	3.6	5.2	5.2	5.3
Retail	4.2	3.7	3.9	4.4	4.7	7.7	5.6	7.7	9.3	8.3
Accommodation and food services	4.6	3.6	3.9	5.4	5.7	12.4	8.1	14.0	14.4	13.1
Transportation, storage, postal and courier services	2.3	2.4	2.4	2.3	2.3	5.5	3.3	6.1	6.1	6.8
Information and communications	3.3	2.7	3.5	3.2	3.3	5.1	3.5	5.8	5.5	5.4
Financing and insurance	1.8	1.7	2.0	1.8	1.8	2.8	2.4	3.0	2.8	3.2
Real estate	1.9	2.0	1.9	1.8	1.8	3.4	2.4	3.2	4.0	3.8
Professional and business services	2.5	2.5	2.6	2.5	2.6	4.7	3.3	5.2	4.9	5.5
Public administration, social and personal services	1.2	1.3	1.1	1.1	1.1	2.9	2.0	3.3	3.2	3.0
Manufacturing	3.1	3.1	3.0	3.5	3.2	6.2	5.8	6.3	6.5	6.0
Construction	5.1	5.5	5.0	4.2	5.6	10.3	8.5	11.2	10.9	10.7
Overall*	2.9	2.8 (2.8)	2.9 (2.8)	3.0 (2.9)	3.1 (3.3)	5.9	4.2 (4.2)	6.2 (6.2)	6.7 (6.4)	6.3 (6.6)

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

( ) Seasonally adjusted unemployment rates.

\# Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Diagram 6.4 : The lower-skilled workers were more severely hit in 2020

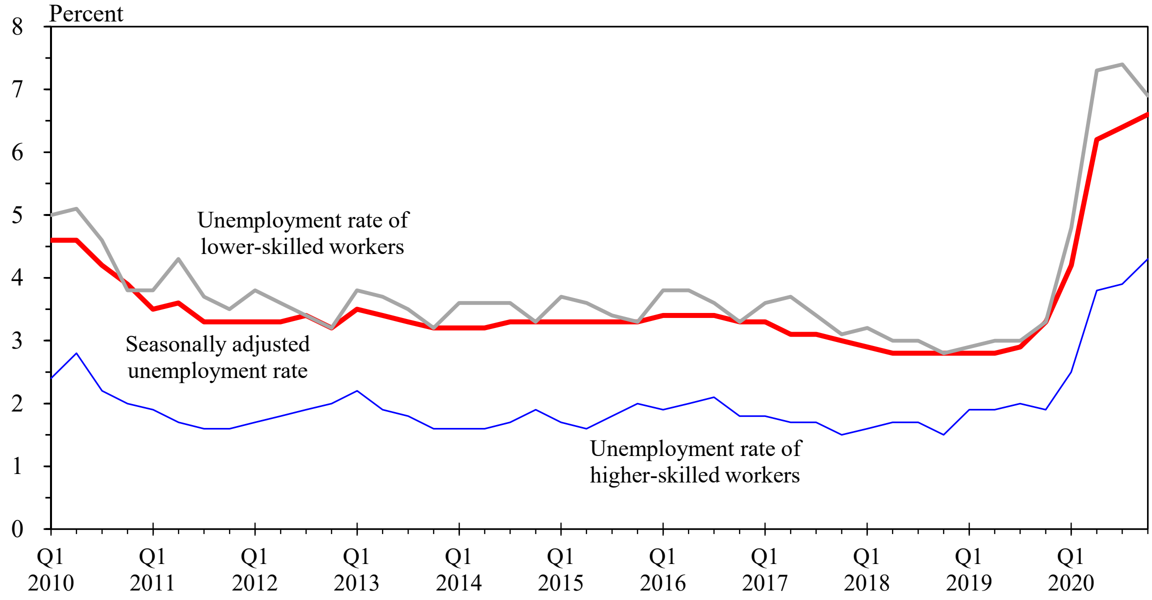


Table 6.5 : Unemployment rates* by skill segment

	2019					2020				
	Annual	Q1	Q2	Q3	Q4	Annual#	Q1	Q2	Q3	Q4
Higher-skilled segment	1.9	1.9	1.9	2.0	1.9	3.6	2.5	3.8	3.9	4.3
Managers and administrators	1.6	1.4	1.6	1.7	1.4	2.7	1.7	3.0	2.5	3.5
Professionals	1.5	1.6	1.7	1.1	1.4	2.3	1.5	2.1	2.7	2.7
Associate professionals	2.3	2.4	2.2	2.4	2.4	4.5	3.3	4.8	4.9	5.2
Lower-skilled segment^	3.0	2.9	3.0	3.0	3.3	6.6	4.8	7.3	7.4	6.9
Clerical support workers	2.6	2.2	2.8	2.6	2.7	5.4	3.8	5.8	6.5	5.7
Service and sales workers	3.7	3.2	3.4	4.1	4.0	9.3	6.5	10.7	10.4	9.7
Craft and related workers	4.9	4.7	4.7	4.6	5.7	10.3	9.3	11.2	10.0	10.6
Plant and machine operators and assemblers	2.1	2.4	1.7	2.1	2.4	5.1	3.7	5.7	5.7	5.4
Elementary occupations	2.5	2.8	2.5	2.0	2.6	4.4	3.1	4.7	5.2	4.7

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

^ Including other occupations.

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Table 6.6 : Unemployment rates* by age and educational attainment

	2019					2020				
	Annual	Q1	Q2	Q3	Q4	Annual#	Q1	Q2	Q3	Q4
Age										
15-24	8.5	7.0	7.9	10.1	9.5	15.6	10.0	14.6	20.6	17.2
of which:										
15-19	*10.0*	*7.5*	*10.2*	*12.1*	*10.2*	*18.8*	*12.9*	*18.8*	*25.2*	*17.6*
20-24	*8.3*	*6.9*	*7.5*	*9.8*	*9.4*	*15.3*	*9.8*	*14.3*	*20.1*	*17.1*
25-29	3.7	3.9	3.9	3.7	3.9	7.2	5.1	7.8	7.9	7.8
30-39	2.1	1.9	2.0	2.3	2.1	4.2	3.0	4.6	4.7	4.4
40-49	2.3	2.2	2.4	2.1	2.3	4.7	3.8	4.9	5.0	5.0
50-59	2.7	2.6	2.7	2.6	3.1	6.1	4.0	6.8	6.9	6.7
≥ 60	2.4	2.4	2.1	2.2	2.7	5.1	3.8	5.9	5.3	5.4
Educational attainment										
Primary education and below	2.8	2.7	2.4	2.4	3.8	6.2	4.2	7.4	7.1	5.9
Lower secondary education	3.9	3.9	3.9	3.6	4.0	7.9	5.8	8.8	8.1	9.0
Upper secondary education^	2.7	2.5	2.7	2.8	2.7	5.9	4.3	6.5	6.6	6.3
Post-secondary education	2.9	2.6	2.7	3.1	3.1	5.1	3.6	5.0	6.3	5.6

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

^ Including craft courses.

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

6.8 All indicators for the intensity of unemployment worsened considerably in 2020. The long-term unemployment rate (i.e. the proportion of persons unemployed for six months or longer in the labour force) increased visibly to 2.6% in the fourth quarter of 2020, giving an annual average of 1.8% for 2020 as a whole, the highest in 16 years and 1.2 percentage points higher than in 2019. The number of long-term unemployed persons amounted to 101 400 in the fourth quarter of 2020, and its share in total unemployment surged by 19.1 percentage points over a year earlier to 41.2% in the fourth quarter of 2020. Over the same period, the median duration of unemployment lengthened by 72 days to a record high of 136 days, and 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) surged by 10.9 percentage points to 53.3%.

Profile of underemployment

6.9 The underemployment situation deteriorated sharply in 2020. The underemployment rate averaged 3.3% to reach a 16-year high in 2020, 2.2 percentage points higher than in 2019, and the average number of underemployed persons rose sharply by 85 100 to 127 100. On the quarterly profile, the underemployment rate soared to a post-SARS high of 3.8% in the third quarter, and stayed elevated at 3.4% in the fourth quarter. All major sectors saw increases in underemployment rate in 2020 as compared with 2019. The underemployment rate of the retail, accommodation and food services sectors combined surged by 4.3 percentage points to a record annual high of 5.4% in 2020. Among these sectors, the underemployment rate of the food and beverage service activities sector surged by 6.2 percentage points to 7.5%. Meanwhile, sharp increases were also recorded in the underemployment rates of the decoration, repair and maintenance for buildings sector (up by 7.3 percentage points to 14.3%), the transportation sector (up by 5.6 percentage points to 7.2%), the arts, entertainment and recreation sector (up by 3.9 percentage points to 6.0%), and the education sector (up by 2.8 percentage points to 3.8%). Analysed by skill segment, the annual underemployment rate of the lower-skilled segment surged by 2.9 percentage points to 4.4%, and that of the higher-skilled segment rose visibly by 1.4 percentage points to 1.8%.

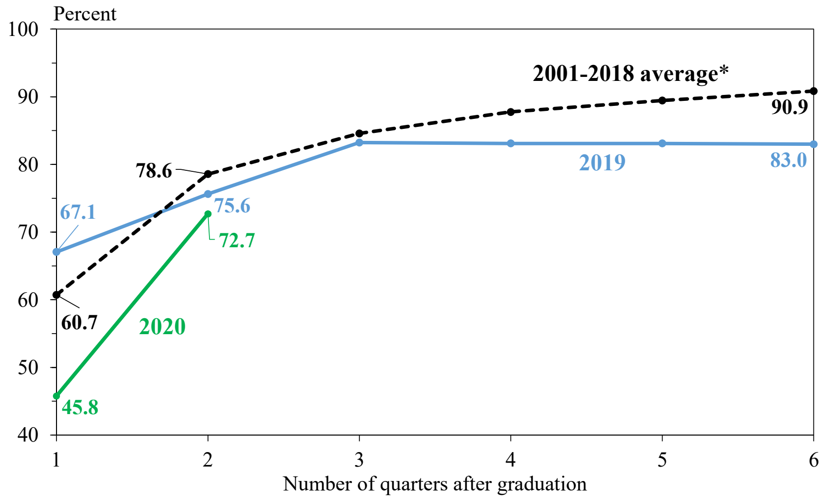
Box 6.1

Employment situation of fresh graduates and school leavers in economic downturns

The unemployment situation of youth deteriorated rapidly in the current economic downturn. The unemployment rate among youth aged 15-24 hit a record high of 20.6% in the third quarter of 2020, with the number of unemployed being as high as 50 100. Their latest unemployment rate remained elevated at 17.2% in the fourth quarter of 2020, with the number of unemployed staying high at 40 800. Among the youths, the unemployment situation of fresh graduates and school leavers (referred to as fresh graduates in this article for brevity) was particularly severe. Among the 40 800 unemployed youths in the fourth quarter of 2020, close to 50% or 19 800 were those who graduated or left schools in 2019 or 2020. These recent fresh graduates were disproportionately hard hit by the recession considering that they constituted around 37% of the youth labour force. This article gives a review on the employment situation of recent fresh graduates in the current downturn, and compares it with the situations in the previous downturns.

Fresh graduates typically need more time to find jobs, as they lack working experiences and are often unfamiliar with the job-hunting process. ***Chart 1*** shows the long-term average of the employment situation of various batches of fresh graduates(1) in those years in the past two decades when the economy was not in a downturn(2). On average, only 60.7% of those who opted to enter the labour market were employed in the first quarter after graduation(3) (implying an unemployment rate of 39.3%). Nonetheless, the proportion of fresh graduates being employed increased gradually in the ensuing quarters after graduation. By the sixth quarter after graduation, the employment rate averaged 90.9%, though their unemployment rate was still higher than that of the overall labour force(4).

Chart 1: Employment rates# of fresh graduates and school leavers



Notes: (#) Employment rate refers to the proportion of employed persons in the labour force in respect of those fresh graduates aged 15-25.

(*) Excluding those graduated in 2003, 2008 and 2009.

Source: GHS, C&SD.

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(1) Refer to different cohorts of fresh graduates aged 15-25.

(2) The years of graduation refer to the years from 2001 to 2018, excluding 2003, 2008 and 2009. Since C&SD started collecting information on the year of graduation in 2001, relevant statistics are only available from 2001 onwards.

(3) As students in Hong Kong normally complete their study around mid-year, the third quarter of their year of graduation is taken approximately as the first quarter immediately after their graduation.

(4) The implied unemployment rate of 9.1% among these fresh graduates was still visibly higher than the long-term average of the overall annual unemployment rate between 2001 and 2018 (excluding 2003, 2008 and 2009), which was 4.3%.

Box 6.1 (Cont'd)

Employment situation of fresh graduates in the current downturn

Considering that it is more difficult for fresh graduates to find employment as compared to others even at times when the economy is in a normal state, it is conceivable that their employment situation would be hit particularly hard during downturns. The situation in the current downturn is taken as an illustration. Although the economy has already entered recession, the employment rate of fresh graduates in 2019 in the first quarter after graduation (i.e. in the third quarter of 2019) was relatively high at 67.1%, 6.4 percentage points above the corresponding long-term average. Conceivably, it was because many of them were already hired in the first half of 2019, when the labour market was still very tight with the overall seasonally adjusted unemployment rate at the lowest level in more than two decades(5). As the recession deepened, the employment rate of these fresh graduates in the ensuing quarters became lower than the corresponding long-term average at the same time points after graduation (***Chart 1***), and the gap gradually widened. Specifically, among the fresh graduates in 2019, only 83.0% of those who entered the labour market were employed one and a half years after graduation (i.e. in the fourth quarter of 2020), lower than the corresponding long-term average of 90.9% by close to 8 percentage points.

The latest batch of fresh graduates in 2020 suffered an even more severe blow, as they faced an austere labour market at the time of their graduation. Only 45.8% of those who were in the labour force were employed in the first quarter after graduation (i.e. in the third quarter of 2020), the lowest since relevant figures were available. Although more of the fresh graduates in 2020 managed to find jobs by the second quarter after their graduation, the employment rate remained low at 72.7%, being 5.9 percentage points below the corresponding long-term average (***Chart 1***).

Employment situations of fresh graduates in the previous downturns

The downturn due to SARS in 2003 was short. The economy only experienced two quarters of quarter-to-quarter contraction in the first half of 2003 and then began to rebound in the second half. Against this backdrop, the labour market started to improve more notably towards the end of 2003, with the overall seasonally adjusted unemployment rate dropping from the historic high of 8.5% in the second quarter to 7.5% in the fourth quarter. Hence, while those fresh graduates in 2003 had an employment rate of just 48.8% in the first quarter after graduation (i.e. the third quarter of 2003), which was the second lowest on record, their employment rate increased sizably in the second quarter after graduation and rose steadily further in the ensuring quarters, though still slightly below the corresponding long-term average at the same time points after graduation (***Chart 2(a)***).

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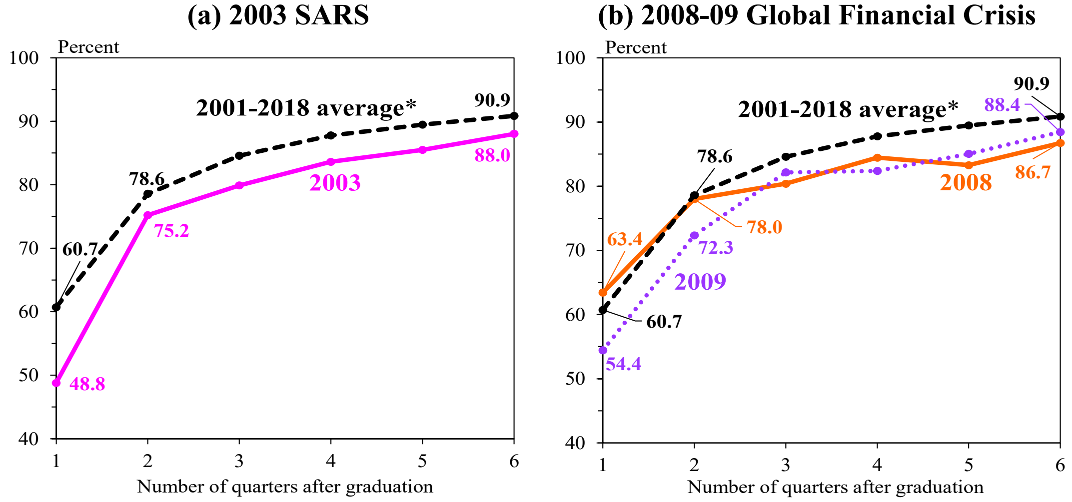
(5) Even in the third quarter of 2019 when the overall seasonally adjusted unemployment rate began to increase, it was still at a rather low level of 2.9%, just 0.1 percentage point higher than the 2.8% in the first half of 2019.

Box 6.1 (Cont'd)

Chart 2: Employment rates of fresh graduates and school leavers in previous downturns



Note: (*) Excluding those graduated in 2003, 2008 and 2009.

Source: GHS, C&SD.

The employment situation of those fresh graduates in 2008 and 2009 likewise suffered during the global financial crisis (GFC) which started near the end of 2008. Understandably, the timing when they were hit in terms of the number of quarters after graduation differed from those hit by the downturn in 2003. For those fresh graduates in 2008, the employment rate in the first and second quarters after graduation (i.e. the third and fourth quarters of 2008) was roughly on par with or even slightly better than the corresponding long-term averages, as the overall labour market remained relatively tight(6) (***Chart 2(b)***). Yet, as the downturn dragged on and the labour market conditions deteriorated, the employment rate of those fresh graduates in 2008, though mildly increased as time went on, became lower than the corresponding long-term average at the same time points of graduation. As for those fresh graduates in 2009, their employment rate was lower than the corresponding long-term average in each of the six quarters after graduation. Nonetheless, as the economy and the overall labour market situation continued to improve in 2010(7), their employment rate increased to 88.4% in the sixth quarter after graduation (i.e. the fourth quarter of 2010), only slightly below the corresponding long-term average of 90.9%.

Concluding remarks

In view of the huge uncertainty surrounding the economic outlook amid the pandemic, hiring sentiments among employers are likely to remain cautious in the near term. The employment situation of fresh graduates, who lack working experiences and are thus often less competitive in the labour market, would still be subject to immense pressure going forward. As seen in the experiences in the previous two episodes of downturn, employment opportunities for fresh graduates should increase when the overall labour market eventually improves alongside the overall economy. Considering the current difficult situation faced by fresh graduates in finding employment, the Government has rolled out specific measures to assist them, including the creation of about 4 400 jobs dedicated for fresh graduates in the Job Creation Scheme under the Anti-epidemic Fund, and the launch of the Greater Bay Area Youth Employment Scheme in January 2021, which provides a total of 2 000 places for youths graduated from undergraduate programmes or above in 2019 to 2021.

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(6) The overall seasonally adjusted unemployment rate was at 3.5% and 4.1% respectively in the third and fourth quarters of 2008, below the long-term average of 4.3% (the long-term average also covers the years from 2001 to 2018, excluding 2003, 2008 and 2009).

(7) In particular, the overall seasonally adjusted unemployment rate declined to 3.9% in the fourth quarter of 2010, 1.1 percentage points lower than the 5.0% a year earlier.

Profile of employment in establishments

6.10 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available up to September 2020. Attempts have been made to bring the analysis more up-to-date by drawing reference to information from supplementary sources wherever possible.

6.11 Labour demand continued to slacken in September 2020. Overall private sector employment fell notably by 4.4% year-on-year in September 2020 to 2 706 900, though the rate of decline was somewhat narrower than that of 5.1% in June 2020 thanks largely to a lower base of comparison. Looking at individual sectors, employment in the consumption- and tourism-related sectors continued to fall visibly by 10.2% as business situation in these sectors remained austere. Employment in import/export trade and wholesale sector decreased sharply by 11.3%, continuing its longer-term downward trend and also affected by the weak trading environment especially in the first half of the year. Employment in many other sectors also fell by varying degrees. Nonetheless, employment in human health services, real estate, financing and insurance, and cleaning and similar services sectors increased, by 4.1%, 1.1%, 0.7% and 0.5% respectively. Analysed by establishment size, employment in *small and medium-sized enterprises (SMEs)*[(8)] decreased by 6.1% in September 2020 from a year earlier, larger than the decline of 3.1% in large enterprises. Taking the first three quarters of 2020 as a whole, private sector employment declined by 4.4%, larger than the decline of 0.9% in 2019.

Table 6.7 : Employment by major economic sector

	2019					2020		
	Annual average	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Import/export trade and wholesale	507 000	519 300	511 700	501 400	495 400	475 400	450 200	444 700
	(-5.5)	(-3.6)	(-4.8)	(-6.4)	(-7.3)	(-8.5)	(-12.0)	(-11.3)
Retail	268 000	272 600	271 200	267 000	261 100	254 900	249 400	249 800
	(-1.7)	(0.6)	(-0.3)	(-2.2)	(-4.8)	(-6.5)	(-8.1)	(-6.5)
Accommodation[(a)] and food services	286 000	294 000	293 500	280 800	275 800	259 500	248 700	242 000
	(-1.7)	(2.7)	(1.0)	(-4.2)	(-6.3)	(-11.7)	(-15.3)	(-13.8)
Transportation, storage, postal and courier services	180 400	180 700	180 300	180 400	180 200	177 300	176 100	175 000
	(0.3)	(0.8)	(0.3)	(0.2)	(§)	(-1.9)	(-2.3)	(-3.0)
Information and communications	110 600	110 600	110 900	110 400	110 300	109 700	110 800	110 300
	(1.9)	(3.4)	(2.5)	(1.2)	(0.3)	(-0.8)	(-0.2)	(-0.1)
Financing, insurance, real estate, professional and business services	760 400	759 000	760 700	761 000	760 800	758 800	759 900	764 600
	(1.7)	(2.2)	(2.2)	(1.6)	(0.9)	(§)	(-0.1)	(0.5)
Social and personal services	535 100	530 900	533 400	536 600	539 700	532 300	531 000	531 800
	(2.3)	(2.1)	(2.3)	(2.6)	(2.3)	(0.3)	(-0.5)	(-0.9)
Manufacturing	86 900	88 500	87 400	86 300	85 400	84 200	84 200	83 300
	(-3.5)	(-2.6)	(-2.7)	(-3.5)	(-5.2)	(-4.8)	(-3.7)	(-3.5)
Construction sites (covering manual workers only)	101 800	107 400	102 700	96 900	99 900	101 100	97 600	93 900
	(-9.0)	(-11.0)	(-11.5)	(-10.0)	(-3.0)	(-5.9)	(-4.9)	(-3.1)
All establishments surveyed in the private sector[(b)]	*2 847 600*	*2 874 300*	*2 863 700*	*2 832 300*	*2 820 000*	*2 764 300*	*2 719 000*	*2 706 900*
	(-0.9)	*(0.2)*	*(-0.3)*	*(-1.4)*	*(-2.1)*	*(-3.8)*	*(-5.1)*	*(-4.4)*
		<§>	*<-0.1>*	*<-1.2>*	*<-0.8>*	*<-1.8>*	*<-1.4>*	*<-0.5>*

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.

( ) % change over a year earlier.

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

§ Change less than 0.05%.

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

Vacancies

6.12 Amid weakened labour demand, the number of private sector job vacancies plunged by 38.3% from a year earlier to 38 910 in September 2020 though showed only a marginal decline of 0.6% from June on a seasonally adjusted comparison. Taking the first three quarters of 2020 as a whole, the number of private sector job vacancies fell by 44.3% from a year earlier, enlarged from the 13.5% decline in 2019.

6.13 All major economic sectors saw year-on-year declines in the number of vacancies in September 2020, especially for construction sites (covering manual workers only) (down 75.2%), arts, entertainment and recreation (down 73.1%), manufacturing (down 60.3%), import/export trade and wholesale (down 48.4%), retail, accommodation and food services (down 48.2%), transportation, storage, postal and courier services (down 45.0%), and professional and business services (excluding cleaning and similar services) (down 43.8%). In terms of occupational category, the numbers of vacancies in the lower-skilled and higher-skilled segments both went down markedly, by 44.5% and 28.1% respectively. Analysed by establishment size, the numbers of vacancies in large enterprises and SMEs dropped by 35.6% and 43.4% respectively.

6.14 Reflecting a slackened labour market, the ratio of job vacancies per 100 unemployed persons in September 2020, at 15, was substantially lower than the year-ago level of 53. Analysed by skill segment, the ratio in the higher-skilled segment declined sizably from 77 a year earlier to 28 in September 2020, and that in the lower-skilled segment from 56 to 13. Yet manpower shortage remained acute in the residential care and social work services sector, where the ratio was still above 100.

Table 6.8 : Vacancies by major economic sector

	Number of vacancies								
	2019					2020			Vacancy rate in Sep 2020 (%)
	Annual average	Mar	Jun	Sep	Dec	Mar	Jun	Sep	
Import/export trade and wholesale	6 050 (-19.3)	6 800 (-10.5)	6 470 (-16.9)	6 170 (-18.5)	4 760 (-32.3)	4 080 (-40.1)	3 670 (-43.3)	3 180 (-48.4)	0.7
Retail	6 710 (-18.4)	8 350 (2.9)	7 650 (-4.1)	5 970 (-25.5)	4 870 (-44.5)	3 050 (-63.5)	3 160 (-58.8)	3 140 (-47.3)	1.2
Accommodation[(a)] and food services	9 250 (-35.0)	14 700 (2.3)	11 190 (-22.1)	6 240 (-56.2)	4 860 (-65.0)	2 910 (-80.2)	2 840 (-74.6)	3 180 (-49.1)	1.3
Transportation, storage, postal and courier services	3 870 (-11.2)	4 780 (18.2)	4 090 (-12.2)	3 800 (-15.2)	2 820 (-33.8)	2 590 (-45.8)	2 280 (-44.2)	2 090 (-45.0)	1.2
Information and communications	2 850 (-4.4)	2 950 (-5.4)	3 040 (-6.3)	2 860 (2.6)	2 560 (-8.0)	2 190 (-25.6)	2 040 (-32.9)	1 740 (-39.4)	1.5
Financing, insurance, real estate, professional and business services	19 060 (-5.3)	20 570 (3.7)	20 130 (-0.1)	18 560 (-9.6)	16 990 (-14.9)	14 660 (-28.7)	12 360 (-38.6)	13 060 (-29.6)	1.7
Social and personal services	16 710 (-1.6)	17 860 (10.6)	17 220 (-0.2)	16 720 (-2.0)	15 060 (-13.9)	11 400 (-36.2)	11 650 (-32.3)	11 490 (-31.3)	2.1
Manufacturing	2 210 (-22.3)	2 490 (-4.6)	2 660 (-9.7)	1 910 (-34.0)	1 790 (-39.0)	760 (-69.6)	750 (-71.7)	760 (-60.3)	0.9
Construction sites (covering manual workers only)	680 (-2.9)	870 (2.0)	780 (33.6)	580 (12.0)	500 (-41.6)	500 (-42.6)	240 (-68.5)	140 (-75.2)	0.2
All establishments surveyed in the private sector[(b)]	*67 630 (-13.5)*	*79 580 (3.5) <-0.9>*	*73 460 (-7.2) <-7.0>*	*63 030 (-19.5) <-14.2>*	*54 430 (-30.4) <-12.0>*	*42 270 (-46.9) <-24.2>*	*39 120 (-46.7) <-6.9>*	*38 910 (-38.3) <-0.6>*	*1.4*

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

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

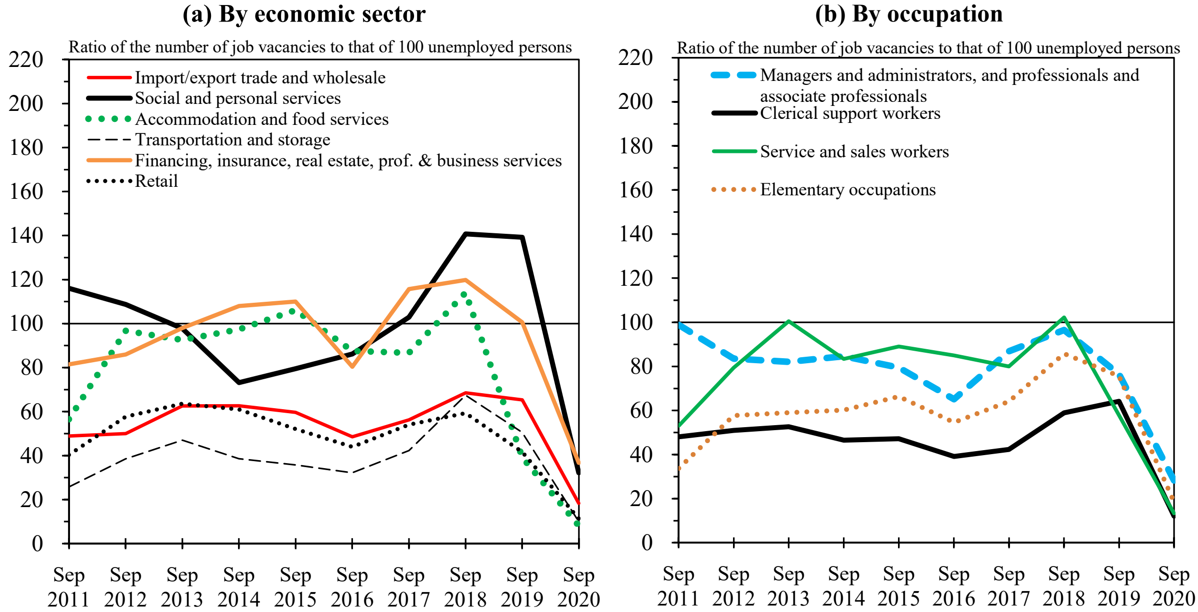
(b) The total figures on private sector vacancies cover also vacancies in mining and quarrying; and in electricity and gas supply, and waste management, besides vacancies in the major sectors indicated above.

( ) % change over a year earlier.

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

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

Diagram 6.5 : Manpower balance continued to slacken across major economic sectors and occupations in September 2020



6.15 The vacancy rate for private sector establishments, measured in terms of the number of job vacancies as a percentage of total employment opportunities, dropped by 0.8 percentage point from a year earlier to 1.4% in September 2020, though stayed unchanged from June 2020. All major sectors recorded lower vacancy rates compared with a year earlier, with visible declines observed in arts, entertainment and recreation, manufacturing, information and communications, and professional and business services (excluding cleaning and similar services).

6.16 Information on private sector job vacancies received by the Labour Department (LD) may provide some hints on the latest developments in the labour market. Such vacancies, at an average of 61 800 per month in the fourth quarter of 2020, plunged by 31% from a year earlier but went up marginally by 1% over the third quarter. Sharp year-on-year falls in vacancies were observed in most sectors.

Wages and earnings

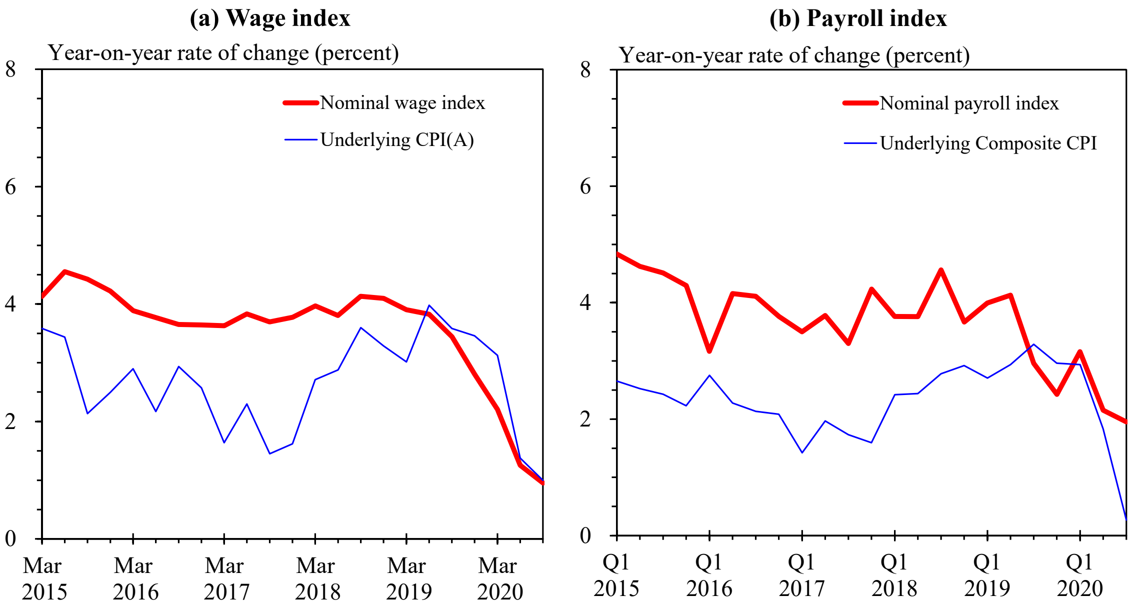
6.17 Overall wages and labour earnings continued to show year-on-year increases in nominal terms in the first three quarters of 2020, but at a decelerating pace. After increasing by 1.3% year-on-year in June 2020, the nominal *wage index* for all selected industry sections, which covers regular payment to employees at the supervisory level or below, went up by only 1.0% in September 2020 amid the difficult labour market conditions, the slowest in nearly 11 years. After discounting for inflation, overall wages increased visibly by 7.3% in real terms over a year earlier, due to the sharp decline in the headline Consumer Price Index (A) (CPI(A)) that reflected the effect of the Government's one-off relief measures in that month. For the first nine months of 2020 combined, overall nominal wages rose by 1.5% year-on-year, slower than the 3.5% growth registered for 2019 as a whole. After adjusting for headline inflation(9), wages rose by 2.5% in real terms in the first nine months of 2020 combined.

6.18 Analysed by sector and on a year-on-year comparison, nominal wages of the transportation sector switched from an increase of 0.6% in June 2020 to a decline of 1.7% in September 2020. Many other sectors saw decelerated growth in nominal wages as compared to June 2020, such as manufacturing (up 1.7%, slower than that of 2.0% in June 2020) and financial and insurance activities (up 2.2%, slower than that of 2.4% in June 2020). Some sectors saw the growth rates in nominal wages staying unchanged, as in accommodation and food service activities (up 0.9% in both June and September 2020), and personal services (up 0.6% in both June and September 2020). On the other hand, the professional and business services sector registered a slightly accelerated growth rate in nominal wages (up 1.4%, slightly faster than that of 1.2% in June 2020). Analysis by occupation, nominal wages for craftsmen saw an enlarged decline of 1.5% (from a marginal decline of 0.1% in June 2020). While nominal wages of all other selected occupations continued to increase on a year-on-year basis, those for operatives (up 0.7%, slower than that of 3.5% in June 2020) and supervisory and technical workers (up 0.3%, slower than that of 0.9% in June 2020) saw visible deceleration in their growth paces.

6.19 *Labour earnings*[10], 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, likewise saw its nominal year-on-year increase decelerate from 2.2% in the second quarter to 2.0% in the third quarter, the slowest in a decade. Taking the first three quarters of 2020 together, labour earnings increased by 2.4%, slower than the 3.4% gain recorded for 2019 as a whole. After adjusting for headline inflation, labour earnings grew by 1.8% in real terms in the first three quarters of 2020 combined.

6.20 Analysed by selected sectors and on a year-on-year comparison, labour earnings in transportation, storage, postal and courier services, accommodation and food service activities, and manufacturing saw enlarged declines of 5.4% 4.1% and 1.3% respectively in the third quarter of 2020 (larger than the corresponding declines of 3.9%, 2.7% and 0.9% in the second quarter of 2020). Labour earnings in retail trade switched from an increase of 0.2% in the second quarter to a decline of 0.3%. Many other major sectors saw decelerated growth in labour earnings. Nevertheless, the rates of increase in labour earnings in professional and business services, and social and personal services remained unchanged at 1.3% and 4.6% respectively, and labour earnings in sewerage, waste management and remediation activities recorded a slightly accelerated increase of 2.7% (faster than the 2.4% increase in the second quarter).

Diagram 6.6 : Wages grew at the slowest rate in nearly 11 years in September 2020; labour earnings also saw the slowest growth in a decade in the third quarter of 2020



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.

6.21 More recent statistics compiled from the GHS, though not strictly comparable to those from the business establishment surveys, suggested that earnings of low-income workers increased in 2020, yet the pace of year-on-year increase decelerated through the year. *Average monthly employment earnings*(11) of full-time employees (excluding foreign domestic helpers) of the lowest three decile groups combined increased by 1.8% year-on-year in nominal terms in the fourth quarter of 2020, slower than the 3.2% increase in the third quarter, though still faster than the inflation rate of 0.7% as measured by the underlying CPI(A). For 2020 as a whole, the increase averaged 3.4% in nominal terms, still faster than the inflation rate of 1.7% as measured by the underlying CPI(A). However, caution should be exercised when interpreting these earnings growth figures, as the job loss over the past year was more concentrated in the lower-paid segment, thereby distorting the year-on-year comparison of the average monthly employment earnings of the lower decile groups. Meanwhile, the median monthly household income (excluding foreign domestic helpers) recorded sharp falls throughout 2020, partly reflecting the decreased number of working members in households amid the sharp fall in total employment. It plunged by 7.3% year-on-year in nominal terms in the fourth quarter of 2020, though narrower than the decline of 8.2% in the third quarter. For 2020 as a whole, it declined sharply by 7.8%, switching from the 1.7% growth in 2019.

Highlights of labour-related measures and policy developments in 2020

6.22 In view of the economic downturn caused by the pandemic, the Government rolled out relief measures of unprecedented scale, including a host of measures to create and stabilise employment. In particular, the Government provided wage subsidies to qualified employers through the Employment Support Scheme, which covered the months from June to November 2020. A total of about $90 billion of wage subsidies were disbursed, benefitting around 150 600 employers and 1.95 million employees under the first tranche of the scheme (covering June to August 2020) and about 151 100 employers and 1.94 million employees under the second tranche (covering September to November 2020). In response to the fourth wave of local epidemic since the latter part of November 2020, the Government rolled out further targeted relief measures to support the hard hit sectors in December 2020.

6.23 Amid the threat of the local epidemic in 2020, LD cancelled many of its physical job fairs to reduce the risk of cross infections posed by the congregation of people. Nevertheless, LD introduced online job fairs and resumed full-scale recruitment activities in between the waves of outbreak to help job seekers look for jobs. Moreover, LD continued to provide employment and recruitment services through telephone and online platforms such as the Interactive Employment Service website throughout the epidemic.

6.24 LD raised the ceiling of the on-the-job (OJT) training allowance payable to employers under the Employment Programme for the Elderly and Middle-aged, the Youth Employment and Training Programme as well as the Work Orientation and Placement Scheme in September 2020, with a view to further encouraging employers to hire the elderly, young people and persons with disabilities. With the launching of the enhancement measures, employers engaging a job seeker under these three employment programmes would be entitled to an allowance of up to $60,000.

6.25 LD also launched a pilot scheme in September 2020 to offer a retention allowance to eligible elderly persons, young people and persons with disabilities engaged under the abovementioned employment programmes so as to encourage them to undergo and complete OJT, thereby stabilising employment. Subject to the length of the OJT period, the maximum amount of retention allowance that a full-time employee may receive is $12,000.

6.26 The Employees Retraining Board (ERB) launched the enhanced second tranche of the Love Upgrading Special Scheme on 1 July 2020 for participating trainees to choose their training course and receive allowance during the training period. The maximum amount of allowance per trainee was also substantially increased from $4,000 to $5,800 per month from May 2020. As announced by the Chief Executive in *the 2020 Policy Address* in November 2020, ERB launched the third tranche of the Special Scheme in January 2021, with the quota doubled from that under the second tranche to 20 000 training places, to provide further support to job seekers and employees affected by the economic downturn.

6.27 On completion of a new round of review on the Statutory Minimum Wage (SMW) rate, the Minimum Wage Commission (MWC) submitted its recommendation report to the Chief Executive (CE) in Council on 31 October 2020. The CE in Council has adopted the recommendation of MWC to maintain the prevailing SMW rate at $37.5 per hour.

6.28 The Employment (Amendment) Ordinance 2020 ("Amendment Ordinance"), which extends the statutory maternity leave (ML) under the Employment Ordinance (Cap. 57) by four weeks to a total of 14 weeks, took effect on 11 December 2020. The statutory rate of maternity leave pay (MLP) (i.e. four-fifths of the employee's average daily wages) is maintained for calculating the additional MLP payable in respect of the extension of the ML, subject to a cap of $80,000 per employee. Employers may apply to the Government for reimbursement of the additional MLP that is required to be paid and has been paid under the Amendment Ordinance.

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 2018 – January 2019 to October – December 2019 have been revised to take into account the final end-2019 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) Caution should be exercised when reading the seasonally adjusted unemployment rate, as the changes in the labour demand and supply patterns during the current public health crisis may not be adequately captured by the internationally accepted standard adjustment method. On an unadjusted basis, the overall unemployment rate increased from 4.2% in the first quarter of 2020 to 6.2% in the second quarter and further to 6.7% in the third quarter before easing to 6.3% in the fourth quarter.

(7) The low-paying sectors as identified by the fifth-term Minimum Wage Commission include:
(i) retail (including supermarkets and convenience stores, and other retail stores);
(ii) food and beverage services (including Chinese restaurants, non-Chinese restaurants, fast food cafes, Hong Kong style tea cafes, and other food and beverage services);
(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.

(8) Manufacturing enterprises which employ fewer than 100 persons and non-manufacturing enterprises which employ fewer than 50 persons are regarded as small and medium-sized enterprises (SMEs) in Hong Kong. Yet, establishments with the same business registration number and engaged in the same industry/services group are combined into one business unit (enterprise) 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 persons will be considered as a single large enterprise, instead of separate SMEs. An establishment is an economic unit which engages, under a single ownership or control, in one or predominantly one kind of economic activity at a single physical location (e.g. a branch or an outlet of a company).

(9) 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.

(10) 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.

(11) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.

CHAPTER 7 : PRICES

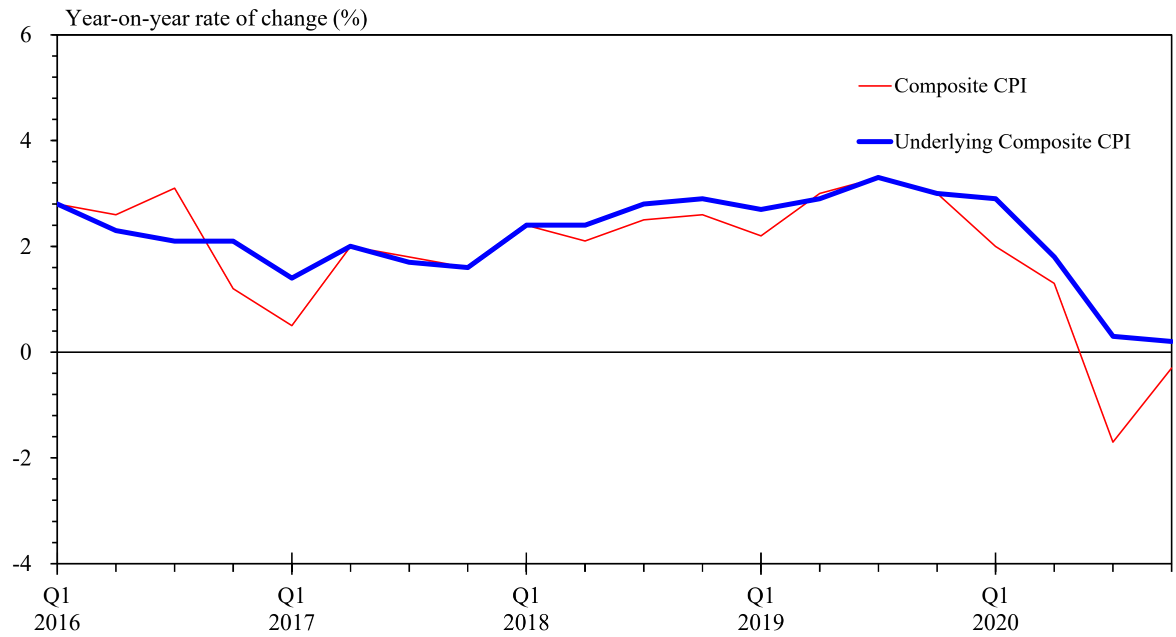
Summary

- *Consumer price inflation receded visibly in 2020, as price pressures on most goods and services eased amid austere global and local economic conditions. The moderated year-on-year increase in prices of basic foodstuffs in the second half of the year against a high base of comparison also contributed. The 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, eased from 3.0% in 2019 to 1.3% in 2020. The headline Composite CPI inflation rate went down even more, from 2.9% to 0.3%, helped by the implementation of additional one-off relief measures by the Government.*
- *Domestically, private housing rentals stayed on a decelerating trend through 2020 and showed mild year-on-year declines in the latter part of the year. As to cost pressures, wage growth decelerated to the slowest in more than a decade, while pressures on commercial rentals softened notably amid a weak economy.*
- *External price pressures were muted in 2020. With the global economy plunging into a deep recession in the first half of the year, inflation in many of our major import suppliers(2) decelerated and international energy prices registered a visible fall. Against this background, prices of merchandise imports turned to a modest decline for the year as a whole.*

Consumer prices

7.1 Consumer price inflation receded visibly in 2020, as price pressures on most goods and services eased amid austere global and local economic conditions. Domestically, among the major components of the underlying consumer price index, private housing rentals stayed on a decelerating trend through 2020 and showed mild declines in the latter part of the year, as the effect of easing fresh-letting residential rentals in the past year or so became more apparent. Food inflation also eased, as the increase in prices of basic foodstuffs moderated in the second half of the year against a high base of comparison, while prices of meals bought away from home saw a narrowed increase amid the local epidemic. As to business costs, wage growth decelerated to the slowest in over a decade, while pressures on commercial rental costs softened notably. Reportedly, some landlords of commercial properties provided temporary rental relief to alleviate the financial stress of their tenants amid the serious epidemic-induced disruptions to business. External price pressures were also muted in 2020. With the global economy plunging into a deep recession in the first half of the year, inflation rates in many of our key import sources decelerated and world energy prices recorded a visible fall. As a result, prices of merchandise imports turned to a modest decline in overall terms for the year as a whole.

Diagram 7.1: Underlying consumer price inflation receded visibly in 2020



Note : The year-on-year rates of change of the CPIs are computed from the 2014/15-based series.

7.2 Underlying consumer price inflation, in terms of the 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, receded visibly from 3.0% in 2019 to 1.3% in 2020. Quarterly figures showed that underlying inflation eased from 2.9% in the first quarter to 1.8% in the second quarter, and further to 0.3% and 0.2% in the third and fourth quarter respectively. The sharp deceleration in underlying inflation in the second half also partly reflected the visibly smaller increase in prices of basic foodstuffs, particularly pork, against a higher base of comparison. In parallel, the headline Composite CPI inflation rate went down from 2.9% in 2019 to 0.3% in 2020. The lower headline inflation rate as compared to its underlying counterpart in 2020 was mainly due to the Government's provision of additional electricity charges subsidy starting from January, the payment of one-month rentals for public housing tenants by the Government and the waiver of two-thirds of one-month rentals for tenants of Group B estates of the Hong Kong Housing Society in both January and July, and the waiver of one-month rentals for public housing tenants by the Hong Kong Housing Authority in September. The effects of these measures outweighed that of a lower ceiling of rates concession for each domestic rateable tenement in the first quarter of 2020 as compared to a year earlier.

Table 7.1 : Consumer Price Indices

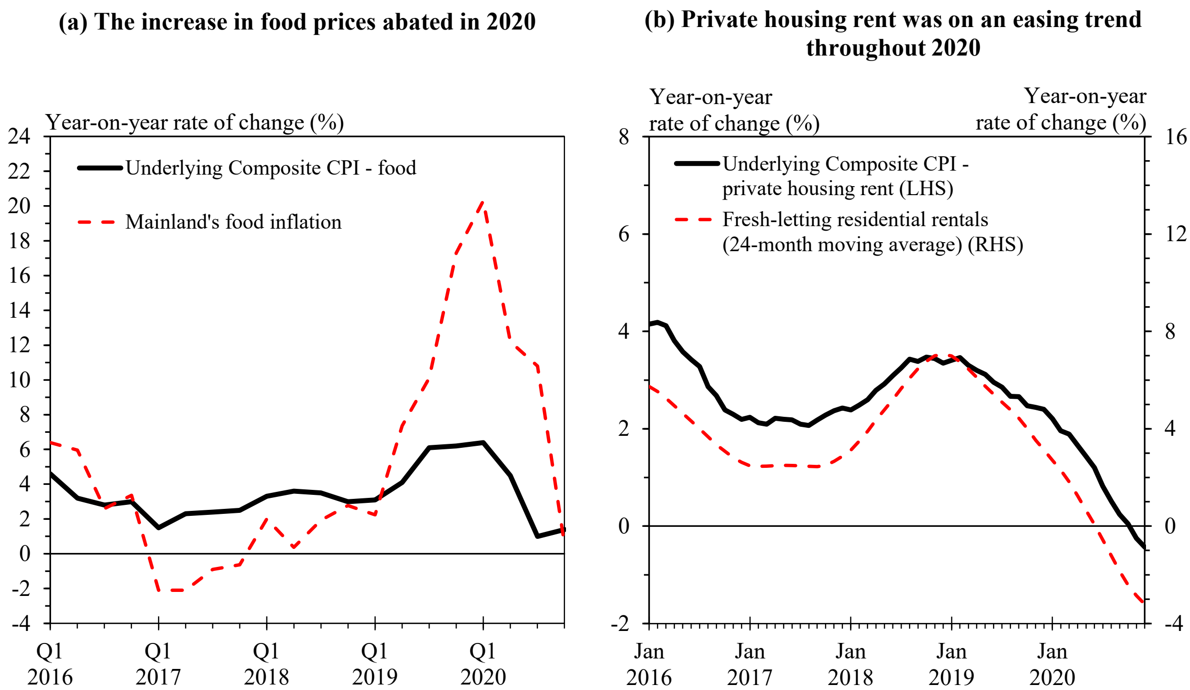
(year-on-year rate of change (%))

		Composite CPI		CPI(A)	CPI(B)	CPI(C)
		Underlying[(a)]	Headline			
2019	Annual	3.0	2.9	3.3	2.7	2.6
	H1	2.8	2.6	3.0	2.4	2.4
	H2	3.1	3.1	3.6	3.0	2.8
	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
	Q4	3.0	3.0	3.4	2.9	2.6
2020	Annual	1.3	0.3	-0.5	0.7	0.8
	H1	2.4	1.6	1.3	1.9	1.8
	H2	0.3	-1.0	-2.3	-0.5	-0.2
	Q1	2.9	2.0	1.1	2.4	2.4
	Q2	1.8	1.3	1.6	1.4	1.1
	Q3	0.3	-1.7	-4.2	-0.6	-0.1
	Q4	0.2	-0.3	-0.3	-0.5	-0.2
		(seasonally adjusted quarter-to-quarter rate of change (%))				
2019	Q1	0.5	0.4	0.4	0.4	0.4
	Q2	0.9	1.1	1.2	1.1	1.1
	Q3	1.0	1.0	1.4	0.9	0.7
	Q4	0.5	0.5	0.4	0.5	0.5
2020	Q1	0.5	-0.7	-2.0	-0.1	0.2
	Q2	-0.1	0.6	1.7	0.1	-0.2
	Q3	-0.6	-2.0	-4.3	-1.1	-0.5
	Q4	0.5	1.7	4.5	0.6	0.4

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

7.3 Price pressures on most major components of the underlying Composite CPI receded in 2020. The rise in food prices, the component with the largest weight other than housing, eased to 3.3%. Within food prices, the rise in prices of basic foodstuffs decelerated to 7.5%, as pork prices, though staying high, recorded a much lower year-on-year increase in the latter part of the year against a high base of comparison. Prices of meals bought away from home showed a narrowed increase of 0.8%, as business of restaurants was severely hit by the local epidemic and the resultant social distancing measures. As for housing, private housing rental component showed mild declines in the final two months of 2020 after increasing at a decelerated pace through the year, as the effect of softening fresh-letting residential rentals over the past year or so turned increasingly apparent. Meanwhile, the public housing rental component saw a smaller annual rise, notwithstanding the upward adjustment in public housing rentals in September. For other major components, the increase in prices of electricity, gas and water narrowed amid the plunge in international fuel prices. Prices of transport recorded a moderate fall mainly due to the extra MTR fare rebate starting from July. As business conditions of retail trade stayed difficult through 2020, prices of clothing and footwear fell visibly, while those of miscellaneous services rose at a slower pace. Prices of miscellaneous goods rose moderately, partly reflecting the pick-up in prices of jewellery amid a surge in gold prices. Prices of durable goods remained on a secular downtrend.

Diagram 7.2 : Food and private housing rental components of the underlying Composite CPI



Note : The year-on-year rates of change of the CPIs are computed from the 2014/15-based series.

Diagram 7.3 (a) : Price pressures on most major CPI components receded in 2020 amid subdued economic conditions

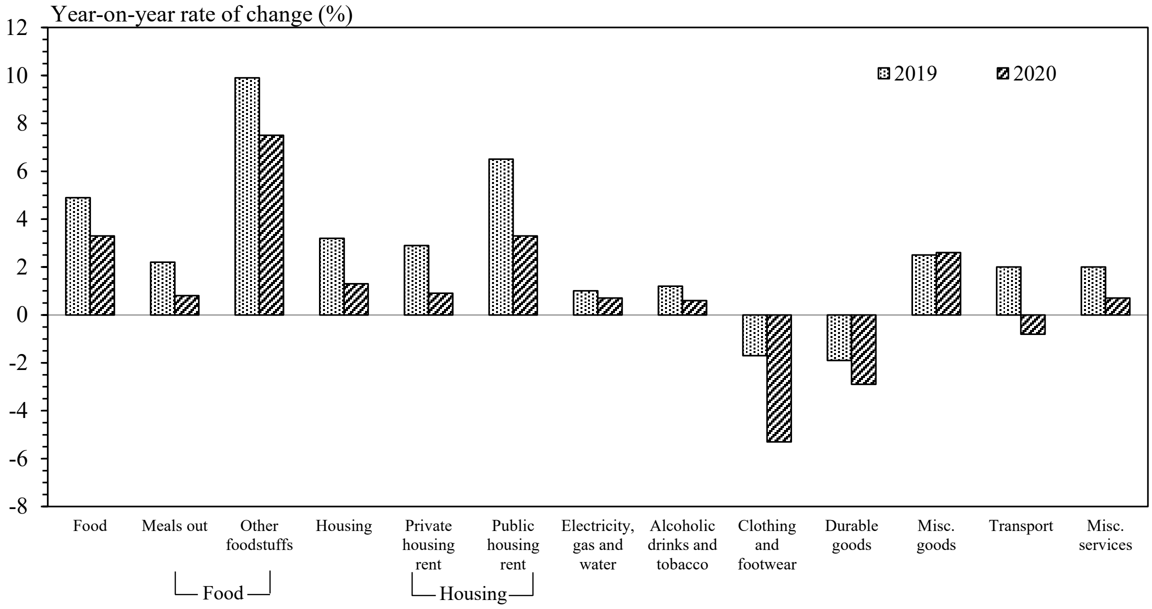
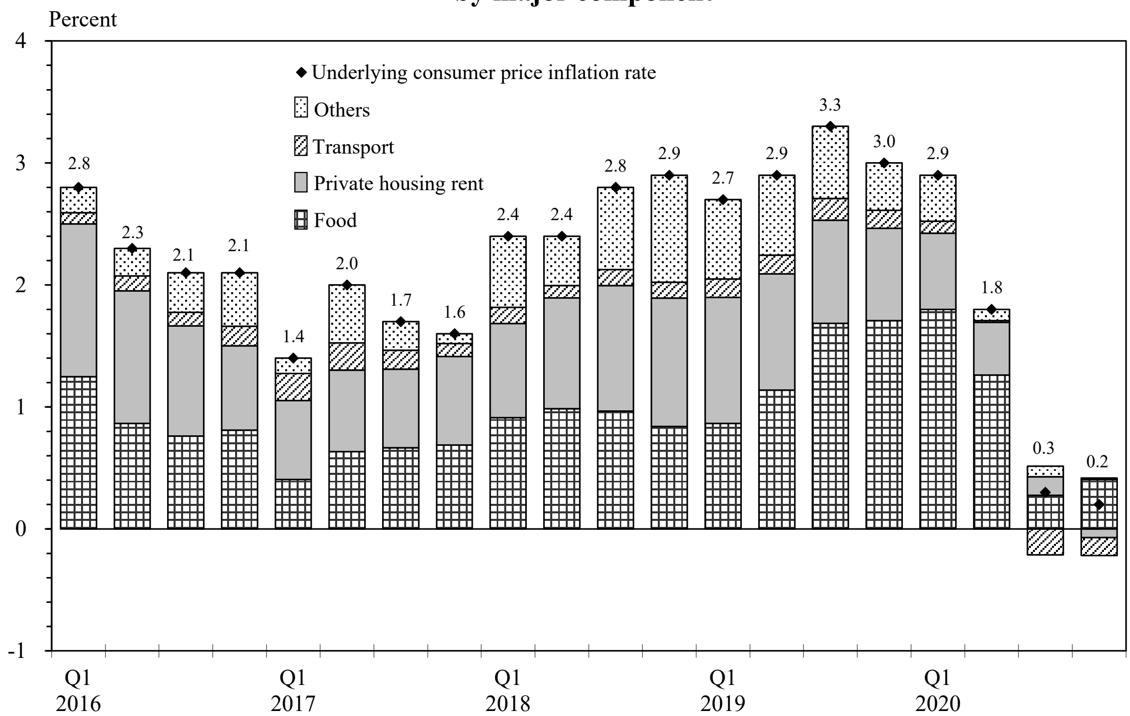


Diagram 7.3 (b) : Contribution to underlying consumer price inflation rate by major component



Note : The year-on-year rates of change of the CPIs are computed from the 2014/15-based series.

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

Expenditure component	Weighting (%)	2019	2020 Annual	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Food	27.29	4.9	3.3	6.4	4.5	1.0	1.4
Meals bought away from home	17.74	2.2	0.8	1.8	1.5	-0.6	0.6
Other foodstuffs	9.55	9.9	7.5	14.9	9.9	3.5	2.7
Housing[(a)]	34.29	3.2 (3.5)	1.3 (-0.1)	2.2 (0.7)	1.6 (1.6)	0.9 (-3.2)	0.6 (0.5)
Private housing rent	29.92	2.9 (3.1)	0.9 (1.1)	2.0 (2.7)	1.4 (1.4)	0.5 (0.5)	-0.2 (-0.2)
Public housing rent	1.94	6.5 (7.1)	3.3 (-21.0)	0.4 (-31.1)	0.2 (0.4)	3.3 (-61.7)	9.4 (8.3)
Electricity, gas and water	2.67	1.0 (-5.4)	0.7 (-19.6)	3.7 (-16.0)	0.8 (-19.0)	0.4 (-19.2)	-2.2 (-24.3)
Alcoholic drinks and tobacco	0.54	1.2	0.6	-0.3	0.3	1.1	1.2
Clothing and footwear	3.21	-1.7	-5.3	-4.2	-5.0	-6.4	-5.6
Durable goods	4.65	-1.9	-2.9	-2.5	-3.1	-3.5	-2.5
Miscellaneous goods	3.56	2.5	2.6	3.8	2.8	2.3	1.4
Transport	7.98	2.0	-0.8	1.2	0.2	-2.8	-1.9
Miscellaneous services	15.81	2.0 (2.0)	0.7 (0.7)	1.5 (1.5)	0.8 (0.8)	0.6 (0.6)	* (0.1)
All items	100.00	3.0 (2.9)	1.3 (0.3)	2.9 (2.0)	1.8 (1.3)	0.3 (-1.7)	0.2 (-0.3)

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.

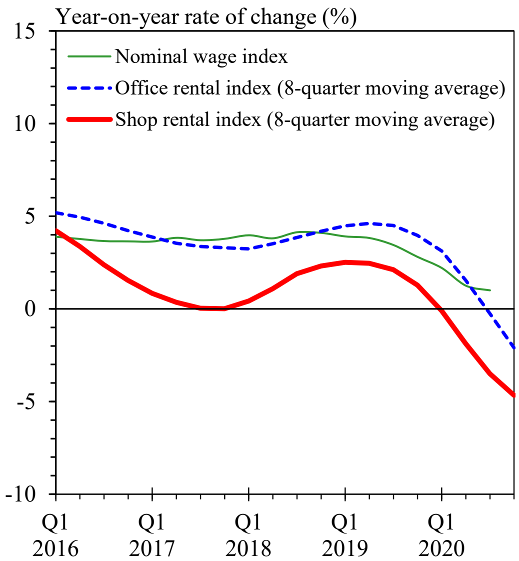
(*) Change within ±0.05%.

Costs of factor inputs and import prices

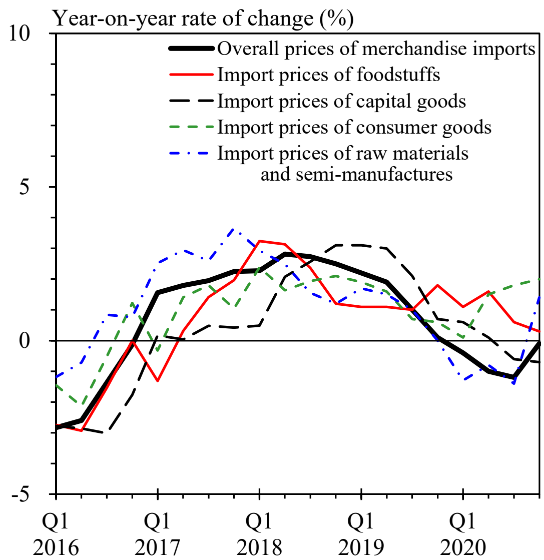
7.4 Domestic cost pressures abated notably through 2020. The increase in nominal wages decelerated to the slowest in over a decade amid the sharp deterioration of labour market conditions. Pressures on commercial rentals softened notably, especially in the second half of the year. As a proxy for the rental costs faced by businesses, the eight-quarter moving average of office rentals turned to a moderate fall of 2.1% in 2020, and that of shop rentals registered a more noticeable decline of 4.7%. Moreover, in view of the severe disruptions to business activities caused by the epidemic, some landlords of commercial properties reportedly provided tenants with temporary rental relief.

Diagram 7.4 : Domestic cost pressures abated notably in 2020; external price pressures were muted through the year

(a) Commercial rentals and labour cost



(b) Import prices by selected end-use category



7.5 External price pressures were muted during 2020. As the global economy plunged into a deep recession in the first half of the year and economic activity remained below the pre-pandemic level despite the subsequent recovery, inflation in many of our major import sources decelerated. Meanwhile, world energy prices were visibly lower than their year-ago levels. Against this backdrop, prices of merchandise imports on average saw a modest year-on-year decline of 0.7% in the first half of 2020 and continued to fall by 0.6% in the second half. For 2020 as a whole, prices of merchandise imports fell by 0.7%, as compared to the 1.3% rise in 2019. Among major end-use categories, import prices of fuels registered a notable fall of 27.7% in 2020 due to the sharp decline in international oil prices early in the year. Import prices of raw materials and semi-manufactures and capital goods fell modestly by 0.5% and 0.2% respectively. Meanwhile, import prices of foodstuffs posted a slower increase of 0.9% in 2020, while the rise in import prices of consumer goods stayed moderate at 1.5% despite edging up during the year.

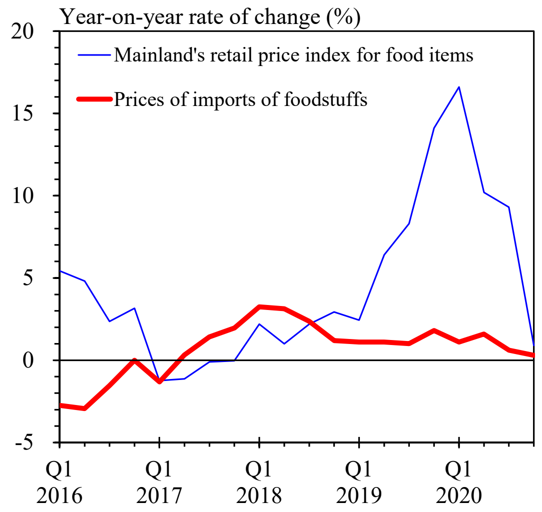
Table 7.3 : Prices of merchandise imports by end-use category
(year-on-year rate of change (%))

		Foodstuffs	Consumer goods	Raw materials and semi-manufactures	Fuels	Capital goods	All
2019	Annual	1.3	1.1	1.0	-5.9	2.1	1.3
	H1	1.1	1.7	1.6	-0.7	3.0	2.0
	H2	1.4	0.6	0.5	-10.7	1.3	0.5
	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
	Q4	1.8	0.6	*	-10.2	0.7	0.1
2020	Annual	0.9	1.5	-0.5	-27.7	-0.2	-0.7
	H1	1.4	0.8	-1.0	-23.8	0.3	-0.7
	H2	0.4	1.9	*	-32.0	-0.7	-0.6
	Q1	1.1	0.1	-1.3	-4.0	0.6	-0.4
	Q2	1.6	1.5	-0.8	-42.4	0.1	-1.0
	Q3	0.6	1.8	-1.4	-32.0	-0.6	-1.2
	Q4	0.3	2.0	1.4	-32.0	-0.7	-0.1

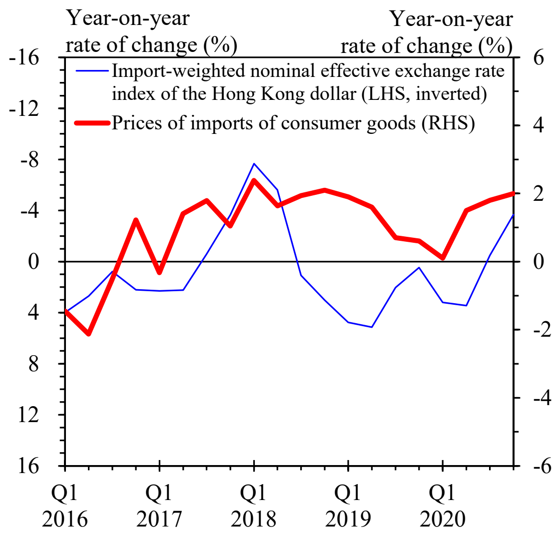
Note : (*) Change within ±0.05%.

Diagram 7.5: Prices of merchandise imports by end-use category

(a) Increase in import prices of foodstuffs eased

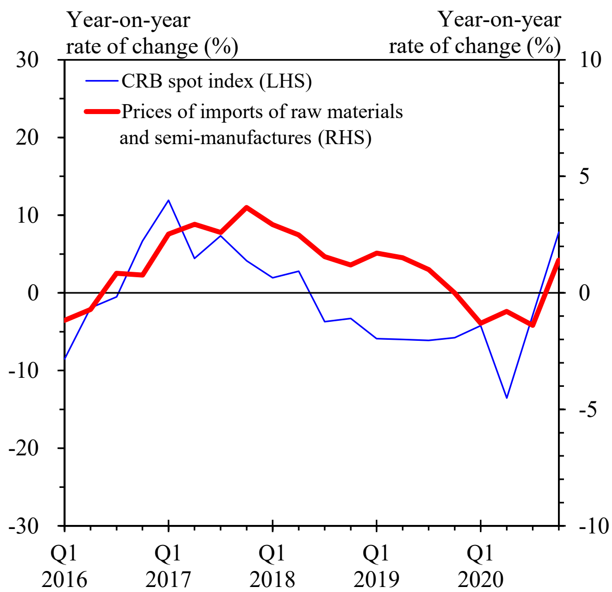


(b) Increase in import prices of consumer goods stayed moderate

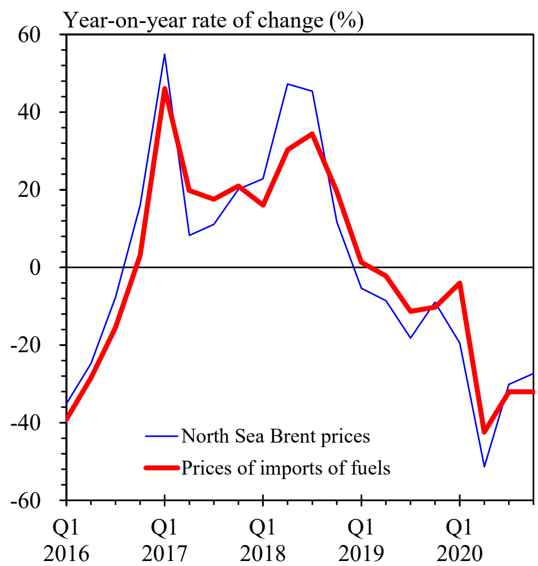


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Import prices of raw materials and semi-manufactures fell modestly



(d) Import prices of fuels registered a notable decline



Output prices

7.6 Output prices, as measured by the *Producer Price Indices*[3], showed mixed movements across various sectors in the first three quarters of 2020. For the manufacturing sector, output prices posted a faster albeit still moderate increase in the first three quarters combined. Among the selected service sectors, output prices for accommodation services were visibly lower than a year ago as inbound tourism was frozen. Meanwhile, output prices for air transport recorded a notable increase, as the air cargo capacity was severely constrained by pandemic-induced disruptions. Output prices for courier services and water transport increased moderately, while those for land transport turned to a decline. Separately, output prices for telecommunications services extended its secular downtrend, reflecting technological improvement and keen competition in the sector.

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

	2019					2020			
Industry group	Annual	Q1	Q2	Q3	Q4	Q1-Q3	Q1	Q2	Q3
Manufacturing	1.0	0.7	0.8	1.3	1.1	2.1	1.3	1.3	3.8
Selected service sectors[(a)]									
Accommodation services	-8.0	1.0	-1.5	-9.9	-20.4	-21.4	-23.4	-23.2	-17.7
Land transport	1.6	2.0	1.6	1.4	1.3	-4.3	-2.6	-3.0	-7.3
Water transport	-0.8	2.1	-1.4	0.6	-4.4	1.8	1.3	1.7	2.5
Air transport	-3.2	-0.7	-2.9	-3.8	-5.3	12.0	7.5	10.1	18.3
Telecommunications	-1.9	-2.6	-3.8	-2.2	0.9	-1.6	-2.4	-1.9	-0.6
Courier services	0.5	-4.9	0.5	3.1	3.7	3.8	1.8	-0.7	10.3

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

GDP deflator

7.7 As a broad measure of the overall change in prices in the economy, the increase in *GDP deflator*[4] eased from 2.4% in 2019 to 0.8% in 2020. Within the GDP deflator, the *terms of trade*[5] held virtually unchanged in 2020. Taking out the external trade components, the domestic demand deflator rose by 0.9% in 2020, down from the 2.8% increase in 2019.

Diagram 7.6: GDP deflator

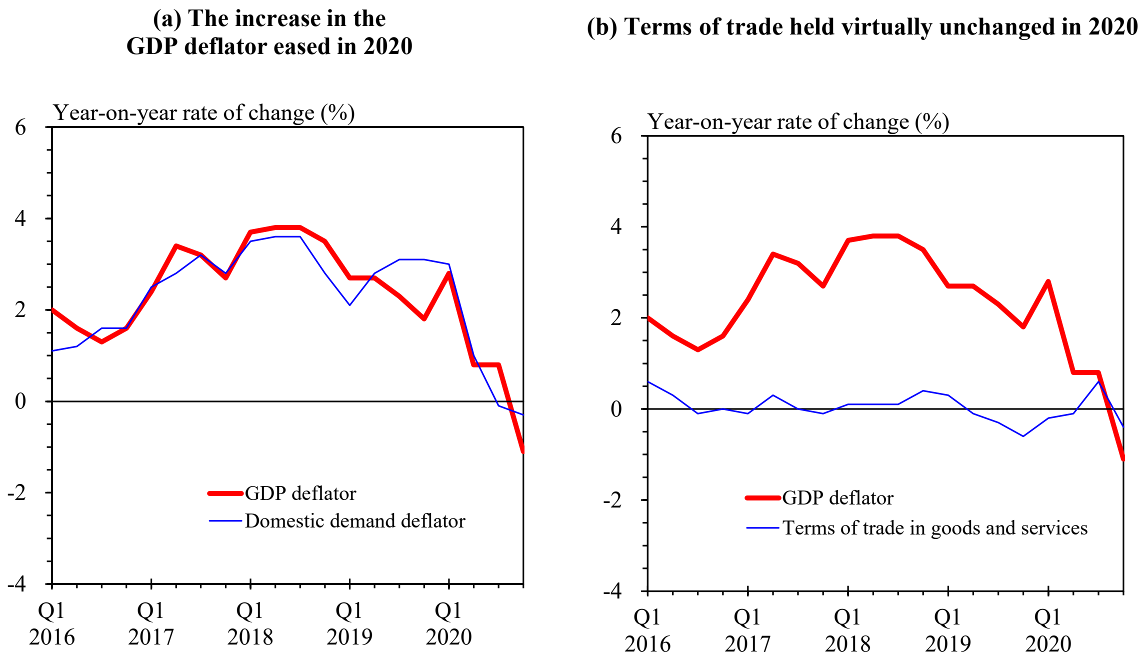


Table 7.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))

	2019					2020				
	Annual[#]	Q1[#]	Q2[#]	Q3[#]	Q4[#]	Annual[#]	Q1[#]	Q2[#]	Q3[#]	Q4[#]
Private consumption expenditure	2.7	2.0	2.7	3.1	3.2	0.7	2.9	1.0	-0.3	-0.9
Government consumption expenditure	4.5	4.2	4.6	4.7	4.4	2.7	5.6	2.1	1.7	1.4
Gross domestic fixed capital formation	1.9	1.4	2.5	2.2	1.7	-0.6	3.4	-1.5	-1.7	-2.6
Total exports of goods[&]	1.1	1.8	1.4	1.0	0.2	0.1	*	-0.1	0.1	0.1
Imports of goods[&]	1.3	1.6	1.7	1.3	0.7	*	0.5	-0.2	-0.6	0.5
Exports of services[&]	-0.4	1.0	-0.1	-1.1	-1.6	-1.3	-0.2	-4.0	-1.6	0.5
Imports of services[&]	-1.0	-1.5	-1.8	-0.9	0.1	-1.3	-2.2	-3.4	-1.7	1.9
Gross Domestic Product	**2.4**	**2.7** **<0.6>**	**2.7** **<0.8>**	**2.3** **<0.3>**	**1.8** **<0.2>**	**0.8**	**2.8** **<1.3>**	**0.8** **<-1.2>**	**0.8** **<0.5>**	**-1.1** **<-1.7>**
Total final demand[&]	1.5	1.8	1.7	1.5	1.1	0.3	1.2	0.1	-0.1	*
Domestic demand	2.8	2.1	2.8	3.1	3.1	0.9	3.0	1.0	-0.1	-0.3
Terms of trade in goods and services[&]	-0.2	0.3	-0.1	-0.3	-0.6	*	-0.2	-0.1	0.6	-0.4

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

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

(#) Revised figures.

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

(*) Change within ±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 households covered (%)	Average monthly expenditure range during Oct 2014 to Sep 2015 ($)
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:

Expenditure component	Composite CPI (%)	CPI(A) (%)	CPI(B) (%)	CPI(C) (%)
Food	27.29	34.37	26.26	20.85
Meals bought away from home	*17.74*	*20.99*	*17.88*	*13.98*
Other foodstuffs	*9.55*	*13.38*	*8.38*	*6.87*
Housing	34.29	33.77	35.24	33.60
Private housing rent	*29.92*	*26.51*	*32.15*	*30.72*
Public housing rent	*1.94*	*5.44*	*0.49*	--
Maintenance costs and other housing charges	*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.

	2019					2020				
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4
Selected developed economies										
US^	2.2	2.1	2.1	2.3	2.3	1.7	2.2	1.3	1.7	1.6
Canada	1.9	1.6	2.1	1.9	2.1	0.7	1.8	*	0.3	0.8
EU	1.4	1.5	1.6	1.2	1.3	0.7	1.5	0.6	0.5	0.2
Japan	0.5	0.3	0.8	0.3	0.5	*	0.5	0.1	0.2	-0.8
Selected major emerging economies										
Mainland China	2.9	1.8	2.6	2.9	4.3	2.5	5.0	2.7	2.3	0.1
Russia	4.5	5.2	5.0	4.3	3.4	3.4	2.4	3.1	3.5	4.4
India	3.7	2.5	3.1	3.5	5.8	6.6	6.7	6.6	6.9	6.4
Brazil	3.7	4.1	4.3	3.2	3.4	3.2	3.8	2.1	2.6	4.3
Selected Asian economies										
Hong Kong	2.9	2.2	3.0	3.3	3.0	0.3	2.0	1.3	-1.7	-0.3
Singapore	0.6	0.5	0.8	0.4	0.6	-0.2	0.4	-0.7	-0.3	-0.1
Taiwan	0.6	0.3	0.8	0.4	0.7	-0.2	0.5	-1.0	-0.5	*
Korea	0.4	0.5	0.7	*	0.3	0.5	1.2	-0.1	0.6	0.4
Malaysia	0.7	-0.3	0.6	1.3	1.0	-1.1	0.9	-2.6	-1.4	-1.5
Thailand	0.7	0.7	1.1	0.6	0.4	-0.8	0.4	-2.7	-0.7	-0.4
Indonesia	2.8	2.7	2.9	3.0	2.7	2.0	2.9	2.3	1.4	1.6
Philippines	2.5	3.8	3.0	1.7	1.5	2.6	2.7	2.3	2.5	3.1
Vietnam	2.8	2.6	2.7	2.2	3.7	3.2	5.6	2.8	3.2	1.4
Macao	2.8	2.9	2.7	2.7	2.7	0.8	2.6	1.6	*	-0.8

Notes: (*) Change within ±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

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

($Mn)

	2011	2012	2013	2014	2015	2016
Private consumption expenditure	1,224,402	1,314,969	1,413,058	1,502,768	1,593,091	1,649,941
Government consumption expenditure	168,517	185,310	198,572	214,216	231,263	247,973
Gross domestic fixed capital formation	455,294	517,411	515,516	530,916	537,205	535,216
Building and construction	179,341	204,860	211,130	244,047	262,780	283,447
Costs of ownership transfer	36,099	34,074	39,389	43,967	45,846	44,517
Machinery, equipment and intellectual property products	239,854	278,477	264,997	242,902	228,579	207,252
Changes in inventories	11,739	-3,662	-1,673	7,473	-20,580	447
Total exports of goods[&]	3,406,765	3,632,957	3,926,059	3,986,769	3,889,225	3,892,886
Imports of goods[&]	3,464,968	3,779,686	4,142,651	4,237,700	4,066,527	4,022,579
Exports of services[&]	710,716	764,026	812,640	829,085	808,948	764,660
Imports of services[&]	578,035	594,266	583,216	573,522	574,345	578,106
GDP	**1,934,430**	**2,037,059**	**2,138,305**	**2,260,005**	**2,398,280**	**2,490,438**
Per capita GDP ($)	***273,549***	***284,899***	***297,860***	***312,609***	***328,924***	***339,454***
GNI	**1,987,256**	**2,066,514**	**2,178,824**	**2,306,612**	**2,442,656**	**2,553,031**
Per capita GNI ($)	***281,019***	***289,019***	***303,504***	***319,056***	***335,010***	***347,986***
Total final demand	5,977,433	6,411,011	6,864,172	7,071,227	7,039,152	7,091,123
Total final demand excluding re-exports[(a)]	3,604,705	3,828,055	4,025,243	4,116,670	4,139,786	4,190,526
Domestic demand	1,859,952	2,014,028	2,125,473	2,255,373	2,340,979	2,433,577
Private	1,614,010	1,737,274	1,827,460	1,929,514	1,991,436	2,062,056
Public	245,942	276,754	298,013	325,859	349,543	371,521
External demand	4,117,481	4,396,983	4,738,699	4,815,854	4,698,173	4,657,546

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)

	2017	2018	2019#	2020#	2020 Q1#	Q2#	Q3#	Q4#
Private consumption expenditure	1,784,148	1,936,117	1,967,321	1,780,941	447,885	440,234	430,971	461,851
Government consumption expenditure	261,447	281,420	308,910	341,865	89,334	82,281	85,004	85,246
Gross domestic fixed capital formation	575,977	612,439	547,162	481,010	120,441	106,663	119,580	134,326
Building and construction	297,306	308,596	294,789	273,169	72,124	65,441	65,927	69,677
Costs of ownership transfer	65,810	67,482	50,020	41,878	7,469	10,384	11,623	12,402
Machinery, equipment and intellectual property products	212,861	236,361	202,353	165,963	40,848	30,838	42,030	52,247
Changes in inventories	10,973	11,204	-6,434	54,633	21,795	3,923	5,405	23,510
Total exports of goods&	4,212,774	4,453,350	4,292,589	4,282,293	901,776	1,000,437	1,158,835	1,221,245
Imports of goods&	4,391,306	4,706,347	4,418,627	4,329,068	950,767	1,020,663	1,128,070	1,229,568
Exports of services&	811,295	886,883	792,916	494,883	143,891	105,596	123,923	121,473
Imports of services&	605,924	639,947	618,178	395,827	112,770	81,824	96,846	104,387
GDP	**2,659,384**	**2,835,119**	**2,865,659**	**2,710,730**	**661,585**	**636,647**	**698,802**	**713,696**
Per capita GDP ($)	***359,780***	***380,502***	***381,711***	***362,310***	--	--	--	--
GNI	**2,774,936**	**2,969,934**	**3,009,376**	**N.A.**	**677,598**	**697,476**	**743,560**	**N.A.**
Per capita GNI ($)	***375,412***	***398,595***	***400,855***	***N.A.***	--	--	--	--
Total final demand	7,656,614	8,181,413	7,902,464	7,435,625	1,725,122	1,739,134	1,923,718	2,047,651
Total final demand excluding re-exports(a)	4,496,245	4,819,244	4,671,060	4,201,778	1,050,949	967,424	1,051,916	1,131,489
Domestic demand	2,632,545	2,841,180	2,816,959	2,658,449	679,455	633,101	640,960	704,933
Private	2,240,260	2,425,244	2,375,345	2,182,854	551,104	522,082	524,472	585,196
Public	392,285	415,936	441,614	475,595	128,351	111,019	116,488	119,737
External demand	5,024,069	5,340,233	5,085,505	4,777,176	1,045,667	1,106,033	1,282,758	1,342,718

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)

(%)

	2011	2012	2013	2014	2015	2016
Private consumption expenditure	8.4	4.1	4.6	3.3	4.8	2.0
Government consumption expenditure	2.5	3.6	2.7	3.1	3.4	3.4
Gross domestic fixed capital formation	10.2	6.8	2.6	-0.1	-3.2	-0.1
Building and construction	15.7	7.2	-4.3	9.3	2.2	5.9
Costs of ownership transfer	-20.9	-17.8	-28.1	6.9	-8.3	-2.9
Machinery, equipment and intellectual property products	12.3	10.2	11.3	-8.7	-7.7	-6.4
Total exports of goods[&]	4.6	3.3	8.2	0.8	-1.7	1.6
Imports of goods[&]	6.7	4.6	9.9	1.5	-2.7	0.7
Exports of services[&]	5.7	2.7	6.0	1.6	0.3	-3.5
Imports of services[&]	-0.2	2.2	-2.1	-2.2	5.0	2.0
GDP	**4.8**	**1.7**	**3.1**	**2.8**	**2.4**	**2.2**
Per capita GDP	***4.1***	***0.6***	***2.7***	***2.0***	***1.5***	***1.5***
RGNI	**4.8**	**-0.2**	**4.0**	**2.7**	**3.8**	**3.2**
Per capita RGNI	***4.1***	***-1.3***	***3.6***	***1.9***	***2.9***	***2.6***
Total final demand	5.3	3.4	6.6	1.6	-0.4	1.3
Total final demand excluding re-exports[(a)]	4.7	3.2	4.2	0.6	0.1	1.5
Domestic demand	6.5	3.9	4.1	2.9	1.6	2.6
Private	6.7	3.6	4.1	2.6	1.3	2.5
Public	5.5	5.8	3.7	4.6	2.9	3.1
External demand	4.8	3.2	7.8	1.0	-1.4	0.7

Notes:
(a) Re-export margin is nevertheless retained in the total final demand.
(#) Figures are subject to revision later on as more data become available.
(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.
(--) Not applicable.
N.A. Not yet available.
(^) Average annual rate of change for the 10-year period 2009-2019.
(~) Average annual rate of change for the 5-year period 2014-2019.
(*) Change within ±0.05%.

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

(%)

	2017	2018	2019#	2020#	2020 Q1#	2020 Q2#	2020 Q3#	2020 Q4#	Average annual rate of change: 10 years 2010 to 2020#	Average annual rate of change: 5 years 2015 to 2020#
Private consumption expenditure	5.5	5.3	-1.1	-10.1	-10.6	-14.2	-8.2	-7.2	2.6	0.2
Government consumption expenditure	2.8	4.2	5.1	7.8	8.8	9.7	7.1	5.6	3.8	4.7
Gross domestic fixed capital formation	3.1	1.7	-12.3	-11.5	-15.8	-21.4	-10.9	2.6	-0.5	-4.1
Building and construction	-0.5	-0.5	-6.2	-8.2	-11.5	-4.0	-10.5	-6.0	1.8	-2.0
Costs of ownership transfer	23.2	-11.2	-13.4	-3.6	-32.4	-23.8	25.7	30.3	-8.6	-2.4
Machinery, equipment and intellectual property products	3.8	8.8	-20.0	-19.2	-17.9	-43.6	-20.1	7.8	-2.3	-7.3
Total exports of goods&	6.5	3.5	-4.6	-0.3	-9.7	-2.2	3.9	5.5	2.1	1.2
Imports of goods&	7.3	4.7	-7.3	-2.1	-11.1	-6.7	1.9	6.9	2.2	0.5
Exports of services&	2.8	4.6	-10.2	-36.8	-37.4	-45.6	-33.5	-29.3	-3.6	-10.0
Imports of services&	2.0	2.8	-2.4	-35.1	-24.5	-44.5	-36.0	-35.5	-3.6	-7.5
GDP	**3.8**	**2.8**	**-1.2**	**-6.1**	**-9.1**	**-9.0**	**-3.6**	**-3.0**	**1.6**	**0.2**
Per capita GDP	***3.0***	***2.0***	***-2.0***	***-5.8***	--	--	--	--	***0.9***	***-0.3***
RGNI	**5.7**	**3.5**	**-1.4**	**N.A.**	**-9.7**	**-8.2**	**-1.7**	**N.A.**	**3.0^**	**2.9~**
Per capita RGNI	***4.9***	***2.7***	***-2.1***	***N.A.***	--	--	--	--	***2.2^***	***2.2~***
Total final demand	5.6	3.9	-4.8	-6.2	-11.5	-10.5	-3.1	*	1.5	-0.1
Total final demand excluding re-exports(a)	4.5	4.0	-4.8	-10.8	-12.8	-16.9	-8.7	-4.7	0.6	-1.3
Domestic demand	5.2	4.4	-3.5	-6.4	-5.3	-12.5	-6.1	-1.8	2.0	0.3
Private	5.7	4.8	-4.4	-8.5	-6.6	-16.0	-7.9	-3.2	1.7	-0.1
Public	2.2	2.4	1.7	5.0	0.9	10.0	3.7	6.3	3.7	2.9
External demand	5.8	3.7	-5.6	-6.1	-14.9	-9.4	-1.7	1.0	1.3	-0.4

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

	2015		2016		2017		2018		2019#	
	$Mn	% share	$Mn	% share	$Mn	% share	$Mn	% share	$Mn	% share
Agriculture, fishing, mining and quarrying	1,630	0.1	1,898	0.1	1,736	0.1	1,762	0.1	2,057	0.1
Manufacturing	26,716	1.1	26,844	1.1	27,299	1.1	27,571	1.0	29,367	1.1
Electricity, gas and water supply, and waste management	34,653	1.5	34,414	1.4	34,978	1.4	35,660	1.3	34,087	1.2
Construction	107,902	4.6	124,932	5.2	129,714	5.1	120,473	4.5	114,852	4.2
Services	2,154,541	92.7	2,229,760	92.2	2,357,359	92.4	2,514,960	93.1	2,558,953	93.4
Import/export, wholesale and retail trades	*527,822*	*22.7*	*525,526*	*21.7*	*548,636*	*21.5*	*575,103*	*21.3*	*533,360*	*19.5*
Accommodation [(a)] and food services	*78,134*	*3.4*	*79,682*	*3.3*	*83,507*	*3.3*	*91,525*	*3.4*	*75,919*	*2.8*
Transportation, storage, postal and courier services	*150,073*	*6.5*	*149,742*	*6.2*	*153,359*	*6.0*	*158,440*	*5.9*	*151,577*	*5.5*
Information and communications	*80,813*	*3.5*	*84,208*	*3.5*	*86,891*	*3.4*	*91,449*	*3.4*	*95,559*	*3.5*
Financing and insurance	*409,933*	*17.6*	*428,903*	*17.7*	*480,488*	*18.8*	*535,126*	*19.8*	*580,094*	*21.2*
Real estate, professional and business services	*252,714*	*10.9*	*266,139*	*11.0*	*274,822*	*10.8*	*280,843*	*10.4*	*276,505*	*10.1*
Public administration, social and personal services	*407,405*	*17.5*	*436,912*	*18.1*	*465,488*	*18.2*	*499,446*	*18.5*	*536,857*	*19.6*
Ownership of premises	*247,648*	*10.6*	*258,649*	*10.7*	*264,166*	*10.4*	*283,028*	*10.5*	*309,081*	*11.3*
GDP at basic prices	**2,325,443**	**100.0**	**2,417,849**	**100.0**	**2,551,086**	**100.0**	**2,700,426**	**100.0**	**2,739,316**	**100.0**
Taxes on products	95,433	--	83,743	--	110,698	--	117,825	--	94,679	--
Statistical discrepancy (%)	-0.9	--	-0.4	--	-0.1	--	0.6	--	1.1	--
GDP at current market prices	**2,398,280**	**--**	**2,490,438**	**--**	**2,659,384**	**--**	**2,835,119**	**--**	**2,865,659**	**--**

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

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

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

(--) Not applicable.

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

(%)

	2014	2015	2016	2017	2018	2019#	2019	2020		
							Q4#	Q1#	Q2#	Q3#
Agriculture, fishing, mining and quarrying	-6.0	-6.8	-2.0	-5.2	-1.8	-0.4	0.9	2.3	7.7	10.7
Manufacturing	-0.4	-1.5	-0.4	0.4	1.3	0.4	-0.5	-4.6	-5.1	-7.4
Electricity, gas and water supply, and waste management	0.8	-2.6	-0.8	0.9	0.1	-0.2	-1.1	-14.3	-12.2	-9.4
Construction	13.0	5.4	5.1	-1.3	3.3	-6.0	-6.6	-12.1	-3.5	-10.2
Services	2.5	1.7	2.3	3.5	3.1	-0.3	-2.4	-9.0	-9.0	-5.5
Import/export, wholesale and retail trades	*1.2*	*-1.1*	*0.6*	*4.2*	*4.2*	*-6.2*	*-8.4*	*-21.5*	*-18.7*	*-9.1*
Accommodation[(a)] and food services	*2.2*	*-1.9*	*0.5*	*2.0*	*5.9*	*-9.2*	*-23.2*	*-47.6*	*-44.5*	*-45.2*
Transportation, storage, postal and courier services	*2.9*	*3.3*	*3.0*	*4.8*	*2.5*	*-1.6*	*-8.1*	*-32.3*	*-49.4*	*-41.8*
Information and communications	*3.9*	*4.0*	*4.1*	*4.0*	*4.1*	*4.7*	*2.8*	*1.6*	*0.9*	*2.1*
Financing and insurance	*5.3*	*6.1*	*4.2*	*5.3*	*4.0*	*2.8*	*2.4*	*2.7*	*3.0*	*5.1*
Real estate, professional and business services	*1.9*	*0.7*	*2.8*	*2.1*	*-0.4*	*1.0*	*0.2*	*-4.6*	*-5.9*	*-4.1*
Public administration, social and personal services	*2.4*	*2.5*	*3.0*	*3.2*	*3.6*	*2.9*	*2.5*	*-3.2*	*-3.0*	*-0.8*
Ownership of premises	*0.8*	*0.6*	*0.5*	*1.0*	*0.9*	*0.6*	*0.1*	*-0.2*	*-0.2*	*-0.3*
Taxes on products	6.7	7.1	-9.1	13.7	-3.9	-11.3	-1.4	-2.8	-9.2	50.2
GDP in chained (2018) dollars	**2.8**	**2.4**	**2.2**	**3.8**	**2.8**	**-1.2**	**-3.0**	**-9.1**	**-9.0**	**-3.6**

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

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

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

	2016		2017		2018		2019#		Annual percentage change (%)		
	$Bn	% share in total(1)	$Bn	% share in total(1)	$Bn	% share in total(1)	$Bn	% share in total(1)	2017	2018	2019#
Value added at current prices											
Four Key Industries	*1,367.3*	*56.6*	*1,454.9*	*57.0*	*1,548.7*	*57.3*	*1,545.0*	*56.4*	*6.4*	*6.4*	*-0.2*
Financial services	428.9	17.7	480.5	18.8	535.1	19.8	580.1	21.2	12.0	11.4	8.4
Tourism	112.4	4.7	114.2	4.5	120.5	4.5	98.6	3.6	1.6	5.5	-18.2
Trading and logistics	523.1	21.6	548.4	21.5	571.6	21.2	541.2	19.8	4.8	4.2	-5.3
Professional services and other producer services(2)	302.9	12.5	311.8	12.2	321.4	11.9	325.1	11.9	2.9	3.1	1.2
Other selected industries (3)	*215.2*	*8.9*	*226.7*	*8.9*	*240.9*	*8.9*	*244.8*	*8.9*	*5.3*	*6.3*	*1.6*
Cultural and creative industries	109.6	4.5	111.8	4.4	117.8	4.4	116.0	4.2	2.0	5.4	-1.5
Medical services	42.1	1.7	46.9	1.8	49.4	1.8	51.4	1.9	11.4	5.4	4.1
Education services	30.1	1.2	32.4	1.3	35.2	1.3	36.7	1.3	7.4	8.8	4.3
Innovation and technology	17.6	0.7	18.9	0.7	21.0	0.8	23.4	0.9	6.9	11.2	11.9
Testing and certification services	7.3	0.3	7.5	0.3	7.7	0.3	7.3	0.3	2.6	2.1	-4.4
Environmental industries	8.4	0.3	9.3	0.4	9.9	0.4	9.9	0.4	10.8	5.8	*
Nominal GDP at basic prices	**2,417.8**	**100.0**	**2,551.1**	**100.0**	**2,700.4**	**100.0**	**2,739.3**	**100.0**	**5.5**	**5.9**	**1.4**

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

(1) Refers to percentage share in nominal GDP at basic prices. Such GDP figure is slightly different from the commonly used one, i.e. valued at current market prices, in which taxes on products are included.

(2) Other producer services refer to producer services other than financial services, tourism, trading and logistics and professional services.

(3) The other selected industries reflect the direct contribution of these industries in the private sector only. Some of them are service domains straddling across different industries. For example, "innovation and technology" activities may exist in any industry and organisation. The term "industry" is used to denote the aggregate of the economic activities concerned for easy general understanding.

(4) Since innovation and technology involves significant non-routine activities, persons engaged in these activities are measured by the volume of labour input to innovation and technology in full-time equivalent terms (in terms of man-years).

(5) Figures refer to Composite Employment Estimates.

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

(*) Change within ±0.05%.

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

	2016		2017		2018		2019#		Annual percentage change (%)		
	Number ('000)	% share in total	Number ('000)	% share in total	Number ('000)	% share in total	Number ('000)	% share in total	2017	2018	2019#
Employment											
Four Key Industries	*1 775.3*	*46.9*	*1 780.2*	*46.6*	*1 789.5*	*46.3*	*1 747.5*	*45.4*	*0.3*	*0.5*	*-2.3*
Financial services	253.1	6.7	258.5	6.8	263.0	6.8	272.6	7.1	2.1	1.7	3.7
Tourism	259.8	6.9	257.1	6.7	257.0	6.6	231.0	6.0	-1.0	*	-10.1
Trading and logistics	730.7	19.3	727.5	19.0	718.5	18.6	673.7	17.5	-0.4	-1.2	-6.2
Professional services and other producer services(2)	531.8	14.0	537.2	14.0	551.1	14.2	570.1	14.8	1.0	2.6	3.4
Other selected industries (3)	*483.1*	*12.8*	*495.7*	*13.0*	*504.5*	*13.0*	*515.2*	*13.4*	*2.6*	*1.8*	*2.1*
Cultural and creative industries	212.8	5.6	213.4	5.6	217.3	5.6	219.4	5.7	0.3	1.8	1.0
Medical services	91.4	2.4	98.6	2.6	99.9	2.6	102.5	2.7	7.8	1.3	2.6
Education services	82.6	2.2	85.8	2.2	87.0	2.3	89.2	2.3	3.9	1.4	2.5
Innovation and technology(4)	38.1	1.0	39.5	1.0	41.6	1.1	44.6	1.2	3.8	5.3	7.2
Testing and certification services	14.0	0.4	14.3	0.4	14.6	0.4	14.8	0.4	2.4	2.2	1.2
Environmental industries	44.3	1.2	44.1	1.2	44.1	1.1	44.7	1.2	-0.5	0.1	1.2
Total employment(5)	**3 787.8**	**100.0**	**3 823.9**	**100.0**	**3 867.6**	**100.0**	**3 850.5**	**100.0**	**1.0**	**1.1**	**-0.4**

Table 6 : Balance of Payments by major component (at current prices)

($Mn)

	2015	2016	2017	2018	2019#	2019 Q4#	2020 Q1#	2020 Q2#	2020 Q3#
Current account[(a)]	79,553	98,485	121,840	105,942	170,825	44,513	-8,864	59,426	97,531
Goods	-177,302	-129,693	-178,532	-252,997	-126,038	11,939	-48,991	-20,226	30,765
Services	234,603	186,554	205,371	246,936	174,738	12,167	31,121	23,772	27,077
Primary income	44,376	62,593	115,552	134,815	143,717	25,716	16,013	60,829	44,758
Secondary income	-22,124	-20,969	-20,551	-22,813	-21,592	-5,308	-7,007	-4,949	-5,069
Capital and financial account[(a)]	-128,642	-101,104	-76,488	-175,081	-237,439	-71,904	38,249	-88,805	-127,321
Capital account	-216	-374	-645	-1,574	-682	-193	-132	-127	-108
Financial account	-128,426	-100,730	-75,843	-173,507	-236,756	-71,711	38,381	-88,677	-127,212
Financial non-reserve assets	153,570	-91,874	174,666	-165,948	-245,612	-81,995	64,188	-104,184	-107,962
Direct investment	*794,800*	*447,758*	*186,887*	*172,795*	*160,730*	*92,206*	*-87,715*	*1,405*	*64,819*
Portfolio investment	*-970,938*	*-469,591*	*264,159*	*-616,428*	*-215,764*	*52,651*	*114,307*	*-231,339*	*7,434*
Financial derivatives	*99,178*	*36,327*	*61,763*	*33,202*	*1,239*	*4,752*	*-10,888*	*20,360*	*2,436*
Other investment	*230,531*	*-106,368*	*-338,144*	*244,483*	*-191,817*	*-231,605*	*48,485*	*105,390*	*-182,651*
Reserve assets	-281,996	-8,856	-250,509	-7,559	8,855	10,284	-25,807	15,507	-19,250
Net errors and omissions	49,089	2,619	-45,353	69,139	66,614	27,391	-29,385	29,379	29,789
Overall Balance of Payments	**281,996**	**8,856**	**250,509**	**7,559**	**-8,855**	**-10,284**	**25,807**	**-15,507**	**19,250**

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

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

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

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

($Mn)

	2016	2017	2018	2019#	2020#	2020 Q1#	Q2#	Q3#	Q4#
Total exports of goods	3,892,886	4,212,774	4,453,350	4,292,589	4,282,293	901,776	1,000,437	1,158,835	1,221,245
Imports of goods	4,022,579	4,391,306	4,706,347	4,418,627	4,329,068	950,767	1,020,663	1,128,070	1,229,568
Goods trade balance	**-129,693**	**-178,532**	**-252,997**	**-126,038**	**-46,775**	**-48,991**	**-20,226**	**30,765**	**-8,323**
	(-3.2)	**(-4.1)**	**(-5.4)**	**(-2.9)**	**(-1.1)**	**(-5.2)**	**(-2.0)**	**(2.7)**	**(-0.7)**
Exports of services	764,660	811,295	886,883	792,916	494,883	143,891	105,596	123,923	121,473
Imports of services	578,106	605,924	639,947	618,178	395,827	112,770	81,824	96,846	104,387
Services trade balance	**186,554**	**205,371**	**246,936**	**174,738**	**99,056**	**31,121**	**23,772**	**27,077**	**17,086**
	(32.3)	**(33.9)**	**(38.6)**	**(28.3)**	**(25.0)**	**(27.6)**	**(29.1)**	**(28.0)**	**(16.4)**
Exports of goods and services	4,657,546	5,024,069	5,340,233	5,085,505	4,777,176	1,045,667	1,106,033	1,282,758	1,342,718
Imports of goods and services	4,600,685	4,997,230	5,346,294	5,036,805	4,724,895	1,063,537	1,102,487	1,224,916	1,333,955
Goods and services trade balance	**56,861**	**26,839**	**-6,061**	**48,700**	**52,281**	**-17,870**	**3,546**	**57,842**	**8,763**
	<1.2>	**<0.5>**	**<-0.1>**	**<1.0>**	**<1.1>**	**<-1.7>**	**<0.3>**	**<4.7>**	**<0.7>**

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

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

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

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

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

	2016	2017	2018	2019	2020		2020 Q1	Q2	Q3	Q4
	(% change)				(% change)	($Mn)	(% change over a year earlier)			
All markets	**-0.5**	**8.0**	**7.3**	**-4.1**	**-1.5**	**3,927,517**	**-9.7**	**-4.3**	**1.3**	**5.3**
Mainland of China	0.4	8.4	8.6	-3.3	5.1	2,324,511	-1.8	6.0	7.0	8.1
United States	-5.3	1.9	8.1	-14.8	-14.9	258,842	-27.4	-20.7	-10.7	-0.9
Japan	-4.9	10.0	0.7	-6.4	-9.7	109,326	-17.9	-4.4	-16.4	0.5
Taiwan	14.6	19.9	-3.6	2.4	11.6	98,507	1.5	19.9	3.9	21.1
India	14.6	35.9	-15.3	-12.0	-17.6	97,392	-4.8	-44.7	-9.1	-12.2
Vietnam	-5.8	10.3	4.5	-3.6	5.3	84,484	3.0	-6.1	7.6	16.0
Netherlands	10.3	11.5	11.5	-4.4	-5.2	64,643	-24.2	1.1	-5.4	5.4
Singapore	4.8	-0.4	13.3	4.1	-17.5	59,371	-15.5	-23.2	-12.4	-18.6
Germany	-5.1	10.8	3.0	-8.9	-14.5	59,277	-26.4	-16.8	-14.4	0.6
Korea	-0.6	4.9	2.1	-2.3	-7.6	52,260	-11.2	-13.8	-8.7	4.1
Rest of the world	-3.3	3.8	10.8	-0.8	-10.1	718,905	-20.3	-19.0	-3.3	2.5

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

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

	2016	2017	2018	2019	2020		2020			
							Q1	Q2	Q3	Q4
	(% change)				(% change)	($Mn)	(% change over a year earlier)			
All sources	**-0.9**	**8.7**	**8.4**	**-6.5**	**-3.3**	**4,269,752**	**-10.0**	**-8.8**	**-1.9**	**6.6**
Mainland of China	-3.4	5.9	7.7	-5.9	-6.5	1,923,535	-16.9	-10.5	-5.0	4.9
Taiwan	6.4	12.9	2.7	-2.4	22.8	405,695	15.0	16.6	34.2	23.5
Singapore	6.4	10.1	9.0	-7.5	8.1	314,144	7.5	1.1	9.1	14.2
Korea	14.0	28.5	10.4	-20.9	12.3	247,170	12.1	3.2	4.8	27.9
Japan	-5.2	2.7	2.6	-2.8	-5.0	239,984	0.8	-10.9	-10.8	1.5
United States	-2.0	3.4	8.1	-7.9	-17.9	174,706	-19.0	-22.5	-24.6	-5.5
Malaysia	-3.7	26.8	64.6	-14.3	1.2	163,904	-7.8	6.1	14.1	-5.6
Vietnam	6.6	13.6	7.3	18.5	28.4	100,642	34.4	60.3	17.7	14.8
Thailand	-2.7	8.5	2.8	-7.4	1.4	86,458	-6.0	0.2	4.2	6.2
Philippines	5.8	27.6	1.1	-9.1	-0.1	70,094	-0.6	-3.9	2.9	0.7
Rest of the world	-1.9	7.7	6.4	-4.9	-17.0	543,421	-20.6	-30.9	-14.7	-0.5

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

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

	2016	2017	2018	2019#	2020#		2020			
							Q1#	Q2#	Q3#	Q4#
		(% change)			(% change)	($Mn)	(% change over a year earlier)			
Exports of services	**-5.5**	**6.1**	**9.3**	**-10.6**	**-37.6**	**494,883**	**-37.5**	**-47.8**	**-34.6**	**-29.0**
Transport	-5.3	8.6	9.0	-8.9	-31.1	162,406	-30.6	-39.2	-29.8	-23.6
Travel	-9.0	1.9	11.2	-21.2	-90.4	21,817	-81.1	-97.0	-96.8	-89.9
Financial services	-6.9	13.5	10.9	-3.8	*	167,350	0.7	-4.1	0.7	1.7
Other services	2.3	2.9	5.1	-1.8	-11.6	143,310	-13.2	-12.6	-9.8	-10.7
Imports of services	**0.7**	**4.8**	**5.6**	**-3.4**	**-36.0**	**395,827**	**-26.2**	**-46.4**	**-37.1**	**-34.3**
Transport	-2.1	3.7	6.6	-5.0	-20.1	110,235	-20.5	-31.7	-16.9	-10.9
Travel	4.8	5.6	4.7	1.6	-80.3	41,543	-49.0	-93.0	-88.0	-88.5
Manufacturing^	-2.0	3.5	2.0	-13.7	-17.6	66,268	-23.1	-27.5	-14.1	-5.8
Other services	-0.1	5.5	7.6	-2.6	-6.0	177,781	-8.7	-6.6	-3.9	-4.8

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

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

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

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

(*) Change within ±0.05%.

Table 11 : Incoming visitors by source

	2016	2017	2018	2019	2020	2020 Q1	Q2	Q3	Q4
('000)									
All sources	**56 654.9**	**58 472.2**	**65 147.6**	**55 912.6**	**3 568.9**	**3 489.2**	**26.9**	**34.1**	**18.6**
Mainland of China	42 778.1	44 445.3	51 038.2	43 774.7	2 706.4	2 665.9	15.3	14.3	10.9
South and Southeast Asia	3 701.8	3 626.2	3 571.7	3 040.5	190.5	175.6	3.1	8.3	3.5
Taiwan	2 011.4	2 010.8	1 925.2	1 538.9	105.1	101.6	1.2	1.2	1.1
Europe	1 904.9	1 901.5	1 937.6	1 728.4	158.8	144.9	4.8	7.4	1.7
United States	1 211.5	1 215.6	1 304.2	1 107.2	80.8	78.9	0.8	0.8	0.4
Japan	1 092.3	1 230.0	1 287.8	1 078.8	50.3	50.1	0.1	0.1	0.1
Others	3 954.8	4 042.9	4 082.8	3 644.1	276.9	272.3	1.5	2.0	1.1
(% change over a year earlier)									
All sources	**-4.5**	**3.2**	**11.4**	**-14.2**	**-93.6**	**-80.9**	**-99.8**	**-99.7**	**-99.8**
Mainland of China	-6.7	3.9	14.8	-14.2	-93.8	-81.7	-99.9	-99.8	-99.8
South and Southeast Asia	4.0	-2.0	-1.5	-14.9	-93.7	-79.9	-99.7	-98.5	-99.4
Taiwan	-0.2	*	-4.3	-20.1	-93.2	-78.1	-99.7	-99.7	-99.6
Europe	4.1	-0.2	1.9	-10.8	-90.8	-70.2	-99.0	-97.9	-99.6
United States	2.6	0.3	7.3	-15.1	-92.7	-74.6	-99.8	-99.7	-99.8
Japan	4.1	12.6	4.7	-16.2	-95.3	-86.1	-100.0	-100.0	-100.0
Others	3.2	2.2	1.0	-10.7	-92.4	-76.5	-99.9	-99.7	-99.8

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

(*) Change within ±0.05%.

Table 12 : Property market

	2011	2012	2013	2014	2015	2016	2017
Completion of new property by the private sector							
('000 m^2 of internal floor area)							
Residential property[a] (in units)	9 449	10 149	8 254	15 719	11 280	14 595	17 791
Commercial property	197	226	161	161	233	276	303
of which :							
Office space	155	136	123	104	164	153	198
Other commercial premises[b]	42	90	39	57	69	123	105
Industrial property[c]	105	170	85	116	30	78	105
of which :							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	32	46	85	36	30	5	23
Storage premises[d]	73	123	0	80	0	73	83
Production of public housing							
(in units)							
Rental housing flats[e]	17 787	9 778	20 898	5 634	10 147	21 755	11 268
Subsidised sales flats[e]	0	0	0	0	1 310	229	2 788
Building plans with consent to commence work in the private sector							
('000 m^2 of usable floor area)							
Residential property	580.6	796.4	816.0	647.1	893.3	645.8	872.8
Commercial property	133.6	210.2	309.5	290.3	319.0	312.4	488.6
Industrial property[f]	109.3	70.7	138.1	105.9	225.3	76.2	62.5
Other properties	232.7	428.9	136.4	217.1	555.4	235.1	227.1
Total	1 056.2	1 506.1	1 400.1	1 260.4	1 993.0	1 269.4	1 651.1
Agreements for sale and purchase of property							
(Number)							
Residential property[g]	84 462	81 333	50 676	63 807	55 982	54 701	61 591
Primary market	10 880	12 968	11 046	16 857	16 826	16 793	18 645
Secondary market	73 582	68 365	39 630	46 950	39 156	37 908	42 946
Selected types of non-residential properties[h]							
Office space	3 071	3 269	1 685	1 271	1 470	1 105	1 955
Other commercial premises	5 980	7 282	4 305	3 092	2 067	1 523	2 198
Flatted factory space	7 619	9 731	4 271	3 016	3 407	2 727	5 135

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

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

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

(b) These include retail premises and other premises designed or adapted for commercial use, with the exception of purpose-built offices. Car-parking space and commercial premises built by the Hong Kong Housing Authority and the Hong Kong Housing Society are excluded.

(c) These include industrial-cum-office premises, but exclude specialised factory buildings which are developed mainly for own use.

(d) These include storage premises at the container terminals and the airport.

Table 12 : Property market (Cont'd)

	2018	2019	2020	2020 Q1	Q2	Q3	Q4
Completion of new property by the private sector							
('000 m^2 of internal floor area)							
Residential property[a] (in units)	20 968	13 643	20 888	3 726	7 645	2 313	7 204
Commercial property	304	384	136	72	14	20	30
of which :							
Office space	179	267	69	42	2	14	12
Other commercial premises[b]	125	118	67	30	13	6	18
Industrial property[c]	44	56	38	0	12	2	23
of which :							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	41	56	38	0	12	2	23
Storage premises[d]	3	0	0	0	0	0	0
Production of public housing							
(in units)							
Rental housing flats[e]	20 137	9 634	N.A.	1 787	1 678	0	N.A.
Subsidised sales flats[e]	4 863	7 027	N.A.	2 610	5 000	0	N.A.
Building plans with consent to commence work in the private sector							
('000 m^2 of usable floor area)							
Residential property	703.0	765.0	N.A.	39.9	252.2	117.5	N.A.
Commercial property	109.2	763.0	N.A.	72.8	50.0	78.4	N.A.
Industrial property[f]	98.4	177.7	N.A.	22.4	0.0	39.2	N.A.
Other properties	91.9	234.6	N.A.	23.4	49.9	263.8	N.A.
Total	1 002.5	1 940.3	N.A.	158.4	352.0	498.9	N.A.
Agreements for sale and purchase of property							
(Number)							
Residential property[g]	57 247	59 797	59 880	10 204	17 073	15 515	17 088
Primary market	15 633	21 108	15 317	2 261	4 149	3 549	5 358
Secondary market	41 614	38 689	44 563	7 943	12 924	11 966	11 730
Selected types of non-residential properties[h]							
Office space	1 331	861	686	101	173	186	226
Other commercial premises	1 926	1 300	1 268	199	285	375	409
Flatted factory space	4 852	2 426	2 118	314	478	630	696

Notes: (cont'd)

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

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

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

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

N.A. Not yet available.

Table 13 : Property prices and rentals

	2011	2012	2013	2014	2015	2016	2017
(Index (1999=100))							
Property price indices :							
Residential flats[(a)]	182.1	206.2	242.4	256.9	296.8	286.1	333.9
Office space	297.9	334.7	409.8	423.0	448.9	426.9	487.1
Shopping space	327.4	420.5	506.8	521.2	559.2	526.9	558.4
Flatted factory space	385.0	489.8	655.4	668.0	723.9	692.7	778.1
Property rental indices[(b)] :							
Residential flats	134.0	142.6	154.5	159.5	172.8	168.2	182.6
Office space	169.9	188.3	204.1	213.7	226.7	232.3	241.8
Shopping space	134.3	151.3	165.5	173.1	182.5	178.6	182.5
Flatted factory space	118.6	131.9	147.3	160.1	174.4	181.4	190.7
(% change over a year earlier)							
Property price indices :							
Residential flats[(a)]	20.7	13.2	17.6	6.0	15.5	-3.6	16.7
Office space	29.3	12.4	22.4	3.2	6.1	-4.9	14.1
Shopping space	27.3	28.4	20.5	2.8	7.3	-5.8	6.0
Flatted factory space	35.4	27.2	33.8	1.9	8.4	-4.3	12.3
Property rental indices[(b)] :							
Residential flats	11.9	6.4	8.3	3.2	8.3	-2.7	8.6
Office space	15.1	10.8	8.4	4.7	6.1	2.5	4.1
Shopping space	9.3	12.7	9.4	4.6	5.4	-2.1	2.2
Flatted factory space	8.9	11.2	11.7	8.7	8.9	4.0	5.1

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.

(*) Change within ±0.05%.

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

	2018	2019	2020[+]	2020 Q1	Q2	Q3[#]	Q4[+]
(Index (1999=100))							
Property price indices :							
Residential flats[(a)]	377.3	383.0	381.2	377.2	383.4	383.5	380.5
Office space	554.7	543.0	468.0	477.1	451.4	457.1	486.3
Shopping space	591.4	549.7	518.9	524.9	527.5	512.0	511.0
Flatted factory space	888.1	887.9	825.1	841.0	829.7	816.4	813.4
Property rental indices[(b)] :							
Residential flats	193.0	194.4	180.4	184.1	179.2	180.2	178.2
Office space	252.2	261.4	241.4	253.1	243.4	237.7	231.3
Shopping space	187.0	187.2	169.5	174.1	167.9	168.7	167.4
Flatted factory space	202.3	209.7	201.7	200.9	198.8	200.1	207.1
(% change over a year earlier)							
Property price indices :							
Residential flats[(a)]	13.0	1.5	-0.5	2.2	-2.8	-1.1	-0.1
Office space	13.9	-2.1	-13.8	-11.5	-19.7	-17.4	-6.0
Shopping space	5.9	-7.1	-5.6	-8.4	-8.0	-5.9	0.5
Flatted factory space	14.1	*	-7.1	-5.4	-10.6	-8.3	-3.6
Property rental indices[(b)] :							
Residential flats	5.7	0.7	-7.2	-4.3	-8.2	-9.3	-6.8
Office space	4.3	3.6	-7.7	-2.4	-7.6	-9.9	-10.6
Shopping space	2.5	0.1	-9.5	-8.0	-11.2	-10.7	-7.8
Flatted factory space	6.1	3.7	-3.8	-2.8	-5.8	-5.9	-0.5

Table 14 : Monetary aggregates

	2011	2012	2013	2014	2015	2016	2017
(at end of period)							
Hong Kong dollar money supply ($Mn)							
M1	794,726	920,920	1,000,344	1,116,675	1,253,380	1,428,775	1,598,014
M2[(a)]	4,046,216	4,537,384	4,795,130	5,225,773	5,765,549	6,280,230	7,010,345
M3[(a)]	4,055,404	4,545,590	4,806,012	5,236,188	5,778,772	6,292,666	7,024,514
Total money supply ($Mn)							
M1	1,127,320	1,377,359	1,510,895	1,708,724	1,971,146	2,213,970	2,431,461
M2	8,057,530	8,950,005	10,056,437	11,011,372	11,618,441	12,508,127	13,755,255
M3	8,081,079	8,970,396	10,085,243	11,048,944	11,655,019	12,551,331	13,803,837
Deposit ($Mn)							
HK$	3,740,240	4,176,200	4,390,953	4,800,330	5,312,403	5,809,060	6,484,616
Foreign currency	3,851,020	4,120,234	4,789,109	5,272,804	5,437,346	5,918,240	6,267,872
Total	7,591,260	8,296,434	9,180,062	10,073,135	10,749,749	11,727,300	12,752,488
Loans and advances ($Mn)							
HK$	3,160,002	3,333,059	3,606,018	4,000,361	4,152,589	4,479,107	5,359,983
Foreign currency	1,920,659	2,233,751	2,850,795	3,275,910	3,381,951	3,544,284	3,953,686
Total	5,080,661	5,566,810	6,456,813	7,276,271	7,534,540	8,023,390	9,313,668
Nominal Effective Exchange Rate Indices (Jan 2010 =100)[(b)]							
Trade-weighted	94.6	94.9	94.9	96.0	101.3	104.1	104.2
Import-weighted	93.9	94.2	94.7	96.0	101.7	104.2	104.2
Export-weighted	95.4	95.6	95.1	95.9	100.9	104.1	104.3
(% change over a year earlier)							
Hong Kong dollar money supply							
M1	8.9	15.9	8.6	11.6	12.2	14.0	11.8
M2[(a)]	4.6	12.1	5.7	9.0	10.3	8.9	11.6
M3[(a)]	4.6	12.1	5.7	9.0	10.4	8.9	11.6
Total money supply							
M1	10.8	22.2	9.7	13.1	15.4	12.3	9.8
M2	12.9	11.1	12.4	9.5	5.5	7.7	10.0
M3	12.9	11.0	12.4	9.6	5.5	7.7	10.0
Deposit							
HK$	3.4	11.7	5.1	9.3	10.7	9.3	11.6
Foreign currency	18.7	7.0	16.2	10.1	3.1	8.8	5.9
Total	10.6	9.3	10.7	9.7	6.7	9.1	8.7
Loans and advances							
HK$	11.9	5.5	8.2	10.9	3.8	7.9	19.7
Foreign currency	36.9	16.3	27.6	14.9	3.2	4.8	11.6
Total	20.2	9.6	16.0	12.7	3.5	6.5	16.1
Nominal Effective Exchange Rate Indices (Jan 2010 =100)[(b)]							
Trade-weighted	-4.9	0.3	*	1.2	5.5	2.8	0.1
Import-weighted	-5.3	0.3	0.5	1.4	5.9	2.5	*
Export-weighted	-4.4	0.2	-0.5	0.8	5.2	3.2	0.2

Definition of Terms :

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

Total Money Supply:

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

M2: M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit issued by licensed banks and held outside the monetary sector, as well as short term Exchange Fund placements of less than one month.

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

Table 14 : Monetary aggregates (Cont'd)

	2018	2019	2020	2020 Q1	Q2	Q3	Q4
(at end of period)							
Hong Kong dollar money supply ($Mn)							
M1	1,555,731	1,533,104	1,972,719	1,578,352	1,759,032	2,406,597	1,972,719
M2[(a)]	7,262,451	7,438,789	7,922,089	7,444,053	7,629,436	8,243,060	7,922,089
M3[(a)]	7,284,322	7,454,655	7,937,038	7,461,444	7,645,848	8,258,067	7,937,038
Total money supply ($Mn)							
M1	2,421,598	2,484,738	3,231,921	2,614,612	2,838,473	3,576,701	3,231,921
M2	14,348,059	14,745,872	15,606,608	14,803,474	15,102,579	15,845,097	15,606,608
M3	14,403,688	14,786,375	15,644,043	14,845,663	15,142,575	15,883,405	15,644,043
Deposit ($Mn)							
HK$	6,715,262	6,884,143	7,311,368	6,875,008	7,057,201	7,649,305	7,311,368
Foreign currency	6,671,119	6,887,444	7,202,247	6,899,514	7,020,328	7,122,830	7,202,247
Total	13,386,381	13,771,586	14,513,615	13,774,522	14,077,528	14,772,135	14,513,615
Loans and advances ($Mn)							
HK$	5,836,238	6,219,377	6,106,960	6,192,059	6,096,505	6,517,104	6,106,960
Foreign currency	3,886,385	4,157,325	4,391,617	4,479,705	4,596,189	4,514,395	4,391,617
Total	9,722,623	10,376,701	10,498,577	10,671,764	10,692,694	11,031,500	10,498,577
Nominal Effective Exchange Rate Indices (Jan 2010 =100)[(b)]							
Trade-weighted	101.8	105.2	105.8	106.9	108.5	105.8	102.3
Import-weighted	101.7	104.9	105.4	106.6	108.0	105.4	102.0
Export-weighted	101.9	105.5	106.2	107.4	108.9	106.1	102.7
(% change over a year earlier)							
Hong Kong dollar money supply							
M1	-2.6	-1.5	28.7	-0.3	12.3	55.6	28.7
M2[(a)]	3.6	2.4	6.5	*	1.5	10.8	6.5
M3[(a)]	3.7	2.3	6.5	*	1.4	10.7	6.5
Total money supply							
M1	-0.4	2.6	30.1	8.1	16.9	44.9	30.1
M2	4.3	2.8	5.8	2.2	3.9	9.2	5.8
M3	4.3	2.7	5.8	2.1	3.8	9.2	5.8
Deposit							
HK$	3.6	2.5	6.2	-0.1	1.5	11.1	6.2
Foreign currency	6.4	3.2	4.6	3.3	5.5	6.2	4.6
Total	5.0	2.9	5.4	1.6	3.5	8.7	5.4
Loans and advances							
HK$	8.9	6.6	-1.8	2.5	-1.8	4.5	-1.8
Foreign currency	-1.7	7.0	5.6	14.6	17.2	10.9	5.6
Total	4.4	6.7	1.2	7.3	5.5	7.0	1.2
Nominal Effective Exchange Rate Indices (Jan 2010 =100)[(b)]							
Trade-weighted	-2.3	3.3	0.6	3.3	3.7	-0.5	-3.9
Import-weighted	-2.4	3.1	0.5	3.2	3.4	-0.5	-3.7
Export-weighted	-2.3	3.5	0.7	3.6	3.9	-0.6	-3.8

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

(b) Period average.

(*) Change within ±0.05%.

Table 15 : Rates of change in business receipts indices for services industries/domains

(%)

	2016	2017	2018	2019	2019 Q4	2020 Q1	Q2	Q3
Services Industry								
Import and export trade	-2.5	2.3	3.7	-6.6	-8.7	-12.2	-8.9	-0.4
Wholesale	-1.0	2.8	4.3	-8.3	-10.6	-14.1	-12.6	-4.5
Retail	-8.1	2.2	8.7	-11.1	-22.4	-35.0	-31.4	-16.7
Transportation	-6.5	7.1	8.0	-2.3	-8.7	-18.8	-29.0	-23.7
within which:								
Land transport	3.6	1.8	5.3	1.3	-8.9	-26.7	-31.2	-24.1
Water transport	-11.2	5.6	4.4	0.1	-5.1	-0.3	-0.1	7.2
Air transport	-7.0	10.0	11.3	-4.9	-10.6	-26.6	-45.2	-42.3
Warehousing and storage	12.1	14.1	12.7	-1.4	-12.3	-1.6	0.9	19.7
Courier	5.5	19.1	-0.7	-3.9	-5.2	2.8	30.2	42.5
Accommodation services[(a)]	-1.1	6.0	10.8	-14.3	-41.1	-71.7	-70.4	-50.9
Food services	2.9	5.0	6.0	-5.9	-14.4	-31.3	-26.0	-35.2
Information and communications	0.6	2.9	3.1	1.2	-1.4	-10.2	-14.4	-8.6
within which:								
Telecommunications	-0.8	-3.5	2.2	-2.6	-6.2	-13.5	-15.0	-9.0
Film entertainment	-4.5	4.3	3.1	-2.3	-11.2	-39.5	-53.7	-49.1
Banking	8.1	-0.1	6.8	2.8	0.8	1.9	-8.1	-13.8
Financing (except banking)	-6.0	7.2	10.3	1.1	9.9	6.0	9.4	15.7
within which:								
Financial markets and asset management	-8.7	1.6	11.6	0.8	13.7	3.9	8.8	19.2
within which : Asset management	4.1	4.4	3.7	7.3	17.2	4.4	5.9	18.4
Insurance	21.8	11.8	8.7	8.8	-2.7	10.5	0.7	4.5
Real estate	10.4	10.2	5.4	11.4	5.8	-12.8	-5.6	8.1
Professional, scientific and technical services	3.3	1.9	3.3	1.3	-0.7	-1.8	-3.2	-2.6
Administrative and support services	0.9	1.5	3.5	0.4	-3.5	-12.9	-34.5	-27.4
Services Domain								
Tourism, convention and exhibition services	-8.1	0.8	11.0	-18.9	-49.3	-78.6[+]	-94.8[+]	-90.7[+]
Computer and information technology services	-3.5	1.4	2.9	-7.2	-9.7	-12.0	-3.7	-0.1

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

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

(+) Provisional figures.

Table 16 : Labour force characteristics

	2016	2017	2018	2019	2020+	2020 Q1	Q2	Q3	Q4
(%)									
Labour force participation rate	61.1	61.1	61.2	60.6	59.5	59.5	59.4	59.6	59.6
Seasonally adjusted unemployment rate[(a)]	3.4	3.1	2.8	2.9	5.9	4.2	6.2	6.4	6.6
Underemployment rate	1.4	1.2	1.1	1.1	3.3	2.1	3.7	3.8	3.4
('000)									
Population of working age	6 420.9	6 463.3	6 506.4	6 549.1	6 520.0	6 529.0	6 498.8	6 520.9	6 531.3
Labour force	3 920.1	3 946.6	3 979.0	3 966.2	3 880.3	3 882.2	3 861.1	3 884.6	3 893.4
Persons employed	3 787.1	3 823.2	3 867.0	3 849.9	3 653.2	3 720.0	3 620.4	3 624.8	3 647.7
Persons unemployed	133.0	123.4	112.0	116.3	227.1	162.2	240.7	259.8	245.8
Persons underemployed	54.7	45.6	43.2	42.0	127.1	82.8	142.9	149.1	133.8
(% change over a year earlier)									
Population of working age	0.6	0.7	0.7	0.7	-0.4	-0.2	-0.8	-0.6	-0.6
Labour force	0.4	0.7	0.8	-0.3	-2.2	-2.1	-2.8	-2.1	-1.4
Persons employed	0.4	1.0	1.1	-0.4	-5.1	-3.6	-6.2	-5.8	-4.6
Persons unemployed	2.8	-7.2	-9.2	3.8	95.3	47.0	111.0	116.5	97.9
Persons underemployed	2.5	-16.5	-5.3	-2.8	202.7	112.7	247.3	260.3	181.7

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

Table 17 : Employment in selected major industries

Selected major industries	2015	2016	2017	2018	2019	2019 Dec	2020 Mar	2020 Jun	2020 Sep	2020 Sep
	(% change)					(% change over a year earlier)				(No.)
Manufacturing	-2.8	-3.6	-3.3	-3.0	-3.5	-5.2	-4.8	-3.7	-3.5	83 298
Construction sites (covering manual workers only)	14.9	13.3	10.1	-5.8	-9.0	-3.0	-5.9	-4.9	-3.1	93 910
Import and export trade	-1.4	-0.7	-0.4	-0.6	-5.7	-7.5	-8.7	-12.3	-11.6	392 849
Wholesale	-1.4	-0.8	-0.6	-0.9	-4.0	-5.6	-6.6	-10.0	-8.6	51 880
Retail	-0.5	-1.1	0.5	1.7	-1.7	-4.8	-6.5	-8.1	-6.5	249 754
Food and beverage services	0.1	-0.2	0.3	2.8	-2.3	-7.0	-12.0	-15.4	-13.5	206 852
Accommodation services[(a)]	-1.1	-2.1	0.3	4.8	1.8	-2.1	-10.0	-14.4	-15.4	35 144
Transportation, storage, postal and courier services	1.6	0.5	0.2	0.6	0.3	*	-1.9	-2.3	-3.0	174 995
Information and communications	1.1	0.7	0.9	1.5	1.9	0.3	-0.8	-0.2	-0.1	110 280
Financing and insurance	2.3	0.8	1.5	2.6	2.9	2.2	0.9	0.7	0.7	239 039
Real estate	1.7	-0.1	1.3	2.0	1.2	*	-0.8	*	1.1	136 731
Professional and business services (excluding cleaning and similar services)	2.4	1.9	2.1	3.2	1.5	0.3	-0.5	-0.6	*	307 451
Cleaning and similar services	2.4	0.5	0.7	-1.4	-0.3	0.4	0.1	-0.6	0.5	81 423
Education	3.9	2.3	1.6	1.8	1.7	1.4	-0.5	-1.1	-1.1	203 808
Human health services	4.5	4.3	3.5	3.4	4.7	5.3	4.3	4.6	4.1	141 653
Residential care and social work services	2.8	3.0	1.0	1.0	2.4	4.1	2.6	0.6	-0.1	65 569
Arts, entertainment, recreation and other services	0.9	-2.2	-0.6	1.4	0.8	-0.3	-3.9	-5.2	-6.2	120 808
Others[(b)]	-1.0	0.8	2.1	*	1.5	-0.2	-2.4	-4.6	-0.4	11 479

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) Include employment in mining and quarrying; and in electricity and gas supply, and waste management.

(*) Change within ±0.05%.

Table 18 : Number of manual workers engaged at building and construction sites

	2015	2016	2017	2018	2019	2019 Dec	2020 Mar	2020 Jun	2020 Sep
(Number)									
Building sites									
Private sector	50 372	60 243	65 985	65 700	62 903	59 923	59 450	55 329	52 209
Public sector[(a)]	15 470	16 030	21 660	21 604	19 257	21 424	21 823	23 155	23 016
Sub-total	65 842	76 273	87 645	87 303	82 160	81 347	81 273	78 484	75 225
Civil engineering sites									
Private sector	1 609	1 386	979	1 729	2 483	2 353	2 598	2 178	1 866
Public sector[(a)]	27 652	30 141	30 050	22 816	17 108	16 238	17 189	16 980	16 819
Sub-total	29 261	31 526	31 029	24 546	19 591	18 591	19 787	19 158	18 685
Total	**95 103**	**107 799**	**118 674**	**111 849**	**101 750**	**99 938**	**101 060**	**97 642**	**93 910**
(% change over a year earlier)									
Building sites									
Private sector	14.4	19.6	9.5	-0.4	-4.3	-5.2	-11.8	-13.8	-13.1
Public sector[(a)]	38.0	3.6	35.1	-0.3	-10.9	4.2	13.9	27.1	26.4
Sub-total	19.2	15.8	14.9	-0.4	-5.9	-2.9	-6.1	-4.7	-3.9
Civil engineering sites									
Private sector	13.8	-13.9	-29.3	76.6	43.6	13.0	4.4	-16.6	-24.7
Public sector[(a)]	5.8	9.0	-0.3	-24.1	-25.0	-5.4	-6.4	-4.1	4.4
Sub-total	6.2	7.7	-1.6	-20.9	-20.2	-3.4	-5.1	-5.8	0.5
Total	**14.9**	**13.3**	**10.1**	**-5.8**	**-9.0**	**-3.0**	**-5.9**	**-4.9**	**-3.1**

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

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

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

(%)

Selected industry sections	2015	2016	2017	2018	2019	2019 Q4	2020 Q1	Q2	Q3
(in nominal terms)									
Manufacturing	5.2	3.5	3.4	4.0	3.8	3.0	1.8	-0.9	-1.3
Import/export and wholesale trades	3.7	2.3	2.9	3.2	2.3	1.6	1.2	0.6	*
Retail trade	3.5	2.4	3.3	3.0	2.3	1.7	0.5	0.2	-0.3
Transportation, storage, postal and courier services	4.3	3.3	3.4	4.1	3.9	2.9	-1.1	-3.9	-5.4
Accommodation[(a)] and food service activities	5.8	5.1	4.7	5.3	4.7	3.4	-1.4	-2.7	-4.1
Information and communications	4.4	3.4	3.3	3.3	3.9	3.3	3.2	2.3	1.7
Financial and insurance activities	4.0	2.7	3.0	3.1	3.0	2.2	1.8	1.7	1.6
Real estate activities	5.1	4.2	4.3	4.3	4.1	3.6	2.3	1.6	1.2
Professional and business services	5.8	5.1	4.2	4.6	3.8	2.9	2.7	1.3	1.3
Social and personal services	6.7	2.5	3.1	4.3	2.3	1.6	10.2	4.6	4.6
All selected industry sections surveyed	**4.6**	**3.7**	**3.7**	**3.9**	**3.4**	**2.4**	**3.2**	**2.2**	**2.0**
(in real terms)									
Manufacturing	2.1	1.0	2.0	1.6	0.9	*	-0.2	-2.2	0.4
Import/export and wholesale trades	0.7	-0.1	1.4	0.8	-0.5	-1.4	-0.7	-0.7	1.6
Retail trade	0.5	*	1.8	0.6	-0.5	-1.3	-1.4	-1.2	1.4
Transportation, storage, postal and courier services	1.3	0.9	1.9	1.6	1.0	-0.1	-3.0	-5.2	-3.9
Accommodation[(a)] and food service activities	2.7	2.6	3.2	2.8	1.8	0.4	-3.3	-4.0	-2.5
Information and communications	1.4	1.0	1.9	0.8	0.9	0.3	1.2	0.9	3.4
Financial and insurance activities	0.7	0.3	1.6	0.7	0.3	-0.8	-0.1	0.3	3.3
Real estate activities	2.0	1.7	2.8	1.9	1.2	0.6	0.3	0.3	2.9
Professional and business services	2.8	2.6	2.7	2.2	0.9	-0.1	0.7	*	3.0
Social and personal services	3.6	0.1	1.6	1.8	-0.5	-1.4	8.1	3.2	6.3
All selected industry sections surveyed	**1.5**	**1.3**	**2.3**	**1.5**	**0.5**	**-0.6**	**1.2**	**0.8**	**3.6**

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

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

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

(*) Change within ±0.05%.

Table 20 : Rates of change in wage indices by selected industry section

(%)

Selected industry sections	2015	2016	2017	2018	2019	2019 Dec	2020 Mar	2020 Jun	2020 Sep
(in nominal terms)									
Manufacturing	4.0	4.0	3.7	3.6	3.5	2.8	2.5	2.0	1.7
Import/export, wholesale and retail trades	3.1	2.7	3.0	3.0	2.3	1.6	1.3	1.0	0.8
Transportation	4.4	3.5	2.9	4.7	4.4	3.4	3.2	0.6	-1.7
Accommodation[(a)] and food service activities	5.4	4.9	4.7	4.6	4.1	3.3	1.6	0.9	0.9
Financial and insurance activities[(b)]	3.2	3.4	3.5	3.5	3.7	3.0	2.7	2.4	2.2
Real estate leasing and maintenance management	3.4	3.7	4.1	4.4	3.9	3.5	3.2	2.6	2.5
Professional and business services	6.9	4.7	4.7	4.4	3.6	3.0	2.7	1.2	1.4
Personal services	6.5	5.5	4.2	4.1	3.3	2.9	1.1	0.6	0.6
All industries surveyed	**4.4**	**3.7**	**3.8**	**4.0**	**3.5**	**2.8**	**2.2**	**1.3**	**1.0**
(in real terms)									
Manufacturing	0.2	1.4	2.2	0.8	0.2	-0.5	*	1.3	8.1
Import/export, wholesale and retail trades	-0.6	0.3	1.6	0.1	-0.9	-1.7	-1.2	0.4	7.2
Transportation	0.6	1.0	1.5	1.7	1.1	0.1	0.6	*	4.5
Accommodation[(a)] and food service activities	1.5	2.3	3.3	1.7	0.8	-0.1	-0.9	0.3	7.3
Financial and insurance activities[(b)]	-0.5	0.9	2.1	0.6	0.3	-0.3	0.2	1.8	8.6
Real estate leasing and maintenance management	-0.4	1.1	2.6	1.4	0.6	0.2	0.7	2.0	9.0
Professional and business services	2.9	2.3	3.2	1.5	0.3	-0.3	0.2	0.5	7.8
Personal services	2.6	3.0	2.7	1.1	0.2	-0.5	-1.4	*	7.0
All industries surveyed	**0.6**	**1.2**	**2.3**	**1.0**	**0.2**	**-0.5**	**-0.3**	**0.6**	**7.3**

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; and exchanges and services companies.

(*) Change within ±0.05%.

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

(HK$)

Industry sections[(a)]	May – Jun 2018 25th percentile	May – Jun 2018 50th percentile	May – Jun 2018 75th percentile	May – Jun 2019 25th percentile	May – Jun 2019 50th percentile	May – Jun 2019 75th percentile
Manufacturing[(b)]	13,900	16,900	26,000	14,800	17,800	27,700
Electricity and gas supply; sewerage, waste management and remediation activities	21,000	27,800	45,300	21,600	28,200	42,400
Construction	18,000	22,800	28,400	18,500	23,500	29,500
Import and export trade	13,500	18,300	27,500	14,000	18,800	28,000
Wholesale	11,500	14,900	19,700	12,000	15,100	20,500
Retail trade	10,600	13,500	17,600	11,000	14,000	18,100
within which:						
Supermarkets and convenience stores	7,400	11,500	14,400	7,400	11,900	14,400
Other retail stores	11,300	13,800	18,200	11,500	14,200	18,500
Land transport	14,000	18,900	28,500	14,700	19,800	29,100
Other transportation, storage, postal and courier services[(c)]	14,000	18,400	24,700	14,300	19,000	25,000
Food and beverage services	10,500	13,000	17,000	11,000	13,800	18,000
within which:						
Hong Kong style tea cafes	11,400	13,000	16,900	12,100	13,700	17,600
Chinese restaurants	12,300	14,400	19,400	12,800	15,000	20,200
Restaurants, other than Chinese	11,500	13,500	17,000	12,000	14,200	18,000
Fast food cafes[(d)]	4,800	9,700	13,100	4,900	10,100	13,500
Other food and beverage services	8,500	12,800	16,000	9,000	13,400	16,800
Accommodation services[(e)]	13,000	15,700	20,600	13,500	16,200	21,000
Information and communications	15,400	22,800	35,000	16,000	23,700	36,200
Financing and insurance	18,000	27,500	45,500	18,600	28,300	47,200
Real estate activities[(f)]	14,500	22,300	34,000	14,800	23,000	34,600
Estate management, security and cleaning services	9,600	12,400	15,200	10,100	13,000	15,900
within which:						
Real estate maintenance management	12,000	13,500	16,500	12,500	14,100	17,100
Security services[(g)]	11,100	12,800	15,600	11,800	13,600	16,400
Cleaning services	7,500	9,200	10,400	7,900	9,800	11,000
Membership organisations[(h)]	10,200	13,100	21,000	10,800	13,700	21,800
Professional, scientific and technical services	15,200	23,300	36,000	15,500	24,300	37,100
Administrative and support services activities	12,500	16,500	26,300	13,000	17,000	26,800
Travel agency, reservation service and related activities	11,800	14,800	21,000	12,400	15,300	21,900
Education and public administration (excluding the Government)	14,000	28,400	50,900	14,100	29,200	51,600
Human health activities; and beauty and body prettifying treatment	13,500	18,800	41,100	14,100	19,500	42,700
Miscellaneous activities	10,400	12,400	16,300	11,000	13,100	17,000
within which:						
Elderly homes	12,000	13,700	16,600	12,800	14,500	17,300
Laundry and dry cleaning services	8,900	11,500	15,500	9,400	12,000	16,300
Hairdressing and other personal services	10,200	12,000	16,300	10,500	12,600	16,800
Local courier services	8,100	10,600	14,300	8,000	11,000	15,000
Food processing and production	10,000	12,400	17,800	10,600	13,000	18,000
Other activities not classified above	11,900	15,600	24,500	12,600	16,300	25,400
All industry sections above	**12,600**	**17,500**	**27,300**	**13,100**	**18,200**	**28,200**

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

(a) Starting from the 2019 survey round, the industry section previously named as “Restaurants” in this table has been expanded to cover also “Other food service activities” which was previously classified under the industry section “Accommodation and other food service activities”. For the sake of clarity and consistency, the “Restaurants” industry section has been renamed as “Food and beverage services” after the expansion of coverage while “Other food service activities” has also been renamed as “Other food and beverage services”. As a result of this reclassification, statistics for “Accommodation services” can be separately provided. To facilitate year-on-year comparison, the 2018 statistics published in this table are compiled using the most up-to-date industry classification.

(b) Excluding food processing and production.

(c) Excluding local courier services.

(d) Including takeaway shops.

(e) Including hotels, guesthouses, boarding houses and other establishments providing short term accommodation, i.e. all industries covered under the previous “Accommodation and other food service activities” industry section, except “Other food service activities”.

(f) Excluding real estate maintenance management.

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

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

Table 22 : Hourly wage level and distribution analysed by industry section : all employees

(HK$)

Industry sections[(a)]	May – Jun 2018 25th percentile	May – Jun 2018 50th percentile	May – Jun 2018 75th percentile	May – Jun 2019 25th percentile	May – Jun 2019 50th percentile	May – Jun 2019 75th percentile
Manufacturing[(b)]	52.8	68.8	101.7	55.8	72.6	107.3
Electricity and gas supply; sewerage, waste management and remediation activities	76.0	107.3	169.1	78.6	111.1	168.7
Construction	75.5	96.7	118.8	78.4	99.9	124.4
Import and export trade	56.5	78.9	116.3	58.2	80.3	118.3
Wholesale	50.2	63.5	84.3	51.9	65.2	86.5
Retail trade	44.1	51.3	66.2	45.6	53.8	67.9
within which:						
Supermarkets and convenience stores	41.2	45.8	50.3	42.9	47.5	52.5
Other retail stores	44.8	54.0	69.7	46.3	55.9	72.6
Land transport	54.6	77.6	120.0	57.1	79.6	116.8
Other transportation, storage, postal and courier services[(c)]	51.6	67.9	93.4	52.7	69.1	95.2
Food and beverage services	44.4	49.7	62.1	46.6	52.2	64.8
within which:						
Hong Kong style tea cafes	45.0	49.2	60.0	47.6	52.5	63.3
Chinese restaurants	44.8	50.9	68.7	46.9	53.3	71.6
Restaurants, other than Chinese	45.2	50.1	63.3	48.3	54.2	67.3
Fast food cafes[(d)]	43.0	46.5	51.7	44.4	48.3	53.8
Other food and beverage services	43.0	48.9	58.5	45.2	51.2	61.5
Accommodation services[(e)]	45.5	56.3	72.1	47.3	58.1	74.4
Information and communications	62.1	90.2	134.4	64.5	93.8	141.2
Financing and insurance	72.2	107.5	185.2	74.6	111.0	191.2
Real estate activities[(f)]	61.3	88.2	141.4	62.5	90.0	142.9
Estate management, security and cleaning services	38.6	43.6	54.0	41.1	45.9	58.7
within which:						
Real estate maintenance management	39.4	44.1	59.7	41.2	46.3	62.2
Security services[(g)]	39.3	43.0	52.6	41.2	45.5	55.6
Cleaning services	37.8	42.7	48.7	40.0	45.1	51.7
Membership organisations[(h)]	42.6	53.8	87.5	44.8	56.7	90.9
Professional, scientific and technical services	64.2	94.0	155.6	65.6	95.8	157.6
Administrative and support services activities	48.4	68.0	106.3	51.4	71.0	110.5
Travel agency, reservation service and related activities	48.4	64.1	87.8	50.7	66.5	90.3
Education and public administration (excluding the Government)	65.7	130.5	220.0	67.5	131.8	220.0
Human health activities; and beauty and body prettifying treatment	61.9	86.0	168.5	63.6	89.6	174.9
Miscellaneous activities	42.5	49.4	67.2	44.4	51.6	68.3
within which:						
Elderly homes	40.1	50.0	66.3	42.4	52.7	69.8
Laundry and dry cleaning services	40.9	47.1	62.9	43.1	49.5	65.2
Hairdressing and other personal services	45.6	50.0	68.4	47.2	51.9	70.5
Local courier services	42.0	49.9	60.0	47.0	52.2	62.6
Food processing and production	41.9	48.4	69.5	44.0	50.9	69.8
Other activities not classified above	51.0	64.3	99.7	53.8	67.9	103.6
All industry sections above	**50.0**	**70.5**	**111.1**	**52.2**	**73.0**	**114.9**

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

(a) Starting from the 2019 survey round, the industry section previously named as “Restaurants” in this table has been expanded to cover also “Other food service activities” which was previously classified under the industry section “Accommodation and other food service activities”. For the sake of clarity and consistency, the “Restaurants” industry section has been renamed as “Food and beverage services” after the expansion of coverage while “Other food service activities” has also been renamed as “Other food and beverage services”. As a result of this reclassification, statistics for “Accommodation services” can be separately provided. To facilitate year-on-year comparison, the 2018 statistics published in this table are compiled using the most up-to-date industry classification.

(b) Excluding food processing and production.

(c) Excluding local courier services.

(d) Including takeaway shops.

(e) Including hotels, guesthouses, boarding houses and other establishments providing short term accommodation, i.e. all industries covered under the previous “Accommodation and other food service activities” industry section, except “Other food service activities”.

(f) Excluding real estate maintenance management.

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

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

Table 23 : Rates of change in prices

(%)

	2011	2012	2013	2014	2015	2016	2017	2018
GDP deflator	3.9	3.5	1.8	2.9	3.6	1.6	2.9	3.7
Domestic demand deflator	4.5	4.2	1.4	3.1	2.2	1.4	2.8	3.4
Consumer Price Indices[(a)] :								
Composite CPI	5.3	4.1	4.3	4.4	3.0	2.4	1.5	2.4
CPI(A)	5.6	3.6	5.1	5.6	4.0	2.8	1.5	2.7
CPI(B)	5.2	4.3	4.1	4.2	2.9	2.3	1.4	2.3
CPI(C)	5.1	4.1	3.8	3.5	2.1	2.1	1.5	2.2
Unit Value Indices :								
Total exports of goods	8.0	3.4	1.3	2.0	0.1	-1.7	1.8	2.4
Imports of goods	8.1	3.3	0.9	1.9	-0.4	-1.7	1.9	2.6
Terms of Trade Index[(b)]	-0.1	0.1	0.4	0.1	0.5	*	-0.1	-0.1
Producer Price Index for all manufacturing industries	8.3	0.1	-3.1	-1.7	-2.7	1.3	3.8	2.0
Tender Price Indices :								
Public sector building projects	11.6	8.3	6.6	7.3	5.9	1.0	-0.3	-2.9
Public housing projects	10.1	6.4	9.3	8.0	12.5	-0.7	0.3	-1.9

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 ±0.05%.

N.A. Not yet available.

(^) Average annual rate of change for the 10-year period 2009-2019.

(~) Average annual rate of change for the 5-year period 2014-2019.

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

(%)

	2019	2020	2020				Average annual rate of change:	
			Q1	Q2	Q3	Q4	10 years 2010 to 2020	5 years 2015 to 2020
GDP deflator#	2.4	0.8	2.8	0.8	0.8	-1.1	2.7	2.3
Domestic demand deflator#	2.8	0.9	3.0	1.0	-0.1	-0.3	2.7	2.2
Consumer Price Indices[(a)] :								
Composite CPI	2.9	0.3	2.0	1.3	-1.7	-0.3	3.1	1.9
CPI(A)	3.3	-0.5	1.1	1.6	-4.2	-0.3	3.4	2.0
CPI(B)	2.7	0.7	2.4	1.4	-0.6	-0.5	3.0	1.9
CPI(C)	2.6	0.8	2.4	1.1	-0.1	-0.2	2.8	1.8
Unit Value Indices :								
Total exports of goods	1.1	-0.6	-0.7	-1.0	-0.7	-0.1	1.8	0.6
Imports of goods	1.3	-0.7	-0.4	-1.0	-1.2	-0.1	1.7	0.7
Terms of Trade Index[(b)]	-0.1	*	-0.3	0.1	0.5	*	0.1	-0.1
Producer Price Index for all manufacturing industries	1.0	N.A.	1.3	1.3	3.8	N.A.	1.4^	1.0~
Tender Price Indices :								
Public sector building projects	-2.6	N.A.	-3.2	-3.7	-3.4	N.A.	4.6^	0.2~
Public housing projects	-1.8	N.A.	-2.4	-2.5	-2.8	N.A.	4.8^	1.5~

Table 24 : Rates of change in Composite Consumer Price Index

(%)

	Weight	2011	2012	2013	2014	2015	2016	2017
All items	**100.00**	**5.3** **(5.3)**	**4.1** **(4.7)**	**4.3** **(4.0)**	**4.4** **(3.5)**	**3.0** **(2.5)**	**2.4** **(2.3)**	**1.5** **(1.7)**
Food	27.29	7.0	5.8	4.4	4.1	4.0	3.4	2.2
Meals bought away from home	*17.74*	*5.2*	*5.4*	*4.4*	*4.6*	*4.2*	*3.3*	*2.7*
Food, excluding meals bought away from home	*9.55*	*9.9*	*6.5*	*4.4*	*3.4*	*3.4*	*3.6*	*1.1*
Housing[(a)]	34.29	7.2	5.6	6.7	6.7	5.1	3.7	2.0
Private housing rent	*29.92*	*7.2*	*6.8*	*6.3*	*6.0*	*4.7*	*3.4*	*1.8*
Public housing rent	*1.94*	*11.9*	*-7.1*	*16.0*	*18.3*	*10.9*	*7.2*	*3.0*
Electricity, gas and water	2.67	-4.2	-8.2	6.9	14.9	8.4	1.0	-1.7
Alcoholic drinks and tobacco	0.54	17.1	3.0	1.5	6.5	1.3	1.5	0.6
Clothing and footwear	3.21	6.8	3.1	1.7	0.9	-1.8	-3.4	-0.4
Durable goods	4.65	-3.8	-1.4	-4.3	-3.4	-5.6	-5.4	-3.2
Miscellaneous goods	3.56	3.8	2.2	2.2	2.3	0.9	1.5	1.4
Transport	7.98	4.4	3.0	2.3	2.0	-0.3	1.6	2.3
Miscellaneous services	15.81	3.5	2.8	3.7	3.0	1.1	2.3	0.9

Notes: The year-on-year rates of change before October 2015 were derived using the index series in the base periods at that time (for instance the 2009/10-based index series), compared with the index a year earlier in the same base period. The weights quoted in this table correspond to that in the 2014/15-based index series.

Figures in brackets represent the underlying rates of change after netting out the effects of Government's one-off relief measures.

(a) Apart from "Private housing rent" and "Public housing rent", the "Housing" section also includes "Management fees and other housing charges" and "Materials for house maintenance".

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

(%)

	Weight	2018	2019	2020	2020				Average annual rate of change:	
					Q1	Q2	Q3	Q4	10 years 2010 to 2020	5 years 2015 to 2020
All items	**100.00**	**2.4**	**2.9**	**0.3**	**2.0**	**1.3**	**-1.7**	**-0.3**	**3.1**	**1.9**
		(2.6)	**(3.0)**	**(1.3)**	**(2.9)**	**(1.8)**	**(0.3)**	**(0.2)**	**(3.1)**	**(2.2)**
Food	27.29	3.4	4.9	3.3	6.4	4.5	1.0	1.4	4.2	3.4
Meals bought away from home	*17.74*	*2.9*	*2.2*	*0.8*	*1.8*	*1.5*	*-0.6*	*0.6*	*3.6*	*2.4*
Food, excluding meals bought away from home	*9.55*	*4.3*	*9.9*	*7.5*	*14.9*	*9.9*	*3.5*	*2.7*	*5.4*	*5.2*
Housing[(a)]	34.29	2.5	3.5	-0.1	0.7	1.6	-3.2	0.5	4.3	2.3
Private housing rent	*29.92*	*2.2*	*3.1*	*1.1*	*2.7*	*1.4*	*0.5*	*-0.2*	*4.2*	*2.3*
Public housing rent	*1.94*	*4.1*	*7.1*	*-21.0*	*-31.1*	*0.4*	*-61.7*	*8.3*	*4.4*	*-0.6*
Electricity, gas and water	2.67	4.9	-5.4	-19.6	-16.0	-19.0	-19.2	-24.3	-0.7	-4.5
Alcoholic drinks and tobacco	0.54	1.3	1.2	0.6	-0.3	0.3	1.1	1.2	3.4	1.0
Clothing and footwear	3.21	1.6	-1.7	-5.3	-4.2	-5.0	-6.4	-5.6	0.1	-1.9
Durable goods	4.65	-2.0	-1.9	-2.9	-2.5	-3.1	-3.5	-2.5	-3.4	-3.1
Miscellaneous goods	3.56	1.3	2.5	2.6	3.8	2.8	2.3	1.4	2.1	1.8
Transport	7.98	1.6	2.0	-0.8	1.2	0.2	-2.8	-1.9	1.8	1.3
Miscellaneous services	15.81	2.1	2.0	0.7	1.5	0.8	0.6	0.1	2.2	1.6

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

(%)

	2011	2012	2013	2014	2015	2016	2017
Private consumption expenditure	3.6	3.2	2.7	2.9	1.2	1.5	2.5
Government consumption expenditure	4.5	6.2	4.3	4.7	4.4	3.7	2.5
Gross domestic fixed capital formation	6.8	6.4	-2.9	3.1	4.5	-0.3	4.4
Total exports of goods	7.8	3.2	-0.1	0.7	-0.7	-1.4	1.7
Imports of goods	8.4	4.3	-0.3	0.8	-1.4	-1.8	1.8
Exports of services	7.5	4.7	0.4	0.4	-2.8	-2.0	3.2
Imports of services	5.9	0.6	0.3	0.5	-4.6	-1.3	2.7
Gross Domestic Product	**3.9**	**3.5**	**1.8**	**2.9**	**3.6**	**1.6**	**2.9**
Total final demand	6.7	3.7	0.4	1.4	*	-0.6	2.2
Domestic demand	4.5	4.2	1.4	3.1	2.2	1.4	2.8

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 ±0.05%.

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

(%)

	2018	2019#	2020#	2020 Q1#	Q2#	Q3#	Q4#	Average annual rate of change: 10 years 2010 to 2020#	5 years 2015 to 2020#
Private consumption expenditure	3.1	2.7	0.7	2.9	1.0	-0.3	-0.9	2.4	2.1
Government consumption expenditure	3.3	4.5	2.7	5.6	2.1	1.7	1.4	4.1	3.3
Gross domestic fixed capital formation	4.6	1.9	-0.6	3.4	-1.5	-1.7	-2.6	2.7	2.0
Total exports of goods	2.2	1.1	0.1	*	-0.1	0.1	0.1	1.4	0.7
Imports of goods	2.3	1.3	*	0.5	-0.2	-0.6	0.5	1.5	0.7
Exports of services	4.5	-0.4	-1.3	-0.2	-4.0	-1.6	0.5	1.4	0.8
Imports of services	2.8	-1.0	-1.3	-2.2	-3.4	-1.7	1.9	0.4	0.4
Gross Domestic Product	**3.7**	**2.4**	**0.8**	**2.8**	**0.8**	**0.8**	**-1.1**	**2.7**	**2.3**
Total final demand	2.8	1.5	0.3	1.2	0.1	-0.1	*	1.8	1.3
Domestic demand	3.4	2.8	0.9	3.0	1.0	-0.1	-0.3	2.7	2.2

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