



First Quarter Economic Report 2026

Government of the Hong Kong
Special Administrative Region

FIRST QUARTER ECONOMIC REPORT 2026

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

Summary

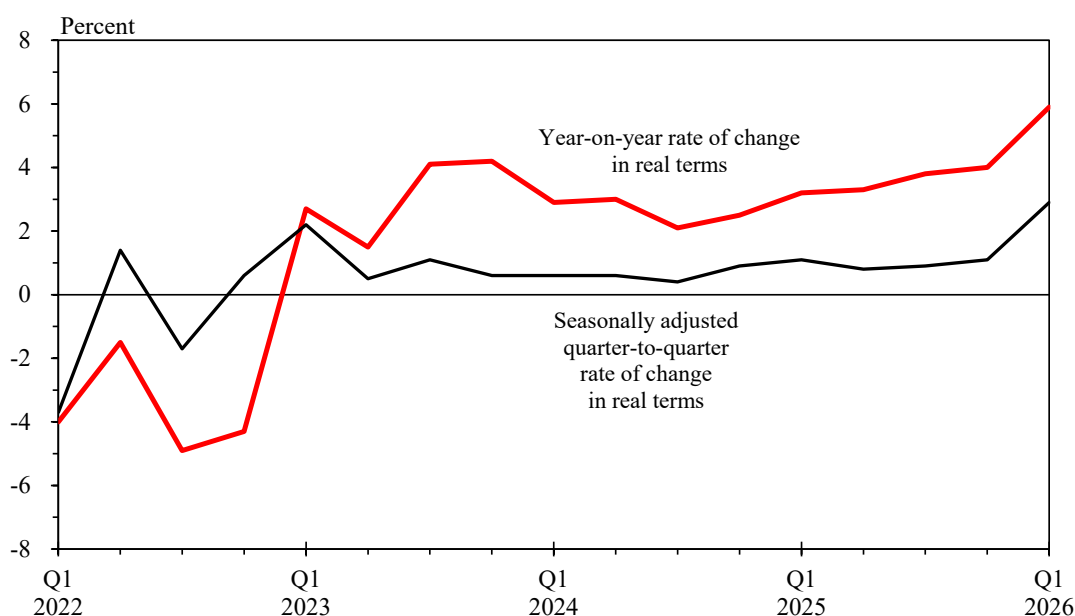
- *The Hong Kong economy expanded robustly in the first quarter of 2026, driven by the sustained strong performance in external trade and pick-up in domestic demand. Real Gross Domestic Product (GDP)⁽¹⁾ grew by 5.9% over a year earlier or 2.9% on a seasonally adjusted quarter-to-quarter comparison⁽²⁾.*
- *Hong Kong's goods exports grew markedly in the first quarter, underpinned by sustained global demand for artificial intelligence (AI)-related electronic products and buoyant regional trade flows in Asia. Recent data still pointed to continued strengthening of export shipments within the region. Exports of services continued to expand solidly, with broad-based growth across all major service groups.*
- *Domestic demand strengthened across both consumption and investment. Private consumption expenditure growth accelerated in the first quarter, signalling a more entrenched recovery in households' spending. Overall investment expenditure continued to expand at a double-digit rate, supported by active property transactions, strong public building and construction outlays, and buoyant private investment in machinery, equipment and intellectual property products.*
- *The labour market showed modest improvement in the first quarter. The seasonally adjusted unemployment rate edged down further by 0.1 percentage point from the preceding quarter to 3.7% in the first quarter. The underemployment rate also decreased by 0.1 percentage point to 1.6%. Average employment earnings continued to record year-on-year growth in the first quarter.*
- *The asset markets showed mixed development in the first quarter. The local stock market saw varying monthly moves, with the Hang Seng Index (HSI) rising to a four-and-a-half year high of nearly 28 000 in January, moving sideways in February, and correcting in March after the Middle East conflict. It ended the quarter at 24 788, down 3.3% from end-2025, with trading and fund-raising activities remaining strong. The HSI largely recovered the earlier lost ground in April and the first week of May. Meanwhile, the residential property market continued to strengthen in the first quarter, with both prices and rentals recording further increases.*

- *Consumer price inflation stayed modest in the first quarter, though it picked up somewhat in March, driven by fuel-related components amid higher oil prices linked to Middle East tensions. Price pressures in other components were largely contained. The feed-through process of higher international oil prices to fuel-related components in consumer prices should continue in the coming months.*
- *Looking ahead, Hong Kong's economic outlook remains broadly resilient. Strong global demand for advanced electronics and AI-related products is expected to support export performance, while services exports should remain firm, underpinned by sustained vibrancy in inbound tourism, robust cross-boundary financial activity, and steady demand for business services.*
- *The impacts of the Middle East conflict on the Hong Kong economy have so far been limited. Nevertheless, the outlook of the Middle East conflict remains highly uncertain. A further escalation or persistence of tensions could heighten global financial market volatility, posing downside risks to growth and upside risks to inflation. Inflation in Hong Kong is, however, expected to remain relatively well anchored, reflecting our low energy intensity as a predominantly service-oriented economy, with stable energy supplies from the Mainland helping to mitigate external shocks. The Government is closely monitoring the developments. In the past two months, the Government has introduced short-term, targeted measures to provide timely relief to sectors with relatively high fuel cost, and will respond further as appropriate to safeguard price stability.*

Overall situation

1.1 The Hong Kong economy expanded robustly in the first quarter of 2026, driven by the sustained strong performance in external trade and pick-up in domestic demand. Real GDP grew robustly by 5.9% year-on-year in the first quarter (same as the advance estimate), following 4.0% growth in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP rose by 2.9% (same as the advance estimate), further to the 1.1% increase in the preceding quarter.

Diagram 1.1 : The Hong Kong economy expanded robustly in the first quarter of 2026



1.2 Looking ahead, Hong Kong’s economic outlook remains broadly resilient. Strong global demand for advanced electronics and AI-related products is expected to support export performance, while services exports should remain firm, underpinned by sustained vibrancy in inbound tourism, robust cross-boundary financial activity, and steady demand for business services. The impacts of the Middle East conflict on the Hong Kong economy have so far been limited. Nevertheless, the outlook of the Middle East conflict remains highly uncertain (See **Box 1.1** on geopolitical risks in the Middle East and recent market expectations on international energy prices). A further escalation or persistence of tensions could heighten global financial market volatility, posing downside risks to growth and upside risks to inflation. Inflation in Hong Kong is, however, expected to remain relatively well anchored, reflecting our low energy intensity as a predominantly service-oriented economy, with stable energy supplies from the Mainland helping to mitigate external shocks. The Government is closely monitoring the developments. In the past two months, the Government has introduced short-term, targeted measures to provide timely relief to sectors with relatively high fuel cost, and will respond further as appropriate to safeguard price stability.

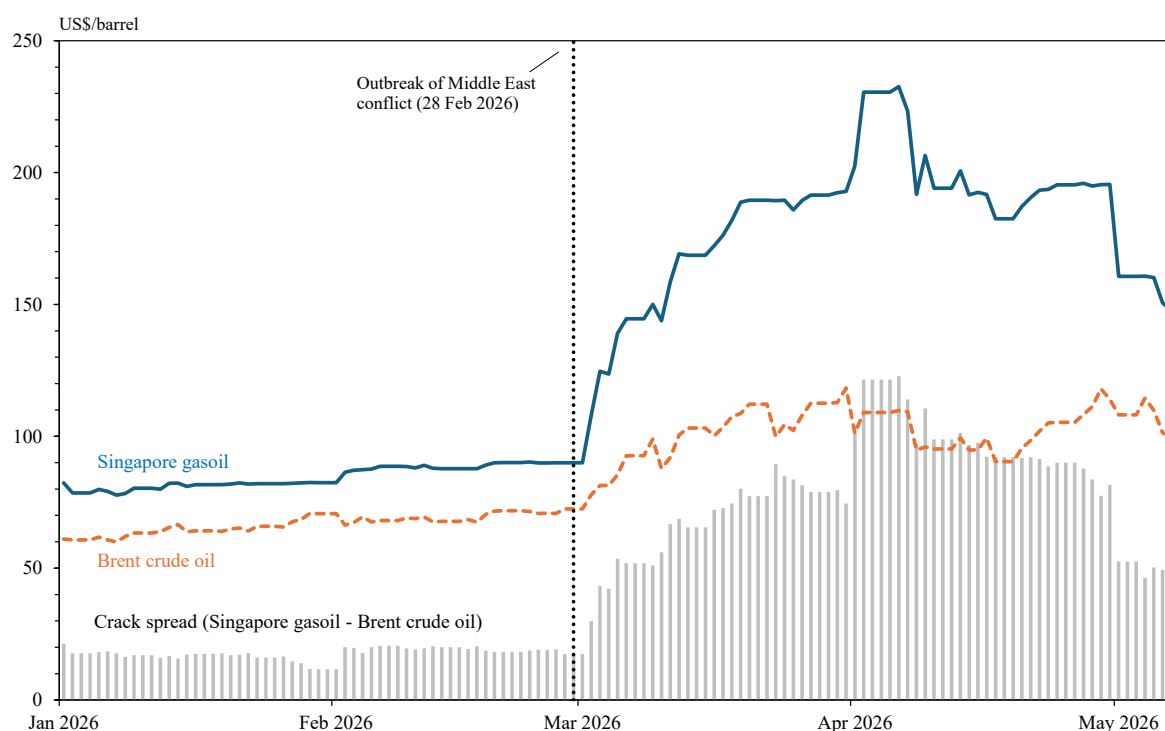
Box 1.1

Geopolitical risks in the Middle East and recent market expectations on international energy prices

The outbreak of the Middle East conflict since late-February has posed a significant shock to the global economy, and its evolution remains highly uncertain. This note outlines the latest views on possible outcomes based on the International Monetary Fund's (IMF) assumptions, and also prevailing market pricing for the likely path of international energy prices in the coming quarters.

Mixed signals on US–Iran tensions and peace talks keep oil prices volatile. International oil and diesel prices surged in response to the Middle East conflict (*Chart 1*). Brent crude oil prices surged from US\$73 per barrel before the conflict to over US\$110 per barrel in late March, and then stayed elevated trading near US\$110 per barrel in late April. As of 7 May 2026, Brent crude oil was trading at around US\$100 per barrel, reflecting improved market sentiment amid prospect for a diplomatic de-escalation of the conflict. Singapore gasoil prices, a benchmark for diesel in the Asian markets, rose even more sharply due to regional supply constraints. Prices increased from around US\$90 per barrel prior to the conflict to a peak of approximately US\$230 per barrel in early April, implying a crack spread of around US\$120 per barrel. The crack spread subsequently narrowed, but it remained elevated at around US\$80 per barrel in late April. As of 7 May 2026, Singapore gasoil prices was trading at approximately US\$150 per barrel with crack spread at roughly US\$50 per barrel.

Chart 1: Diesel and oil prices reflected by Singapore gasoil and Brent crude oil



Source: Bloomberg data.

Box 1.1 (Cont'd)

The duration, scale and scope of the Middle East conflict could have significant implication for the future path of international energy prices and are pivotal in shaping global and Hong Kong's economic and inflation outlook. In this context, the IMF, in its World Economic Outlook released in April 2026, outlined three scenarios (*Table 1*). Although no explicit probabilities are assigned, the “reference forecast” is generally interpreted as the baseline, while the “adverse” and “severe” scenarios capture progressively more negative outcomes, contingent on a more prolonged or broader conflict.

According to the IMF, under the “reference forecast”, global growth is revised down in 2026 by 0.2 percentage point to 3.1%, while global inflation is revised up by 0.6 percentage point to 4.4%. Under the “adverse” scenario, global growth is lowered by 0.8 percentage point to 2.5%, while inflation projection is raised by 1.6 percentage points to 5.4%.

Table 1: Summary of IMF's scenario analysis

	Reference forecast	Adverse scenario	Severe scenario
Broad situation	Assumed the conflict to be short-lived with gradual recovery afterwards, such that production activities in the region normalise by around mid-2026	Assumed sharp increase in energy price to continue in the second quarter, before falling back closer to baseline in 2027	Assumed more severe and persistent shock so that energy prices stay elevated throughout this year and for a while beyond
2026 oil price forecast*	US\$82/barrel (+21% year-on-year)	US\$100/barrel (+47% year-on-year)	US\$110/barrel (+66% year-on-year)
2026 global growth forecast^	+3.1% (-0.2%pt.)	+2.5% (-0.8%pt.)	+2.0% (-1.3%pt.)
2026 global inflation forecast^	4.4% (+0.6%pt.)	5.4% (+1.6%pt.)	5.8% (+2.0%pt.)

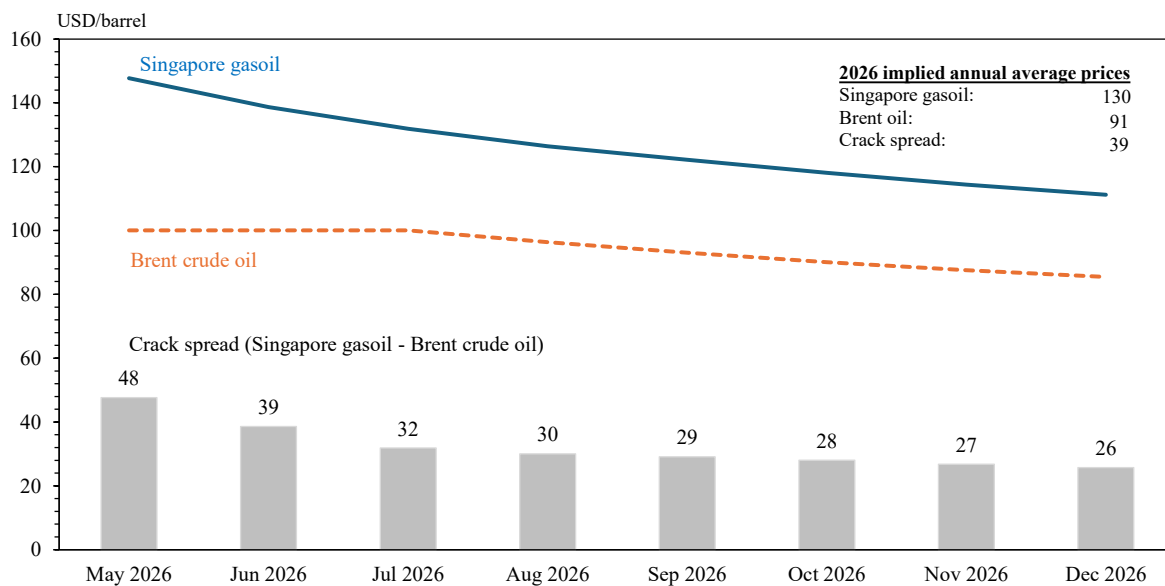
Notes: (*) The projected levels refer to the estimated average petroleum spot price index for 2026 published by the IMF in the latest World Economic Outlook released in April 2026. The year-on-year rate of change is calculated against the Brent crude oil price.

(^) Figures in bracket refer to the differences against IMF's forecast in January 2026.

Futures market currently indicate a notable decline in oil prices around mid-year. The IMF baseline oil price assumptions are broadly consistent with current futures pricing, which indicate that oil prices are expected to start easing from around mid-2026. As of 7 May 2026, Brent futures curves point to a notable decline in crude oil prices by around mid-year, and a gradual easing to around US\$85 per barrel by end-2026 (*Chart 2*). For Singapore gasoil prices, futures market pricing indicates that the crack spread will narrow sharply in May to July, before declining in tandem with Brent crude oil, and bringing the gasoil prices to about US\$111 per barrel by year-end. That said, uncertainty remains elevated, and the evolution of the Middle East conflict continues to pose upside risks to international energy prices if tensions prove more prolonged or escalate.

Box 1.1 (Cont'd)

**Chart 2: Futures contracts of Singapore gasoil and Brent crude oil
- as of 7 May 2026**



Notes: Singapore gasoil prices are a key benchmark of diesel oil in the Asian markets and are assessed by S&P Global Platts. The chart above shows the futures contracts of Singapore gasoil and Brent crude oil in the remainder of 2026, based on market pricing for the expected future settlement prices in each month. For months that do not have a future settlement price, price of the nearest month is adopted for illustration. The bars show the crack spread, i.e. the price difference between the Singapore gasoil and Brent crude oil. The 2026 implied annual average is estimated based on the actual performance up to 7 May and average expected price in following months as indicated by the futures contracts.

Source: Bloomberg data.

The external sector

1.3 *Total exports of goods* based on the GDP compilation framework grew markedly by 23.7% year-on-year in real terms in the first quarter of 2026, following an increase of 15.4% in the preceding quarter. The strong export growth was supported by the sustained global demand for AI-related electronic products and buoyant regional trade flows in Asia. Recent data still pointed to continued strengthening of export shipments within the region.

1.4 *Exports of services* continued to expand solidly by 3.5% in real terms in the first quarter over a year earlier, after rising by 4.7% in the preceding quarter. Broad-based growth was seen across all major service groups, including travel, transport, financial services, and business and other services (See *Chapter 2* on the external sector).

The domestic sector

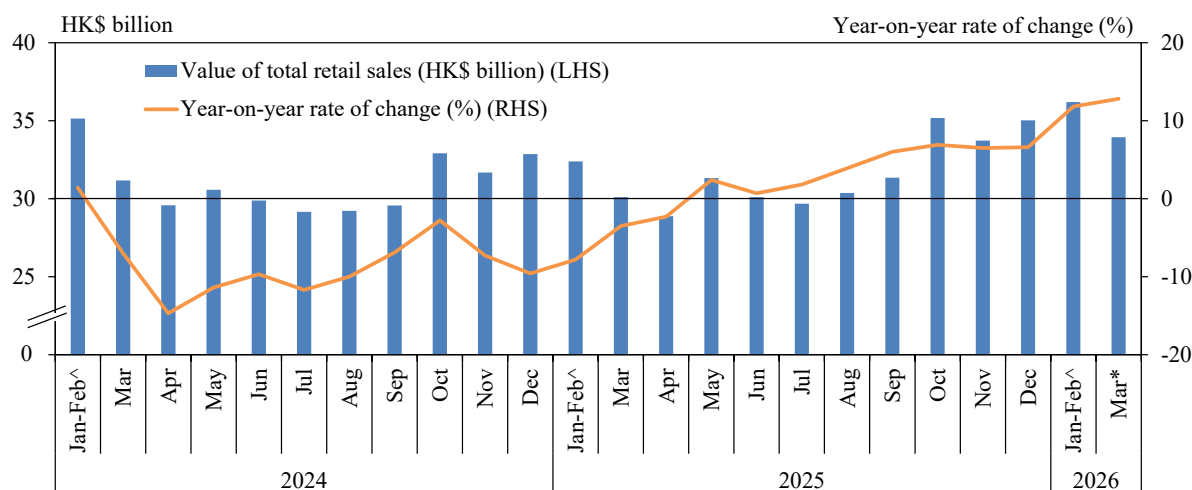
1.5 Private consumption growth accelerated in the first quarter of 2026, indicating a more entrenched recovery in households' spending (See **Box 1.2** on recent performance and near-term outlook of retail sales). *Private consumption expenditure* rose by 4.9% in real terms in the first quarter over a year earlier, after an increase of 2.5% in the preceding quarter. On a seasonally adjusted quarter-to-quarter basis, private consumption expenditure rose by 1.7% in real terms. Meanwhile, *government consumption expenditure* increased by 3.0% in real terms in the first quarter over a year earlier, after rising by 1.5% in the preceding quarter. On a seasonally adjusted quarter-to-quarter basis, government consumption expenditure increased by 1.5% in real terms.

Box 1.2

Recent performance and near-term outlook of retail sales

Robust retail sales growth: Total retail sales value resumed year-on-year increase in May 2025 and the pace of expansion generally strengthened in the ensuing months. In the first quarter of 2026, retail sales value grew robustly by 11.8% year-on-year in January – February combined (taken together to neutralise the effect in individual months due to the different timing of Chinese New Year for each year), and 12.8% year-on-year in March, pointing to a firmly entrenched recovery in consumption in the local market (*Chart 1*).

Chart 1: Retail sales sustained upward momentum into the first quarter of 2026



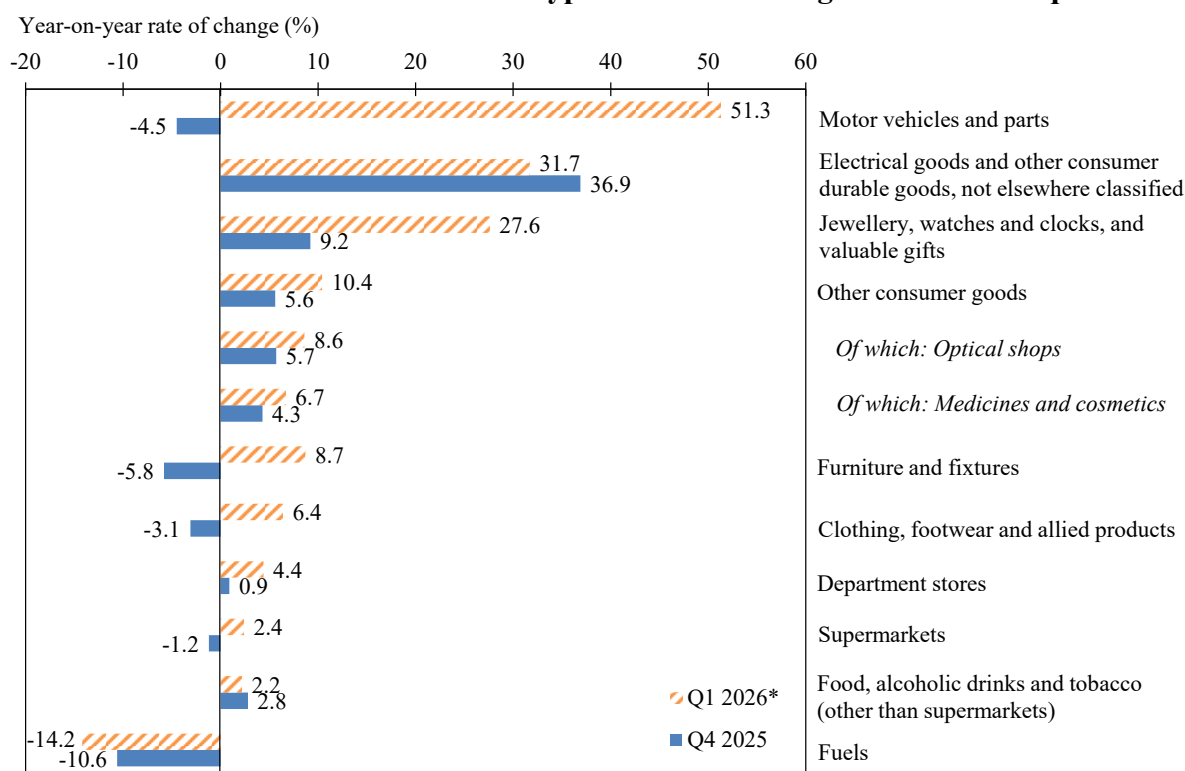
Notes: (^) For value of total retail sales, it refers to the average in January and February combined.
 (*) Provisional figures.

Source: Census and Statistics Department (C&SD).

Broad-based strengthening of retail performance: Retail sales growth was broad-based in the first quarter of 2026 (*Chart 2*). The sales value of “electrical goods and other consumer durable goods, not elsewhere classified” accelerated to grow by 31.7% year-on-year and that of “jewellery, watches and clocks, and valuable gifts” increased sharply by 27.6%. The sales value of “motor vehicles and parts” surged by 51.3%. Elevated gold prices and the expiry of the first registration tax concession for electric private cars at end-March likely provided support, but underlying momentum was solid and broad-based. Growth also extended to livelihood-related categories that were lacklustre in 2025, with the sales values of “furniture and fixtures” and “clothing, footwear and allied products” rebounding by 8.7% and 6.4% year-on-year respectively in the first quarter of 2026. Meanwhile, the sales value of “optical shops” and “medicines and cosmetics” picked up to grow visibly by 8.6% and 6.7% respectively.

Box 1.2 (Cont'd)

Chart 2: Sales value of most broad types of retail outlet grew in the first quarter

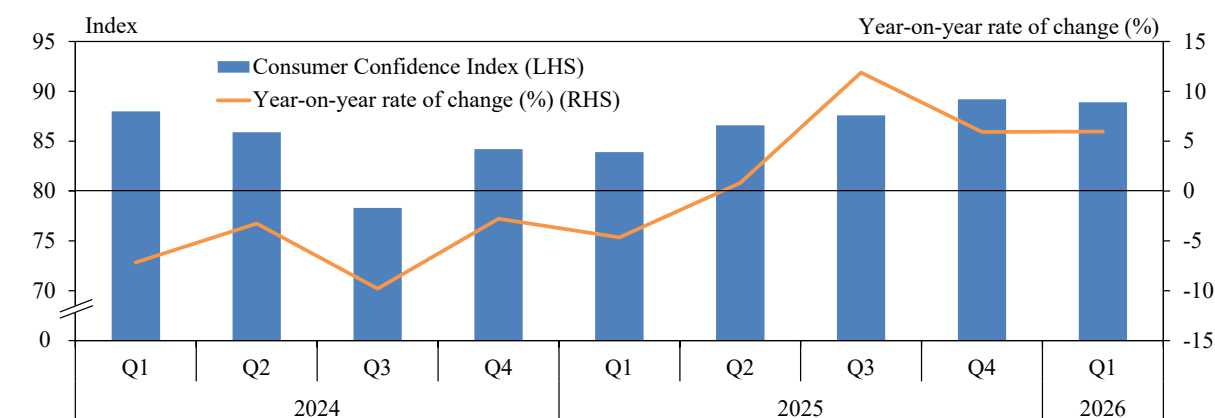


Note: (*) Provisional figures.

Source: C&SD.

Resilient growth momentum is expected to continue, supported by improving consumer confidence. The strengthening retail performance on a broad basis has partly reflected an improvement in local consumer sentiment. This is evidenced by the general uptrend of the Hong Kong Consumer Confidence Index compiled by the City University of Hong Kong since the second quarter of 2025 (*Chart 3*). A generally supportive macroeconomic backdrop – characterised by sustained economic growth, rising labour earnings, a buoyant stock market, as well as a stabilising residential property market – is expected to continue underpin consumer sentiment.

Chart 3: Local consumer sentiment improved generally since the second quarter of 2025

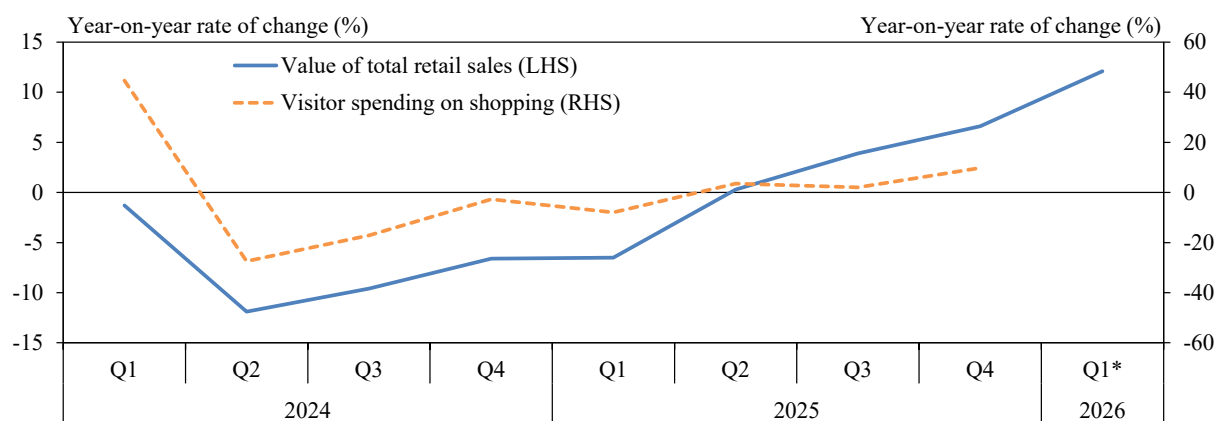


Source: Statistical Consulting Unit of the City University of Hong Kong.

Box 1.2 (Cont'd)

Vibrant inbound tourism has been, and is likely to remain, a key driver of retail sales growth. Benefitting from the Government's efforts to promote tourism and stage mega events, as well as the continued support of the Central Government, visitor arrivals increased by 17.0% to 14.3 million in the first quarter of 2026, following a strong rise of 12.1% to 49.9 million in 2025. Using year-to-date statistics compiled by the Hong Kong Tourism Board to derive quarterly figures, visitor spending on shopping has mirrored the pattern in overall retail sales. It returned to year-on-year growth in the second quarter of 2025, rising by 3.6% and 2.0% respectively in the second and third quarters, before accelerating to 9.8% in the fourth quarter (*Chart 4*), thereby providing increasing impetus to retail sales.

Chart 4: Retail sales and visitor spending on shopping moved broadly in line



Note: (*) Provisional figure.

Sources: C&SD; Hong Kong Tourism Board.

Online sales channels have provided important new platforms for business expansion.

The share of online sales to total retail sales reached around 8.7% in the first quarter of 2026, with its value up 30.1% year-on-year, following a 13.0% increase in 2025, thereby reinforcing overall retail sales growth. The wider adoption of e-payments, logistics, and data analytics have injected fresh impetus into the retail ecosystem.

The outlook for retail sales this year remains broadly positive, supported by sustained economic growth, strong inbound tourism and resilient local consumption. The Government's initiatives promoting "Mega Events + Tourism" through a wide range of cultural festivals, tourism projects and mega events are expected to encourage longer stays and repeat visits. However, near-term headwinds remain: the expiry of the electric private cars first registration tax concession may weigh on vehicle-related sales following earlier front-loading, while geopolitical tensions and other external uncertainties cloud the global economic and financial outlook and could weigh on consumer and visitor spending sentiment.

Diagram 1.2 : Private consumption expenditure saw accelerated growth

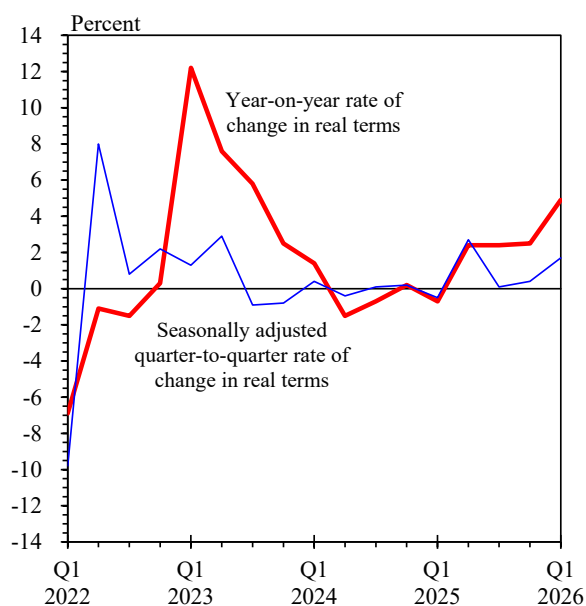
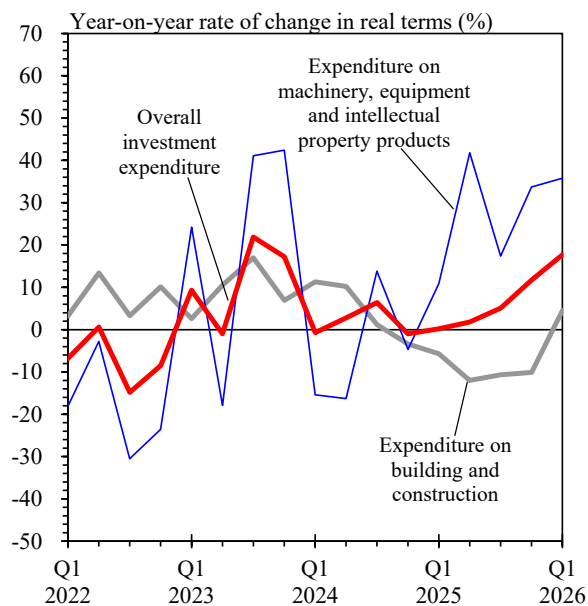


Diagram 1.3 : Overall investment expenditure continued to expand at a double-digit rate



1.6 Overall investment expenditure in terms of *gross domestic fixed capital formation* continued to expand at a double-digit rate of 17.7% year-on-year in real terms in the first quarter, following an 11.7% increase in the preceding quarter. Expenditure on acquisitions of machinery, equipment and intellectual property products surged by 35.8%, with private sector spending showing particularly strong growth. Costs of ownership transfer soared by 71.6% amid active property transactions. Expenditure on building and construction turned to increase by 4.5%, mainly driven by an increase in the public sector. Meanwhile, latest business sentiment as measured by various official and private sector surveys softened slightly in recent months in view of the Middle East conflict. While sentiments in some sectors such as “transportation, storage and courier services” and “import/export trade and wholesale” were more affected, the overall situation remained resilient (See *Box 1.3* on business sentiment in Hong Kong).

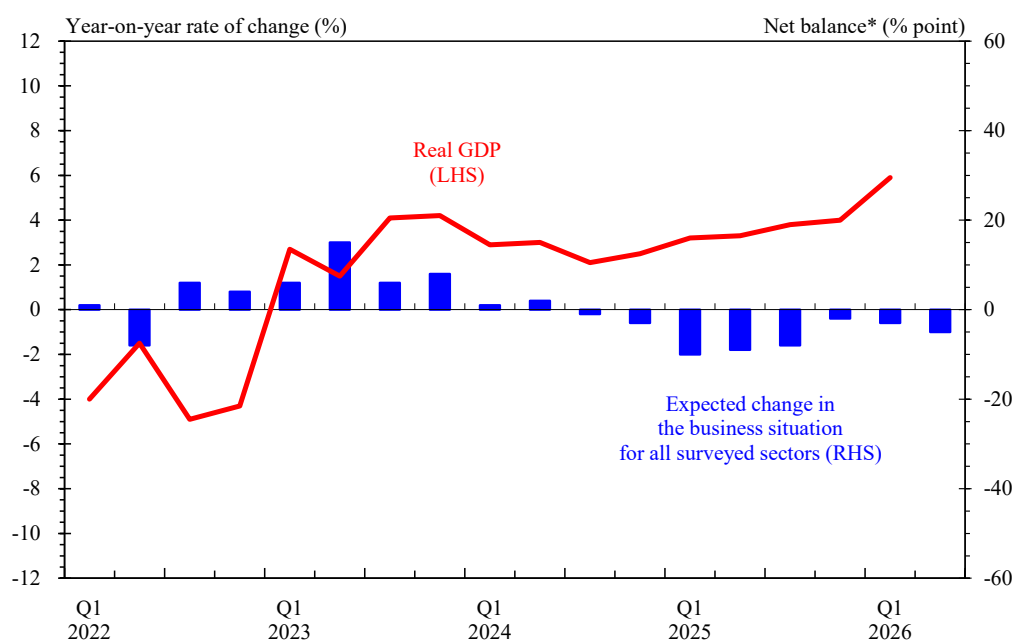
Box 1.3

Business sentiment in Hong Kong has turned more cautious

Survey results indicate that overall business sentiment for the second quarter of 2026 eased somewhat lately in view of the Middle East conflict since end-February.

Business sentiment among large enterprises remained generally stable, albeit slightly cautious. According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾, conducted during 3 March to 13 April, the proportion of large enterprises expecting their business situation to improve in the second quarter of 2026 over the previous quarter was smaller than that of those expecting it to worsen by 5 percentage points, resulting in a net balance of -5 (*Chart 1*). Although this was somewhat lower than the net balance of -3 recorded in the preceding quarter, it was still above the levels seen for most of last year.

Chart 1 : Business sentiment among large enterprises remained generally stable, albeit slightly cautious



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

(1) The Quarterly Business Tendency Survey collected views from around 500-600 large establishments on their near-term business outlook. Respondents were asked to exclude seasonal influences in their responses.

Box 1.3 (Cont'd)

Analysed by sector, business sentiment of large enterprises for the second quarter of 2026 showed divergent views on business outlook (**Table 1**). For some sectors that are plausibly more affected by the surge in fuel prices due to the Middle East conflict, such as “transportation, storage and courier services” and “import/export trade and wholesale”, a visibly larger share of enterprises expected their business situation to worsen. Some other sectors, including the “accommodation and food services” and “construction”, also saw higher proportion of enterprises expecting a weaker business situation. By contrast, the “real estate”, “professional and business services” and “manufacturing” sectors showed notable improvements compared to the previous round, while enterprises in the “financing and insurance” sector remained particularly optimistic about the business outlook. The latest overall situation for hiring appetite only eased slightly compared with the previous round, pointing to a largely steady labour demand (**Table 2**).

Table 1 : Large enterprises showed divergent views on business outlook across sectors

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2025				2026	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	-22	-20	-2	-15	-15	0
Construction	-14	-16	-22	-24	-23	-21
Import/export trade and wholesale	-15	-19	-18	-11	-12	-9
Retail	-31	+4	-14	+14	-1	-3
Accommodation and food services	-36	-37	-16	+10	-22	-35
Transportation, storage and courier services	-27	-25	-31	-11	-13	-24
Information and communications	-11	-17	-9	-16	-8	-16
Financing and insurance	+10	+8	+11	+13	+21	+12
Real estate	-15	-11	+3	+7	-4	+9
Professional and business services	-8	-6	-14	-9	-12	+2
All sectors above	-10	-9	-8	-2	-3	-5

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 appetite of large enterprises pointed to a largely steady labour demand

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2025				2026	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	+4	-2	+4	+15	+10	+2
Construction	-12	-12	-6	-9	-26	-9
Import/export trade and wholesale	-4	+1	-6	0	+3	-2
Retail	0	+1	0	-12	-4	-10
Accommodation and food services	-5	-22	-7	+5	+6	-21
Transportation, storage and courier services	-2	+6	+9	+7	-19	-5
Information and communications	-7	-3	-13	-1	-4	-20
Financing and insurance	+9	+6	+4	+2	+7	+9
Real estate	-1	+15	+10	+11	+10	+15
Professional and business services	-5	-3	-6	-10	-13	-7
All sectors above	-3	-2	-2	-1	-4	-5

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.

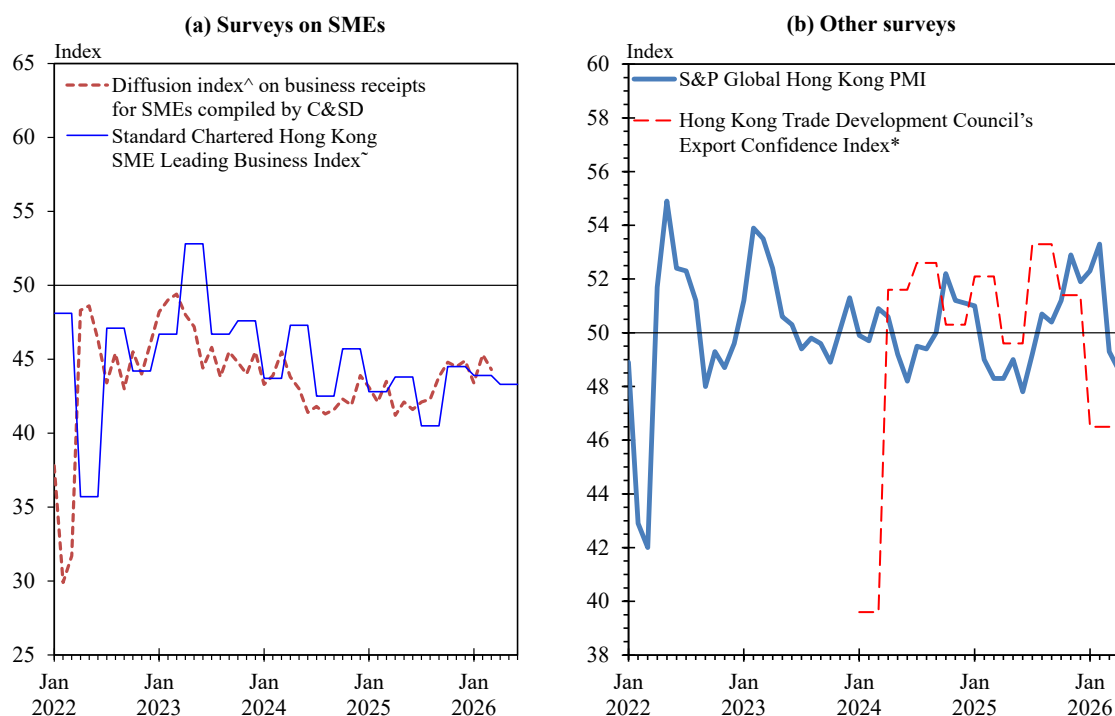
Box 1.3 (Cont'd)

Business sentiment among small and medium-sized enterprises (SMEs) turned more cautious. The C&SD compiles a set of monthly diffusion indices (DI)⁽²⁾ to gauge SMEs' views on the business situation versus the preceding month. The **current** and **outlook DI on business receipts** for SMEs showed some declines from the near two-year highs in February (Chart 2a).

The **current DI on business receipts** rose to a near two-year high of 45.3 in February, before easing to 44.3 in March amid the Middle East conflict, mainly reflecting a more pronounced deterioration in the logistics sector, while most other sectors showed greater resilience. The **outlook DI on business receipts** eased to 46.9, from 47.6 in February, with sentiment varying across sectors. Sentiment in the logistics and retail sectors weakened notably, while most other sectors saw slight declines. By contrast, wholesale and real estate sectors saw improved outlook. Employment sentiment among SMEs stayed broadly stable during the same period with the **current DI on employment** steady at around 49.

For other surveys, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ edged down further in the second quarter, reflecting a more cautious stance among SMEs. The S&P Global Purchasing Managers' Index (PMI) of Hong Kong⁽⁴⁾, which gauges the performance of the private sector's business activity, stayed above the boom-bust line for seven consecutive months before falling below the line since March (Chart 2b). The Hong Kong Trade Development Council (HKTDC) Export Confidence Index⁽⁵⁾, which is compiled based on the information collected earlier during January to February and not yet reflecting sentiment regarding the Middle East conflicts, indicated exporters' cautious stance amid the persisting global trade and economic uncertainties.

Chart 2 : Other business sentiment indicators turned more cautious of late



Notes : (^) The diffusion index is computed by adding the percentage of SMEs reporting “up” to one half of the percentage of SMEs reporting “same”. A diffusion index reading above 50 indicates that the business condition is generally favourable, whereas an index below 50 indicates otherwise. Respondents were asked to exclude seasonal effects in reporting their views.

(~) Quarterly data.

(*) Quarterly data since 2024 Q1. 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.

Box 1.3 (Cont'd)

These surveys are essentially opinion-based, thereby subject to limitations (e.g. results are not directly comparable) and hence the findings should be interpreted with caution. Overall, findings indicate a slight softening in business sentiment in recent months, amid heightened geopolitical tensions due to the Middle East conflict since late February. While certain sectors have been more affected, business conditions and outlook remain resilient.

-
- (2) It refers to the results from the Monthly Survey on the Business Situation of SMEs that solicits feedback 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 "Recruitment Sentiment", "Investment Sentiment", "Business Condition", "Profit Margin", and "Global Economy" for the next quarter.
 - (4) The S&P Global Hong Kong PMI is compiled according to monthly replies to questionnaires sent to purchasing managers in around 400 private sector 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 HKTDC Export Confidence Index aims to gauge the prospects of the near-term export performance of Hong Kong traders. It is a composite index based on five individual sub-indices with the following weight: Sales and New Orders (50.0%); Trade Value (12.5%); Cost (12.5%); Procurement (12.5%); and Inventory (12.5%), with the Cost index and Inventory index inverted so that they move in comparable direction. The business confidence survey is conducted on a quarterly basis, with more than 500 participating Hong Kong traders from six major industry sectors interviewed, namely electronics, clothing, toys, jewellery, timepieces and equipment/materials.

The labour sector

1.7 The labour market showed modest improvement in the first quarter of 2026. The seasonally adjusted *unemployment rate* edged down further by 0.1 percentage point from the preceding quarter to 3.7% in the first quarter. The *underemployment rate* also decreased by 0.1 percentage point to 1.6%. The unemployment rates of various major sectors showed diverse movements as compared with the preceding quarter.

1.8 Wages and labour earnings continued to register year-on-year increases in the fourth quarter of 2025. More recent General Household Survey data also showed that average employment earnings continued to record year-on-year growth in the first quarter of 2026. Looking ahead, the sustained growth of the Hong Kong economy should underpin the overall labour market. Yet, the potential implications of the elevated geopolitical tensions in the Middle East on corporate hiring sentiment warrant close monitoring (See *Chapter 5* on the labour market).

The asset markets

1.9 The *local stock market* saw varying monthly performance during the first quarter of 2026. The HSI rallied to a four-and-a-half-year high of nearly 28 000 in January, moved sideways in February, and corrected in March after the Middle East conflict in line with other major markets. The HSI fell by 6.9% at end-March from end-February (i.e. the outbreak of the Middle East conflict), while the decline in other major stock market indices ranged from 5.1% to 13.9% over the same period. For the first quarter as a whole, the HSI closed at 24 788, down by 3.3% from end-2025. The HSI largely recovered the earlier lost ground in April and the first week of May. At the time of writing, HSI was 26 626 as at 7 May, up by 3.9% over end-2025.

1.10 Trading activities were very vibrant throughout the first quarter, with the average daily turnover reaching \$276.7 billion, 20.4% higher than the preceding quarter and 14.0% over a year earlier. The average daily turnover has remained high going into the second quarter, reaching \$249.3 billion as of 7 May. Fund-raising activities remained strong. The total amount of funds raised through initial public offerings increased by 11.9% over the preceding quarter or by 491.8% over a year ago to \$110.4 billion in the first quarter (See **Chapter 4** on the financial sector).

1.11 The *residential property market* gained further momentum in the first quarter. The number of transactions, in terms of the total number of sale and purchase agreements for residential property received by the Land Registry, increased notably further by 9% over the preceding quarter to 18 654 in the first quarter. This was the highest level since the third quarter of 2021, and also 53% higher than the level a year ago. Overall flat prices rose further by 4% during the first quarter. The index of home purchase affordability went up to around 61% in the first quarter of 2026 amid the continued rise in flat prices, higher than the long-term average over 2006 – 2025. Overall flat rentals rose further by 1% in the first quarter.

1.12 The *non-residential property market* remained soft in the first quarter. Transactions of office spaces moderated, though those for retail shop space and flatted factories rose (See **Chapter 3** on the developments in selected sectors).

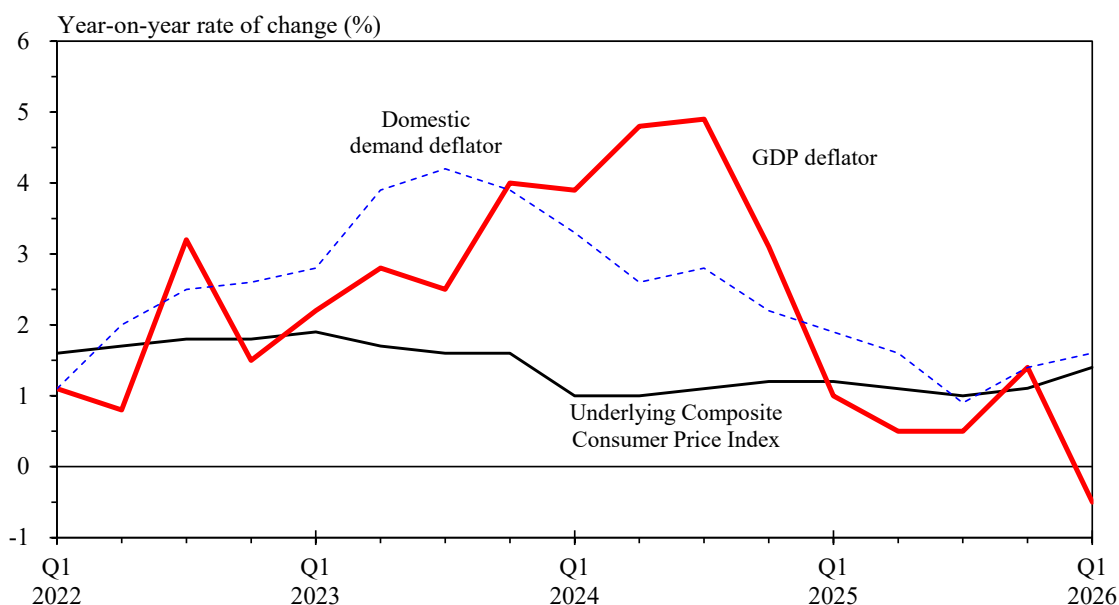
Inflation

1.13 Consumer price inflation stayed modest in the first quarter of 2026, though it picked up somewhat in March, driven by fuel-related components amid higher oil prices linked to Middle East tensions. Price pressures in other components were largely contained. Netting out the effects of the Government's one-off relief measures, the *underlying Composite Consumer Price Index (Composite CPI)* rose by 1.4% in the first quarter over a year earlier, accelerating from the increase of 1.1% in the preceding quarter. The feed-through process of higher international oil prices to fuel-related components in consumer prices should continue in the coming months.

1.14 Inflation in Hong Kong is, however, expected to remain relatively well anchored, reflecting our low energy intensity as a predominantly service-oriented economy, with stable energy supplies from the Mainland helping to mitigate external shocks. The Government is closely monitoring the developments, and has introduced short-term, targeted measures in the past two months to provide timely relief to sectors with relatively high fuel cost, and will respond further as appropriate to safeguard price stability.

1.15 As a broad measure of the overall change in prices in the economy, the *GDP deflator* decreased by 0.5% year-on-year in the first quarter, switching from the 1.4% increase in the preceding quarter. The *terms of trade* saw a year-on-year decline of 0.7%, while the domestic demand deflator continued to increase by 1.6%.

Diagram 1.4 : Underlying consumer price inflation stayed modest in the first quarter of 2026



Net output of major economic sectors

1.16 The statistics of net output of major economic sectors are only up to the fourth quarter of 2025. The net output of the services sector increased by 3.9% year-on-year in real terms in the fourth quarter of 2025, picking up from the 3.1% increase in the preceding quarter. For 2025 as a whole, the net output of the services sector rose by 3.3%, faster than the 2.3% increase in the preceding year. Many major services sectors recorded accelerated year-on-year growth in net output in the fourth quarter. In particular, the net outputs of import/export, wholesale and retail trades, and transportation and storage picked up and grew notably; that of financing and insurance continued to increase visibly; that of accommodation and food services reverted to positive growth; and those of other sectors generally showed mild to moderate growth. Yet, the net output of real estate fell further. As for the secondary sector, the net output of the manufacturing sector grew visibly further, but that of the construction sector continued to decline, albeit at a narrower rate compared with the preceding quarter.

Table 1.2 : Net output of major economic sectors

	\$Billion#	Share# (%)	Year-on-year rate of change in real terms (%)						
			<u>2024</u>	<u>2024</u>	<u>2025</u>	<u>2025</u>			
						<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Manufacturing	29.8	1.0	0.8	3.2	0.7	0.9	5.3	5.8	
Construction	132.6	4.3	4.5	-7.9	-4.9	-10.8	-8.5	-7.3	
Services	2,915.7	93.6	2.3	3.3	2.4	3.7	3.1	3.9	
Import/export, wholesale and retail trades	536.3	17.2	0.9	6.1	4.6	6.3	5.3	8.0	
Import and export trade	461.0	14.8	2.9	6.9	6.6	7.2	5.3	8.5	
Wholesale and retail trades	75.3	2.4	-9.8	1.1	-8.6	0.4	5.2	5.2	
Accommodation and food services	62.3	2.0	-1.8	-0.7	-2.9	-0.3	-1.4	1.4	
Transportation, storage, postal and courier services	191.2	6.1	10.7	3.6	2.4	5.0	2.5	4.8	
Transportation and storage	182.8	5.9	11.4	3.7	2.4	5.1	2.6	5.1	
Postal and courier services	8.4	0.3	-1.2	0.8	2.4	2.2	-1.2	-0.1	
Information and communications	104.1	3.3	1.7	1.3	1.2	1.0	1.0	2.1	
Financing and insurance	816.2	26.2	1.3	5.0	3.9	5.3	5.5	5.2	
Real estate, professional and business services	254.4	8.2	2.2	-0.1	-0.5	-0.7	0.2	0.7	
Real estate	97.0	3.1	3.2	-2.8	-4.3	-3.9	-0.2	-2.5	
Professional and business services	157.4	5.1	1.7	1.6	1.9	1.2	0.4	2.7	
Public administration, social and personal services	639.9	20.6	3.4	2.1	2.0	2.7	2.1	1.8	

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

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

(#) Nominal GDP at basic prices and the respective percentage share of each economic sector. Latest statistics are only up to 2024.

Other economic developments

1.17 The 2026-27 Budget (the Budget) put forward a series of measures aimed at driving high-quality, inclusive growth with innovation and finance. In particular, the Government is pressing ahead with the industrialisation of AI and deepening its integration across sectors to empower traditional industries and nurture other emerging industries (“AI+”). To this end, the Budget announced to establish the Committee on AI+ and Industry Development Strategy; take forward the Sandy Ridge data facility cluster project; promote AI training; and accelerate digital intelligence transformation of the Government, among others.

1.18 Meanwhile, the Government strives to consolidate and enhance Hong Kong’s role as an international financial centre on all fronts, and to leverage Hong Kong’s strengths in finance to drive industry development (“Finance+”). Hence, the Budget included measures to further advance the internationalisation of the Renminbi; continuously reform the securities market; attract family offices and funds; and develop Hong Kong into a global hub for digital assets, etc. These measures will further strengthen Hong Kong’s core competitiveness, boost economic momentum, and resolutely speed up and scale up the sustainable development of the economy.

1.19 The fourth session of the 14th National People’s Congress approved on 12 March the “Outline of the 15th Five-Year Plan for National Economic and Social Development of the People’s Republic of China” (“15th FYP”). It is a blueprint for the social and economic development of the country over the next five years, and in turn brings new opportunities for the economic development of Hong Kong (See **Box 1.4**: The 15th Five-Year Plan and Opportunities for Hong Kong’s Economic Development).

Box 1.4

The 15th Five-Year Plan and Opportunities for Hong Kong's Economic Development

In March 2026, the fourth session of the 14th National People's Congress approved the "Outline of the 15th Five-Year Plan for National Economic and Social Development of the People's Republic of China" (the 15th FYP), which provides a blueprint for the country's social and economic development over the next five years, and in turn brings new opportunities for Hong Kong's economic development. This box article sets out in table form the opportunities presented by the 15th FYP for Hong Kong's economic development (*Table 1*). Under the 15th FYP, Hong Kong will consolidate its traditional strengths as an international financial, shipping and trade centre as well as in areas such as innovation and technology (I&T), legal services and intellectual property. At the same time, Hong Kong will further deepen the integration of the financial, technology and professional services sectors with the real economy, and thereby fostering high-quality, high value-added and more diversified economic development to bolster long-term competitiveness.

Table 1 : The 15th FYP and opportunities for Hong Kong's economic development

Area	The 15th FYP's development direction and Hong Kong's positioning	Opportunities for Hong Kong's economic development
Hong Kong's overall positioning	<ul style="list-style-type: none">➤ The 15th FYP explicitly states the commitment to resolutely safeguard and promote long-term prosperity and stability in Hong Kong and Macao; promote the economic and social development of Hong Kong and Macao, and leverage the unique strengths and important roles of Hong Kong and Macao in having the backing of the motherland and maintaining close connection with the rest of the world.➤ The 15th FYP supports Hong Kong in consolidating and enhancing its status as an international financial, shipping and trade centre and an international aviation hub; strengthening its functions as a global offshore Renminbi (RMB) business hub, an international asset management centre, and an international risk management centre; developing into an international I&T hub, and further advancing its development as an international legal and dispute resolution services centre, a regional intellectual property trading centre, and an East-meets-West centre for international cultural exchange.	<ul style="list-style-type: none">➤ With the country's support, Hong Kong should proactively align with national strategic priorities, better integrate into and contribute to the country's overall development agenda, capitalise on new opportunities arising during the 15th FYP period, and advance the economy towards high-quality, high value-added and more diversified development.➤ Hong Kong should actively participate in the development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) as a world-class city cluster, and strengthen the alignment of rules and coordination mechanisms with other GBA cities in areas of technological innovation and economic development etc. (e.g. such as cross-boundary data flows, commercial mediation and arbitration).

Box 1.4 (Cont'd)

**Table 1 : The 15th FYP and opportunities for Hong Kong's economic development
(Cont'd)**

Area	The 15th FYP's development direction and Hong Kong's positioning	Opportunities for Hong Kong's economic development
Hong Kong's overall positioning (Cont'd)	<ul style="list-style-type: none"> ➤ The 15th FYP outlines, for the first time, the support for Hong Kong in building a commodity trading ecosystem and a high value-added supply chain service centre. It also explicitly backs Hong Kong in accelerating the development of the Northern Metropolis and becoming an international hub for high-calibre talents. ➤ The 15th FYP supports the GBA in developing into a world-class city cluster; proposes deepening collaboration among Guangdong, Hong Kong and Macao, and continuously driving breakthroughs in priority areas of co-operation. 	<ul style="list-style-type: none"> ➤ The HKSAR Government is formulating Hong Kong's first Five-Year Plan. A collaborative research and public opinion gathering mechanism between the Government and the Legislative Council has been established. The Government aims to release a public consultation document for the Five-Year Plan in the second quarter, and to complete and publish the official Hong Kong Five-Year Plan within this year.
I&T and new quality productive forces	<ul style="list-style-type: none"> ➤ The 15th FYP adheres to pursuing smart, green and integrated development in upgrading traditional industries while fostering emerging industries and industries of the future; proposes achieving greater self-reliance and strength in science and technology by promoting advances in original innovation and breakthroughs in core technologies in key fields, and strengthening the deployment of science and technology in strategic frontiers. 	<ul style="list-style-type: none"> ➤ With strong basic research capabilities, an increasingly vibrant I&T ecosystem, and a pool of innovative resources and talent from home and abroad, Hong Kong will enhance its influence as a global source of original innovation during the 15th FYP period.

Box 1.4 (Cont'd)

**Table 1 : The 15th FYP and opportunities for Hong Kong's economic development
(Cont'd)**

Area	The 15th FYP's development direction and Hong Kong's positioning	Opportunities for Hong Kong's economic development
<p>I&T and new quality productive forces (Cont'd)</p>	<ul style="list-style-type: none"> ➤ The 15th FYP attaches emphasis on ensuring more efficient supply of computing power, algorithms and data, advancing the “AI Plus” initiative across the board, and using digital and intelligent technologies to empower all sectors and industries. ➤ The 15th FYP provides clear support for Hong Kong's development as an international I&T hub and a regional intellectual property trading centre. It also supports Hong Kong in accelerating the development of the Northern Metropolis; deepening innovation collaboration among industries, academia and research institutions in Hong Kong, Macao and the Mainland; and promoting the high-quality development of the Loop and other major co-operation platforms. 	<ul style="list-style-type: none"> ➤ The HKSAR Government is pressing ahead with the development of the Northern Metropolis. Through key infrastructures including the Loop and the San Tin Technopole, the Government will facilitate the cross-boundary flow of production factors – including technology, capital, talent and materials – within the area, and promote the development of I&T, advanced manufacturing and related professional services, thereby driving the upgrading of the industrial structure. ➤ Hong Kong is accelerating the “AI+” development strategy: pressing ahead with the industrialisation of AI and deepening its integration with the financial sector to empower all industries.
<p>Using finance to serve the real economy</p>	<ul style="list-style-type: none"> ➤ The 15th FYP sets out to accelerate the development of China into a financial powerhouse, improve the quality and efficiency of financial services for the real economy, and step up efforts to develop technology finance, green finance, inclusive finance, pension finance and digital finance. 	<ul style="list-style-type: none"> ➤ Hong Kong should fully leverage its strength in finance and pursue a “Finance+” approach to empowering all business sectors. On one hand, Hong Kong can provide diversified financing channels for technology firms and start-ups, while strengthening patient capital; on the other hand, continue to promote the development of green finance to support the country in achieving its “dual carbon” goals.

Box 1.4 (Cont'd)

**Table 1 : The 15th FYP and opportunities for Hong Kong's economic development
(Cont'd)**

Area	The 15th FYP's development direction and Hong Kong's positioning	Opportunities for Hong Kong's economic development
<p>Using finance to serve the real economy (Cont'd)</p>	<ul style="list-style-type: none"> ➤ The 15th FYP proposes to advance the internationalisation of RMB, expand its use in international trade, investment and financing activities, pursue greater openness of RMB capital accounts, and develop offshore RMB market. ➤ The 15th FYP reiterates its support for Hong Kong in consolidating and enhancing its status as an international financial centre, while strengthening its functions as a global offshore RMB business hub, an international asset management centre and an international risk management centre. The 15th FYP also supports Hong Kong in building a commodity trading ecosystem; and advancing, in an orderly manner, the mutual market access regime between Hong Kong and Mainland financial markets. 	<ul style="list-style-type: none"> ➤ Hong Kong should consolidate its strength as a global offshore RMB business hub and, through arrangements such as enhancements to Cross-boundary Wealth Management Connect, Bond Connect and Stock Connect, further support the country in advancing the internationalisation of RMB. Meanwhile, with steady progress in building a commodity trading ecosystem, Hong Kong can develop trading, clearing, risk management, trade finance and related professional services, thereby bringing new impetus to finance and related sectors and expanding the depth and breadth of its international financial centre.
<p>Promoting high-standard opening-up</p>	<ul style="list-style-type: none"> ➤ In the face of a complex international environment, the country has always adhered to promoting high-standard opening-up by expanding market access and broadening the scope of opening up, particularly in the service sector. The 15th FYP proposes strengthening the coordination between imports and exports, giving equal importance to trade in goods and services, pursuing balanced development of trade, and adopting a coordinated approach to attracting foreign investment and promoting outbound investment. It also promotes the high-quality development of the Belt and Road Initiative. 	<ul style="list-style-type: none"> ➤ Hong Kong should further leverage its unique advantages under “One Country, Two Systems”. Capitalising on its efficient financial services, shipping, aviation, logistics, and professional services, Hong Kong should give full play to its international and market-oriented characteristics in assisting Mainland enterprises to go global through Hong Kong, with a particular focus on fostering deeper exchanges with the Global South and other emerging economies.

Box 1.4 (Cont'd)

**Table 1 : The 15th FYP and opportunities for Hong Kong's economic development
(Cont'd)**

Area	The 15th FYP's development direction and Hong Kong's positioning	Opportunities for Hong Kong's economic development
<p>Promoting high-standard opening-up (Cont'd)</p>	<p>➤ The 15th FYP reiterates the support for Hong Kong in consolidating and enhancing its status as an international shipping and trade centre as well as an international aviation hub, building a high value-added supply chain service centre, further advancing its development as an international legal and dispute resolution services centre and an East-meets-West centre for international cultural exchange. The 15th FYP also supports Hong Kong and Macao in deepening their participation in the high-quality development of the Belt and Road Initiative, leveraging their strengths in professional services to assist enterprises in “going global”, and harnessing their role as an important window for exchange and mutual learning between the Chinese and Western cultures.</p>	<p>➤ The country's support will facilitate Hong Kong's development of professional services in areas such as settlement, financing and risk management, thereby enabling the city to position itself as a leading global supply chain hub.</p> <p>➤ By continuously deepening the alignment of rules and coordination mechanisms with other GBA cities to contribute to the country's further high-standard opening-up, Hong Kong can also consolidate and enhance its role as a “super connector” and a “super value-adder”.</p>

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 : THE EXTERNAL SECTOR

Summary

- *Global economic performance was largely resilient in the first quarter of 2026, with robust export- and manufacturing-led growth in many parts of Asia, such as the Mainland's stronger-than-expected results in the first quarter, helping to offset more subdued domestic demand in many advanced economies. The US economy grew moderately and the euro area economy posted mild growth. Other Asian economies continued to expand, with many at a solid pace.*
- *Trade flows in Asia stayed largely buoyant, alongside sustained global demand for artificial intelligence (AI)-related electronic products. Meanwhile, Hong Kong's merchandise exports – of which 70% consist of AI-related goods – surged by 26.5% year-on-year in real terms⁽¹⁾ in the first quarter. Exports to most markets and of most major commodities continued to increase markedly.*
- *Exports of services expanded solidly further by 3.5% year-on-year in real terms in the first quarter. Exports of all major service groups saw growth, driven by continued visible growth in inbound tourism, and also solid performance in cross-boundary traffic and financial services activities.*
- *Looking ahead, global demand is likely to remain broadly resilient, with strong global demand for AI-related electronics continuing to support Hong Kong's merchandise trade. Exports of services are also expected to benefit from sustained growth in visitor arrivals, robust cross-boundary financial activities and steady demand for business services.*
- *Nevertheless, persistent tensions in the Middle East pose a downside risk to the outlook, as they may raise costs, disrupt transport routes, impede global trade flows, heighten financial market volatility, and increase uncertainty surrounding inflation and energy prices.*

Merchandise trade

External environment

2.1 Global economic performance was largely resilient in the first quarter of 2026, with robust export- and manufacturing-led growth in many parts of Asia, such as the Mainland's stronger-than-expected results in the first quarter, helping to offset more subdued domestic demand in many advanced economies. The US economy grew moderately and the euro area economy posted mild growth. Other Asian economies continued to expand, with many at a solid pace.

2.2 Trade flows in Asia stayed largely buoyant, alongside sustained global demand for AI-related electronic products. In 2026, US trade policy continues to emphasise high tariff levels⁽²⁾. Following the US Supreme Court's decision in late February to strike down the "reciprocal tariffs" and "fentanyl-related tariffs", the US imposed a new temporary 10% uniform global tariff⁽³⁾. Separately, during the quarter, several economies signed bilateral trade agreements or adjusted commodity-specific trade barriers to facilitate bilateral trade.

2.3 The Mainland's economic growth accelerated to 5.0% year-on-year in the first quarter, exceeding market expectations. Merchandise exports strengthened further and domestic indicators generally pointed to robust momentum. In March, the Government Work Report set a 2026 real GDP growth target of 4.5%-5% and outlined more proactive and effective macroeconomic policies. On the fiscal front, the deficit-to-GDP ratio will remain at around 4%, while the quotas for ultra-long special treasury bonds and local government special bonds will also stay unchanged at RMB 1.3 trillion and RMB 4.4 trillion, respectively. A moderately accommodative monetary policy stance will likely continue in 2026. The Outline of the 15th Five-Year Plan, released in the same month, provides a development blueprint for the next five years and aims to lay a solid foundation for doubling 2020 per capita GDP by 2035, bringing it to the level of a moderately developed country.

2.4 As for advanced economies, the US economy grew moderately by 2.7% year-on-year in the first quarter. Labour market showed signs of improvement for the quarter as a whole, although performance varied across individual months within the quarter. Consumer price inflation stayed above the Federal Reserve (Fed)'s target of 2% in early 2026, and picked up to 3.3% in March, largely reflecting the effect of the surge in oil prices due to the Middle East conflict. Meanwhile, the Fed kept the federal funds rate target range unchanged for the third consecutive meeting in April. Looking ahead, the market generally expects the Fed to keep its interest rate unchanged for the rest of the year. In the euro area, the economy posted mild year-on-year growth of 0.8%. The European Central Bank (ECB) has kept interest rate steady since June last year and the market generally expects the ECB to raise interest rate by 75 basis points by year-end.

2.5 Other Asian economies continued to expand in the first quarter, supported by robust merchandise exports. Many recorded solid growth (e.g. Singapore: 4.6%; Malaysia: 5.3%; Vietnam: 7.8%). In response to surging oil prices triggered by conflicts in the Middle East, regional economies introduced measures such as enhanced fuel subsidies, temporary cut in fuel import duties, and targeted cash handouts to hard-hit industries, while stepping up energy conservation efforts. On monetary policy, most central banks in the region kept policy rates unchanged since the start of the year. The central banks of Thailand and the Philippines each cut rates by 25 basis points further in February to support growth, though the latter raised rate back by 25 basis points in late April to safeguard price stability amid higher oil prices. Meanwhile the central bank of Singapore tightened monetary policy in April for the first time in four years to address energy-driven inflation pressure.

2.6 Looking ahead, global demand is likely to remain broadly resilient, but elevated uncertainty over inflation, higher energy prices, and ongoing geopolitical tensions continue to weigh on the near-term outlook. In late April, the International Monetary Fund (IMF) revised down its 2026 global economic growth forecast in light of the conflict. Under its "reference forecast" – assuming the conflict remains limited in duration and scope – global growth is projected to slow to 3.1% in 2026, down from the 3.4% growth in 2025⁽⁴⁾. Inflation is expected to rise, with global headline inflation projected to increase to 4.4% in 2026 from 4.1% in 2025, marking a departure from the recent disinflation trend. While the IMF noted several supportive factors, such as continued fiscal policy support, strong AI-related investment and solid pre-conflict growth momentum, it stressed that the global economic outlook remains tilted to the downside. Key risks stem from a more prolonged Middle East conflict, particularly through its impact on commodity prices and supply chain disruptions⁽⁵⁾.

Merchandise exports

2.7 Supported by sustained demand for AI-related electronic products and buoyant regional trading activity, Hong Kong's *merchandise exports* surged by 26.5% year-on-year in real terms in the first quarter of 2026, following the 17.2% increase in the preceding quarter. Looking ahead, strong global demand for AI-related electronic products is expected to remain a key supporting factor. Nevertheless, persistent tensions in the Middle East pose a downside risk to the outlook, as they may raise costs, disrupt transport routes and impede global trade flows.

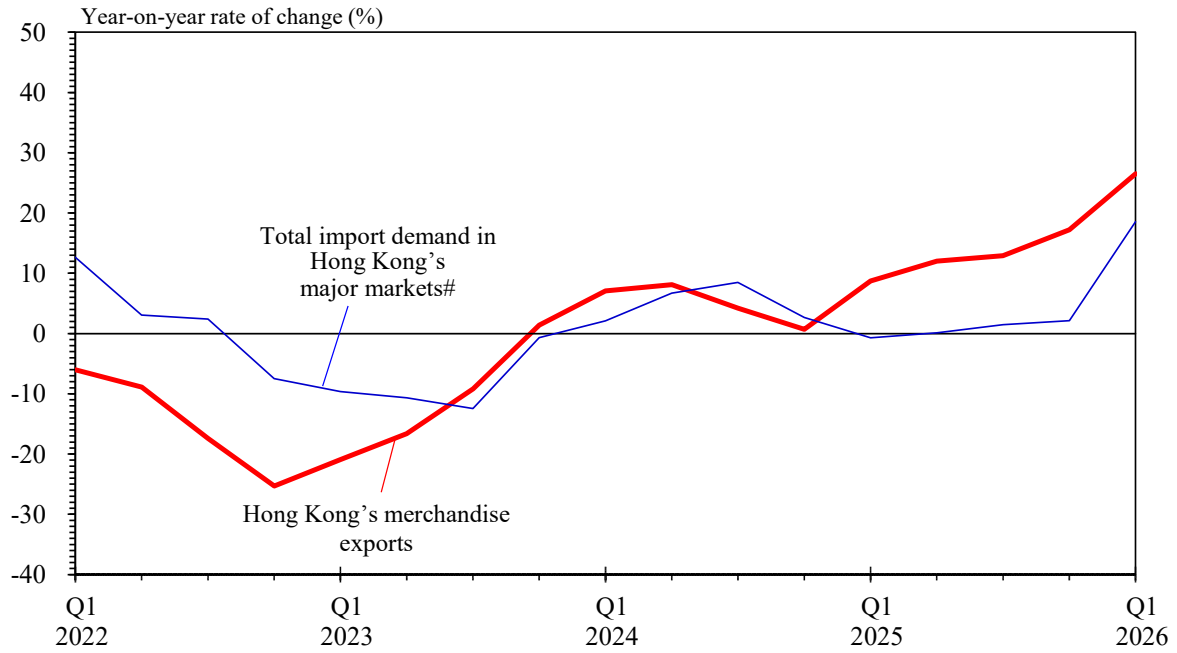
Table 2.1 : Merchandise exports

		<u>In value terms</u>	<u>In real terms^(a)</u>		<u>Change in prices</u>
		(\$Bn)	(year-on-year rate of change (%))		
2025	Annual	5,240	15.4	12.8	2.3
	Q1	1,171	10.9	8.7	(7.5)
	Q2	1,285	14.0	12.0	(3.1)
	Q3	1,343	15.1	12.9	(0.7)
	Q4	1,441	20.9	17.2	(4.9)
2026	Q1	1,546	32.0	26.5	(16.0)

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

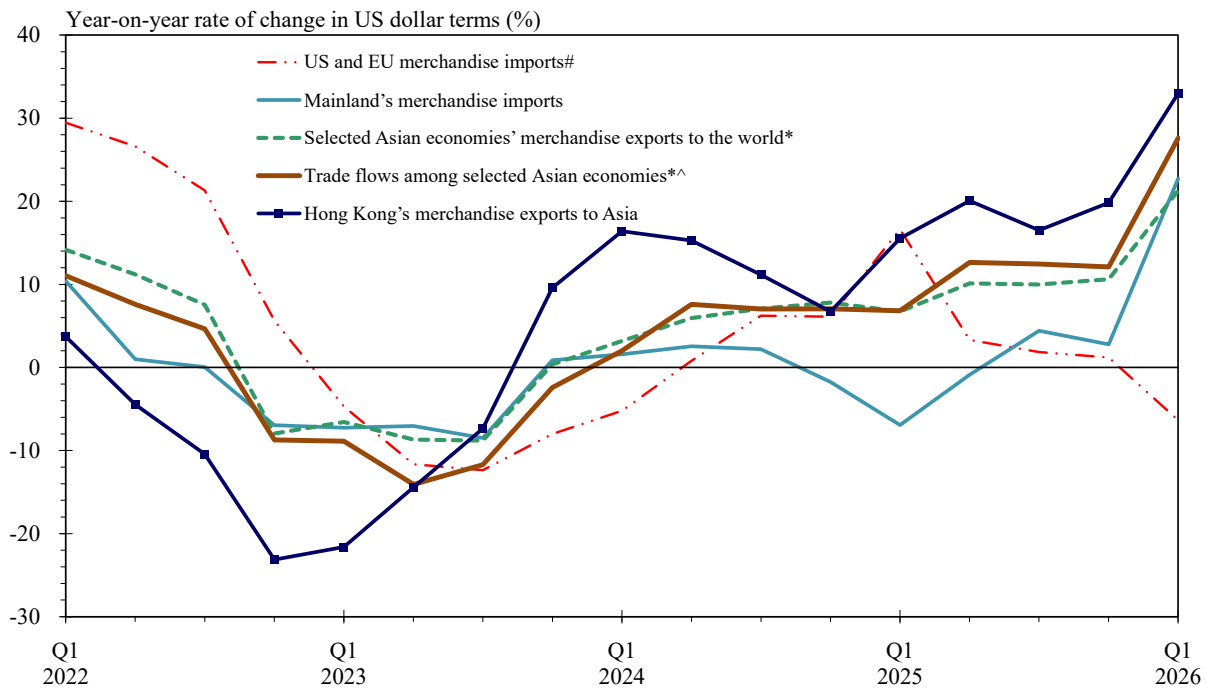
(a) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts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

Diagram 2.1 : Merchandise exports surged in the first quarter



- Notes :
- (#) Total import demand in Hong Kong's major markets refers to the year-on-year rate of change in US dollar terms in the import demand in Asia, the US and the EU taken together, based on information available as of early May 2026.

Diagram 2.2: Regional trade flows stayed buoyant in the first quarter of 2026



- Notes :
- (#) Based on the information available as of early May 2026.
 - (*) “Selected Asian economies” include the Mainland, Hong Kong, Singapore, Korea, Taiwan, Japan, Indonesia, Malaysia, Thailand, Vietnam and the Philippines.
 - (^) The trade flows were measured by the sum of the individual economies’ merchandise exports to the other ten economies within the “selected Asian economies”.

2.8 Analysed by major market, exports to the Mainland maintained double-digit growth in the first quarter over a year earlier. Exports to ASEAN markets continued to surge, and those to most advanced economies in Asia increased further. Exports to the US showed strong growth, and those to the EU grew solidly.

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

	<u>Annual</u>	<u>2025</u>				<u>2026</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
The Mainland	14.3	14.3	17.8	11.9	13.5	28.8
US	8.9	2.1	-11.1	5.7	42.4	41.0
EU	-3.8	-8.4	-11.0	-4.0	8.5	10.8
ASEAN	28.6	22.4	25.6	32.9	32.7	34.0
Vietnam	46.9	65.2	39.5	44.9	41.7	23.8
Singapore	3.6	3.6	4.2	19.6	-8.5	63.6
India	3.9	-19.0	24.3	14.6	4.2	-3.7
Japan	11.1	0.5	31.2	2.3	9.7	5.2
Taiwan	36.1	33.4	20.7	42.7	48.1	47.9
Korea	-10.0	-9.4	-22.3	-6.8	-0.4	3.5
Overall [#]	12.8	8.7	12.0	12.9	17.2	26.5

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

Diagram 2.3 : Exports to the Mainland and ASEAN posted further double-digit growth

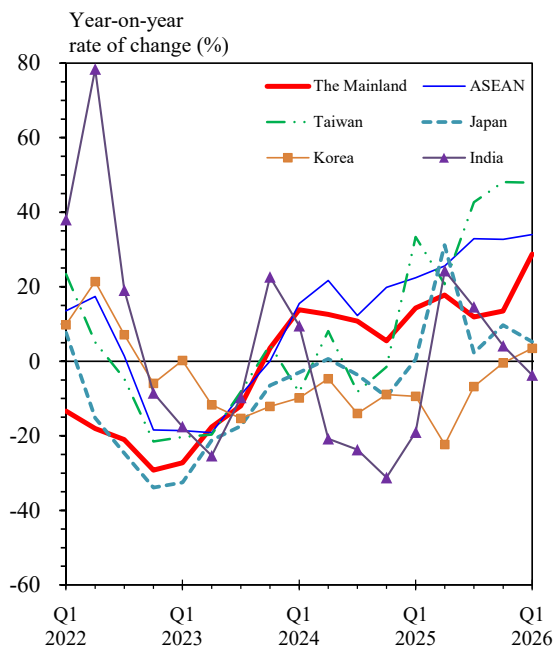
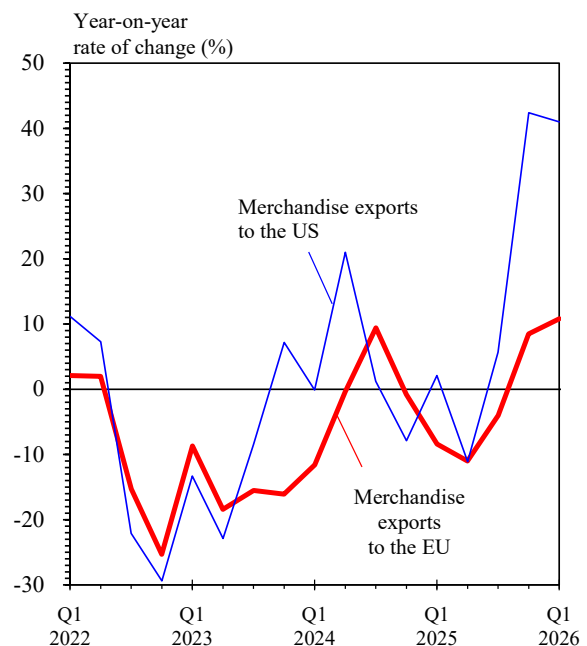


Diagram 2.4 : Exports to the US showed strong growth and those to the EU grew solidly



2.9 Analysed by major products, exports of AI-related products, which accounted for 70% of merchandise exports, surged further by 41.5% in value terms in the first quarter over a year earlier, underpinned by persistent global demand for AI-related products. Within which, exports of electronic products increased notably by 43.5% in value terms.

**Table 2.3 : Merchandise exports of AI-related products⁽⁶⁾
(year-on-year rate of change in value terms (%))**

	<u>Annual</u>	<u>Q1</u>	<u>2025</u>			<u>2026</u>
			<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<u>AI-related products</u>	23.5 (3,426)	22.1 (763)	23.8 (839)	20.4 (874)	27.6 (950)	41.5 (1,080)
Electronics	23.3 (3,325)	22.0 (739)	24.1 (815)	19.4 (846)	27.4 (925)	43.5 (1,061)
Others	32.6 (101)	24.4 (24)	15.8 (24)	59.9 (28)	34.4 (25)	-19.2 (20)

Note : () Trade value in HK\$ billion.

Merchandise imports

2.10 *Merchandise imports* rose by 31.3% year-on-year in real terms in the first quarter of 2026, after an increase of 19.1% in the preceding quarter. *Retained imports*, which refer to imports for domestic use and accounted for around one-fifth of merchandise imports, grew further by 52.1%.

Table 2.4 : Merchandise imports and retained imports

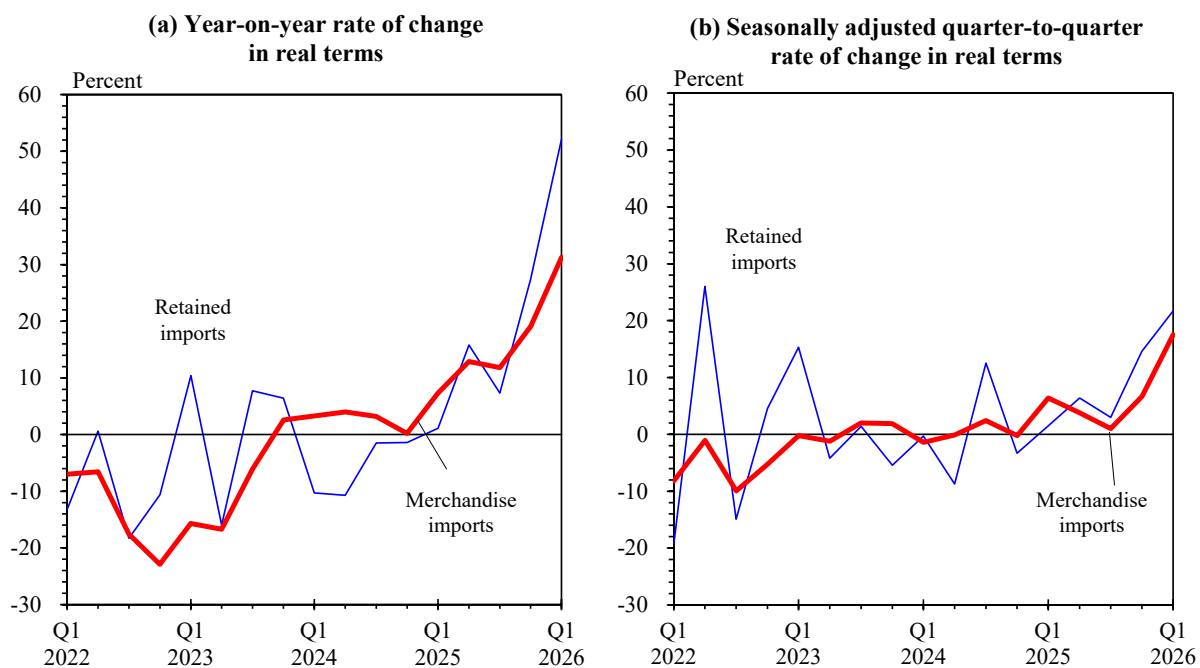
	<u>Merchandise imports</u>				<u>Retained imports</u> ^(a)			
	<u>In value terms</u>	<u>In real terms</u> ⁽⁺⁾		<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>		<u>Change in prices</u>
	(\$Bn)	(year-on-year rate of change (%))			(\$Bn)	(year-on-year rate of change (%))		
2025 Annual	5,687	15.5	12.9	2.2	1,173	16.1	13.2	2.2
Q1	1,252	9.8	7.3 (6.4)	2.0	242	4.9	1.1 (1.5)	2.4
Q2	1,388	15.2	12.9 (3.8)	1.9	279	19.5	15.8 (6.4)	2.5
Q3	1,453	13.9	11.8 (1.0)	1.9	296	9.3	7.3 (3.0)	1.4
Q4	1,594	22.4	19.1 (6.7)	2.9	356	29.5	27.4 (14.6)	2.3
2026 Q1	1,715	37.0	31.3 (17.5)	4.3	383	58.5	52.1 (21.7)	4.3

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

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

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

Diagram 2.5 : Merchandise imports rose



Services trade

Exports of services

2.11 *Exports of services* expanded solidly further by 3.5% year-on-year in real terms in the first quarter of 2026, compared to the 4.7% growth in the preceding quarter. Exports of all major service groups saw growth. Specifically, exports of travel services continued to grow visibly, driven by strong inbound tourism. Exports of transport services and financial services grew moderately, amid solid performance in cross-boundary traffic and financial services activities. Exports of business and other services also showed moderate growth. Looking ahead, exports of services are expected to benefit from sustained growth in visitor arrivals, robust cross-boundary financial activities and steady demand for business services in Hong Kong. However, the ongoing geopolitical tensions in the Middle East pose a downside risk to the outlook, as it may heighten financial market volatility and weaken regional travel demand.

Diagram 2.6 : Transport and financial services together constituted over half of exports of services

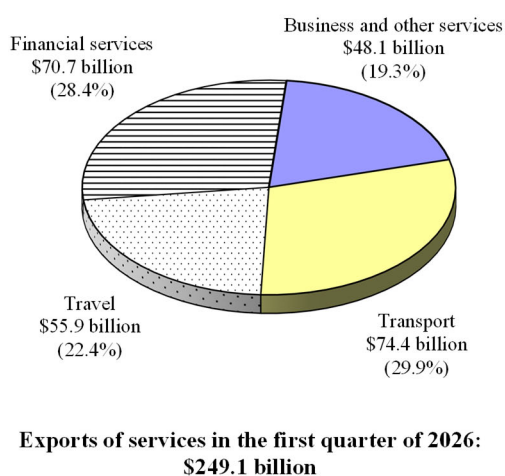


Diagram 2.7 : Exports of services expanded solidly further

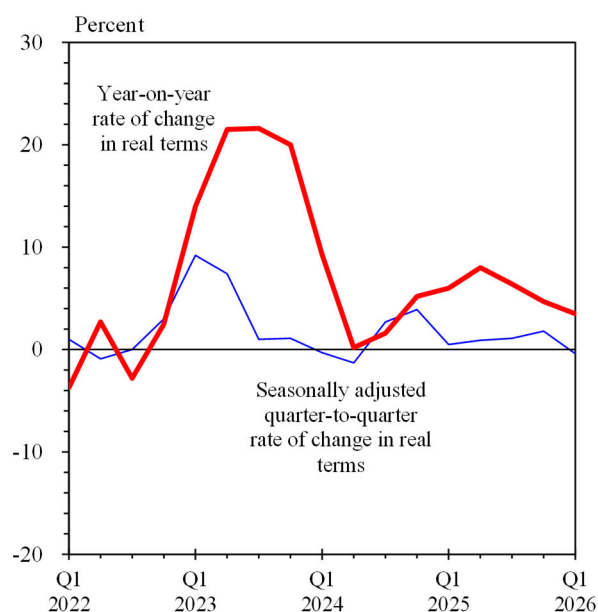


Table 2.5 : Exports of services by major service group (year-on-year rate of change in real terms (%))

		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Transport</u>	<u>Travel^(a)</u>	<u>Financial services</u>	<u>Business and other services</u>
2025	Annual	6.2	5.3	10.0	7.6	2.2
	Q1	6.0 (0.5)	5.5	4.9	9.5	3.5
	Q2	8.0 (0.9)	5.9	14.4	9.3	3.4
	Q3	6.4 (1.1)	4.4	8.2	11.2	1.1
	Q4	4.7 (1.8)	5.5	13.0	0.4	1.1
2026	Q1	3.5 (-0.4)	2.5	7.9	2.1	2.4

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

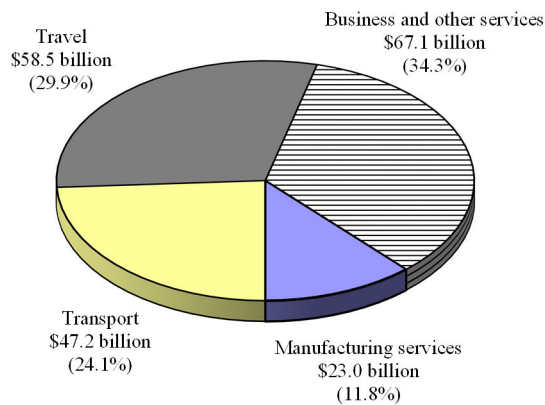
(a) Comprising mainly inbound tourism receipts.

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

Imports of services

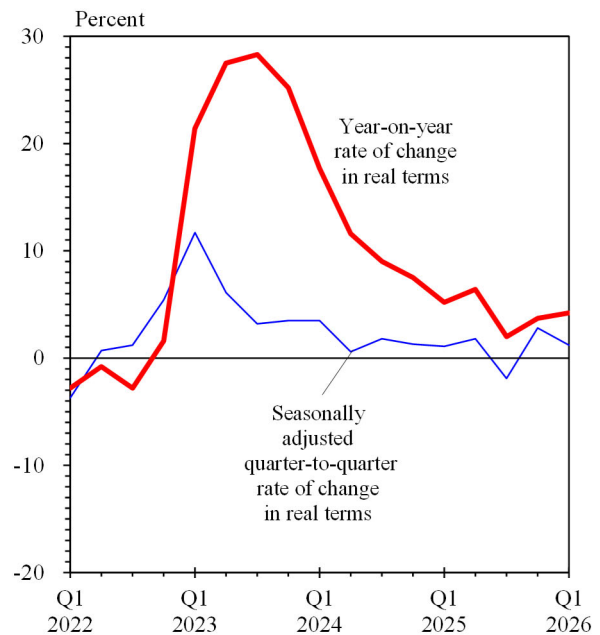
2.12 *Imports of services* rose by 4.2% year-on-year in real terms in the first quarter of 2026, after growing by 3.7% in the previous quarter. Imports of travel services, transport services, manufacturing services, and business and other services rose by varying degree.

Diagram 2.8 : Business and other services and travel together constituted over 60% of imports of services



**Imports of services in the first quarter of 2026:
\$195.8 billion**

Diagram 2.9 : Imports of services rose



**Table 2.6 : Imports of services by major service group
(year-on-year rate of change in real terms (%))**

Of which :

		<u>Imports of services</u>	<u>Travel</u> ⁽⁺⁾	<u>Transport</u>	<u>Manufacturing services</u> ^(^)	<u>Business and other services</u>
2025	Annual	4.3	4.4	1.8	5.1	5.5
	Q1	5.2 (1.1)	3.0	1.6	2.6	9.5
	Q2	6.4 (1.8)	7.2	5.2	7.0	6.3
	Q3	2.0 (-1.9)	0.9	-1.2	4.0	4.6
	Q4	3.7 (2.8)	6.2	1.7	6.6	1.6
2026	Q1	4.2 (1.2)	4.1	7.5	6.6	1.4

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

(+) Comprising mainly outbound travel spending.

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

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

Goods and services balance

2.13 Based on the GDP compilation framework and compared to a year earlier, the goods deficit widened to \$93 billion in the first quarter of 2026, as the increase in the value of exports of goods was smaller than that of imports. Meanwhile, the services surplus widened to \$53 billion. The combined goods and services account registered a deficit of \$39 billion in the first quarter of 2026, equivalent to 2.0% of total import value, compared to a surplus of \$51 billion or 3.5% in the first quarter of 2025.

**Table 2.7 : Goods and services balance
(\$ billion at current market prices)**

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			<u>As % of imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2025	Annual	5,759	898	5,832	728	-73	170	97	1.5
	Q1	1,294	234	1,298	179	-3	55	51	3.5
	Q2	1,389	206	1,427	175	-38	31	-7	-0.5
	Q3	1,473	224	1,472	178	1	46	46	2.8
	Q4	1,603	235	1,635	196	-32	39	7	0.4
2026	Q1	1,721	249	1,813	196	-93	53	-39	-2.0

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

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

Highlights of policy and market developments

2.14 The Government has continued its efforts to bolster Hong Kong's status as an international trade centre through a series of a policy initiatives. In the 2026-27 Budget, the Financial Secretary (FS) highlighted that Hong Kong will strengthen its role as the functional node for the Belt and Road Initiative, through collaborating with industry players to further develop the ASEAN and Middle East markets, and exploring the potential of Central Asia, South Asia and North Africa markets. The Government has set up the Task Force on Supporting Mainland Enterprises in Going Global and is proactively attracting Mainland enterprises to expand overseas through Hong Kong, thereby bringing in investments while fostering the development of the local professional service sectors. In addition, a preliminary framework of preferential policy packages has been formulated to further attract high value-added industries and high-potential enterprises to set up in Hong Kong, with policy tools including land grants arrangements, financial subsidies and preferential tax rates at half rate or 5%. Meanwhile, Hong Kong continues to strengthen economic relations with various economies via free trade agreements and investment promotion and protection agreements (IPPAs). Negotiations for IPPAs with Qatar, Bangladesh, and Peru have been concluded, while new agreements with Saudi Arabia and Egypt are currently being explored.

2.15 Meanwhile, the Government continued to strengthen Hong Kong's economic ties with the Mainland and overseas economies through duty visits by senior officials. In January, the FS visited Davos to attend the World Economic Forum Annual Meeting and shared Hong Kong's latest developments and unique advantages with senior officials from various economies, representatives of international organisations and business leaders. In March, the FS visited Beijing. During the visit, CPC Central Committee Hong Kong and Macao Work Office Director and State Council Hong Kong and Macao Affairs Office Director Xia Baolong met the FS. The FS reported to him on Hong Kong's overall economic development and financial operations. The FS also discussed financial market and regulatory co-operation with the Governor of the People's Bank of China during the visit. In April, the Chief Secretary, the FS and the Secretary for Constitutional and Mainland Affairs met central authorities in Beijing to discuss Hong Kong's alignment with the 15th Five-Year Plan.

2.16 Separately, Singapore Prime Minister visited Hong Kong officially in March. The Chief Executive met with him during his visit, to exchange views on further strengthening co-operation between Hong Kong and Singapore.

Notes :

- (1) Total merchandise exports comprise domestic exports and re-exports. Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the external trade quantum index series compiled using the chain linking approach, which were first released in March 2015 to replace the previous trade index numbers compiled using the Laspeyres method with a fixed base year. The series are not comparable with the real trade aggregates under GDP (reported in Chapter 1) which are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*. Apart from this, non-monetary gold is recorded as a separate item in the statistics of merchandise trade and not included in the trade aggregates reported in Chapter 2, but is included in the trade aggregates under GDP in accordance with the international compilation standard.
- (2) In March, the US administration initiated new Section 301 investigations targeting many economies including China, EU and Japan, citing so-called “structural excess capacity and production” issue, paving way for imposing higher tariffs on specific economies. Furthermore, investigations under Section 232 of the US Trade Expansion Act of 1962 on selected commodities such as robotics and wind turbines are not affected by the court ruling and are still in progress.
- (3) The US supreme court ruled on 20 February that tariffs implemented by the current Trump administration under the International Emergency Economic Powers Act, i.e. the “reciprocal tariffs” and “fentanyl-related tariffs”, exceeded what was permitted under the law. Afterwards, the US administration announced that the aforementioned tariffs shall no longer be in effect and no longer be collected effective from 24 February, and imposed a new 10% uniform tariff on most trading partners effective from 24 February for a period of 150 days, under Section 122 of the Trade Act of 1974. Economies that have agreed trade deals with the US earlier are expected to adhere to their respective agreed tariff levels. In early May, the US Court of International Trade ruled that the new 10% uniform tariff were unlawful, but the court only ceased the tariffs for two importers and the State of Washington. According to The Budget Lab, a US non-partisan policy research centre, the estimated US average effective tariff rate fell from a peak of 16.1% in the second half of 2025 to 11.8% after the introduction of the uniform tariff.

- (4) The table below presents a more detailed comparison between the growth forecasts made by the IMF in its “reference forecast” (which should be taken as IMF’s central path among its expected possible outcomes) in April 2026 and those three months ago.

	<u>2026</u>		
	<u>2025</u> (%)	<u>January</u> <u>round</u> (%)	<u>April</u> <u>round</u> (%)
<i>Economic growth</i>			
World (PPP ^{##} weighted)	3.4	3.3	3.1
Advanced economies	1.9	1.8	1.8
US	2.1 [#]	2.4	2.3
Euro area	1.4 [#]	1.3	1.1
UK	1.4 [#]	1.3	0.8
Japan	1.2 [#]	0.7	0.7
Emerging market and developing economies	4.4	4.2	3.9
Emerging and developing Asia	5.5	5.0	4.9
The Mainland	5.0 [#]	4.5	4.4
India [^]	7.6	6.4	6.5
ASEAN-5 ^{\$}	4.5	4.2	4.1
Middle East and Central Asia	3.6	3.9	1.9
<i>Inflation</i>			
World	4.1	3.8	4.4

- Notes : (#) Actual figures.
 (##) PPP refers to purchasing power parity.
 (^) Fiscal year.
 (\$) Includes Indonesia, Malaysia, the Philippines, Singapore and Thailand.

- (5) The IMF constructed two other scenarios under which the conflict turns out to be more prolonged and more severe. Under its “adverse” scenario in which there will be a longer shutdown of the Strait of Hormuz and further damage to drilling and refining facilities, the IMF projected that global economic growth would slow to 2.5% in 2026 and inflation would accelerate to 5.4%. Under its “severe” scenario in which there will be an even longer period of energy supply dislocations that would extend into 2027, the IMF projected that global economic growth would slow to 2.0% in 2026 (which the IMF described as a close call for a global recession), and inflation would accelerate to 5.8%.

- (6) Figures are compiled in accordance with the classifications set out in the World Trade Organization’s *World Trade Report 2025* (September 2025) and the Hong Kong Trade Development Council’s *Hong Kong 2026 Export Outlook* (December 2025).

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

Summary

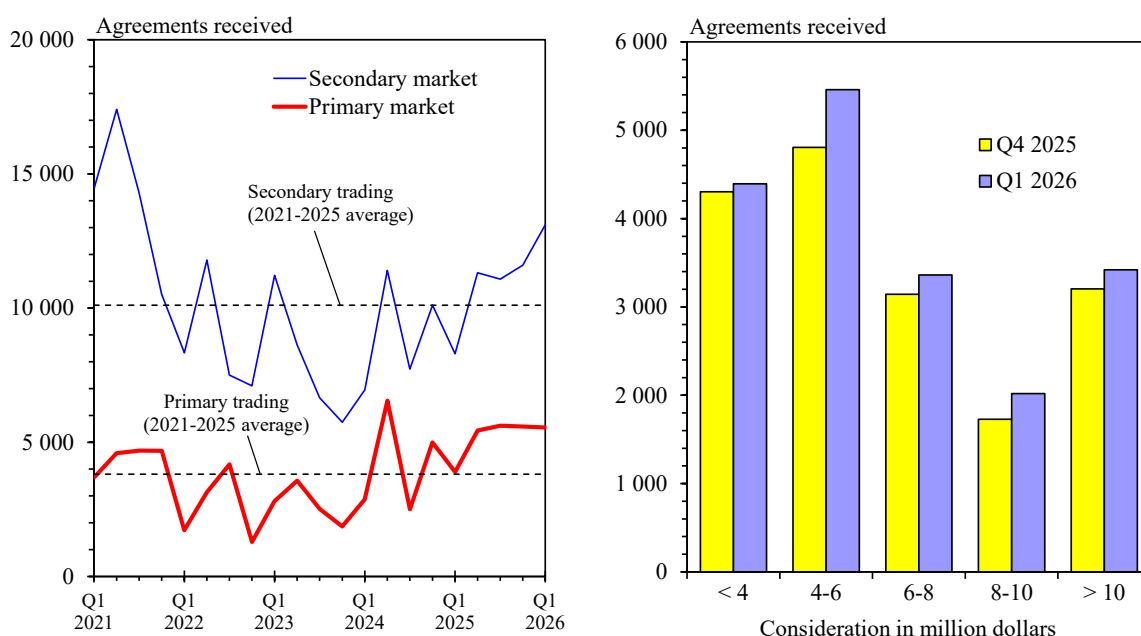
- *The residential property market gained further momentum in the first quarter of 2026. Overall flat prices and rentals rose further. Recent trading activity has stayed active and market sentiment remains firm, although the Middle East conflict has erupted since late February.*
- *The non-residential property market remained soft in the first quarter. Nevertheless, market intelligence showed that vacancy rates for Grade A offices showed slight improvement over the quarter. Vacancy rates of retail shops at some prime high street locations also showed improvement amid robust growth of retail sales and inbound tourism.*
- *Inbound tourism continued to post solid growth in the first quarter. Visitor arrivals rose by 17.0% over a year earlier to 14.3 million. Globally renowned international trade fairs and conferences, cultural and art festivals, together with new tourism products, will continue to reinforce Hong Kong's position as a worldclass premier tourist destination. However, the elevated geopolitical tensions in the Middle East may lead to volatility in the tourism market through the potential for higher oil prices, disruption to air routes, and a deterioration in global consumer and business sentiment that could weigh on travel demand.*
- *The performance of the logistics sector is closely tied to the city's trade performance. Air and land have remained the dominant modes, accounting for over 90% of total trade value, underpinning further growth in air freight and road cargo throughput, which rose by 3.4% and 11.6% year-on-year respectively in the first quarter. While resilient trade performance should continue to support Hong Kong's logistics sector, the Middle East conflict could increase downside risks by elevating cost pressures, disrupting key transport routes and undermining global trade flows. The Government will closely monitor the situation.*

Property

3.1 The *residential property market* gained further momentum in the first quarter of 2026. Overall flat prices and rentals rose further. Recent trading activity has stayed active and market sentiment remains firm, although the Middle East conflict has erupted since late February.

3.2 The total number of sale and purchase agreements for residential property received by the Land Registry increased notably further by 9% over the preceding quarter to 18 654 in the first quarter. This was the highest level since the third quarter of 2021, and also 53% higher than the level a year ago. Within the total, secondary market transactions rose visibly by 13% over the preceding quarter, more than offsetting a marginal 1% decline in primary market transactions. Total consideration also went up by 5% during the same quarter to \$162.0 billion, 83% higher than the level in the same quarter last year. More recently, the number of transactions rose to a two-year high of 7 368 in April, which showed that trading activity has stayed active on entering the second quarter.

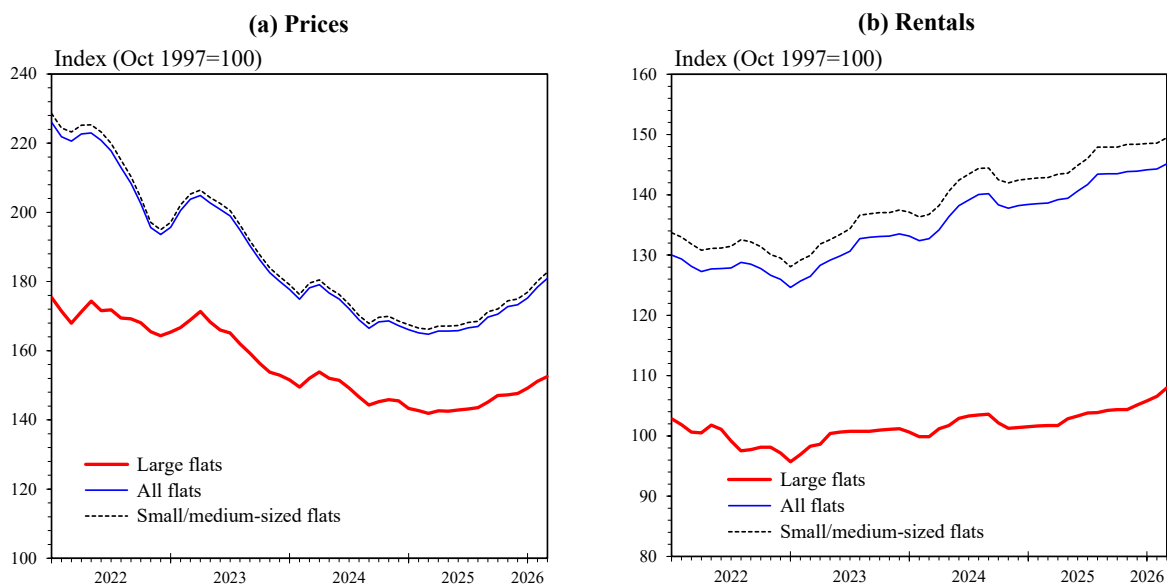
Diagram 3.1 : Overall trading activities turned more active in the first quarter of 2026



3.3 Overall flat prices rose further by 4% during the first quarter of 2026, extending the 4% increase last year, though were still 21% below the peak in September 2021. Analysed by size, prices of small/medium-sized flats and large flats rose by 4% and 3% respectively during the quarter.

3.4 Meanwhile, overall flat rentals rose further by 1% in the first quarter, and were up by 5% over a year earlier. Analysed by size, rentals of small/medium-sized flats increased by 1% within the quarter, while large flats showed a more notable rise of 3% over the same period. The average rental yield for residential property edged down to 3.0% in March 2026 as compared with that in December 2025.

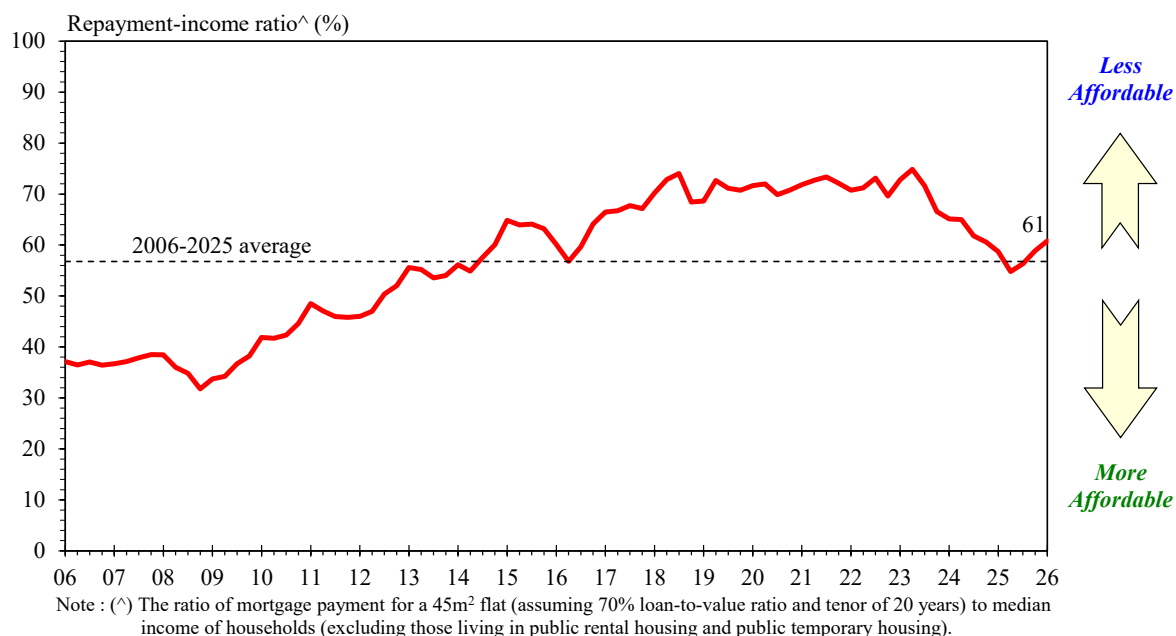
Diagram 3.2 : Flat prices and rentals rose further in the first quarter



Note : Residential property price index pertains to secondary market transactions only. Large flats refer to those with a saleable area of at least 100 m², and small/medium-sized flats with a saleable area of less than 100 m².

3.5 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 rental housing and public temporary housing) went up to around 61% in the first quarter of 2026 amid the continued rise in flat prices, higher than the long-term average of 57% over 2006-2025⁽¹⁾.

Diagram 3.3 : Index of home purchase affordability went up in the first quarter



3.6 As estimated at end-March 2026, the *total supply of first-hand 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) decreased by around 3 000 units over December 2025, mainly due to higher take-ups amid a still-active primary market, but remained at a relatively high level of 101 000 units.

Latest government measures

3.7 In the 2026-27 Budget (the Budget), the Financial Secretary announced that the rates of stamp duty on residential property transactions valued above \$100 million would be raised from 4.25% to 6.5%, with marginal relief provided for the transactions ranging between \$100,000,001 and \$109,574,470. Subject to the approval of the Legislative Council, this measure will take retrospective effect from 26 February 2026.

3.8 The *non-residential property market* remained soft in the first quarter. Transactions of office space moderated, though those for retail shop space and flatted factories rose. Nevertheless, market intelligence showed that vacancy rates for Grade A offices, supported by demand from financial institutions, showed slight improvement over the quarter. Vacancy rates of retail shops at some prime high street locations also showed improvement amid the robust growth of retail sales and inbound tourism.

Table 3.1 : Key statistics of the non-residential property market

(a) Prices and rentals
(% change over the preceding period)

	<u>2025</u>				Dec 2025 versus Dec 2024	<u>2026</u>	Mar 2026 versus their peaks
	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>		<u>Mar</u>	
<u>Prices</u>							
Office space	-3.8	-4.2	-3.0	-2.2	-12.7	-1.0	-51.7
<i>Grade A</i>	-3.2	-4.7	-1.9	-1.8	-11.1	-1.6	-53.8
Retail shop space	-1.0	-5.6	-2.6	-4.3	-12.9	-3.7	-46.5
Flatted factory space	-2.5	-4.8	-5.1	-5.2	-16.5	-0.2	-39.7
<u>Rentals</u>							
Office space	-1.0	-1.2	-0.6	-0.1	-2.9	*	-20.9
<i>Grade A</i>	-1.3	-1.8	-0.8	*	-3.9	*	-24.3
Retail shop space	-2.1	*	-1.4	-0.5	-3.9	-0.1	-19.6
Flatted factory space	-0.8	-0.1	-2.0	*	-2.8	-0.1	-6.9

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

(b) Transactions

	<u>2025</u>					<u>2026</u>	2021-2025 yearly average
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	
Office space	1 030	220	250	270	290	270	800
	(71.3)	(19.3)	(13.0)	(7.5)	(5.2)	(-4.9)	
Retail shop space [^]	1 260	270	360	300	340	380	1 410
	(13.3)	(-21.1)	(33.5)	(-16.3)	(14.1)	(11.8)	
Flatted factory space	2 180	560	590	500	530	620	2 260
	(34.2)	(23.7)	(4.8)	(-14.0)	(4.6)	(16.9)	

Notes : Figures may not add up due to rounding.

() % change over the preceding period.

([^]) The figures on transactions refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.

(c) Average rental yield

(%)

	<u>2025</u>				<u>2026</u>	
	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>
Office space	4.1	3.8	4.1	4.2	4.3	4.1
<i>Grade A</i>	3.6	3.5	3.5	3.6	3.7	3.7
Retail shop space	3.5	3.3	3.5	3.7	3.8	3.9
Flatted factory space	4.1	3.9	4.1	4.2	4.4	4.4

Land sale programme

3.9 Five sites (comprising three residential sites, a site for an electric vehicle charging station, and a site for a high-tier data centre) with a total area of about 12.7 hectares were disposed of in the first quarter of 2026, fetching a land premium of about \$5.4 billion. In addition, the tender exercise for a site for an electric vehicle fast charging station in Tseung Kwan O commenced in the first quarter, while one land exchange case and lease modifications of 11 sites were approved.

3.10 Meanwhile, in view of the vacancy rate in the non-residential property market, the supply and demand situation, it was announced in the Budget that the Government will not put up general commercial sites for sale in the 2026-27 financial year. The Government will continue to consider converting commercial sites into residential or other more flexible uses, with a view to meeting the housing and economic development needs of Hong Kong. For example, the Government has earlier invited the market to submit expressions of interest (EOI) for post-secondary student hostel development on three sites originally intended for commercial use, and will put up one or more of these sites in 2026-27 the earliest subject to analysis of views collected from the EOI exercise.

Tourism

3.11 Inbound tourism continued to post solid growth in the first quarter of 2026, with visitor arrivals rising by 17.0% over a year earlier to 14.3 million. Mainland visitor arrivals, which accounted for 77.4% of the total in the first quarter, grew notably by 19.8% over a year earlier to 11.1 million. Non-Mainland visitor arrivals increased at a slower rate of 8.2% year-on-year to 3.2 million during the same period, with visitor arrivals from long-haul markets rising notably by 20.9% to 1.1 million. Meanwhile, the short-haul markets (excluding the Mainland) grew modestly by 2.7% to 2.1 million. Analysed by length of stay, overnight and same-day visitor arrivals rose by 5.3% and 27.8% over a year earlier to 6.2 million and 8.1 million respectively. Meanwhile, visitor spending, as measured by exports of travel services, rose by 7.9% in real terms from a year earlier.

Table 3.2 : Number of visitor arrivals ('000)

		<u>Overall</u>	<u>By source*</u>			<u>By length of stay</u>	
			<u>Chinese Mainland</u>	<u>Other short-haul markets</u>	<u>Long-haul markets</u>	<u>Overnight visitors</u>	<u>Same-day visitors</u>
2025	Annual	49 894.8 (12.1)	37 833.8 (11.1)	8 235.5 (13.1)	3 825.6 (20.3)	23 190.1 (5.7)	26 704.7 (18.4)
	Q1	12 228.2 (8.9)	9 245.4 (6.3)	2 084.3 (17.7)	898.6 (18.2)	5 888.4 (4.9)	6 339.8 (12.9)
	Q2	11 407.9 (15.0)	8 548.4 (14.7)	1 968.4 (14.9)	891.1 (17.7)	5 395.9 (9.5)	6 012.0 (20.4)
	Q3	12 835.5 (12.2)	10 192.1 (12.1)	1 836.4 (10.4)	807.0 (18.9)	5 836.4 (3.2)	6 999.2 (21.1)
	Q4	13 423.2 (12.7)	9 847.9 (11.9)	2 346.4 (10.0)	1 228.9 (25.0)	6 069.4 (5.6)	7 353.8 (19.2)
2026	Q1	14 307.6 (17.0)	11 080.5 (19.8)	2 141.0 (2.7)	1 086.2 (20.9)	6 202.2 (5.3)	8 105.4 (27.8)

Notes : (*) 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. Visitors are classified by nationality/region.

() % change over a year earlier.

Figures may not add up to the corresponding totals due to rounding.

3.12 The average hotel room occupancy rate was 89% in the first quarter, slightly higher than the 88% recorded a year earlier. Meanwhile, the average achieved hotel room rate increased by 10.3% from a year earlier to \$1,395⁽²⁾.

Latest government measures

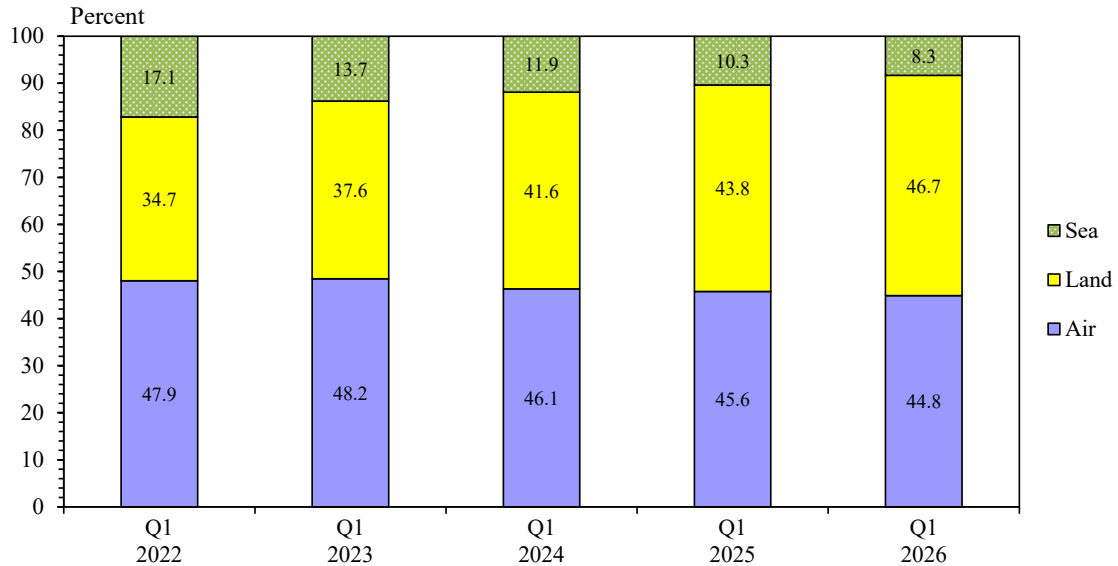
3.13 The Financial Secretary announced various measures in the Budget to promote the development of the tourism sector, including allocating \$1,660 million to the Hong Kong Tourism Board (HKTB) in the 2026-27 financial year. The HKTB will, in particular, scale up its flagship events and promotion, step up marketing efforts in potential source markets and proactively promote the hosting of a wider range of meetings, incentive travels, conferences and exhibitions in Hong Kong. Moreover, the HKTB will attract more international cruises to include Hong Kong in their itineraries. Meanwhile, the Government will continue strengthening co-operation with the Greater Bay Area and other Mainland provinces and municipalities, and exploring with airlines to offer multi-destination flight itineraries, so as to attract more overseas visitors to Hong Kong and the Chinese Mainland.

3.14 Globally renowned international trade fairs and conferences, cultural and art festivals, together with new tourism products, will continue to reinforce Hong Kong's position as a worldclass premier tourist destination. However, the elevated geopolitical tensions in the Middle East may lead to volatility in the tourism market through the potential for higher oil prices, disruption to air routes, and a deterioration in global consumer and business sentiment that could weigh on travel demand.

Logistics

3.15 The performance of the logistics sector is closely tied to the city's trade performance. Air and land have been the dominant modes by value in recent years, together accounting for over 90% of Hong Kong's external merchandise trade value in the first quarter.

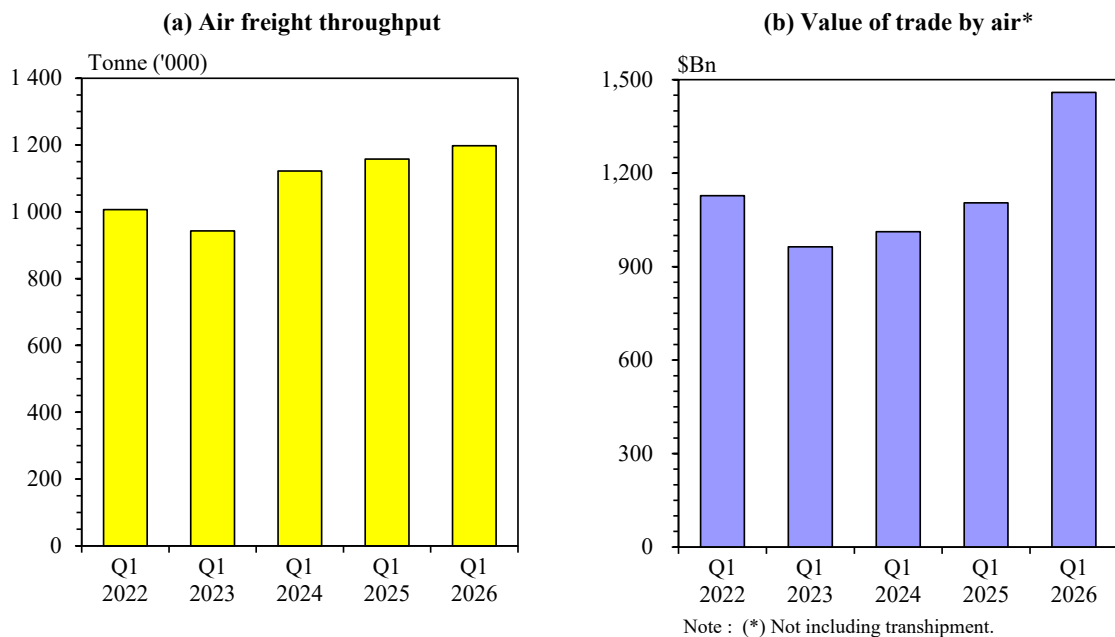
Diagram 3.4 : Air and land have been the dominant modes of trade by value in recent years



Note : Some other modes of transport, such as trade by hand carried and parcel post, do not belong to any of the three major categories and are excluded from the chart. These accounted for less than 0.3% of total merchandise trade in the first quarter of 2026.

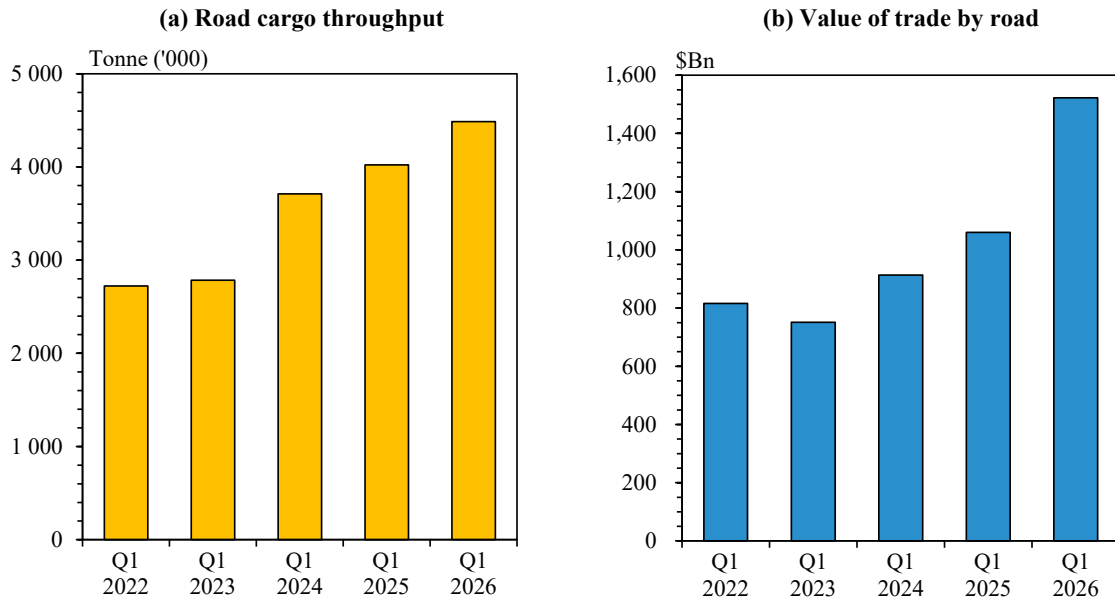
3.16 *Air freight throughput* grew further by 3.4% year-on-year to 1.2 million tonnes in the first quarter. The value of trade by air jumped by 32.1% year-on-year, accounting for a 44.8% share of the total.

Diagram 3.5 : Air freight throughput grew further and the value of trade by air jumped in the first quarter



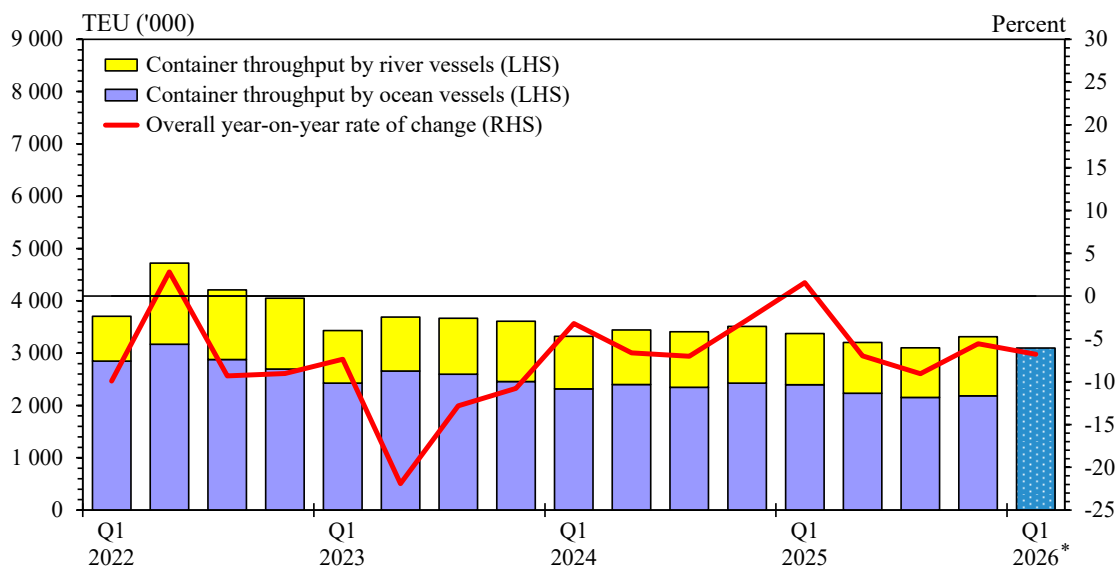
3.17 *Road cargo throughput* likewise expanded visibly by another 11.6% over a year earlier to 4.5 million tonnes in the first quarter. The value of trade by road surged by 43.6% year-on-year, representing a 46.7% share of total trade.

Diagram 3.6 : Road cargo throughput expanded visibly further and the value of trade by road surged in the first quarter



3.18 Meanwhile, *total container throughput* declined by 6.8% year-on-year to about 3.1 million twenty-foot equivalent units (TEUs) in the first quarter. The value of trade handled at the Hong Kong port reverted to growth of 8.2%, comprising an 8.3% share of total trade.

Diagram 3.7 : Container throughput decreased in the first quarter



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

3.19 While resilient trade performance should continue to support Hong Kong's logistics sector, the Middle East conflict could increase downside risks by

elevating cost pressures, disrupting key transport routes and undermining global trade flows. The Government will closely monitor the situation.

Transport

3.20 Traffic flows for all modes of cross-boundary passenger transport stayed vibrant in the first quarter of 2026. Air and land-based passenger trips grew appreciably by another 14.3% and 13.8% over a year earlier to 16.7 million and 75.4 million trips respectively. Water-borne passenger trips reverted to a modest increase of 2.4% over a year earlier to 2.2 million trips. Separately, regarding vehicle flows, average daily cross-boundary vehicle movements (including private cars, coach vehicles and goods vehicles, etc.) surged by 18.1% year-on-year to 53 989.

Highlights of related measures and developments in selected sectors

3.21 *Innovation and Technology:* In the Budget, the Financial Secretary announced a number of measures to promote Hong Kong's innovation and technology (I&T) development and foster new quality productive forces. These measures include, among others: (i) establishing the Committee on AI+ and Industry Development Strategy to formulate strategies and create favourable conditions for artificial intelligence (AI) to empower the transformation and development of industries; (ii) establishing the International Clinical Trial Academy in 2027; (iii) launching the New Industrialisation Elite Enterprises Nurturing Scheme to support targeted high-growth enterprises contributing to the development of new industrialisation; (iv) earmarking around \$220 million to establish the first national manufacturing innovation centre outside the Chinese Mainland; (v) commencing operation of the \$10 billion Innovation and Technology Industry-Oriented Fund this year to channel more market capital to invest in emerging and future industries of strategic importance; (vi) furthering the objective of "AI training for all" by allocating \$50 million for public organisations to organise AI application courses, seminars and competitions for enhancing the public's AI awareness and application skills; and (vii) allocating \$10 billion each to the Hong Kong-Shenzhen Innovation and Technology Park Limited, the dedicated company for the San Tin Technopole and the Hung Shui Kiu Industry Park Company Limited to accelerate the development of industries or support initial operation of the companies.

3.22 In January, the Innovation and Technology Commission launched the Pilot Innovation and Technology Accelerator Scheme (PITAS) to provide funding support for I&T accelerators with proven track records in and beyond Hong Kong to set up accelerator bases in Hong Kong, thereby supporting the development and needs of start-ups in a more comprehensive and targeted manner through their business networks and experience. Under PITAS, the Government will provide funding support up to \$30 million on a one-to-two matching basis between the Government and the accelerator to cover the necessary expenditure for establishing and operating an I&T accelerator.

3.23 *Arts, Cultural and Creative Industries:* As highlighted in the Budget, the Government has so far injected over \$9 billion into the CreateSmart Initiative and the Film Development Fund to support projects conducive to the development of the cultural and creative industries. Meanwhile, the Culture, Sports and Tourism Bureau has entered into a five-year collaboration arrangement with Art Basel to reinforce Hong Kong as the exclusive host city in the region, underscoring the Government's strong commitment to cementing Hong Kong's

status as a global hub for premium arts trading, as well as Hong Kong's role as a premier East-meets-West centre for international cultural exchange.

3.24 *Environment:* The Budget also set out various initiatives to accelerate Hong Kong's green development. Regarding hydrogen energy development, the Government will formulate a green and low-carbon hydrogen standard certification scheme, with a view to establishing a certification system that connects with both the Chinese Mainland and the rest of the world. On green finance, the Government will support the exploration with the Chinese Mainland and international multilateral financial institutions of the establishment of a Hong Kong-based Green Technology Projects Accelerator which will provide incubation, acceleration, and empowerment services for green technology projects in the Belt and Road regions, and serve as an innovative demonstration of Hong Kong's green finance-related services. For the development of a green city, starting from the 2026-27 financial year, the Government will earmark resources for launching a five-year plan to further enhance and upgrade recycling infrastructure. Separately, the first registration tax for electric commercial vehicles, electric motorcycles and electric motor tricycles will continue to be waived in full until end-March 2028. The concession arrangement for electric private cars expired on 31 March 2026 without further extension. Their future development will be market-driven, and the Government will primarily focus on improving supporting infrastructure such as charging facilities.

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.

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

- (2) The figures on hotel room occupancy and achieved room rate do not include guesthouses. The figures are subject to revision later as more data become available.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *Interest rates in Hong Kong softened in the first quarter of 2026. The Hong Kong dollar interbank interest rates (HIBORs) generally eased during the first quarter as seasonal demand for Hong Kong dollar funding faded. Interest rates on the retail front likewise fell. As the US Federal Open Market Committee (FOMC) kept the target range for the Federal Funds Rate unchanged during the first quarter, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority (HKMA) was kept unchanged at 4.00%.*
- *The Hong Kong dollar spot exchange rate against the US dollar weakened during the first quarter, as softening short-dated interest rates incentivised carry trade activities, though there were temporary rebounds triggered by unwinding of short Hong Kong dollar positions in March. While the US dollar appreciated against most major currencies, its depreciation against the Renminbi (RMB) caused the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices to fall by 1.5% and 1.3% respectively during the quarter.*
- *Total loans and advances increased by 3.0% during the first quarter. Within the total, loans for use in and outside Hong Kong increased by 3.0% and 3.1% respectively.*
- *The local stock market saw varying monthly performance during the first quarter. The Hang Seng Index (HSI) rallied to a four-and-a-half-year high of nearly 28 000 in January, moved sideways in February, and corrected in March after the Middle East conflict in line with other major markets. It ended the quarter at 24 788, down 3.3% from end-2025. With market sentiment stabilising somewhat since early April, the HSI recovered lost ground and closed at 26 626 on 7 May, 3.9% higher than the level at end-2025. Trading and fund raising remained strong.*

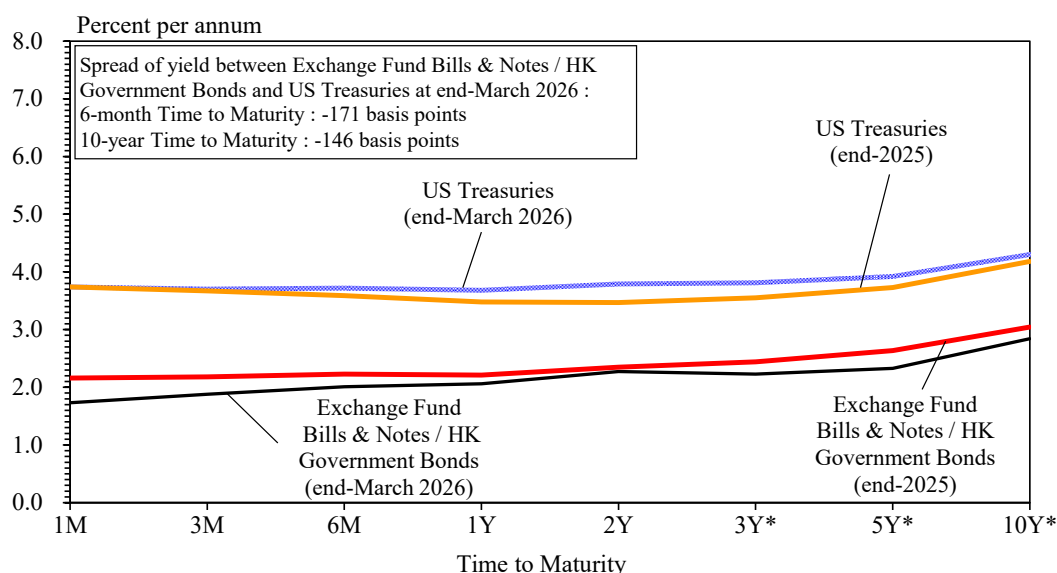
(#) This chapter is jointly prepared by the HKMA and the Office of the Government Economist.

Interest rates and exchange rates

4.1 Interest rates in Hong Kong softened in the first quarter of 2026. HIBORs generally trended down as seasonal demand for Hong Kong dollar funding faded. With capital market related Hong Kong dollar funding demand subsiding after the outbreak of the Middle East conflict at end-February, short-dated interest rates saw a more notable decline before firming towards the quarter-end. The overnight, 1-month and 3-month HIBORs decreased from 4.38%, 3.08% and 2.93% at end-2025 to 2.77%, 2.24% and 2.36% at end-March 2026 respectively. Meanwhile, as the US FOMC kept the target range for the Federal Funds Rate unchanged at 3.50-3.75% during the first quarter, the *Base Rate*⁽¹⁾ under the Discount Window operated by the HKMA was kept unchanged at 4.00%.

4.2 *Hong Kong dollar yield curve* shifted downwards in the first quarter, while the *US dollar yield curve* shifted upwards. Reflecting their relative movements, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills widened from 136 basis points at end-2025 to 171 basis points at end-March 2026, and that between the 10-year Hong Kong Government Bonds and 10-year US Treasury Notes from 114 basis points to 146 basis points.

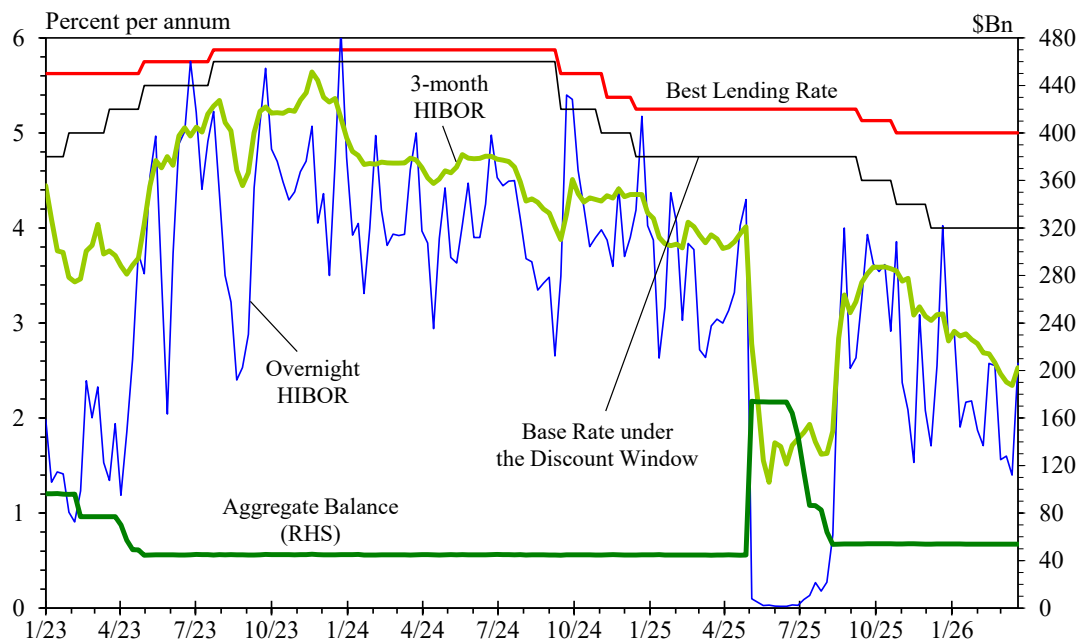
Diagram 4.1 : Hong Kong dollar yield curve shifted downwards during the first quarter, while the US dollar yield curve shifted upwards



Note : (*) The Hong Kong dollar yields for tenors of 3 years, 5 years and 10 years refer to those for Hong Kong Government Bonds under the Infrastructure Bond Programme or the Government Sustainable Bond Programme.

4.3 On the retail front, interest rates likewise fell during the first quarter. While the *average savings deposit rate* for deposits of less than \$100,000 quoted by major banks stayed at 0.001% at end-March 2026, unchanged from end-2025, the *one-year time deposit rate* decreased from 0.15% at end-2025 to 0.12% at end-March 2026. The *composite interest rate*⁽²⁾, which indicates the average cost of funds for retail banks, also decreased from 1.36% at end-2025 to 1.25% at end-March 2026. Meanwhile, the *Best Lending Rates* among banks ranged from 5.0% to 5.5% at end-March 2026, unchanged from end-2025.

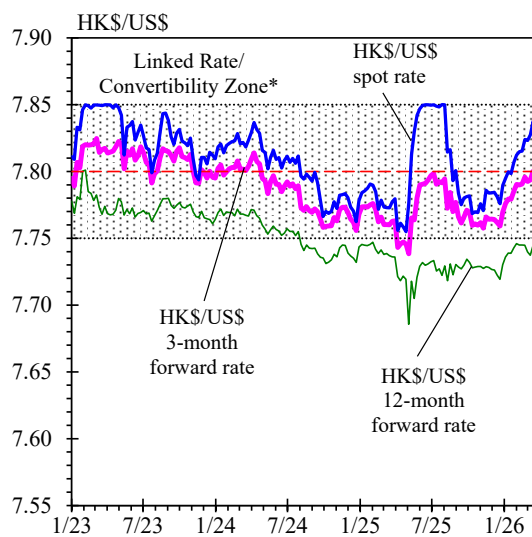
**Diagram 4.2 : Interbank interest rates eased during the first quarter;
interest rates on the retail front likewise fell
(end of the week)**



4.4 The *Hong Kong dollar spot exchange rate against the US dollar* weakened during the first quarter. Short-dated HIBORs generally moved lower while their US counterparts were relatively stable during the quarter, which spurred carry trade selling flows and weighed on the Hong Kong dollar. Yet, amid the uncertainty arising from the Middle East conflict since late February and the firming of short-dated interest rates in late March, market participants once unwound short Hong Kong dollar positions and drove the Hong Kong dollar stronger temporarily. The spot exchange rate closed the first quarter at 7.8387 per US dollar, compared with 7.7838 at end-2025. The 3-month and 12-month *Hong Kong dollar forward discount* widened from 213 pips and 602 pips (each pip is equivalent to HK\$0.0001) at end-2025 to 363 pips and 917 pips respectively at end-March 2026. The Aggregate Balance was little changed, standing at \$53.8 billion at end-March 2026.

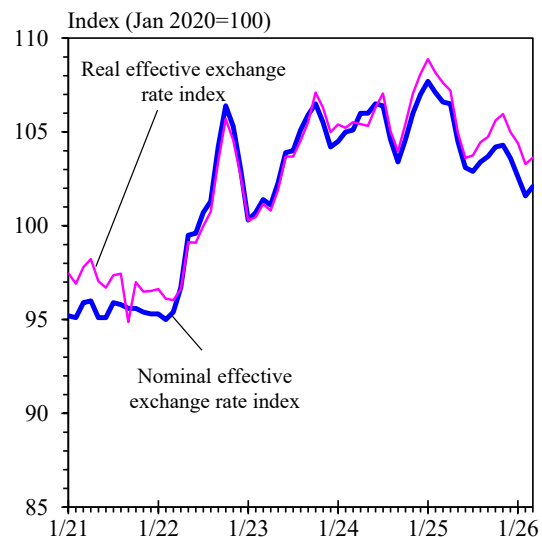
4.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. While the US dollar appreciated against most major currencies during the first quarter, it depreciated against the RMB, which carries a relatively larger weight in Hong Kong’s trade basket. As a result, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ decreased by 1.5% and 1.3% respectively during the quarter.

Diagram 4.3 : The Hong Kong dollar spot exchange rate against the US dollar weakened during the first quarter (end of 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 4.4 : The trade-weighted nominal and real effective exchange rate indices both decreased during the first quarter (average of the month)



Money supply and banking sector

4.6 The Hong Kong dollar broad *money supply* (HK\$M3) rose by 1.9% over end-2025 to \$9,011 billion at end-March 2026, and the seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1) increased by 4.4% to \$1,860 billion⁽⁴⁾. Meanwhile, *total deposits* with authorized institutions (AIs)⁽⁵⁾ increased by 1.0% to \$19,617 billion, within which Hong Kong dollar deposits and foreign currency deposits increased by 1.9% and 0.3% respectively.

Diagram 4.5 : Both the Hong Kong dollar broad and narrow money supply increased during the first quarter

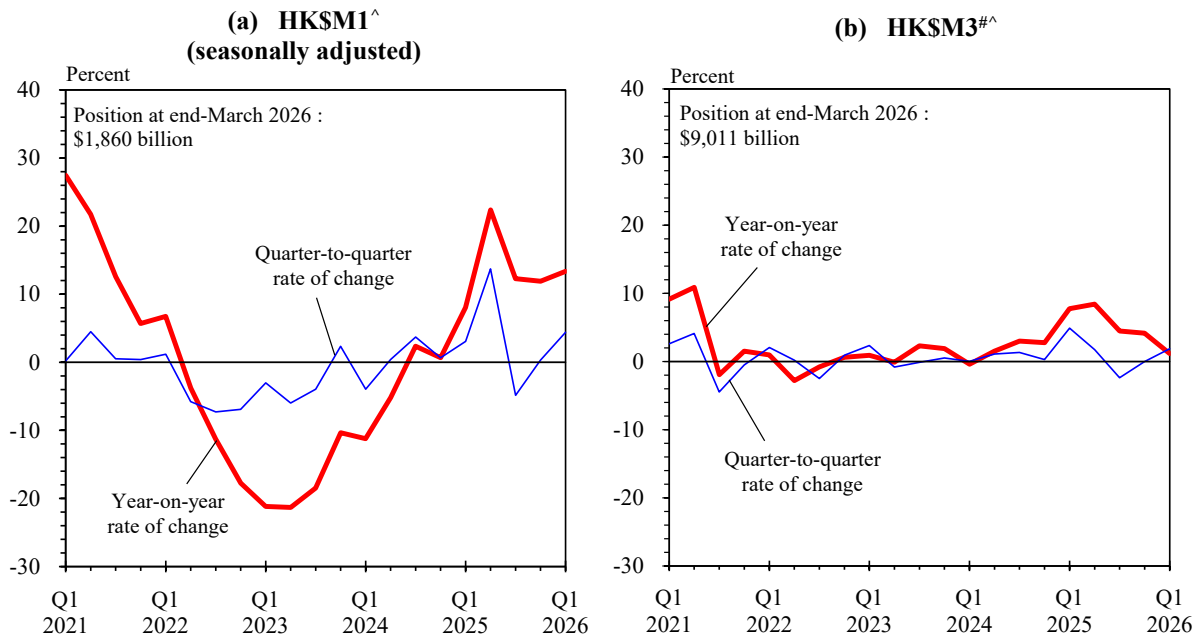


Table 4.1 : Hong Kong dollar money supply and total money supply

% change during the quarter		<u>M1</u>		<u>M2</u>		<u>M3</u>	
		<u>HK\$[^]</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
2025	Q1	3.1	4.3	4.9	3.2	4.9	3.2
	Q2	13.7	12.2	1.7	4.0	1.7	4.1
	Q3	-4.8	-4.5	-2.4	2.1	-2.4	2.1
	Q4	0.3	1.2	*	1.8	*	1.8
2026	Q1	4.4	6.7	1.9	1.1	1.9	1.0
Total amount at end-March 2026 (\$Bn)		1,860	3,317	8,998	20,820	9,011	20,865
% change over a year earlier		13.3	15.7	1.2	9.3	1.2	9.3

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

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

4.7 *Total loans and advances* increased by 3.0% over end-2025 to \$10,440 billion at end-March 2026. Analysed by currency, Hong Kong dollar loans and foreign currency loans both increased by 1.0% and 5.8% respectively. Reflecting the relative movements in deposits and loans, the loan-to-deposit ratio for Hong Kong dollar decreased from 72.9% at end-2025 to 72.3% at end-March 2026, while that for foreign currencies increased from 37.2% to 39.3%.

4.8 Loans for use in Hong Kong (including trade finance) and loans for use outside Hong Kong increased by 3.0% and 3.1% respectively over end-2025 to \$7,862 billion and \$2,578 billion at end-March 2026. Within the former, loans to most economic segments increased. Loans to stockbrokers and financial concerns rose by 36.5% and 4.7% respectively amid vibrant stock market activities, and those to trade finance and manufacturing increased by 7.9% and 7.0% respectively thanks to robust external trade. Loans to wholesale and retail trade also increased by 2.0%. As for property-related lending, loans for purchase of residential property increased by 1.0%, while loans to building, construction, property development and investment fell by 2.3%.

Table 4.2 : Loans and advances

All loans and advances for use in Hong Kong											
		Loans to :									
		Trade	Manu-	Whole-	Building and	Purchase	Financial	Stock-	Total ^(b)	All loans	Total
		finance	facturing	sale	construction,	of	concerns	brokers		and advances	loans
				and	property	residential				for use	and
				retail	development	property ^(a)				outside	advances
				trade	and	concerns				Hong Kong ^(c)	
					investment						
% change	during										
	the quarter										
2025	Q1	-4.7	5.1	-2.1	-2.7	0.6	4.4	10.6	0.5	1.1	0.6
	Q2	3.5	4.8	2.5	-0.2	0.6	3.8	16.3	1.6	2.6	1.9
	Q3	-0.7	-0.6	-3.8	-3.2	0.8	3.0	0.4	-0.4	-2.3	-0.9
	Q4	4.6	-5.0	-1.3	-1.5	1.3	0.2	-0.1	0.2	2.0	0.7
2026	Q1	7.9	7.0	2.0	-2.3	1.0	4.7	36.5	3.0	3.1	3.0
Total amount at end-March 2026 (\$Bn)		422	328	285	1,405	2,094	984	87	7,862	2,578	10,440
% change over a year earlier		16.0	5.8	-0.7	-6.9	3.7	12.2	59.3	4.4	5.5	4.7

- Notes:
- (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.

4.9 The Hong Kong banking sector remained strong, underpinned by solid capital and liquidity positions. Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying at a high level of 25.1% at end-2025, well above the international minimum requirement of 8%. The local banking sector's asset quality remained at a healthy level. The ratio of classified loans to total loans for all AIs stayed at a low level, edging up from 1.98% at end-September 2025 to 2.01% at end-2025. Meanwhile, the delinquency ratio for credit card lending decreased from 0.39% to 0.35%. The delinquency ratio for residential mortgage loans also edged lower to 0.13% at end-March 2026, compared to 0.14% at end-2025.

Table 4.3 : Asset quality of all authorized institutions^{*^}
(as % of total loans)

<u>At end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2024	Q1	96.16	2.05	1.79
	Q2	96.18	1.93	1.89
	Q3	95.99	2.02	1.99
	Q4	95.88	2.15	1.96
2025	Q1	95.77	2.25	1.98
	Q2	95.87	2.16	1.97
	Q3	95.85	2.17	1.98
	Q4	95.87	2.12	2.01

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".

(^) As a reference, for retail banks, the pass loans, special mention loans and classified loans (gross) as percentages of total loans were 95.80%, 2.00% and 2.19% respectively at end-2025.

4.10 *Offshore RMB business* remained active in the first quarter. Total RMB deposits (including customer deposits and outstanding certificates of deposit) increased by 8.2% over end-2025 to RMB1,186.3 billion at end-March 2026. As to financing activities, outstanding RMB bank loans increased by 11.5% to RMB1,042.6 billion over the same period. Yet, RMB trade settlement transactions handled by banks in Hong Kong decreased by 12.5% from a year earlier to RMB3,172.9 billion in the first quarter. Earlier on, RMB bond issuance (excluding certificates of deposit) amounted to RMB198.3 billion (of which RMB18.0 billion was issued by the Ministry of Finance) in the fourth quarter of 2025, as compared to RMB172.7 billion in the same period of 2024⁽⁶⁾.

Table 4.4 : Renminbi customer 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)		Number of AIs engaged in RMB business	Amount of cross-border RMB trade settlement ^(c) (RMB Mn)
					Savings deposits ^(b) (%)	Three-month time deposits ^(b) (%)		
2025	Q1	423,009	536,839	959,848	0.16	0.31	138	3,625,469
	Q2	395,342	486,720	882,061	0.16	0.31	139	3,709,233
	Q3	471,341	530,430	1,001,771	0.16	0.31	141	3,353,375
	Q4	443,097	516,956	960,053	0.16	0.31	141	3,217,085
2026	Q1	496,541	538,657	1,035,199	0.16	0.31	142	3,172,859
% change in 2026 Q1 over 2025 Q1		17.4	0.3	7.9	N.A.	N.A.	N.A.	-12.5
% change in 2026 Q1 over 2025 Q4		12.1	4.2	7.8	N.A.	N.A.	N.A.	-1.4

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not applicable.

The debt market

4.11 As to the Hong Kong dollar *debt market*, total gross issuance of Hong Kong dollar debt securities decreased by 3.2% from the preceding quarter to \$1,527.8 billion⁽⁷⁾ in the first quarter. The total outstanding amount of Hong Kong dollar debt securities rose by 3.2% over end-2025 to \$3,466.0 billion at end-March 2026, equivalent to 38.5% of HK\$M3 or 32.3% of Hong Kong dollar-denominated assets of the banking sector⁽⁸⁾.

4.12 As to the Hong Kong dollar bonds issued by the Government, a total of \$9.5 billion institutional Government Bonds (GBs) were issued through tenders in the first quarter under the Infrastructure Bond Programme (IB Programme). At end-March, the total outstanding amount of Hong Kong dollar bonds under the GB Programme, Government Sustainable Bond Programme (GSB Programme), and IB Programme was around \$302.2 billion, comprising 8 institutional issues totalling \$47.1 billion and one retail issue (Silver Bond) around \$53.4 billion under the GB Programme, one institutional issue worth \$2.5 billion and one Retail Green Bond worth \$20.0 billion under the GSB Programme, as well as 14 institutional issues totalling \$52.5 billion and three

retail issues (two Silver Bonds and one Retail Infrastructure Bond) totalling around \$126.7 billion under the IB Programme. As for GBs denominated in other currencies, there was one US dollar sukuk with an issuance size of US\$1.0 billion outstanding under the GB Programme, around US\$20.7 billion equivalent of institutional green bonds outstanding under the GSB Programme, and around US\$5.4 billion equivalent of institutional infrastructure bonds outstanding under the IB Programme.

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

		Exchange Fund	The HKSAR Government	Local Public sector ^(a)	AIs ^(b)	Local corporations	Non-MDBs issuers outside Hong Kong ^(c)	MDBs ^(c)	Statutory bodies/government-owned corporations in Hong Kong	Total
New Issuance										
2025	Annual	4,351.3	93.0	4,444.3	426.7	58.3	910.5	64.8	75.9	5,980.5
	Q1	1,049.0	7.5	1,056.5	98.9	7.7	188.6	15.3	27.8	1,394.8
	Q2	1,060.2	13.5	1,073.7	85.5	23.9	221.8	15.2	13.7	1,433.9
	Q3	1,074.3	7.3	1,081.5	123.8	11.1	312.5	24.6	19.8	1,573.3
	Q4	1,167.7	64.8	1,232.5	118.5	15.7	187.6	9.8	14.6	1,578.6
2026	Q1	990.9	9.5	1,000.4	126.3	17.7	332.4	36.7	14.3	1,527.8
	% change in 2026 Q1 over 2025 Q1	-5.5	26.7	-5.3	27.7	130.1	76.2	140.5	-48.7	9.5
	% change in 2026 Q1 over 2025 Q4	-15.1	-85.3	-18.8	6.7	13.1	77.2	276.3	-2.4	-3.2
Outstanding (as at end of period)										
2025	Q1	1,318.1	308.9	1,627.0	293.2	119.9	635.1	80.4	176.8	2,932.4
	Q2	1,325.3	293.9	1,619.2	284.5	134.4	699.8	94.0	178.9	3,010.7
	Q3	1,331.4	257.3	1,588.7	313.1	138.3	870.1	114.1	179.3	3,203.6
	Q4	1,342.0	320.1	1,662.1	350.1	141.8	896.6	121.8	187.1	3,359.6
2026	Q1	1,348.8	302.2	1,651.0	360.9	139.8	987.9	147.3	179.1	3,466.0
	% change in 2026 Q1 over 2025 Q1	2.3	-2.2	1.5	23.1	16.6	55.5	83.2	1.3	18.2
	% change in 2026 Q1 over 2025 Q4	0.5	-5.6	-0.7	3.1	-1.5	10.2	20.9	-4.3	3.2

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

(a) Sum of Exchange Fund and the HKSAR Government.

(b) AIs : Authorized institutions.

(c) MDBs : Multilateral Development Banks.

The stock and derivatives markets

4.13 The *local stock market* saw varying monthly performance during the first quarter. The HSI rallied to a four-and-a-half-year high of nearly 28 000 in January, moved sideways in February, and corrected in March after the Middle East conflict in line with other major markets. The HSI fell by 6.9% at end-March from end-February (i.e. the outbreak of the Middle East conflict), while the decline in other major stock market indices ranged from 5.1% to 13.9% over the same period. The HSI closed the first quarter at 24 788, down by 3.3% from end-2025. The fall was less pronounced than S&P 500's 4.6% drop, while the MSCI Asia ex-Japan Index retreated by 1.5%. With market sentiment stabilising somewhat since early April, the HSI recovered lost ground and closed at 26 626 on 7 May, 3.9% higher than the level at end-2025. *Market capitalisation* fell by 3.1% to \$45.9 trillion during the first quarter. The local stock market ranked the seventh largest in the world and the fourth largest in Asia⁽⁹⁾ at end-March.

4.14 Trading activities were very vibrant throughout the first quarter. *Average daily turnover* in the securities market jumped to \$276.7 billion in the first quarter, 20.4% higher than the preceding quarter or 14.0% over a year ago. Within the total, the average daily trading value of unit trusts (including Exchange-Traded Funds (ETFs))⁽¹⁰⁾, equities, and callable bull/bear contracts increased by 35.3%, 19.0%, and 16.5% respectively on a quarter-to-quarter basis, while that of derivative warrants decreased by 5.2%. Going into the second quarter, trading has remained active, with average daily turnover reaching \$249.3 billion as of 7 May. As to futures and options⁽¹¹⁾, the average daily trading volume increased by 13.9% in the first quarter on a quarter-to-quarter basis. Within the total, trading of Hang Seng Index options, Hang Seng China Enterprises Index futures, Hang Seng Index futures, and stock options increased by 24.9%, 21.3%, 15.3%, and 9.7% respectively. Total trading of futures and options declined somewhat in April but still compared favourably with the fourth quarter of 2025.

Diagram 4.6 : The HSI fell by 3.3% during the first quarter

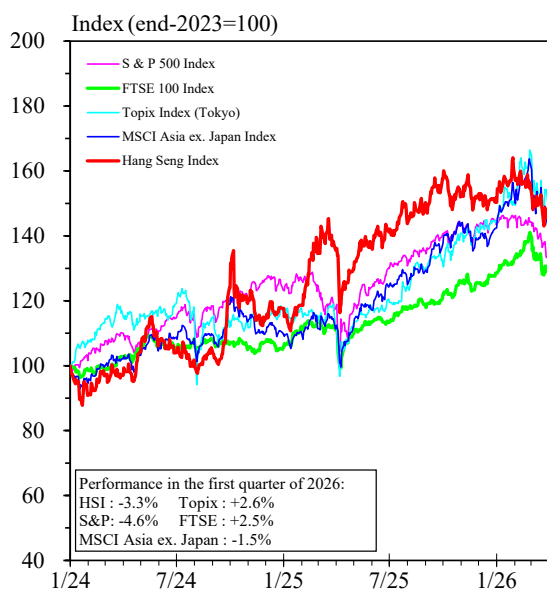


Diagram 4.7 : Market capitalisation decreased; trading activities were very vibrant

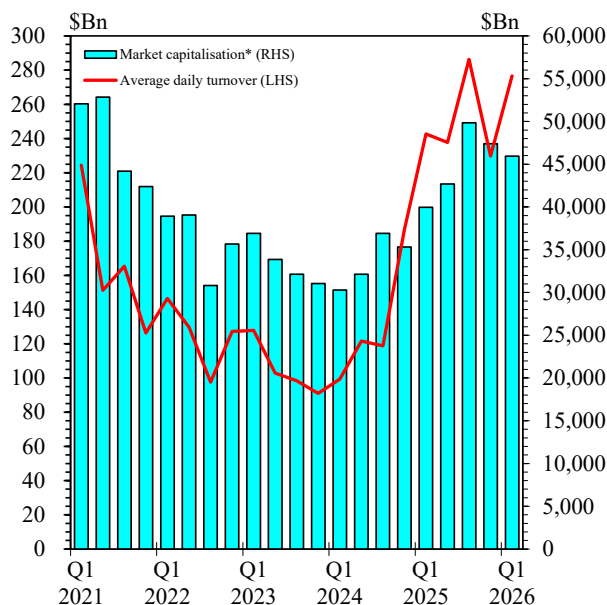


Table 4.6 : Average daily turnover of futures and options of the Hong Kong market

		Hang Seng Index futures	Hang Seng Index options	Hang Seng China Enterprises Index futures	Stock options	Total futures and options traded*
2025	Annual	126 472	15 043	148 199	879 831	1 662 751
	Q1	143 619	18 509	170 690	964 803	1 866 001
	Q2	121 666	13 876	151 409	771 454	1 534 850
	Q3	122 289	12 656	138 573	919 912	1 647 307
	Q4	118 790	15 326	133 176	860 145	1 604 903
2026	Q1	136 963	19 136	161 487	943 511	1 828 560
% change in 2026 Q1 over 2025 Q1		-4.6	3.4	-5.4	-2.2	-2.0
% change in 2026 Q1 over 2025 Q4		15.3	24.9	21.3	9.7	13.9

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

4.15 Fund raising activities remained strong in the first quarter. *Total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and GEM⁽¹²⁾, totalled \$151.3 billion, though 21.8% or 5.1% lower than the preceding quarter and a year earlier respectively. Within the total, the amount of funds raised through IPOs increased by 11.9% over the preceding quarter or by 491.8% over a year ago to \$110.4 billion. Hong Kong ranked first among stock exchange markets globally in terms of the amount of funds raised through IPOs in the first quarter⁽¹³⁾.

4.16 Mainland enterprises remained the driving force in the Hong Kong stock market. At end-March, a total of 1 582 Mainland enterprises (including 466 H-share companies and 1 116 Non-H share Mainland enterprises) were listed on the Main Board and GEM, representing 58% of the total number of listed companies and 79% of total market capitalisation. Mainland-related stocks accounted for 90% of equity turnover and 92% of total equity funds raised on the Hong Kong Stock Exchange in the first quarter.

Fund management and investment funds

4.17 The fund management business saw mixed performance in the first quarter. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹⁴⁾ fell by 1.3% over end-2025 to \$1,533.8 billion at end-March 2026. The monthly average gross retail sales of *mutual funds* increased by 70.1% over the preceding quarter to US\$14.0 billion in January – February⁽¹⁵⁾⁽¹⁶⁾, and were 59.3% higher than the level a year earlier.

Insurance sector

4.18 The *insurance sector*⁽¹⁷⁾ recorded strong growth in 2025. For the year as a whole, new office premiums of long-term business surged by 50.6%, within which premium from non-investment linked individual business (which accounted for 94.3% of total premium for this segment) rose by 49.9%, and that from investment-linked business increased by 65.4%. As to general business, gross and net premiums in 2025 amounted to \$108.5 billion and \$74.1 billion respectively⁽¹⁸⁾, up by 8.0% and 6.3% respectively over 2024.

Table 4.7 : Insurance business in Hong Kong[@] (\$Mn)

		General business [#]			New office premium of long-term business [^]				Gross premium from long-term business and general business
		Gross premium	Net premium	Underwriting profit	Non-linked long-term individual business	Linked long-term individual business	Non-retirement scheme group business	All long-term business	
2024	Annual	100,453	69,658	3,267	208,133	11,169	454	219,756	320,209
	Q1	N.A.	N.A.	N.A.	63,292	1,846	141	65,279	N.A.
	Q2	N.A.	N.A.	N.A.	48,004	2,457	125	50,586	N.A.
	Q3	N.A.	N.A.	N.A.	50,740	2,899	91	53,730	N.A.
	Q4	25,436	17,942	1,111	46,097	3,967	97	50,161	75,597
2025	Annual	108,458	74,064	2,858	312,087	18,471	383	330,941	439,399
	Q1	31,245	20,588	882	90,087	3,227	99	93,413	124,658
	Q2	27,203	19,269	761	76,545	3,691	91	80,327	107,530
	Q3	24,464	16,151	1,870	84,872	5,738	102	90,712	115,176
	Q4	25,546	18,056	-655	60,583	5,815	91	66,489	92,035
% change in 2025 over 2024		8.0	6.3	-12.5	49.9	65.4	-15.6	50.6	37.2

- Notes : (@) Provisional statistics of the Hong Kong insurance industry.
- (#) Following the implementation of the Risk-based Capital (RBC) regime on 1 July 2024, a new set of regulatory returns was introduced and some definitions were modified. Under the RBC regime, an element reflecting offshore business in respect of general insurance was included. In addition, the insurers must now report their underwriting performance based on financial year instead of calendar year, causing some data to be partially covered in this set of statistics. It is therefore inappropriate to make a direct comparison between the latest figures with those published in previous years.
- (^) Retirement scheme business is excluded.
- (N.A.) Not applicable.

Highlights of policy and market developments

4.19 To attract more funds and family offices to set up and operate in Hong Kong and reinforce our competitiveness as the premier asset and wealth management centre in the region, the Financial Services and the Treasury Bureau conducted a review on the preferential tax regimes and formulated a series of enhancement proposals, including, among others, expanding the definition of “fund” to cover more fund structures such as pension funds, endowment funds and certain types of “funds-of-one”; expanding the scope of qualifying investments; granting tax exemption to all profits derived by funds and Special Purpose Entities (SPEs) from qualifying investments; granting full tax exemption to a fund’s SPE; and relaxing the anti-round tripping provisions. It is targeted that the legislative bill be introduced in the first half of 2026. Subject to passage, relevant measures will take effect from the year of assessment 2025/26.

4.20 The HKMA published the “Project Cargo^x Recommendation Report” on 19 January, which presents 20 recommendations structured under three strategic pillars of Data, Infrastructure and Connectivity, and a roadmap for modernising the trade finance landscape in Hong Kong. By integrating advanced digital solutions, optimising cargo and trade data connectivity through the next-generation Commercial Data Interchange infrastructure, and strengthening international links, these recommendations aim to position Hong Kong as a trusted, data-driven hub for global digital trade. As mentioned in the 2026-27 Budget, the Government is actively following up on the recommendations with a view to promoting Hong Kong as a leading trade financing centre and supply chain hub.

4.21 The HKMA, the Securities and Futures Commission (SFC), the Insurance Authority, and the Mandatory Provident Fund Schemes Authority, in collaboration with the Hong Kong Cyberport Management Company Limited, announced the launch of the Generative Artificial Intelligence Sandbox++ initiative on 5 March. By bringing together regulators, financial institutions, and the tech community, the initiative aims to unlock AI’s full potential to drive growth, efficiency, and customer-centricity across financial services, further strengthening Hong Kong’s competitiveness as a leading international financial centre.

4.22 The SFC announced in late March that the uncertificated securities market (USM) regime is targeted to be launched on 16 November 2026. Upon implementation, newly listed securities will be required to be issued in paperless form from the time of listing. For securities already listed prior to the launch date, issuers will be gradually integrated into the USM regime over a five-year period. This will further elevate Hong Kong's financial market infrastructure through greater investor choice, more streamlined processes and more opportunities for straight-through-processing.

4.23 The HKMA announced on 10 April the granting of stablecoin issuer licences under the Stablecoins Ordinance to two entities, marking an important milestone for the development of digital assets in Hong Kong. The regulatory regime provides an orderly operating environment for stablecoin issuers to apply innovative technologies while ensuring robust user protection and effective risk management. It is hoped that the promotion of regulated stablecoins will address pain points in financial and economic activities, create values for both individuals and businesses, and support the healthy development of digital assets in Hong Kong. Based on the current business plans as proposed by the licenced issuers, regulated stablecoins in Hong Kong are expected to be launched in mid to second half of this year.

Notes :

- (1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher. Between 9 October 2008 and 31 March 2009, this formula for determination of the Base Rate was temporarily changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points and by removing the other leg relating to the moving averages of the relevant interbank interest rates. After a review of the appropriateness of the new Base Rate formula, the narrower 50 basis point spread over the FFTR was retained while the HIBOR leg was re-instated in the calculation of the Base Rate after 31 March 2009.
- (2) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movements in various deposit rates, interbank and other interest rates to closely track the average cost of funds for banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector. Since June 2019, the composite interest rate has been calculated based on the new local “Interest rate risk in the banking book” framework. As such, the figures are not strictly comparable with those of previous months.
- (3) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against 18 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 2019 and 2020.

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

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

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

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

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

Among the various monetary aggregates, more apparent seasonal patterns are found in HK\$M1, currency held by the public, and demand deposits. 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.

- (5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-March 2026 there were 148 licensed banks, 16 restricted licence banks and 11 deposit-taking companies in Hong Kong. Altogether, 175 AIs (excluding representative offices) from 32 economies (including Hong Kong) had a presence in Hong Kong.
- (6) HKMA discontinued the old RMB bond issuance data since June 2024 and adopted another data series. The new series has broader coverage sourced from various data sources including Bloomberg, the Central Moneymarkets Unit, Dealogic and Reuters but with longer time lag. Hence the latest data are up to the previous quarter only, and the new data are not directly comparable with those in previous issues of this report. Figures are subject to revisions.
- (7) The figures may not represent a full coverage of all the Hong Kong dollar debt securities 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, negotiable certificates of deposit (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.
- (9) The ranking is based on the market capitalisation figures of global stock exchange markets compiled by the World Federation of Exchanges and the London Stock Exchange Group.
- (10) Given the relatively small share (less than 0.2% of the daily turnover in the securities market), trading of debt securities and its movements were not analysed.
- (11) At end-March 2026, there were 133 classes of stock options contracts and 92 classes of stock futures contracts.
- (12) At end-March 2026, there were 2 398 and 309 companies listed on the Main Board and GEM respectively.
- (13) The ranking is based on the amount of funds raised through IPOs (including fundraising of special purpose acquisition companies) compiled by Dealogic.
- (14) At end-March 2026, there were 12 approved trustees. On MPF products, 21 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 378 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 351 000 employers, 2.62 million employees and 222 000 self-employed persons are estimated to have participated in MPF schemes.
- (15) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association (HKIFA) on their members, and cover only the active authorised funds that have responded to the survey. As HKIFA has revised the coverage of its funds statistics since 2023, the figures in this report may not be comparable with those contained in previous issues of this report.
- (16) At end-March 2026, there was one SFC-authorised retail hedge fund with net asset size of US\$90 million. This amount of net assets under management increased by 5.9%

from end-2025, and represented an 8.4% increase over a year earlier and a 43.8% decrease from end-2002, the year when the hedge funds guidelines were first issued.

- (17) At end-March 2026, there were 161 authorized insurers in Hong Kong. Within this total, 52 were engaged in long-term insurance business, 87 in general insurance business, 19 in composite insurance business, and three in special purpose business. These authorized insurers come from 22 countries and territories (including Hong Kong).
- (18) Following the implementation of the RBC regime on 1 July 2024, an element reflecting offshore business is now included in respect of general insurance, and the coverage, classifications and definitions for related statistics have been modified. It is therefore inappropriate to make a direct comparison between the latest figures with those published in previous years.

CHAPTER 5 : THE LABOUR SECTOR

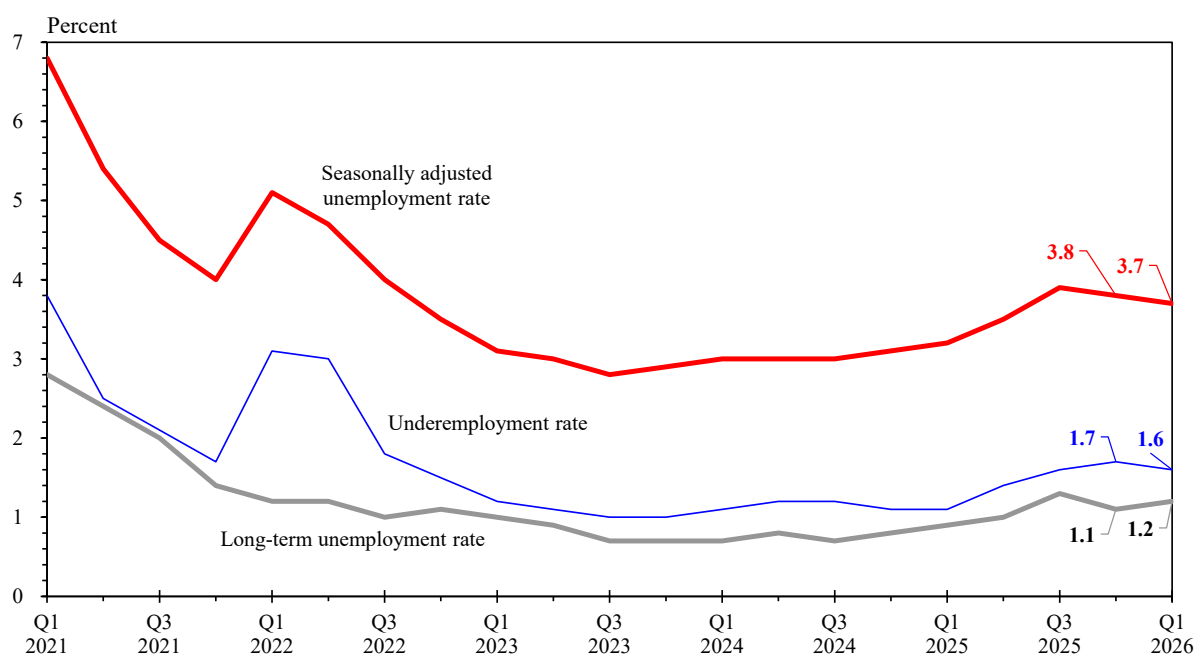
Summary

- *The labour market showed modest improvement in the first quarter of 2026. The seasonally adjusted unemployment rate edged down further by 0.1 percentage point from the preceding quarter to 3.7% in the first quarter.*
- *The unemployment rates of various sectors showed diverse movements in the first quarter of 2026 as compared with the preceding quarter. The unemployment rates of the retail, accommodation and food services sector, the transportation sector, and the construction sector went down. On the other hand, the unemployment rates of the real estate sector, the professional and business services sector (excluding cleaning and similar activities), the financing and insurance sector, and the public administration, social and personal services sector went up.*
- *Establishment surveys indicated that wages and labour earnings continued to register year-on-year increases in the fourth quarter of 2025. More recent GHS data also showed that average employment earnings continued to record year-on-year growth in the first quarter of 2026.*
- *Looking ahead, the sustained growth of the Hong Kong economy should underpin the overall labour market. Yet, the potential implications of the elevated geopolitical tensions in the Middle East on corporate hiring sentiment warrant close monitoring.*

Overall labour market situation⁽¹⁾

5.1 The labour market showed modest improvement in the first quarter of 2026. The seasonally adjusted *unemployment rate*⁽²⁾ edged down further by 0.1 percentage point from the preceding quarter to 3.7% in the first quarter. Analysed by sector, the unemployment rates of various sectors showed diverse movements in the first quarter as compared with the preceding quarter. Over the same period, the overall *underemployment rate*⁽³⁾ decreased by 0.1 percentage point to 1.6%. Meanwhile, establishment surveys indicated that wages and labour earnings continued to register year-on-year increases in the fourth quarter of 2025. More recent GHS data also showed that average employment earnings continued to record year-on-year growth in the first quarter of 2026. Looking ahead, the sustained growth of the Hong Kong economy should underpin the overall labour market. Yet, the potential implications of the elevated geopolitical tensions in the Middle East on corporate hiring sentiment warrant close monitoring.

Diagram 5.1 : The labour market showed modest improvement in the first quarter of 2026



Labour force and total employment

5.2 The *labour force*⁽⁴⁾ decreased by 0.3% to 3 792 400 in the first quarter of 2026 from the preceding quarter, and was 0.6% lower than a year earlier. Analysed by contributory factor, the working age population (i.e. land-based non-institutional population aged 15 and above) increased by 0.2% year-on-year to 6 723 300. Yet, the overall labour force participation rate went down by 0.5 percentage point year-on-year to 56.4% amid the persistent drag from population ageing. The share of those aged 65 and above in the working age population increased by 0.7 percentage point year-on-year to 26.2% while their labour force participation rate only edged down by 0.1 percentage point from a year ago to 13.5%.

5.3 *Total employment*⁽⁵⁾ declined by 0.3% to 3 655 700 in the first quarter of 2026 from the preceding quarter, and was 1.0% lower than a year ago. Analysed by sector, some sectors recorded decrease in employment as compared with the preceding quarter, including the construction sector, the import/export trade and wholesale sector, and the retail sector. On the other hand, employment of some sectors increased quarter-to-quarter, including the food and beverage service activities sector, the information and communications sector, and the transportation sector.

Diagram 5.2 : Both the labour force and total employment declined in the first quarter of 2026 from the preceding quarter, and were lower than a year ago



Table 5.1 : Working age population, labour force, and labour force participation rates by gender and age group

	<u>2025</u>				<u>2026</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<u>Working age population</u>					
By gender					
Male	2 995 000	2 984 300	2 997 500	2 997 900	2 998 500
Female	3 712 800	3 706 200	3 708 300	3 711 500	3 724 800
By age group					
15-24	579 500	561 800	566 900	578 900	580 900
25-59	3 781 100	3 767 100	3 777 000	3 760 000	3 764 100
60-64	638 200	634 700	624 900	618 100	616 700
≥ 65	1 709 100	1 726 900	1 737 100	1 752 300	1 761 600
Overall	6 707 800	6 690 500	6 705 900	6 709 400	6 723 300
<u>Share of working age population (%)</u>					
By gender					
Male	44.6	44.6	44.7	44.7	44.6
Female	55.4	55.4	55.3	55.3	55.4
By age group					
15-24	8.6	8.4	8.5	8.6	8.6
25-59	56.4	56.3	56.3	56.0	56.0
60-64	9.5	9.5	9.3	9.2	9.2
≥ 65	25.5	25.8	25.9	26.1	26.2
<u>Labour force</u>					
By gender					
Male	1 865 800	1 847 600	1 871 600	1 857 100	1 843 700
Female	1 949 700	1 945 900	1 958 500	1 948 100	1 948 700
By age group					
15-24	163 400	159 200	169 300	159 700	150 400
25-59	3 101 800	3 086 100	3 107 300	3 102 600	3 095 300
60-64	318 200	313 300	311 600	309 500	309 100
≥ 65	232 100	234 800	241 800	233 400	237 500
Overall	3 815 500	3 793 500	3 830 100	3 805 200	3 792 400
<u>Labour force participation rates (%)</u>					
By gender					
Male	62.3	61.9	62.4	61.9	61.5
Female	52.5	52.5	52.8	52.5	52.3
By age group					
15-24	28.2	28.3	29.9	27.6	25.9
25-59	82.0	81.9	82.3	82.5	82.2
60-64	49.9	49.4	49.9	50.1	50.1
≥ 65	13.6	13.6	13.9	13.3	13.5
Overall	56.9	56.7	57.1	56.7	56.4

Table 5.2 : Employment by major economic sector

	<u>2025</u>				<u>2026</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Import/export trade and wholesale	290 900 (-3.2) <-0.4>	282 900 (-5.2) <-2.7>	283 400 (-4.3) <0.2>	284 300 (-2.7) <0.3>	279 300 (-4.0) <-1.7>
Retail, accommodation and food services	498 400 (-4.8) <-1.3>	490 500 (-4.4) <-1.6>	489 600 (-3.7) <-0.2>	489 800 (-3.0) <§>	489 300 (-1.8) <-0.1>
<i>of which:</i>					
<i>Retail</i>	238 800 (-7.0) <-2.2>	235 400 (-6.5) <-1.4>	235 800 (-4.5) <0.2>	233 800 (-4.3) <-0.8>	231 200 (-3.2) <-1.1>
<i>Accommodation services</i>	41 700 (4.3) <-1.1>	40 700 (-0.9) <-2.4>	42 000 (-1.6) <3.0>	42 100 (-0.4) <0.2>	42 000 (0.7) <-0.1>
<i>Food and beverage service activities</i>	217 900 (-3.8) <-0.3>	214 400 (-2.8) <-1.6>	211 800 (-3.1) <-1.2>	213 900 (-2.1) <1.0>	216 100 (-0.8) <1.0>
Transportation, storage, postal and courier services	289 000 (2.1) <1.4>	288 700 (0.2) <-0.1>	286 000 (-1.5) <-0.9>	282 000 (-1.1) <-1.4>	280 900 (-2.8) <-0.4>
<i>of which:</i>					
<i>Transportation</i>	189 800 (-0.1) <1.3>	187 800 (-2.7) <-1.1>	186 700 (-3.6) <-0.6>	187 100 (-0.2) <0.2>	187 300 (-1.3) <0.1>
Information and communications	131 100 (-4.2) <-0.5>	129 200 (-2.6) <-1.5>	130 800 (1.3) <1.3>	128 300 (-2.6) <-2.0>	128 600 (-1.9) <0.3>
Financing, insurance, real estate, professional and business services	860 200 (2.0) <0.2>	858 400 (1.5) <-0.2>	868 900 (1.8) <1.2>	864 000 (0.6) <-0.6>	861 800 (0.2) <-0.3>
Public administration, social and personal services	1 161 300 (1.9) <0.7>	1 157 700 (0.6) <-0.3>	1 170 300 (1.5) <1.1>	1 174 300 (1.9) <0.3>	1 176 900 (1.3) <0.2>
Manufacturing	88 200 (-0.7) <2.5>	90 700 (2.8) <2.8>	87 600 (4.7) <-3.4>	86 500 (0.5) <-1.2>	86 300 (-2.1) <-0.2>
Construction	345 300 (-1.5) <-1.6>	335 200 (-4.4) <-2.9>	332 700 (-5.6) <-0.8>	333 100 (-5.1) <0.1>	328 300 (-4.9) <-1.4>
Overall	3 692 700 (0.1) <0.2>	3 657 300 (-1.0) <-1.0>	3 674 500 (-0.5) <0.5>	3 667 000 (-0.5) <-0.2>	3 655 700 (-1.0) <-0.3>

Notes : () % change over a year earlier.

< > % change over a quarter earlier.

§ Change within $\pm 0.05\%$.

Profile of unemployment

5.4 The seasonally adjusted unemployment rate edged down further by 0.1 percentage point from the preceding quarter to 3.7% in the first quarter of 2026. Over the same period, the number of unemployed persons (not seasonally adjusted) decreased by 1.2% or 1 600 to 136 600.

5.5 Analysed by sector, the unemployment rates (not seasonally adjusted) of various sectors showed diverse movements in the first quarter of 2026 as compared with the preceding quarter. The unemployment rate of the retail, accommodation, and food services sector fell by 0.3 percentage point to 4.9% alongside the improvement in local consumption sentiment and the sustained increase in visitor arrivals. Meanwhile, the unemployment rate of the transportation sector fell by 0.2 percentage point to 2.7%. The unemployment rates of the construction sector and the import/export trade and wholesale sector both edged down by 0.1 percentage point to 6.6% and 3.3% respectively. On the other hand, the unemployment rate of the real estate sector rose by 0.3 percentage point to 3.2%, while those of the professional and business services sector (excluding cleaning and similar activities), the financing and insurance sector, and the public administration, social and personal services sector went up by 0.2 percentage point, to 4.0%, 2.5% and 1.6% respectively.

5.6 Analysed by other socio-economic attributes, the unemployment rates (not seasonally adjusted) of various age groups and educational attainment groups showed diverse movements in the first quarter of 2026 as compared with the preceding quarter. The movements were not large in general except for the unemployment rate for those aged 15-24, which decreased visibly by 0.9 percentage point to 11.2%.

Diagram 5.3 : The unemployment rates of various sectors showed diverse movements in the first quarter of 2026 as compared with the preceding quarter

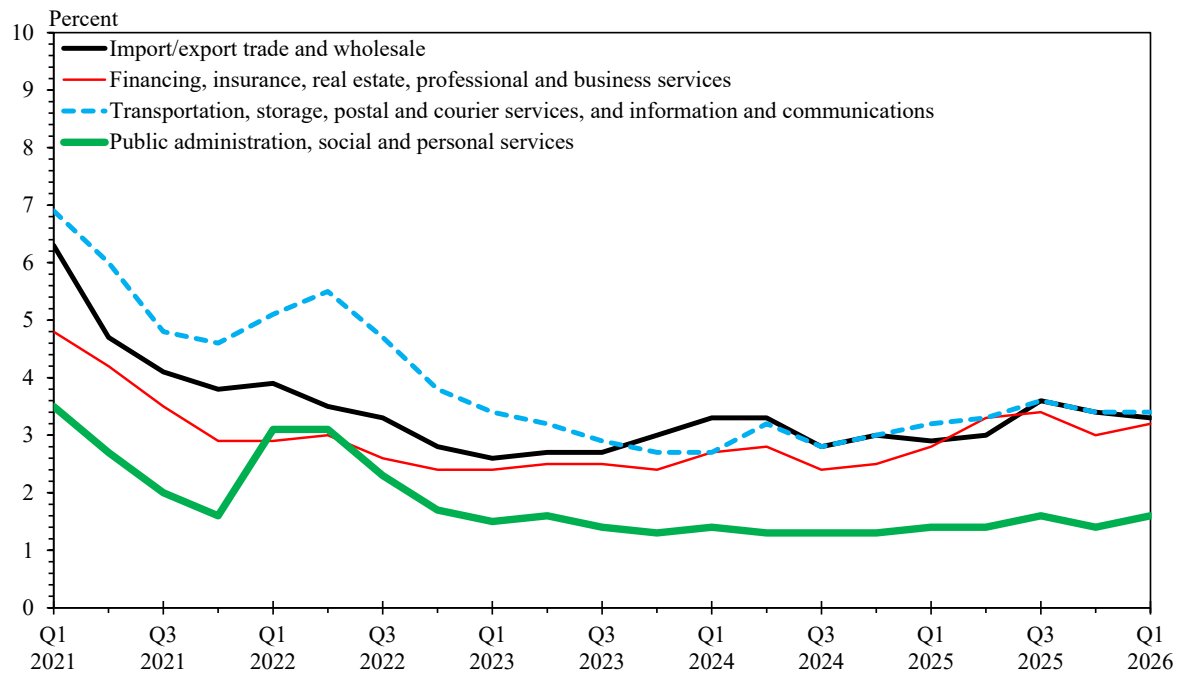
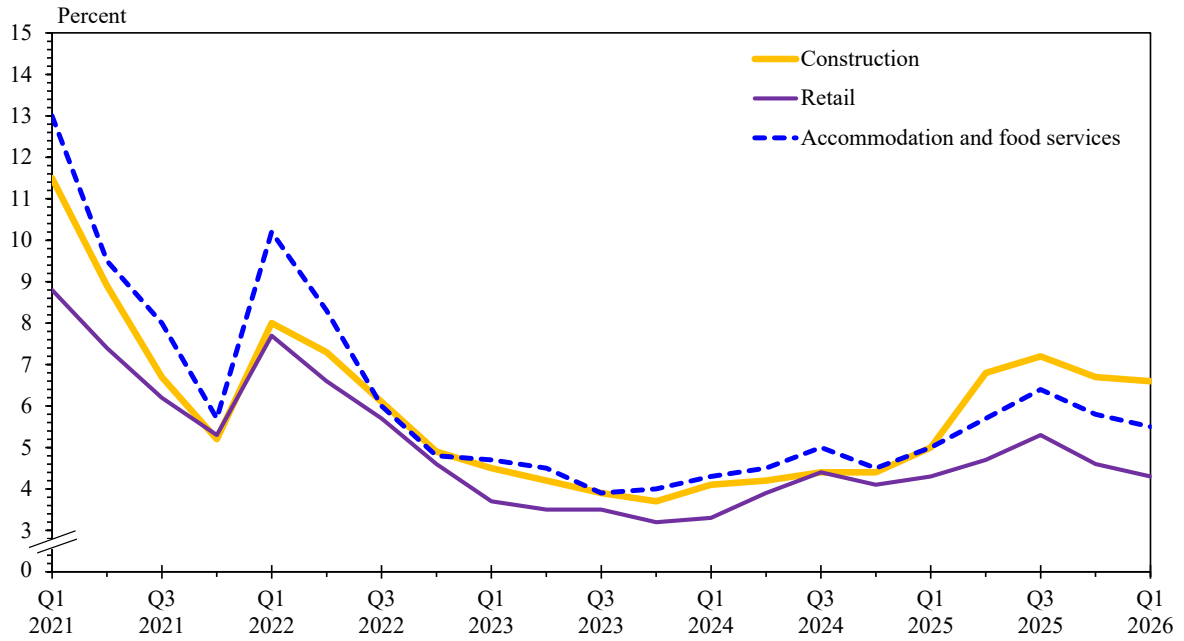


Table 5.3 : Unemployment rates* by socio-economic attributes

	<u>2025</u>				<u>2026</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<u>Age</u> [@]					
15-24	8.9	9.9	14.4	12.1	11.2
25-59	3.0	3.4	3.6	3.3	3.3
60-64	2.9	3.3	4.1	3.7	3.6
≥ 65	2.4	2.5	2.6	2.1	2.1
<u>Educational attainment</u> [@]					
Primary education and below	3.0	3.4	3.9	3.5	3.7
Lower secondary education	4.2	4.3	5.1	4.4	4.4
Upper secondary education [^]	2.9	3.5	3.7	3.4	3.5
Post-secondary education	3.3	3.5	4.0	3.6	3.4
<u>Skill segment</u> ⁺					
Higher-skilled [#]	2.2	2.5	2.8	2.4	2.5
Lower-skilled ^{&}	3.3	3.8	4.1	3.8	3.8

Notes : * Not seasonally adjusted.

@ Including first-time job-seekers and re-entrants into the labour force.

^ Including craft courses.

+ Not including first-time job-seekers and re-entrants into the labour force.

Higher-skilled workers include managers, professionals and associate professionals.

& Lower-skilled workers include clerical support workers, services and sales workers, craft and related trades workers, plant and machine operators and assemblers, elementary occupations and other occupations.

5.7 The long-term unemployment situation deteriorated slightly in the first quarter of 2026. The long-term unemployment rate (i.e. the proportion of persons unemployed for six months or longer in the labour force) edged up by 0.1 percentage point over the preceding quarter to 1.2% in the first quarter. The number of long-term unemployed persons increased by 3.9% or 1 700 to 45 400. Over the same period, the median duration of unemployment lengthened by around 10 days to 105 days.

Underemployment situation

5.8 The underemployment rate decreased by 0.1 percentage point from the preceding quarter to 1.6% in the first quarter of 2026. Over the same period, the number of underemployed persons decreased by 7.3% or 4 800 to 60 100.

Vacancies

5.9 Private sector *vacancies*⁽⁶⁾ showed a somewhat narrowed year-on-year decline of 21.2% to 46 000 in December 2025. Vacancies of most industries continued to decrease from a year earlier, though many of them saw their declines narrowed.

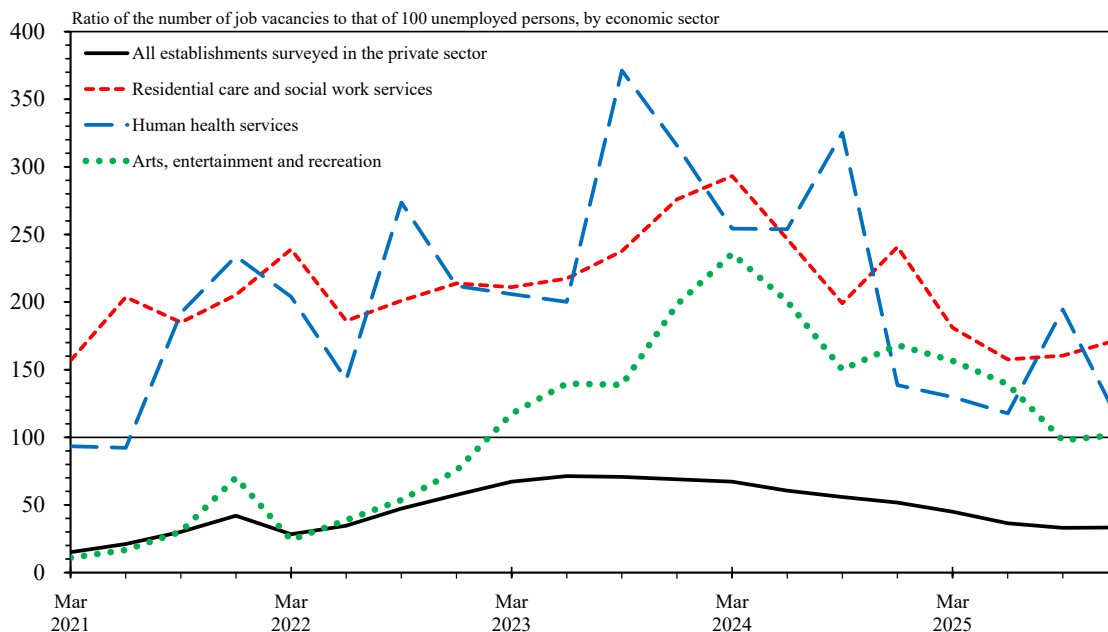
5.10 The overall manpower balance situation remained stable in December 2025. The ratio of job vacancies per 100 unemployed persons stayed unchanged at 33 as compared with three months ago, though remained lower than that a year ago. That said, the manpower shortage situation remained evident in some sectors, including the residential care and social work services sector, the human health services sector, and the arts, entertainment and recreation sector, with their corresponding ratios staying well above 100.

Table 5.4 : Vacancies by major economic sector

	2024		2025			
	Annual average	Annual average	Mar	Jun	Sep	Dec
Import/export trade and wholesale	4 070 (5.2)	3 420 (-15.9)	3 990 (-1.1)	3 420 (-23.7)	3 410 (-21.2)	2 860 (-16.4)
Retail	4 230 (-30.5)	3 450 (-18.4)	3 730 (-20.9)	3 500 (-11.2)	3 220 (-27.7)	3 360 (-11.7)
Accommodation services	1 470 (-42.7)	890 (-39.5)	980 (-53.4)	970 (-38.2)	880 (-27.7)	730 (-26.8)
Food and beverage services	5 630 (-6.8)	4 020 (-28.6)	4 860 (-18.0)	4 090 (-27.9)	3 620 (-33.4)	3 510 (-35.9)
Transportation, storage, postal and courier services	6 390 (-4.1)	3 210 (-49.8)	3 740 (-57.6)	3 320 (-56.6)	2 780 (-44.9)	3 020 (-26.2)
Information and communications	2 660 (-8.5)	2 350 (-11.7)	2 430 (-21.5)	2 330 (-23.5)	2 610 (10.7)	2 020 (-5.5)
Financing, insurance, real estate, professional and business services	17 300 (-8.9)	14 810 (-14.4)	14 990 (-14.7)	14 630 (-17.0)	15 800 (-9.9)	13 820 (-16.2)
<i>of which:</i>						
<i>Financing and insurance</i>	4 880 (-17.1)	5 350 (9.6)	4 660 (-3.7)	5 180 (8.5)	5 860 (17.1)	5 710 (16.1)
<i>Professional and business services (excluding cleaning and similar services)</i>	6 430 (-4.8)	4 790 (-25.5)	5 050 (-24.9)	4 810 (-32.4)	5 120 (-17.6)	4 200 (-26.0)
<i>Real estate</i>	4 470 (-1.4)	3 430 (-23.3)	3 950 (-10.5)	3 510 (-21.0)	3 530 (-23.1)	2 730 (-38.6)
Social and personal services	21 430 (-18.3)	16 200 (-24.4)	17 730 (-25.5)	15 220 (-27.3)	16 980 (-24.1)	14 870 (-20.0)
<i>of which:</i>						
<i>Human health services</i>	5 420 (-20.9)	3 670 (-32.3)	3 620 (-43.2)	3 350 (-31.3)	4 830 (-26.7)	2 890 (-24.9)
<i>Education</i>	6 710 (-21.4)	5 310 (-20.9)	5 660 (-22.7)	5 300 (-23.0)	5 260 (-21.4)	5 020 (-15.6)
Manufacturing	2 140 (-15.1)	1 700 (-20.2)	1 800 (-34.5)	1 700 (-32.5)	1 750 (-2.9)	1 560 (6.1)
Construction sites (covering manual workers only)	1 840 (-12.0)	320 (-82.8)	730 (-64.9)	180 (-90.0)	240 (-86.3)	120 (-93.1)
All establishments surveyed in the private sector^(a)	67 370 (-13.9)	50 540 (-25.0)	55 170 (-26.6)	49 530 (-28.7)	51 450 (-22.6)	46 000 (-21.2)
<i>Civil service^(b)</i>	19 470 (-0.4)	19 520 (0.3)	18 940 (-4.0)	19 290 (-0.5)	19 590 (1.5)	20 280 (4.2)

- Notes :
- (a) 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.
 - (b) These figures cover only vacancies for those staff to be employed on civil service terms of appointment.
 - () % change over a year earlier.

Diagram 5.4 : Manpower balance situation remained stable in December 2025

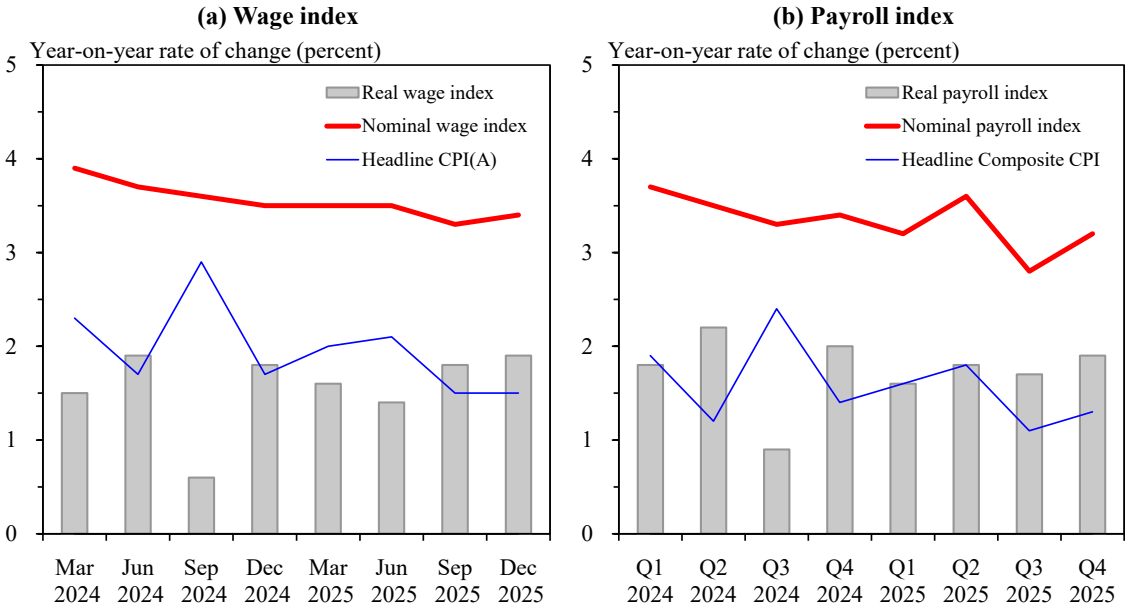


Wages and earnings

5.11 Wages and labour earnings continued to register year-on-year increases in the fourth quarter of 2025, according to quarterly statistics collected from private sector establishments that are available up to December 2025. The average nominal wage rate, as measured by the nominal wage index for all selected industry sections which covers regular payment to employees at the supervisory level or below, rose by 3.4% in December over a year earlier. After discounting for *inflation*⁽⁷⁾, the average wage rate increased by 1.9% in real terms.

5.12 Nominal *labour earnings*⁽⁸⁾, as measured by the index of payroll per person engaged for all selected industry sections which covers basic wage, overtime pay, discretionary bonuses and other irregular payments, increased by 3.2% in the fourth quarter of 2025 over a year earlier. After discounting for inflation, labour earnings rose by 1.9% in real terms.

Diagram 5.5 : Wages and labour earnings continued to register year-on-year increases in the fourth quarter of 2025



5.13 Statistics compiled from the GHS, though not strictly comparable to those from the business establishment surveys, showed that employment earnings continued to record year-on-year growth in the first quarter of 2026. The average monthly employment earnings of full-time employees (excluding foreign domestic helpers) increased by 5.6% in nominal terms or 4.0% in *real terms*⁽⁹⁾ in the first quarter over a year earlier.

Highlights of related measures and policy developments

5.14 As announced in the 2026-27 Budget, the Employees Retraining Board will be upgraded as Upskill Hong Kong to provide various types of skills-based training courses, including AI application. Upskill Hong Kong will assist the local workforce in continuously enhancing their skills and competitiveness, to meet the needs of economic and industrial development in Hong Kong.

5.15 To strengthen efforts in promoting employment among middle-aged and elderly persons, the Budget also announced that the provision for the Re-employment Allowance Pilot Scheme, which was launched in July 2024 to encourage persons aged 40 or above to re-join the employment market, will be increased to \$222 million in the current financial year.

5.16 The Chief Executive in Council on 10 February 2026 accepted the recommendation of Minimum Wage Commission to raise the Statutory Minimum Wage (SMW) rate from its prevailing level of \$42.1 per hour to \$43.1, representing an increase of \$1.0 or 2.38%. With the approval of the Legislative Council, the revised SMW rate (i.e. the first SMW rate derived under the new annual review mechanism) came into force on 1 May 2026. The Labour Department is carrying out extensive promotional activities to enhance public awareness of the revised SMW rate.

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 from November 2023 – January 2024 to October – December 2024 have been revised to take into account the final end-2024 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.

- (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) Vacancies, which are enumerated from the Quarterly Survey of Employment and Vacancies and the Quarterly Employment Survey of Construction Sites, refer to unfilled job openings which are immediately available, and for which active recruitment steps are being taken by the respective establishments/construction sites on the survey reference

date. For construction sites, only those vacancies of manual workers are included.

- (7) 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 headline 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 headline 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.
- (8) 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.
- (9) The headline Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for the average monthly employment earnings of full-time employees (excluding foreign domestic helpers).

CHAPTER 6 : PRICES

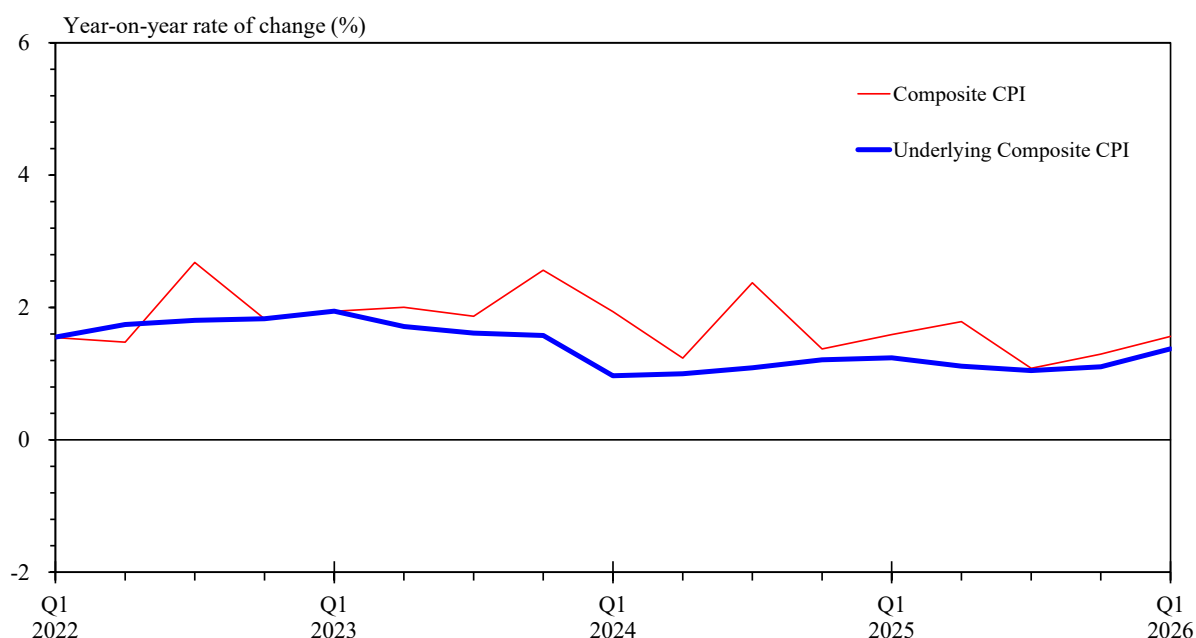
Summary

- *Consumer price inflation stayed modest in the first quarter of 2026, though accelerating somewhat from the preceding quarter. So far, consumer price inflation up to March showed that the upsurge in international energy prices due to the Middle East conflict since end-February led to a pick-up in prices of fuel-related components that carry a relatively small weight in the overall consumption basket. The price pressures in other components were largely contained.*
- *The underlying Composite Consumer Price Index (Composite CPI)⁽¹⁾, which nets out the effects of the Government's one-off relief measures, increased by 1.6% in March over a year earlier, accelerating somewhat from the 1.3% increase in January and February combined. For the first quarter as a whole, the underlying Composite CPI rose by 1.4%, accelerating from the increase of 1.1% in the preceding quarter.*
- *Domestic cost pressures remained largely in check in the first quarter. Commercial rents continued to trend downwards in the first quarter, while the increases in labour earnings were well underpinned by the labour productivity growth, keeping labour cost pressures contained.*
- *As for external price pressures, apart from the surge in import fuel prices in March, import prices of other end-use categories were largely moderate in the first quarter. Overall import prices showed some accelerated, yet still moderate, increase in the first quarter.*
- *Looking ahead, the feed-through process of higher international oil prices into relevant fuel-related components in consumer prices should continue in the coming months, and the outlook further ahead would essentially hinge on the evolving situation in the Middle East. As a predominantly service-oriented economy, Hong Kong economy's energy intensity is relatively low, and with inflationary pressures from other fronts are still contained, this should help rein in the potential upward price pressure from fuel imports. The Government is closely monitoring the development. In the past two months, the Government has taken short-term, targeted measures to provide timely relief to sectors with relatively high fuel cost, and will respond further as appropriate to safeguard price stability.*

Consumer prices

6.1 Underlying consumer price inflation stayed modest in the first quarter of 2026, though accelerating somewhat from the preceding quarter. Domestically, cost pressures remained largely in check. Commercial rents continued to trend downwards in the first quarter, while the increases in labour earnings were well underpinned by the labour productivity growth, keeping labour cost pressures contained. Externally, apart from the upsurge in import fuel prices in March, import prices of other end-use categories were largely moderate in the first quarter. Overall import prices showed somewhat faster, yet still moderate, increase in the first quarter.

Diagram 6.1: Underlying consumer price inflation stayed modest in the first quarter of 2026, though accelerating somewhat from the preceding quarter



6.2 Underlying consumer price inflation, in terms of the year-on-year rate of increase in the underlying Composite CPI which nets out the effects of the Government's one-off relief measures, increased by 1.6% in March over a year earlier, accelerating somewhat from the 1.3% increase in January and February combined. For the first quarter as a whole, the underlying Composite CPI rose by 1.4%, accelerating from the increase of 1.1% in the preceding quarter. The headline Composite CPI inflation rate was 1.6% in the first quarter, also somewhat faster than the 1.3% in the preceding quarter. The headline Composite CPI inflation rate was slightly higher than its underlying counterpart, mainly due to a low base of comparison caused by the Government's provision of Electricity Charges Relief Scheme last year.

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

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying^(a)</u>	<u>Headline</u>			
2025	Annual	1.1	1.4	1.9	1.3	1.1
	Q4	1.1	1.3	1.4	1.2	1.2
2026	Jan-Feb	1.3	1.5	1.4	1.4	1.4
	Mar	1.6	1.7	1.6	1.8	1.8
	Q1	1.4	1.6	1.5	1.6	1.6

(seasonally adjusted quarter-to-quarter rate of change (%))

2025	Q1	0.1	0.3	0.6	0.2	0.2
	Q2	0.2	-0.2	-0.3	-0.2	-0.1
	Q3	0.3	0.7	1.0	0.6	0.4
	Q4	0.4	0.4	0.2	0.5	0.7
2026	Q1	0.4	0.6	0.6	0.6	0.5

Notes : (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.

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

6.3 Analysing the underlying Composite CPI by major component, price pressures for most components remained contained in the first quarter. Food prices as a whole rose mildly by 0.8% over a year earlier, with prices of meals out and takeaway food registered an increase of 1.0% and prices of basic food up by 0.5%. Private housing rentals increased modestly by 0.9%, and public housing rentals rose by 0.5%. Prices of transport continued to increase, driven mainly by higher motor fuel and air fares, while most other public transport fares remained largely stable. Prices of electricity, gas and water continued to fall, partly reflecting the lagged tariff adjustments which had yet fully reflect the recent uptick in international energy prices. Prices of miscellaneous goods saw accelerated increases, and prices of clothing and footwear and durable goods saw a narrowed decline. Prices of miscellaneous services rose at a faster pace, driven mainly by higher fuel costs and the resulting rise in airfares, as well as the early onset of holiday peak season in late March ahead of this year’s Easter long holiday, which lifted travel-related services prices. Meanwhile, the higher fees and charges for medical services under the public healthcare fees reform also contributed to the increase.

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

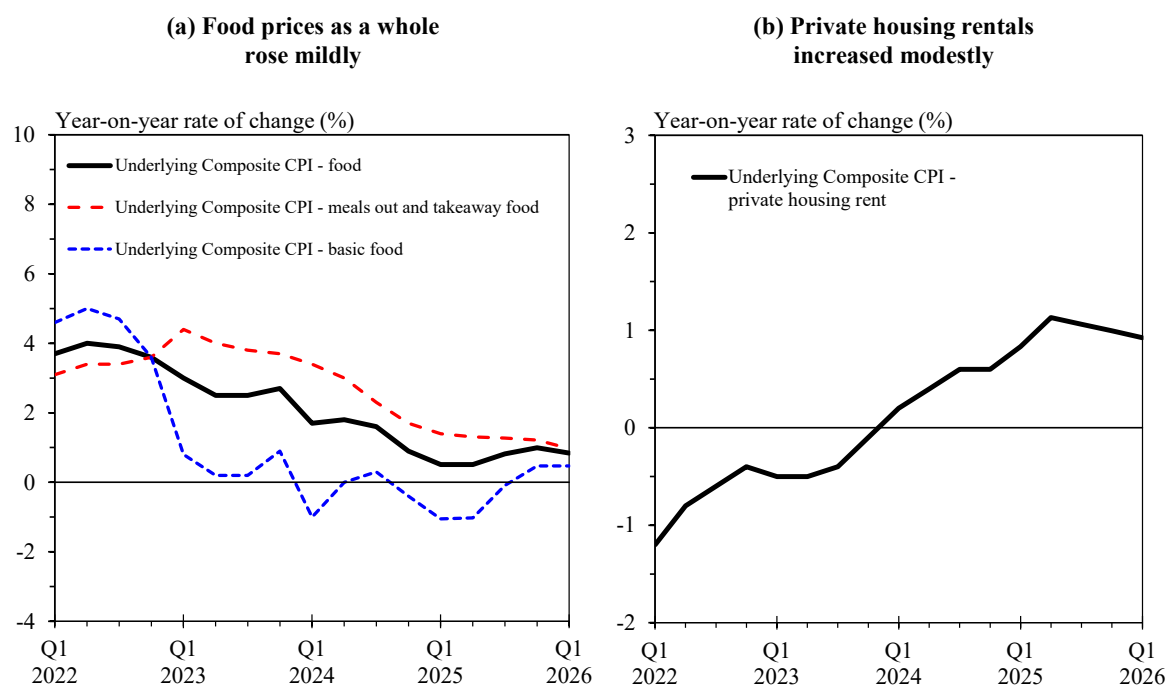


Diagram 6.3 (a) : Prices of miscellaneous services, transport, and miscellaneous goods increased further in the first quarter, while that of electricity, gas an water continued to fall

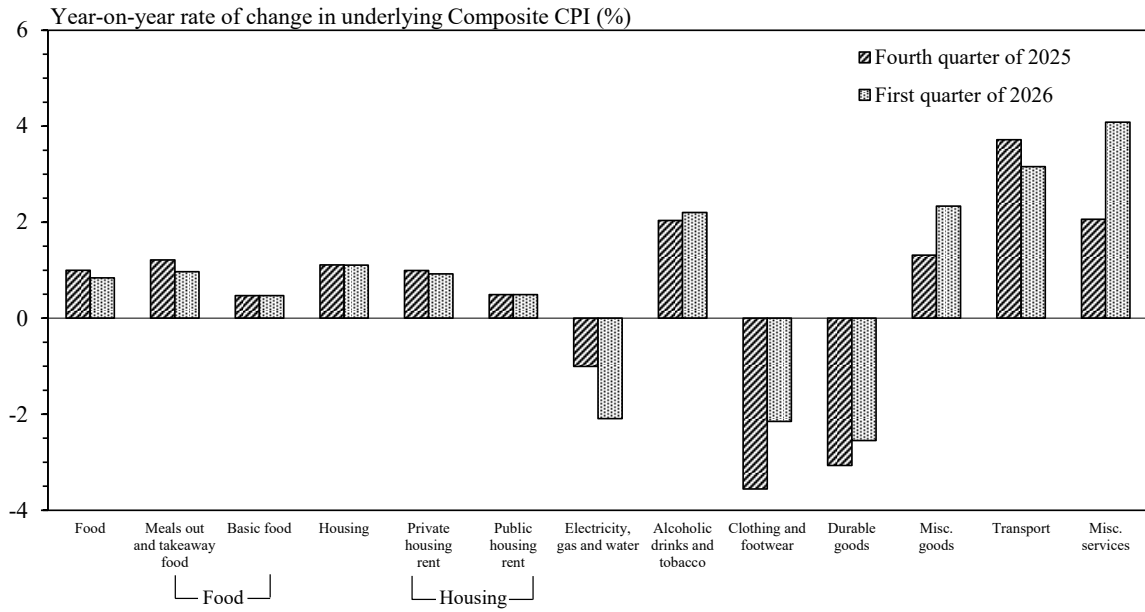
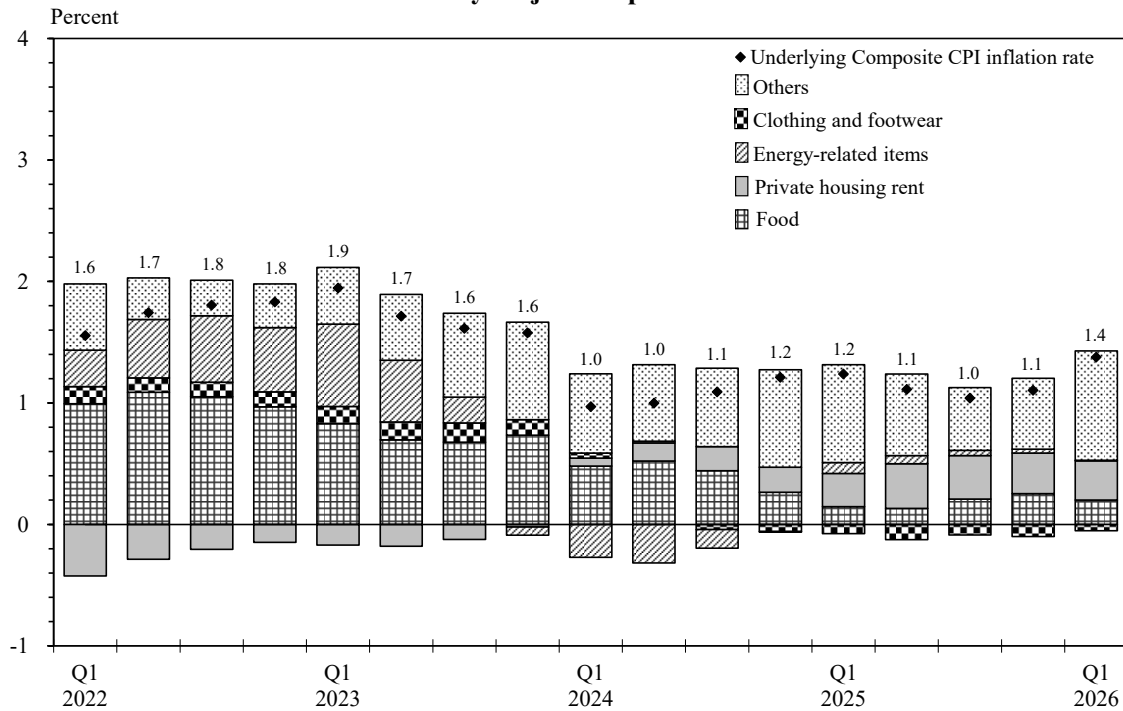


Diagram 6.3 (b) : Contribution to underlying Composite CPI inflation rate by major component



Note : Energy-related items include electricity, town gas, liquefied petroleum gas and other fuel, and motor fuel.

**Table 6.2 : Underlying Composite CPI by component
(year-on-year rate of change (%))**

<u>Expenditure component</u>	<u>Weighting (%)[^]</u>	<u>2025</u>			<u>2026</u>	
		<u>Annual</u>	<u>Q4</u>	<u>Jan-Feb</u>	<u>Mar</u>	<u>Q1</u>
Food	25.53	0.7	1.0	0.8	0.9	0.8
<i>Meals out and takeaway food</i>	16.82	1.3	1.2	1.1	0.8	1.0
<i>Basic food</i>	8.71	-0.4	0.5	0.1	1.2	0.5
Housing ^(a)	38.89	1.5 (1.9)	1.1 (1.6)	1.1 (1.1)	1.0 (1.0)	1.1 (1.1)
<i>Private housing rent</i>	33.74	1.0 (1.2)	1.0 (1.0)	0.9 (0.9)	0.9 (0.9)	0.9 (0.9)
<i>Public housing rent</i>	2.05	7.9 (11.7)	0.5 (9.6)	0.5 (0.5)	0.5 (0.5)	0.5 (0.5)
Electricity, gas and water	2.97	0.7 (5.8)	-1.0 (-0.8)	-2.3 (3.3)	-1.7 (3.9)	-2.1 (3.5)
Alcoholic drinks and tobacco	0.48	4.5	2.0	2.2	2.1	2.2
Clothing and footwear	2.46	-3.5	-3.6	-2.9	-0.7	-2.1
Durable goods	3.73	-2.2	-3.1	-2.7	-2.2	-2.5
Miscellaneous goods	3.37	0.9	1.3	2.1	2.8	2.3
Transport	7.49	2.8	3.7	2.8	3.9	3.2
Miscellaneous services	15.08	1.6 (1.6)	2.1 (2.0)	3.9 (3.9)	4.6 (4.6)	4.1 (4.1)
All items	100.00	1.1 (1.4)	1.1 (1.3)	1.3 (1.5)	1.6 (1.7)	1.4 (1.6)

Notes : (^) These are expenditure weights of the reference period 2024, which are used for the compilation of CPIs starting from the second quarter of 2025. Please refer to Note (1) for a detailed description on the methodology by the Census and Statistics Department.

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

(a) The housing component covers rents, rates, Government rent, management fees 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.

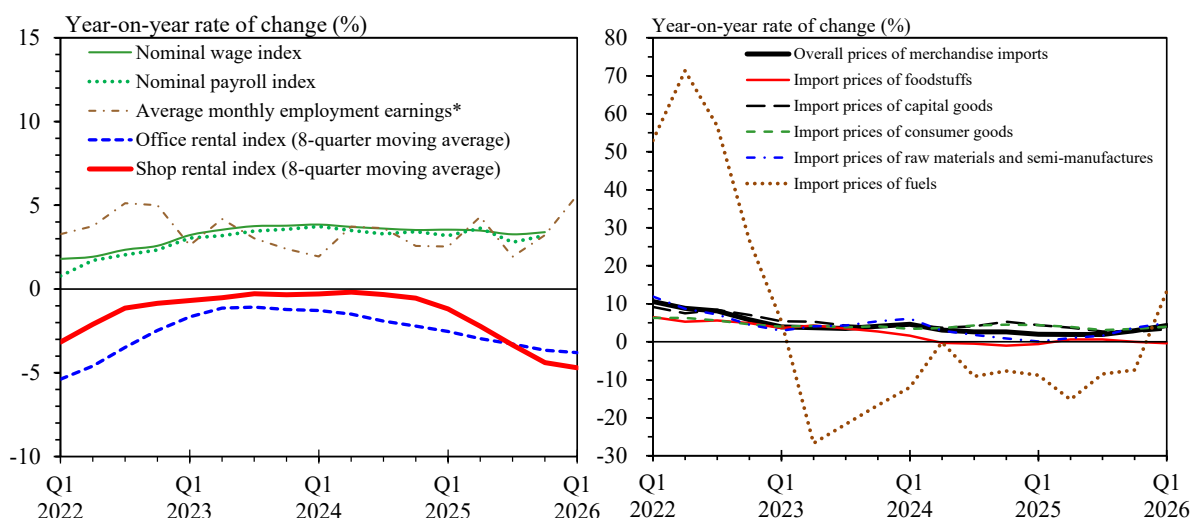
Costs of factor inputs and import prices

6.4 Domestic cost pressures remained largely in check in the first quarter. Commercial rentals continued to trend downwards. As a proxy, the eight-quarter moving averages of office rentals and shop rentals fell further by 3.8% and 4.7% respectively. Meanwhile, latest establishment-based data up to the fourth quarter of 2025 showed that wages and payroll per person engaged grew moderately, and so did the average employment earnings in the first quarter of 2026 as shown in the more recent household-based data. The increases in labour earnings were well underpinned by the labour productivity growth, keeping the increase in labour costs contained on a unit cost basis⁽²⁾.

Diagram 6.4 : Domestic cost remained largely in check in the first quarter; apart from the upsurge in import fuel prices, external price pressures were largely moderate

(a) Labour cost and commercial rentals

**(b) Prices of merchandise imports
(overall and selected end-use categories)**



Note: (*) Refers to the nominal earnings of all full-time employees (excluding foreign domestic helpers).

6.5 Externally, apart from the upsurge in import fuel prices in March, import prices of other end-use categories remained largely moderate in the first quarter. Overall import prices showed somewhat faster, yet still moderate, increase of 4.3% in the first quarter over a year earlier. By end-use category, the import prices of fuels turned to a sharp increase of 58.9% in March, resulting in an increase of 13.3% for the first quarter. Meanwhile, import prices of consumer goods, raw materials and semi-manufactures, and capital goods registered largely moderate increases in the first quarter, while import prices of foodstuffs turned to decrease.

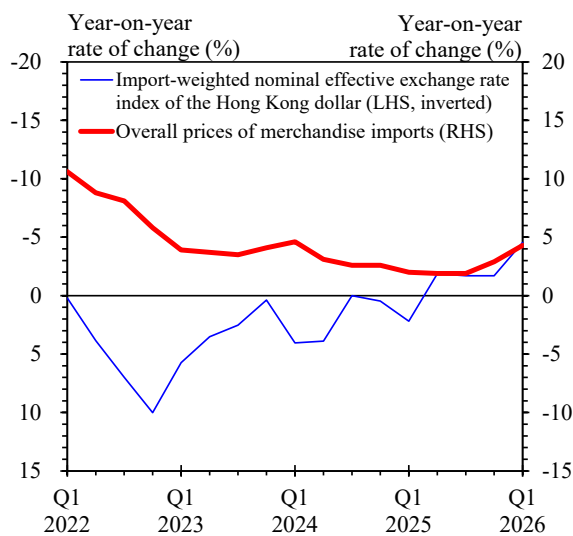
**Table 6.3 : Prices of imports by end-use category
(year-on-year rate of change (%))**

		Foodstuffs	Consumer goods	Raw materials and semi-manufactures	Fuels	Capital goods	All
2025	Annual	0.1	3.8	1.7	-10.0	3.3	2.2
	Q4	*	3.4	3.7	-7.4	2.6	2.9
2026	Jan-Feb	-0.5	4.3	5.0	-10.7	2.7	3.7
	Mar	-0.1	3.5	4.8	58.9	4.2	5.3
	Q1	-0.4	4.0	4.9	13.3	3.3	4.3

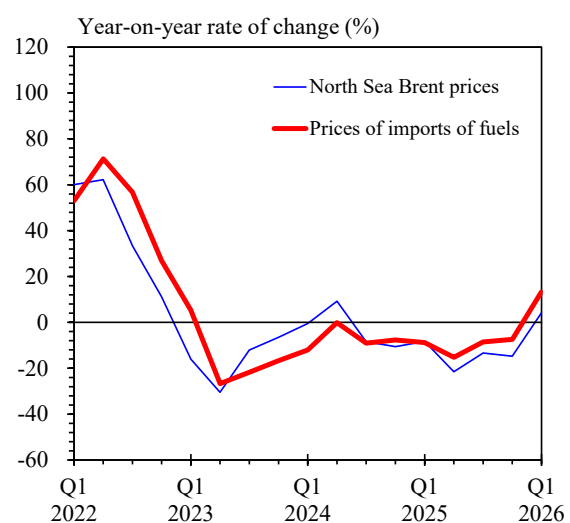
Note: (*) Change within $\pm 0.05\%$.

Diagram 6.5: Prices of merchandise imports by selected end-use category

(a) Overall import prices showed somewhat faster, yet still moderate, increase



(b) Import prices of fuels turned to increase amid higher international oil prices



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.

Output prices

6.6 Output prices of various selected sectors, as measured by their corresponding *Producer Price Indices*⁽³⁾, showed varied movements in 2025, but broadly reflected a moderate inflation in the economy. Specifically, output prices in manufacturing recorded a relatively more noticeable increase for the year as a whole, mainly driven by visible rises in output prices of metal, computer, electronic and optical products, and machinery and equipment, conceivably arising from a strong demand for relevant products. Among the selected service sectors, output prices of courier services and land transport increased moderately, whereas those of accommodation services, water transport, air transport, and telecommunications registered declines of varying magnitudes.

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

<u>Industry group</u>	<u>Annual</u>	<u>2025</u>			
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Manufacturing	6.5	4.8	4.0	7.7	9.5
Selected service sectors					
Accommodation services	-0.8	-3.3	-1.9	-0.2	2.2
Land transport	1.3	1.0	1.5	1.3	1.4
Water transport	-8.6	5.4	-5.8	-19.2	-11.5
Air transport	-4.5	3.2	-4.2	-8.4	-8.2
Telecommunications	-1.9	-1.5	-1.9	-2.2	-2.0
Courier services	3.0	2.4	1.9	3.8	4.0

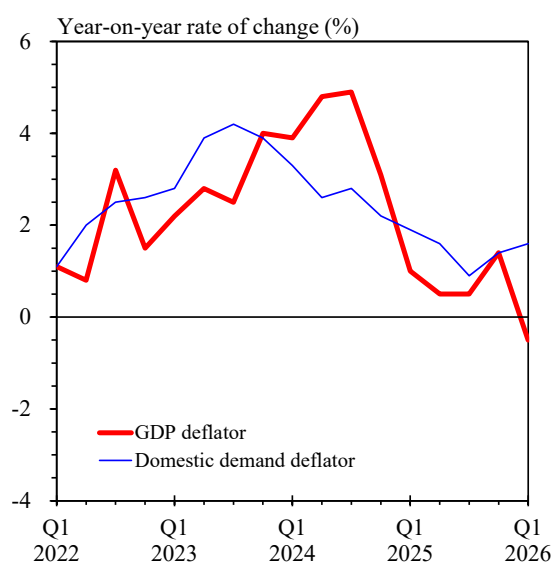
Note : (*) Change within $\pm 0.05\%$.

GDP deflator

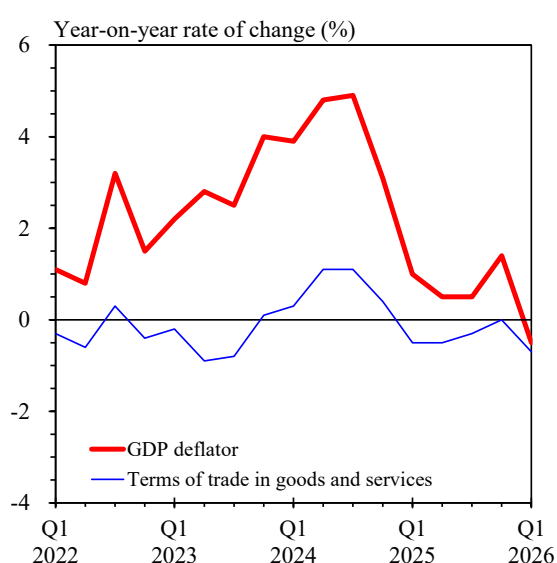
6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*⁽⁴⁾ turned to a decline of 0.5% year-on-year in the first quarter, as the *terms of trade*⁽⁵⁾ decreased by 0.7% amid a slightly faster increase in import prices than that of export prices. Taking out the external trade components, the domestic demand deflator picked up to 1.6% over a year earlier in the first quarter, after rising by 1.4% in the preceding quarter.

Diagram 6.6: GDP deflator

(a) The GDP deflator turned to decline



(b) Terms of trade decreased



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

	<u>Annual</u> [#]	<u>Q1</u> [#]	<u>2025</u>			<u>2026</u>
			<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [#]
Private consumption expenditure	1.2	1.4	0.7	1.2	1.4	1.5
Government consumption expenditure	1.3	2.8	0.9	0.9	0.6	1.1
Gross domestic fixed capital formation	1.8	3.8	5.4	-0.5	-1.0	1.5
Total exports of goods ^{&}	3.8	3.3	3.2	3.4	5.1	7.4
Imports of goods ^{&}	4.3	4.3	3.8	3.7	5.2	7.6
Exports of services ^{&}	1.2	2.4	0.8	-0.6	2.3	2.9
Imports of services ^{&}	0.1	-1.2	0.7	-0.6	1.3	4.9
Gross Domestic Product	0.9	1.0	0.5	0.5	1.4	-0.5
		<-0.4>	<0.5>	<0.6>	<0.6>	<-2.2>
Total final demand ^{&}	2.8	2.7	2.5	2.2	3.7	5.1
Domestic demand	1.5	1.9	1.6	0.9	1.4	1.6
Terms of trade in goods and services ^{&}	-0.3	-0.5	-0.5	-0.3	*	-0.7

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

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

(#) Revised figures.

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

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

Notes :

- (1) The Consumer Price Indices (A), (B) and (C) are compiled with 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.

In May 2021, the Census and Statistics Department (C&SD) updated the base period for compiling the CPIs. CPI figures quoted in this report refer to the 2019/20-based series unless otherwise stated. The expenditure ranges of the households covered in the 2019/20-based CPIs are shown below:

	Approximate proportion of <u>households covered</u> (%)	Average monthly expenditure range (adjusted to 2025 prices) (%)
CPI(A)	50	7,000 to 29,800
CPI(B)	30	29,800 to 51,500
CPI(C)	10	51,500 to 98,000

To capture more recent changes in household consumption patterns for CPI compilation, C&SD has since 2021 adopted an enhanced framework to review the CPI expenditure weights annually. The specific reference periods of expenditure weights adopted in the CPIs since then are as follows:

<u>CPIs by reference period</u>	<u>Reference period of expenditure weights adopted:</u>
Before Q2 2024	October 2019 – September 2020
From Q2 2024 – Q1 2025	Whole year of 2023
From Q2 2025 onwards	Whole year of 2024

The expenditure weights of the reference period 2024 are as follows:

<u>Expenditure component</u>	<u>Composite CPI</u> (%)	<u>CPI(A)</u> (%)	<u>CPI(B)</u> (%)	<u>CPI(C)</u> (%)
Food	25.53	30.62	25.14	20.08
<i>Meals out and takeaway food</i>	16.82	18.83	17.13	14.05
<i>Basic food</i>	8.71	11.79	8.01	6.03
Housing	38.89	40.17	39.08	37.12
<i>Private housing rent</i>	33.74	32.51	35.19	33.15
<i>Public housing rent</i>	2.05	5.42	0.68	--
<i>Management fees and other housing charges</i>	3.10	2.24	3.21	3.97
Electricity, gas and water	2.97	4.10	2.73	1.98
Alcoholic drinks and tobacco	0.48	0.75	0.40	0.26
Clothing and footwear	2.46	1.82	2.57	3.09
Durable goods	3.73	3.07	3.70	4.55
Miscellaneous goods	3.37	3.31	3.52	3.25
Transport	7.49	5.50	7.70	9.53
Miscellaneous services	15.08	10.66	15.16	20.14
All items	100.00	100.00	100.00	100.00

- (2) Labour productivity growth is reflected by the difference between the grow in real output and the grow in labour input of the economy.
- (3) The Producer Price Indices are 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.
- (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.

