Half-yearly Economic Report 2026

Government of the Hong Kong Special Administrative Region

HALF-YEARLY ECONOMIC REPORT 2026

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

August 2026

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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

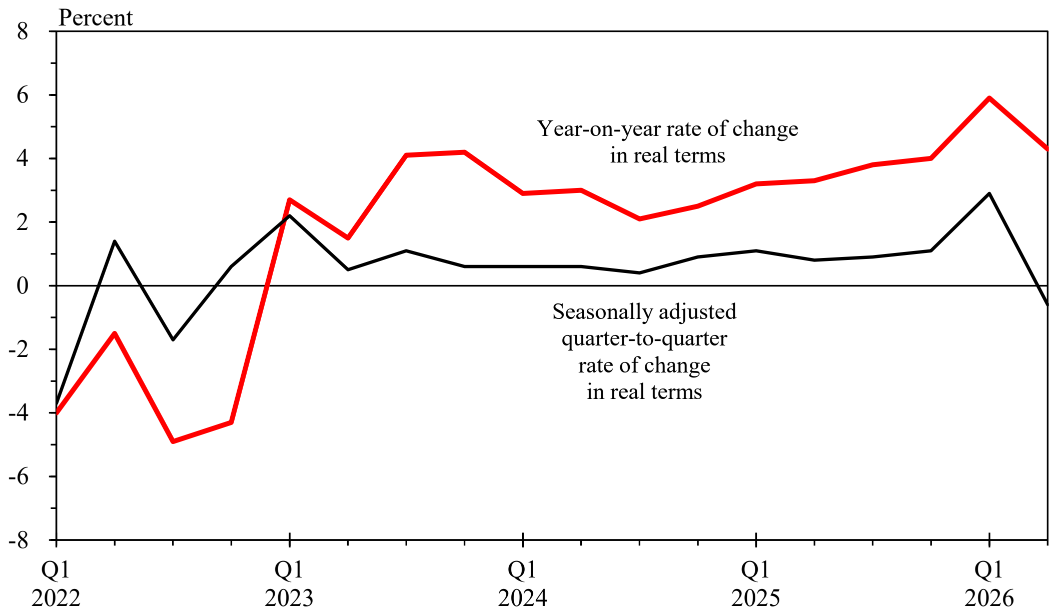
- *The Hong Kong economy continued to expand robustly in the second quarter of 2026, underpinned by buoyant external trade and resilient domestic demand. Real Gross Domestic Product (GDP)*[(1)] *grew by 4.3% in the second quarter over a year earlier, following 5.9% growth in the preceding quarter. For the first half of 2026, real GDP grew by 5.1% over a year earlier, the strongest half-yearly performance in nearly five years.*
- *Hong Kong's total exports of goods accelerated and surged further in the second quarter, thanks to the robust trade flows, driven by strong global demand for artificial intelligence (AI)-related electronic products. Exports of services expanded solidly, with all major service groups continuing to expand.*
- *Domestic demand remained resilient across consumption and investment in the second quarter. Private consumption expenditure expanded for the fifth consecutive quarter, while private investment spending increased further, marking its third consecutive quarter of double-digit growth.*
- *Key economic sectors exhibited solid performance in the second quarter. The financial services sector remained robust. The inbound tourism industry continued to record an increase in visitor arrivals. The transport and logistics sector sustained growth in general.*
- *The labour market remained stable in the second quarter. The seasonally adjusted unemployment rate held steady at the same level as that in the preceding quarter. The underemployment rate also remained unchanged. Nominal average employment earnings continued to record year-on-year growth.*
- *The local stock market metrics reflected clear enthusiasm for the global AI boom in the second quarter. Technology-related equities recorded a strong rally, as evidenced by gains in the Hang Seng SCHK Semiconductors Industry Index, even as the broader Hang Seng Index (HSI) closed the second quarter lower than at end-March. Meanwhile, the residential property market extended its positive momentum in the second quarter, with buoyant trading activity and further increases in overall flat prices.*

- *Consumer price inflation rose slightly in the second quarter, driven mainly by a sequential increase in fuel-related components following elevated international oil prices since late-February. Price pressures in other components remained largely subdued, keeping overall inflation at a moderate level.*
- *Looking ahead, the Hong Kong economy should see solid growth in the second half of 2026. The vibrant global demand for AI-related electronic products is expected to continue supporting Hong Kong's merchandise trade performance, and related logistics services should benefit from this momentum as well. Exports of services are also expected to benefit from solid growth in visitor arrivals, alongside steady demand for financial and business services in Hong Kong. Domestic demand is expected to stay firm, supported by stable labour market conditions, and solid business and consumer sentiment.*
- *Nonetheless, external headwinds persist. Geopolitical tensions in the Middle East remain fluid, with potential spillovers to energy markets and global inflation. Inflation dynamics in major economies and the policy trajectories of major central banks warrant close attention. Trade protectionism among advanced economies also requires monitoring. Meanwhile, risks associated with the rapid expansion of global AI investment are still uncertain.*
- *On the inflation outlook, consumer price inflation is expected to rise in the coming months as the earlier surge in international oil prices continues to feed through. The lingering geopolitical tensions in the Middle East warrant close monitoring. Meanwhile, price pressures in other areas remain largely contained, which should keep overall inflation at a moderate level.*
- *Hong Kong ranked as the world's second-most competitive economy in 2026, topping "Tax policy" and "Business legislation", and placed second in "Finance", third in "International trade", "International investment", "Management practices" and "Education", and fourth in "Public finance" and "Basic infrastructure". The results reflected the Government's sustained efforts to maintain free and open, stable, predictable and business-friendly policies, and the international community's confidence in Hong Kong's legal and regulatory environment.*

Overall situation

1.1 The Hong Kong economy continued to expand robustly in the second quarter of 2026. The strong performance was underpinned by buoyant external trade and resilient domestic demand. Real GDP grew by 4.3% year-on-year in the second quarter (same as the advance estimate), following 5.9% growth in the preceding quarter. For the first half of 2026, real GDP grew by 5.1% over a year earlier, the strongest half-yearly performance in nearly five years. On a seasonally adjusted quarter-to-quarter comparison[(2)], real GDP decreased somewhat by 0.6% in the second quarter (same as the advance estimate), having increased visibly by 2.9% in the preceding quarter.

Diagram 1.1 : The Hong Kong economy continued to expand robustly in the second quarter of 2026



1.2 Looking ahead, the Hong Kong economy should see solid growth in the second half of 2026. The vibrant global demand for AI-related electronic products is expected to continue supporting Hong Kong's merchandise trade performance, and related logistics services should benefit from this momentum as well. Exports of services are also expected to benefit from solid growth in visitor arrivals, alongside steady demand for financial and business services in Hong Kong. Domestic demand is expected to stay firm, supported by stable labour market conditions, and solid business and consumer sentiment. Nonetheless, external headwinds persist. Geopolitical tensions in the Middle East remain fluid, with potential spillovers to energy markets and global inflation. Inflation dynamics in major economies and the policy trajectories of major central banks warrant close attention. Trade protectionism among advanced economies also requires monitoring. Meanwhile, risks associated with the rapid expansion of global AI investment are still uncertain (See ***Box 1.1*** on the opportunities and risks of AI investment on economic growth).

Box 1.1

Opportunities and risks of artificial intelligence investment on economic growth

Artificial intelligence (AI) has advanced rapidly in recent years and is emerging as a potentially transformative technology. Promising fast and low-cost access to advanced intelligence, AI technology has attracted massive investment in software and infrastructure, while also raising expectations for productivity gains. At the same time, the unprecedented speed and scale of the AI investment boom have sparked concerns about its financial sustainability and the broader economic risks if the boom were to falter. This article examines both the short- and long-term opportunities AI may create, as well as the risks associated with its rapid expansion, particularly for the Hong Kong economy.

AI-related investment has increased significantly. Realising the capability of AI as a driver of economic growth requires enormous investment, large technology firms are making unprecedented capital investments to build the infrastructure that powers AI, largely for data centres, chips and computing capacity. The Organisation for Economic Co-operation and Development(1) (OECD) estimated that capital expenditures by AI companies rose by over 30% from less than US$600 billion in 2024 to around US$800 billion in 2025, and are projected to grow to over US$1.2 trillion by 2027. In Hong Kong, related private sector investment, mostly captured by expenditure on acquisitions of machinery, equipment and intellectual property products, recorded strong growth of 34.6% in 2025 and accelerated further to 38.4% in the first half of 2026, partly driven by the surge in enterprise and consumer adoption of AI-empowered products and services.

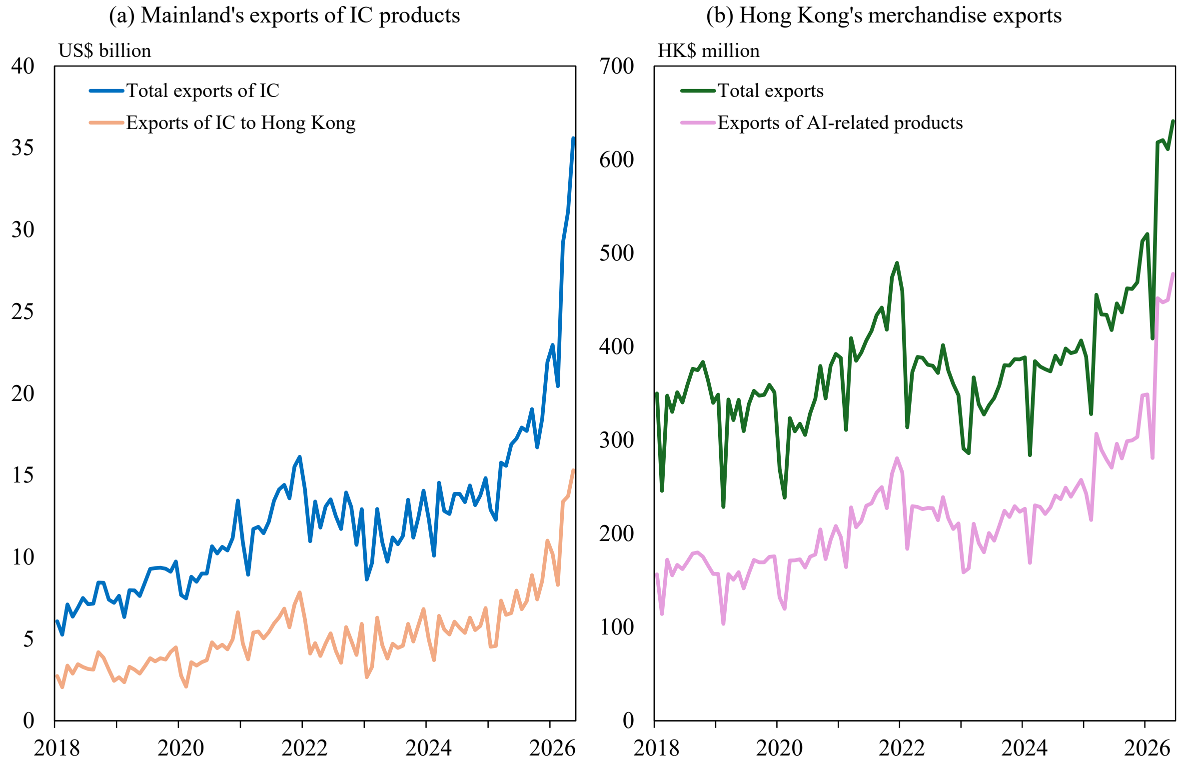
Asia, a major technology product manufacturer and exporter, has benefitted from this demand boom. The World Trade Organization(2) estimated that trade in semiconductors, processors, and other AI-enabling products together rose by 21.9% in value terms to US$4.18 trillion in 2025, outpacing the 7% increase in overall world merchandise trade and accounting for 42% of the total global trade growth. **Hong Kong is a key trading hub for technology-related products**. For instance, the Mainland, a critical supplier and consumer of advanced electronics, routed around one-third of its integrated circuit exports through Hong Kong in the first half of 2026 (***Chart 1a***). Likewise, Hong Kong's trade with Asian economies has surged on the back of vibrant trade flows of electronic products, particularly those related to AI such as memory chips and other integrated circuits, networking devices, etc. Indeed, Hong Kong's merchandise exports of AI-related products rose by 23.5% in 2025 and further by 53.1% in the first half of 2026, outpacing the 39.1% increase in overall merchandise exports (***Chart 1b***). **AI-related products now comprise around 70% of Hong Kong's total merchandise exports**.

(1) Organisation for Economic Co-operation and Development. (2026). *OECD economic outlook, volume 2026 issue 1: Under pressure*. OECD Publishing.

(2) World Trade Organization. (2026). *Global trade outlook and statistics: March 2026*.

Box 1.1 (Cont'd)

Chart 1 : Hong Kong has been a key trading hub of tech-related products



Note: IC refers to integrated circuits; AI refers to artificial intelligence.
Sources: Census and Statistics Department (C&SD); General Administration of Customs.

Hong Kong is also a major platform that finances the AI investment boom. Companies across the AI value chain, from AI platform and infrastructure to applications, have raised funds in Hong Kong through initial public offerings (IPOs). From December 2025 to May 2026, the total amount of funds raised through AI-related IPOs reached HK$97.9 billion, accounting for around 55% of all IPO proceeds during the period, according to Hong Kong Exchanges and Clearing Limited. Many other listing applications from companies in the AI value chain are also in the pipeline.

AI technology is widely anticipated to lift economic growth through boosting productivity in the years to come. The magnitude of such a boost as estimated by various parties varies, but the prospect is promising. The International Monetary Fund[(3)] estimated that AI could boost global productivity and thus global economic growth by up to 0.8 percentage point per year in the medium term, depending on the speed of adoption and improvements in global AI readiness.

However, profitability expectations in the AI sector contribute to emerging vulnerabilities in financial markets. The current wave of AI-related capital expenditure appears to be predicated on elevated profitability expectations, as reflected in the high equity valuations observed across the technology sector. In such a high-valuation environment, AI-related equities may exhibit heightened sensitivity to shifts in market sentiment, as illustrated by the recent sharp corrections in technology-driven markets, including South Korea and Taiwan, in July.

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(3) International Monetary Fund. (2026). *Leveraging artificial intelligence and enhancing countries' preparedness*. Remarks by the IMF Managing Director at the World Government Summit, Dubai, UAE. https://www.imf.org/en/news/articles/2026/02/03/sp-md-leveraging-artificial-intelligence-and-enhancing-countries-preparedness

Box 1.1 (Cont'd)

Such risks could have macroeconomic implications, as pointed out by international organisations. In the adverse scenario of tighter financial conditions and disappointing earnings, technology companies may experience difficulties accessing the credit market, thus leading to a retrenchment of investment and losses that spread through related businesses and supply chains. For instance, according to various estimates, total investment spending on information processing equipment and intellectual property (effectively the AI-related investment) accounted for a significant share of GDP growth of the United States (US) in 2025. One estimate[4] put this share at nearly half of US GDP growth for the year, compared with just 8% in 2023 and 2024. If the AI investment boom were to fade, the economy could face slower GDP growth, weaker business investment, and a sharper correction in technology-led stock markets, with possible spillovers to employment and consumption.

Financial market turbulence could also weigh on household consumption by dampening sentiment and eroding household wealth. Both the Bank for International Settlements[5] (BIS) and the OECD[6] have recently warned that repricing in financial markets could pose broader macroeconomic risk. In particular, the BIS has highlighted that compounding factors, such as compressed risk premia, stretched valuations, high leverage in core markets, growing and opaque private credit, and complex financing structures related to AI activities, may undermine the resilience of financial markets.

In conclusion, AI investment holds substantial potential to promote long-term economic growth through productivity enhancement, increased fixed capital formation, and innovation. As firms and consumers continue to adopt AI-enabled products and services, AI-related trade has remained robust. Nevertheless, financial markets have already incorporated much of this optimism into elevated equity valuations in the technology sector. If actual outcomes fall short of expectations, the consequences may include weakened corporate balance sheets, heightened financial instability, and broader economic weakness. **With prudent policy support, AI investment can nevertheless become a durable engine of inclusive growth, innovation, and long-term economic resilience**.

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(4) CBRE. (2026). *AI's impact on the economy, employment & productivity*. https://www.cbre.com/insights/reports/ais-impact-on-the-economy-employment-and-productivity

(5) Bank for International Settlements. (2026). *Annual economic report 2026*.

(6) Organisation for Economic Co-operation and Development. (2026). See footnote 1.

The external sector

1.3 *Total exports of goods* based on the GDP compilation framework saw accelerated growth of 28.9% year-on-year in real terms in the second quarter of 2026, up from 23.8% in the preceding quarter. The strong export growth was underpinned by robust trade flows, driven by strong global demand for AI-related electronic products.

1.4 *Exports of services* expanded solidly by 3.4% in real terms in the second quarter over a year earlier, after rising by 3.3% in the preceding quarter. Exports of all major service groups continued to expand (See ***Chapter 2*** for details on performance of goods and services exports, and relevant sectors as in transport and logistics, and tourism).

Table 1.1 : Gross Domestic Product, its main expenditure components and the main price indicators

	2025#	2025				2026	
		Q1#	Q2#	Q3#	Q4#	Q1#	Q2#
		year-on-year rate of change (%)					
Change in real terms of GDP and its main expenditure components (%)							
Private consumption expenditure	1.7	-0.7 (-0.5)	2.4 (2.7)	2.4 (0.1)	2.5 (0.4)	4.9 (1.7)	2.8 (0.6)
Government consumption expenditure	1.5	0.4 (-0.3)	2.5 (1.1)	1.9 (0.2)	1.5 (0.3)	2.8 (1.3)	* (-1.9)
Gross domestic fixed capital formation	4.8	0.2	1.8	5.1	11.7	18.3	4.4
Building and construction	-9.6	-5.7	-12.0	-10.7	-10.1	5.5	-13.4
Costs of ownership transfer	37.8	40.6	-8.3	76.7	65.8	71.6	57.2
Machinery, equipment and intellectual property products	25.6	10.9	41.8	17.4	33.7	35.7	23.6
Total exports of goods&	12.0	8.7 (8.5)	11.4 (2.7)	12.0 (0.2)	15.4 (3.7)	23.8 (15.9)	28.9 (7.0)
Imports of goods&	12.6	7.2 (6.1)	12.6 (4.5)	11.7 (1.2)	18.2 (5.5)	29.9 (16.4)	29.3 (3.9)
Exports of services&	6.2	6.0 (0.5)	8.0 (0.9)	6.4 (1.1)	4.7 (1.8)	3.3 (-0.6)	3.4 (1.2)
Imports of services&	4.3	5.2 (1.1)	6.4 (1.8)	2.0 (-1.9)	3.7 (2.8)	3.8 (0.9)	3.0 (1.2)
Gross Domestic Product	**3.6**	**3.2** **(1.1)**	**3.3** **(0.8)**	**3.8** **(0.9)**	**4.0** **(1.1)**	**5.9** **(2.9)**	**4.3** **(-0.6)**
Change in the main price indicators (%)							
GDP deflator	**0.9**	**1.0** **(-0.4)**	**0.5** **(0.5)**	**0.5** **(0.6)**	**1.4** **(0.6)**	**-0.2** **(-1.8)**	**2.4** **(3.1)**
Composite CPI							
Headline	**1.4**	**1.6** **(0.3)**	**1.8** **(-0.2)**	**1.1** **(0.7)**	**1.3** **(0.4)**	**1.6** **(0.6)**	**1.9** **(0.2)**
Underlying^	**1.1**	**1.2** **(0.1)**	**1.1** **(0.2)**	**1.0** **(0.3)**	**1.1** **(0.4)**	**1.4** **(0.4)**	**1.7** **(0.6)**
Change in **nominal GDP** *(%)*	**4.5**	**4.3**	**3.8**	**4.3**	**5.4**	**5.6**	**6.9**
		$ Billion					
Nominal GDP	3,329.8	801.4	788.3	855.6	884.5	846.5	842.4

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

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

(#) Revised figures.

( ) Seasonally adjusted quarter-to-quarter rate of change(2).

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

(*) Change within ± 0.05%.

The domestic sector

1.5 *Private consumption expenditure* (PCE) rose solidly by 2.8% in real terms in the second quarter of 2026 over a year earlier, after an increase of 4.9% in the preceding quarter. PCE resumed growth in the second quarter of 2025 and has since recorded five consecutive quarters of expansion. On a seasonally adjusted quarter-to-quarter basis, PCE rose by 0.6% in real terms.

1.6 In the second quarter, all major categories of consumption expenditure in the domestic market increased compared with a year earlier (See ***Table 1.2*** for details). Spending on consumer durable goods was particularly robust, sustaining double-digit year-on-year growth for the fourth consecutive quarter and growing by 13.4% in the second quarter. Going forward, PCE is expected to continue growing, supported by the generally positive macroeconomic backdrop, sustained economic expansion, rising employment earnings, and positive wealth effects from higher asset prices, all of which are likely to reinforce consumer sentiment.

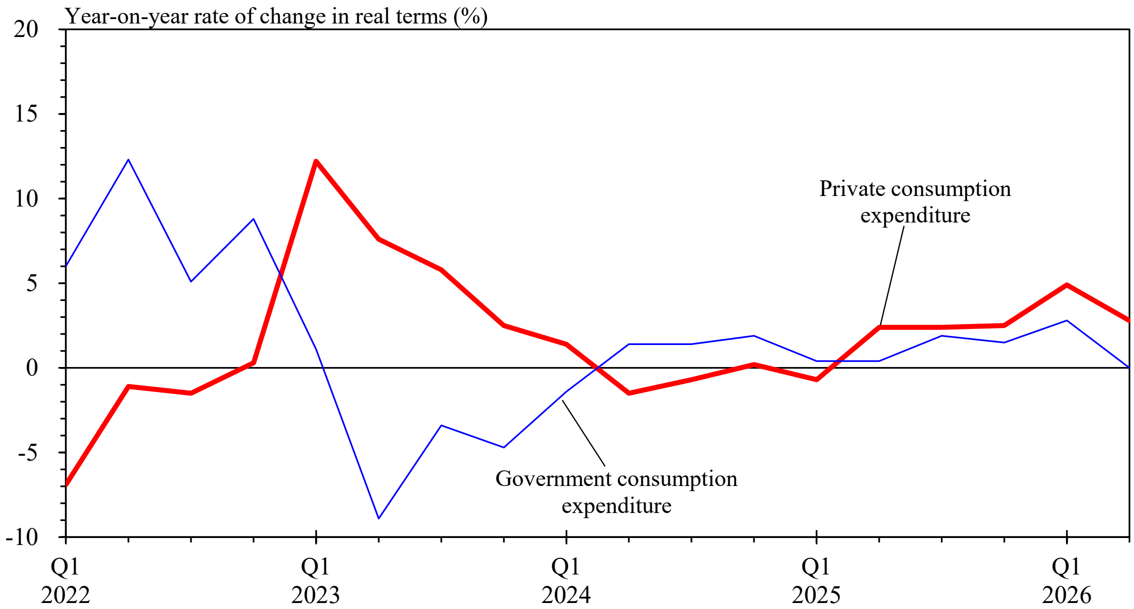
Table 1.2 : Major components of private consumption expenditure

	Share^ (%)	Year-on-year rate of change in real terms (%)					
	2025#	2025				2026	
		Q1#	Q2#	Q3#	Q4#	Q1#	Q2#
Private consumption expenditure	--	-0.7	2.4	2.4	2.5	4.9	2.8
Of which: Consumption expenditure in the domestic market on							
Food	*10.2*	*-0.3*	*0.6*	*-1.1*	*0.5*	*2.8*	*2.2*
Consumer goods	*22.6*	*-10.6*	*0.8*	*5.5*	*7.4*	*14.0*	*6.1*
Consumer durables	*6.6*	*-16.6*	*-6.2*	*10.7*	*23.4*	*32.6*	*13.4*
Consumer non-durables	*16.0*	*-8.1*	*3.1*	*3.4*	*0.1*	*7.0*	*3.9*
*Services**	*67.3*	*3.5*	*4.1*	*2.9*	*2.2*	*3.0*	*2.5*

Notes : Figures are subject to revision later on as more data become available.
(^) Percentage share of individual components to the total consumption expenditure in the domestic market in nominal terms. Individual figures may not add up exactly to the total due to rounding.
(#) Revised figures.
(*) Services include housing, transportation, education, medical and health care, recreation, entertainment etc.

1.7 Meanwhile, *government consumption expenditure* was broadly unchanged in real terms in the second quarter compared with a year earlier, after rising by 2.8% in the preceding quarter. On a seasonally adjusted quarter-to-quarter basis, government consumption expenditure decreased by 1.9% in real terms.

Diagram 1.2 : Private consumption expenditure continued to grow in the second quarter



1.8 Growth in overall investment expenditure, measured by *gross domestic fixed capital formation* (GDFCF), decelerated to 4.4% year-on-year in real terms in the second quarter, following 18.3% growth in the preceding quarter, mainly due to a slowdown in public investment spending, while private investment spending remained robust (See ***Table 1.3*** for details).

1.9 Public sector investment expenditure fell by 22.9% year-on-year in real terms in the second quarter, as expenditure on building and construction decreased by 33.5%, reflecting the lumpiness of milestone-based payments in the quarter, although expenditure on acquisitions of machinery, equipment and intellectual property products rose by 10.5%.

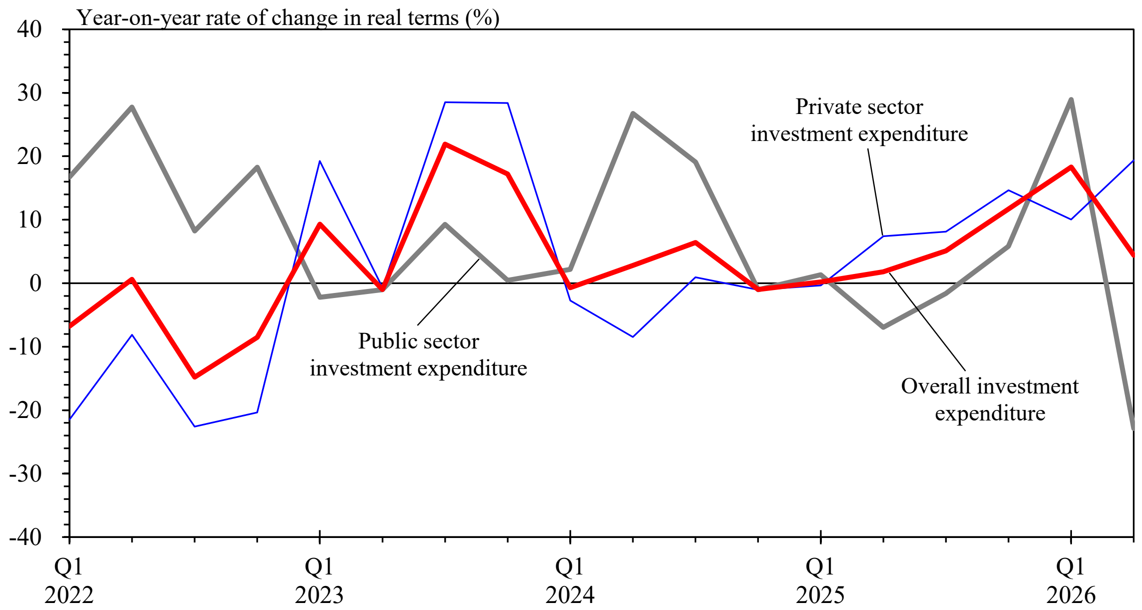
1.10 Private sector investment expenditure increased by 19.4% year-on-year in real terms in the second quarter, supported by a 27.5% rise in that on acquisitions of machinery, equipment and intellectual property products, a 57.2% surge in costs of ownership transfer amid active property transactions, and a return to moderate growth of 4.8% in expenditure on building and construction after a prolonged decline.

Table 1.3 : Major components of gross domestic fixed capital formation

	Share^ (%) 2025#	Year-on-year rate of change in real terms (%)					
		2025				2026	
		Q1#	Q2#	Q3#	Q4#	Q1#	Q2#
Gross domestic fixed capital formation	**100.0**	**0.2**	**1.8**	**5.1**	**11.7**	**18.3**	**4.4**
Public sector	***35.2***	***1.3***	***-7.0***	***-1.6***	***5.8***	***28.9***	***-22.9***
Building and construction	*25.1*	*-1.6*	*-8.7*	*-3.6*	*7.4*	*39.3*	*-33.5*
Machinery, equipment and intellectual property products	*10.1*	*7.4*	*0.2*	*3.2*	*1.6*	*7.3*	*10.5*
Private sector	***64.8***	***-0.3***	***7.4***	***8.1***	***14.6***	***10.0***	***19.4***
Building and construction	*26.8*	*-9.1*	*-14.8*	*-15.9*	*-23.6*	*-24.2*	*4.8*
Machinery, equipment and intellectual property products	*33.1*	*16.6*	*61.7*	*20.6*	*43.1*	*58.2*	*27.5*
Costs of ownership transfer	*4.9*	*40.6*	*-8.3*	*76.7*	*65.8*	*71.6*	*57.2*

Notes : Figures are subject to revision later on as more data become available.
(^) Percentage share of individual components to the overall GDFCF in nominal terms. Individual figures may not add up exactly to the total due to rounding.
(#) Revised figures.

Diagram 1.3 : Overall investment expenditure saw decelerated growth in the second quarter



1.11 Entering the third quarter, the S&P Global Purchasing Managers' Index of Hong Kong stayed in the expansionary zone for the third consecutive month at 51.0 in July, indicating sustained positive business sentiment.

Performance of selected major economic sectors

1.12 The statistics for the net outputs of major economic sectors are only up to the first quarter of 2026 (See ***Table 1.4*** for details). The net output of the services sector increased by 6.0% year-on-year in real terms in the first quarter of 2026, picking up from the 3.9% increase in the preceding quarter. All individual major services sectors recorded year-on-year growth in the first quarter, more notably for import and export trade, and financing and insurance.

1.13 The services sector is the mainstay of the Hong Kong economy, among which financial services, tourism and transport and logistics are some of the key pillar industries. In the second quarter of 2026, the financial services sector remained robust, with its major subsectors generally sustaining solid developments. In particular, fund-raising activities remained active, and Hong Kong ranked second among stock exchange markets globally in terms of the amount of funds raised through initial public offerings in the first half of 2026 (See ***Chapter 4*** on financial services). On inbound tourism, visitor arrivals rose further in the second quarter. The transport and logistics sector sustained growth in general (See ***Chapter 2*** for details).

Table 1.4 : Net output of major economic sectors

	$Billion#	Share# (%)	Year-on-year rate of change in real terms (%)					
	2024		2025	2025				2026
				Q1	Q2	Q3	Q4	Q1
Manufacturing	29.8	1.0	3.2	0.7	0.9	5.3	5.8	3.1
Construction	132.6	4.3	-7.9	-4.9	-10.8	-8.5	-7.3	8.4
Services	2,915.7	93.6	3.3	2.4	3.7	3.1	3.9	6.0
Import/export, wholesale and retail trades	536.3	17.2	6.1	4.6	6.3	5.3	8.0	14.5
Import and export trade	461.0	14.8	6.9	6.6	7.2	5.3	8.5	14.6
Wholesale and retail trades	75.3	2.4	1.1	-8.6	0.4	5.2	5.2	13.7
Accommodation and food services	62.3	2.0	-0.7	-2.9	-0.3	-1.4	1.4	0.5
Transportation, storage, postal and courier services	191.2	6.1	3.6	2.4	5.0	2.5	4.8	4.1
Transportation and storage	182.8	5.9	3.7	2.4	5.1	2.6	5.1	4.1
Postal and courier services	8.4	0.3	0.8	2.4	2.2	-1.2	-0.1	2.8
Information and communications	104.1	3.3	1.3	1.2	1.0	1.0	2.1	3.6
Financing and insurance	816.2	26.2	5.0	3.9	5.3	5.5	5.2	7.8
Real estate, professional and business services	254.4	8.2	-0.1	-0.5	-0.7	0.2	0.7	2.7
Real estate	97.0	3.1	-2.8	-4.3	-3.9	-0.2	-2.5	3.3
Professional and business services	157.4	5.1	1.6	1.9	1.2	0.4	2.7	2.4
Public administration, social and personal services	639.9	20.6	2.1	2.0	2.7	2.1	1.8	2.0

Notes : Figures are subject to revision later on as more data become available.
Individual figures may not add up 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.

The labour sector

1.14 The labour market remained stable in the second quarter of 2026. The seasonally adjusted *unemployment rate* held steady at 3.7% in the second quarter, the same as that in the preceding quarter. The *underemployment rate* also remained unchanged at 1.6%. The unemployment rates of major sectors showed mixed movements. Private sector vacancies rose in March 2026 over three months earlier on a seasonally adjusted basis. Wages and labour earnings rose further in the first quarter of 2026 over a year earlier. More recent General Household Survey data also showed that nominal average employment earnings continued to record year-on-year growth in the second quarter. Looking ahead, ongoing economic expansion is expected to support overall labour market conditions. Improving business confidence should bolster labour demand in related sectors, although persistent external uncertainties may weigh on corporate hiring sentiment (See ***Chapter 5*** on the labour sector).

The asset markets

1.15 In the second quarter of 2026, asset market conditions in Hong Kong were broadly supportive of both consumption and investment sentiment. The *local stock market* metrics reflected clear enthusiasm for the global AI boom. Technology-related equities recorded a strong rally, as evidenced by gains in the Hang Seng SCHK Semiconductors Industry Index (+69.2%), even as the broader HSI closed the second quarter at 22 881, 7.7% lower than at end-March. Average daily turnover rose markedly, reaching $289.5 billion in the second quarter, up 21.8% year-on-year, supported by vibrant Stock Connect flows that highlighted strong cross-border demand.

1.16 The *residential property market* extended its positive momentum in the second quarter. The number of transactions, in terms of the total number of sale and purchase agreements for residential property received by the Land Registry, rose visibly by another 19% over the preceding quarter to 22 156 in the second quarter, the highest quarterly level in 14 years, and also markedly higher than a year ago by 32%. Overall flat prices went up notably further by 3% during the second quarter, translating into a year-to-date gain of 8%. Overall flat rentals also stayed resilient, rising by another 2% in the second quarter (See ***Chapter 3*** on asset markets).

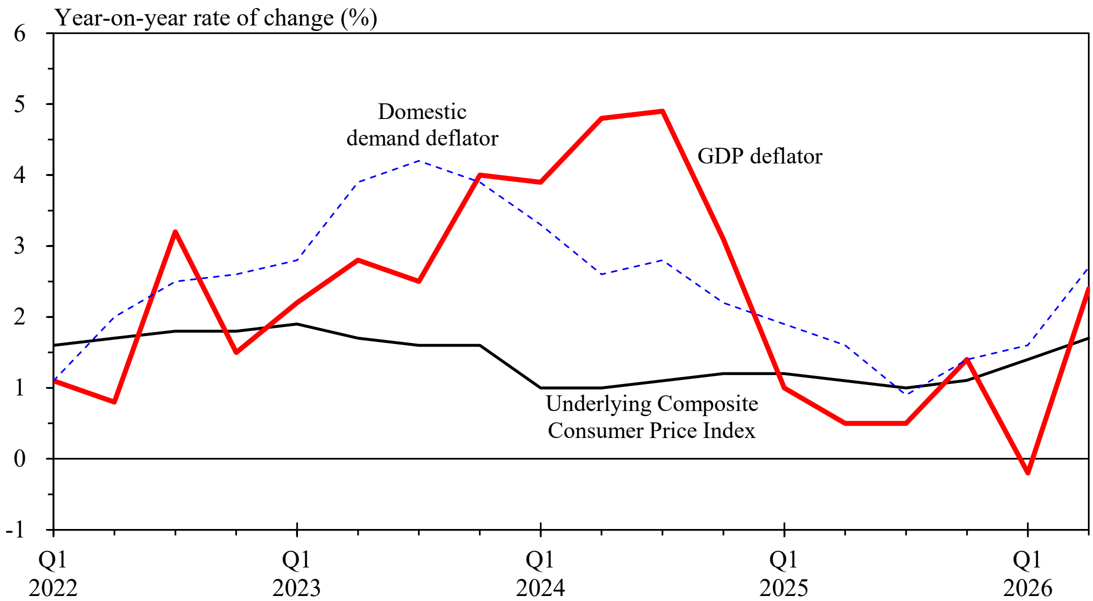
Inflation

1.17 Consumer price inflation rose slightly in the second quarter of 2026, driven mainly by a sequential increase in fuel-related components following elevated international oil prices since late-February. Price pressures in other components remained largely subdued, keeping overall inflation at a moderate level. Netting out the effects of the Government's one-off relief measures, the *underlying Composite Consumer Price Index (Composite CPI)* rose by 1.7% in the second quarter over a year earlier, accelerating from 1.4% in the preceding quarter (See ***Chapter 6*** on prices).

1.18 Looking ahead, consumer price inflation is expected to rise in the coming months as the earlier surge in international oil prices continues to feed through. The lingering geopolitical tensions in the Middle East warrant close monitoring. Meanwhile, price pressures in other areas remain largely contained, which should keep overall inflation at a moderate level.

1.19 As a broad measure of the overall change in prices in the economy, the *GDP deflator* resumed an increase of 2.4% year-on-year in the second quarter, after decreasing by 0.2% in the preceding quarter. The *terms of trade* rose back by 0.1%, while the domestic demand deflator continued to increase by 2.7%.

Diagram 1.4 : Underlying consumer price inflation rose slightly but stayed moderate in overall terms in the second quarter of 2026



Other economic developments

1.20 The Government conducted a two-month public consultation from 15 June to 14 August on The First Five-Year Plan for Economic and Social Development of the Hong Kong Special Administrative Region (2026-2030) (Hong Kong's Five-Year Plan). Hong Kong's First Five-Year Plan is a historic step with profound significance. It will provide a forward-looking, strategic and operable guiding document for Hong Kong's development during the next five years, enabling Hong Kong to proactively align with the National 15th Five-Year Plan. This will support Hong Kong's high-quality development, and at the same time help Hong Kong better integrate into and serve the overall national development.

1.21 In the *World Competitiveness Yearbook 2026* published by the International Institute for Management Development, Hong Kong's ranking rose for the third consecutive year, up one place to second globally in 2026, the highest since 2019. Among the four competitiveness factors, Hong Kong's ranking in "Government efficiency" held firm at second globally and that in "Business efficiency" came at third. As regards the various competitiveness sub-factors, Hong Kong topped the ranking in "Tax policy" and "Business legislation"; ranked second globally in "Finance"; third globally in "International trade", "International investment", "Management practices" and "Education"; and fourth globally in "Public finance" and "Basic infrastructure". These results reaffirmed Hong Kong as one of the most competitive economies in the world, and reflected the Government's ongoing efforts to promote free and open, stable, predictable and business-friendly economic policies, as well as the international community's trust in Hong Kong's legal and regulatory environment. Amid rapidly evolving geopolitical dynamics, Hong Kong, with its close connectivity to both the Mainland and the world under the "one country, two systems" principle, and its sound institutions, open markets and sustained investments in innovation, has become a "value hub" that offers both security and growth opportunities.

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

- *The global economy remained resilient and largely sustained its growth momentum in the second quarter of 2026, despite the negative supply shock stemming from the Middle East conflict. Accelerated momentum of the global technology cycle, spearheaded by advances in artificial intelligence (AI), has propelled investment, exports and broader economic growth performances across many economies.*

- *The Mainland economy recorded steady growth, with particularly strong performance in exports. The US economy continued to grow moderately, while the euro area economy was subdued. For other Asian economies, most continued to register solid growth. The elevated international oil prices due to the Middle East conflict increased inflation pressure worldwide by varying extents. Market expectation of interest rate hikes by some major central banks in the period ahead increased, in particular for the US Federal Reserve (Fed).*

- *Supported by strong global demand in AI-related electronic products, Hong Kong's merchandise exports accelerated, rising by 30.7% year-on-year in real terms[(1)] in the second quarter and 28.7% in the first half of the year. Exports to most markets continued to increase markedly.*

- *Exports of services expanded solidly by 3.4% year-on-year in real terms in the second quarter and by 3.4% in the first half of the year. Exports across all major service groups continued to expand in the second quarter, driven by robust trade, solid growth in inbound tourism, cross-boundary traffic and financial services activities.*

- *The strong merchandise trade performance supported growth in the logistics sector. Air and land transport, which together accounted for 92% of total trade value, saw their cargo throughput rising by 4.9% and 11.2% year-on-year respectively in the second quarter. This dominance reinforces Hong Kong's position as the world's busiest air cargo hub in 2025, topping the global ranking for the 15th time since 2010.*

- *On inbound tourism, visitor arrivals rose by 8.7% over a year earlier to 12.4 million in the second quarter, though the growth pace decelerated from the 17.0% increase in the preceding quarter. This resulted in growth of 13.0% in the first half of the year.*

- *Looking ahead, the global outlook remains broadly resilient. The still-vibrant global demand for AI-related electronic products is expected to continue supporting Hong Kong's merchandise trade performance. Exports of services are also expected to be supported by robust trade, sustaining demand for air freight, cargo and other transport services. Growth in visitor arrivals will bolster travel services, while cross-boundary financial and fund-raising activity, together with increased cross-boundary corporate activity, will continue to support Hong Kong's exports of financial and business services.*
- *Nonetheless, external headwinds persists. The evolving situation of geopolitical tensions in the Middle East is still a main source of downside risk. Its implication on inflation in major economies and the monetary policy trajectories of major central banks are key areas to watch. The development surrounding the trade protectionist policies of various major advanced economies also warrant close surveillance.*

Merchandise trade

External environment

2.1 The global economy remained resilient and largely sustained its growth momentum in the second quarter of 2026, despite the negative supply shock stemming from the Middle East conflict. Accelerated momentum of the global technology cycle, spearheaded by advances in AI, has propelled investment, exports and broader economic growth performances across many economies. The Mainland economy recorded steady growth, with particularly strong performance in exports. The US economy continued to grow moderately, while the euro area economy was subdued. For other Asian economies, most continued to register solid growth. The elevated international oil prices due to the Middle East conflict increased inflation pressure worldwide by varying extents. Market expectation of interest rate hikes by some major central banks in the period ahead increased, in particular for the US Fed.

2.2 The Mainland economy recorded steady growth of 4.3% year-on-year in the second quarter, bringing first-half growth to an average of 4.7%. Merchandise exports remained resilient despite a volatile external environment, while domestic demand indicators generally softened. On policy, authorities have fully disbursed RMB 200 billion and allocated RMB 187.5 billion in ultra-long special treasury bonds issued this year to support equipment upgrades and consumer goods trade-in programmes respectively. In addition, a complete list of key national projects for implementing major national strategies and enhancing security capacity in key areas has been issued, with RMB 800 billion allocated to 1 417 major projects this year.

2.3 The Politburo meeting in late July outlined arrangements for economic work in the second half of the year. It emphasised the implementation of a more proactive fiscal policy and an appropriately accommodative monetary policy. The meeting also called for stronger countercyclical adjustments and for timely formulation and introduction of pragmatic and effective incremental policies to support growth.

2.4 In advanced economies, the US economy grew moderately by 2.1% year-on-year in the second quarter, with consumption and production activities continuing to expand. The labour market remained broadly stable, with a relatively steady unemployment rate, although job growth slowed towards the end of the quarter. Meanwhile, consumer price inflation rose notably and stayed well above the Fed’s 2% target, driven mainly by surging energy prices (See ***Box 6.1*** on inflation situation in the US, Europe and various Asian economies).

The Fed has kept the federal funds rate unchanged so far this year, but persistently higher inflation has shifted market expectations from no rate change to at least one 25-basis-point interest rate hikes by year-end.

2.5 Euro area's economic growth was at 1.0%. As headline inflation was going up visibly, the European Central Bank (ECB) raised key policy rates by 25 basis points in June after a year-long pause, and the market generally expects one further 25-basis-point increase by the year-end.

2.6 Other Asian economies generally maintained solid growth in the second quarter. Bolstered by robust AI-related investment and strong global demand for electronics and high-technology products, external trade expanded further across most economies, while domestic demand remained broadly resilient.

2.7 Inflationary pressures, however, increased by varying extents, prompting monetary tightening in parts of the region. The Monetary Authority of Singapore slightly steepened the rate of appreciation of its nominal effective exchange rate policy band in mid-April. The central bank of the Philippines raised its policy rate by a cumulative 50 basis points in late April and June, more than offsetting its February rate cut. Bank Indonesia also increased its policy rate by 100 basis points through three rate hikes from late May to mid-June to stabilise the Rupiah and contain inflation within target. Meanwhile, the Bank of Japan and the Bank of Korea also raised policy rates by 25 basis points in June and July respectively, amid inflation concerns and persistent financial stability risks.

2.8 Looking ahead, the global outlook remains broadly resilient. In its July update, the International Monetary Fund (IMF) projected global economic growth of 3.0% for 2026, slightly lower than its April "reference forecast"(2). At the same time, it revised up its 2026 global headline inflation forecast by 0.3 percentage point to 4.7%. The IMF noted that risks to the growth outlook have become more balanced, although they remain tilted to the downside. The IMF acknowledged that the transmission of shock from the ongoing conflicts is still at an early stage, while monetary policy is expected to be less accommodative amid persistent inflationary pressures. Furthermore, the IMF cautioned that any escalation in geopolitical tensions could renew commodity price volatility, and further disrupt supply chains and economic activity.

Merchandise exports

2.9 Hong Kong's *merchandise exports* accelerated, rising by 30.7% year-on-year in real terms in the second quarter of 2026, after growing by 26.5% in the preceding quarter. The growth was supported by strong global demand in AI-related electronic products, leading to 28.7% growth in the first half of the year. In value terms, the increase was more pronounced, at 45.5% in the second quarter and 39.1% in the first half, reflecting vigorous demand and significant increase in prices.

Diagram 2.1 : Merchandise exports accelerated in the second quarter

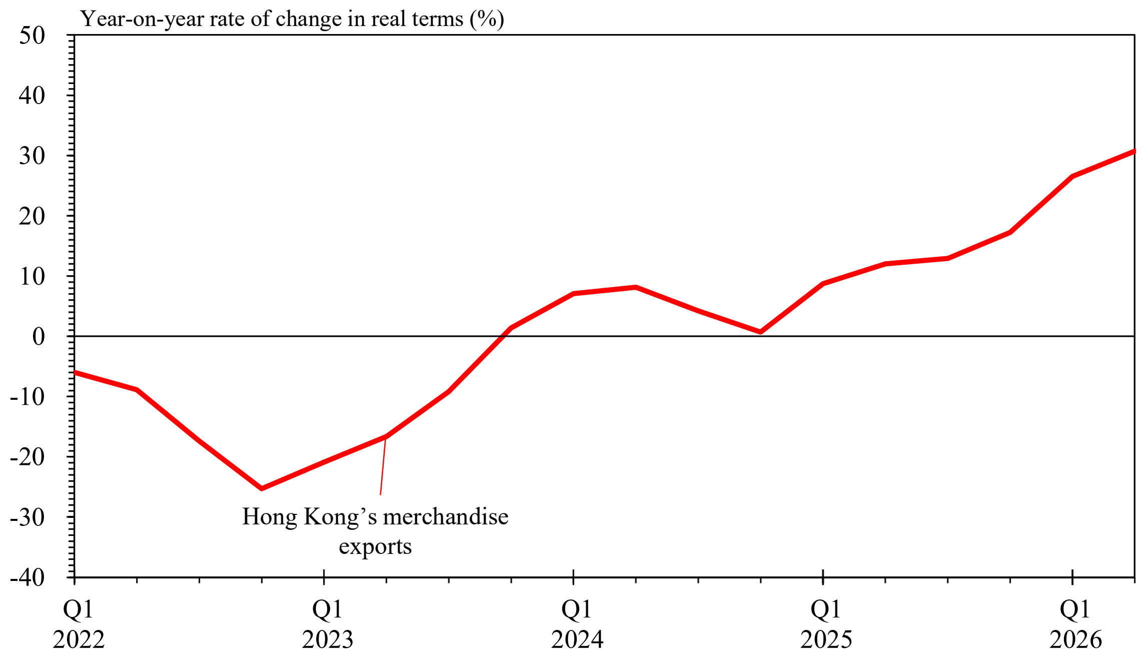


Table 2.1 : Merchandise exports

		In value terms		In real terms[a]		Change in prices
		($Bn)	(year-on-year rate of change (%))			
2025	Annual	5,240	15.4	12.8		2.3
	H1	2,456	12.5	10.4		1.9
	H2	2,784	18.0	15.1		2.6
	Q1	1,171	10.9	8.7	(7.5)	1.9
	Q2	1,285	14.0	12.0	(3.1)	1.9
	Q3	1,343	15.1	12.9	(0.7)	2.0
	Q4	1,441	20.9	17.2	(4.9)	3.1
2026	H1	3,416	39.1	28.7		7.9
	Q1	1,546	32.0	26.5	(16.0)	4.3
	Q2	1,870	45.5	30.7	(6.6)	11.1

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

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

2.10 Analysed by major markets, exports to the Mainland continued to register double-digit year-on-year growth (32.5%) in the second quarter. Exports to ASEAN markets sustained their momentum and accelerated (43.4%), while those to most other selected Asian economies also expanded at a faster pace. Exports to the US grew markedly (48.6%), and those to the EU recorded solid gains (3.0%).

2.11 Analysed by major products, exports of AI-related products, which accounted for around 73% of merchandise exports, continued to surge by 63.7% in value terms in the second quarter over a year earlier, underpinned by the still-strong global demand for AI-related products.

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

	2025		2026		
	Annual	*share*	H1	Q1	Q2
The Mainland	14.3	*(60%)*	30.7	28.8	32.5
US	8.9	*(6%)*	44.9	41.0	48.6
EU	-3.8	*(5%)*	6.9	10.8	3.0
ASEAN	28.6	*(10%)*	38.9	34.0	43.4
Vietnam	46.9	*(4%)*	36.1	23.8	48.2
Singapore	3.6	*(1%)*	79.6	63.6	94.7
India	3.9	*(3%)*	-6.9	-3.7	-10.0
Japan	11.1	*(2%)*	-10.0	5.2	-21.5
Taiwan	36.1	*(4%)*	56.0	47.9	64.4
Korea	-10.0	*(1%)*	15.3	3.5	28.9
Overall#	12.8	*(100%)*	28.7	26.5	30.7

Notes : (#) 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*.

( ) Share to total merchandise exports value.

Table 2.3 : Merchandise exports of AI-related products[3] (year-on-year rate of change in value terms (%))

	2025					2026	
	Annual	Q1	Q2	Q3	Q4	Q1	Q2
AI-related products	**23.5 (3,426)**	**22.1 (763)**	**23.8 (839)**	**20.4 (874)**	**27.6 (950)**	**41.5 (1,080)**	**63.7 (1,373)**
Electronics	23.3 (3,325)	22.0 (739)	24.1 (815)	19.4 (846)	27.4 (925)	43.5 (1,061)	65.5 (1,348)
Others	32.6 (101)	24.4 (24)	15.8 (24)	59.9 (28)	34.4 (25)	-19.2 (20)	2.8 (25)
Other products	**2.5 (1,814)**	**-5.4 (408)**	**-0.8 (446)**	**6.5 (469)**	**9.7 (492)**	**14.2 (466)**	**11.4 (497)**
Total	**15.4 (5,240)**	**10.9 (1,171)**	**14.0 (1,285)**	**15.1 (1,343)**	**20.9 (1,441)**	**32.0 (1,546)**	**45.5 (1,870)**

Note : ( ) Trade value in HK$ billion.

Merchandise imports

2.12 *Merchandise imports* rose by 29.6% year-on-year in real terms in the second quarter of 2026, after an increase of 31.3% in the preceding quarter, bringing a 30.4% increase in the first half of the year. *Retained imports*, which refer to imports for domestic use and accounted for around one-fifth of merchandise imports, grew by 23.9% in the second quarter, compared with 52.6% in the previous quarter.

Table 2.4 : Merchandise imports and retained imports

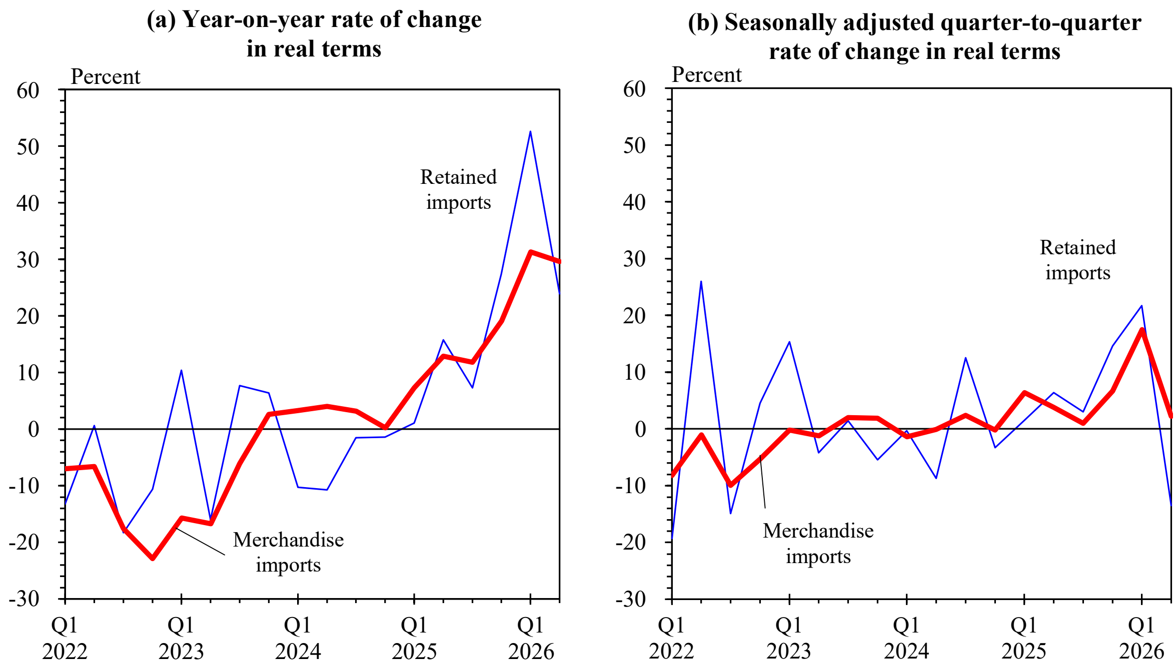
		Merchandise imports					Retained imports[(a)]				
		In value terms		In real terms[(+)]		Change in prices	In value terms		In real terms		Change in prices
		($Bn)	(year-on-year rate of change (%))				($Bn)	(year-on-year rate of change (%))			
2025	Annual	5,687	15.5	12.9		2.2	1,130	11.9	13.2		-1.5
	H1	2,639	12.6	10.2		1.9	501	7.9	8.6		-1.6
	H2	3,047	18.2	15.5		2.5	630	15.4	17.2		-1.5
	Q1	1,252	9.8	7.3	(6.4)	2.0	232	0.7	1.1	(1.5)	-1.7
	Q2	1,388	15.2	12.9	(3.8)	1.9	268	15.0	15.8	(6.4)	-1.4
	Q3	1,453	13.9	11.8	(1.0)	1.9	285	5.3	7.3	(3.0)	-2.4
	Q4	1,594	22.4	19.1	(6.7)	2.9	344	25.3	27.4	(14.6)	-1.1
2026	H1	3,711	40.6	30.4		7.6	735	46.9	37.1		6.5
	Q1	1,715	37.0	31.3	(17.5)	4.3	371	59.6	52.6	(21.7)	4.7
	Q2	1,996	43.8	29.6	(2.2)	10.6	365	35.9	23.9	(-13.5)	8.3

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 2.2 : Merchandise imports rose



2.13 Looking ahead, the still-vibrant global demand for AI-related electronic products is expected to continue supporting Hong Kong's merchandise trade performance. Nonetheless, the evolving situation of geopolitical tensions in the Middle East is still a main source of downside risk. Its implication on inflation in major economies and the monetary policy trajectories of major central banks are key areas to watch. The development surrounding the trade protectionist policies of various major advanced economies also warrant close surveillance.

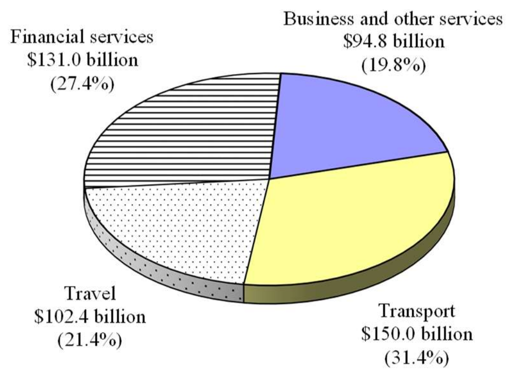
Services trade and selected key sectors

Exports of services

2.14 *Exports of services* expanded solidly by 3.4% year-on-year in real terms in the second quarter of 2026, reaching $227 billion in nominal terms, compared with a 3.3% real increase in the preceding quarter. This brought exports of services in the first half of the year to $478 billion in nominal terms, representing a 3.4% real increase.

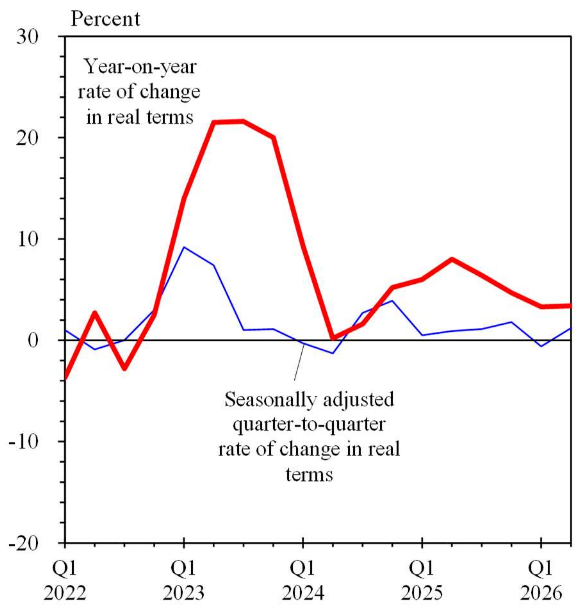
2.15 Major service groups comprised transport (31.4% share in first half of 2026), financial services (27.4%), travel (21.4%), and business and other services (19.8%).

Diagram 2.3 : Transport and financial services together constituted over half of exports of services



Exports of services in the first half of 2026: $478.2 billion (in nominal terms)

Diagram 2.4 : Exports of services expanded solidly



2.16 Exports across all major service groups continued to expand in the second quarter, reflecting broad-based growth across all segments. Specifically, exports of transport services, financial services and business and other services recorded accelerated growth, supported by vibrant performance in cross-boundary traffic and financial services activities (see ***Chapter 4*** for details). Exports of transport services saw growth pick up from 2.5% in the first quarter to 3.2% in the second quarter, while exports of financial services accelerated from 0.5% to 2.8% and business and other services growth rose from 2.4% to 3.4% over the same period. Exports of travel services continued to expand by 4.7%, driven by solid growth in inbound tourism.

2.17 Looking ahead, exports of services are expected to be supported by robust trade, sustaining demand for air freight, cargo and other transport services. Growth in visitor arrivals will bolster travel services, while cross-boundary financial and fund-raising activity (See ***Chapter 4*** for details), together with increased cross-boundary corporate activity, will continue to support Hong Kong's exports of financial and business services.

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

		Exports of services		*Of which :* Transport	Travel[(a)]	Financial services	Business and other services
2025	Annual	6.2		5.3	10.0	7.6	2.2
	H1	6.9		5.7	9.1	9.4	3.5
	H2	5.6		4.9	10.8	5.9	1.1
	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	H1	3.4		2.8	7.0	1.5	2.9
	Q1	3.3	(-0.6)	2.5	9.1	0.5	2.4
	Q2	3.4	(1.2)	3.2	4.7	2.8	3.4

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.*

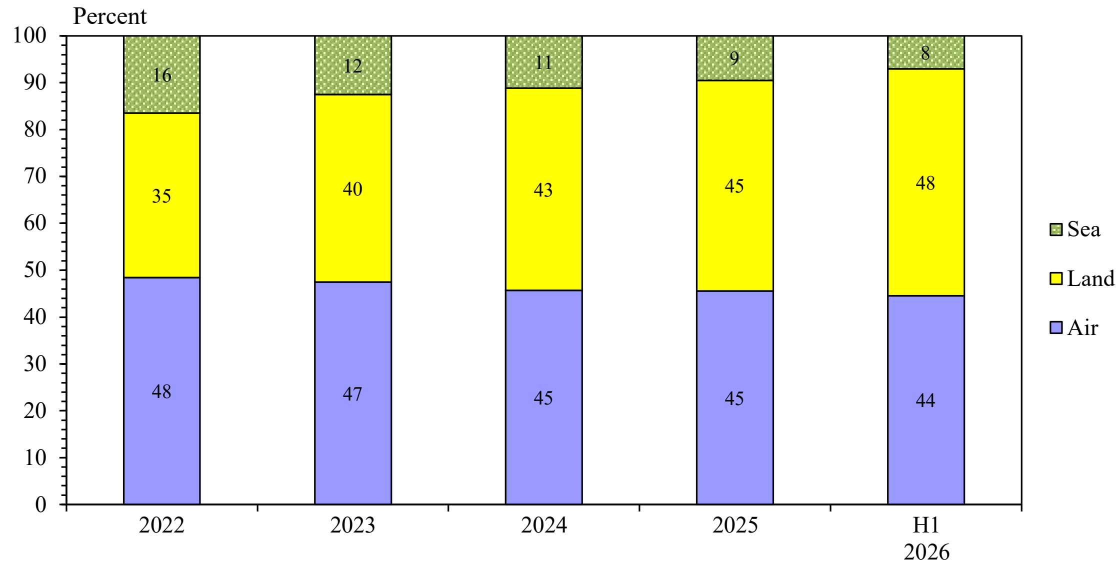
(a) Comprising mainly inbound tourism receipts.

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

Transport and logistics sector

2.18 The strong merchandise trade performance supported growth in the logistics sector. Given the high share of AI-related electronic products and the Mainland as a key source of products, air and land transport remained the dominant modes by value. Their combined share to Hong Kong's total external merchandise trade value rose from 83% in 2022 to 90% in 2025, and then further to 92% in the first half of 2026. This dominance reinforces Hong Kong's position as the world's busiest air cargo hub in 2025, topping the global ranking for the 15th time since 2010.

Diagram 2.5 : Air and land have been the dominant modes of trade by value in recent years

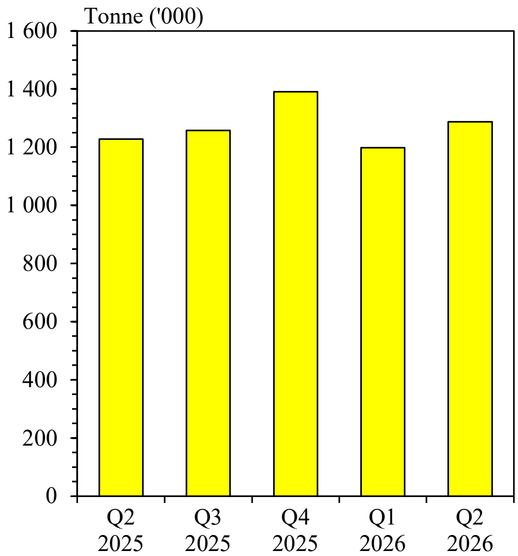


Note : Some other modes of transport, such as trade by hand carried and parcel post, do not belong to any of the three major categories and are excluded from the chart. These accounted for around 0.3% of total merchandise trade in the first half of 2026.

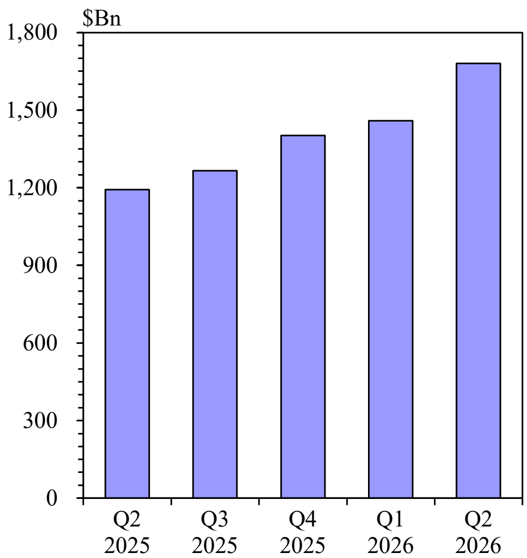
2.19 *Air freight throughput* continued to expand, by 4.9% year-on-year to 1.3 million tonnes in the second quarter, bringing the total to 2.5 million tonnes in the first half of the year (4.2% year-on-year growth). The value of trade by air jumped by 41.0% year-on-year in the second quarter and by 36.7% in the first half of the year.

Diagram 2.6 : Air freight throughput continued to expand and the value of trade by air jumped in the second quarter

(a) Air freight throughput



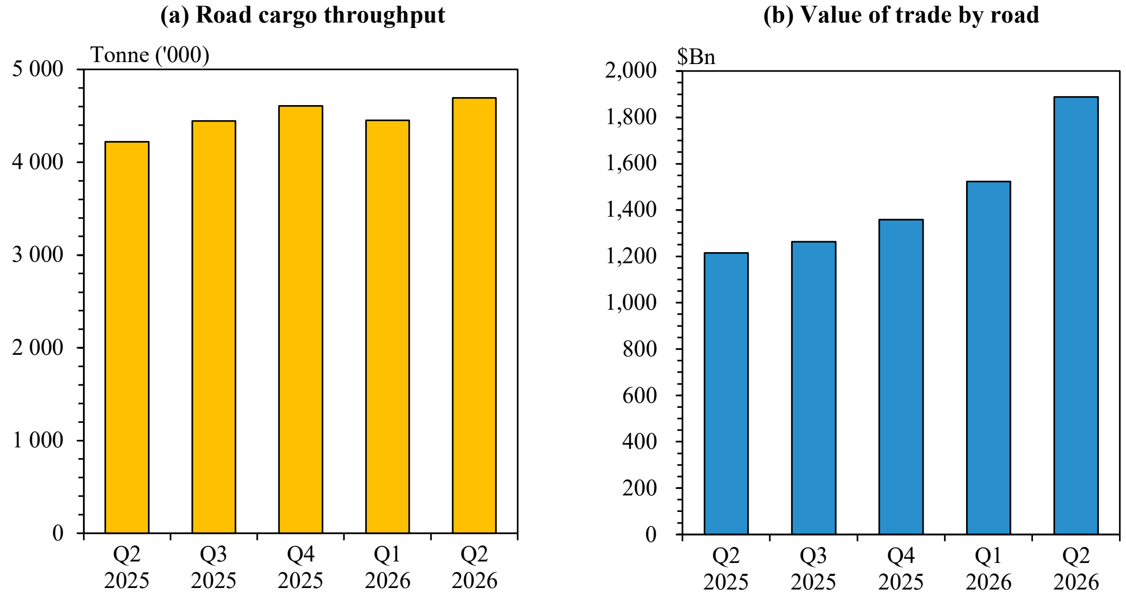
(b) Value of trade by air*



Note : (*) Not including transhipment.

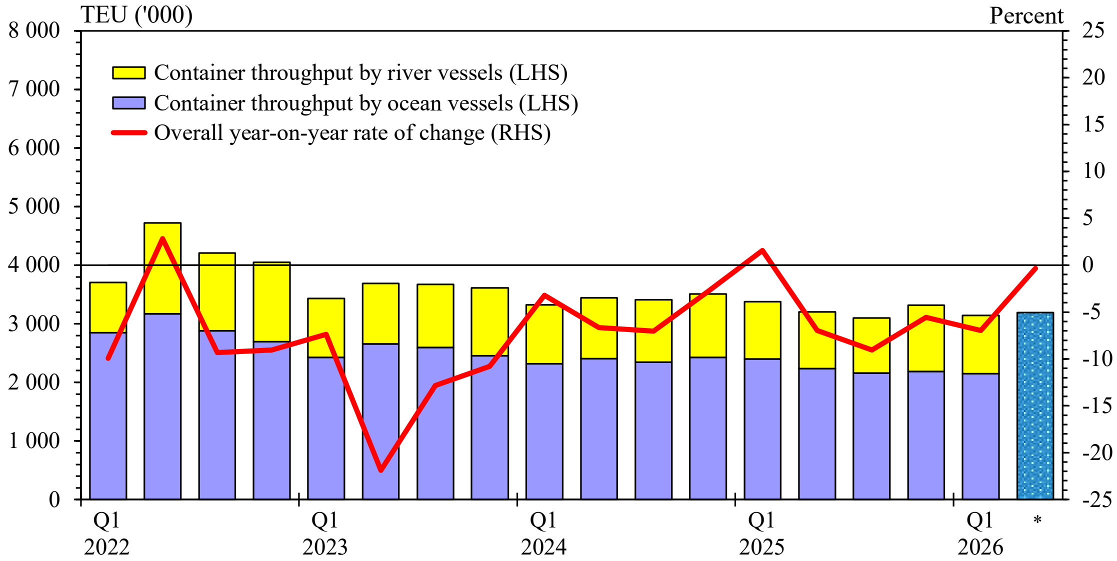
2.20 *Road cargo throughput* likewise increased further by 11.2% over a year earlier to 4.7 million tonnes in the second quarter, bringing the total to 9.1 million tonnes in the first half of the year (13.1% year-on-year growth). The value of trade by road leapt by 55.5% year-on-year in the second quarter and by 49.9% in the first half of the year.

Diagram 2.7 : Road cargo throughput increased further and the value of trade by road leapt in the second quarter



2.21 Meanwhile, *total container throughput* slightly decreased by 0.3% year-on-year to about 3.2 million twenty-foot equivalent units (TEUs) in the second quarter, bringing the total to 6.3 million TEUs in the first half of the year (3.7% year-on-year decline). Yet, the value of trade handled at the Hong Kong port grew by 11.3% over a year earlier in the second quarter and by 9.7% in the first half of the year.

Diagram 2.8 : Container throughput slightly decreased in the second 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.

Tourism sector

2.22 On inbound tourism, visitor arrivals rose by 8.7% over a year earlier to 12.4 million in the second quarter, though the growth pace decelerated from the 17.0% increase in the preceding quarter. This brought about a total of 26.7 million visitor arrivals in the first half of the year, representing a growth of 13.0%.

2.23 Mainland visitor arrivals, which accounted for 76.4% of the total in the second quarter, recorded a solid increase of 10.8% year-on-year to 9.5 million. By comparison, non-Mainland visitor arrivals recorded more modest year-on-year growth of 2.5% to 2.9 million.

Table 2.6 : Number of visitor arrivals ('000)

		Overall	By source*			By length of stay	
			The Mainland	Other short-haul markets	Long-haul markets	Overnight visitors	Same-day visitors
2025	Annual	49 894.8	37 833.8	8 235.5	3 825.6	23 190.1	26 704.7
		(12.1)	(11.1)	(13.1)	(20.3)	(5.7)	(18.4)
	H1	23 636.1	17 793.8	4 052.7	1 789.6	11 284.3	12 351.8
		(11.7)	(10.2)	(16.3)	(17.9)	(7.0)	(16.4)
	H2	26 258.7	20 040.0	4 182.8	2 035.9	11 905.8	14 352.9
		(12.4)	(12.0)	(10.2)	(22.5)	(4.4)	(20.1)
	Q1	12 228.2	9 245.4	2 084.3	898.6	5 888.4	6 339.8
		(8.9)	(6.3)	(17.7)	(18.2)	(4.9)	(12.9)
	Q2	11 407.9	8 548.4	1 968.4	891.1	5 395.9	6 012.0
		(15.0)	(14.7)	(14.9)	(17.7)	(9.5)	(20.4)
	Q3	12 835.5	10 192.1	1 836.4	807.0	5 836.4	6 999.2
		(12.2)	(12.1)	(10.4)	(18.9)	(3.2)	(21.1)
	Q4	13 423.2	9 847.9	2 346.4	1 228.9	6 069.4	7 353.8
		(12.7)	(11.9)	(10.0)	(25.0)	(5.6)	(19.2)
2026	H1	26 712.5	20 555.1	3 993.3	2 164.1	11 513.6	15 198.8
		(13.0)	(15.5)	(-1.5)	(20.9)	(2.0)	(23.0)
	Q1	14 307.6	11 080.5	2 141.0	1 086.2	6 202.2	8 105.4
		(17.0)	(19.8)	(2.7)	(20.9)	(5.3)	(27.8)
	Q2	12 404.8	9 474.6	1 852.3	1 077.9	5 311.4	7 093.4
		(8.7)	(10.8)	(-5.9)	(21.0)	(-1.6)	(18.0)

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.

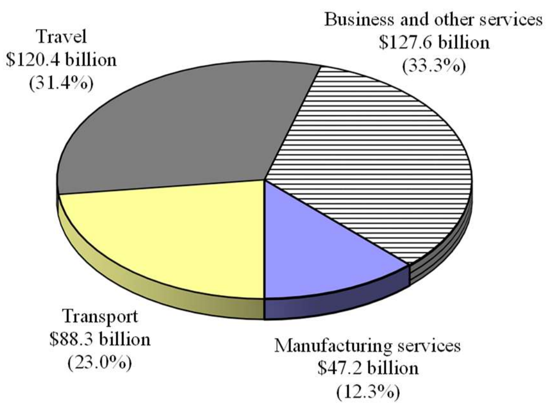
2.24 Of these, arrivals from short-haul markets (excluding the Mainland) decreased by 5.9% to 1.9 million in the second quarter, as fuel costs prompted certain airlines to reduce flight capacity, and the depreciation of currencies in some of these markets against the Hong Kong dollar dampened travel intentions among residents of these markets. Meanwhile, visitor arrivals from long-haul markets continued to grow notably by 21.0% to 1.1 million. Analysed by length of stay, overnight visitor arrivals decreased by 1.6% over a year earlier to 5.3 million, while same-day visitor arrivals grew markedly by 18.0% to 7.1 million.

2.25 The average hotel room occupancy rate was 84% in the second quarter, slightly higher than the 83% recorded a year earlier. Meanwhile, the average achieved hotel room rate increased by 4.8% from a year earlier to $1,230[4].

Imports of services

2.26 *Imports of services* rose by 3.0% year-on-year in real terms in the second quarter of 2026, after growing by 3.8% in the previous quarter. Major service groups comprised business and other services (33.3% share in first half of 2026), travel (31.4%), transport (23.0%), and manufacturing services (12.3%). Imports of transport, business and other services, and manufacturing services rose by varying degree, while that of travel services saw little change.

Diagram 2.9 : Business and other services and travel together constituted over 60% of imports of services



Imports of services in the first half of 2026: $383.5 billion (in nominal terms)

Diagram 2.10 : Imports of services rose

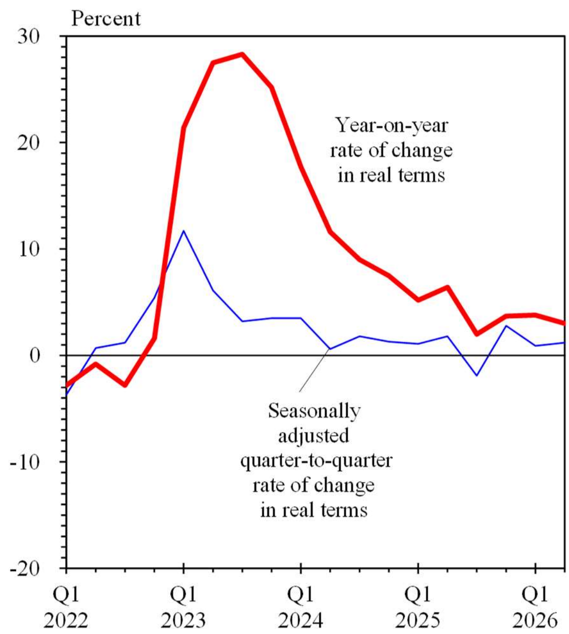


Table 2.7 : Imports of services by major service group (year-on-year rate of change in real terms (%))

		Imports of services		*Of which :* Travel[(+)]	Transport	Manufacturing services[(^)]	Business and other services
2025	Annual	4.3		4.4	1.8	5.1	5.5
	H1	5.7		5.1	3.3	4.9	8.0
	H2	2.8		3.7	0.3	5.2	3.0
	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	H1	3.4		1.7	7.4	3.6	2.3
	Q1	3.8	(0.9)	3.6	7.3	6.1	1.1
	Q2	3.0	(1.2)	*	7.5	1.4	3.8

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

(+) Comprising mainly outbound travel spending.

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

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

(*) Change of less than ±0.05%.

Goods and services balance

2.27 Based on the GDP compilation framework and compared to a year earlier, the goods deficit widened to $59 billion in the second quarter of 2026. Meanwhile, the services surplus widened to $39 billion. The combined goods and services account registered a deficit of $21 billion in the second quarter of 2026, equivalent to 0.9% of total import value, compared to a deficit of $7 billion or 0.5% in the second quarter of 2025. This brought about a combined deficit of $58 billion in the first half of the year.

Table 2.8 : Goods and services balance
($ billion at current market prices)

		Total exports		Imports		Trade balance			
		Goods	Services	Goods	Services	Goods	Services	Combined	As % of imports
2025	Annual	5,759	898	5,832	728	-73	170	97	1.5
	H1	2,683	440	2,725	354	-42	86	44	1.4
	H2	3,075	459	3,107	374	-31	84	53	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	H1	3,735	478	3,888	383	-153	95	-58	-1.4
	Q1	1,721	251	1,814	195	-94	56	-37	-1.9
	Q2	2,014	227	2,073	188	-59	39	-21	-0.9

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

2.28 The Government continues to upgrade Hong Kong's trade infrastructure to cement the status as an international trade centre and logistics hub. The first batch of the Trade Single Window (TSW) Phase 3 services was launched in May, replacing the Road Cargo System for the submission and bundling of advance cargo information (road) by the trade. The TSW provides a one-stop electronic platform for the trading community to lodge business-to-government trade documents for trade declaration and cargo clearance, streamlining trade documents submission and helping traders save time and costs.

2.29 Hong Kong's economic relationship and links with the Mainland and overseas economies are further enhanced through duty visits by senior officials. In May, the Financial Secretary (FS) visited Paris, Belgium and Switzerland to engage in in-depth exchanges on financial innovation and combating terrorist financing, as well as promoting Hong Kong's latest developments and opportunities as an international financial centre for better co-operation and closer relations. In June, the Chief Executive (CE) led a business delegation to visit Kazakhstan and Uzbekistan to deepen economic co-operation between Hong Kong and economies in Central Asia, yielding fruitful results and reaching 96 co-operation agreements and Memoranda of Understanding (MoUs) involving specific amounts exceeding US$1.65 billion in total, as well as commencing the negotiations on bilateral investment promotion and protection agreement. The FS attended the Summer Davos in Dalian and exchanged ideas with leaders and business representatives in the Mainland, to promote cross-border co-operation and collaborative development of industrial chains.

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) The table below presents a more detailed comparison between the growth forecasts made by the IMF in July 2026 and the "reference forecast" three months ago.

		2026	
	2025 (%)	April round (%)	July round (%)
Economic growth			
World (PPP## weighted)	3.5	3.1	3.0
Advanced economies	1.9	1.8	1.7
US	2.1#	2.3	2.3
Euro area	1.2#	1.1	0.9
UK	1.4#	0.8	1.0
Japan	1.1#	0.7	0.6
Emerging market and developing economies	4.5	3.9	3.8
Emerging and developing Asia	5.6	4.9	5.0
The Mainland	5.0#	4.4	4.6
India^	7.7	6.5	6.4
ASEAN-5§	4.5	4.1	4.1
Middle East and Central Asia	3.7	1.9	0.7
Inflation			
World	4.1	4.4	4.7

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

(3) 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).

(4) 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 3 : ASSET MARKETS

Summary

- *In the second quarter of 2026, asset market conditions in Hong Kong were broadly supportive of both consumption and investment sentiment. The housing market entered a solid recovery phase, while on the financial side, AI-powered, technology-related equities recorded notable gains and a vibrant IPO market—reported as the strongest first-half listing performance in about five years—was underpinned by improving investor confidence and risk appetite, and placed Hong Kong as the second-largest IPO venue globally.*

- *Hong Kong's equity market metrics reflected clear enthusiasm for the global AI boom. Technology-related equities recorded a strong rally, as evidenced by gains in the Hang Seng SCHK Semiconductors Industry Index (+69.2%), even as the broader Hang Seng Index (HSI) closed the second quarter at 22 881, 7.7% lower than at end-March. Going into the third quarter, the HSI recouped some lost ground to close at 25 530 on 6 August.*

- *Average daily turnover rose markedly, reaching $289.5 billion in the second quarter, up 21.8% year-on-year, supported by vibrant Stock Connect flows that highlighted strong cross-border demand.*

- *Total funds raised amounted to $349.2 billion in the first half of 2026, with $212.4 billion raised through IPOs across 87 new listings—representing a 94.2% year-on-year increase in funds raised and a 97.7% rise in listing numbers. A+H and specialist technology listings accounted for 72% of proceeds, and the near-term outlook remains positive, supported by a pipeline of more than 400 active applicants.*

- *On real assets, the residential property market extended its positive momentum in the second quarter, with buoyant trading activity and further increases in overall flat prices. Major primary launches were generally favourably received amid a brisk rollout of new projects by developers. Secondary trading activity within the quarter was also active.*

- *Residential property transaction reached a 14-year high of 22 156 in the second quarter, up 32% from a year earlier, bringing total transactions in the first half of the year to 40 810, representing year-on-year growth of 41%.*

- *Overall flat prices went up notably further by 3% during the second quarter, translating into a year-to-date gain of 8%. The year-on-year gain in prices in June further widened to some 13%.*

- *While solid fundamentals such as sustained economic expansion and rising income will continue to support asset prices, asset market prospects remain closely linked to the interest rate environment. Market expectations of a possible US policy rate hike are rising, alongside factors such as the lingering Middle East conflict and correction of technology stocks after the strong rally, could bring volatility to the asset markets.*

The equity markets

3.1 Hong Kong's equity market metrics reflected clear enthusiasm for the global AI boom in the second quarter of 2026. Technology-related equities recorded a strong rally, as evidenced by gains in the Hang Seng SCHK Semiconductors Industry Index (+69.2%), even as the HSI closed the second quarter at 22 881, down 7.7% from end-March. Market capitalisation stood at $43.3 trillion at end-June. Going into the third quarter, the HSI recouped some lost ground to close at 25 530 on 6 August.

3.2 Average daily turnover in the overall securities market increased noticeably to $289.5 billion in the second quarter, supported by vibrant Stock Connect flows that underscored robust trading activity and cross-border participation. This was 4.6% higher than the preceding quarter or 21.8% over a year ago.

Diagram 3.1 : Technology-related equities staged a strong rally though HSI fell during the second quarter

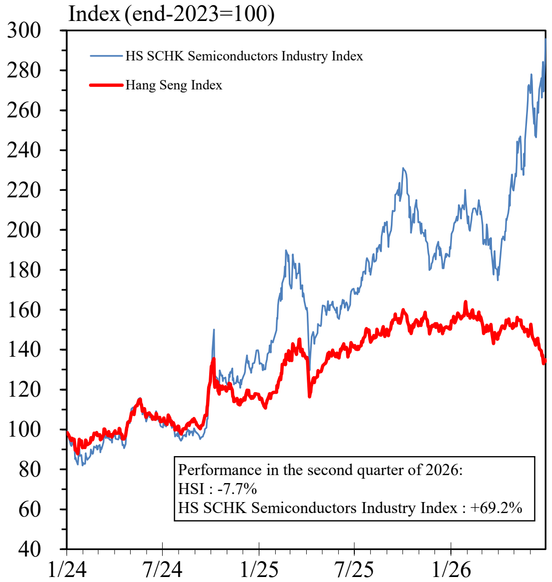
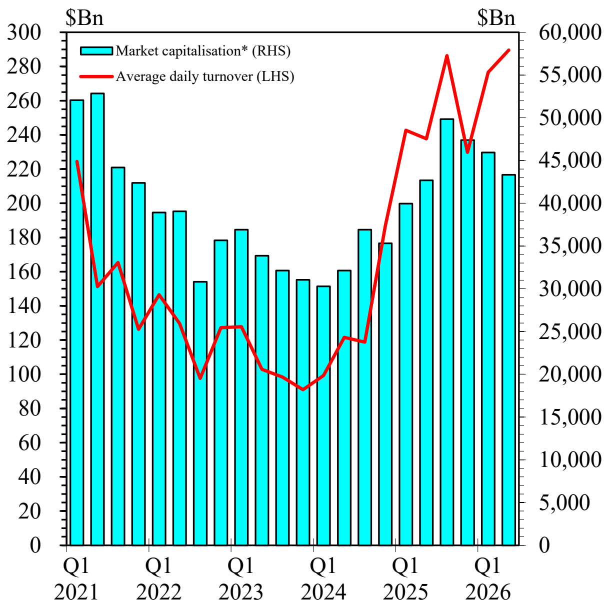


Diagram 3.2 : Market capitalisation stood at $43.3 trillion; trading activities were very vibrant



Note : (*) Position at end of quarter.

Source: Datastream.

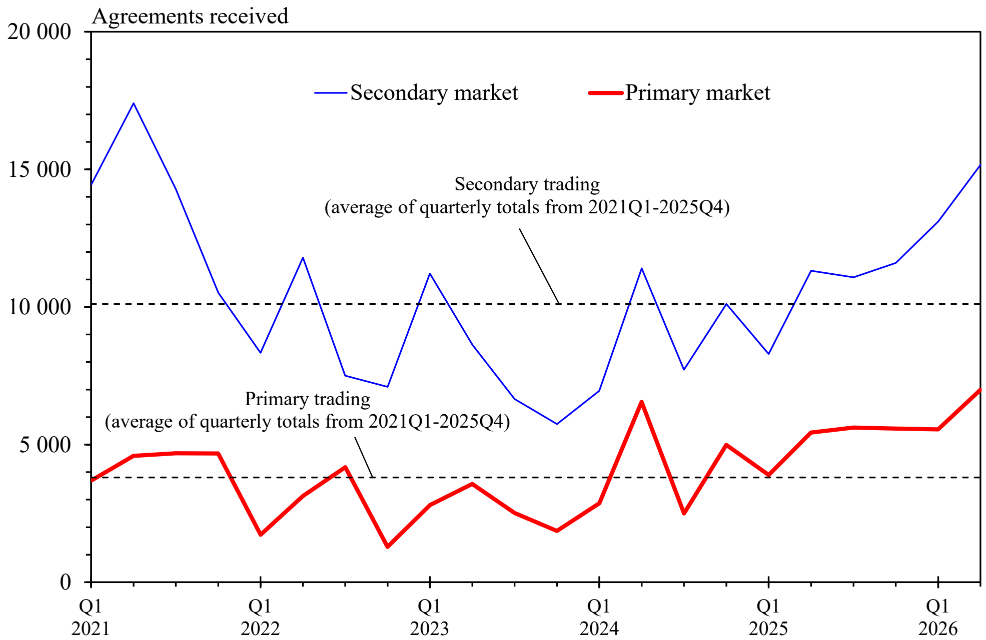
3.3 Total equity funds raised (comprising new share floatation and post-listing arrangements) amounted to $349.2 billion in the first half of 2026, with $212.4 billion raised through IPOs across 87 new listings—representing a 94.2% year-on-year increase in funds raised and a 97.7% rise in listing numbers—marking the strongest first-half fundraising and deal volume in five years. A+H and specialist technology listings accounted for 72% of proceeds, and the outlook remains positive, supported by a pipeline of more than 400 active applicants. At the same time, Hong Kong ranked the world's second-largest IPO venue by funds raised in the first half of 2026, which was widely seen as evidence of renewed investor risk appetite despite persistent global geopolitical uncertainty.

The residential property market

3.4 The *residential property market* extended its positive momentum in the second quarter, with buoyant trading activity and further increases in overall flat prices. The total number of sale and purchase agreements for residential property received by the Land Registry rose visibly by another 19% over the preceding quarter to 22 156 in the second quarter, the highest quarterly level in 14 years, and also markedly higher than a year ago by 32%. Total transactions reached 40 810 in the first half of the year, reflecting year-on-year growth of 41%.

3.5 Primary market transactions were up distinctly by 26% over the preceding quarter, with major primary launches being generally favourably received amid a brisk rollout of new projects by developers. Secondary market transactions also increased by 16%. Total consideration surged by 26% during the quarter to $204.9 billion, 45% higher than the level in the same quarter last year.

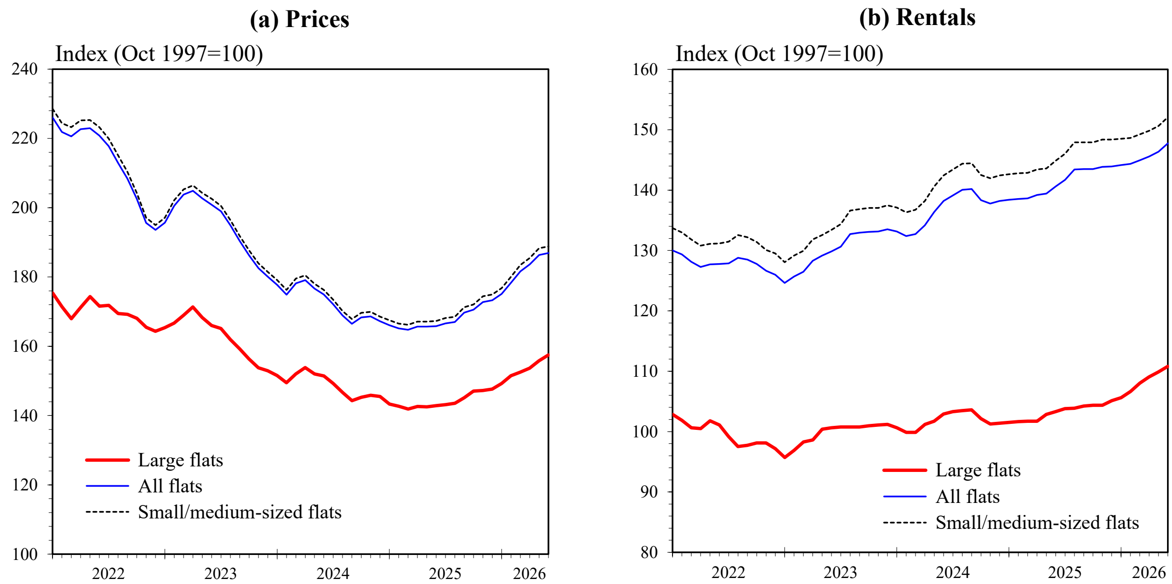
Diagram 3.3 : Overall trading activity was buoyant in the second quarter



3.6 Overall flat prices went up notably further by 3% during the second quarter, translating into a year-to-date gain of 8%. The year-on-year gain in prices in June further widened to some 13%, though they were still 19% below the peak in September 2021. Analysed by size, prices of small/medium-sized flats and large flats both climbed by 3% during the quarter.

3.7 Meanwhile, overall flat rentals also stayed resilient, rising by another 2% in the second quarter. This brought the corresponding year-on-year increase in June to around 5%. Analysed by size, rentals of small/medium-sized flats and large flats rose by 2% and 3% respectively within the quarter. The rental yield for residential property remained unchanged at 3.0% in June, same as that in March.

Diagram 3.4 : Flat prices and rentals showed further increases in the second 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 m^2, and small/medium-sized flats with a saleable area of less than 100 m^2.

3.8 As estimated at end-June, 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) still remained at a relatively high level of 96 000 units. As compared to the level over end-March, it shrank further by around 5 000 units, conceivably reflecting strong absorption rates driven by active primary market sales throughout the year so far.

Outlook

3.9 After the strong pick-up in the first two quarters of the year, trading activity moderated in July, with the number of transactions receding to 4 462, partly due to the lack of new launches in large-scale primary market developments, and partly to a cooling of market sentiment amid the lingering Middle East conflict, together with the increasingly uncertain trajectory of US interest rate.

3.10 While solid fundamentals such as sustained economic expansion and rising income will continue to support asset prices, asset market prospects remain closely linked to the interest rate environment. Domestic financial conditions remained broadly stable in the second quarter, with Best Lending Rates among banks ranging from 5.0% to 5.5% at end-June, unchanged from end-March. Under the Linked Exchange Rate System, Hong Kong's interest rate outlook is influenced by the US monetary policy rate movements: the US FOMC kept the target range for the federal funds rate unchanged at 3.50-3.75% during the second quarter, while the Base Rate under the HKMA's Discount Window was kept unchanged at 4.00%. Looking ahead, market expectations of a possible US policy rate hike are rising, alongside factors such as the lingering Middle East conflict and correction of technology stocks after the strong rally could bring volatility to the asset markets.

CHAPTER 4 : FINANCIAL SERVICES

Summary

- *The financial services sector, Hong Kong's most important economic pillar, underpins the city's competitiveness as one of the world's top three international financial centres and as a gateway between Chinese Mainland and global markets. In the latest Global Financial Centres Index, Hong Kong ranked third globally and first in the Asia-Pacific region.*

- *Major subsectors remained robust in the second quarter. In the first half of 2026, Hong Kong ranked second among stock exchange markets globally in terms of the amount of funds raised through IPOs. As of end-June, 2 748 companies were listed in Hong Kong with a total market capitalisation of $43.3 trillion, ranking seventh globally and fourth in Asia.*

- *Hong Kong further strengthened its position as the world's largest cross-boundary wealth management centre, according to the Global Wealth Report 2026 published by Boston Consulting Group. The report projects cross-boundary wealth managed in Hong Kong to grow by 9% annually from 2025 to 2030, with the city maintaining its first-place global ranking.*

- *The offshore renminbi (RMB) market remained active, with Hong Kong continuing to serve as the largest global offshore RMB business hub. In the first half of 2026, the city processed around 75% of all offshore RMB transactions. At end-June, total RMB deposits (including customer deposits and certificates of deposit) increased by 7.9% over end-March to RMB1,279.7 billion, while outstanding RMB bank loans rose by 2.0% to RMB1,063.2 billion.*

- *According to the International Capital Market Association, over US$130 billion of international bond issuance by Asia-based entities was arranged in Hong Kong in 2025, capturing around 25% of the market and making the city the largest international bond arrangement hub for Asian entities.*

- *In the Hong Kong dollar debt market, total gross issuance of Hong Kong dollar debt securities increased by 6.6% from the preceding quarter to $1,629.1 billion in the second quarter, while the total outstanding amount of Hong Kong dollar debt securities rose to $3,694.1 billion at end-June, up 6.6% from end-March.*

- *Hong Kong is also among the world's most open insurance centres and has one of the highest insurance densities globally. In the first quarter of 2026, the insurance sector recorded solid growth: new office premiums of long-term business surged by 51.1% over a year earlier.*

- *Hong Kong continues to lead the region in green and sustainable finance. In 2025, total green and sustainable debt issuance in Hong Kong reached US$76.5 billion, with green and sustainable bond issuance arranged in Hong Kong accounting for around 40% of the Asian market.*

- *Hong Kong's financial services sector is expected to sustain this momentum, supported by strong institutional fundamentals, deeper Mainland market connectivity, and proactive policy initiatives.*

- *Recent policy measures include:*

  - *In June, the Government unveiled an Action Plan which sets out targeted measures to strengthen Hong Kong as a premier hub for corporate treasury centres of multinational corporations.*

  - *In June, the Government introduced a Bill into the Legislative Council (LegCo) to enhance the preferential tax regimes for privately offered funds, family-owned investment holding vehicles managed by eligible single family offices and carried interest, with a view to attracting more funds and family offices to establish a presence in Hong Kong.*

  - *In July, the People's Bank of China (PBoC), the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) announced a package of measures to deepen the financial co-operation between Hong Kong and the Chinese Mainland, and support the development of Hong Kong's fixed income and currency (FIC) market and offshore RMB business. The HKMA also announced five measures to support the development of the offshore RMB market.*

  - *On 7 July, trial operation of Hong Kong's central clearing and settlement system for gold commenced, supporting the further development of the gold trading ecosystem.*

  - *In June, the Financial Services and the Treasury Bureau (FSTB) and HKMA concluded the first phase of a review regarding the adoption of distributed ledger technology (DLT) in Hong Kong's fixed income market, suggesting that Hong Kong's legal and regulatory environment is flexible enough for tokenised bond issuances. The Companies Registry (CR) issued a set of Frequently Asked Questions (FAQs) to provide the market* *with certainty about DLT record-keeping.*

- *In May, the FSTB and SFC published consultation conclusions on proposals to regulate virtual asset (VA) advisory and management service providers, with a bill expected to be introduced into the LegCo in 2026.*
- *Hong Kong launched the Five-Year China Government Bond (CGB) Futures on 3 August, providing international investors with an effective offshore hedging tool to meet growing needs for government bond risk management.*
- *On 3 August, the China Securities Regulatory Commission and the SFC jointly announced a series of new measures to further deepen practical cooperation and foster closer coordinated development between the two markets, including listing and fundraising, index cooperation, futures products, exchange-traded funds, the internationalisation of financial institutions, green finance and professional qualification facilitation.*

Overall economic contribution

4.1 The financial services sector is the city's most important economic pillar and one of its core sources of high value-added activity. In 2024, it contributed $816.2 billion in value added, equivalent to 26.2% of GDP, and provided 265 000 jobs, or 7.2% of total employment. The sector exhibits very high labour productivity and value added per worker, a pattern typical of a mature international financial centre.

4.2 The sector's importance extends well beyond its direct contribution to output and employment. It underpins Hong Kong's broader competitiveness as one of the world's top three international financial centres and a gateway between Chinese Mainland and global markets. It mobilises savings, allocates capital efficiently, facilitates risk management, and attracts international issuers and investors, while playing a strategic role in RMB internationalisation and strengthening Hong Kong's position within the global financial hierarchy. These functions are reinforced by strong institutional fundamentals, including transparent regulation aligned with international standards, a robust legal system, free capital mobility, a competitive tax regime and deep, diversified financial markets, which together reduce transaction costs, support investor confidence and encourage global institutions to intermediate cross-boundary flows through the city.

4.3 Hong Kong's status as an international financial centre has been reaffirmed by external assessments. In the latest Global Financial Centres Index, Hong Kong ranked third globally and first in the Asia-Pacific region.

The index is published by Z/Yen, a United Kingdom-based think tank, and the China Development Institute. In its 2026 Article IV Consultation Concluding Statement, the International Monetary Fund (IMF) again recognised Hong Kong's role as an international financial centre and a "super connector", particularly as a leading fund raising hub and a premier offshore RMB centre. The IMF noted that Hong Kong banks remain well capitalised, liquid, and profitable, and that the Linked Exchange Rate System continues to serve as an appropriate and credible anchor for macroeconomic and financial stability. Hong Kong's status as an international financial centre thus rests on both institutional quality and market scale.

4.4 Market depth and connectivity are central to sustaining this position. Hong Kong's integration with Mainland markets through Stock Connect, Bond Connect, Swap Connect and the Cross-boundary Wealth Management Connect Scheme has significantly expanded its intermediation capacity. These platforms facilitate two-way capital flows and reinforce Hong Kong's unique function as a conduit between Chinese Mainland and global financial systems. A closer look at major subsectors further illustrates this dynamic.

Equity market and mutual market access

4.5 Hong Kong's stock market is among the largest in Asia and globally in terms of market captialisation and fund raising activity, reflecting its deep liquidity, robust international investor participation, and seamless access to both global and Chinese Mainland capital. As of end-June, 2 748 companies were listed in Hong Kong with a total market capitalisation of $43.3 trillion, ranking seventh globally and fourth in Asia. In the first half of 2026, Hong Kong ranked second among stock exchange markets globally in terms of the amount of funds raised through IPOs(1).

Stock Connect / Bond Connect

4.6 Under Southbound Stock Connect, average daily turnover in the second quarter reached $123.7 billion, up 1.0% quarter-to-quarter and 10.4% year-on-year. Under Northbound Stock Connect, average daily turnover rose to RMB366.1 billion, an increase of 13.0% quarter-to-quarter and 141.2% year-on-year. In the first half of 2026, average daily turnover for Bond Connect Northbound trading also increased by 4% year-on-year to RMB48 billion, further consolidating Hong Kong's role as an efficient, investor-friendly RMB platform for global and Mainland investors.

4.7 A series of new measures were announced on 7 July which aim to deepen the financial co-operation between Hong Kong and the Chinese Mainland, and support the development of Hong Kong's FIC market and offshore RMB business. Key measures include: (i) supporting the development of an electronic FIC trading platform in Hong Kong; (ii) further enhancing and expanding the Southbound Bond Connect, including increasing in the annual investment quota from RMB500 billion to RMB800 billion, developing bond repurchase (repo) business using Southbound Bond Connect bonds as collateral, expanding the product scope to cover products with HKD bonds and RMB bonds as underlying assets, connecting to the Macao bond market, and enhancing the management of Southbound Bond Connect market makers; (iii) supporting the inclusion of onshore bonds issued by the Ministry of Finance and Mainland policy banks under Northbound Bond Connect as eligible margin collateral at the HKFE Clearing Corporation and the SEHK Options Clearing House; (iv) enhancing the operational arrangements of Northbound Bond Connect by extending the settlement hours and improving efficiency; and (v) further enhancing the Swap Connect to include the interbank 7-Day Fixing Depository-Institutions Repo Rate (FDR007) as a reference rate.

4.8 Hong Kong launched the Five-Year CGB Futures on 3 August. The introduction of CGB futures in Hong Kong provides international investors with an effective offshore hedging tool to meet growing needs for government bond risk management, thereby facilitating greater participation in the Mainland government bond market. It marks a pivotal step in strengthening Hong Kong's RMB product ecosystem and deepening mutual market access.

Asset and wealth management and corporate treasury centres

4.9 Hong Kong's position as a global asset and wealth management hub is equally prominent. According to the Global Wealth Report 2026 published by the Boston Consulting Group in May 2026, Hong Kong is the world's largest cross-boundary wealth management centre. The report projects that cross-boundary wealth managed in Hong Kong will grow at an annual average rate of 9% between 2025 and 2030, with the city maintaining its first-place global ranking.

4.10 The SFC's Asset and Wealth Management Activities Survey 2025 also indicated that Hong Kong's total assets under management (AUM) jumped by 20% to a record high of $42.2 trillion, partly driven by a net fund inflow surge of 193% to $2.1 trillion and marking a third consecutive year of growth. Net fund inflows into Hong Kong-domiciled funds authorised by the SFC more than doubled to $357 billion in 2025. Investors from outside Chinese Mainland and Hong Kong have consistently accounted for over half of total AUM in recent years, reaffirming the sector's global reach.

4.11 Within this broader picture, the fund management business saw mixed performance in the second quarter of 2026. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes* [(2)] rose by 8.6% over end-March to $1,665.5 billion at end-June, while the monthly average gross retail sales of *mutual funds* decreased by 17.9% over the preceding quarter to US$10.9 billion in April – May [(3)(4)] and were 37.0% higher than the level a year earlier.

4.12 On 9 June, the Government unveiled the "Action Plan to Promote the Development of Corporate Treasury Centres (CTCs) in Hong Kong" with a view to elevating Hong Kong as a major base for CTCs and reinforcing its role as a platform for "bringing in and going global". Through targeted strategies to revamp the tax concession regime, expand the network of tax agreements, strengthen market promotion and build a high-quality talent pool, the Action Plan aims to attract more multinational corporations to establish CTCs in Hong Kong and enable existing CTCs to scale up their operations and fully leverage the city's comprehensive financial ecosystem.

Banking sector

4.13 The banking sector provides a robust backbone to Hong Kong's financial system. Hong Kong ranks as the world's sixth and Asia's second largest banking sector in terms of external position as at end-2025, according to the Bank for International Settlements, and hosts one of the highest concentrations of banking institutions globally. Among the world's top 100 banks, 71 have operations in Hong Kong.

4.14 The sector is underpinned by solid capital and liquidity positions. The total capital ratio of Hong Kong-incorporated authorized institutions (AIs)[(5)] remained high at 24.9% at end-March, well above the international minimum requirement of 8%. Asset quality is healthy: the ratio of classified loans to total loans for all AIs declined from 2.01% at end-2025 to 1.87% at end-March 2026, though the delinquency ratio for credit card lending edged up from 0.35% to 0.39% over the same period. Meanwhile, the delinquency ratio for residential mortgage loans edged down to 0.11% at end-June, compared to 0.13% at end-March.

Table 4.1 : Asset quality of all authorized institutions*^

(as % of total loans)

At end of period		Pass loans	Special mention loans	Classified loans (gross)
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
2026	Q1	95.93	2.20	1.87

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

(*) Period-end figures relate to Hong Kong offices, branches and major subsidiaries outside Hong Kong. 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 95.88%, 2.06% and 2.06% respectively at end-March 2026.

4.15 Funding and credit conditions remained supportive of economic activity. *Total deposits* with AIs increased by 3.9% over end-March to $20,381 billion at end-June, with Hong Kong dollar deposits and foreign currency deposits increased by 3.4% and 4.3% respectively. *Total loans and advances* rose by 3.3% to $10,788 billion over the same period, with Hong Kong dollar loans and foreign currency loans increased by 2.2% and 4.9% respectively. Reflecting relative movements in deposits and loans, the Hong Kong dollar loan-to-deposit ratio fell from 72.3% at end-March to 71.5% at end-June, while the foreign currency loan-to-deposit ratio edged up from 39.3% to 39.5%.

4.16 Loans for use in Hong Kong (including trade finance) and loans for use outside Hong Kong increased by 3.0% and 4.4% over end-March to $8,095 billion and $2,693 billion respectively at end-June. Within domestic lending, loans to most economic segments expanded: loans to stockbrokers and financial concerns rose by 15.1% and 4.9% respectively amid vibrant stock market activities; loans to manufacturing and trade finance increased by 10.8% and 3.5% on the back of robust external trade; loans to wholesale and retail trade grew by 9.7% alongside improved consumption sentiment. In property-related lending, loans for purchase of residential property increased by 1.5%, while loans to building, construction, property development and investment fell by 1.4%.

Table 4.2 : Loans and advances

% change during the quarter		Loans to : Trade finance	Manu-facturing	Whole-sale and retail trade	Building and construction, property development and investment	Purchase of residential property[(a)]	Financial concerns	Stock-brokers	Total[(b)]	All loans and advances for use outside Hong Kong[(c)]	Total loans and advances
		All loans and advances for use in Hong Kong									
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
	Q2	3.5	10.8	9.7	-1.4	1.5	4.9	15.1	3.0	4.4	3.3
Total amount at end-June 2026 ($Bn)		436	364	312	1,386	2,126	1,033	100	8,095	2,693	10,788
% change over a year earlier		15.9	11.9	6.3	-8.1	4.7	13.4	57.6	5.8	7.4	6.2

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.

Offshore RMB business

4.17 Hong Kong continues to be the largest global offshore RMB business hub, offering a wide range of RMB-denominated investment products. In the first half of 2026, the city processed around 75% of all offshore RMB transactions.

4.18 *Offshore RMB business* remained active in the second quarter: total RMB deposits (including customer deposits and certificates of deposit) increased by 7.9% over end-March to RMB1,279.7 billion at end-June, and outstanding RMB bank loans rose by 2.0% to RMB1,063.2 billion over the same period. RMB trade settlement transactions handled by banks in Hong Kong decreased by 2.4% from a year earlier to RMB3,621.9 billion in the second quarter. RMB bond issuance (excluding certificates of deposit) reached RMB226.6 billion in the first quarter (of which RMB14.0 billion was issued by the Ministry of Finance), compared with RMB189.2 billion in the same period of 2025[(6)].

Table 4.3 : Offshore RMB business in Hong Kong

At end of period		Demand and savings deposits (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	Outstanding RMB bank loans (RMB Mn)	RMB bond issuance[(a)] (RMB Mn)	Amount of cross-border RMB trade settlement[(a)] (RMB Mn)
2025	Q1	423,009	536,839	959,848	804,366	189,159	3,625,469
	Q2	395,342	486,720	882,061	836,084	127,808	3,709,233
	Q3	471,341	530,430	1,001,771	881,423	271,565	3,353,375
	Q4	443,097	516,956	960,053	934,972	198,275	3,217,085
2026	Q1	496,541	538,657	1,035,199	1,042,598	226,565	3,172,859
	Q2	505,830	587,692	1,093,523	1,063,207	N.A.	3,621,892
% change in 2026 Q2 over 2025 Q2		27.9	20.7	24.0	27.2	N.A.	-2.4
% change in 2026 Q2 over 2026 Q1		1.9	9.1	5.6	2.0	N.A.	14.2

Notes : (a) Figures during the period.

N.A. Not available.

4.19 Building on the measures detailed in paragraph 4.7, the HKMA also announced five measures in July to support the development of the offshore RMB market and strengthen Hong Kong's role as a leading offshore RMB business hub, thereby enhancing outreach to other regions and support for the real economy. These measures, introduced with strong support from the PBoC, include: (i) increasing the size of the HKMA's RMB Business Facility from RMB200 billion to RMB500 billion and adding tenors of nine-month, two-year and three-year from 10 July; (ii) exploring a tendering mechanism for seven-day offshore RMB liquidity; (iii) exploring the issuance of offshore RMB short-term debt instruments to support the building of an offshore RMB yield curve and providing the market with high-quality investment and liquidity management products; (iv) promoting the development of a bilateral currency transaction framework between Indonesian Rupiah and offshore RMB; and (v) sharing good practices with banks to promote RMB adoption.

Debt, insurance, gold, green finance and financial technology (fintech)

4.20 Fixed income, insurance, gold, green finance and fintech activities have further deepened Hong Kong's financial markets.

Debt market

4.21 According to the International Capital Market Association, over US$130 billion of international bond issuance by Asia-based entities was arranged in Hong Kong in 2025, capturing around 25% of the market and making the city the largest international bond arrangement hub for Asian entities.

4.22 In the Hong Kong dollar *debt market*, total gross issuance of Hong Kong dollar debt securities increased by 6.6% from the preceding quarter to $1,629.1 billion[(7)] in the second quarter, while the total outstanding amount of Hong Kong dollar debt securities rose by 6.6% over end-March to $3,694.1 billion at end-June, equivalent to 39.7% of HK$M3 or 33.4% of Hong Kong dollar-denominated assets of the banking sector[(8)].

Table 4.4: New issuance and outstanding value of Hong Kong dollar debt securities ($Bn)

		Local Public Segment							
		Exchange Fund	The HKSAR Government	AIs[(a)]	Local corporations	MDBs[(b)]	Non-MDBs issuers outside Hong Kong[(b)]	Statutory bodies/government-owned corporations in Hong Kong	Total
New Issuance									
2025	Annual	4,351.3	93.0	426.7	58.3	64.8	910.5	75.9	5,980.5
	Q1	1,049.0	7.5	98.9	7.7	15.3	188.6	27.8	1,394.8
	Q2	1,060.2	13.5	85.5	23.9	15.2	221.8	13.7	1,433.9
	Q3	1,074.3	7.3	123.8	11.1	24.6	312.5	19.8	1,573.3
	Q4	1,167.7	64.8	118.5	15.7	9.8	187.6	14.6	1,578.6
2026	Q1	990.9	9.5	126.3	17.7	36.7	332.4	14.3	1,527.8
	Q2	1,091.4	10.5	147.7	17.5	29.3	279.8	52.8	1,629.1
% change in 2026 Q2 over 2025 Q2		2.9	-22.2	72.7	-26.5	92.3	26.2	284.2	13.6
% change in 2026 Q2 over 2026 Q1		10.1	10.5	16.9	-1.0	-20.2	-15.8	270.5	6.6
Outstanding (as at end of period)									
2025	Q1	1,318.1	308.9	293.2	119.9	80.4	635.1	176.8	2,932.4
	Q2	1,325.3	293.9	284.5	134.4	94.0	699.8	178.9	3,010.7
	Q3	1,331.4	257.3	313.1	138.3	114.1	870.1	179.3	3,203.6
	Q4	1,342.0	320.1	350.4	141.8	121.8	896.6	187.1	3,359.9
2026	Q1	1,348.8	302.2	361.2	139.8	147.3	987.9	179.1	3,466.3
	Q2	1,356.5	310.6	407.3	146.6	172.1	1,081.5	219.2	3,694.1
% change in 2026 Q2 over 2025 Q2		2.4	5.7	43.2	9.1	83.2	54.5	22.6	22.7
% change in 2026 Q2 over 2026 Q1		0.6	2.8	12.8	4.9	16.9	9.5	22.4	6.6

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

(a) AIs : Authorized institutions.

(b) MDBs : Multilateral Development Banks.

Insurance sector

4.23 Hong Kong is also among the world's most open insurance centres and has one of the highest insurance densities globally. In the first quarter of 2026, the *insurance sector*(9) recorded solid growth: new office premiums of long-term business surged by 51.1% over a year earlier, with non-investment linked individual business (accounting for 96% of total premium for this segment) rising by 50.2%, and investment-linked business increasing by 77.2%. In general business(10), gross and net premiums amounted to $35.2 billion and $23.1 billion respectively, up by 12.5% and 12.0% over a year ago.

Table 4.5 : Insurance business in Hong Kong@ ($Mn)

		General business			New office premium of long-term 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	Gross premium from long-term business and general business
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
2026	Q1	35,162	23,057	2,592	135,324	5,717	90	141,131	176,293
% change in 2026 Q1 over 2025 Q1		12.5	12.0	193.7	50.2	77.2	-9.1	51.1	41.4

Notes : (@) Provisional statistics of the Hong Kong insurance industry.

(^) Retirement scheme business is excluded.

Gold, green finance and fintech

4.24 On the commodities front, the Government is actively promoting the development of Hong Kong as an international gold trading centre to diversify its international financial business. Hong Kong's new central clearing and settlement system for gold officially began its trial operation on 7 July. A suite of targeted initiatives aims to build a modern, full-chain gold trading ecosystem, including rolling out the initial phase of Delivery Connect with the Shanghai Gold Exchange, launching a new Hong Kong Auction Unit (HAU) price ticker, expanding storage capacity and refining capability, diversifying gold investment products, exploring tax incentives, co-ordinating insurance arrangements, enhancing flexibility of MPF investments in gold exchange-traded funds, and establishing an industry-led trade association. Taken together, these measures will help bolster Hong Kong's role as a trusted international gold trading, clearing, and reserve hub.

4.25 On green finance, Hong Kong continues to be the leading green and sustainable finance hub in the region. In 2025, total green and sustainable debt (i.e. bonds and loans) issuance in Hong Kong amounted to US$76.5 billion, with green and sustainable bond issuance arranged in Hong Kong accounting for around 40% of the Asian market.

4.26 On fintech, the FSTB and HKMA jointly announced on 29 June the conclusion of the first phase of a review on further adoption of DLT in Hong Kong's fixed income market. The findings suggest that Hong Kong's legal and regulatory environment is already sufficiently flexible for tokenised bond issuances. To further facilitate the market in harnessing the potential of DLT applications in the fixed income market, the review also identified a few legal issues worthy of further clarification and enhancement. As a first step, the CR issued a set of FAQs to provide the market with certainty about DLT record-keeping. Earlier in May, the FSTB and SFC published the consultation conclusions on legislative proposals to regulate VA advisory and management service providers in Hong Kong, with the aim of introducing a bill into the LegCo in 2026.

4.27 Hong Kong's financial services sector is expected to sustain this momentum, supported by strong institutional fundamentals, deeper Mainland market connectivity, and proactive policy initiatives.

Notes :

(1) The ranking is based on the amount of funds raised through IPOs (including fundraising of special purpose acquisition companies) compiled by Dealogic.

(2) At end-June 2026, there were 12 approved trustees. On MPF products, 21 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 382 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 356 000 employers, 2.63 million employees and 222 000 self-employed persons are estimated to have participated in MPF schemes.

(3) 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.

(4) At end-June 2026, there was one SFC-authorised retail hedge fund with net asset size of US$90 million. This amount of net assets under management was similar to the level at end-March, and represented a 20.0% increase over a year earlier and a 43.8% decrease from end-2002, the year when the hedge funds guidelines were first issued.

(5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-June 2026 there were 147 licensed banks, 16 restricted licence banks and 11 deposit-taking companies in Hong Kong. Altogether, 174 AIs (excluding representative offices) from 32 economies (including Hong Kong) had a presence in Hong Kong.

(6) The 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) At end-June 2026, there were 163 authorized insurers in Hong Kong. Within this total, 51 were engaged in long-term insurance business, 88 in general insurance business, 21 in composite insurance business, and three in special purpose business. These authorized insurers come from 22 countries and territories (including Hong Kong).

(10) 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 remained stable in the second quarter of 2026, with the seasonally adjusted unemployment rate holding steady. Labour force and total employment edged down slightly, while job openings increased, and labour earnings continued to rise.*

- *The seasonally adjusted unemployment rate stayed at 3.7% in the second quarter, same as that in the preceding quarter. Comparing with the preceding quarter, more marked declines in the unemployment rate (not seasonally adjusted) were recorded in the construction and the import and export trade sectors, while more notable increases were observed in the social work activities, accommodation services, manufacturing, and public administration sectors.*

- *Private sector vacancies were 48 610 in March 2026, an increase of 1.6% from three months earlier on a seasonally adjusted basis. Almost all industries recorded more job openings. On a year-on-year basis, vacancies fell by 11.9% in March 2026, narrower than the 21.2% decline three months ago.*

- *Establishment surveys indicated that nominal wages growth remained steady at 3.4% year-on-year in March 2026, while labour earnings rose by 3.4% year-on-year in the first quarter, slightly faster than the 3.2% recorded in the preceding quarter. More recent General Household Survey (GHS) data also showed continued year-on-year growth of 2.3% in average nominal monthly employment earnings of full-time employees (excluding foreign domestic helpers) in the second quarter of 2026.*

- *Looking ahead, ongoing economic expansion is expected to support overall labour market conditions. Improving business confidence should bolster labour demand in related sectors, although persistent external uncertainties may continue to weigh on corporate hiring sentiment.*

Overall labour market situation[1]

5.1 The labour market remained stable in the second quarter of 2026, with the seasonally adjusted *unemployment rate*[2] holding steady at 3.7%. Both *labour force*[3] and *total employment*[4] edged down slightly by 0.2% and 0.3% respectively. Meanwhile, *vacancies*[5] increased by 1.6% in March 2026 from three months earlier on a seasonally adjusted basis. Vacancies in almost all industries recorded gains. Employment earnings continued to rise, with average nominal monthly employment earnings of full-time employees (excluding foreign domestic helpers) registering 2.3% year-on-year growth in the second quarter of 2026. Looking ahead, ongoing economic expansion is expected to support overall labour market conditions. Improving business confidence should bolster labour demand in related sectors, although persistent external uncertainties may continue to weigh on corporate hiring sentiment.

Labour force and total employment

5.2 The labour force decreased by 0.2% to 3 785 800 in the second quarter compared with the preceding quarter, and was 0.5% 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 0.6% year-on-year to 6 737 100. Nevertheless, the overall labour force participation rate declined by 0.6 percentage point year-on-year to 56.2%, reflecting the continued impact of population ageing. The share of those aged 65 and above within the working-age population increased by 0.8 percentage point year-on-year to 26.4%, while their labour force participation rate remained low and unchanged at 13.6% compared with a year ago.

5.3 Total employment declined by 0.3% to 3 646 100 in the second quarter compared with the preceding quarter, and was 0.5% lower than a year earlier. Analysed by sector, employment increased most notably quarter-to-quarter in the import and export trade sector, the accommodation services sector, the food and beverage service activities sector, the insurance sector, and the human health activities sector, while those showing more notable quarter-to-quarter declines were the retail sector, the construction sector, the social work activities sector and the public administration sector.

Diagram 5.1 : Both the labour force and total employment fell in the second quarter of 2026

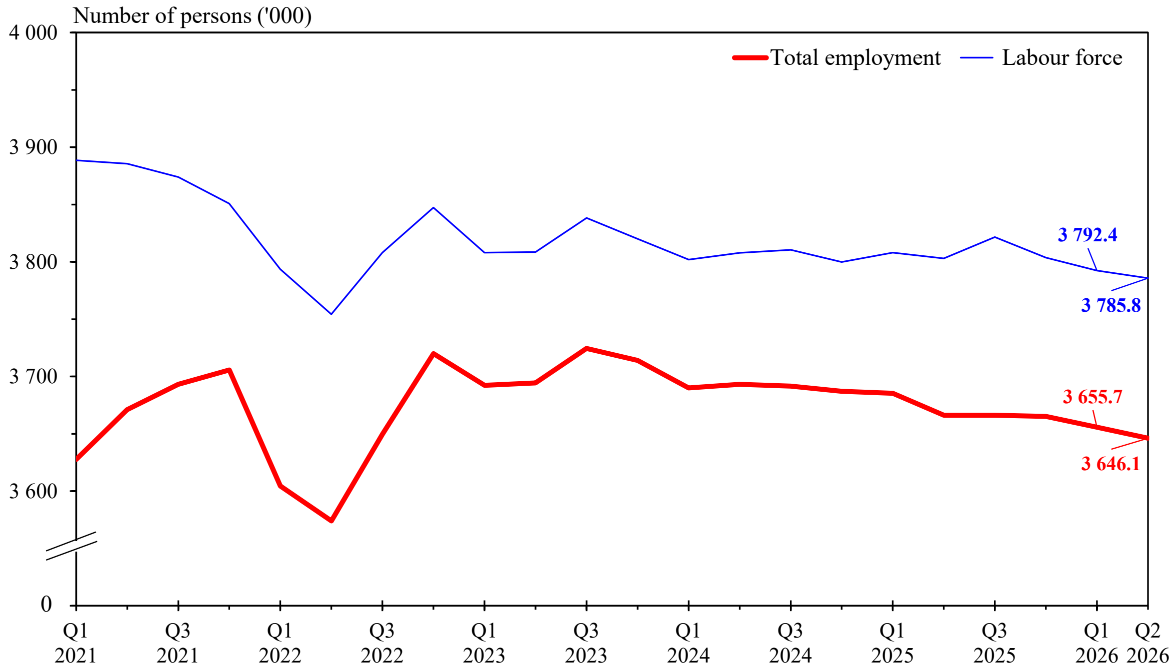


Table 5.1 : Working-age population, labour force, and labour force participation rates by gender and age group

	2025				2026	
	Q1	Q2	Q3	Q4	Q1	Q2
Working-age population						
By gender						
Male	2 985 600	2 989 000	2 984 000	2 989 500	2 998 500	3 004 600
Female	3 701 200	3 707 200	3 704 800	3 711 200	3 724 800	3 732 500
By age group						
15-24	577 800	579 800	576 400	580 700	580 900	578 100
25-59	3 770 800	3 772 000	3 763 800	3 756 200	3 764 100	3 764 900
60-64	635 300	631 000	624 400	620 700	616 700	616 900
≥ 65	1 702 900	1 713 500	1 724 200	1 743 100	1 761 600	1 777 200
Overall	6 686 800	6 696 200	6 688 800	6 700 700	6 723 300	6 737 100
Share of working-age population (%)						
By gender						
Male	44.6	44.6	44.6	44.6	44.6	44.6
Female	55.4	55.4	55.4	55.4	55.4	55.4
By age group						
15-24	8.6	8.7	8.6	8.7	8.6	8.6
25-59	56.4	56.3	56.3	56.1	56.0	55.9
60-64	9.5	9.4	9.3	9.3	9.2	9.2
≥ 65	25.5	25.6	25.8	26.0	26.2	26.4
Labour force						
By gender						
Male	1 861 300	1 852 900	1 863 500	1 853 300	1 843 700	1 836 400
Female	1 946 700	1 950 100	1 958 000	1 950 400	1 948 700	1 949 300
By age group						
15-24	161 600	161 600	171 100	159 100	150 400	149 400
25-59	3 098 700	3 096 100	3 097 900	3 100 900	3 095 300	3 087 000
60-64	316 800	311 900	311 000	310 500	309 100	307 300
≥ 65	230 900	233 400	241 500	233 100	237 500	242 100
Overall	3 808 000	3 803 000	3 821 600	3 803 700	3 792 400	3 785 800
Labour force participation rates (%)						
By gender						
Male	62.3	62.0	62.5	62.0	61.5	61.1
Female	52.6	52.6	52.9	52.6	52.3	52.2
By age group						
15-24	28.0	27.9	29.7	27.4	25.9	25.8
25-59	82.2	82.1	82.3	82.6	82.2	82.0
60-64	49.9	49.4	49.8	50.0	50.1	49.8
≥ 65	13.6	13.6	14.0	13.4	13.5	13.6
Overall	56.9	56.8	57.1	56.8	56.4	56.2

Note : The statistics in 2025 have been revised to take into account the final end-2025 population estimates.

Table 5.2 : Employment by major economic sector

	2025				2026	
	Q1	Q2	Q3	Q4	Q1	Q2
Import/export trade and wholesale	289 300	282 000	282 000	284 400	279 300	282 200
	(-3.7)	(-5.5)	(-4.8)	(-2.6)	(-3.4)	(0.1)
	<-1.0>	<-2.5>	<§>	<0.9>	<-1.8>	<1.0>
of which:						
Import and export trade	*276 500*	*269 300*	*268 100*	*271 000*	*267 000*	*270 600*
	(-3.3)	*(-5.3)*	*(-5.3)*	*(-3.0)*	*(-3.4)*	*(0.5)*
	<-1.1>	*<-2.6>*	*<-0.5>*	*<1.1>*	*<-1.5>*	*<1.3>*
Retail, accommodation and food services	497 200	492 000	489 000	490 000	489 300	490 200
	(-5.0)	(-4.2)	(-3.8)	(-3.0)	(-1.6)	(-0.4)
	<-1.5>	<-1.1>	<-0.6>	<0.2>	<-0.1>	<0.2>
of which:						
Retail	*238 200*	*235 300*	*235 000*	*233 800*	*231 200*	*226 700*
	(-7.2)	*(-6.5)*	*(-4.9)*	*(-4.3)*	*(-2.9)*	*(-3.7)*
	<-2.5>	*<-1.2>*	*<-0.2>*	*<-0.5>*	*<-1.1>*	*<-1.9>*
Accommodation services	*41 800*	*40 900*	*42 000*	*42 000*	*42 000*	*43 900*
	(4.3)	*(-0.4)*	*(-1.6)*	*(-0.6)*	*(0.6)*	*(7.2)*
	<-1.1>	*<-1.9>*	*<2.5>*	*<§>*	*<0.2>*	*<4.4>*
Food and beverage service activities	*217 300*	*215 700*	*212 100*	*214 200*	*216 100*	*219 600*
	(-4.1)	*(-2.2)*	*(-3.0)*	*(-2.0)*	*(-0.6)*	*(1.8)*
	<-0.6>	*<-0.7>*	*<-1.7>*	*<1.0>*	*<0.9>*	*<1.6>*
Transportation, storage, postal and courier services	288 000	289 000	285 000	281 200	280 900	280 500
	(1.7)	(0.3)	(-1.9)	(-1.4)	(-2.5)	(-2.9)
	<1.0>	<0.3>	<-1.4>	<-1.3>	<-0.1>	<-0.1>
Information and communications	131 100	129 900	129 500	128 500	128 600	126 800
	(-4.2)	(-2.1)	(0.3)	(-2.5)	(-1.9)	(-2.4)
	<-0.5>	<-1.0>	<-0.3>	<-0.8>	<0.1>	<-1.4>
Financing, insurance, real estate, professional and business services	858 300	860 200	866 800	864 400	861 800	863 900
	(1.8)	(1.8)	(1.5)	(0.7)	(0.4)	(0.4)
	<§>	<0.2>	<0.8>	<-0.3>	<-0.3>	<0.2>
of which:						
Insurance	*69 200*	*67 600*	*67 800*	*66 500*	*65 300*	*67 300*
	(11.1)	*(7.1)*	*(2.9)*	*(-1.8)*	*(-5.7)*	*(-0.3)*
	<2.3>	*<-2.4>*	*<0.4>*	*<-2.0>*	*<-1.8>*	*<3.2>*
Public administration, social and personal services	1 160 700	1 162 200	1 169 400	1 173 600	1 176 900	1 169 100
	(1.9)	(0.9)	(1.4)	(1.8)	(1.4)	(0.6)
	<0.7>	<0.1>	<0.6>	<0.4>	<0.3>	<-0.7>
of which:						
Public administration	*131 000*	*131 300*	*131 200*	*131 200*	*132 000*	*128 300*
	(1.5)	*(-0.6)*	*(-1.4)*	*(-1.9)*	*(0.8)*	*(-2.3)*
	<-2.1>	*<0.2>*	*<§>*	*<§>*	*<0.6>*	*<-2.8>*
Human health activities	*171 100*	*172 100*	*172 600*	*173 900*	*174 100*	*177 300*
	(6.4)	*(5.2)*	*(4.1)*	*(4.0)*	*(1.7)*	*(3.0)*
	<2.3>	*<0.6>*	*<0.3>*	*<0.7>*	*<0.1>*	*<1.9>*
Social work activities	*93 800*	*93 600*	*94 100*	*94 800*	*95 800*	*92 500*
	(1.7)	*(-2.5)*	*(1.9)*	*(3.0)*	*(2.1)*	*(-1.2)*
	<1.9>	*<-0.2>*	*<0.5>*	*<0.7>*	*<1.1>*	*<-3.4>*
Manufacturing	87 700	90 400	87 000	86 300	86 300	87 100
	(-1.3)	(2.4)	(4.1)	(0.3)	(-1.5)	(-3.6)
	<1.9>	<3.0>	<-3.7>	<-0.8>	<§>	<0.9>
Construction	344 800	336 500	332 300	332 400	328 300	324 600
	(-1.7)	(-4.1)	(-5.8)	(-5.3)	(-4.8)	(-3.5)
	<-1.7>	<-2.4>	<-1.2>	<§>	<-1.2>	<-1.1>
Overall	3 685 400	3 666 200	3 666 200	3 665 200	3 655 700	3 646 100
	(-0.1)	(-0.7)	(-0.7)	(-0.6)	(-0.8)	(-0.5)
	<§>	<-0.5>	<§>	<§>	<-0.3>	<-0.3>

Notes : The statistics in 2025 have been revised to take into account the final end-2025 population estimates.

( ) % change over a year earlier.

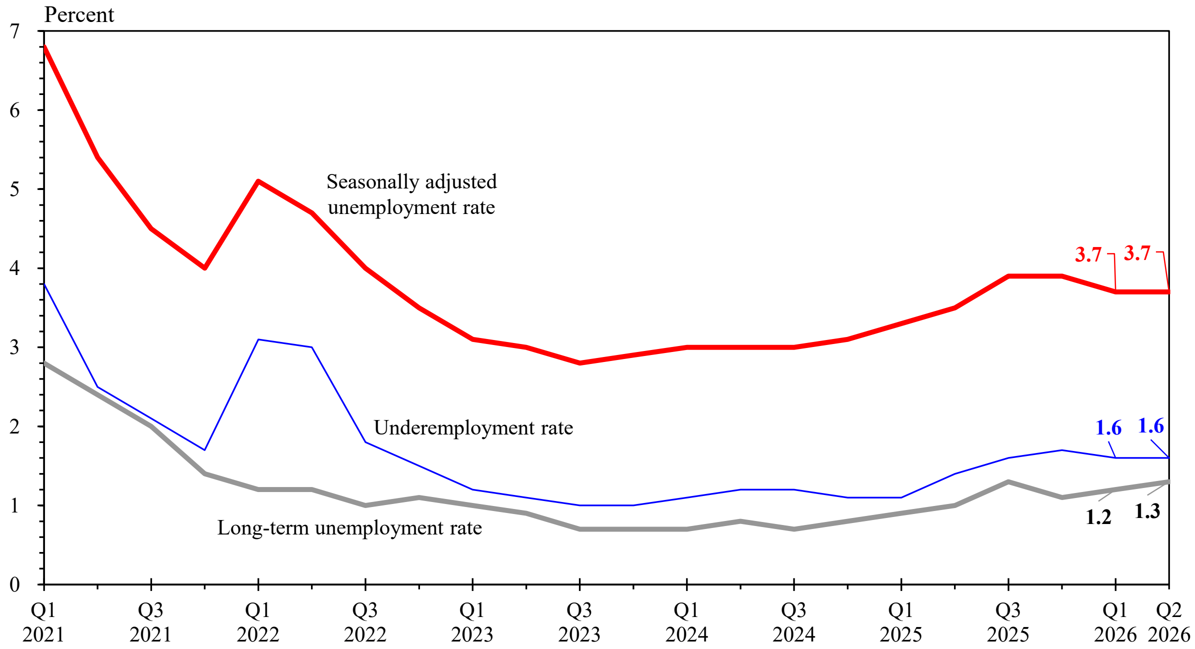
< > % change over a quarter earlier.

§ Change within ±0.05%.

Unemployment

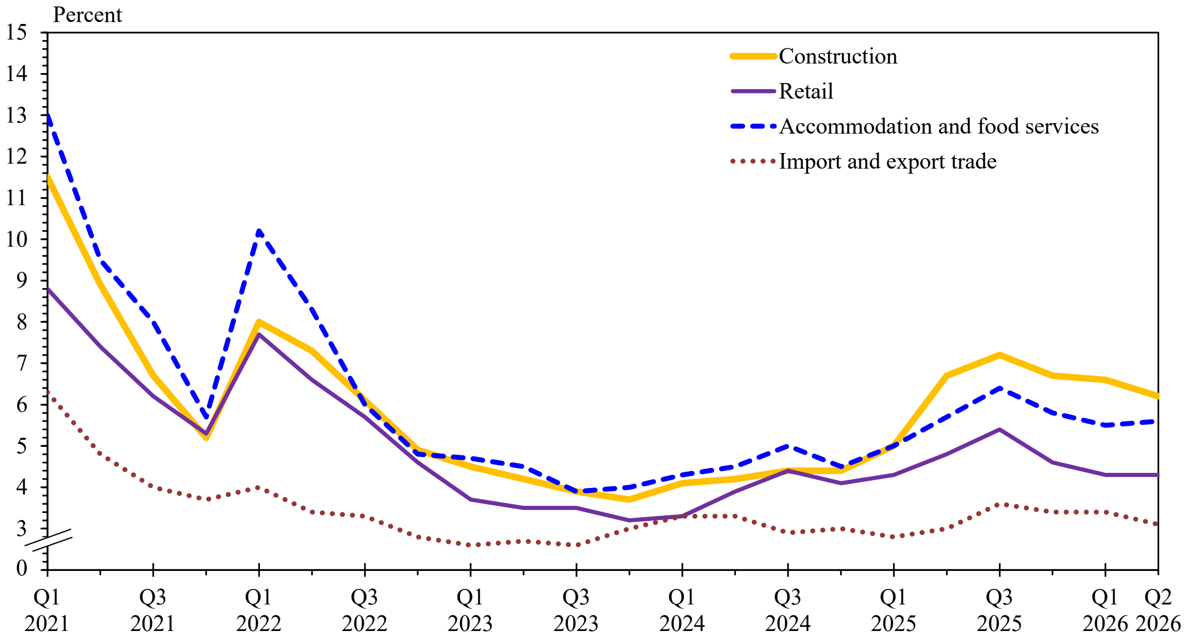
5.4 The seasonally adjusted unemployment rate stayed at 3.7% in the second quarter, same as that in the preceding quarter. Over the same period, the number of unemployed persons (not seasonally adjusted) increased by 2.2% or 3 100 to 139 700.

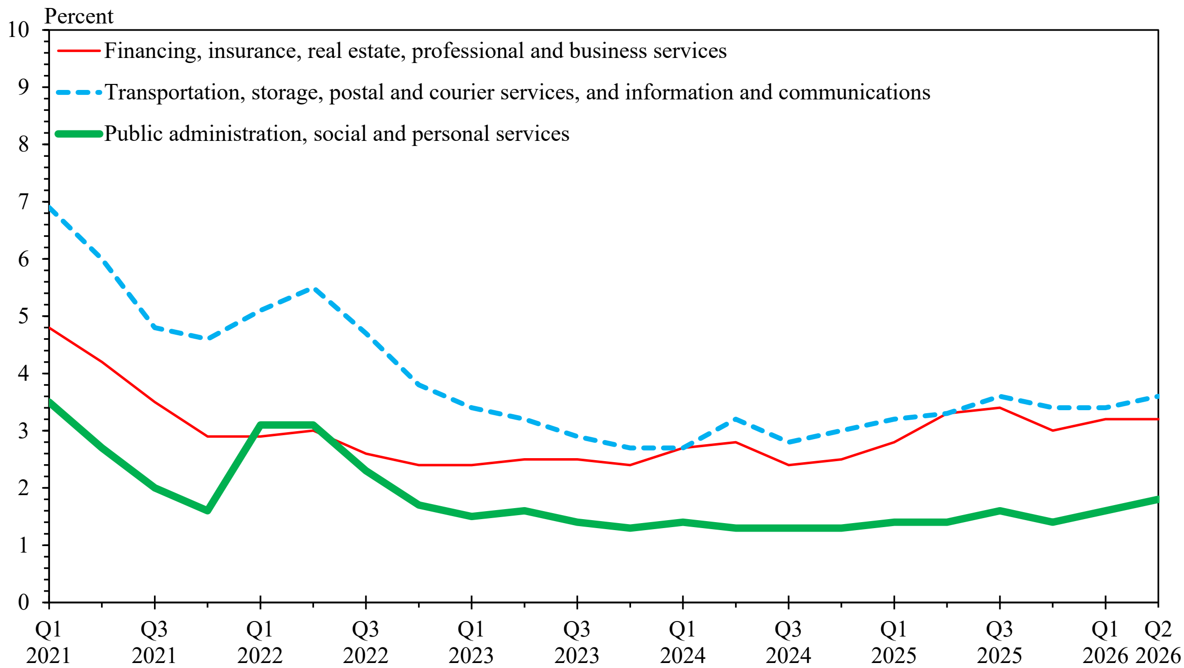
Diagram 5.2 : The labour market remained stable in the second quarter of 2026



5.5 Comparing with the preceding quarter, more marked declines in the unemployment rate (not seasonally adjusted) were recorded in the construction sector (down 0.4 percentage point to 6.2%) and the import and export trade sector (down 0.3 percentage point to 3.1%). In contrast, more notable increases were observed in the social work activities sector (up 0.9 percentage point to 3.7%), accommodation services sector (up 0.7 percentage point to 3.1%), manufacturing sector (up 0.4 percentage point to 3.5%), and public administration sector (up 0.4 percentage point to 1.0%). Meanwhile, the unemployment rate in the food and beverage service activities sector edged up by 0.1 percentage point to 6.1%, while that of the retail sector remained unchanged at 4.3%.

Diagram 5.3 : More notable declines in the unemployment rate were recorded in the construction and the import and export trade sectors





5.6 Analysed by other socio-economic attributes, the unemployment rates (not seasonally adjusted) across different age groups and level of educational attainment groups exhibited varied trends in the second quarter as compared with the preceding quarter. A more visible decline was recorded for those with lower secondary education and below (down 0.5 percentage point to 3.7%), while a more notable increase was seen for those aged 15-24 (up 0.5 percentage point to 11.7%).

Table 5.3 : Unemployment rates* by socio-economic attributes

	2025				2026	
	Q1	Q2	Q3	Q4	Q1	Q2
Age@						
15-24	9.1	9.9	14.4	12.1	11.2	11.7
25-59	3.0	3.4	3.6	3.3	3.3	3.5
60-64	2.8	3.3	4.1	3.7	3.6	3.6
≥ 65	2.4	2.5	2.6	2.1	2.1	1.9
Educational attainment@						
Lower secondary education and below	3.8	4.0	4.7	4.1	4.2	3.7
Upper secondary education^	2.9	3.5	3.7	3.4	3.5	3.7
Post-secondary education	3.3	3.5	4.1	3.7	3.4	3.7
Skill segment+						
Higher-skilled#	2.2	2.5	2.8	2.5	2.5	2.5
Lower-skilled&	3.3	3.8	4.1	3.8	3.8	3.9

Notes : The statistics in 2025 have been revised to take into account the final end-2025 population estimates.

* 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 second quarter. 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 1.3% in the second quarter. The number of long-term unemployed persons increased by 4.6% or 2 100 to 47 500. Over the same period, the median duration of unemployment shortened by around 3 days to 102 days.

Underemployment situation

5.8 The *underemployment rate*[(6)] remained unchanged at 1.6% in the second quarter, same as that in the preceding quarter. Over the same period, the number of underemployed persons increased by 3.8% or 2 300 to 62 400.

Vacancies

5.9 Private sector vacancies were 48 610 in March 2026, an increase of 1.6% from three months earlier on a seasonally adjusted basis. Almost all industries recorded more job openings. On a year-on-year basis, vacancies fell by 11.9% in March 2026, narrower than the 21.2% decline three months ago.

5.10 The overall manpower balance situation improved slightly in March 2026. The ratio of job vacancies per 100 unemployed persons edged up to 36 in March from 33 three months ago. Nevertheless, manpower shortage situation remained evident in the residential care and social work services sector, with the corresponding ratio staying well above 100.

Table 5.4 : Vacancies by major economic sector

		2025				2026
	Annual average	Mar	Jun	Sep	Dec	Mar
Import/export trade and wholesale	3 420	3 990	3 420	3 410	2 860	3 770
	(-15.9)	(-1.1)	(-23.7)	(-21.2)	(-16.4)	(-5.4)
Retail	3 450	3 730	3 500	3 220	3 360	3 470
	(-18.4)	(-20.9)	(-11.2)	(-27.7)	(-11.7)	(-7.2)
Accommodation services	890	980	970	880	730	750
	(-39.5)	(-53.4)	(-38.2)	(-27.7)	(-26.8)	(-23.3)
Food and beverage services	4 020	4 860	4 090	3 620	3 510	3 630
	(-28.6)	(-18.0)	(-27.9)	(-33.4)	(-35.9)	(-25.4)
Transportation, storage, postal and courier services	3 210	3 740	3 320	2 780	3 020	3 470
	(-49.8)	(-57.6)	(-56.6)	(-44.9)	(-26.2)	(-7.0)
Information and communications	2 350	2 430	2 330	2 610	2 020	2 070
	(-11.7)	(-21.5)	(-23.5)	(10.7)	(-5.5)	(-14.9)
Financing, insurance, real estate, professional and business services	14 810	14 990	14 630	15 800	13 820	14 130
	(-14.4)	(-14.7)	(-17.0)	(-9.9)	(-16.2)	(-5.7)
of which:						
Financing and insurance	*5 350*	*4 660*	*5 180*	*5 860*	*5 710*	*4 900*
	(9.6)	*(-3.7)*	*(8.5)*	*(17.1)*	*(16.1)*	*(5.2)*
Professional and business services (excluding cleaning and similar services)	*4 790*	*5 050*	*4 810*	*5 120*	*4 200*	*4 620*
	(-25.5)	*(-24.9)*	*(-32.4)*	*(-17.6)*	*(-26.0)*	*(-8.4)*
Real estate	*3 430*	*3 950*	*3 510*	*3 530*	*2 730*	*3 340*
	(-23.3)	*(-10.5)*	*(-21.0)*	*(-23.1)*	*(-38.6)*	*(-15.5)*
Social and personal services	16 200	17 730	15 220	16 980	14 870	14 940
	(-24.4)	(-25.5)	(-27.3)	(-24.1)	(-20.0)	(-15.7)
of which:						
Human health services	*3 670*	*3 620*	*3 350*	*4 830*	*2 890*	*2 830*
	(-32.3)	*(-43.2)*	*(-31.3)*	*(-26.7)*	*(-24.9)*	*(-22.0)*
Education	*5 310*	*5 660*	*5 300*	*5 260*	*5 020*	*4 680*
	(-20.9)	*(-22.7)*	*(-23.0)*	*(-21.4)*	*(-15.6)*	*(-17.3)*
Manufacturing	1 700	1 800	1 700	1 750	1 560	1 930
	(-20.2)	(-34.5)	(-32.5)	(-2.9)	(6.1)	(7.0)
Construction sites (covering manual workers only)	320	730	180	240	120	260
	(-82.8)	(-64.9)	(-90.0)	(-86.3)	(-93.1)	(-64.5)
All establishments surveyed in the private sector[(a)]	**50 540**	**55 170**	**49 530**	**51 450**	**46 000**	**48 610**
	(-25.0)	**(-26.6)**	**(-28.7)**	**(-22.6)**	**(-21.2)**	**(-11.9)**
		<-8.8>	**<-8.9>**	**<-1.7>**	**<-3.5>**	**<1.6>**
Civil service[(b)]	*19 520*	*18 940*	*19 290*	*19 590*	*20 280*	*19 290*
	(0.3)	*(-4.0)*	*(-0.5)*	*(1.5)*	*(4.2)*	*(1.8)*

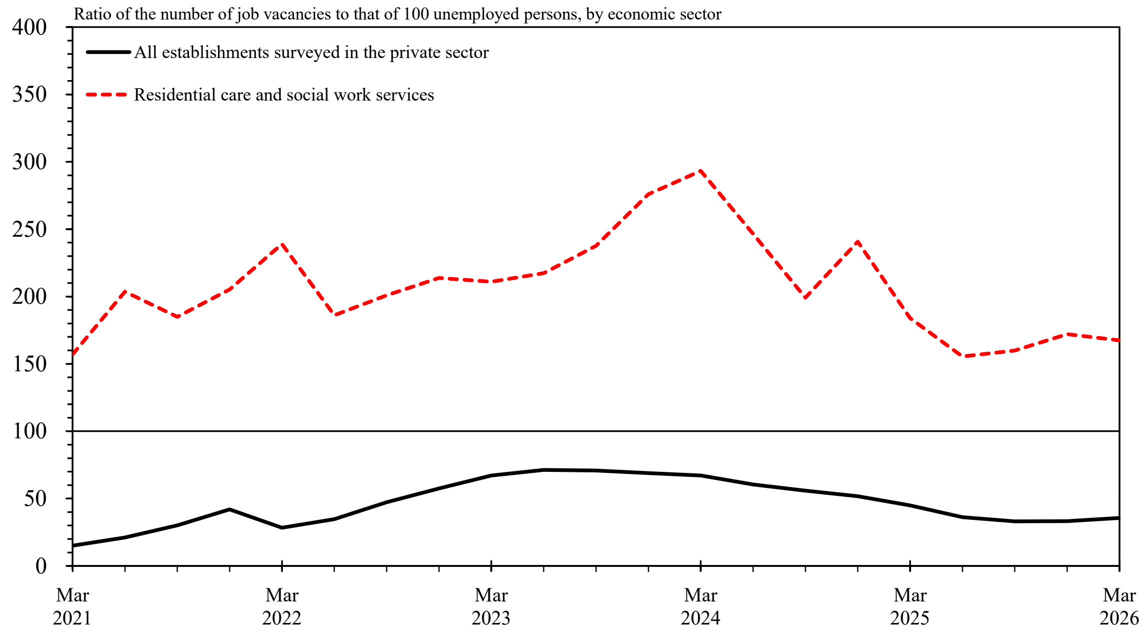
Notes : (a) The total figures on private sector vacancies cover also vacancies in mining and quarrying; and in electricity and gas supply, and waste management, besides vacancies in the major sectors indicated above.

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

( ) % change over a year earlier.

< > Seasonally adjusted % change compared with the level three months ago.

Diagram 5.4 : Manpower balance situation improved slightly in March 2026

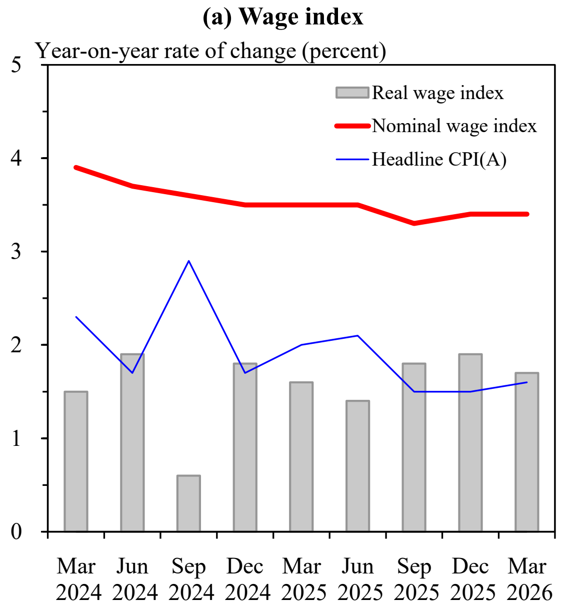


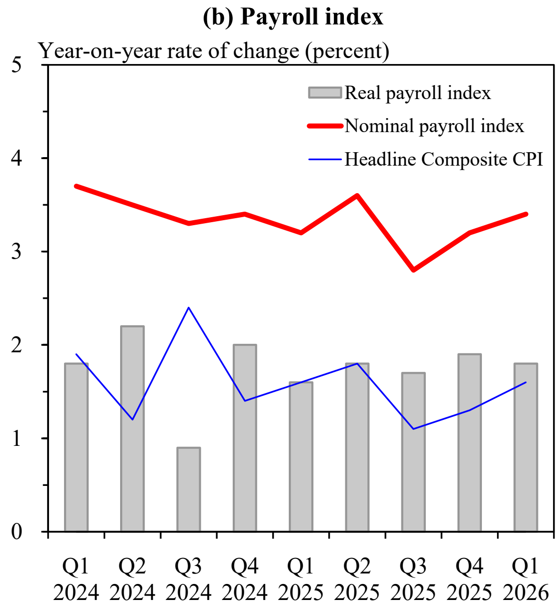
Wages and earnings

5.11 Wages growth was steady, while labour earnings grew slightly faster in the first quarter of 2026. According to quarterly statistics collected from private sector establishments and available up to March 2026, 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, increased by 3.4% in March over a year earlier, at a pace same as that three months ago. After discounting for *inflation*(7), the average wage rate increased by 1.7% 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 3.4% in the first quarter of 2026 over a year earlier, slightly faster than the 3.2% recorded in the preceding quarter. After discounting for inflation, labour earnings rose by 1.8% in real terms.

Diagram 5.5 : Wage growth was steady, while labour earnings grew slightly faster in the first quarter of 2026





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 second quarter of 2026. The average monthly employment earnings of full-time employees (excluding foreign domestic helpers) increased by 2.3% in nominal terms or 0.4% in *real terms*[9] in the second quarter over a year earlier, at a slower pace than in the preceding quarter.

5.14 Looking ahead, ongoing economic expansion is expected to support overall labour market conditions. Improving business confidence should bolster labour demand in related sectors, although persistent external uncertainties may continue to weigh on corporate hiring sentiment.

Highlights of related measures and policy developments

5.15 To strengthen the protection of employment priority for local workers, the Labour Department (LD) has implemented a tiered vetting mechanism for labour importation under the Enhanced Supplementary Labour Scheme with effect from 16 June 2026. Applications vetted under Tier 2 are subject to a more stringent manning ratio of full-time local employees to imported workers and local recruitment requirements. Specifically, employers of the food and beverage services sector seeking to import workers for the production section and table service section need to observe a more stringent manning ratio requirement of 3:1 (as compared to 2:1 under the basic vetting requirements (Tier 1)) and the basis of calculating the manning ratio has changed to all posts within the section. At the same time, the local recruitment period for all posts under these two sections has been aligned to six weeks, and employers are required to attend a job fair at a job centre assigned by the LD once every two weeks during the period.

5.16 The Government has required the Minimum Wage Commission to conduct the next review of the Statutory Minimum Wage (SMW) rate and submit its recommendation report to the Chief Executive in Council by end-February 2027. The next SMW rate is expected to take effect on 1 May 2027.

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 2024 – January 2025 to October – December 2025 have been revised to take into account the final end-2025 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 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.

(4) 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).

(5) 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.

(6) 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.

(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 rose slightly in the second quarter of 2026, driven mainly by a sequential increase in fuel-related components following elevated international oil prices since late-February. Price pressures in other components remained largely subdued, keeping overall inflation at a moderate level.*

- *The year-on-year increase in the underlying Composite Consumer Price Index (Composite CPI)[(1)], which nets out the effects of the Government's one-off relief measures, accelerated from 1.4% in the first quarter to 1.7% in the second quarter.*

- *Domestic cost pressures remained broadly stable in the second quarter. Commercial rents continued their downward trend in the second quarter, while increases in labour earnings were well supported by productivity growth, helping to keep overall labour cost pressures contained.*

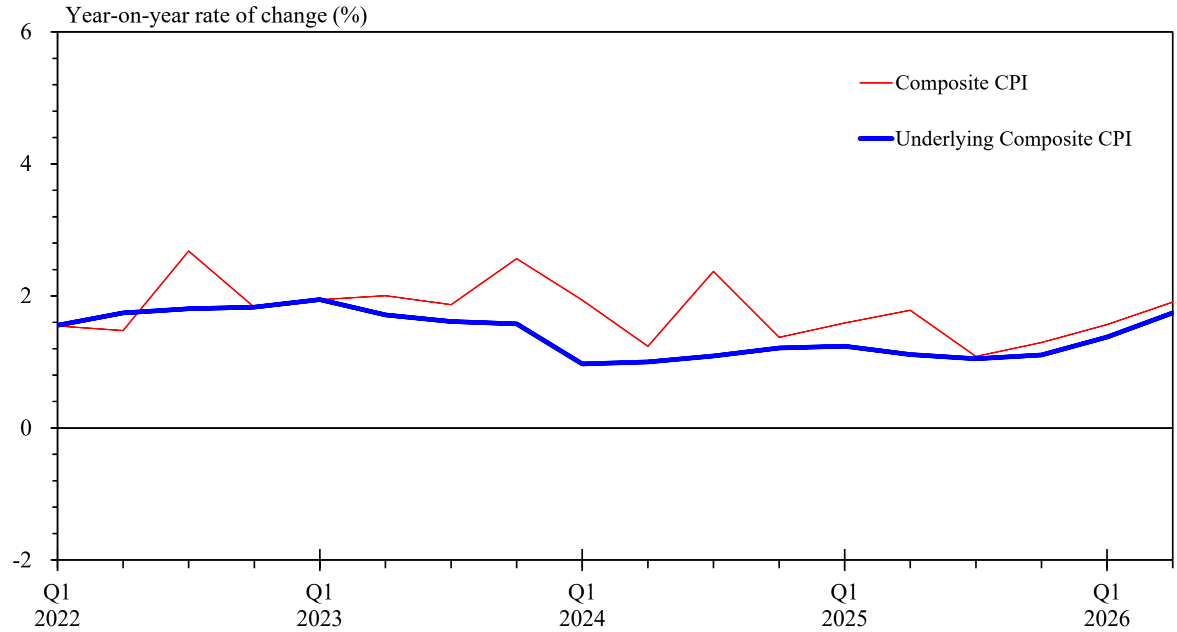
- *External price pressure on local consumer prices remains relatively moderate in the second quarter, even though the overall import prices have picked up further. While import fuel prices surged, the import prices of foodstuffs have continued to decline and those of consumer goods have risen only moderately. As for raw materials and semi-manufactures and capital goods, the more pronounced increases were largely driven by higher prices of AI-related products destined for re-export.*

- *Looking ahead, consumer price inflation is expected to rise in the coming months as the earlier surge in international oil prices continue to feed through. The lingering geopolitical tensions in the Middle East warrants close monitoring. However, price pressures in other areas remain largely contained, which should keep overall inflation at a moderate level.*

Consumer prices

6.1 Consumer price inflation rose slightly in the second quarter of 2026, driven mainly by a sequential increase in fuel-related components following elevated international oil prices since late-February. Price pressures in other components remained largely subdued, keeping overall inflation at a moderate level. Domestically, cost pressures remained broadly stable. Commercial rents continued their downward trend in the second quarter, while the increases in labour earnings were well supported by productivity growth, helping to keep labour cost pressures contained. External price pressure on local consumer prices remains relatively moderate in the second quarter, even though the overall import prices have picked up further. While import fuel prices surged, the import prices of foodstuffs have continued to decline and those of consumer goods have risen only moderately. As for raw materials and semi-manufactures and capital goods, the more pronounced increases were largely driven by higher prices of AI-related products destined for re-export.

Diagram 6.1: Underlying inflation rose slightly in the second quarter, but remained moderate overall



6.2 The underlying consumer price inflation, as measured by 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), picked up from 1.4% in the first quarter to 1.7% in the second quarter. The headline Composite CPI inflation rate was 1.9% in the second quarter, up from the 1.6% in the preceding quarter. The headline rate was slightly higher than the underlying rate, mainly reflecting a low base of comparison arising from the Government's Electricity Charges Relief Scheme provided last year.

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

		Composite CPI		CPI(A)	CPI(B)	CPI(C)
		Underlying[(a)]	Headline			
2025	Annual	1.1	1.4	1.9	1.3	1.1
	Q4	1.1	1.3	1.4	1.2	1.2
2026	Q1	1.4	1.6	1.5	1.6	1.6
	Apr	1.6	1.7	1.6	1.8	1.7
	May	1.9	2.0	1.8	2.1	2.2
	Jun	1.9	2.0	1.8	2.1	2.2
	Q2	1.7	1.9	1.7	2.0	2.0
		(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
	Q2	0.6	0.2	-0.1	0.3	0.4

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

6.3 Analysing the underlying Composite CPI by major component, price pressures for most components remained largely muted in the second quarter. Food prices as a whole increased mildly by 0.6% over a year earlier, with prices of meals out and takeaway food rising by 0.8% and basic food prices edged up by 0.1%. Private housing rentals rose modestly by 0.9%, while public housing rentals fell slightly by 0.1%. Prices of transport increased at a faster pace, mainly owing to higher motor fuel prices and air fares, in turn reflecting elevated international oil prices. Prices of electricity, gas and water turned to increase in tandem with upward tariff adjustments. Prices of miscellaneous services accelerated further, mainly reflecting the higher prices for package tour (a sub-component under miscellaneous services) driven by the rise in air fares embedded in these packages. Meanwhile, prices of miscellaneous goods picked up somewhat. Prices of clothing and footwear rose back mildly, and the decline in prices of durable goods narrowed.

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

(a) Food inflation remained mild

(b) Private housing rentals rose modestly

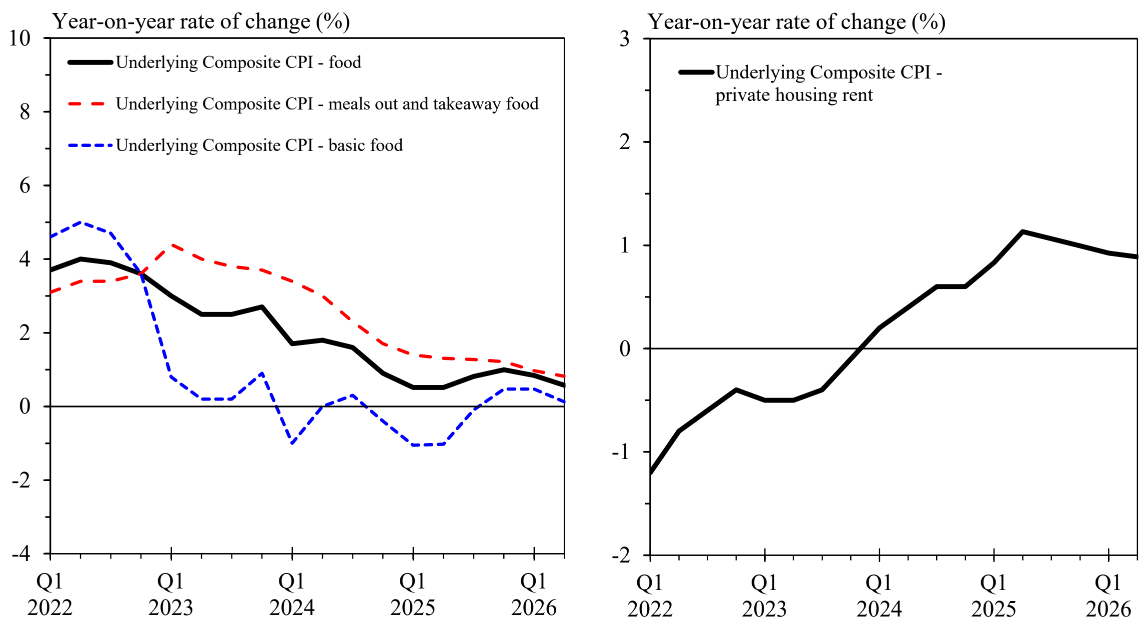


Diagram 6.3 (a) : Transport, public utilities and miscellaneous items saw firmer price increases

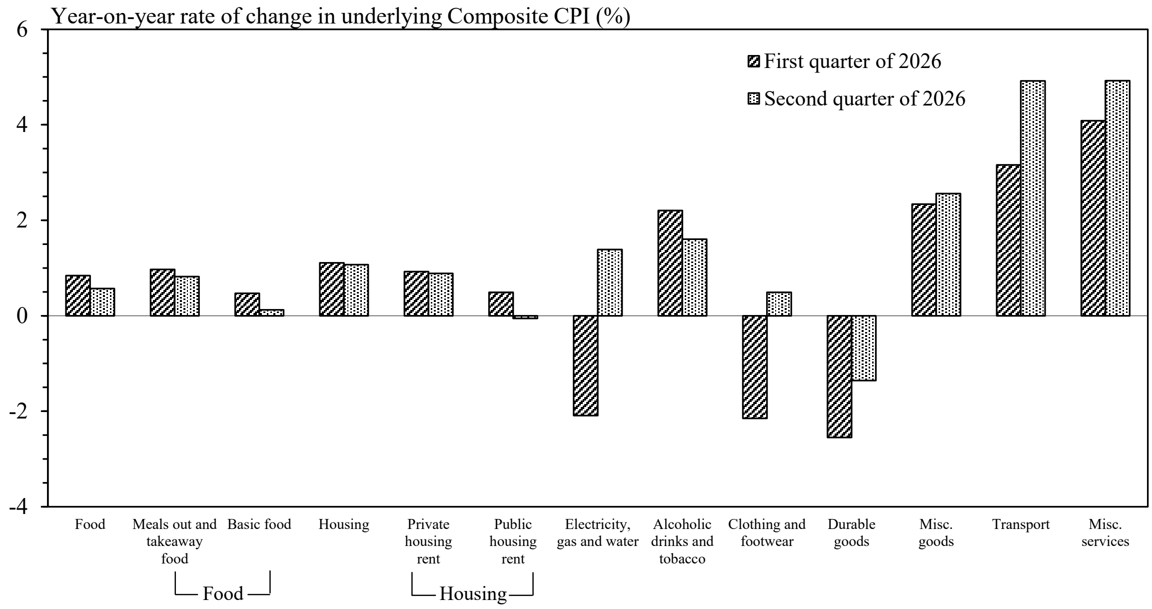
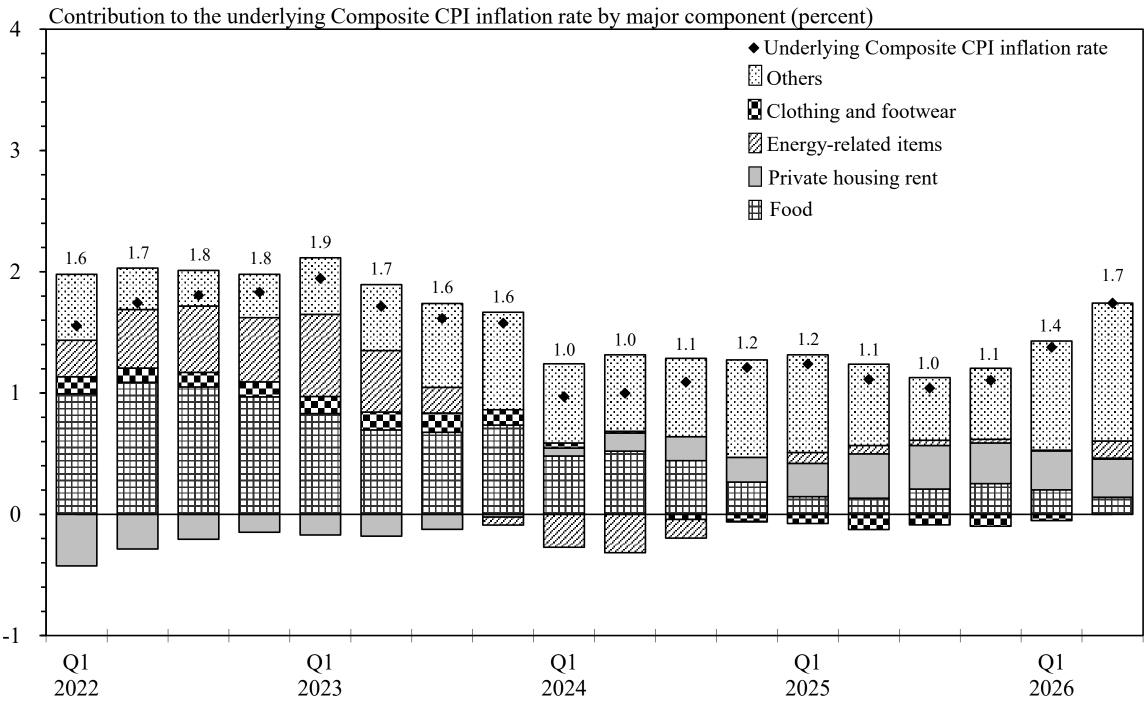


Diagram 6.3 (b) : Inflation rose, driven mainly by energy-related components and travel-related services



Note : Energy-related items include electricity, town gas, liquefied petroleum gas and other fuel, and fuels for personal transport equipment.

Table 6.2 : Underlying Composite CPI by component

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

Expenditure component	Weighting (%)^	2025 Annual	2025 Q4	2026 Q1	2026 Apr	2026 May	2026 Jun	2026 Q2
Food	25.27	0.7	1.0	0.8	0.7	0.7	0.3	0.6
Meals out and takeaway food	*15.92*	*1.3*	*1.2*	*1.0*	*0.8*	*0.8*	*0.8*	*0.8*
Basic food	*9.35*	*-0.4*	*0.5*	*0.5*	*0.5*	*0.4*	*-0.5*	*0.1*
Housing[(a)]	39.69	1.5 (1.9)	1.1 (1.6)	1.1 (1.1)	1.0 (1.0)	1.1 (1.1)	1.1 (1.1)	1.1 (1.1)
Private housing rent	*33.94*	*1.0* *(1.2)*	*1.0* *(1.0)*	*0.9* *(0.9)*	*0.9* *(0.9)*	*0.9* *(1.0)*	*1.0* *(1.0)*	*0.9* *(1.0)*
Public housing rent	*2.25*	*7.9* *(11.7)*	*0.5* *(9.6)*	*0.5* *(0.5)*	*-0.1* *(-0.1)*	*-0.1* *(-0.1)*	*-0.1* *(-0.1)*	*-0.1* *(-0.1)*
Electricity, gas and water	2.80	0.7 (5.8)	-1.0 (-0.8)	-2.1 (3.5)	* (5.5)	0.9 (6.6)	3.3 (9.2)	1.4 (7.1)
Alcoholic drinks and tobacco	0.41	4.5	2.0	2.2	2.3	2.5	0.1	1.6
Clothing and footwear	2.10	-3.5	-3.6	-2.1	-0.3	1.0	0.7	0.5
Durable goods	3.44	-2.2	-3.1	-2.5	-1.9	-1.2	-1.1	-1.4
Miscellaneous goods	3.13	0.9	1.3	2.3	2.6	2.9	2.3	2.6
Transport	7.59	2.8	3.7	3.2	4.3	5.1	5.3	4.9
Miscellaneous services	15.57	1.6 (1.6)	2.1 (2.0)	4.1 (4.1)	4.5 (4.5)	5.1 (5.1)	5.2 (5.2)	4.9 (4.9)
All items	100.00	1.1 (1.4)	1.1 (1.3)	1.4 (1.6)	1.6 (1.7)	1.9 (2.0)	1.9 (2.0)	1.7 (1.9)

Notes : (^) These are expenditure weights of the reference period 2025, which are used for the compilation of CPIs starting from the second quarter of 2026. 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.

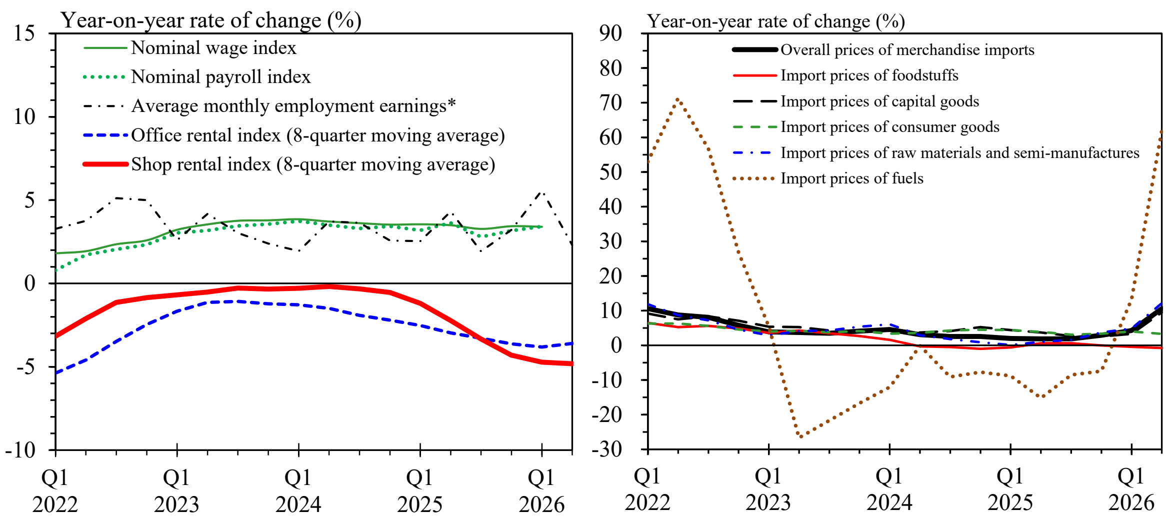
(*) Change within ±0.05%.

Costs of factor inputs and import prices

6.4 Domestic cost pressures remained broadly stable in the second quarter. Commercial rents continued their downward trend. As a proxy, the eight-quarter moving averages of office rentals and shop rentals fell further by 3.6% and 4.8% respectively. Meanwhile, latest establishment-based data up to the first quarter showed that wages and payroll per person engaged continued to increase solidly over a year earlier, and so did the average employment earnings in the second quarter as shown in the more recent household-based data. Nevertheless, increases in labour earnings were well supported by gains in labour productivity, keeping unit labour cost increases contained(2).

Diagram 6.4 : Domestic cost pressures remained broadly stable in the second quarter; overall import prices picked up further, but the pass-through to local consumer prices remained relatively moderate

(a) Labour cost and commercial rentals **(b) Prices of merchandise imports**



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

6.5 As for external prices, the pass-through to local consumer prices is expected to remain relatively moderate, even though the overall import prices have picked up further by 10.6% in the second quarter over a year earlier. While import fuel prices surged by 62.1% (see ***Box 6.1*** on a review of recent movements in international oil prices and an assessment of their implications for inflation outlook in selected economies), adding pressure to fuel-related components, import prices of foodstuffs have continued to decline, and those of consumer goods have increased only moderately. As for the import prices of raw materials and semi-manufactures and capital goods, the respective increases of 12.2% and 9.5% were largely driven by higher price of AI-related products that were mostly for re-exports.

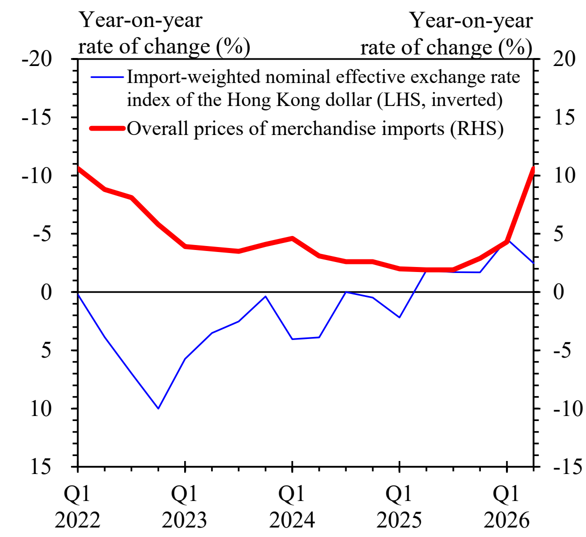
Table 6.3 : Prices of imports by end-use category
(year-on-year rate of change (%))

		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	Q1	-0.4	4.0	4.9	13.3	3.3	4.3
	Apr	-0.8	2.3	8.5	88.2	6.1	8.0
	May	-0.7	4.0	12.5	64.6	10.0	11.1
	Jun	-0.7	3.7	15.3	38.1	12.5	12.7
	Q2	-0.7	3.3	12.2	62.1	9.5	10.6

Note: (*) Change within ±0.05%.

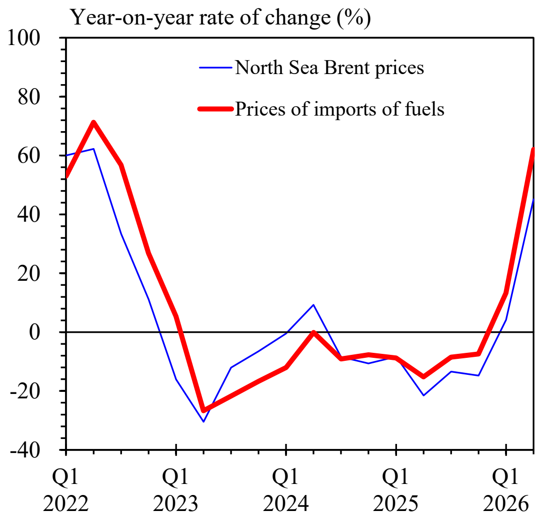
Diagram 6.5: Prices of merchandise imports by selected end-use category

(a) Overall import prices picked up further



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.

(b) Import prices of fuels surged



Box 6.1

Inflation outlook in selected economies: near-term upside risk

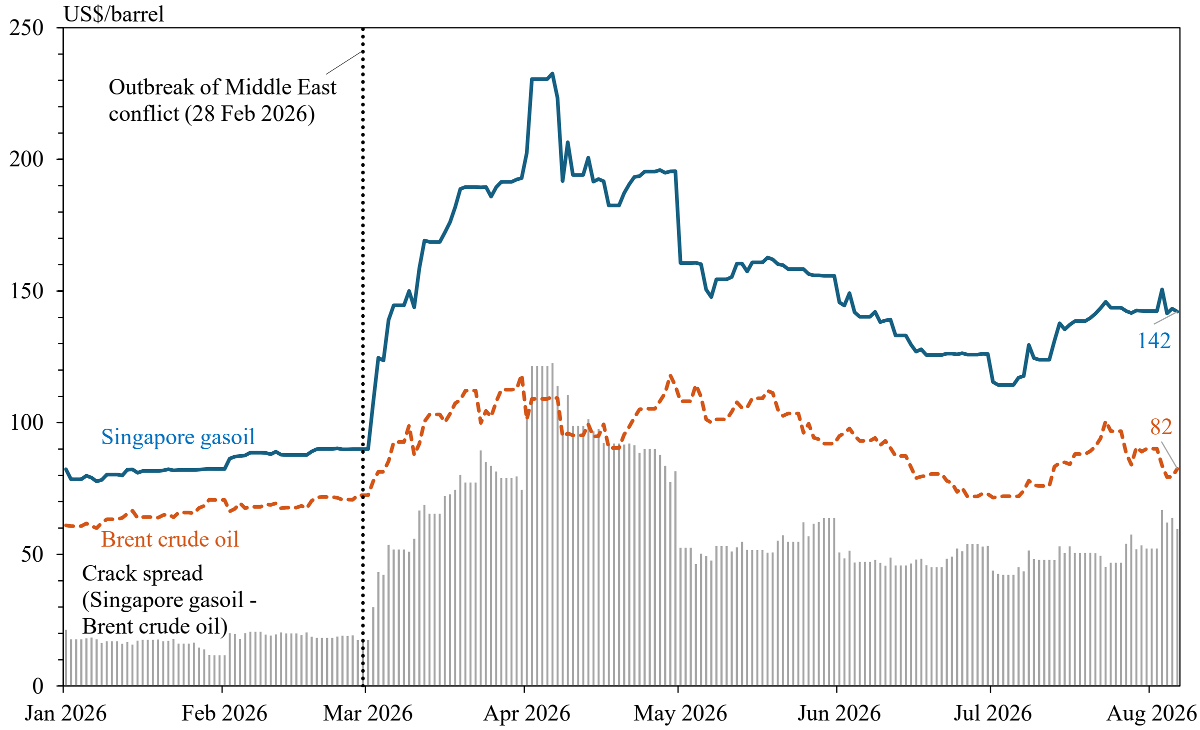
This box article reviews movements in international oil prices since the outbreak of the Middle East conflict and assesses their implications for inflation outlook in selected economies [(1)].

Global oil prices: retreated from their peak, and partial rebound

Global oil prices surged in the early second quarter of 2026, then eased as geopolitical tensions temporarily subsided, and rebounded in the early third quarter amid renewed escalation. Brent crude oil rose to above US$110 per barrel in late March and peaked at around US$125 in late April, before retreating to about US$70 by end-June (***Chart 1***). Prices subsequently rebounded to around US$100 in July, before easing slightly to the range of around US$80 – 90 in August. As of 6 August 2026, Brent crude oil traded at around US$82.

A similar pattern was observed in Singapore gasoil prices, a benchmark for Asian diesel markets. Prices declined from about US$230 per barrel in early April to around US$115 in early July, before rebounding to approximately US$142 as of 6 August 2026. The crack spread narrowed to about US$60 per barrel, well below the early April peak of about US$120, but above the 2026 pre-conflict average.

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



Source: Bloomberg data.

(1) Including Hong Kong, the Mainland, the United States, the euro area, Singapore, Korea, Taiwan, Malaysia, Thailand, Indonesia, the Philippines, India and Vietnam.

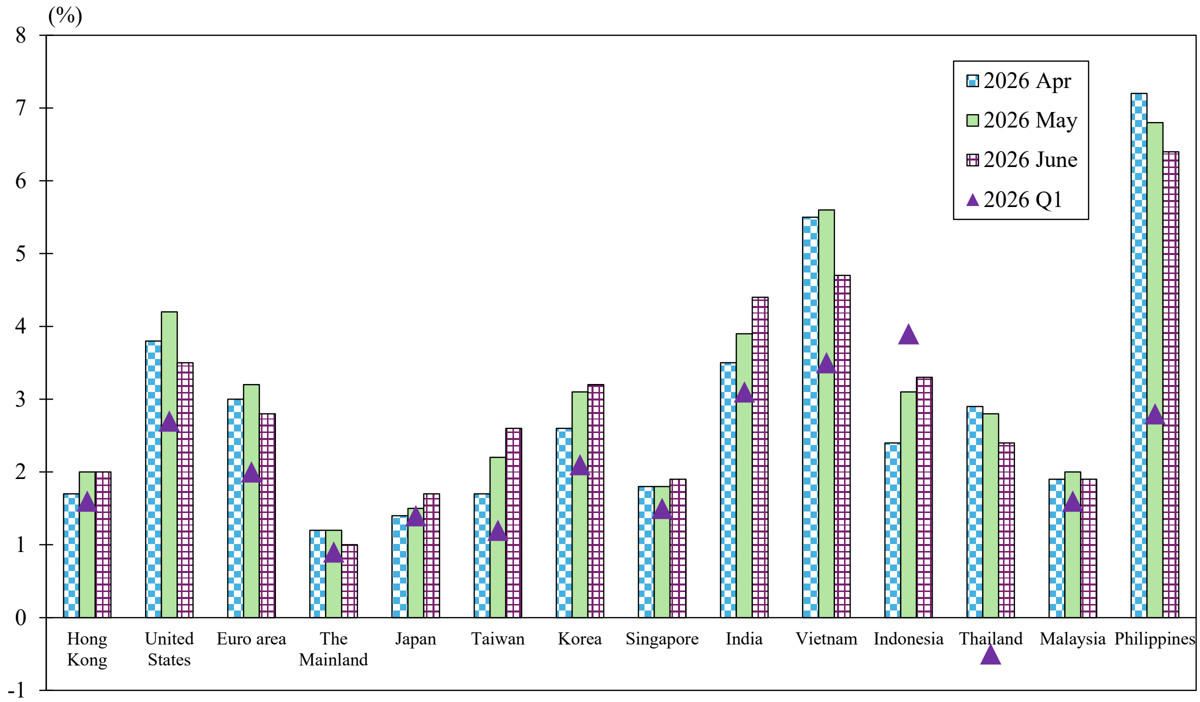
Box 6.1 (Cont'd)

Inflation: broad-based firming across most economies

Headline CPI inflation accelerated across most selected economies from March and remained elevated in recent months (***Chart 2***). In the second quarter of 2026, inflation reached multi-year highs in the Philippines (6.8%) and Vietnam (5.3%). In the United States, CPI inflation rose to 3.9%, while PCE inflation rose to 3.8%, both well above the Federal Reserve (Fed)'s 2% target. Thailand also returned to mild inflation after 12 consecutive months of deflation.

Inflation in the Mainland and Japan rose moderately and remained contained, reflecting the impact of mitigating policy measures such as energy subsidies and price controls. Indonesia recorded a moderation in inflation in the second quarter compared with the first quarter due to base effects. Nonetheless, its inflation rate in the second quarter (2.9%) remained above the annual averages in 2024 and 2025 (2.3% and 1.9% respectively).

Chart 2: Headline consumer price inflation in selected economies



Sources: Census and Statistics Department (C&SD) and CEIC.

Drivers: energy-led inflationary pressures with spillovers

In the second quarter of 2026 across most economies, energy and transport components were the primary contributors to inflation, reflecting higher fuel prices (***Table 1***). Food prices also exerted upward pressures through input costs (e.g. spillover effects from higher fertiliser costs) and supply chain channels, albeit with variations across economies. For example, strong grain harvests helped moderate food inflation in the euro area.

In response to rising inflationary pressures, several economies revised upward their 2026 inflation forecasts. Notably, the Philippines' central bank raised its full-year forecast from 3.6% in February to 6.4% in June, while Thailand increased its projection from 0.5% in February to 2.0% in July. Earlier in May, Hong Kong also raised its official forecast on the full-year headline consumer price inflation from 1.8% to 2.6%.

Box 6.1 (Cont'd)

Table 1: Contribution to the change in headline CPI inflation in the second quarter over the first quarter of 2026

	Energy and transport		Food		*Change in headline CPI inflation in Q2 over Q1 (% pt)*
	Weighting (%)	**Contribution (% pt)**	**Weighting (%)**	**Contribution (% pt)**	
Philippines	15.8	2.0	37.7	1.4	3.9
Thailand	24.4	3.1	39.6	0.2	3.2
Vietnam#	10.0	0.8	35.8	0.2	1.7
United States	19.7	1.1	13.7	*	1.2
Taiwan	13.6	0.7	24.9	0.2	1.0
Euro area	20.5	1.0	15.4	-0.1	0.9
Korea	14.3	0.9	14.2	-0.1	0.9
India	14.2	0.2	36.8	0.5	0.8
Singapore	15.1	0.5	20.4	0.1	0.4
Malaysia	14.4	0.5	29.8	*	0.4
Hong Kong	**10.1**	**0.2**	**25.3**	**-0.1**	**0.3**
The Mainland#	14.3	0.8	17.2	-0.4	0.2
Japan	15.8	0.3	25.1	-0.1	0.1
Indonesia	18.7	-1.3	24.7	0.4	-1.0

Sources: C&SD, CEIC and internal calculation.

Notes: (#) For the Mainland and Vietnam, weighting for energy-related items is not available. Thus, the figures under "energy and transport" for the Mainland and Vietnam refer to transport-related items only.

(*) Change within ±0.05% pt.

Policy responses: fiscal support and monetary tightening bias

Governments across many economies have implemented targeted fiscal measures, including subsidies and temporary tax relief to mitigate the impact of higher energy prices.

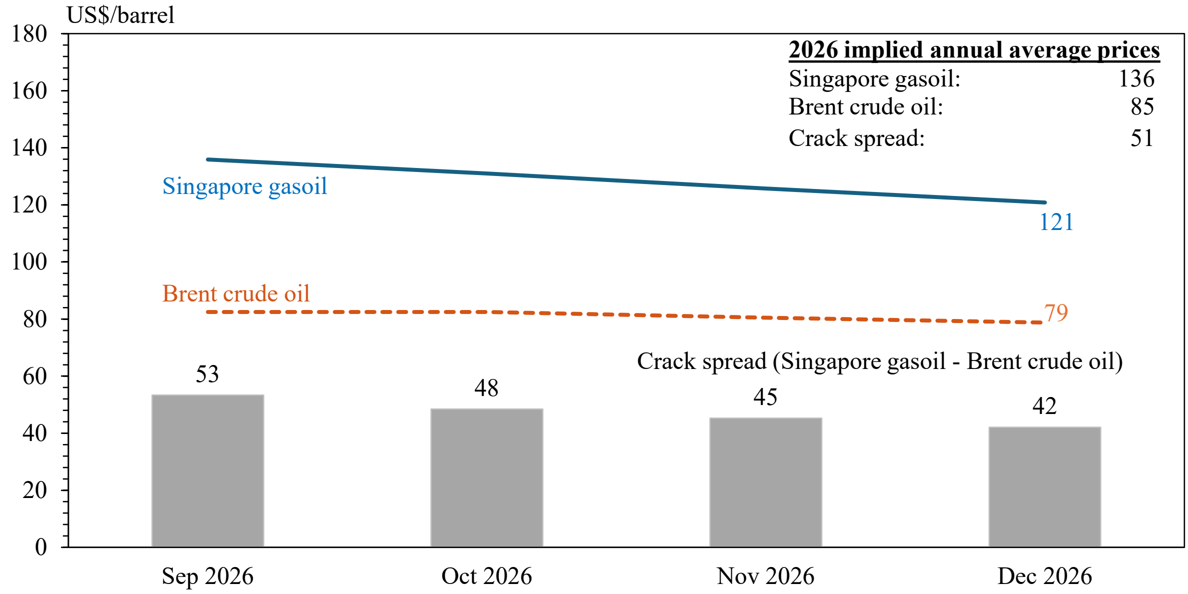
Monetary policy has generally shifted towards tightening. Some central banks – including those in the Philippines, Indonesia, Korea, the euro area, and Japan – have raised their policy rates. Singapore tightened its monetary policy via its exchange-rate based framework. In the United States, the Fed has kept the federal funds rate unchanged so far this year, but persistently higher inflation has shifted market expectations from no rate change to at least one 25-basis-point interest rate hikes by year-end.

Outlook: persistent but moderating pressures

Looking ahead, although the United States and Iran once reached a memorandum of understanding in mid-June, uncertainty surrounding peace negotiations remained notable. Nonetheless, futures market (as of 6 August 2026) points to a gradual easing in oil prices, with Brent crude oil expected to decline to around US$79 per barrel by end-2026 (***Chart 3***). Singapore gasoil prices are also expected to fall to about US$121, with crack spread narrowing. However, oil prices are likely to remain above pre-conflict averages.

Box 6.1 (Cont'd)

Chart 3: Futures contracts of Singapore gasoil and Brent crude oil - as of 6 August 2026



Source: Bloomberg data.

Notes: Singapore gasoil prices are a key benchmark of diesel 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 6 August and average expected price in following months as indicated by the futures contracts.

Near-term inflation pressures are expected to persist, reflecting ongoing pass-through from energy costs and lagged supply chain effects. While market expectations of international oil prices remain relatively anchored, they are subject to significant geopolitical uncertainty. The IMF (July 2026 World Economic Outlook Update) highlights that the energy shock is still in its early transmission phase and will continue to weigh on global growth and inflation dynamics. Overall, inflation in most of the selected economies is likely to remain elevated in the near-term, with risks tilted to the upside.

Output prices

6.6 Output prices of various selected sectors, as measured by their corresponding *Producer Price Indices*[(3)], showed varied movements in the first quarter compared with a year earlier, but largely reflected a moderate inflation in the economy. Specifically, output prices in manufacturing accelerated notably further, mainly driven by visible rises in output prices of metal, computer, electronic and optical products, and machinery and equipment fuelled by a strong demand for AI-related products. Among the selected service sectors, output prices of accommodation services and courier services increased moderately, and those of land transport and air transport rose mildly, whereas those of water transport and telecommunications declined.

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

			2025			2026
Industry group	Annual	Q1	Q2	Q3	Q4	Q1
Manufacturing	6.5	4.8	4.0	7.7	9.5	17.7
Selected service sectors						
Accommodation services	-0.8	-3.3	-1.9	-0.2	2.2	4.7
Land transport	1.3	1.0	1.5	1.3	1.4	0.8
Water transport	-8.6	5.4	-5.8	-19.2	-11.5	-0.5
Air transport	-4.5	3.2	-4.2	-8.4	-8.2	0.3
Telecommunications	-1.9	-1.5	-1.9	-2.2	-2.0	-2.1
Courier services	3.0	2.4	1.9	3.8	4.0	4.4

GDP deflator

6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*(4) resumed an increase of 2.4% year-on-year in the second quarter, after a slight decline of 0.2% in the preceding quarter. The *terms of trade*(5) rose back by 0.1% after a decline of 0.5% in the preceding quarter. Taking out the external trade components, the domestic demand deflator increased by 2.7% in the second quarter, after rising by 1.6% in the preceding quarter.

Diagram 6.6: GDP deflator

(a) The GDP deflator resumed an increase **(b) Terms of trade rose back**

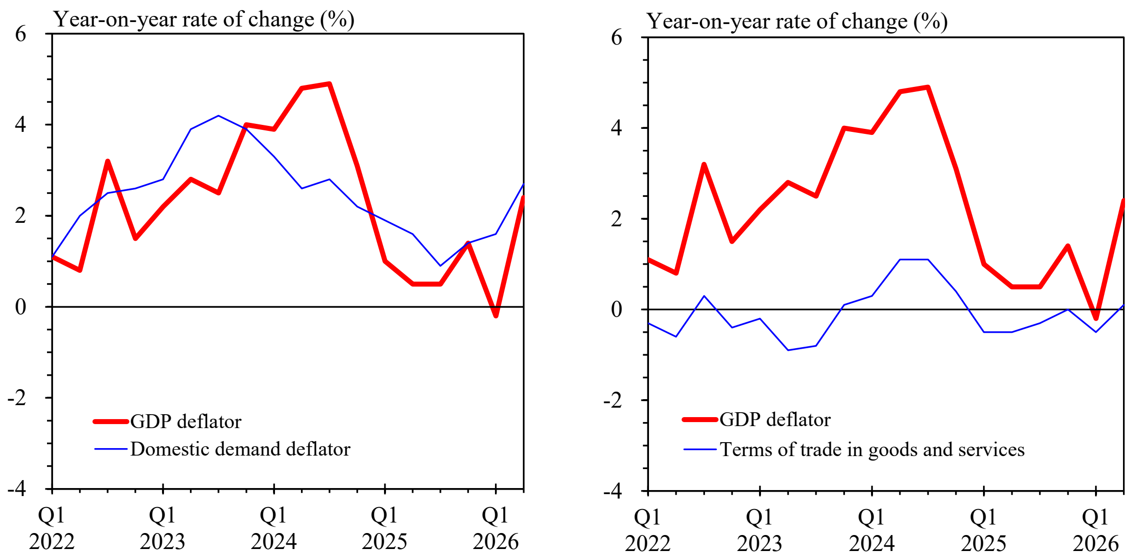


Table 6.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))

	2025					2026	
	Annual[#]	Q1[#]	Q2[#]	Q3[#]	Q4[#]	Q1[#]	Q2[#]
Private consumption expenditure	1.2	1.4	0.7	1.2	1.4	1.8	2.1
Government consumption expenditure	1.3	2.8	0.9	0.9	0.6	0.2	1.9
Gross domestic fixed capital formation	1.8	3.8	5.4	-0.5	-1.0	1.5	3.4
Total exports of goods[&]	3.8	3.3	3.2	3.4	5.1	7.4	12.5
Imports of goods[&]	4.3	4.3	3.8	3.7	5.2	7.6	12.4
Exports of services[&]	1.2	2.4	0.8	-0.6	2.3	4.0	6.6
Imports of services[&]	0.1	-1.2	0.7	-0.6	1.3	4.9	4.5
Gross Domestic Product	**0.9**	**1.0** **<-0.4>**	**0.5** **<0.5>**	**0.5** **<0.6>**	**1.4** **<0.6>**	**-0.2** **<-1.8>**	**2.4** **<3.1>**
Total final demand[&]	2.8	2.7	2.5	2.2	3.7	5.2	9.2
Domestic demand	1.5	1.9	1.6	0.9	1.4	1.6	2.7
Terms of trade in goods and services[&]	-0.3	-0.5	-0.5	-0.3	*	-0.5	0.1

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

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

(#) Revised figures.

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

(*) Change within ±0.05%.

Notes :

(1) The Consumer Price Indices (A), (B) and (C) are compiled 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 percentage of households covered (%)	Average monthly household expenditure range (at 2025 prices) ($)
CPI(A)	50	7,100 to 29,000
CPI(B)	30	29,000 to 53,100
CPI(C)	10	53,100 to 99,300

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:

CPIs by reference period	Reference period of expenditure weights adopted:
Before Q2 2024	October 2019 – September 2020
From Q2 2024 – Q1 2025	Whole year of 2023
From Q2 2025 – Q1 2026	Whole year of 2024
From Q2 2026 onwards	Whole year of 2025

The expenditure weights of the reference period 2025 are as follows:

Expenditure component	Composite CPI (%)	CPI(A) (%)	CPI(B) (%)	CPI(C) (%)
Food	25.27	30.97	24.39	19.01
Meals out and takeaway food	*15.92*	*18.26*	*16.25*	*12.27*
Basic food	*9.35*	*12.71*	*8.14*	*6.74*
Housing	39.69	41.14	40.82	35.95
Private housing rent	*33.94*	*32.63*	*36.48*	*31.66*
Public housing rent	*2.25*	*5.85*	*0.62*	--
Management fees and other housing charges	*3.50*	*2.66*	*3.72*	*4.29*
Electricity, gas and water	2.80	3.74	2.57	1.91
Alcoholic drinks and tobacco	0.41	0.65	0.31	0.22
Clothing and footwear	2.10	1.62	2.23	2.52
Durable goods	3.44	2.64	3.62	4.23
Miscellaneous goods	3.13	2.96	2.97	3.62
Transport	7.59	5.53	7.86	9.95
Miscellaneous services	15.57	10.75	15.23	22.59
All items	100.00	100.00	100.00	100.00

(2) Labour productivity growth is reflected by the difference between the growth in real output and the growth 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.

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