



First Quarter Economic Report 2015

Government of the Hong Kong
Special Administrative Region

FIRST QUARTER ECONOMIC REPORT 2015

ECONOMIC ANALYSIS DIVISION
ECONOMIC ANALYSIS AND BUSINESS FACILITATION UNIT
FINANCIAL SECRETARY'S OFFICE
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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

- *The Hong Kong economy grew modestly in the first quarter of 2015, by 2.1% in real terms over a year earlier, slightly slower than the 2.4% growth in the preceding quarter. Domestic demand remained the key source of growth. External demand was still lacklustre, with goods exports expanding only marginally and with services exports, being dragged by the slowdown in inbound tourism, slackening further.*
- *The external environment remained unsteady and continued to weigh on Hong Kong's export performance. Total exports of goods increased only slightly in the first quarter, as the sluggishness of the advanced markets damped global trade growth. The performance of exports of services was also disappointing, mainly held down by the enlarged decline in exports of travel services amid a visibly slower growth in tourist arrivals and weaker tourist spending.*
- *Domestic demand fared relatively better, and remained the key source of economic growth. Private consumption expenditure grew steadily, on the back of stable labour market conditions in recent quarters. Investment expenditure picked up notably, mainly supported by the marked rebound in machinery and equipment acquisition.*
- *The labour market was broadly stable. The seasonally adjusted unemployment rate stayed low at 3.3% in the first quarter, signifying continued full employment situation. Wages and earnings sustained further steady growth.*
- *The local stock market generally trended upward during the quarter, despite some fluctuations in March on concerns about the prospective US interest rate increases, Greece's debt negotiations and the geopolitical risks surrounding Eastern Europe and the Middle East. The residential property market saw further signs of exuberance in early 2015, marked by accelerated price increases and rather active trading activities. Yet, the market cooled down somewhat after the Hong Kong Monetary Authority introduced the seventh round of macro-prudential measures in late February.*
- *Inflation eased further, reflecting softer international commodity and energy prices, low global inflation and steady local cost pressures. The upside risks to inflation should be limited in the near term.*

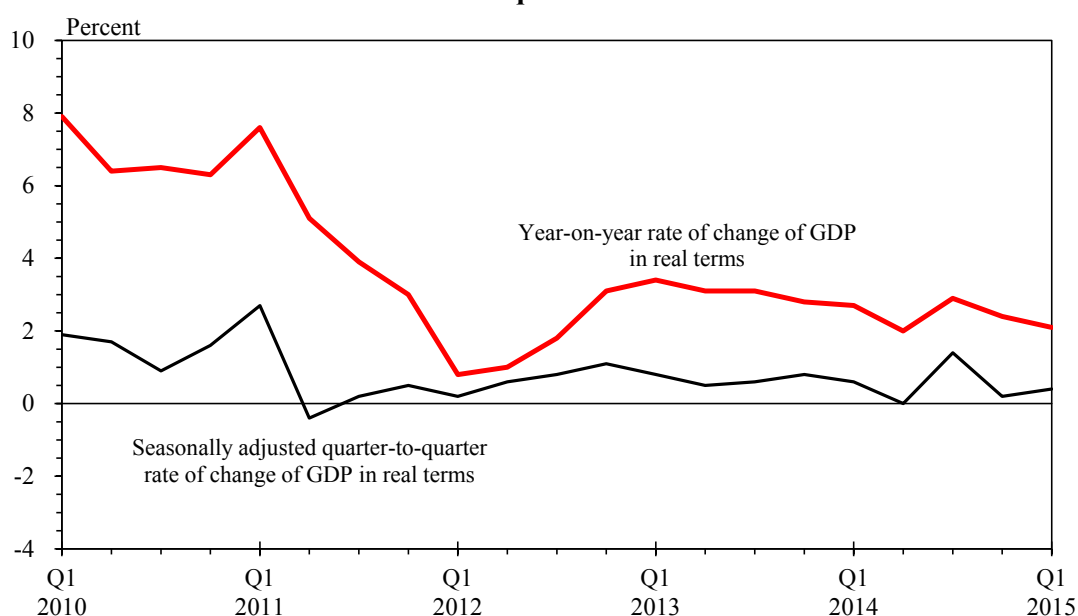
Overall situation

1.1 The Hong Kong economy only maintained slow growth in the first quarter of 2015 over a year earlier, amid a still-unsteady external environment. The US economy grew much slower than expected, due partly to the unusually harsh weather and partly to the stronger US dollar. This also complicated the outlook for the Federal Reserve (Fed)'s first interest rate hike. Meanwhile, the situation in the eurozone improved somewhat along with the launch of new quantitative easing measures, but its import demand remained weak and the Greek debt problem re-emerged in the quarter. The Japanese economy still lacked growth momentum, although having emerged slowly from the recession induced by the sales tax hike in April 2014. The Mainland economy and other Asian economies also faced varying degrees of growth slowdown. In contrast to the Fed's inclination to normalise monetary policy, many other central banks, including the People's Bank of China, eased their policies in the first quarter. The diverging monetary policy stances, coupled with the elevated geopolitical tensions in various parts of the world and fluctuations in commodity prices, increased global financial market volatility. The uncertainties surrounding the global economic outlook also added headwinds to the trading environment.

1.2 In face of the uneven and moderate global economic expansion, anaemic regional trade flows and a stronger US dollar, Hong Kong's merchandise exports only managed to grow marginally in the first quarter over a year earlier. Exports of services, on the other hand, remained on the decline, mainly dragged by the further slowdown in inbound tourism amid the slower tourist arrivals growth and weaker tourist spending. On the other hand, domestic demand fared relatively better, providing solid support to the overall economic growth. The labour market remained in a state of full employment in the first quarter. Meanwhile, underlying consumer price inflation continued to ease.

1.3 In the first quarter of 2015, *Gross Domestic Product* (GDP)⁽¹⁾ grew by 2.1% in real terms over a year earlier, slightly slower than the 2.4% growth in the preceding quarter (revised from the earlier estimate of 2.2%). On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, real GDP grew slightly by 0.4% in the first quarter, after the 0.2% growth in the preceding quarter (revised from the earlier estimate of 0.4%).

Diagram 1.1 : The Hong Kong economy continued to maintain slow growth in the first quarter of 2015



The external sector

1.4 *Total exports of goods* compiled under the GDP accounting framework grew mildly by 0.4% year-on-year in real terms in the first quarter, slightly down from the 0.6% rise in the preceding quarter. The overall picture remained lacklustre. Among the advanced markets, exports to the US continued to grow, while exports to the EU and Japan slid further. Exports to the Mainland and such higher-income Asian markets as Korea and Taiwan also registered declines of varying degrees, weighed down by the sluggish recovery of import demand in the advanced economies. On the other hand, some Asian markets, including India and a number of ASEAN economies, grew notably further.

1.5 *Exports of services* extended the decline in the first quarter, falling by 0.6% in real terms over a year earlier, after the 0.3% drop in the preceding quarter. This was mainly dragged by the setback in exports of travel services, being marked by weaker per capita visitor spending and the visible slowdown in the growth of tourist arrivals to a low single-digit level in the first quarter. Alongside subdued trade and cargo flows, exports of transportation services only registered mild growth, while exports of trade-related services declined slightly. Yet, exports of financial and other business services grew further, thereby rendering some cushion to overall services exports, thanks to the expansion of cross-border financial and fund-raising activities.

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

	<u>2013[#]</u>	<u>2014[#]</u>	<u>2014</u>				<u>2015</u>
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption Expenditure	4.6	3.2	2.1 (0.7)	1.8 (0.3)	4.7 (1.9)	4.1 (1.0)	3.5 (0.1)
Government consumption Expenditure	3.0	3.0	2.7 (0.7)	2.6 (1.3)	3.6 (1.0)	3.3 (0.4)	3.5 (0.8)
Gross domestic fixed capital formation	2.6	-0.2	3.9	-6.0	-1.7	3.4	7.3
<i>of which :</i>							
Building and construction	-4.3	6.5	11.1	2.2	4.5	7.6	-3.3
Machinery, equipment and intellectual property products	11.3	-6.5	-2.0	-11.4	-11.2	-0.4	14.2
Total exports of goods	6.5	0.8	-0.1 (-1.6)	2.1 (1.0)	0.7 (0.1)	0.6 (0.9)	0.4 (-1.4)
Imports of goods	7.2	0.9	1.0 (-1.3)	1.2 (0.1)	0.3 (0.2)	1.1 (2.0)	0.1 (-2.1)
Exports of services	4.9	0.9	4.1 (0.6)	-1.5 (-1.7)	1.3 (0.2)	-0.3 (0.7)	-0.6 (0.3)
Imports of services	1.5	1.9	-0.2 (-4.1)	4.9 (3.8)	2.0 (-0.8)	1.1 (2.1)	4.3 (-0.9)
Gross Domestic Product	3.1	2.5	2.7 (0.6)	2.0 (*)	2.9 (1.4)	2.4 (0.2)	2.1 (0.4)
<i>Change in the main price indicators (%)</i>							
GDP deflator	1.9	2.9	2.5 (0.1)	4.6 (1.2)	2.3 (0.4)	2.3 (0.6)	4.6 (2.4)
Composite CPI							
Headline	4.3	4.4	4.2 (0.9)	3.6 (0.7)	4.8 (0.5)	5.1 (2.9)	4.4 (0.3)
Underlying[^]	4.0	3.5	3.8 (0.9)	3.5 (0.7)	3.3 (0.7)	3.3 (0.9)	2.7 (0.3)
Change in nominal GDP (%)	5.0	5.5	5.2	6.7	5.3	4.8	6.7

Notes : Figures are subject to revision later on as more data become available. 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 the category due to the presence of considerable short term fluctuations.

(#) Revised figures.

(+) Preliminary figures.

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

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

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

Box 1.1

The Chinese New Year effects on Hong Kong's retail sales and merchandise exports

The Chinese New Year (CNY) holidays, which are based on the Lunar calendar, fall in either January or February of the “Western calendar” (or Gregorian calendar), thereby causing notable additional seasonal fluctuations to economic indicators for January and February, which are reported according to the “Western calendar”. This note attempts to illustrate how CNY could distort the movements of certain monthly economic indicators, by taking Hong Kong's retail sales and merchandise exports as examples. Nevertheless, CNY does not have any notable effect on quarterly economic data, as it always falls in the first quarter.

Distortions to year-on-year comparisons caused by shifting CNY holidays

Year-on-year comparisons are frequently used to analyse the underlying trend of economic variables, as they are a simple and handy way of removing fixed seasonality, viz. seasonal factors that occur at fixed time points. However, directly comparing such rates of change in January and February could be rather misleading, particularly when the CNY holidays of the two years under comparison fall in different months (i.e. one falling in January but another in February).

Take 2015 as an example. The CNY took place in mid-February, whereas in 2014, it fell in late January. Thus, retail sales volume underwent huge fluctuations in these two months. It declined markedly by 13.8% year-on-year in January, but rose back significantly by 18.1% in February. The same applied to merchandise exports, which grew modestly by 0.9% year-on-year in volume terms in January, but increased by 6.6% in February. These year-on-year rates of change are distorted by the difference in timing of the CNY in 2014 and 2015.

Components of retail sales and merchandise exports that are more affected by the CNY

To better understand the issue, it is useful to examine the components of retail sales and merchandise exports that are more likely influenced by the CNY effect. For retail sales, the sales volume is generally higher in the weeks immediately before or during the CNY amid stronger consumption for celebrating this important festival. When analysed by retail outlet, items which are more related to the festive spending include “food, alcoholic drinks, and tobacco”, “supermarkets”, “clothing and footwear” and “commodities in department stores”.

As for merchandise exports, which comprise mainly re-exports, they are usually affected by the week-long CNY holidays in the Mainland, as almost 90% of Hong Kong's re-exports involve our hinterland. Exports to the Mainland generally pick up in the weeks preceding the CNY as firms rush through their export orders before the holidays kick-off and fall afterwards since production activity comes to a halt during the holidays.

Table : Selected items of Hong Kong's retail sales and merchandise exports in recent years

	Share in 2014 total (%)	Year-on-year rate of change in volume terms (%)							
		2012		2013		2014		2015	
		Jan*	Feb	Jan	Feb*	Jan*	Feb	Jan	Feb*
Sales of festive-related items [^]	39%	6.1	2.3	-2.9	21.6	14.6	-4.0	-13.1	19.0
Exports to the Mainland	54%	-18.4	10.8	31.2	-21.7	-8.2	3.7	6.9	-11.2

Notes: In 2011, CNY fell in February. Distortions occurred in all the year-on-year changes for January and February in the years from 2012 to 2015.

(*) Denotes the CNY month.

([^]) Festive-related items include “food, alcoholic drinks, and tobacco”, “supermarkets”, “clothing and footwear” and “commodities in department stores”.

The above *Table* clearly shows that the year-on-year rates of change of the selected components were notably affected by the shifts in CNY timing in 2012-2015.

Box 1.1 (Cont'd)

For retail sales, it is observed that the CNY has a boosting impact on the sales of festive-related items during the month in which this festive season took place. On the contrary, the CNY has a dampening effect on exports to the Mainland in the CNY month. Since the sales of festive-related items and exports to the Mainland take up significant shares in total retail sales and overall merchandise exports (at 39% and 54% respectively in 2014), the distortions caused by the CNY on these two economic variables should not be taken lightly.

Correlations between the magnitude of distortion and the exact CNY timing

When taking a deeper look at the exact dates on which the CNY took place, it is interesting to observe that the augmenting effect of the CNY on February's retail sales tends to be stronger when the CNY holidays fall entirely in latter part of February, evident in the positive relationship shown in *Chart 1*. Again, the negative impact of the CNY on February's exports volume would be stronger when the CNY holidays fall closer to late February, which is particularly notable in our exports to the Mainland (*Chart 2*). Since the CNY of this year fell on 19th February, which was the nearest to end-February in nearly 20 years, this explains why the year-on-year rates of change in retail sales and merchandise exports fluctuated distinctly in January and February of 2015. By identifying such relationships, the CNY impacts on economic statistics for January and February of a particular year with known CNY timing can be more reliably assessed.

Chart 1 : The later the CNY timing, the stronger the boost to February's retail sales

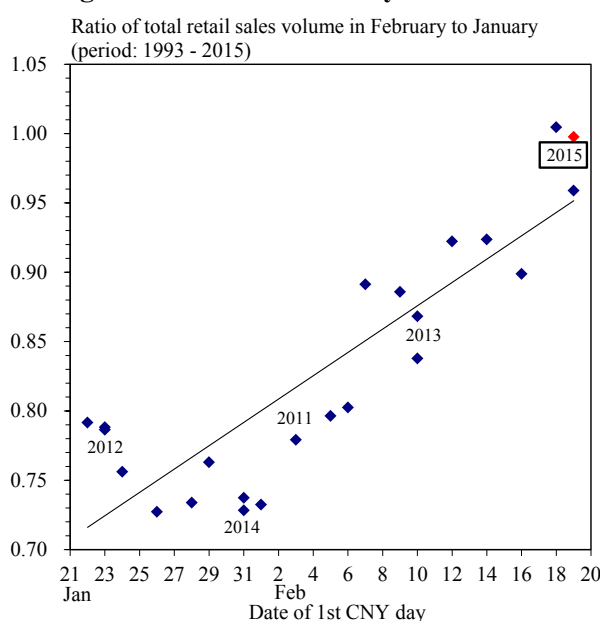
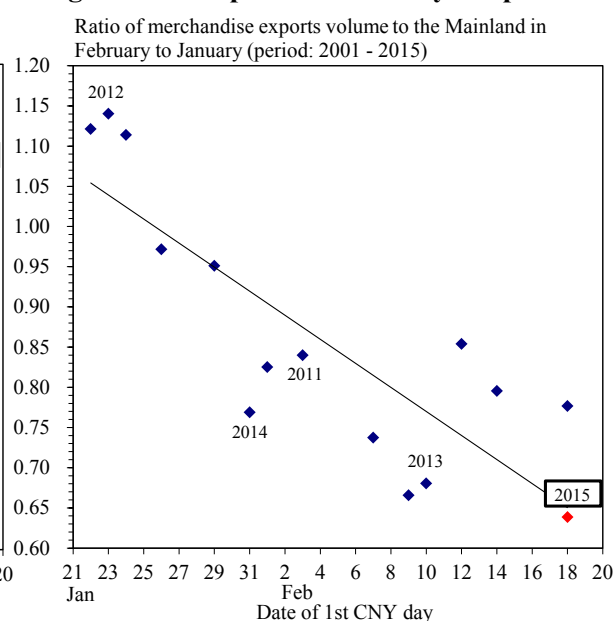


Chart 2 : The later the CNY timing, the more negative the impact on February's exports



Note: Hong Kong's exports to the Mainland were used for the scatter plot in *Chart 2* in order to illustrate the more pronounced relationship between the volume of exports and the CNY timing.

Concluding remarks

In sum, Hong Kong's retail sales and merchandise exports, which give important indications of the overall economic performance of Hong Kong, are both visibly affected by this festive season. Caution is therefore needed when interpreting the economic indicators in January and February. For the purpose of examining their underlying trends, it would be more appropriate to analyse the economic indicators in the first two months combined, in order to neutralise the distortions caused by the difference in the timing of the CNY.

The domestic sector

1.6 Domestic demand performance was relatively steady. *Private consumption expenditure* expanded moderately further in the first quarter of 2015, by 3.5% in real terms over a year earlier. Consumption sentiment was somewhat unsteady at the beginning of the year, but the stable income and job conditions continued to provide support. *Government consumption expenditure* maintained stable growth, also at 3.5% in the first quarter.

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

	Total consumer spending in the domestic market ^(a)	<i>Of which :</i>						
		Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure ^(b)
2014 Annual	2.3	3.6	6.7	-0.6	2.4	3.0	-1.5	3.2
H1	1.6	5.1	1.5	-1.1	2.0	3.0	0.5	2.0
H2	3.0	2.0	11.9	*	2.8	3.0	-3.3	4.4
Q1	4.1	4.8	5.4	7.8	2.1	-1.9	11.0	2.1
Q2	-0.8	5.4	-3.8	-9.0	1.9	8.1	-9.6	1.8
Q3	3.2	3.5	6.0	1.3	3.2	3.1	-3.8	4.7
Q4	2.8	0.6	16.5	-1.1	2.4	2.9	-2.9	4.1
2015 Q1	1.6	1.7	8.0	-3.7	2.4	8.2	-4.4	3.5

Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

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

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

Diagram 1.2 : Private consumption expenditure expanded moderately

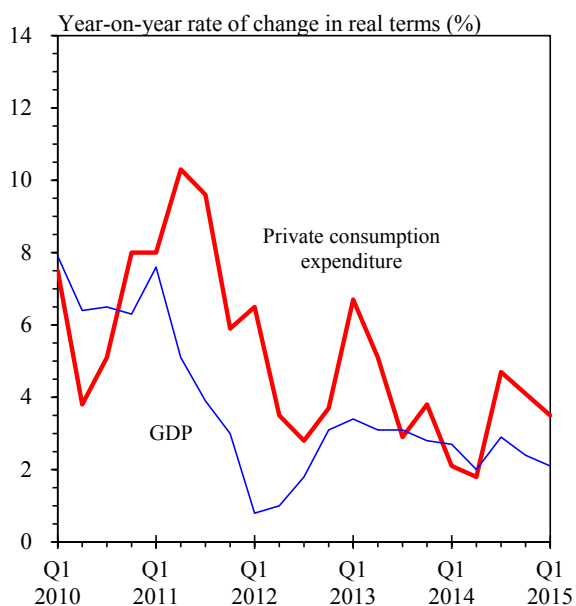
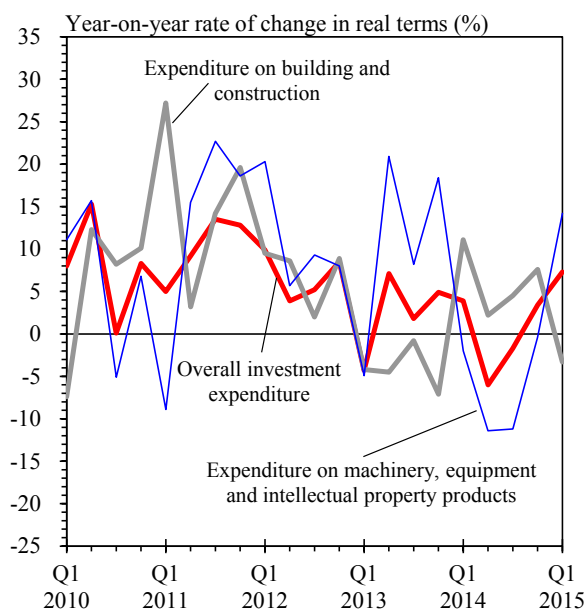


Diagram 1.3 : Investment spending picked up visibly



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* picked up visibly by 7.3% year-on-year in real terms in the first quarter, following the 3.4% growth in the preceding quarter. Within this, large-scale infrastructure works slackened visibly to a decline, partly due to an exceptionally high base of comparison a year earlier, while private sector building and construction activity attained further moderate growth. On the other hand, machinery and equipment acquisition rebounded markedly by 14.2%. Yet, the results of the latest Quarterly Business Tendency Survey and the diffusion indices on small and medium-sized enterprises (SMEs) (see **Box 1.2** for details of the consultation on SMEs) suggested that business sentiment in general turned more cautious in recent months, in view of the uncertain business outlook under a challenging external environment.

Box 1.2

Diffusion indices on small and medium-sized enterprises (an update)

To gain a better understanding of the current situation of business receipts, employment and credit access for small and medium-sized enterprises (SMEs)⁽¹⁾, an ad-hoc consultation exercise has been conducted by the Census and Statistics Department on behalf of the Economic Analysis and Business Facilitation Unit since late November 2008. In the recent past, the exercise has been conducted on a sample panel of around 400 SMEs. This note provides a further update of the results reported in **Box 1.2** in the *2014 Economic Background and 2015 Prospects*.

A set of diffusion indices is compiled to indicate the general directions of change in the respondents' views on business receipts, employment and new export orders versus the preceding month. The percentage of SMEs reporting tight access to credit is also reported. While the findings should be interpreted with considerable caution given the coverage and nature of the consultation exercise, they can serve as a rough indicator to enable high frequency monitoring of SMEs' situation.

Business receipts of the SMEs consulted, as measured by the set of diffusion indices, suggested that the overall situation stayed sluggish in recent months and enterprises surveyed in both local and external segments were still cautious about the outlook (**Table 1**). The overall index weakened again after the rebound in December 2014, falling to 47.3 in April 2015. Sectoral breakdown shows that all selected local sectors recorded readings below the neutral level of 50.0. Among them, the wholesale and retail sectors recorded the lowest readings, in line with the fall in retail sales in the first quarter amid weaker inbound tourism. Besides, the diffusion index for real estate also declined visibly to a relatively low level after the Hong Kong Monetary Authority introduced the new round of macro-prudential measures in late February. As regards the externally-oriented sectors, the readings for import/export trade and logistics fluctuated and hovered around the boom-bust mark of 50.0 in the more recent months, in tandem with the unsteady external environment. As to the employment situation, the feedback from SMEs suggested a broadly stable development in recent months (**Table 2**).

For the import/export trade sector in particular, SMEs' views on new export orders were sought separately to help gauge the likely export performance in the near term. The diffusion index on new export orders has eased since end-2014 and drifted successively to 48.7 in April, partly reflecting the sluggish external demand conditions.

The proportion of SMEs reporting tight credit access continued to fall, reaching a low level of 0.7% in April 2015, thanks mainly to the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes.

(1) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as SMEs in Hong Kong.

Box 1.2 (Cont'd)**Table 1 : Diffusion indices[^] on business receipts**

	2014									2015			
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
<i>Local segments</i>													
Restaurants	46.3	47.2	45.3	47.1	48.1	47.1	38.2	46.1	52.0	50.0	47.7	47.7	48.4
Real estate	48.5	48.5	43.9	47.0	47.0	46.9	40.6	54.7	45.3	48.5	47.1	51.5	45.5
Retail trade	48.2	47.7	46.9	46.1	48.4	48.0	40.3	43.9	48.8	47.5	47.9	44.4	43.9
Wholesale trade	50.0	44.7	39.5	36.8	44.4	41.7	33.3	44.4	44.4	50.0	44.4	44.4	41.7
Business services	53.1	50.0	46.9	48.4	48.4	45.3	45.2	46.8	48.4	45.6	50.0	47.0	48.4
<i>External segments</i>													
Import/export trade	49.6	48.4	49.2	48.8	49.6	49.2	42.6	47.9	50.8	50.0	47.5	49.6	49.6
Logistics	47.2	47.2	47.2	47.2	44.4	47.2	36.1	41.7	41.7	50.0	50.0	44.7	52.8
All the above sectors*	49.3	48.0	47.0	47.0	48.3	47.6	41.0	46.7	48.9	48.8	47.8	47.4	47.3

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

(*) Weighted average using total number of SMEs in individual sectors as weights.

Table 2 : Diffusion indices on employment situation

	2014									2015			
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
<i>Local segments</i>													
Restaurants	49.1	49.1	48.1	49.0	50.0	48.0	46.1	50.0	49.0	49.2	48.5	50.0	49.2
Real estate	48.5	47.0	48.5	50.0	50.0	50.0	50.0	51.6	50.0	48.5	50.0	51.5	47.0
Retail trade	50.5	49.6	49.6	49.6	50.4	50.0	49.2	50.8	49.6	49.6	50.0	50.0	50.0
Wholesale trade	52.6	47.4	47.4	47.4	52.8	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Business services	50.0	48.4	50.0	50.0	53.1	50.0	46.8	50.0	50.0	50.0	50.0	50.0	48.4
<i>External segments</i>													
Import/export trade	50.4	48.4	50.4	49.2	50.0	50.0	49.2	50.0	50.0	50.0	49.2	50.8	50.4
Logistics	50.0	50.0	52.8	50.0	50.0	47.2	50.0	47.2	50.0	47.1	47.1	47.4	50.0
All the above sectors*	50.3	48.6	49.8	49.3	50.6	49.8	48.9	50.2	49.8	49.6	49.5	50.3	49.7

Note : (*) Weighted average using total number of SMEs in individual sectors as weights.

Table 3 : Diffusion index on current new export orders

	2014									2015			
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
Import/export trade	50.0	49.6	49.2	49.6	50.4	50.0	44.7	46.7	51.3	50.0	48.3	48.3	48.7

Table 4 : Percentage of SMEs reporting tight current access to credit

	2014									2015			
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
All selected sectors*	0.9	1.1	1.1	0.8	0.8	0.8	0.8	0.8	1.0	0.8	0.7	0.7	0.7

Note : (*) Weighted average using total number of SMEs in individual sectors as weights.

The labour sector

1.8 The labour market held broadly stable and remained in a state of full employment. The *seasonally adjusted unemployment rate* stayed low at 3.3% in the first quarter of 2015, while the *underemployment rate* edged down to 1.4%. Labour demand remained tight, as job vacancies bounced back in December 2014, and total employment posted further growth in the first quarter of 2015. Wages and earnings sustained moderate rises in the fourth quarter of 2014.

The asset markets

1.9 The *local stock market* trended upward on entering 2015 alongside other major markets worldwide, but came under pressure in the first half of March amid shifting sentiment on concerns about the US Fed's monetary policy direction, Greece's debt problem and intensified geopolitical tensions in Eastern Europe and the Middle East. It recovered lost ground subsequent to the Fed's clearer indications that its interest rate hikes would still be data dependent and stay gradual. The Hang Seng Index closed the first quarter at 24 901, 5.5% higher than at end-2014. Average daily turnover of the stock market rose to \$86.4 billion in the first quarter, while fund-raising activity retreated markedly compared with the preceding quarter.

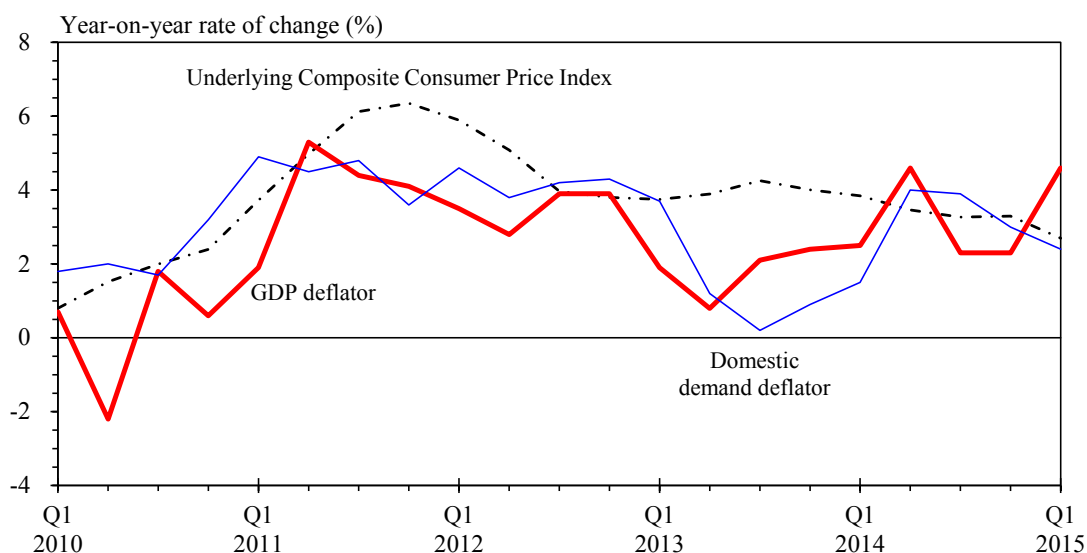
1.10 The *residential property market* saw further signs of exuberance in the first two months of 2015, but cooled down somewhat after the Hong Kong Monetary Authority introduced the seventh round of macro-prudential measures on tightening mortgage loans in late February. Trading volume in the first quarter edged down by 2% from the preceding quarter. Residential property prices turned from showing notable increases in January and February to moving sideways in March, though still up by 5% during the first quarter. Overall flat prices in March exceeded the 1997 peak by 69%, and the housing affordability ratio worsened further to around 64% in the first quarter. The renewed exuberance of the property market underscores that the risks of housing market bubble remain prominent. Flat rentals rose by 2% during the first quarter. Meanwhile, office and shop rentals went up by 1% and 2% respectively.

Inflation

1.11 Consumer price inflation remained on an easing trend in the first quarter of 2015. Locally, the increase in private housing rental component moderated further as the milder increases in the fresh-letting rentals in earlier quarters continued to feed through. The single-digit year-on-year rises in commercial rentals and the steady growth in labour costs all helped keep local cost pressures contained. Externally, imported inflation remained tame, on the back of softer international food and commodity prices and easing inflationary pressures in Hong Kong's major import partners. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, *underlying consumer price inflation* lowered to 2.7% in the first quarter of 2015, from 3.3% in the preceding quarter. *Headline consumer price inflation* was 4.4% in the first quarter of 2015, down from 5.1% in the fourth quarter of 2014.

1.12 The *GDP deflator* rose by 4.6% in the first quarter. Within this, domestic demand deflator saw a moderated increase, while the terms of trade improved over the same period.

Diagram 1.4 : Consumer price inflation eased further in the first quarter



GDP by major economic sector

1.13 Mainly reflecting the unsteady global economic environment, net output of the services sector as a whole moderated to a 2.4% growth in real terms in 2014, from the 2.7% growth in 2013. Nevertheless, the performance varied across individual sectors. Net output of financing and insurance accelerated in growth since the third quarter of 2014 amid improved market sentiment. Professional and business services, information and communications, and transportation and storage showed solid growth in 2014. The net output of real estate activity, which mainly reflects activity of private sector developers and property agency, rebounded in 2014 alongside the pick-up in property market activity since the second quarter. On the other hand, the growth of the net output of import and export trade slowed, reflecting the sluggish trading environment in 2014. Accommodation and food services also saw some slowdown in growth. Net output of wholesale and retail trade fell marginally in 2014, in line with the lacklustre retail sales performance amid weaker tourist spending. As for the secondary sector, activity in the manufacturing sector slackened to a decline since the third quarter, giving a marginal fall for 2014 as a whole. In contrast, the construction sector gained momentum to show strong growth in 2014 amid hectic large-scale infrastructure works and moderate expansion in private sector construction activity.

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

	<u>2013</u>	<u>2014</u>	<u>2013</u>				<u>2014</u>			
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Manufacturing	0.1	-0.4	0.5	0.3	-0.9	0.5	2.1	2.2	-1.7	-3.6
Construction	4.2	8.3	2.3	6.0	11.8	-1.6	12.2	4.9	5.4	10.1
Services ^(b)	2.7	2.4	2.6	3.6	2.3	2.5	2.3	2.1	2.9	2.5
Import/export, wholesale and retail trades	3.2	0.9	5.0	4.7	1.5	2.4	0.3	0.5	2.2	0.7
Import and export trade	1.9	1.2	3.4	2.7	0.5	1.4	-0.7	2.3	2.7	0.6
Wholesale and retail trades	8.7	-0.1	11.4	12.4	6.0	6.0	3.9	-6.1	0.3	1.3
Accommodation ^(c) and food services	3.6	2.6	3.5	4.1	3.4	3.4	4.5	2.4	3.6	0.2
Transportation, storage, postal and courier services	4.1	5.2	1.2	4.5	4.1	6.8	6.6	7.3	3.9	3.3
Transportation and storage	4.1	5.4	1.2	4.8	3.5	7.0	6.3	7.3	4.9	3.2
Postal and courier services	4.6	2.0	0.9	-1.8	17.5	2.3	13.6	7.5	-14.1	3.4
Information and communications	4.0	3.9	6.4	2.8	4.1	2.8	3.0	5.7	3.3	3.7
Financing and insurance	7.6	4.0	5.3	9.8	9.3	6.1	3.1	0.6	5.5	6.8
Real estate, professional and business services	-4.0	3.2	-4.0	-5.2	-5.0	-2.1	1.9	3.7	3.5	3.7
Real estate	-10.7	2.7	-8.7	-13.8	-12.2	-8.4	0.8	3.0	3.2	4.0
Professional and business services	2.7	3.6	1.1	3.5	2.2	4.0	3.0	4.3	3.7	3.4
Public administration, social and personal services	2.5	2.3	2.0	3.7	2.1	2.0	2.9	2.4	2.0	2.0

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

- (a) The GDP figures shown in this table are compiled from the production approach, in parallel with those shown in Table 1.1 which are compiled from the expenditure approach. For details, see Note (1) to this chapter.
- (b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity.
- (c) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

Other economic developments

1.14 Given the moderate and uneven global economic growth, which is further complicated by the conflicting monetary policy stances of major central banks, the external environment facing Hong Kong is likely to remain challenging in 2015. Against this background, and also taking into account the healthy fiscal positions of the Government over the medium term, the 2015-16 Budget proposed a series of relief measures to help alleviate the financial burden of the public, stimulate consumption, stabilise the economy and preserve employment. The package of relief measures, amounted to some \$34 billion, together with other Budget initiatives, are estimated to have a stimulus effect of boosting GDP by one percentage point. The Budget also laid out measures to support SMEs, enhance the international image of Hong Kong and restore investors' and tourists' confidence in Hong Kong.

1.15 As for Hong Kong's long-term economic development, the Budget set out strategies and unveiled a series of measures to promote diversified development of our economy and augment the competitiveness of our pillar industries, alongside the ongoing capital works. The Government will continue to support business start-ups and create an enabling environment for innovation and technology, and cultural and creative industries. The Budget proposed a two-pronged approach to consolidate our pillar industries. On the one hand, the Government will utilise Hong Kong's position as an international financial, trading and business hub to capitalise on the new opportunities created by the Mainland's "One Belt One Road" initiative. On the other hand, measures are laid out to facilitate industries in moving up the value chain. In the aspect of financial development, to strengthen our connection with the Mainland market, the Government will review and discuss with the relevant Mainland authorities on the launch of the Shenzhen-Hong Kong Stock Connect and the enhancement of the Shanghai-Hong Kong Stock Connect.

1.16 The Budget also provided measures to address the constraints to Hong Kong's future economic growth, which include improving the quality of manpower to steer the development of our economy towards high value-added activities, increasing land supply and addressing the challenge of an ageing population. To save for the future in view of the expected surge in number of elderly and hence public expenditure on various key policy areas, the Government will collaborate with the Hong Kong Monetary Authority to work out specific details and arrangements of the establishment of the Future Fund. The savings scheme is expected to be in place within this year.

1.17 Human capital is crucial to driving Hong Kong's future economic vibrancy. The Financial Services Development Council in January 2015 made recommendations on developing human capital for the sustainable development of Hong Kong as an international financial centre. The Economic Development Commission held its seventh meeting in March 2015 and provided views on how to enhance workforce productivity and training in response to the Government's population policy initiatives.

1.18 In response to the pick-up in property market activity in the second half of 2014 amid a prolonged period of low interest rate environment, the Hong Kong Monetary Authority rolled out the seventh round of macro-prudential measures on tightening mortgage loans in late February 2015, which included lowering the maximum loan-to-value ratio and the maximum debt-servicing ratio of mortgage loans for both residential and non-residential properties.

1.19 Hong Kong was ranked by the Heritage Foundation as the world's freest economy for the 21st year in a row. The Government will continue to uphold free market principles and will maintain an open and flexible environment conducive to businesses and investment. The Inland Revenue Ordinance was amended in February 2015 to allow private equity funds to enjoy the profits tax exemption that is available to offshore funds. This will help attract more private equity fund managers to set up or expand their businesses in Hong Kong and is beneficial to Hong Kong's development as a premier asset management hub. Separately, the second protocol to the agreement for the avoidance of double taxation and prevention of income tax evasion between Hong Kong and Vietnam came into force in January 2015. This should offer added incentives for Vietnamese companies to do business and invest in Hong Kong.

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 on a modest expansion path in the first quarter of 2015, with the recovery of major advanced economies progressing slowly, thereby restraining the improvement of the external trading environment. Many emerging markets, including the Mainland economy, also experienced growth slowdown of varying degrees. As a result, production and trade flows in Asia were largely lacklustre.*
- *Against such background, and also affected somewhat by the strength of US dollar, Hong Kong's merchandise exports were still rather weak, with only a meagre increase in real terms⁽¹⁾ in the first quarter. Export performance varied considerably across markets, mirroring the uneven recovery in the advanced markets and their ensuing spill-overs on the export-dependent Asia.*
- *Exports of services remained subdued in the first quarter, as exports of travel services faced the double-blow from a fall-off in tourist spending on big-ticket items and a marked slowdown in visitor arrival growth. Added to this was continued slack in exports of trade-related services and transportation services along with the sluggish regional trade flows. Against these, exports of financial and other business services fared generally better, thereby rendering some cushion to overall exports of services, thanks to the hectic cross-border financial activities.*
- *To capitalise on the vast opportunities arising from the "One Belt, One Road" initiatives of the nation, the Government will strengthen ties with the economies in the involved areas, so as to create more favourable conditions for our business to invest and gain access to these markets. The China (Guangdong) Pilot Free Trade Zone was officially launched in April, with emphasis on Mainland's in-depth economic co-operation with Hong Kong and Macau, which should bring more business opportunities for Hong Kong enterprises. Separately, the 2015-16 Budget unveiled a series of support measures to help SMEs in financing, marketing, and brand-building in the face of the challenging external environment.*

Goods trade

Total exports of goods

2.1 Hong Kong's goods exports grew only slightly in the first quarter of 2015 and remained unsteady during the quarter, reflecting the still-sluggish global demand conditions, though representing a relative improvement from the preceding quarter. *Merchandise exports* (comprising re-exports and domestic exports) in real terms grew only modestly by 0.7% in the first quarter of 2015 over a year earlier, after declining by 0.8% in the fourth quarter of 2014. On a seasonally adjusted quarter-to-quarter basis, the decline in merchandise exports narrowed to 0.6% in the first quarter, following the 3.2% decline in the preceding quarter.

2.2 Global economic growth continued in the first quarter, albeit still slowly and unevenly. The eurozone economy, though showing some signs of improvement after the European Central Bank announced the enlarged asset purchase programme, still recovered with slow momentum, being held back by the unresolved Greek debt issues and other structural issues. Across the Atlantic, while the US economy hit a soft patch in the first quarter, it was due partly to the unusually harsh weather and partly to a strong dollar. In Asia, Japan's economic revival in recent months stayed anaemic. The Mainland economy grew by 7.0% year-on-year in the first quarter, still outpacing most other major economies and being the largest contributor to global growth, although the expansion pace also moderated under the "new normal". During the quarter, many central banks eased monetary policy to ward off the threat of deflation and to support growth, in contrast to the preparation of the US Federal Reserve to normalise monetary policy. The resultant fluctuations in foreign exchange rates, coupled with geopolitical tensions in Eastern Europe and the Middle East, added further headwinds.

2.3 The subdued global demand conditions not only affected Hong Kong's export performance in the first quarter, but also weighed on the manufacturing activity and exports in many other Asian economies, including Korea, Taiwan and Singapore, which registered year-on-year contractions in their goods exports by various degrees in US dollar terms. The International Monetary Fund (IMF) in April projected global growth in 2015 at 3.5%, only marginally higher than the 3.4% growth in 2014. In the same month, the World Trade Organisation forecast global merchandise trade to expand only modestly by 3.3% in 2015, pointing to another year of slow expansion of global trade flows.

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

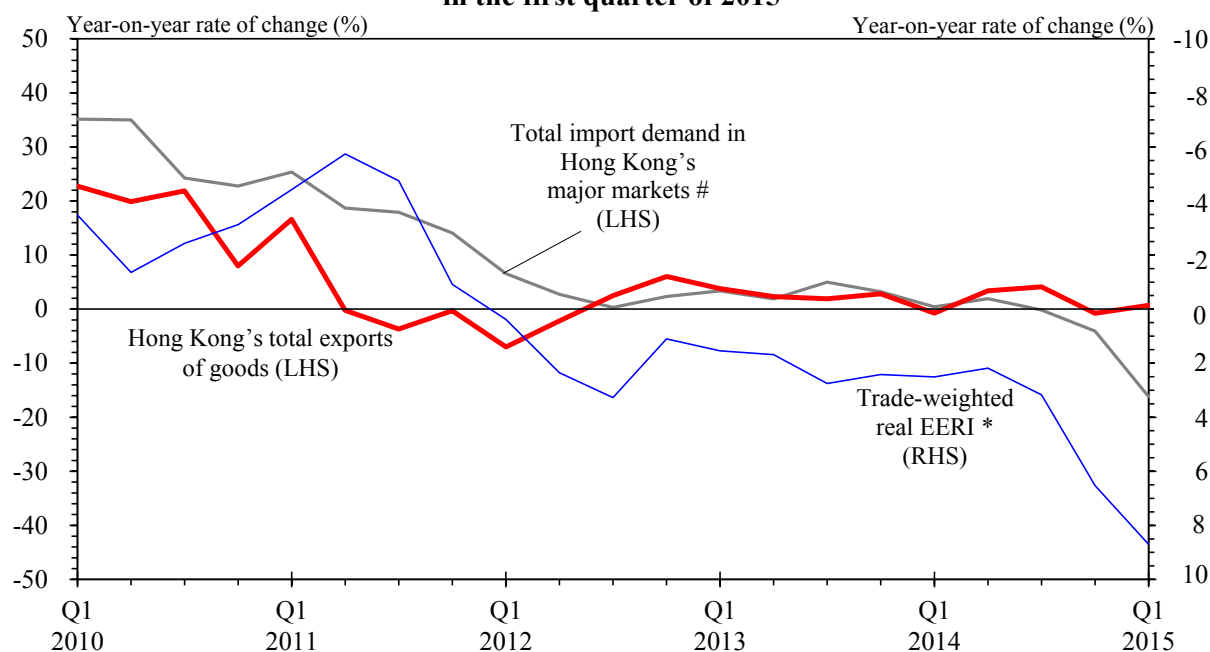
	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
	<u>In value terms</u>	<u>In real terms^(a)</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms^(a)</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms^(a)</u>	<u>Change in prices</u>
2014 Annual	3.2	1.5	2.0	3.2	1.5	2.0	1.7	2.9	0.2
Q1	0.7	-0.7 (-4.1)	1.7	0.7	-0.7 (-4.2)	1.7	-1.1	0.6 (4.4)	-0.5
Q2	4.8	3.4 (3.8)	1.9	4.8	3.3 (3.8)	1.9	8.3	9.6 (3.4)	0.5
Q3	5.8	4.1 (2.0)	2.2	5.9	4.1 (2.1)	2.2	3.1	3.4 (-4.5)	1.3
Q4	1.2	-0.8 (-3.2)	2.2	1.3	-0.8 (-3.1)	2.3	-3.7	-2.4 (-5.8)	-0.7
2015 Q1	2.3	0.7 (-0.6)	2.0	2.5	0.8 (-0.6)	2.1	-10.1	-8.7 (-0.1)	-1.5

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, due to differences in coverage.

2.4 *Re-exports*⁽²⁾, the mainstay of overall merchandise exports and accounting for 98.6% of total exports by value, rose slightly by 0.8% in real terms in the first quarter of 2015, after the 0.8% contraction in the preceding quarter. *Domestic exports*, constituting the remaining 1.4% of total exports, declined visibly by 8.7% year-on-year in real terms in the first quarter of 2015, further to a 2.4% contraction in the fourth quarter of 2014.

Diagram 2.1 : Merchandise exports grew only modestly in the first quarter of 2015



Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in Asia, the United States and the European Union taken together.

(*) The real EERI in this graph is inverted in scale for easier comprehension. A positive change denotes real appreciation of the Hong Kong dollar.

(#) Import demand figure for the first quarter of 2015 is based on statistics for January and February 2015.

Diagram 2.2 : Re-exports rose modestly while domestic exports further declined

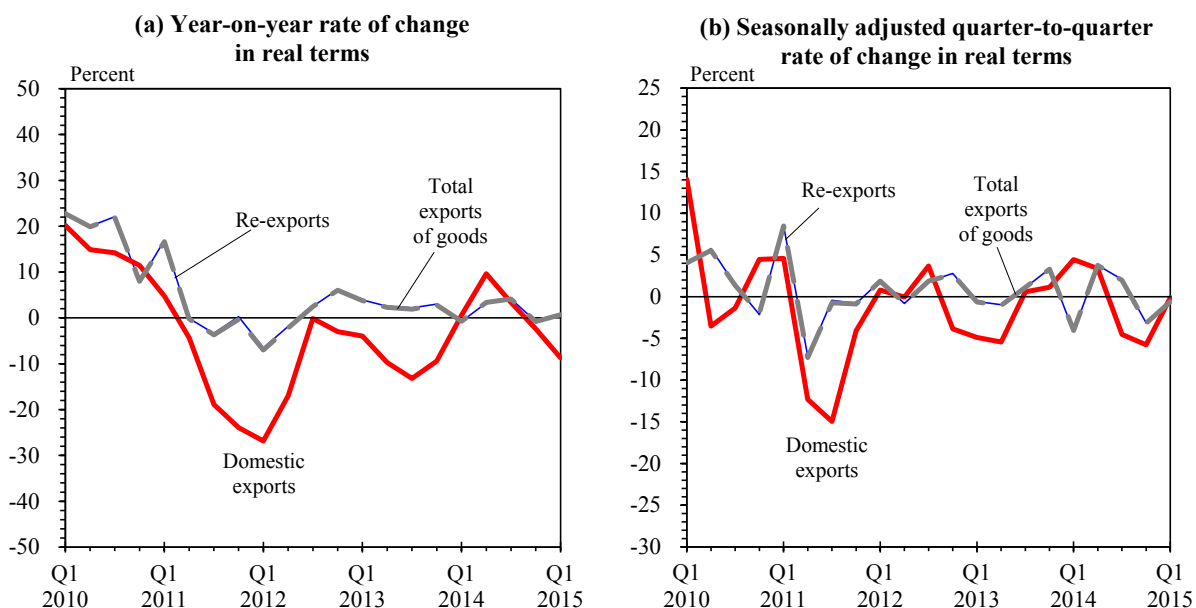
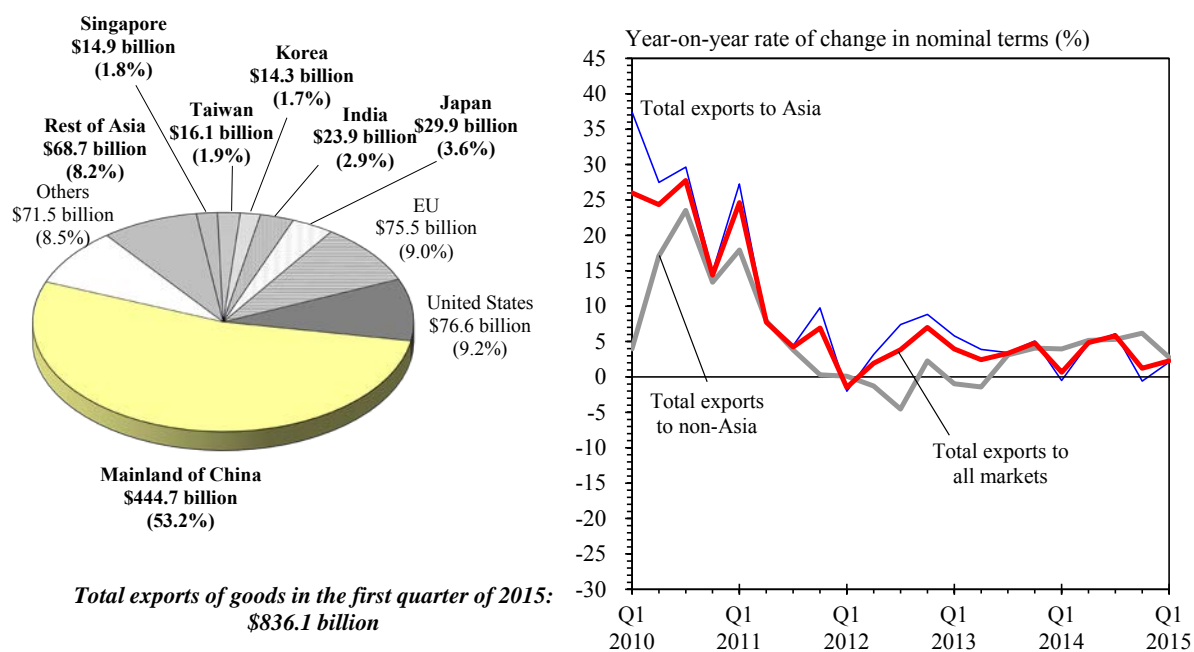


Diagram 2.3 : Asian markets continued to feature prominently in Hong Kong's exports



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

	<u>Annual</u>	<u>Q1</u>	<u>2014</u>			<u>2015</u>
			<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Mainland of China	-0.7	-3.7	2.8	2.4	-4.3	-0.2
United States	2.7	4.2	2.9	0.2	3.8	3.3
European Union	0.6	1.2	4.4	-0.3	-2.3	-3.5
Japan	-4.5	-2.0	-1.8	-5.2	-8.4	-5.8
India	16.0	6.8	15.3	35.6	6.1	12.4
Taiwan	2.1	-7.9	1.2	13.6	1.7	-12.8
Korea	-1.8	0.1	1.3	4.0	-11.5	-5.7
Singapore	2.1	7.9	0.3	0.3	0.6	0.4
Overall*	1.5	-0.7	3.4	4.1	-0.8	0.7

Note : (*) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1, due to differences in coverage.

2.5 The performance of merchandise exports was mixed across markets in the first quarter of 2015. Among major advanced markets, exports to the US registered only moderate growth in real terms in the first quarter over a year earlier, limited by the slowdown in economic activity there during the quarter. Exports to the EU saw an enlarged decline, reflecting the sluggish import demand there, which was weighed further by a weak euro. Exports to Japan also slackened further, likewise entailed by Japan's torpid economic activity and the yen weakness.

2.6 Export performance was also rather mixed within Asia. Exports to the Mainland were almost flat in real terms in the first quarter, dragged mainly by exports of capital goods, mirroring the slowdown of investment and production activities there, though registering some relative improvement from the preceding quarter. Exports to the newly industrialised economies were generally sluggish, with those to Taiwan and Korea down visibly, and those to Singapore only recording marginal growth. Against this, however, exports to a number of ASEAN markets continued to post notable growth, driven mainly by exports of capital goods and to a lesser extent raw materials and semi-manufactures. Exports to India likewise maintained marked growth in the first quarter, following brisk expansion in the previous year.

Diagram 2.4 : Exports to the Mainland were almost flat in the first quarter

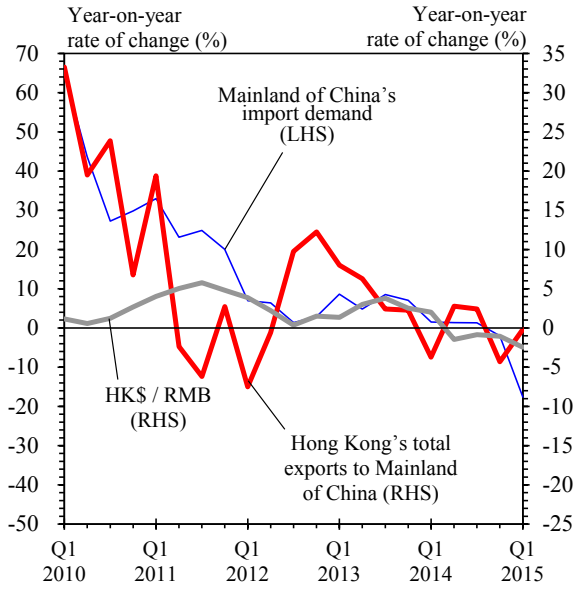


Diagram 2.5 : Exports to the EU faltered further

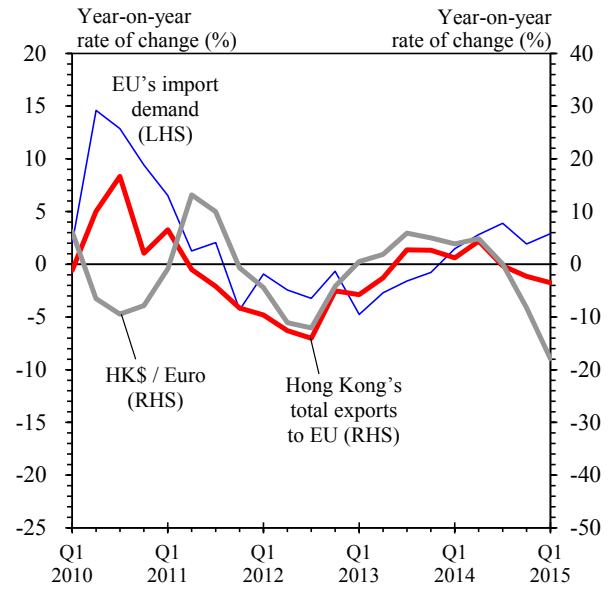


Diagram 2.6 : Exports to the US grew moderately further in the first quarter

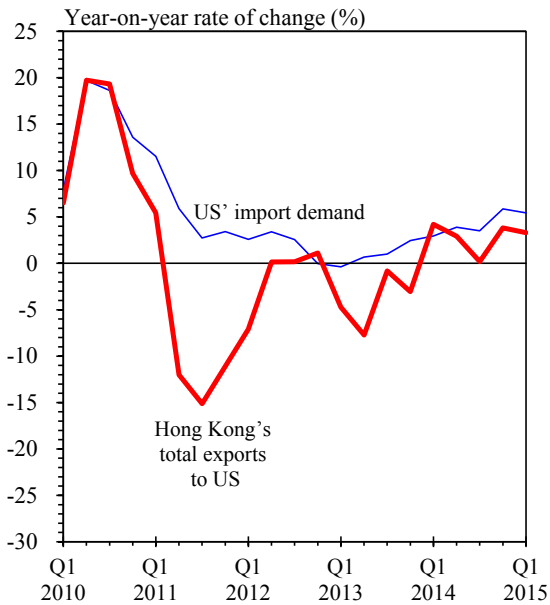


Diagram 2.7 : Exports to Japan remained distinctly weak

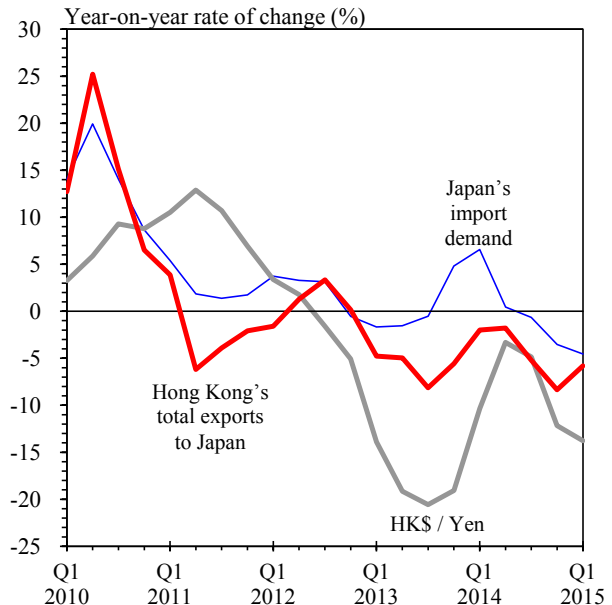


Diagram 2.8 : Exports to India showed further notable growth

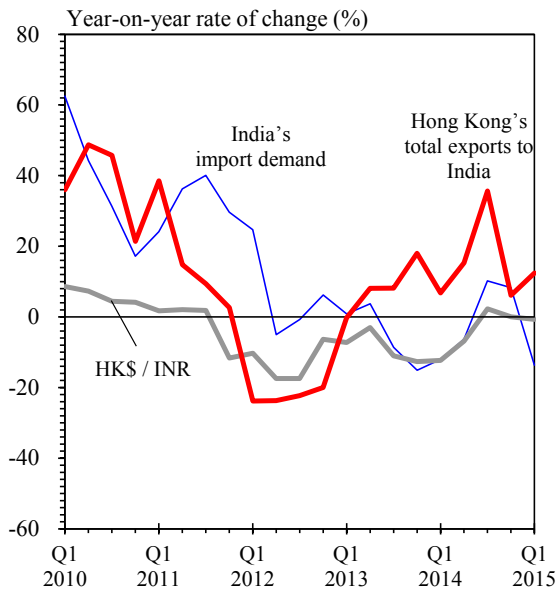


Diagram 2.9 : Exports to Taiwan weakened visibly further

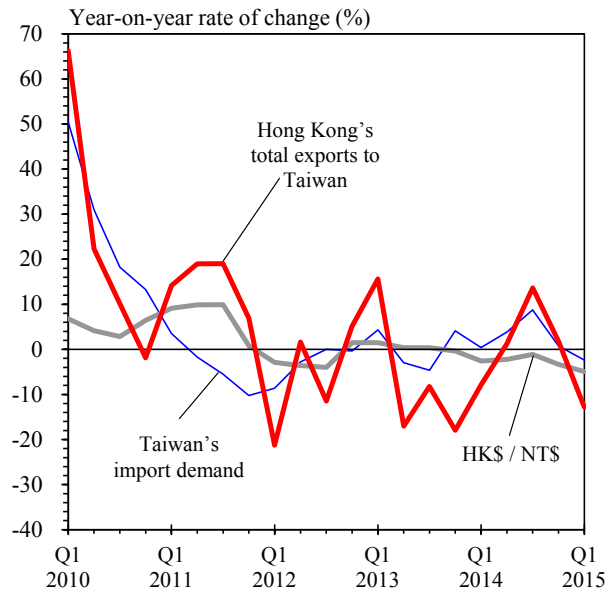


Diagram 2.10 : Exports to Korea remained on a notable decline

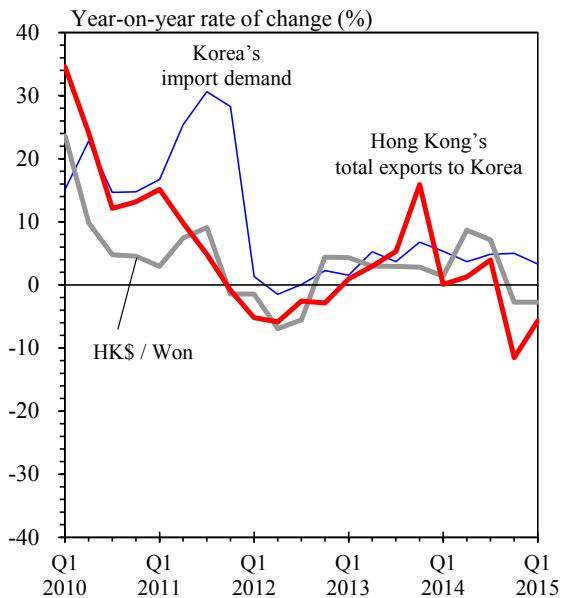
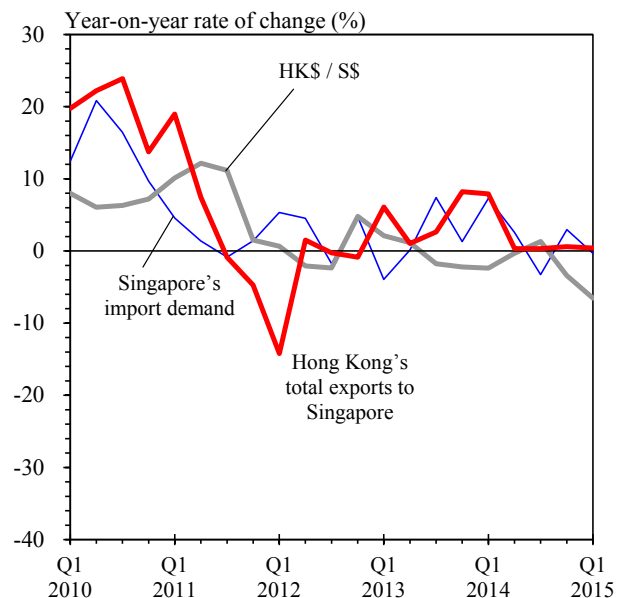


Diagram 2.11 : Exports to Singapore were almost flat



Box 2.1

The US Federal Reserve's policy objectives and recent progress

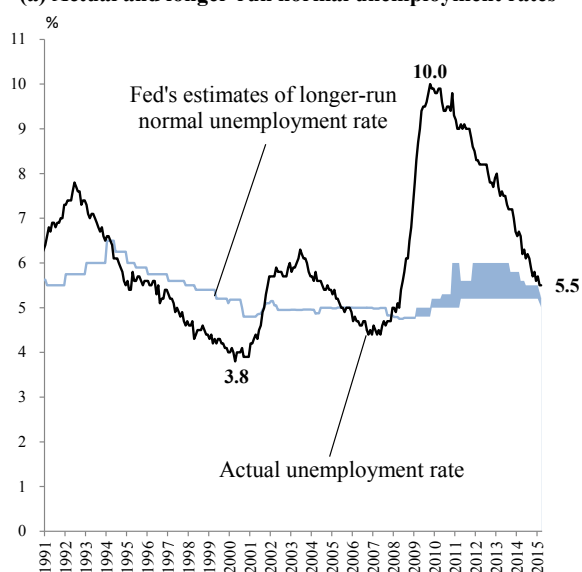
The US Federal Reserve (Fed) is committed to the mandate of fostering maximum employment and price stability when setting monetary policy. As the pace of monetary policy normalisation in the US is widely perceived as a key source of uncertainty facing the global economy, this note reviews the recent performance as well as historical trends of the oft-cited major indicators related to the dual mandate.

Maximum employment is associated with a longer-run normal level of unemployment rate, also known as the non-accelerating inflation rate of unemployment (NAIRU). Such longer-run unemployment rate reflects the lowest level of unemployment to which the economy would converge, under appropriate monetary policy yielding stable prices. However, such a natural rate is hardly measurable directly and probably changes over time, subject to shifts in the composition of the labour force or other dynamics in the job market.

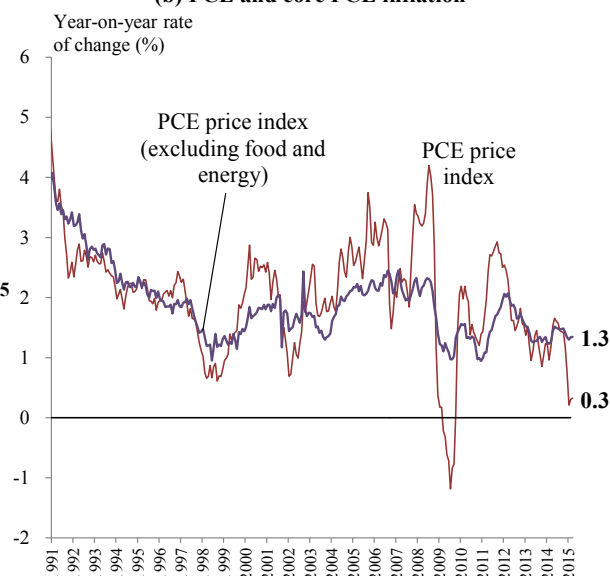
In the past, the Fed's estimates of the longer-run normal unemployment rates generally hovered between 5% and 6%. In March 2015, the estimates made by the Federal Open Market Committee (FOMC) members had a central tendency of 5.0-5.2%, down from 5.2-5.5% estimated in December 2014⁽¹⁾. The sustained job gains in recent years helped push the unemployment rate down successively from a peak of 10.0% in mid-2009 to 5.5% in March 2015. Based on such estimates of longer-run unemployment rates, the Fed seems to be close to fulfilling its maximum-employment objective (*Chart 1a*).

Chart 1 : Unemployment rate heading for longer-run level but inflation remained subdued

(a) Actual and longer-run normal unemployment rates



(b) PCE and core PCE inflation



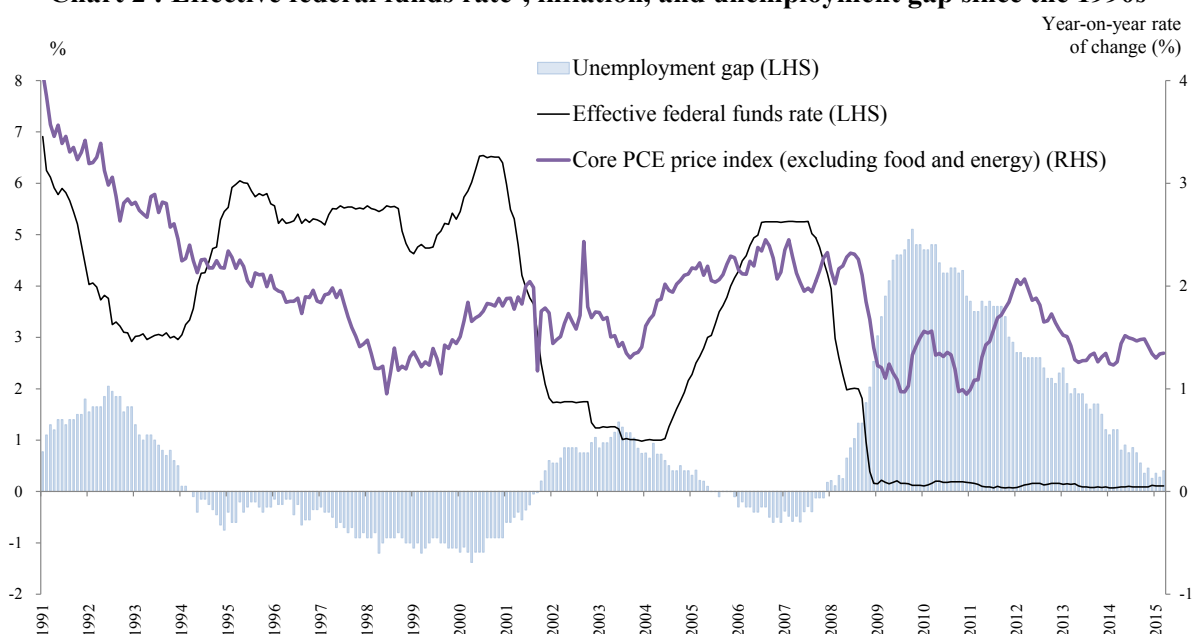
As to the inflation arm of the Fed's dual mandate, the steep fall in crude oil prices in the latter part of 2014 helped keep headline inflation at a very low level in recent months. The personal consumption expenditure (PCE) inflation, the preferred gauge by the Fed, held at a meagre year-on-year rate of 0.3% in March 2015. Excluding the volatile food and energy prices, the core PCE inflation was 1.3% (*Chart 1b*), still below the Fed's explicit target of 2%. In its recent policy statements, the Fed indicated that it would increase interest rates when it is "reasonably confident" that inflation would gradually move towards the target. This would be so if the labour market improves further and the transitory effects of lowered energy and other import prices dissipate.

(1) Since 2009, the FOMC published quarterly participants' longer-run forecasts of unemployment rate, real GDP growth and PCE inflation. The range of central tendency includes all projections but the three highest / lowest values. For data before 2009, Fed staff's estimates were used.

Box 2.1 (Cont'd)

Chart 2 juxtaposes the federal funds rates, core PCE inflation, and deviations of the actual unemployment rates from longer-run estimates (i.e. unemployment gap). Along with the sustained recovery from the recession of 2008-09, supported by a near-zero interest rate environment, the unemployment gap has almost been closed but inflation remained below-target in the recent periods. Such uneven progress complicated policymakers' judgment on the appropriate timing of removing policy accommodation. Whether the fall in unemployment rate would lead to higher inflation in the near term is still a question under discussion and debate. Indeed, in the mid-1990s, the actual unemployment rate stayed below the estimated longer-run normal unemployment rate for several years without any signs of accelerating inflation.

Chart 2 : Effective federal funds rate \hat{r} , inflation, and unemployment gap since the 1990s



Note: (\hat{r}) The effective federal funds rate is the weighted average of interest rates at which depository institutions trade federal funds (balances held at Fed Banks) with each other overnight. It is essentially market-determined but is influenced by the Fed through open market operations to reach the federal funds rate target.

Though the lesson from mid-1990s may suggest more room for a longer hold in raising interest rates, some research results attributed the observed dynamics between unemployment and inflation during the 1990s to such factors as greater trade openness, productivity growth and increased labour market efficiency. Thus the experience from that episode may not apply to the present day situation. To the Fed, proceeding the monetary policy normalisation too cautiously may lead to undesirable scenarios when rapid increases in interest rates were called for in face of a sharp upturn in inflationary pressures, which would agitate financial markets and dampen economic growth. Conversely, raising rates too hastily could dampen the hard-earned recovery. It may also lead to renewed rate cuts, thereby damaging the Fed's credibility.

Though at present market expectations are for an interest rate lift-off sometime this year, the Fed has reiterated that the path of monetary policy normalisation will be gradual and the assessment of progress towards its mandated objectives will remain data-dependent, based on various indicators on the job market and inflation pressures and expectations, as well as financial and international developments.

In sum, the onset and subsequent path of the US monetary policy normalisation, coupled with its divergence from the policy directions in other major economies, remains a key source of uncertainty facing the global economy, fuelling volatility in financial markets and capital fund flows. The recent moderation in economic indicators on various fronts in the US economy has also clouded the policy outlook further. We need to monitor these developments closely.

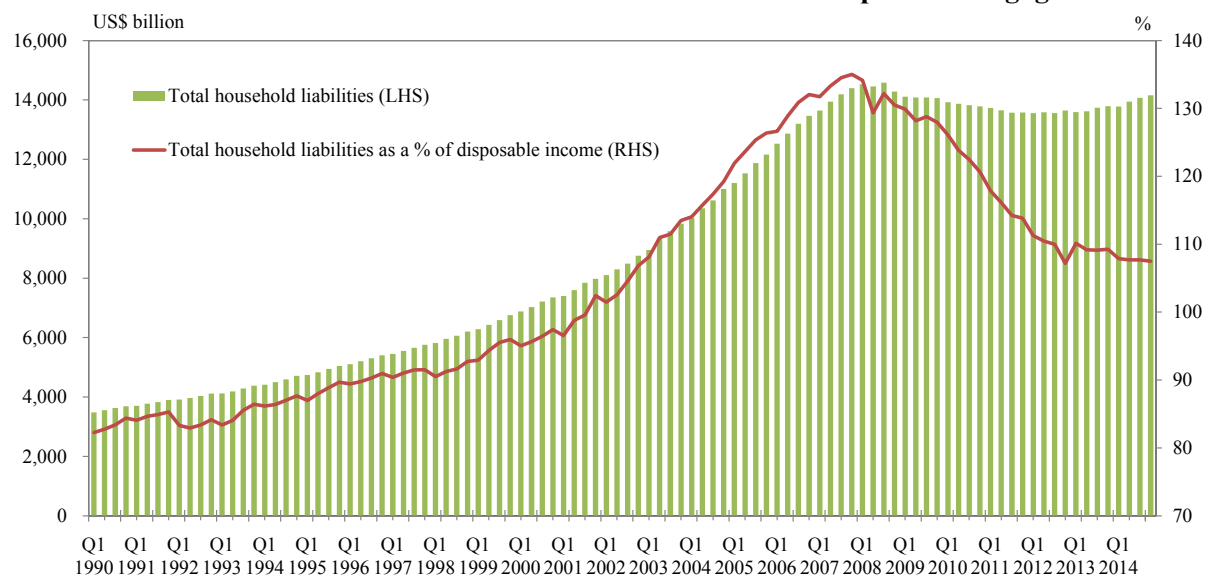
Box 2.2

Recent situation of US household deleveraging

This note examines the recent situation of household debt in the US and its implications for the outlook of the US economy.

Right after the outburst of the sub-prime mortgage crisis, the total liabilities of US households reversed the multi-year uptrend and fell notably. The cumulative decline between mid-2008 and early 2013 approached US\$1 trillion (*Chart 1*). The ratio of household debt to disposable income, a common measure of leverage, also dropped significantly during the period. The phenomenon is often known as “household deleveraging”.

Chart 1 : US household debt fell after the outburst of the sub-prime mortgage crisis



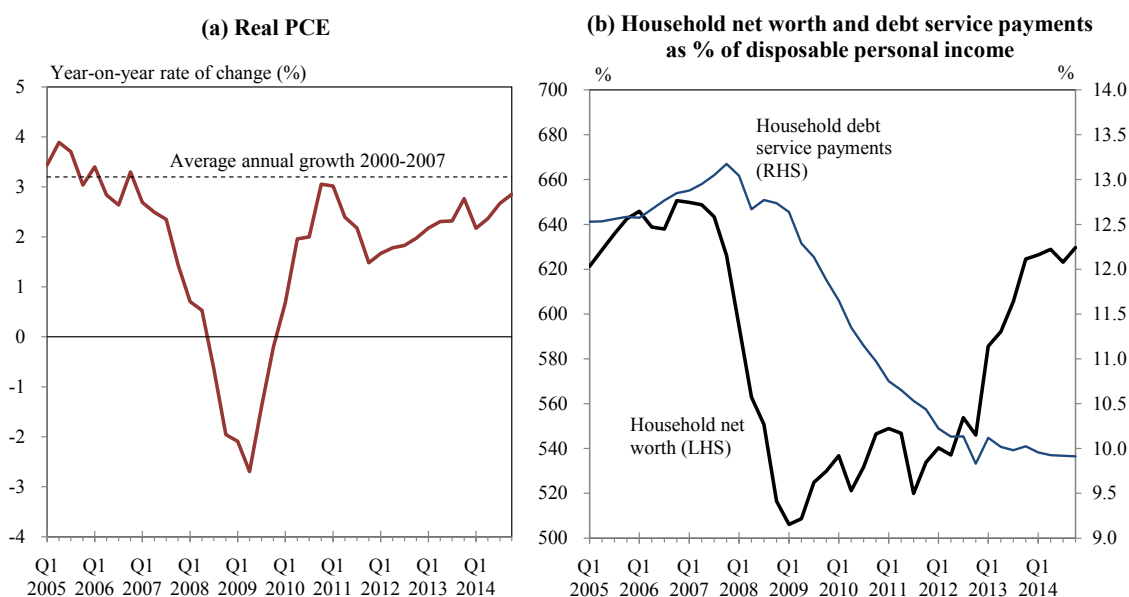
Source: Financial Accounts of the United States, Federal Reserve Board.

The high degree of household leveraging before the financial crisis of 2008-2009 is widely believed to be unsustainable, and the subsequent deleveraging contributed to the slow rebound in private consumption expenditure (PCE) as well as private residential investment in the early phase of economic recovery in the US. As the household sector reduced debts, they raised the personal saving rate and made less income available for spending, especially on those durable items that the purchase could be postponed. PCE grew only at an average annual rate of 2% between 2010 and 2012, becoming a drag on economic growth, given its nearly 70% share of GDP in the US (*Chart 2a*).

However, there are hopeful signs that the deleveraging process has largely come to an end in recent periods. Indeed, the level of household debt reversed course and has staged a mild uptrend since the second quarter of 2013. The turnaround came on the heel of improving macroeconomic situation, as the US economy gained more traction and unemployment rate fell. Besides, soaring stock prices and housing market recovery in the US, partly buttressed by the massive monetary policy stimulus, accelerated the balance-sheet repair of the household sector, thereby further solidifying the capability of consumers to borrow. Indeed, the net worth in the balance sheet of the household sector climbed up from a recession low of about five times the disposable income to over six times by the fourth quarter of 2014. Besides, the ratio of debt service payments to disposable income also fell below 10% in the latest quarter (*Chart 2b*), thanks to earnings increases, low interest rates, and household deleveraging in the preceding period. On the loan supply, financial institutions also showed increased willingness to lend to households in light of the macro improvement, with surveys showing easier credit standards since mid-2010.

Box 2.2 (Cont'd)

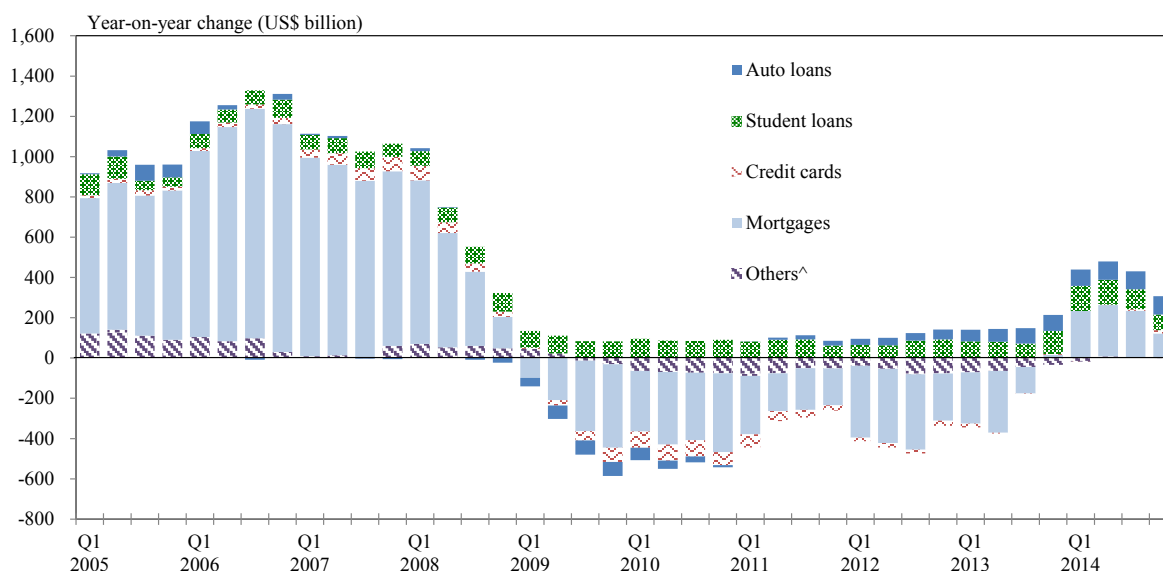
Chart 2 : Consumption growth muted after the crisis as households repaired balance sheet



Sources: Bureau of Economic Analysis; Financial Accounts of the United States, Federal Reserve Board.

More detailed breakdown shows that the recent increases in household debt had been underpinned by the pick-up in consumer credits such as auto loans and student loans (*Chart 3*). Moreover, the drag from mortgage debt also waned and reverted to growth. It was due partly to falling mortgage charge-offs as delinquencies and foreclosures receded. Also, mortgage net originations, with fluctuations from quarter to quarter, turned positive in 2014 as a whole because new mortgage issuance exceeded pay-downs, largely reflecting rising home prices and easier mortgage underwriting amid abundant liquidity.

Chart 3 : Mortgage debts rebounded and consumer credits picked up in recent period



Note: (^) "Others" include home equity revolving accounts, consumer finance (sales financing, personal loans), and retail loans.

Source: Federal Reserve Bank of New York Consumer Credit Panel.

In sum, the process of deleveraging in the US household sector seems to have largely come to an end. Looking ahead, the healthier household balance sheet, together with the recent oil price slump, should lend support to PCE growth in the US. However, such a likely positive development is still subject to some uncertainties, given the prospective US interest rate hikes and the slow recovery of the housing sector. Furthermore, some market analysts have recently cautioned about the swelling student loans in the US, as their possible defaults could threaten the stability of the credit market. We need to stay alert to all these developments.

Box 2.3

Recent macroeconomic performance of the eurozone

The eurozone resumed growth since the second quarter of 2013 after a six-quarter recession amid the euro debt crisis. To fend off the deflation risk and revive the economy, the European Central Bank (ECB) announced in January 2015 an enlarged asset purchase programme. By analysing the recent economic performance of the eurozone, this note provides an update of **Box 2.2** in the *2013 Economic Background and 2014 Prospects*, which covered the eurozone's situation up to the fourth quarter of 2013.

The recovery of the eurozone economy remained slow so far, with the quarter-to-quarter growth rate ranging only between 0.1% and 0.3% in the past seven quarters (**Chart 1**). For 2014 as a whole, real GDP saw disappointing growth of merely 0.9%. Analysed by GDP component, private consumption gained momentum over the course of 2014 (**Chart 2**) which was the key growth driver, followed by an improvement in the external sector. Yet, investment remained the weak spot though positive growth was resumed in 2014.

Chart 1 : Growth in the eurozone remained slow

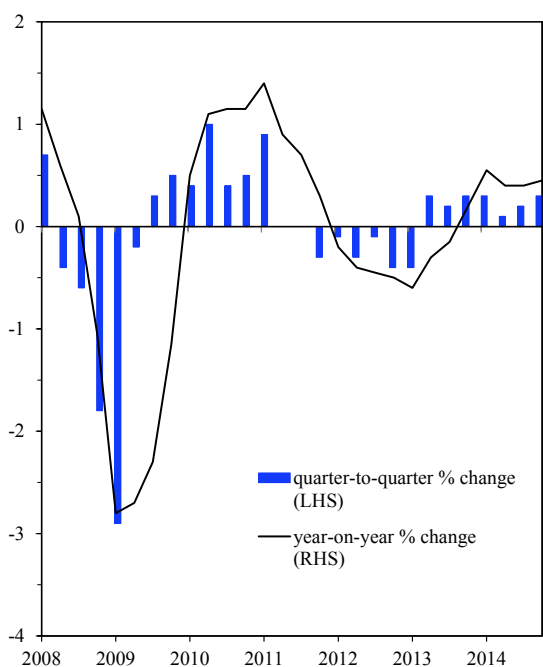
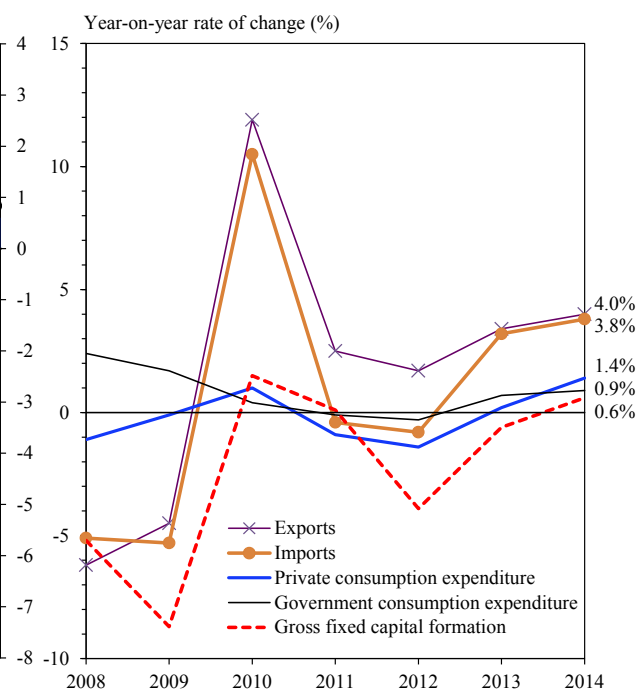


Chart 2 : Private consumption expenditure was the main growth driver in 2014



The eurozone economy showed some signs of improvement in early 2015, after the ECB's announcement of the new quantitative easing measures. PMIs rebounded in recent months and hovered at high levels, while retail sales and consumer confidence also improved in the first quarter (**Chart 3**). The slump in oil prices also raised real disposable income, adding tailwinds for the economy. Externally, trade surplus increased remarkably year-on-year in the first two months of 2015 (**Chart 4**). The depreciation of the euro, by some 12% against the US dollar during 2014, increased the price competitiveness of exports. Meanwhile, the ECB's loose monetary policy helped push borrowing costs to record low and revived credit demand gradually in recent months (**Chart 5**).

However, the recent improvement in some economic activity, fuelled largely by the ECB's monetary easing and the fall in oil prices, has yet to put the recovery on a firmer footing. For instance, industrial production in the region remained sluggish while Germany's factory orders grew only modestly of late (**Chart 6**). Most importantly, deflation risks in the region remain, CPI inflation though rebounded in recent months, was still at 0% in April. Excluding prices for energy, food, alcohol and tobacco, the core inflation, at 0.6%, also stayed well below the ECB's inflation target.

Box 2.3 (Cont'd)

Chart 3 : Consumption continued to grow along improving sentiment in early 2015

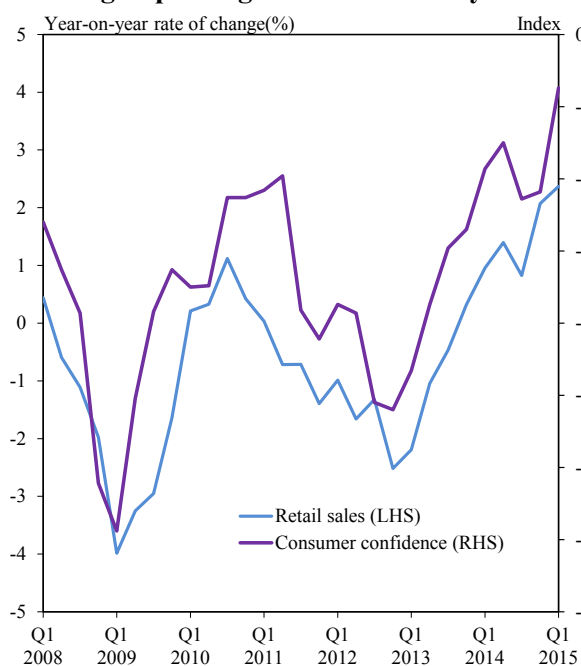


Chart 4 : Trade surplus improved

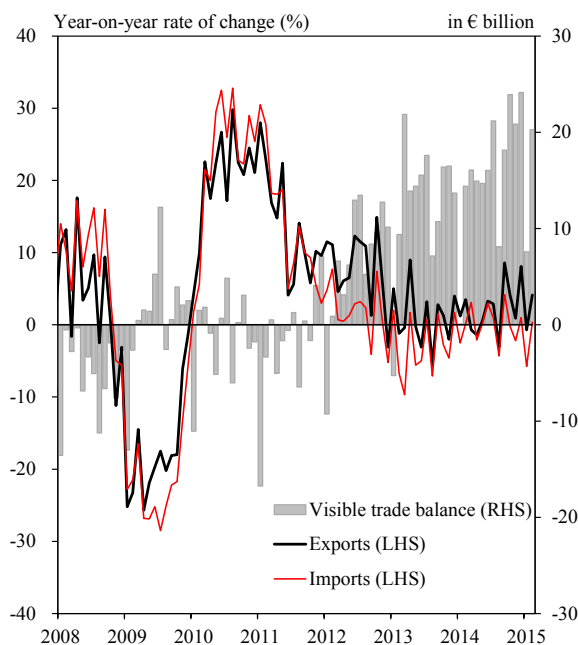


Chart 5 : Non-financial private sector loan resumed growth in early 2015

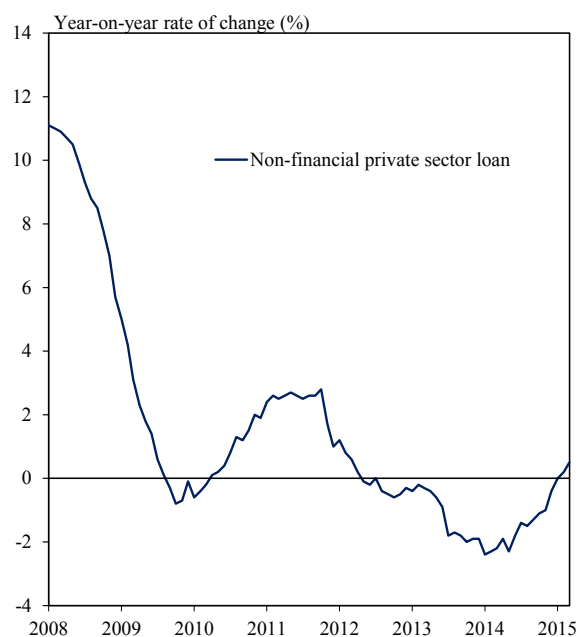
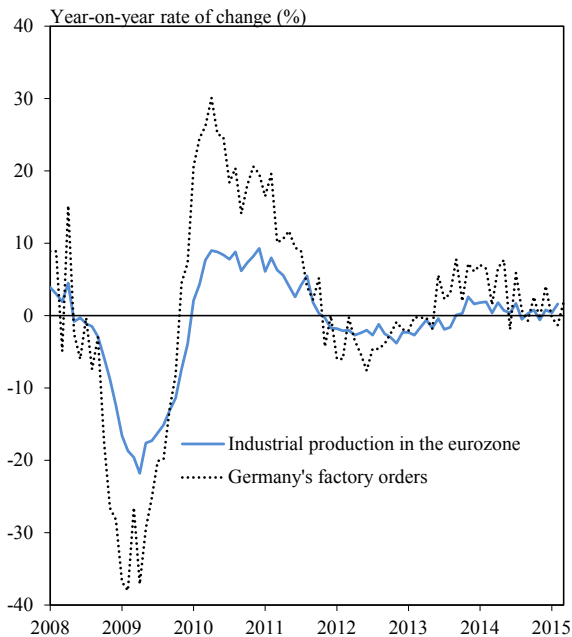


Chart 6 : Industrial production in the eurozone and Germany's factory orders remained sluggish



Indeed, the eurozone is still facing deep-seated structural problems. The heavy government indebtedness, staying at a high level of 92% of GDP for the eurozone as a whole, may also bring about short-term shocks to the region. The recent return of Greek debt issues is a vivid example. The elevated unemployment rate (at 11.3% in March) in the eurozone, especially that for the youth (at 22.7%), will continue to hamper growth dynamics. Thus reforms targeting at removing the rigidities in the labour markets, among other things, would also be needed for some member countries. Besides, geopolitical conflicts in Ukraine are also worrying.

In March, the ECB projected the region's real GDP to expand modestly by 1.5% in 2015, before growing by 1.9% in 2016 and 2.1% in 2017. Given the various challenges as discussed above, these forecasts are subject to a large degree of uncertainty.

Imports of goods

2.7 *Imports of goods* likewise showed only weak growth at 1.1% in real terms in the first quarter of 2015 over a year earlier, following a 1.7% growth in the fourth quarter of 2014. Apart from the slow growth in those imports for subsequent re-exporting, growth in retained imports also fell upon the paring down of inventories. *Retained imports*, which accounted for over one-quarter of total imports, saw a decelerated year-on-year growth of 1.9% in real terms in the first quarter, down from the 8.2% jump in the preceding quarter. Analysed by end-use category, retained imports of consumer goods relapsed to a visible decline in the first quarter over a year earlier after strong growth in 2014, in line with the slackening in retail sales performance during the quarter. Meanwhile, retained imports of raw materials and semi-manufactures pulled back notably, in tandem with the general sluggishness in regional production activity. Yet, retained imports of foodstuffs and capital goods both expanded year-on-year, with the latter in part reflecting the rebound in machinery and equipment acquisition in the first quarter. Separately, retained imports of fuels rebounded visibly in the first quarter, after continued declines in the past year.

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

		<u>Imports of goods</u>			<u>Retained imports</u> ^(a)				
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		
2014	Annual	3.9	2.3	1.9	5.8	4.5	1.7		
	Q1	2.1	0.7	(-3.1)	2.1	5.8	4.5	(-0.2)	3.1
	Q2	4.5	3.2	(2.4)	2.0	3.7	3.1	(-1.1)	2.4
	Q3	5.7	3.6	(1.8)	2.4	5.0	1.9	(1.1)	2.7
	Q4	3.2	1.7	(-0.4)	1.3	8.4	8.2	(7.1)	-1.0
2015	Q1	1.4	1.1	(-2.0)	0.9	-1.3	1.9	(-5.3)	-2.1

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

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

Diagram 2.12 : Imports and retained imports both showed weaker growth

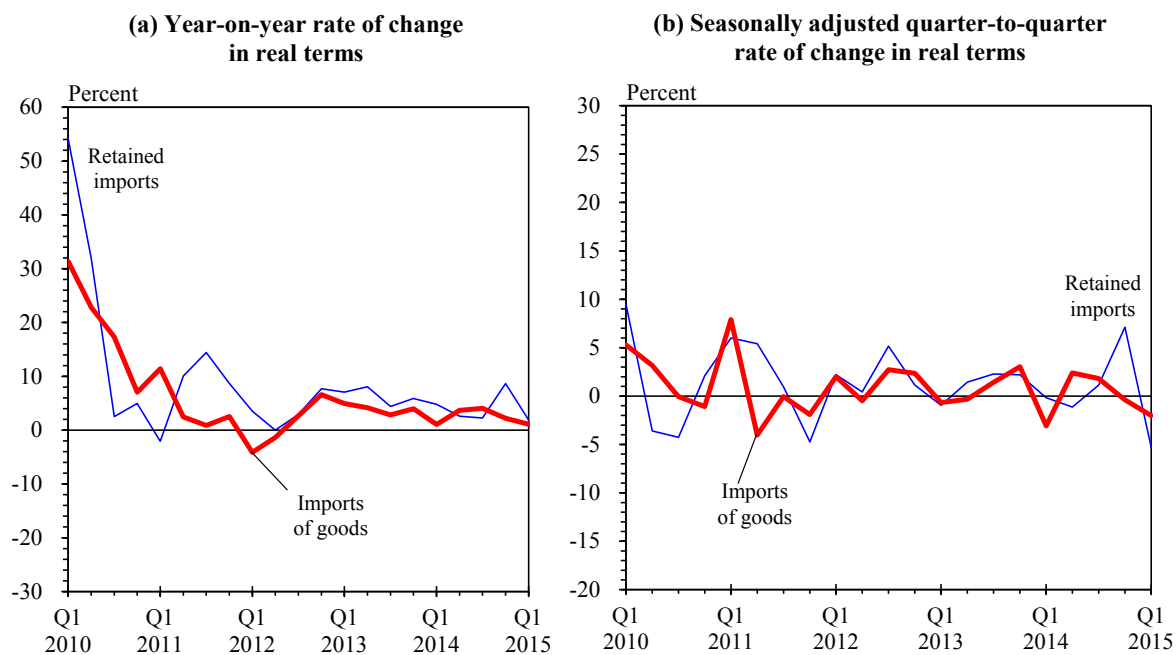


Table 2.4 : Retained imports by end-use category (year-on-year rate of change in real terms (%))

		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2014	Annual	8.2	5.8	-9.9	13.9	-5.9
	Q1	1.8	2.2	-1.6	10.5	-8.8
	Q2	7.6	12.4	-13.2	7.5	-2.6
	Q3	10.9	6.3	-23.5	12.7	-6.6
	Q4	12.4	3.4	-0.4	26.4	-5.2
2015	Q1	-12.8	4.0	44.4	-12.9	22.6

Services trade

Exports of services

2.8 *Exports of services* remained subdued with an enlarged year-on-year decline of 0.6% in real terms in the first quarter of 2015, further to the 0.3% contraction in the preceding quarter. The fall in exports of travel services widened and added downward pressures. While tourist spending on big-ticket items fell off further, visitor arrivals also relapsed to a decline in March, a marked slowdown after the double-digit growth in the previous two months combined, both weighing on the weak performance of inbound tourism in the first quarter. Over the same period, exports of trade-related services and transportation services stayed lacklustre, mirroring the faltering international and regional trade flows, though sustained growth in passenger flows rendered some support to the latter. On the other hand, fueled by the buoyant cross-border financial activities, exports of financial and other business services bounced back to show a moderate expansion, thereby rendering some cushion to overall services exports.

Diagram 2.13 : Major service groups accounted for similar shares of Hong Kong's services exports, reflecting a diversified base

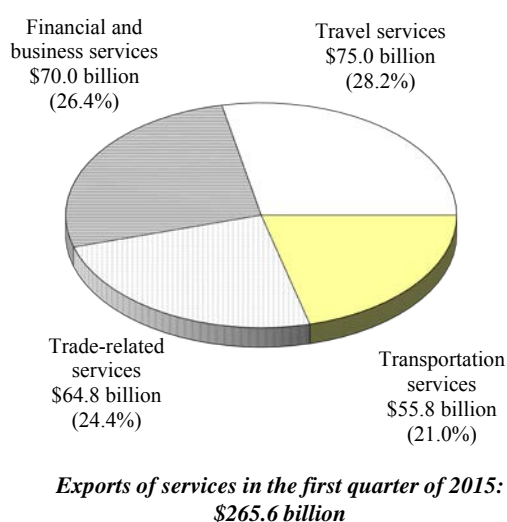
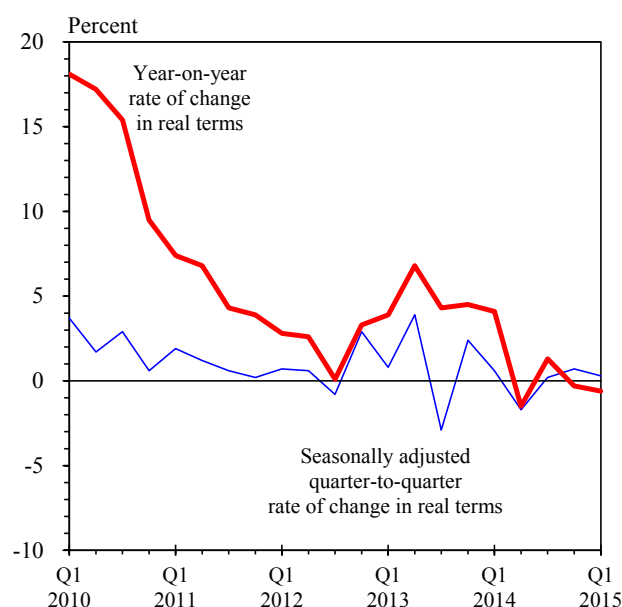


Diagram 2.14 : Exports of services declined slightly further in the first quarter



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

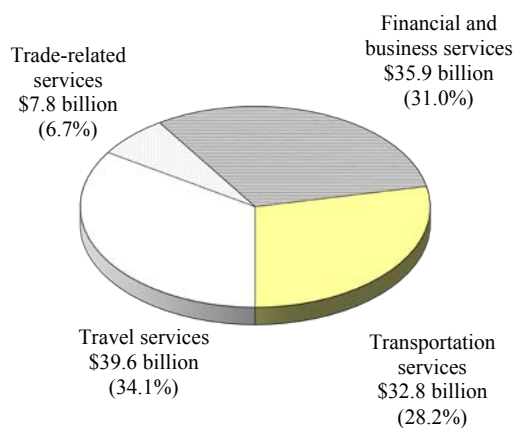
		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Trade-related services^(a)</u>	<u>Transportation services</u>	<u>Travel services^(b)</u>	<u>Financial and business services</u>
2014	Annual	0.9	1.3	2.6	-1.5	1.7
	Q1	4.1 (0.6)	-0.2	1.5	11.1	2.5
	Q2	-1.5 (-1.7)	1.5	3.9	-9.6	0.5
	Q3	1.3 (0.2)	2.7	2.9	-3.8	4.2
	Q4	-0.3 (0.7)	0.8	1.9	-2.9	-0.5
2015	Q1	-0.6 (0.3)	-1.1	1.6	-4.5	2.5

- Notes : (a) Comprising mainly offshore trade.
 (b) Comprising mainly inbound tourism receipts.
 () Seasonally adjusted quarter-to-quarter rate of change.

Imports of services

2.9 *Imports of services* grew moderately by 4.3% year-on-year in real terms in the first quarter of 2015, faster than the 1.1% increase in the preceding quarter. Across the service categories, imports of travel services attained notable year-on-year growth and remained the outperformer, revealing keen interests among local residents in overseas travel for recreation and other purposes in the midst of the stable local job market conditions. Besides, the weakening of major currencies against the US dollar also added to their enthusiasm to travel abroad. Meanwhile, imports of financial and other business services expanded moderately. On the other hand, imports of transportation services and trade-related services were still subdued in the first quarter, in tandem with the modest trade flows.

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



Imports of services in the first quarter of 2015: \$116.1 billion

Diagram 2.16 : Imports of services grew moderately in the first quarter

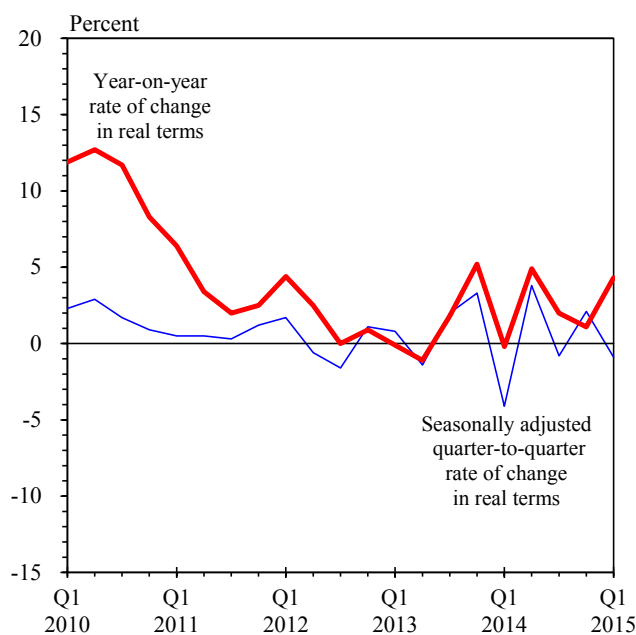


Table 2.6 : Imports of services by major service group (year-on-year rate of change in real terms (%))

Of which :

		<i>Of which :</i>				
		<u>Imports of services</u>	<u>Travel services⁽⁺⁾</u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Financial and business services</u>
2014	Annual	1.9	3.7	0.1	1.1	1.6
	Q1	-0.2 (-4.1)	-2.7	-0.8	0.8	2.9
	Q2	4.9 (3.8)	10.5	1.8	2.5	1.7
	Q3	2.0 (-0.8)	4.0	0.4	1.7	1.4
	Q4	1.1 (2.1)	3.3	-0.9	-0.2	0.6
2015	Q1	4.3 (-0.9)	8.6	0.6	-0.1	3.9

Notes : (+) Comprising mainly outbound travel spending.

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

Goods and services balance

2.10 The goods deficit narrowed slightly in the first quarter of 2015 compared with the same period last year amid the slight increase in goods exports. As the services surplus offset the goods deficit in the first quarter, the combined goods and services account was broadly balanced. This contrasted with a deficit of \$7 billion in the first quarter of 2014, equivalent to 0.6% of total import value.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			<u>As % of imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2014	Annual	3,877	1,076	4,472	481	-594	595	1	#
	Q1	870	266	1,029	115	-158	151	-7	-0.6
	Q2	949	245	1,111	115	-162	129	-33	-2.7
	Q3	1,027	279	1,148	124	-122	155	33	2.6
	Q4	1,031	287	1,183	127	-152	160	8	0.6
2015	Q1	879	266	1,028	116	-149	149	*	#

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

(*) Within ± 0.5 billion.

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

Other developments

2.11 Small and medium enterprises (SME) are an important pillar of the Hong Kong economy, accounting for 98% of the total local enterprises and hiring 50% of the private sector workforce. In light of the challenging external environment, the 2015-16 Budget unveiled a series of support measures targeting SMEs, including the extension of the application period for the special concessionary measures under the SME Financing Guarantee Scheme for an additional year to facilitate their access to liquidity. The Government will inject \$1.5 billion into the SME Export Marketing Fund (EMF) and SME Development Fund (SDF), expand the scope of EMF, and increase the funding ceiling of projects funded under SDF. \$23 million will also be earmarked for offering Intellectual Property (IP) consultation, manpower training and other services to SMEs in the coming three years.

2.12 In the longer term, strengthening economic ties with our trading partners, particularly the Mainland, remains a principal strategy to develop our

economy. One promising prospect in this regard involves the initiatives of jointly building the Silk Road Economic Belt and the 21st Century Maritime Silk Road (“One Belt, One Road”) put forward by the Central Government in recent period. The Silk Road Economic Belt connects the Mainland with Europe via Central and Western Asia, while the Maritime Silk Road links the Mainland with Southeast Asia, Middle East, Africa and Europe. Since many economies included are developing ones, with keen interest on expanding trade and upgrading their infrastructure, the “One Belt, One Road” together offers a distinct co-operation network that could help open up new markets with great potential and boost trade and investment in the entailed regions.

2.13 As an international financial centre and business hub in the area under “One Belt, One Road”, Hong Kong is well positioned to seize the opportunities and to contribute in a wide range of high-end services. The Government will take the lead in enhancing economic collaboration with Mainland provinces and economies along the “One Belt, One Road”, and identify areas that require specific Government-to-Government involvement, with a view to creating more favourable conditions for our companies to invest in and gain access to these markets. In light of the forthcoming establishment of the Asian Infrastructure Investment Bank (AIIB), the Government will proactively discuss with the Central Government the form to participate in the AIIB to leverage on our strength in finance for the regional development.

2.14 Hong Kong’s economic integration with the Mainland economy also deepened further with the official launch of the China (Guangdong) Pilot Free Trade Zone (the Guangdong FTZ) in April. The Guangdong FTZ covers the designated areas in Nansha, Qianhai and Hengqin. Like other FTZs in the Mainland, the Guangdong FTZ will explore new means and accumulate experience for deepening reforms and further opening up so that those replicable and promotable successful experiences can be implemented in other places on the Mainland. The emphasis of Guangdong FTZ will be on fostering the Mainland’s economic co-operation with Hong Kong and Macau, and serving as an exemplary zone for in-depth co-operation among Guangdong, Hong Kong and Macau, and as an important hub for the 21st Century Maritime Silk Road. Given Hong Kong’s deep understanding of the Mainland market, especially Guangdong Province, and our extensive business network in the Mainland, the establishment of FTZs should bring more business opportunities for Hong Kong enterprises.

2.15 The Government also constantly seeks ways to provide trade facilitation in collaboration with our major trading partners to enhance our

competitiveness and create new business opportunities. In early March, the Hong Kong-Singapore Mutual Recognition Arrangement (MRA) on the Authorized Economic Operators (AEOs) became operational, bringing the full implementation of similar arrangements to three. Its implementation provides custom clearance facilitation between Hong Kong and Singapore, signifying a milestone in the co-operation between the two places in promoting international supply chain security and facilitating secure and efficient global trade.

Notes :

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the external trade quantum index series compiled using the chain linking approach, which were first released in March 2015 to replace the previous trade index numbers compiled using the Laspeyres method with a fixed base year. Under the new approach, the series are comparable with the real trade aggregates under GDP (reported in Chapter 1) which are based on the same measures. However, non-monetary gold is recorded as a separate item in the statistics of merchandise trade and not included in the trade aggregates reported in Chapter 2, but is included in the trade aggregates under GDP in accordance to the international compilation standard.
- (2) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

Summary

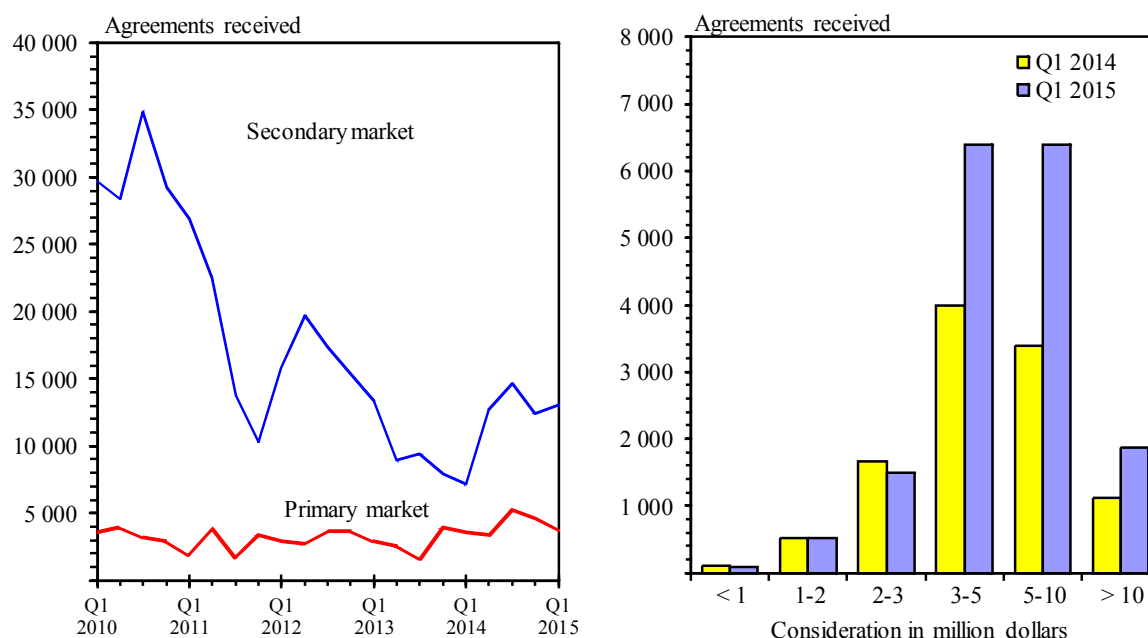
- *Amid the continued low interest rate environment and a tight demand-supply balance, the residential property market heated up further in the first two months of 2015. Yet it cooled off somewhat after the Hong Kong Monetary Authority announced its latest round of macro-prudential measures in late February. Overall flat prices were flat in March following an increase in the first two months, though there was still a 5% increase during the quarter. Trading activities also turned quieter.*
- *Raising flat supply through increasing land supply is the Government's top policy priority in ensuring the healthy and stable development of the property market. Reflecting the Government's sustained efforts, total flat supply in the coming three to four years rose to another record high of 78 000 units. In February, the Government announced the 2015-16 Land Sale Programme which is capable of providing a total of about 16 000 flats. Combining the various land supply sources, it is estimated that housing land supply in the coming year could provide for some 28 500 private flats.*
- *The commercial and industrial property markets held relatively steady in the first quarter. Prices and rentals continued to record mild increases. Trading activities generally rose further, though still at low levels by historical standards.*
- *Inbound tourism slowed in the first quarter. Dragged by a marked decline in March, overall visitor arrivals rose by only 4.9% over a year earlier to 15.4 million, marking the slowest pace of growth since the third quarter of 2009.*
- *The logistics sector saw a mixed performance. Container throughput declined by 8.1% in the first quarter, while air freight throughput fared better, expanding by a mild 2.9%.*

Property

3.1 Amid the continued low interest rate environment and a tight demand-supply balance, the *residential property market* heated up further in the first two months of 2015. Yet it cooled off somewhat after the Hong Kong Monetary Authority (HKMA) announced its latest round of macro-prudential measures in late February (see paragraph 3.7 and **Box 3.1**). Transactions recorded a notable fall in March, while flat prices stayed flat.

3.2 Trading activities were active in January, but turned less hectic in February during the Chinese New Year season and quietened down even more in March. Taking the quarter as a whole, the number of sale and purchase agreements for residential property received by the Land Registry edged down by 2% from the preceding quarter to 16 768, though representing a leap of 55% over the low base a year earlier. Within the total, primary market transactions fell by 19% from the preceding quarter, while secondary market transactions rose by 5%. In parallel, total consideration shrank by 10% to \$115.9 billion.

Diagram 3.1 : Trading activities quietened further in March following the introduction of HKMA's latest macro-prudential measures

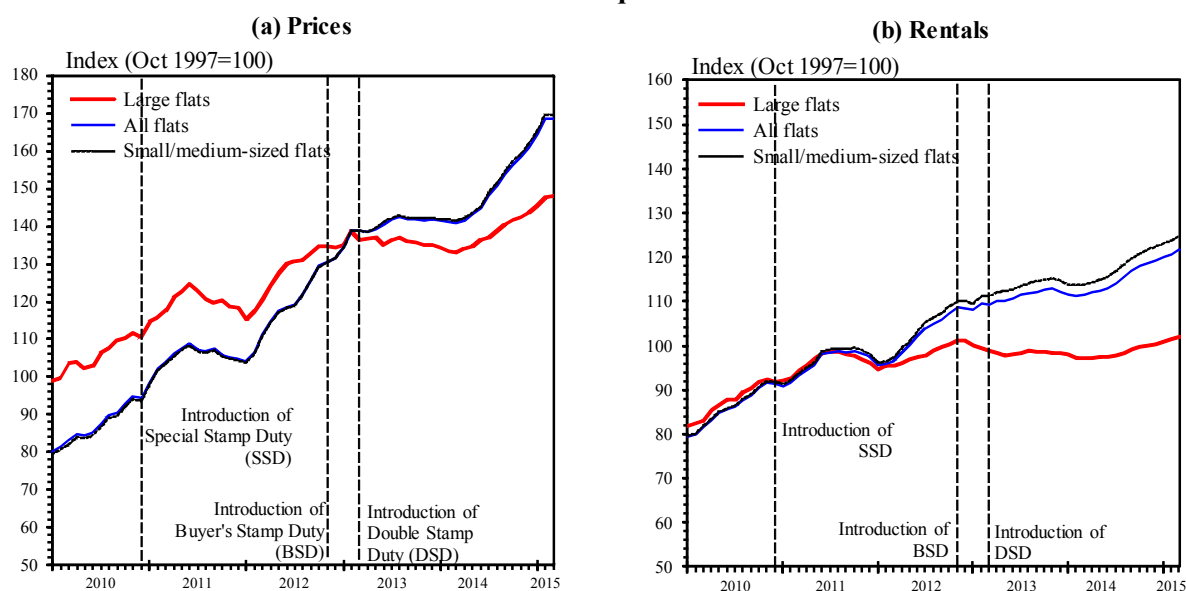


3.3 Overall flat prices were flat in March following an increase of 2.3% per month in January-February, though there was still a 5% increase between December 2014 and March 2015. While the prevailing tight demand-supply balance of flats and market expectation that the US Federal Reserve would only raise interest rates gradually lent support to prices, sentiment has been dampened by the HKMA's latest round of macro-prudential measures more

recently. Analysed by size, prices of small/medium-sized flats went up by 5% between December 2014 and March 2015, and those of large flats by 3%.

3.4 Meanwhile, the leasing market held steady in the first quarter of 2015. Overall flat rentals in March 2015 rose by another 2% over December 2014. Analysed by size, rentals of small/medium-sized flats and large flats recorded a similar increase of 2%. Reflecting the relative movements of flat prices and rentals, the average rental yield for residential property stayed at a low level of 2.7% in March 2015, same as in December 2014.

Diagram 3.2 : Flat prices stayed flat in March, while rentals recorded a modest gain during the first quarter



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

3.5 Raising flat supply through increasing land supply is the Government's top policy priority in ensuring the healthy and stable development of the property market. In February 2015, the Government announced the 2015-16 Land Sale Programme which includes 29 residential sites capable of providing a total of about 16 000 flats. Combining the various housing land supply sources including the Land Sale Programme, railway property development projects, redevelopment projects of the Urban Renewal Authority, projects subject to lease modification/land exchange and other sources, it is estimated that the total housing land supply in 2015-16 could provide for some 28 500 private flats.

3.6 As a result of the Government's efforts, the *total supply of flats* in the coming few 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) rose from 74 000 units as estimated at end-2014 to another record high of 78 000 units as estimated at end-March 2015. In addition, another 11 700 units could be added to the total supply after the conversion of a number of residential sites into “disposed sites”.

3.7 As it takes time to increase supply, the Government has also put in significant efforts to manage demand and reduce the possible risks to financial stability arising from an exuberant property market⁽¹⁾. In late February, the HKMA announced the seventh round of macro-prudential measures on property mortgage to strengthen banks’ risk management and resilience. The maximum loan-to-value (LTV) ratio for residential properties with value below \$7 million was cut, and the maximum debt-servicing ratio (DSR) for borrowers who buy a second residential property or a non-self use property was also lowered (**Box 3.1**).

3.8 These measures have yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) declined further to a record low of 50 cases per month or 0.8% of total transactions in the first quarter of 2015, well below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer’s Stamp Duty, *purchases by non-local individuals and non-local companies* stayed low at 93 cases per month or 1.5% of total transactions in the first quarter, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As to *mortgage lending*, the average LTV ratio of new mortgages in the first quarter, at 54%, was lower than the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the HKMA.

Box 3.1

HKMA's macro-prudential measures since 2009

To strengthen the banks' risk management and resilience and safeguard the stability of the banking and financial system, the HKMA has introduced seven rounds of macro-prudential measures on property mortgage since October 2009, and the latest round was introduced in late February 2015. The measures are summarised below :

First round (23 October 2009)

- Cap the LTV ratio at 60% for residential properties valued at \$20 million or more.
- Cap the loan amount at \$12 million for residential properties valued below \$20 million.

Second round (13 August 2010)

- Cap the LTV ratio at 60% for residential properties valued at or above \$12 million and non-owner occupied residential properties.
- Cap the loan amount at \$7.2 million for residential properties valued below \$12 million.
- Standardise the limit on DSR of mortgage applicants to 50%, from the previous range of 50% to 60%.
- Require banks to stress-test mortgage applicants' repayment ability with an assumed increase in mortgage rates of at least two percentage points, and cap the stressed DSR at 60%.

Third round (19 November 2010)

- Lower the maximum LTV ratio for residential properties with a value at \$12 million or above from 60% to 50%.
- Lower the maximum LTV ratio for residential properties with a value at or above \$8 million and below \$12 million from 70% to 60%, with the loan amount capped at \$6 million.
- Cap the loan amount at \$4.8 million for residential properties valued below \$8 million.
- Lower the maximum LTV ratio for all non-owner-occupied residential properties, properties held by a company, industrial and commercial properties, and properties under net worth-based mortgage to 50%.

Fourth round (10 June 2011)

- Lower the maximum LTV ratio for residential properties with a value at or above \$10 million and below \$12 million to 50%.
- Lower the maximum LTV ratio for residential properties with a value at or above \$7 million and below \$10 million to 60%, with the loan amount capped at \$5 million.
- Cap the loan amount at \$4.2 million for residential properties valued below \$7 million.
- If the principal income of the mortgage loan applicants is not derived from Hong Kong, the applicable maximum LTV ratio would be lowered by at least 10 percentage points regardless of property types or values.
- Lower the maximum LTV ratio for properties under the net worth-based mortgage from 50% to 40%.

Box 3.1 (Cont'd)

Fifth round (14 September 2012)

For all mortgage loan applicants

- Standardise the maximum loan tenor for all new property mortgage loans to 30 years.

For mortgage loan applicants with outstanding mortgage loans

- Lower the maximum DSR from 50% to 40% and the maximum stressed DSR from 60% to 50%.
- Reduce the maximum LTV ratio from 40% to 30% for mortgage loans assessed based on applicants' net worth.
- Lower the applicable maximum LTV ratio by 20 percentage points, instead of the previous 10 percentage points, for applicants whose principal income is not derived from Hong Kong.

Sixth round (22 February 2013)

- Require banks to assume a mortgage rate increase of 300 basis points, instead of the previous 200 basis points, in stress-testing the repayment ability of mortgage loan applicants for both residential and non-residential properties.
- Lower the maximum LTV ratios of mortgage loans for all non-residential properties, whether or not for self-use, from the previous applicable levels by 10 percentage points.
- Set the maximum LTV ratio of mortgage loans for standalone car park spaces at 40% and the maximum loan tenor at 15 years. Other requirements on maximum LTV ratio and DSR applicable to non-residential property mortgage loans also apply to standalone car park space mortgage loans.
- Introduce a risk-weight floor of 15% for all new residential mortgages granted by banks using the internal ratings-based approach.

Seventh round (27 February 2015 and further guidance on 2 March 2015)

- Lower the maximum LTV ratio for self-use residential properties with value below \$7 million by a maximum of 10 percentage points to 60%.
- Lower the maximum DSR for borrowers who buy a second residential property for self-use from 50% to 40%, and the stressed-DSR cap from 60% to 50%.
- Lower the maximum DSR of mortgage loans for all non-self use properties, including residential properties, commercial and industrial properties and car park spaces, from 50% to 40%, and the stressed-DSR cap from 60% to 50%.
- Require banks adopting the internal ratings-based approach to extend the 15% risk-weight floor to their entire residential mortgage portfolios before end-June 2016, with an interim step of achieving a 10% risk-weight floor by end-June 2015.
- Require banks to apply a 5-percentage-point knock down on the applicable DSR caps if the total amount of mortgage loans, through any mortgage co-financing or insurance schemes, is 20 percentage points over the normal permissible LTV caps set by the HKMA.

Diagram 3.3 : Speculative activities stayed subdued

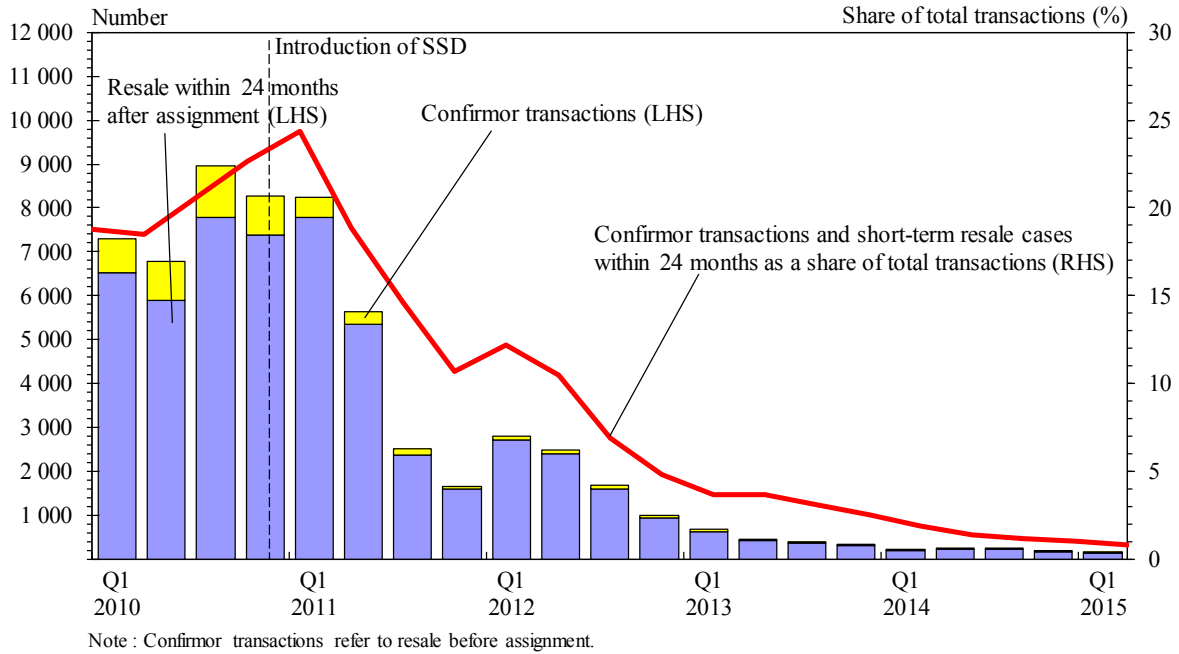
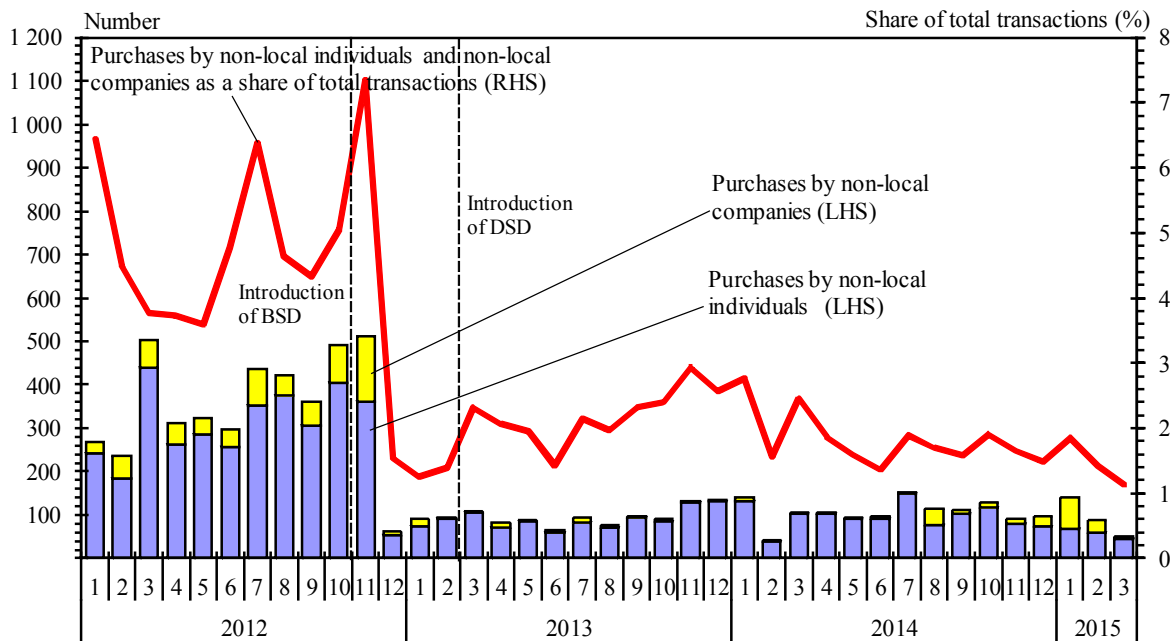
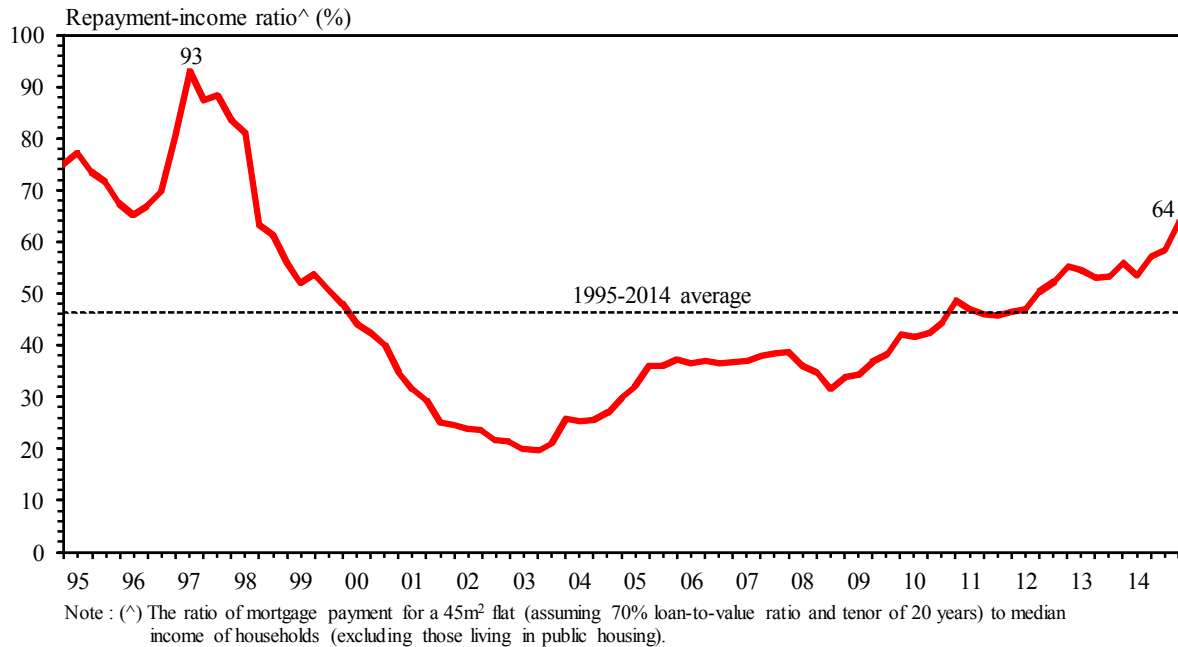


Diagram 3.4 : Purchases by non-local buyers remained low



3.9 Yet following the almost uninterrupted rally in flat prices in the past few years, the risks of a housing market bubble are still prominent. Overall flat prices in March 2015 have surpassed the 1997 peak by a rampant 69%. Home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) worsened to around 64% in the first quarter, exceeding the long-term average of 46% over 1995-2014. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 83%.

Diagram 3.5 : The mortgage payment to income ratio rose further



3.10 Looking ahead, while the US Federal Reserve is expected to gradually normalise interest rates, the exact timing and pace of the rate hike remain uncertain, much contingent on upcoming economic data. In contrast, other major central banks, in particular in the eurozone and Japan, are continuing with their monetary easing measures. The divergent monetary policy stance of the major monetary authorities could lead to increased financial volatilities and abrupt changes in fund flows. The property market may experience considerable fluctuations as market sentiment shifts along with changes in these external factors.

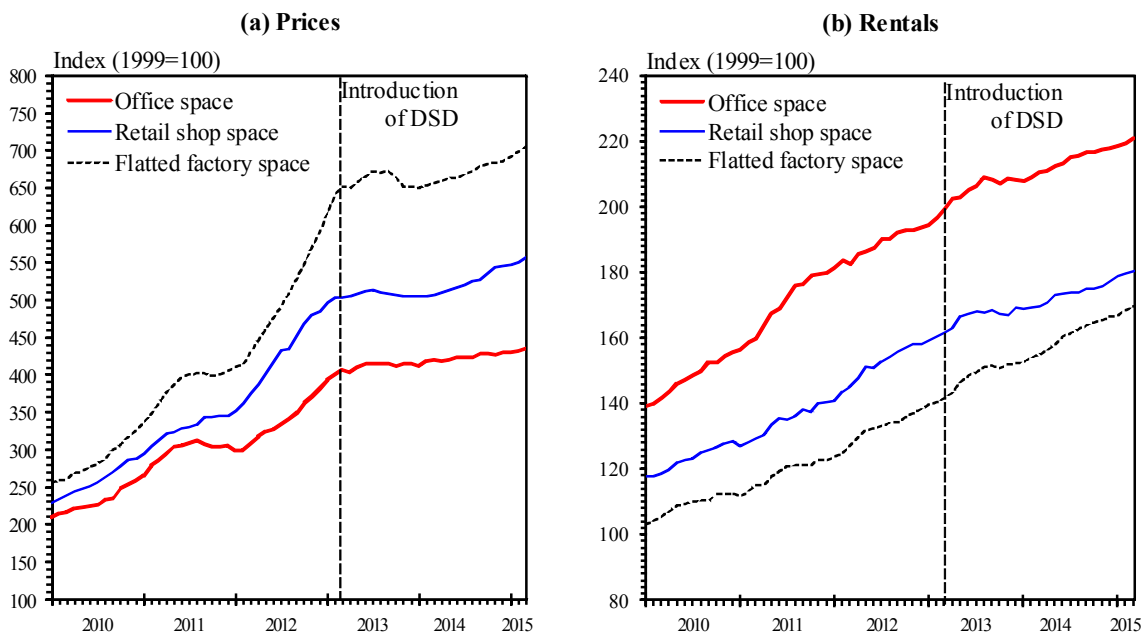
3.11 The *commercial* and *industrial property markets* held relatively steady in the first quarter of 2015. Prices and rentals continued to record mild increases. Trading activities generally rose further, though still at low levels by historical standards.

3.12 Overall sale prices of *office space* edged up by 1% between December 2014 and March 2015, with prices of Grade A, B and C office space all rising by a mild 2%. Overall office space rentals also rose by 1% over the period, with rentals of Grade A, B and C office space increasing by 2%, 2% and 1% respectively. The average rental yields for Grade A, B and C office space were 2.9%, 3.0% and 2.9% respectively in March 2015, same as in December 2014. Transactions for office space surged by 23% over the preceding quarter or 95% over the low base a year earlier to 400 cases in the first quarter.

3.13 Both sale prices and rentals of *retail shop space* rose by 2% between December 2014 and March 2015. Meanwhile, the average rental yield for retail shop space edged down from 2.4% to 2.3% over the period. Transactions fell by 22% from the preceding quarter or 18% from a year earlier to 550 cases in the first quarter⁽²⁾.

3.14 As to *flatted factory space*, sale prices and rentals rose by 3% and 2% between December 2014 and March 2015 respectively. As a result, the average rental yield edged down from 3.0% to 2.9% over the period. Meanwhile, transactions for flatted factory space increased by 14% over the preceding quarter or 57% over the low level a year earlier to 940 cases in the first quarter.

Diagram 3.6 : Prices and rentals of non-residential properties recorded mild increases



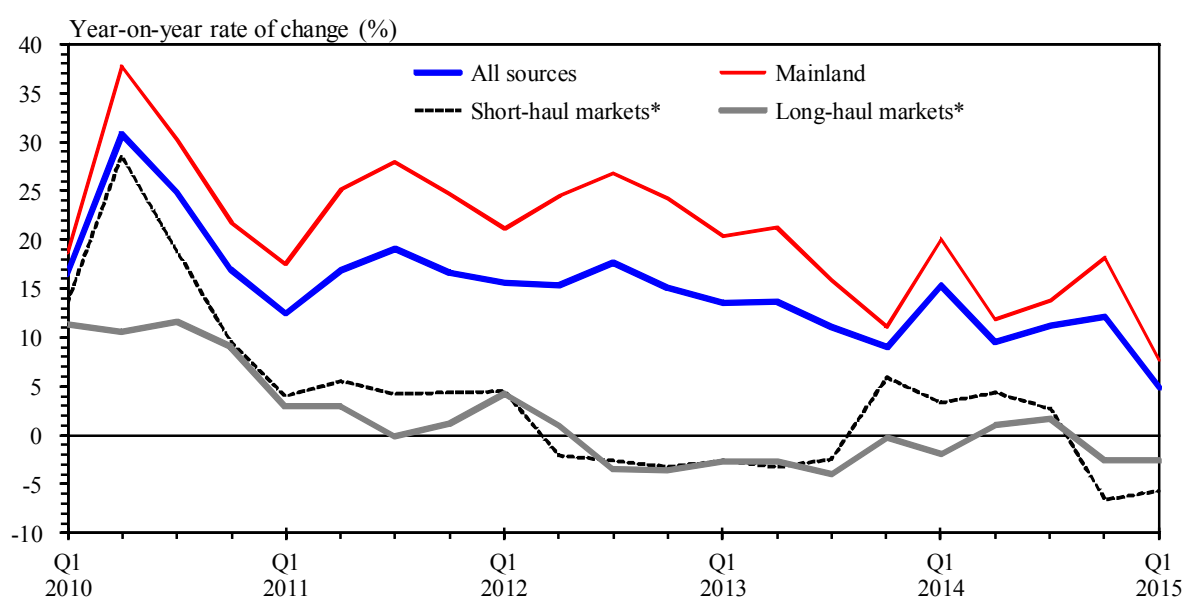
Land

3.15 Reflecting the Government’s efforts to increase land supply, five residential sites, one business site, one commercial/office site and one industrial site, with a total area of about 5.5 hectares, were disposed in the first quarter, fetching a land premium of about \$14.4 billion. The tender exercises for one commercial/office site and three residential sites also commenced during the first quarter. As to land exchange, there was one land exchange approved in the first quarter. Meanwhile, 15 sites were approved for lease modifications.

Tourism

3.16 Inbound tourism slowed in the first quarter of 2015 after the robust performance in the past five years. While overall *visitor arrivals* still recorded double-digit growth in January-February combined, they turned to a visible fall in March. For the quarter as a whole, overall visitor arrivals rose by only 4.9% over a year earlier to 15.4 million, marking the slowest pace of growth since the third quarter of 2009 when the sector was hit by concerns over human swine flu. Within the total, Mainland visitors rose by a decelerated 7.7% to 12.3 million, while visitors from short-haul markets and long-haul markets⁽³⁾ fell by 5.7% and 2.6% respectively.

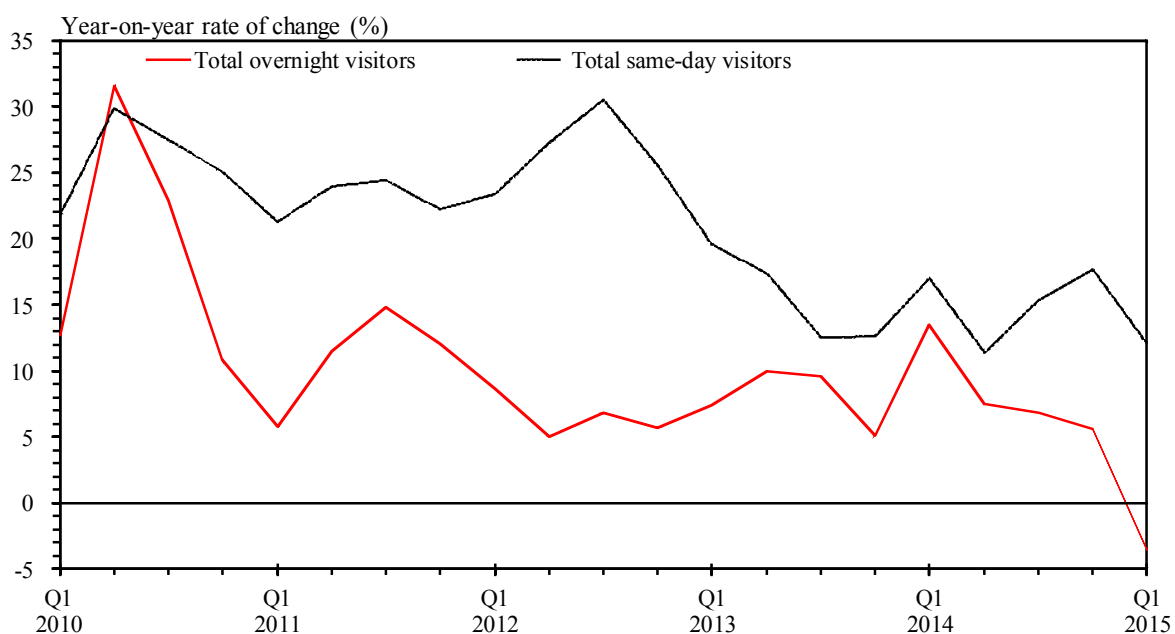
Diagram 3.7 : Inbound tourism slowed in the first quarter



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

3.17 Analysed by the length of stay, same-day visitor arrivals in the first quarter of 2015 rose by a moderated 12.1% over a year earlier, down from the 17.7% growth in the preceding quarter. Overnight visitor arrivals slackened even more abruptly, from an increase of 5.6% to a fall of 3.5%, the first year-on-year decline since the third quarter of 2009. The share of same-day visitors rose further from 53.9% a year earlier to 57.6% in the first quarter, while that of overnight visitors declined from 46.1% to 42.4%.

Diagram 3.8 : Same-day visitors rose at a moderated pace while overnight visitors declined

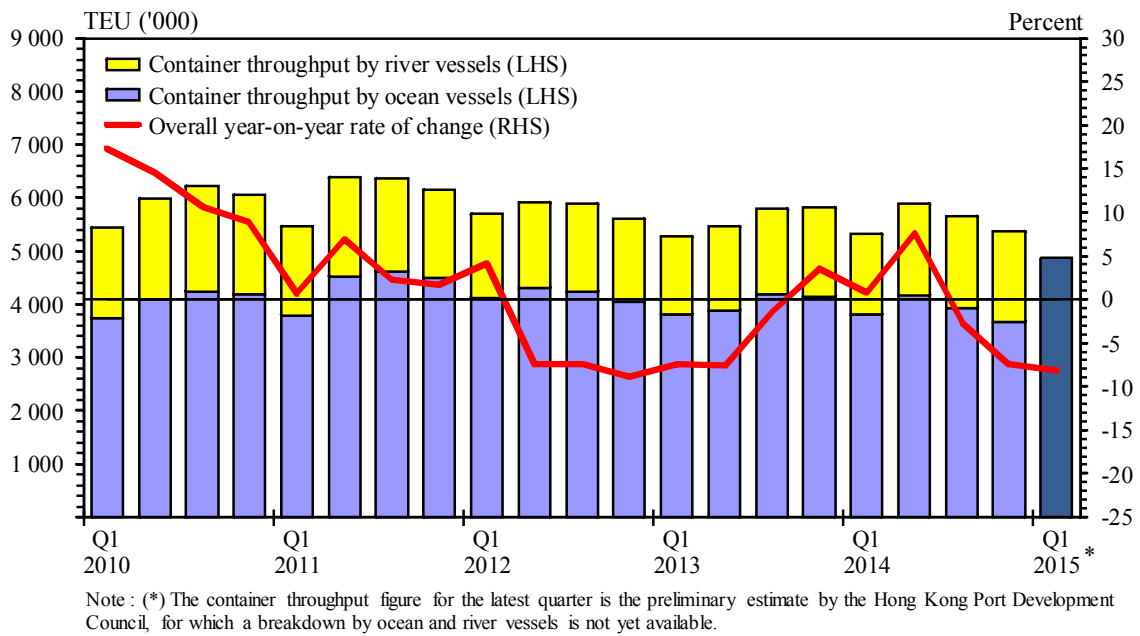


3.18 In tandem with the moderated growth in visitor arrivals, the average hotel room occupancy rate retreated from a high 90% a year earlier to 86% in the first quarter. The average achieved hotel room rate also declined, by 4.9% to \$1,422⁽⁴⁾.

Logistics

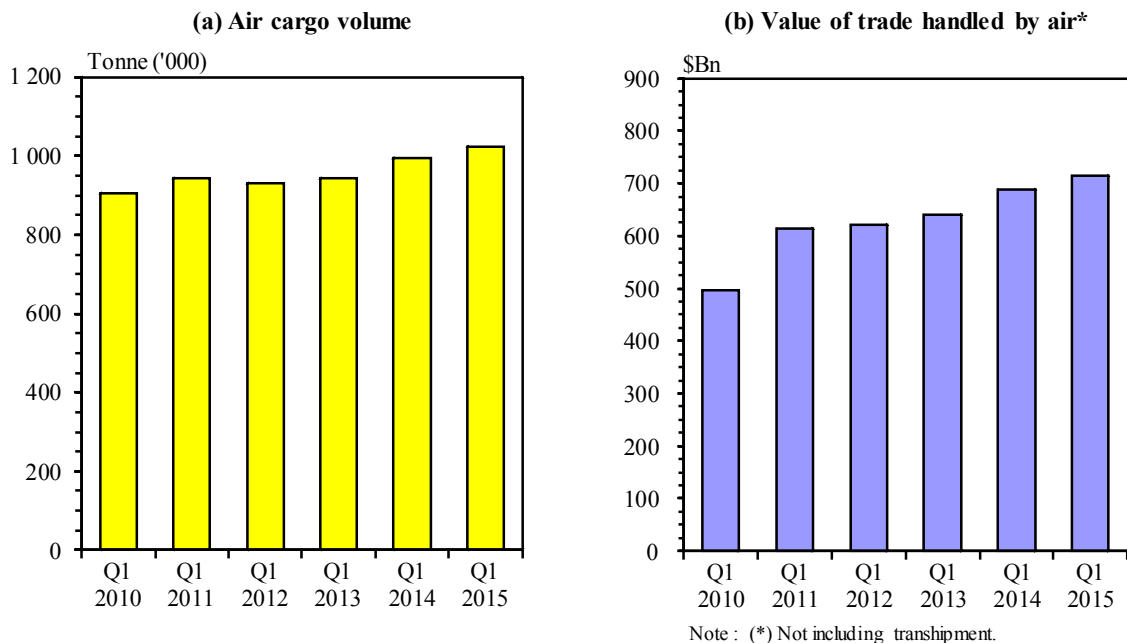
3.19 The logistics sector showed a mixed performance in the first quarter of 2015. Amid the still challenging external environment, *total container throughput* declined further by 8.1% from a year earlier to 4.9 million twenty-foot equivalent units (TEUs). The value of trade handled at the Hong Kong port also declined by 4.9% from a year earlier, and its share in total trade down from 23.2% to 21.7%.

Diagram 3.9 : Container throughput declined further in the first quarter



3.20 *Air freight throughput* fared better, expanding by a mild 2.9% over a year earlier to 1.0 million tonnes in the first quarter. The total value of trade by air also increased by 3.9% over a year earlier, and its share in overall trade value rose further from 39.2% to 40.0%.

Diagram 3.10 : Air cargo throughput and value of trade handled by air rose further



Transport

3.21 Traffic flows for different modes of transport recorded a mixed performance in the first quarter of 2015. Air passenger traffic increased by 8.8% over a year earlier to 16.4 million, while water-borne passenger trips declined by 4.1% to 6.6 million. As to land-based cross-boundary traffic movements, passenger trips went up by 6.5% to 55.7 million, but the average daily vehicular movements edged down by 0.9% to 39 600.

3.22 In March, the Government endorsed the proposal to expand the Hong Kong International Airport from the existing two-runway to a three-runway system. Through significantly expanding the airport's capacity, the three-runway project would help maintain Hong Kong's competitiveness as a global and regional aviation hub and cater for its long-term development and economic needs. The project would be taken forward by the Airport Authority on a self-financing basis, with construction expected to start in 2016 for completion by 2023.

Culture, Creativity and Innovation

3.23 In March, the Working Group on Intellectual Property (IP) Trading released the report on driving the development of Hong Kong as an IP trading hub, which the Government has accepted for implementation. The report sets out 28 recommended measures under four strategic areas, namely enhancing the IP protection regime; supporting IP creation and exploitation; fostering IP intermediary services and manpower capacity; and pursuing promotion, education and external collaboration efforts. Separately, in the 2015-16 Budget \$23 million has been earmarked for offering IP consultation, manpower training and other services to small and medium enterprises in the coming three years.

3.24 A number of measures and initiatives were announced in the 2015-16 Budget to support the further development of the cultural and creative industries. An additional \$400 million would be injected to the CreateSmart Initiative to support different sectors of the creative industries. To promote the development of the *fashion industry*, existing and new resources totalling \$500 million would be devoted to launch a series of measures on a pilot basis, including promotion of Hong Kong's fashion designers and brands. To boost the volume of local production and nurture talent of *the film industry*, a further \$200 million would be injected into the Film Development Fund and a subsidy scheme for film productions would also be introduced. As to *art and culture*, a

\$300 million Art Development Matching Grants Pilot Scheme would be launched, under which the amount of private donation and sponsorship secured by eligible local arts groups would be matched by grants, with a view to encouraging various sectors of the community to sponsor local art and cultural activities.

Environment

3.25 The Government launched a three-month public consultation on the future development of the electricity market on 31 March. The consultation targets to gather public's view on how to further develop the electricity market having regard to the four energy policy objectives of safety, reliability, affordability and environmental protection, as well as the goal to introduce competition to the market when the requisite conditions are present.

3.26 Separately, plastic shopping bag charging has been fully implemented since 1 April. All sellers engaging in retail sales of goods in Hong Kong are required to charge customers not less than 50 cents for each plastic shopping bag provided, save for situations where there is exemption. The charging scheme would help further reduce the excessive use of plastic bags and promote the green habit of Bring Your Own Bag, thereby conducive to the protection of Hong Kong's environment.

Notes :

- (1) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 in the 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 in the 2012 Economic Background and 2013 Prospects and Box 3.1 in the First Quarter Economic Report 2013. For details of the measures promulgated in 2014, see Box 4.1 in the 2013 Economic Background and 2014 Prospects. For details of the measures promulgated in 2015, see Box 3.1 of this report.
- (2) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (3) Short-haul markets refer to North Asia, South and Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In the first quarter

of 2015, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 80%, 13% and 7% of total visitors.

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

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *The low interest rate environment in Hong Kong continued in the first quarter of 2015 amid the ongoing accommodative monetary policy in the United States.*
- *The Hong Kong dollar exchange rate held stable against the US dollar during the quarter, moving within a narrow range of \$7.751-7.766 per US dollar. Meanwhile, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices rose alongside the strengthening US dollar.*
- *Total loans and advances rose by an accelerated 4.8% during the quarter. With loans to most economic sectors recording increases, loans for use in Hong Kong went up by 5.5% while loans for use outside Hong Kong increased by a moderated 3.3%.*
- *The local stock market was generally buoyant in the first quarter. With sentiment supported by expectation of continued low interest rates in the short term and further monetary easing in the Mainland, the Hang Seng Index rose by 5.5% over end-2014 to 24 901 at end-March 2015. Trading activities were also active in the quarter.*

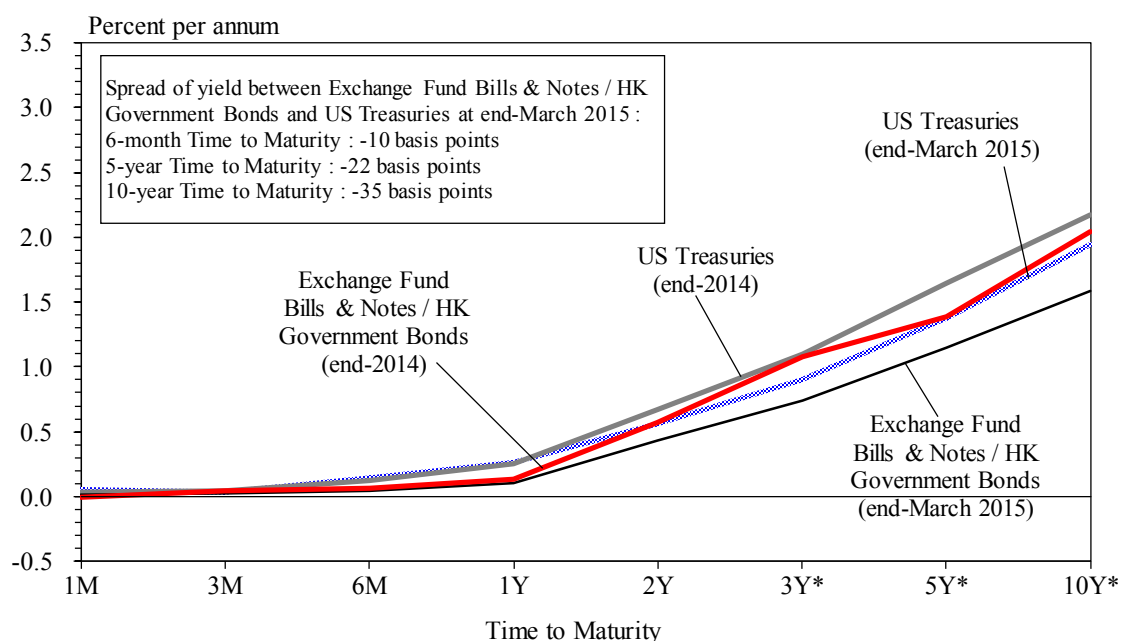
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the first quarter of 2015 amid the ongoing accommodative monetary policy in the United States. With the Federal Funds Target Rate staying at 0-0.25%, the *Base Rate* under the Discount Window operated by the HKMA held unchanged at 0.5% during the quarter⁽¹⁾. The *Hong Kong dollar interbank interest rates* (HIBOR) also stayed at low levels, with the overnight HIBOR and three-month HIBOR at 0.06% and 0.39% respectively at end-March 2015, little changed from the 0.05% and 0.38% at end-2014.

4.2 The *Hong Kong dollar* and *US dollar yield curves* flattened in the first quarter of 2015. Yet reflecting a larger decline in Hong Kong dollar yields, the negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes widened from 12 basis points at end-2014 to 35 basis points at end-March 2015, and that between 6-month Exchange Fund Bills and 6-month US Treasury Bills from six basis points to 10 basis points.

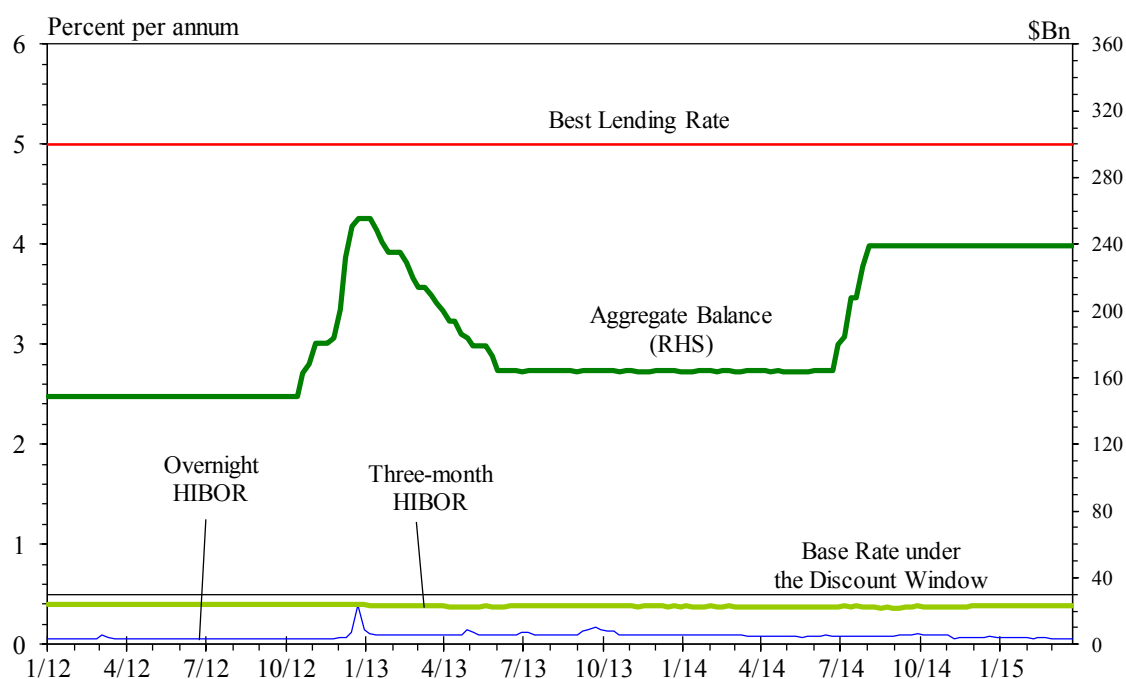
Diagram 4.1 : Both the Hong Kong dollar and US dollar yield curves flattened



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

4.3 Interest rates on the retail front remained at very low levels. The *Best Lending Rates* stayed unchanged at 5.00% or 5.25% during the first quarter. The one-year *time deposit rate* (for deposits of less than \$100,000) and the *savings deposit rate* quoted by the major banks were unchanged at an average of 0.16% and 0.01% respectively. Meanwhile, the *composite interest rate*⁽²⁾, which indicates the average cost of funds for retail banks, declined from 0.39% at end-2014 to 0.33% at end-March 2015.

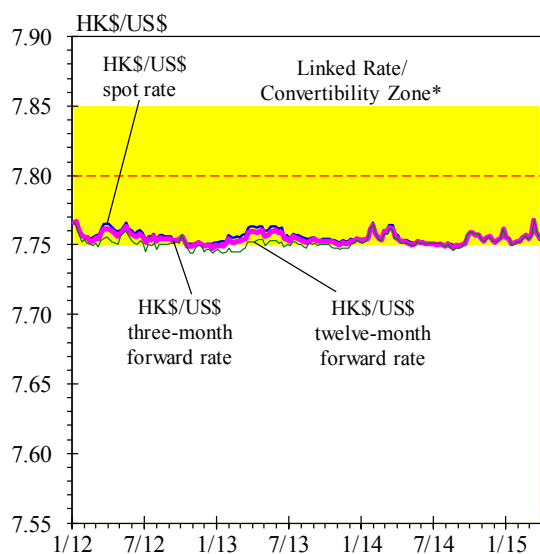
**Diagram 4.2 : Hong Kong dollar interest rates remained low
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* held broadly stable in the first quarter, moving within a narrow range of 7.751-7.766 per US dollar. The spot exchange rate closed at 7.754 at end-March 2015, little changed from 7.756 at end-2014. Meanwhile, the differential of *3-month* and *12-month Hong Kong dollar forward rates* over the spot rates widened from +3 and +5 pips (each pip equivalent to HK\$0.0001) to +11 and +17 pips respectively.

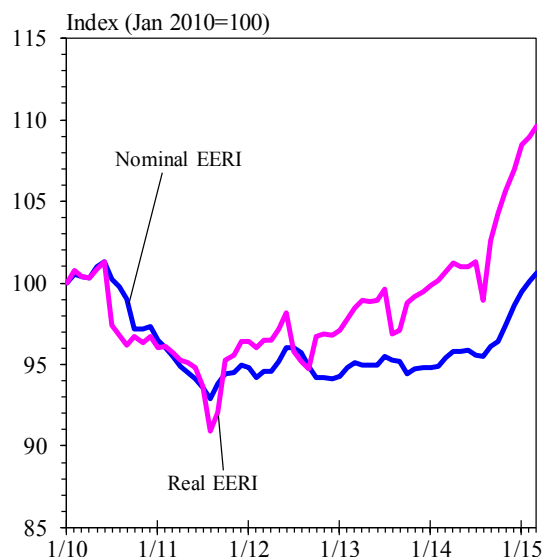
4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar strengthened against most major currencies including the euro, pound sterling, and Australian dollar, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ increased by 2.0% and 2.5% respectively during the first quarter.

Diagram 4.3 : Hong Kong dollar remained broadly stable against US dollar (end for the week)



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

Diagram 4.4 : The trade-weighted nominal and real EERIs both rose during the first quarter (average for the month)



Money supply and banking sector

4.6 The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) declined by 1.1% from end-2014 to \$1,099 billion at end-March 2015, while the Hong Kong dollar broad money supply (HK\$M3) rose by an accelerated 7.2% to \$5,612 billion⁽⁴⁾ partly due to one-off Initial Public Offering (IPO) related deposits. Meanwhile, *total deposits* with authorised institutions (AIs)⁽⁵⁾ grew by 3.3% to \$10,406 billion. Within the total, Hong Kong dollar deposits expanded by 7.4% but foreign currency deposits edged down by 0.5%.

Diagram 4.5 : Broad money supply expanded at a faster pace, but narrow money supply declined

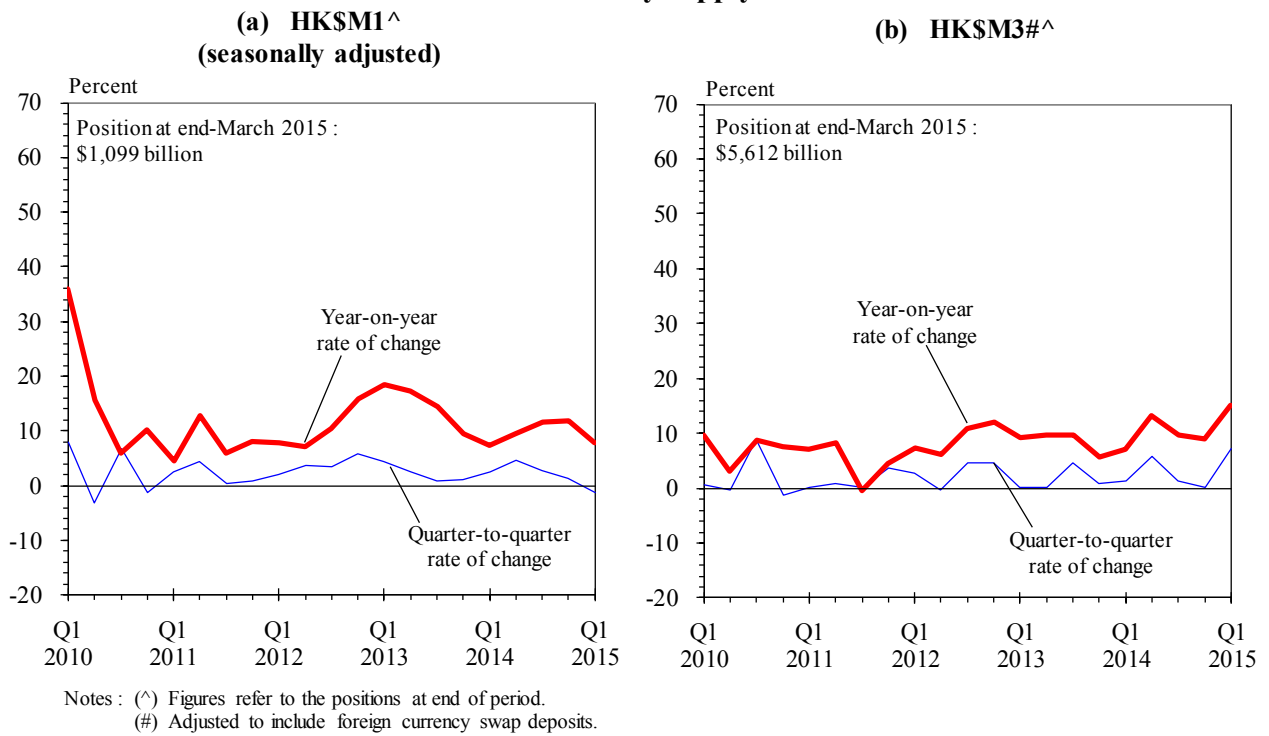


Table 4.1 : Hong Kong dollar money supply and total money supply

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
<u>% change during the quarter</u>		<u>HK\$[^]</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
2014	Q1	2.5	0.8	1.4	0.9	1.4	0.9
	Q2	4.7	6.9	5.7	4.5	5.7	4.5
	Q3	2.8	3.1	1.4	2.9	1.4	3.0
	Q4	1.3	1.8	0.3	0.9	0.3	0.9
2015	Q1	-1.1	13.7	7.2	3.1	7.2	3.0
Total amount at end-March 2015 (\$Bn)		1,099	1,941	5,601	11,348	5,612	11,381
<u>% change over a year earlier</u>		7.8	27.5	15.2	11.9	15.2	11.8

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 *Total loans and advances* increased by an accelerated 4.8% over end-2014 to \$7,627 billion at end-March 2015. Within the total, Hong Kong dollar loans surged by 7.1%, while foreign currency loans increased by 2.0%. Reflecting the relative movements in deposits and loans, the loan-to-deposit ratio for Hong Kong dollar edged down from 83.3% at end-2014 to 83.1% at end-March 2015, while that for foreign currencies rose from 62.1% to 63.7%.

4.8 Loans for use in Hong Kong (including trade finance) expanded by 5.5% over end-2014 to \$5,355 billion at end-March 2015, and loans for use outside Hong Kong by 3.3% to \$2,272 billion. Within the former, loans to stockbrokers surged by 3.4 folds due to a pick-up in IPO activities in late March. Loans to most other major sectors recorded modest growth. Trade finance and loans to wholesale and retail trading rebounded by 4.2% and 0.9% respectively. Notwithstanding the slowdown in the property market in March, loans for purchase of residential properties grew by 2.7% during the first quarter and loans to building, construction, property development and investment by 1.3%. On the other hand, loans to the manufacturing sector declined by 4.0%.

Table 4.2 : Loans and advances

All loans and advances for use in Hong Kong											
		Loans to :									
		Trade	Manu-	Whole-	Building,	Purchase	Financial	Stock-	All loans		Total
		finance	facturing	sale	construction,	of	concerns	brokers	and advances		loans
				and	property	residential			for use		and
				retail	development	purchase			outside		advances
				trade	and	of			Hong Kong ^(c)		
					investment	property ^(a)			Total ^(b)		
%											
change											
during											
the											
quarter											
2014	Q1	12.4	7.4	5.5	2.7	1.0	12.0	38.2	6.6	3.7	5.7
	Q2	2.4	6.7	5.4	1.6	2.1	3.3	68.1	4.4	1.7	3.6
	Q3	0.2	7.2	7.9	0.8	2.3	1.2	-38.8	1.4	3.3	1.9
	Q4	-14.5	1.9	-5.5	1.6	2.8	1.9	16.8	-0.7	4.8	0.9
2015	Q1	4.2	-4.0	0.9	1.3	2.7	-0.5	338.7	5.5	3.3	4.8
Total amount at end-March 2015 (\$Bn)		566	260	479	1,076	1,058	388	225	5,355	2,272	7,627
% change over a year earlier		-8.5	11.9	8.4	5.5	10.2	6.0	426.8	10.9	13.6	11.7

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

- (a) Figures also include loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme, in addition to those for the purchase of private residential flats.
- (b) Loans to individual sectors may not add up to all loans and advances for use in Hong Kong, as some sectors are not included.
- (c) Also include loans where the place of use is not known.

4.9 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 16.8% at end-2014. So far no AIs have encountered difficulties in complying with the statutory minimum ratios required by the HKMA under Basel III⁽⁶⁾.

4.10 Hong Kong has been following the international timeline in implementing the Basel III framework⁽⁷⁾. The implementation of the second phase of the Basel III standards commenced in 2015, with the requirements on capital buffers and liquidity coverage ratio coming into effect on 1 January, and the disclosure requirements associated with these standards and with the leverage ratio on 31 March. As part of the second phase of implementation of the capital standards, the HKMA also announced the phasing in of a Countercyclical Capital Buffer (starting with 0.625% in accordance with the Basel III transitional arrangement) for Hong Kong effective 1 January 2016, and the designation of five authorised institutions as domestic systemically important institutions and thus adoption of higher loss absorbency capital requirement.

4.11 Asset quality of the local banking sector remained very good. The ratio of classified loans to total loans stayed low at 0.45% at end-2014, compared with 0.43% at end-September 2014. The delinquency ratio for credit card lending edged down from 0.22% to 0.20% over the same period. Meanwhile, the delinquency ratio for residential mortgage loans stayed low at 0.03% at end-March 2015.

Table 4.3 : Asset quality of retail banks*

(as % of total loans)

<u>As at end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans (gross)</u>
2013	Q1	98.32	1.22	0.46
	Q2	98.42	1.11	0.47
	Q3	98.25	1.27	0.48
	Q4	98.33	1.20	0.48
2014	Q1	98.42	1.12	0.46
	Q2	98.50	1.05	0.46
	Q3	98.53	1.04	0.43
	Q4	98.56	0.99	0.45

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

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

4.12 Different segments of the *offshore renminbi (RMB) business* showed diverse performance. RMB trade settlement transactions handled by banks in Hong Kong increased by 9% over a year earlier to RMB1,626 billion in the first quarter. On RMB financing activities, RMB bank lending remained strong,

with outstanding RMB bank loans surging by 19% over end-2014 to RMB224 billion at end-March 2015. Yet bond issuance declined from RMB33 billion in the preceding quarter to RMB7 billion in the first quarter. Total RMB deposits (including customer deposits and outstanding certificates of deposit) also fell by 8% from end-2014 to RMB1,061 billion at end-March 2015.

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

<u>As at end of period</u>		<u>Interest rates on^(a)</u>					<u>Number of AIs engaged in RMB business</u>	<u>Amount of cross-border RMB trade settlement^(c)</u> (RMB Mn)
		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Savings deposits^(b)</u> (%)	<u>Three-month time deposits^(b)</u> (%)		
2014	Q1	167,082	777,828	944,910	0.25	0.53	147	1,488,813
	Q2	150,696	775,218	925,914	0.25	0.53	148	1,437,291
	Q3	144,306	800,168	944,473	0.25	0.53	149	1,609,298
	Q4	176,967	826,590	1,003,557	0.25	0.53	149	1,722,857
2015	Q1	157,444	794,550	951,994	0.25	0.53	147	1,626,122
% change in 2015 Q1 over 2014 Q1		-5.8	2.1	0.7	N.A.	N.A.	N.A.	9.2
% change in 2015 Q1 over 2014 Q4		-11.0	-3.9	-5.1	N.A.	N.A.	N.A.	-5.6

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

The debt market

4.13 Total issuance of *Hong Kong dollar debt* declined by 3.3% from a year earlier to \$573.5 billion in the first quarter of 2015. Within the total, new debts issued by the public sector retreated by 5.8% due to a decline in issuance of Exchange Fund papers, which accounted for 85.8% of total new issuance of Hong Kong dollar debt securities. By comparison, issuance by the private sector⁽⁸⁾ surged by another 23.0%, mainly driven by new issuance by AIs. Despite the decline in issuance, the total outstanding amount of Hong Kong dollar debt securities edged up by 2.2% over end-2014 to \$1,440.7 billion at end-March 2015 as there were less debts maturing than debts issued in the quarter. This was equivalent to 25.7% of HK\$M3 or 21.2% of Hong Kong dollar-denominated assets of the entire banking sector⁽⁹⁾.

4.14 As to the Government Bond (GB) Programme, a total of \$7.9 billion institutional GBs were issued through tenders in the first quarter of 2015. The total outstanding amount of Hong Kong dollar bonds under the GB Programme was \$104.4 billion at end-March 2015, comprising 13 institutional issues totaling \$74.4 billion and three retail issues (iBonds) totaling \$30.0 billion. Meanwhile, the Financial Secretary announced in the 2015-16 Budget that the Government would launch an iBond issue of up to \$10 billion with a maturity of three years. Also, following the US\$1 billion issuance of sukuk last year, the Government would actively consider a further sukuk issuance in order to attract more issuers and investors into the local market.

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

	Exchange Fund paper	Statutory bodies/govern- ment-owned corporations	Govern- ment	Public sector total	AIs ^(a)	Local corporations	Non-MDBs overseas borrowers ^(b)	Private sector total	MDBs ^(b)	Total
New Issuance										
2014 Annual	2,177.3	9.6	30.8	2,217.7	127.1	33.3	50.5	210.9	1.3	2,430.0
Q1	525.4	2.5	7.5	535.4	33.3	9.8	13.3	56.4	1.3	593.1
Q2	539.5	0.2	3.8	543.5	23.2	6.5	20.6	50.3	0.0	593.8
Q3	533.6	4.9	16.5	555.1	32.2	8.3	5.6	46.2	0.0	601.3
Q4	578.7	2.1	3.0	583.8	38.4	8.7	10.9	58.0	0.0	641.8
2015 Q1	491.9	4.3	7.9	504.1	54.4	4.4	10.6	69.4	0.0	573.5
% change in 2015 Q1 over 2014 Q1	-6.4	73.4	5.3	-5.8	63.3	-55.4	-20.1	23.0	-	-3.3
% change in 2015 Q1 over 2014 Q4	-15.0	107.7	163.3	-13.6	41.6	-49.8	-2.8	19.6	-	-10.6
Outstanding (as at end of period)^(c)										
2014 Q1	751.5	40.1	95.5	887.1	249.0	130.4	150.9	530.3	11.1	1,428.4
Q2	752.0	37.1	98.5	887.6	228.9	124.4	148.1	501.5	6.9	1,395.9
Q3	752.2	41.5	105.0	898.7	223.0	132.3	142.5	497.8	6.9	1,403.4
Q4	752.6	41.0	98.0	891.6	232.8	137.6	141.7	512.1	6.1	1,409.8
2015 Q1	752.8	43.5	105.9	902.2	249.7	140.3	142.4	532.4	6.1	1,440.7
% change in 2015 Q1 over 2014 Q1	0.2	8.6	10.9	1.7	0.3	7.6	-5.6	0.4	-44.8	0.9
% change in 2015 Q1 over 2014 Q4	0.0	6.2	8.1	1.2	7.3	1.9	0.5	4.0	0.0	2.2

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

(a) AIs : Authorised institutions.

(b) MDBs : Multilateral Development Banks.

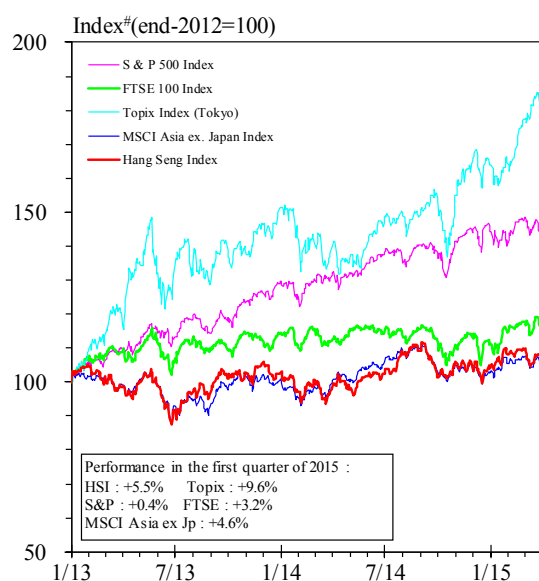
(c) Figures on AIs and hence the total have been revised downwards since more early redemption data have recently been available.

The stock and derivatives markets

4.15 The *local stock market* was generally buoyant in the first quarter of 2015. With sentiment supported by expectation of continued low interest rates in the short term and further monetary easing in the Mainland, the Hang Seng Index (HSI) rose by 5.5% over end-2014 to 24 901 at end-March 2015. In parallel, the *market capitalisation* expanded by 6.7% to \$26.7 trillion. According to the World Federation of Exchanges, the local stock market was the seventh largest stock exchange in the world and third largest in Asia⁽¹⁰⁾ as at end-March.

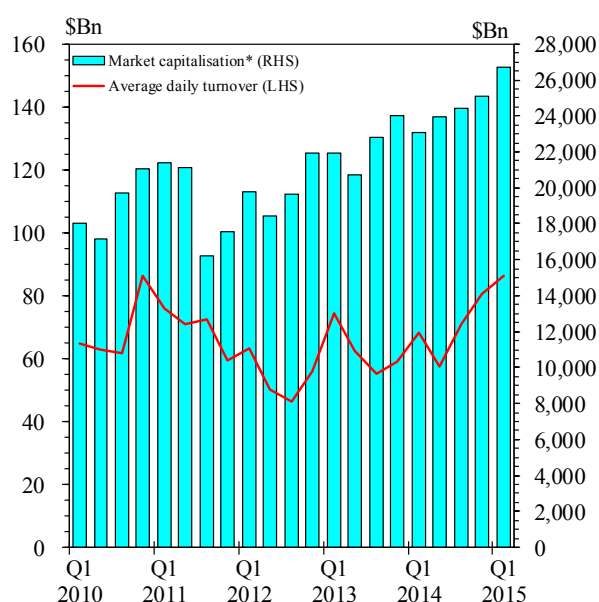
4.16 Trading activities were active in the first quarter. *Average daily turnover* in the securities market rose by another 7.1% over the preceding quarter or a sharp 26.5% over a year earlier to \$86.4 billion, the highest level since the fourth quarter of 2010. As to *derivatives products*⁽¹¹⁾, while the average daily trading volume of futures and options declined by 3.4% from the high base in the preceding quarter, there was a sharp increase of 21.3% over a year earlier. Within the total, the trading of HSI options, HSI futures and stock options fell by 18.8%, 12.0% and 3.1% from the preceding quarter, but that of H-shares Index futures rose by 2.0%. The average daily trading value of securitised derivatives products jumped by 38.4% over the preceding quarter. Within the total, trading of derivative warrants soared by 51.6% while that of callable bull/bear contracts leapt by 14.7%.

Diagram 4.6 : The local stock market was generally buoyant in the first quarter



Note : (#) Position at end of month.

Diagram 4.7 : Market capitalisation expanded further and trading activities were active



Note : (*) Position at end of quarter.

Table 4.6 : Average daily turnover of derivatives products of the Hong Kong market

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	H-shares Index <u>futures</u>	Stock <u>options</u>	Total futures and options <u>traded</u> *	Derivative warrants <u>(\$Mn)</u>	Callable bull/bear contracts <u>(\$Mn)</u>	Total securitised derivatives traded <u>(\$Mn)</u> [^]
2014	Annual	69 098	30 440	89 005	301 797	579 676	8,277	4,980	13,257
	Q1	71 607	28 842	92 576	274 757	554 700	7,077	5,090	12,167
	Q2	64 897	28 810	77 613	251 375	496 449	6,404	4,074	10,478
	Q3	66 730	29 887	79 181	304 098	556 968	9,791	5,290	15,081
	Q4	73 141	34 162	106 657	374 821	696 281	9,709	5,426	15,135
2015	Q1	64 351	27 727	108 774	363 322	672 678	14,715	6,226	20,941
% change in 2015 Q1 over 2014 Q1		-10.1	-3.9	17.5	32.2	21.3	107.9	22.3	72.1
% change in 2015 Q1 over 2014 Q4		-12.0	-18.8	2.0	-3.1	-3.4	51.6	14.7	38.4

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

(^) Comprising derivative warrants and callable bull/bear contracts.

4.17 Due to the nature of business, fund raising activities continued to show volatile performance. *Total equity capital raised*, comprising new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)⁽¹²⁾, plunged by 75.3% from the high base in the preceding quarter or 27.2% from a year earlier to \$81.9 billion in the first quarter. Within the total, the amount of funds raised through IPOs shrank by 58.8% to \$19.0 billion.

4.18 The role of Mainland enterprises remained dominant in the Hong Kong stock market. At end-March 2015, a total of 894 Mainland enterprises (including 205 H-share companies, 143 “Red Chips” companies and 546 private enterprises) were listed on the Main Board and GEM, accounting for 50% of the total number of listed companies and 61% of total market capitalisation. In the first quarter, Mainland-related stocks accounted for 72% of equity turnover and 50% of total equity fund raised in the Hong Kong stock exchange.

Fund management and investment funds

4.19 In tandem with the buoyant stock market, most segments of the fund management business improved in the first quarter. The monthly average gross retail sales of *mutual funds* surged by 42.5% over the fourth quarter of 2014 to US\$6.9 billion in January – February 2015⁽¹³⁾. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹⁴⁾ rose by 5.3% over end-2014 to \$595 billion at end-March 2015. Yet the amount of net assets managed by *retail hedge funds* showed a further decline⁽¹⁵⁾.

4.20 Following the earlier public consultation, in March the Mandatory Provident Fund Schemes Authority (MPFA) recommended the way forward for introducing a “core fund” for the MPF scheme. In particular, it was proposed that all MPF trustees would be required to introduce a “core fund”, which would serve as the default fund of all MPF schemes. The “core fund” would be invested based on the standardised strategy set by the MPFA, which is designed to change investment risks with reference to the scheme member’s age. The “core fund” would also be subject to fee control at a level not exceeding 0.75% of the fund assets under management. The introduction of the “core fund” would help MPF scheme members to manage the long-term risks associated with investment of retirement savings. Through facilitating benchmarking and promoting competition, it would also help drive down the fees in the wider MPF system. The Government targeted to introduce a draft bill into the Legislative Council within this year for implementation in 2016.

Insurance sector

4.21 The *insurance sector*⁽¹⁶⁾ saw further expansion in 2014. Gross premium income from long-term business jumped by 23.2%, though the performances varied across different segments. Premium income from non-investment linked plans surged by 33.3%, while that from investment-linked plans plunged by 16.1%. Meanwhile, gross and net premium from general business rose by a more modest 4.2% and 3.8% respectively.

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

	General business			Premium for long-term business [^]					Gross premium from long-term business and general business
	Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	
2013 Annual	42,120	29,179	3,038	73,015	19,132	156	285	92,588	134,708
Q1	12,359	8,759	657	17,527	4,919	36	53	22,535	34,894
Q2	10,428	7,446	864	17,570	5,597	40	61	23,268	33,696
Q3	10,512	7,314	671	18,910	3,831	40	50	22,831	33,343
Q4	8,821	5,660	846	19,008	4,785	40	121	23,954	32,775
2014 Annual	43,896	30,299	3,010	97,357	16,052	176	451	114,036	157,932
Q1	12,551	8,668	902	23,770	3,387	39	180	27,376	39,927
Q2	10,642	7,697	636	23,191	4,210	40	53	27,494	38,136
Q3	11,534	7,936	853	24,652	4,317	47	120	29,136	40,670
Q4	9,169	5,998	619	25,744	4,138	50	98	30,030	39,199
% change in 2014 Q4 over 2013 Q4	3.9	6.0	-26.8	35.4	-13.5	25.0	-19.0	25.4	19.6
% change in 2014 over 2013	4.2	3.8	-0.9	33.3	-16.1	12.8	58.2	23.2	17.2

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

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

Highlights of policy and market developments

4.22 In January 2015, the Government and the financial regulators, namely the HKMA, the Securities and Futures Commission and the Insurance Authority, launched the second stage of public consultation on proposals for establishing an effective resolution regime in Hong Kong to address the risks posed by the systemically important and “too-big-to-fail” financial institutions. The consultation sought views on specific aspects of the regime, including details on the resolution options and powers, the governance arrangements and especially the approach to designating resolution authorities, and safeguards including a “no-creditor-worse-off-than-in-liquidation” compensation mechanism. The Government will launch a third public consultation later in 2015. Subject to the outcomes of all public consultations, the Government would seek to introduce the legislative proposals into the Legislative Council by the end of 2015.

4.23 The Stamp Duty (Amendment) Ordinance 2015 was gazetted in February to implement the stamp duty waiver for the transfer of shares or units of all exchange traded funds (ETFs) as proposed in the 2014-15 Budget. Under this arrangement, stamp duty is waived for the transfer of shares or units of all ETFs, regardless of their underlying portfolios and dates of listings. The waiver would be conducive to the further development of the ETF market in Hong Kong and would help strengthen Hong Kong's position as a leading international financial centre. Separately, the Inland Revenue (Amendment) Bill 2015 was gazetted and introduced to the Legislative Council in March. The bill would extend profits tax exemption for offshore funds to private equity funds, and would help attract more private equity funds managers to conduct and expand business in Hong Kong, thereby promoting the development of the relevant professional services including business consulting, tax, accounting and legal services.

Notes :

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

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

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

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

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

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

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

(5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-March 2015, there were 157 licensed banks, 22 restricted licence banks and 21 deposit-taking companies in Hong Kong. Altogether, 200 AIs (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.

(6) Basel III was introduced by the Basel Committee in December 2010 (and subsequently revised in June 2011) to strengthen the resilience of banks and banking systems in the light of lessons drawn from the global financial crisis. It tightens the definition of regulatory capital and increases the minimum common equity requirement from 2% to 4.5% of risk-weighted assets and the Tier 1 capital from 4% to 6% (with the total capital ratio remaining at 8%); requires banks to hold a Capital Conservation Buffer of 2.5% during good times and a Countercyclical Capital Buffer in the range of 0% to 2.5% (or higher at national discretion) at times of excessive credit growth, and for banks classified as systemically important (either globally or domestically), a Higher Loss Absorbency requirement ranging from 1% to 3.5%, all to be met by common equity. The rules implementing the buffers became effective on 1 January 2015, while the buffer requirements will come into effect on 1 January 2016. It introduces a supplementary leverage ratio as a backstop to risk-weighted capital measures and enhances the transparency of the capital base. In addition, Basel III introduces two liquidity standards, i.e. the Liquidity Coverage Ratio (LCR) to promote short term liquidity resilience and the Net Stable Funding Ratio (NSFR) to encourage more stable funding structures, with implementation dates of 1 January 2015 and 1 January 2018 respectively.

(7) The first phase of Basel III standards, which covers revised minimum capital requirements calculated based on a stricter definition of capital base and a wider risk coverage, took effect in Hong Kong with the amendments to the Banking (Capital) Rules (by way of the Banking (Capital) (Amendment) Rules 2012) coming into operation since 1 January 2013. To implement the Basel Committee's disclosure requirements associated with these standards, amendments were introduced in the Banking (Disclosure) Rules (by way of the Banking (Disclosure) (Amendment) Rules 2013) which took effect from 30 June 2013.

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

- (9) Assets of the banking sector include notes and coins, amount due from Authorised Institutions 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.
- (10) The ranking is made by the World Federation of Exchanges, a global trade association for the securities exchange industry. Its membership comprises 64 securities exchanges, covering almost all globally recognised stock exchanges.
- (11) At end-March 2015, there were 80 classes of stock options contracts and 41 classes of stock futures contracts.
- (12) At end-March 2015, there were 1 565 and 210 companies listed on the Main Board and GEM respectively.
- (13) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-March 2015, the survey covered a total of 1 189 active authorised funds.
- (14) At end-March 2015, there were 19 approved trustees. On MPF products, 35 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 458 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 273 000 employers, 2.56 million employees and 207 000 self-employed persons have participated in MPF schemes.
- (15) At end-March 2015, there were three SFC-authorised retail hedge funds with combined net asset size of US\$144 million. The amount of net assets under management dropped by 11.7% from the end-2014 level, and represented a decrease of 10.0% of that at end-2002, the year when the hedge funds guidelines were first issued.
- (16) At end-March 2015, there were 158 authorised insurers in Hong Kong. Within this total, 44 were engaged in long-term insurance business, 95 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 23 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

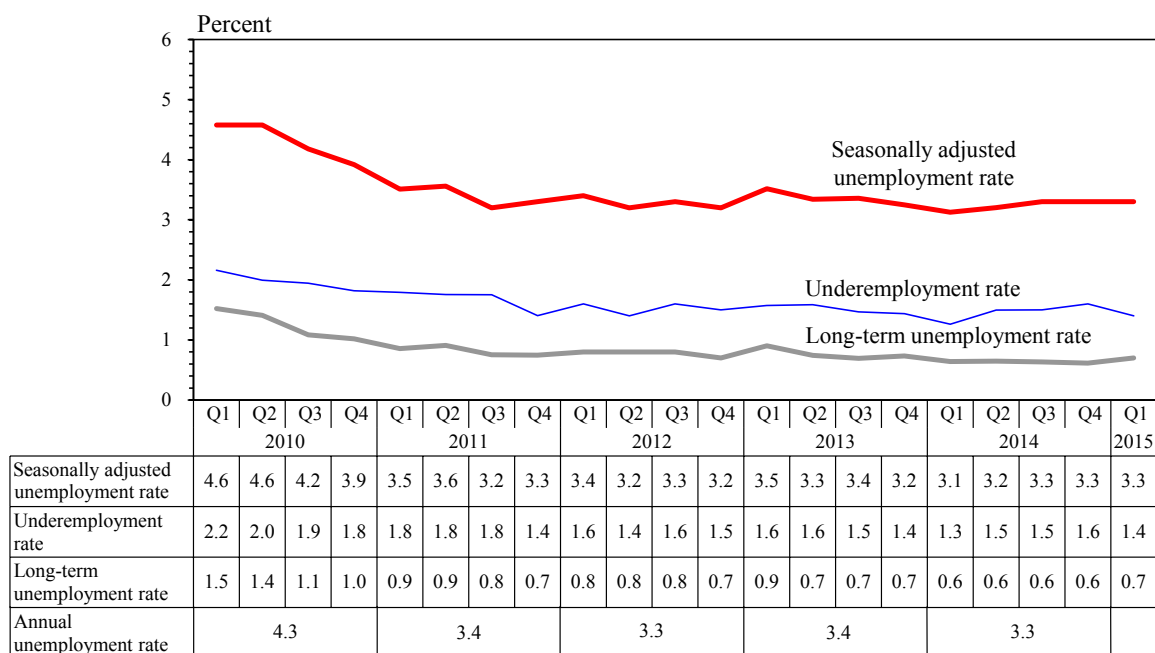
Summary

- *The labour market held broadly stable on entering 2015. Both total employment and the labour force grew further, while job vacancies in private sector establishments remained high, indicating largely stable hiring sentiment and still rather tight manpower resource balance.*
- *In the first quarter of 2015, the seasonally adjusted unemployment rate stayed at 3.3% for the third consecutive quarter, despite diverse performance of different economic sectors. Thanks in part to the usual vibrancy of business activities around the Lunar New Year, the underemployment situation improved over the preceding quarter, notably in those sectors which were temporarily disturbed by the “Occupy Movement” in the latter part of 2014.*
- *Both nominal wages and payroll sustained broad-based growth in 2014 on the back of the tight labour market. However, some moderation in earnings growth was observed of late, conceivably due in part to the softness in the consumption and tourism-related sectors.*

Overall labour market situation⁽¹⁾

5.1 The labour market held broadly stable in the first quarter of 2015, with both total employment and the labour force growing further. This, together with the still high level of private sector job vacancies, pointed to largely stable hiring sentiment. Thanks in part to the usually more buoyant labour demand around the festive seasons, the underemployment situation improved, notably in those sectors which were temporarily disturbed by the “Occupy Movement” in the latter part of 2014. The seasonally adjusted *unemployment rate*⁽²⁾ stayed at 3.3% for the third consecutive quarter, while the *underemployment rate*⁽³⁾ went down by 0.2 percentage point to 1.4%. On the back of generally tight manpower situation, wage and payroll sustained steady and broad-based growth towards end-2014. However, the sluggish performance of the consumption and tourism-related segments had taken a toll on the income situation of the grassroots workers in the related sectors and occupational groups lately.

Diagram 5.1 : The labour market held broadly stable in the first quarter of 2015



Labour force and total employment

5.2 On the supply side, the *labour force*⁽⁴⁾ expanded further to 3 928 400 in the first quarter of 2015, up by 2.5% year-on-year. While the working-age population (i.e. land-based non-institutional population aged 15 and above) continued its mild growth at 0.8%, the labour force participation rates of almost all age groups rose as compared to a year earlier, up by 1.0 percentage point to 61.5% in overall terms. On the demand side, *total employment*⁽⁵⁾ likewise sustained further growth, reaching 3 801 100 in the first quarter of 2015, up by 2.3% year-on-year, reflecting solid labour demand. Nevertheless, employment growth was slightly outpaced by labour force growth for two quarters in a row.

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

	<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed^(a)</u>	<u>Persons underemployed</u>
2014 Annual	3 876 400 (0.5)	3 749 200 (0.6)	127 200	56 500
Q1	3 833 900 (-0.1)	3 714 800 (0.3)	119 100	48 400
Q2	3 872 300 (0.2)	3 744 700 (0.4)	127 600	58 000
Q3	3 918 600 (1.2)	3 785 700 (1.3)	132 900	57 000
Q4	3 919 400 (1.4)	3 797 200 (1.3)	122 100	62 700
<i>Three months ending</i>				
2015 Jan	3 922 200 (1.2)	3 801 800 (1.0)	120 500	62 200
Feb	3 929 300 (2.3)	3 807 500 (2.1)	121 800	57 300
Mar	3 928 400 (2.5)	3 801 100 (2.3)	127 300	53 500
	<0.1>	<0.1>		

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.
 () % change over a year earlier.
 □ □ Seasonally adjusted quarter-to-quarter % change for the first quarter of 2015.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.2 : Total employment and the labour force grew further in the first quarter of 2015

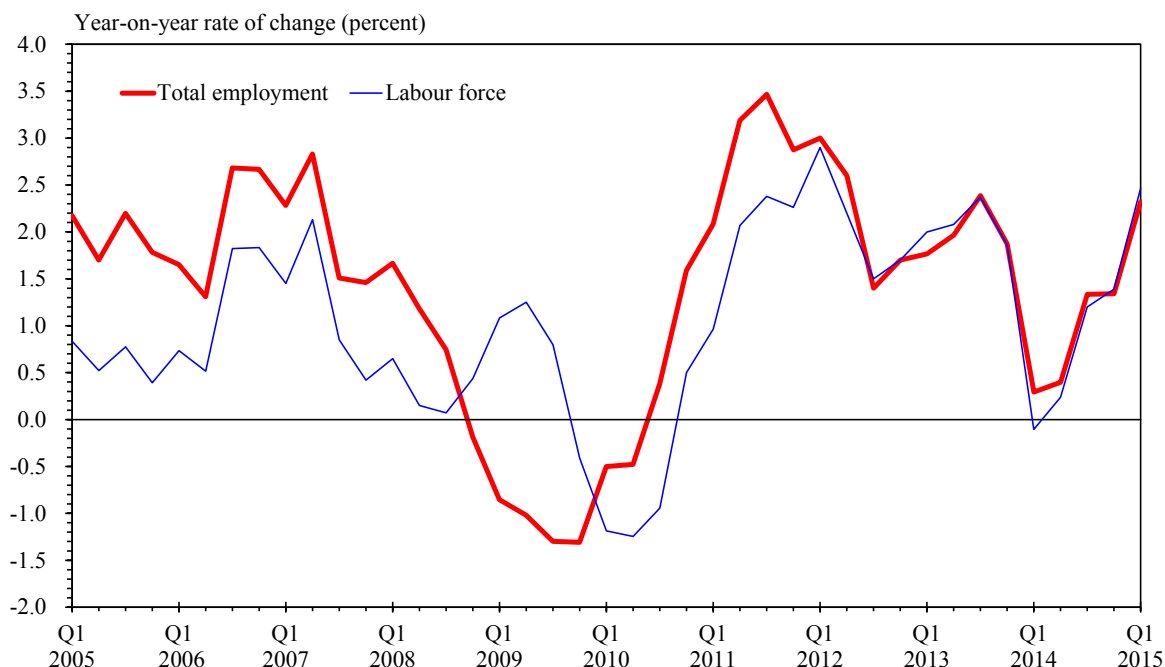


Table 5.2 : Labour force participation rates by gender and by age group (%)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015Q1</u>
<u>Male</u>						
15-24	35.4	35.7	36.4	37.8	37.8	38.8
<i>of which:</i>						
15-19	10.2	9.9	10.5	11.0	11.1	10.7
20-24	60.6	61.1	61.1	62.5	61.5	63.1
25-29	94.0	93.9	94.5	93.8	93.4	94.1
30-39	96.5	96.5	96.8	96.9	96.5	96.3
40-49	95.0	95.1	95.3	95.5	94.7	95.7
50-59	84.4	84.9	85.1	86.8	86.7	86.7
≥ 60	22.0	23.4	25.6	26.9	27.8	28.1
Overall	68.5	68.4	68.7	69.1	68.8	69.0
<u>Female</u>						
15-24	36.7	37.0	37.5	40.0	39.3	41.1
<i>of which:</i>						
15-19	9.2	9.1	9.7	11.5	12.5	12.5
20-24	61.4	62.1	62.0	64.2	61.4	64.9
25-29	86.6	87.5	87.2	86.6	86.3	86.4
30-39	75.6	76.8	77.5	78.5	79.0	79.0
40-49	68.2	69.9	70.8	72.8	73.1	74.5
50-59	49.0	51.6	53.8	56.1	57.1	59.0
≥ 60	6.8	8.1	8.8	9.6	10.6	11.3
Overall	51.9	53.0	53.6	54.5	54.6	55.3
<u>Both genders combined</u>						
15-24	36.0	36.4	37.0	38.9	38.6	39.9
<i>of which:</i>						
15-19	9.7	9.5	10.1	11.2	11.8	11.6
20-24	61.0	61.6	61.6	63.4	61.4	64.0
25-29	89.8	90.2	90.3	89.7	89.4	89.8
30-39	84.3	84.9	85.4	85.9	86.0	85.9
40-49	80.2	81.0	81.4	82.5	82.3	83.5
50-59	66.5	68.0	69.2	71.0	71.4	72.2
≥ 60	14.1	15.5	16.9	17.9	18.9	19.4
Overall	59.6	60.1	60.5	61.2	61.1	61.5

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

5.3 As the labour force grew slightly faster than employment in the first quarter of 2015, the number of unemployed persons went up by 5 200 over the preceding quarter to 127 300. After netting out seasonal fluctuations, the seasonally adjusted unemployment rate held stable at 3.3% for the third consecutive quarter.

5.4 The unemployment rates of different economic sectors saw diverse movements in the first quarter of 2015. As compared to the previous quarter, more visible decreases in unemployment rates (not seasonally adjusted) were observed in the information and communications, real estate and human health activities sectors. A more noticeable increase in unemployment rate was found in the decoration, repair and maintenance for buildings, mainly due to the seasonally low construction activity level during the first quarter. Yet, when compared with its year-ago level, the unemployment rate in this sector was actually considerably lower. For the construction sector as a whole, the unemployment rate went down markedly by 1.4 percentage points to 4.9% over a year earlier. Over the same period, the unemployment situation in the retail, accommodation and food services sector worsened somewhat, with its unemployment rate up by 0.9 percentage point over the previous quarter to 4.9%, and also up by 0.7 percentage point from its year-ago level. The unemployment rate of the *low paying sectors*⁽⁶⁾ as a whole likewise rose, by 0.6 percentage point over the previous quarter or by 0.4 percentage point from its year-ago level to 3.4%.

5.5 Analysed by skill segment, the unemployment rate of the higher-skilled workers edged down quarter-to-quarter by 0.1 percentage point to 1.7%, while that for the lower-skilled workers rose by 0.5 percentage point to 3.7%. The unemployment rates for both segments were 0.1 percentage point above their year-ago levels. On both quarter-to-quarter and year-on-year comparisons, a more discernible rise in the unemployment rate was seen among service and sales workers, mirroring the worsening observed in the retail, accommodation and food services sector.

5.6 As regards other socio-economic attributes, the unemployment rate of workers aged 50-59 saw the most notable improvement from a year ago. On the other hand, the unemployment rates of persons aged 15-24, those with lower secondary or tertiary education increased from their year-ago levels, though employment growth was observed among these groups.

Diagram 5.3 : Unemployment rates in major economic sectors saw varied movements in the first quarter of 2015

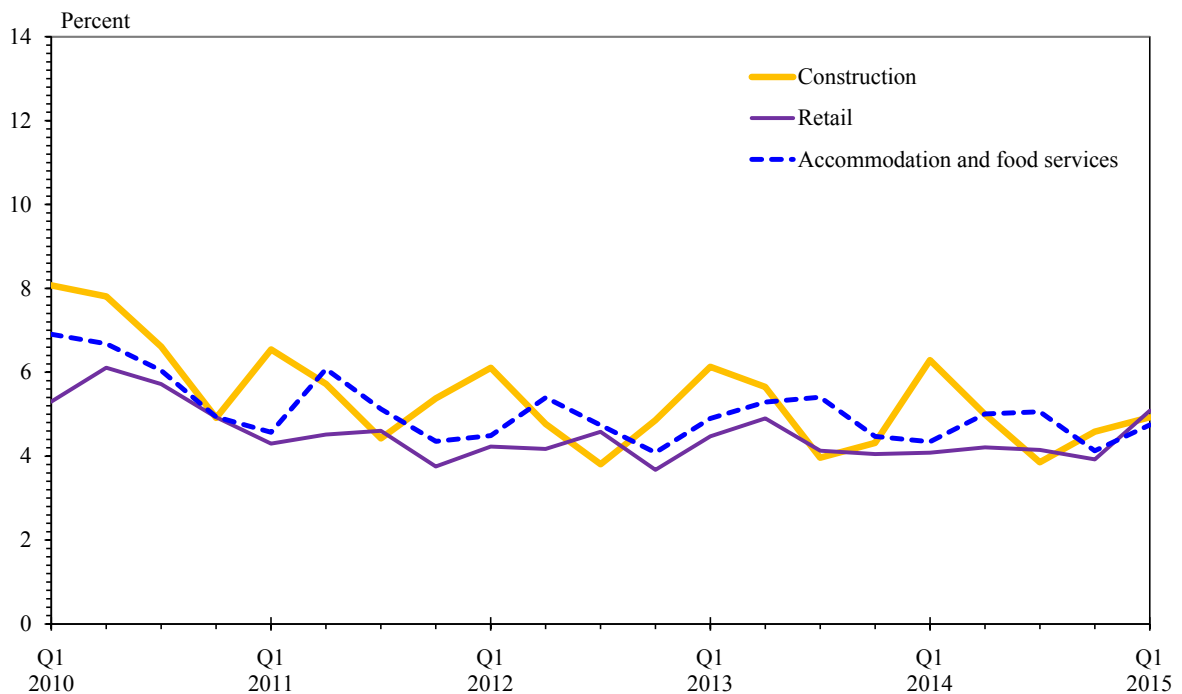
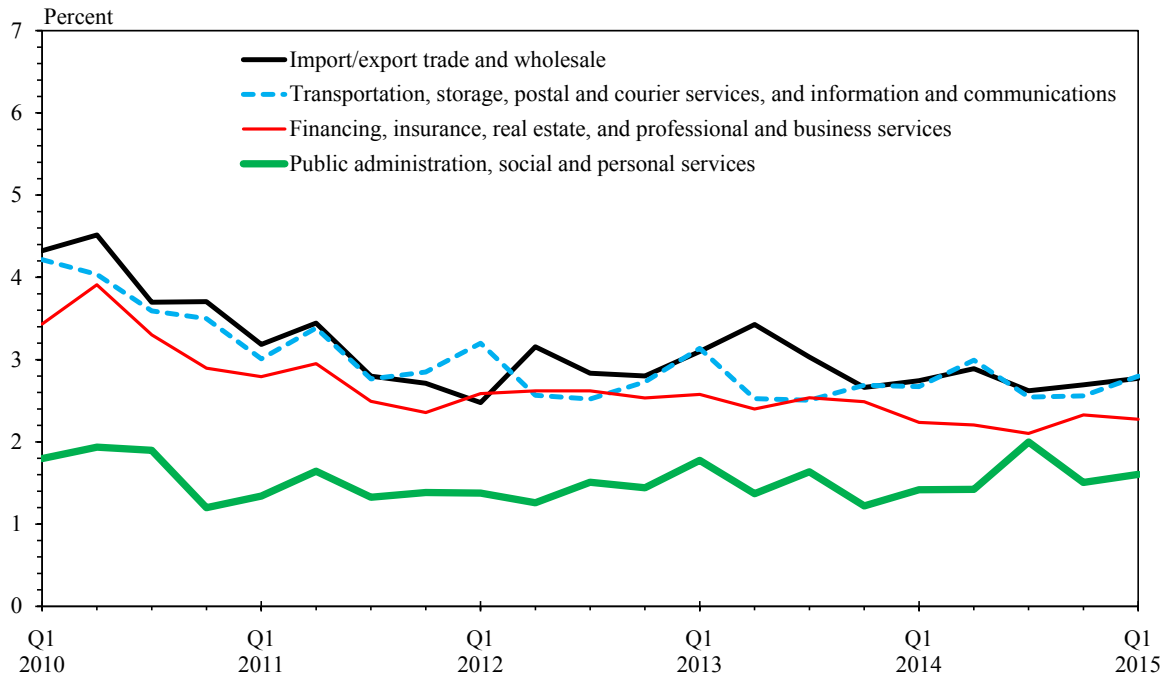


Table 5.3 : Unemployment rates by major economic sector

	<u>2014</u>				<u>2015</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Import/export trade and wholesale	2.7	2.9	2.6	2.7	2.8
Retail	4.1	4.2	4.1	3.9	5.1
Accommodation and food services	4.3	5.0	5.1	4.1	4.7
Transportation, storage, postal and courier services	2.9	3.2	2.4	2.1	2.9
Information and communications	2.0	2.3	2.9	3.7	2.4
Financing and insurance	1.5	1.5	1.8	1.4	1.8
Real estate	2.8	3.0	2.0	2.6	1.8
Professional and business services	2.5	2.3	2.4	2.8	2.8
Public administration, social and personal services	1.4	1.4	2.0	1.5	1.6
Manufacturing	3.3	3.7	3.2	3.2	3.1
Construction	6.3	5.0	3.9	4.6	4.9
Overall	3.1 (3.1)	3.3 (3.2)	3.4 (3.3)	3.1 (3.3)	3.2 (3.3)

Note : () Seasonally adjusted unemployment rates.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.4 : The unemployment rate of lower-skilled workers edged up in the first quarter of 2015, notably among service and sales workers

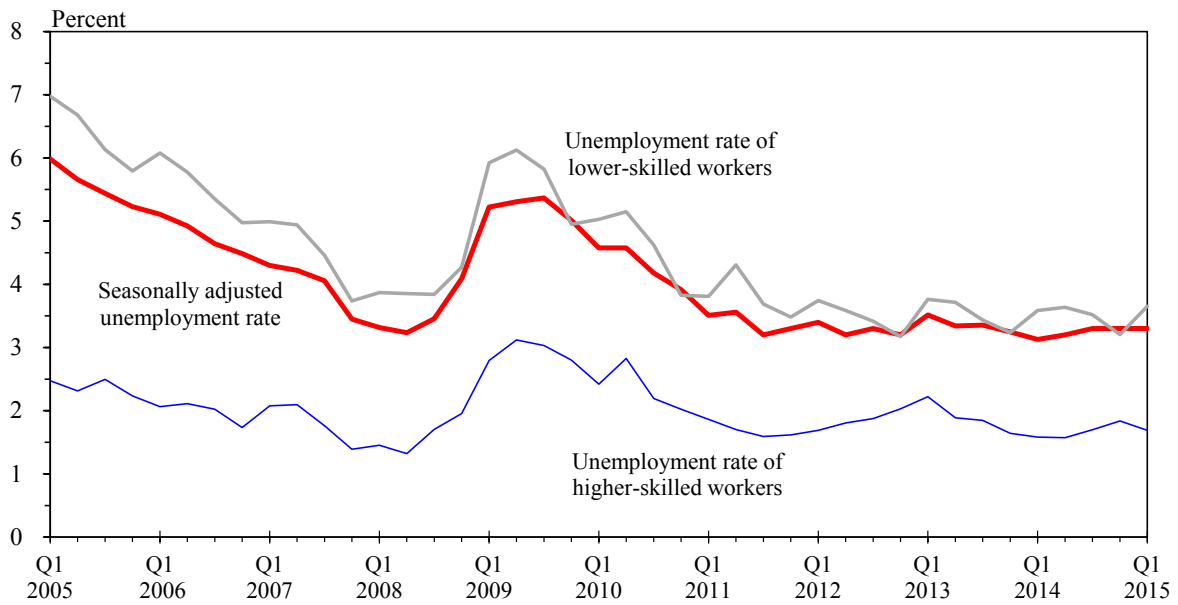


Table 5.4 : Unemployment rates* by skill segment

	<u>2014</u>				<u>2015</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<u>Higher-skilled segment</u>	1.6	1.6	1.7	1.8	1.7
Managers and administrators	1.5	0.8	1.1	1.3	1.2
Professionals	1.1	0.9	1.7	1.7	1.5
Associate professionals	1.8	2.2	1.9	2.2	2.0
<u>Lower-skilled segment[^]</u>	3.6	3.6	3.5	3.2	3.7
Clerical support workers	2.7	3.3	3.2	2.7	2.8
Service and sales workers	4.1	4.3	4.7	3.7	4.9
Craft and related workers	5.9	4.1	3.8	4.7	4.3
Plant and machine operators and assemblers	2.6	1.9	1.4	1.3	1.9
Elementary occupations	3.2	3.6	3.0	3.0	3.3

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

^ Including other occupations.

Source : General Household Survey, Census and Statistics Department.

Table 5.5 : Unemployment rates* by age and educational attainment

	<u>2014</u>				<u>2015</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<u>Age</u>					
15-24	7.5	9.1	11.3	8.9	9.0
<i>Of which:</i>					
15-19	10.0	14.6	12.2	12.0	13.9
20-24	7.1	8.2	11.1	8.4	8.2
25-29	3.1	3.5	3.7	3.4	2.9
30-39	2.2	2.1	2.4	1.8	2.0
40-49	2.7	2.9	2.5	2.6	3.2
50-59	3.1	3.0	2.6	2.9	2.8
≥ 60	2.9	2.8	2.6	3.0	3.0
<u>Educational attainment</u>					
Primary education and below	3.7	3.6	2.9	3.4	3.8
Lower secondary education	4.2	4.8	3.9	3.7	4.5
Upper secondary education [^]	3.2	3.2	3.3	3.0	3.2
Post-secondary education	2.4	2.7	3.5	2.9	2.7

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

^ Including craft courses.

Source : General Household Survey, Census and Statistics Department.

5.7 Other indicators measuring the intensity of unemployment were mixed. The number of long-term unemployed persons (i.e. unemployed for six months or longer) increased from 24 000 in the preceding quarter to 26 700 in the first quarter of 2015, and the long-term unemployment rate edged up by 0.1 percentage point to 0.7%. The share of long-term unemployment in total unemployment likewise rose from 19.7% to 21.0%, though the median duration of unemployment fell from 67 days to 61 days. Regarding the reason of unemployment, the proportion of dismissal or lay-offs among the total number of unemployed persons went down from 46.5% to 42.2%.

Profile of underemployment

5.8 The underemployment situation improved somewhat in the first quarter of 2015, after some worsening in the preceding quarter. The underemployment rate went down by 0.2 percentage point over the preceding quarter to 1.4%, with the number of underemployed persons falling markedly by 9 200 to 53 500. In particular, the underemployment rates of sectors which were more vulnerable to the temporary disturbances caused by the “Occupy Movement”, notably transportation, food and beverage service activities, and retail, fell back to levels broadly on par with or below the pre-Movement’s ones, thanks in part to the seasonal labour demand during the Lunar New Year. Analysed by occupational category, the underemployment rate of the lower-skilled segment, which comprised the majority of underemployed persons, fell over the preceding quarter, with more apparent decreases seen among craft and related workers, and service and sales workers.

Box 5.1

Operating situation of enterprises after the upward adjustment of the Statutory Minimum Wage rate in 2013

The implementation of the Statutory Minimum Wage (SMW) since May 2011 has protected the income of grassroots employees, but it has also incurred additional labour costs and posed operating pressure on enterprises. Whether enterprises can bear the higher operating costs would hinge on growth in business receipts, which in turn are very much affected by the performance of the macroeconomy. **Box 6.1** in the *2012 Economic Background and 2013 Prospects* and **Box 5.1** in the *First Quarter Economic Report 2014* analysed the business performance of enterprises since the implementation of the initial SMW rate (i.e. \$28 per hour) in May 2011. With the results of the 2013 Annual Survey of Economic Activities released by the Census and Statistics Department, this article analyses the operating situation of enterprises after the first upward adjustment of the SMW rate (from \$28 to \$30) in May 2013, in particular that of the low paying sectors (LPS) and small and medium enterprises (SMEs)⁽¹⁾ which were more affected by SMW.

The Hong Kong economy regained some growth momentum in 2013, following a visible slowdown in 2012. Overall business receipts of enterprises improved in tandem, with more visible pick-ups in growth of business receipts seen in the import/export trade and wholesale, financing, insurance, real estate, professional and business services sectors. As for LPS, thanks to the vibrant local retail market in these two years, overall business receipts of LPS sustained growth at above 9%. Yet the rates of increase in business receipts varied across sectors in 2013. While the retail sector fared better, the performance of some LPS worsened: the business receipts of Chinese restaurants and real estate maintenance management recorded declines of 1.4% and 0.4% respectively. The growth of business receipts in elderly homes and local courier services also decelerated noticeably, from 26.1% and 7.8% respectively in 2012 to 7.9% and 1.5% in 2013.

Total operating expenses of LPS

Favourable business conditions and growth in business turnover would largely help cushion the upward cost pressure on enterprises. In this regard, LPS apparently faced some pressure, as their total expenses rose by 9.5% in 2013, slightly faster than the 9.3% increase in their business receipts. Analysed by cost nature, except for the retail, and food processing and production sectors which were more affected by the cost of goods sold, the cost pressure in other LPS came mainly from the rise in total operating expenses.

Further analysing the total operating expenses of LPS in 2013, it can be seen that the rise in staff costs was the key factor driving the increase in total operating expenses for most LPS (**Chart 1**), reflecting the labour-intensive nature of these sectors. Indeed, staff costs for most LPS accounted for nearly 50% or above of their total operating expenses, more so for cleaning services, security services and elderly homes (accounting for 80%, 79% and 63% respectively). Although the upward adjustment of SMW was relatively modest in 2013 and the average staff costs per employee in LPS only increased by 4.7% compared to 2012, it was still faster than the overall increase for all sectors (3.5%). Particularly notable increases were observed in cleaning services (up 10.5%), hairdressing services (up 9.7%) and Hong Kong style tea cafes (up 7.6%).

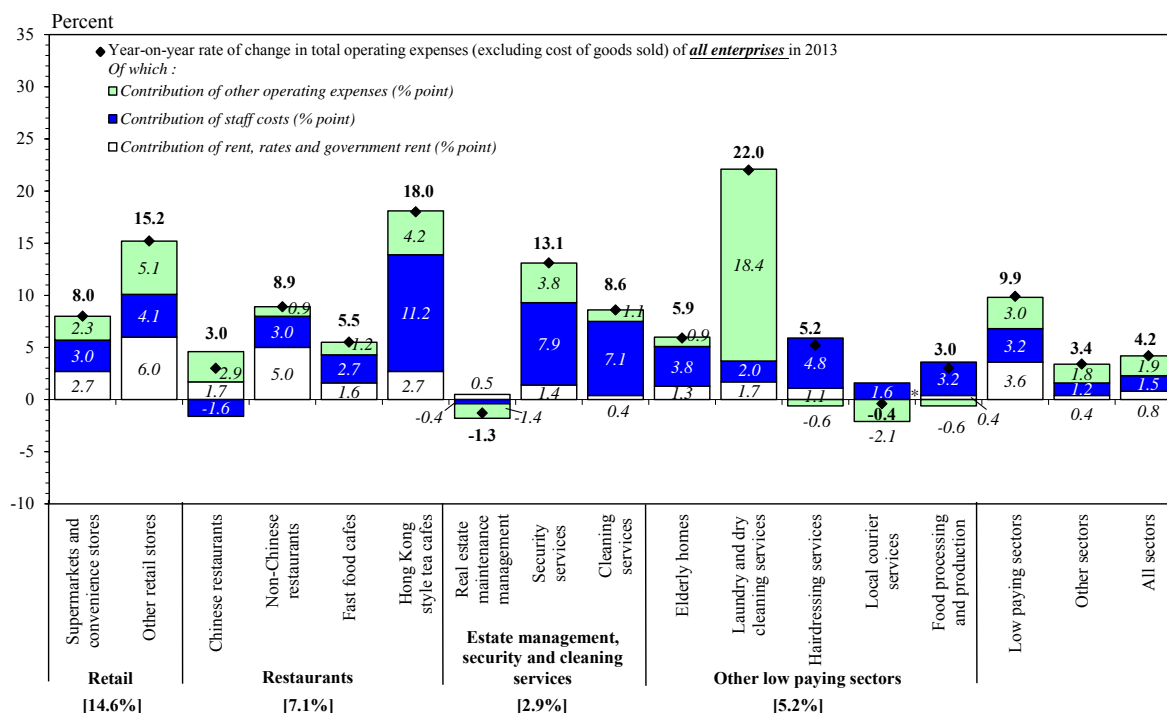
Apart from staff costs, the sustained rise in shop rentals amid a still buoyant consumption market in 2013 also added pressure to the total operating expenses for certain LPS (e.g. other retail stores and non-Chinese restaurants). In contrast, estate management, security and cleaning services were relatively less affected by higher rentals, as rental costs only accounted for less than 2% of their total operating expenses.

(1) The statistics discussed in this article pertain to those enterprises with employees only.

Box 5.1 (Cont'd)

Besides, as sectors that were more affected by SMW passed on their costs to consumers and users through raising prices, other operating expenses of enterprises would also increase, thereby further pushing up total operating expenses. In Chinese restaurants for instance, other operating expenses went up rather visibly in 2013, conceivably as these enterprises had to gradually adjust their mode of operation (e.g. some restaurants had to set up centralised food processing plants and outsource the dish washing procedures) in face of manpower shortage and rising costs. Nonetheless, for most LPS, as the upward adjustment of SMW in 2013 was relatively modest, the pressure on enterprises to pass on their costs was less than that in 2011.

Chart 1: Rise in total operating expenses for most LPS was driven mainly by staff costs



Note: (*) Change within ± 0.05 percentage point.

Figures in brackets denote the year-on-year rate of change in total operating expenses (excluding cost of goods sold) of enterprises in that sector in 2013.

Sources: 2012 and 2013 Annual Survey of Economic Activities, Census and Statistics Department.

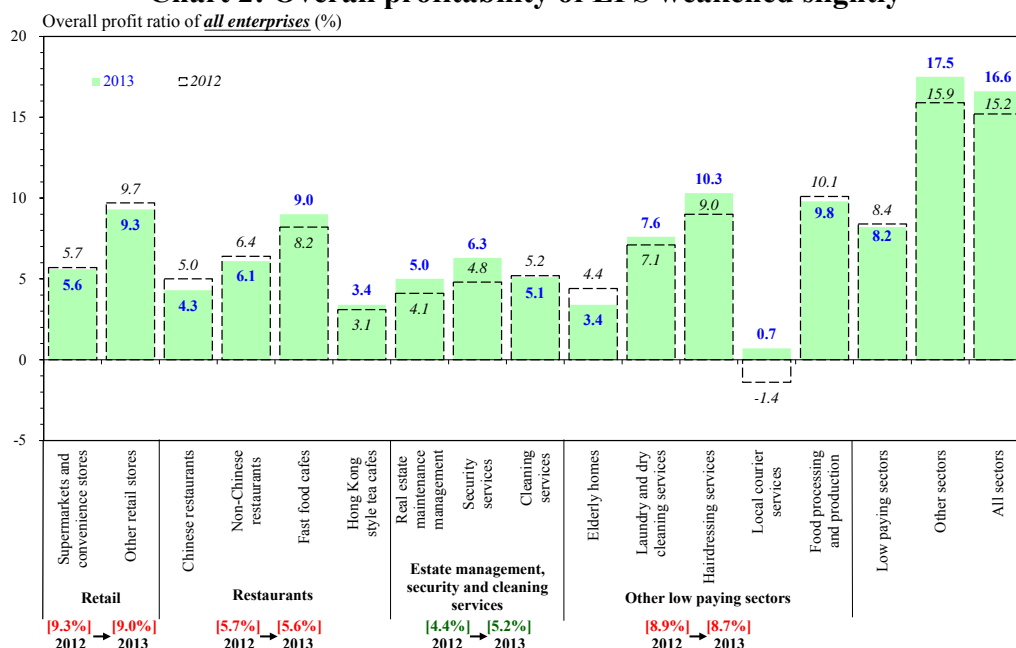
Profitability

Overall speaking, the pick-up in business receipts alongside the somewhat improved macroeconomic environment in 2013 significantly offset the rising cost pressures. The overall profit ratio (i.e. ratio of profit⁽²⁾ to business receipts) for all sectors rose to 16.6% from 15.2% in 2012. However, the profitability of LPS weakened somewhat in face of various cost pressures, with their overall profit ratio falling slightly to 8.2% in 2013 from 8.4% in 2012 (*Chart 2*). Apart from estate management, security and cleaning services, the profitability of retail, restaurants and other LPS all saw some worsening. Within the LPS, more noticeable setback in profitability was found among elderly homes and Chinese restaurants, with their overall profit ratios down by 1.0 and 0.7 percentage point respectively.

(2) Profit refers to earnings before tax, i.e. profit before deducting tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off; provisions; etc., but depreciation and amortisation were deducted.

Box 5.1 (Cont'd)

Chart 2: Overall profitability of LPS weakened slightly



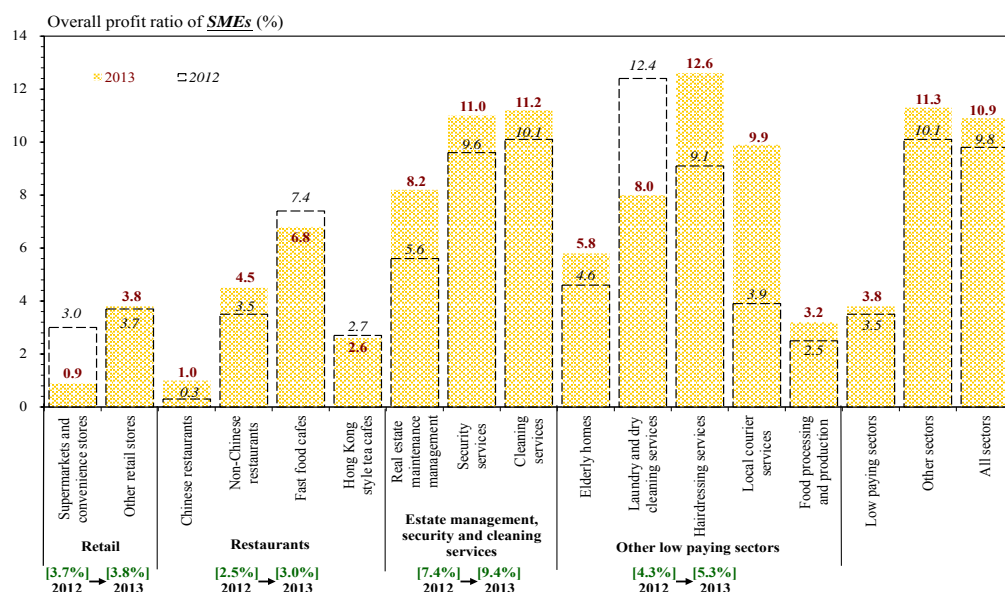
Note: Figures in brackets denote the overall profit ratio of that sector in the specified year.

Sources: 2012 and 2013 Annual Survey of Economic Activities, Census and Statistics Department.

Small and medium enterprises (SMEs)

Due to resource constraints, SMEs were usually less capable in pricing and cost control than larger enterprises, and their profit margins tended to be lower, thereby less able to absorb the cost pressures. All these were reflected by their generally lower overall profit ratios. Further analysis focusing on the profitability of SMEs revealed that the overall profit ratio of SMEs in LPS likewise rose back to 3.8% in 2013 from the low in 2012 amid an improved economy. Yet the overall profit ratios of SMEs in certain LPS were visibly squeezed, e.g. supermarkets and convenience stores (down from 3.0% in 2012 to 0.9% in 2013), laundry and dry cleaning services (from 12.4% to 8.0%) and fast food cafes (from 7.4% to 6.8%) (*Chart 3*).

Chart 3 : Overall profit ratio of SMEs rose back in 2013, though profitability of certain sectors was visibly squeezed



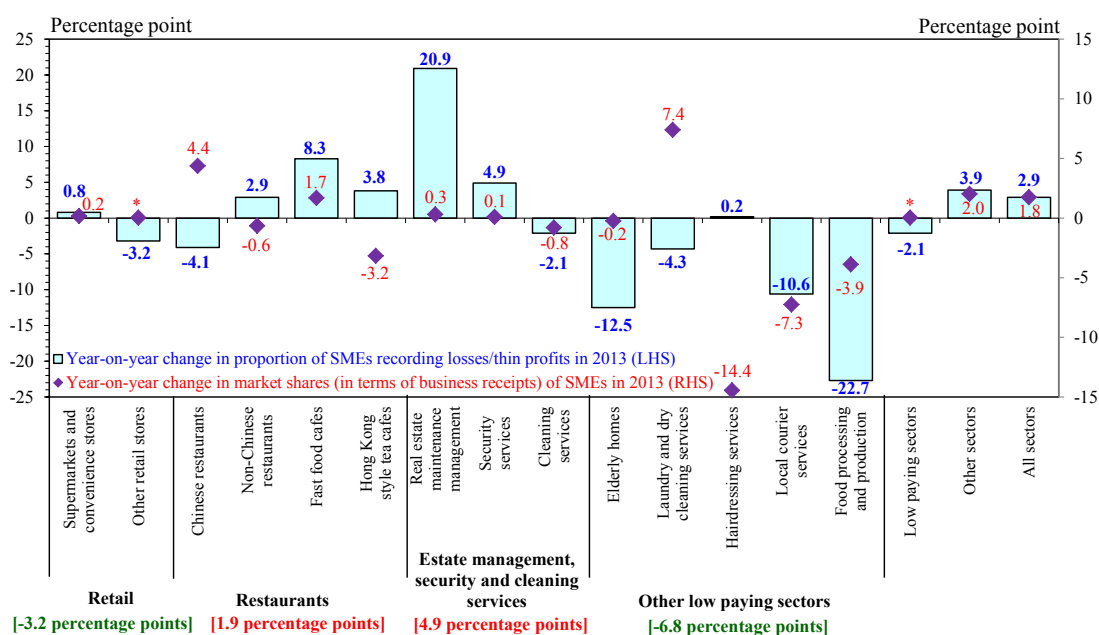
Note: Figures in brackets are the overall profit ratio of that sector in the specified year.

Source: 2012 and 2013 Annual Survey of Economic Activities, Census and Statistics Department.

Box 5.1 (Cont'd)

The proportion of SMEs in individual LPS recording losses/thin profits (overall profit ratio less than 5%) also went up in 2013. For example, such proportions rose in restaurants as well as estate management, security and cleaning services, by 1.9 and 4.9 percentage points respectively to 55.8% and 39.7%. This, to a certain extent, reflected a challenging operating environment for SMEs in these sectors (*Chart 4*). As for the market share of SMEs, while there was no visible change in 2013 as most of the consolidation might have already taken place in 2011, mixed performance was noted across individual sectors. For instance, SMEs in hairdressing services, local courier services, and food processing and production saw a decline in their market shares in 2013 along with improvements in overall profitability, hinting the incidence of survival of the fittest in these sectors.

Chart 4: Market shares of SMEs in LPS were little changed, but proportions of SMEs recording losses/thin profits rose in certain sectors



Note: (*) Change within ± 0.05 percentage point.

Figures in brackets denote the year-on-year change in proportion of SMEs recording losses/thin profits in that sector in 2013.

Sources: 2012 and 2013 Annual Survey of Economic Activities, Census and Statistics Department.

Final remarks

All in all, as the upward adjustment of SMW in 2013 was relatively modest, the operating pressures thus entailed on enterprises were not as visible as that when implementing the initial SMW rate. However, the larger increases in staff costs and other expenses for the labour-intensive LPS resulted in lower profitability. Especially for the SMEs with weaker market power, the profitability of certain sectors was further squeezed. Thanks to the largely stable macroeconomic environment and labour market since the SMW implementation, the impact of SMW on the operation of enterprises was more or less cushioned. However, the marked deceleration in consumption market and inbound tourism of late would inevitably affect the business receipts of related LPS, making it even harder for enterprises to cope with rising cost pressures. The SMW rate was recently raised to \$32.5 per hour in May 2015. In view of the uncertain macroeconomic outlook, how the businesses of different sectors and enterprises would fare down the road requires continued close monitoring.

Profile of employment in establishments

5.9 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only up to December 2014. To bring the analysis more up-to-date, attempts have been made wherever possible by drawing reference to information from supplementary sources.

5.10 Job creation continued apace towards end-2014, with total employment in private sector establishments up further by 2.2% year-on-year to a new high of 2 789 200 in December 2014. Aside from the secular downtrend in manufacturing (down 2.1% year-on-year), employment growth was seen almost across the board in December 2014. On the back of hectic residential building activities and a number of major infrastructure works under way, job gain in construction sites (covering manual workers only) (up 7.8%) was remarkable. Although employment growth softened in sectors such as accommodation services, retail, and professional and business services amidst the slower economic growth, some social and personal services sectors like arts, entertainment, recreation and other services (up 6.4%), education (up 6.0%), and human health services (up 4.6%) still saw appreciable job gains. Analysed by establishment size, employment in large enterprises and small and medium-sized enterprises (SMEs)⁽⁷⁾ grew by 3.2% and 1.2% year-on-year respectively, with the former contributing around three quarters of the total job gain. For 2014 as a whole, total employment in private sector establishments increased by 2.1%, faster than the 1.9% growth recorded in both 2012 and 2013. As regards the civil service, employment growth slowed to 0.6% year-on-year in December 2014, and 1.0% for 2014 as a whole.

Vacancies

5.11 The number of job vacancies in private sector establishments reverted to a modest 1.6% increase in December 2014 over a year earlier. For 2014 as a whole, the level stood high at 76 600, yet representing a slight decline of 0.7% over 2013 after sustaining double-digit growth for four years.

Table 5.6 : Employment by major economic sector

	<u>2013</u>					<u>2014</u>				
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>
Import/export trade and wholesale	554 200 (-0.4)	558 000 (0.1)	554 400 (-0.7)	551 600 (-0.7)	552 800 (-0.3)	554 400 (§)	552 900 (-0.9)	554 100 (-0.1)	554 400 (0.5)	556 200 (0.6)
Retail	265 000 (2.3)	262 700 (2.3)	264 800 (2.1)	264 800 (1.9)	267 700 (2.9)	270 800 (2.2)	270 000 (2.8)	271 900 (2.7)	269 800 (1.9)	271 600 (1.4)
Accommodation ^(a) and food services	276 400 (1.5)	275 600 (2.4)	276 200 (1.4)	275 900 (0.8)	277 800 (1.3)	283 200 (2.5)	281 200 (2.0)	283 200 (2.5)	283 000 (2.6)	285 600 (2.8)
Transportation, storage, postal and courier services	170 000 (2.0)	168 100 (1.5)	169 300 (1.6)	171 000 (2.5)	171 600 (2.6)	174 600 (2.7)	171 700 (2.1)	174 500 (3.1)	175 400 (2.6)	176 600 (2.9)
Information and communications	101 300 (5.1)	98 400 (3.3)	101 100 (5.4)	102 600 (5.2)	103 200 (6.2)	104 100 (2.7)	102 900 (4.6)	103 500 (2.4)	104 800 (2.2)	105 200 (1.9)
Financing, insurance, real estate, professional and business services	683 400 (2.5)	676 100 (2.1)	678 300 (2.1)	685 200 (2.6)	693 800 (3.4)	696 500 (1.9)	693 300 (2.5)	694 000 (2.3)	694 600 (1.4)	704 200 (1.5)
Social and personal services	462 400 (2.7)	458 600 (3.2)	461 000 (2.3)	463 800 (2.9)	466 100 (2.6)	482 200 (4.3)	475 600 (3.7)	480 000 (4.1)	482 500 (4.0)	491 000 (5.3)
Manufacturing	103 700 (-3.0)	104 000 (-3.7)	103 400 (-4.0)	103 900 (-2.7)	103 700 (-1.5)	102 500 (-1.2)	103 500 (-0.5)	102 200 (-1.1)	102 600 (-1.2)	101 500 (-2.1)
Construction sites (manual workers only)	79 300 (11.2)	77 800 (10.1)	82 500 (15.1)	76 800 (6.3)	80 100 (13.4)	82 800 (4.4)	78 600 (1.0)	79 700 (-3.4)	86 500 (12.7)	86 300 (7.8)
<i>All establishments surveyed in the private sector^(b)</i>	<i>2 706 400 (1.9)</i>	<i>2 689 700 (1.9)</i>	<i>2 701 600 (1.7)</i>	<i>2 706 500 (1.7)</i>	<i>2 727 900 (2.4)</i>	<i>2 762 200 (2.1)</i>	<i>2 740 700 (1.9)</i>	<i>2 754 200 (1.9)</i>	<i>2 764 700 (2.2)</i>	<i>2 789 200 (2.2)</i>
		<i><0.9></i>	<i><0.5></i>	<i><0.3></i>	<i><0.6></i>		<i><0.5></i>	<i><0.5></i>	<i><0.6></i>	<i><0.7></i>
<i>Civil service^(c)</i>	<i>161 400 (1.3)</i>	<i>160 700 (0.9)</i>	<i>160 900 (1.1)</i>	<i>161 500 (1.5)</i>	<i>162 400 (1.7)</i>	<i>163 000 (1.0)</i>	<i>162 800 (1.4)</i>	<i>162 800 (1.2)</i>	<i>163 000 (0.9)</i>	<i>163 400 (0.6)</i>

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

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

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

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

() % change over a year earlier.

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

§ Change less than 0.05%.

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

5.12 Analysed by economic sector, vacancy growth was mainly observed in the domestically-oriented sectors such as residential care and social work services (up 34.6%), information and communications (up 33.9%) and real estate (up 11.8%) in December 2014. In terms of skill segment, higher-skilled vacancies reverted to a year-on-year increase of 10.2% after recording consecutive declines in the preceding quarters, thanks to the strong demand for managers and administrators, and professionals. That in the lower-skilled segment however fell modestly by 1.1%, resulting from the reduction in vacancies among clerical support workers, and plant and machine operators and assemblers. For 2014 as a whole, higher-skilled vacancies, mainly dragged by the fall in vacancies of associate professionals, dropped by 8.9%. Lower-skilled ones grew moderately by 2.5%, mainly driven by the double-digit vacancy growth of elementary occupations. Analysed by the size of establishments, vacancies in large enterprises rose by 8.7% year-on-year in December 2014, more than offsetting the fall of 6.2% in SMEs. As for the civil service, the number of job openings went up considerably further by 22.8% year-on-year to 7 610.

5.13 Further analysing the number of job openings in private sector establishments relative to that of job-seekers suggests that the manpower resource balance remained largely tight. The ratio of job vacancies per 100 unemployed persons bounced back to 60 in December 2014 from 57 in September, albeit marginally lower than its year-ago level of 61. In terms of skill segment, the ratio for the higher-skilled segment fell to 71 in December 2014 from its year-ago level of 74, but that of the lower-skilled segment held stable at 70 over the same period. For 2014 as a whole, the overall vacancy-to-unemployed ratio rose slightly further to 60 from 59 in 2013, with the ratio of the lower-skilled segment increasing from 64 to 66 while that of the higher-skilled segment staying at 81. Analysed by economic sector, manpower shortages were more apparent in residential care and social work services, financing and insurance, food and beverage services, wholesale, human health services, and arts, entertainment and recreation sectors in December 2014.

5.14 The vacancy rate, measured in terms of the percentage of job vacancies to total employment opportunities, though edged down from 2.7% in September to 2.6% in December 2014 for private sector establishments, remained the same as the year-ago level. More notable year-on-year increases in vacancy rate were observed in the residential care and social work services, and information and communications sectors, offsetting the decreases in arts, entertainment, recreation and other services, and construction sites (covering manual workers only). For 2014 as a whole, the vacancy rate inched down to 2.7% from 2.8% in 2013, after rising for four years in a row.

Table 5.7 : Vacancies by major economic sector

	<u>Number of vacancies</u>										Vacancy rate in Dec 2014 (%)
	<u>2013</u>					<u>2014</u>					
	<u>Annual Average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	
Import/export trade and wholesale	9 810 (15.3)	10 440 (16.7)	10 120 (10.7)	10 140 (23.1)	8 540 (10.9)	8 460 (-13.7)	9 210 (-11.8)	8 150 (-19.4)	8 450 (-16.7)	8 040 (-5.9)	1.4
Retail	8 760 (10.9)	9 400 (15.0)	8 120 (17.8)	9 190 (2.6)	8 310 (9.9)	9 110 (4.0)	9 680 (2.9)	8 810 (8.4)	9 240 (0.6)	8 710 (4.9)	3.1
Accommodation ^(a) and food services	14 460 (20.2)	15 550 (40.9)	12 970 (5.7)	14 360 (11.0)	14 960 (26.1)	16 060 (11.1)	17 600 (13.2)	15 800 (21.8)	15 550 (8.2)	15 300 (2.3)	5.1
Transportation, storage, postal and courier services	3 750 (13.9)	3 620 (13.1)	4 100 (20.3)	3 640 (2.8)	3 630 (20.4)	3 680 (-1.8)	4 180 (15.7)	4 040 (-1.6)	3 380 (-7.1)	3 120 (-14.2)	1.7
Information and communications	2 690 (13.3)	2 680 (8.2)	3 050 (28.3)	3 020 (40.2)	2 000 (-19.6)	2 560 (-4.6)	2 570 (-4.2)	2 650 (-13.1)	2 360 (-21.8)	2 670 (33.9)	2.5
Financing, insurance, real estate, professional and business services	17 710 (10.0)	17 510 (8.2)	17 950 (8.1)	18 450 (16.6)	16 910 (7.3)	17 910 (1.2)	17 820 (1.8)	18 210 (1.4)	17 810 (-3.5)	17 800 (5.3)	2.5
Social and personal services	16 190 (6.7)	17 330 (6.2)	17 690 (7.3)	15 620 (5.4)	14 130 (8.2)	14 110 (-12.9)	11 620 (-32.9)	16 600 (-6.1)	13 930 (-10.8)	14 280 (1.0)	2.8
Manufacturing	2 590 (-5.5)	2 600 (-9.1)	2 680 (-9.8)	2 700 (14.1)	2 390 (-13.9)	3 040 (17.4)	3 200 (23.2)	3 580 (33.7)	2 880 (6.6)	2 500 (4.9)	2.4
Construction sites (manual workers only)	1 050 (63.1)	930 (39.6)	1 030 (74.3)	890 (73.2)	1 350 (67.9)	1 390 (32.4)	1 630 (75.1)	1 540 (49.8)	1 530 (73.1)	850 (-37.1)	1.0
All establishments surveyed in the private sector ^(b)	77 180 (12.1)	80 170 (14.6)	77 860 (9.9)	78 300 (12.7)	72 380 (11.2)	76 600 (-0.7)	77 790 (-3.0)	79 720 (2.4)	75 360 (-3.8)	73 530 (1.6)	2.6
		<6.5>	<0.2>	<2.8>	<0.9>		<-6.7>	<5.5>	<-2.8>	<6.0>	
Civil service ^(c)	6 520 (2.7)	6 220 (5.8)	6 980 (10.0)	6 670 (1.1)	6 190 (-5.5)	7 160 (9.9)	6 350 (2.0)	7 270 (4.2)	7 430 (11.4)	7 610 (22.8)	4.4

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

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

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

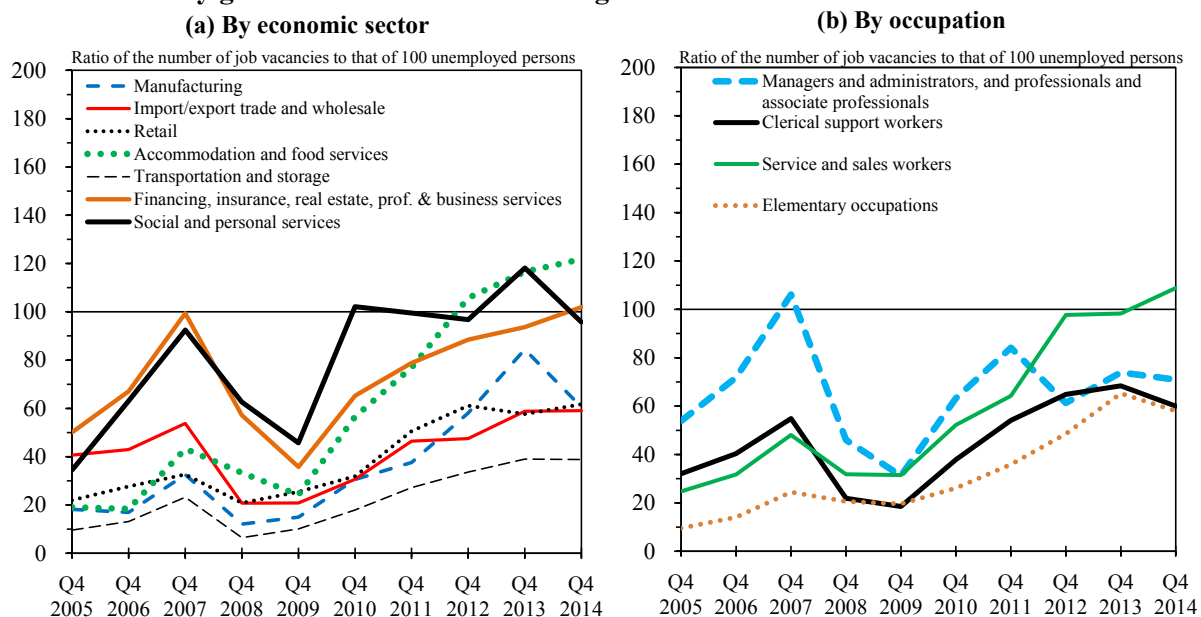
(c) These figures cover only vacancies for those staff to be employed on civil service terms of appointment.

() % change over a year earlier.

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

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

Diagram 5.5 : Manpower resource balance remained largely tight even though vacancy growth in the lower-skilled segment eased somewhat towards end-2014



5.15 The vacancy registration figures compiled by the Labour Department (LD), notwithstanding its smaller sample size, may provide some hints on the latest developments in the labour market. With hiring activities turning more active after the Lunar New Year, the number of private sector job vacancies surged in March 2015. For the first quarter of 2015 as a whole, the average number of private sector job vacancies stood high at around 100 000, up by 5.5% over a year earlier, pointing to largely stable hiring sentiment on entering 2015.

Wages and earnings

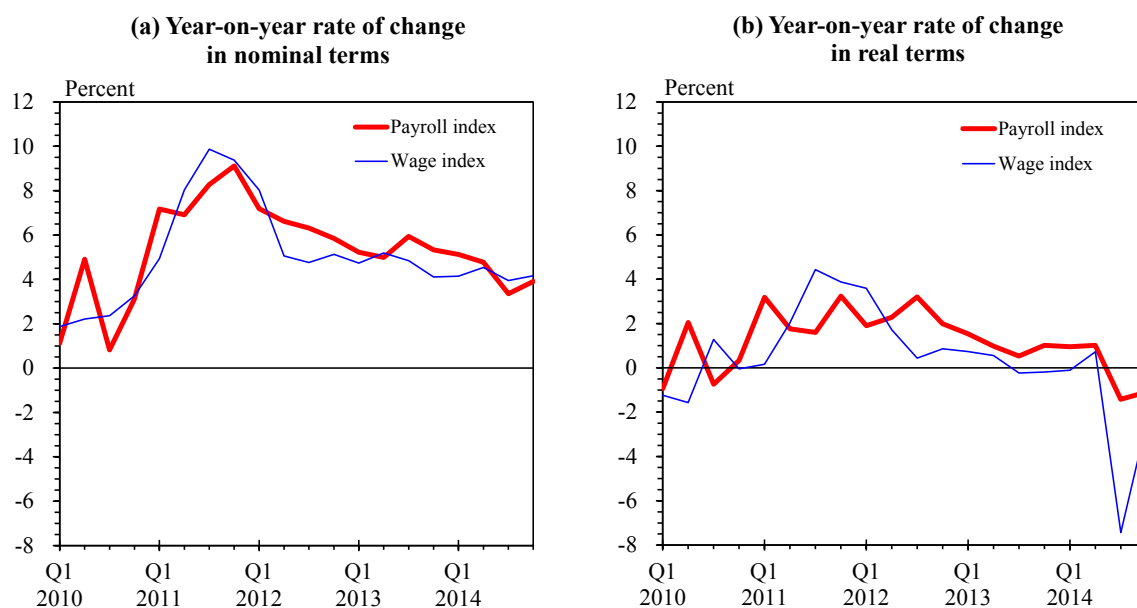
5.16 Both nominal wages and payroll sustained steady and broad-based growth in 2014 on the back of the generally tight labour market. *Wage index*, which covers regular payment to employees at the supervisory level or below, rose further by 4.2% year-on-year in December 2014, broadly on par with the growth pace observed in the previous three quarters. For 2014 as a whole, labour wages increased by 4.2%. After adjusting for inflation⁽⁸⁾, real wages fell by 2.4%. Yet the fall was primarily due to a big jump in headline inflation in the second half of 2014, which was in turn affected by the distortions arising from the Government's one-off relief measures.

5.17 Nominal wages increased across all economic sectors and occupations in December 2014, most notably in personal services (up 7.1%) and professional and business services (up 6.2%). Meanwhile, thanks to the sturdy labour demand in the lower-skilled segment, wages of miscellaneous non-production workers (up 5.3%), service workers (up 5.2%) and craftsmen (up 4.7%) registered further visible growth.

5.18 *Labour earnings*⁽⁹⁾, as measured by the index of payroll per person engaged in the private sector, likewise stayed on the rise in the fourth quarter of 2014, up by 3.9% over a year earlier. For 2014 as a whole, nominal earnings registered an increase of 4.3%. Real earnings, which were also subject to the big jump in headline inflation in the second half of 2014, fell marginally by 0.1%.

5.19 Nominal payroll increased further across major sectors in the fourth quarter of 2014, with that in professional and business services (up 7.0%), real estate activities (up 5.4%), and information and communications (up 5.0%) posting more respectable rises. However, payroll growth in the retail sector stayed relatively modest compared to that seen in 2013 and the first half of 2014, conceivably dragged by its lacklustre business performance.

Diagram 5.6 : Nominal wages and earnings sustained steady and broad-based growth in 2014



Note: The real declines of wages and earnings in the third and fourth quarters of 2014 were mainly attributable to the larger year-on-year increases in the headline Consumer Price Indices, which in turn reflected the distortion arising from the Government's one-off relief measures.

5.20 More recent statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, revealed that the year-on-year nominal growth of the average monthly employment earnings⁽¹⁰⁾ of full-time employees in the lower-skilled segment (excluding foreign domestic helpers) moderated from 4.4% in the preceding quarter to 3.1% in the first quarter of 2015 alongside the recent weakness in the consumption and tourism-related sectors. For the overall income situation, the median monthly household income (excluding foreign domestic helpers) stayed on the rise, up by 6.5% year-on-year in the first quarter of 2015, translating into a real increase of 2.0% after discounting inflation.

Highlights of recent labour-related measures and policy developments

5.21 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job-seekers on the spot. From January to March 2015, LD organised three large-scale job fairs in North District and Mong Kok. 139 participating organisations offered over 12 100 vacancies from the retail, catering, property management, and other industries. There were also 17 training bodies joining the job fairs to introduce job training courses and receive applications on the spot. Apart from large-scale job fairs, district-based job fairs are organised at LD's Job Centres from time to time to assist job-seekers in finding employment. Recruitment activities are also staged by catering and retail employers at the two industry-based recruitment centres regularly for interviewing job-seekers on the spot.

5.22 Besides, LD continues to launch pilot employment projects under the Youth Employment and Training Programme to enhance the employability and employment opportunities of young people with different backgrounds. In the first quarter of 2015, two projects have been launched.

5.23 The Work Incentive Transport Subsidy Scheme aims at helping low-income earners reduce their cost of travelling to and from work, and encouraging them to stay in employment. The income and asset limits for the subsidy have been raised again since the claim month of February 2015 under the annual adjustment mechanism.

5.24 In his 2015 Policy Address, the Chief Executive announced the increase of the Statutory Minimum Wage (SMW) rate from \$30 to \$32.5 per hour (up by 8.3%), subject to the approval of the Legislative Council (LegCo). The related subsidiary legislation was subsequently approved by LegCo, and the revised SMW rate came into force on 1 May 2015. LD had organised extensive publicity activities to prepare for the implementation of the revised rate.

5.25 The Standard Working Hours Committee (SWHC), appointed in April 2013 for a term of three years, completed a large-scale public consultation and a dedicated working hours survey in 2014. With reference to the findings in these two exercises, SWHC is exploring further the issue with a view to building consensus and identifying working hours policy options suitable for Hong Kong.

Notes :

- (1) Labour force statistics enumerated from the General Household Survey are statistics which involve the use of the population figures in the compilation process. The statistics of the three-month periods of November 2012 – January 2013 to October – December 2013 have been revised to take into account the final end-2013 population estimates and those of November 2013 – January 2014 to April – June 2014 have been revised to incorporate the latest information.

The classification of occupation adopted by the Census and Statistics Department follows the International Standard Classification of Occupations (ISCO), which is used to classify the occupation of an employed person or the previous occupation of an unemployed person. After the implementation of the new ISCO, 2008 (ISCO-08), the General Household Survey has been enhanced to adopt the ISCO-08 in compiling labour force statistics by occupation, with statistics backcasted to the quarter of January to March 2011. Starting from the reference quarter of January to March 2011, all the labour force statistics by occupation, unless otherwise specified, are compiled based on the ISCO-08.

- (2) For a person aged 15 or above to be classified as unemployed, he or she should: (a) not have a job and not be performing any work for pay or profit during the reference period (i.e. seven days before enumeration); and (b) be available for work during the reference period; and (c) be seeking work during the 30 days before enumeration.

Notwithstanding the above, the following types of persons are also considered unemployed: (a) persons without a job, having sought work but not available for work because of temporary sickness; (b) persons without a job, available for work but not having sought work because they will take up new jobs or start business at a subsequent date, or expect to return to their original jobs; and (c) discouraged workers not having sought work because they believe work is not available to them.

Even at full employment, some frictional unemployment is bound to exist as workers move between jobs in order to obtain better terms of employment. The precise level of unemployment which can be described as purely frictional varies amongst economies, depending on the structure and characteristics of their labour markets.

The seasonally adjusted series is compiled using the X-12 ARIMA method, which is a standard method applied in compiling seasonally adjusted statistical data series.

- (3) The main criteria for an employed person aged 15 or above to be classified as underemployed are: involuntarily working less than 35 hours during the reference period (i.e. seven days before enumeration), and either available for additional work during the reference period or seeking additional work during the 30 days before enumeration.

Following these criteria, employed persons taking no-pay leave due to slack work during the reference period are also classified as underemployed if they had worked less than 35 hours or were on leave for the entire reference period.

- (4) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.

- (5) Figures enumerated from household data. The employed population is defined here to include those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (6) The low paying sectors as identified by the Minimum Wage Commission include:
- (i) retail (including supermarkets and convenience stores, and other retail stores);
 - (ii) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes, and Hong Kong style tea cafes);
 - (iii) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services and membership organisations);
 - (iv) other low paying sectors, including
 - elderly homes;
 - laundry and dry cleaning services;
 - hairdressing and other personal services;
 - local courier services; and
 - food processing and production.
- (7) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as small and medium-sized enterprises (SMEs) in Hong Kong. Yet, establishments with the same main business registration number (BRN) and engaging in activities of the same industry sector are grouped into one business unit for the purpose of calculating the number of SMEs. Thus, a business with a lot of small chain stores each employing a small number of employees will be considered as a single large enterprise, instead of separate SMEs.
- (8) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the relatively low expenditure group, is taken as the price deflator for wages in respect of employees engaged in occupations up to the supervisory level.
- (9) In addition to wages, which include all regular and guaranteed payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (10) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.

CHAPTER 6 : PRICES

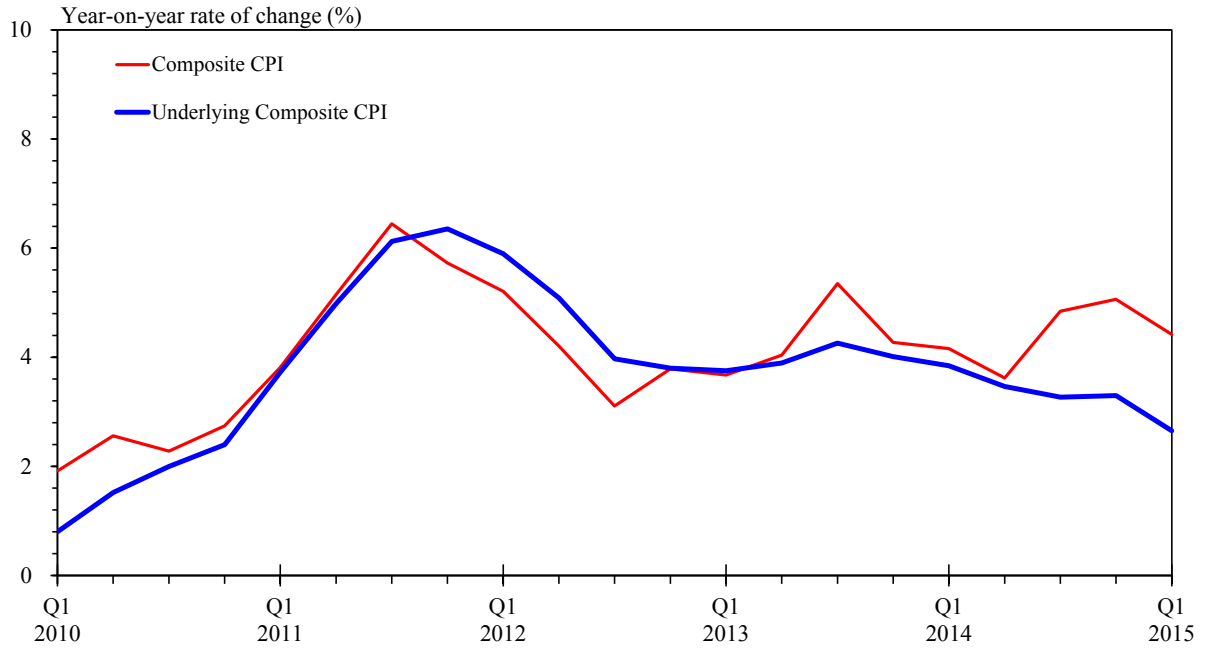
Summary

- *Inflation receded further in the first quarter of 2015, as domestic cost pressures were largely contained and imported inflation stayed benign. The year-on-year increase in the underlying Composite Consumer Price Index (Composite CPI)⁽¹⁾, which nets out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, went down to 2.7% in the first quarter of 2015, from 3.3% in the fourth quarter of 2014. Likewise, the headline Composite CPI inflation abated from 5.1% to 4.4% over the same period.*
- *Domestic cost pressures remained generally in check. Labour earnings continued to register steady increases. Although fresh-letting residential and commercial rentals saw somewhat faster growth in the more recent months, the rental pressures on inflation were still largely kept at bay in the first quarter, as their moderate increases during most of 2014 continued to feed through to the Composite CPI.*
- *External price pressures remained tame. The rise in import prices was mild in overall terms, mainly attributable to softer food and commodity prices in the international markets, and also easing inflation in the major import sources. The strengthening of the US dollar against many other currencies, despite to a lesser extent, also helped contain Hong Kong's imported inflation.*
- *Looking ahead, upside risks to inflation should stay limited in the near term given the mild imported inflation amid the uneven and subpar growth of the global economy, as well as moderate local cost pressures.*

Consumer prices

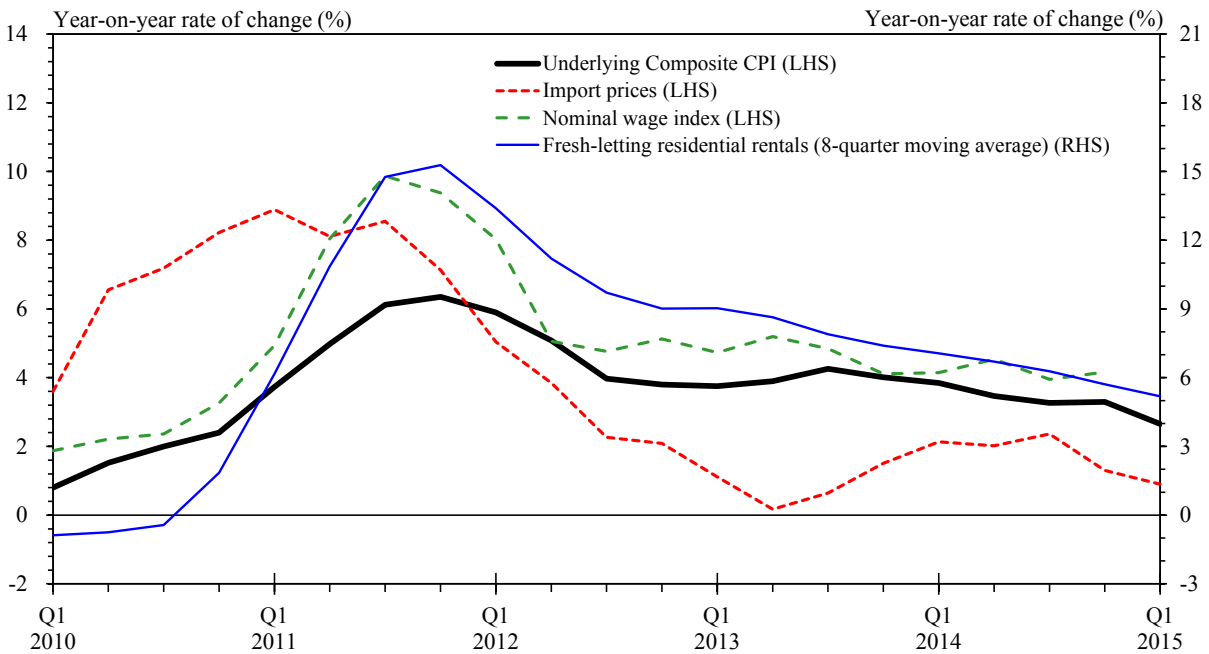
6.1 Inflation eased further in the first quarter of 2015, as local cost pressures were largely contained and imported inflation remained tame. Domestically, labour earnings continued to register steady growth. The lagged effect of the milder increases in fresh-letting residential rentals during most of 2014 also helped moderate the rental rise in private housing component of the CPI. Externally, imported inflation stayed benign, given the easing inflationary pressures in Hong Kong's major import sources⁽²⁾, softer international food and commodity prices, and to a certain extent, the strengthening of the Hong Kong dollar, along with the US dollar, against many other currencies.

Diagram 6.1 : Underlying inflation eased further in the first quarter of 2015



Note : The year-on-year rates of change of the Consumer Price Indices from the fourth quarter of 2010 onwards are computed from the 2009/10-based series, and those before that from the 2004/05-based series. Splicing has been applied to the indices to maintain continuity.

Diagram 6.2 : Domestic cost pressures were largely in check and imported inflation remained benign



6.2 Underlying consumer price inflation, which nets out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, averaged 2.7% in the first quarter of 2015, moderated from 3.3% in the preceding quarter. Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, also receded to 4.4% in the first quarter of 2015, from 5.1% in the preceding quarter. The headline inflation rate was higher than the underlying inflation rate, because of the Government's rates concession in the first quarter of 2014 that created a lower base of comparison for the headline figure and the gradual depletion of the Government's one-off electricity charge subsidy by some households over the period.

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

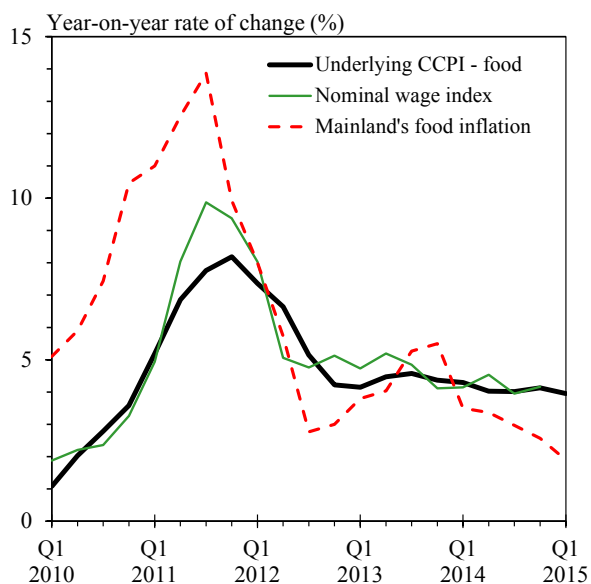
		Composite CPI		CPI(A)	CPI(B)	CPI(C)
		Underlying ^(a)	Headline			
2014	Annual	3.5	4.4	5.6	4.2	3.5
	H1	3.7	3.9	4.0	4.0	3.7
	H2	3.3	5.0	7.1	4.4	3.4
	Q1	3.8	4.2	4.3	4.3	3.9
	Q2	3.5	3.6	3.8	3.8	3.5
	Q3	3.3	4.8	7.2	4.1	3.3
	Q4	3.3	5.1	7.0	4.6	3.4
2015	Q1	2.7	4.4	6.5	3.9	2.6
(seasonally adjusted quarter-to-quarter rate of change (%))						
2014	Q1	0.9	0.9	1.1	0.9	0.8
	Q2	0.7	0.7	0.7	0.7	0.7
	Q3	0.7	0.5	-0.2	0.9	0.8
	Q4	0.9	2.9	5.4	2.0	1.1
2015	Q1	0.3	0.3	0.5	0.3	0.1

Note : (a) Underlying consumer price inflation is calculated by netting out the effects of all relevant one-off 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, and subsidies for household electricity charges.

6.3 Analysed by major component of the underlying Composite CPI, the easing of inflationary pressures was widespread. Food prices and housing rentals, the two largest components by weight in the Composite CPI, both saw narrower year-on-year increases in the first quarter of 2015. Local food inflation (including costs of dining out) receded slightly from 4.1% in the fourth quarter of 2014 to 4.0% amid soft global food prices. The increase in the private housing rental component decelerated from 4.6% to 4.3% over the same period, mostly benefitting from the feed-through of the slower rises in fresh-letting residential rentals during most of 2014. The slump in international oil prices also led to a visible decrease in local motor fuel prices, which was reflected in the transport component. Charges for package tours fell markedly amid the large depreciations of some major foreign currencies, resulting in a much slower price increase in miscellaneous services. The subpar overall economic growth, coupled with mild imported inflation, also helped mitigate the price pressures on a broad front. Meanwhile, the prices of durable goods continued their secular downtrend.

Diagram 6.3 : Food and private housing rental components of the underlying CCPI

(a) Food inflation stayed contained in the first quarter of 2015



(b) Softer fresh-letting rentals continued to feed through

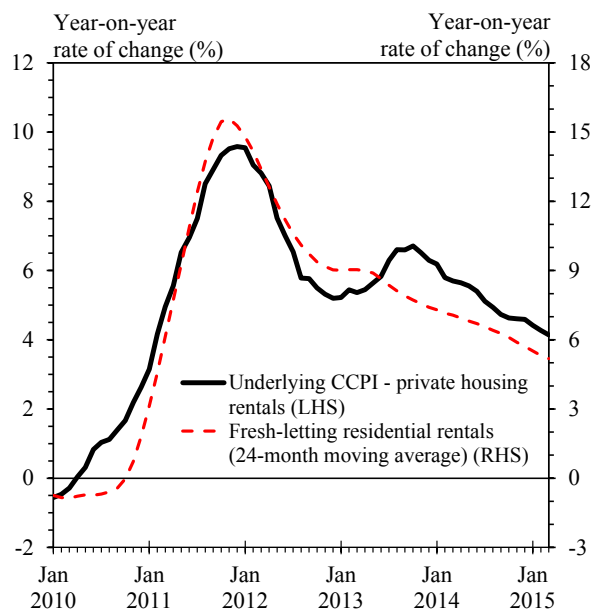


Diagram 6.4 (a) : The price increases in many major components in the underlying Composite CPI remained mild

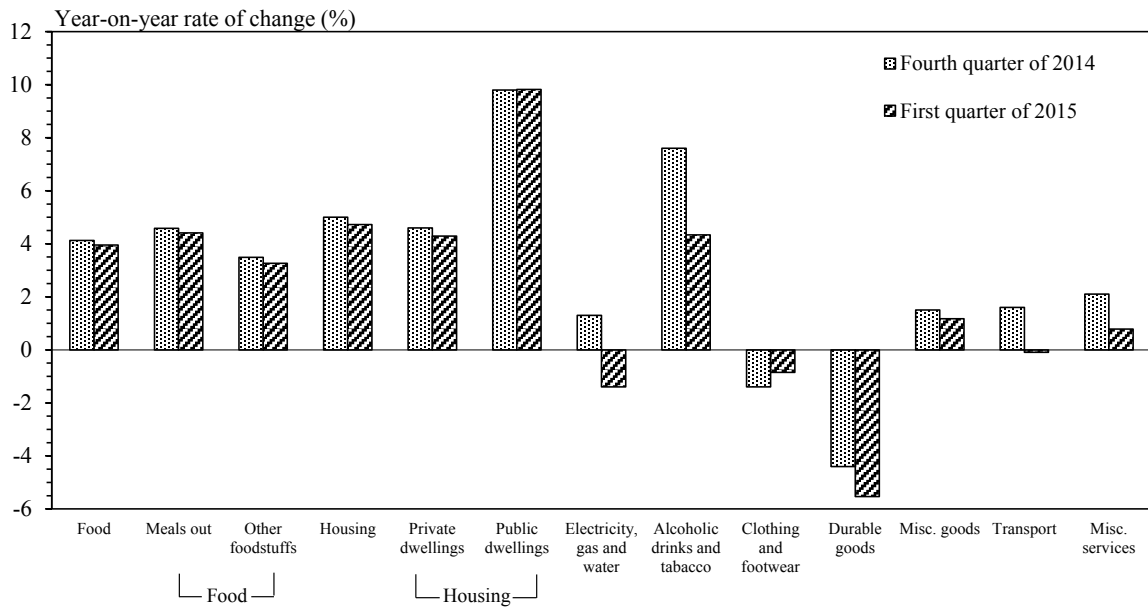
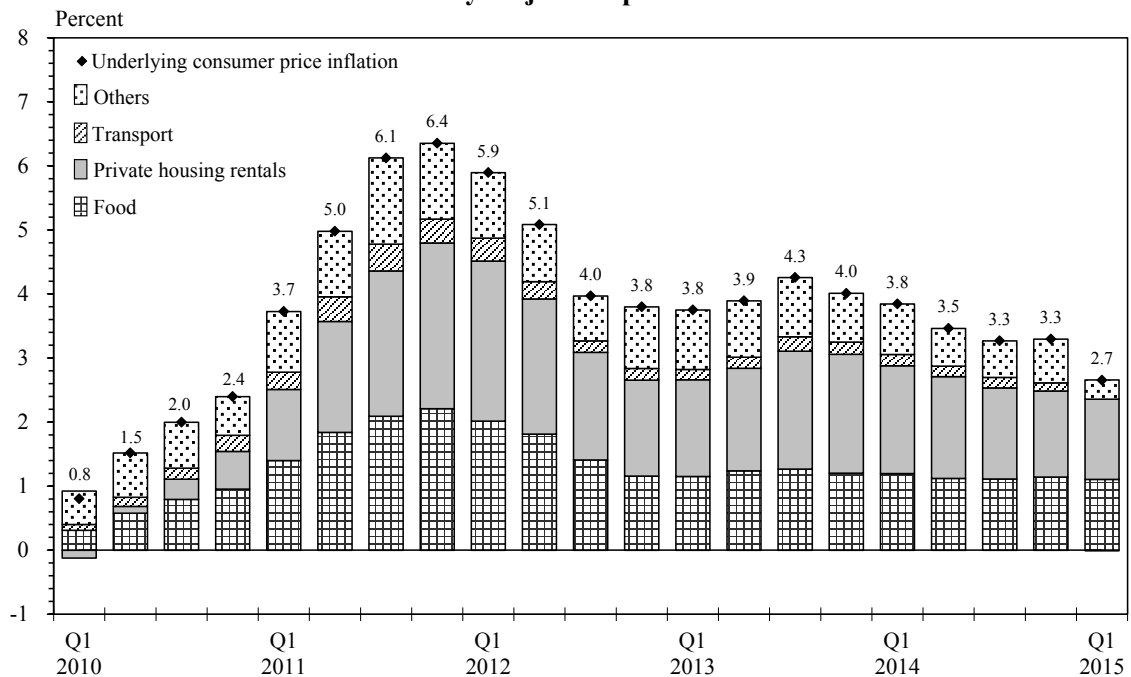


Diagram 6.4 (b) : Contribution to underlying consumer price inflation by major component



Note : The year-on-year rates of change of the Composite CPI from the fourth quarter of 2010 onwards are computed from the 2009/10-based series, and those before that from the 2004/05-based series.

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2013</u>	<u>Annual</u>	<u>2014</u>				<u>2015</u>
				<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Food	27.45	4.4	4.1	4.3	4.0	4.0	4.1	4.0
<i>Meals bought away from home</i>	17.07	4.4	4.6	4.5	4.7	4.6	4.6	4.4
<i>Other foodstuffs</i>	10.38	4.4	3.4	4.0	3.1	3.1	3.5	3.3
Housing ^(a)	31.66	6.7 (5.8)	6.7 (5.0)	5.6 (5.3)	5.0 (5.0)	7.6 (4.8)	8.5 (5.0)	8.2 (4.7)
<i>Private dwellings</i>	27.14	6.3 (6.0)	6.0 (5.2)	6.4 (5.9)	5.6 (5.5)	4.9 (4.9)	7.1 (4.6)	6.8 (4.3)
<i>Public dwellings</i>	2.05	16.0 (6.0)	18.3 (3.4)	-1.8 (-0.1)	-0.9 (0.4)	101.4 (3.6)	29.0 (9.8)	29.0 (9.8)
Electricity, gas and water	3.10	6.9 (5.1)	14.9 (2.5)	5.5 (4.4)	3.4 (2.7)	24.9 (1.6)	25.5 (1.3)	21.5 (-1.4)
Alcoholic drinks and tobacco	0.59	1.5	6.5	3.3	7.6	7.4	7.6	4.3
Clothing and footwear	3.45	1.7	0.9	2.1	2.2	0.8	-1.4	-0.8
Durable goods	5.27	-4.3	-3.4	-3.3	-2.7	-3.3	-4.4	-5.5
Miscellaneous goods	4.17	2.2	2.3	3.1	2.0	2.4	1.5	1.2
Transport	8.44	2.3	2.0	2.2	2.1	2.1	1.6	-0.1
Miscellaneous services	15.87	3.7 (3.2)	3.0 (2.3)	4.4 (3.1)	3.2 (2.0)	2.3 (1.9)	2.1 (2.1)	0.8 (0.8)
All items	100.00	4.3 (4.0)	4.4 (3.5)	4.2 (3.8)	3.6 (3.5)	4.8 (3.3)	5.1 (3.3)	4.4 (2.7)

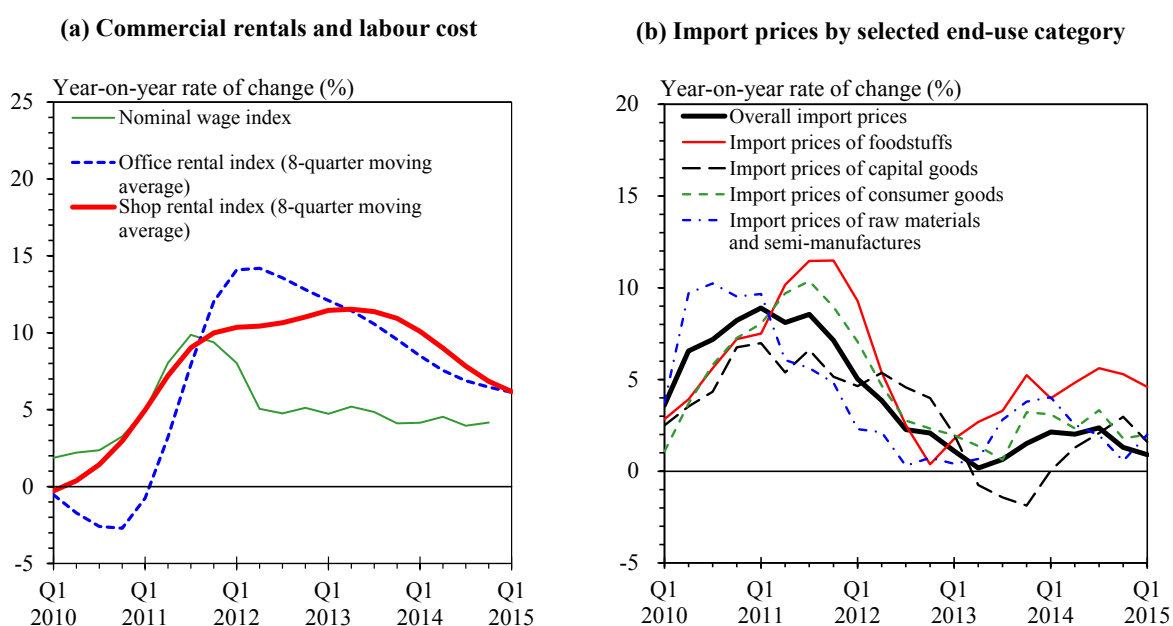
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings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

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

Costs of factor inputs and import prices

6.4 Domestic cost pressures were largely kept at bay in the first quarter of 2015 along with the below-trend growth of the local economy. Labour earnings growth remained largely steady at around 4% in recent quarters. While office and shop rentals showed somewhat faster year-on-year increases in the first quarter of 2015, their increases on an eight-quarter-moving-average basis continued to exhibit an easing trend.

Diagram 6.5 : Domestic cost pressures were largely contained, while imported price pressures saw further abatement



6.5 Externally, import price pressures further abated in the first quarter of 2015. Overall import prices increased mildly by 0.9% in the first quarter over a year earlier, moderated from a 1.3% rise in the preceding quarter, against the backdrop of still soft international food and commodity prices, benign inflation in major import sources and the weaker Asian currencies. Analysed by end-use category on a year-on-year comparison, import prices of foodstuffs increased by 4.6%, slightly slower than the 5.3% in the preceding quarter, helped by the moderation in international meat prices. The rises in import prices of consumer goods and capital goods were also moderate, by 2.0% and 1.6% respectively. As for raw materials and semi-manufactures, the increase in import prices also stayed low at 2.0%, due in part to the softer international commodity prices and the subdued global demand. Reflecting the international oil price slump during the second half of last year, import prices of fuels plunged by 32.8% in the first quarter of 2015 from a year earlier, after a 17.4% decrease in the preceding quarter.

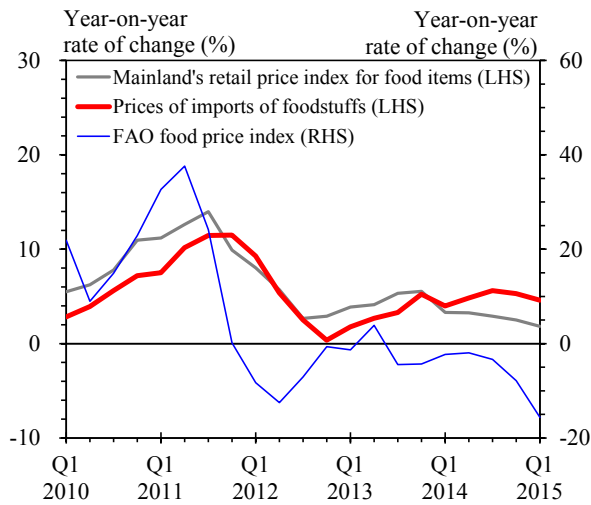
**Table 6.3 : Prices of imports by end-use category
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2014	Annual	4.9	2.6	2.2	-6.1	1.7	1.9
	H1	4.4	2.7	3.2	-2.2	0.7	2.1
	H2	5.4	2.6	1.3	-9.9	2.5	1.8
	Q1	4.0	3.1	4.0	-3.1	*	2.1
	Q2	4.8	2.3	2.5	-1.2	1.3	2.0
	Q3	5.6	3.3	2.0	-1.4	2.1	2.4
	Q4	5.3	1.8	0.6	-17.4	3.0	1.3
2015	Q1	4.6	2.0	2.0	-32.8	1.6	0.9

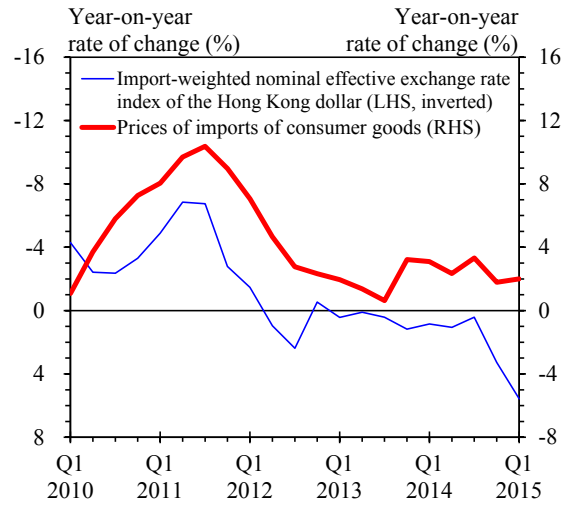
Note : (*) Change within $\pm 0.05\%$.

Diagram 6.6 : Import prices by end-use category

(a) Imported food inflation remained contained

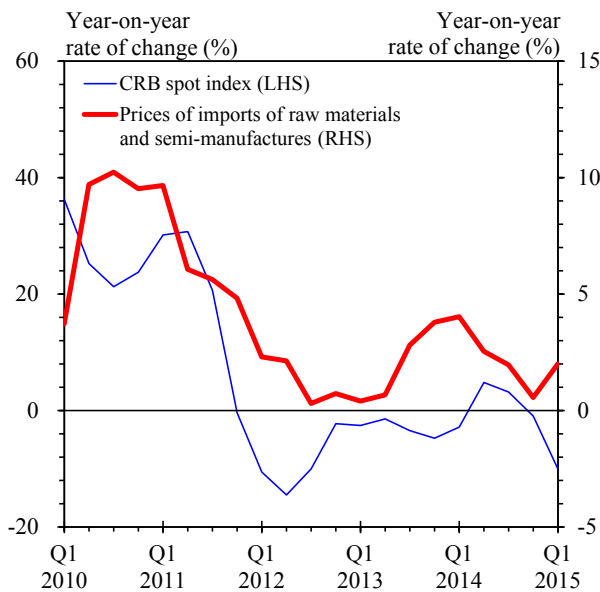


(b) Import prices of consumer goods rose moderately

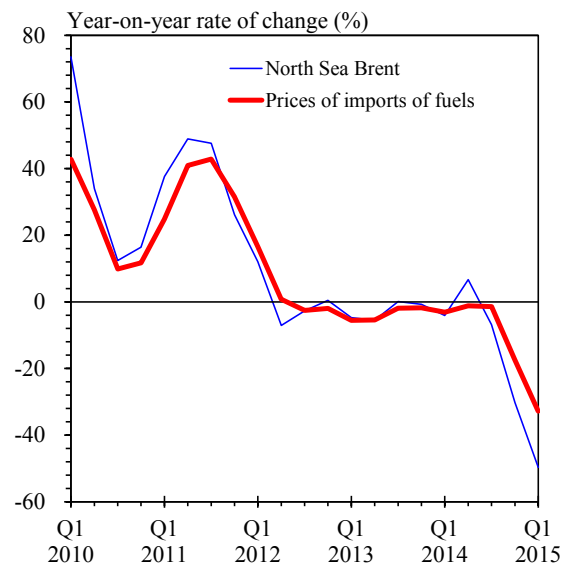


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Imported raw materials and semi-manufactures inflation remained low alongside softer international commodity prices



(d) Import prices of fuels went down further



Output prices

6.6 Output prices, as measured by the *Producer Price Indices*⁽³⁾, exhibited mixed movements across sectors in 2014. Yet, given the weaker economic growth, the pressures on price increases were generally limited. For the manufacturing sector, output prices registered a mild decline in 2014, conceivably reflecting the still subdued demand on local manufactured products. Among the service sectors, output prices for accommodation services and land transport rose moderately in 2014 as a whole. While the output prices for water transport and courier services increased modestly, those for air transport declined slightly. Separately, output prices for telecommunications services maintained the downward trend over the course of the year, reflecting continued adoption of cost-saving technologies and intense competition.

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

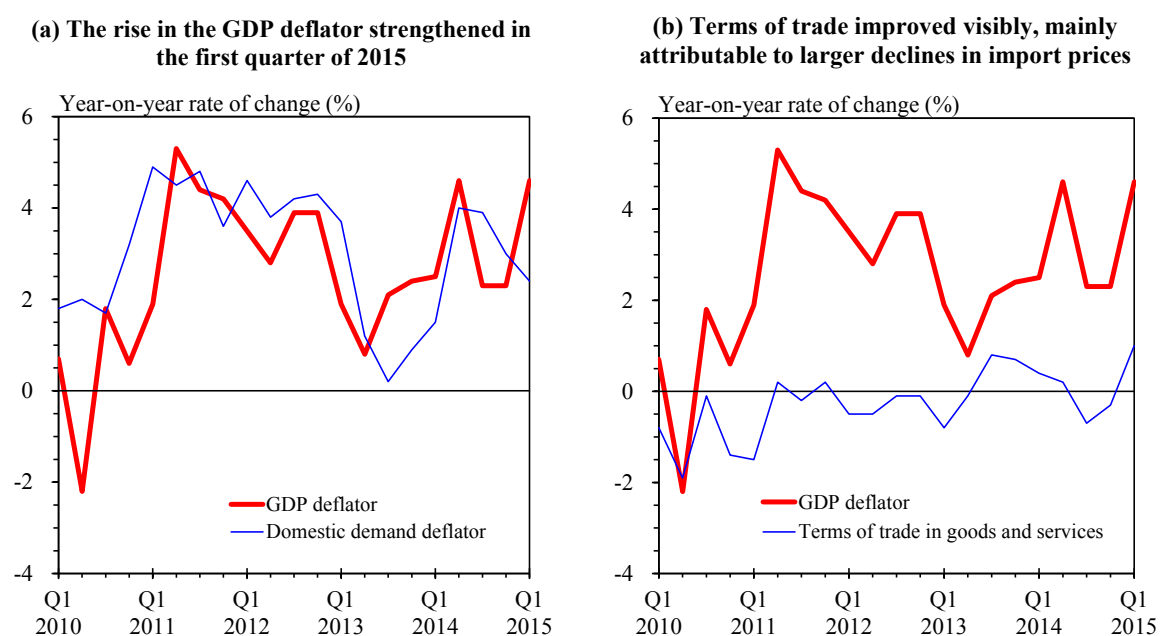
<u>Industry group</u>	<u>Annual</u>	<u>2013</u>				<u>2014</u>				
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Manufacturing	-3.1	0.6	-2.4	-5.2	-5.5	-1.7	-6.2	-0.4	1.3	-1.2
Selected service sectors ^(a)										
Accommodation services	2.4	2.5	2.8	1.7	2.6	2.1	2.2	3.9	4.0	-1.3
Land transport	1.7	0.6	1.0	2.4	2.7	2.8	2.5	3.0	2.9	3.0
Water transport	-2.5	7.3	-14.8	1.8	-1.9	0.8	-2.9	-0.6	2.5	4.6
Air transport	1.0	4.0	-2.4	0.1	2.5	-0.7	-0.6	-1.8	1.9	-2.2
Telecommunications	-1.9	-1.6	-1.8	-1.7	-2.6	-3.7	-2.9	-3.4	-4.2	-4.2
Courier services	2.7	2.7	3.1	3.3	1.8	1.7	1.9	1.4	0.9	2.5

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

GDP deflator

6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*⁽⁴⁾ rose by 4.6% in the first quarter of 2015 over a year earlier, up from the 2.3% increase in the fourth quarter of 2014. This was mainly because the *terms of trade*⁽⁵⁾, a dominant item in the GDP deflator, registered an visible improvement given the larger declines in import prices over a year earlier. Taking out the external components, the year-on-year increase of domestic demand deflator slowed further to 2.4% in the first quarter of 2015, from the 3.0% increase in the preceding quarter.

Diagram 6.7 : GDP deflator



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

	<u>2013</u>		<u>2014</u>				<u>2015</u>
	<u>Annual[#]</u>	<u>Annual[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1⁺</u>
Private consumption expenditure	2.8	2.7	2.7	3.3	3.2	1.8	1.7
Government consumption expenditure	4.3	4.7	4.0	5.2	4.9	4.8	4.7
Gross domestic fixed capital formation	-2.8	3.6	-2.3	4.6	5.2	6.0	3.3
Total exports of goods	-0.3	0.8	-0.1	0.1	1.9	1.0	0.6
Imports of goods	-0.4	0.9	-0.5	-0.2	2.5	1.5	-0.1
Exports of services	0.6	0.8	0.3	0.8	1.5	0.6	0.5
Imports of services	1.1	1.0	0.5	2.6	2.6	-1.2	-2.8
Gross Domestic Product	1.9	2.9	2.5	4.6	2.3	2.3	4.6
			<0.1>	<1.2>	<0.4>	<0.6>	<2.4>
Total final demand	0.4	1.5	0.5	1.4	2.5	1.6	1.2
Domestic demand	1.5	3.1	1.5	4.0	3.9	3.0	2.4
Terms of trade in goods and services	0.2	-0.1	0.4	0.2	-0.7	-0.3	1.0

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.

(#) Revised figures.

(+) Preliminary figures.

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

Notes :

- (1) The Consumer Price Indices (A), (B) and (C) are compiled by reference to the average expenditure patterns for different groups of households as obtained from the Household Expenditure Survey. Then, by aggregating the expenditure patterns of all the households covered by the above three indices, a Composite CPI is compiled.

The expenditure ranges of the households covered in the 2009/10-based CPIs are shown below:

	<u>Approximate proportion of households covered</u> (%)	<u>Average monthly expenditure range during Oct 2009 to Sep 2010</u> (\$)
CPI(A)	50	4,500 to 18,499
CPI(B)	30	18,500 to 32,499
CPI(C)	10	32,500 to 65,999

The weightings of the various components in the 2009/10-based CPIs are as follows:

<u>Expenditure component</u>	<u>Composite CPI</u> (%)	<u>CPI(A)</u> (%)	<u>CPI(B)</u> (%)	<u>CPI(C)</u> (%)
Food	27.45	33.68	27.16	20.87
<i>Meals bought away from home</i>	<i>17.07</i>	<i>19.23</i>	<i>17.90</i>	<i>13.55</i>
<i>Other foodstuffs</i>	<i>10.38</i>	<i>14.45</i>	<i>9.26</i>	<i>7.32</i>
Housing	31.66	32.19	31.43	31.36
<i>Private dwellings</i>	<i>27.14</i>	<i>24.78</i>	<i>28.13</i>	<i>28.45</i>
<i>Public dwellings</i>	<i>2.05</i>	<i>5.49</i>	<i>0.72</i>	<i>--</i>
<i>Maintenance costs and other housing charges</i>	<i>2.47</i>	<i>1.92</i>	<i>2.58</i>	<i>2.91</i>
Electricity, gas and water	3.10	4.36	2.84	2.03
Alcoholic drinks and tobacco	0.59	0.91	0.56	0.29
Clothing and footwear	3.45	2.60	3.45	4.39
Durable goods	5.27	3.73	5.73	6.39
Miscellaneous goods	4.17	3.87	4.17	4.49
Transport	8.44	7.22	8.35	9.93
Miscellaneous services	15.87	11.44	16.31	20.25
All items	100.00	100.00	100.00	100.00

- (2) The table below presents the year-on-year rates (%) of consumer price inflation in selected economies.

	<u>2013</u>					<u>2014</u>					<u>2015</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Selected developed economies											
US	1.5	1.7	1.4	1.6	1.2	1.6	1.4	2.1	1.8	1.2	-0.1
Canada	0.9	0.9	0.8	1.1	0.9	2.0	1.4	2.2	2.1	1.9	1.1
EU	1.5	2.0	1.6	1.5	1.0	0.6	0.8	0.7	0.5	0.2	-0.3
Japan	0.4	-0.6	-0.3	0.9	1.4	2.7	1.5	3.6	3.3	2.5	2.3
Major emerging economies											
Mainland China	2.6	2.4	2.4	2.8	2.9	2.0	2.3	2.2	2.0	1.5	1.2
Russia	6.8	7.1	7.2	6.4	6.4	7.8	6.4	7.6	7.7	9.6	16.2
India [#]	10.1	10.7	9.5	9.7	10.4	6.6	8.2	7.8	6.7	4.1	5.2
Brazil	6.2	6.4	6.6	6.1	5.8	6.3	5.8	6.4	6.6	6.5	7.7
Selected Asian economies											
Hong Kong	4.3	3.7	4.0	5.3	4.3	4.4	4.2	3.6	4.8	5.1	4.4
Singapore	2.4	4.0	1.6	1.8	2.0	1.0	1.0	2.2	1.0	*	-0.3
Taiwan	0.8	1.8	0.8	*	0.6	1.2	0.8	1.6	1.5	0.8	-0.6
Korea	1.3	1.6	1.2	1.4	1.1	1.3	1.1	1.6	1.4	1.0	0.6
Malaysia	2.1	1.5	1.8	2.2	3.0	3.1	3.5	3.3	3.0	2.8	0.7
Thailand	2.2	3.1	2.3	1.7	1.7	1.9	2.0	2.5	2.0	1.1	-0.5
Indonesia	6.4	4.5	5.1	8.0	8.0	6.4	7.8	7.1	4.4	6.5	6.5
Philippines	3.0	3.2	2.6	2.4	3.5	4.2	4.1	4.4	4.7	3.6	2.4
Vietnam	6.6	6.9	6.6	7.0	5.9	4.1	4.8	4.7	4.3	2.6	0.7
Macao	5.5	5.4	5.1	5.6	5.9	6.0	6.1	6.2	5.9	6.0	5.1

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

(#) Figures for 2013 are 2010-based, figures for 2014 onwards are 2012-based.

- (3) The Producer Price Index is designed to reflect changes in the prices of goods and services received by local producers. Producer prices refer to the transacted prices, net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.
- (4) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding chained-dollar figures. The rate of change in the GDP deflator may differ substantially from that in the Composite CPI over the same time span. The Composite CPI covers consumer price inflation in particular. Yet the GDP deflator is a much broader measure of inflation for the entire economy, and takes into account all the price changes related to consumption, investment, exports and imports. Also, the rate of change in the GDP deflator may differ appreciably from that in the total final demand deflator, depending on the movement in the prices of final demand and imports. Likewise, the rate of change in the GDP deflator may differ appreciably from that in the domestic demand deflator, depending on the movement in the prices of imports and exports.
- (5) The terms of trade is defined as the ratio of the prices of total exports to the prices of total imports.

Statistical Appendix

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(\$Mn)					
Private consumption expenditure	811,654	868,691	982,368	1,026,482	1,013,615	1,090,234
Government consumption expenditure	130,566	131,837	138,967	148,017	152,512	157,371
Gross domestic fixed capital formation	302,152	337,153	340,356	350,796	339,552	386,852
<i>of which:</i>						
Building and construction	105,993	106,268	111,776	127,312	123,746	139,249
Machinery, equipment and intellectual property products	176,269	214,093	204,083	198,633	191,568	209,568
Changes in inventories	-4,761	-2,129	12,841	8,480	22,941	37,522
Total exports of goods ^{&}	2,251,744	2,467,357	2,698,850	2,843,998	2,500,143	3,068,444
Imports of goods ^{&}	2,311,091	2,576,340	2,852,522	3,024,089	2,702,966	3,395,057
Exports of services ^{&}	496,985	566,416	664,100	720,837	672,794	829,044
Imports of services ^{&}	265,124	289,634	334,204	367,034	339,346	398,078
GDP	1,412,125	1,503,351	1,650,756	1,707,487	1,659,245	1,776,332
Per capita GDP (\$)	207,263	219,240	238,676	245,406	237,960	252,887
GNI	1,419,589	1,538,864	1,703,567	1,807,994	1,709,007	1,813,928
Per capita GNI (\$)	208,359	224,419	246,312	259,851	245,096	258,240
Total final demand	3,988,340	4,369,325	4,837,482	5,098,610	4,701,557	5,569,467
Total final demand excluding re-exports ^(a)	2,243,119	2,436,589	2,697,292	2,836,222	2,687,437	3,058,027
Domestic demand	1,239,611	1,335,552	1,474,532	1,533,775	1,528,620	1,671,979
Private	1,062,587	1,163,262	1,297,607	1,342,889	1,327,688	1,449,592
Public	177,024	172,290	176,925	190,886	200,932	222,387
External demand	2,748,729	3,033,773	3,362,950	3,564,835	3,172,937	3,897,488

Definition of Terms :

Total final demand	= private consumption expenditure + government consumption expenditure + gross domestic fixed capital formation + changes in inventories + total exports of goods + exports of services
Private sector domestic demand	= private consumption expenditure + gross domestic fixed capital formation by the private sector + changes in inventories
Public sector domestic demand	= government consumption expenditure + gross domestic fixed capital formation by the public sector
Domestic demand	= private sector domestic demand + public sector domestic demand
External demand	= total exports of goods + exports of services

**Table 1 : Gross Domestic Product by expenditure component
(at current market prices) (Cont'd)**

	(\$Mn)							
	<u>2011</u>	<u>2012</u>	<u>2013[#]</u>	<u>2014[#]</u>	Q2 [#]	<u>2014</u> Q3 [#]	Q4 [#]	<u>2015</u> Q1 [#]
Private consumption expenditure	1,224,402	1,314,969	1,413,515	1,498,453	374,044	367,134	394,337	382,128
Government consumption expenditure	168,517	185,310	199,033	214,758	51,495	54,087	54,622	59,088
Gross domestic fixed capital formation	455,294	517,411	515,901	533,522	127,084	131,484	154,854	133,136
<i>of which:</i>								
Building and construction	179,341	204,860	211,125	237,545	53,758	57,632	64,327	62,954
Machinery, equipment and intellectual property products	239,854	278,477	265,387	252,010	63,371	60,268	78,029	56,822
Changes in inventories	11,739	-3,662	-2,326	7,863	5,808	-5,031	1,209	-2,425
Total exports of goods ^{&}	3,420,076	3,591,776	3,816,390	3,877,458	949,349	1,026,520	1,031,262	879,271
Imports of goods ^{&}	3,848,200	4,116,410	4,394,928	4,471,810	1,111,191	1,148,472	1,183,466	1,028,254
Exports of services ^{&}	941,178	1,003,047	1,058,289	1,076,435	244,767	278,631	287,218	265,569
Imports of services ^{&}	438,576	455,382	467,214	481,044	115,475	123,564	127,370	116,140
GDP	1,934,430	2,037,059	2,138,660	2,255,635	525,881	580,789	612,666	572,373
<i>Per capita GDP (\$)</i>	<i>273,549</i>	<i>284,720</i>	<i>297,553</i>	<i>311,479</i>	--	--	--	--
GNI	1,987,256	2,066,514	2,179,179	2,316,409	553,703	592,452	626,666	N.A.
<i>Per capita GNI (\$)</i>	<i>281,019</i>	<i>288,837</i>	<i>303,190</i>	<i>319,871</i>	--	--	--	--
Total final demand	6,221,206	6,608,851	7,000,802	7,208,489	1,752,547	1,852,825	1,923,502	1,716,767
Total final demand excluding re-exports ^(a)	3,433,559	3,655,325	3,861,495	4,014,918	972,528	1,006,582	1,073,480	988,762
Domestic demand	1,859,952	2,014,028	2,126,123	2,254,596	558,431	547,674	605,022	571,927
Private	1,614,010	1,737,274	1,827,874	1,927,050	485,048	468,387	518,443	481,031
Public	245,942	276,754	298,249	327,546	73,383	79,287	86,579	90,896
External demand	4,361,254	4,594,823	4,874,679	4,953,893	1,194,116	1,305,151	1,318,480	1,144,840

- Notes: (a) Re-export margin is nevertheless retained in the total final demand.
 (#) Figures are subject to revision later on as more data become available.
 (&) Figures are based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 6a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.
 (--) Not applicable.
 N.A. Not yet available.

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

(%)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Private consumption expenditure	3.5	6.1	8.6	1.9	0.2	6.1
Government consumption expenditure	-2.6	0.9	3.2	2.0	2.3	3.4
Gross domestic fixed capital formation	4.0	7.1	3.2	1.4	-3.5	7.7
<i>of which:</i>						
Building and construction	-7.6	-7.1	-0.3	6.8	-5.5	5.7
Machinery, equipment and intellectual property products	12.1	18.2	2.5	*	-2.2	6.5
Total exports of goods ^{&}	10.4	9.3	7.0	1.9	-12.5	17.3
Imports of goods ^{&}	8.0	9.2	8.8	1.8	-9.5	18.1
Exports of services ^{&}	11.6	10.0	14.3	5.0	0.4	14.7
Imports of services ^{&}	7.6	8.4	12.1	5.8	-5.0	11.1
GDP	7.4	7.0	6.5	2.1	-2.5	6.8
Per capita GDP	6.9	6.3	5.6	1.5	-2.7	6.0
RGNI	4.3	6.7	8.2	3.3	-4.6	3.6
Per capita RGNI	3.9	6.0	7.3	2.7	-4.8	2.9
Total final demand	7.8	8.4	8.2	2.2	-6.8	13.6
Total final demand excluding re-exports ^(a)	5.6	7.4	7.9	1.7	-2.6	10.4
Domestic demand	2.0	6.1	7.8	1.4	0.5	7.1
Private	3.4	7.6	8.9	1.2	-0.1	6.6
Public	-5.7	-2.8	0.6	3.2	4.5	10.2
External demand	10.6	9.4	8.4	2.5	-9.9	16.8

- Notes: (a) Re-export margin is nevertheless retained in the total final demand.
 (#) Figures are subject to revision later on as more data become available.
 (&) Figures are based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 6a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.
 (--) Not applicable.
 (*) Change within $\pm 0.05\%$.
 N.A. Not yet available.

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

	(%)									
	<u>2011</u>	<u>2012</u>	<u>2013[#]</u>	<u>2014[#]</u>	<u>2014</u>			<u>2015</u>	Average annual rate of change:	
					Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]	10 years 2004 to 2014 [#]	5 years 2009 to 2014 [#]
Private consumption expenditure	8.4	4.1	4.6	3.2	1.8	4.7	4.1	3.5	4.6	5.3
Government consumption expenditure	2.5	3.6	3.0	3.0	2.6	3.6	3.3	3.5	2.1	3.1
Gross domestic fixed capital formation	10.2	6.8	2.6	-0.2	-6.0	-1.7	3.4	7.3	3.9	5.3
<i>of which:</i>										
Building and construction	15.7	7.2	-4.3	6.5	2.2	4.5	7.6	-3.3	1.5	6.0
Machinery, equipment and intellectual property products	12.3	10.2	11.3	-6.5	-11.4	-11.2	-0.4	14.2	6.2	6.5
Total exports of goods ^{&}	3.5	1.9	6.5	0.8	2.1	0.7	0.6	0.4	4.3	5.8
Imports of goods ^{&}	4.7	3.0	7.2	0.9	1.2	0.3	1.1	0.1	5.0	6.6
Exports of services ^{&}	5.5	2.2	4.9	0.9	-1.5	1.3	-0.3	-0.6	6.8	5.5
Imports of services ^{&}	3.5	1.9	1.5	1.9	4.9	2.0	1.1	4.3	4.8	3.9
GDP	4.8	1.7	3.1	2.5	2.0	2.9	2.4	2.1	3.9	3.8
Per capita GDP	4.1	0.5	2.6	1.7	--	--	--	--	3.2	3.0
RGNI	4.8	-0.2	4.0	3.1	4.5	3.2	1.8	N.A.	3.3	3.0
Per capita RGNI	4.1	-1.3	3.5	2.3	--	--	--	--	2.6	2.3
Total final demand	4.7	2.5	5.5	1.4	1.7	1.2	1.5	1.0	4.6	5.5
Total final demand excluding re-exports ^(a)	5.6	3.2	4.5	2.0	1.7	1.7	2.4	1.2	4.5	5.1
Domestic demand	6.5	3.9	4.0	2.8	2.4	2.2	4.1	2.8	4.2	4.9
Private	6.7	3.6	4.1	2.5	2.4	2.0	3.6	3.5	4.4	4.7
Public	5.5	5.8	3.8	4.9	2.4	3.0	7.0	-1.2	2.9	6.0
External demand	3.9	1.9	6.2	0.8	1.3	0.8	0.4	0.2	4.8	5.8

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

	<u>2009</u>		<u>2010</u>		<u>2011</u>		<u>2012</u>		<u>2013</u> [#]	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture, fishing, mining and quarrying	1,090	0.1	948	0.1	944	*	1,114	0.1	1,225	0.1
Manufacturing	28,714	1.8	30,410	1.8	30,578	1.6	30,600	1.5	30,156	1.4
Electricity, gas and water supply, and waste management	35,032	2.2	34,486	2.0	33,877	1.8	35,382	1.8	35,119	1.7
Construction	50,264	3.2	56,531	3.3	65,484	3.4	73,445	3.6	83,288	4.0
Services	1,466,724	92.7	1,614,922	93.0	1,770,166	93.1	1,872,498	93.0	1,947,670	92.9
<i>Import/export, wholesale and retail trades</i>	370,226	23.4	413,308	23.8	492,900	25.9	511,537	25.4	523,647	25.0
<i>Accommodation^(a) and food services</i>	48,789	3.1	56,418	3.2	66,421	3.5	72,044	3.6	75,413	3.6
<i>Transportation, storage, postal and courier services</i>	99,208	6.3	137,941	7.9	120,034	6.3	120,609	6.0	125,465	6.0
<i>Information and communications</i>	47,893	3.0	55,024	3.2	62,952	3.3	70,866	3.5	76,145	3.6
<i>Financing and insurance</i>	255,900	16.2	283,752	16.3	305,282	16.1	319,312	15.9	345,952	16.5
<i>Real estate, professional and business services</i>	173,903	11.0	188,476	10.8	213,987	11.3	232,416	11.5	225,667	10.8
<i>Public administration, social and personal services</i>	288,109	18.2	295,257	17.0	313,585	16.5	337,678	16.8	356,215	17.0
<i>Ownership of premises</i>	182,696	11.5	184,745	10.6	195,005	10.3	208,036	10.3	219,166	10.4
GDP at basic prices	1,581,824	100.0	1,737,298	100.0	1,901,049	100.0	2,013,038	100.0	2,097,458	100.0
Taxes on products	54,689	--	68,707	--	69,401	--	63,575	--	75,314	--
Statistical discrepancy (%)	1.4	--	-1.7	--	-1.9	--	-1.9	--	-1.6	--
GDP at current market prices	1,659,245	--	1,776,332	--	1,934,430	--	2,037,059	--	2,138,660	--

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

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

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

(--) Not applicable.

(*) Less than 0.05%.

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

	(%)									
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013[#]</u>	<u>2014[#]</u>	<u>2014</u>			
							Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Agriculture, fishing, mining and quarrying	-4.6	3.9	0.8	-3.2	4.9	-4.0	-5.9	-6.3	*	-3.6
Manufacturing	-8.2	3.3	0.7	-0.8	0.1	-0.4	2.1	2.2	-1.7	-3.6
Electricity, gas and water supply, and waste management	1.5	-0.2	0.6	1.4	-2.9	2.5	2.1	2.6	4.2	0.6
Construction	-7.5	15.6	18.3	8.3	4.2	8.3	12.2	4.9	5.4	10.1
Services	-1.7	6.9	5.2	1.8	2.7	2.4	2.3	2.1	2.9	2.5
<i>Import/export, wholesale and retail trades</i>	-9.5	16.7	9.1	1.9	3.2	0.9	0.3	0.5	2.2	0.7
<i>Accommodation^(a) and food services</i>	-11.3	9.5	8.3	1.8	3.6	2.6	4.5	2.4	3.6	0.2
<i>Transportation, storage, postal and courier services</i>	-5.5	6.0	7.2	0.9	4.1	5.2	6.6	7.3	3.9	3.3
<i>Information and communications</i>	1.3	1.5	2.8	2.8	4.0	3.9	3.0	5.7	3.3	3.7
<i>Financing and insurance</i>	4.1	6.3	6.5	0.8	7.6	4.0	3.1	0.6	5.5	6.8
<i>Real estate, professional and business services</i>	1.6	2.5	2.6	3.1	-4.0	3.2	1.9	3.7	3.5	3.7
<i>Public administration, social and personal services</i>	3.0	2.2	1.8	2.1	2.5	2.3	2.9	2.4	2.0	2.0
<i>Ownership of premises</i>	0.3	0.8	0.7	1.1	0.3	0.8	1.1	1.1	0.6	0.6
Taxes on products	-4.8	6.3	-6.8	-10.4	-6.4	6.7	-6.4	1.4	22.7	11.4
GDP in chained (2013) dollars	-2.5	6.8	4.8	1.7	3.1	2.5	2.7	2.0	2.9	2.4

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

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

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

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

	(\$Mn)								
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013[#]</u>	<u>2014[#]</u>	<u>2014</u>			
						Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Current account ^(a)	124,369	107,513	32,151	32,180	42,172	-4,749	-9,493	39,713	16,701
Goods	25,564	-58,203	-146,729	-216,592	-233,693	-79,266	-84,958	-23,970	-45,499
Services	78,789	132,681	169,760	229,129	234,732	72,096	52,408	57,085	53,143
Primary income	37,596	52,826	29,455	40,519	60,774	7,290	27,822	11,663	14,000
Secondary income	-17,580	-19,791	-20,336	-20,876	-19,642	-4,869	-4,765	-5,065	-4,943
Capital and financial account ^(a)	-88,838	-113,242	-67,664	-86,308	-96,437	29,922	-11,997	-69,064	-45,297
Capital account	-4,436	-2,021	-1,433	-1,609	-753	-67	-168	-35	-483
Financial account	-84,402	-111,220	-66,231	-84,699	-95,684	29,989	-11,829	-69,029	-44,814
Financial non-reserve assets	-25,257	-24,437	122,658	-26,810	43,405	62,173	392	-1,008	-18,152
<i>Direct investment</i>	-122,026	1,868	-102,623	-50,250	-305,870	-82,302	83,000	-230,273	-76,296
<i>Portfolio investment</i>	-442,460	-10,979	-31,592	-386,077	157,089	-11,476	-53,545	245,436	-23,327
<i>Financial derivatives</i>	18,677	20,884	15,208	54,661	103,939	18,052	23,815	12,597	49,475
<i>Other investment</i>	520,552	-36,210	241,665	354,856	88,247	137,899	-52,878	-28,769	31,995
Reserve assets	-59,145	-86,783	-188,889	-57,890	-139,089	-32,185	-12,221	-68,021	-26,662
Net errors and omissions	-35,530	5,729	35,513	54,128	54,265	-25,173	21,491	29,351	28,597
Overall Balance of Payments	59,145	86,783	188,889	57,890	139,089	32,185	12,221	68,021	26,662

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

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

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

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

	(\$Mn)								
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013[#]</u>	<u>2014[#]</u>		<u>2014</u>		<u>2015</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Total exports of goods	3,068,444	3,420,076	3,591,776	3,816,390	3,877,458	949,349	1,026,520	1,031,262	879,271
Imports of goods	3,395,057	3,848,200	4,116,410	4,394,928	4,471,810	1,111,191	1,148,472	1,183,466	1,028,254
Goods trade balance	-326,613	-428,124	-524,634	-578,538	-594,352	-161,842	-121,952	-152,204	-148,983
	(-9.6)	(-11.1)	(-12.7)	(-13.2)	(-13.3)	(-14.6)	(-10.6)	(-12.9)	(-14.5)
Exports of services	829,044	941,178	1,003,047	1,058,289	1,076,435	244,767	278,631	287,218	265,569
Imports of services	398,078	438,576	455,382	467,214	481,044	115,475	123,564	127,370	116,140
Services trade balance	430,966	502,602	547,665	591,075	595,391	129,292	155,067	159,848	149,429
	(108.3)	(114.6)	(120.3)	(126.5)	(123.8)	(112.0)	(125.5)	(125.5)	(128.7)
Exports of goods and services	3,897,488	4,361,254	4,594,823	4,874,679	4,953,893	1,194,116	1,305,151	1,318,480	1,144,840
Imports of goods and services	3,793,135	4,286,776	4,571,792	4,862,142	4,952,854	1,226,666	1,272,036	1,310,836	1,144,394
Goods and services trade balance	104,353	74,478	23,031	12,537	1,039	-32,550	33,115	7,644	446
	<2.8>	<1.7>	<0.5>	<0.3>	< * >	<-2.7>	<2.6>	<0.6>	< * >

Notes: Figures in this table are reckoned on GDP basis and based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 6a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

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

Table 6a : Goods and services trade based on the change of ownership principle

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013[#]</u>	<u>2014[#]</u>		<u>2014</u>		<u>2015</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
<u>At current market prices (\$Mn)</u>									
Total exports of goods	3,021,492	3,406,765	3,632,957	3,926,059	4,026,818	973,873	1,069,286	1,084,265	913,732
Imports of goods	2,995,928	3,464,968	3,779,686	4,142,651	4,260,511	1,058,831	1,093,256	1,129,764	984,440
Goods trade balance	25,564 (0.9)	-58,203 (-1.7)	-146,729 (-3.9)	-216,592 (-5.2)	-233,693 (-5.5)	-84,958 (-8.0)	-23,970 (-2.2)	-45,499 (-4.0)	-70,708 (-7.2)
Exports of services	625,719	710,716	764,026	812,345	822,367	192,038	209,179	210,323	210,027
Imports of services	546,930	578,035	594,266	583,216	587,635	139,630	152,094	157,180	138,873
Services trade balance	78,789 (14.4)	132,681 (23.0)	169,760 (28.6)	229,129 (39.3)	234,732 (39.9)	52,408 (37.5)	57,085 (37.5)	53,143 (33.8)	71,154 (51.2)
Exports of goods and services	3,647,211	4,117,481	4,396,983	4,738,404	4,849,185	1,165,911	1,278,465	1,294,588	1,123,759
Imports of goods and services	3,542,858	4,043,003	4,373,952	4,725,867	4,848,146	1,198,461	1,245,350	1,286,944	1,123,313
Goods and services trade balance	104,353 <2.9>	74,478 <1.8>	23,031 <0.5>	12,537 <0.3>	1,039 < * >	-32,550 <-2.7>	33,115 <2.7>	7,644 <0.6>	446 < * >
<u>Rates of change in real terms (%)</u>									
Total exports of goods	18.0	4.6	3.3	8.2	1.9	3.5	1.2	1.0	0.9
Imports of goods	19.9	6.7	4.6	9.9	2.0	2.8	0.7	1.7	0.6
Exports of services	15.3	5.7	2.7	5.9	0.7	-2.3	0.8	-0.7	-0.5
Imports of services	10.0	-0.2	2.2	-2.1	0.4	2.2	1.5	0.1	3.3

Notes: Figures in this table are reckoned on GDP basis and based on the System of National Accounts 2008.

Statistics on goods and services trade presented in this table provide supplementary information for analysis of international trade in goods and services, compiled using the change of ownership principle in recording goods sent abroad for processing and merchandising under the *System of National Accounts 2008*. The statistics are consistent with the goods and services statistics in the current account of Hong Kong's Balance of Payments. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

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

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

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

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

**Table 7 : Total exports of goods by market
(in value terms)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>			<u>2015</u>
		(% change)			(% change)	(\$Mn)	Q2	Q3	Q4	Q1
							(% change over a year earlier)			
All markets	22.8	10.1	2.9	3.6	3.2	3,672,751	4.8	5.8	1.2	2.3
Mainland of China	26.5	9.3	6.3	4.9	1.5	1,979,016	5.2	4.6	-2.0	1.6
United States	16.4	-0.4	2.3	-2.1	3.1	341,456	1.4	1.6	6.9	4.8
Japan	17.2	5.9	6.5	-6.1	-2.8	131,505	1.8	-3.2	-8.0	-7.2
India	42.4	25.6	-17.5	7.9	13.1	94,224	8.5	31.9	7.1	7.5
Taiwan	25.4	24.3	-5.2	-4.3	2.5	79,297	0.2	12.5	3.1	-11.6
Germany	1.6	10.7	-12.8	-5.1	-1.7	72,588	4.3	-3.3	-5.3	-3.4
Vietnam	33.9	37.3	9.9	15.5	14.0	66,803	11.6	16.4	17.3	16.9
Republic of Korea	24.4	14.2	-4.0	9.0	-2.7	62,384	1.6	2.2	-13.6	-5.2
Singapore	20.7	10.3	-0.5	4.7	2.2	59,850	-2.2	3.3	3.6	5.6
United Kingdom	1.9	-3.4	-6.0	-2.0	0.5	54,301	8.6	1.0	-2.8	8.8
Rest of the world	20.9	15.1	0.6	5.7	8.5	731,327	6.4	10.9	9.7	4.9

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

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>			<u>2015</u>
							Q2	Q3	Q4	Q1
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All sources	25.0	11.9	3.9	3.8	3.9	4,219,046	4.5	5.7	3.2	1.4
Mainland of China	22.4	10.9	8.5	5.5	2.3	1,986,964	2.9	5.0	3.1	4.3
Taiwan	28.0	7.2	1.6	6.9	14.7	300,278	14.7	19.7	12.6	-0.1
Japan	30.4	3.4	-2.2	-8.1	0.9	288,891	6.2	-0.5	-3.7	-2.4
Singapore	35.9	7.2	-3.2	*	5.8	260,801	11.5	10.3	1.9	-0.7
United States	26.0	18.0	-3.3	7.4	*	219,599	2.3	-0.7	-4.5	4.9
Republic of Korea	29.8	12.2	2.4	3.4	10.6	175,537	11.3	7.2	15.8	8.9
Malaysia	24.5	5.1	-6.0	4.7	16.7	102,191	30.6	11.3	3.9	-6.0
India	36.5	20.6	-5.5	6.7	10.0	96,088	1.8	12.4	28.1	-6.6
Thailand	32.5	0.3	-4.8	6.4	13.7	88,132	10.8	14.7	10.7	-4.7
Switzerland	26.3	51.7	-0.7	-1.7	2.7	79,291	2.6	3.4	2.3	-9.9
Rest of the world	19.2	20.2	5.8	3.8	0.9	621,274	-3.3	2.4	-0.6	-1.9

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

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

**Table 9 : Retained imports of goods by end-use category
(in value terms)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>			<u>2015</u>
							Q2	Q3	Q4	Q1
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
Overall	27.3	17.3	3.0	4.5	5.8	1,168,291	3.7	5.0	8.4	-1.3
Foodstuffs	17.0	18.8	5.1	14.7	9.8	144,710	15.6	11.7	7.9	9.3
Consumer goods	33.8	36.0	5.9	1.0	8.6	290,822	5.0	15.1	10.0	-10.7
Raw materials and semi-manufactures	32.3	0.2	-6.5	11.4	14.7	391,421	8.4	11.3	19.5	-10.6
Fuels	33.8	21.9	-4.2	-2.7	-10.9	117,726	-2.1	-8.5	-21.6	-17.4
Capital goods	12.9	27.3	19.0	-1.5	-4.8	220,017	-9.3	-14.1	8.3	37.8

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

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013[#]</u>	<u>2014[#]</u>		<u>2014</u>	<u>2015</u>		
	(% change)			(% change)		(\$Mn)	Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
							(% change over a year earlier)			
Exports of services	23.2	13.5	6.6	5.5	1.7	1,076,435	-0.7	2.8	0.3	-0.1
Transportation	26.3	7.8	-0.6	-2.5	1.2	245,406	2.9	3.0	-1.4	-3.6
Travel	35.6	28.4	15.8	17.7	-1.5	297,567	-9.1	-3.4	-2.9	-4.1
Trade-related	18.0	11.0	3.9	2.1	3.3	296,611	3.4	5.0	3.0	1.0
Other services	16.4	10.1	9.0	4.6	4.4	236,851	2.4	7.7	2.7	6.8
Imports of services	17.3	10.2	3.8	2.6	3.0	481,044	7.6	4.7	-0.2	1.3
Transportation	20.7	14.3	2.3	-1.4	1.7	142,987	5.2	3.8	-1.8	-1.3
Travel	11.9	9.8	5.2	5.7	3.8	170,838	12.4	5.8	0.5	3.0
Trade-related	21.6	1.1	1.7	-2.7	3.0	33,805	4.6	4.2	1.1	1.1
Other services	19.5	8.7	4.6	4.8	3.2	133,414	4.6	4.3	0.3	1.9
Net exports of services	29.2	16.6	9.0	7.9	0.7	595,391	-7.1	1.4	0.8	-1.2

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

Figures are based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 10a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

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

Table 10a : Exports and imports of services based on the change of ownership principle by component (at current market prices)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013[#]</u>	<u>2014[#]</u>		<u>2014</u>	<u>2015</u>		
	(% change)			(% change)		(\$Mn)	Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
							(% change over a year earlier)			
Exports of services	24.8	13.6	7.5	6.3	1.2	822,367	-1.8	2.1	-0.6	-0.4
Transportation	26.3	7.8	-0.6	-2.5	1.2	245,406	2.9	3.0	-1.4	-3.6
Travel	35.6	28.4	15.8	17.7	-1.5	297,567	-9.1	-3.4	-2.9	-4.1
Other services	16.2	8.1	8.3	3.5	4.3	279,394	2.5	7.3	2.7	6.1
Imports of services	15.5	5.7	2.8	-1.9	0.8	587,635	3.9	3.3	-1.5	0.1
Transportation	20.7	14.3	2.3	-1.4	1.7	142,987	5.2	3.8	-1.8	-1.3
Travel	11.9	9.8	5.2	5.7	3.8	170,838	12.4	5.8	0.5	3.0
Other services	15.1	0.1	1.9	-6.0	-1.5	273,810	-2.3	1.4	-2.4	-0.9

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

Statistics on exports and imports of services presented in this table provide supplementary information for analysis of international trade in goods and services, compiled using the change of ownership principle in recording goods sent abroad for processing and merchanting under the *System of National Accounts 2008*. The statistics are consistent with the goods and services statistics in the current account of Hong Kong's Balance of Payments. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

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

Table 11 : Incoming visitors by source

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>		<u>2015</u>
						Q2	Q3	Q4	Q1
<u>('000)</u>									
All sources	36 030.3	41 921.3	48 615.1	54 298.8	60 838.8	13 831.2	16 129.9	16 179.7	15 420.7
Mainland of China	22 684.4	28 100.1	34 911.4	40 745.3	47 247.7	10 416.1	12 839.5	12 585.3	12 283.1
South and Southeast Asia	3 500.9	3 751.1	3 651.8	3 718.0	3 614.8	973.6	791.4	1 003.2	737.0
Taiwan	2 164.8	2 148.7	2 088.7	2 100.1	2 031.9	500.7	555.3	484.8	465.9
Europe	1 757.8	1 801.3	1 867.7	1 893.7	1 863.3	454.1	404.1	523.6	450.7
United States	1 171.4	1 212.3	1 184.8	1 109.8	1 130.6	296.6	262.3	307.2	274.5
Japan	1 316.6	1 283.7	1 254.6	1 057.0	1 078.8	254.0	285.7	264.8	248.2
Others	3 434.5	3 623.9	3 656.1	3 674.9	3 871.9	936.1	991.5	1 010.9	961.4
<u>(% change over a year earlier)</u>									
All sources	21.8	16.4	16.0	11.7	12.0	9.6	11.2	12.1	4.9
Mainland of China	26.3	23.9	24.2	16.7	16.0	11.8	13.8	18.2	7.7
South and Southeast Asia	21.3	7.1	-2.6	1.8	-2.8	0.1	-2.4	-10.1	-12.9
Taiwan	7.7	-0.7	-2.8	0.5	-3.2	2.4	-2.0	-8.5	-5.1
Europe	9.1	2.5	3.7	1.4	-1.6	-1.5	-0.5	-3.7	-6.4
United States	9.5	3.5	-2.3	-6.3	1.9	4.1	6.7	-0.5	3.8
Japan	9.3	-2.5	-2.3	-15.7	2.1	7.1	5.4	-5.9	-9.5
Others	20.3	5.5	0.9	0.5	5.4	8.2	8.6	0.1	3.0

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

Table 12 : Property market

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Completion of new property by the private sector							
('000 m ² of internal floor area)							
Residential property ^(a) (in units)	17 321	16 579	10 471	8 776	7 157	13 405	9 449
Commercial property	145	291	368	390	235	189	197
<i>of which :</i>							
Office space	34	108	320	341	151	124	155
Other commercial premises ^(b)	111	183	48	49	84	65	42
Industrial property ^(c)	17	27	16	78	3	21	105
<i>of which :</i>							
Industrial-cum-office premises	4	0	0	4	0	0	0
Conventional flatted factory space	0	0	16	70	3	21	32
Storage premises ^(d)	13	27	0	4	0	0	73
Production of public housing							
(in units)							
Rental housing flats ^(e)	24 691	4 430	4 795	22 759	19 021	6 385	17 787
Subsidised sales flats ^(e)	0	0	2 010	2 200	370	1 110	0
Building plans with consent to commence work in the private sector							
('000 m ² of usable floor area)							
Residential property	550.7	706.7	900.0	530.0	546.8	570.5	580.6
Commercial property	481.9	468.4	327.5	147.7	178.3	158.4	133.6
Industrial property ^(f)	35.1	23.9	103.5	106.6	97.1	34.3	109.3
Other properties	408.0	199.2	207.7	212.8	253.2	459.2	232.7
Total	1 475.8	1 398.2	1 538.6	997.1	1 075.4	1 222.4	1 056.2
Agreements for sale and purchase of property							
(Number)							
Residential property ^(g)	103 362	82 472	123 575	95 931	115 092	135 778	84 462
Primary market	15 994	13 986	20 123	11 046	16 161	13 646	10 880
Secondary market	87 368	68 486	103 452	84 885	98 931	122 132	73 582
Selected types of non-residential properties ^(h)							
Office space	3 431	2 874	4 129	2 845	2 521	3 591	3 071
Other commercial premises	7 143	4 402	5 490	4 149	5 359	7 639	5 980
Flatted factory space	6 560	7 409	9 072	5 741	5 554	8 206	7 619

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

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

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

- (b) These include retail premises and other premises designed or adapted for commercial use, with the exception of purpose-built offices. Car-parking space and commercial premises built by the Hong Kong Housing Authority and the Hong Kong Housing Society are excluded.
- (c) These include industrial-cum-office premises, but exclude specialised factory buildings which are developed mainly for own use.
- (d) These include storage premises at the container terminals and the airport.

Table 12 : Property market (Cont'd)

	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>		<u>2015</u>
				Q2	Q3	Q4	Q1
Completion of new property by the private sector							
('000 m ² of internal floor area)							
Residential property ^(a) (in units)	10 149	8 254	15 719	4 653	4 652	3 535	853
Commercial property	226	161	161	11	7	66	60
<i>of which :</i>							
Office space	136	123	104	0	2	44	43
Other commercial premises ^(b)	90	39	57	11	5	22	17
Industrial property ^(c)	170	85	116	9	11	80	3
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	46	85	36	9	11	0	3
Storage premises ^(d)	123	0	80	0	0	80	0
Production of public housing							
(in units)							
Rental housing flats ^(e)	9 778	20 898	5 634	990	0	1 078	N.A.
Subsidised sales flats ^(e)	0	0	0	0	0	0	N.A.
Building plans with consent to commence work in the private sector							
('000 m ² of usable floor area)							
Residential property	796.4	816.0	647.1	206.7	161.2	201.4	N.A.
Commercial property	210.2	309.5	290.3	100.4	128.6	18.0	N.A.
Industrial property ^(f)	70.7	138.1	105.9	20.8	0.0	85.1	N.A.
Other properties	428.9	136.4	217.1	48.3	36.1	63.9	N.A.
Total	1 506.1	1 400.1	1 260.4	376.2	325.9	368.5	N.A.
Agreements for sale and purchase of property							
(Number)							
Residential property ^(g)	81 333	50 676	63 807	16 011	19 962	17 046	16 768
Primary market	12 968	11 046	16 857	3 352	5 295	4 615	3 743
Secondary market	68 365	39 630	46 950	12 659	14 667	12 431	13 025
Selected types of non-residential properties ^(h)							
Office space	3 269	1 685	1 272	276	467	324	399
Other commercial premises	7 282	4 305	3 093	838	887	697	547
Flatted factory space	9 731	4 271	3 010	683	911	820	936

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

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

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

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

N.A. Not yet available.

Table 13 : Property prices and rentals

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	92.0	92.7	103.5	120.5	121.3	150.9	182.1
Office space	133.0	139.3	165.5	199.0	179.8	230.4	297.9
Shopping space	149.3	153.5	172.5	192.2	193.1	257.2	327.4
Flatted factory space	125.0	158.5	199.5	235.9	216.3	284.4	385.0
Property rental indices ^(b) :							
Residential flats	86.5	91.6	101.8	115.7	100.4	119.7	134.0
Office space	96.4	117.4	131.9	155.5	135.7	147.6	169.9
Shopping space	100.5	104.3	111.8	116.2	110.9	122.9	134.3
Flatted factory space	82.6	91.0	100.5	109.3	99.4	108.9	118.6
<u>(% change)</u>							
Property price indices :							
Residential flats ^(a)	17.9	0.8	11.7	16.4	0.7	24.4	20.7
Office space	33.9	4.7	18.8	20.2	-9.6	28.1	29.3
Shopping space	25.1	2.8	12.4	11.4	0.5	33.2	27.3
Flatted factory space	41.1	26.8	25.9	18.2	-8.3	31.5	35.4
Property rental indices ^(b) :							
Residential flats	11.3	5.9	11.1	13.7	-13.2	19.2	11.9
Office space	23.4	21.8	12.4	17.9	-12.7	8.8	15.1
Shopping space	8.3	3.8	7.2	3.9	-4.6	10.8	9.3
Flatted factory space	6.9	10.2	10.4	8.8	-9.1	9.6	8.9

Notes: (a) Figures pertain to prices of existing flats traded in the secondary market, but not new flats sold in the primary market.

(b) All rental indices shown in this table have been adjusted for concessionary leasing terms such as provision of refurbishment, granting of rent-free periods, and waiver of miscellaneous charges, if known.

For residential property, changes in rentals cover only new tenancies for which rentals are freshly determined.

For non-residential property, changes in rentals cover also lease renewals upon which rentals may be revised.

(#) Figures for non-residential property are provisional.

(+) Provisional figures.

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>		<u>2015</u>
				Q2	Q3	Q4 [#]	Q1 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	206.2	242.4	256.9	247.6	261.3	274.3	289.1
Office space	334.7	409.8	423.0	420.8	425.2	428.7	432.4
Shopping space	420.5	506.8	521.2	513.7	524.3	541.4	552.1
Flatted factory space	489.8	655.4	668.0	662.4	672.9	683.6	698.9
Property rental indices ^(b) :							
Residential flats	142.6	154.5	159.5	156.6	160.9	165.3	168.2
Office space	188.3	204.1	213.6	212.2	215.8	217.4	219.8
Shopping space	151.3	165.5	173.0	172.5	174.2	176.0	179.6
Flatted factory space	131.9	147.3	160.1	158.2	162.6	165.5	168.3
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	13.2	17.6	6.0	2.7	6.4	11.9	18.4
Office space	12.4	22.4	3.2	2.7	2.4	3.5	3.6
Shopping space	28.4	20.5	2.8	0.9	2.6	7.0	9.2
Flatted factory space	27.2	33.8	1.9	0.7	0.3	4.2	7.0
Property rental indices ^(b) :							
Residential flats	6.4	8.3	3.2	2.0	3.3	5.4	8.3
Office space	10.8	8.4	4.7	4.3	3.8	4.5	5.1
Shopping space	12.7	9.4	4.5	4.1	3.6	4.8	6.1
Flatted factory space	11.2	11.7	8.7	8.3	7.8	9.0	9.4

Table 14 : Monetary aggregates

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	348,248	387,909	454,342	491,115	671,241	730,093	794,726
M2 ^(a)	2,329,669	2,777,679	3,281,017	3,239,857	3,587,717	3,866,788	4,046,216
M3 ^(a)	2,345,838	2,795,545	3,300,500	3,261,306	3,604,843	3,878,193	4,055,404
Total money supply (\$Mn)							
M1	434,684	491,648	616,709	645,833	901,819	1,017,227	1,127,320
M2	4,379,057	5,054,332	6,106,348	6,268,058	6,602,310	7,136,271	8,057,530
M3	4,407,188	5,089,741	6,139,758	6,300,751	6,626,843	7,156,260	8,081,079
Deposit (\$Mn)							
HK\$	2,131,579	2,568,283	3,075,042	3,033,980	3,373,595	3,617,183	3,740,240
Foreign currency	1,936,322	2,188,993	2,793,856	3,024,004	3,007,445	3,245,081	3,851,020
Total	4,067,901	4,757,275	5,868,898	6,057,984	6,381,040	6,862,265	7,591,260
Loans and advances (\$Mn)							
HK\$	1,797,350	1,917,437	2,184,705	2,354,755	2,401,323	2,824,445	3,160,002
Foreign currency	514,637	550,392	776,971	930,883	887,160	1,403,281	1,920,659
Total	2,311,987	2,467,828	2,961,676	3,285,638	3,288,483	4,227,726	5,080,661
Nominal Effective Exchange Rate Indices (Jan 2010 =100) ^(b)							
Trade-weighted	112.6	111.1	106.3	100.7	101.9	99.5	94.6
Import-weighted	114.1	112.6	107.6	101.3	102.2	99.2	93.9
Export-weighted	110.9	109.6	104.8	100.1	101.6	99.8	95.4
<u>(% change)</u>							
Hong Kong dollar money supply							
M1	-15.6	11.4	17.1	8.1	36.7	8.8	8.9
M2 ^(a)	5.5	19.2	18.1	-1.3	10.7	7.8	4.6
M3 ^(a)	5.7	19.2	18.1	-1.2	10.5	7.6	4.6
Total money supply							
M1	-10.3	13.1	25.4	4.7	39.6	12.8	10.8
M2	5.1	15.4	20.8	2.6	5.3	8.1	12.9
M3	5.2	15.5	20.6	2.6	5.2	8.0	12.9
Deposit							
HK\$	5.6	20.5	19.7	-1.3	11.2	7.2	3.4
Foreign currency	4.8	13.0	27.6	8.2	-0.5	7.9	18.7
Total	5.2	16.9	23.4	3.2	5.3	7.5	10.6
Loans and advances							
HK\$	7.8	6.7	13.9	7.8	2.0	17.6	11.9
Foreign currency	5.3	6.9	41.2	19.8	-4.7	58.2	36.9
Total	7.2	6.7	20.0	10.9	0.1	28.6	20.2
Nominal Effective Exchange Rate Indices (Jan 2010 =100) ^(b)							
Trade-weighted	-0.9	-1.3	-4.3	-5.3	1.2	-2.4	-4.9
Import-weighted	-1.1	-1.3	-4.4	-5.9	0.9	-2.9	-5.3
Export-weighted	-0.7	-1.2	-4.4	-4.5	1.5	-1.8	-4.4

Definition of Terms :

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

Total Money Supply:

- M1: Legal tender notes and coins with the public, plus customers' demand deposits with licensed banks.
- M2: M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit issued by licensed banks and held outside the monetary sector.
- M3: M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus negotiable certificates of deposit issued by such institutions and held outside the monetary sector.

Table 14 : Monetary aggregates (Cont'd)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	Q2	<u>2014</u> Q3	Q4	<u>2015</u> Q1
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	920,920	1,000,344	1,116,675	1,081,475	1,100,139	1,116,675	1,309,831
M2 ^(a)	4,537,384	4,795,130	5,225,801	5,140,282	5,211,895	5,225,801	5,601,317
M3 ^(a)	4,545,590	4,806,012	5,236,215	5,151,120	5,222,564	5,236,215	5,611,764
Total money supply (\$Mn)							
M1	1,377,359	1,510,895	1,707,552	1,628,109	1,677,934	1,707,552	1,941,490
M2	8,950,005	10,056,437	11,012,130	10,599,021	10,911,011	11,012,130	11,348,100
M3	8,970,396	10,085,243	11,049,702	10,632,038	10,947,313	11,049,702	11,381,298
Deposit (\$Mn)							
HK\$	4,176,200	4,390,953	4,800,358	4,712,873	4,785,302	4,800,358	5,157,195
Foreign currency	4,120,234	4,789,109	5,273,535	4,899,221	5,134,316	5,273,535	5,248,899
Total	8,296,434	9,180,062	10,073,892	9,612,094	9,919,618	10,073,892	10,406,095
Loans and advances (\$Mn)							
HK\$	3,333,059	3,606,018	4,000,361	3,889,193	3,915,548	4,000,361	4,285,405
Foreign currency	2,233,751	2,850,795	3,275,685	3,184,500	3,294,478	3,275,685	3,341,972
Total	5,566,810	6,456,813	7,276,046	7,073,693	7,210,026	7,276,046	7,627,377
Nominal Effective Exchange Rate Indices							
<u>(Jan 2010 =100)^(b)</u>							
Trade-weighted	94.9	94.9	96.0	95.8	95.7	97.4	100.1
Import-weighted	94.2	94.7	96.0	95.8	95.6	97.7	100.4
Export-weighted	95.6	95.1	95.9	95.9	95.8	97.2	99.7
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	15.9	8.6	11.6	13.1	11.4	11.6	29.2
M2 ^(a)	12.1	5.7	9.0	13.1	9.7	9.0	15.2
M3 ^(a)	12.1	5.7	9.0	13.1	9.7	9.0	15.2
Total money supply							
M1	22.2	9.7	13.0	14.0	13.1	13.0	27.5
M2	11.1	12.4	9.5	15.0	12.2	9.5	11.9
M3	11.0	12.4	9.6	15.0	12.3	9.6	11.8
Deposit							
HK\$	11.7	5.1	9.3	13.1	9.9	9.3	16.0
Foreign currency	7.0	16.2	10.1	13.6	12.8	10.1	10.7
Total	9.3	10.7	9.7	13.3	11.4	9.7	13.2
Loans and advances							
HK\$	5.5	8.2	10.9	11.4	8.9	10.9	14.3
Foreign currency	16.3	27.6	14.9	22.2	17.5	14.9	8.6
Total	9.6	16.0	12.7	16.0	12.7	12.7	11.7
Nominal Effective Exchange Rate Indices							
<u>(Jan 2010 =100)^(b)</u>							
Trade-weighted	0.3	0.0	1.2	0.8	0.4	3.0	5.3
Import-weighted	0.3	0.5	1.4	1.1	0.4	3.3	5.6
Export-weighted	0.2	-0.5	0.8	0.7	0.4	2.6	4.9

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

(b) Period average.

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

(%)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>			
					Q1	Q2	Q3	Q4
Services Industry								
Import and export trade	8.9	-1.3	-0.3	0.1	0.9	-0.5	0.8	-0.9
Wholesale	12.7	3.2	4.3	1.5	3.1	3.4	-1.7	1.4
Retail	24.9	9.8	11.0	-0.2	4.2	-7.0	1.6	0.2
Transportation	4.4	0.9	1.4	6.1	5.9	7.2	7.4	4.0
<i>within which :</i>								
Land transport	7.0	11.9	8.0	6.9	8.5	8.0	7.9	3.5
Water transport	0.6	-2.4	-2.9	6.8	4.9	8.7	7.3	6.1
Air transport	6.7	0.3	2.4	5.3	5.5	5.8	7.2	2.9
Warehousing and storage	9.4	25.2	8.2	11.9	10.8	10.0	7.8	18.8
Courier	17.3	16.1	26.1	5.4	24.7	13.8	-15.9	8.3
Accommodation services ^(a)	19.6	13.8	5.6	6.5	10.0	9.8	9.6	-1.4
Food services	6.4	5.0	3.5	3.5	3.6	3.8	4.9	1.8
Information and communications	8.8	9.3	6.0	5.9	-0.1	-0.4	8.1	15.2
<i>within which :</i>								
Telecommunications	8.1	14.7	8.0	10.7	1.0	5.3	12.9	21.8
Film entertainment	-5.6	1.9	-4.3	-11.7	-2.5	-17.8	-13.5	-11.0
Banking	10.8	9.4	16.8	5.9	5.5	3.8	11.3	3.1
Financing (except banking)	-2.4	1.6	2.6	6.7	-5.8	0.7	18.6	14.8
<i>within which :</i>								
Financial markets and asset management	-3.2	1.7	1.0	8.9	-4.7	0.4	23.1	19.2
<i>within which : Asset management</i>	10.6	-5.4	14.9	11.0	4.8	4.9	14.4	19.2
Insurance	9.4	13.6	15.1	18.2	23.1	19.0	17.3	14.1
Real estate	-0.9	11.8	0.1	17.0	2.3	22.1	25.7	18.1
Professional, scientific and technical services	7.3	-0.5	7.2	7.6	6.9	6.2	7.9	9.4
Administrative and support services	10.2	8.2	9.5	7.3	11.6	10.2	5.6	2.5
Services Domain								
Tourism, convention and exhibition services	23.8	15.1	17.8	-0.4 ⁺	6.9 ⁺	-7.5 ⁺	2.5 ⁺	-2.7 ⁺
Computer and information technology services	10.4	15.1	2.1	-1.8	-7.8	0.7	0.4	-0.6

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

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

(+) Provisional figures.

Table 16 : Labour force characteristics

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>		<u>2015</u>
						Q2	Q3	Q4	Q1
<u>(%)</u>									
Labour force participation rate	59.6	60.1	60.5	61.2	61.1	60.9	61.6	61.5	61.5
Seasonally adjusted unemployment rate ^(a)	4.3	3.4	3.3	3.4	3.3	3.2	3.3	3.3	3.3
Underemployment rate	2.0	1.7	1.5	1.5	1.5	1.5	1.5	1.6	1.4
<u>('000)</u>									
Population of working age	6 093.8	6 164.4	6 253.4	6 304.6	6 349.2	6 359.0	6 363.6	6 373.5	6 386.2
Labour force	3 631.3	3 703.1	3 785.2	3 858.8	3 876.4	3 872.3	3 918.6	3 919.4	3 928.4
Persons employed	3 474.1	3 576.4	3 660.7	3 728.0	3 749.2	3 744.7	3 785.7	3 797.2	3 801.1
Persons unemployed	157.2	126.7	124.5	130.8	127.2	127.6	132.9	122.1	127.3
Persons underemployed	72.5	63.3	57.6	58.2	56.5	58.0	57.0	62.7	53.5
<u>(% change over a year earlier)</u>									
Population of working age	1.2	1.2	1.4	0.8	0.7	0.9	0.8	0.7	0.8
Labour force	-0.8	2.0	2.2	1.9	0.5	0.2	1.2	1.4	2.5
Persons employed	0.2	2.9	2.4	1.8	0.6	0.4	1.3	1.3	2.3
Persons unemployed	-18.4	-19.4	-1.8	5.1	-2.7	-4.2	-1.0	2.9	6.9
Persons underemployed	-13.5	-12.7	-9.0	1.1	-3.0	-5.4	0.4	12.9	10.5

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

Table 17 : Employment in selected major industries

Selected major industries	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>				(No.)
	(% change)					Mar	Jun	Sep	Dec	
						(% change over a year earlier)				
Manufacturing	-4.5	-5.6	-5.1	-3.0	-1.2	-0.5	-1.1	-1.2	-2.1	101 480
Construction sites (manual workers only)	9.6	13.2	13.8	11.2	4.4	1.0	-3.4	12.7	7.8	86 343
Import and export trade	0.9	-0.3	-1.1	-0.2	0.1	-0.9	*	0.5	0.8	494 115
Wholesale	1.2	*	-0.6	-2.0	-0.3	-1.0	-0.3	0.8	-0.7	62 070
Retail	3.3	4.0	2.5	2.3	2.2	2.8	2.7	1.9	1.4	271 553
Food and beverage services	3.7	6.6	1.6	0.9	2.4	1.4	2.1	2.7	3.3	244 958
Accommodation services ^(a)	1.5	5.8	9.2	5.0	3.2	5.9	5.3	1.7	*	40 596
Transportation, storage, postal and courier services	1.5	2.0	1.8	2.0	2.7	2.1	3.1	2.6	2.9	176 638
Information and communications	1.3	3.4	5.6	5.1	2.7	4.6	2.4	2.2	1.9	105 215
Financing and insurance	4.8	6.3	1.9	1.0	2.3	2.5	3.2	1.8	1.8	217 249
Real estate	4.1	8.0	4.2	1.6	0.6	*	0.2	0.6	1.8	128 773
Professional and business services (excluding cleaning and similar services)	2.2	4.2	3.4	4.5	2.7	4.4	3.4	1.8	1.5	278 307
Cleaning and similar services	13.7	9.5	3.3	1.6	0.2	0.7	-0.1	*	0.3	79 821
Education	3.4	1.5	2.4	2.8	4.4	3.3	4.1	4.4	6.0	188 373
Human health services	3.0	4.1	4.9	5.2	4.3	4.9	4.2	3.7	4.6	113 477
Residential care and social work services	1.8	1.3	2.0	0.5	0.6	-0.9	0.1	0.9	2.4	59 891
Arts, entertainment, recreation and other services	5.0	2.8	0.6	1.6	5.9	5.6	6.1	5.4	6.4	129 226
Civil service ^(b)	0.5	0.7	1.1	1.3	1.0	1.4	1.2	0.9	0.6	163 412
Others ^(c)	3.1	-0.6	-5.1	3.5	3.1	6.6	3.6	1.6	0.8	11 119

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

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

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2014</u>		
						Mar	Jun	Sep	Dec
<u>(Number)</u>									
Building sites									
Private sector	28 620	31 780	37 687	41 308	44 024	43 676	41 792	45 658	44 971
Public sector ^(a)	11 463	12 335	10 578	9 860	11 212	8 785	9 932	11 911	14 219
Sub-total	40 083	44 115	48 265	51 168	55 236	52 461	51 724	57 569	59 190
Civil engineering sites									
Private sector	1 544	1 250	1 410	1 322	1 414	1 507	1 593	1 416	1 140
Public sector ^(a)	13 714	17 270	21 621	26 813	26 145	24 602	26 417	27 549	26 013
Sub-total	15 258	18 520	23 030	28 135	27 559	26 109	28 010	28 965	27 153
Total	55 341	62 635	71 295	79 303	82 795	78 570	79 734	86 534	86 343
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-0.5	11.0	18.6	9.6	6.6	9.6	-3.3	15.7	5.3
Public sector ^(a)	11.5	7.6	-14.2	-6.8	13.7	-25.2	-7.2	40.0	67.5
Sub-total	2.6	10.1	9.4	6.0	8.0	1.7	-4.1	20.0	15.6
Civil engineering sites									
Private sector	-4.6	-19.0	12.8	-6.2	7.0	42.8	38.6	-5.9	-27.8
Public sector ^(a)	39.5	25.9	25.2	24.0	-2.5	-2.2	-3.9	0.8	-4.6
Sub-total	33.3	21.4	24.4	22.2	-2.0	-0.4	-2.1	0.4	-5.9
Total	9.6	13.2	13.8	11.2	4.4	1.0	-3.4	12.7	7.8

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

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

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

	(%)								
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>			
Selected industry section						Q1	Q2	Q3	Q4
(in nominal terms)									
Manufacturing	2.3	7.7	8.2	3.3	5.3	4.1	5.7	5.4	6.5
Import/export and wholesale trade	2.0	12.8	4.6	3.3	2.8	1.7	4.4	3.4	2.6
Retail trade	3.9	12.0	10.1	6.7	4.2	6.8	4.5	2.3	3.0
Transportation, storage, postal and courier services	4.0	4.1	1.2	5.4	3.3	4.1	3.6	3.4	2.3
Accommodation ^(a) and food service activities	3.4	9.5	6.2	6.7	5.2	5.9	5.1	5.1	4.7
Information and communications	2.5	7.5	8.2	5.4	5.1	6.6	3.9	5.2	5.0
Financial and insurance activities	6.5	12.4	4.7	4.6	6.3	8.7	4.8	5.7	4.0
Real estate activities	1.8	10.8	7.7	5.9	4.7	4.4	5.7	3.1	5.4
Professional and business services	2.2	2.1	4.7	7.1	6.9	7.9	6.4	6.1	7.0
Social and personal services	-2.4	3.2	7.6	3.6	1.6	3.3	3.9	-1.3	0.9
All selected industry sections surveyed	2.1	7.8	6.5	5.4	4.3	5.1	4.8	3.4	3.9
(in real terms)									
Manufacturing	0.1	2.1	3.9	-0.8	0.8	*	1.9	0.6	1.3
Import/export and wholesale trade	-0.3	7.2	0.4	-1.0	-1.6	-2.3	0.7	-1.4	-2.4
Retail trade	1.5	6.3	5.7	2.3	-0.2	2.6	0.7	-2.4	-1.9
Transportation, storage, postal and courier services	1.6	-1.2	-2.7	1.0	-1.1	*	-0.1	-1.4	-2.6
Accommodation ^(a) and food service activities	1.0	4.1	2.0	2.3	0.7	1.7	1.3	0.3	-0.3
Information and communications	0.1	2.2	4.0	1.0	0.6	2.3	0.2	0.4	-0.1
Financial and insurance activities	4.1	7.0	0.5	0.4	1.8	4.4	1.0	0.8	-1.0
Real estate activities	-0.4	5.2	3.6	1.4	0.2	0.3	1.9	-1.6	0.3
Professional and business services	*	-3.1	0.7	2.6	2.3	3.6	2.6	1.2	1.8
Social and personal services	-4.6	-2.1	3.6	-0.8	-2.7	-0.8	0.2	-5.9	-3.9
All selected industry sections surveyed	-0.2	2.4	2.3	1.1	-0.1	1.0	1.0	-1.4	-1.1

Notes: The rates of change in real terms are compiled from the Real Indices of Payroll per Person Engaged. The Indices are derived by deflating the Nominal Indices of Payroll per Person Engaged by the 2009/10-based Composite CPI.

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

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

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

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

	(%)								
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>			
Selected industry section						Mar	Jun	Sep	Dec
(in nominal terms)									
Manufacturing	-1.0	6.7	4.3	4.7	4.9	4.8	4.5	4.6	5.6
Import/export, wholesale and retail trades	2.7	7.7	4.5	2.9	2.5	0.9	4.1	2.1	3.0
Transportation	1.1	4.1	3.3	3.9	4.8	4.3	4.9	5.0	4.9
Accommodation ^(a) and food service activities	2.5	9.4	7.9	5.7	4.7	5.0	4.3	5.3	4.4
Financial and insurance activities ^(b)	2.9	6.7	4.2	4.4	3.2	2.7	2.8	3.2	3.8
Real estate leasing and maintenance management	2.6	8.7	7.6	9.3	4.5	9.7	5.2	3.1	2.0
Professional and business services	3.4	12.9	6.5	5.9	6.7	9.1	6.2	5.9	6.2
Personal services	3.6	10.0	9.2	6.2	7.8	7.8	7.9	8.3	7.1
All industries surveyed	2.5	8.1	5.6	4.7	4.2	4.1	4.5	4.0	4.2
(in real terms)									
Manufacturing	-3.6	0.9	0.6	-0.2	-1.6	0.5	0.6	-6.9	-1.2
Import/export, wholesale and retail trades	-0.2	2.4	0.6	-1.7	-4.0	-3.2	0.3	-9.1	-3.7
Transportation	-1.6	-1.2	-0.7	-0.6	-2.0	*	1.0	-6.5	-1.8
Accommodation ^(a) and food service activities	-0.4	3.9	3.8	1.1	-1.8	0.7	0.5	-6.2	-2.3
Financial and insurance activities ^(b)	0.3	1.4	0.1	*	-3.7	-1.5	-0.9	-8.1	-2.9
Real estate leasing and maintenance management	-0.4	3.5	3.4	4.5	-1.9	5.2	1.4	-8.2	-4.6
Professional and business services	0.6	7.0	2.2	1.4	*	4.6	2.3	-5.7	-0.6
Personal services	0.7	4.2	5.3	1.5	1.0	3.4	4.0	-3.5	0.2
All industries surveyed	-0.4	2.7	1.6	0.1	-2.4	-0.1	0.7	-7.4	-2.5

Notes: The rates of change in real terms are compiled from the Real Wage Indices. The Indices are derived by deflating the Nominal Wage Indices by the 2009/10-based CPI(A).

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

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

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

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

(HK\$)

Industry Section	May – Jun 2013			May – Jun 2014		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing ^(a)	10,800	13,300	20,000	11,600	14,300	21,600
Electricity and gas supply; sewerage, waste management and remediation activities	16,200	23,500	37,000	18,000	24,500	37,500
Construction	13,800	17,600	22,300	14,500	18,300	23,300
Import and export trade	11,200	15,500	24,000	11,500	16,000	24,800
Wholesale	10,000	12,200	17,300	10,100	13,000	18,000
Retail trade	8,100	10,900	14,900	9,000	11,500	15,400
<i>within which:</i>						
Supermarkets and convenience stores	5,600	9,500	11,900	5,900	10,100	12,200
Other retail stores	8,400	11,100	15,500	9,300	11,600	16,000
Land transport	11,700	15,000	22,500	12,200	16,000	23,800
Other transportation, storage, postal and courier services ^(b)	11,400	14,800	20,700	11,800	15,400	21,000
Restaurants	7,800	10,000	13,100	8,200	10,500	14,000
<i>within which:</i>						
Hong Kong style tea cafes	8,400	9,800	13,000	8,700	10,200	13,500
Chinese restaurants	9,100	11,100	15,100	9,700	11,900	16,000
Restaurants, other than Chinese	8,700	10,400	13,600	9,200	11,000	14,300
Fast food cafes ^(c)	3,800	7,800	9,900	3,600	7,800	10,100
Accommodation ^(d) and other food service activities	10,400	13,000	16,700	10,900	13,600	17,200
Information and communications	13,000	18,200	29,000	13,300	19,400	30,000
Financing and insurance	15,000	22,600	39,600	15,200	23,800	40,300
Real estate activities ^(e)	12,000	18,000	27,000	12,000	19,000	28,000
Estate management, security and cleaning services	7,700	9,700	11,800	8,000	10,000	12,400
<i>within which:</i>						
Real estate maintenance management	9,400	10,800	13,700	9,700	11,100	13,700
Security services ^(f)	8,700	10,000	11,600	8,900	10,500	12,300
Cleaning services	6,200	7,400	8,400	6,500	7,800	8,900
Membership organisations ^(g)	7,100	10,100	16,100	7,800	11,000	17,600
Professional, scientific and technical services	12,000	19,200	29,700	12,600	20,000	30,600
Administrative and support services activities	10,200	14,000	22,000	10,600	14,500	22,600
Travel agency, reservation service and related activities	10,000	12,000	17,000	10,400	12,600	18,000
Education and public administration (excluding the Government)	12,000	24,200	42,300	12,300	24,500	43,100
Human health activities; and beauty and body prettifying treatment	11,400	15,800	40,000	12,000	16,400	41,300
Miscellaneous activities	8,300	9,800	13,000	8,800	10,200	13,500
<i>within which:</i>						
Elderly homes	9,400	10,600	13,100	9,800	11,400	14,000
Laundry and dry cleaning services	6,900	8,900	11,300	7,300	9,800	12,300
Hairdressing and other personal services	8,600	9,400	12,600	8,500	10,000	13,000
Local courier services	7,000	8,100	11,000	7,100	8,600	12,000
Food processing and production	7,900	10,200	14,400	8,300	10,500	15,000
Other activities not classified above	9,400	12,700	20,000	10,100	13,600	21,300
All industry sections above	10,000	14,100	22,000	10,500	14,800	23,000

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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

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

(HK\$)

Industry Section	May – Jun 2013			May – Jun 2014		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing ^(a)	42.7	54.9	84.4	45.2	58.4	88.0
Electricity and gas supply; sewerage, waste management and remediation activities	63.5	89.2	130.0	65.5	90.0	136.0
Construction	58.1	72.5	92.4	60.2	76.2	96.3
Import and export trade	46.4	64.5	101.3	49.8	68.5	104.7
Wholesale	41.1	51.2	69.0	42.7	53.8	71.8
Retail trade	34.7	40.9	54.4	36.1	44.0	57.8
<i>within which:</i>						
Supermarkets and convenience stores	32.5	35.4	41.6	34.5	37.1	43.5
Other retail stores	35.0	42.1	58.0	37.1	45.4	60.8
Land transport	46.0	65.0	103.1	46.6	67.0	105.1
Other transportation, storage, postal and courier services ^(b)	43.4	56.8	81.7	44.3	58.1	79.1
Restaurants	33.1	37.2	48.2	35.0	39.9	50.9
<i>within which:</i>						
Hong Kong style tea cafes	34.0	37.6	46.9	35.9	39.9	50.0
Chinese restaurants	34.0	40.2	53.0	36.0	42.0	57.0
Restaurants, other than Chinese	35.2	40.0	50.0	37.3	42.5	53.0
Fast food cafes ^(c)	31.0	33.2	37.8	33.0	35.3	39.8
Accommodation ^(d) and other food service activities	37.9	46.8	62.0	39.3	48.3	63.3
Information and communications	51.7	74.1	115.0	53.2	77.2	118.5
Financing and insurance	60.5	89.8	166.7	60.7	93.0	169.4
Real estate activities ^(e)	52.3	72.6	116.4	53.5	75.0	122.6
Estate management, security and cleaning services	30.5	33.3	44.2	32.0	35.4	46.8
<i>within which:</i>						
Real estate maintenance management	31.0	33.9	50.2	32.0	35.7	51.8
Security services ^(f)	30.0	32.9	40.3	32.0	34.6	42.0
Cleaning services	30.0	32.4	38.4	31.0	34.4	39.4
Membership organisations ^(g)	30.6	41.7	74.7	33.0	44.2	73.8
Professional, scientific and technical services	50.3	72.9	122.2	53.4	77.8	130.7
Administrative and support services activities	42.0	56.9	88.6	41.0	59.2	92.6
Travel agency, reservation service and related activities	39.1	51.9	72.6	40.8	54.3	74.1
Education and public administration (excluding the Government)	60.0	114.0	189.4	60.3	114.7	194.3
Human health activities; and beauty and body prettifying treatment	50.5	71.6	170.9	54.0	75.8	177.5
Miscellaneous activities	34.1	40.0	55.0	35.8	42.1	56.7
<i>within which:</i>						
Elderly homes	32.0	38.6	53.2	33.1	41.0	56.0
Laundry and dry cleaning services	32.3	37.5	47.0	34.0	39.2	49.4
Hairdressing and other personal services	35.8	40.3	55.3	38.0	42.6	56.7
Local courier services	32.5	40.4	48.2	34.0	41.6	49.7
Food processing and production	34.0	39.3	56.5	35.0	41.1	58.5
Other activities not classified above	40.8	53.5	83.5	43.4	55.4	86.5
All industry sections above	40.0	57.5	91.9	42.0	60.0	94.7

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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

Table 23 : Rates of change in prices

(%)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
GDP deflator	-0.2	-0.5	3.1	1.3	-0.4	0.3	3.9	3.5
Domestic demand deflator	1.1	1.6	2.4	2.6	-0.8	2.2	4.5	4.2
Consumer Price Indices ^(a) :								
Composite CPI	1.0	2.0	2.0	4.3	0.5	2.4	5.3	4.1
CPI(A)	1.1	1.7	1.3	3.6	0.4	2.7	5.6	3.6
CPI(B)	1.0	2.1	2.2	4.6	0.5	2.3	5.2	4.3
CPI(C)	0.8	2.2	2.7	4.7	0.6	2.1	5.1	4.1
Unit Value Indices :								
Domestic exports	2.2	-2.1	0.8	5.1	-0.2	5.4	5.7	2.4
Re-exports	1.2	1.1	2.4	3.8	1.2	4.6	8.0	3.4
Total exports of goods	1.3	1.0	2.3	3.8	1.1	4.7	8.0	3.4
Imports of goods	2.7	2.1	2.3	4.4	-0.1	6.4	8.1	3.3
Terms of Trade Index	-1.4	-1.1	0.1	-0.5	1.3	-1.7	-0.1	0.1
Producer Price Index for all manufacturing industries ^(b)	0.8	2.2	3.0	5.6	-1.7	6.0	8.3	0.1
Tender Price Indices :								
Public sector								
building projects	1.4	5.0	20.1	41.9	-15.9	12.5	11.6	8.3
Public housing projects	7.7	11.2	19.7	30.8	-6.8	6.7	10.1	6.4

Notes: (a) The year-on-year rates of change before October 2010 were derived using the index series in the bases periods at that time (for instance the 2004/05-based index series), compared with the index a year earlier in the same base period.

(b) Starting from the first quarter of 2009, the producer price indices for all manufacturing industries are compiled based on the HSIC Version 2.0, and the base period of the indices has been changed to 2008 (i.e. with the quarterly average of the indices in 2008 taken as 100). The new series has also been backcasted to the first quarter of 2005. The rates of change before 2006 presented here are the old series compiled based on the HSIC Version 1.1. The two series are therefore not strictly comparable.

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

(--) Not applicable.

N.A. Not yet available.

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

(%)

	<u>2013</u>	<u>2014</u>	<u>2014</u>			<u>2015</u>	Average annual rate of change:	
			Q2	Q3	Q4		10 years	5 years
							2004 to 2014	2009 to 2014
GDP deflator [#]	1.9	2.9	4.6	2.3	2.3	4.6	1.6	2.5
Domestic demand deflator [#]	1.5	3.1	4.0	3.9	3.0	2.4	2.2	3.1
Consumer Price Indices ^(a) :								
Composite CPI	4.3	4.4	3.6	4.8	5.1	4.4	3.0	4.1
CPI(A)	5.1	5.6	3.8	7.2	7.0	6.5	3.0	4.5
CPI(B)	4.1	4.2	3.8	4.1	4.6	3.9	3.0	4.0
CPI(C)	3.8	3.5	3.5	3.3	3.4	2.6	2.9	3.7
Unit Value Indices :								
Domestic exports	2.5	0.2	0.5	1.3	-0.7	-1.5	2.2	3.2
Re-exports	1.3	2.0	1.9	2.2	2.3	2.1	2.9	3.9
Total exports of goods	1.3	2.0	1.9	2.2	2.2	2.0	2.9	3.8
Imports of goods	0.9	1.9	2.0	2.4	1.3	0.9	3.2	4.1
Terms of Trade Index	0.4	0.1	-0.2	-0.1	0.9	1.1	-0.3	-0.2
Producer Price Index for all manufacturing industries ^(b)	-3.1	-1.7	-0.4	1.3	-1.2	N.A.	--	1.8
Tender Price Indices :								
Public sector								
building projects	6.6	7.3	7.6	7.7	7.1	N.A.	9.0	9.2
Public housing projects	9.3	8.0	7.8	7.6	8.1	N.A.	9.9	8.1

Table 24 : Rates of change in Composite Consumer Price Index

(%)

	Weight	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
All items	100.0	1.0 (--)	2.0 (--)	2.0 (2.8)	4.3 (5.6)	0.5 (1.0)	2.4 (1.7)	5.3 (5.3)
Food	27.45	1.8	1.7	4.3	10.1	1.3	2.4	7.0
<i>Meals bought away from home</i>	17.07	0.9	1.3	2.5	5.9	1.6	1.7	5.2
<i>Food, excluding meals bought away from home</i>	10.38	3.2	2.5	7.1	16.8	0.9	3.5	9.9
Housing ^(a)	31.66	0.1	4.7	2.0	4.1	3.7	0.4	7.2
<i>Private housing rent</i>	27.14	-0.1	5.6	4.0	6.8	3.6	0.9	7.2
<i>Public housing rent</i>	2.05	0.2	0.1	-17.7	-27.2	9.5	-7.8	11.9
Electricity, gas and water	3.10	4.1	2.1	-0.7	-6.5	-25.3	43.3	-4.2
Alcoholic drinks and tobacco	0.59	0.4	-3.7	-1.2	0.1	18.7	3.4	17.1
Clothing and footwear	3.45	2.0	1.0	4.1	0.8	2.7	1.8	6.8
Durable goods	5.27	-3.2	-6.4	-4.7	-2.0	-3.0	-2.7	-3.8
Miscellaneous goods	4.17	1.5	1.7	2.5	5.0	2.3	2.4	3.8
Transport	8.44	1.4	0.7	-0.1	2.5	-0.9	2.0	4.4
Miscellaneous services	15.87	1.0	1.9	1.7	0.8	-2.1	2.0	3.5

Notes: The year-on-year rates of change before October 2010 were derived using the index series in the bases periods at that time (for instance the 2004/05-based index series), compared with the index a year earlier in the same base period. The weights quoted in this table correspond to that in the 2009/10-based index series.

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

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

(--) Not applicable.

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

(%)										
	Weight	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>			<u>2015</u>	Average annual rate of change:	
					Q2	Q3	Q4	Q1	10 years 2004 to 2014	5 years 2009 to 2014
All items	100.0	4.1 (4.7)	4.3 (4.0)	4.4 (3.5)	3.6 (3.5)	4.8 (3.3)	5.1 (3.3)	4.4 (2.7)	3.0 (--)	4.1 (3.9)
Food	27.45	5.8	4.4	4.1	4.0	4.0	4.1	4.0	4.3	4.7
<i>Meals bought away from home</i>	17.07	5.4	4.4	4.6	4.7	4.6	4.6	4.4	3.3	4.2
<i>Food, excluding meals bought away from home</i>	10.38	6.5	4.4	3.4	3.1	3.1	3.5	3.3	5.7	5.5
Housing ^(a)	31.66	5.6	6.7	6.7	5.0	7.6	8.5	8.2	4.1	5.3
<i>Private housing rent</i>	27.14	6.8	6.3	6.0	5.6	4.9	7.1	6.8	4.7	5.4
<i>Public housing rent</i>	2.05	-7.1	16.0	18.3	-0.9	101.4	29.0	29.0	-1.4	5.6
Electricity, gas and water	3.10	-8.2	6.9	14.9	3.4	24.9	25.5	21.5	1.3	9.2
Alcoholic drinks and tobacco	0.59	3.0	1.5	6.5	7.6	7.4	7.6	4.3	4.3	6.1
Clothing and footwear	3.45	3.1	1.7	0.9	2.2	0.8	-1.4	-0.8	2.4	2.8
Durable goods	5.27	-1.4	-4.3	-3.4	-2.7	-3.3	-4.4	-5.5	-3.6	-3.2
Miscellaneous goods	4.17	2.2	2.2	2.3	2.0	2.4	1.5	1.2	2.6	2.6
Transport	8.44	3.0	2.3	2.0	2.1	2.1	1.6	-0.1	1.7	2.7
Miscellaneous services	15.87	2.8	3.7	3.0	3.2	2.3	2.1	0.8	1.8	3.0

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

(%)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Private consumption expenditure	1.6	0.9	4.1	2.5	-1.4	1.4	3.6
Government consumption expenditure	-1.7	0.1	2.2	4.4	0.7	-0.2	4.5
Gross domestic fixed capital formation	1.1	4.2	-2.1	1.7	0.3	5.8	6.8
Total exports of goods	0.6	0.3	2.2	3.4	0.5	4.6	7.7
Imports of goods	1.9	2.1	1.7	4.1	-1.3	6.3	8.2
Exports of services	3.3	3.6	2.5	3.4	-7.0	7.4	7.6
Imports of services	1.0	0.8	3.0	3.8	-2.7	5.6	6.4
Gross Domestic Product	-0.2	-0.5	3.1	1.3	-0.4	0.3	3.9
Total final demand	1.1	1.1	2.3	3.1	-1.1	4.3	6.7
Domestic demand	1.1	1.6	2.4	2.6	-0.8	2.2	4.5

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

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

(%)

	<u>2012</u>	<u>2013[#]</u>	<u>2014[#]</u>	<u>2014</u>			<u>2015</u>	Average annual rate of change:	
				Q2 [#]	Q3 [#]	Q4 [#]		Q1 [#]	10 years 2004 to 2014 [#]
Private consumption expenditure	3.2	2.8	2.7	3.3	3.2	1.8	1.7	2.1	2.7
Government consumption expenditure	6.2	4.3	4.7	5.2	4.9	4.8	4.7	2.5	3.9
Gross domestic fixed capital formation	6.4	-2.8	3.6	4.6	5.2	6.0	3.3	2.4	3.9
Total exports of goods	3.1	-0.3	0.8	0.1	1.9	1.0	0.6	2.3	3.1
Imports of goods	3.8	-0.4	0.9	-0.2	2.5	1.5	-0.1	2.7	3.7
Exports of services	4.3	0.6	0.8	0.8	1.5	0.6	0.5	2.6	4.1
Imports of services	1.9	1.1	1.0	2.6	2.6	-1.2	-2.8	2.2	3.2
Gross Domestic Product	3.5	1.9	2.9	4.6	2.3	2.3	4.6	1.6	2.5
Total final demand	3.6	0.4	1.5	1.4	2.5	1.6	1.2	2.3	3.3
Domestic demand	4.2	1.5	3.1	4.0	3.9	3.0	2.4	2.2	3.1

