



Hong Kong's Recent Economic Situation and Near-term Outlook

The Government released the Third Quarter Economic Report 2023 on 10 November. The Economic Report, together with the press release on the updated economic forecasts for the whole year of 2023, have been furnished to Legislative Council Members.

This paper analyses Hong Kong's overall economic development in the most recent period and the near-term outlook, and provides a preliminary analysis on the economic prospects for 2024.

Office of the Government Economist
Financial Secretary's Office
27 November 2023

Hong Kong's Recent Economic Situation and Near-term Outlook

Introduction

This paper analyses the latest performance of the Hong Kong economy and provides a preliminary analysis on the outlook for 2024.

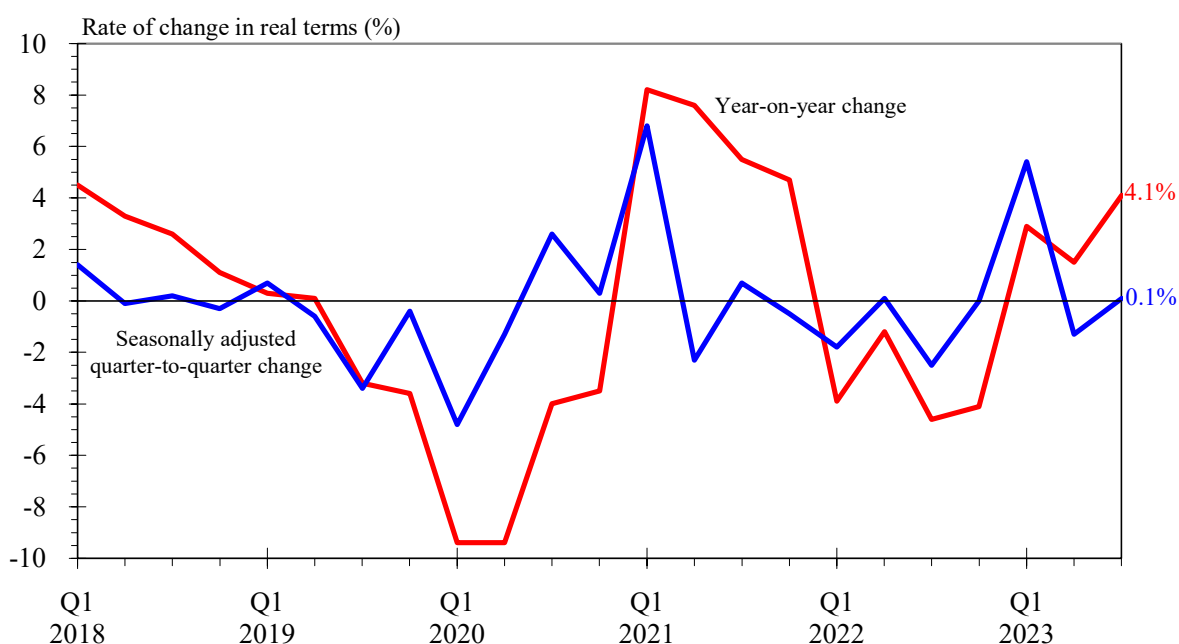
Recent economic situation

2. The external environment continued to be challenging in the third quarter of 2023. Despite some easing, inflation in the US and Europe remained well above their target levels. Their central banks continued to tighten monetary policies during the quarter, dampening import demand. On the Mainland, the economy was stable and improving in overall terms, especially since the third quarter when steadily accelerating growth was seen on the back of strengthened policy support by the Central Government. In October, the International Monetary Fund (“IMF”) forecast that global economic growth would slow further from 3.5% in 2022 to 3.0% in 2023, and warned of various downside risks to the economic outlook.

3. The Hong Kong economy continued to revive in the third quarter. Real Gross Domestic Product (“GDP”) grew by 4.1% year-on-year⁽¹⁾ in the third quarter, having increased by 1.5% in the preceding quarter. Exports of services continued to expand notably thanks to the increase in visitor arrivals. Private consumption expenditure rose further alongside rising household income and the Government’s various support initiatives. As the economy continued to grow, and also due to low-base effect, overall investment spending rebounded sharply. However, total exports of goods declined further amid weak external demand. On a seasonally adjusted quarter-to-quarter comparison, real GDP increased by 0.1% in the third quarter (*Chart 1*). For the first three quarters as a whole, the economy expanded by 2.8% over a year earlier.

(1) Unless otherwise specified, all figures on change in the sections on recent economic situation, external trade and domestic sector in this document refer to year-on-year changes in real terms.

Chart 1 : The Hong Kong economy continued to revive in the third quarter of 2023



External trade

4. Hong Kong's total exports of goods declined further by 8.6% in the third quarter amid weak external demand, after falling by 15.1% in the preceding quarter (**Chart 2(a)**). Within the total, exports to the Mainland and the US declined further, and those to the EU continued to fall visibly. As regards exports to most other major Asian markets, they shrank by varying degrees. Entering the fourth quarter, while the value of total merchandise exports turned to a modest year-on-year increase in October, overall export performance largely remained weak.

5. *Exports of services* expanded notably further by 23.9% in the third quarter, after growing by 22.8% in the preceding quarter (**Chart 2(b)**). Exports of travel services leapt almost nine-fold and recovered to 53% of the level in the same quarter in 2018, thanks to the continued revival of visitor arrivals during the quarter. Exports of transport services rose further in tandem. Exports of business and other services grew only modestly amid the challenging external environment. Meanwhile, exports of financial services fell further alongside subdued cross-border financial and fund raising activities.

Chart 2(a) : Total exports of goods declined further

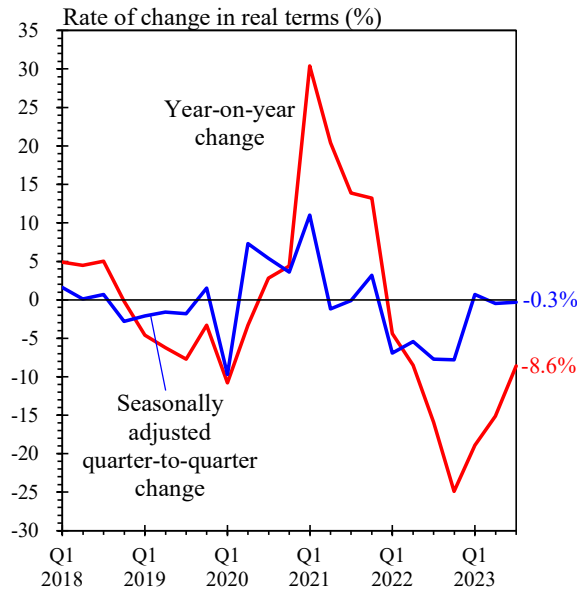
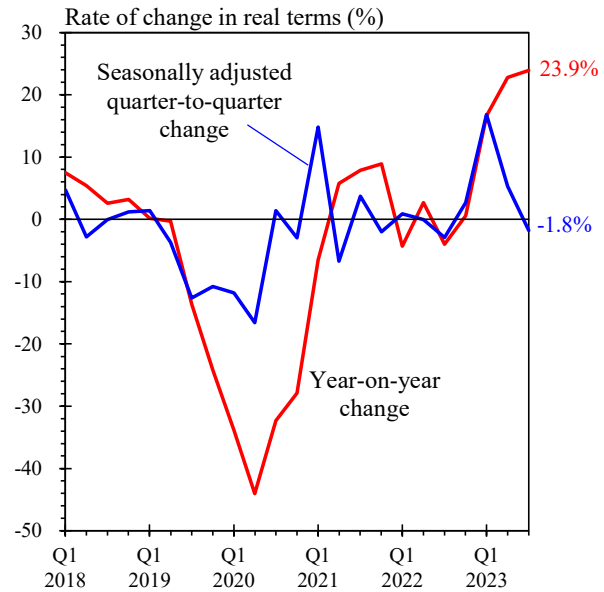


Chart 2(b) : Exports of services expanded notably further year-on-year



Domestic sector

6. Consumption activities stayed strong in the third quarter, supported by rising household income and the Government’s various support initiatives. Private consumption expenditure rose further by 6.3%, though the growth rate narrowed from 7.7% in the preceding quarter as the difficult global economic environment dampened consumer confidence (*Chart 3(a)*).

7. As the economy continued to grow, overall investment spending in terms of gross domestic fixed capital formation rebounded sharply by 18.4% in the third quarter against a low base, having declined by 0.5% in the preceding quarter (*Chart 3(b)*). Expenditure on acquisitions of machinery, equipment and intellectual property products surged by 39.9%. Expenditure on building and construction rose notably by 12.5%, with increases seen in both public and private sector spending. Separately, the costs of ownership transfer (including expenditure on stamp duties, legal fees, agents’ commissions, etc.) fell as property transactions shrank.

Chart 3(a) : Private consumption expenditure rose further year-on-year

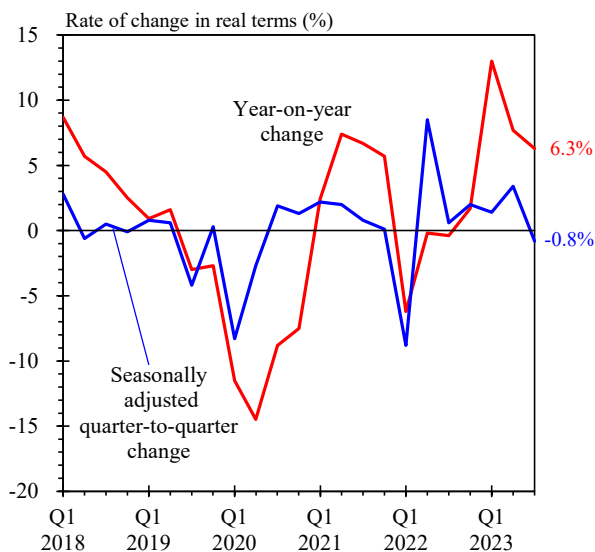
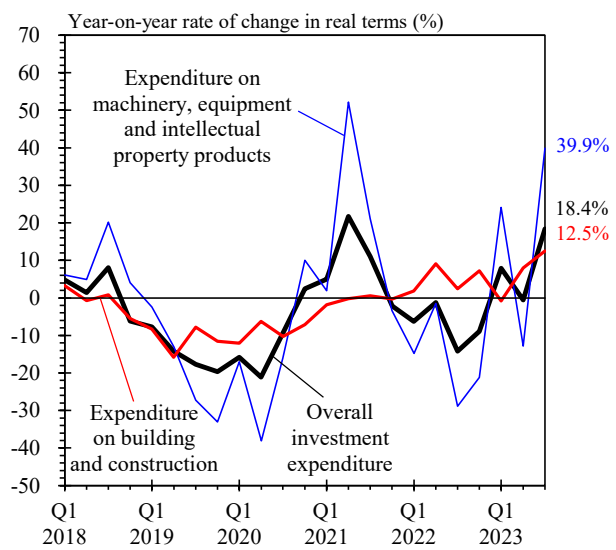


Chart 3(b) : Overall investment expenditure rebounded sharply



8. As for external direct investment (“DI”), Hong Kong’s total stock of inward DI amounted to \$18.1 trillion as at end-June, equivalent to 6.3 times of GDP. According to the latest available figures by source, the Mainland continued to be one of the most important sources of Hong Kong’s inward DI, accounting for around 28% of the total stock as at end-2021.

Labour market

9. The labour market remained tight in recent months. The seasonally adjusted unemployment rate stayed at a low level of 2.9% in August – October, the same as the second quarter. The underemployment rate edged down from 1.1% in the second quarter to 1.0% in August – October (*Chart 4*). Total employment increased from 3 688 800 in the second quarter to 3 713 400 in August – October, and the labour force also increased from 3 802 400 to 3 829 200. The number of unemployed persons stayed low at 115 800 in August – October, though slightly higher than the level of 113 600 in the second quarter. The number of underemployed persons decreased from 41 500 in the second quarter to 36 700 in August – October.

10. The unemployment rates of the various major sectors stayed low in general in August – October, with those of many major sectors recording falls as compared with the second quarter (*Chart 5*). Among them, the accommodation services sector (down 0.7 percentage point to 2.3%), the food and beverage service activities sector (down 0.5 percentage point to 4.3%), the transportation sector (down 0.5 percentage point to 2.3%), the real estate sector (down 0.5 percentage point to 2.1%), and the social work activities sector (down 0.5 percentage point to 2.3%) all saw more notable declines. The unemployment rate of the construction sector also declined by 0.4

percentage point to 3.8%. On the other hand, the unemployment rate of the retail sector edged up by 0.1 percentage point to 3.6%. For the low-paying sectors (“LPS”) (2) as a whole, the unemployment rate declined by 0.3 percentage point to 2.4%.

Chart 4 : The labour market remained tight in recent months

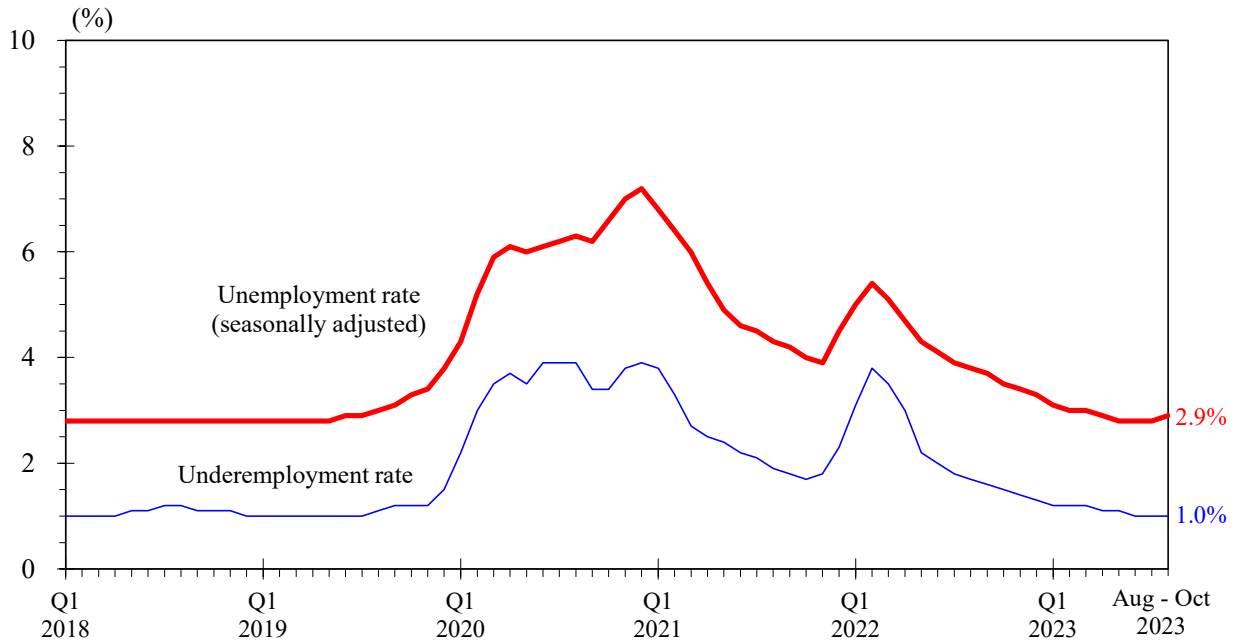
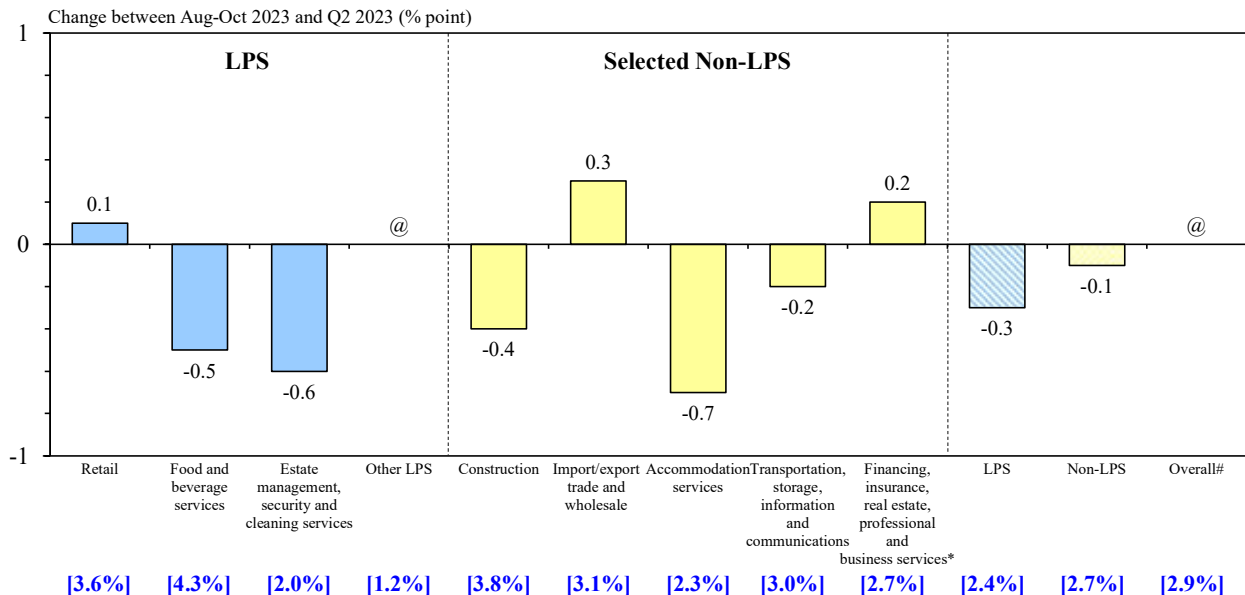


Chart 5 : The unemployment rates of the various major sectors stayed low in general in August - October, with those of many major sectors recording falls as compared with the second quarter



Notes: Figures in square brackets refer to the unemployment rate for that sector in Aug-Oct 2023 (provisional figures).

(@) Less than 0.05 % point.

(*) Excluding real estate maintenance management, security and cleaning services.

(#) Seasonally adjusted, and including first-time job-seekers and re-entrants into the labour force who were unemployed. The number of first-time job-seekers and re-entrants into the labour force who were unemployed increased by 60.7% from 9 500 in Q2 2023 to 15 300 in Aug-Oct 2023.

(2) The Minimum Wage Commission identifies LPS as (i) retail; (ii) food and beverage services; (iii) estate management, security and cleaning services; and (iv) other LPS, including elderly homes; laundry and dry cleaning services; hairdressing and other personal services; local courier services; and food processing and production.

11. Analysed by skill segment⁽³⁾, the unemployment rate of lower-skilled workers declined by 0.3 percentage point from the second quarter to 2.9% in August – October. The unemployment rate of higher-skilled workers edged up by 0.1 percentage point to 2.2%, but was still at a low level.

12. Establishment surveys indicated that wages and labour earnings saw accelerated year-on-year growth in nominal terms in the second quarter, and continued to show increases in real terms after discounting for inflation. The average nominal wage rate rose by 3.5% year-on-year in June, faster than the increase of 3.2% three months ago. In real terms, the average wage rate increased by 1.4%. Labour earnings, as measured by the index of payroll per person engaged, increased by 3.2% year-on-year in nominal terms in the second quarter, also faster than the increase of 3.0% in the preceding quarter. In real terms, labour earnings increased by 1.1%. More recent General Household Survey data indicated that the median monthly employment earnings and the median monthly household income continued to attain decent growth in the third quarter over a year earlier. The median monthly employment earnings of full-time employees⁽⁴⁾ increased by 7.1% in nominal terms or 5.2% in real terms. The median monthly household income⁽⁵⁾ increased by 6.3% in nominal terms or 4.3% in real terms. Please refer to *Annex* for details on the recent situation of household income.

(3) The breakdown of unemployment by skill segment does not include first-time job-seekers and re-entrants into the labour force who were unemployed.

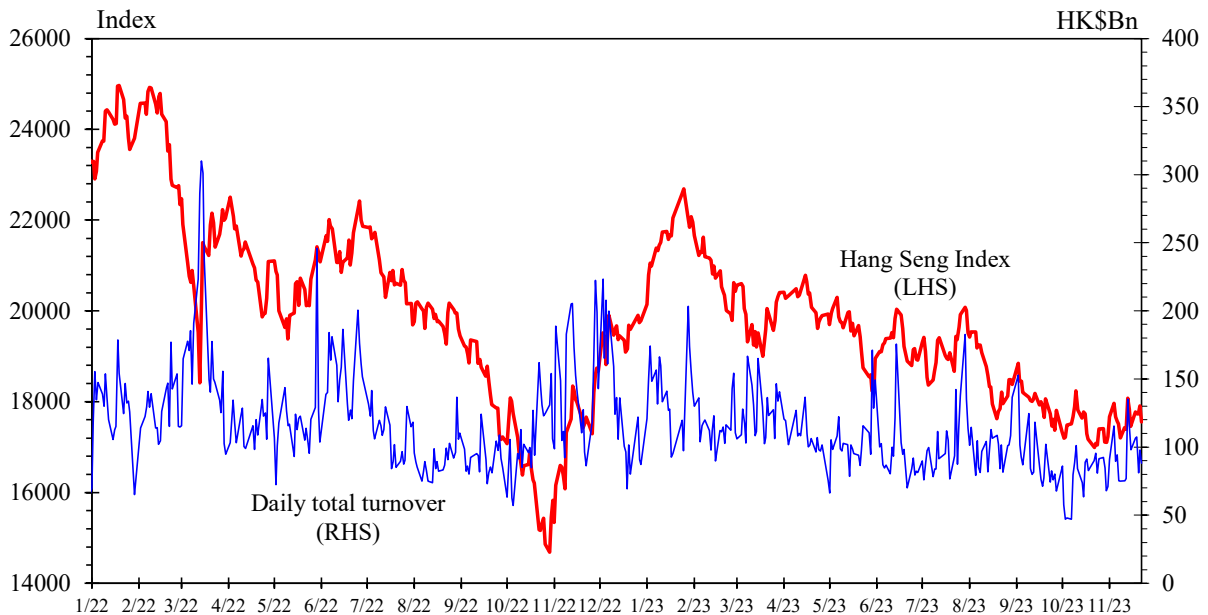
(4) Figure excludes foreign domestic helpers.

(5) Figure excludes foreign domestic helpers.

Asset markets

13. The local stock market remained under pressure in July – November as market atmosphere was cautious alongside the volatile performance of the Mainland and international markets as well as expectations of a prolonged period of high interest rates. The Hang Seng Index was range-bounded in July and softened afterwards. It closed at 17 559 on 24 November, 7.2% lower than the level of 18 916 at end-June (*Chart 6*). For the first ten months of this year, average daily turnover of the stock market shrank by 14.6% from \$124.9 billion for last year as a whole to \$106.6 billion. Fund raising activities were quiet.

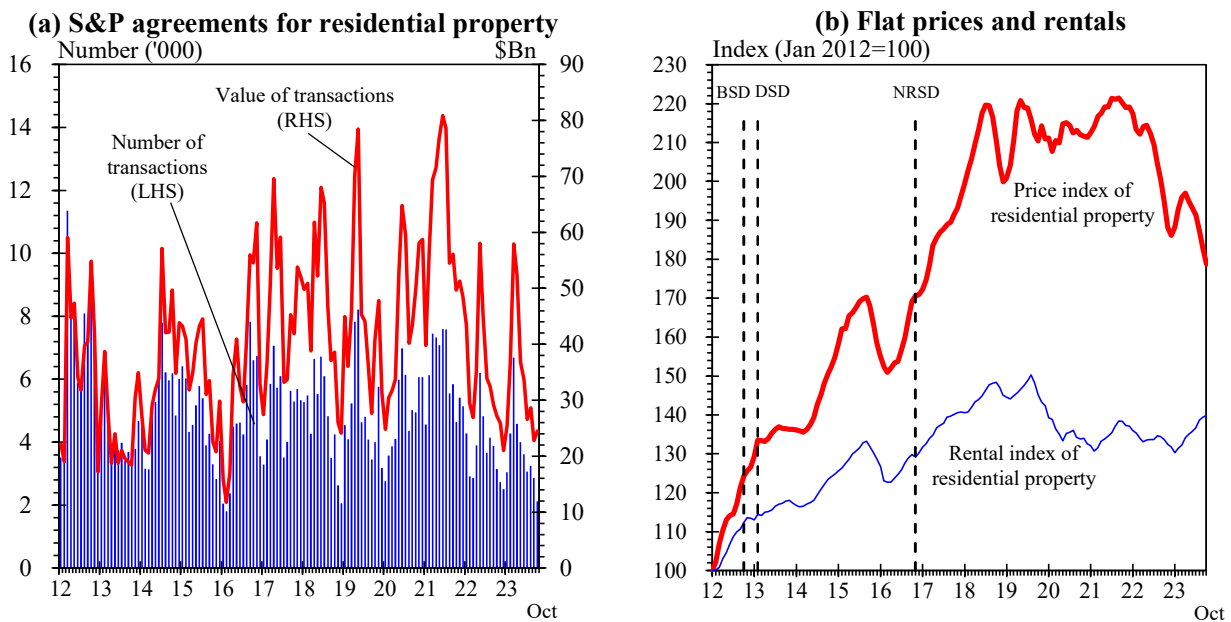
Chart 6 : The local stock market remained under pressure in July – November



14. Sentiment of the residential property market was rather cautious in recent months amid rising local interest rates and the challenging external environment. The monthly average number of sale and purchase agreements for residential property received by the Land Registry retreated to 2 824 during July to October, 35% below that of 4 370 in the first half of the year and well below that of around 4 900 in 2018 – 2022 (*Chart 7(a)*).

15. Overall flat prices fell by 7% between June and October. Flat prices in October were on average 19% lower than the peak in September 2021. Meanwhile, overall flat rentals increased by 3% between June and October, but were still 7% below the peak in August 2019. During the first ten months of 2023, flat prices declined by 4%, while rentals rose by 6% (*Chart 7(b)*).

Chart 7 : The residential property market sentiment was rather cautious in recent months



16. The current-term Government strives to enhance the speed, quantity and efficiency of increasing housing land supply on all fronts. Combining the various sources (including Government land sale, the Urban Renewal Authority’s projects, and private development and redevelopment projects), the private housing land supply in the fourth quarter is expected to produce around 1 360 flats. Together with the supply in the previous two quarters, the total private housing land supply for the first three quarters of this financial year is estimated to have a capacity to produce about 7 730 units, which is around 60% of the private housing supply target of 12 900 units of this financial year. The total supply of first-hand flats in the private sector in the coming three to four years (comprising unsold flats of completed projects, flats under construction but not yet sold and flats on disposed sites where construction can start any time) would rise to a high level of 107 000 units as estimated at end-September 2023.

17. To dampen speculative activities as well as investment and non-local demand against the backdrop of a tight housing demand-supply balance, the Government implemented a number of demand-side management measures during 2010 to 2017 to facilitate the steady development of the property market and accord priority to the home ownership needs of the people of Hong Kong. These measures have yielded notable results. On speculative activities, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) remained low at 37 cases per month or 0.9% of total transactions in the first ten months of this year, 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 (“SSD”)) (*Chart 8*). Purchases by non-local individuals and non-local companies also stayed low at 32 cases per month or 0.8% of total transactions in the first ten months of this year, much lower than the monthly average of 365 cases or 4.5% in January to October 2012 (i.e. the period before the introduction of the Buyer’s Stamp Duty (“BSD”)) (*Chart 9*). As an indicator of investment activities, purchases subject to the New Residential Stamp Duty (“NRSD”) stayed at a modest level of 145 cases per month or 3.5% of total transactions in the first ten months of this year, markedly lower than the monthly average of 1 412 cases subject to Doubled Ad Valorem Stamp Duty in January to November 2016 (or 26.5% of total transactions) (*Chart 10*). However, in the face of rising interest rates, moderated growth in many economies, declined transactions of the local residential property market alongside a downward adjustment of property price, as well as the increasing housing supply in the coming years, and having considered the overall situation, the Government made adjustments to the demand-side management measures for residential properties on 25 October this year. These included shortening the applicable period of the SSD to two years, reducing the respective rates of the BSD and the NRSD by half to 7.5%, and introducing a stamp duty suspension arrangement for incoming talents’ acquisition of residential properties.

Chart 8 : Speculative activities remained low

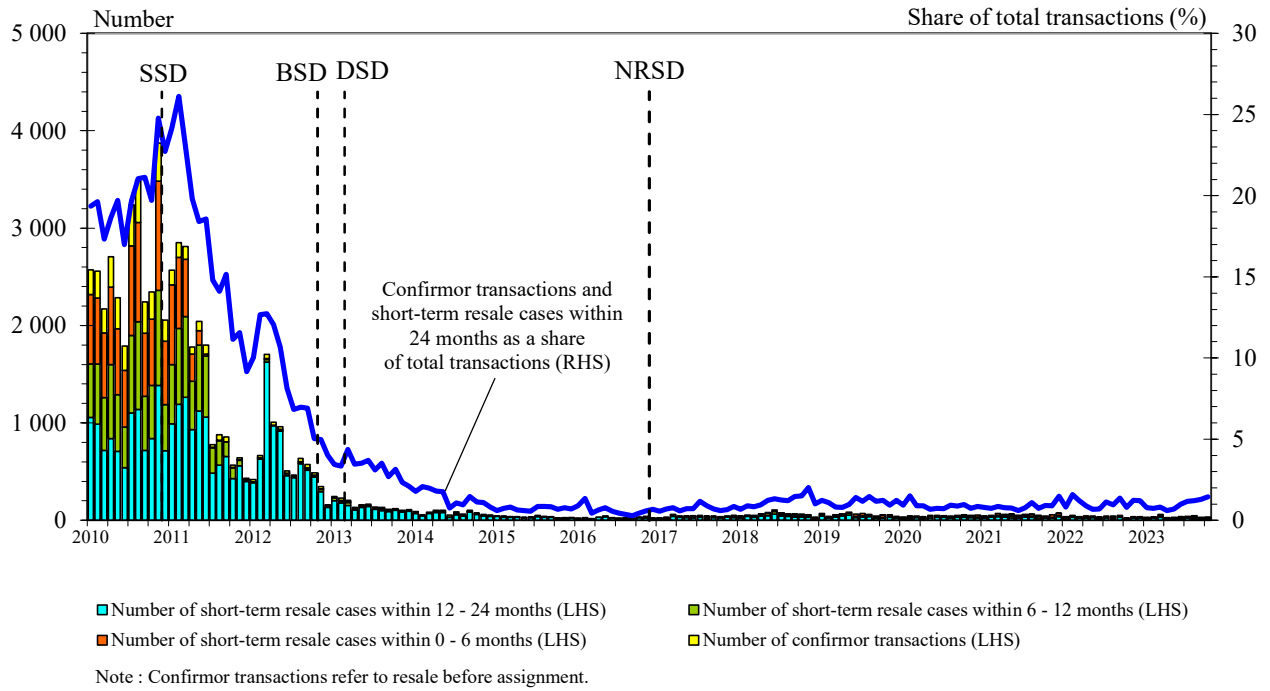


Chart 9 : Purchases by non-local buyers stayed low

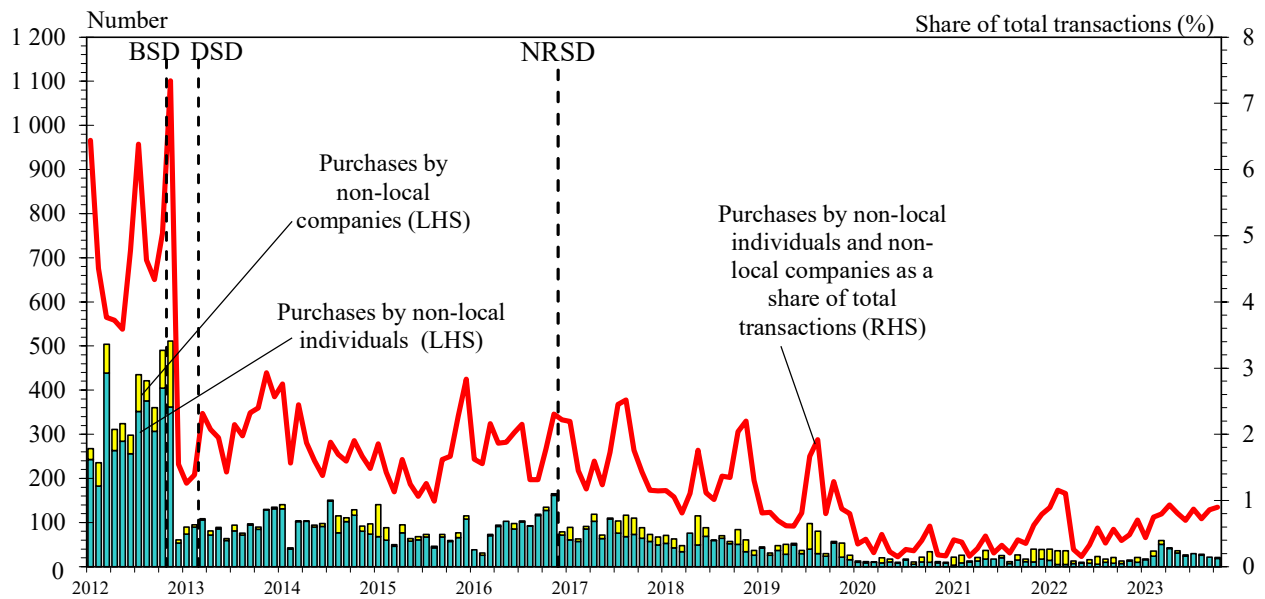
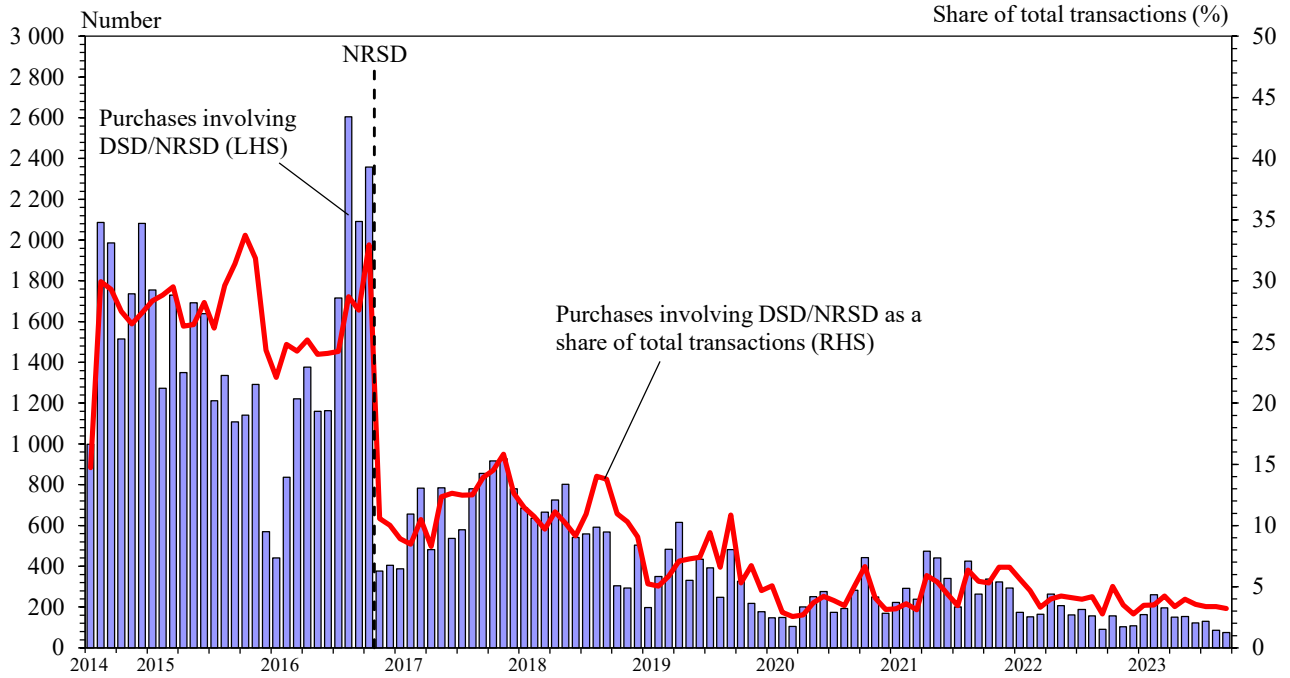


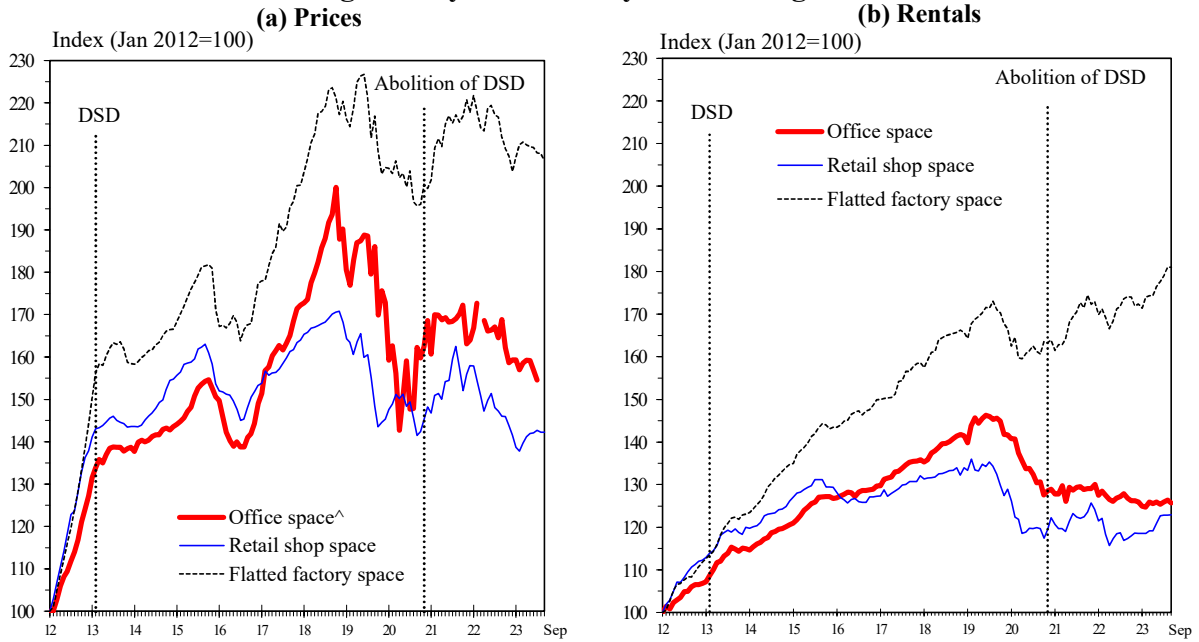
Chart 10 : Investment activities were modest



18. In order to contain the possible risks to financial stability arising from the property market, the Hong Kong Monetary Authority has introduced multiple rounds of macro-prudential measures since 2009 and adjusted the measures in accordance with the evolving market situation. The average loan-to-value ratio of new mortgage loans was 57% in the first nine months of this year, well below the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced.

19. The non-residential property market was quiet in the third quarter. Trading activities for all major segments were subdued, while prices and rentals generally showed only small changes. Overall prices of office space on average edged down by 1% between June and July⁽⁶⁾, while rentals in September were on average virtually unchanged from June. Prices and rentals of retail shop space were both little changed between June and September. Prices of flatted factory space edged down by 1% during the third quarter, while rentals rose by 2% (*Chart 11*).

Chart 11 : Prices and rentals of non-residential properties generally showed only small changes



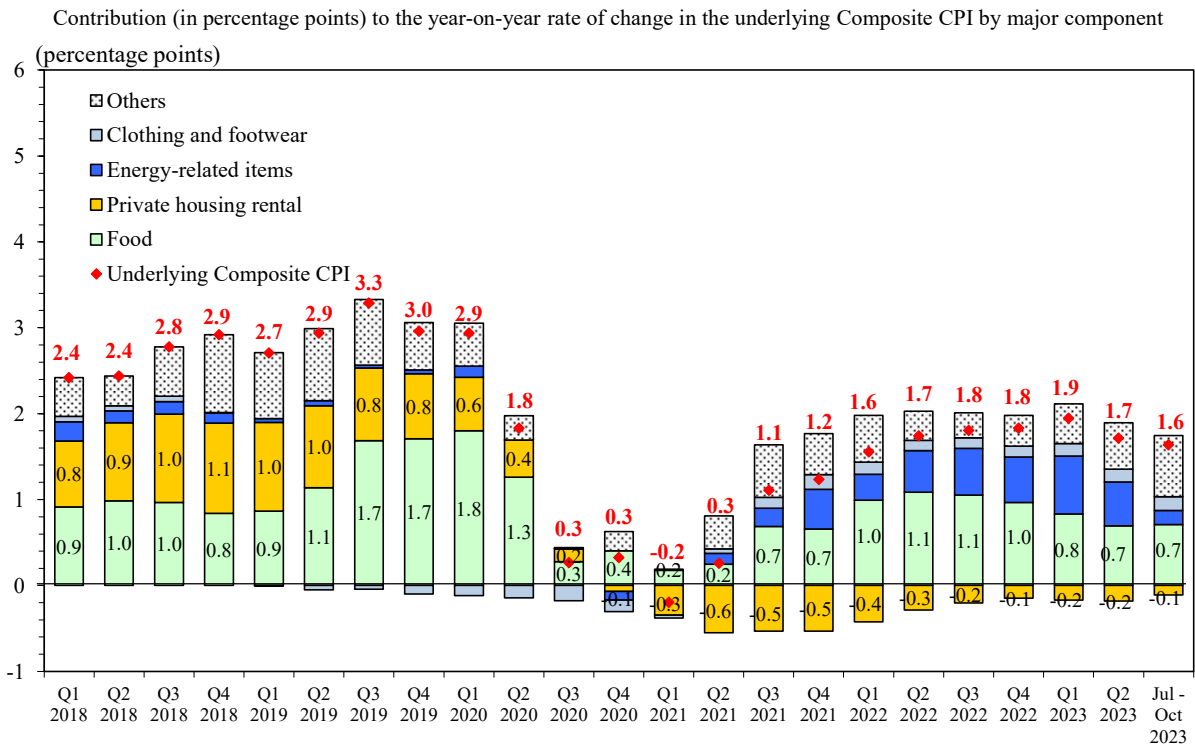
Note : (°) The price index of overall office space cannot be compiled in March 2022, as well as in August and September 2023, as there were insufficient transactions for Grade A office space in those months.

(6) Price index for overall office space was not available in both August and September this year, as there were insufficient transactions for Grade A office space in those two months.

Inflation

20. Consumer price inflation stayed moderate in overall terms. The underlying Composite Consumer Price Index (“CPI”), which nets out the effects of the Government’s one-off relief measures to reflect the underlying inflation trend, rose by 1.6% year-on-year during July – October 2023, as compared to 1.7% in the second quarter, and averaged 1.8% in the first ten months (*Chart 12*).

Chart 12 : Consumer price inflation stayed moderate in overall terms



Notes : The year-on-year rates of change of the CPIs from the fourth quarter of 2020 onwards are computed from the new 2019/20-based series, and those before are from the old 2014/15-based series. Energy-related items include electricity, town gas, liquefied petroleum gas and other fuel, and motor fuel.

21. Analysed by major component of the underlying Composite CPI (*Table 1*), food prices, the component with the largest weight other than housing, continued to rise by a moderate 2.6% year-on-year during July – October. Prices of meals out and takeaway food recorded a visible but softened increase of 3.8%, whereas prices of basic food continued to edge up by 0.5%. Prices of electricity, gas and water rose notably, but the pace moderated sharply. Prices of clothing and footwear continued to rise visibly. Prices of alcoholic drinks and tobacco continued to register a double-digit increase alongside the tobacco duty hike effective late February this year. Increases in prices of transport, miscellaneous services and miscellaneous goods remained moderate. The decline in prices of durable goods narrowed. The private housing rental component continued to decline, but the rate narrowed to 0.3% as the effect of rising fresh-letting residential rentals since early 2023 gradually fed through.

**Table 1 : Underlying Composite Consumer Price Index by component
(year-on-year rate of change (%))**

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2022</u>					<u>2023</u>		
		<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Jul-Oct</u>
Food	27.41	3.8	3.7	4.0	3.9	3.6	3.0	2.5	2.6
<i>Meals out and takeaway food</i>	17.05	3.4	3.1	3.4	3.4	3.6	4.4	4.0	3.8
<i>Basic food</i>	10.36	4.5	4.6	5.0	4.7	3.6	0.8	0.2	0.5
Housing ^(a)	40.25	-0.5 (0.2)	-1.0 (-0.3)	-0.5 (-0.6)	-0.3 (1.8)	-0.1 (*)	-0.1 (-0.1)	-0.1 (0.6)	0.2 (1.3)
<i>Private housing rent</i>	35.46	-0.8 (-0.6)	-1.2 (-0.5)	-0.8 (-0.8)	-0.6 (-0.6)	-0.4 (-0.5)	-0.5 (-0.5)	-0.5 (0.2)	-0.3 (0.7)
<i>Public housing rent</i>	1.87	0.3 (9.6)	-0.1 (2.0)	-0.1 (-0.1)	-0.1 (45.1)	1.2 (2.1)	1.2 (0.7)	1.5 (1.7)	1.2 (4.6)
Electricity, gas and water	2.82	10.4 (7.2)	6.5 (-2.4)	10.7 (2.7)	12.5 (14.9)	12.0 (14.2)	17.2 (20.4)	13.2 (15.9)	3.9 (4.6)
Alcoholic drinks and tobacco	0.49	1.3	0.3	1.5	1.8	1.7	11.2	18.8	18.8
Clothing and footwear	2.42	5.3	6.1	4.9	5.1	5.0	5.9	5.9	6.5
Durable goods	4.00	0.6	1.7	1.6	0.4	-1.2	-2.3	-3.6	-2.2
Miscellaneous goods	3.32	0.4	-0.2	0.4	0.6	0.6	0.9	1.5	2.1
Transport	6.17	2.9	6.1	1.8	1.8	1.9	1.4	1.7	2.0
Miscellaneous services	13.12	1.3 (1.3)	1.1 (1.0)	1.3 (1.3)	1.3 (1.4)	1.6 (1.7)	2.1 (2.2)	2.5 (2.5)	2.7 (2.7)
All items	100.00	1.7 (1.9)	1.6 (1.5)	1.7 (1.5)	1.8 (2.7)	1.8 (1.8)	1.9 (1.9)	1.7 (2.0)	1.6 (2.1)

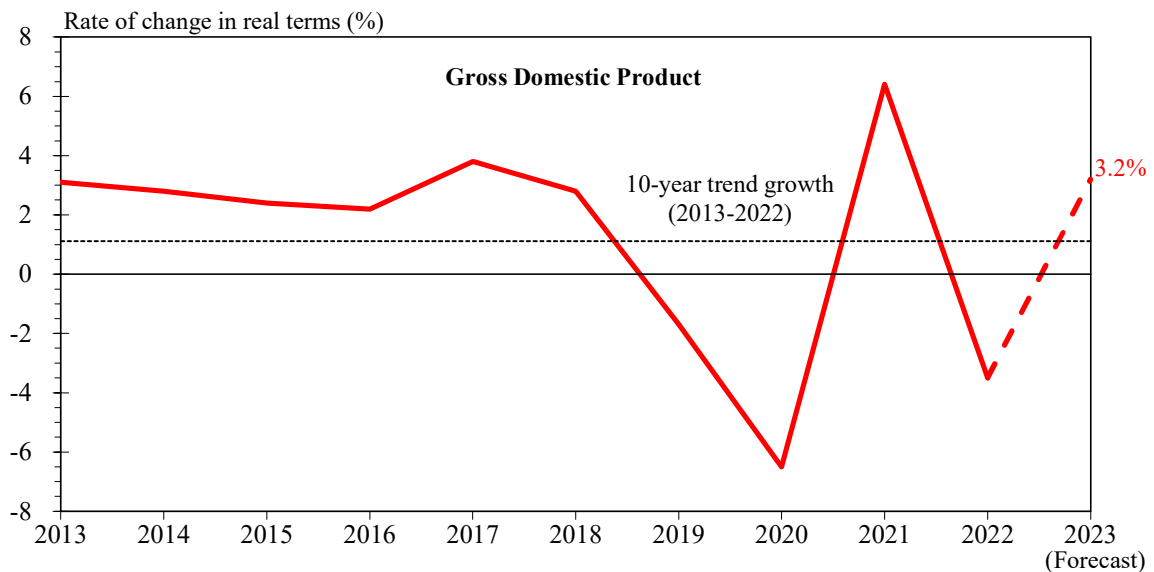
- Notes: (a) The housing component covers rents, rates, Government rent, management fees and other housing charges. Its sub-components on private and public housing rents as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public housing rents is slightly less than the weighting of the entire housing component.
- () Figures in brackets represent the headline rates of change before netting out the effects of Government's one-off relief measures.
- (*) Change within $\pm 0.05\%$.

Updated economic forecasts for 2023

22. Inbound tourism and private consumption will continue to underpin economic growth for the rest of the year. As flights and other handling capacity continue to recover, more visitors could be received. As regards private consumption, continued improvement in household income and various activities that bolster the economy including the “Night Vibes Hong Kong” also provide some support. Yet, the external environment at large remains unfavourable. Factors including the persisting geopolitical tensions, tight financial conditions, and economic uncertainties would continue to weigh on exports of goods and investment and consumption sentiment.

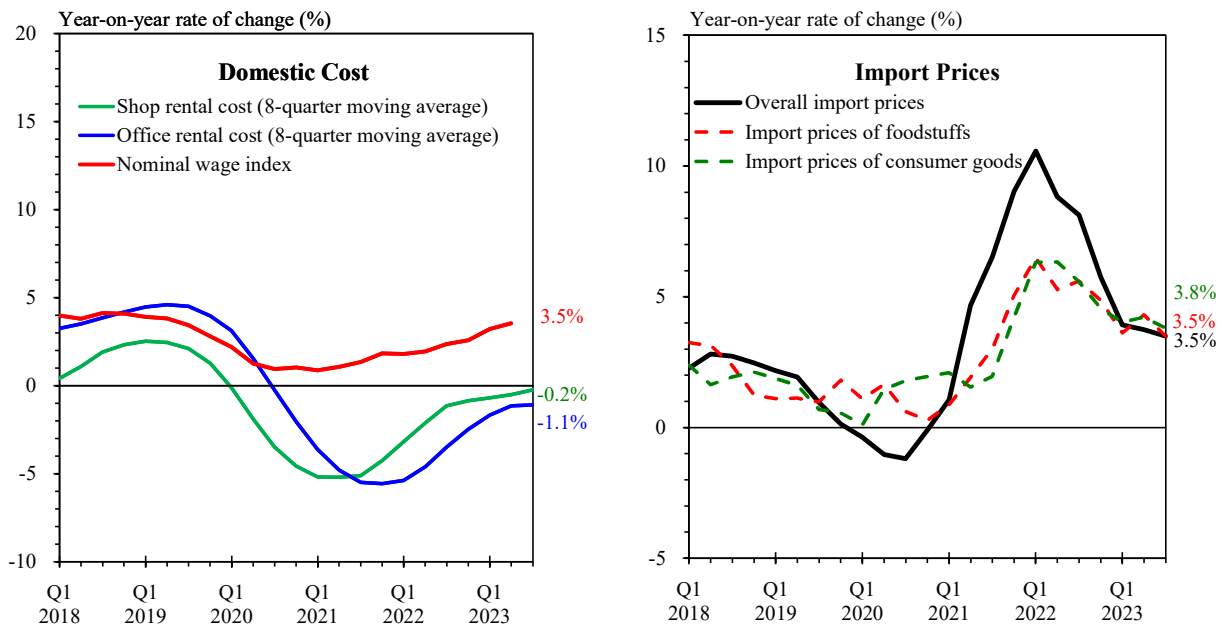
23. Taking into account the actual outturn in the first three quarters of 2023 and the near-term outlook, the real GDP growth forecast for 2023 as a whole was revised down to 3.2%, from 4.0%-5.0% in the August round of review (*Chart 13*). For reference, the latest forecasts for Hong Kong’s economic growth in 2023 made by private sector analysts in November were in the range of 3.2% to 4.0%, averaging around 3.4%.

**Chart 13 : Economic growth forecast for 2023 as a whole
was revised down to 3.2%**



24. As regards inflation, it would stay moderate in overall terms in the near term. External price pressures are expected to soften further. While domestic business cost might face some upward pressures as the economy continues to revive, it should remain contained in the near term (*Chart 14*). The forecast rate of underlying consumer price inflation for 2023 was revised down to 1.8% from 2.0% as announced in the August round of review, and the corresponding forecast rate of headline consumer price inflation was also revised down to 2.2% from 2.4%.

**Chart 14 : Domestic business cost might face some upward pressures;
external price pressures are expected to soften further**

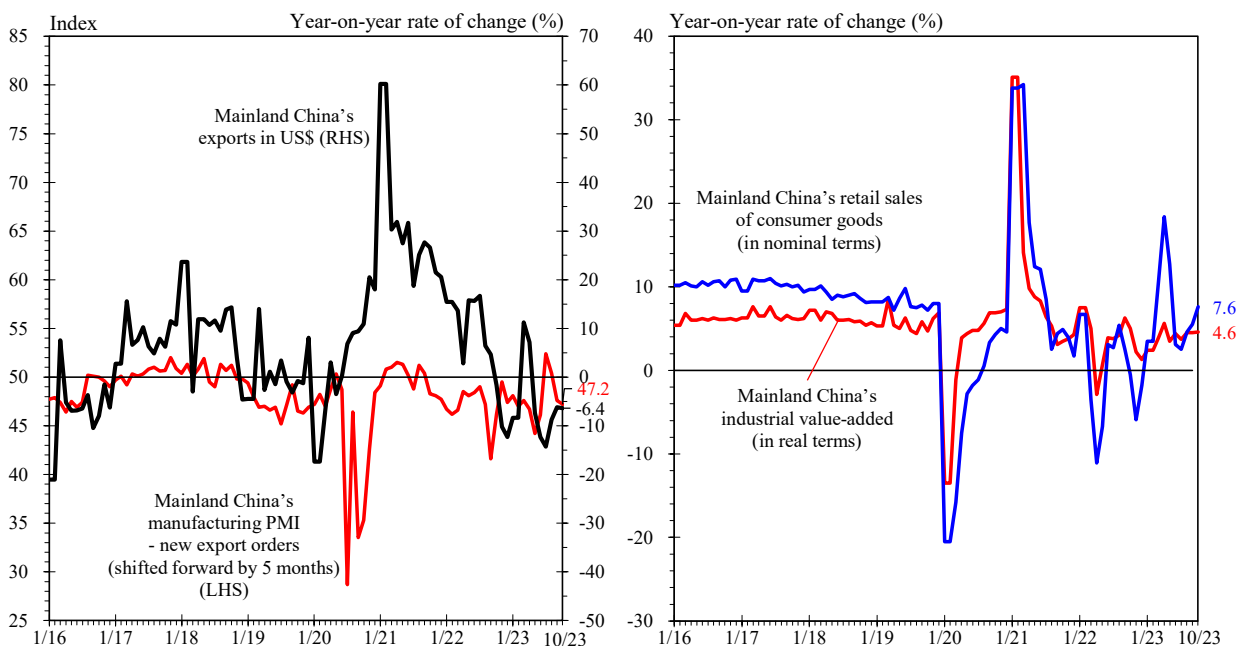


Economic outlook for 2024

25. Looking ahead, the global economy will continue to face relatively large uncertainties in 2024. Heightened geopolitical tensions may have a negative impact on global economic growth, financial market stability, commodity prices, as well as trade and investment flows. With inflation in the major advanced economies staying elevated and the US government debt continuing to rise, US interest rates are expected to stay at higher levels for longer. This will not only dampen demand further, but will also undermine economic confidence around the world. Forecasts in general indicate that global economic growth next year would be slower than this year, and downside risks would be relatively high. In October this year, the IMF forecast that global economic growth would slow further from 3.0% in 2023 to 2.9% in 2024.

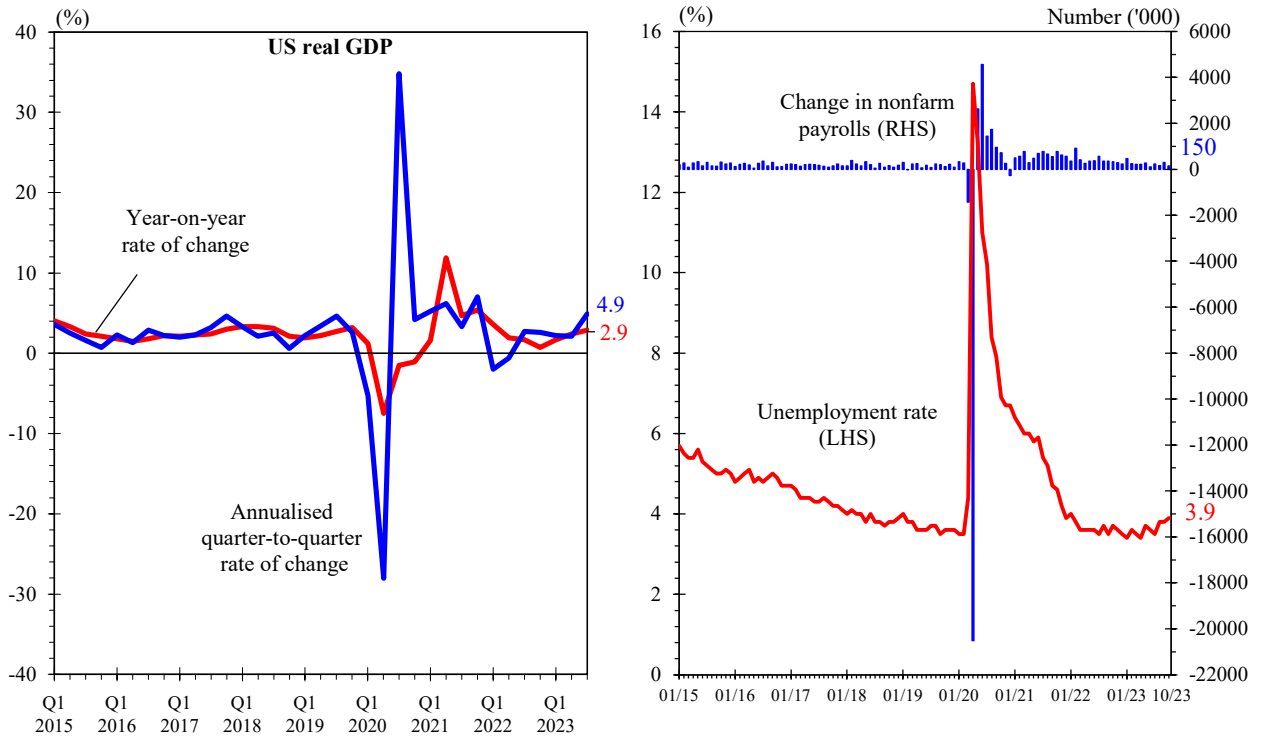
26. As the authorities gradually strengthened policy support to bolster the economy and market confidence, the Mainland's economic growth has regained momentum since August (*Chart 15*). With the support from the accelerated year-on-year growth in consumption, both the industrial and service sectors continued to improve. Looking ahead to 2024, weak demand in the advanced economies and geopolitical factors will continue to weigh on the Mainland's exports, but strong economic fundamentals and various support measures should help the Mainland economy sustain its recovery. In November, the IMF forecast that the Mainland economy would grow by 4.6% next year.

Chart 15: The Mainland's economic growth has regained momentum since August



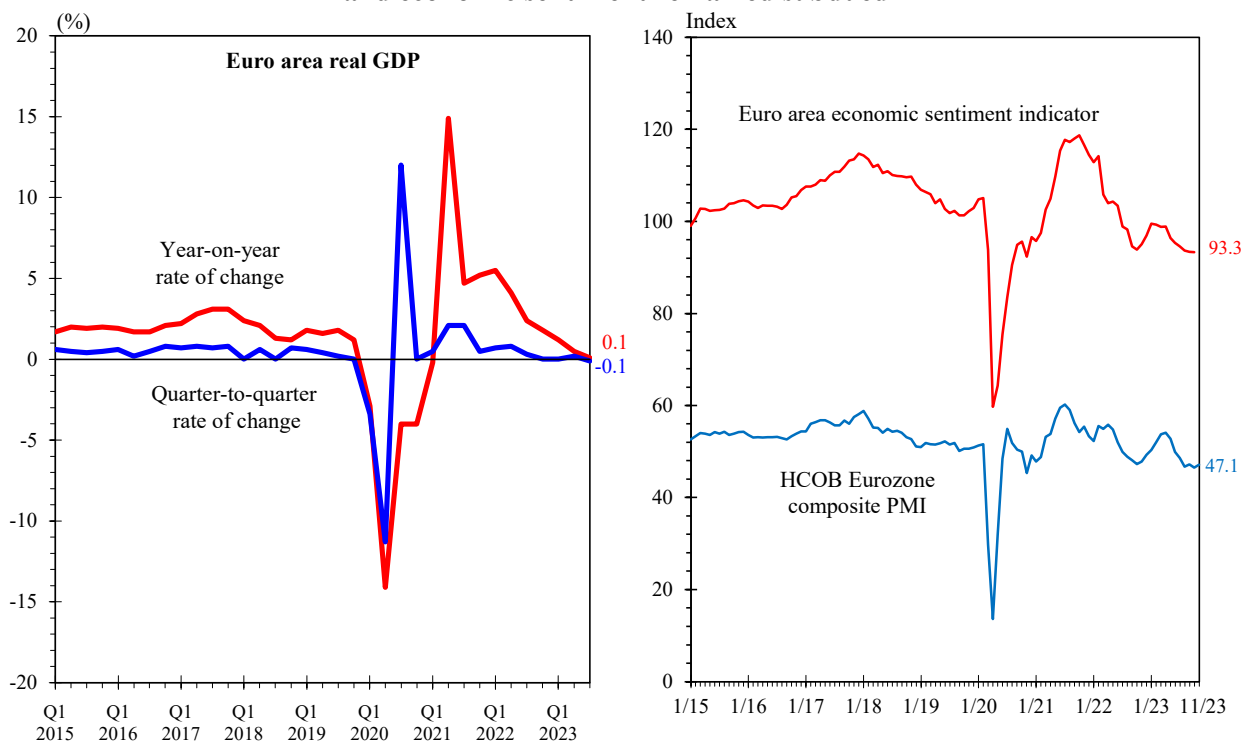
27. As regards the advanced economies, the US economy grew at an accelerated pace in the third quarter (**Chart 16**), but imports of goods remained weak. Inflation was on a downtrend of late, but still well above the target level. The labour market stayed largely resilient. The Federal Reserve (“Fed”) has raised interest rates by a total of 525 basis points since March last year to the current 5.25% to 5.50%, and has continued to reduce the size of its balance sheet. The Fed Chair Powell stressed that rates would be raised further if needed. The market expects that interest rates in the US will start to retreat in mid-2024, but remain at relatively high levels for some time, continuing to put downward pressure on the economy. The IMF forecast that the US economic growth would slow from 2.1% this year to 1.5% next year.

Chart 16 : The US economy grew at an accelerated pace in the third quarter and the labour market stayed largely resilient



28. The euro area economy turned to a quarter-to-quarter contraction in the third quarter, and economic sentiment remained subdued (**Chart 17**). Inflation in the euro area eased recently but remained high. The European Central Bank (“ECB”) has raised interest rates by a cumulative 450 basis points since July last year, with the current deposit rate at 4.00%. The ECB stressed that its interest rates will be set at sufficiently restrictive levels for as long as necessary to ensure that inflation will return to its medium-term target level, while the market expects the ECB to cut interest rates from mid-2024. The tight monetary policy will continue to constrain economic recovery of the euro area. The IMF forecast that the euro area economy would only register modest growth of 1.2% next year, though slightly faster than that of 0.7% this year.

Chart 17 : The euro area economy turned to a quarter-to-quarter contraction in the third quarter, and economic sentiment remained subdued



29. For other parts of Asia, while domestic demand has been broadly stable so far this year, export performance has been dragged by the weak demand for goods from the advanced economies. Looking forward, the sustained downward pressures on the global economy will continue to constrain economic growth in the region.

30. Facing a challenging and uncertain external environment, Hong Kong’s exports of goods will inevitably remain under pressure. However, if the central banks of major advanced economies begin to cut interest rates in the middle of next year in line with market expectations, the situation may gradually improve. On the other hand, while inbound tourism and private consumption continue to recover this year, they have not returned to the pre-pandemic levels. Thus they are expected to

revive further next year as handling capacity continues to strengthen and household income continues to increase, though the extent of recovery will depend on factors such as consumption sentiment and patterns of residents as well as the attractiveness of products and services, etc. Meanwhile, fixed asset investment should expand further alongside the ongoing economic recovery. Yet, with interest rates staying at higher levels for longer, this will inevitably impose constraints on various economic activities. Overall speaking, Hong Kong economy will continue to face numerous challenges and a highly uncertain external environment in 2024, but the overall economy should be able to revive further from the shadows of the pandemic.

31. In respect of prices, Hong Kong's inflation outlook will depend on a host of factors, including overall economic performance, local cost pressures, international commodity prices, inflation situation of major import sources, and exchange rates movements, etc. As central banks of major advanced economies are expected to keep their monetary policies tight, external inflationary pressures should continue to moderate next year. Domestic cost pressures will depend on the pace of recovery of the Hong Kong economy.

32. The Government will closely monitor the developments on the domestic and external fronts and announce the economic growth and inflation forecasts for 2024 along with the 2024-25 Budget in February next year. For reference, the latest forecasts for Hong Kong's economic growth in 2024 made by private sector analysts were in the range of 0.5% to 4.0%, while those for consumer price inflation were in the range of 1.0% to 2.6%.

Office of the Government Economist
Financial Secretary's Office
27 November 2023

Recent Situation of Household Income⁽¹⁾

Background

This Annex provides an update on the latest trends of household income and employment earnings in Hong Kong and those of the low-income households. The benchmark of monthly household income for low-income households is \$9,500 (at Q3 2023 prices) after adjusting for inflation⁽²⁾.

Overall situation of household income and employment earnings

2. The labour market remained tight in recent months. The seasonally adjusted unemployment rate stood at a low level of 2.9% in August – October 2023, the same as that in the second quarter. The latest total employment increased by 0.7% over the second quarter and by 0.9% over a year ago.

3. Various household income / employment earnings indicators continued to register positive year-on-year growth. The median monthly household income, an indication of the overall household income situation, increased by 6.3% in nominal terms or 4.3% in real terms in the third quarter of 2023 over a year earlier. Median employment earnings of full-time employees also recorded a year-on-year increase of 7.1% in nominal terms or 5.2% in real terms. Within the total, median employment earnings of unskilled employees went up by 3.7% year-on-year in nominal terms or 1.7% in real terms (*Table 1*).

-
- (1) This Annex was originally provided in response to a Member's request at the meeting of the Panel on Financial Affairs on 5 December 2005. It has since been updated regularly for Members' information. Foreign domestic helpers are excluded from the analysis except general labour market statistics.
- (2) Calculated based on CPI(A), and the benchmark is equivalent to \$8,800 at Q2 2019 prices.

**Table 1 : Selected household income / employment earnings indicators
(year-on-year rate of change (%))**

Period	Median monthly household income		Median employment earnings of employees [^]		Median employment earnings of unskilled employees [^]		
2019	3.0	(0.1)	2.6	(-0.3)	2.7	(-0.6)	
2020	-6.1	(-6.4)	@	(-0.3)	0.8	(1.5)	
2021	-0.2	(-1.7)	@	(-1.5)	7.4	(4.5)	
2022	3.3	(1.4)	5.0	(3.1)	@	(-2.1)	
2022	Q1	5.7	(4.1)	4.9	(3.3)	@	(-1.5)
	Q2	@	(-1.5)	4.4	(2.9)	@	(-1.2)
	Q3	4.0	(1.3)	5.0	(2.3)	3.8	(-0.3)
	Q4	3.5	(1.6)	5.0	(3.1)	5.4	(3.4)
2023	Q1	4.6	(2.6)	3.7	(1.7)	7.7	(5.6)
	Q2	8.0	(5.9)	5.4	(3.3)	7.7	(5.4)
	Q3	6.3	(4.3)	7.1	(5.2)	3.7	(1.7)

Notes: (^) Median employment earnings of full-time employees.

() Rate of change (%) in real terms.

(@) Change of less than 0.05%.

Monthly household income and overall employment earnings of employees in real terms are adjusted based on headline Composite CPI, while employment earnings of unskilled employees in real terms is adjusted based on headline CPI(A).

Economically active households with monthly household income below \$9,500

4. In the third quarter of 2023, the number of economically active households with monthly household income below \$9,500 (referred to as “low-income households”) declined notably by 18 600 from a year earlier to 74 300. Its proportion in total domestic households also decreased by 0.8 percentage point over the same period to 2.7%⁽³⁾.

5. An analysis of the number and proportion of low-income households over the past years suggests that their changes largely followed economic cycles. During 2000 to 2008 when the economy sustained growth for most of the period, the proportion of low-income households fell successively from a peak of 5.5% in the third quarter of 2003 to 3.2% in the third quarter of 2007. After the onset of the global financial crisis in late 2008, the corresponding proportion rose back to 4.1% in the third quarter of 2009, but subsequently declined in tandem with the economic recovery. Hard hit by the COVID-19 pandemic, labour market conditions deteriorated over the course of 2020, and the proportion of low-income households rose visibly to 5.0% in the third quarter. The proportion declined afterwards as the local labour market improved. In the third quarter of 2023, the number and

(3) All figures pertaining to low-income households in the third quarter of 2023 are provisional figures.

proportion of low-income households decreased to 74 300 and 2.7% respectively, comparable with the pre-pandemic levels (*Table 2 and Chart 1*).

Table 2 : Number and proportion of low-income households*

<u>Period</u>	Household type:		<u>Total</u>	Of which:
	<u>Elderly households[#]</u>	<u>Non-elderly households</u>		<u>Economically active persons therein</u>
Q3 2003	3 000 (0.1)	113 400 (5.3)	116 500 (5.5)	140 600 [4.3]
Q3 2007	2 700 (0.1)	70 500 (3.1)	73 200 (3.2)	80 600 [2.4]
Q3 2008	2 700 (0.1)	79 100 (3.5)	81 700 (3.6)	91 200 [2.7]
Q3 2009	1 700 (0.1)	91 800 (4.0)	93 500 (4.1)	107 600 [3.1]
Q3 2011	3 800 (0.2)	55 600 (2.3)	59 300 (2.5)	66 000 [1.9]
Q3 2013	4 400 (0.2)	67 600 (2.8)	72 000 (3.0)	79 300 [2.2]
Q3 2015	3 900 (0.2)	56 200 (2.3)	60 100 (2.4)	67 400 [1.9]
Q3 2017	6 800 (0.3)	64 900 (2.6)	71 700 (2.8)	79 000 [2.2]
Q3 2019	6 000 (0.2)	61 300 (2.4)	67 400 (2.6)	72 300 [2.0]
Q3 2020	9 500 (0.4)	122 300 (4.6)	131 800 (5.0)	152 900 [4.3]
Q3 2021	9 900 (0.4)	91 600 (3.4)	101 500 (3.8)	115 200 [3.2]
Q3 2022	10 900 (0.4)	82 100 (3.1)	92 900 (3.5)	101 900 [2.9]
Q3 2023	8 300 (0.3)	66 000 (2.4)	74 300 (2.7)	80 500 [2.3]

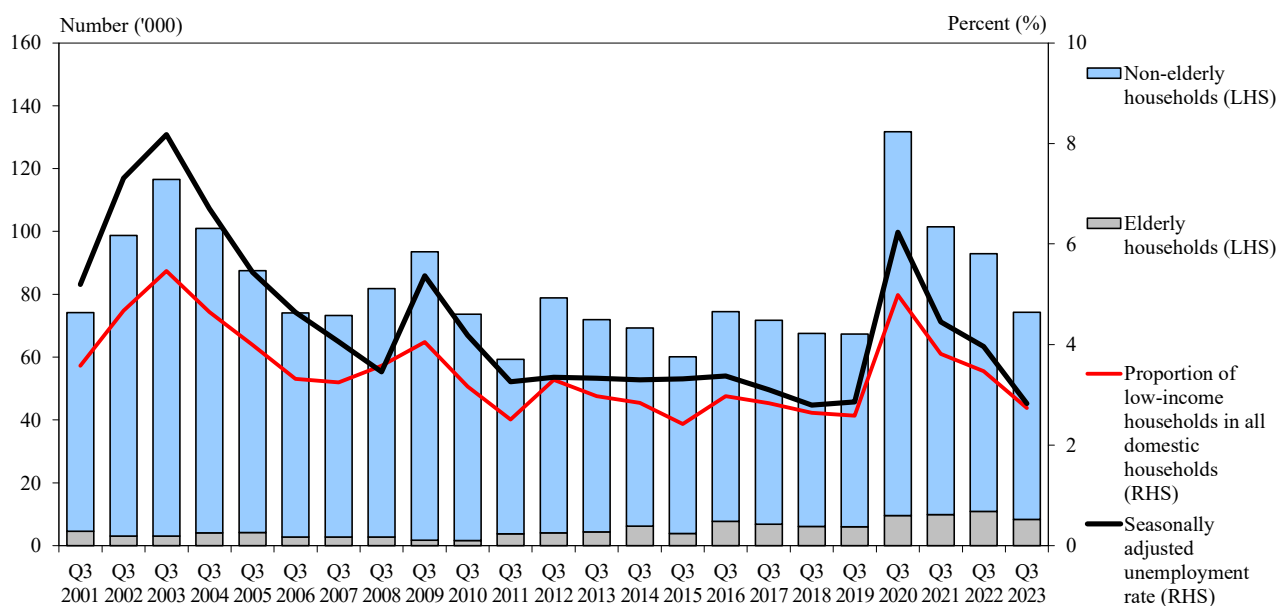
Notes : (*) Low-income households refer to households with monthly household income less than \$9,500 (Q3 2023 prices). This does not include households with all members being economically inactive.

(#) Elderly households refer to domestic households with all members aged 65 and above.

() Proportion in all domestic households (%).

[] Proportion in total labour force (%).

Chart 1 : Number and proportion of low-income households*



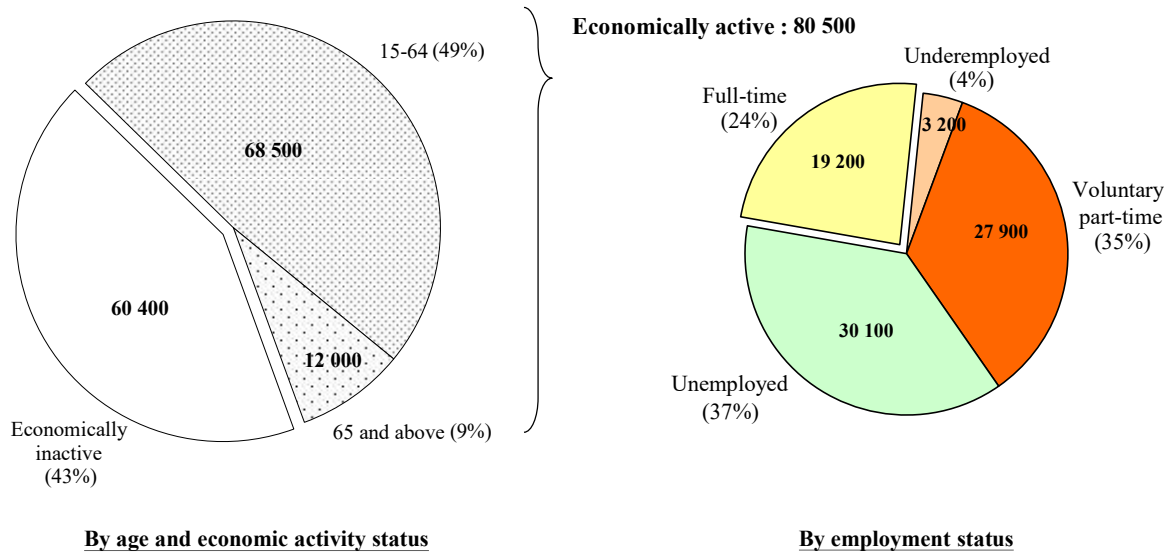
Note : (*) Low-income households refer to households with monthly household income less than \$9,500 (Q3 2023 prices). This does not include households with all members being economically inactive.

Socio-economic characteristics of low-income households

6. Further analysis of low-income households in the third quarter of 2023 yields the following observations:

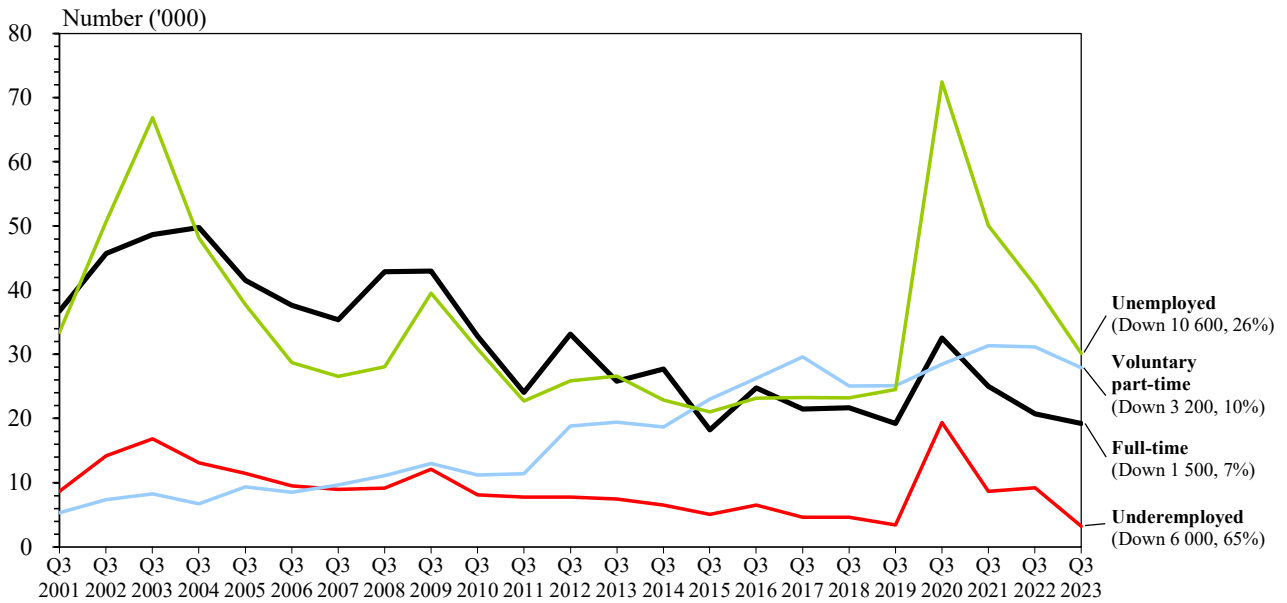
- There were 140 900 persons living in low-income households, among whom 80 500 were economically active. Most of these economically active persons (68 500 or 85%) were aged 15-64, with the majority in the older age group of 40-64 (50 500 or 63%), and some were elders aged 65 and above (12 000 or 15%).
- The remaining 60 400 persons were economically inactive, among whom 28 800 (48%) were either children aged below 15 or elders aged 65 and above.
- Further analysis by employment status shows that among the 80 500 economically active persons, unemployed persons accounted for 37%, lower than that of 40% in the same period in 2022, and their number also decreased by 26% to 30 100. The number and proportion of underemployed persons decreased to 3 200 and 4% respectively. The proportions of voluntary part-timers and full-time workers were 35% and 24% respectively, and the corresponding numbers of persons fell by 10% and 7% respectively year-on-year (*Charts 2 and 3*).

Chart 2 : Persons living in low-income households* by age and economic activity status in the third quarter of 2023



Note : (*) Low-income households refer to households with monthly household income less than \$9,500 (Q3 2023 prices). This does not include households with all members being economically inactive.

Chart 3 : Composition of economically active persons in low-income households*



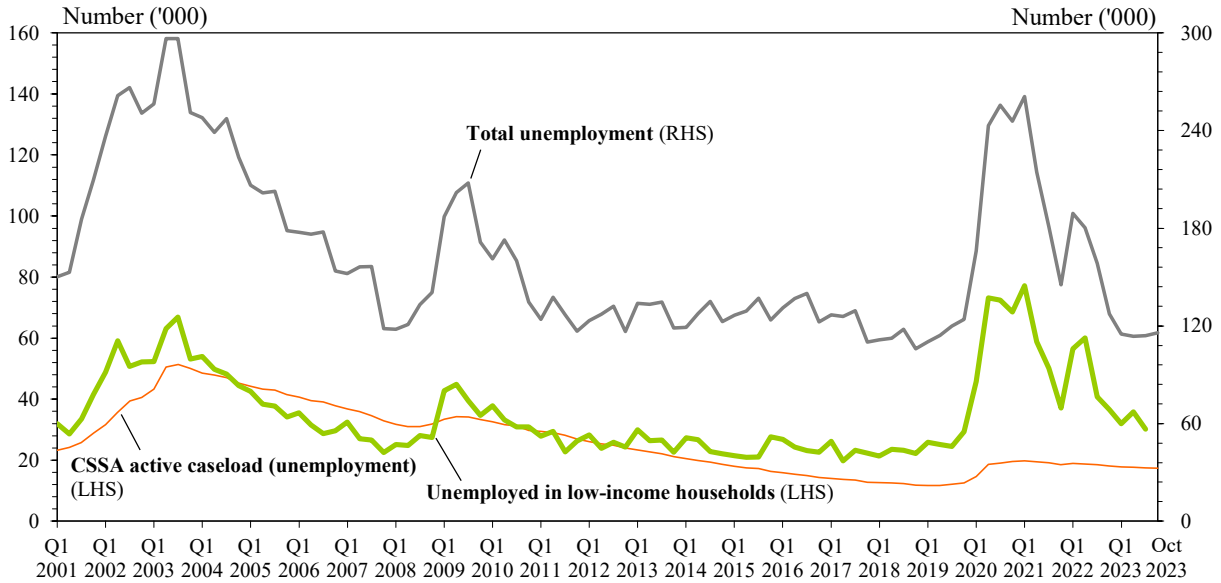
Notes : (*) Low-income households refer to households with monthly household income less than \$9,500 (Q3 2023 prices). This does not include households with all members being economically inactive. Figures in brackets are the year-on-year changes in the number of economically active persons in the third quarter of 2023.

- Analysed by occupation, the majority of the employed persons in low-income households (77%) were lower-skilled workers (35% were service and sales workers, and 23% were elementary workers). A breakdown by economic sector reveals that most of them were engaged in the retail, accommodation and food services sector (15 100 or 30%), followed by the transportation, storage, postal and courier services sector (4 100 or 8%).

The number of Comprehensive Social Security Assistance (“CSSA”) cases

7. The unemployment rate of lower-skilled workers fell by 1.2 percentage points from a year earlier to 2.9% in August – October 2023. The number of CSSA unemployment cases was 17 403 in October 2023, down by 914 or 5.0% from a year earlier (*Chart 4*). As for the number of overall CSSA caseload, there were 201 523 cases in October 2023, down by 6 973 or 3.3% year-on-year.

Chart 4 : The relationship between the unemployed in low-income households*, CSSA active caseload (unemployment)^ and total unemployment



Notes : (*) Low-income households refer to households with monthly household income less than \$9,500 (Q3 2023 prices). This does not include households with all members being economically inactive.
 (^) Monthly period-end figures.