

Consulate General of Switzerland in Hong Kong

An overview on the socio-economic characteristics of the population and the household expenditure patterns in Hong Kong

Executive Summary

The robust economic growth attained over the past 3 years, at an annual average of 7.7%. Private consumption¹ has lagged behind the economic growth and it was not until 2006 that private consumption regained the level registered in 1997. Private consumption reached to US\$ 115,864 million (+5.2%) in 2006 and US\$ 60,334 million (+6%) in the first half of 2007, on the back of firmer employment prospects, mild increase in real wages and increasing asset prices.

Shopping is one of the life styles of the Hong Kong people. Retail outlets and shopping malls are easily found in all districts. Hong Kong is a mature and competitive market with a wide range of products at different prices and market segments. It is a free port and products must be able to compete against others from all over the world on both price and quality. Local consumers, who have a good knowledge of reputable international brands, are willing to pay a premium for unique designs and foreign branded products.

The ageing of the population (median age increased from 36 in 2001 to 39 in 2006) and small size of the household (3 persons on average) are the trends which are unlikely to be reversed. Hong Kong is a very densely populated city with 6,350 persons/sq. km. The apartments are usually small and those of about 100 sq.m or more are already considered "luxury" category. Household products of a larger size may often be regarded as prohibitive by local consumers in general.

For all the rosy conditions, the income gap has been widened due to skills barrier over the past decade. Monthly domestic household income below US\$ 513 (HK\$4,000) rose from 6.7% to 9.2% of the total households whereas the monthly household income above US\$ 5,128 (HK\$40,000) rose from 15% to 17% of the total households.

The Census and Statistics Department (C&SD) released the Household Expenditure Survey and the Population By-census² in 2006 and 2007 respectively and the findings of these two surveys may serve as a reference for Swiss companies to evaluate the local consumer market.

Salient features of the population

Hong Kong's resident population was 6,864,000 in mid-July 2006. Of this total, 6,645,000 were Usual Residents and 219,000 were Mobile Residents³. The ageing trend in the population has continued during the past 10 years, with the median age rising from 34 in 1996 to 36 in 2001 and to 39 in 2006. This could be attributed to the continuing low fertility rate and mortality improvement over the period.

Over the last decade, the number of domestic households increased by 20% from 1.86 million to 2.23 million. As it increased at a faster rate than the population, the average household size decreased from 3.3 to 3.0.

The corresponding sex ratio after excluding foreign domestic helpers was 1,037 males per 1,000 females in 1996 and it changed to 961 males per 1,000 females in 2006.

Some 3.4 million people lived in private permanent housing, 2.1 million in public rental housing and 1.2 million in subsidised sale flats. 1.17 million households (53% of total households) were owner-occupiers of which 48% are burdened with mortgages.

The educational level of the population has improved. The proportion of the population aged 15 and

¹ It refers to the value of final consumption expenditure on goods and services by local households and excludes visitors' spending

² The Census and Statistics Department conducts the Household Expenditure Survey and the Population By-census once in every five years

³ Mobile residents are HK permanent residents who had stayed in HK for at least one month but less than three months during the six months before the reference moment

over with secondary or higher education increased from 68% in 1996 to 75% in 2006. The proportion of those with post-secondary education in degree courses or above increased significantly from 10% to 15%.

About 95% of the population are of Chinese ethnicity. The largest non-Chinese ethnic groups in Hong Kong are Filipinos (1.6%) and Indonesians (1.3%). Most of them are domestic helpers. Whites and Indians represent 0.5% and 0.3% of the population respectively.

The labour force increased from 3.2 million in 1996 to 3.6 million in 2006, despite a drop in the overall labour force participation rate from 63% to 60% over the same period. This was mainly due to the increase in population size and the changes in the age-sex structure of the population. In 2006, about 33% of the working population were managers, administrators, professionals and associate professionals, up from 29% in 1996. "Wholesale, retail and import/export trades, restaurants and hotels" and "Community, social and personal services" were the largest economic sectors, each employing around 27% of the working population.

The median monthly income from main employment of the working population was US\$ 1,282 in 2006, representing an increase of 5% over the past ten years. In the same period, prices decreased by 2%, as measured by the Composite Consumer Price Index. The median monthly income of domestic households was US\$ 2,212, representing a slight decrease of 1% over that of 10 years ago. For more information on monthly income of domestic households, please refer to Annex 1.

Household expenditure patterns

According to the Household Expenditure Survey (HES) released in 2006, a household on average spent US\$ 2,420 per month on food, consumer goods and services in 2004/05, as compared to US\$ 2,790 in 1999/2000. The decrease in average household consumption expenditure was attributable partly to the price deflation in most of the 5 years from 1999/2000 to 2004/05 and partly to the decrease in the average size of households. After discounting for price changes, household consumption expenditure decreased by 6% in the 5-year period from 1999/2000 to 2004/05.

Analysed on a per capita basis, there was a 5% decrease in the average monthly expenditure in the 5-year period from 1999/2000 to 2004/05. After discounting for price changes, the average monthly per capita expenditure increased by 3% from 1999/2000 to 2004/05.

The lowest decile⁴ and the highest decile⁵ of monthly expenditure of households were US\$ 820 and US\$ 4,230 respectively. In other words, 80% of households had their monthly expenditure ranging between US\$ 820 and US\$ 4,230.

Regarding household expenditure by commodity/service section, housing (31% of the total household expenditure) and food (26% of the total household expenditure) together accounted for 57% of the total household expenditure. The other categories with relatively significant proportions were miscellaneous services (16%) and transport (9%). The remaining proportions were durable goods (5%), miscellaneous goods (5%), clothing and footwear (4%), electricity, gas and water (3%) and alcoholic drinks and tobacco (1%).

The C&SD classified the households in 4 different income groups for average monthly household expenditure by commodity/service in the HES. As was to be expected, the relative importance of food was smaller for households with higher monthly income. Similar phenomena could be observed for electricity, gas and water as well as alcoholic drinks and tobacco. The expenditure share on housing was not much different in the 4 classified groups⁶. The expenditure shares of clothing and footwear, durable goods, miscellaneous goods, transport, and miscellaneous services increased generally from

⁴ This is the expenditure level which divides the lowest 10% of households from the rest. In other words, the expenditures of 10% of households are below this level whereas the expenditures of the other 90% of households are above this level

⁵ This is the expenditure level which divides the highest 10% of households from the rest. In other words, the expenditures of 90% of households are below this level whereas the expenditures of the other 10% of households are above this level

⁶ Although rents are in general high in Hong Kong, most of the lower income households stay in public housing and pay much cheaper rent than those reside in private housing

the lower income groups to the higher income groups. Details as per Annex 2.

Since the consumer sentiment and the financial position of households has improved after the survey period, the pattern of household expenditure may adjust to a certain extent. At present, both the stock and property market are performing very well. The positive wealth effect will motivate consumers to spend more on durable goods, luxury items and non-essential goods.

Consumer profiles and business opportunities

The average size of households dropped to 3.0 in 2006 from 3.6 in 1986 and 3.3 in 1996. It has been a result of general demographic trends such as lower birth rates, later births and growth of both nuclear households and single person households. The small size of households in addition to small living space in general may give manufacturers of household goods some food for thought on the size and design of their products.

Similar to developed countries in the world, Hong Kong has a low fertility rate (984 births per 1000 female in 2006). Babies and children (under 1 year old to 9 years old) and teenagers (10 to 17 years old) accounted for about 8% and 10% of the population respectively in 2006. On one hand, the overall demand for infant, baby and child products may decrease in volume. On the other hand, since families usually have fewer children, parents are willing to spend more money on better quality products including educational items and toys for their children. Teenagers have great appetite for consumer electronics such as MP3 players and home and portable video game systems. They follow trends very closely and are fashion conscious.

Parents are well aware of the importance of education to their children and are keen to provide good educational opportunities. Should their children fail to admit to local universities, many wealthier families would send their children to study abroad and in most cases they would be sent to major English-speaking countries.

Young adults (18-39 years old) represented about 33% of the population in 2006. It encompasses university students, people who just join the workforce, young professionals and middle management. Their consumption patterns and preference may vary, depending on their ages, educational background, salary level and marital status. A lot of consumers form their purchase habits during their early adulthood. Fashion, accessories, trendy items and electronics generally catch their attention. When they grow older and are better off in financial terms, their spending may move to premium brands and upper market products. Jewellery, luxury watches, fine leather goods and designer-label clothing and accessories will then be on their shopping list.

Middle-aged adults (40-59 years old) accounted for about 33% of the population in 2006. They in general earn higher income and possess higher purchasing power. However, those families who have children may bear in mind the necessity to prepare education funds for their children and discretionary spending may therefore be restrained. Moreover, the whole group, regardless of their marital or parenting status, considers their retirement life and is keen to save up more money or/and invest in stocks and real estate. In this sense, they are responsible spenders. In the meantime, the local economy is strong and both the stock market and the real estate market are bullish. This kind of "quick money" normally gives them more initiative to spend on luxury items.

The elderly (60 years old and above) group, which accounted for about 16% of the population, is growing in size due to improvement in life expectancy. It is customary in Hong Kong that young generations, if their finance allows, will support their parents. Hong Kong had no mandatory retirement scheme until the launch of the Mandatory Provident Fund (MPF) in 2000. The MPF does not benefit current retired people and a social security safety net provided by the government takes care of poor seniors. Some seniors choose to stay in China, mostly in Guangdong province, for lower cost of living there. For well-off seniors, they have sound purchasing power to buy health care items and household appliances which satisfy their specific needs.

In brief, parents with high income are willing to spend more money on quality products for their children. Products range from baby food, babies' and children's clothes, toys, educational items and consumer electronics. More often than not, they have long-term financial plans for their retirement life as well as educational funds for their children. On the other hand, owing to huge costs in raising

children and heavy workload in general, there are more and more couples who prefer to have no child even though they may earn substantial incomes. Such segment (Double Income No Kids DINKs) represents about 14% of total household and it will continue to grow, according to Euromonitor International. They possess high disposable income and pursue pleasant lifestyle.

It is noteworthy that women outstrip men in ownership of every category of luxury items such as jewellery, luxury watches, leather goods and designer-label clothing and footwear, according to a market survey conducted by Synovate. In their survey, 21% of female interviewees and 19% of male interviewees own a watch that costs US\$ 510 or above. 40% of female interviewees and 19% of male interviewees own jewellery that costs US\$ 510 or above. 30% of female interviewees and 23% of male interviewees own designer clothes/leather goods that cost US\$ 190 or above. 28% of female interviewees and 20% of male interviewees own designer accessories/footwear that cost US\$ 190 or above.

Furthermore, about 20% consumers, who are labelled as "fast lane" consumers by Synovate, have the following characteristics: i) aged 25-44, female skewed; ii) married without children; iii) tertiary educated with a good job and high incomes; iv) prefer well-known and designer brands; v) enjoy life and willing to spend money on it and vi) adventurous and will try new gadgets. Renowned brands from all over the world are well presented in Hong Kong. They will undoubtedly strive to win popularity among these "fast lane" consumers.

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Annex 1 Domestic Households by Monthly Domestic Household Income, 1996, 2001 and 2006
Annex 2 Average monthly household expenditure by commodity/service group by broad monthly household income group

Annex 1 Domestic Households by Monthly Domestic Household Income, 1996, 2001 and 2006

Monthly Domestic Household Income (US\$)	1996		2001		2006	
	Number	% of total	Number	% of total	Number	% of total
< 256	55 597	3.0	65 855	3.2	86 736	3.9
257 - 513	68 272	3.7	97 568	4.8	118 779	5.3
514 - 769	75 595	4.1	93 018	4.5	121 605	5.5
770 - 1,026	105 639	5.7	116 340	5.7	146 010	6.6
1,027 – 1,282	136 577	7.4	120 721	5.9	147 081	6.6
1,283 – 1,923	324 001	17.5	318 623	15.5	339 469	15.2
1,924 – 2,564	269 694	14.5	262 086	12.8	279 217	12.5
2,565 – 3,205	210 926	11.4	223 708	10.9	225 292	10.1
3,206 – 3,846	147 295	7.9	159 470	7.8	162 783	7.3
3,847 – 5,128	183 254	9.9	219 229	10.7	221 101	9.9
5,129 – 7,692	150 440	8.1	197 311	9.6	194 723	8.7
>=7,693	128 263	6.9	179 483	8.7	183 750	8.3
Total	1 855 553	100.0	2 053 412	100.0	2 226 546	100.0

Source: Census and Statistics Department

Remarks: Income figures look odd due to conversion from HK\$ to US\$ (exchange rate HK\$7.8 to US\$1)

Annex 2

Average monthly household expenditure by commodity/service group by broad monthly household income group

Commodity/Service	Broad monthly household income group									
	Income group 1 (US\$1,540 and below)		Income group 2 (US\$ 1,540-2,690)		Income group 3 (US\$ 2,690-4,490)		Income group 4 (US\$ 4,490 and above)		Overall	
	(US\$)	(%)	(US\$)	(%)	(US\$)	(%)	(US\$)	(%)	(US\$)	(%)
Food	350	32	543	31	683	29	918	20.5	623	26
Housing	325	30	486	28	674	28	1,477	33	740	30
Electricity, gas and water	56	5	74	4.3	89	3.7	112	2.5	83	3.4
Alcoholic drinks and tobacco	17	1.5	22	1.3	22	0.9	18	0.4	19	0.8
Clothing and footwear	33	3.1	69	3.9	101	4.3	213	4.8	104	4.3
Durable goods (including watches, cameras, computers, audio-video equipment, furniture, home appliances and etc.)	39	3.6	74	4.2	104	4.4	228	5.1	111	4.6
Miscellaneous goods (including toys, books, jewellery, cosmetics, personal care products, household goods and etc.)	58	5.4	89	5.1	124	5.2	209	4.7	120	5.0
Transport	72	6.6	146	8.4	211	8.9	492	11.0	230	9.5
Miscellaneous services	140	12.8	245	14	365	15	808	18	389	16
All sections	1,090	100	1,748	100	2,373	100	4,475	100	2,419	100

Exchange rate: HK\$7.8 to US\$1

Source: Census and Statistics Department