



# First Quarter Economic Report 2005

Government of the Hong Kong  
Special Administrative Region

# ***FIRST QUARTER ECONOMIC REPORT 2005***

ECONOMIC ANALYSIS DIVISION  
ECONOMIC ANALYSIS AND BUSINESS FACILITATION UNIT  
FINANCIAL SECRETARY'S OFFICE  
GOVERNMENT OF THE  
HONG KONG SPECIAL ADMINISTRATIVE REGION

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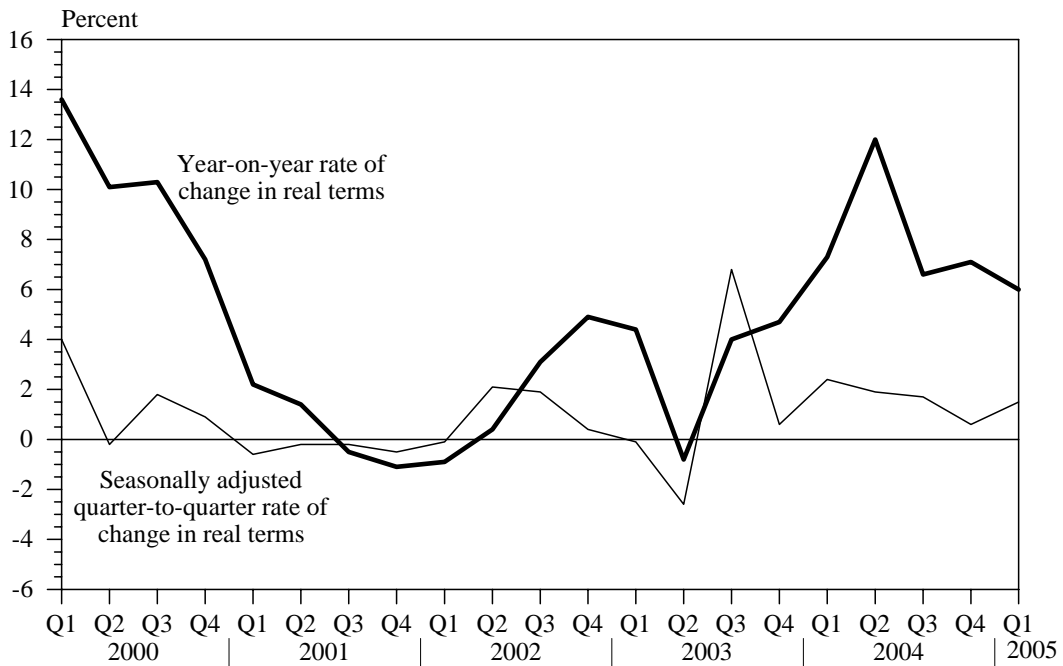
### *Summary*

- *The notable growth momentum of the Hong Kong economy continued into the first quarter of 2005, with GDP growing solidly further by 6.0% in real terms, following a strong 8.1% growth in 2004.*
- *Externally, merchandise exports for the first quarter as a whole still held up rather well. This was supported by Mainland's strong trade flows, and also helped by enhanced price competitiveness from the general weakness of the US dollar, notwithstanding that signs of moderation emerged in March in tandem with a general slackening in Asian demand. Exports of services nevertheless maintained strong growth all through, as offshore trade continued to surge while inbound tourism was also buoyant.*
- *On the domestic front, consumption demand held firm along with the more entrenched economic recovery, improving labour market conditions and a strong property market. Investment demand also showed renewed strength after a temporary dip in the fourth quarter of 2004, underscored by a promising business outlook.*
- *The labour market improved notably further along with the economic upturn, with total employment rising to an all-time high in the first quarter. The seasonally adjusted unemployment rate fell to 6.1% in tandem, the lowest since the third quarter of 2001. Vacancies continued to surge across the board at end-2004.*
- *The property market remained generally buoyant in the first quarter of 2005. Notwithstanding the cutting of preferential mortgage loan terms by banks since late February and the kick-start of increase in local interest rates in late March, market sentiment remained generally positive in the rest of the first quarter. Flat prices rose further by an average of 7% in the first quarter.*
- *Inflation remained moderate in overall terms in the first quarter, being kept down by the very modest housing cost due to the earlier fall-off in private housing rentals, and also by generally soft wages and earnings. The Composite Consumer Price Index edged up by 0.4% in the first quarter of 2005 over a year earlier.*

## **Overall situation**

1.1 The solid growth momentum of the Hong Kong economy continued into the first quarter of 2005, marked by sustained notable growth in consumer demand, renewed increase in investment, and a generally brisk export performance. On the domestic front, consumption demand held firm in tandem with improving employment conditions and generally upbeat sentiment. Investment demand in machinery and equipment resumed growth after a temporary relapse in the fourth quarter of 2004. Building and construction activities also turned around to a modest increase after nine straight quarters of decline. On the external front, merchandise exports attained a still notable growth for the quarter as a whole. Yet signs of slow-down emerged towards the end of the quarter, as intra-regional trade slackened amidst a region-wide moderation in exports. Nevertheless, exports of services maintained strong growth throughout the quarter, as offshore trade remained generally vibrant and inbound tourism continued to thrive. In general, while export performance seems to have turned somewhat less robust lately, with continued strength in the domestic sector, the economy was able to sustain solid growth momentum in the first quarter, with domestic demand taking up a more prominent role in the growth process.

**Diagram 1.1 : Gross Domestic Product**



1.2 In the first quarter of 2005, the *Gross Domestic Product (GDP)*<sup>(1)</sup> grew by 6.0% in real terms, following a 7.1% growth in the fourth quarter of 2004 and an 8.1% growth for 2004 as a whole. On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, GDP expanded for the seventh straight quarter, by 1.5% in real terms in the first quarter of 2005.



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

	<u>2003<sup>#</sup></u>	<u>2004<sup>#</sup></u>	<u>2004</u>				<u>2005</u>
			<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>+</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure <sup>@</sup>	-1.1	6.9	5.7 (1.0)	10.9 (2.2)	5.3 (0.2)	5.9 (2.0)	4.6 (0.2)
Government consumption expenditure	1.9	0.7	5.6 (0.1)	* (-3.3)	-1.3 (*)	-1.7 (1.4)	-4.2 (-2.4)
Gross domestic fixed capital formation	0.9	4.1	5.1 (N.A.)	11.5 (N.A.)	2.1 (N.A.)	-1.4 (N.A.)	2.2 (N.A.)
<i>of which :</i>							
Building and construction	-5.6	-11.1	-12.4	-13.4	-14.3	-3.7	3.4
Machinery, equipment and computer software	6.7	12.4	16.3	26.9	11.9	-2.1	0.8
Total exports of goods	14.2	15.3	15.0 (2.5)	18.7 (5.8)	15.3 (0.6)	12.6 (2.9)	8.9 (*)
Imports of goods	13.1	14.1	16.3 (3.7)	20.3 (3.6)	14.2 (-1.1)	7.0 (0.6)	3.8 (1.6)
Exports of services <sup>@</sup>	8.1	15.0	13.8 (1.3)	33.0 (0.8)	11.7 (5.7)	7.2 (-1.0)	8.6 (2.4)
Imports of services	-2.1	10.7	3.5 (-4.4)	30.1 (6.0)	7.2 (3.0)	6.2 (1.0)	5.5 (-4.2)
<b>Gross Domestic Product</b>	<b>3.1</b>	<b>8.1</b>	<b>7.3</b> <b>(2.4)</b>	<b>12.0</b> <b>(1.9)</b>	<b>6.6</b> <b>(1.7)</b>	<b>7.1</b> <b>(0.6)</b>	<b>6.0</b> <b>(1.5)</b>
<i>Change in the main price indicators (%)</i>							
<b>GDP deflator</b>	<b>-6.1</b>	<b>-2.8</b>	<b>-4.0</b> <b>(*)</b>	<b>-2.8</b> <b>(-1.1)</b>	<b>-2.6</b> <b>(-0.7)</b>	<b>-2.1</b> <b>(-0.2)</b>	<b>-1.9</b> <b>(*)</b>
<b>Composite Consumer Price Index</b>	<b>-2.6</b>	<b>-0.4</b>	<b>-1.8</b> <b>(0.3)</b>	<b>-0.9</b> <b>(-0.1)</b>	<b>0.8</b> <b>(-0.2)</b>	<b>0.2</b> <b>(0.3)</b>	<b>0.4</b> <b>(0.4)</b>
<b><u>Change in nominal GDP (%)</u></b>	<b>-3.2</b>	<b>5.1</b>	<b>3.0</b>	<b>8.8</b>	<b>3.9</b>	<b>4.9</b>	<b>4.0</b>

Notes : (#) Revised figures.

(+) Preliminary figures.

(@) Figures for 2004 have been revised following the release of enhanced estimates on tourism expenditure by Mainland visitors by the Hong Kong Tourism Board. Estimates for 2002 and 2003 were revised accordingly to enable comparability of the data series. The overall GDP nevertheless is not affected.

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

N.A. Not applicable, as no clear seasonal pattern is found in gross domestic fixed capital formation, due to the presence of considerable short-term fluctuations.

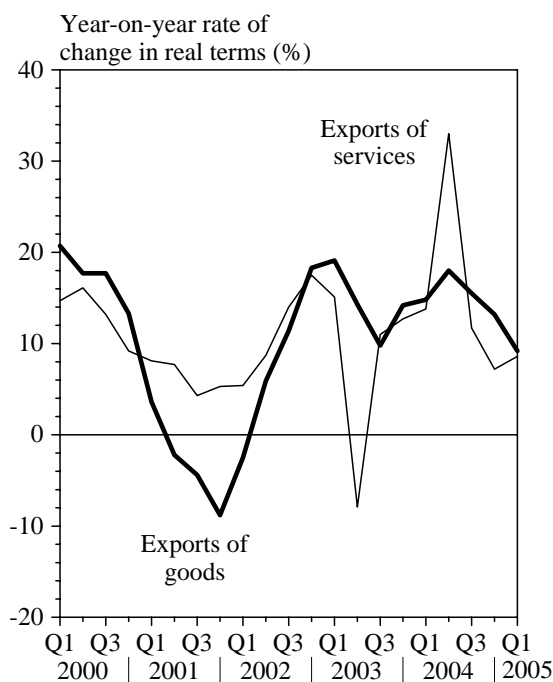
(\*) Change of less than 0.05%.

## The external sector

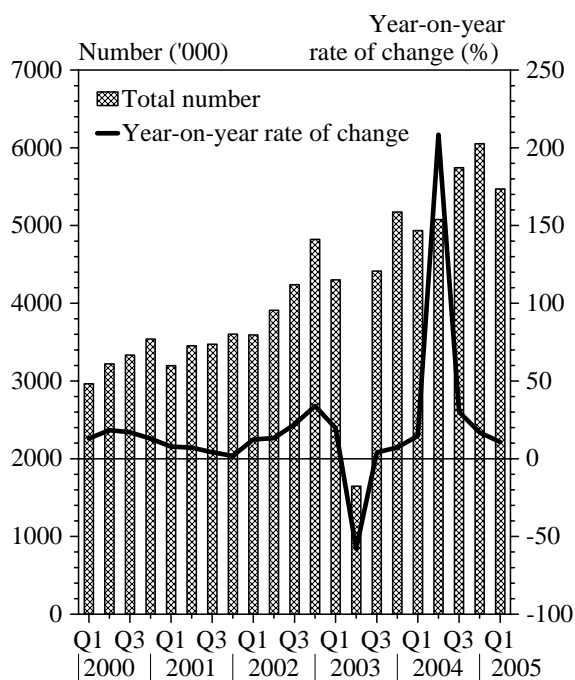
1.3 Merchandise exports were strong in the first two months of 2005, but moderated in March as exports to quite a number of East Asian economies slackened along with the more noticeable slow-down in intra-regional trade towards the end of the quarter. Yet for the first quarter of 2005 as a whole, *total exports of goods* still attained notable growth at 9.2% in real terms, following a 13.2% increase in the fourth quarter of 2004 and a 15.3% surge for 2004 as a whole. The export performance nevertheless varied widely amongst individual markets. Exports to the Mainland, Japan and Singapore still maintained rather strong growth in the quarter. But exports to other East Asian markets like the Republic of Korea, Malaysia and Taiwan slowed down more markedly in the quarter, especially so in March, as their demand for semi-manufactures, particularly for electronic parts and components, eased back considerably along with the turn in the global electronic product cycle. As to the conventional markets, exports to the US likewise lost steam in March after growing briskly in the earlier months. This was also generally in line with the fall-off in US import intake lately. Yet exports to the EU maintained double-digit growth in the first quarter, supported by the earlier strength of the euro and boosted also partly by the surge in textile and clothing items sourced from the Mainland.

1.4 On invisible trade, inbound tourism continued to show solid and broad-based growth. The government's strenuous effort in publicity and promotion, enhancement in tourist facilities, together with the general weakness of the US dollar, all helped increase the attractiveness of Hong Kong to overseas visitors. Offshore trade continued to surge, brought forth particularly by the generally buoyant intra-regional trade. *Exports of services* attained a further notable growth at 8.6% in the first quarter of 2005, faster than the 7.2% increase in the fourth quarter of 2004 and following a remarkable 15.0% growth for 2004 as a whole.

**Diagram 1.2 : Total exports of goods and exports of services**



**Diagram 1.3 : Visitor arrivals**



## The domestic sector

1.5 Local consumer spending sustained solid growth in the first quarter, as consumer confidence was boosted by the improvements in the job market. The positive wealth effect from an active property market also rendered an additional boost to consumers' propensity to spend. The upbeat sentiment was evident from the strength in spending on durable goods such as electrical appliances and also on luxury items such as jewellery and watches. Spending on clothing and footwear likewise held up well, while spending on foodstuffs held stable. Overall, *private consumption expenditure (PCE)* went up further by 4.6% in real terms in the first quarter of 2005 over a year earlier, compared with the 5.9% growth in the fourth quarter of 2004 and after a 6.9% growth for 2004 as a whole. On a seasonally adjusted quarter-to-quarter comparison, PCE expanded slightly further, by 0.2% in real terms in the first quarter of 2005.

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

*Of which :*

	Total consumer spending in the domestic market <sup>(a)</sup>	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure <sup>(b)</sup>
2004 Annual	7	1	16	10	6	11	19	7
Q1	7	1	17	6	6	-2	11 <sup>+</sup>	6 <sup>+</sup>
Q2	13	-2	20	27	12	50	150 <sup>+</sup>	11 <sup>+</sup>
Q3	5	2	14	4	3	8	4 <sup>+</sup>	5 <sup>+</sup>
Q4	5	3	14	6	3	3	-4	6
2005 Q1	5	3	10	9	3	7	10	5

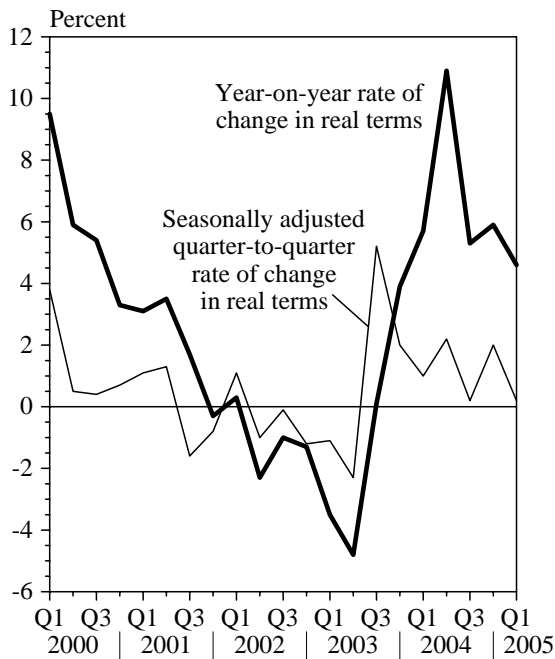
Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

(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.

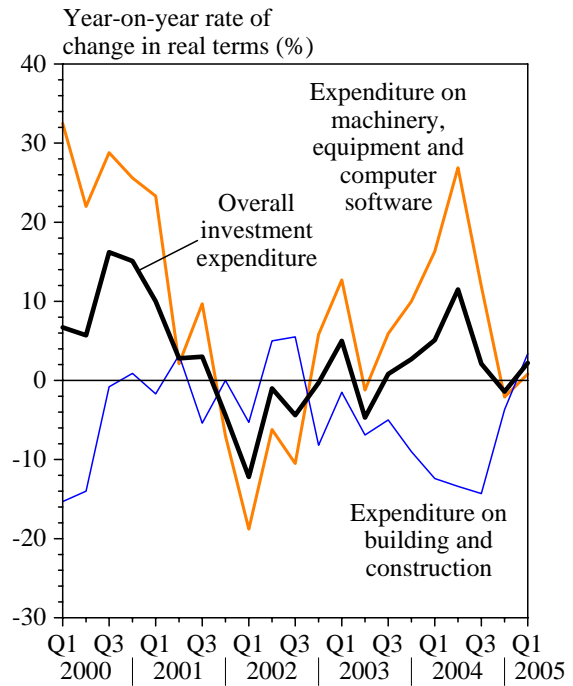
(+) Revised figures following the Hong Kong Tourism Board's revision on the consumption expenditure of Mainland visitors. For details, see footnote @ in Table 1.1.

1.6 Overall investment spending in terms of *gross domestic fixed capital formation* reverted to a 2.2% increase in real terms in the first quarter of 2005, having temporarily suffered a 1.4% dip in the fourth quarter of 2004. Compared to the growth pattern in 2004 when the investment upturn was entirely driven by machinery and equipment acquisition, investment growth in the first quarter of 2005 was more broad-based. Not only that investment in machinery and equipment resumed growth on support of the continued business upturn, building and construction activity in the private sector also reverted to a rather notable growth in the quarter, marking the first increase after nine consecutive quarters of fall-off. While there was a further increase in output from renovation of existing buildings, building works on a few major projects also grew. However, building and construction activities in the public sector remained in a lull, due to the scale-back of the Public Housing Programme and the completion of the two key railway projects last year.

**Diagram 1.4 : Consumer spending**



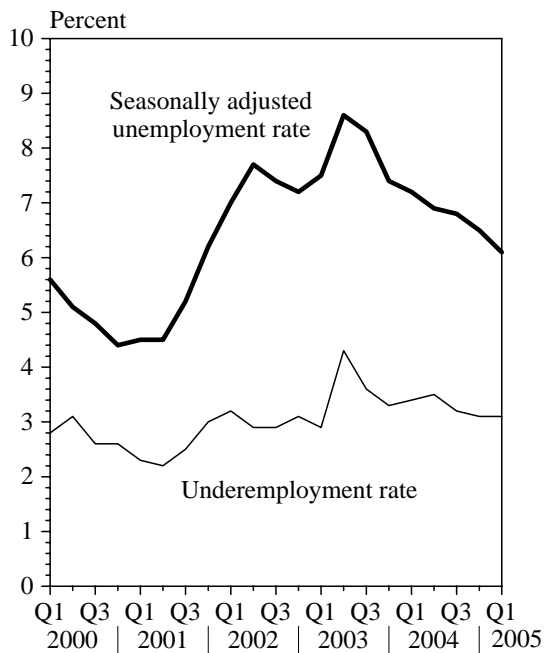
**Diagram 1.5 : Investment spending**



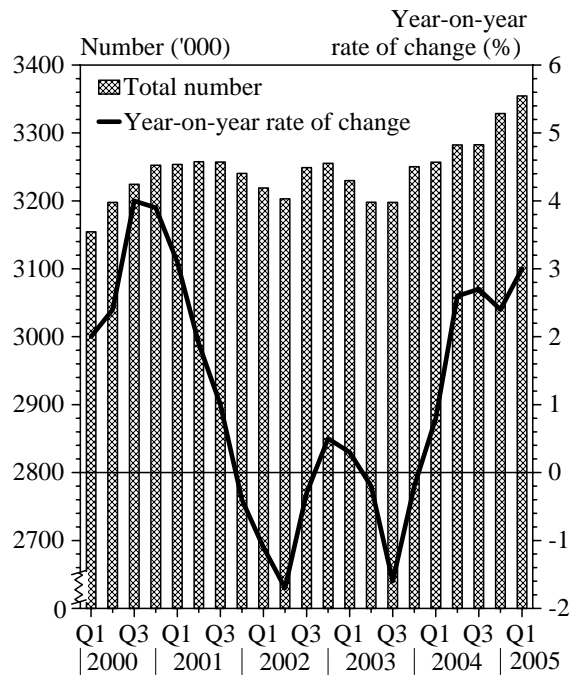
## The labour sector

1.7 The labour market improved notably further in the first quarter of 2005. As the economic upturn increasingly translated into job opportunities, *total employment* expanded further by 0.8% in the first quarter of 2005 to a new peak of 3.35 million. Reflecting the improving employment conditions, the *seasonally adjusted unemployment rate* fell distinctly further from 6.5% in the fourth quarter of 2004 to 6.1% in the first quarter of 2005, the lowest since the third quarter of 2001. The *underemployment rate* held steady at 3.1% in the first quarter. Vacancies continued to surge in many sectors such as wholesale and retail, import/export trades, restaurants and hotels, as well as financial and business services in the fourth quarter of 2004 as business operators started to ramp up hiring of workers to meet the expected business expansion. Downward pressures on wages and labour earnings also seem to be receding as the economic recovery proceeds.

**Diagram 1.6 : Unemployment and underemployment rates**



**Diagram 1.7 : Total employment**

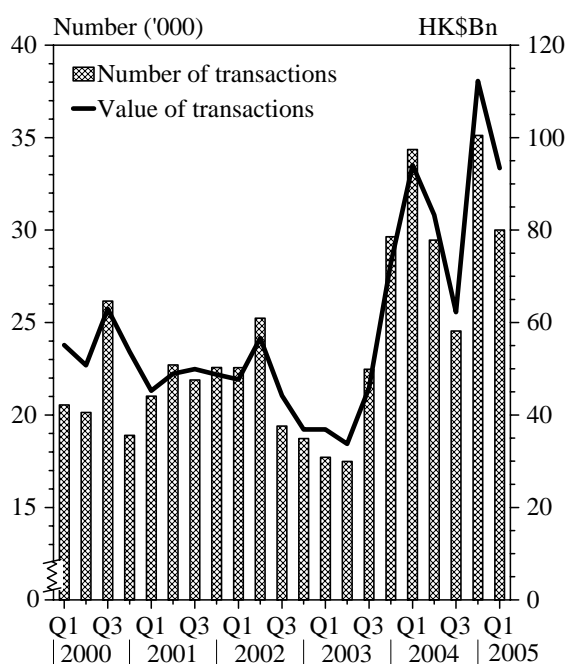


## Property market

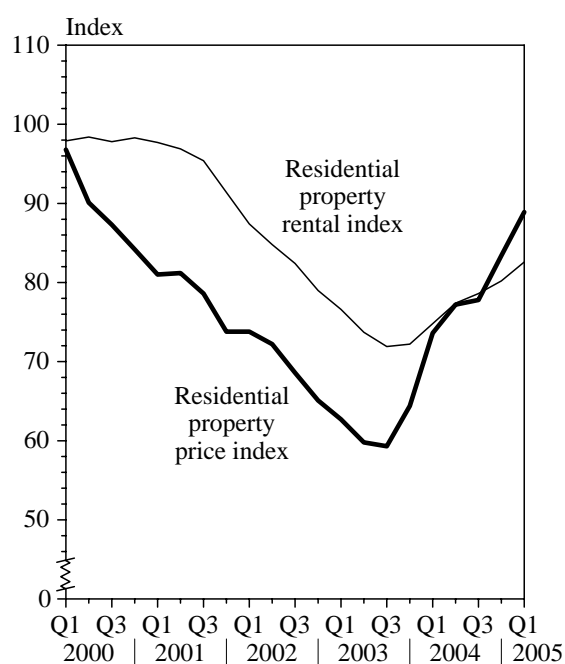
1.8 The *residential property* market gathered further steam in early 2005, marked by a further gain in flat prices and active trading. The buoyant market sentiment was lifted by an optimistic economic outlook, improved labour market conditions, favourable land auction results, and the enthusiastic response to the primary sales of residential developments particularly those at the luxurious end of the market. Notwithstanding the cutting of preferential mortgage loan terms by banks since late February<sup>(3)</sup> and the kick-start of increase in local interest rates<sup>(4)</sup> in late March, market sentiment remained generally positive in the rest of the first quarter. Flat prices rose further by an average of 7% in the first quarter of 2005. Flat rentals edged up steadily in the first quarter of 2005, by an average of 3%, following an average 6% increase in 2004.

1.9 On *commercial property*, both the sales and rental markets for office space picked up further, on the back of the upturn in business activity. The market for shopping space was also buoyant as demand was boosted by the vibrant inbound tourism and pick-up in local consumer spending. Reportedly, some speculative activities re-emerged in the sales markets for both office space and shopping space. As to the market for industrial property, both prices and rentals continued to increase.

**Diagram 1.8 : Number and value of property transactions**



**Diagram 1.9 : Prices and rentals for residential property**

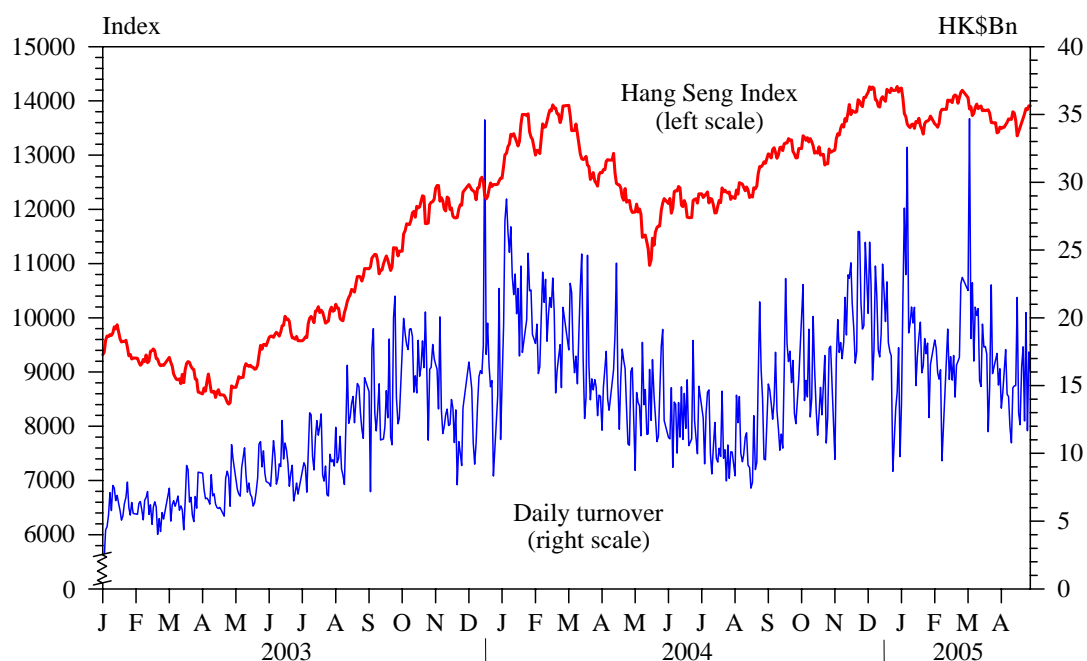


## Stock market

1.10 After a strong start at the beginning of the year, the stock market soon drifted lower and hovered in the range of 13 500 – 14 000 during most of the quarter. Market sentiment was weighed down by concerns over rising interest rates and the upsurge in crude oil prices, and also by the reversal of earlier fund inflows as speculative pressures for renminbi revaluation died down. The Hang Seng Index closed the first quarter at 13 517, 5% lower than the closing of 14 230 at end-2004. Market sentiment then improved somewhat in April, as worries over a more aggressive US rate hike receded along with weaker US data, and as renewed speculative pressures for renminbi revaluation again triggered capital inflow into the territory. The Hang Seng Index rose back to above 13 900 in the latter part of April, and stood at 13 717 on 20 May, 1% up

from the closing at end-March. The average daily turnover rose slightly further to \$18.4 billion in the first quarter of 2005, from \$18.0 billion in the fourth quarter of 2004.

**Diagram 1.10 : Hang Seng Index and stock market turnover**



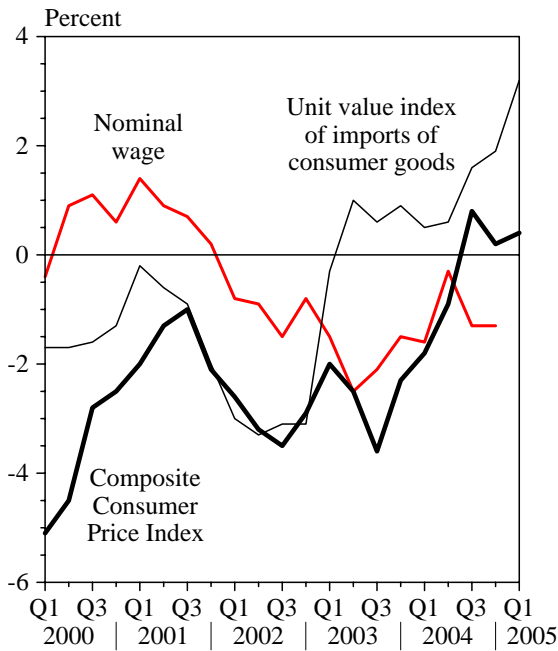
## Prices

1.11 Consumer price inflation has been running at a moderate pace in recent months. The pace of upturn in the consumer price indices continued to be kept down by the very modest housing cost index due to the earlier fall-off in private housing rentals. Also, labour cost, a key component of business cost, was still soft in overall terms, thereby putting a cap on domestic cost pressures. There were however some modest price pressures from the external front, due to the general weakness of the US dollar and high crude oil prices, as manifested in the continued firming up in import prices over the past few months. From a business cost perspective, rents for premises have also been rising. On the whole, while the economy continued to expand at a rather brisk pace, inflationary pressures were still in check in recent period. On a year-on-year basis, *Composite Consumer Price Index* edged up by 0.4% in the first quarter of 2005, following a 0.2% increase in the preceding quarter and having declined by 0.4% for 2004 as a whole.

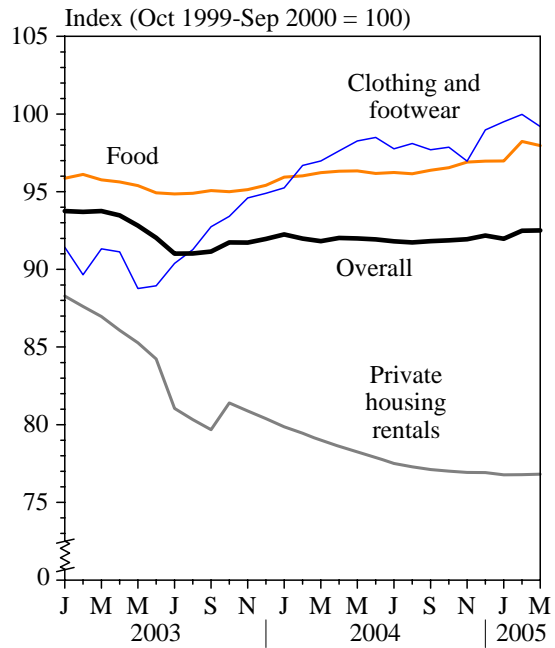


**Diagram 1.11 : Consumer prices**

**(a) Year-on-year rate of change**

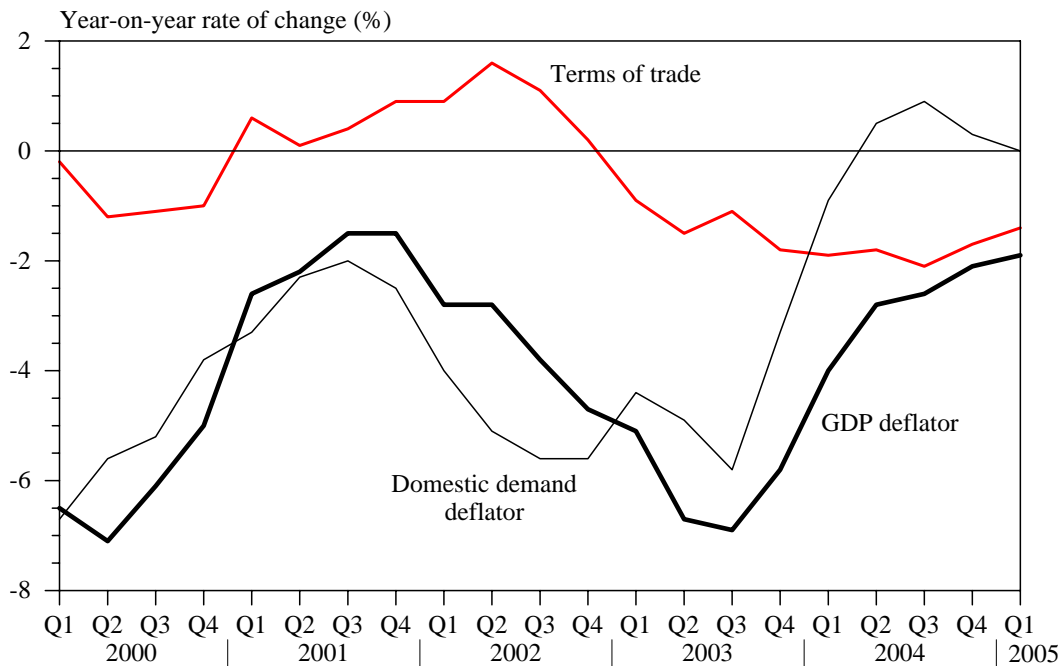


**(b) Seasonally adjusted Composite Consumer Price Index**



1.12 As to the *GDP deflator*, the decline narrowed further to 1.9% year-on-year in the first quarter of 2005, from 2.1% in the fourth quarter of 2004 and 2.8% for 2004 as a whole. This was mainly attributable to the relative improvement in terms of trade, as the drag from the earlier weakness of the US dollar waned. Excluding the relative price movements of exports and imports, the domestic demand deflator showed no change in overall terms in the first quarter of 2005. The price deflators for both private consumption and overall investment actually still recorded small to modest increases in the first quarter. But in general, the recent trends in the above deflators suggest that price pressures in the economy were still modest.

**Diagram 1.12 : GDP deflator**



## **Economic policy**

1.13 The Government of HKSAR believes in free market, and continues to uphold “market leads, government facilitates” as the guiding principle of its economic policy. Over the past few years, the Government has taken a proactive role to create a conducive environment for business and to facilitate economic development, particularly to enhance Hong Kong’s competitiveness and to reduce rigidities in the economy. Initiatives have been taken to reinforce our strengths and develop business opportunities for Hong Kong. As these measures and initiatives began to bear fruit, they have contributed to the cyclical upturn of the Hong Kong economy since late 2003.

1.14 The economic development of Hong Kong will continue to leverage on the thriving Mainland-Hong Kong economic relations. Proximity to the Mainland as a huge and dynamic economic hinterland is a key edge that Hong Kong possesses over its neighbouring economies. Over the past two decades, economic relations between the two places continued to strengthen. Bilateral trade has grown by leaps and bounds. Two-way visitors flow have surged, more so upon the Mainland’s progressive liberalisation on residents travelling abroad. Hong Kong and the Mainland are each other’s largest source of external direct investment. In the financial sector, cross-boundary fund flows have risen markedly over the past decade. Hong Kong is an important fund

raising centre for Mainland's state-owned enterprises and recently also private enterprises<sup>(5)</sup>.

1.15 In order to reap more fully the enormous opportunities being accorded by rapid growth and further liberalisation in the Mainland economy, Hong Kong will clinch well to the growth impetus in the Mainland, whilst making effective use of its international business perspective to meet the Mainland's development needs. Thus, it is essential to foster as much as possible the multitude of inter-flows, more specifically those of people, goods, capital, information and services, between the two places.

1.16 The Closer Economic Partnership Arrangement between the Mainland and Hong Kong (CEPA)<sup>(6)</sup> has marked an important milestone towards advancing the economic interface between Hong Kong and the Mainland. It lays the foundation for a new business platform that reaffirms the role of Hong Kong in the Mainland's next phase of economic development and liberalisation. The trade and investment liberalisation and facilitation measures so accorded have offered greater flexibility to Hong Kong businessmen in their pursuit of trade, commerce and investment opportunities in the Mainland. These benefits tend to permeate through all facets of economic development, and are crucial to the shaping of the longer-term economic relations between the two places.

1.17 Although CEPA has only been implemented for one year or so, and further liberalisation measures will continue to be introduced, the positive impacts on the Hong Kong economy have become more visible. According to the Administration's assessment, the first phase of CEPA (CEPA I) has induced \$1.15 billion tariff-free trade in goods in 2004, which is expected to rise further to \$2.35 billion in 2005. On trade in services, total service receipts of \$1.6 billion for 18 service sectors with liberalised access to the Mainland market were generated in 2004, and the amount is expected to reach \$3.8 billion in 2005. The Individual Visit Scheme has led to a net increase of 4.3 million visitor-trips in Hong Kong in 2004. The additional tourist spending so induced had created a net increase of \$4.5 billion value added to GDP. On employment, it is expected that the various initiatives under CEPA I will create around 29 000 new jobs in the first two years of implementation.

1.18 CEPA apart, to compete with the rest of the world, Hong Kong will continue to focus on areas that possess comparative advantage viz. financial services; trading and logistics; tourism; and producer and professional services. They are not only the key driving force of Hong Kong's economic growth, they have also been providing the key impetus to job creation<sup>(7)</sup>.

1.19 On entering 2005, a number of measures have been put in place to foster the development of these key industries. In recognition of the importance of a sound regulatory regime in upholding Hong Kong's position as a leading international financial centre, major regulatory initiatives have been pursued to enhance the stability of the banking system and to improve risk management of the banks. A bill on implementation of Basel II for the banks in Hong Kong was introduced to the Legislative Council in early April<sup>(8)</sup>, paving the way for the banks to adopt an enhanced risk management system which will enable them to better distinguish the credit quality of borrowers and form better pricing policies (see paragraph 4.14). The resulting lowering in cost of funding to borrowers with sound credit records should also help improve economic efficiency. It is also believed that institutional investors in general, and Mainland enterprises in particular, are attracted to Hong Kong's capital market not only for efficient access of capital, but also for the good corporate governance standards and Hong Kong's internationally recognised regulatory standards for the batch of quality. Hence, the government is pushing ahead a new institutional set-up to scrutinise financial reporting and to enhance the corporate governance framework<sup>(9)</sup> with a view to upholding investors' confidence. In March, the Financial Secretary proposed in his Budget that estate duty be abolished, in an effort to promote Hong Kong's development into a leading fund management centre.

1.20 To enhance Hong Kong as a regional logistics centre and its connectivity with the Mainland, new boundary bridges at Lok Ma Chau and Sha Tau Kok were completed in January. These could further facilitate the flow of goods and passengers between Hong Kong and the Mainland. The HKSAR government has also taken steps to improve boundary crossing efficiency and reduce trucking cost<sup>(10)</sup>. Several major tourism infrastructure projects are in their final stage of construction: the Hong Kong Disneyland will open in September 2005, while Phase II of the Hong Kong Wetland Park and the Tung Chung Cable Car System are scheduled for completion in early 2006. These projects, when completed, will further enhance Hong Kong's attractiveness to overseas visitors.

1.21 Strengthened economic co-operation between Hong Kong and the Mainland will be to the mutual benefit of both sides. In April, the Airport Authority signed an agreement with the Hangzhou Xiaoshan International Airport to invest a 35% stake in the airport. While this would help the Airport Authority capture the business potential in the Mainland, the management skills brought from Hong Kong could help improve operation efficiency of the

Mainland airport, thus also contributing to the Mainland's economic development.

**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.
- (3) The mortgage rates offered by most of the banks were raised from 2.75-2.8 percentage points below the prime rate in late February to 2.25-2.5 percentage points below the prime rate in early April. Concomitantly, the cash rebate previously offered by the banks was either cut or clawed back.
- (4) The best lending rate was raised by 0.25 of a percentage point to 5.25% on 21 March. On 6 April, several small and medium-sized banks including Standard Chartered Bank and Bank of East Asia raised the best lending rate further to 5.5%.
- (5) At end-March 2005, there are 306 Mainland enterprises (including 109 H-share companies, 86 "Red Chips" companies and 111 private enterprises) listed on the Hong Kong stock market, accounted for 28% of the total number of listed companies. The capital raised by these Mainland enterprises since January 1993 amounted to \$907 billion, accounting for 48% of the total funds raised in the stock market. As at end-March 2005, the market capitalisation of these Mainland enterprises stood at \$2.0 trillion, accounting for 31% of the total market capitalisation of the Hong Kong stock market. In the first quarter of 2005, 40% of the market turnover in the stock market was contributed by trading of the above Mainland-related stocks.
- (6) CEPA adopts a building block approach wherein more measures will be added as necessary in the future. The main parts of CEPA were signed on 29 June 2003, and the six Annexes setting out the implementation details were signed on 29 September 2003. The signing of CEPA II on 27 August 2004 provides further liberalisation measures to be implemented from 1 January 2005. Under CEPA II, tariff elimination is to be applied to another 713 products as from January 2005. Moreover, for the 18

services sectors to which preferential treatments have already been provided under CEPA I, the liberalisation is to be broadened for 11 of them under CEPA II. In addition, new liberalisation measures are to be granted to 8 new service areas.

- (7) In 2003, these key industries taken together contributed to 54.9% of GDP and 44.3% in terms of total employment. The respective value added contributions to GDP of financial services, trading and logistics, tourism, and professional and other producer services are 13.1%, 27.9%, 2.5% and 11.5% respectively in 2003. Their corresponding shares in total employment in 2003 are 5.4%, 24.4%, 3.8% and 10.8%. Other producer services refer to the producer services other than those covered in the three key industries of financial services, trading and logistics, and tourism.
- (8) Basel II contains a revised international capital adequacy framework promulgated by the Basel Committee on Banking Supervision in June 2004. Compared with Basel I, Basel II is more risk-sensitive and covers a wider range of banking risks. A key element of Basel I and Basel II is the requirement of banks to maintain minimum capital adequacy ratio of 8%. This underscores the importance of capital held by a bank to absorb losses and thus protect the depositors in the event of the bank being wound up.
- (9) The government is considering a proposal to establish a new regulatory watchdog - the Financial Reporting Council (FRC). One of the key functions of the FRC is to investigate suspected irregularities of auditors of listed corporations in relation to the audit of published accounts or financial statements of such corporations and the preparation of any auditors' reports for inclusion in prospectuses. The other key function of the FRC is to enquire into suspected non-compliance of the financial reports of listed corporations.
- (10) Starting from 1 January 2005, the tractor, trailer and container of cross-boundary trucks no longer need to be "tied together" for crossing the boundary. This provides greater flexibility for the cross-boundary container truck industry by allowing for better deployment of tractors, trailers and containers to increase trip frequency, enhance efficiency and reduce cost.

## CHAPTER 2 : THE EXTERNAL SECTOR

### *Summary*

- *Global demand was strong in overall terms in early 2005. There were nevertheless signs of moderation towards the end of the first quarter.*
- *Total exports of goods had a rather notable growth of 9.2% in real terms for the first quarter as a whole, yet the momentum moderated in March as global and regional growth slowed. The moderation in the recent period should also be seen against the fast expansion in the past couple of years, which set a distinctly high base of comparison in 2004.*
- *The slow-down occurred mainly in exports to East Asian markets, being affected by the region-wide deceleration in export performance and the ensuing setback in intra-regional trade. Exports to the US held up well in the first two months but also slackened towards the end of the quarter amidst weaker demand there. Yet exports to the EU, Japan and Singapore still maintained rather strong growth.*
- *Exports of services continued to prosper in the first quarter of 2005. Apart from vibrant inbound tourism and surging offshore trade, transportation services also expanded further on the back of strong influx of visitor arrivals and buoyant trade flows.*
- *Although global demand remained strong in overall terms in early 2005, it has been increasingly reliant on the US economy as the main growth engine. This, coupled with the still high and volatile oil prices as well as the US interest rate upcycle, poses a considerable uncertainty to the sustainability of global demand.*

### **Major external influences**

2.1 On entry into 2005, global economic activity stayed strong in overall terms. Yet the growth momentum seemed to have eased back somewhat towards the end of the quarter, mainly reflecting weaker demand in the US economy. Also, the pace of expansion in the European Union remained moderate, as its export-led recovery virtually came to a halt, and as its domestic sector failed to embark on a solid recovery owing to the structural weaknesses of their own.

2.2 Elsewhere in East Asia, the Mainland economy continued to take up a prominent role in driving the global economy, at a time when Europe and Japan had yet to sustain the recovery momentum. Exports continued to forge ahead, a sign of Mainland's competitiveness and increasing penetration in the world market. On the domestic front, retail sales, industrial production and fixed asset investment all sustained strong growth in the first quarter of 2005. Japan's economy also saw a visible improvement in the first quarter, following the stagnation during most of last year, thanks to a notable pick-up in domestic demand offsetting the weakness in exports. But the picture was far less robust in the other East Asian economies, with economic activity generally slowing down amidst deceleration in their exports upon weaker global demand for electronic products.

2.3 The surge in oil prices during the first quarter of 2005 and the successive interest rate hikes in the US have conceivably started to take a toll on global demand more recently. Added to these is an increasing threat that Mainland's exports of textile and clothing (T&C) products would face safeguard restrictions from advanced economies. These restrictions, if implemented, would inevitably hurt Hong Kong's external trade. Meanwhile, the exchange rate of the US dollar is another important determinant of Hong Kong's external trade performance in the period ahead.

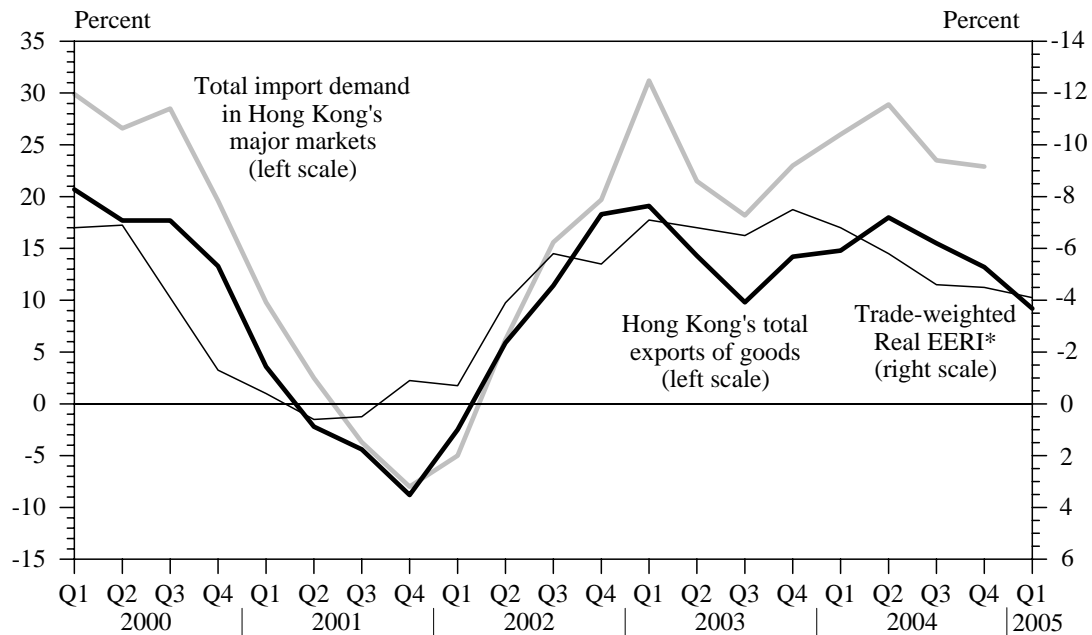
## **Visible trade**

### ***Total exports of goods***

2.4 *Total exports of goods* (comprising re-exports and domestic exports) grew notably further by 9.2% in real terms<sup>(1)</sup> in the first quarter of 2005 over a year earlier, having attained double-digit growth in the preceding ten quarters. Exports actually still held up well in the first two months of 2005, yet they slowed down quite distinctly in March, as intra-regional trade slackened upon weaker global demand. The region-wide deceleration in exports in turn was partly due to weaker demand in the US, and partly due to less buoyant import intake by China.



**Diagram 2.1 : Hong Kong's total exports of goods, total import demand in Hong Kong's major markets, and exchange rate movements (year-on-year rate of change)**



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 East Asia, the United States and the European Union taken together.

(\*) For ease of comparison with the rate of change in Hong Kong's total exports of goods, the scale for the Real EERI is presented here upside down, so that positive changes denoting real appreciation of the Hong Kong dollar appear at the lower part and negative changes denoting real depreciation at the upper part of the diagram.

2.5 *Re-exports*<sup>(2)</sup> remained the key growth driver within overall exports, rising further by 10.4% in real terms in the first quarter, after a 13.8% increase in the fourth quarter of 2004. The strong performance of re-exports was in large part attributable to the increasing penetration of the Mainland's exports in the major markets. Leveraging on the important role as the trade conduit between the Mainland and the rest of the world, Hong Kong's re-export trade involving the Mainland continued to flourish in the first quarter.

2.6 *Domestic exports* however fell back significantly by 9.5% in the first quarter, having picked up to a 4.8% rise in the fourth quarter of 2004. Growth in domestic exports, already held back by the ongoing structural shift to re-exports and offshore trade<sup>(3)</sup> over years, were dragged further by a plunge in domestic exports of textile and clothing products to the US and European

markets in the first quarter upon the removal of quotas on such products as from January 2005. This outweighed the beneficial effects of CEPA to Hong Kong's domestic exports to the Mainland in the first quarter.

**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</u>	<u>Change in prices</u>	<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>
2004 Annual	15.9	15.3	1.2	16.8	16.3	1.1	3.5	2.4	1.5
Q1	13.0	14.8 (3.0)	-0.7	14.0	15.9 (3.3)	-0.8	-0.6	0.7 (-1.6)	-0.6
Q2	17.8	18.0 (5.4)	0.5	18.7	19.0 (5.6)	0.5	4.9	5.1 (2.7)	0.2
Q3	17.2	15.5 (1.1)	1.9	18.5	16.8 (1.1)	2.0	0.8	-0.5 (0.8)	1.8
Q4	15.3	13.2 (2.9)	2.6	15.7	13.8 (3.0)	2.5	8.6	4.8 (2.5)	4.2
2005 Q1	10.6	9.2 (0.1)	2.1	11.7	10.4 (1.0)	2.0	-6.9	-9.5(-14.4)	4.8

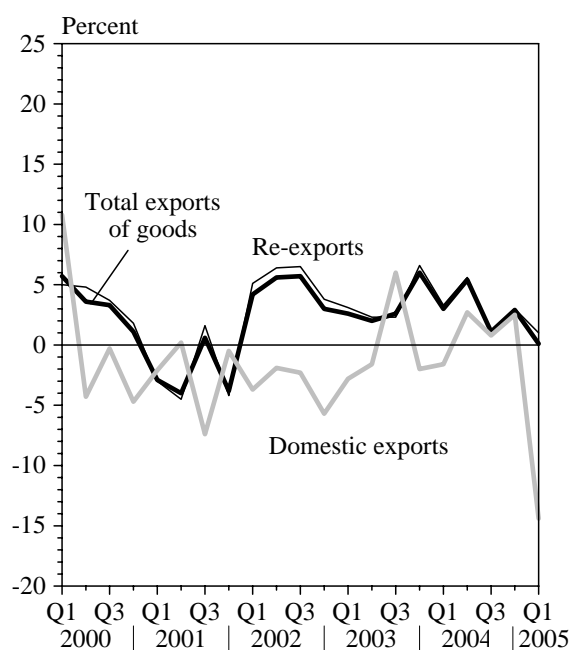
Note : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

**Diagram 2.2 : Total exports of goods, re-exports and domestic exports**

**(a) Year-on-year rate of change in real terms**



**(b) Seasonally adjusted quarter-to-quarter rate of change in real terms**

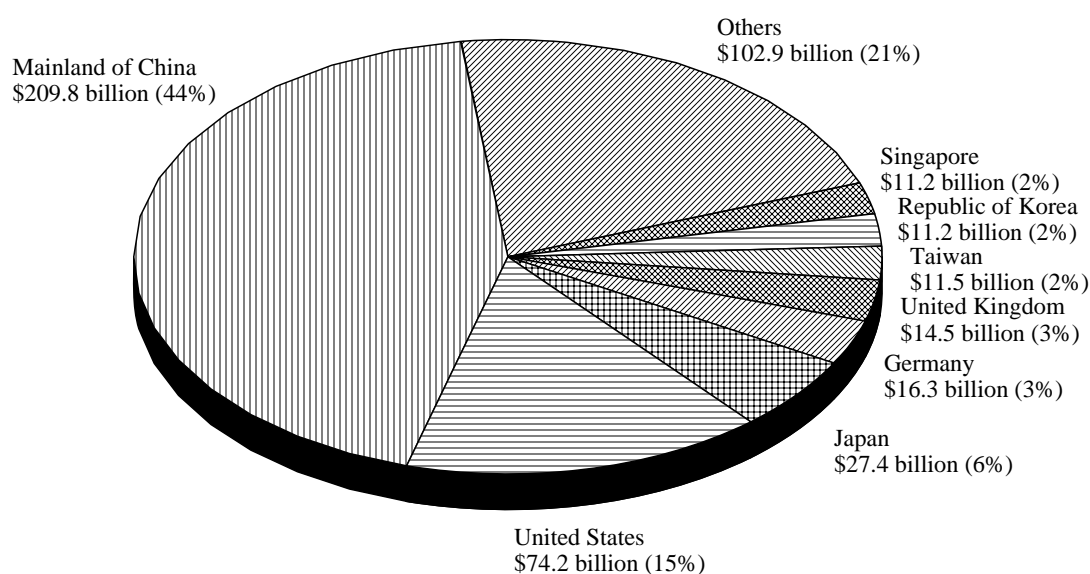


## *Total exports of goods by major market*

2.7 As intra-regional trade slowed down more noticeably towards the end of the first quarter, Hong Kong's exports to quite a number of East Asian<sup>(4)</sup> markets also slackened in the quarter. The slow-down was particularly sharp for markets like Taiwan, Malaysia, Thailand and the Republic of Korea, due to a distinct fall-off in demand for electronic parts and components, in turn hit by the moderate export performance in these economies lately. Exports to Japan and Singapore also saw a slight moderation, though by a much lesser extent than the other Asian markets. As to exports to the Mainland, there was still a rather strong growth in the first quarter, but the momentum had also slowed when compared with the distinct double-digit growth over the past few quarters, due to some tapering in the intake of raw materials and consumer goods.

2.8 Exports to the United States held up well in the first two months, but slackened distinctly to a decline in March. This was so even with the cushion from the surge in T&C re-exports after the removal of quotas as from January 2005. On the other hand, exports to the European Union<sup>(5)</sup> remained robust in the quarter, marked by continued surge in exports of both consumer goods and capital goods. The sustained strong performance in Hong Kong's exports to this market was achieved even amidst the generally modest growth pace in the EU economy. This was a reflection of the growing penetration of Mainland products there. But there was also an additional boost from the surge in T&C re-exports to the European markets.

**Diagram 2.3 : Total exports of goods by major market in the first quarter of 2005**



*Total exports of goods in the first quarter of 2005 : \$478.9 billion*

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

		Mainland of China	United States	Japan	United Kingdom	Germany	Taiwan	Singapore	Republic of Korea
2004	Annual	17.8	5.3	14.2	14.8	12.0	17.9	24.0	25.1
	Q1	17.0	4.6	10.9	13.8	7.9	26.2	31.1	33.2
	Q2	21.4	7.2	17.4	13.3	16.9	27.0	30.1	27.5
	Q3	19.9	4.1	13.6	14.5	12.0	14.3	20.9	23.1
	Q4	13.4	5.6	14.9	17.1	11.4	7.1	16.8	18.1
2005	Q1	9.9	5.1	11.5	11.9	18.2	-5.4	15.7	5.4

### *Imports of goods*

2.9 With a more moderate growth in re-exports and with import intake for local use also easing back further, *imports of goods* likewise decelerated, though still attaining a solid increase of 4.4% in real terms in the first quarter of 2005 over a year earlier. Imports of goods sourced from the Mainland – the largest source of Hong Kong’s imports – maintained distinct growth in the first quarter, while imports from other sources moderated in growth by various magnitude.

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

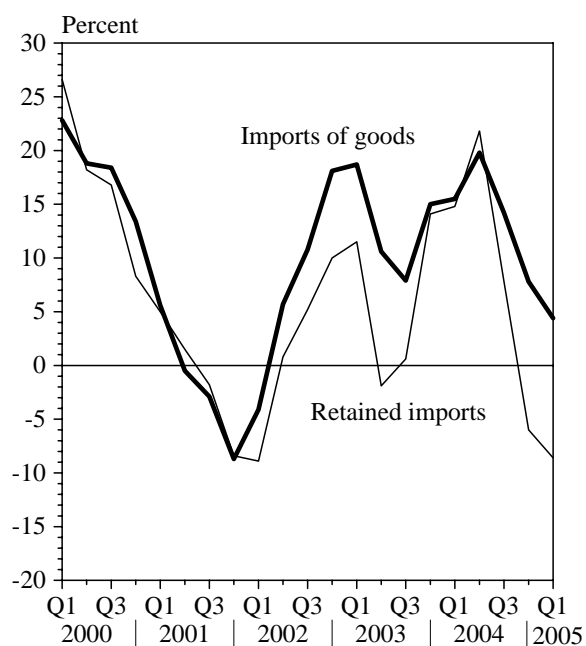
		<u>Imports of goods</u>			<u>Retained imports<sup>(a)</sup></u>		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2004	Annual	16.9	14.1	2.9	17.2	8.9	8.2
	Q1	15.7	15.5 (3.6)	0.7	20.3	14.8 (4.1)	4.6
	Q2	22.1	19.8 (3.7)	2.3	32.0	21.8(-0.4)	7.4
	Q3	18.4	14.2(-0.5)	4.0	18.1	7.8(-4.5)	10.8
	Q4	11.9	7.8 (0.8)	4.3	1.5	-6.0(-4.5)	10.6
2005	Q1	8.1	4.4 (1.3)	4.0	-1.2	-8.6 (1.9)	10.4

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

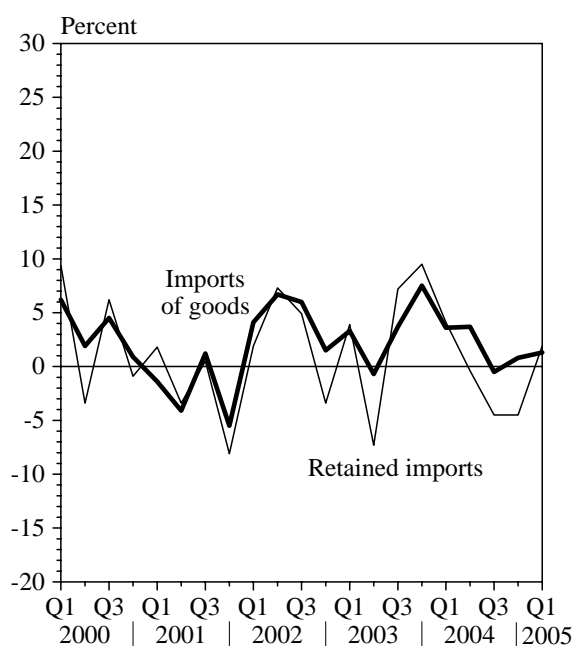
- (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

**Diagram 2.4 : Imports of goods and retained imports**

**(a) Year-on-year rate of change in real terms**



**(b) Seasonally adjusted quarter-to-quarter rate of change in real terms**



2.10 Within total imports of goods, *retained imports* fell by 8.6% in the first quarter, further to a 6.0% decline in the fourth quarter of 2004. Import intake for local use continued to ease back after the sharp uptick in the first half of 2004. The performance nevertheless varied amongst different end-use categories. Specifically, retained imports of capital goods actually reverted to a modest growth in the first quarter of 2005, with intake of telecommunications equipment as the key growth driver. Delivery of several aircraft in the first quarter also rendered support to a certain extent. Intake of construction machinery and of office equipment, however, plunged further sharply in the first quarter. Intake of industrial machinery for manufacturing use also dipped into negative growth, having attained double-digit increases in the preceding four quarters. As to retained imports of the other end-use categories, the easing trend witnessed in the fourth quarter of 2004 extended into the first quarter of 2005, with the declines in retained imports of raw materials and semi-manufactures and of consumer goods particularly sharp.

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

		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2004	Annual	3.0	5.8	13.1	8.0	8.3
	Q1	2.2	7.1	17.8	22.1	9.1
	Q2	21.6	19.6	25.6	15.6	23.7
	Q3	-1.1	5.0	14.8	6.9	4.7
	Q4	-8.5	-4.7	-2.5	-9.5	-1.5
2005	Q1	-6.7	-1.5	1.5	-19.5	-1.1

**Table 2.5 : Retained imports of capital goods by broad type  
(year-on-year rate of change in real terms (%))**

		<u>Industrial machinery for manufacturing use</u>	<u>Construction machinery</u>	<u>Office equipment</u>	<u>Tele-communications equipment</u>	<u>Other capital goods</u>
2004	Annual	20.0	-11.3	2.2	30.8	-2.6
	Q1	17.7	1.5	13.4	37.8	1.6
	Q2	11.8	10.7	19.4	76.0	-6.7
	Q3	32.6	-23.0	-0.1	0.6	49.3
	Q4	18.2	-38.6	-22.3	28.9	-34.2
2005	Q1	-3.0	-89.1	-29.7	28.1	23.6

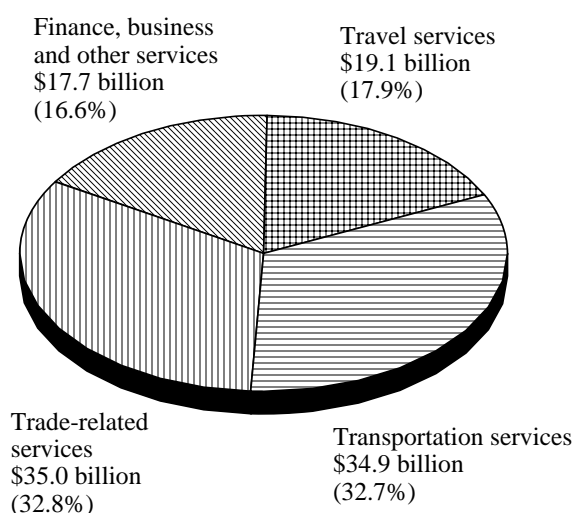
## Invisible trade

### *Exports of services*

2.11 *Exports of services* attained distinct growth at 8.6% in real terms in the first quarter of 2005 over a year earlier, further to a 7.2% increase in the fourth quarter of 2004. Within exports of services, exports of trade-related services continued to grow briskly, as buoyant trade flows involving the Mainland remained conducive to offshore trade. Exports of transportation services, the next largest component following exports of trade-related services, also attained a rather notable growth. Passenger services were bolstered by continued influx of incoming visitors, while cargo services also held up well on the back of robust external trade. As to exports of finance, business and other services, there was a further solid growth in the first quarter.

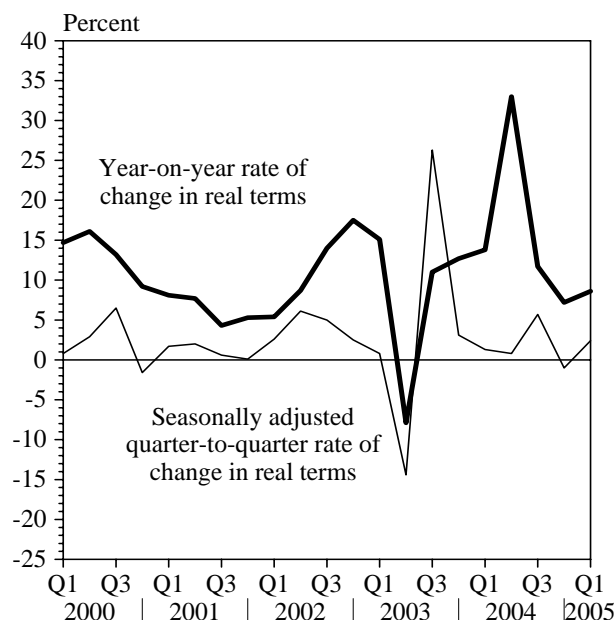
2.12 Exports of travel services were also vibrant in the first quarter, on the back of a further strong growth in the number of visitor arrivals. Indeed, the number of visitors from the Mainland continued to grow distinctly in the first quarter, while those from most other sources also picked up sharply further.

**Diagram 2.5 : Exports of services by major service group in the first quarter of 2005**



Exports of services in the first quarter of 2005 :  
\$106.7 billion

**Diagram 2.6 : Exports of services**



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

*Of which :*

		Exports of services		Trade-related services <sup>(a)</sup>		Transportation services		Travel services <sup>(b)</sup>		Finance, business and other services	
		Year-on-year rate (%)	Seasonally adjusted quarter-to-quarter rate (%)	Year-on-year rate (%)	Seasonally adjusted quarter-to-quarter rate (%)	Year-on-year rate (%)	Seasonally adjusted quarter-to-quarter rate (%)	Year-on-year rate (%)	Seasonally adjusted quarter-to-quarter rate (%)	Year-on-year rate (%)	Seasonally adjusted quarter-to-quarter rate (%)
2004	Annual	15.0	(1.3)	14.3	(1.3)	17.4	(1.3)	19.4	(1.3)	9.2	(1.3)
	Q1	13.8	(1.3)	16.3	(1.3)	14.2	(1.3)	11.3	(1.3)	11.0	(1.3)
	Q2	33.0	(0.8)	19.6	(0.8)	31.9	(0.8)	152.3	(0.8)	11.1	(0.8)
	Q3	11.7	(5.7)	12.6	(5.7)	17.4	(5.7)	3.5	(5.7)	8.1	(5.7)
	Q4	7.2	(-1.0)	11.2	(-1.0)	8.7	(-1.0)	-4.3	(-1.0)	6.9	(-1.0)
2005	Q1	8.6	(2.4)	12.9	(2.4)	5.4	(2.4)	9.9	(2.4)	4.9	(2.4)

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

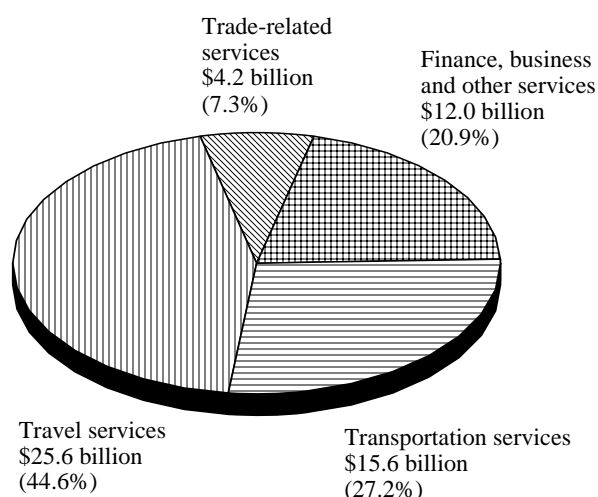
(a) Comprising mainly offshore trade.

(b) Comprising mainly inbound tourism receipts. Figures for 2004 have been revised following the release of enhanced estimates on tourism expenditure by Mainland visitors by the Hong Kong Tourism Board. Estimates for 2002 and 2003 were revised accordingly to enable comparability of the data series.

## Imports of services

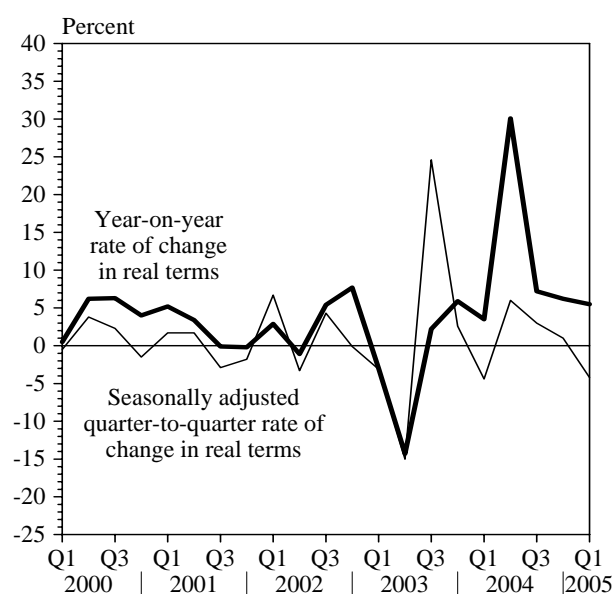
2.13 *Imports of services* also went up further by 5.5% in real terms in the first quarter of 2005 over a year earlier, after a 6.2% increase in the fourth quarter of 2004. The growth in imports of services was broadly based in the first quarter, with imports of travel services - the largest component within imports of services - maintaining solid growth. Imports of trade-related services and of transportation services likewise continued to register notable increases, in tandem with still generally buoyant trade flows. Imports of finance, business and other services also attained solid growth.

**Diagram 2.7 : Imports of services by major service group in the first quarter of 2005**



*Imports of services in the first quarter of 2005 :  
\$57.3 billion*

**Diagram 2.8 : Imports of services**



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

		<i>Of which :</i>				Finance, business and other services
		Imports of services	Travel services <sup>(a)</sup>	Transportation services	Trade-related services	
2004	Annual	10.7	10.6	16.0	9.4	5.3
	Q1	3.5 (-4.4)	-2.1	11.3	11.3	4.5
	Q2	30.1 (6.0)	45.0	34.6	14.5	5.9
	Q3	7.2 (3.0)	4.0	13.7	7.8	6.1
	Q4	6.2 (1.0)	5.8	8.1	6.4	4.6
2005	Q1	5.5 (-4.2)	5.7	7.2	8.0	2.1

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

(a) Comprising mainly outbound travel spending.



## Visible and invisible trade balance

2.14 There was a surplus of \$29.8 billion in the combined visible and invisible trade balance in the first quarter of 2005, equivalent to 5.4% of the total value of imports of goods and services. These were up from the respective figures of \$10.4 billion and 2.0% in the same quarter in 2004.

**Table 2.8 : Visible and invisible trade balance  
(\$ billion at current market prices)**

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>		
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>
2004	Annual	2,027.0	417.3	2,099.5	232.2	-72.5	185.0	112.5
	Q1	434.4	95.9	467.2	52.7	-32.8	43.2	10.4
	Q2	497.9	94.7	527.3	55.5	-29.4	39.2	9.8
	Q3	546.7	111.4	555.2	62.5	-8.5	48.9	40.4
	Q4	548.0	115.2	549.7	61.4	-1.8	53.8	52.0
2005	Q1	479.1	106.7	498.8	57.3	-19.7	49.4	29.8

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

## Trade policy and measures conducive to external trade

2.15 The Government of Hong Kong SAR sees its task as facilitating commerce and industry within the framework of a free-market. In regard to trade, Hong Kong maintains no tariffs and no regulatory measures impinging on international trade other than those required to discharge the international obligations or to protect health, the environment and access to high technology.

### *Mainland and Hong Kong Closer Economic Partnership Arrangement*

2.16 The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), the first free trade agreement ever concluded by the Mainland and Hong Kong, has been in full operation for more than a year. CEPA adopts a building block approach wherein more measures will be added as agreed by both parties. Further liberalisation measures effective as from January 1, 2005 were introduced under CEPA II. The legal text of CEPA II contains the following three annexes : (a) the list of 729 additional Hong Kong products under the Mainland 2005 tariff codes that are entitled to zero tariff<sup>(6)</sup>; (b) the rules of origin requirement for these products; and (c) further

liberalization measures in services<sup>(7)</sup>. Taking the two phases of CEPA together, and given China's commitments upon accession to the WTO, about 95% of the value of Hong Kong's domestic exports to the Mainland will enjoy zero tariff by 1 January 2005. On trade in services, Hong Kong services and services suppliers are now eligible for preferential treatment in a total of 26 service areas. Furthermore, on mutual recognition of professional qualifications, agreements or arrangements have already been reached for various professionals<sup>(8)</sup>. In addition, Hong Kong's professional bodies have established direct communication channels with the relevant Mainland authorities to discuss on relevant issues.

2.17 CEPA aims to expand business opportunities between the two places by enlarging the scope for trade, services and investment. Also, it will help upgrade Hong Kong's manufacturing industry, by attracting investment in such niche areas as high value-added products, brand names, and high IP content products/processes. A quantitative analysis of the economic impact of CEPA recently completed by the HKSAR Government indicated that the impact of CEPA on Hong Kong's economy is positive and significant. For trade in goods, products with a total value of HK\$1.15 billion enjoyed tariff free treatment on importation into the mainland under CEPA I in 2004. For trade in services, 18 sectors were covered under CEPA I and services receipt generated in 2004 amounted to HK\$1.6 billion and the amount is expected to reach HK\$3.8 billion in 2005. Under Individual Visit Scheme (IVS), mainland resident made 4.26 million trips to Hong Kong in 2004 and they had generated an additional HK\$6.5 billion in tourist spending. About 29,000 new jobs have been and are forecasted to be created for Hong Kong in 2004 and 2005 because of CEPA I. As at 31 March 2005, the Trade and Industry (TID) of the HKSAR Government issued 4 393 certificates of Hong Kong origin (CEPA) to goods produced in Hong Kong, involving a total of \$1.57 billion of goods. TID also issued 746 certificates of Hong Kong service supplier to Hong Kong companies. The HKSAR Government is now consulting the relevant sectors on the wish list for CEPA III.

### ***Increasing connectivity between Mainland and Hong Kong***

2.18 To further facilitate the flow of passengers and goods between Hong Kong and Pearl River Delta (PRD), a new boundary bridge between the Lok Ma Chau and Huanggang Control Points was opened for use in January 2005. The new bridge is now designated for use by goods vehicles and the existing one for passenger vehicles, thereby allowing a total segregation of freight and passenger traffic. In addition, the Shenzhen Western Corridor linking up Shekou in

Shenzhen and Hong Kong is scheduled for completion by end-2005. For the longer term, construction of the Hong Kong – Zhuhai – Macao Bridge will further enhance the flows of people and goods between Hong Kong, Macao and PRD.

**Notes :**

- (1) 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. Changes in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates.
- (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.
- (3) Offshore trade is covered in exports of trade-related services within the broader component of exports of services in the Gross Domestic Product. It covers the services of both “merchanting” and “merchandising for offshore transactions”. Merchanting is defined as the services associated with trading of goods which are purchased from a party outside Hong Kong and then sold to another party outside Hong Kong, without the goods ever entering and leaving Hong Kong. Merchandising for offshore transactions is defined as the services of arranging on behalf of buyers/sellers outside Hong Kong the purchase/sale of goods according to their specifications. Earnings from offshore trade include the gross margin from merchanting and the commission from merchandising for offshore transactions.
- (4) East Asia here covers nine major markets in the region, namely the mainland of China, Japan, Taiwan, Singapore, the Republic of Korea, the Philippines, Thailand, Malaysia and Indonesia.
- (5) The European Union here covers twenty five member countries, namely the United Kingdom, Germany, the Netherlands, France, Sweden, Italy, Denmark, Spain, Finland, Belgium, Luxembourg, Ireland, Austria, Greece, Portugal, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.
- (6) Taking the two phases of CEPA together, Hong Kong origin products covered in 1,108 Mainland 2005 tariff codes may enter the Mainland tariff free. The products benefited include some aqua-marine products, food and beverages, chemical products, pharmaceutical products, plastic and rubber products, leather and fur products, textiles and clothing, metal products, mechanical, electrical and electronics products, etc.

- (7) The Mainland agreed to grant preferential treatment in eight new areas, namely the airport services; information technology services; patent agency services; trademark agency services; job referral agencies; cultural and entertainment services; job intermediaries; and professional and technical qualification examinations. In addition, the Mainland also agreed to broaden the liberalization for 11 out of the 18 service sectors enjoying preferential treatment under CEPA. The 11 sectors are: legal services; construction services; distribution services; transport services (including road passengers transportation and maritime transport); freight forwarding agency services; medical services; audio-visual services; accounting services; banking services; securities and futures services; and individually owned stores. Key new liberalization measures came into effect on January 1, 2005.
- (8) These include estate surveyors, qualified personnel of the securities and futures industry, architects, insurance practitioners, and patent agents.

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

### *Summary*

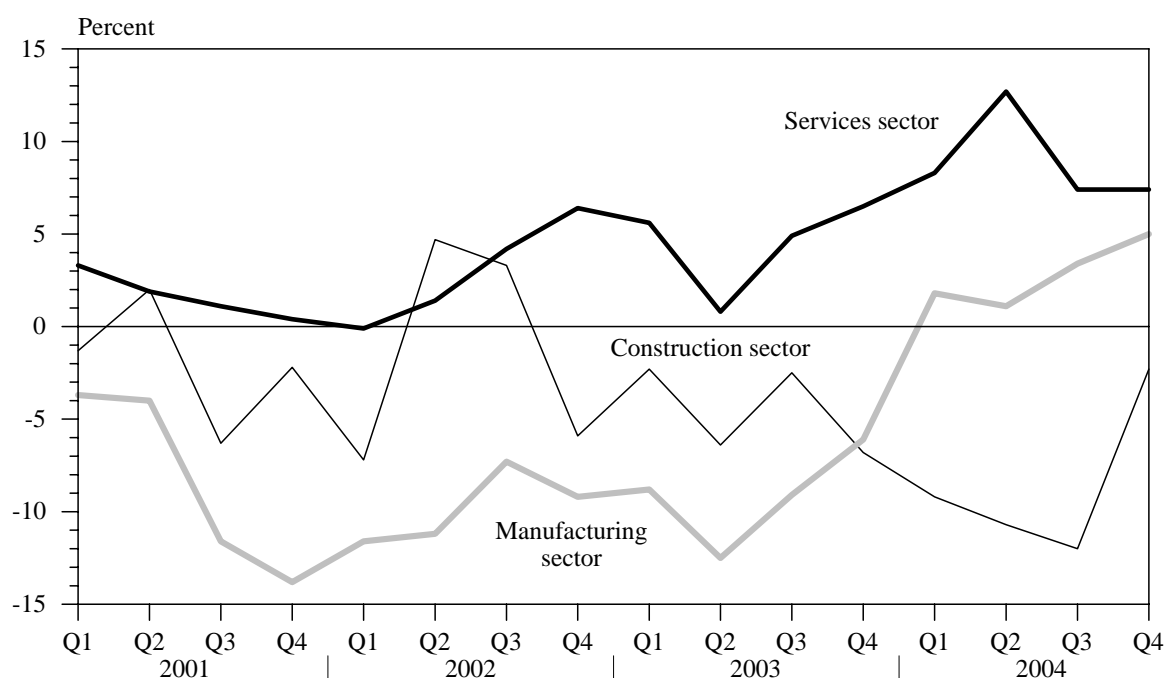
- *The services sector remained the key driver of economic growth, with net output rising markedly by 8.8% in real terms in 2004. Performance of the manufacturing sector was also encouraging during the year, in line with the rebound in domestic exports.*
- *The property market continued to be buoyed by the sanguine economic environment in early 2005, and lifted further by the favourable land auction results in late February. Market sentiment remained generally positive in the rest of the first quarter, notwithstanding the cutting of preferential mortgage loan terms by banks since late February and the increase in the best lending rate in the latter part of March.*
- *Building and construction activity staged a moderate rebound in the first quarter of 2005, underpinned mainly by a pick-up in private sector building output. Meanwhile, output in the public sector registered a lesser decline in the first quarter, attributable to the intensified works on several major civil engineering projects.*
- *Inbound tourism remained buoyant in the first quarter of 2005, on the back of the broad-based influx of visitors.*
- *Bolstered by the vibrant merchandise export performance, cargo throughput handled by the airport registered a notable increase in the first quarter of 2005. On the other hand, container throughput handled by the Hong Kong Port continued to show a modest growth.*
- *In recognition of the growing importance of creativity to the economy, the Government has been striving to promote the development of cultural and creative industries. A number of policy initiatives have been made, covering such areas as design, innovation, information technology, film production, and cultural activities.*

### **Net output or value added by major economic sector**

3.1 Net output or value added in the *services sector*<sup>(1)</sup> continued to show a

robust growth, at 7.4% in real terms in the fourth quarter of 2004 over a year earlier and 8.8% for 2004 as a whole. As to the *manufacturing sector*, its growth in net output accelerated further, to 5.0% in the fourth quarter of 2004, marking the fourth consecutive quarter of increase. For 2004 as a whole, net output in the manufacturing sector was up by 2.9%, the first annual increase since the data series was compiled as from 2001, in line with the rebound in domestic exports over the year. On the other hand, net output in the *construction sector* fell for the ninth quarter in a row, by 2.3% in the fourth quarter of 2004, and by 8.5% for 2004 as a whole, the largest annual decline in the past four years.

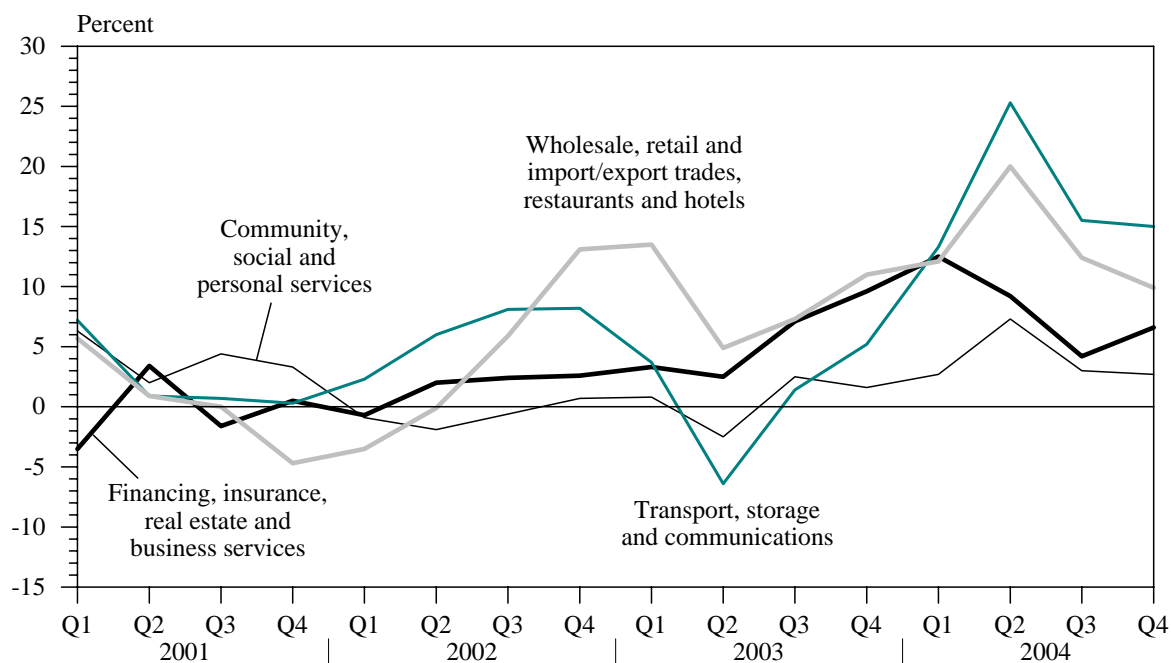
**Diagram 3.1 : GDP by major economic sector  
(year-on-year rate of change in real terms)**



3.2 Within the services sector, net output in transport, storage and communications continued to register the sharpest increase, by 15.0% in real terms in the fourth quarter of 2004 over a year earlier. Both the transport and storage sub-sector and the communications industry remained buoyant, with net output expanding by 16.6% and 10.5% respectively. Net output in the wholesale, retail and import/export trades, restaurants and hotels saw a marked increase of 9.9% in the fourth quarter, thanks to the broad-based economic upturn. Net output in financing, insurance, real estate and business services had an appreciable growth of 6.6% in the fourth quarter. While net output in the financing and insurance services sub-sector recorded a further marked growth in the fourth quarter, net output in real estates also resumed a marginal

increase. Meanwhile, net output in community, social and personal services went up by 2.7%. It is worth noting that within this service sector, a significant portion of services is provided by commercial establishments, including medical and dental services, health care services, sanitary services, and theatrical production and entertainment services<sup>(2)</sup>.

**Diagram 3.2 : GDP by main constituent services sector  
(year-on-year rate of change in real terms)**



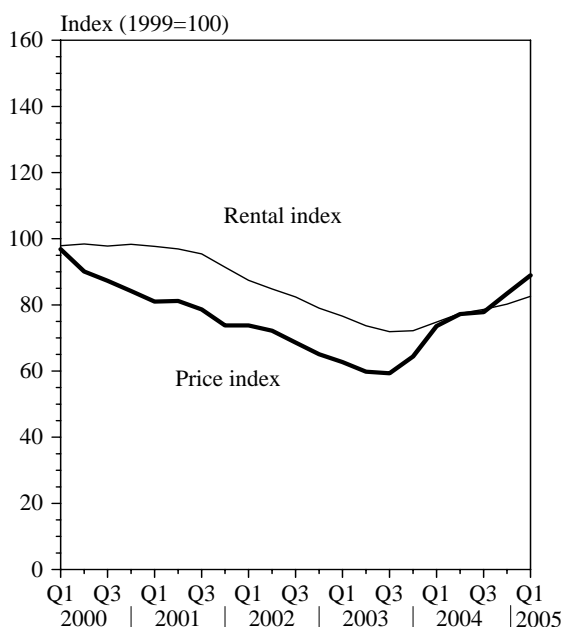
## Property

3.3 The property market as a whole continued to fare strongly in the first quarter of 2005. Property prices generally picked up further, but trading activity moderated somewhat from the high level in the preceding quarter. Market sentiment remained generally positive, supported by robust economic conditions locally, the still low interest rate environment, and the favourable land auction results in late February. This was notwithstanding the concern about the increasing upward pressure on local interest rates. The increase in the best lending rate on 21 March by 0.25 of a percentage point to 5.25% had little impact on market sentiment in the rest of the quarter.

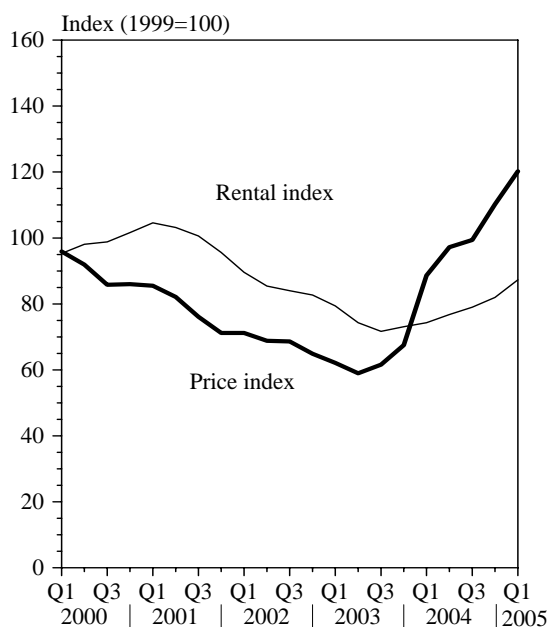
3.4 The sales market for *residential property* remained buoyant in the first quarter of 2005, with a relative shift in trading activity from the primary market to the secondary market. Supported by strong investor demand, the luxury end of the market showed a faster increase in prices. By the end of the quarter,

market sentiment was little affected by banks' cutting of the cash rebates and other preferential terms in connection with residential mortgage loans since late February as well as by the increase in the best lending rate in the latter part of March. Meanwhile, the leasing market improved further. On a quarter-to-quarter comparison, flat prices on average went up by 7% in the first quarter of 2005, after a similar increase in the preceding quarter. Flat rentals increased further by 3% in the first quarter, following a 2% increase in the previous quarter. Compared with the peaks in the third quarter of 1997, flat prices and rentals in the first quarter of 2005 were still markedly lower by an average of 48% and 41%.

**Diagram 3.3 : Price and rental indices for private residential property**



**Diagram 3.4 : Price and rental indices for private office space**



Note : See footnotes to Table 14 of the Statistical Appendix.

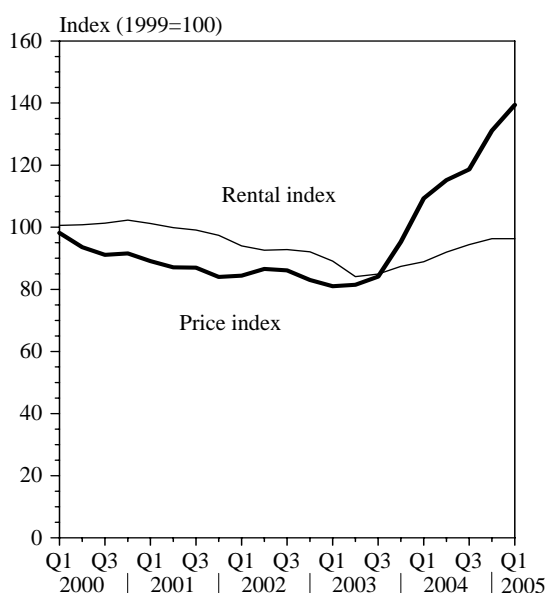
3.5 On *commercial property*, the sales market for office space remained buoyant in the first quarter of 2005, reflecting the strong investment demand. The price fetched at the land auction in late February for a commercial site in Kowloon Bay was well above market expectations, indicating that some developers were highly confident about the market outlook. Meanwhile, the leasing market improved further, with upgrading and relocation of office space from secondary districts to prime locations along with the expansion of general business activity. On a quarter-to-quarter comparison, prices of office space increased further by 9% in the first quarter of 2005, following an increase of 11% in the fourth quarter of 2004. Rentals of office space rose by 6% in the first quarter, following a 4% increase in the previous quarter. Against their



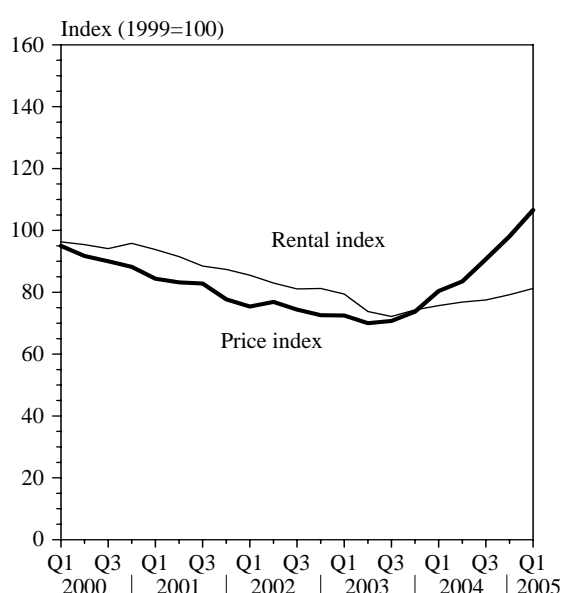
respective peaks in 1994, prices and rentals of office space in the first quarter of 2005 were still lower, on average by 50% and 54% respectively.

3.6 The markets for *shopping space* continued to stage a strong performance in the first quarter of 2005, underpinned by the strong inbound tourism and local consumption. The bright prospect of retail business also attracted conversion of some office buildings into shopping arcades. On a quarter-to-quarter comparison, prices of shopping space on average went up by 6% in the first quarter of 2005, after an 11% increase in the fourth quarter of 2004. Meanwhile, rentals of shopping space remained stable in the first quarter, after a mild increase of 2% in the previous quarter. Against the peaks in the third quarter of 1997, prices and rentals in the first quarter of 2005 were still lower, on average by 28% and 23% respectively.

**Diagram 3.5 : Price and rental indices for private shopping space**



**Diagram 3.6 : Price and rental indices for private flatted factory space**



Note : See footnotes to Table 14 of the Statistical Appendix.

3.7 On *industrial property*, both the sales and rental markets for industrial premises improved further in the first quarter of 2005, partly reflecting the stronger demand from the logistics sector amidst buoyant export growth. On a quarter-to-quarter comparison, prices of industrial space on average rose by 9% in the first quarter of 2005, after an 8% increase in the fourth quarter of 2004. Meanwhile, rentals of industrial space increased by 3% in the first quarter, following a 2% increase in the previous quarter. Compared with the peaks in 1994, prices and rentals of industrial space in the first quarter of 2005 were still on average 53% and 47% lower.

3.8 *Property transactions*, in terms of agreements for sale and purchase of property lodged with the Land Registry, fell by 15% in number and 17% in value in the first quarter of 2005 over the fourth quarter of 2004. Of these, the corresponding declines in transactions of residential property were 12% and 14%. Meanwhile, the number and value of transactions in non-residential property fell faster, both by 25%. Property transfer assignments, being a lagging indicator of property transactions, showed little change in number in the first quarter over the preceding quarter, yet increased distinctly in value by 14%. As for mortgage arrangements, another lagging transaction indicator, their number in the first quarter increased further by 2% over the preceding quarter.

**Table 3.1 : Agreements for sale and purchase of property**

		<u>Number</u>				<u>Total value (\$Bn)</u>							
		<u>Residential property</u>		<u>Non-residential property</u>		<u>Residential property</u>		<u>Non-residential property</u>		<u>Total</u>			
2004	Annual	100 630	(41)	22 850	(45)	123 480	(41)	276.7	(80)	75.1	(109)	351.8	(86)
	Q1	28 624	(99)	5 735	(72)	34 359	(94)	77.3	(158)	16.7	(140)	94.0	(155)
	Q2	23 736	(66)	5 718	(82)	29 454	(68)	64.3	(138)	19.0	(180)	83.3	(147)
	Q3	20 012	(7)	4 529	(21)	24 541	(9)	49.6	(38)	12.6	(27)	62.2	(36)
	Q4	28 258	(17)	6 868	(25)	35 126	(19)	85.4	(41)	26.8	(120)	112.2	(54)
2005	Q1	24 842	(-13) <-12>	5 165	(-10) <-25>	30 007	(-13) <-15>	73.5	(-5) <-14>	20.0	(19) <-25>	93.4	(-1) <-17>
	Jan	7 909	(2)	2 229	(28)	10 138	(7)	23.3	(29)	7.9	(71)	31.2	(38)
	Feb	8 260	(-13)	1 371	(-10)	9 631	(-12)	23.5	(-11)	5.5	(32)	29.0	(-5)
	Mar	8 673	(-24)	1 565	(-37)	10 238	(-26)	26.7	(-19)	6.6	(-17)	33.3	(-19)

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

( ) % change over a year earlier.

< > % change over the preceding quarter.

Source : Land Registry.

**Table 3.2 : Property transfer assignments and mortgage arrangements**

		Property transfer assignments <sup>(a)</sup>				Mortgages other than building mortgages <sup>(b)</sup>	
		Number		Total value (\$Bn)		Number	
2004	Annual	135 106	(23)	305.7	(47)	124 183	(21)
	Q1	31 060	(9)	61.9	(38)	25 712	(-5)
	Q2	38 801	(64)	89.6	(112)	34 646	(52)
	Q3	27 802	(13)	69.7	(40)	28 606	(30)
	Q4	37 443	(13)	84.4	(20)	35 219	(16)
2005	Q1	37 523	(21)	96.6	(56)	36 048	(40)
			<*>		<14>		<2>
	Jan	13 539	(24)	33.8	(74)	13 166	(37)
	Feb	11 049	(20)	28.5	(54)	10 590	(40)
	Mar	12 935	(18)	34.2	(43)	12 292	(43)

Notes : (a) Figures on property transfer assignments do not necessarily tally with those on agreements for sale and purchase of property, for various reasons. These include possibly long time lag between the two documents, cancellation of transaction before its completion, and waiver of the agreement for sale and purchase of property subject to consent by the parties concerned.

(b) Most of these mortgages are related to the purchase of residential flats or of other premises. Building mortgages, on the other hand, are related to the financing of building projects under construction.

Figures on the total value of mortgage arrangements are not shown, as they are likely to be incomplete. This is because in many of the mortgage arrangements lodged for registration, the value of the mortgage loan is not stated in the mortgage deed but instead is separately notified by the bank to the mortgagor.

( ) % change over a year earlier.

<> % change over the preceding quarter.

(\*) Change of less than 0.5%

Source : Land Registry.

3.9 On the supply of new property, *completions* of private residential flats and office space fell by 4% and 2% respectively in the twelve months ending March 2005 over the preceding twelve-month period. Completions of other commercial premises recorded a substantial increase of 53%. Meanwhile, completions of industry property continued to remain negligible.

**Table 3.3 : Completions of new property by the private sector  
(‘000m<sup>2</sup> of internal floor area)**

		Residential property <sup>(a)</sup> (in units)	Commercial property			Industrial property <sup>(c)</sup>			Sub-total
			Office space	Other commercial premises <sup>(b)</sup>	Sub- total	Conventional flatted factory space	Storage premises <sup>(d)</sup>	Industrial- cum- office premises	
2004	Annual <sup>^</sup>	26 036 (-1)	279 (-6)	91 (-23)	371 (-11)	1 (--)	0 (--)	0 (-100)	1 (-95)
	Q1 <sup>^</sup>	4 427 (2)	10 (-70)	1 (-98)	10 (-87)	0 (--)	0 (--)	0 (-100)	0 (-100)
	Q2 <sup>^</sup>	7 974 (35)	60 (-62)	4 (-85)	64 (-66)	0 (--)	0 (--)	0 (--)	0 (--)
	Q3 <sup>^</sup>	6 697 (-26)	197 (604)	77 (499)	274 (570)	1 (--)	0 (--)	0 (--)	1 (--)
	Q4 <sup>^</sup>	6 938 (-2)	14 (-83)	9 (-70)	23 (-79)	0 (--)	0 (--)	0 (--)	0 (--)
2005	Q1 <sup>^</sup>	3 921 (-11)	0 (-100)	18 (2 372)	18 (72)	0 (--)	0 (--)	0 (--)	0 (--)
	Twelve months ending March 2005	25 530 (-4)	270 (-2)	108 (53)	378 (9)	1 (--)	0 (--)	0 (--)	1 (--)

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

- (a) The figures shown are the number of private residential units, excluding units built under the Private Sector Participation, Home Ownership, Buy or Rent Option, Mortgage Subsidy, Sandwich Class Housing, Urban Improvement and Flat-for-Sale Schemes. Also excluded are village-type housing units.

These include all completed residential premises to which full Occupation Permits have been granted. Property developments subject to a Consent Scheme will need a Certificate of Compliance or Consent to Assign in addition to an Occupation Permit before the premises can be individually assigned. 2004 completions include those private flats converted from subsidised flats during the year.

- (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) Including industrial-cum-office premises, but excluding specialised factory buildings which are developed mainly for own use.

- (d) Including storage premises at the container terminals and the airport.

( ) % change over a year earlier.

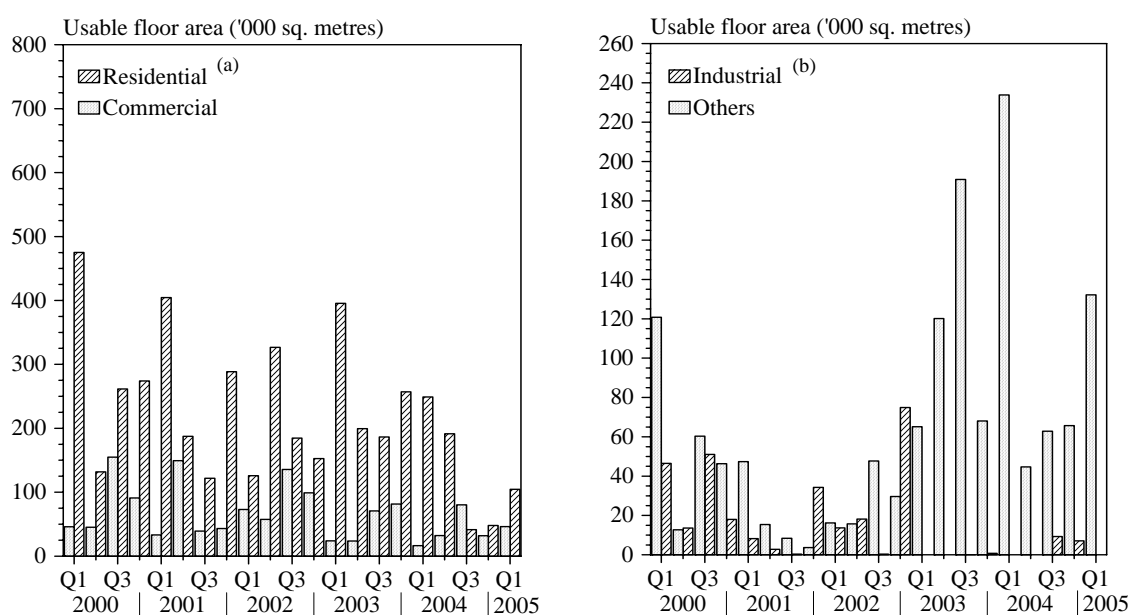
(<sup>^</sup>) Provisional figures.

(-- ) Not applicable.

Source : Rating and Valuation Department.

3.10 *Planned developments* of all types of property in the private sector, as indicated by the total usable floor area on building plans with consent to commence work, fell by 47% in the twelve months ending March 2005 over the preceding twelve-month period. Analysed by main type of property, planned developments of private residential property decreased by 65% in units and by 57% in total usable floor area in the twelve months ending March 2005, while planned developments of commercial property decreased by 1% in terms of total usable floor area. Planned developments of industrial property surged by 1939% in the same period from a very low base of comparison.

**Diagram 3.7 : Building plans with consent to commence work in the private sector by major category**



Notes : Developers are required to re-apply for issue of consent to commence work on every major revision of their development projects. The figures reported here may include re-application cases and hence may contain a degree of double-counting. In the first quarter of 2005, for building plans with consent to commence work in respect of private residential property, 27% in terms of units or 50% in terms of total usable floor area were re-application cases.

(a) Here the classification of residential property includes developments under the Urban Improvement Scheme of the Housing Society, but excludes developments under the Home Ownership Scheme and the Private Sector Participation Scheme of the Housing Authority.

(b) Including multi-purpose industrial premises designed also for office use.

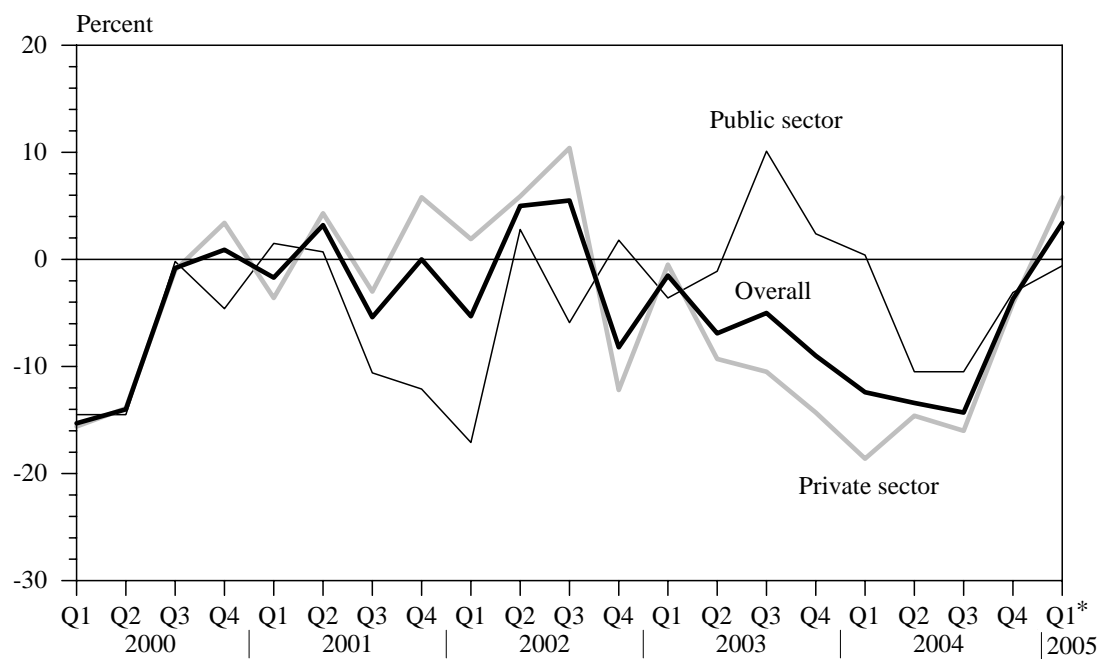
3.11 On *public rental housing*, the Housing Authority decided in March that the income limits for Waiting List applicants would be adjusted upward by an average of 1.8% from fiscal year 2005-06, the first increase in 6 years. As a result, the number of eligible households is estimated to increase by 1 600 to 127 700 from the current 126 100, or an increase of half of a percentage point to 34.9% of all non-owner occupied households in the private sector.

3.12 On *urban renewal*, following the Policy Address on 12 January, both the Hong Kong Housing Society (HKHS) and Urban Renewal Authority (URA) undertook a series of measures to promote building maintenance and rehabilitation effective from February. HKHS would provide a total of \$3 billion over the next 10 years via the Building Management and Maintenance Scheme for aids including interest-free loans to owners to improve building management and maintenance. For similar purposes, URA widened the coverage of its on-going Building Rehabilitation Trial Scheme and Building Rehabilitation Loan Scheme to eligible buildings aged 20 years or above from the previous coverage of over 30 years. URA's enhanced scheme is expected to benefit some 700 buildings in nine targeted areas, complimenting the territorial-wide 8 000 buildings covered by HKHS's new scheme in the coming 10 years<sup>(3)</sup>.

### **Building and construction**

3.13 Building and construction activity staged a moderate rebound in the first quarter of 2005. Expenditure on building and construction rose by 3% in real terms in the first quarter over a year earlier, reversing from the 4% drop in the fourth quarter of 2004. Within this total, private sector expenditure on building and construction picked up to a 6% increase in the first quarter, as building activity rose appreciably along with the continued revival in the overall property market. Public sector expenditure on building and construction also registered a more moderate decline, by 1% in the first quarter. This was due to the increased output of several major civil engineering projects, including Route 8, the Deep Bay Link and the Hong Kong Section of Hong Kong-Shenzhen Western Corridor, largely offset the continued decline in the output of public housing units and the completion of works on some priority railway projects.

**Diagram 3.8 : Expenditure on building and construction  
(year-on-year rate of change in real terms)**



Note : (\*) Provisional figures.

## Land

3.14 In the first quarter of 2005, there was one land auction held by the Government in February, involving the sale of one 0.47 hectare commercial site in Kowloon Bay. It was the first commercial site released from the 2004/05 Application List<sup>(4)</sup> upon applications from developers. The price fetched at the auction was distinctly above market expectations, indicating that some developers were highly confident about the market outlook.

3.15 On 4 March 2005, the Government announced the 2005/06 Application List, comprising 29 residential sites and six commercial sites. The residential sites if all sold could render altogether about 11 000 residential units<sup>(5)</sup>. This, coupled with the supply of residential units from the sites to be offered separately by MTRC, KCRC and the Urban Renewal Authority for bidding by developers, should help alleviate the earlier market concern about possible shortfall of flat supply in the near future. The new Application List provides a larger variety of sites to meet requirements of different types of developers. Also, new enhancement measures are adopted to simplify the deposit requirement, to shorten the whole process from around ten weeks to seven weeks, and to improve transparency by publishing on a monthly basis the number of unsuccessful applications.

3.16 On modification of lease on existing developed and developable land and exchange of land in the private sector domain<sup>(6)</sup>, seven applications were approved by the Government in the first quarter of 2005. Of this total, three applications were for residential development, one for residential-cum-commercial development and three for other purposes.

## **Tourism**

3.17 The value added contribution of the tourism industry (including both inbound and outbound tourism) amounted to 2.5% of GDP and the employment contribution was equivalent to 3.8% of total employment in 2003, according to the latest statistics published by the Census and Statistics Department<sup>(7)</sup>. These were slightly smaller than the corresponding contributions of 3.0% and 3.9% in 2002, as the industry was hard hit by the SARS impact during 2003. Although tourism's direct value added contribution to the economy was not particularly large, the industry had brought about significant non-quantifiable indirect benefits by increasing the flows of people between Hong Kong and other places. Moreover, being a growing source of supply for lower-skilled jobs, the industry was instrumental in easing the structural unemployment problem in Hong Kong. Between 2000 and 2003, the industry created around 25 000 new jobs.

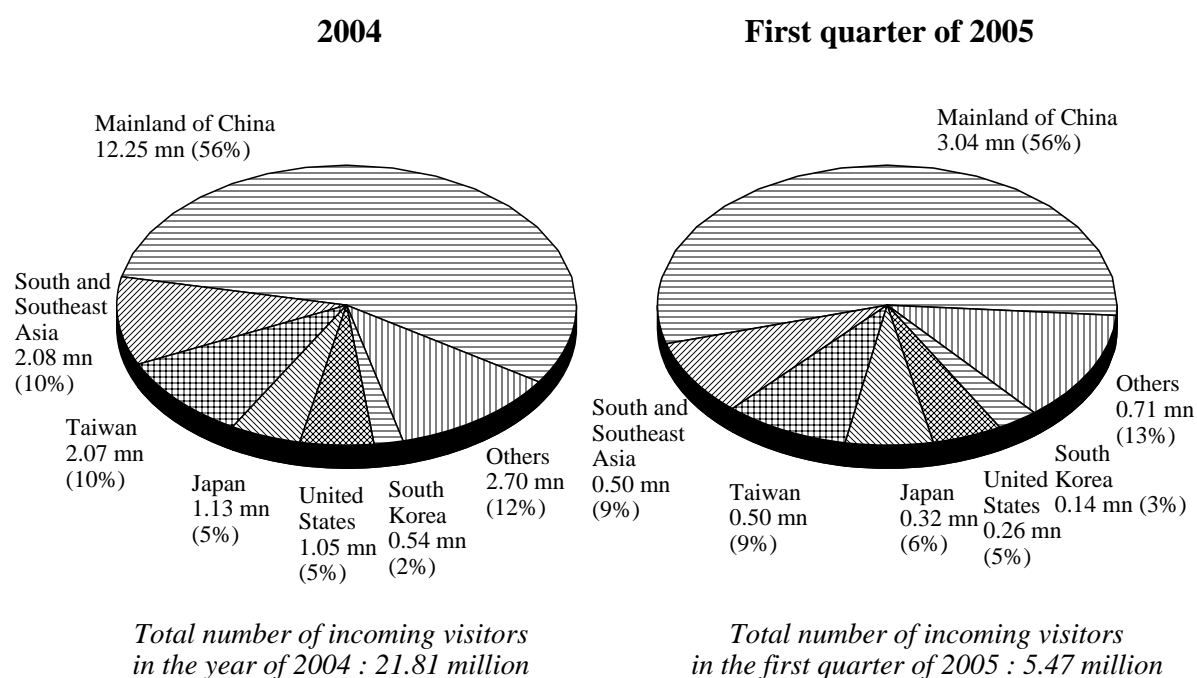
3.18 Inbound tourism remained buoyant in the first quarter of 2005, on the back of the generally sanguine global economic environment and the continued promotion efforts made by the industry and the Government<sup>(8)</sup>. The total number of *incoming visitors* rose markedly by 11% over a year earlier to 5.5 million in the first quarter of 2005, after a 17% rise in the fourth quarter of 2004. Visitor arrivals from the United States, Europe and most of the Asian markets continued to register double-digit increases in the first quarter, while those from Taiwan also resumed some growth after declining for two consecutive quarters. Visitors from the Mainland, despite a high base of comparison in the first quarter of 2004 owing to the boosting effect of the Individual Visit Scheme, managed to record a 4% increase in the first quarter of this year. Meanwhile, the *average hotel room occupancy rate* stood at 84% in the first quarter of 2005, same as that in the first quarter of 2004. As at end-March 2005, there were 46 160 *hotel and guesthouse rooms* in Hong Kong, 9% up from a year earlier<sup>(9)</sup>.

3.19 The Mainland remained the largest source of visitors to Hong Kong, with a share of 56% in the first quarter of 2005. Taiwan came next (with a



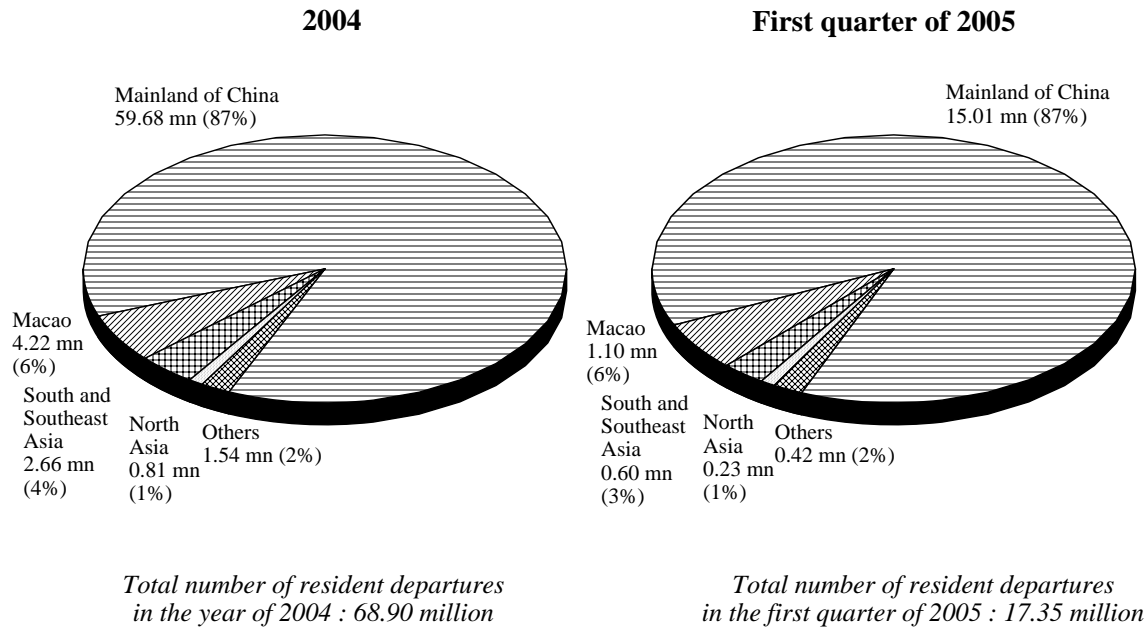
share of 9%), followed by South and Southeast Asia (9%), Japan (6%) and the United States (5%).

**Diagram 3.9 : Number of incoming visitors by source**



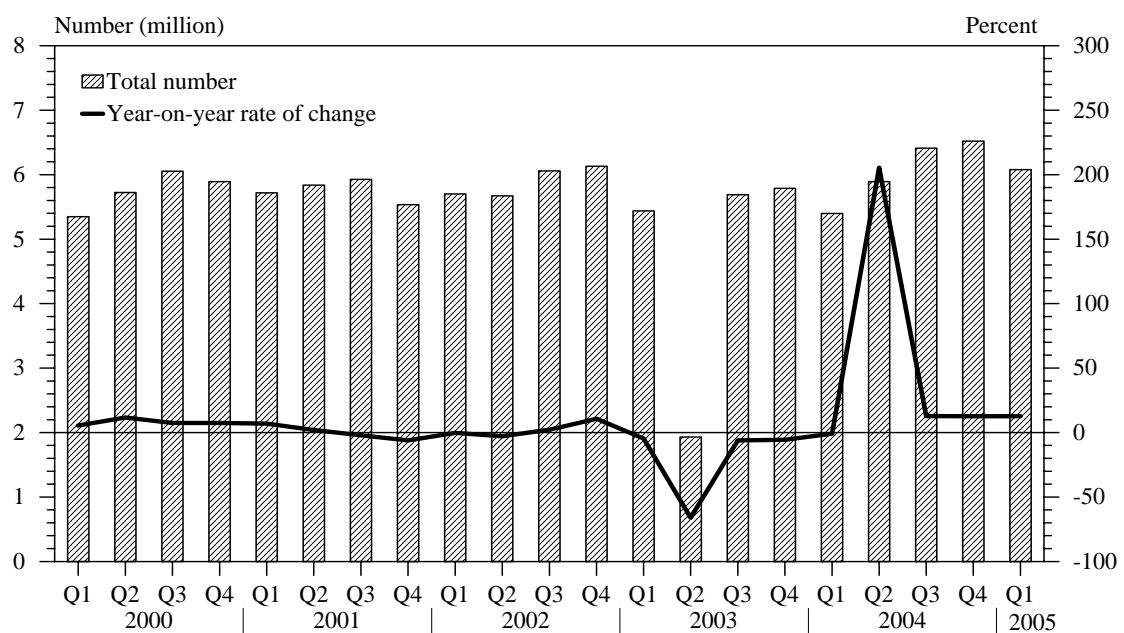
3.20 On outbound tourism, reflecting the continued revival in the local economy, the number of *Hong Kong residents travelling abroad* rose further by 10% over a year earlier to 17.4 million in the first quarter of 2005, after a 7% increase in the fourth quarter of 2004. Amongst the major destinations, the Mainland was still the most popular destination for Hong Kong resident departures, with a share of 87% of the total outbound trips. Most of these trips were destined for the Guangdong Province. Macao was the next most popular destination (with a share of 6%), followed by South and Southeast Asia (3%).

**Diagram 3.10 : Number of Hong Kong resident departures by destination**



3.21 Separately, total *air passenger movements* rose markedly by 13% over a year earlier to 6.1 million in the first quarter of 2005, same as the increase in the fourth quarter of 2004. Within the total for the first quarter of 2005, air passenger arrivals expanded by 12% to 3.1 million, while air passenger departures rose by 13% to 3.0 million.

**Diagram 3.11 : Number of air passenger movements**



3.22 Looking ahead, the Government will continue to support and facilitate the development of the tourism industry. Hong Kong Disneyland is scheduled to open on 12 September this year. On opening, the theme park will employ about 5 000 people; recruitment is fully underway. MTRC unveiled its Disneyland Resort Line train on 25 April, which is a whimsical Disney-themed train exclusively designed by MTRC in conjunction with Disney's Imagineers. MTRC's Disneyland Resort Line is the very first dedicated train line for a Disney theme park anywhere in the world. The Government is also working on the promotion of green tourism in the Northern New Territories so that nature lovers may enjoy the natural beauty of Hong Kong, thereby diversifying Hong Kong's attractions and raising our profile in the promotion of conservation and environmental protection. The Hong Kong Tourism Board will launch a series of global publicity and strategic promotion programmes in the coming two years with the support of \$440 million funding from the Government in order to tie in with the completion of the new attractions.

## Hong Kong's tourism industry

Based on statistics published by the World Tourism Organisation, the growth rate of international visitor arrivals for the world as a whole slowed down gradually in recent decades, from 5.6% p.a. in the 1970s to 4.6% p.a. in the 1980s and further to 4.3% p.a. in the 1990s. In 2000-2003, due to such events as the 911 terrorist attacks and the spread of SARS, the average annual growth rate slowed to only 0.2%. International visitor arrivals in Asia and the Pacific showed a similar trend, with the average annual growth rate slowing from 14.5% in the 1970s to 9.1% in the 1980s and 7.1% in the 1990s. The growth rate slowed markedly further to 1.3% p.a. in 2000-2003, mainly reflecting the SARS impact.

Hong Kong's visitor arrivals largely followed the trend in Asia and the Pacific up to the 1990s. Nevertheless, there has been an upsurge in visitor arrivals from the Mainland in recent years. The implementation of the Individual Visit Scheme (IVS) in 2003 reinforced this trend. As a result, Hong Kong's visitor arrivals showed relatively faster growth in 2000-2003, at 6.0% p.a., than the regional average, at 1.3% p.a..

With Hong Kong's share of visitor arrivals in the regional total increasing from 11% in 2000 to 13% in 2003, the tourism industry in Hong Kong outperformed most of its counterparts in the region in the recent past. A similar development can be said of tourism receipts. Between 2000 and 2003, Hong Kong's tourism receipts rose by 6.5% p.a. in US dollar terms, much faster than the regional average of 3.2% p.a..

As to the world ranking in respect of international visitor arrivals, Hong Kong ranked around the 18<sup>th</sup> in 1990 and advanced to the 14<sup>th</sup> in 1995 and the 12<sup>th</sup> in 2003 (rankings prior to 1990 are not available). Within Asia and the Pacific region, Hong Kong is the second largest destination for international visitors, after the Mainland but well ahead of the third and fourth largest destinations – Malaysia and Thailand.

The direct value added contribution of the tourism industry to Hong Kong's GDP amounted to about \$29.3 billion in 2003, or equivalent to 2.5% of the GDP. The direct contribution of the tourism industry to GDP ranged between 3.2% and 3.6% in 1990-1996. This share then fell to 2.8% in 1997 and further to 2.2-2.5% between 1998 and 2001, as the impact of the Asian financial crisis led to a markedly lower per capita spending of visitors. In 2002, reflecting the sustained economic revival in the region and the large increase in Mainland visitors, such percentage contribution to GDP rebounded to 3.0%, but the impact of SARS brought it down to 2.5% again in 2003.

### Direct value added contribution of tourism industry

	<u>Inbound tourism</u> (\$Bn)	<u>Outbound tourism</u> (\$Bn)	<u>Total</u> (\$Bn)
1990	16.8 (3.0)	3.7 (0.7)	20.4 (3.6)
1995	26.3 (2.5)	7.4 (0.7)	33.7 (3.2)
2000	21.9 (1.8)	9.1 (0.7)	31.0 (2.5)
2001	20.4 (1.7)	9.2 (0.8)	29.5 (2.4)
2002	26.4 (2.2)	10.0 (0.8)	36.4 (3.0)
2003	21.0 (1.8)	8.2 (0.7)	29.3 (2.5)

Notes : Figures in brackets represent the corresponding % shares in GDP.  
Figures may not add up exactly to the corresponding totals due to rounding.

Source : Census and Statistics Department.

## Hong Kong's tourism industry (cont'd)

On employment contribution, the tourism industry directly provided around 122 900 jobs (on a full-time equivalent basis) to the local workforce, or about 3.8% of Hong Kong's total employment, in 2003. The higher percentage contribution to total employment than that to GDP indicates that jobs provided by the tourism industry are on average relatively lower skilled. It suggests that from the employment creation angle the tourism industry is of importance to Hong Kong, particularly when the supply of lower skilled jobs is limited at present amidst the transformation of the economy into more knowledge based.

Despite the impact of SARS, the employment contribution of the tourism industry in 2003, at 122 900 jobs or 3.8% of Hong Kong's total employment, was only slightly lower than that in 2002, at 126 800 jobs or 3.9% of Hong Kong's total employment. In other words, the industry has been a stable source of job supply for the local workforce. In fact, between 2000 and 2003, the tourism industry created around 25 000 additional jobs for the local workforce.

### Direct employment contribution of tourism industry

	<u>Inbound tourism</u> (No.)	<u>Outbound tourism</u> (No.)	<u>Total</u> (No.)
2000	76 100 (2.4)	21 800 (0.7)	97 900 (3.0)
2001	80 900 (2.5)	23 100 (0.7)	104 000 (3.2)
2002	104 900 (3.2)	21 800 (0.7)	126 800 (3.9)
2003	99 200 (3.1)	23 600 (0.7)	122 900 (3.8)

Notes : These employment figures are based on composite employment estimates.  
 Figures in brackets represent the corresponding % shares in total employment.  
 Figures may not add up exactly to the corresponding totals due to rounding.

Source : Census and Statistics Department.

In respect of IVS, it is estimated to have raised Hong Kong's GDP by \$4.5 billion or 0.36% in 2004. In terms of job creation, IVS is estimated to generate an additional 16 600 jobs spreading through the economy in a chain of related sectors. Of this, the first round effect accounted for about 9 200 jobs or 55% of the total, with the bulk concentrating in the retail trade (5 000) and restaurants (2 500). The newly created jobs are generally of lower-skilled nature. As for business receipts of the tourism industry, IVS is estimated to generate a net incremental spending of \$6.2 billion in 2004, about 9% of the total business receipts of the tourism industry. Inclusive of cross-boundary transport services, the aggregate net incremental spending would amount to \$6.5 billion.

The benefits of IVS to Hong Kong should spread out into more sectors over time, as the Mainland visitors come to Hong Kong more often and build up their understanding of our place. There might also be a trip generating effect due to the freedom given under the Scheme. Furthermore, as the Mainland visitors' understanding and interest about Hong Kong build up, there will be more sources of information about Hong Kong appearing in the Mainland, which in turn should help promote Hong Kong's image and build up Hong Kong brand in the Mainland.

## Logistics

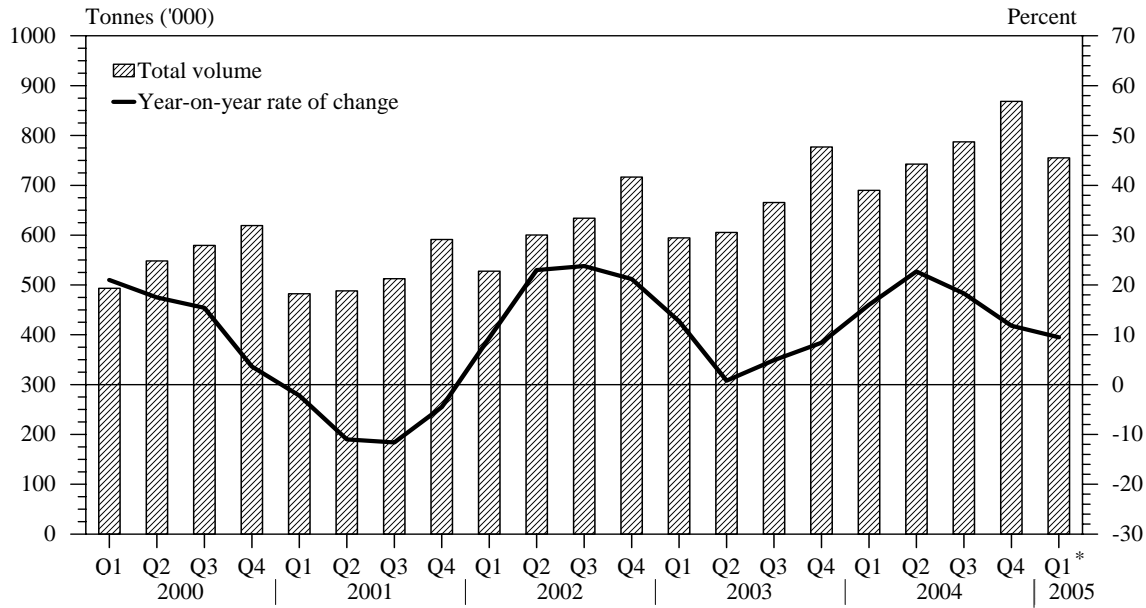
3.23 The significance of the logistics industry to the Hong Kong economy continued to increase, with its value added contribution rising to 5.2% of GDP in 2003, from 4.8% in 2002, according to the latest available figures from the Census and Statistics Department. Its employment contribution also rose back to 6.3% of total employment in 2003, from 6.0% in 2002<sup>(7)</sup>.

3.24 As one of the key initiatives to reinforce Hong Kong's status as the preferred international logistics hub and enhance Hong Kong's logistics competitiveness, the Government will launch the Digital Trade and Transportation Network System within 2005. The System will provide a neutral and open e-platform to facilitate information flow along the supply chain in an efficient, reliable and affordable manner. It also fosters system and service integration, as well as promotes information technology adoption especially by small and medium sized enterprises. Also, the Government will provide funding of \$5 million each to the Hong Kong Logistics Development Council and the Hong Kong Maritime Industry Council to enhance the marketing of Hong Kong's port, shipping and logistics advantages. Furthermore, the Airport Authority is actively seeking out strategic partnerships with Mainland airports, which will be conducive to further development and co-operation in the logistics industries of both sides.

3.25 With respect to port development, the Study on Hong Kong Port - Master Plan 2020 (the Study) identified two sites for Container Terminal 10 (CT10), namely Northwest Lantau (NWL) and Southwest Tsing Yi. As recommended in the Study, the Government will conduct an ecology study on NWL site to assess its environmental suitability and update the port cargo forecast to work out the optimal timing for the construction of CT10. The port expansion option will be reviewed when more data are available.

3.26 Regarding the recent performance of the logistics industry, on *air transport, aircraft movements* (including both passenger and cargo flights) rose notably by 9% over a year earlier to 60 560 in the first quarter of 2005, having increased by 10% in the fourth quarter of 2004. Total *air cargo movements*, bolstered by the vibrant merchandise export performance, rose further by 9% over a year earlier to 0.8 million tonnes in the first quarter of 2005, following a 12% rise in the fourth quarter of 2004.

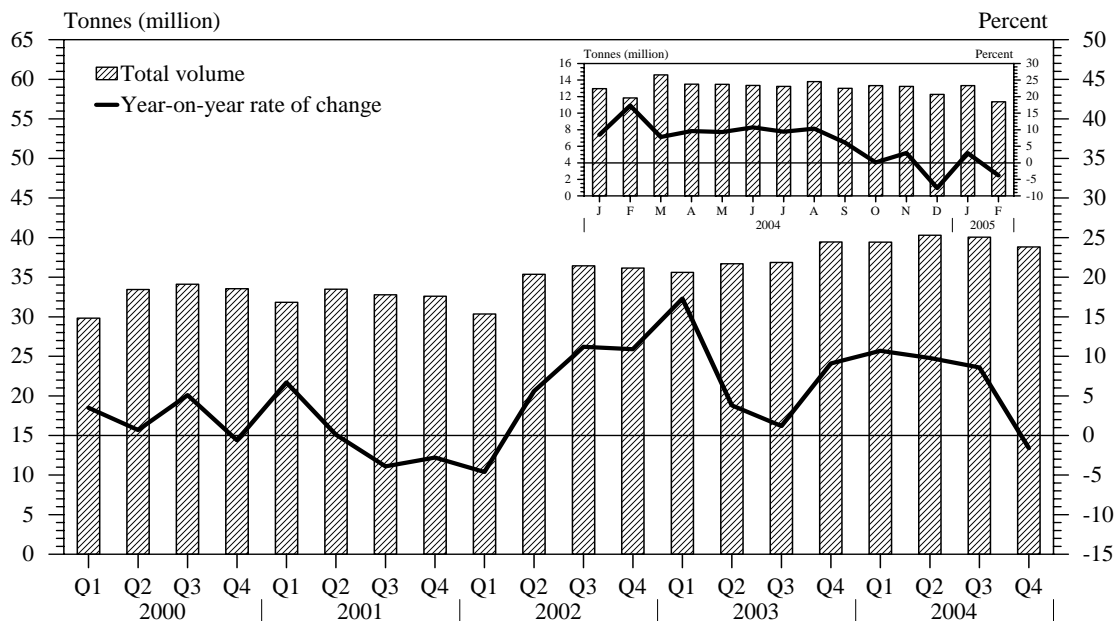
**Diagram 3.12 : Cargo carried by air**



Note : (\*) Provisional figures.

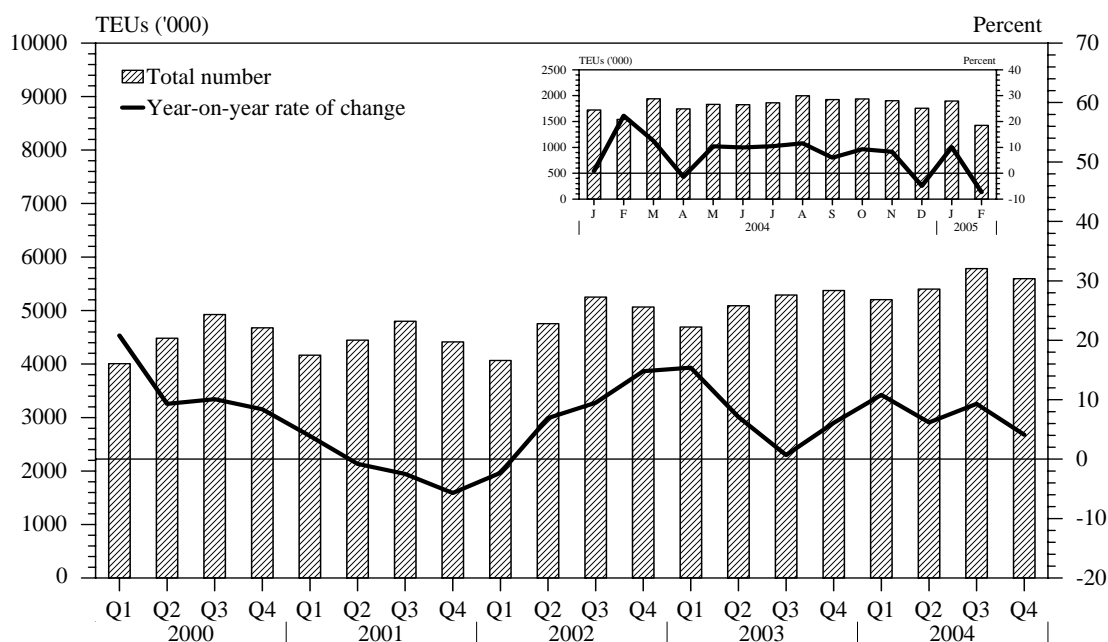
3.27 On *ocean transport*, total *ocean cargo movements* showed little change in the first two months of 2005 over a year earlier, at 24.7 million tonnes, after a 2% decline in the fourth quarter of 2004. The modest performance in the first two months of 2005 was partly due to a move of intra-Asia transshipment base by some shipping lines from Hong Kong to Shenzhen.

**Diagram 3.13 : Cargo carried by sea**



3.28 As to *container traffic* handled by the Hong Kong Port, total container throughput in terms of Twenty-foot Equivalent Units (TEUs) rose by 2% over a year earlier to 3.3 million TEUs in the first two months of 2005, after a 4% rise in the fourth quarter of 2004.

**Diagram 3.14 : Container throughput**



## Cultural and creative industries

3.29 Creativity is important to Hong Kong's competitiveness. By improving production and management efficiency, as well as exploring new products and services, ideas and innovation activities facilitate Hong Kong's transition to a knowledge-based economy, sustain prosperity and enhance quality of life. In 2003, 46% of the business establishments in Hong Kong indicated that they had undertaken innovation activities in that year.

3.30 Recognising the importance of creativity, the Policy Addresses by the Chief Executive in 2003 and 2004 highlighted the need to promote the creative industries where creativity was the principal means for adding value. Encompassing design, architecture, advertising, publishing, music, film, computer software, digital entertainment, performing arts, broadcasting, and antiques and art dealing, the creative industries were crudely estimated to account for about 4% of GDP in 2003. In the latest Policy Address announced in January 2005, the term "creative industries" was expanded to be "cultural and creative industries", reflecting the vision that creative activities could consolidate and realise the intangible values of culture.



3.31 The Government has implemented a number of policy measures to promote the cultural and creative industries in recent years. A notable example is the launch of a \$250 million DesignSmart Initiative in June 2004 to strengthen support for design and innovation and to promote their wider use. This initiative has provided funding support for design-related projects, and the development of a one-stop centre to encourage creation and clustering of high value added activities among design professionals and to provide incubation services for the latter. Other pertinent examples include, *inter alia*, establishment of the Digital Media Centre in March 2004 and the Cyberport iResource Centre in May 2004; continuation of the Film Guarantee Fund in April 2005 to facilitate financing of film production; revival of the Film Development Fund in April 2005 to provide funding support for eligible film-related projects; and assistance in the organisation of the Entertainment Expo Hong Kong in March 2005. Furthermore, the Government has established in recent years cultural networks with the Pearl River Delta Region and some major economies in Asia, including the Greater Pearl River Delta Cultural Summit and the Asia Cultural Cooperation Forum.

**Notes :**

- (1) The services sector comprise the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; financing, insurance, real estate and business services; and community, social and personal services. In respect of contribution to GDP, the service sectors also include ownership of premises, which is analytically a service activity. Fees for financial intermediation services are however deducted.
- (2) The community, social and personal services accounted for a significant share of 25% of the net output in the services sector in 2003 (at current market prices). Within this total, the share of community, social and personal services provided by commercial establishments was 40% while those by the Government and the non-profit institutions were 40% and 20% respectively.
- (3) URA can make an interest-free 5-year loan up to \$100,000 to an eligible building with an owner's corporation while HKHS's available limit for an interest-free 3-year loan will be \$50,000 to an eligible owner restricted to eligible internal works in a flat. Meanwhile, a grant up to 10% of total renovation costs to a building or \$3,000 per flat (whichever is lower) is available under both schemes.

- (4) The Government operates an Application List System since April 1999, under which sites available for sale are put on an Application List for open application by property developers. Provided that the minimum price offered by the applicant is acceptable to the Government, the site involved can be released from the Application List for open auction or tender.

In November 2002, the Government announced its decision to stop the scheduled land auctions and to suspend the Application List until December 2003, as part of the measures to stabilise the housing market. Land sales were resumed in 2004.

- (5) The 2005/06 Application List comprises sites of different sizes and uses. The majority of the sites (24 out of 35) are relatively small (less than one hectare in size) and should be attractive to small and medium size developers. Within the total 35 sites, 29 of them are residential sites with a total area of around 22.1 hectares, depending upon the final development to be undertaken. They can produce around 11 000 flats, with the earliest estimated completion date in 2008. The remaining six commercial/business sites total around 4.7 hectares.
- (6) Virtually all the land in Hong Kong is held on a leasehold basis. A predominant part of the existing developed and developable land is already in the private sector domain. In order to facilitate redevelopment in line with the town planning and urban renewal objectives, modification of usage (including modification by way of land exchange) may be granted by the Government to old leases of land upon application from the landlords. A land premium, equivalent to the enhancement difference in land value between the “before” and “after” situation, is normally required for granting of the modification.

The figures reported here may include re-application cases and hence may contain a degree of double-counting. Moreover, they are provisional figures subject to later revisions.

- (7) For details, see Census and Statistics Department’s feature article on *The Situation of the Four Key Industries in the Hong Kong Economy in 2003* published in the March 2005 issue of the report *Hong Kong Monthly Digest of Statistics*.
- (8) There were more than 707 000 arrivals over the 10 days of Lunar New Year this year, an outright record for the celebrations and an increase of 14.5% over the equivalent holiday period in 2004. This was due to the growing reputation of the International Chinese New Year Parade and the determined efforts of the Hong Kong Tourism Board and its trade partners to package the festive activities attractively to family travellers worldwide.
- (9) According to the projections made by the Hong Kong Tourism Board at end-2004, there would be 24 new hotels with some 10 300 new rooms available in 2005.

## CHAPTER 4 : THE FINANCIAL SECTOR<sup>#</sup>

### *Summary*

- *In the first quarter of 2005, the spot exchange rate of the Hong Kong dollar against the US dollar stayed near the Linked Rate of 7.8. Hong Kong dollar interest rates rose markedly, though still below US dollar rates.*
- *Hong Kong dollar monetary aggregates declined during the first quarter of 2005. Loans for use in Hong Kong continued to increase alongside the revival in economic activity.*
- *The local stock market consolidated in the first quarter of 2005, with the Hang Seng Index closing at 13 517 at end-March 2005, 5.0% lower than end-2004. Equity capital raising turned less lively during the quarter.*
- *To strengthen the position of Hong Kong as an international financial centre, further development of renminbi businesses was explored. Exemption of offshore funds from profits tax and abolition of estate duty were also proposed.*

### **Exchange rates**

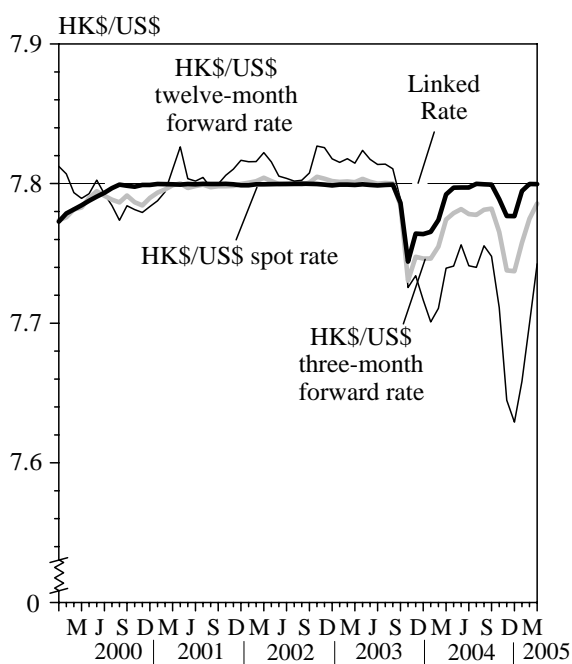
4.1 In the first quarter of 2005, the market exchange rate of the Hong Kong dollar against the US dollar stayed close to the Linked Exchange Rate of 7.8. Meanwhile, the discount of the twelve-month Hong Kong dollar forward rate over the spot rate decreased markedly, from 1 625 pips (each pip equivalent to HK\$0.0001) to 458 pips.

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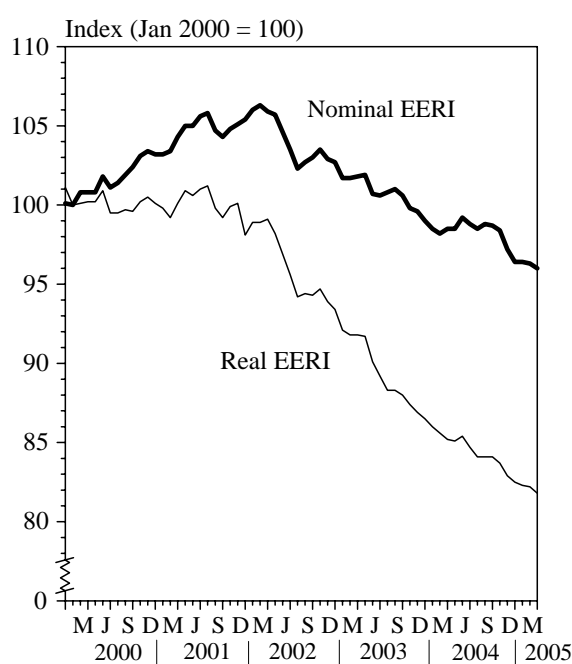
(#) **This chapter is jointly prepared by the Hong Kong Monetary Authority and the Economic Analysis Division.**

4.2 The US dollar weakened against the Asian currencies but strengthened against most of the other major currencies. Taking these currency movements together, Hong Kong's external competitiveness improved slightly. The trade-weighted Nominal Effective Exchange Rate Index<sup>(1)</sup> of the Hong Kong dollar fell slightly by 0.4%, from an average of 96.4 in December 2004 to 96.0 in March 2005. After adjusting for changes in consumer prices, the corresponding Real Effective Exchange Rate Index<sup>(2)</sup> likewise went down by about 0.7% to an average of 81.8 in March 2005.

**Diagram 4.1 : Exchange rate of the Hong Kong dollar against the US dollar (average for the month)**



**Diagram 4.2 : Trade-weighted Effective Exchange Rate Index of the Hong Kong dollar (average for the month)**

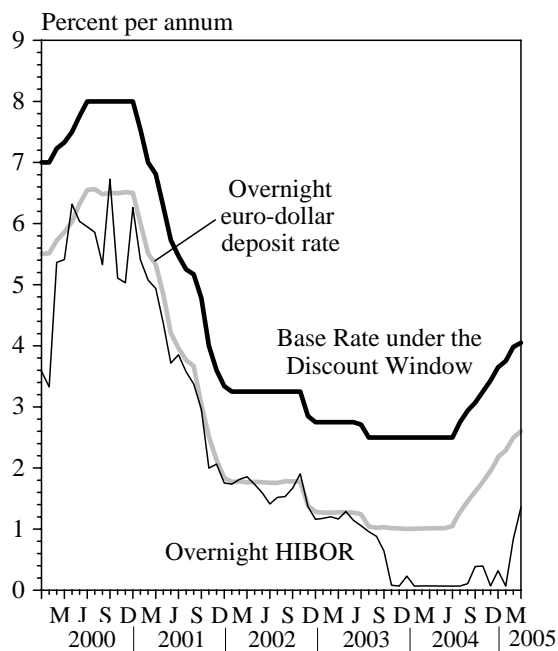


## Interest rates

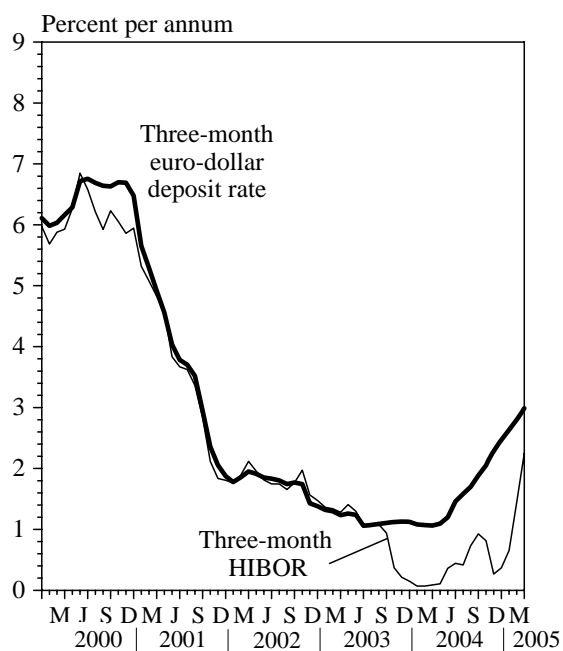
4.3 *Hong Kong dollar interbank interest rates* rose markedly in the first three months of 2005, as Hong Kong dollar liquidity shrank amidst increased capital outflows. The outflows were caused by interest rate arbitrage operations to take advantage of the higher US dollar interest rates and easing expectation on renminbi revaluation. Although Hong Kong dollar interest rates remained below the US dollar interest rates, the negative spread between three-month HIBOR and the corresponding Euro-dollar deposit rate narrowed significantly, from 227 basis points at end-2004 to 42 basis points at end-March 2005.

### Diagram 4.3 : Interest rates

(a) Base Rate under the Discount Window, overnight HIBOR and euro-dollar deposit rate (average for the month)



(b) Three-month HIBOR and euro-dollar deposit rate (average for the month)



4.4 *The Base Rate* under the Discount Window operated by the HKMA was adjusted upward twice, each by 25 basis points, to 4.25% in the first three months of 2005, in line with the rises in the US Fed Funds target rate. *The best lending rate* offered by the major banks in Hong Kong was raised by 25 basis points to 5.25% on 21 March 2005, and it was kept at this level for the rest of March. As the average increase in the best lending rate was smaller than that of three-month time deposit rate, the average spread of the best lending rate over the three-month time deposit rate narrowed from 4.97 percentage points in December 2004 to 4.75 percentage points in March 2005.

4.5 Reflecting the increase in the best lending rate, the weighted average mortgage rate for all mortgages increased slightly, although competition among banks for residential mortgage business remained intense. The proportion of new mortgage loans granted at more than 2.25 percentage points below the best lending rate increased from 93.2% in December 2004 to 96.7% at end-March 2005<sup>(3)</sup>.

### Money supply and deposits

4.6 Monetary conditions tightened slightly in the first quarter of 2005. Hong Kong dollar narrow money supply (HK\$M1) and broad money supply (HK\$M3) both declined during the quarter, though still registered some

increases compared with a year ago. HK\$M1<sup>(4)</sup> (seasonally adjusted)<sup>(5)</sup>, at \$382 billion at end-March 2005, fell moderately compared with end-2004, mainly attributable to the decrease in demand deposits along with reduced transactions demand for money arising from lower stock market turnover. Likewise, HK\$M3, at \$2,215 billion at end-March 2005, declined slightly over the previous quarter. The decline was partly affected by the movements in HK\$M1 and partly due to a flow of funds out of Hong Kong. Compared with a year earlier, HK\$M1 (seasonally adjusted) rose by 2.8% and HK\$M3 grew by 6.2% at end-March 2005.

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

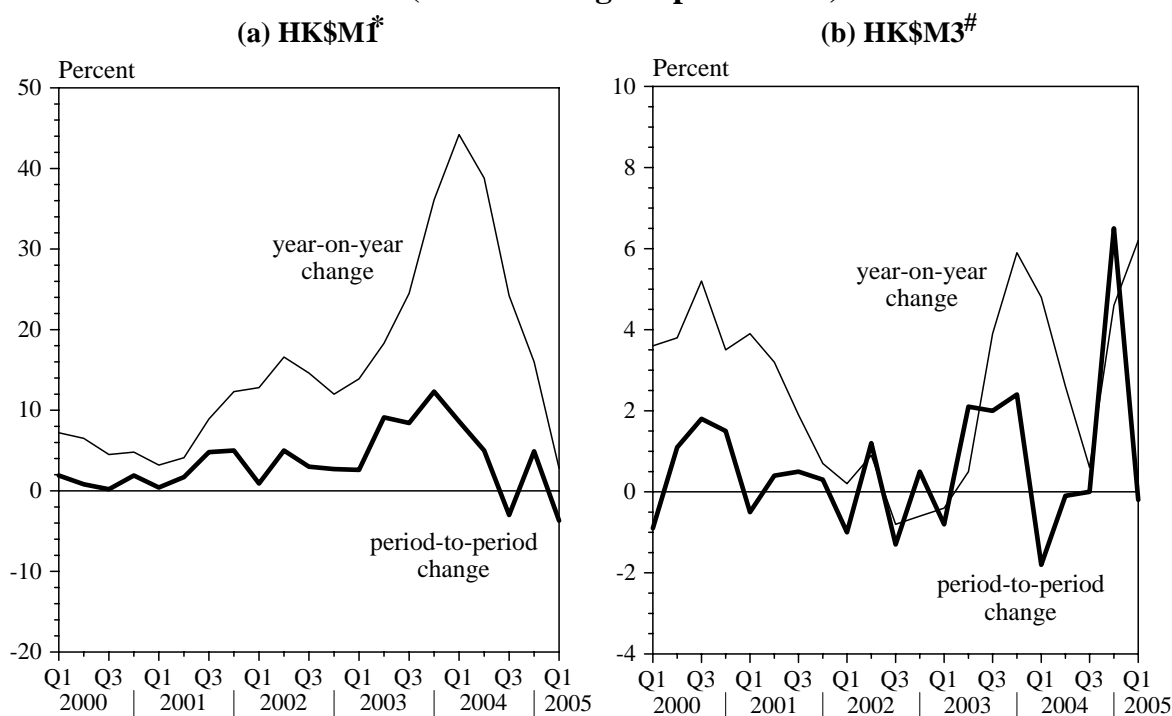
% change during the quarter		<u>M1</u>		<u>M2</u>		<u>M3</u>		
		<u>HK\$</u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>	
2004	Q1	6.1	(8.6)	5.5	-1.8	*	-1.8	*
	Q2	2.3	(5.0)	2.6	-0.1	0.4	-0.1	0.4
	Q3	-3.6	(-3.0)	-0.6	0.1	2.1	*	1.9
	Q4	11.2	(4.9)	8.9	6.7	6.6	6.5	6.1
2005	Q1	-6.2	(-3.7)	-4.2	-0.3	-0.1	-0.2	*
Total amount at the end of March 2005 (HK\$Bn)		387	(382)	464	2,201	4,164	2,215	4,190
% change over a year earlier		2.9	(2.8)	6.4	6.4	9.2	6.2	8.6

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

( ) Figures in brackets represent percentage changes on the basis of the seasonally adjusted series of HK\$M1. Seasonality is not apparent for the other monetary aggregates.

(\*) Change of less than 0.05%.

**Diagram 4.4 : Hong Kong dollar money supply  
(rate of change at period end)**



Notes: (\*) Percentage changes are compiled based on the seasonally adjusted series of HK\$M1.  
(#) Adjusted to include foreign currency swap deposits.

4.7 Total deposits with authorized institutions<sup>(6)</sup> decreased slightly in the first quarter of 2005, due mainly to a decline in Hong Kong dollar deposits (adjusted to include foreign currency swap deposits)<sup>(7)</sup>. However, compared with a year earlier, total deposits rose by 8.4%. Within Hong Kong dollar deposits, there was a shift from demand and savings deposits to time deposits, possibly due to increase in interest rates on time deposits. As Hong Kong dollar deposits declined and foreign currency deposits were virtually unchanged during the quarter, the share of Hong Kong dollar deposits in total deposits fell to 52.0% at end-March 2005, from 52.2% at end-2004.

**Table 4.2 : Total deposits in authorized institutions**

		<u>Hong Kong dollar deposits</u>				Total foreign currency deposits <sup>(c)</sup>	Total deposits
<u>% change during the quarter</u>		<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u> <sup>(a)(b)</sup>	<u>Total deposits</u> <sup>(a)</sup>		
2004	Q1	7.1	3.4	-11.9	-2.3	2.0	-0.3
	Q2	2.8	-1.7	0.9	-0.2	1.0	0.4
	Q3	-6.9	-2.9	6.2	-0.1	3.9	1.8
	Q4	17.0	11.8	-1.6	7.3	5.5	6.4
2005	Q1	-11.7	-7.7	13.8	-0.7	*	-0.3
Total amount at the end of March 2005 (HK\$Bn)		240	953	811	2,004	1,849	3,853
% change over a year earlier		-1.2	-1.5	19.9	6.2	10.8	8.4

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

(b) Time deposits with licensed banks plus deposits with restricted licence banks and deposit-taking companies.

(c) Adjusted to exclude foreign currency swap deposits.

(\*) Change of less than 0.05%.

## Loans and advances

4.8 Total loans and advances continued to rise moderately in the first quarter of 2005. Total loans and advances registered a 1.2% growth over end-2004 to reach \$2,181 billion at end-March 2005. Analysed by place of usage, whereas loans for use outside Hong Kong contracted by 2.1% during the quarter, those for use in Hong Kong increased by 1.6%, as the sustained upturn in economic activity led to a stronger demand for bank credit. Within the latter, loans for the manufacturing sector, stockbrokers, and building, construction, property development and investment registered considerable increases in March 2005 compared with end-2004. Despite continued growth in property market activity, the outstanding stock of mortgage loans increased only slightly by 0.6%, as an upsurge in new mortgage lending was mostly offset by repayments on existing mortgages.

4.9 As Hong Kong dollar loans increased but Hong Kong dollar deposits declined, the corresponding loan-to-deposit ratio moved up from 82.6% at end-2004 to 84.8% at end-March 2005.



**Table 4.3: Loans and advances by location of uses**

<u>% change during the quarter</u>		<u>Loans for use in Hong Kong<sup>(a)</sup></u>	<u>Loans for use outside Hong Kong</u>	<u>Total loans and advances</u>
2004	Q1	0.3	0.2	0.3
	Q2	1.9	-0.6	1.7
	Q3	0.8	-4.6	0.2
	Q4	3.2	8.4	3.7
2005	Q1	1.6	-2.1	1.2
Total amount at the end of March 2005 (HK\$Bn)		1,952	228	2,181
% change over a year earlier		7.6	0.7	6.8

Note: (a) Including trade financing.

**Table 4.4 : Loans and advances for use in Hong Kong by major usage<sup>(a)</sup>**

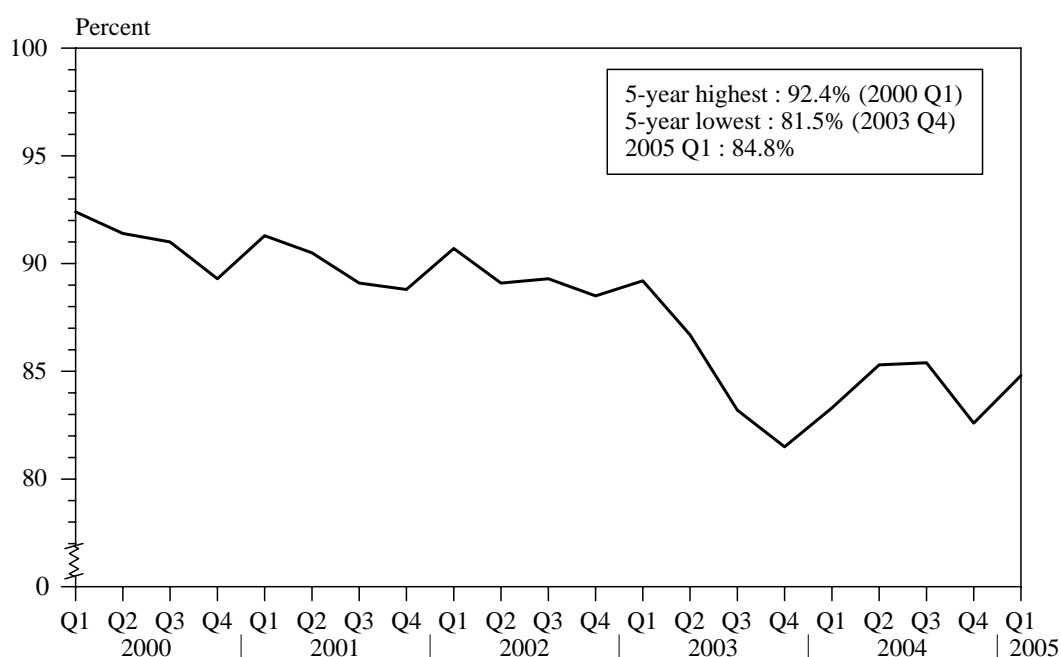
		Loans to :							
<u>% change during the quarter</u>		<u>Finance visible trade</u>	<u>Manu- facturing sector</u>	<u>Whole- sale and retail trade</u>	<u>Building, construction, property development and investment</u>	<u>Purchase of residential property<sup>(b)</sup></u>	<u>Financial concerns</u>	<u>Stock- brokers</u>	<u>Others</u>
2004	Q1	6.4	5.4	2.5	-1.5	0.1	4.3	6.0	-2.3
	Q2	14.7	8.7	0.2	1.5	-0.7	2.1	-5.9	2.1
	Q3	5.5	4.9	5.8	-0.3	-0.5	0.8	-8.8	2.4
	Q4	1.0	6.4	0.4	7.6	0.2	6.5	5.7	2.9
2005	Q1	2.4	8.0	-1.0	4.5	0.6	-1.2	5.8	*
Total amount at the end of March 2005 (HK\$Bn)		133	109	97	403	614	168	10	417
% change over a year		25.1	31.1	5.5	13.8	-0.4	8.2	-3.9	7.7

Notes : (a) Figures in this table are revised on a regular basis to incorporate subsequent amendments and loan re-classifications made by the authorized institutions concerned. The rates of change for the earlier quarters have been adjusted for the revisions known up to the latest reference quarter.

(b) 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.

(\*) Change of less than 0.05%.

**Diagram 4.5 : Hong Kong dollar loan-to-deposit ratio\***



Note : (\*) Hong Kong dollar deposits have been adjusted to include foreign currency swap deposits.

## Banking

4.10 The quality of assets held by the local banking sector improved further in the fourth quarter of 2004, underpinned by the recovery in overall economic activity and the asset markets. The ratio of classified loans to total loans of retail banks decreased from 2.67% at end-September 2004 to 2.24% at end-2004. Analysed by type of loan, the delinquency ratio for residential mortgage loans declined from 0.47% to 0.38%, as did arrears for over three months in credit card repayment from 0.55% to 0.44%. For all the local banks taken together, their consolidated capital adequacy ratio averaged 15.4% at end-December 2004, still well above the minimum international standard of 8% set by the Bank for International Settlements. Separately, the Commercial Credit Reference Agency (CCRA) came into operation in November last year to strengthen the credit risk management of authorized institutions<sup>(8)</sup>.

**Table 4.5 : Asset quality of retail banks<sup>(a)</sup>**  
(as % of total loans)

<u>As at the end of</u>	<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2003 Q1	88.49	6.47	5.03
Q2	88.55	6.63	4.83
Q3	88.39	7.01	4.59
Q4	89.53	6.53	3.94
2004 Q1	90.07	6.26	3.66
Q2	91.41	5.59	3.00
Q3	92.35	4.98	2.67
Q4	93.76	4.00	2.24

Notes : (a) 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”.

Due to rounding, figures in this table may not add up to 100.

4.11 Hong Kong has benefited substantially from financial liberalisation of the Mainland. Under CEPA, a number of banks have established or applied for permits to establish branches in the Mainland. Furthermore, Mainland branches of Hong Kong banks have been allowed to conduct insurance agents business after obtaining approval. Also, banks in Hong Kong have been offering renminbi deposit-taking, exchange and remittance services to customers since February 2004. At end-March 2005, a total of 38 licensed banks were engaged in these business activities. Renminbi deposits with authorized institutions increased steadily and reached RMB15.0 billion. Of the total, some 43.0% (RMB6.4 billion) were savings deposits and 57.0% (RMB8.5 billion) were time deposits. The share of renminbi deposits in total foreign currency deposits with all authorized institutions rose to 0.76% at end-March 2005 from 0.62% at end-2004. According to a survey by the HKMA, interest rates on renminbi savings deposits averaged 0.46% and those on three-month time deposits averaged 0.65% in the first quarter of 2005.

**Table 4.6 : Renminbi deposits in licensed banks**

<u>As at end of</u>		<u>Savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Interest rates on</u> <sup>(a)</sup>		<u>Number of licensed banks engaged in RMB business</u> <sup>(c)</sup>
					<u>Saving deposits</u> <sup>(b)</sup> (%)	<u>Three-month time deposits</u> <sup>(b)</sup> (%)	
2004	Q1	2,095	2,298	4,394	N.A.	N.A.	36
	Q2	2,853	3,950	6,803	0.50	0.58	39
	Q3	3,136	4,533	7,669	0.48	0.60	38
	Q4	5,417	6,710	12,127	0.46	0.60	38
2005	Q1	6,440	8,536	14,976	0.46	0.65	38

Notes : (a) The interest rates are sourced from a survey conducted by the HKMA.

(b) Period average figures.

(c) Licensed banks started to offer renminbi deposit taking, currency exchange and remittance services on 25 February 2004.

N.A. Not available.

4.12 The Financial Secretary announced in his 2005-06 budget that three strategic directions are being explored for renminbi business, including diversification of RMB assets and liabilities of Hong Kong banks, provision of RMB banking services for current account transactions between Hong Kong and the Mainland, and feasibility of establishing a renminbi debt issuance mechanism in Hong Kong.

4.13 The Deposit Protection Scheme Ordinance was enacted by the Legislative Council on 5 May 2004. Following its formation in July last year, the Hong Kong Deposit Protection Board has commenced work on a number of key preparatory tasks, including the preparation of a yearly return for assessment of contributions and development of the Board's payout policies and procedures. Rules governing detailed operation of the scheme are also being developed. The scheme is expected to start providing deposit protection in 2006.

4.14 On improving the financial regulation system, the Basel Committee on Banking Supervision in June 2004 released a revised capital adequacy framework (commonly known as "Basel II") to better align regulatory capital requirements with inherent risks of banks. In line with its policy of adhering closely to international supervisory standards, the HKMA intends to follow the Basel timetable for implementing Basel II in Hong Kong (i.e. simpler approaches from 1 January 2007 and the most advanced approaches from 1 January 2008). To this end, a Banking (Amendment) Bill 2005 was

introduced to the Legislative Council on 6 April 2005. The HKMA has also been conducting extensive public consultation on its proposals for the implementation approaches and for the capital standards under the revised framework. The banking industry has generally endorsed them as pragmatic and appropriate.

## **Insurance**

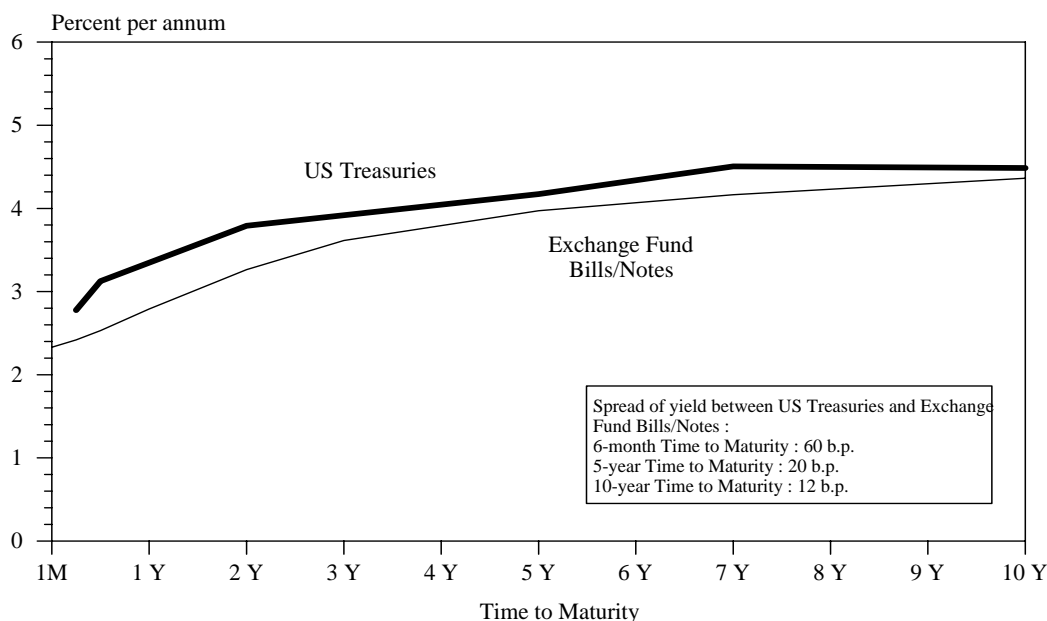
4.15 The insurance industry grew strongly in 2004. The total value of business receipts rose significantly, by 22.3% over 2003<sup>(9)</sup>. The new premiums for long-term business (excluding Retirement Scheme) surged by 53.8% over 2003 to \$38,600 million in 2004. On the other hand, gross and net premiums for the general insurance business fell by 7.2% to \$23,000 million and 4.5% to \$16,300 million respectively. Nevertheless, the underwriting profit for this business registered a growth of 60.4% to \$2,150 million in 2004 over a year earlier. The growth was mainly attributable to the improved profitability of Ships business and Goods in Transit business.

4.16 In March 2005, the Office of the Commissioner of Insurance, the Tourism Commission, the Travel Industry Council of Hong Kong and the Hong Kong Federation of Insurers launched a joint campaign to promote travel insurance. The campaign aims to encourage the public to buy travel insurance before traveling and to enhance their understanding of the extent of the insurance protection they are buying. Separately, in the light of international regulatory trends and developments of the insurance industry, Government is reviewing the institutional set-up of the Office of the Commissioner of Insurance. The review entails a study on turning that Office into a regulatory agency independent of the Government.

## **The debt market**

4.17 In the first quarter of 2005, a total of 27 issues of *Exchange Fund Bills and Notes* were launched by the HKMA for replacing the earlier issues upon maturity<sup>(10)</sup>. The total market value of Exchange Fund paper outstanding rose by 0.5% over the quarter to \$123.2 billion at end-March 2005. Trading in Exchange Fund paper remained active, with the daily turnover averaging \$24.8 billion in the first quarter of 2005, up from \$16.8 billion in the previous quarter. The yield of the Exchange Fund Notes rose sharply in the first three months of 2005. As a result, the 5-year Exchange Fund Note yield was 20 basis points below that of the corresponding US Treasuries at end-March 2005, compared with 95 basis points at end-2004.

**Diagram 4.6 : Hong Kong dollar and US dollar yield curves  
(as at the end of March 2005)**



4.18 *The Hong Kong Mortgage Corporation (HKMC)* continued to be one of the active issuers of debt securities in Hong Kong. At end-March 2005, the total outstanding value of debt securities issued by HKMC under its Note Issuance Programme amounted to \$1.0 billion, and that under its Debt Issuance Programme amounted to \$23.0 billion. The outstanding value of retail bonds issued by the HKMC totalled \$6.5 billion at end-March 2005.

4.19 On Hong Kong dollar *private-sector debt*, the gross issuance rose to \$50.2 billion in the first quarter of 2005 from \$41.4 billion in the previous quarter. Analysed by type of issuer, debt issuance activity by authorized institutions (AIs) and overseas borrowers other than Multilateral Development Banks (non-MDB overseas borrowers) increased, while that of local corporates declined. The outstanding value of Hong Kong dollar private-sector debt increased further to \$406.6 billion at end-March 2005, from \$390.1 billion at end-2004.

4.20 Partly reflecting the low interest rate environment, private sector borrowers continued to issue more fixed-rate than floating-rate debts. New issues of fixed-rate debt grew to \$40.7 billion in the first quarter of 2005, as against the floating rate issues of \$9.7 billion. New issues of fixed-rate debt accounted for 81% of the gross issuance in the private sector, compared to 70% in the fourth quarter of 2004. At end-March 2005, the total value of outstanding Hong Kong dollar fixed-rate bonds and floating rate notes issued by the private sector amounted to \$282.2 billion and \$124.4 billion respectively.

4.21 Taking the public and private sector issues together, the total value of Hong Kong dollar debt paper outstanding amounted to \$620.9 billion at end-March 2005<sup>(11)</sup>, up from \$607.9 billion at end-2004. The size of the Hong Kong dollar debt market was equivalent to 28% of HK\$M3, or 20% of the Hong Kong dollar-denominated assets of the entire banking sector<sup>(12)</sup>.

**Table 4.7 : New HK\$ Debt Securities Issued and Debt Securities Outstanding (HK\$Bn)**

	Exchange Fund paper	Statutory bodies/govern- ment-owned corporations	Govern- ment	MDBs	AIs	Local corporates	Non-MDB overseas borrowers	Total	Public sector <sup>(a)</sup>	Private sector <sup>(b)</sup>
<b>New Issuance</b>										
2004 Annual	206.0	17.8	10.3	3.5	50.7	9.1	79.4	376.8	234.1	139.2
Q1	51.6	4.4	-	1.4	8.9	3.1	24.9	94.3	56.0	36.9
Q2	52.1	10.1	-	2.0	13.1	0.1	17.9	95.4	62.3	31.2
Q3	51.2	0.8	10.3	0.1	13.6	0.6	15.6	92.1	62.3	29.8
Q4	51.1	2.5	-	-	15.1	5.3	21.0	95.0	53.6	41.4
2005 Q1	52.0	1.3	-	-	18.0	1.1	31.1	103.6	53.3	50.2
<b>Outstanding (period-end figures)</b>										
2004 Q1	120.6	53.8	-	24.9	137.9	35.7	196.0	568.9	174.4	369.6
Q2	121.2	60.3	-	25.1	139.2	32.7	203.4	582.0	181.5	375.3
Q3	121.9	58.5	10.3	24.7	141.4	31.0	207.8	595.6	190.7	380.2
Q4	122.6	60.2	10.3	24.7	144.3	34.6	211.2	607.9	193.1	390.1
2005 Q1	123.2	57.3	10.3	23.5	145.9	32.0	228.7	620.9	190.8	406.6

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

(a) Public-sector debt includes Exchange Fund paper and debt securities issued by the government and statutory bodies/government-owned corporations.

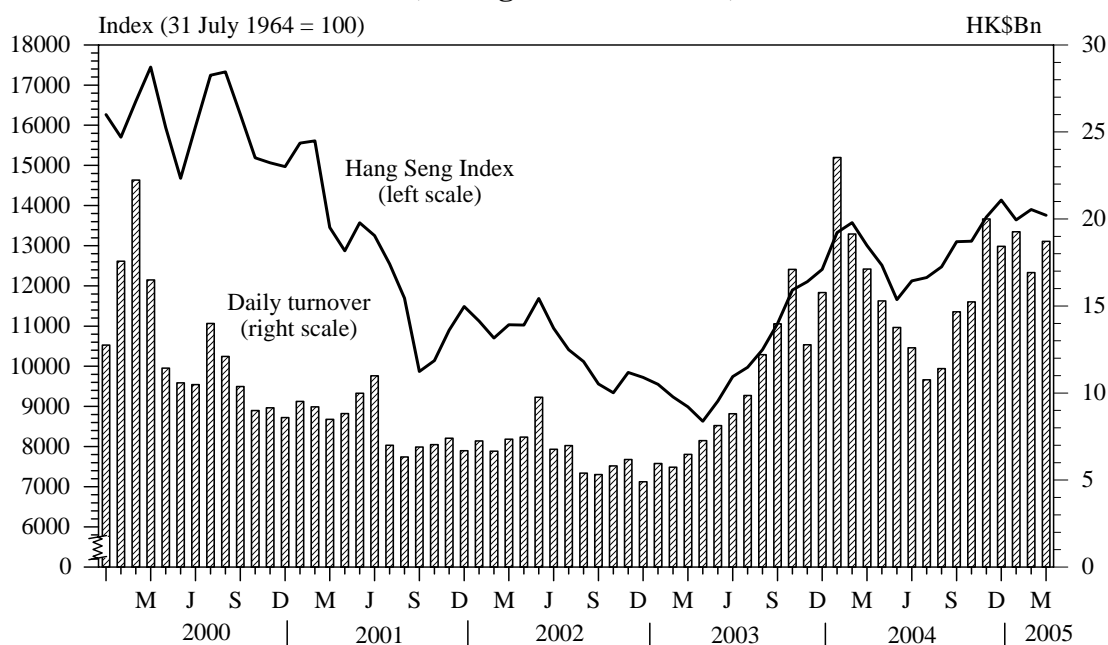
(b) Private-sector debt includes debt securities issued by AIs, local corporates and non-MDB overseas borrowers.

## The stock and futures markets

4.22 *The local stock market*, having stayed upbeat in the previous quarters, consolidated in the first quarter of 2005, amidst a generally cautious investment sentiment. Market sentiment turned slightly negative since late February, in light of the poor performance of the US stock market, further hikes in oil prices, outflow of funds from Hong Kong and increases in both Hong Kong dollar and US dollar interest rates. Despite favourable factors including sustained improvement in the local labour market situation and rise in property prices, Hang Sang Index dropped further to 13 412, the two-month lowest, on 29 March. Closing at 13 517 at end-March, the Hang Seng Index was 5.0% lower than end-2004.

4.23 Market capitalisation for the Main Board at end-March 2005 dropped by 1.9% over the preceding quarter to \$6,506 billion. The average daily turnover for the Main Board was \$18.3 billion during the first quarter, 2.1% higher than the fourth quarter of 2004. The market capitalisation for the Growth Enterprise Market (GEM)<sup>(13)</sup> shrank further to \$65.3 billion and the average daily turnover fell to \$74 million.

**Diagram 4.7 : Hang Seng Index and Hong Kong's stock market turnover (average for the month)**



**Table 4.8 : Average daily turnover and total market capitalisation of the Hong Kong stock market**

		Average daily turnover in the quarter (HK\$Bn)			Total market capitalisation as at the end of the quarter (HK\$Bn)		
		Main Board	Growth Enterprise Market	Total	Main Board	Growth Enterprise Market	Total
2004	Q1	19.5	0.2	19.7	5,691	79	5,769
	Q2	13.8	0.1	13.8	5,483	73	5,555
	Q3	12.2	*	12.3	5,898	62	5,961
	Q4	17.9	0.1	18.0	6,629	67	6,696
2005	Q1	18.3	0.1	18.4	6,506	65	6,571
% change during the first quarter of 2005		2.1	2.8	2.1	-1.9	-2.1	-1.9
% change over a year earlier		-6.1	-67.2	-6.8	14.3	-17.3	13.9

Note : (\*) Less than HK\$0.05 billion.



4.24 Capital raising turned less lively in the first quarter of 2005. A total equity capital of \$6,166 million were raised for 7 new share flotations on the Hong Kong stock market. Of these new issues, 5 were listed on the Main Board raising equity capital of \$6,084 million, and the remaining 2 on GEM raising \$82 million. As to post-listing funds, a total of \$23,643 million were raised on the Main Board and GEM. In terms of the total value of equity capital raised (from both new share flotations and post-listing) during the first quarter of 2005, Hong Kong stock exchange ranked seventh internationally among all major stock exchanges<sup>(14)</sup>.

4.25 On the *derivatives market* at the Hong Kong Exchanges and Clearing Limited, the average daily turnover of the Hang Seng Index Futures contracts, the Hang Seng Index options contracts, H-shares Index Futures contracts and stock options all registered considerable growth in the first quarter of 2005 over the fourth quarter of 2004. On the other hand, trading of stock futures plunged<sup>(15)</sup> over the same period. Trading of Dow Jones Industrial Average futures contracts<sup>(16)</sup> was discontinued on 21 March 2005 due to low market demand.

**Table 4.9 : Average daily turnover of derivatives contracts at the Hong Kong stock market**

		<u>Hang Seng Index Futures</u>	<u>Hang Seng Index Options</u>	<u>H-shares Index Futures</u>	<u>Stock Options</u>	<u>Stock Futures</u>
2004	Q1	33 468	8 030	5 517	25 723	81
	Q2	36 649	10 053	8 565	21 002	65
	Q3	34 386	7 143	7 331	20 995	52
	Q4	34 852	7 717	6 856	23 170	82
2005	Q1	38 872	10 243	7 510	26 583	45
% change during the first quarter of 2005		11.5	32.7	9.5	14.7	-45.1
% change over a year earlier		16.1	27.6	36.1	3.3	-44.4

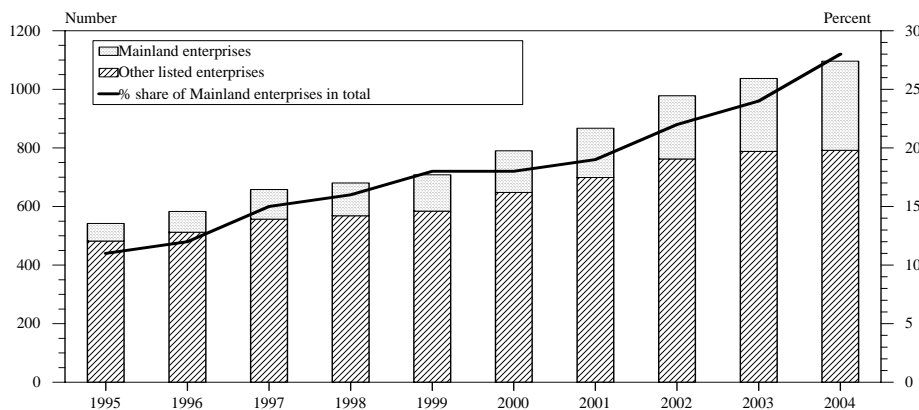
4.26 To further enhance corporate governance, the Stock Exchange of Hong Kong Limited has issued a new Code on Corporate Governance Practices<sup>(17)</sup> which became effective on 1 January 2005. Also, two bills will be introduced to the Legislative Council, giving statutory backing to major listing requirements and establishing the Financial Reporting Council to strengthen the supervision of auditors and raise the quality of financial reporting by listed companies.

## Mainland enterprises in Hong Kong's stock market

Riding on the rapid economic development in Mainland China, many Mainland enterprises have gone public listing in the past decade or so. Hong Kong has been a prime fund raising centre for these enterprises, due to its free flow of capital, access to international and institutional investors, and pool of talents and expertises.

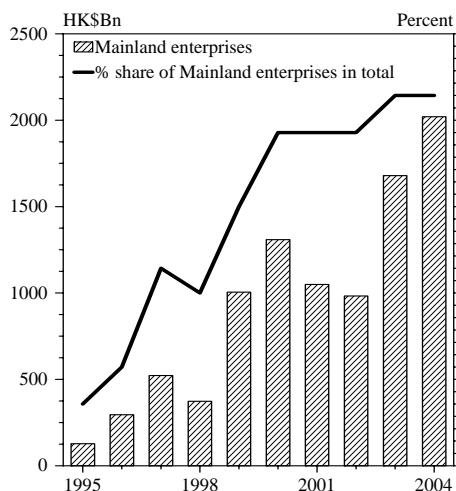
Mainland enterprises listed in Hong Kong Stock Exchange can be classified into three categories : H-share companies, Red Chip companies and Non-H share Mainland private enterprises. Over the past decade, the number of listed Mainland enterprises in Hong Kong increased steadily, and reached 304 at year-end 2004 from 57 in 1994. This was equivalent to 28% of the total number of listed companies in Hong Kong. Also, all of the ten largest IPOs by volume of funds raised in Hong Kong are Mainland enterprises.

Number of Mainland enterprises in Hong Kong's stock market  
(year-end figures)

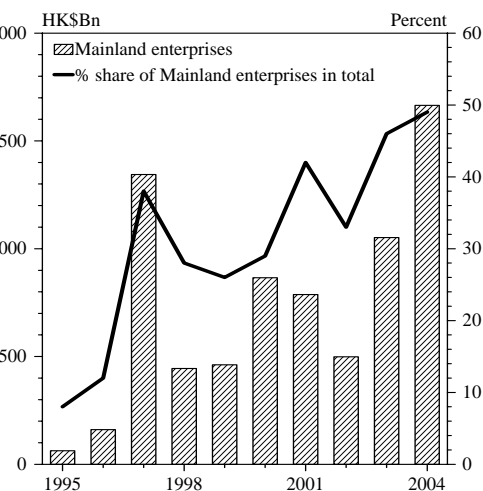


Mainland enterprises are also popular investment equities for local as well as international investors. Reflecting this, both the market capitalization and annual trading turnover of the listed Mainland enterprises surged at an average annual rate of 34% over the period 1994-2004. Their market capitalization reached 30% of the total at year-end 2004, from only 5% a decade earlier. Furthermore, around 50% of the total annual trading turnover in Hong Kong's stock market are related to shares of Mainland enterprises in 2004, up from 9% in 1994.

Market capitalisation of Mainland enterprises in Hong Kong's stock market  
(year-end figures)



Annual trading turnover of Mainland enterprises in Hong Kong's stock market



As the Mainland market continues to liberalise, more Mainland enterprises are expected to get listed in stock exchanges. With proximity to the Mainland and its well-developed financial infrastructure, Hong Kong would remain the leading listing destination for Mainland enterprises. This would further strengthen Hong Kong as an international financial centre and attract investors from around the world.

## Fund management and investment funds

4.27 The total number of *unit trusts and mutual funds* (including sub-funds and umbrella funds) in Hong Kong increased to 1 019 at end-March 2005 from 1 013 at year end-2004. Gross sales and net sales (after deducting redemptions) of mutual funds amounted to US\$4.3 billion and US\$1.2 billion respectively in the first quarter of 2005. Among the various types of mutual funds, equity funds continued to take up the largest proportion, at 63.3% of the total value of funds at end-March 2005. This was followed by fixed income/bond funds, asset allocation funds, money market funds and other funds, with respective shares of 25.9%, 5.9%, 4.0% and 0.9%<sup>(18)</sup>.

4.28 Arrangements were being made by the Securities and Futures Commission (SFC) in February 2005 to facilitate the processing of funds under the European Union (EU)'s Undertakings for Collective Investment in Transferable Securities III (UCITS III) regime<sup>(19)</sup>. This is to ensure that Hong Kong investors would not be affected by the transition to the UCITS III regime, and there would be proper and adequate disclosure of the new features and associated risks of UCITS III funds to investors.

4.29 In March 2005, SFC released proposals for relaxing the geographical restriction on investments by authorised *Real Estate Investment Trusts* (REITs). The proposals also included a practice note focusing on obligations of REIT managers when investing in overseas investments and a series of initiatives to further facilitate the development of REITs as an investment product.

4.30 The aggregate net asset value of the approved constituent funds of *MPF schemes*<sup>(20)</sup> rose to 124.3 billion at end-March 2005, up from \$120.2 billion at end-2004. The number of approved trustees stayed at 19 at end-march 2005. On MPF products, 43 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 324 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. Around 223 600 employers, 1.89 million employees and 292 000 self-employed persons had been enrolled in MPF schemes, with the compliance rates for employers, relevant employees and self-employed persons reaching 97.9%, 96.7% and 80.8% respectively.

4.31 To promote the further development of asset management business in Hong Kong, the Government has proposed to exempt offshore funds from profits tax and the legislative amendments will be introduced to the Legislative Council in the near future<sup>(21)</sup>. Also, the estate duty was proposed to be

abolished in the 2005-06 budget and the relevant legislative work was underway<sup>(22)</sup>.

### **Hedge fund industry**

The hedge fund industry has been increasingly drawing attention from investors over the globe since the late 1990s, with assets under management almost doubling from US\$480 billion in 1999 to US\$950 billion in 2004. Although the aggregate size of hedge fund assets is still relatively smaller than that of assets managed under traditional funds, the increasing interest in hedge funds will likely continue to buoy the distinct growth in the foreseeable future. This is particularly true for the industry in the Asia Pacific region in light of the tremendous potential promised by the Asian emerging markets.

#### **Number of hedge funds and assets under management<sup>1</sup>**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>United States</b>						
Number of funds	4 150	4 250	4 400	4 600	4 875	5 000
Assets under management	255	280	315	340	420	480
<b>Europe and Japan/Asia</b>						
Number of funds	2 050	2 250	2 600	2 900	3 225	3 700
Assets under management	225	240	285	310	400	470
<b>Global</b>						
Number of funds	6 200	6 500	7 000	7 500	8 100	8 700
Assets under management	480	520	600	650	820	950

<sup>1</sup>In billions of US dollars.

*Source: Van Hedge Fund Advisors International.*

A hedge fund is generally an unregulated pooling of capital contributed by a variety of sophisticated investors. Rather than benchmark performance against securities indices, hedge funds seek to achieve an absolute return by utilizing a number of different investment strategies and investing in a wide variety of financial instruments. It is usual for hedge funds to take on leverage, sell short securities, and adopt hedging and arbitrage strategies. From investors' perspective, investing in hedge funds could potentially generate higher returns on the one hand, and reduce the volatility associated with general market risks on the other. In terms of benefits to the overall markets, hedge fund positions could in theory enhance liquidity and contribute to market efficiency. Moreover, hedge funds generally have great demand for a variety of services, including trade clearance and settlement, stock lending, financing and custody services. These contribute to the on-going development of the asset management industry of a financial centre.

The growth in the Asian hedge fund industry, i.e. that of hedge funds with exposures to the Asian markets, has been phenomenal over the past few years. According to EurekaHedge, the industry expanded from 162 funds managing US\$14 billion in 2001 to over 500 funds managing around US\$67 billion in 2004. Despite such fast growth, the scope for further expansion in the Asian hedge fund industry is still believed to be large. In fact, Asia Pacific markets only represent around 15% of the world's market capitalisation.

In Hong Kong, Securities and Futures Commission (SFC) now have rules in place for the authorisation of hedge funds for sale to the public, in recognition of the growing retail demand for these products. As at end-March 2005, there were 13 authorised hedge funds in Hong Kong.

## Notes :

- (1) 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 the 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. The new series of Nominal EERI was used as from 2 January 2003, with the weights basing on the average pattern of Hong Kong's merchandise trade during 1999 and 2000. The currency basket in the new series contains 14 currencies.
- (2) 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.
- (3) In the light of the changing market shares of individual authorized institutions (AIs) in the residential mortgage business, the coverage of the Monthly Survey on Residential Mortgage Lending conducted by HKMA has been expanded as from May 2001, in order to increase the proportion of business covered by the survey. Altogether 38 AIs were so included immediately after the coverage expansion. The number of AIs has since fallen to 24 due to banking sector consolidation. The AIs currently covered together account for around 99% of the total business, as compared to 92% for the 32 AIs formerly covered before May 2001.
- (4) The various definitions of the money supply are as follows:

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

M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks and held outside the monetary sector.

As from June 2002, short-term Exchange Fund placements of less than one month are included under time deposits as part of the monetary aggregates. The data series on time deposits and M2 are backdated to April 1997 using this revised definition.

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.
- (5) Among the various monetary aggregates, more apparent seasonal patterns are found in HK\$M1, currency held by the public, and demand deposits. Seasonally adjusted data on these three series backdated to January 1990 have been compiled. The deseasonalised data facilitate analysis of the underlying trends. For details, see the November 2000 issue of the HKMA Quarterly Bulletin.

- (6) Authorized institutions include licensed banks, restricted licence banks and deposit-taking companies. The number of licensed banks stood at 133 at end-March 2005, and restricted licence banks and deposit-taking companies were at 39 and 35 respectively. Altogether, 207 authorized institutions (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong. Their total assets amounted to \$6,969 billion at end-March 2004, up by 4.4% from a year earlier.
- (7) Foreign currency swap deposits are deposits involving customers buying foreign currencies in the spot market and placing them as deposits with authorized institutions, whilst at the same time entering into a contract to sell such foreign currencies (principal plus interest) forward in line with the maturity of such deposits. For most analytical purposes, they should be regarded as Hong Kong dollar deposits.
- (8) The Commercial Credit Reference Agency was established under the initiative of the Hong Kong Association of Banks and the DTC Association. It collects credit information about small and medium-sized enterprises and makes the information available to authorized institutions. It helps strengthen the credit risk management of authorized institutions and facilitate banking financing for enterprises with good credit history.
- (9) The number of authorized insurers in Hong Kong stayed at 180 at end-March 2005. Within this total, 45 were engaged in long-term insurance business, 116 in general insurance business, and 19 in composite insurance business. Taken together, authorized insurers from 23 countries and territories (including Hong Kong) maintained a presence in Hong Kong.
- (10) As from 1 April 1999, interest payments on Exchange Fund paper are allowed for expanding the stock of outstanding Exchange Fund paper.
- (11) These figures may not represent a full coverage of all the Hong Kong dollar debt paper issued by the private sector.
- (12) Assets of the banking sector include notes and coins, amount due from authorized institutions in Hong Kong as well as from abroad, loans and advances to customers, negotiable certificates of deposits (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.
- (13) The Growth Enterprise Market was launched by the Hong Kong stock market in November 1999 as an alternative market to the Main Board, in order to give emerging growth companies easier access to the funds of the investing public. Though open to companies in all industries and of all sizes, the market provides an efficient venue for fund raising especially by small to medium-sized enterprises.

- (14) The ranking is sourced from the World Federation of Exchanges, a global trade association for the exchange industry. At present, the statistics provided by member exchanges of its membership comprised of 54 regulated exchanges, covering almost all globally recognised stock exchanges.
- (15) As at end-March 2005, there were 37 classes of stock options contracts and 36 classes of stock futures contracts.
- (16) The Dow Jones Industrial average (DJIA) is a widely recognised benchmark for the performance of the US stock market. The price-weighted index comprises 30 US blue-chip stocks traded on the New York stock exchange and Nasdaq. In Hong Kong, the trading of DJIA futures contracts commenced on 6 May 2002.
- (17) The Code on Corporate Governance Practices sets out the view of the Stock Exchange of Hong Kong Limited on the principles of good corporate governance and two levels of recommendations, namely Code Provisions and Recommended Best Practices. Issuers are expected to comply with, but may deviate from, the Code Provisions. Issuers may devise their own code on corporate governance practices on such terms as they may consider appropriate. In the case of Recommended Best Practices, issuers are encouraged, but are not required, to state whether they have complied with them and give considered reasons for any deviation. The Code on Corporate Governance Practices represents a significant move towards adoption of international benchmarks of corporate governance and will further enhance the transparency of listed issuers in Hong Kong.
- (18) These figures are sourced from the Sales and Redemptions and Performance Survey conducted by the Hong Kong Investment Funds Association on their members, and as such cover only the active authorized funds that have responded to the survey. To provide a more accurate picture of the retail fund market in Hong Kong, the Sales and Redemptions Survey with effect from 2005 covers only retail transactions (including switching) and excludes institutional transactions. Thus, the figures for gross sales and net sales in 2005 may not be strictly comparable with those of 2004.
- (19) Undertakings for Collective Investment in Transferable Securities III (UCITS III) is a new set of regulations adopted by the EU Commission governing UCITS funds domiciled in the EU member states. Its main objectives are to widen the range of investment possibilities and assist the cross-border marketing of funds throughout Europe. Most of the funds established under the UCITS I regulations in the EU member states, including Germany, France, Luxembourg, Ireland and the UK, will need to comply with these new regulations by February 2007 or earlier. Currently, many of the SFC authorised UCITS funds which are domiciled in the EU member states are from these jurisdictions.
- (20) An MPF scheme may consist of one or more constituent funds each with its own investment policy. A constituent fund may maintain a portfolio of direct investment in equities, bonds or other debt instruments, or may invest in approved pooled investment funds which may be in the form of unit trusts authorized by the SFC or

insurance policies issued by authorized insurers. Both constituent funds and pooled investment funds have to be approved by Mandatory Provision Fund Schemes Authority (MPFA), and be subject to investment standards applicable to MPF investment funds. Following a more recent legislative amendment, a constituent fund may also invest in some other types of financial products, such as index-tracking collective investment schemes, subject to MPFA's prior approval.

- (21) The proposal seeks to exempt fund entities and non-fund entities residing outside Hong Kong from profits tax in respect of any income derived from transactions undertaken in Hong Kong through a broker or an approved investment adviser. The corresponding legislative amendment, once completed, will bring Hong Kong into line with major international financial centers such as New York and London where offshore funds meeting specific requirements are not subject to tax. The exemption would help promote the development of the fund management industry in Hong Kong.
  
- (22) Estate duty is levied on the estate of a deceased person, according to a sliding scale of rates which vary with the date of the deceased's death. Both movable and immovable properties in Hong Kong, except property passed on for charitable purposes in Hong Kong, matrimonial home and life insurance benefits, with a total value over \$7.5 million are subject to estate duty.



## CHAPTER 5 : THE LABOUR SECTOR

### *Summary*

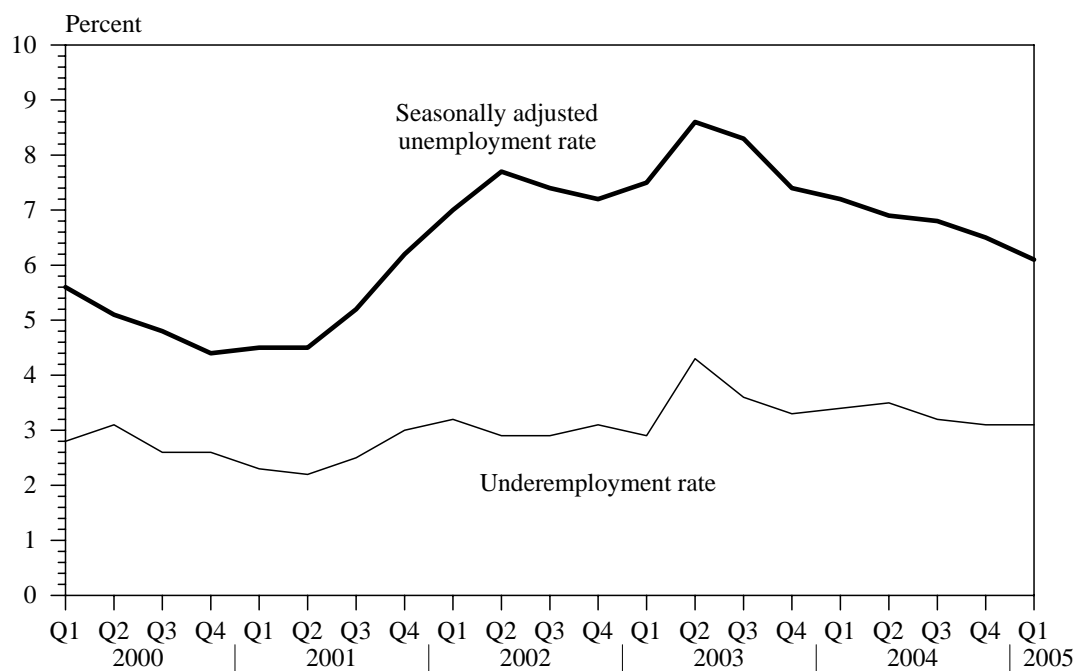
- *The labour market situation continued to improve, with more of the jobless people being absorbed into employment amid the economic upturn. In the first quarter of 2005, the seasonally adjusted unemployment rate sank to a 40-month low of 6.1%.*
- *Total employment kept growing to reach a new high of 3.35 million in the first quarter of 2005. The increase over the past year was concentrated in the service sectors especially in the catering and distributive trades and miscellaneous personal services, more than offsetting the decreases seen in manufacturing and the civil service.*
- *Wages and earnings generally remained soft, as the overall unemployment was still relatively high.*

### **Overall labour market situation**

5.1 The first quarter of 2005 witnessed a further improvement in labour market conditions, which went hand in hand with the economic upturn. In particular, unemployment decreased notably both in terms of scale and intensity. The *seasonally adjusted unemployment rate*<sup>(1)</sup> dropped over the quarter from 6.5% to 6.1%, as did the numbers unemployed from 226 900 to 210 600. Both represented the lowest levels in more than three years. Much of the latest reduction in unemployment took place in the service sectors, especially among workers at the middle and lower segments of the occupational hierarchy. In addition, the median duration of unemployment shortened from 99 days to 91 days, while the proportion of persons unemployed for six months or more fell from 34.2% to 33.0%. (In February - April 2005, the seasonally adjusted unemployment rate and the number of unemployed persons fell further to 5.9% and 210 000 respectively.)

5.2 The *underemployment rate*<sup>(2)</sup>, having followed a declining trend since mid-2004, levelled out at 3.1% in the first quarter of 2005. A similar picture was observed for the numbers underemployed, which held largely steady at 109 800 in that quarter. Construction was still the economic sector with the highest underemployment rate, due to reduced work volume upon the winding down or completion of several major projects. (In February - April 2005, the underemployment rate and the number of underemployed persons were 3.0% and 107 000 respectively.)

**Diagram 5.1 : Unemployment and underemployment rates**



**Table 5.1 : Unemployment and underemployment rates**

		<u>Seasonally adjusted unemployment rate</u> (%)	<u>Underemployment rate</u> (%)
2004	Annual	6.8	3.3
	Q1	7.2	3.4
	Q2	6.9	3.5
	Q3	6.8	3.2
	Q4	6.5	3.1
2005	Q1	6.1	3.1

Source : General Household Survey, Census and Statistics Department.

## Profile of unemployment

5.3 Analysed by *economic sector*, decreases in unemployment rate were found across almost all the major service sectors between the fourth quarter of 2004 and the first quarter of 2005. Among them, the retail trade, and amusement and recreational services were the ones having more notable declines in unemployment, backed by the sustained pick-up in inbound tourism and local consumer spending. Other sectors also registering visible decreases in unemployment rate were transport, insurance, real estate and sanitary services. Taken together, they more than offset the increase seen in decoration and maintenance, which was partly caused by a slowdown in refurbishment and renovation activities around the Lunar New Year.

**Table 5.2 : Unemployment rates by major economic sector (%)<sup>(a)</sup>**

	<u>2004</u>					<u>2005</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Wholesale, retail and import/export trades, restaurants and hotels	6.6	7.0	6.8	6.5	6.1	5.8
Transport, storage and communications	5.3	6.1	5.2	5.2	4.6	4.0
Financing, insurance, real estate and business services	4.5	4.9	4.8	4.4	4.1	4.0
Community, social and Personal services	3.4	3.5	3.4	3.3	3.3	2.8
Manufacturing	7.1	7.1	6.2	7.4	7.6	7.5
Construction <sup>(b)</sup>	16.0	17.9	15.8	15.4	14.9	15.4

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

(b) Including both site and non-site workers.

Source : General Household Survey, Census and Statistics Department.

5.4 Analysed by *occupation category*, the latest improvement in unemployment occurred fairly extensively among workers at the middle and lower levels like clerks, service workers and shop sales workers, and workers in elementary occupations, who seemed to have benefited more from the broadening of the economic upcycle. This notwithstanding, their unemployment rates were still considerably higher than those for the managerial and professional staff at the upper level.

**Table 5.3 : Unemployment rates by major occupation category (%)<sup>(a)</sup>**

	<u>2004</u>					<u>2005</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Managers and administrators	1.9	2.0	1.6	1.9	2.0	2.0
Professionals	2.1	2.1	2.5	2.2	1.8	1.9
Associate professionals <sup>(b)</sup>	3.5	3.6	3.4	3.9	3.2	3.0
Clerks	4.5	4.6	4.6	4.2	4.5	4.0
Service workers and shop sales workers	8.4	9.0	8.8	8.3	7.3	7.1
Craft and related workers	13.3	15.2	13.2	13.0	12.0	12.6
Plant and machine operators and assemblers	6.1	6.7	5.9	6.1	5.7	5.8
Elementary occupations	8.2	8.7	8.1	7.8	8.3	7.2

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

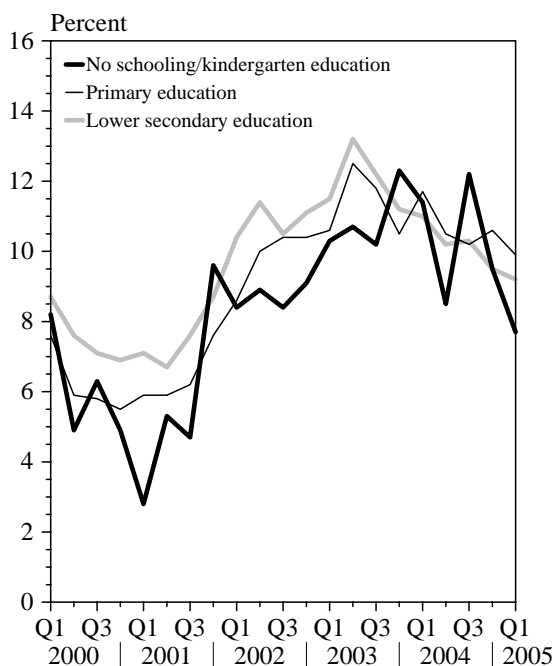
(b) Including technicians and supervisors.

Source : General Household Survey, Census and Statistics Department.

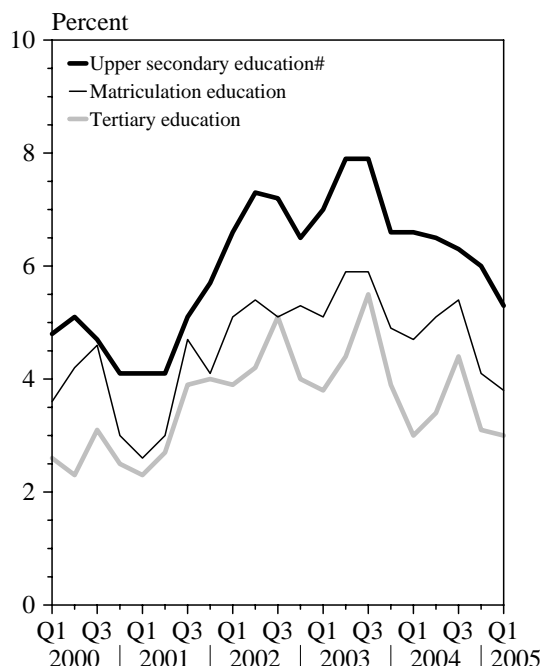
5.5 Analysed by *educational attainment*, the decline in unemployment rate, albeit nearly across-the-board, was most distinct among persons with secondary education or below. This was broadly in line with the more noticeable improvement in the unemployment situation observed for the lower-skilled workers. Analysed by *age group*, unemployment rate went down more visibly among persons aged 15 - 19 and 40 - 49.

**Diagram 5.2 : Unemployment rates by educational attainment\***

**(a) Workers with lower secondary education and below**



**(b) Workers with upper secondary education and above**

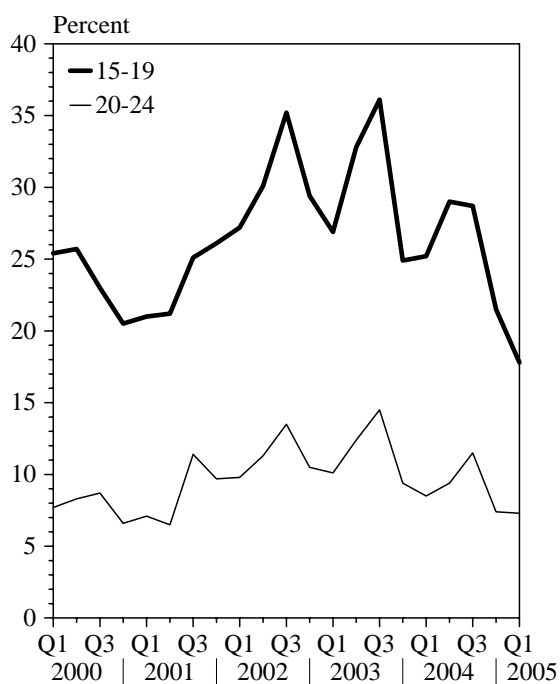


Notes : (\*) Not seasonally adjusted, but including first-time job seekers and re-entrants into the labour force.

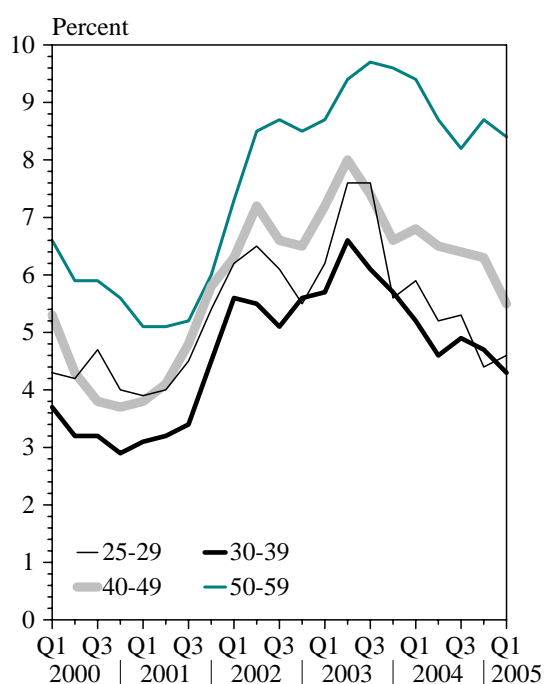
(#) Including craft courses.

**Diagram 5.3 : Unemployment rates by age group\***

**(a) Workers aged 15-24**



**(b) Workers aged 25 and above**



Note : (\*) See the first note to Diagram 5.2.

## **Profile of underemployment**

5.6 The underemployment situation held broadly stable in overall terms in the first quarter of 2005, as compared to the fourth quarter of 2004. Performance however varied among economic sectors. Whereas reductions in underemployment were observed in manufacturing, the distributive and catering trades, financing, insurance, real estate and business services, increases were found in construction, and community, social and personal services. Furthermore, higher underemployment rates were seen among female workers aged 50 - 59 and male workers aged 40 - 59, as well as those workers with relatively lesser skills.

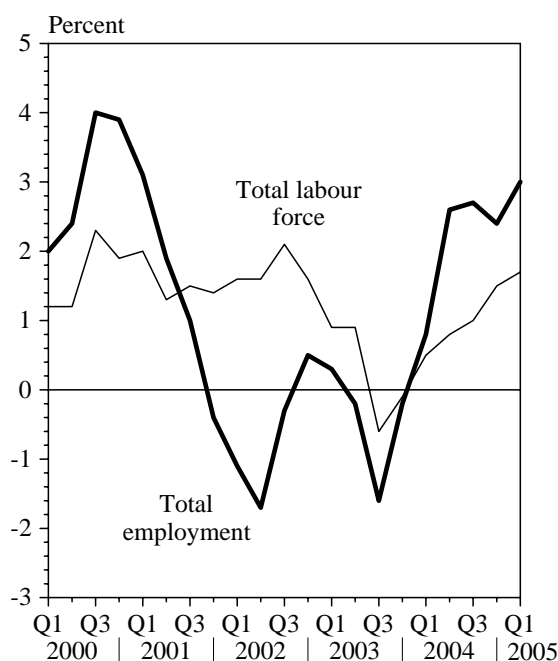
## **Total labour supply and employment**

5.7 *Total labour force*<sup>(3)</sup> continued on the increase, by 1.7% over a year earlier or by 0.3% over the preceding quarter, to 3.57 million in the first quarter of 2005. The increase over the past year was attributable entirely to an expansion in the population of working age, outweighing the effect of a decline in the labour force participation rate<sup>(4)</sup> (LFPR) particularly for males.

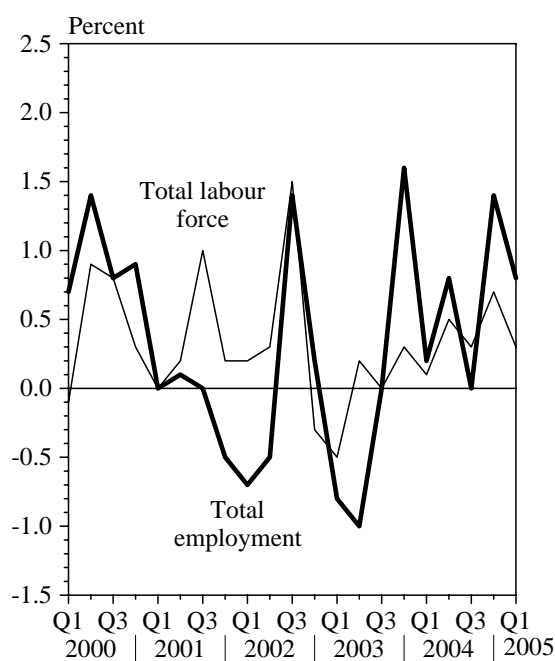
5.8 *Total employment*<sup>(5)</sup> as enumerated from households grew more appreciably, by 3.0% over the year or by 0.8% over the quarter, to an all-time high of 3.35 million in the first quarter of 2005. These growth figures all exceeded those for the total labour force, thereby contributing to the recent decrease in unemployment. The gain in employment over the past year came primarily from the service sectors, including in particular the retail and import/export trades and miscellaneous personal services, and was widespread across occupations at all levels. Workers aged 40 - 59 and those with upper secondary or tertiary degree education were apparently the chief beneficiary groups. Analysed by employment status, while the number of employees and self-employed persons went up along with the revival of the economy, that of employers fell attributable to job losses in the construction and local manufacturing sectors.

**Diagram 5.4 : Total labour force and total employment**

**(a) Year-on-year rate of change**



**(b) Quarter-to-quarter rate of change**



**Table 5.4 : The labour force, and persons employed, unemployed and underemployed**

		<u>Labour force</u>		<u>Persons employed</u>		<u>Persons unemployed</u> <sup>(a)</sup>	<u>Persons underemployed</u>
2004	Annual	3 529 000	(0.9)	3 287 600	(2.1)	241 400	116 200
	Q1	3 506 400	(0.5)	3 256 900	(0.8)	249 500	118 700
	Q2	3 522 700	(0.8)	3 282 400	(2.6)	240 200	122 400
	Q3	3 531 500	(1.0)	3 282 600	(2.7)	248 900	112 900
	Q4	3 555 400	(1.5)	3 328 500	(2.4)	226 900	110 800
2005	Q1	3 565 100	(1.7) <0.3>	3 354 500	(3.0) <0.8>	210 600	109 800

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.

( ) % change over a year earlier.

< > % change over the preceding quarter.

Source : General Household Survey, Census and Statistics Department.

## Profile of employment

5.9 Total employment as enumerated from private sector establishments likewise moved up strongly, by 3.1% in December 2004 over a year earlier. This was attributable entirely to a 4.0% gain in employment in the *service sectors*<sup>(6)</sup>, where the growth impetus came mainly from transport, restaurants and hotels, financing, insurance, real estate and business services, and community, social and personal services, on the back of improved consumer sentiment and continued buoyancy in inbound tourism. For 2004 as a whole, total employment rose by 2.4% and employment in the service sectors increased more by 3.2%, reversing the declines of 2.6% and 1.7% respectively in 2003. On the other hand, employment in the local *manufacturing sector* continued to shrink by 1.8% in December 2004 from a year earlier, due to further outward relocation of the production process, while employment at *building and construction sites* also contracted by 9.4%<sup>(7)</sup>, upon the slackening in building activities and winding down or completion of several major civil engineering projects. For 2004 as a whole, the respective declines were 3.0% and 6.0%, though smaller than those of 10.3% and 7.7% in 2003.

5.10 Meanwhile, the downsizing of the civil service continued, mainly through natural wastage and staff departure under the Voluntary Retirement (VR) Scheme. By the end of July 2004, most of the some 5 300 staff approved to retire under the second VR Scheme had been released from service. This followed the departure of about 9 800 VR takers under the first scheme. At end-December 2004, the total number of civil service employees was reduced by 3.8% from a year earlier.

5.11 The improved labour demand was manifested additionally by the latest statistics from the Labour Department. Comparing the first quarter of 2005 with a year earlier, the number of placements achieved by the Department leaped by 28.1%. Concurrently, the number of vacancies received also surged by 31.3%. On a working day basis, this amounted to an average of 1 340 vacancies, which represented the highest level received thus far.



**Table 5.5 : Employment by major economic sector**

	<u>2003</u>					<u>2004</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>
Wholesale and import/export trades	558 300 (-1.5)	563 900 (-0.4)	558 200 (0.4)	555 700 (-4.3)	555 400 (-1.8)	567 700 (1.7)	556 600 (-1.3)	563 100 (0.9)	577 000 (3.8)	574 100 (3.4)
Retail trade	210 700 (-2.8)	209 700 (-3.1)	209 000 (-4.3)	207 100 (-6.4)	217 100 (2.9)	217 300 (3.1)	214 600 (2.3)	216 500 (3.6)	219 400 (6.0)	218 400 (0.6)
Restaurants and hotels	196 100 (-7.3)	198 200 (-7.2)	191 100 (-10.6)	193 900 (-8.7)	201 400 (-2.5)	207 900 (6.0)	204 600 (3.2)	209 500 (9.7)	206 600 (6.6)	210 900 (4.7)
Water transport, air transport and services allied to transport	98 000 (-3.1)	100 200 (-0.6)	96 100 (-6.1)	96 600 (-4.4)	99 000 (-1.0)	104 500 (6.6)	101 600 (1.4)	104 500 (8.7)	104 800 (8.5)	107 000 (8.1)
Storage and communications	35 100 (-12.5)	33 300 (-19.5)	35 300 (-15.1)	35 200 (-13.0)	36 500 (-1.1)	35 900 (2.2)	35 900 (8.0)	36 100 (2.2)	35 300 (0.1)	36 100 (-1.0)
Financing, insurance, real estate and business services	421 900 (-1.9)	422 500 (-0.2)	419 000 (-2.6)	422 300 (-0.5)	423 800 (-4.0)	437 000 (3.6)	428 600 (1.4)	434 200 (3.6)	437 800 (3.7)	447 400 (5.6)
Community, social and personal services	407 300 (2.9)	398 100 (1.5)	400 600 (2.5)	414 100 (3.9)	416 500 (3.5)	420 200 (3.2)	412 000 (3.5)	418 100 (4.4)	415 700 (0.4)	435 200 (4.5)
Manufacturing	173 100 (-10.3)	178 900 (-9.4)	172 500 (-13.8)	172 800 (-9.1)	168 300 (-8.8)	168 000 (-3.0)	168 900 (-5.6)	169 600 (-1.7)	168 000 (-2.8)	165 300 (-1.8)
Building and construction sites <sup>(a)</sup>	67 600 (-7.7)	69 900 (-9.1)	67 300 (-15.1)	68 000 (-3.4)	65 100 (-2.0)	63 500 (-6.0)	66 100 (-5.5)	66 600 (-1.0)	62 500 (-8.1)	59 000 (-9.4)
<i>All establishments surveyed in the private sector<sup>(b)</sup></i>	2 215 800 (-2.6)	2 222 200 (-2.3)	2 197 000 (-3.6)	2 213 500 (-3.2)	2 230 400 (-1.4)	2 268 600 (2.4)	2 236 000 (0.6)	2 265 000 (3.1)	2 273 600 (2.7)	2 299 800 (3.1)
		<-1.4>	<-1.6>	<0.4>	<1.0>		<0.8>	<0.9>	<*>	<1.3>
<i>Civil service<sup>(c)</sup></i>	167 100 (-2.4)	169 100 (-2.3)	168 200 (-2.0)	166 500 (-2.3)	164 700 (-2.9)	160 800 (-3.8)	163 000 (-3.6)	161 700 (-3.9)	160 100 (-3.8)	158 400 (-3.8)

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 difference in sectoral coverage: while the former survey covers selected major sectors, the latter survey covers all sectors in the economy.

(a) Due to an expansion in survey coverage as from March 2003, the employment figures for manual workers at building and construction sites in 2003 have been revised accordingly to facilitate comparison.

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

(c) These figures cover only those employed on civil service terms of appointment. Judicial officers, ICAC officers, locally engaged staff working in overseas Hong Kong Economic and Trade Offices, 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 of less than 0.05%.

Source : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

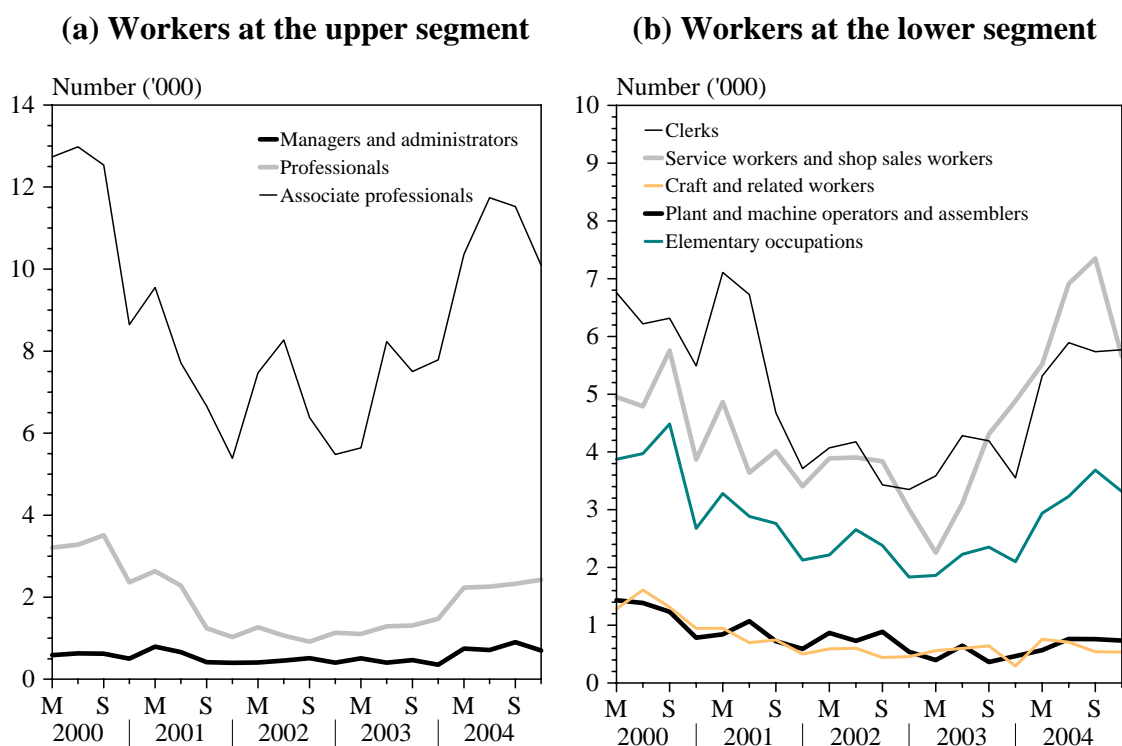
## Vacancies

5.12 The total number of job vacancies in the private sector kept surging by 39.8% in December 2004 on a year-on-year comparison, extending the strong uptrend established since late 2003. For 2004 as a whole, the increase was 55.8%, far exceeding the meagre 1.4% growth in 2003.

5.13 Analysed by *economic sector*, vacancies in the service sectors and in the manufacturing sector both soared, by 39.0% and 61.7% respectively in December 2004 over a year earlier, in contrast to a further reduction of 8.3% observed for manual workers at construction sites. Analysed by *occupational category*, vacancies at the upper segment leaped by 37.5%, and those at the lower segment even more by 41.7%.

5.14 Vacancies in the *civil service* also went up visibly by 57.1% in December 2004 over a year earlier. This was mainly attributable to increased openings for the disciplinary staff. Whilst the recruitment freeze imposed since 1 April 2003 is still in force, exemption will be granted when there are genuine needs to recruit from outside the civil service.

**Diagram 5.5 : Vacancies by major occupation category**



**Table 5.6 : Vacancies by major economic sector**

	<u>No. of vacancies</u>										Vacancy rate in Dec 2004 (%)
	<u>Annual average</u>	<u>2003</u>				<u>2004</u>				<u>Annual average</u>	
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>		
Wholesale and import/export trades	4 800 (10.0)	4 400 (-12.2)	4 900 (-1.9)	5 300 (26.1)	4 800 (39.8)	7 600 (56.5)	7 200 (64.7)	8 700 (77.5)	8 000 (51.7)	6 400 (33.0)	1.1
Retail trade	1 700 (-8.1)	1 100 (-35.1)	1 500 (-37.8)	1 700 (2.9)	2 400 (60.5)	2 600 (58.7)	2 300 (108.2)	2 400 (55.2)	3 300 (97.3)	2 600 (11.0)	1.2
Restaurants and hotels	1 300 (-2.4)	800 (-47.0)	1 100 (-22.3)	1 700 (23.3)	1 700 (56.0)	2 100 (63.2)	1 800 (113.1)	2 200 (100.6)	2 500 (50.1)	2 100 (27.1)	1.0
Water transport, air transport and services allied to transport	500 (-5.7)	400 (-9.7)	500 (-17.7)	500 (-1.1)	500 (9.4)	1 100 (129.0)	900 (102.3)	1 300 (161.0)	1 300 (192.8)	800 (60.6)	0.7
Storage and communications	400 (-6.9)	300 (-25.6)	400 (14.3)	500 (1.3)	300 (-18.8)	600 (55.7)	600 (83.8)	400 (-3.3)	800 (83.7)	400 (73.7)	1.2
Financing, insurance, real estate and business services	5 600 (8.0)	4 200 (-22.1)	6 200 (3.2)	5 700 (18.8)	6 300 (38.7)	9 000 (59.6)	8 600 (106.0)	9 000 (45.4)	9 300 (62.2)	8 900 (40.4)	1.9
Community, social and personal services	4 200 (1.3)	3 300 (-23.8)	4 600 (11.0)	4 800 (14.6)	3 900 (4.9)	5 900 (40.7)	5 200 (56.5)	6 200 (34.2)	5 800 (20.7)	6 200 (59.2)	1.4
Manufacturing	1 000 (-21.5)	1 100 (-23.5)	1 200 (-16.4)	900 (-34.7)	800 (-6.4)	1 500 (46.9)	1 500 (37.5)	1 600 (30.2)	1 500 (67.0)	1 400 (61.7)	0.8
Building and construction sites	# (-60.1)	# (-81.7)	# (-52.6)	# (-57.4)	# (28.6)	# (53.9)	# (57.7)	100 (118.5)	# (69.2)	# (-8.3)	0.1
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	<i>19 700 (1.4)</i>	<i>15 900 (-23.4)</i>	<i>20 800 (-4.9)</i>	<i>21 100 (12.5)</i>	<i>20 900 (28.9)</i>	<i>30 700 (55.8)</i>	<i>28 400 (78.7)</i>	<i>32 200 (55.0)</i>	<i>32 800 (55.3)</i>	<i>29 200 (39.8)</i>	<i>1.3</i>
		<i>&lt;-19.0&gt;</i>	<i>&lt;25.1&gt;</i>	<i>&lt;10.9&gt;</i>	<i>&lt;14.7&gt;</i>		<i>&lt;12.5&gt;</i>	<i>&lt;8.1&gt;</i>	<i>&lt;11.2&gt;</i>	<i>&lt;3.4&gt;</i>	
<i>Civil service<sup>(b)</sup></i>	<i>1 500 (-14.8)</i>	<i>1 600 (-3.8)</i>	<i>1 700 (-13.5)</i>	<i>1 600 (-9.9)</i>	<i>1 200 (-32.1)</i>	<i>1 600 (8.2)</i>	<i>1 300 (-21.7)</i>	<i>1 600 (-1.9)</i>	<i>1 800 (13.3)</i>	<i>1 800 (57.1)</i>	<i>1.1</i>

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

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

(b) These figures cover only vacancies for those staff to be employed on civil service terms of appointment. They have been adjusted by deducting the vacant posts emerging from the Voluntary Retirement Schemes.

( ) % change over a year earlier.

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

(#) Less than 50.

Source : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

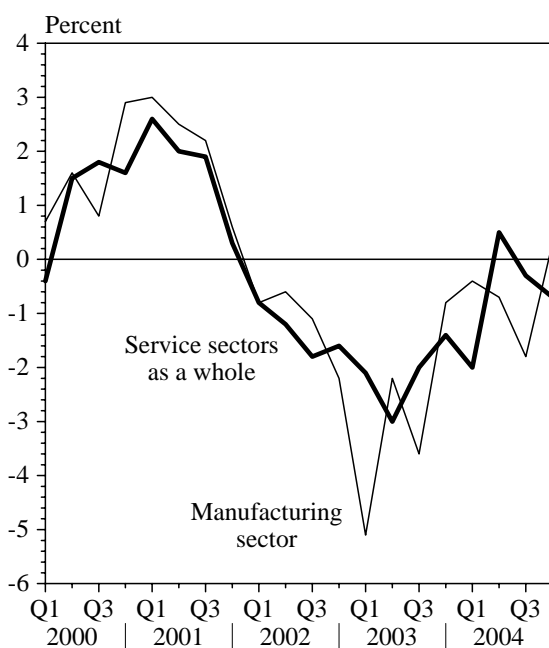
## Earnings and wages

5.15 Labour income generally remained soft, as the overall unemployment rate was still relatively high. Measured by payroll per person engaged, overall *labour earnings*<sup>(8)</sup> in the private sector edged down by 0.6% in money terms or 0.9% in real terms in the fourth quarter of 2004 from a year earlier. For 2004 as a whole, the decline in money terms was 0.7%, albeit narrowed from that of 1.8% in 2003. In real terms, labour earnings fell slightly by 0.2% in 2004<sup>(9)</sup>. This contrasted with a 0.8% rise in 2003, which however was attributable entirely to the decline in consumer prices in that year.

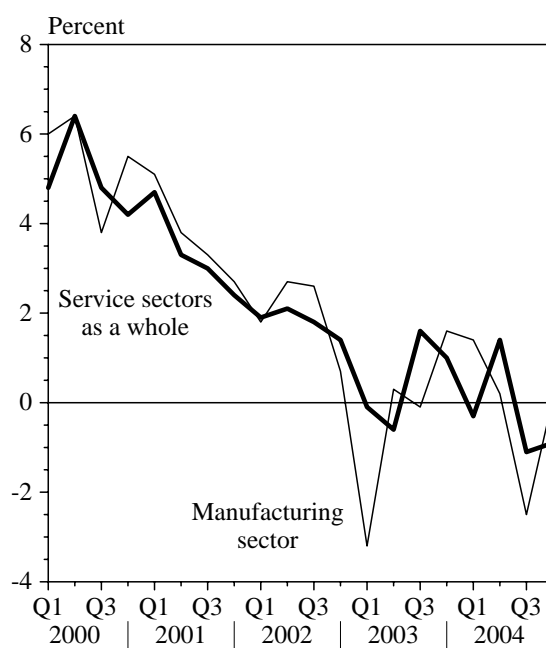
5.16 Analysed by *economic sector*, labour earnings for the *service sectors* as a whole fell by 0.7% in money terms or 0.9% in real terms in the fourth quarter of 2004 over a year earlier. Yet not all the constituent sectors experienced reductions in earnings. In fact, labour earnings in the distributive and catering trades, financing, insurance, real estate and miscellaneous personal services all went up in money terms<sup>(10)</sup>, although they were outweighed by the decreases seen in most other sectors. Concurrently, labour earnings in the *manufacturing sector* were slightly higher, by 0.3% in money terms or 0.1% in real terms.

**Diagram 5.6 : Earnings by broad economic sector**

**(a) Year-on-year rate of change in money terms**



**(b) Year-on-year rate of change in real terms**



5.17 Overall *labour wages*<sup>(11)</sup> in the private sector, excluding the irregular payment items, declined by 1.3% in money terms or 1.7% in real terms in December 2004 from a year earlier. For 2004 as a whole, the corresponding decreases were 1.1% and 1.2%, as compared to changes of -1.9% and +0.2% in 2003.

5.18 Analysed by *economic sector*, wages went down in money terms across almost all the service sectors in December 2004 from a year earlier. The notable exception was personal services, yet the increase recorded therein primarily reflected the upward adjustment in wages for employees at the barber and beauty shops. As for the local *manufacturing sector*, wages stayed on a declining trend.

5.19 Pursuant to the Public Officers Pay Adjustments (2004/2005) Ordinance, which was enacted in December 2003, civil service pay was further reduced on 1 January 2005 following the reduction effected on 1 January 2004. All civil service pay points, expressed in dollar terms, have henceforth been brought back to their levels at 30 June 1997.

5.20 In November 2004, the Government presented the proposals on the pay level survey methodology and application of the survey results for extensive consultation. The two-month consultation period ended in January 2005. Following careful consideration of all relevant factors, the Government decided to conduct a pay level survey for the civil service in 2005, using the methodology as recommended by the consultant and further refined following the extensive consultation. The aim is to commence the survey field work in the second quarter of 2005, with a view to covering the pay adjustments in the private sector up to 1 April 2005.

#### **Notes :**

- (1) 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.

In April 2001, the Census and Statistics Department put out a revised series of seasonally adjusted unemployment rate compiled by reference to the X-11 ARIMA method, which adjusts for all seasonal variations in employment and unemployment (i.e. the changes due to holiday effects, seasonally ups and downs in economic activity, seasonal variations in first-time job-seekers, etc). This replaces the former series which adjusts only for seasonal variations in the proportion of first-time job-seekers in the labour force. For more details, see Note (3) at the end of Chapter 5 of the Half-yearly Economic Report 2001.

- (2) 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.

- (3) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (4) The labour force participation rate is defined as the proportion of economically active population (i.e. those working or unemployed) in the population aged 15 or above.
- (5) The employed population refers to 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 service sectors cover the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; financing, insurance, real estate and business services; and community, social and personal services.
- (7) Yet taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector increased by 4.5% in the first quarter of 2005 over a year earlier.

Employment for the construction sector as a whole is enumerated from the General Household Survey carried out by the Census and Statistics Department. Apart from site workers, it also includes non-site workers engaged in minor alteration and addition, repair, maintenance and interior decoration work on existing buildings. In addition, it includes professional, administrative and other support personnel engaged in that sector, such as engineers, architects, surveyors and contract managers, as well as general clerical staff.

- (8) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (9) 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 middle to lower income groups, is taken as the price deflator for wages in respect of workers on occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.
- (10) According to Hong Kong Institute of Human Resources Management's 2005 Pay Trend Survey which tracks pay adjustments in selected prominent companies, there was an average increase of more than 1% in salaries in January 2005, with the largest increase occurring in the insurance sector (2.5%), followed by trading (2.4%) and retail (1.9%). Some 73% of the companies had salary increase in January this year, which was the highest proportion for the past three years. On an employee basis, whereas 53.9% of the employees surveyed received a salary hike, 45.4% still had their salaries frozen and 0.7% faced a salary reduction.
- (11) The wage data as collected have a more limited coverage than the corresponding earnings data. More specifically, the coverage of the service sectors in the wage data is far from complete, and the coverage of occupation categories in the wage data is only up to the supervisory and technical level.

## CHAPTER 6 : PRICES

### *Summary*

- *Inflationary pressure remained moderate in overall terms in the first quarter of 2005. Notwithstanding that the strengthening local consumer demand saw a progressive improvement in the pricing power of local retailers, the pace of upturn in the consumer price indices was kept down by the very modest housing cost index due to the earlier fall-off in private housing rentals. The Composite Consumer Price Index edged up by 0.4% in the first quarter of 2005 over a year earlier.*
- *On the cost front, labour cost, a key component of business cost, was still soft in overall terms, particularly when set against the hefty productivity gain over the year. The cost of capital equipment showed only a slight increase. Also, the cost of funding capital investment remained low. But office and shop rentals had more notable rises over the past year, even though they have yet to fully pass through to the retail price level.*
- *The decline in the GDP deflator narrowed slightly further in the first quarter, mainly attributable to the relative improvement in terms of trade as the drag from the earlier weakness of the US dollar waned.*

### **Consumer prices**

6.1 Consumer price inflation has been running at a moderate pace since mid-2004 after the economy shrugged off the 68-month long deflation. The *Composite Consumer Price Index (CPI)*<sup>(1)</sup> edged up by 0.4% in the first quarter of 2005, following a 0.2% increase in the fourth quarter of 2004 and after a 0.4% decline for 2004 as a whole. The moderate consumer price inflation was mainly kept down by the very modest housing cost due to the earlier fall-off in private housing rentals<sup>(2)</sup>. Also, labour cost, a key component of business cost, was still soft in overall terms, thereby putting a cap on domestic cost pressures. There were however some modest price pressures from the external front, due to the general weakness of the US dollar and high crude oil prices, as manifested in the continued firming up in import prices over the past few months. From a business cost perspective, rents for premises have also been rising. On the whole, while the economy continued to grow at a rather brisk pace, the pressure of demand remained fairly modest when set against the



further expansion in supply capacity brought about by continued productivity growth and capital investment.

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

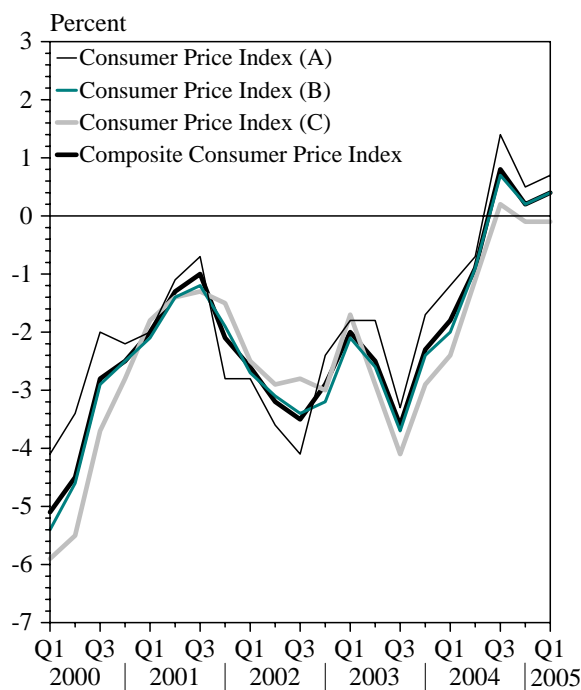
		<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
2004	Annual	-0.4	*	-0.5	-0.9
	H1	-1.3	-1.0	-1.4	-1.8
	H2	0.5	0.9	0.4	0.1
	Q1	-1.8 (0.3)	-1.2 (0.3)	-2.0 (0.2)	-2.4 (0.2)
	Q2	-0.9 (-0.1)	-0.7 (0.1)	-0.9 (-0.1)	-1.1 (-0.1)
	Q3	0.8 (-0.2)	1.4 (-0.1)	0.7 (-0.2)	0.2 (-0.3)
	Q4	0.2 (0.3)	0.5 (0.3)	0.2 (0.2)	-0.1 (0.1)
2005	Q1	0.4 (0.4)	0.7 (0.5)	0.4 (0.4)	-0.1 (0.3)
	Jan	-0.5	-0.2	-0.5	-1.0
	Feb	0.8	1.1	0.8	0.5
	Mar	0.8	1.1	0.8	0.3

Notes : ( ) Figures in parentheses denote seasonally adjusted quarter-to-quarter rates of change.

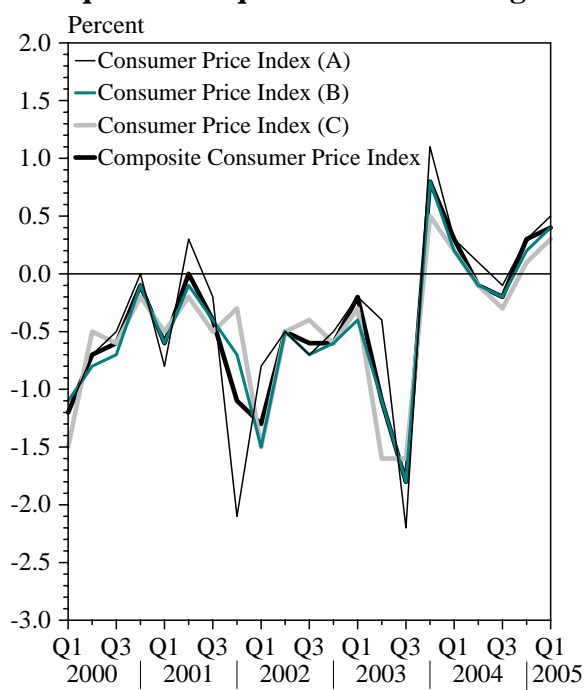
(\*) Change of less than 0.05%.

**Diagram 6.1 : Consumer Price Indices**

**(a) Year-on-year rate of change**



**(b) Seasonally adjusted quarter-to-quarter rate of change**



6.2 Analysed by different household groups as represented in the sub-indices, the CPI(A) rose by 0.7% in the first quarter of 2005, faster than the 0.4% increase for CPI(B). In contrast, the CPI(C) edged down by 0.1% in the first quarter of 2005. The different movement among the three sub-indices in the first quarter of 2005 was mainly attributable to a more pronounced effect of the increase in prices of food in CPI(A) and CPI(B), due to the larger weighting of food attached to these two sub-indices. In addition, owing to the larger weighting on electricity in CPI (A) than in the other two sub-indices, the base effect brought by the electricity charge rebate offered by an electricity company in March last year had contributed partly to a larger rise in the CPI(A).

6.3 Analysed by main components of the Composite CPI, there were more noticeable year-on-year increases in prices of foodstuffs (excluding meals brought away from home), clothing and footwear, and electricity, gas and water charges, by around 3-4% in the first quarter of 2005 over a year earlier. But the private housing rent index within the Composite CPI continued to decline in the first quarter, by 3.4% over a year earlier. Yet the pace of decline has narrowed further when compared with that in the preceding quarter, reflecting the continued dissipation of the down-drag from the earlier fall-off in flat rentals in 2003. Meanwhile, prices of durable goods remained on a decline, down 2.2%, mainly due to continued price cut of personal computers and telecommunications equipment.

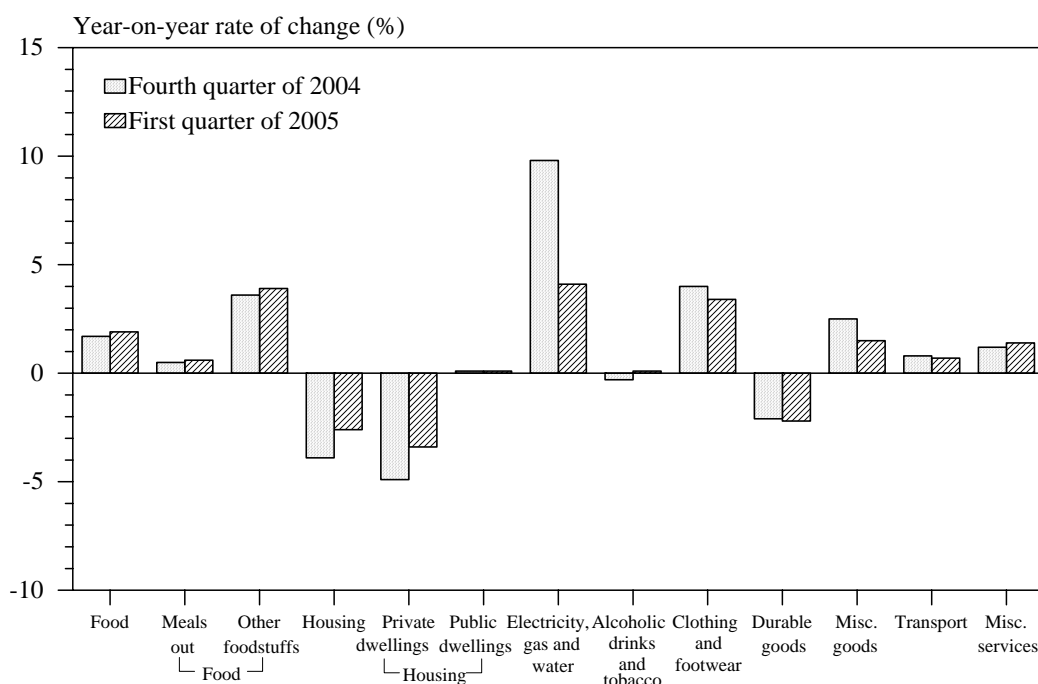
**Table 6.2 : Composite Consumer Price Index by component  
(year-on-year rate of change (%))**

<u>Expenditure component</u>	<u>Weighting</u>	<u>2003</u>	<u>2004</u>	<u>Q1</u>	<u>2004</u>			<u>2005</u>
					<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Food	26.67	-1.5	1.0	0.1	1.0	1.4	1.7	1.9
<i>Meals bought away from home</i>	16.39	-1.5	0.2	-0.5	0.3	0.5	0.5	0.6
<i>Other foodstuffs</i>	10.28	-1.7	2.5	1.1	2.3	2.8	3.6	3.9
Housing <sup>(a)</sup>	29.91	-4.8	-5.2	-7.7	-6.7	-2.3	-3.9	-2.6
<i>Private dwellings</i>	24.59	-6.3	-6.6	-9.3	-8.2	-3.8	-4.9	-3.4
<i>Public dwellings</i>	2.07	9.1	2.5	0.1	0.1	10.3	0.1	0.1
Electricity, gas and water	2.98	1.4	11.4	21.8	3.0	12.7	9.8	4.1
Alcoholic drinks and tobacco	0.94	0.1	*	-0.1	0.4	-0.1	-0.3	0.1
Clothing and footwear	4.13	-2.7	6.4	6.1	9.2	6.7	4.0	3.4
Durable goods	6.24	-6.4	-2.2	-3.6	-1.4	-1.9	-2.1	-2.2
Miscellaneous goods	5.70	2.3	3.6	3.8	4.4	3.6	2.5	1.5
Transport	9.01	-0.4	0.4	-0.4	0.4	0.7	0.8	0.7
Miscellaneous services	14.42	-3.2	-0.2	-3.4	*	1.2	1.2	1.4
All items	100.00	-2.6	-0.4	-1.8	-0.9	0.8	0.2	0.4

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.

(\*) Change of less than 0.05%.

**Diagram 6.2 : Composite Consumer Price Index by component**



6.4 On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI edged up by 0.4% in the first quarter of 2005, after a 0.3% increase in the fourth quarter of 2004. Most items recorded quarter-to-quarter rise in the first quarter, with more notable increase seen in the prices of basic foodstuffs, and clothing and footwear. Yet prices of durable goods fell further. Private housing rentals also edged down slightly in the first quarter, though with the decline largely arrested by February.

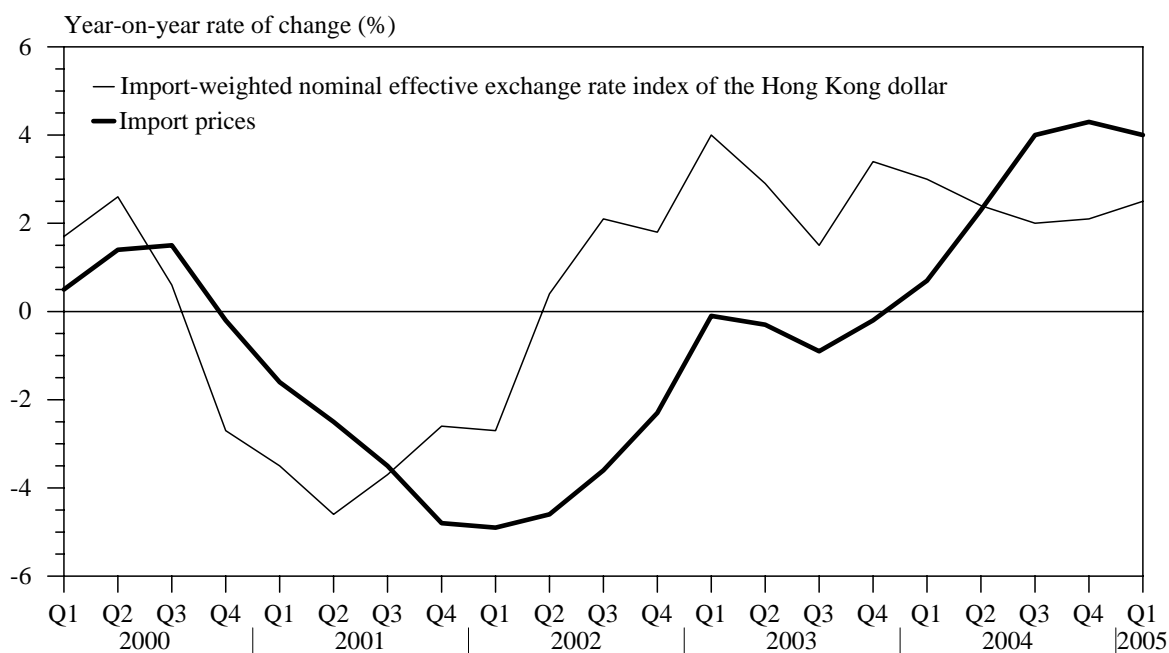
### Import prices

6.5 Reflecting the weakness of the US dollar and the surge in international crude oil prices, *prices of imports of goods* rose further by 4.0% in the first quarter of 2005, following increases of 4.3% in the fourth quarter of 2004 and 2.9% for 2004 as a whole. Analysed by end-use category, prices of imports of fuels soared further in the first quarter. This was followed by prices of imports of raw materials, albeit with a slightly smaller increase as the earlier surge in international commodity prices tapered. The rise in prices of imports of foodstuffs, consumer goods and capital goods all remained modest in the first quarter, in tandem with the modest inflation in the Mainland as well as in other major supplier economies such as Japan, US and Taiwan.

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

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2004	Annual	3.7	1.2	5.7	27.0	-0.8	2.9
	H1	3.8	0.5	4.5	14.4	-2.4	1.5
	H2	3.7	1.8	7.0	39.7	0.6	4.1
	Q1	3.9	0.5	3.5	5.0	-3.4	0.7
	Q2	3.6	0.6	5.3	24.8	-1.4	2.3
	Q3	4.1	1.6	6.9	37.1	0.7	4.0
	Q4	3.5	1.9	7.1	42.4	0.4	4.3
2005	Q1	2.8	3.2	5.7	27.1	0.6	4.0

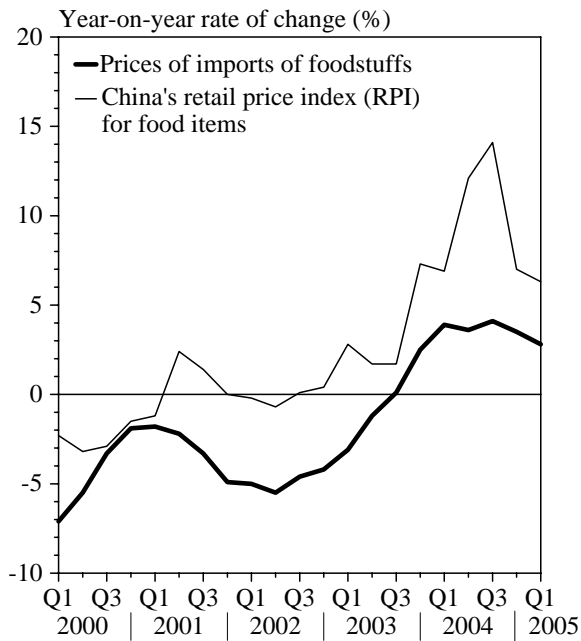
**Diagram 6.3 :  
Prices of imports and nominal effective exchange rate index (EERI)  
of the Hong Kong dollar**



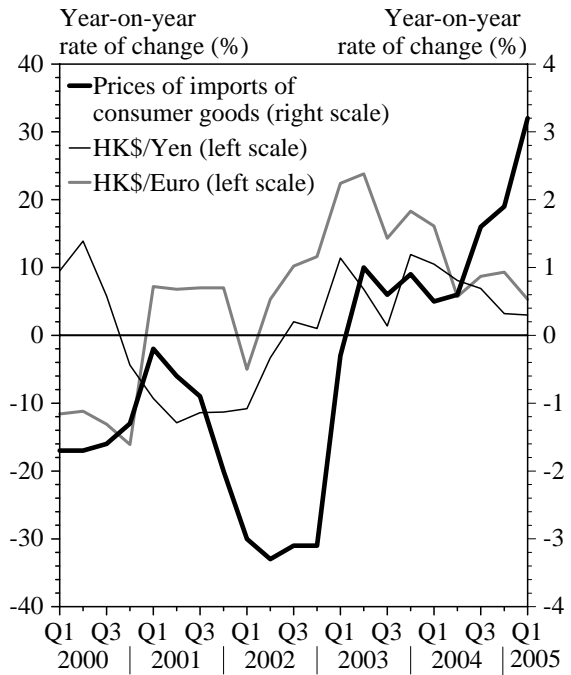
Note : An increase in nominal EERI indicates weakening of the Hong Kong dollar.

**Diagram 6.4 :**

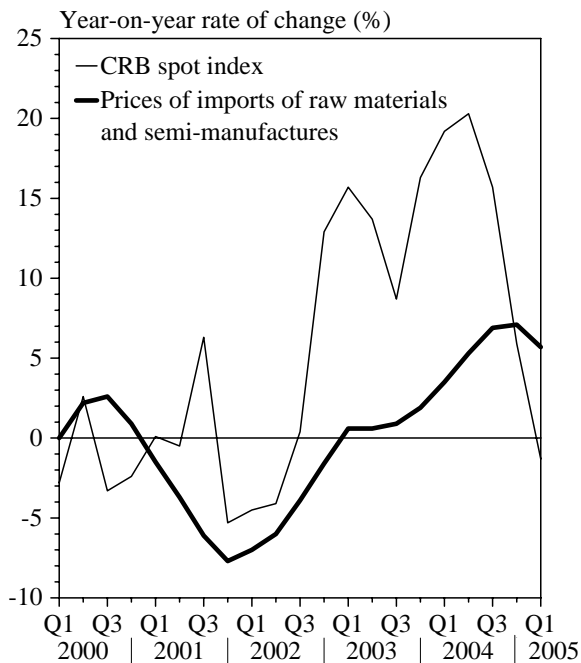
**(a) Prices of imports of foodstuffs and China's food prices**



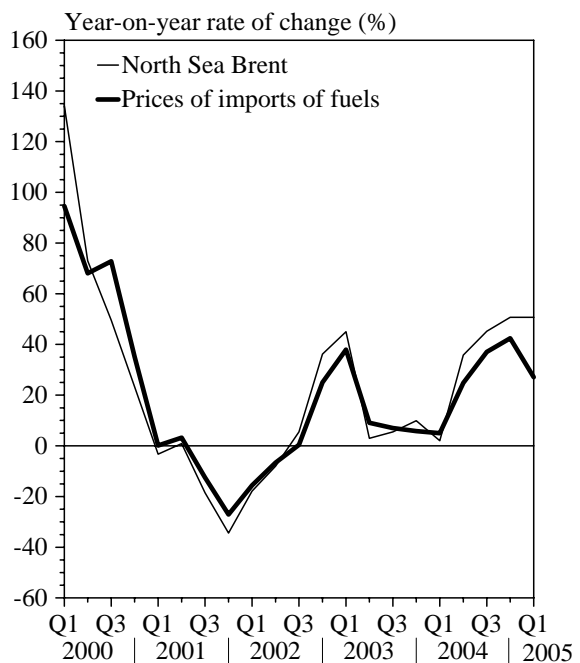
**(b) Prices of imports of consumer goods and selected exchange rates**



**(c) Prices of imports of raw materials and semi-manufactures and international commodity prices**



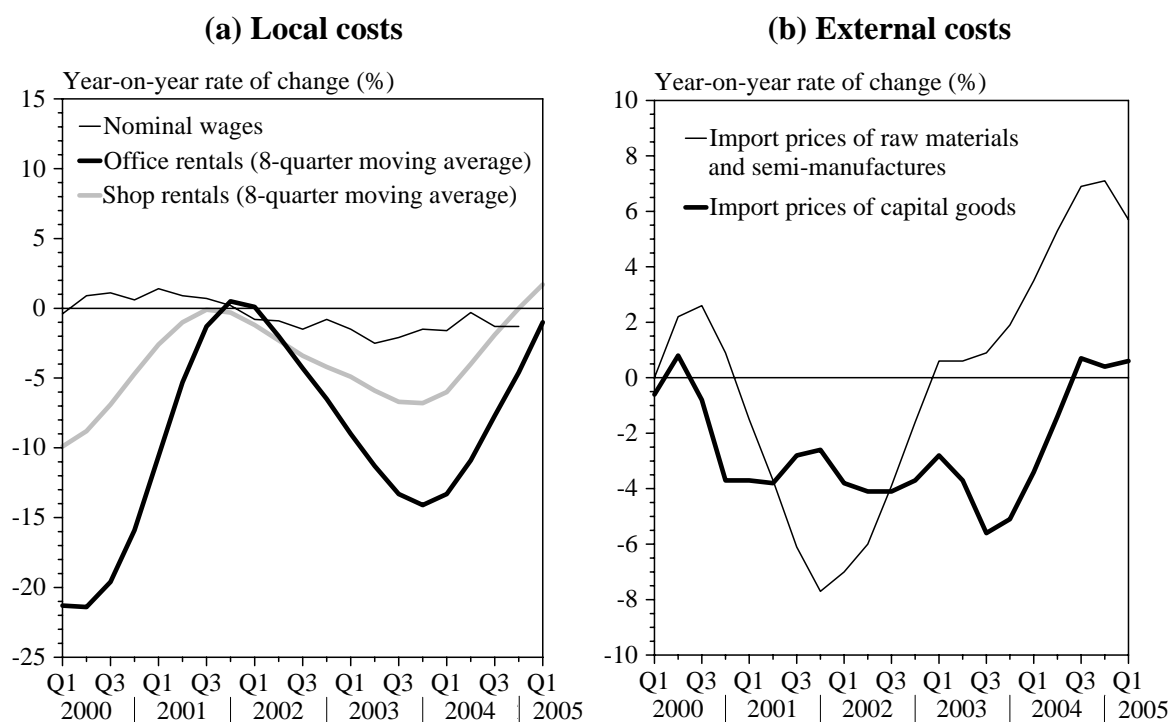
**(d) Prices of imports of fuel and international crude oil prices**



## Cost of factor inputs and domestic output prices

6.6 Although the economy continued to grow at a rather brisk pace, the pressure of demand remained relatively modest when set against the concurrent expansion in supply capacity brought forth by capital investment and by the rise in productivity. This was especially so in the labour market. *Labour cost*, a key component of business cost, was still relatively soft, particularly when seen against the hefty productivity gain over the past year. As to the *cost of capital equipment*, they showed only a very mild increase. Also, the cost of funding in capital investment remained relatively low due to the still abundant liquidity in the banking sector. The increase in the cost of raw materials also seemed to be tapering in tandem with the movements in international commodity prices. But *rentals* on new leases for office space, shopping space and conventional flatted factories had more notable increase in the first quarter of 2005 amidst the business upturn and the revival in the property market.

**Diagram 6.5 : Costs of factor inputs**



6.7 The increase in output prices as measured by producer prices was also moderate, particularly for those activities which were under keen competition in the international markets. The *prices of local manufacturing output*, as measured by the Producer Price Index<sup>(3)</sup>, rose only modestly by 1.4% in the fourth quarter of 2004 over a year earlier, following a 2.0% increase in the third quarter. For 2004 as a whole, the overall increase was also moderate, at 2.2%. As to the *prices of output in selected service sectors*, output prices for hotels and boarding houses continued to show more distinct increase in the fourth quarter of 2004 amidst the vibrant inbound tourism. But the producer price index for the transport sector remained flat. Output prices for telecommunications continued to decline, amidst keen competition in the industry and perhaps also the productivity gain from technology advancement.

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

<u>Industry group</u>	<u>Annual</u>	<u>2003</u>				<u>2004</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	-0.3	-1.2	-0.9	*	0.9	2.2	2.8	2.7	2.0	1.4
Selected services sector <sup>(#)</sup>										
Hotels and boarding houses	-4.9	1.6	-10.5	-4.2	-6.3	10.6	2.9	17.7	12.4	10.4
Land transport	-1.6	-0.7	-1.9	-2.7	-1.1	-0.1	-1.9	0.4	1.2	*
Maritime transport	7.2	5.5	7.6	6.2	9.5	1.3	2.7	0.8	1.2	0.5
Air transport	0.4	1.8	-0.6	-0.4	0.9	2.3	1.2	4.9	3.5	-0.2
Telecommunications	-10.7	-7.7	-12.0	-10.1	-13.2	-10.1	-13.6	-7.9	-10.2	-8.3
Miscellaneous communications services	3.9	7.1	6.9	3.1	-1.1	2.4	2.9	2.8	2.0	1.8

Notes : (#) Producer Price Indices for the 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.

(\*) Change of less than 0.05%.



## Export prices

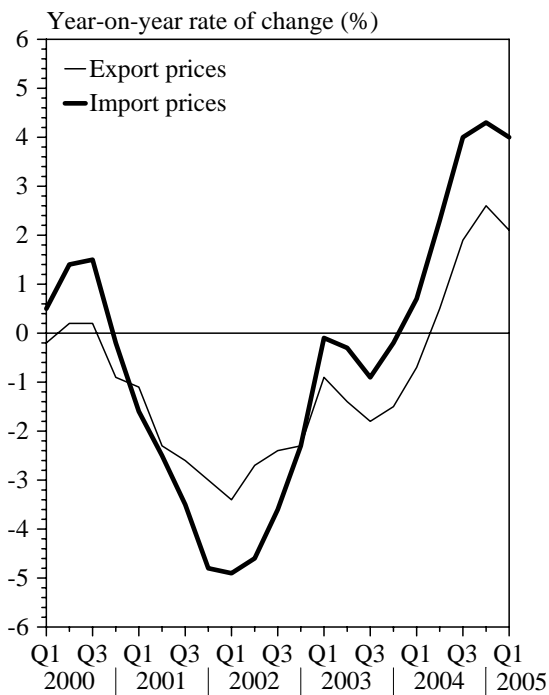
6.8 The *prices of total exports of goods*, as measured by the unit value index of total exports of goods, continued to post a moderate increase of 2.1% in the first quarter of 2005, following a 2.6% rise in the fourth quarter of 2004 and a 1.2% increase for 2004 as a whole. As the prices of total exports of goods rose more moderately than the prices of imports of goods, the *terms of trade in goods*<sup>(4)</sup> for Hong Kong fell further by 1.8% in the first quarter of 2005, following a 1.6% decline in the fourth quarter of 2004 and a 1.7% fall for 2004 as a whole. Local manufacturers and exporters probably are still facing some squeeze in their profit margins.

**Table 6.5 : Unit value indices of total exports of goods by major market (year-on-year rate of change (%))**

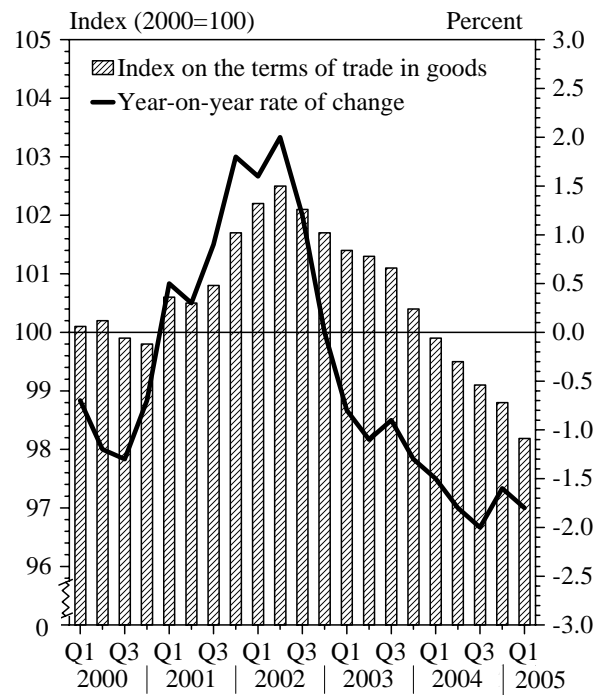
		<u>United States</u>	<u>Mainland of China</u>	<u>Germany</u>	<u>United Kingdom</u>	<u>Japan</u>	<u>Singapore</u>	<u>All markets</u>
2004	Annual	0.2	2.7	*	0.6	0.6	-1.3	1.2
	H1	-0.5	1.1	-0.4	-0.3	-0.3	-3.2	-0.1
	H2	0.8	4.1	0.4	1.2	1.3	0.3	2.3
	Q1	-0.6	0.2	-0.9	-0.7	-0.6	-4.2	-0.7
	Q2	-0.4	1.9	*	0.1	0.1	-2.3	0.5
	Q3	0.4	3.8	0.5	1.0	1.2	0.3	1.9
	Q4	1.3	4.4	0.3	1.4	1.4	0.3	2.6
2005	Q1	1.2	3.3	0.9	1.3	0.8	-0.5	2.1

Note : (\*) Change of less than 0.05%.

**Diagram 6.6 : Prices of total exports of goods and imports of goods**



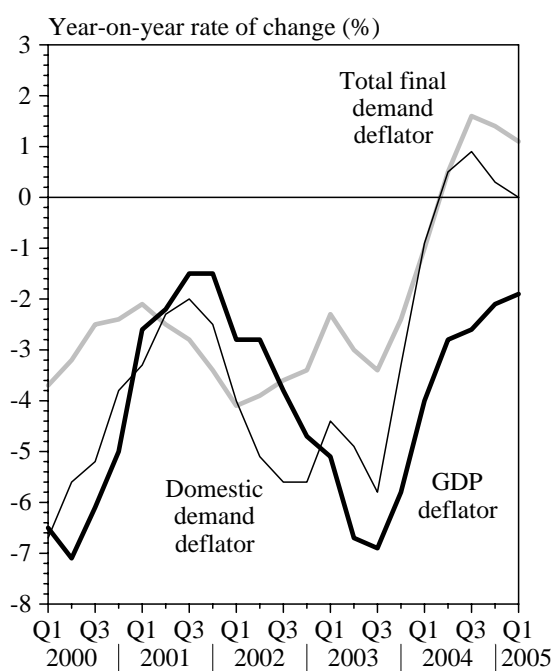
**Diagram 6.7 : Terms of trade in goods**



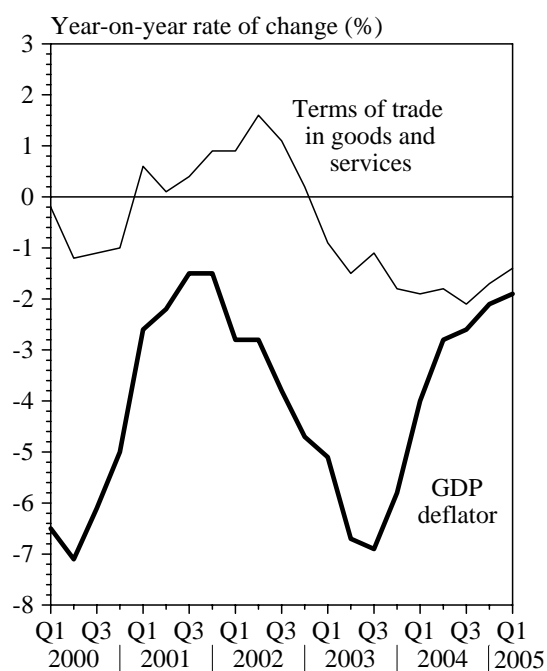
## GDP deflator

6.9 The decline in the *GDP deflator*<sup>(5)</sup>, as a broad measure of overall price changes in the economy, narrowed to 1.9% in the first quarter of 2005, from 2.1% in the fourth quarter of 2004 and 2.8% for 2004 as a whole. This was mainly attributable to the relative improvement in terms of trade, as the drag from the earlier weakness of the US dollar waned. Excluding the relative price movements of exports and imports, the *domestic demand deflator* showed no change in overall terms in the first quarter of 2005. The price deflators for both private consumption and overall investment actually still recorded small to modest increases in the quarter. Similarly, the *total final demand deflator* continued to record moderate increase, at 1.1% in the first quarter of 2005 over a year earlier. In general, the recent trends in both the total final demand deflator and the domestic demand deflator suggest that price pressures in the economy were still modest.

**Diagram 6.8 : GDP deflator, total final demand deflator and domestic demand deflator**



**Diagram 6.9 : GDP deflator and terms of trade of trade in goods and services**



**Table 6.6 : GDP deflator and the main expenditure component deflators (year-on-year rate of change (%))**

	<u>Annual</u> <sup>#</sup>	<u>Q1</u> <sup>#</sup>	<u>2004</u> <u>Q2</u> <sup>#</sup>	<u>Q3</u> <sup>#</sup>	<u>Q4</u> <sup>#</sup>	<u>2005</u> <u>Q1</u> <sup>+</sup>
Private consumption expenditure	-0.2	-2.0	-0.3	1.0	0.3	0.1
Government consumption expenditure	-2.9	-3.3	-3.1	-2.7	-2.7	-2.1
Gross domestic fixed capital formation	2.5	1.9	3.0	2.2	2.7	2.0
Total exports of goods	0.5	-1.5	0.1	1.3	1.6	1.3
Imports of goods	2.5	0.5	2.2	3.7	3.5	2.9
Exports of services	2.1	0.6	3.2	2.5	2.3	2.5
Imports of services	4.0	3.7	3.5	4.6	3.8	3.1
<b>Gross Domestic Product</b>	<b>-2.8</b>	<b>-4.0</b>	<b>-2.8</b>	<b>-2.6</b>	<b>-2.1</b>	<b>-1.9</b>
		<*>	<-1.1>	<-0.7>	<-0.2>	<*>
Total final demand	0.8	-1.0	0.5	1.6	1.4	1.1
Domestic demand	0.2	-0.9	0.5	0.9	0.3	*

Notes : (#) Revised figures.

(+) Preliminary figures.

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

(\*) Change of less than 0.05%.

## 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 enumerated from the Household Expenditure Survey. Then, by aggregating the expenditure patterns of all the households covered by these three indices, a Composite CPI is compiled.

The expenditure ranges of the households covered in the 1999/2000-based CPIs are shown below:

	<u>Approximate proportion of households covered</u> (%)	<u>Monthly expenditure range (at 1999/2000 prices)</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 1999/2000-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	26.67	31.88	25.94	21.38
<i>Meals bought     away from home</i>	16.39	17.94	17.20	13.28
<i>Other foodstuffs</i>	10.28	13.94	8.74	8.10
Housing	29.91	29.13	29.68	31.22
<i>Private dwellings</i>	24.59	21.76	25.48	26.67
<i>Public dwellings</i>	2.07	5.08	1.03	--
<i>Maintenance costs     and other     housing charges</i>	3.25	2.29	3.17	4.55
Electricity, gas and water	2.98	3.99	2.81	2.02
Alcoholic drinks and tobacco	0.94	1.50	0.86	0.39
Clothing and footwear	4.13	3.36	4.47	4.55
Durable goods	6.24	4.96	6.93	6.73
Miscellaneous goods	5.70	5.25	5.58	6.43
Transport	9.01	8.23	9.05	9.94
Miscellaneous services	14.42	11.70	14.68	17.34
All items	100.00	100.00	100.00	100.00

- (2) It should be noted that, in any particular period, only a small proportion of the tenancies of private dwellings are new lettings for which rentals are freshly determined, and lease renewals upon which rentals are revised. The majority of the tenancies are existing leases with rentals fixed until their expiry. Upon aggregation, the movements in private housing cost thus tend to be less responsive than the corresponding movements in market rentals, as reflected in the rental index for private residential flats compiled by the Rating and Valuation Department (R&VD). According to R&VD, rentals for new lettings on average rebounded by 6% in 2004 and rose further by 3% in the first quarter of 2005.

- (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 terms of trade in goods is defined as the ratio of the prices of total exports of goods to the prices of imports of goods.
- (5) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding constant price figures. In compiling the constant price GDP at the finer sub-component level, a standard deflation approach is adopted whereby an appropriate price index is used to deflate each of the sub-components of GDP at current prices. Summing up the individually deflated sub-components gives the main expenditure components of GDP at constant prices. These are further aggregated to arrive at the overall GDP at constant prices. Then, by dividing the current price GDP with the corresponding constant price GDP at the overall level, the GDP deflator is implicitly obtained. Similarly, by dividing each of the main expenditure components of GDP at current prices with each of the corresponding measures at constant prices, the respective price deflators at the main expenditure component level are implicitly obtained. Hence as it stands, the implicit price deflators of GDP and its main expenditure components are not used as input for compiling the corresponding constant price measures. By the same token, the growth rates in real terms of GDP and its main expenditure components are not derived from their corresponding growth rates in money terms using the rates of change in the respective implicit price deflators. Rather, the growth rates in real terms are calculated directly by comparing the constant price measures over two periods.

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, as total final demand in the economy is equated to GDP plus imports, 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 imports. Likewise, as domestic demand in the economy is equated to GDP plus imports and less exports, 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.

## Statistical Appendix

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

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
	(\$Mn)				
Private consumption expenditure <sup>(a)</sup>	683,362	748,196	825,130	787,043	754,450
Government consumption expenditure	93,608	103,532	112,741	116,539	119,984
Gross domestic fixed capital formation	334,363	378,486	451,891	388,731	325,328
<i>of which:</i>					
Building and construction	158,898	185,648	223,264	208,235	171,930
Machinery, equipment and computer software	161,562	170,652	190,760	165,177	141,349
Changes in inventories	45,656	9,762	12,313	-15,651	-10,612
Total exports of goods	1,344,127	1,397,917	1,455,949	1,347,649	1,349,000
Domestic exports	231,657	212,160	211,410	188,454	170,600
Re-exports	1,112,470	1,185,758	1,244,539	1,159,195	1,178,400
Imports of goods	1,466,759	1,511,365	1,589,876	1,408,317	1,373,500
Exports of services <sup>(a)</sup>	240,584	272,183	272,760	257,416	265,536
Imports of services	178,678	187,786	196,362	193,560	184,052
<b>GDP</b>	<b>1,096,263</b>	<b>1,210,925</b>	<b>1,344,546</b>	<b>1,279,850</b>	<b>1,246,134</b>
<i>Per capita GDP (\$)</i>	<i>178,078</i>	<i>188,163</i>	<i>207,194</i>	<i>195,585</i>	<i>188,622</i>
<b>GNP</b>	<b>1,116,866</b>	<b>1,211,084</b>	<b>1,354,704</b>	<b>1,308,446</b>	<b>1,280,629</b>
<i>Per capita GNP (\$)</i>	<i>181,424</i>	<i>188,188</i>	<i>208,760</i>	<i>199,955</i>	<i>193,844</i>
Total final demand	2,741,700	2,910,076	3,130,784	2,881,727	2,803,686
Total final demand excluding re-exports <sup>(b)</sup>	1,812,788	1,929,454	2,107,773	1,939,301	1,864,501
Domestic demand	1,156,989	1,239,976	1,402,075	1,276,662	1,189,150
Private	1,009,750	1,071,349	1,225,108	1,098,911	1,003,515
Public	147,239	168,627	176,967	177,751	185,635
External demand	1,584,711	1,670,100	1,728,709	1,605,065	1,614,536

Definitions 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>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003<sup>#</sup></u>	<u>2004<sup>#</sup></u>	<u>2005 Q1<sup>+</sup></u>
Private consumption expenditure <sup>(a)</sup>	760,168	765,105	728,719	698,886	745,256	187,699
Government consumption expenditure	120,148	128,846	131,279	130,138	127,206	32,247
Gross domestic fixed capital formation	347,375	333,036	286,020	261,369	278,946	71,444
<i>of which:</i>						
Building and construction	155,441	142,651	131,752	116,419	109,278	30,139
Machinery, equipment and computer software	180,204	180,011	144,832	136,539	152,871	36,227
Changes in inventories	14,399	-4,060	5,660	9,111	5,548	-6,923
Total exports of goods	1,572,689	1,480,987	1,562,121	1,749,089	2,027,031	479,096
Domestic exports	180,967	153,520	131,079	122,126	126,386	24,066
Re-exports	1,391,722	1,327,467	1,431,041	1,626,964	1,900,645	455,030
Imports of goods	1,636,711	1,549,222	1,601,527	1,794,059	2,099,545	498,773
Exports of services <sup>(a)</sup>	301,813	307,657	335,362	355,175	417,267	106,746
Imports of services	191,543	192,453	199,676	201,806	232,228	57,307
<b>GDP</b>	<b>1,288,338</b>	<b>1,269,896</b>	<b>1,247,958</b>	<b>1,207,903</b>	<b>1,269,481</b>	<b>314,229</b>
<i>Per capita GDP (\$)</i>	<i>193,299</i>	<i>188,835</i>	<i>183,875</i>	<i>177,552</i>	<i>184,448</i>	--
<b>GNP</b>	<b>1,309,407</b>	<b>1,309,855</b>	<b>1,263,265</b>	<b>1,242,045</b>	<b>1,299,787</b>	<b>N.A.</b>
<i>Per capita GNP (\$)</i>	<i>196,460</i>	<i>194,777</i>	<i>186,130</i>	<i>182,570</i>	<i>188,851</i>	--
Total final demand	3,116,592	3,011,571	3,049,161	3,203,768	3,601,254	870,309
Total final demand excluding re-exports <sup>(b)</sup>	2,018,523	1,952,252	1,891,449	1,868,031	2,040,824	496,729
Domestic demand	1,242,090	1,222,927	1,151,678	1,099,504	1,156,956	284,467
Private	1,061,542	1,036,086	966,854	917,910	981,000	238,371
Public	180,548	186,841	184,824	181,594	175,956	46,096
External demand	1,874,502	1,788,644	1,897,483	2,104,264	2,444,298	585,842

Notes : (a) Figures from 2002 to 2004 have been revised to incorporate the revised data on destination consumption expenditure of incoming visitors and travellers released by the Hong Kong Tourism Board.

(b) Re-export margin is nevertheless retained in the total final demand.

(#) Revised figures.

(+) Provisional figures.

(--) Not applicable.

N.A. Not available.



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

(%)

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Private consumption expenditure <sup>(a)</sup>	2.0	3.8	6.1	-6.8	1.3	5.9
Government consumption expenditure	3.2	3.8	2.4	0.7	3.1	2.0
Gross domestic fixed capital formation	10.4	10.9	12.6	-7.3	-16.6	11.0
<i>of which:</i>						
Building and construction	1.1	7.0	10.5	-2.4	-15.5	-7.6
Machinery, equipment and computer software	24.1	12.0	13.1	-7.9	-18.2	27.0
Total exports of goods	12.0	4.8	6.1	-4.3	3.7	17.1
Domestic exports	2.0	-8.4	2.1	-7.9	-7.2	7.5
Re-exports	14.3	7.5	6.8	-3.7	5.4	18.5
Imports of goods	13.9	4.3	7.3	-7.3	*	18.2
Exports of services <sup>(a)</sup>	2.7	11.4	-0.5	-0.4	6.7	13.1
Imports of services	1.8	5.2	4.0	1.6	-4.1	4.2
<b>GDP</b>	<b>3.9</b>	<b>4.3</b>	<b>5.1</b>	<b>-5.0</b>	<b>3.4</b>	<b>10.2</b>
<b>Per capita GDP (\$)</b>	<b>1.8</b>	<b>-0.2</b>	<b>4.2</b>	<b>-5.8</b>	<b>2.4</b>	<b>9.2</b>
<b>GNP</b>	<b>4.6</b>	<b>2.3</b>	<b>5.9</b>	<b>-3.5</b>	<b>3.9</b>	<b>8.9</b>
<b>Per capita GNP (\$)</b>	<b>2.5</b>	<b>-2.1</b>	<b>5.0</b>	<b>-4.3</b>	<b>2.9</b>	<b>8.0</b>
Total final demand	9.5	4.3	6.2	-5.8	1.1	14.5
Total final demand excluding re-exports <sup>(b)</sup>	6.5	2.3	5.8	-7.3	-2.1	11.5
Domestic demand	7.2	2.0	8.1	-9.4	-4.5	10.3
Private	6.8	1.1	9.4	-10.1	-5.5	12.3
Public	10.3	9.2	-1.0	-3.8	2.1	-2.8
External demand	10.7	5.5	5.3	-3.8	4.0	16.6

Notes : (a) Figures from 2002 to 2004 have been revised to incorporate the revised data on destination consumption expenditure of incoming visitors and travellers released by the Hong Kong Tourism Board.

(b) Re-export margin is nevertheless retained in the total final demand.

**Table 2 : Rates of change in Gross Domestic Product  
by expenditure component (in real terms) (cont'd)**

						(%)	
	<u>2001</u>	<u>2002</u>	<u>2003<sup>#</sup></u>	<u>2004<sup>#</sup></u>	<u>2005</u> <u>Q1<sup>+</sup></u>	Average annual rate of change:	
						10 years 1994 to <u>2004<sup>#</sup></u>	5 years 1999 to <u>2004<sup>#</sup></u>
Private consumption expenditure <sup>(a)</sup>	2.0	-1.1	-1.1	6.9	4.6	1.8	2.5
Government consumption expenditure	6.1	2.5	1.9	0.7	-4.2	2.6	2.6
Gross domestic fixed capital formation	2.6	-4.5	0.9	4.1	2.2	2.0	2.7
<i>of which:</i>							
Building and construction	-1.1	-1.1	-5.6	-11.1	3.4	-2.9	-5.4
Machinery, equipment and computer software	6.2	-7.6	6.7	12.4	0.8	5.9	8.4
Total exports of goods	-3.3	8.7	14.2	15.3	8.9	7.2	10.1
Domestic exports	-10.2	-11.2	-7.3	2.4	-9.6	-4.0	-4.0
Re-exports	-2.4	11.0	16.3	16.3	10.2	8.7	11.7
Imports of goods	-1.9	7.9	13.1	14.1	3.8	6.7	10.1
Exports of services <sup>(a)</sup>	6.2	11.7	8.1	15.0	8.6	7.3	10.8
Imports of services	2.0	3.7	-2.1	10.7	5.5	2.6	3.6
<b>GDP</b>	<b>0.5</b>	<b>1.9</b>	<b>3.1</b>	<b>8.1</b>	<b>6.0</b>	<b>3.5</b>	<b>4.7</b>
<b>Per capita GDP (\$)</b>	<b>-0.4</b>	<b>1.0</b>	<b>2.9</b>	<b>6.9</b>	<b>--</b>	<b>2.1</b>	<b>3.9</b>
<b>GNP</b>	<b>2.0</b>	<b>*</b>	<b>4.7</b>	<b>7.6</b>	<b>N.A.</b>	<b>3.6</b>	<b>4.6</b>
<b>Per capita GNP (\$)</b>	<b>1.1</b>	<b>-0.9</b>	<b>4.5</b>	<b>6.4</b>	<b>--</b>	<b>2.2</b>	<b>3.8</b>
Total final demand	-0.7	5.2	8.1	11.6	4.7	5.2	7.6
Total final demand excluding re-exports <sup>(b)</sup>	0.3	2.0	3.4	8.6	1.3	3.0	5.1
Domestic demand	1.0	-0.8	0.1	5.0	-2.5	1.7	3.0
Private	0.6	-1.1	-0.2	6.1	-2.1	1.7	3.4
Public	3.3	1.2	1.7	-1.4	-4.7	1.8	0.4
External demand	-1.8	9.2	13.1	15.3	8.9	7.2	10.3

Notes (cont'd) : (#) Revised figures.  
 (+) Provisional figures.  
 (\*) Change of less than 0.05%.  
 (--) Not applicable.  
 N.A. Not available.

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

	1999		2000		2001		2002		2003 <sup>#</sup>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture and fishing	1,171	0.1	920	0.1	1,003	0.1	1,002	0.1	824	0.1
Mining and quarrying	307	*	241	*	174	*	136	*	116	*
Manufacturing	67,540	5.7	71,655	5.8	63,519	5.2	54,848	4.5	47,895	4.1
Electricity, gas and water	37,211	3.2	38,853	3.2	40,126	3.3	41,540	3.4	40,587	3.4
Construction	67,232	5.7	64,026	5.2	58,971	4.9	53,089	4.4	46,233	3.9
Services	1,004,335	85.3	1,053,202	85.7	1,051,562	86.5	1,055,535	87.5	1,042,014	88.5
<i>Wholesale, retail and import/export trades, restaurants and hotels</i>	296,318	25.2	324,622	26.4	324,654	26.7	324,131	26.9	321,836	27.3
<i>Transport, storage and communications</i>	112,667	9.6	125,724	10.2	124,260	10.2	128,278	10.6	123,667	10.5
<i>Finance, insurance, real estate and business services</i>	281,439	23.9	291,062	23.7	274,030	22.5	268,208	22.2	272,372	23.1
<i>Community, social and personal services</i>	246,003	20.9	252,435	20.5	265,081	21.8	267,659	22.2	263,280	22.4
<i>Ownership of premises</i>	162,488	13.8	155,303	12.6	159,118	13.1	159,586	13.2	148,876	12.6
<i>less Adjustment for financial intermediation services indirectly measured</i>	94,580	8.0	95,945	7.8	95,582	7.9	92,328	7.7	88,018	7.5
<b>GDP at factor cost</b>	<b>1,177,796</b>	<b>100.0</b>	<b>1,228,897</b>	<b>100.0</b>	<b>1,215,354</b>	<b>100.0</b>	<b>1,206,150</b>	<b>100.0</b>	<b>1,177,669</b>	<b>100.0</b>
Taxes on production and imports	53,474		57,908		53,917		43,325		48,057	
Statistical discrepancy (%)	1.2		0.1		*		-0.1		-1.5	
<b>GDP at current market prices</b>	<b>1,246,134</b>		<b>1,288,338</b>		<b>1,269,896</b>		<b>1,247,958</b>		<b>1,207,903</b>	

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

(#) Revised figures.

(\*) Less than 0.05%.

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

(%)

	<u>2002</u>	<u>2003<sup>#</sup></u>	<u>2004<sup>#</sup></u>		<u>2004<sup>#</sup></u>		
				Q1	Q2	Q3	Q4
Agriculture and fishing	-0.7	-5.6	0.7	*	-0.4	-1.5	4.4
Mining and quarrying	-11.1	2.2	-17.0	-17.4	-29.1	-19.6	4.9
Manufacturing	-9.8	-9.1	2.9	1.8	1.1	3.4	5.0
Electricity, gas and water	3.0	1.8	1.5	2.8	1.2	1.2	1.1
Construction	-1.5	-4.6	-8.5	-9.2	-10.7	-12.0	-2.3
Services	3.1	4.5	8.8	8.3	12.7	7.4	7.4
<i>Wholesale, retail and import/export trades, restaurants and hotels</i>	4.2	9.2	13.3	12.1	20.0	12.4	9.9
<i>Transport, storage and communications</i>	6.2	1.1	17.0	13.3	25.3	15.5	15.0
<i>Finance, insurance, real estate and business services</i>	1.6	5.7	8.0	12.5	9.2	4.2	6.6
<i>Community, social and personal services</i>	-0.7	0.6	3.9	2.7	7.3	3.0	2.7
<i>Ownership of premises</i>	2.5	2.2	2.4	1.1	2.8	2.5	3.2
<i>less Adjustment for financial intermediation services indirectly measured</i>	-4.3	5.0	10.2	13.9	11.1	9.1	7.0
Taxes on production and imports	-0.1	2.9	12.4	19.7	16.7	8.1	5.5
<b>GDP at constant (2000) market prices</b>	<b>1.9</b>	<b>3.1</b>	<b>8.1</b>	<b>7.3</b>	<b>12.0</b>	<b>6.6</b>	<b>7.1</b>

Notes : (#) Revised figures.

(\*) Change of less than 0.05%.

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

	(\$Mn)								
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u> <sup>#</sup>	<u>2004</u> <sup>#</sup>	<u>2004</u> <sup>#</sup>			
						Q1	Q2	Q3	Q4
Current account	54,495	76,315	96,800	128,240	127,401	16,629	7,793	52,258	50,721
Goods	-63,832	-64,970	-39,406	-44,970	-72,514	-32,814	-29,432	-8,511	-1,757
Services <sup>(a)</sup>	110,270	115,204	135,686	153,369	185,039	43,215	39,194	48,865	53,765
Income <sup>(b)</sup>	21,069	39,959	15,307	34,142	30,306	9,983	1,570	15,940	2,813
Current transfers	-13,013	-13,878	-14,787	-14,301	-15,429	-3,756	-3,539	-4,035	-4,100
Capital and financial account	-57,863	-97,359	-151,179	-179,086	-136,338	-33,434	-31,241	-37,482	-34,181
Capital and financial non-reserve assets (net change)	20,459	-60,829	-169,720	-171,497	-110,852	2,086	-39,210	-57,973	-15,756
Capital transfers	-12,044	-9,155	-15,686	-8,292	-2,145	166	-142	-1,376	-793
Financial non-reserve assets (net change)	32,503	-51,674	-154,033	-163,205	-108,707	1,920	-39,068	-56,597	-14,963
<i>Direct investment</i>	19,976	96,948	-60,685	63,372	-44,406	-103,880	27,326	-5,543	37,691
<i>Portfolio investment</i>	190,782	-322,045	-302,484	-264,619	-251,346	-156,355	-106,559	-41,454	53,022
<i>Financial derivatives</i>	1,661	39,640	51,563	78,288	48,827	12,130	11,191	6,447	19,059
<i>Other investment</i>	-179,917	133,783	157,573	-40,247	138,218	250,025	28,974	-16,046	-124,735
Reserve assets (net change) <sup>(c)</sup>	-78,321	-36,530	18,541	-7,589	-25,486	-35,520	7,969	20,492	-18,426
Net errors and omissions	3,368	21,044	54,379	50,846	8,937	16,805	23,448	-14,777	-16,540
<b>Overall balance of payments</b>	<b>78,321</b>	<b>36,530</b>	<b>-18,541</b>	<b>7,589</b>	<b>25,486</b>	<b>35,520</b>	<b>-7,969</b>	<b>-20,492</b>	<b>18,426</b>

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

- (a) Figures from 2002 to 2004 have been revised to incorporate the revised data on destination consumption expenditure of incoming visitors and travellers released by the Hong Kong Tourism Board.
- (b) Figures prior to the fourth quarter of 2004 have been revised with the adoption of an enhanced methodology based on more relevant data available.
- (c) A negative value for net change in reserve assets represents a net increase, and a positive value represents a net decrease.
- (#) Revised figures.

**Table 6 : Visible and invisible trade  
(at current market prices)**

	(\$Mn)								
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003<sup>#</sup></u>	<u>2004<sup>#</sup></u>	<u>2004</u>		<u>2005</u>	
						Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>+</sup>
Total exports of goods	1,572,689	1,480,987	1,562,121	1,749,089	2,027,031	497,894	546,732	547,972	479,096
Imports of goods	1,636,711	1,549,222	1,601,527	1,794,059	2,099,545	527,326	555,243	549,729	498,773
<b>Visible trade balance</b>	<b>-64,022</b>	<b>-68,235</b>	<b>-39,406</b>	<b>-44,970</b>	<b>-72,514</b>	<b>-29,432</b>	<b>-8,511</b>	<b>-1,757</b>	<b>-19,677</b>
	<b>&lt;-3.9&gt;</b>	<b>&lt;-4.4&gt;</b>	<b>&lt;-2.5&gt;</b>	<b>&lt;-2.5&gt;</b>	<b>&lt;-3.5&gt;</b>	<b>&lt;-5.6&gt;</b>	<b>&lt;-1.5&gt;</b>	<b>&lt;-0.3&gt;</b>	<b>&lt;-3.9&gt;</b>
Exports of services <sup>(a)</sup>	301,813	307,657	335,362	355,175	417,267	94,736	111,399	115,213	106,746
Imports of services	191,543	192,453	199,676	201,806	232,228	55,542	62,534	61,448	57,307
<b>Invisible trade balance<sup>(a)</sup></b>	<b>110,270</b>	<b>115,204</b>	<b>135,686</b>	<b>153,369</b>	<b>185,039</b>	<b>39,194</b>	<b>48,865</b>	<b>53,765</b>	<b>49,439</b>
	<b>&lt;57.6&gt;</b>	<b>&lt;59.9&gt;</b>	<b>&lt;68.0&gt;</b>	<b>&lt;76.0&gt;</b>	<b>&lt;79.7&gt;</b>	<b>&lt;70.6&gt;</b>	<b>&lt;78.1&gt;</b>	<b>&lt;87.5&gt;</b>	<b>&lt;86.3&gt;</b>
Exports of goods and services <sup>(a)</sup>	1,874,502	1,788,644	1,897,483	2,104,264	2,444,298	592,630	658,131	663,185	585,842
Imports of goods and services	1,828,254	1,741,675	1,801,203	1,995,865	2,331,773	582,868	617,777	611,177	556,080
<b>Visible and invisible trade balance<sup>(a)</sup></b>	<b>46,248</b>	<b>46,969</b>	<b>96,280</b>	<b>108,399</b>	<b>112,525</b>	<b>9,762</b>	<b>40,354</b>	<b>52,008</b>	<b>29,762</b>
	<b>&lt;2.5&gt;</b>	<b>&lt;2.7&gt;</b>	<b>&lt;5.3&gt;</b>	<b>&lt;5.4&gt;</b>	<b>&lt;4.8&gt;</b>	<b>&lt;1.7&gt;</b>	<b>&lt;6.5&gt;</b>	<b>&lt;8.5&gt;</b>	<b>&lt;5.4&gt;</b>

Notes : Figures in this table are reckoned on a GDP basis.

(a) Figures from 2002 to 2004 have been revised to incorporate the revised data on destination consumption expenditure of incoming visitors and travellers released by the Hong Kong Tourism Board.

(#) Revised figures.

(+) Preliminary figures.

( ) 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.

**Table 7 : Total exports of goods by market**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>		<u>2004</u>			<u>2005</u>
	(% change)					\$Mn	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
							(% change over a year earlier)			
<b>All markets</b>	<b>16.6</b>	<b>-5.8</b>	<b>5.4</b>	<b>11.7</b>	<b>15.9</b>	<b>2,019,114</b>	<b>17.8</b>	<b>17.2</b>	<b>15.3</b>	<b>10.6</b>
Mainland of China	20.8	0.6	12.3	21.1	19.7	888,543	22.2	23.0	17.1	12.0
United States	13.9	-9.8	1.0	-2.6	5.4	341,600	6.6	4.2	6.8	5.6
Japan	19.4	0.5	-4.5	12.3	14.4	107,545	17.2	14.3	16.3	11.9
United Kingdom	12.7	-12.2	-2.0	5.8	14.8	65,853	12.2	15.3	18.0	10.5
Germany	13.7	-13.9	-5.3	15.1	11.9	62,900	16.7	12.5	11.7	18.1
Taiwan	20.8	-11.1	-2.2	22.2	16.2	49,112	24.8	14.5	7.5	-3.2
Republic of Korea	34.5	-9.4	17.2	16.9	24.0	44,069	26.0	23.5	18.5	5.0
Singapore	13.4	-19.5	6.8	13.0	22.0	43,577	27.1	20.5	17.0	14.7
Rest of the world	12.4	-8.4	3.5	7.1	17.3	415,916	16.9	19.0	19.5	12.1

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

**Table 8 : Imports of goods by source**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>		<u>2004</u>			<u>2005</u>
	(% change)					\$Mn	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
							(% change over a year earlier)			
<b>All sources</b>	<b>19.0</b>	<b>-5.4</b>	<b>3.3</b>	<b>11.5</b>	<b>16.9</b>	<b>2,111,123</b>	<b>22.1</b>	<b>18.4</b>	<b>11.9</b>	<b>8.1</b>
Mainland of China	17.7	-4.6	5.1	9.6	16.9	918,275	18.1	18.3	16.7	13.9
Japan	22.3	-11.2	3.4	17.2	19.7	256,141	28.8	22.4	8.7	-0.8
Taiwan	23.6	-13.1	7.4	8.0	22.8	153,812	31.7	25.2	12.8	3.1
United States	14.4	-7.0	-12.8	7.9	13.4	111,994	17.3	14.3	5.2	5.7
Singapore	25.0	-2.8	3.9	19.6	22.5	110,986	34.4	23.9	15.7	12.4
Republic of Korea	23.2	-12.2	7.3	15.0	15.0	100,467	23.0	10.8	3.2	-9.0
Rest of the world	17.9	0.5	2.2	12.1	13.6	459,448	21.7	15.8	6.9	7.5

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

**Table 9 : Retained imports of goods by end-use category**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>		<u>2004</u>			<u>2005</u>
	(% change)					\$Mn	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
							(% change over a year earlier)			
<b>Overall</b>	<b>23.5</b>	<b>-9.1</b>	<b>-9.0</b>	<b>2.6</b>	<b>17.2</b>	<b>556,862</b>	<b>32.0</b>	<b>18.1</b>	<b>1.5</b>	<b>-1.2</b>
Foodstuffs	1.8	-2.6	0.2	1.5	8.4	49,118	20.6	8.5	-0.2	3.7
Consumer goods	15.5	3.9	-5.2	-1.8	8.6	122,538	28.1	7.8	-4.6	5.0
Fuels	30.3	-10.2	3.9	12.9	37.6	46,154	56.8	42.8	37.5	25.0
Raw materials and semi-manufactures	25.5	-22.3	-1.6	10.7	19.9	211,144	29.1	20.9	0.8	-7.1
Capital goods	34.0	-2.8	-24.9	-6.6	13.8	122,034	30.0	15.2	-4.7	-6.8

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

**Table 10 : Exports and imports of services by component**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003<sup>#</sup></u>	<u>2004<sup>#</sup></u>		<u>2004</u>			<u>2005</u>
	(% change)					\$Mn	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>+</sup></u>
							(% change over a year earlier)			
<b>Exports of services<sup>(a)</sup></b>	<b>13.7</b>	<b>1.9</b>	<b>9.0</b>	<b>5.9</b>	<b>17.5</b>	<b>417,267</b>	<b>37.2</b>	<b>14.5</b>	<b>9.6</b>	<b>11.3</b>
Transportation	11.5	-5.9	10.8	3.8	24.2	133,730	42.1	24.4	15.7	12.5
Travel <sup>(a)</sup>	7.4	0.7	25.4	-4.4	26.2	70,145	179.3	10.5	0.8	15.4
Trade-related	19.7	9.0	9.0	12.2	12.4	146,356	15.8	11.3	10.7	12.1
Other	12.9	4.3	-6.0	7.4	8.6	67,036	9.9	7.6	6.6	3.6
<b>Imports of services</b>	<b>4.1</b>	<b>0.5</b>	<b>3.8</b>	<b>1.1</b>	<b>15.1</b>	<b>232,228</b>	<b>34.7</b>	<b>12.2</b>	<b>10.2</b>	<b>8.7</b>
Transportation	23.9	4.7	-4.7	7.8	19.8	62,670	38.4	18.3	11.4	10.6
Travel	-4.4	-1.4	0.8	-8.0	15.9	103,347	51.0	10.0	10.3	8.9
Trade-related	6.3	5.7	24.2	9.2	12.8	18,058	17.2	12.2	11.0	12.2
Other	5.9	-1.9	17.7	11.9	8.6	48,153	8.9	9.8	8.2	5.0
<b>Net exports of services<sup>(a)</sup></b>	<b>35.3</b>	<b>4.5</b>	<b>17.8</b>	<b>13.0</b>	<b>20.6</b>	<b>185,039</b>	<b>40.8</b>	<b>17.5</b>	<b>9.0</b>	<b>14.4</b>

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

(a) Figures from 2002 to 2004 have been revised to incorporate the revised data on destination consumption expenditure of incoming visitors and travellers released by the Hong Kong Tourism Board.

(#) Revised figures.

(+) Preliminary figures.



**Table 11 : Incoming visitors by source**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>			<u>2005</u>
						Q2	Q3	Q4	Q1
<u>('000)</u>									
<b>All sources</b>	<b>13 059.5</b>	<b>13 725.3</b>	<b>16 566.4</b>	<b>15 536.8</b>	<b>21 810.6</b>	<b>5 077.4</b>	<b>5 745.5</b>	<b>6 052.5</b>	<b>5 469.9</b>
Mainland of China	3 785.8	4 448.6	6 825.2	8 467.2	12 245.9	2 749.0	3 311.3	3 266.4	3 038.8
South and Southeast Asia	1 747.1	1 746.6	1 905.2	1 359.6	2 077.7	533.4	500.5	667.3	499.2
Taiwan	2 385.7	2 418.8	2 428.8	1 852.4	2 074.8	501.0	562.5	529.6	502.0
Japan	1 382.4	1 336.5	1 395.0	867.2	1 126.3	256.8	317.8	331.6	316.8
Europe	1 068.8	1 019.9	1 083.9	780.8	1 142.7	267.2	260.8	352.9	308.5
United States	966.0	935.7	1 000.8	683.8	1 051.7	263.0	263.7	305.7	260.8
Others	1 723.5	1 819.2	1 927.4	1 525.8	2 091.7	507.0	528.8	599.2	543.8
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>15.3</b>	<b>5.1</b>	<b>20.7</b>	<b>-6.2</b>	<b>40.4</b>	<b>208.4</b>	<b>30.1</b>	<b>17.0</b>	<b>10.8</b>
Mainland of China	18.1	17.5	53.4	24.1	44.6	148.9	37.9	15.4	4.1
South and Southeast Asia	15.6	*	9.1	-28.6	52.8	449.7	31.2	30.0	32.6
Taiwan	15.6	1.4	0.4	-23.7	12.0	220.6	-6.0	-2.5	4.2
Japan	17.7	-3.3	4.4	-37.8	29.9	440.1	36.8	26.6	44.0
Europe	4.7	-4.6	6.3	-28.0	46.3	458.9	41.8	19.7	17.8
United States	12.5	-3.1	7.0	-31.7	53.8	521.7	39.5	27.4	18.9
Others	15.4	5.6	5.9	-20.8	37.1	236.6	23.2	22.3	19.1

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

(\*) Change of less than 0.05%.

**Table 12 : Hong Kong residents travelling abroad by destination**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>			<u>2005</u>
						Q2	Q3	Q4	Q1
<u>('000)</u>									
<b>All destinations</b>	<b>58 901.1</b>	<b>61 095.9</b>	<b>64 540.1</b>	<b>60 936.1</b>	<b>68 903.4</b>	<b>17 450.9</b>	<b>17 907.5</b>	<b>17 739.8</b>	<b>17 352.1</b>
Mainland of China	50 083.1	52 002.9	55 648.4	52 555.6	59 675.5	15 151.4	15 313.7	15 533.3	15 011.6
Macao	4 206.9	4 293.6	4 182.4	3 952.6	4 223.9	1 017.8	1 186.9	1 050.8	1 100.6
South and Southeast Asia	2 389.6	2 504.6	2 421.8	2 447.0	2 661.1	696.1	748.9	610.0	599.6
North Asia	739.0	761.6	774.5	699.8	806.4	209.2	219.4	190.3	225.1
Taiwan	468.7	525.5	538.2	414.5	536.1	140.2	144.4	130.8	138.1
Europe	323.5	323.7	346.6	322.7	373.6	94.0	117.9	74.0	94.4
Americas <sup>(a)</sup>	399.2	376.6	346.3	280.1	334.6	79.8	103.8	72.4	84.2
Australia and New Zealand	231.6	237.5	223.2	207.1	222.5	47.7	51.8	59.1	78.1
<u>(% change over a year earlier)</u>									
<b>All destinations</b>	<b>10.8</b>	<b>3.7</b>	<b>5.6</b>	<b>-5.6</b>	<b>13.1</b>	<b>41.4</b>	<b>6.8</b>	<b>7.3</b>	<b>9.8</b>
Mainland of China	10.9	3.8	7.0	-5.6	13.5	41.8	7.8	7.5	9.8
Macao	10.9	2.1	-2.6	-5.5	6.9	18.9	1.5	10.7	13.7
South and Southeast Asia	20.3	4.8	-3.3	1.0	8.7	41.0	-3.4	-1.2	-1.1
North Asia	-5.0	3.1	1.7	-9.6	15.2	59.4	2.1	7.7	20.0
Taiwan	11.6	12.1	2.4	-23.0	29.3	388.5	17.8	2.2	14.4
Europe	5.2	0.1	7.1	-6.9	15.8	57.9	1.6	5.2	7.5
Americas <sup>(a)</sup>	0.2	-5.7	-8.1	-19.1	19.5	112.2	14.4	1.6	7.2
Australia and New Zealand	0.5	2.6	-6.0	-7.2	7.4	18.0	5.3	7.8	22.1

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

(a) This includes the United States, Canada, Central America and South America.

**Table 13 : Property market**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>Completion of new property by the private sector</b>							
<i>(‘000 m<sup>2</sup> of internal floor area)</i>							
Residential property <sup>(a)</sup> (in units)	22 621	19 875	18 202	22 278	35 322	25 790	26 262
Commercial property	562	390	705	945	634	160	208
<i>of which :</i>							
Office space	355	269	456	737	428	96	76
Other commercial premises <sup>(b)</sup>	207	121	249	208	206	64	132
Industrial property <sup>(c)</sup>	375	440	343	300	191	62	45
<i>of which :</i>							
Industrial-cum-office premises	77	115	72	145	40	37	14
Conventional flatted factory space	249	242	181	31	4	19	30
Storage premises <sup>(d)</sup>	49	83	90	124	147	6	0
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	17 349	18 358	16 046	14 267	26 733	40 944	47 590
Subsidized sales flats <sup>(e)</sup>	16 672	10 725	21 535	21 993	26 532	22 768	26 174
<b>Building plans with consent to commence work in the private sector</b>							
<i>(‘000 m<sup>2</sup> of usable floor area)</i>							
Residential property <sup>(f)</sup>	688.2	1 058.2	1 631.4	1 472.0	1 692.8	1 142.7	1 002.5
Commercial property	674.0	1 005.7	599.0	395.7	287.5	337.5	265.0
Industrial property <sup>(g)</sup>	457.4	530.5	461.6	69.5	84.9	129.2	45.7
Other property	159.0	375.8	259.2	201.5	125.8	240.2	75.0
Total	1 978.6	2 970.2	2 951.2	2 138.7	2 190.9	1 849.5	1 388.1
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(h)</sup>	76 633	129 484	172 711	85 616	77 087	65 340	69 667
Non-residential property	21 016	17 939	32 750	25 873	21 379	20 404	18 523
Total	97 649	147 423	205 461	111 489	98 466	85 744	88 190
<b>Total value (\$Bn)</b>							
Residential property <sup>(h)</sup>	200.3	381.7	690.3	278.5	212.0	168.4	150.9
Non-residential property	65.5	92.9	177.7	62.4	44.6	54.1	41.9
Total	265.8	474.7	868.0	340.9	256.6	222.5	192.8

Notes : (a) These include 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 will 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. 2004 completions include those private flats converted from subsidised flats during the year.

The figures shown are the number of 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.

Excluding village-type housing units from 2002 and units issued with temporary Occupation Permits from 2004 onwards.

(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) Including industrial-cum-office premises, but excluding specialised factory buildings which are developed mainly for own use.

**Table 13 : Property market (cont'd)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>			<u>2005</u>
				Q2	Q3	Q4	Q1
<b>Completion of new property by the private sector<sup>+</sup></b>							
<i>('000 m<sup>2</sup> of internal floor area)</i>							
Residential property <sup>(a)</sup> (in units)	31 052	26 397	26 036	7 974	6 697	6 938	3 921
Commercial property	304	417	371	64	274	23	18
<i>of which :</i>							
Office space	166	299	279	60	197	14	0
Other commercial premises <sup>(b)</sup>	139	118	91	4	77	9	18
Industrial property <sup>(c)</sup>	29	15	1	0	1	0	0
<i>of which :</i>							
Industrial-cum-office premises	0	15	0	0	0	0	0
Conventional flatted factory space	3	0	1	0	1	0	0
Storage premises <sup>(d)</sup>	27	0	0	0	0	0	0
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	20 154	13 986	20 947	5 646	4 248	5 550	9 571
Subsidized sales flats <sup>(e)</sup>	2 224	320	0	0	0	0	0
<b>Building plans with consent to commence work in the private sector</b>							
<i>('000 m<sup>2</sup> of usable floor area)</i>							
Residential property <sup>(f)</sup>	790.0	1 038.4	530.0	191.4	41.4	48.0	104.6
Commercial property	365.3	200.0	161.3	32.3	80.4	31.9	46.2
Industrial property <sup>(g)</sup>	107.1	0.8	16.4	0.0	9.3	7.1	0.0
Other property	109.3	444.2	407.1	44.7	62.8	65.7	132.2
Total	1 371.8	1 683.3	1 114.8	268.4	193.9	152.8	283.0
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(h)</sup>	72 974	71 576	100 630	23 736	20 012	28 258	24 842
Non-residential property	12 947	15 733	22 850	5 718	4 529	6 868	5 165
Total	85 921	87 309	123 480	29 454	24 541	35 126	30 007
<b>Total value (\$Bn)</b>							
Residential property <sup>(h)</sup>	154.3	153.6	276.7	64.3	49.6	85.4	73.5
Non-residential property	31.1	35.8	75.1	19.0	12.6	26.8	20.0
Total	185.4	189.4	351.8	83.3	62.2	112.2	93.4

Notes (cont'd) : (d) Including storage premises at the container terminals and the airport.

(e) The Housing Authority housing production figures have been revised from 1998. The revision was to exhaustively cover all housing production and to count projects (including surplus HOS projects) which underwent 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) As from 1995, the classification of residential property has been revised to include developments under the UIS of the Housing Society, but to exclude developments under the HOS and the PSPS of the Housing

(g) Including multi-purpose industrial premises designed also for office use.

(h) It should be noted that primary sales of units under the HOS and the Tenants Purchase Scheme are not covered in this table, as sale and purchase agreements are commonly not required for these transactions. Also sale and purchase agreements for primary sales of units under the PSPS are not included in the row on residential property, yet they are included in the row on non-residential property, and thus also in the row for the total.

(+) Figures for 2004 and 2005 are provisional figures.

**Table 14 : Property prices and rentals**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	107.3	116.9	163.1	117.1	100.0	89.6	78.7
Office space <sup>(b)</sup>	194.6	188.4	213.1	134.5	100.0	89.9	78.7
Shopping space	129.7	134.0	177.3	128.3	100.0	93.6	86.8
Flatted factory space	198.7	171.4	168.9	131.8	100.0	91.2	82.0
Property rental indices <sup>(c)</sup>							
Residential flats	120.7	119.0	134.5	112.6	100.0	98.1	95.4
Office space <sup>(b)</sup>	178.6	152.3	156.8	135.9	100.0	98.5	101.0
Shopping space	117.8	117.8	123.5	111.2	100.0	101.3	99.4
Flatted factory space	146.9	132.4	132.5	118.1	100.0	95.4	90.3
<u>(% change)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	-6.6	8.9	39.5	-28.2	-14.6	-10.4	-12.2
Office space <sup>(b)</sup>	-15.5	-3.2	13.1	-36.9	-25.7	-10.1	-12.5
Shopping space	-2.8	3.3	32.3	-27.6	-22.1	-6.4	-7.3
Flatted factory space	-11.2	-13.7	-1.5	-22.0	-24.1	-8.8	-10.1
Property rental indices <sup>(c)</sup>							
Residential flats	2.2	-1.4	13.0	-16.3	-11.2	-1.9	-2.8
Office space <sup>(b)</sup>	-1.8	-14.7	3.0	-13.3	-26.4	-1.5	2.5
Shopping space	1.1	*	4.8	-10.0	-10.1	1.3	-1.9
Flatted factory space	-1.7	-9.9	0.1	-10.9	-15.3	-4.6	-5.3

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

(b) Since 2000, price and rental indices for office space in the private sector have been recompiled according to the revised grading criteria for office space. Hence, the figures from 2000 onwards are not strictly comparable to those in the earlier years.

(c) 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, their changes in rentals cover only new tenancies for which rentals are freshly determined. For non-residential property, their changes in rentals cover also lease renewals upon which rentals may be revised.

**Table 14 : Property prices and rentals (cont'd)**

	<u>2002</u>	<u>2003</u>	<u>2004<sup>#</sup></u>		<u>2004</u>		<u>2005</u>
				Q2	Q3	Q4 <sup>#</sup>	Q1 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	69.9	61.6	78.0	77.2	77.8	83.4	88.9
Office space <sup>(b)</sup>	68.4	62.5	98.9	97.2	99.4	110.2	120.2
Shopping space	85.0	85.5	118.6	115.2	118.6	131.1	139.4
Flatted factory space	74.8	71.7	88.2	83.5	90.7	98.1	106.6
Property rental indices <sup>(c)</sup>							
Residential flats	83.4	73.6	77.7	77.4	78.6	80.2	82.6
Office space <sup>(b)</sup>	85.4	74.6	78.1	76.8	79.0	82.0	87.3
Shopping space	92.9	86.4	92.9	92.0	94.4	96.3	96.3
Flatted factory space	82.7	74.9	77.3	76.8	77.5	79.2	81.2
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	-11.2	-11.9	26.6	29.1	31.2	29.5	20.8
Office space <sup>(b)</sup>	-13.1	-8.6	58.2	64.7	61.4	63.3	35.7
Shopping space	-2.1	0.6	38.7	41.3	41.0	37.6	27.5
Flatted factory space	-8.8	-4.1	23.0	19.3	28.3	33.1	32.6
Property rental indices <sup>(c)</sup>							
Residential flats	-12.6	-11.8	5.6	5.0	9.3	11.1	10.4
Office space <sup>(b)</sup>	-15.4	-12.6	4.7	3.4	10.2	12.2	17.5
Shopping space	-6.5	-7.0	7.5	9.4	11.2	10.2	8.3
Flatted factory space	-8.4	-9.4	3.2	4.1	7.3	6.6	7.3

Notes (cont'd) : (#) Figures for non-residential property are provisional.

(+) Provisional figures.

(\*) Change of less than 0.05%.

**Table 15 : Monetary aggregates**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	171,642	198,311	188,135	178,260	205,339	203,966	229,841
M2 <sup>(a)</sup>	1,260,427	1,503,603	1,666,419	1,828,691	1,923,481	1,987,963	1,998,774
M3 <sup>(a)</sup>	1,278,288	1,520,461	1,684,325	1,840,824	1,935,471	2,002,358	2,016,635
Total money supply (\$Mn)							
M1	190,471	217,460	208,093	197,666	225,156	243,847	258,056
M2	2,282,849	2,532,236	2,788,808	3,111,942	3,386,196	3,649,492	3,550,060
M3	2,363,963	2,611,636	2,871,425	3,168,199	3,434,467	3,692,753	3,594,130
Deposit <sup>(b)</sup> (\$Mn)							
HK\$	1,171,627	1,400,077	1,551,555	1,699,726	1,773,169	1,851,177	1,854,651
Foreign currency	1,054,612	1,058,180	1,158,728	1,300,302	1,477,448	1,676,670	1,551,852
Total	2,226,238	2,458,256	2,710,282	3,000,027	3,250,617	3,527,847	3,406,502
Loans and advances (\$Mn)							
HK\$	1,237,330	1,447,844	1,742,481	1,695,027	1,607,126	1,652,191	1,647,684
Foreign currency	2,501,228	2,467,045	2,379,189	1,609,400	1,205,784	809,259	537,301
Total	3,738,558	3,914,890	4,121,670	3,304,427	2,812,910	2,461,450	2,184,986
Nominal Effective Exchange Rate Indices (Jan 2000 = 100) <sup>(c)(d)</sup>							
Trade-weighted	91.6	94.0	98.0	103.4	100.9	101.7	104.7
Import-weighted	89.6	93.0	97.9	105.5	101.4	101.5	105.1
Export-weighted	93.7	95.1	98.1	101.3	100.4	101.9	104.3
<u>(% change)</u>							
Hong Kong dollar money supply :							
M1	2.2	15.5	-5.1	-5.2	15.2	-0.7	12.7
M2 <sup>(a)</sup>	15.1	19.3	--	9.7	5.2	3.4	0.5
M3 <sup>(a)</sup>	14.9	18.9	--	9.3	5.1	3.5	0.7
Total money supply :							
M1	2.8	14.2	-4.3	-5.0	13.9	8.3	5.8
M2	14.6	10.9	--	11.6	8.8	7.8	-2.7
M3	14.2	10.5	--	10.3	8.4	7.5	-2.7
Deposit <sup>(b)</sup>							
HK\$	15.3	19.5	--	9.5	4.3	4.4	0.2
Foreign currency	13.5	0.3	--	12.2	13.6	13.5	-7.4
Total	14.4	10.4	--	10.7	8.4	8.5	-3.4
Loans and advances							
HK\$	10.5	17.0	20.4	-2.7	-5.2	2.8	-0.3
Foreign currency	16.6	-1.4	-3.6	-32.4	-25.1	-32.9	-33.6
Total	14.5	4.7	5.3	-19.8	-14.9	-12.5	-11.2
Nominal Effective Exchange Rate Indices <sup>(c)(d)</sup>							
Trade-weighted	-4.0	2.6	4.3	5.5	-2.4	0.8	2.9
Import-weighted	-4.3	3.8	5.3	7.8	-3.9	0.1	3.5
Export-weighted	-3.6	1.5	3.2	3.3	-0.9	1.5	2.4

**Definition of Terms :**

The Hong Kong Dollar Money Supply is the Hong Kong dollar component of the respective monetary aggregate. Starting from April 1997, money supply definition has been revised to include short-term Exchange Fund placement of less than one month in the monetary aggregates. As such, figures after 1997 cannot be compared with those in the previous period.

**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 15 : Monetary aggregates (cont'd)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>		<u>2004</u>		<u>2005</u>
				Q2	Q3	Q4	Q1
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	259,411	354,752	412,629	385,100	371,163	412,629	387,168
M2 <sup>(a)</sup>	1,984,049	2,107,269	2,208,591	2,067,979	2,070,191	2,208,591	2,201,393
M3 <sup>(a)</sup>	2,004,225	2,122,861	2,219,523	2,083,144	2,084,012	2,219,523	2,214,594
Total money supply (\$Mn)							
M1	295,650	413,423	484,494	447,638	445,001	484,494	464,340
M2	3,518,326	3,813,442	4,166,706	3,827,314	3,908,156	4,166,706	4,164,250
M3	3,561,852	3,858,044	4,189,511	3,875,750	3,948,801	4,189,511	4,189,596
Deposit <sup>(b)</sup> (\$Mn)							
HK\$	1,824,911	1,930,790	2,017,878	1,883,625	1,881,039	2,017,878	2,004,436
Foreign currency	1,492,631	1,636,227	1,848,145	1,685,935	1,751,226	1,848,145	1,848,632
Total	3,317,542	3,567,018	3,866,023	3,569,560	3,632,265	3,866,023	3,853,068
Loans and advances (\$Mn)							
HK\$	1,615,667	1,573,079	1,666,766	1,606,403	1,605,858	1,666,766	1,699,069
Foreign currency	460,659	462,000	488,965	468,779	472,911	488,965	481,657
Total	2,076,325	2,035,079	2,155,730	2,075,182	2,078,769	2,155,730	2,180,726
Nominal Effective Exchange Rate Indices							
(Jan 2000 =100) <sup>(c)(d)</sup>							
Trade-weighted	104.0	100.7	98.3	98.8	98.7	97.3	96.2
Import-weighted	104.7	101.6	99.2	99.7	99.7	98.2	96.9
Export-weighted	103.3	99.8	97.3	97.9	97.7	96.4	95.5
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	12.9	36.8	16.3	39.0	24.1	16.3	2.9
M2 <sup>(a)</sup>	-0.7	6.2	4.8	2.8	0.7	4.8	6.4
M3 <sup>(a)</sup>	-0.6	5.9	4.6	2.6	0.6	4.6	6.2
Total money supply :							
M1	14.6	39.8	17.2	39.3	27.4	17.2	6.4
M2	-0.9	8.4	9.3	6.8	6.5	9.3	9.2
M3	-0.9	8.3	8.6	6.9	6.4	8.6	8.6
Deposit <sup>(b)</sup>							
HK\$	-1.6	5.8	4.5	2.3	-0.3	4.5	6.2
Foreign currency	-3.8	9.6	13.0	11.8	13.2	13.0	10.8
Total	-2.6	7.5	8.4	6.5	5.8	8.4	8.4
Loans and advances							
HK\$	-1.9	-2.6	6.0	0.6	2.4	6.0	8.1
Foreign currency	-14.3	0.3	5.8	2.8	5.2	5.8	2.4
Total	-5.0	-2.0	5.9	1.1	3.0	5.9	6.8
Nominal Effective Exchange Rate Indices <sup>(c)(d)</sup>							
Trade-weighted	-0.7	-3.2	-2.4	-2.2	-2.1	-2.2	-2.2
Import-weighted	-0.4	-3.0	-2.4	-2.4	-2.0	-2.1	-2.5
Export-weighted	-1.0	-3.4	-2.5	-2.0	-2.2	-2.2	-2.0

- Notes : (a) Adjusted to include foreign currency swap deposits.
- (b) Starting from April 1997, deposits include short-term Exchange Fund placements of less than one month. As such, figures after 1997 cannot be compared with those in the previous period.
- (c) Period average.
- (d) The Effective Exchange Rate Indices (EERIs) from January 2000 onwards are compiled on the basis of the average merchandise trade pattern from 1999 to 2000. The EERIs for the earlier periods are compiled on the basis of the average merchandise trade pattern in a much earlier period from 1991 to 1993, and have been re-scaled to the new base period for linking up with the new index series.
- (--) Not applicable.



**Table 16 : Rates of change in business receipts indices for service industries/domains**

(%)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>			
						Q1	Q2	Q3	Q4
Wholesale trade	3.6	-12.0	-10.7	-5.0	4.7	5.7	9.6	3.3	0.9
Retail trade	3.8	-1.2	-4.1	-2.3	10.8	8.4	19.0	8.5	8.3
Import/export trade	12.0	-14.1	-2.8	6.5	12.4	14.3	15.6	11.6	9.1
Restaurants	2.1	-2.5	-5.4	-9.7	10.1	3.7	21.4	8.2	8.9
Hotels	16.7	-7.6	-2.3	-19.7	39.4	13.0	190.4	26.9	22.5
Transport <sup>(a)</sup>	20.8	-2.4	2.3	0.5	22.8	13.4	36.5	23.5	19.7
Storage	2.0	-14.9	-19.6	-4.5	17.0	17.6	24.5	16.5	10.6
Communications	8.7	-13.2	-2.6	-2.4	1.0	-3.7	1.7	2.8	3.1
Banking	0.8	2.7	-0.8	*	4.4	13.8	-1.4	-2.7	8.6
Finance (other than banking)	40.7	-12.6	-14.3	17.3	33.2	76.0	38.5	15.1	17.8
Insurance	13.1	14.2	10.3	19.1	22.3	29.1	28.6	15.7	17.7
Real estate	-0.1	-16.9	-2.5	6.2	13.5	25.0	5.8	7.6	16.2
Business services	2.4	-9.6	-5.8	0.5	8.3	7.6	10.1	6.6	8.7
Film entertainment	14.4	15.2	-9.1	2.3	3.7	4.2	14.5	2.0	-4.3
Tourism, convention and exhibition services <sup>+</sup>	13.7	-3.8	10.7	-7.3	27.1	12.6	154.8	12.7	6.0
Computer and information services	24.6	-11.6	5.7	5.7	20.5	23.0	18.4	22.6	18.2

Notes : (a) Including business receipts from the Airport Authority Hong Kong.

(+) Figures for 2004 are provisional figures.

(\*) Change of less than 0.05%.

**Table 17 : Labour force characteristics**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>			<u>2005</u>
						Q2	Q3	Q4	Q1
<u>(%)</u>									
Labour force participation rate	61.4	61.4	61.8	61.4	61.3	61.3	61.3	61.3	61.1
Seasonally adjusted unemployment rate	4.9	5.1	7.3	7.9	6.8	6.9	6.8	6.5	6.1
Underemployment rate	2.8	2.5	3.0	3.5	3.3	3.5	3.2	3.1	3.1
<u>('000)</u>									
Population of working age	5 498.7	5 579.2	5 642.8	5 694.0	5 755.1	5 745.6	5 761.4	5 795.3	5 837.7
Labour force	3 374.2	3 427.1	3 487.1	3 496.2	3 529.0	3 522.7	3 531.5	3 555.4	3 565.1
Persons employed	3 207.3	3 252.3	3 231.6	3 219.1	3 287.6	3 282.4	3 282.6	3 328.5	3 354.5
Persons unemployed	166.9	174.8	255.5	277.2	241.4	240.2	248.9	226.9	210.6
Persons underemployed	93.5	85.5	105.2	123.3	116.2	122.4	112.9	110.8	109.8
<u>(% change over a year earlier)</u>									
Population of working age	1.6	1.5	1.1	0.9	1.1	1.2	1.0	1.1	2.1
Labour force	1.6	1.6	1.8	0.3	0.9	0.8	1.0	1.5	1.7
Persons employed	3.1	1.4	-0.6	-0.4	2.1	2.6	2.7	2.4	3.0
Persons unemployed	-19.6	4.7	46.2	8.5	-12.9	-19.4	-16.4	-10.7	-15.6
Persons underemployed	-3.5	-8.6	23.0	17.3	-5.7	-18.5	-10.9	-4.5	-7.6

**Table 18 : Employment in selected major economic sectors**

Major economic sector	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>				No.
	(% change)					<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	
<b>Manufacturing</b>	<b>-6.4</b>	<b>-8.6</b>	<b>-9.0</b>	<b>-10.3</b>	<b>-3.0</b>	<b>-5.6</b>	<b>-1.7</b>	<b>-2.8</b>	<b>-1.8</b>	<b>165 300</b>
<i>of which :</i>										
Wearing apparel, except footwear	-11.6	-14.9	-19.3	-11.6	-0.8	-1.6	1.2	-2.6	*	22 500
Textiles	-7.4	-8.7	-1.1	-16.8	-11.1	-16.7	-16.3	-8.4	-1.6	20 000
Electronics	4.7	-17.4	-13.1	-18.9	-2.3	-7.1	0.6	-2.8	0.3	15 500
Plastic products	-11.8	-16.4	-17.0	-19.1	-16.8	-12.6	-17.0	-22.8	-14.5	3 300
Fabricated metal products, except machinery and equipment	-8.8	-16.9	-14.6	-20.7	-4.9	-0.4	-10.2	-1.1	-8.4	5 600
<b>Wholesale, retail, import/export trades, restaurants and hotels</b>	<b>4.7</b>	<b>-1.2</b>	<b>-2.3</b>	<b>-3.0</b>	<b>2.9</b>	<b>0.4</b>	<b>3.2</b>	<b>4.9</b>	<b>3.0</b>	<b>1 003 500</b>
<i>of which :</i>										
Wholesale, retail and import/export trades	5.5	-1.9	-1.6	-1.9	2.1	-0.3	1.6	4.4	2.6	792 500
Restaurants and hotels	1.7	1.2	-4.8	-7.3	6.0	3.2	9.7	6.6	4.7	210 900
<b>Transport, storage and communications</b>	<b>2.6</b>	<b>2.4</b>	<b>-1.8</b>	<b>-4.4</b>	<b>3.7</b>	<b>2.1</b>	<b>4.7</b>	<b>4.1</b>	<b>4.0</b>	<b>181 300</b>
<i>of which :</i>										
Land transport	-2.3	2.6	-0.3	0.5	-2.2	-0.9	-3.0	-3.2	-1.7	38 200
Water transport	0.3	3.3	1.0	-3.6	0.1	-1.8	4.3	-4.0	2.2	28 000
Services allied to transport	5.9	-0.8	1.1	-3.7	10.3	3.0	11.7	14.1	12.7	58 400
<b>Financing, insurance, real estate and business services</b>	<b>5.3</b>	<b>1.6</b>	<b>-1.3</b>	<b>-1.9</b>	<b>3.6</b>	<b>1.4</b>	<b>3.6</b>	<b>3.7</b>	<b>5.6</b>	<b>447 400</b>
<i>of which :</i>										
Financial institutions	0.1	-0.5	-5.6	-6.5	1.1	-2.5	3.2	2.4	1.4	122 400
Insurance	-1.1	7.1	0.3	1.2	2.4	3.0	-0.3	-0.6	7.7	29 100
Real estate	-0.7	-3.0	5.2	0.7	2.2	1.1	1.8	4.2	1.8	87 500
Business services except machinery and equipment rental and leasing	13.6	4.5	-1.2	-0.2	6.0	3.8	5.3	4.9	9.8	207 800
<b>Community, social and personal services</b>	<b>3.2</b>	<b>7.2</b>	<b>5.9</b>	<b>2.9</b>	<b>3.2</b>	<b>3.5</b>	<b>4.4</b>	<b>0.4</b>	<b>4.5</b>	<b>435 200</b>
<i>of which :</i>										
Sanitary and similar services	4.3	5.1	13.8	6.0	1.5	3.2	3.6	0.2	-0.7	57 400
Education services	3.3	6.9	2.5	2.9	1.8	2.9	1.9	*	2.4	131 900
Medical, dental and other health services	-0.3	5.5	3.2	-0.3	2.5	1.8	2.1	2.6	3.7	75 800
Welfare institutions	10.6	25.4	11.9	13.9	2.1	4.7	7.0	-1.1	-1.2	53 900
<b>Civil Service<sup>(a)</sup></b>	<b>-2.2</b>	<b>-3.5</b>	<b>-3.7</b>	<b>-2.4</b>	<b>-3.8</b>	<b>-3.6</b>	<b>-3.9</b>	<b>-3.8</b>	<b>-3.8</b>	<b>158 400</b>

Notes : (a) These figures cover only those employed on Civil Service terms of appointment. Judicial officers, consultants, contract staff and temporary staff not appointed on Civil Service terms are not included.

(\*) Change of less than 0.05%.

**Table 19 : Number of workers engaged at building and construction sites**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>		<u>2004</u>		
						Mar	Jun	Sep	Dec
<u>(number)</u>									
Building sites									
Private sector	34 024	40 556	40 017	33 892	33 619	34 684	36 077	33 142	30 571
Public sector <sup>(a)</sup>	27 254	17 183	11 727	13 449	10 565	13 043	11 004	9 688	8 526
Sub-total	61 277	57 738	51 744	47 341	44 184	47 727	47 081	42 830	39 097
Civil engineering sites									
Private sector	1 657	2 633	2 869	2 755	2 564	2 065	2 664	2 672	2 855
Public sector <sup>(a)</sup>	16 666	19 931	18 611	17 466	16 772	16 289	16 820	16 980	16 999
Sub-total	18 322	22 564	21 480	20 221	19 336	18 354	19 484	19 652	19 854
<b>Total</b>	<b>79 599</b>	<b>80 302</b>	<b>73 223</b>	<b>67 562</b>	<b>63 520</b>	<b>66 081</b>	<b>66 565</b>	<b>62 482</b>	<b>58 951</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	9.1	19.2	-1.3	-15.3	-0.8	-2.3	12.0	-2.9	-9.4
Public sector <sup>(a)</sup>	0.4	-37.0	-31.8	14.7	-21.4	-7.7	-25.4	-23.7	-30.2
Sub-total	5.1	-5.8	-10.4	-8.5	-6.7	-3.8	0.3	-8.5	-14.9
Civil engineering sites									
Private sector	9.7	58.9	9.0	-4.0	-6.9	-33.0	15.0	-22.6	31.7
Public sector <sup>(a)</sup>	49.9	19.6	-6.6	-6.2	-4.0	-5.4	-6.6	-4.1	0.4
Sub-total	45.1	23.1	-4.8	-5.9	-4.4	-9.6	-4.1	-7.1	4.0
<b>Total</b>	<b>12.2</b>	<b>0.9</b>	<b>-8.8</b>	<b>-7.7</b>	<b>-6.0</b>	<b>-5.5</b>	<b>-1.0</b>	<b>-8.1</b>	<b>-9.4</b>

Note : (a) Including the Mass Transit Railway Corporation Limited, the Kowloon-Canton Railway Corporation and the Airport Authority Hong Kong.

**Table 20 : Average labour earnings by major economic sector**

(\$)

Major economic sector	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>			
						Q1	Q2	Q3	Q4
Wholesale, retail and import/export trades	12,400 (2.4) <6.4>	12,700 (2.0) <3.7>	12,500 (-1.6) <1.4>	12,300 (-1.5) <1.1>	12,400 (0.4) <0.9>	14,300 (0.9) <2.7>	11,500 (1.4) <2.3>	11,300 (-0.7) <-1.4>	12,300 (0.1) <-0.2>
Restaurants and hotels	9,000 (-2.4) <1.5>	9,000 (0.1) <1.7>	8,700 (-4.2) <-1.1>	8,100 (-6.2) <-3.7>	8,100 (-0.1) <0.4>	8,500 (-3.5) <-1.7>	7,700 (2.1) <3.0>	8,000 (1.4) <0.6>	8,100 (0.3) <*>
Transport, storage and communications	18,700 (0.9) <4.8>	18,900 (1.3) <3.0>	18,900 (-0.2) <2.9>	18,500 (-1.7) <0.9>	18,300 (-1.3) <-0.9>	19,400 (-2.4) <-0.6>	17,300 (0.7) <1.6>	16,900 (-0.8) <-1.6>	19,600 (-2.5) <-2.7>
Financing, insurance, real estate and business services	19,200 (1.4) <5.4>	19,200 (0.4) <2.0>	18,800 (-2.2) <0.8>	18,600 (-1.4) <1.2>	18,500 (-0.1) <0.4>	20,400 (0.5) <2.3>	17,900 (2.0) <2.9>	16,900 (-1.4) <-2.2>	19,000 (-1.3) <-1.5>
Community, social and personal services	19,900 (0.1) <4.0>	20,000 (0.7) <2.3>	19,800 (-1.3) <1.9>	18,900 (-4.7) <-2.2>	18,400 (-2.6) <-2.2>	18,300 (-6.2) <-4.5>	17,900 (-2.8) <-1.9>	19,000 (-0.1) <-0.9>	18,300 (-1.1) <-1.3>
Manufacturing	11,700 (1.5) <5.5>	11,900 (2.1) <3.8>	11,800 (-1.2) <1.9>	11,400 (-3.0) <-0.4>	11,300 (-0.6) <-0.2>	12,400 (-0.4) <1.4>	11,000 (-0.7) <0.2>	10,600 (-1.8) <-2.5>	11,500 (0.3) <0.1>
<b>All sectors surveyed</b>	<b>15,200</b> <b>(1.4)</b> <b>&lt;5.3&gt;</b>	<b>15,400</b> <b>(1.8)</b> <b>&lt;3.5&gt;</b>	<b>15,300</b> <b>(-1.1)</b> <b>&lt;2.0&gt;</b>	<b>15,000</b> <b>(-1.8)</b> <b>&lt;0.8&gt;</b>	<b>14,900</b> <b>(-0.7)</b> <b>&lt;-0.2&gt;</b>	<b>16,100</b> <b>(-1.7)</b> <b>&lt;0.1&gt;</b>	<b>14,200</b> <b>(0.4)</b> <b>&lt;1.3&gt;</b>	<b>14,100</b> <b>(-0.5)</b> <b>&lt;-1.3&gt;</b>	<b>15,100</b> <b>(-0.6)</b> <b>&lt;-0.9&gt;</b>

Notes : ( ) % change over a year earlier in money terms.

&lt; &gt; % change over a year earlier in real terms.

(\*) Change of less than 0.05%.

**Table 21 : Rates of change in wage indices by selected major economic sector**

(%)

Selected major economic sector	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>			
						Mar	Jun	Sep	Dec
<u>(in money terms)</u>									
Wholesale, retail and import/export trades	1.8	1.4	-0.6	-1.7	-1.6	-2.2	-0.8	-1.9	-1.6
Restaurants and hotels	-0.9	0.7	-2.6	-4.1	-2.2	-3.6	-1.6	-1.8	-1.8
Transport services	-3.1	0.7	0.6	-1.9	-1.0	-1.9	-0.5	-0.3	-1.1
Financing, insurance, real estate and business services	0.4	-0.9	-0.8	-0.1	-0.5	0.6	0.8	-2.0	-1.4
Personal services	0.3	0.7	-1.5	-3.1	1.3	-2.4	2.7	3.3	1.8
Manufacturing	2.0	2.2	-1.4	-2.7	-1.3	-1.4	-1.1	-1.1	-1.7
<b>All sectors surveyed</b>	<b>0.5</b>	<b>0.8</b>	<b>-1.0</b>	<b>-1.9</b>	<b>-1.1</b>	<b>-1.6</b>	<b>-0.3</b>	<b>-1.3</b>	<b>-1.3</b>
<u>(in real terms)</u>									
Wholesale, retail and import/export trades	4.9	4.1	1.7	0.4	-1.7	-0.4	-1.0	-3.1	-2.1
Restaurants and hotels	2.1	3.3	-0.3	-2.1	-2.2	-1.8	-1.8	-3.0	-2.3
Transport services	-0.1	3.4	2.9	0.1	-1.0	-0.1	-0.7	-1.5	-1.6
Financing, insurance, real estate and business services	3.4	1.7	1.5	2.0	-0.5	2.5	0.6	-3.1	-1.9
Personal services	3.4	3.3	0.8	-1.1	1.3	-0.6	2.5	2.1	1.3
Manufacturing	5.1	4.8	0.8	-0.7	-1.3	0.4	-1.3	-2.3	-2.2
<b>All sectors surveyed</b>	<b>3.6</b>	<b>3.4</b>	<b>1.3</b>	<b>0.2</b>	<b>-1.2</b>	<b>0.2</b>	<b>-0.5</b>	<b>-2.5</b>	<b>-1.7</b>

**Table 22 : Rates of change in prices**

	(%)						
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
GDP deflator	2.5	5.8	5.7	0.2	-5.8	-6.2	-1.9
Domestic demand deflator	5.0	5.1	4.6	0.5	-2.4	-5.3	-2.5
Consumer Price Indices <sup>(a)</sup> :							
Composite CPI	9.1	6.3	5.8	2.8	-4.0	-3.8	-1.6
CPI(A)	8.7	6.0	5.7	2.6	-3.3	-3.0	-1.7
CPI(B)	9.2	6.4	5.8	2.8	-4.7	-3.9	-1.6
CPI(C)	9.6	6.6	6.1	3.2	-3.7	-4.5	-1.5
Unit Value Indices :							
Domestic exports	2.4	0.3	-2.4	-2.8	-2.4	-1.0	-4.7
Re-exports	3.5	-0.5	-1.5	-3.9	-2.8	-0.1	-2.0
Total exports of goods	3.3	-0.3	-1.6	-3.8	-2.7	-0.2	-2.3
Imports of goods	5.0	-1.3	-2.3	-4.9	-2.0	0.8	-3.1
Terms of Trade Index	-1.6	1.0	0.7	1.2	-0.7	-1.0	0.9
Producer Price Index for all manufacturing industries	2.8	-0.1	-0.3	-1.8	-1.6	0.2	-1.6
Construction Labour and Material Cost Index	5.2	6.8	9.3	7.5	1.4	1.8	0.3
Tender Price Indices :							
Public sector building projects	17.8	14.4	17.6	9.1	-4.4	-13.1	-8.5
Public housing projects	18.3	11.4	18.9	9.0	-3.3	-11.9	-15.1

Notes : (a) As from October 2000 onwards, the year-on-year rates of change in the Consumer Price Indices are computed from the new 1999/2000-based CPI series. For the earlier periods, they are computed from the CPIs with old base period.

(#) Revised figures.

(+) Preliminary figures.

(\*) Change of less than 0.05%.

N.A. Not available.

**Table 22 : Rates of change in prices (cont'd)**

	(%)						
	<u>2002</u>	<u>2003</u>	<u>2004</u>		<u>2004</u>		<u>2005</u>
				Q2	Q3	Q4	Q1
GDP deflator	-3.6	-6.1 #	-2.8 #	-2.8 #	-2.6 #	-2.1 #	-1.9 +
Domestic demand deflator	-5.1	-4.5 #	0.2 #	0.5 #	0.9 #	0.3 #	* +
Consumer Price Indices <sup>(a)</sup> :							
Composite CPI	-3.0	-2.6	-0.4	-0.9	0.8	0.2	0.4
CPI(A)	-3.2	-2.1	*	-0.7	1.4	0.5	0.7
CPI(B)	-3.1	-2.7	-0.5	-0.9	0.7	0.2	0.4
CPI(C)	-2.8	-2.9	-0.9	-1.1	0.2	-0.1	-0.1
Unit Value Indices :							
Domestic exports	-3.3	0.2	1.5	0.2	1.8	4.2	4.8
Re-exports	-2.7	-1.5	1.1	0.5	2.0	2.5	2.0
Total exports of goods	-2.7	-1.4	1.2	0.5	1.9	2.6	2.1
Imports of goods	-3.9	-0.4	2.9	2.3	4.0	4.3	4.0
Terms of Trade Index	1.2	-1.0	-1.7	-1.8	-2.0	-1.6	-1.8
Producer Price Index for all manufacturing industries	-2.7	-0.3	2.2	2.7	2.0	1.4	N.A.
Construction Labour and Material Cost Index	-0.3	-1.0	-1.2	-1.7	-1.1	-0.7	N.A.
Tender Price Indices :							
Public sector building projects	-11.7	-0.3	-1.5	-1.5	-2.5	2.9	N.A.
Public housing projects	-9.6	-10.0	3.5	3.0	4.2	5.7	8.5



**Table 23 : Rates of change in Composite Consumer Price Index**

(%)

	Weight	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>All items</b>	<b>100.0</b>	<b>9.1</b>	<b>6.3</b>	<b>5.8</b>	<b>2.8</b>	<b>-4.0</b>	<b>-3.8</b>	<b>-1.6</b>
Food	26.67	7.1	3.9	3.6	1.9	-1.8	-2.2	-0.8
<i>Meals bought away from home</i>	<i>(16.39)</i>	<i>6.9</i>	<i>3.9</i>	<i>4.0</i>	<i>2.2</i>	<i>-1.2</i>	<i>-0.9</i>	<i>-0.3</i>
<i>Food, excluding meals bought away from home</i>	<i>(10.28)</i>	<i>7.4</i>	<i>3.9</i>	<i>3.0</i>	<i>1.5</i>	<i>-2.8</i>	<i>-4.2</i>	<i>-1.7</i>
Housing <sup>(a)</sup>	29.91	13.1	10.2	9.2	4.7	-5.1	-8.2	-3.1
<i>Private housing rent</i>	<i>(24.59)</i>	<i>13.7</i>	<i>10.7</i>	<i>9.1</i>	<i>5.5</i>	<i>-6.1</i>	<i>-9.8</i>	<i>-2.9</i>
<i>Public housing rent</i>	<i>(2.07)</i>	<i>9.0</i>	<i>8.3</i>	<i>13.5</i>	<i>-3.4</i>	<i>1.4</i>	<i>1.1</i>	<i>-8.3</i>
Electricity, gas and water	2.98	7.4	5.0	5.0	1.4	-0.4	3.6	-1.9
Alcoholic drinks and tobacco	0.94	6.1	5.7	5.6	6.6	1.2	-0.9	3.3
Clothing and footwear	4.13	9.6	8.3	8.4	-0.8	-20.6	-10.1	-4.6
Durable goods	6.24	4.2	1.9	2.2	0.2	-6.3	-4.6	-7.1
Miscellaneous goods	5.70	6.3	2.7	5.4	2.6	-0.7	0.9	1.3
Transport	9.01	7.4	6.2	4.0	3.9	0.5	1.0	0.4
Miscellaneous services	14.42	10.3	6.1	4.5	2.7	-1.3	-0.2	0.5

Notes : As from October 2000 onwards, the year-on-year rates of change are computed from the 1999/2000-based Consumer Price Indices series. For the earlier periods, the year-on-year rates of change are computed from the 1994/95-based CPI series.

(a) Apart from "Private housing rent" and "Public housing rent", the "Housing" section also includes "Management fee and other housing charges" and "Tools and materials for housing maintenance".

(\*) Change of less than 0.05%.

**Table 23 : Rates of change in Composite Consumer Price Index (cont'd)**

(%)								
	Weight	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>			<u>2005</u>
					Q2	Q3	Q4	Q1
<b>All items</b>	<b>100.0</b>	<b>-3.0</b>	<b>-2.6</b>	<b>-0.4</b>	<b>-0.9</b>	<b>0.8</b>	<b>0.2</b>	<b>0.4</b>
Food	26.67	-2.1	-1.5	1.0	1.0	1.4	1.7	1.9
<i>Meals bought away from home</i>	<i>(16.39)</i>	<i>-1.5</i>	<i>-1.5</i>	<i>0.2</i>	<i>0.3</i>	<i>0.5</i>	<i>0.5</i>	<i>0.6</i>
<i>Food, excluding meals bought away from home</i>	<i>(10.28)</i>	<i>-3.1</i>	<i>-1.7</i>	<i>2.5</i>	<i>2.3</i>	<i>2.8</i>	<i>3.6</i>	<i>3.9</i>
Housing <sup>(a)</sup>	29.91	-5.7	-4.8	-5.2	-6.7	-2.3	-3.9	-2.6
<i>Private housing rent</i>	<i>(24.59)</i>	<i>-6.5</i>	<i>-6.3</i>	<i>-6.6</i>	<i>-8.2</i>	<i>-3.8</i>	<i>-4.9</i>	<i>-3.4</i>
<i>Public housing rent</i>	<i>(2.07)</i>	<i>-2.7</i>	<i>9.1</i>	<i>2.5</i>	<i>0.1</i>	<i>10.3</i>	<i>0.1</i>	<i>0.1</i>
Electricity, gas and water	2.98	-7.0	1.4	11.4	3.0	12.7	9.8	4.1
Alcoholic drinks and tobacco	0.94	2.4	0.1	*	0.4	-0.1	-0.3	0.1
Clothing and footwear	4.13	0.7	-2.7	6.4	9.2	6.7	4.0	3.4
Durable goods	6.24	-6.3	-6.4	-2.2	-1.4	-1.9	-2.1	-2.2
Miscellaneous goods	5.70	1.7	2.3	3.6	4.4	3.6	2.5	1.5
Transport	9.01	-0.6	-0.4	0.4	0.4	0.7	0.8	0.7
Miscellaneous services	14.42	-2.3	-3.2	-0.2	*	1.2	1.2	1.4

**Table 24 : Rates of change in implicit price deflators of GDP  
and its main expenditure components**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
							( <b>%</b> )
Private consumption expenditure	8.6	5.5	3.9	2.4	-5.4	-4.9	-1.3
Government consumption expenditure	9.1	6.5	6.4	2.6	-0.1	-1.9	1.1
Gross domestic fixed capital formation	-1.0	2.0	6.0	-7.2	0.4	-3.8	-6.6
Total exports of goods	2.6	-0.7	-1.9	-3.3	-3.4	-0.5	-2.6
Imports of goods	4.8	-1.2	-1.9	-4.4	-2.6	0.8	-3.5
Exports of services	5.4	1.6	0.7	-5.2	-3.3	0.5	-4.0
Imports of services	9.4	-0.1	0.6	-3.0	-0.8	-0.2	-1.5
<b>Gross Domestic Product</b>	<b>2.5</b>	<b>5.8</b>	<b>5.7</b>	<b>0.2</b>	<b>-5.8</b>	<b>-6.2</b>	<b>-1.9</b>
Total final demand	3.5	1.7	1.3	-2.3	-3.7	-2.9	-2.7
Domestic demand	5.0	5.1	4.6	0.5	-2.4	-5.3	-2.5

Notes : (#) Revised figures.  
 (+) Preliminary figures.  
 (\*) Change of less than 0.05%.

**Table 24 : Rates of change in implicit price deflators of GDP  
and its main expenditure components (cont'd)**

	(%)						
	<u>2002</u>	<u>2003<sup>#</sup></u>	<u>2004<sup>#</sup></u>		<u>2004</u>		<u>2005</u>
				Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>+</sup>
Private consumption expenditure	-3.7	-3.1	-0.2	-0.3	1.0	0.3	0.1
Government consumption expenditure	-0.6	-2.7	-2.9	-3.1	-2.7	-2.7	-2.1
Gross domestic fixed capital formation	-10.1	-9.4	2.5	3.0	2.2	2.7	2.0
Total exports of goods	-2.9	-2.0	0.5	0.1	1.3	1.6	1.3
Imports of goods	-4.2	-0.9	2.5	2.2	3.7	3.5	2.9
Exports of services	-2.5	-1.9	2.1	3.2	2.5	2.3	2.5
Imports of services	*	3.1	4.0	3.5	4.6	3.8	3.1
<b>Gross Domestic Product</b>	<b>-3.6</b>	<b>-6.1</b>	<b>-2.8</b>	<b>-2.8</b>	<b>-2.6</b>	<b>-2.1</b>	<b>-1.9</b>
Total final demand	-3.7	-2.9	0.8	0.5	1.6	1.4	1.1
Domestic demand	-5.1	-4.5	0.2	0.5	0.9	0.3	*

