



# Half-yearly Economic Report 2005

Government of the Hong Kong  
Special Administrative Region

# ***HALF-YEARLY ECONOMIC REPORT 2005***

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

*August 2005*



# CONTENTS

## *Paragraphs*

### CHAPTER 1: OVERVIEW OF ECONOMIC PERFORMANCE

Overall situation	1.1	-	1.5
Some highlights of economic policy	1.6	-	1.10

### CHAPTER 2: THE EXTERNAL SECTOR

Major external influences	2.1	-	2.7
Visible trade			
Total exports of goods	2.8	-	2.10
Imports of goods	2.11	-	2.12
Invisible trade			
Exports of services	2.13	-	2.14
Imports of services			2.15
Visible and invisible trade balance			2.16
Trade policy and other developments	2.17	-	2.20

### CHAPTER 3: DEVELOPMENTS IN SELECTED SECTORS

Net output or value added by major economic sector	3.1	-	3.2
Property	3.3	-	3.12
Building and construction			3.13
Land	3.14	-	3.16
Tourism	3.17	-	3.20
Logistics	3.21	-	3.23
Creativity and innovation	3.24	-	3.29

### CHAPTER 4: THE FINANCIAL SECTOR

Interest rates, aggregate balance and exchange rates	4.1	-	4.3
Money supply and deposits	4.4	-	4.5
Loans and advances	4.6	-	4.7
Banking	4.8	-	4.11
Insurance			4.12
The debt market	4.13	-	4.16
The stock and futures markets	4.17	-	4.22
Fund management and investment funds	4.23	-	4.25
Bankruptcy and compulsory winding-up			4.26

### CHAPTER 5: THE LABOUR SECTOR

Overall labour market situation			5.1
Total employment and labour supply	5.2	-	5.4
Profile of employment	5.5	-	5.7
Profile and unemployment	5.8	-	5.9
Profile of underemployment			5.10
Vacancies	5.11	-	5.17
Earnings and wages	5.18	-	5.23

## CHAPTER 6: PRICES

Consumer prices	6.1	-	6.4
Import prices		6.5	
Costs of factor inputs and domestic output prices	6.6	-	6.7
Export prices		6.8	
GDP deflator		6.9	

## STATISTICAL APPENDIX

## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

- *The Hong Kong economy continued to expand at a brisk pace in the second quarter of 2005, with real GDP growing distinctly by 6.8% over a year earlier, following a 6.2% growth in the preceding quarter.*
- *Externally, merchandise exports rose strongly in the second quarter by 11.1% in real terms over a year earlier, mainly supported by the sustained expansion of the global economy as well as Mainland's strong trade flows, even amidst the prevailing uncertainties in the external environment. Meanwhile, exports of services grew noticeably further, by 7.8% in real terms in the second quarter over a year earlier. The continued increase in offshore trade and further expansion of inbound tourism were behind the development (**Chapter 2**).*
- *On the domestic front, consumption demand stayed firm with a 2.7% growth, on the back of the improving labour market conditions and generally upbeat sentiment. Reflecting the sanguine economic prospects, investment demand picked up further to a 3.5% growth in the second quarter.*
- *The broad-based economic expansion gave a further boost to job creation. Total employment rose to an all-time high of 3.36 million in the second quarter, with an addition of more than 60 000 jobs over the past year. The seasonally adjusted unemployment rate fell to 5.7%, the lowest since the third quarter of 2001. Labour earnings bounced up visibly, and wages reverted to a modest increase, for the first time since December 2001 (**Chapter 5**).*
- *Activity in the property market cooled off somewhat in the second quarter, adjusting to the increases in interest rates and the earlier hectic situation. Yet supported by the strong economic fundamentals, market sentiment remained generally positive. Specifically, flat prices, even with some easing in May and June, still went up by a cumulative 9.5% during the first half of the year (**Chapter 3**).*
- *The local stock market rebounded during the second quarter of 2005. The Hang Seng Index closed at 14 201 at end-June 2005, 5% higher than at end-March. Equity capital raising and market turnover rose noticeably in the first half of 2005. The Hang Seng Index rose further to above 15 000*

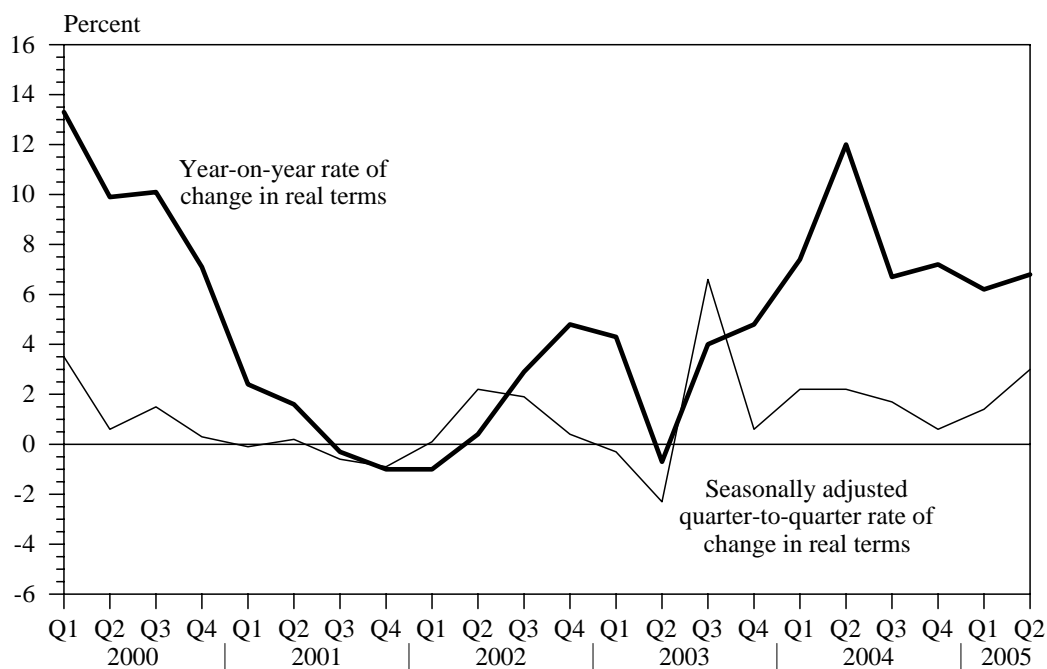
*in early August, supported by inflow of fund and fairly strong corporate results (Chapter 4).*

- *Consumer price inflation edged up during the first half of 2005, along with the increasingly entrenched economic recovery. The price increases for most items remained moderate, while the dampening effect of the earlier fall-offs in private housing rental continued to wane. The Composite Consumer Price Index rose by 0.8% in the second quarter of 2005 over a year earlier, bringing consumer price inflation to 0.6% for the first half of 2005 as a whole (Chapter 6).*

## **Overall situation**

1.1 The Hong Kong economy continued to expand at a brisk pace in the second quarter of 2005, underpinned by the strong export performance, the pick-up in investment demand and the continued increase in consumer spending. In the second quarter of 2005, the *Gross Domestic Product (GDP)*<sup>(1)</sup> grew by 6.8% in real terms, following a 6.2% growth in the first quarter of 2005 (revised from the earlier estimate of 6.0%) and an 8.2% growth for 2004 as a whole (revised from 8.1%)<sup>(2)</sup>. On a seasonally adjusted quarter-to-quarter comparison<sup>(3)</sup>, GDP expanded for the eighth straight quarter, by 3.0% in real terms in the second quarter of 2005.

**Diagram 1.1 : Gross Domestic Product**



1.2 The economic expansion in the second quarter was balanced and broad-based, with both the domestic and external sectors showing fairly strong performance. On the external front, *total exports of goods* recorded a double-digit growth at 11.1% year-on-year in real terms, attributable to the sustained expansion of the global economy and the Mainland's strong trade flows. On invisible trade, inbound tourism continued to perform well. Of particular note were the strong increases in visitors from the long-haul markets. Offshore trade continued to grow strongly, mainly attributable to the further expansion of intra-regional trade. *Exports of services* attained a further notable growth at 7.8% in the second quarter of 2005, following an 8.8% increase in the first quarter (*Chapter 2*).



**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>	<u>Q2<sup>+</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)<sup>@</sup></i>								
Private consumption expenditure	-1.0	6.8	5.7 (1.2)	10.8 (2.3)	5.2 (0.1)	5.8 (1.9)	4.4 (0.2)	2.7 (0.3)
Government consumption expenditure	1.9	0.7	5.7 (0.1)	* (-3.3)	-1.3 (*)	-1.7 (1.4)	-4.8 (-2.9)	-2.3 (-0.7)
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.)	0.4 (N.A.)	3.5 (N.A.)
<i>of which :</i>								
Building and construction	-5.6	-11.1	-12.4	-13.4	-14.3	-3.7	-1.0	-10.7
Machinery, equipment and computer software	6.7	12.4	16.3	26.9	11.9	-2.1	0.7	10.1
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 (*)	11.1 (6.7)
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)	7.0 (5.5)
Exports of services	7.9	15.3	13.9 (0.6)	32.7 (0.7)	12.2 (5.9)	7.7 (*)	8.8 (1.4)	7.8 (0.2)
Imports of services	-2.1	10.7	3.6 (-4.3)	30.0 (9.9)	7.2 (-1.0)	6.1 (0.8)	5.4 (-3.8)	-0.4 (3.9)
<b>Gross Domestic Product</b>	<b>3.1</b>	<b>8.2</b>	<b>7.4</b> <b>(2.2)</b>	<b>12.0</b> <b>(2.2)</b>	<b>6.7</b> <b>(1.7)</b>	<b>7.2</b> <b>(0.6)</b>	<b>6.2</b> <b>(1.4)</b>	<b>6.8</b> <b>(3.0)</b>
<i>Change in the main price indicators (%)</i>								
<b>GDP deflator</b>	<b>-6.4</b>	<b>-3.3</b>	<b>-4.6</b> <b>(-0.5)</b>	<b>-3.4</b> <b>(-0.8)</b>	<b>-2.9</b> <b>(-0.8)</b>	<b>-2.5</b> <b>(-0.5)</b>	<b>-1.5</b> <b>(0.5)</b>	<b>-1.0</b> <b>(-0.1)</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>0.8</b> <b>(0.5)</b>
<u>Change in nominal GDP (%)</u>	<b>-3.4</b>	<b>4.7</b>	<b>2.4</b>	<b>8.3</b>	<b>3.7</b>	<b>4.5</b>	<b>4.5</b>	<b>5.7</b>

Notes : (#) Revised figures.

(+) Preliminary figures.

(@) The entire GDP series have been revised following the completion of an exercise by the Census and Statistics Department to implement the latest international guidelines on dealing with financial intermediation services provided by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005.

( ) 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%.

1.3 On the domestic front, local consumer spending held firm in the second quarter, as consumer sentiment remained upbeat on the back of the improving job opportunities and the rise-back of labour income. The positive wealth effect from the cumulative surge in property prices was also contributory. Overall, *private consumption expenditure (PCE)* went up further by 2.7% in real terms in the second quarter of 2005 over a year earlier, having increased by 4.4% in the preceding quarter. The moderation in growth was mainly due to the decline in residents' expenditure abroad in the second quarter, which was distorted by the difference in the timing of the Easter Holidays in 2004 and 2005. The high base in the same quarter in 2004 was probably another relevant factor. Government consumption spending continued to decline in the second quarter, reflecting the efforts made by the Government to exercise fiscal restraint to improve public finance. *Government consumption expenditure (GCE)* fell by 2.3% in real terms in the second quarter, following a 4.8% decrease in the first quarter.

**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	6
	Q2	13	-2	20	27	11	50	150	11
	Q3	5	2	14	4	3	8	4	5
	Q4	5	3	14	6	3	3	-4	6
2005	Q1	5	3	10	9	2	7	10	4
	Q2	4	4	8	6	2	-8	7	3

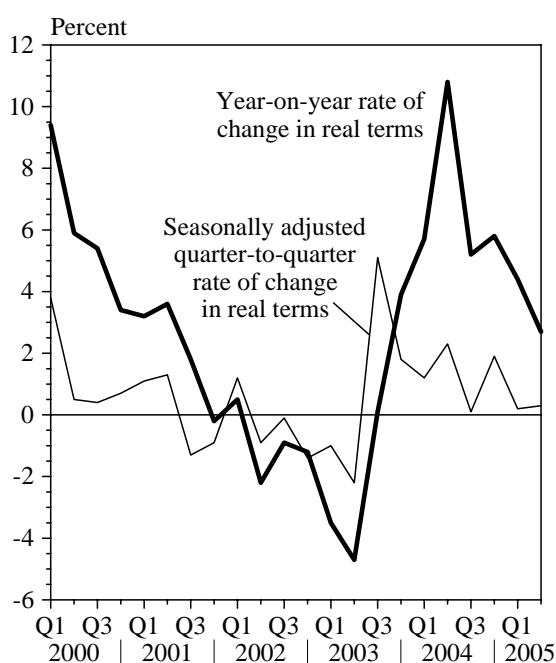
Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

(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.

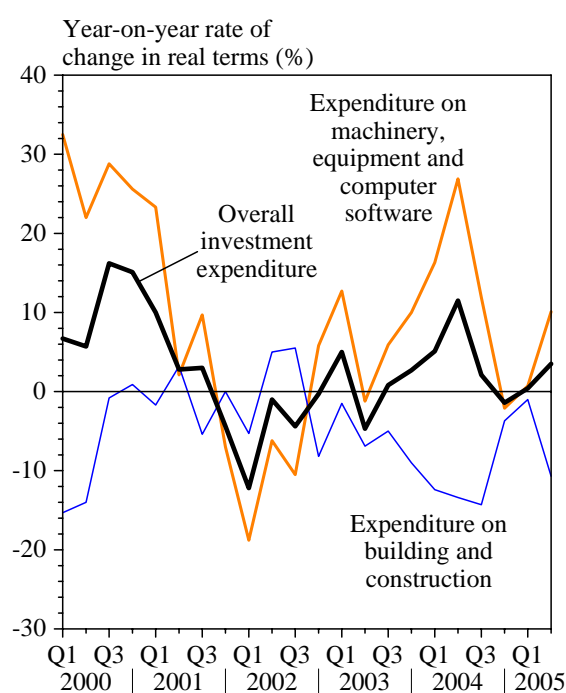
1.4 Growth in overall investment spending in terms of *gross domestic fixed capital formation* picked up to 3.5% in real terms in the second quarter of 2005, having reversed to a modest 0.4% growth in the first quarter. The better economic prospects, grounded on the increasingly entrenched economic recovery, gave a significant boost to overall business confidence. Conceivably,

the continued expansion of commercial activity at a relatively robust pace also gave rise to a genuine need in accelerating the investment plans. This was evidenced by the marked increase in investment in machinery and equipment in the second quarter. As to expenditure on building and construction, private sector activity fell back sharply in the second quarter, as not many large-scale building projects had been launched over the past several quarters. Public sector building and construction activity was also subdued, reflecting the scale-back of the Public Housing Programme and the completion of the two key railway projects last year.

**Diagram 1.2 : Consumer spending**

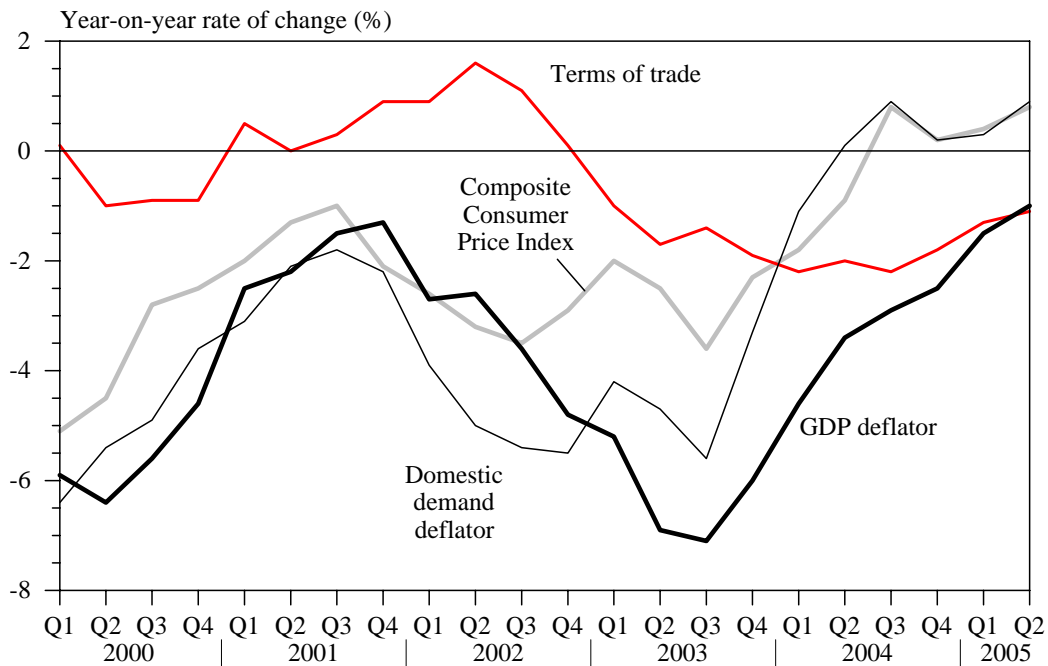


**Diagram 1.3 : Investment spending**



1.5 Consumer price inflation edged up during the first half of 2005, in tandem with the increasingly entrenched economic recovery. On a year-on-year comparison, the *Composite Consumer Price Index* rose by 0.8% in the second quarter of 2005, up from the 0.4% increase in the first quarter. As to the *GDP deflator*, the decline narrowed further to 1.0% year-on-year in the second quarter of 2005, from 1.5% in the first quarter. This mainly reflected the relative improvement in terms of trade, arising from the relative strengthening of the US dollar during the second quarter of 2005. Excluding the relative price movements of exports and imports, the domestic demand deflator edged up by 0.9% in the second quarter, following a 0.3% increase in the first quarter, in line with the trend of consumer price inflation. In general, the recent trends in the various price indicators suggest that price pressures in the economy were still modest.

**Diagram 1.4 : Price movements**



### Some highlights of economic policy

1.6 The Government of HKSAR believes in free market, and continues to uphold “market leads, government facilitates” as the guiding principle of its economic policy. The Government has taken a proactive role to create a conducive environment for business in order to facilitate economic development, particularly to enhance Hong Kong’s competitiveness and to reduce rigidities in the economy.

1.7 The thriving Mainland-Hong Kong economic relations, against the background of rapid growth in and further liberalisation of the Mainland economy, have been contributing to the economic development of Hong Kong in a significant way. It is the Government’s objective 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.

1.8 The signing of the Closer Economic Partnership Arrangement (CEPA) between the Mainland and Hong Kong in mid-2003 marked an important milestone in facilitating trade, services and investment flows between the two places (*Paragraphs 2.18 - 2.19*). Apart from CEPA, the Government would continue to play an active role in fostering Pan-Pearl River Delta (Pan-PRD) regional co-operation, particularly in areas where Hong Kong has the

comparative advantages. Hong Kong will be more focused in assisting Mainland enterprises in the region to raise capital, providing logistics and professional services for various kinds of business activities in the region, and encouraging Mainland enterprises in the region to make Hong Kong their base for exploring the international market. To strengthen Hong Kong's function as a regional trading hub, collaboration will be promoted on transportation planning and development in the Pan-PRD region. Efforts will also be made to facilitate the smooth implementation of CEPA in the region.

1.9 The new business opportunities for Hong Kong arising from the rapidly increasing economic relationships between Hong Kong and the Mainland are abundant. Take the rapid increase in tourists from the Mainland as an example. This has significantly raised the value of Hong Kong as a brand building location for products and services targeting the market in the Mainland. Some 5.9 million Mainland residents visited Hong Kong in the first half of 2005, and most of them are customers who could afford to pay for quality, taste and style. In time, Hong Kong may well evolve into a consumer-trend setter for the Chinese consumers as a whole.

1.10 The new opportunities for Hong Kong to further enhance its important role as China's international financial centre provide another notable example. As enterprises in the Mainland grow and become more international, their demand for Hong Kong's services capability is rising rapidly. Over the past 12-year period 1993 to 2004, the Hong Kong stock market raised a total of more than \$900 billion in capital for 304 enterprises from the Mainland. In the first half of 2005 alone, nine Mainland companies were listed in Hong Kong, raising a total of \$58.5 billion. The new opportunities are not confined to the stock market alone, but also available to other financial activities and professional services.

## 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 Census and Statistics Department completed an exercise to implement the latest international guidelines on dealing with financial intermediation services provided by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005. The latest guidelines enable national accounts statistics to reflect in a better way the economic contribution of banks in facilitating the channeling of funds from units with surplus funds (e.g. depositors) to units with demand for funds (e.g. borrowers). As a result of this statistical development, GDP, GNP and BoP statistics were revised.

When banks provide financial intermediation services, they do not collect explicit service charges. Instead, they charge indirectly by lending at higher interest rates and borrowing at lower interest rates. Given the special nature of indirect charges on the financial intermediation services, both banks and their customers do not know the market value of the financial intermediation services produced and consumed. Under the latest international guidelines, the value of financial intermediation services consumed by different types of users (e.g. households, business establishments, non-residents) are indirectly measured using the “reference rate” method.

Stemming from the implementation of the latest guidelines, the entire series of GDP figures were revised upwards. In recent years from 2001 to 2004, the upward revisions to the level of GDP were around 2%. Of this, about 1.5 percentage points were attributable to increase in personal consumption expenditure and about 0.5 percentage point was attributable to increase in net exports of services. As the upward revisions to the level of GDP were broadly similar from one year to another, the revisions to the GDP growth rates in real terms were small (generally within  $\pm 0.2$  percentage point).

- (3) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.

## CHAPTER 2 : THE EXTERNAL SECTOR

### *Summary*

- *The external sector continued to perform well in the second quarter of 2005. The sustained expansion of the global economy and the Mainland's strong trade flows were the major factors behind the development.*
- *Total exports of goods accelerated to an 11.7% growth year-on-year in real terms in the second quarter. Exports to nearly all major markets maintained reasonably strong growth momentum. In particular, the growth in exports to both US and EU picked up further, though partly boosted by the surge in textile and clothing re-exports sourced from the Mainland. Exports to the Mainland also accelerated, amidst the Mainland's vibrant industrial activity. Exports to Japan and Singapore continued to attain double-digit growth.*
- *Exports of services maintained notable growth in the second quarter of 2005. Of particular note was the continued surge in exports of trade-related services, supported by the strong trade flows, and the further increase in exports of travel-related services, underpinned by vibrant inbound tourism.*
- *The outlook for the external environment in the rest of the year remains fairly favourable. Nevertheless, the high and volatile oil prices and the protectionist sentiment in the US and the EU against imports from the Mainland continue to pose uncertainties to the near-term trade outlook.*
- *The reform of the renminbi exchange rate regime and the 2% initial revaluation of the renminbi against the US dollar should have minimal immediate impact on Hong Kong's external trade. Rather, Hong Kong's inbound tourism would probably benefit. Hopefully, the move may also help ease trade frictions between the Mainland and its trading partners and hence would be conducive to Hong Kong's re-export trade.*
- *Over the medium term, efforts to promote Pan-PRD regional co-operation would reinforce further Hong Kong's function as a regional trading hub.*

## **Major external influences**

2.1 The global economy continued to cruise well in the second quarter of 2005, and was rather resilient in absorbing the impacts from the soaring oil prices and higher interest rates. The US and the Mainland economies remained the key drivers of global economic growth.

2.2 The US economy sustained stronger-than-expected growth momentum in the second quarter, while inflationary pressure was still in check. The fiscal deficit narrowed somewhat, yet the current account deficit continued to widen. Against this background, the Federal Reserve is likely to maintain its stance of raising interest rates at a measured pace in the rest of the year.

2.3 By contrast, growth in the EU economies remained modest, as a sustained recovery of the domestic demand was held back by structural rigidities. Nevertheless, forward-looking indicators are pointing to a slight pick-up in production activities in the coming months.

2.4 The Mainland economy continued to cruise ahead in a strong note in the second quarter of 2005, marked by buoyant exports and robust growth in both consumer spending and fixed asset investment. Nevertheless, the government's successive packages of anti-speculation measures announced over the past few months to cool down the overheated property market, while helping to bring down real estates investment, may also spur a consolidation in domestic demand. In fact, the Mainland's imports already showed some moderation in recent months from the strong growth in 2004.

2.5 Elsewhere in Asia, the Japanese economy continued to recover, albeit at a modest pace, from the recession in the latter part of 2004. The other East Asian economies are still growing at a moderate pace, after the exceptionally strong growth over the past year. Yet the Singapore economy showed a more notable rebound in the second quarter of 2005.

2.6 Although the outlook for the external environment remains fairly favourable, there are still uncertainties. Of particular concern is the surge in international crude oil prices to successive new highs in recent weeks, hovering well over US\$60 per barrel lately. Soaring oil prices would dent sentiment and curtail production and consumption, and hence remain a key risk to the global economic growth prospect. Also, protectionist sentiment in the US and EU against Mainland's products continue to constitute a source of uncertainty in the trading environment<sup>(1)</sup>.



2.7 On 21 July 2005, the People's Bank of China announced a major reform in the renminbi exchange rate regime, by adopting a "managed float" regime with reference to a basket of currencies. Concomitantly, an initial 2% revaluation of the renminbi against the US dollar was effected. Also, the renminbi is allowed to move against the US dollar for each trading day within  $\pm 0.3\%$  of its previous day's closing rate. A more flexible exchange rate regime should enhance the Mainland economy's adaptability to changes in the external environment. Given the modest revaluation, the immediate impact on Hong Kong's external trade should be minimal. Moreover, the move would benefit Hong Kong's inbound tourism and hopefully help reduce the trade frictions between the Mainland and its trading partners.

## **Visible trade**

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

2.8 *Total exports of goods* (comprising re-exports and domestic exports) accelerated to an 11.7% growth in real terms<sup>(2)</sup> in the second quarter of 2005 over a year earlier, following a 9.2% growth in the first quarter. After a temporary relapse in March, exports picked up again in April and more distinctly in May, and then attained a further robust growth in June.

2.9 *Re-exports*<sup>(3)</sup>, the key growth driver within overall exports, continued to increase markedly, by 13.0% in real terms in the second quarter of 2005 over a year earlier, after a 10.4% increase in the first quarter. The fairly robust expansion of the global economy, as well as the increasing competitiveness of the Mainland's exports and hence their penetration in the major markets, continued to underpin the strong performance of re-exports.

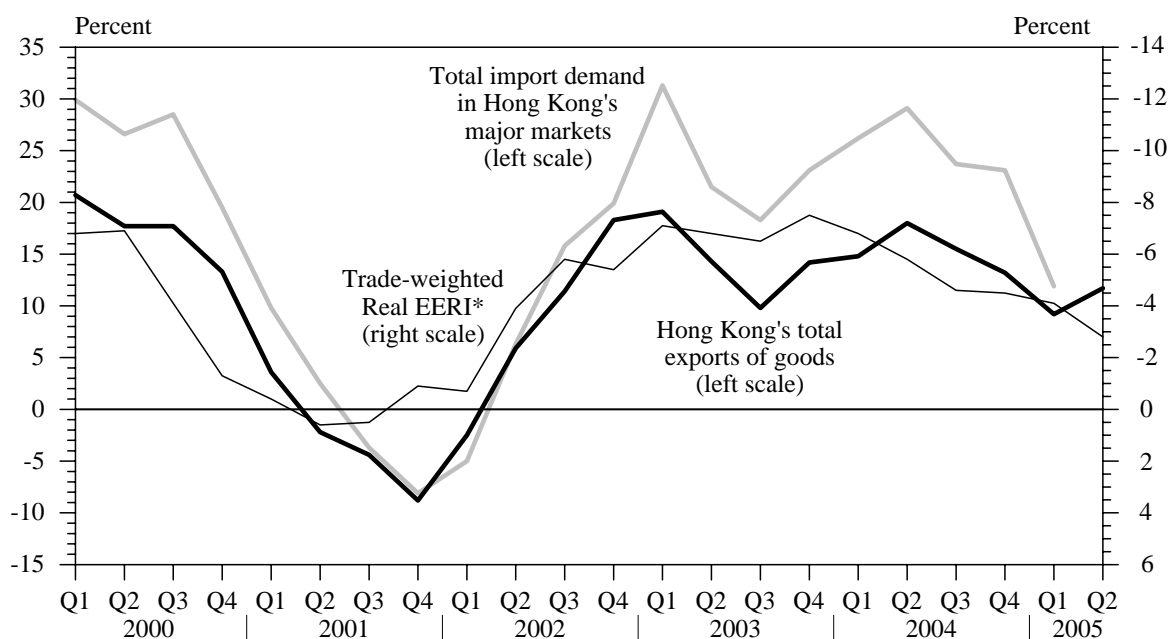
2.10 *Domestic exports* declined further by 8.3% in the second quarter of 2005 over a year earlier, following a 9.5% fall in the first quarter. The plunge in domestic exports of T&C products to the US and the EU upon the removal of quotas on such products as from January 2005 led to a shift from domestic exports to re-exports in such products. Moreover, the ongoing structural shift to re-exports and offshore trade (*See Box 2.1 on page 18*) has continued to put a drag on the growth in domestic exports.

**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>	<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
Q2	12.5	11.7	(6.7)	1.8	13.8	13.0	(6.9)	1.6	-6.4	-8.3	(3.6)	4.7

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

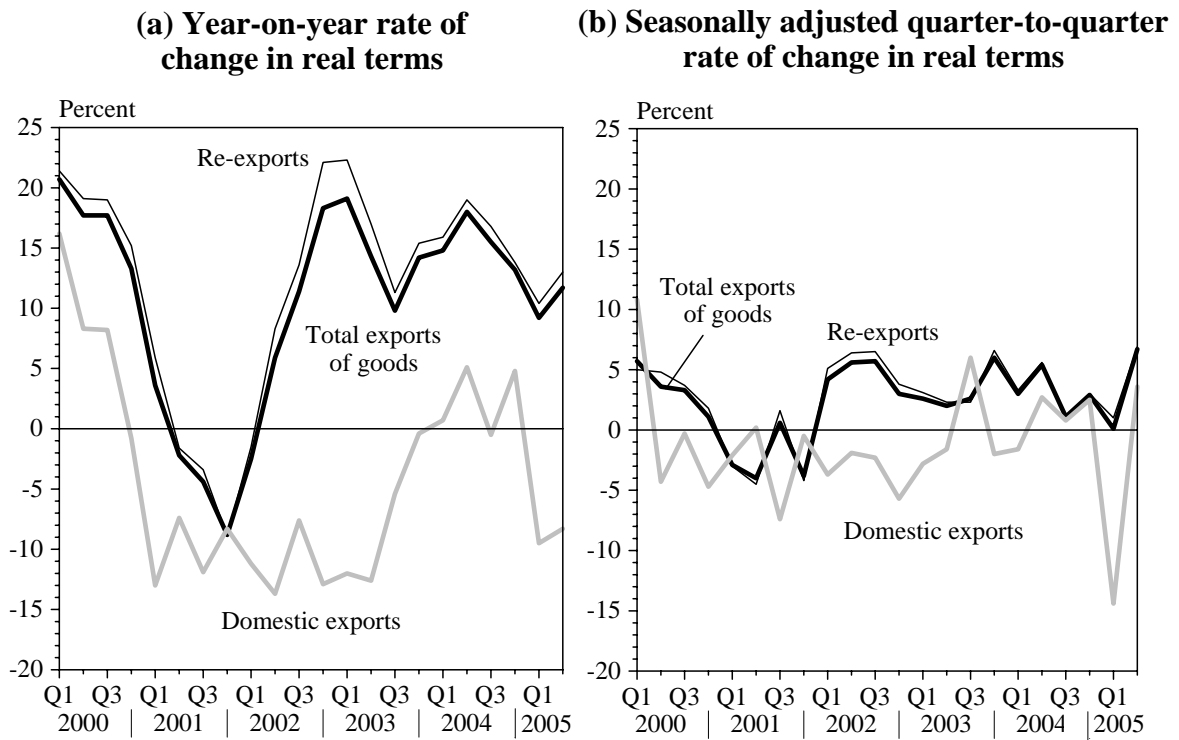
**Diagram 2.1 : Hong Kong's total exports of goods, total import demand in Hong Kong's major markets, and exchange rate movements  
(year-on-year rate of change)**



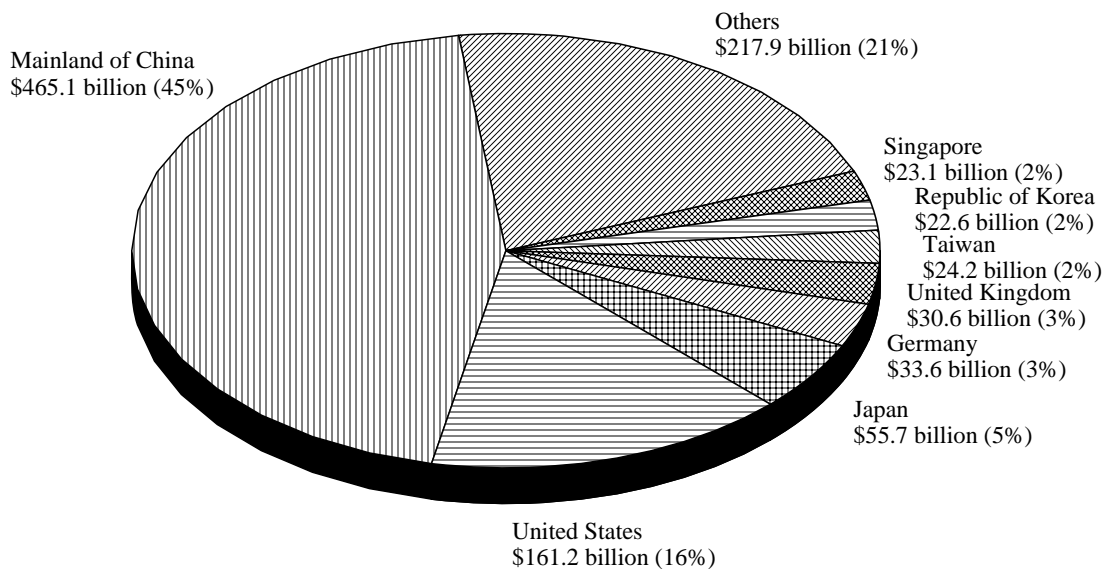
Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in East Asia, the United States and the European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

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



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



*Total exports of goods in the first half of 2005 : \$1,034.1 billion*

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

		<u>Mainland of China</u>	<u>United States</u>	<u>Japan</u>	<u>United Kingdom</u>	<u>Germany</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea</u>
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
	Q2	13.3	7.6	10.8	9.4	15.1	4.8	14.5	5.4

### *Imports of goods*

2.11 Supported by the re-acceleration in re-exports and some relative improvement in retained imports, *imports of goods* picked up somewhat, to a 7.6% growth in real terms in the second quarter of 2005 over a year earlier, after the more noticeable moderation in the preceding two quarters.

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

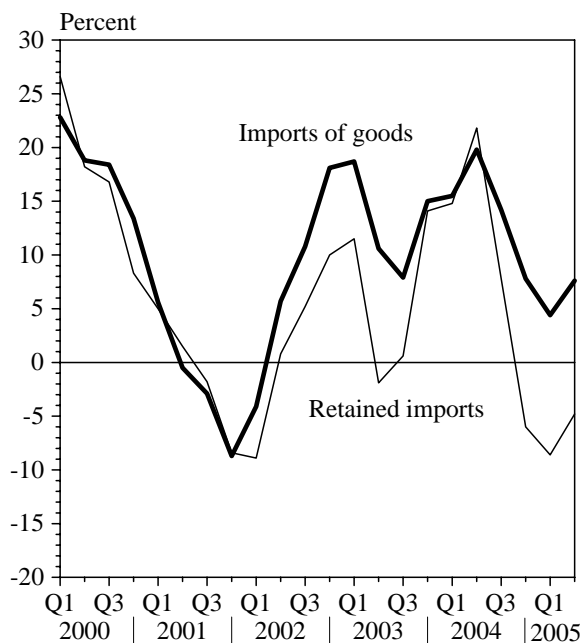
		<u>Imports of goods</u>			<u>Retained imports<sup>(a)</sup></u>				
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		
2004	Annual	16.9	14.1	2.9	14.8	8.9	6.0		
	Q1	15.7	15.5	(3.6)	0.7	18.1	14.8	(4.1)	2.7
	Q2	22.1	19.8	(3.7)	2.3	29.5	21.8	(-0.4)	5.4
	Q3	18.4	14.2	(-0.5)	4.0	15.6	7.8	(-4.5)	8.4
	Q4	11.9	7.8	(0.8)	4.3	-0.8	-6.0	(-4.5)	8.1
2005	Q1	8.1	4.4	(1.3)	4.0	-1.4	-8.6	(1.9)	10.3
	Q2	10.1	7.6	(5.6)	3.3	0.4	-4.8	(1.9)	8.8

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

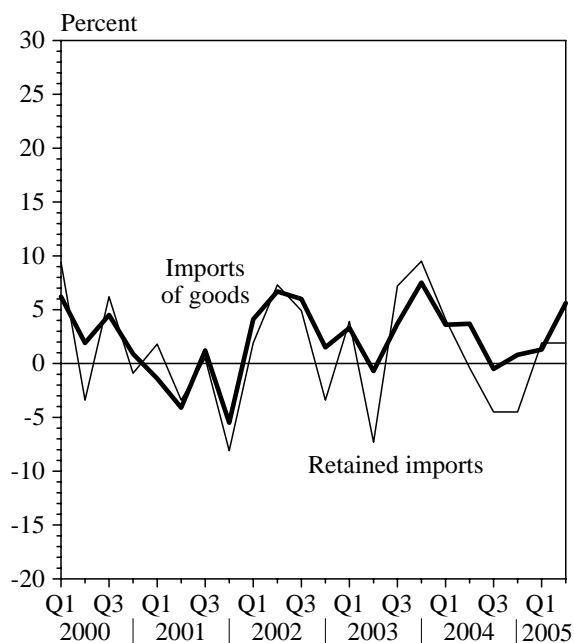
- (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

**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**



2.12 Within total imports of goods, *retained imports* fell by 4.8% in overall terms in the second quarter over a year earlier, relatively improved from an 8.6% fall in the first quarter. The performance however varied amongst different end-use categories. Specifically, retained imports of capital goods picked up distinctly in the second quarter, boosted mainly by the intake of office equipment and telecommunications equipment amidst the continuous business expansion and as many companies upgraded their equipment to increase productivity. Delivery of several aircraft during the quarter also rendered support to a certain extent. Intake of industrial machinery for manufacturing use also resumed some growth after a temporary fall-off in the first quarter. Intake of construction machinery however continued to shrink as building and construction activity remained weak. Retained imports of foodstuffs also reverted to a slight increase. Likewise, the decline in retained imports of raw materials and semi-manufactures narrowed considerably in the second quarter. But the easing trend in retained imports of consumer goods since the third quarter of 2004 continued into the second quarter of 2005.

**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
	Q2	-22.6	0.7	16.3	-8.8	-10.9

**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
	Q2	6.3	-47.5	7.2	11.1	72.6

## **Invisible trade**

### *Exports of services*

2.13 *Exports of services* remained strong, growing by 7.8% in real terms in the second quarter of 2005 over a year earlier, following an 8.8% increase in the first quarter. Within exports of services, exports of trade-related services continued to surge, underpinned by buoyant trade flows involving the Mainland. Exports of transportation services, the next largest component following exports of trade-related services, grew faster amidst the strong external trade and sustained inbound tourism. Exports of finance, business and other services continued to increase steadily.

## Box 2.1

### The structural shift of Hong Kong's external trade towards offshore trade

Reflecting the prominent role of Hong Kong as a business and service hub in the region, offshore trade in Hong Kong has been growing remarkably over the past decade and has become an increasingly important growth driver of the Hong Kong economy.

Offshore trade covers the services of both merchanting and merchandising for offshore transactions provided by Hong Kong companies. In merchanting, goods are purchased by the Hong Kong companies from and then sold to parties outside Hong Kong without the goods ever entering and leaving Hong Kong. The Hong Kong company takes ownership of the goods involved. In merchandising for offshore transactions, the Hong Kong company provides services of arranging on behalf of buyers/sellers outside Hong Kong the purchases/sales of goods. The goods involved are sold by a party outside Hong Kong to another party outside Hong Kong without the goods ever entering and leaving Hong Kong. Unlike merchanting, the Hong Kong company, in its capacity as an agent or broker, does not take ownership of the goods involved. Earnings from offshore trade include the gross margin from merchanting and commission from merchandising for offshore transactions.

During 1996-2004, the growth in exports of merchanting and trade-related services (in which offshore trade constituted the bulk, of almost 90% in 2003), at 15.3% in real terms per annum, outpaced notably the growth in re-exports, at 8.1% in real terms per annum. This contrasted to their respective growth of 4.3% per annum and 23.8% per annum during 1986-95. Furthermore, it is noted that the total sales value of goods involved in offshore trade has exceeded the value of re-exports since 2002 when estimation on statistics of the former are first available.

#### Structural shift in Hong Kong's external trade (change in real terms)

	<u>Re-exports</u> (%)	<u>Exports of trade-related services</u> <u>(comprising mainly offshore trade)</u> (%)
Average annual growth rate :		
1986-95 (10 years)	23.8	4.3
1996-04 (9 years)	8.1	15.3

#### Value of goods involved in re-export trade and offshore trade

	<u>Re-export of goods</u> (HK\$ billion)	<u>Offshore trade</u> (HK\$ billion)
2002	1,430	1,458
2003	1,621	1,667

### **Box 2.1 (cont'd)**

Analysed by destination for goods sold under merchanting arrangement, the Mainland was the largest destination, accounting for 37% of the total value of goods sold under such arrangements in 2003, as against 44% for re-exports. The United States came next, with a share of 18% (as against 18% for re-exports). This was followed by Japan, at 8% (6%), Taiwan, at 4% (2%), and the Republic of Korea, at 4% (2%). Regarding the source of Hong Kong's offshore trade, the Mainland took up the major share, at 51% of the total sale value in 2003. This was similar to that for re-exports, with the Mainland taking up 60% of the value of re-exports in 2003.

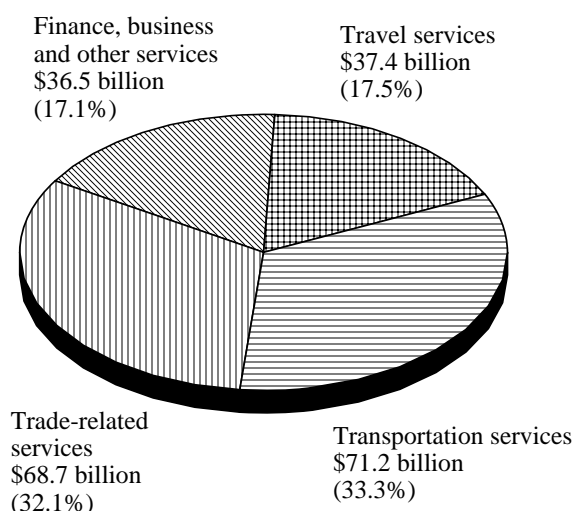
It can thus be seen that offshore trade resembles closely that of re-export trade in terms of both destinations and sources. Hence it will be useful to look at the gross margin of re-exports and offshore trade taken together. While the growth in gross margin from offshore trade in value terms, at 12.6% per annum, outpaced the growth in gross margin from re-exports in value terms, at 6.8% per annum over the past ten years in tandem with the structural shift towards offshore trade, the combined gross margin of re-exports and offshore trade still recorded very significant growth of 8.2% per annum in value terms over the past ten years.

However, it should be noted that owing to the different level of involvement of the Hong Kong companies in offshore trade and in re-exports, the trade margin of merchanting (8.5% in 2003) was only about half of the rate of re-export margin (17.9% in 2003). The commission rate of merchandising for offshore transactions was even smaller (3.4% in 2003). It implies that Hong Kong would have to channel larger volumes of offshore trade in order to maintain the same value added to the economy as in re-export trade.

2.14 Exports of travel services held up well in the second quarter, underpinned by the solid growth in the number of visitor arrivals. Particularly, visitors arrivals from the long-haul destinations such as the US and Europe, as well as Japan and Southeast Asia, all recorded strong double-digit growth. The growth in the number of Mainland visitors slowed somewhat since the first quarter of 2005, following a high growth in 2004 reflecting the implementation of the Individual Visitor Scheme. Moreover, conceivably some Mainland residents might have postponed their leisure trips to Hong Kong ahead of the opening of the Hong Kong Disneyland in September.

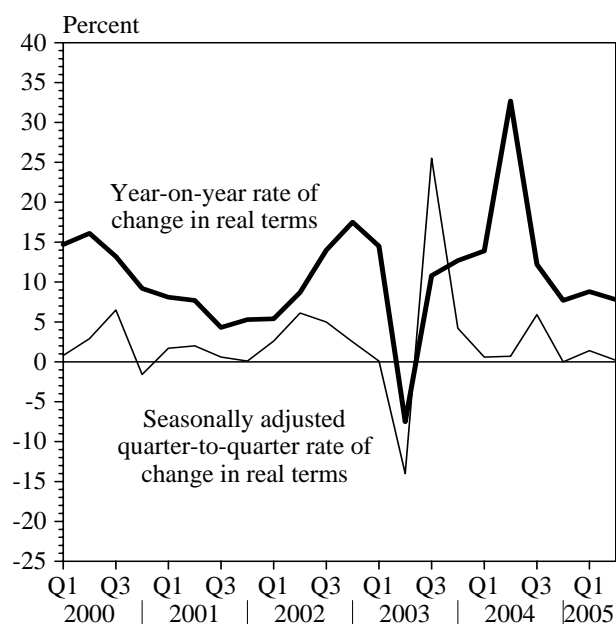


**Diagram 2.5 : Exports of services by major service group in the first half of 2005**



Exports of services in the first half of 2005 :  
\$213.8 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 <sup>(c)</sup>
2004	Annual	15.3	14.3	17.4	19.4	11.5
	Q1	13.9 (0.6)	16.3	14.2	11.3	11.7
	Q2	32.7 (0.7)	19.6	31.9	152.3	13.7
	Q3	12.2 (5.9)	12.6	17.4	3.5	11.2
	Q4	7.7 (*)	11.2	8.7	-4.3	9.4
2005	Q1	8.8 (1.4)	12.9	5.6	9.9	5.9
	Q2	7.8 (0.2)	11.3	6.5	6.6	5.2

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.

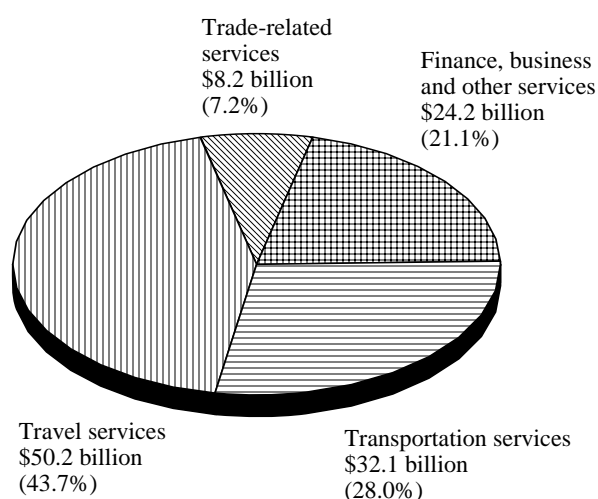
(c) Figures have been revised by including financial intermediation services consumed by non-residents. For details of implementation of the new statistical guidelines, please refer to Note (2) in Chapter 1.

(\*) Change of less than 0.05%.

## *Imports of services*

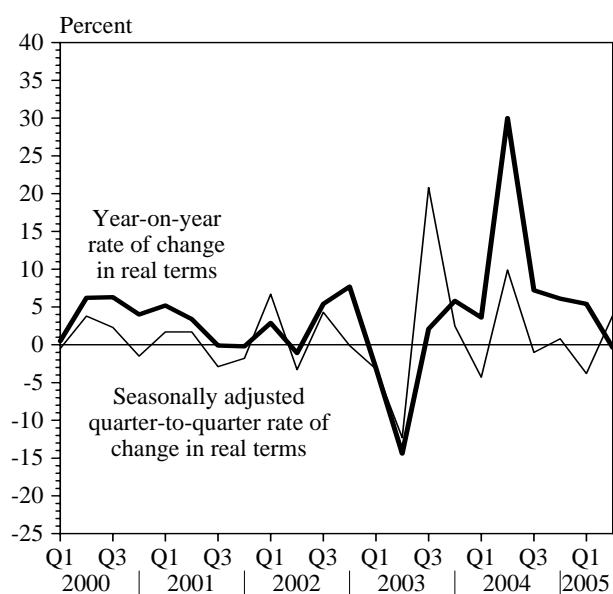
2.15 *Imports of services* fell back slightly, by 0.4% in real terms in the second quarter of 2005 over a year earlier, after a 5.4% increase in the first quarter. The small decrease was mainly attributable to the fall in imports of travel services, the largest component within imports of services, probably in large part as a result of the difference in the timing of the Easter Holidays in 2004 and 2005. There were nevertheless continued growth in imports of trade-related services and of non-passenger transportation services, in tandem with the generally buoyant trade flows in the period. Imports of finance, business and other services also attained further growth amidst a more active financial market and an upturn in business activity.

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



*Imports of services in the first half of 2005 :  
\$114.8 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>					
		<u>Imports of services</u>	<u>Travel services<sup>(a)</sup></u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Finance, business and other services<sup>(b)</sup></u>	
2004	Annual	10.7	10.6	16.0	9.4	5.3	
	Q1	3.6 (-4.3)	-2.1	11.3	11.3	4.9	
	Q2	30.0 (9.9)	45.0	34.6	14.5	6.2	
	Q3	7.2 (-1.0)	4.0	13.7	7.8	6.0	
	Q4	6.1 (0.8)	5.8	8.1	6.4	4.5	
2005	Q1	5.4 (-3.8)	5.7	7.3	8.0	1.8	
	Q2	-0.4 (3.9)	-6.9	5.2	6.5	4.2	

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

(a) Comprising mainly outbound travel spending.

(b) Figures have been revised by including financial intermediation services provided by non-residents. For details of implementation of the new statistical guidelines, please refer to Note (2) in Chapter 1.

## Visible and invisible trade balance

2.16 There was a marked surplus of \$28.9 billion in the combined visible and invisible trade balance in the second quarter of 2005, equivalent to 4.6% of the total value of imports of goods and services. These were notably larger than the corresponding figures of \$10.6 billion and 1.8% 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	421.9	2,099.5	233.8	-72.5	188.1	115.6
	Q1	434.4	97.0	467.2	53.2	-32.8	43.9	11.0
	Q2	497.9	96.0	527.3	55.9	-29.4	40.0	10.6
	Q3	546.7	112.6	555.2	62.9	-8.5	49.7	41.2
	Q4	548.0	116.3	549.7	61.8	-1.8	54.6	52.8
2005	Q1	479.1	108.0	498.8	57.5	-19.7	50.5	30.8
	Q2	555.4	105.8	575.0	57.2	-19.6	48.5	28.9

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

## **Trade policy and other developments**

2.17 As a small open economy, the Hong Kong economy is highly susceptible to external shocks. Yet over the past years the Hong Kong economy has proved to be highly resilient in adjusting to external shocks and been able to recover solidly each time. Hong Kong's free trade policy, by fostering a vibrant external sector, contributes markedly to the resilience and vitality of the economy. The policy also enables the Hong Kong economy to capitalise on the liberalisation of the Mainland's external sector.

2.18 The signing of the Closer Economic Partnership Arrangement (CEPA) between the Mainland and Hong Kong in mid-2003 marked an important milestone in facilitating trade and investment activities between the two places. CEPA helps expand business opportunities between the two places by enlarging the scope for trade, services and investment. Also, it helps 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. CEPA adopts a building block approach wherein more measures will be added as needed. Hitherto under CEPA and given China's commitments upon accession to the WTO, about 95% of the value of Hong Kong's domestic exports to the Mainland have enjoyed zero tariff. On trade in services, Hong Kong services suppliers are eligible for preferential treatment in a total of 26 service areas.

2.19 As at 15 August 2005, the Trade and Industry Department (TID) of the HKSAR Government issued 7 017 certificates of Hong Kong origin (CEPA) to goods produced in Hong Kong, involving a total of \$2.4 billion worth of goods. TID also approved 839 applications for certificates of Hong Kong service supplier. The HKSAR Government is now consulting the relevant sectors on the wish list for CEPA III. It is expected that the Mainland side will further remove tariffs on Hong Kong's domestic exports to the Mainland by 1 January 2006, and the services areas eligible for preferential treatment will be further expanded.

2.20 Apart from CEPA, the government would continue to play an active role in fostering Pan-Pearl River Delta (Pan-PRD) regional co-operation<sup>(4)</sup>. Specifically, the role of Hong Kong will be realised in assisting Mainland enterprises in the region to raise capital; providing diversified support services for various kinds of business activities in the region; and encouraging Mainland enterprises in the region to make Hong Kong their base for exploring the international market. To strengthen Hong Kong's function as a regional trading hub, collaboration will be promoted on transportation planning and development

in the Pan-PRD region. Efforts will also be made to facilitate the smooth implementation of CEPA in the region.

**Notes :**

- (1) Following the removal of textile and clothing (T&C) quota among WTO members on 1 January 2005, the surge in T&C exports from the Mainland to the EU and the US had triggered the imposition of anti-surge safeguards on the Mainland's exports by both the EU and the US. On 11 June, the Mainland and the EU reached an agreement over Mainland's T&C exports. Under the agreement, the Mainland will restrict growth of 10 categories of its T&C exports to 8-12.5% annually from 2005 to 2007. In return, EU undertakes to exercise restraint in the application of the textiles-specific safeguard actions in other T&C categories till end-2007, and for all T&C products in 2008.

But soon after, the EU started a dumping probe into imports of "safety shoes" from China in the light of the surge in imports of footwear from China since the start of this year. The investigation will be made within a nine-month period, and provisional duties could be levied within 60 days of the end of the investigation.

- (2) 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.
- (3) 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.
- (4) The Second Pan-PRD Regional Co-operation and Development Forum was held in Chengdu, Sichuan on 25-28 July 2005. The forum continued to push ahead enhancement of the mechanism of co-operation within the region, including aspects such as setting up an open and co-ordinated market system and promoting co-ordination in planning and policy measures among the provinces/special administrative regions.

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

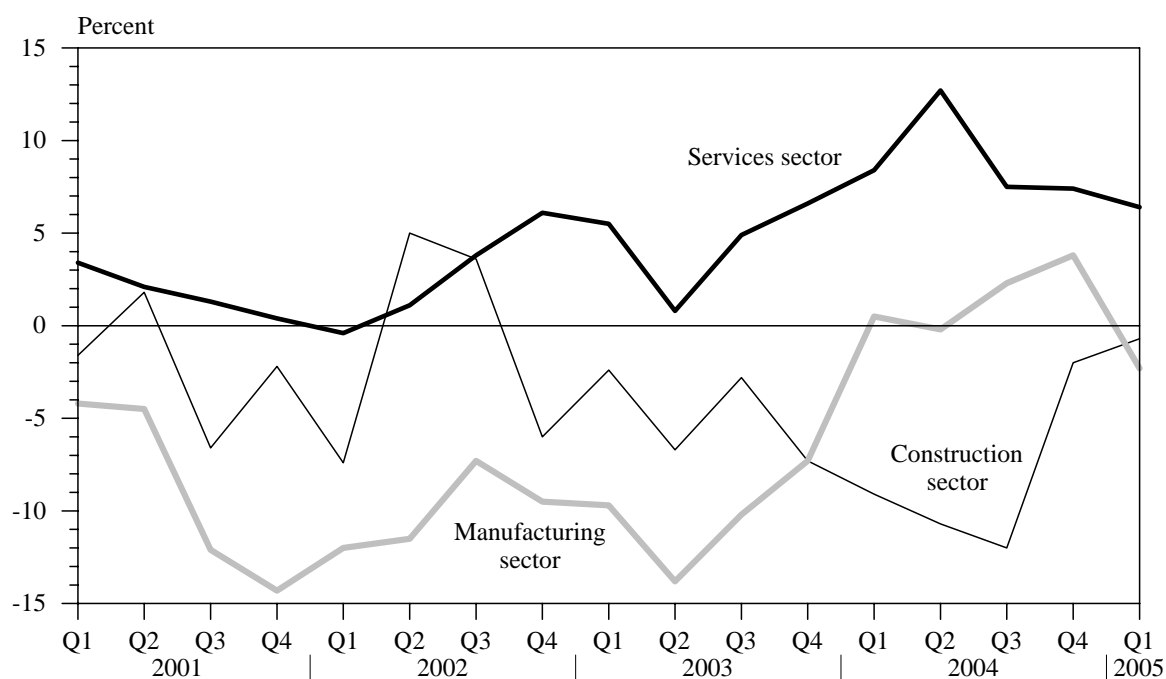
### *Summary*

- *The services sector, as the key driver of economic growth, saw a further notable growth in the first quarter of 2005.*
- *The property market remained buoyant in overall terms in the first half of 2005. But there was some consolidation in trading activity towards the end of the period, as market sentiment turned more cautious in face of the successive interest rate increases.*
- *Overall expenditure on building and construction slackened significantly in the second quarter of 2005, dragged by reduced building output in the private sector. Public sector expenditure on building and construction also weakened further, as output of public housing units and railway projects continued to decline.*
- *Visitor arrivals from most of the major markets showed further strong growth in the first half of 2005, thanks to the on-going promotion campaigns launched by the Hong Kong Tourism Board, the attractively priced airfares and packages, as well as the major trade fairs held in Hong Kong.*
- *Air cargo movements continued to be buoyed by the vibrant merchandise trade. But ocean cargo movements were affected by the increasing trend of manufactured products being shipped directly from nearby Mainland ports.*
- *Innovation activities have been proliferating in the business sector, alongside Government efforts to nurture an innovative economy. To further promote the development of innovation and technology, the Government has decided to adopt a new strategic framework involving, amongst all, the establishment of five research and development centres by end-2005. The “Innovation Festival 05”, launched by the Innovation and Technology Commission from July to October 2005, aims to promote an innovative culture.*

## Net output or value added by major economic sector<sup>(1)</sup>

3.1 The *services sector* continued to provide the key impetus to Hong Kong's economic growth. In the first quarter of 2005, net output or value added in the services sector<sup>(2)</sup> registered a further notable growth of 6.4% in real terms over a year earlier. On the other hand, net output in the *construction sector* fell for the tenth consecutive quarter, by 0.7% in the first quarter. Net output of the *manufacturing sector* also declined, by 2.3% in the first quarter, having increased for two successive quarters. The decline in net output of the wearing apparel and textile industry was particularly distinct in the first quarter, in line with the severe setback in domestic exports of textiles and clothing (T&C) following the global elimination of all quantitative restrictions on T&C products as from January this year in accordance with the World Trade Organisation Agreement on Textiles and Clothing.

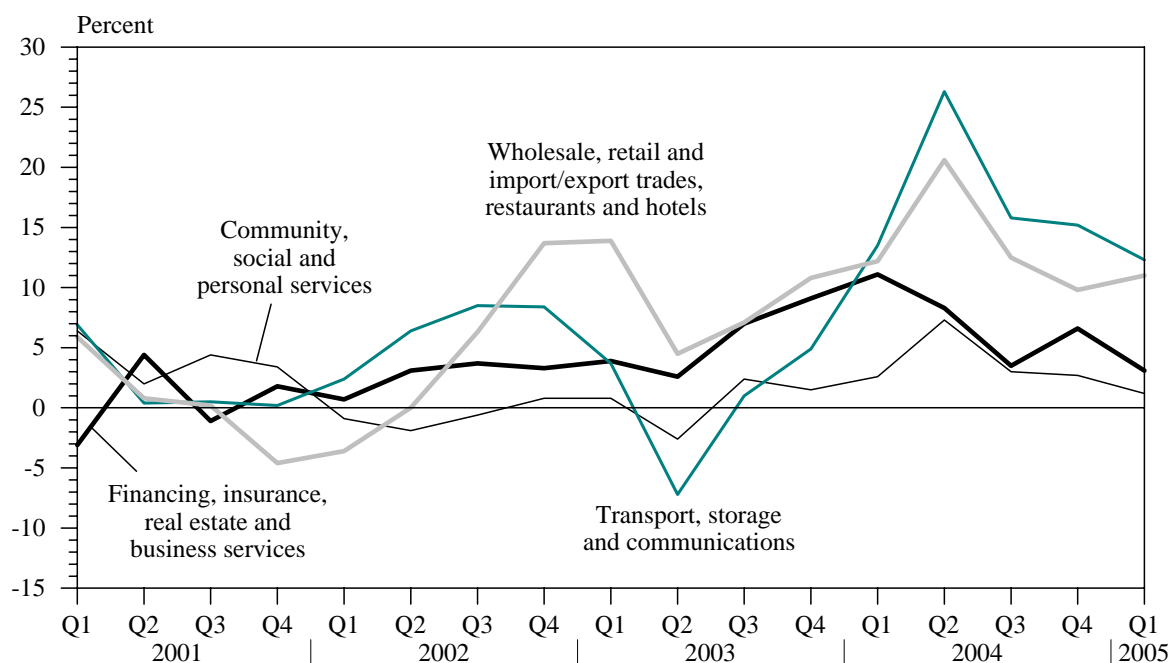
**Diagram 3.1 : GDP by major economic sector  
(year-on-year rate of change in real terms)**



3.2 Within the services sector, net output in transport, storage and communications recorded double-digit growth for the fifth straight quarter, at 12.3% in real terms in the first quarter of 2005 over a year earlier. Growth in net output in the wholesale, retail and import/export trades, restaurants and hotels was also robust, at 11.0% in the first quarter, fuelled by the full-fledged economic recovery. Net output in financing, insurance, real estate and business services rose by 3.1% in the first quarter, with net output in real estate

services resuming a marginal increase along with the sustained revival in the property market. However, net output in financing and insurance services moderated in growth, as commission and service income of banks and net output of stock brokerage companies fell along with the decline in stock market turnover in the first quarter. As to net output in community, social and personal services, it had a modest growth of 1.2% in the first quarter.

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



## Property

3.3 The property market remained buoyant in most of the first half of 2005, underpinned by continued economic upturn and improved employment situation. In the first few months of 2005, investment and short-term trading activities were more apparent. Reportedly, such transactions were particularly active in medium-priced flats of some residential developments. At the luxury end of the market, flat prices surged to over \$300,000/m<sup>2</sup> in some cases.

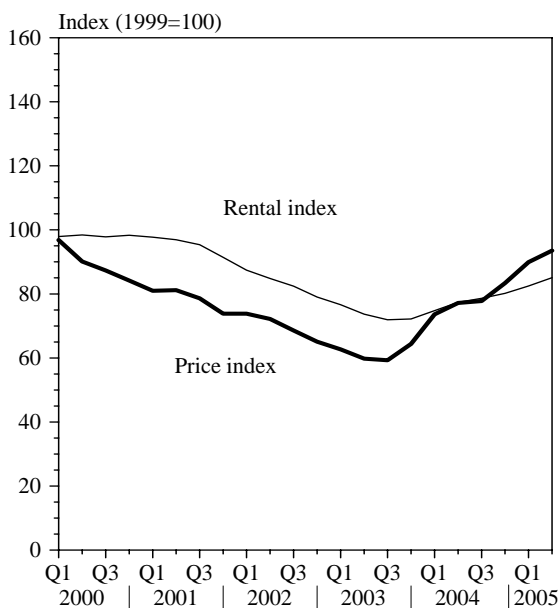


3.4 Towards the end of the first half of 2005, there was some consolidation in trading activity for both residential and non-residential properties, as market sentiment turned more cautious in face of the successive interest rate increases. As a result, prices of *residential property* eased back somewhat in May and June. Yet for the second quarter of 2005 as a whole, flat prices still rose by 4% on a quarter-to-quarter basis, after an 8% surge in the first quarter. Prices of the medium-sized flats registered a particularly pronounced increase in the second quarter, reflecting stronger investor interest in this segment. Meanwhile, the leasing market continued to improve steadily, with flat rentals rising by 3% in the second quarter, same as the increase in the first quarter. Compared with the peaks in the third quarter of 1997, flat prices and rentals in the second quarter of 2005 were still considerably lower, by 45% and 39% respectively.

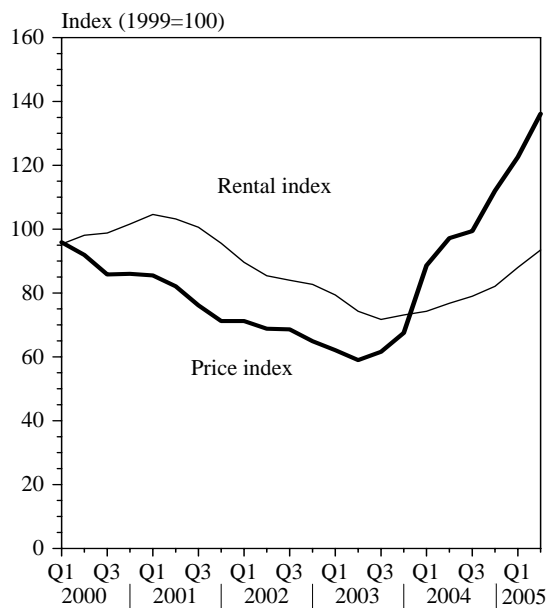
3.5 In response to public concern about the transparency of private sales arrangements, the Real Estate Developers Association of Hong Kong (REDA) issued new guidelines on private sale of uncompleted residential units on 24 June<sup>(3)</sup>, which intended to strive for a balance between the need to protect consumers' interest and the desire of the industry to run its business with the least mandatory intervention.

3.6 On *commercial property*, the markets for office space put up a robust performance throughout the first half of 2005, reflecting strong demand of both end-users and investors amidst buoyant business activity and generally optimistic economic outlook. Having already risen for seven quarters, prices of office space increased further by 11% in the second quarter of 2005 on a quarter-to-quarter basis. While prices of Grades B and C office space picked up markedly in the second quarter, the rise in prices of Grade A offices decelerated visibly following double-digit increases in the past five out of six quarters. Likewise, rentals of office space rose for the seventh quarter in a row, by 6% in the second quarter. There was a particularly pronounced increase in rentals of high quality office premises, as companies continued to upgrade their office space. Yet against their respective peaks in 1994, prices and rentals of office space in the second quarter of 2005 were still lower by 43% and 51% respectively.

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



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

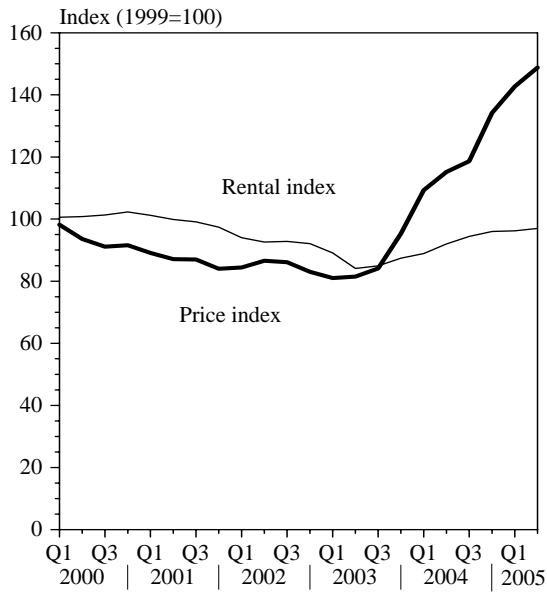


Note : See footnotes to Table 14 of the Statistical Appendix.

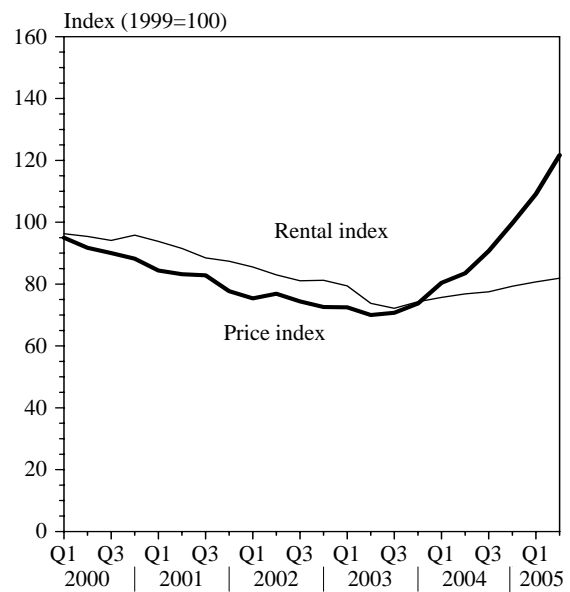
3.7 The sales market for *shopping space* remained on a rising trend, thanks to the continued pick-up in retail business amidst robust inbound tourism and reviving local consumer demand. In the second quarter of 2005, prices of shopping space were up by 4% over the first quarter. Rentals of shopping space also rose in the second quarter, by 1%. Compared with the peaks in the third quarter of 1997, prices and rentals in the second quarter of 2005 were lower by 23% and 22% respectively.

3.8 On *industrial property*, the sales market for flatted factory space remained on a rise, reflecting firm investor interest amidst the on-going transformation of conventional industrial areas into offices, shopping space and hotel developments. In Kwun Tong, the completions of several phases of Millennium City, including Millennium City 5 which comprised an office tower and a seven-storey shopping mall and was just opened in April, were catalyst for investment interests in the flatted factories nearby, as commercial and business activities showed substantial improvement in the district. Overall, on a quarter-to-quarter comparison, prices of flatted factory space rose by 12% in the second quarter of 2005, marking the eighth consecutive quarterly increase. Rentals of flatted factory space were up by 1% in the second quarter, the seventh quarter of increase in a row. Against the peaks in 1994, prices and rentals of flatted factory space in the second quarter of 2005 were both 46% lower.

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



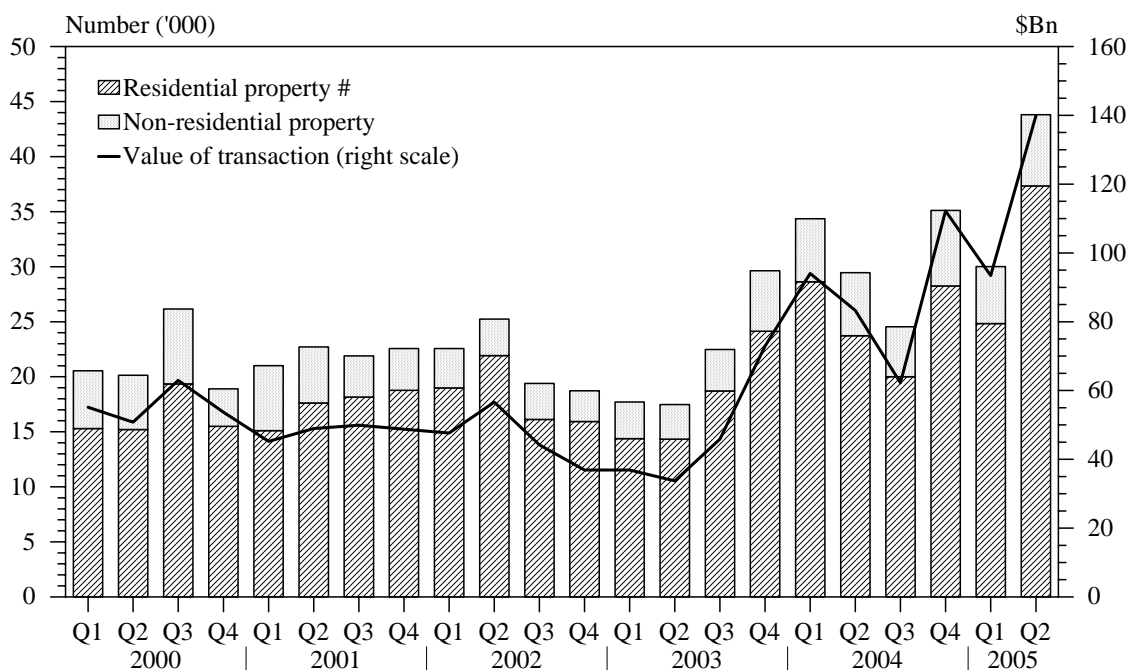
**Diagram 3.6 : Price and rental indices for private flatted factory space**



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

3.9 *Property transactions*, in terms of agreements for sale and purchase of property lodged with the Land Registry, rebounded distinctly in the second quarter of 2005 as a whole, after a brief decline in the first quarter. The volume of transactions in April, at 16 280, was the highest since July 1997. While trading activity slowed towards the end of May following successive interest rate increases, the total value of transactions in that month still registered a marked growth to reach a 7½-year high of \$54 billion. Within the total for the second quarter of 2005, the number and value of both residential and non-residential property transactions recorded sharp increases.

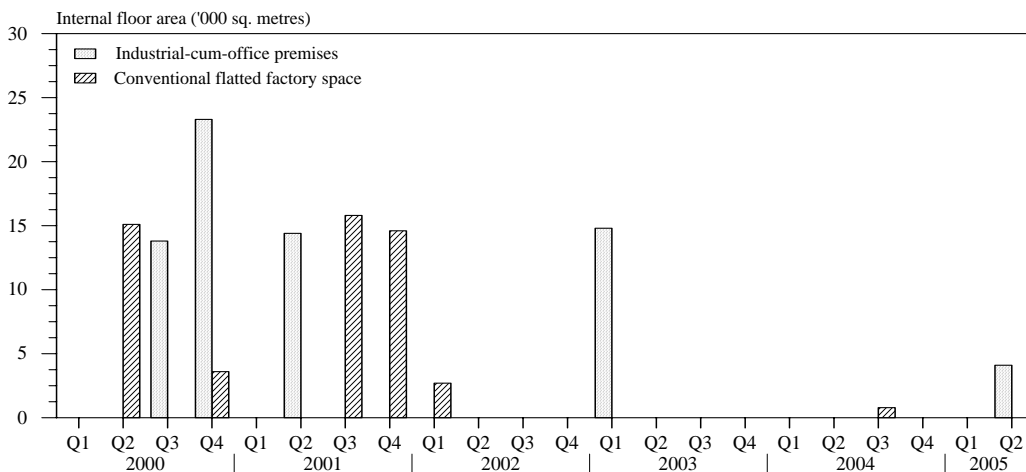
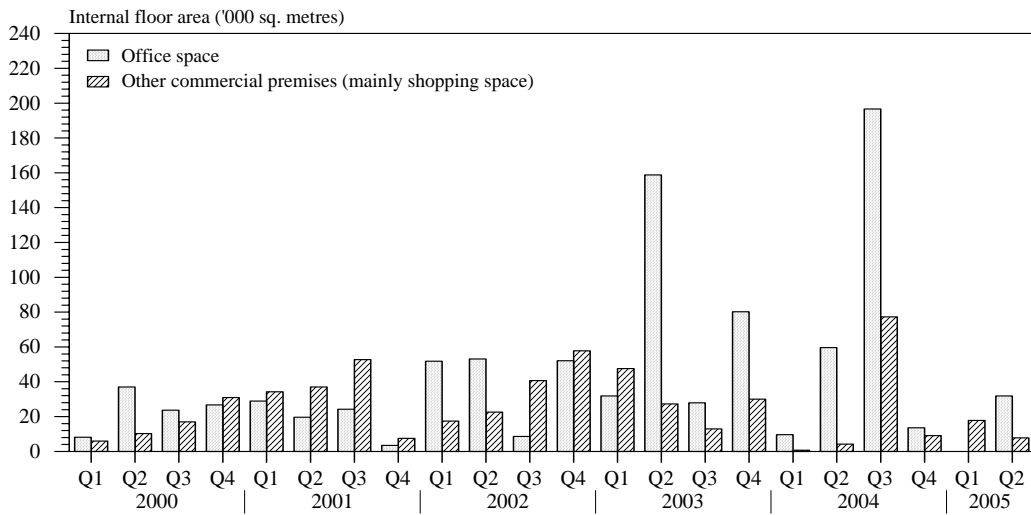
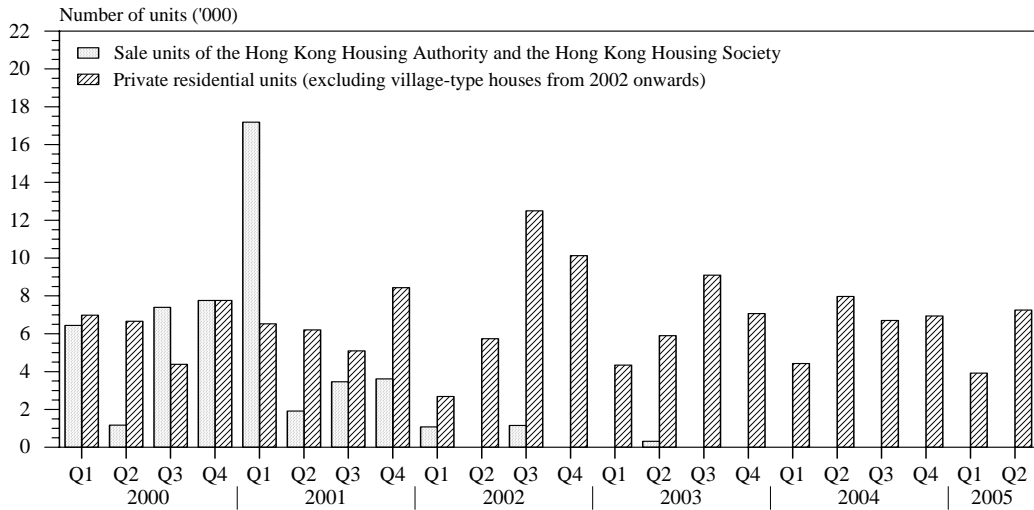
**Diagram 3.7 : Sale and purchase agreements by broad type of property**



Note : (#) See Footnote (h) to Table 13 of the Statistical Appendix.

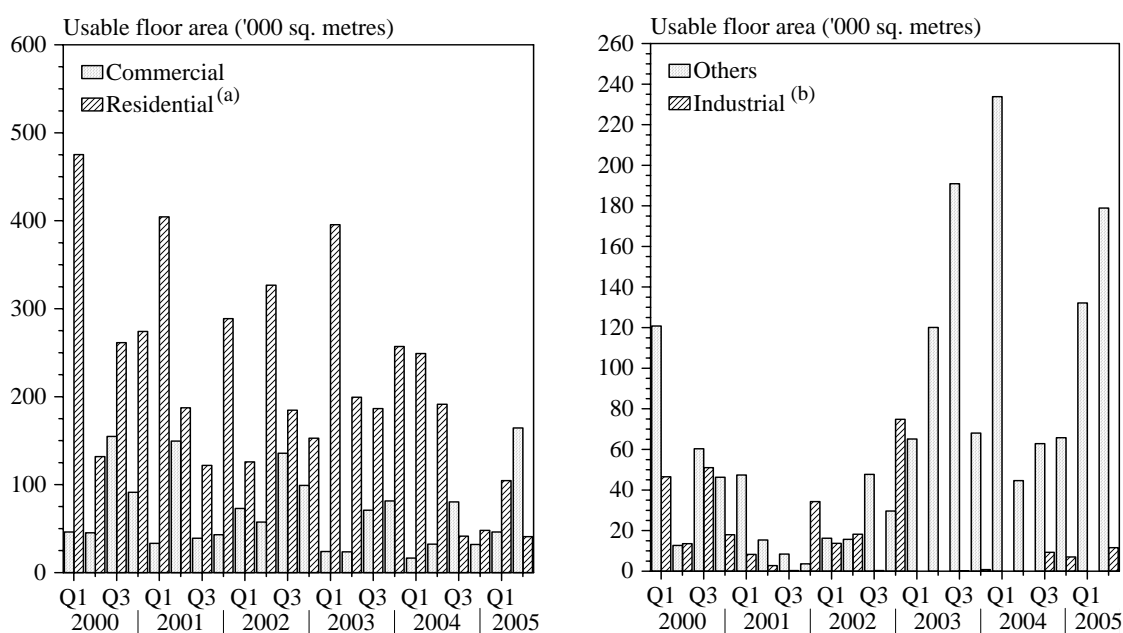
3.10 On the supply of new property, *completions* of private residential flats remained on a decline in the second quarter of 2005 for the fourth quarter in a row. For the first half of 2005 as a whole, completions of private residential flats fell by 10% over a year earlier. Over the same period, completions of office space dropped by 54%, while completions of industrial property were immaterial. As to completions of commercial premises other than offices, they surged by more than four times in the first half of 2005 due to a very low base of comparison in the same period last year.

**Diagram 3.8 : Completions of new property by major category**



3.11 *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, dropped by 12% in the first half of 2005 over a year earlier. Within this total, planned developments of private residential property saw a plunge in the first half of 2005, far more than offsetting the rebound in planned developments of commercial property. Planned developments of industrial property covered a total usable floor area of 11 600 m<sup>2</sup> in the first half of 2005, as against nil planned developments in the same period last year.

**Diagram 3.9 : 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 half of 2005, for building plans with consent to commence work in respect of private residential property, 48% in terms of units or 58% 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.

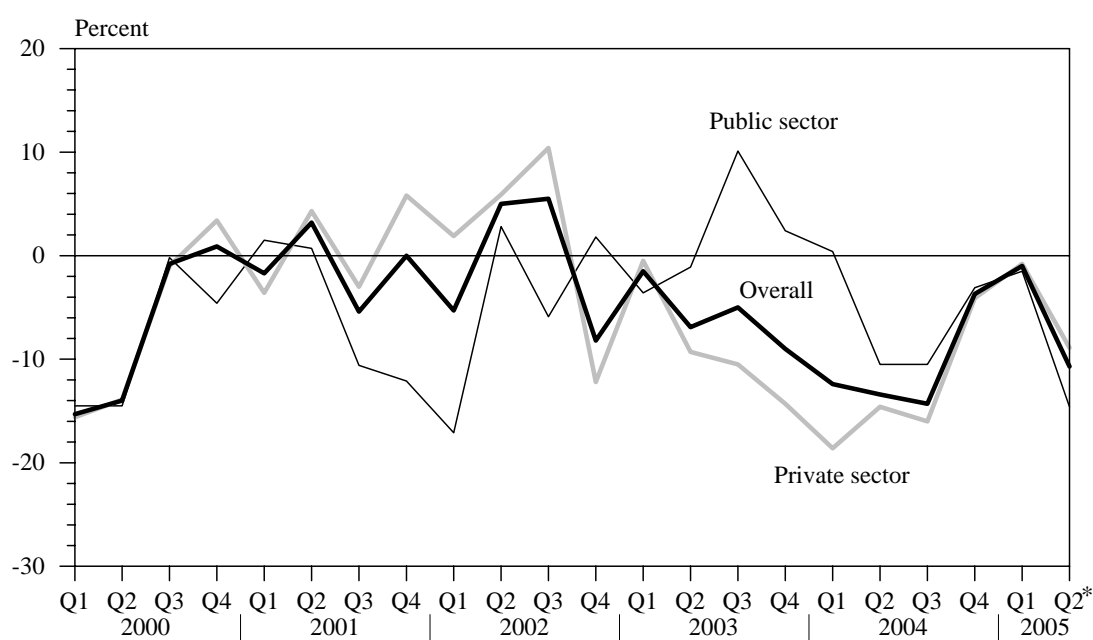
3.12 The Court of Final Appeal (CFA) ruled on 20 July that the sale of the retail and car-parking facilities by the Housing Authority (HA) to The Link Real Estate Investment Trust<sup>(4)</sup> (The Link REIT) was within the capacity of HA. Following the CFA judgment bringing finality to the whole legal proceeding and re-affirming the legality of HA's divestment exercise, HA intended to re-launch

the initial public offering of The Link REIT as soon as practicable. On Tenants Purchase Scheme (TPS), HA would start launching in late August the last phase of TPS (Phase 6B) in stages offering a total of 23 290 flats in five public rental housing estates for sale. Nam Cheong Estate would be first put up for sale, and the remaining four estates, namely Cheung Fat Estate, Fu Shin Estate, Long Ping Estate and Tsui Lam Estate, would be offered for sale in the ensuing few months upon completion of the necessary repair works.

## Building and construction

3.13 Building and construction activity slackened distinctly in the second quarter of 2005, with expenditure on building and construction declining by 11% in real terms over a year earlier. Together with a 1% decrease in the first quarter, overall expenditure on building and construction was down by 6% in the first half of 2005 over a year earlier. Within this total, private sector expenditure on building and construction fell by 5% in the first half of this year, as few large-scale building projects were launched over the past few quarters. Public sector expenditure on building and construction saw a 7% drop in the first half of 2005, amidst further shrinkage in output of public housing units and railway projects.

**Diagram 3.10 : Expenditure on building and construction  
(year-on-year rate of change in real terms)**



Note : (\*) Preliminary figures.

## **Land**

3.14 After the land auction in February involving the sale of a 0.47 hectare commercial site in Kowloon Bay, there was no more land auction held by the Government in the rest of the first half of 2005. The price fetched at the February auction was way above market expectations, reflecting the confidence of some developers on the market outlook. As to land sale through tender, four petrol filling station sites totalling 0.34 hectare were sold in one batch in June.

3.15 Following the announcement of the 2005/06 Application List<sup>(5)</sup> in early March, the Government received a total of five applications in the rest of the first half of 2005, and all of them were unsuccessful. The Government announced a new measure on 21 June to enhance the smooth operation of the Application List system, in which the triggering mechanism under the Application List system was adjusted such that a bid reaching at least 80% of the Government's assessed Open Market Value (OMV) would be accepted as a trigger to initiate an auction or a tender. However, the site would not be sold unless the highest bid received from auction or tender meets or exceeds an OMV reserve price assessed on the day of auction/close of tender.

3.16 On modification of lease on existing developed and developable land and exchange of land in the private sector domain<sup>(6)</sup>, 27 applications were approved by the Government in the first half of 2005. Of this total, ten applications were for residential development, six for residential-cum-commercial development, and one for education and community facilities. The remaining ten were for other purposes.

## **Tourism**

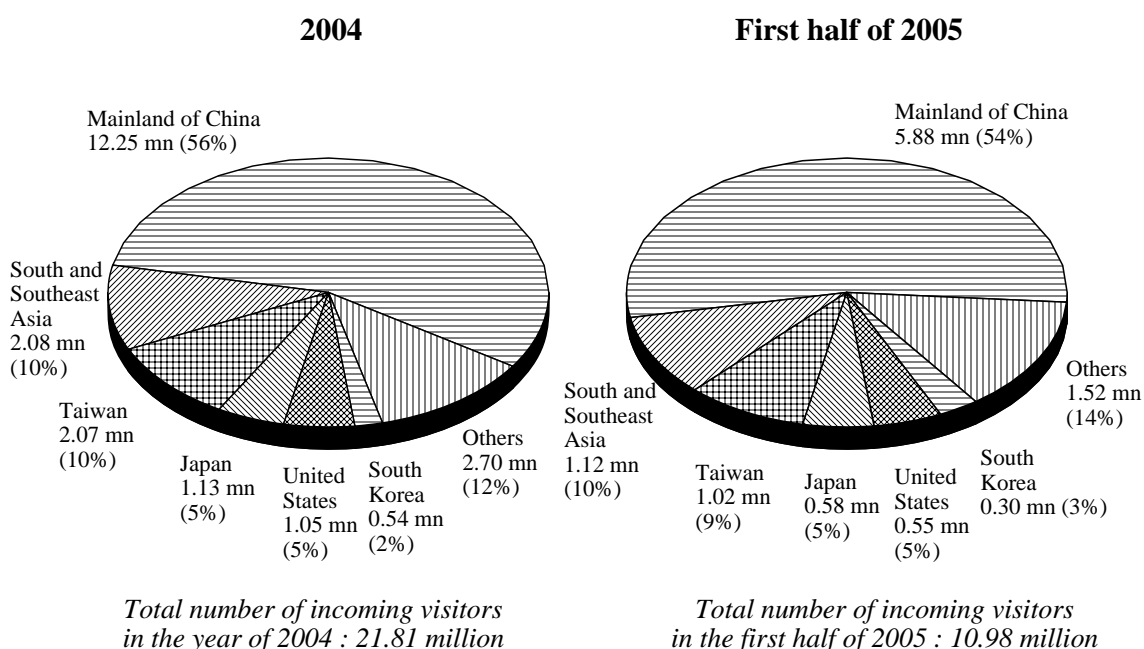
3.17 Inbound tourism remained generally robust in the first half of 2005, with the number of *incoming visitors* rising by 10% over a year earlier to 11.0 million. Visitor arrivals from the United States, Europe and most of the Asian markets all saw further double-digit increases ranging from 15% to around 30% in the first half of 2005, while those from Taiwan also reverted to a modest increase. The on-going promotion campaigns launched by the Hong Kong Tourism Board, the attractively priced airfares and packages, as well as the major trade fairs held in Hong Kong all helped boost visitor arrivals from these markets. As to visitor arrivals from the Mainland, they still grew by 4% in the first half of 2005, with over 40% of them coming under the Individual



Visit Scheme. This was notwithstanding a relatively high base of comparison in the first half of last year resulted from further extension of the Individual Visit Scheme. As at end-June 2005, there were 46 491 *hotel and guesthouse rooms* in Hong Kong, 9% up from a year earlier<sup>(7)</sup>. The *average hotel room occupancy rate* remained high, at 83% in the second quarter of 2005.

3.18 Looking ahead, the 2005 Hong Kong Shopping Festival being held from late June until end-August and the opening of Hong Kong Disneyland on 12 September are expected to bring additional visitors to Hong Kong.

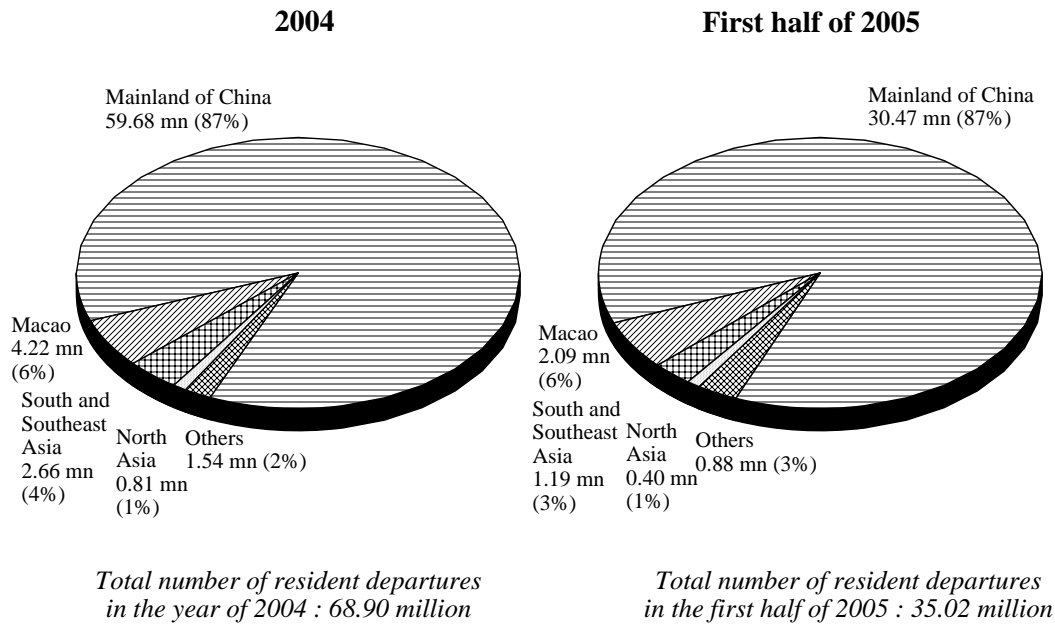
**Diagram 3.11 : Number of incoming visitors by source**



Note : Figures in brackets are the respective shares in the total number of incoming visitors.

3.19 As to outbound travel, the number of *Hong Kong residents travelling abroad* rose by 5% over a year earlier to 35.0 million in the first half of 2005. A marked increase of 10% was recorded in the first quarter, followed by a 1% rise in the second quarter. The moderated growth in the second quarter was attributable to a higher base of comparison since the second quarter of 2004 as outbound tourism continued to strengthen along with the economic upturn. The Mainland remained the most popular destination for Hong Kong residents, with most of these trips destined for the Guangdong Province.

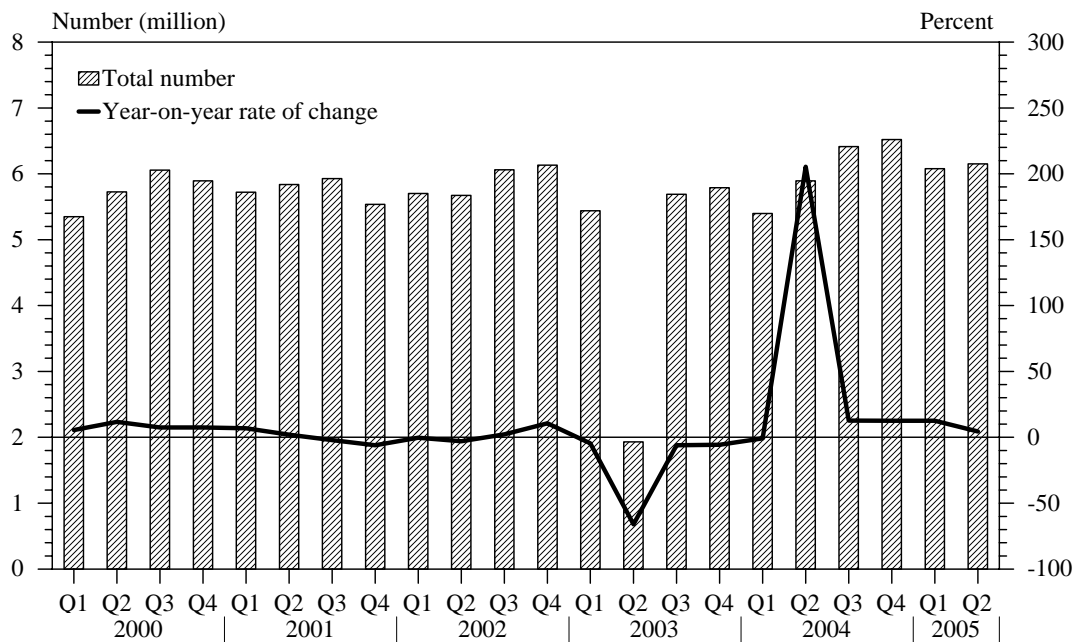
**Diagram 3.12 : Number of Hong Kong resident departures by destination<sup>(8)</sup>**



Note : Figures in brackets are the respective shares in the total number of Hong Kong resident departures.

3.20 On total *air passenger movements*, they rose by 8% over a year earlier to 12.2 million in the first half of 2005, with a marked increase of 13% in the first quarter followed by a 4% rise in the second quarter. The moderated growth was seen in both arrivals and departures, with the former decelerating from 12% to 5% and the latter from 13% to 4%.

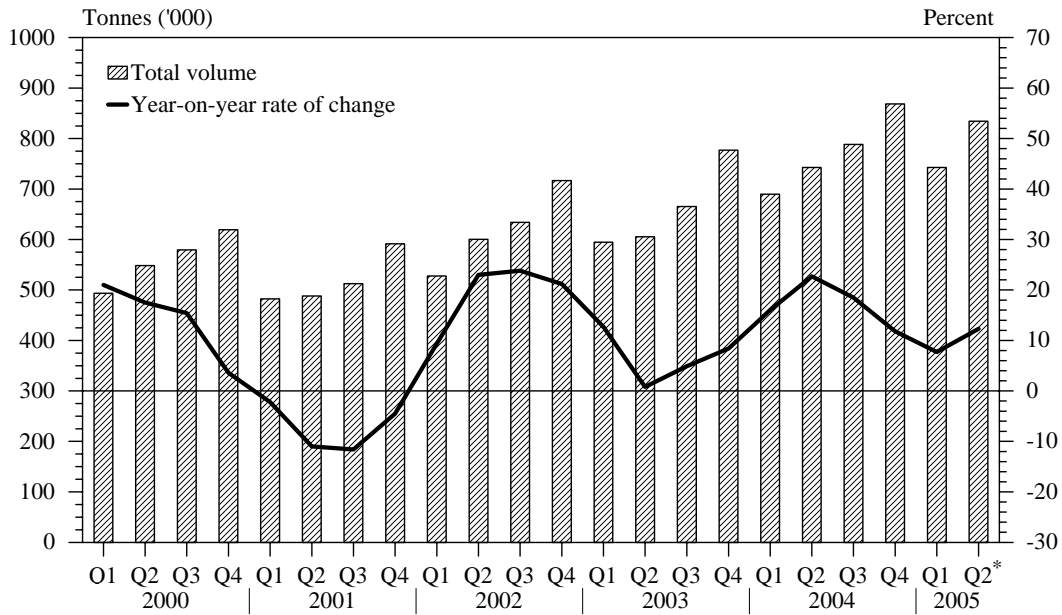
**Diagram 3.13 : Number of air passenger movements**



## Logistics

3.21 On *air transport, aircraft movements* (including both passenger and cargo flights) went up by 9% over a year earlier to 124 900 in the first half of 2005. Backed by the buoyant merchandise trade, total *air cargo movements* expanded by 10% to 1.6 million tonnes over the same period. Within this total, outward cargo rose markedly by 13% over a year earlier to 1.0 million tonnes in the first half of this year, while inward cargo rose by 5% to 0.6 million tonnes. The Airport Authority will continue to expand its catchment area into the Mainland by enhancing connectivity with major cities in the Pearl River Delta and strengthening cooperation with Mainland airports.

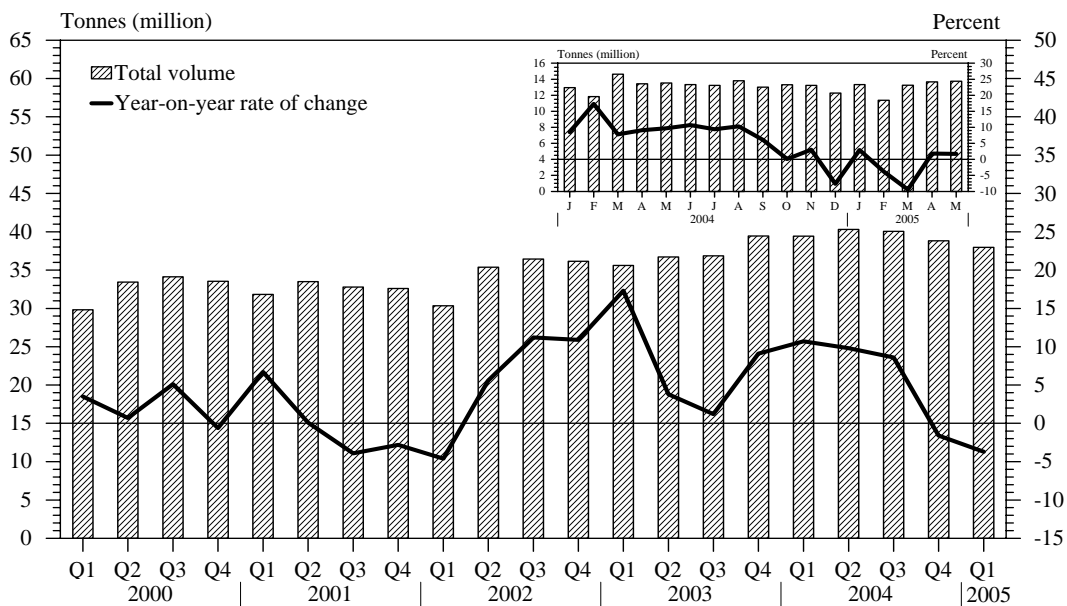
**Diagram 3.14 : Cargo carried by air**



Note : (\*) Provisional figures.

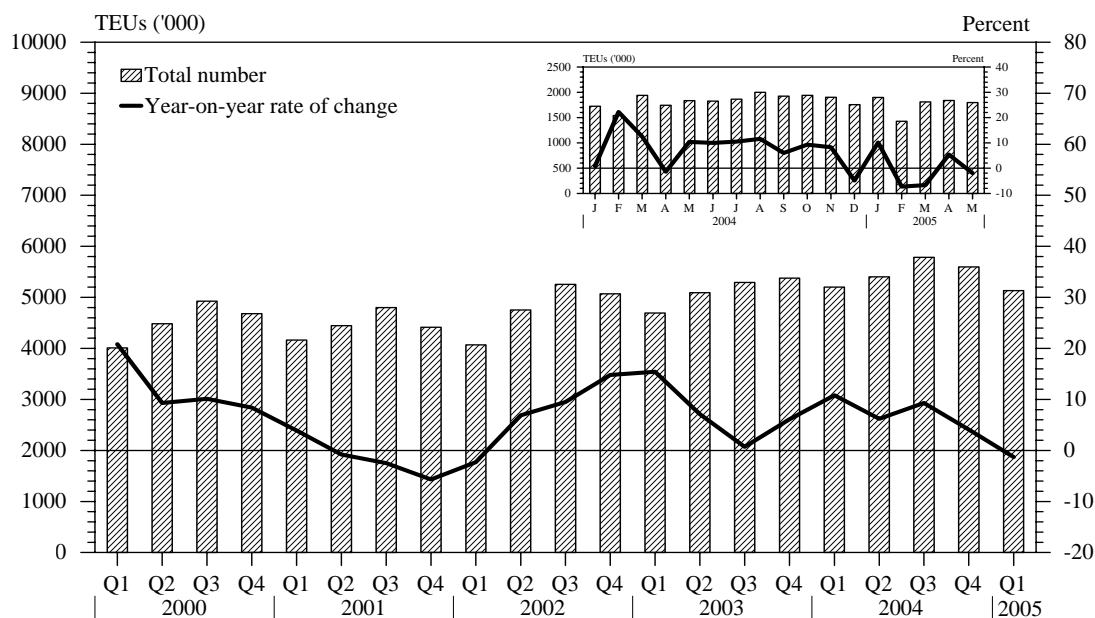
3.22 *Ocean transport* continued to be affected by the increasing trend of manufactured products being shipped directly from nearby Mainland ports rather than indirectly through Hong Kong. In the first five months of 2005, total *ocean cargo movements* edged down by 1% over a year earlier to 65.4 million tonnes.

**Diagram 3.15 : Cargo carried by sea**



3.23 *Container traffic* handled by the Hong Kong Port likewise showed a modest performance. Total container throughput in terms of Twenty-foot Equivalent Units (TEUs) recorded little change over a year earlier in the first five months of 2005, at 8.8 million TEUs.

**Diagram 3.16 : Container throughput**



### Creativity and innovation

3.24 Over the past few years, the Government has strived to facilitate the development of innovation and technology mainly through funding of research and development (R&D) projects and provision of quality infrastructural facilities. Following a review of the state of innovation and technology development in 2004, the Government has decided to adopt a new strategic framework to enable the sustainable development of our innovation and technology programme. The new strategy emphasises five key elements including focus, market relevance, industry participation, leverage on the Mainland, and better coordination among different elements of the innovation and technology programme.

3.25 As an initiative under the new strategy, the Government has undertaken to set up R&D centres to drive and coordinate R&D efforts in selected technology focus areas and to promote technology transfer to the relevant industry sectors. Following a public consultation exercise, the Government has recently decided to set up five R&D centres in the second half of 2005<sup>(9)</sup>. The R&D centres will conduct industry-oriented research, provide

technology and market intelligence, and act as a platform for the exchange of intellectual property and technology, technology transfer and intellectual property commercialisation.

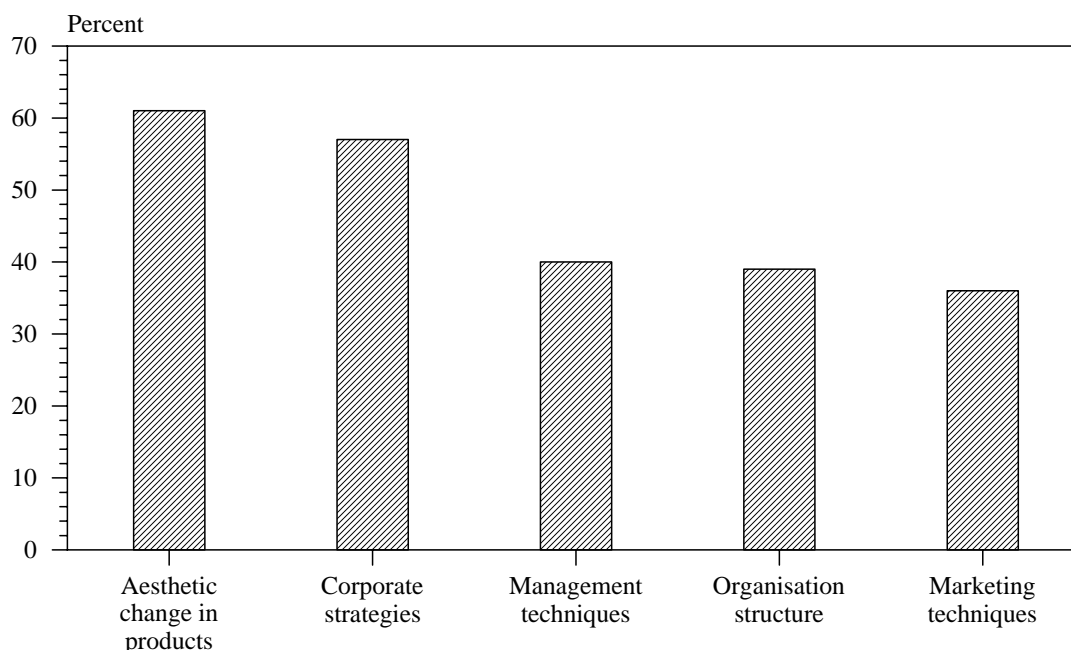
3.26 Besides, the governments of HKSAR and Guangdong Province have agreed to each earmark \$260 million to extend the Hong Kong/Guangdong Technology Cooperation Funding Scheme for the second year starting from June 2005. The Scheme seeks to support collaborative midstream or downstream R&D projects in selected technology areas<sup>(10)</sup> undertaken by universities, R&D institutions and private enterprises between Hong Kong and Guangdong Province.

3.27 To promote an innovative culture in Hong Kong, the Innovation and Technology Commission is launching the “Innovation Festival 05” that lasts from July to October 2005. Themed “Take Wings - City of Innovation”, the Festival comprises a series of programmes including seminars, roadshows, exhibitions, workshops, student science project competition and “My favourite invention for quality living competition”.

3.28 The business sector has also been participating in various types of innovation activities for the common goal of enhancing competitiveness. Latest indications show that about 131 000 business establishments, representing 46% of the total, are engaged in innovation activities<sup>(11)</sup>. As Hong Kong is a service-oriented economy, most of these companies strive to explore new ways of managing business for improving efficiency and adaptability to market changes. Examples include development of new corporate strategies for market positioning, new organisation structure to streamline internal operation, new management techniques to strengthen supervision, new marketing techniques for product promotion, and new aesthetic design and packaging of goods and services.

3.29 Innovation activities in science and technology showed visible increase in recent years, with the expenditure on scientific and technological innovation in the business sector more than doubling from \$6.7 billion in 2001 to \$14.4 billion in 2003. Apart from developing new technologies through R&D activities, a considerable part of the expenditure was spent on acquiring new technologies through purchase of advanced machinery and computer hardware, and rights to use patented and non-patented inventions. The new technologies developed and acquired are used for improving product attractiveness and production efficiency.

**Diagram 3.17 : Business establishments innovating in strategy and management by major type of activity**



Notes : The percentages here pertain to the business establishments innovating in the areas of strategy and management only, and represent the proportions of these business establishments which had participated in the specified activities to the total number of business establishments which had participated in any one of these innovating activities. Some business establishments had been engaged in more than one type of activity in these areas.

Figures refer to the latest position in 2003.

**Notes :**

- (1) The Census and Statistics Department completed an exercise to implement the latest international guidelines on dealing with financial intermediation services provided by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005. As a result of this statistical development, GDP statistics were revised. Please refer to Note (2) in Chapter 1 for details.
- (2) 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.

- (3) To enhance the transparency of the private sales mechanism, The Real Estate Developers Association of Hong Kong issued new guidelines to its members on 24 June. There are 15 new guidelines in total covering six main areas, namely (i) provision of sales brochures and other essential information - they should be made available to prospective purchasers at least 24 hours before the private sale; (ii) provision of price list - the price list of the first batch of units on offer should be of a reasonable quantity, and should be provided at least 24 hours before the private sale; (iii) announcement of sales performance; (iv) conduct of sale; (v) engagement of estate agency; and (6) monitoring – random check on the compliance with these guidelines by members would be conducted by the REDA Secretariat.
- (4) The Housing Authority (HA) decided in July 2003 to divest its retail and car-parking (RC) facilities. This was to be implemented through the establishment of a Real Estate Investment Trust (namely the Link REIT) and its listing on the Stock Exchange of Hong Kong. The initial public offering of The Link REIT, originally scheduled to be launched in December 2004, was postponed as the judicial review challenge initiated by two citizens against HA's statutory power to divest its RC facilities could not reach finality before the scheduled listing date of The Link REIT.
- (5) 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.

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) According to the latest projections made by the Hong Kong Tourism Board, there would be 20 new hotels with some 8 900 new rooms available in 2005.



- (8) As from May 2005, data on Hong Kong residents travelling abroad using the Automated Passenger Clearance system were available from the Immigration Department as a new category in the statistics on Hong Kong resident departures by destination. The system was so far installed at the Lo Wu, Macao Ferry Terminal and Lok Ma Chau control points, and thus statistics on the number of Hong Kong residents travelling to the Mainland and Macao since May 2005 are not strictly comparable to those in the earlier periods. Nevertheless, the number of Hong Kong residents using the Automated Passenger Clearance system was not significant, at 74 700 in May and June 2005 combined, equivalent to only 0.7% of the total number of residents travelling to the Mainland and Macao over the same period.
- (9) The five research and development centres will respectively focus on automotive parts and accessory systems; logistics and supply chain management enabling technologies; textile and clothing; nanotechnology and advance materials; and information and communications technologies.
- (10) The six key technology areas to be supported by the Hong Kong/Guangdong Technology Co-operation Funding Scheme for the year starting from June 2005 are information and communications technologies; critical precision manufacturing equipment; medical biotechnology and medical device; new materials; agricultural product processing and food safety; and environmental technology and green manufacturing.
- (11) For details, see the Report on 2003 Annual Survey of Innovation Activities in the Business Sector published by Census and Statistics Department.

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

### *Summary*

- *The HKMA introduced three refinements to the operation of the Linked Exchange Rate system on 18 May 2005. These refinements aim at promoting the smooth functioning of the money and foreign exchange markets in accordance with Currency Board arrangements.*
- *Hong Kong dollar interest rates rose amidst shrinkage in the Aggregate Balance during the first half of 2005. Hong Kong dollar interest rates almost converged with the US dollar counterparts by the end of the first half. The spot exchange rate of the Hong Kong dollar against the US dollar was broadly stable during the first few months of 2005 but strengthened slightly during May and June.*
- *Having consolidated in the first quarter of 2005, the local stock market rebounded during the second quarter. The Hang Seng Index closed at 14 201 at end-June 2005, 5.1% higher than end-March. Equity capital raising activities revived in the second quarter. Market turnover shrank in the first few months of 2005 but rebounded towards the end of the second quarter.*
- *The fund management industry continued to grow in Hong Kong. Asset under management amounted to \$3,618 billion at end-2004, 23% higher than a year earlier. Reflecting Hong Kong's status as a major international financial centre, funds sourced from overseas still constituted a large proportion of the asset under management in Hong Kong.*

### **Interest rates, aggregate balance and exchange rates**

4.1 Largely due to the higher US dollar interest rates, the Aggregate Balance under Currency Board arrangements shrank and Hong Kong dollar interest rates began to pick up with the US dollar counterparts in the first few months of 2005. On 18 May 2005, the HKMA announced three refinements to the operation of the Linked Exchange Rate system. These refinements

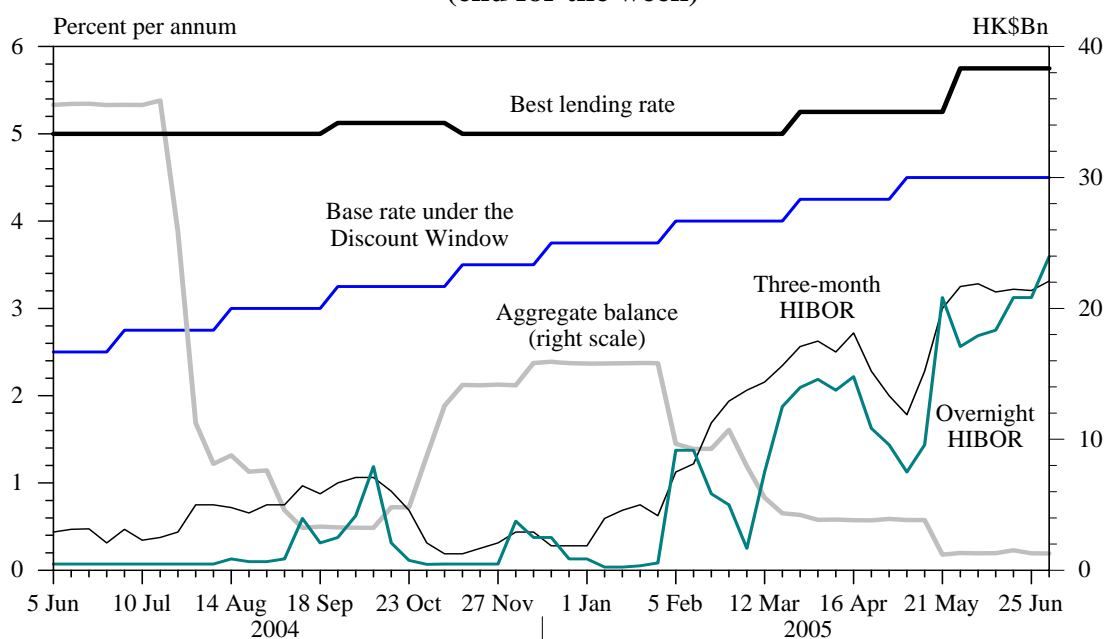
---

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

include: introducing a strong-side Convertibility Undertaking (CU) at 7.75, shifting the weak-side CU at 7.85, and creating a Convertibility Zone defined by the levels of the Convertibility Undertakings, within which the HKMA may choose to conduct market operations consistent with Currency Board principles. These refinements aim at removing uncertainty about the extent to which the exchange rate may strengthen under the Linked Exchange Rate System and promoting the smooth functioning of the money and foreign exchange markets in accordance with Currency Board arrangements.

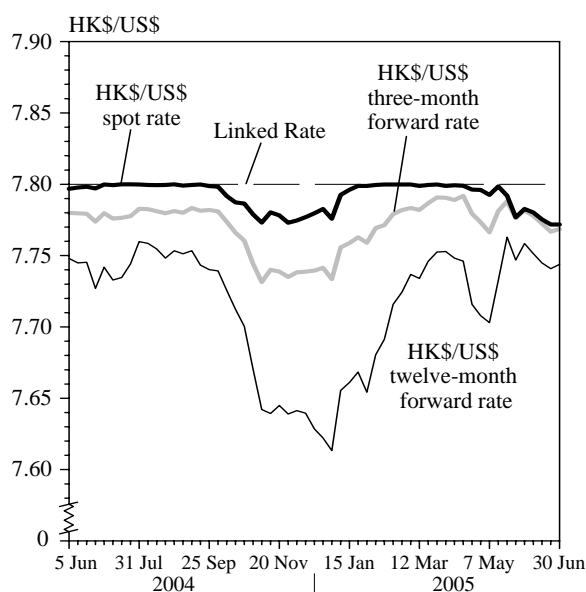
4.2 Following the introduction of the refinements, the Aggregate Balance shrank from \$3.8 billion to around \$1.3 billion at end-May. The sharp decline in the Aggregate Balance during the first half of 2005, from \$15.8 billion at end-2004 to around \$1.3 billion at end-June 2005, led to increases in *overnight HIBOR*, *three-month HIBOR* as well as *the best lending rate*. The interest spreads for the short-term (overnight and three-month) Euro-dollar deposit rate and the corresponding HIBOR narrowed markedly, as Hong Kong dollar interest rates almost converged with the US dollar counterparts by end-June 2005. Also, *mortgage rates* for new loans moved up substantially. The proportion of new mortgage loans granted at more than 2.25 percentage points below the best lending rate declined to 74.1% at end-June 2005 from 93.2% at end-December 2004. *The Base Rate* under the Discount Window operated by the HKMA was adjusted upward three times during the first half of 2005 by a cumulative total of 75 basis points to 4.5% at end-June.

**Diagram 4.1 : Aggregate balance under the Currency Board arrangements and interest rates  
(end for the week)**

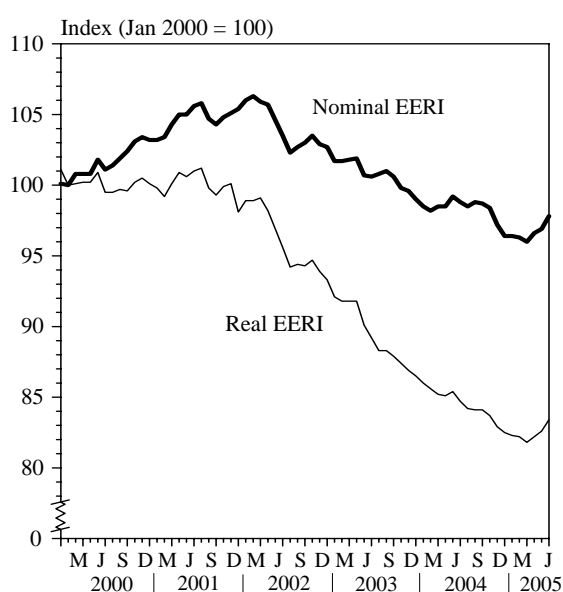


4.3 The Hong Kong dollar spot exchange rate stayed close to the Linked rate (at \$7.8 per US dollar) during the first few months of 2005 but strengthened slightly in the latter part of the second quarter, probably due to massive local fund raising activities in June. Meanwhile, the US dollar strengthened against the Pound Sterling, the Yen and the Euro but weakened against some Asian currencies. As the Hong Kong dollar is linked to the US dollar, both the trade-weighted Nominal and Real Effective Exchange Rates Index<sup>(1)</sup> of the Hong Kong dollar rose slightly.

**Diagram 4.2 : Exchange rate of the Hong Kong dollar against the US dollar (end for the week)**



**Diagram 4.3 : Trade-weighted Effective Exchange Rate Index of the Hong Kong dollar (average for the month)**



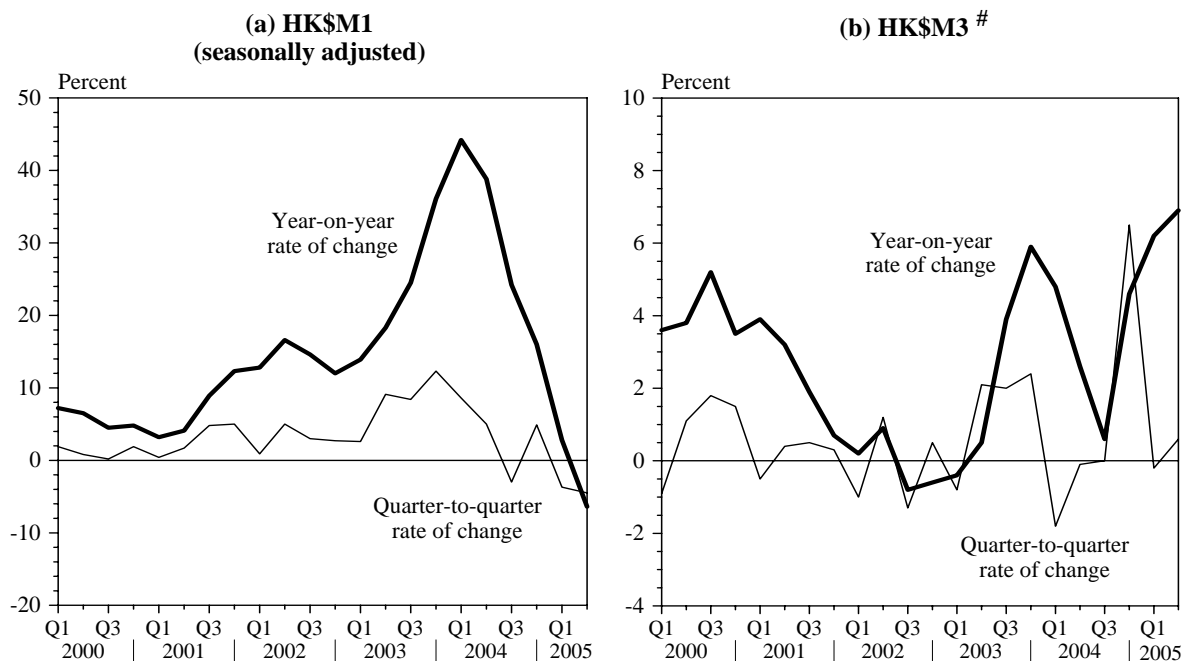
## Money supply and deposits

4.4 In the second quarter of 2005, narrow money supply continued to contract while broad money supply rebounded modestly. The fall in the seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1)<sup>(2)</sup> was attributable to a decrease in demand deposits, which was driven by reduced transactional demand for money arising from lower stock market turnover in the second quarter. Tallying with the overall economic growth, Hong Kong dollar broad money supply (HK\$M3) rose, as an increase in time deposits more than offset the decline in demand and savings deposits.

4.5 Favourable economic situation and higher interest rate resulted in higher total deposits with authorized institutions<sup>(3)</sup>. Reflecting the larger increases in Hong Kong dollar interest rates, the growth in Hong Kong dollar deposits (adjusted to include foreign currency swap deposits)<sup>(4)</sup> more than offset a decline in foreign currency deposits in the second quarter. Also, there was a

clear shift from Hong Kong dollar demand and savings deposits to time deposits.

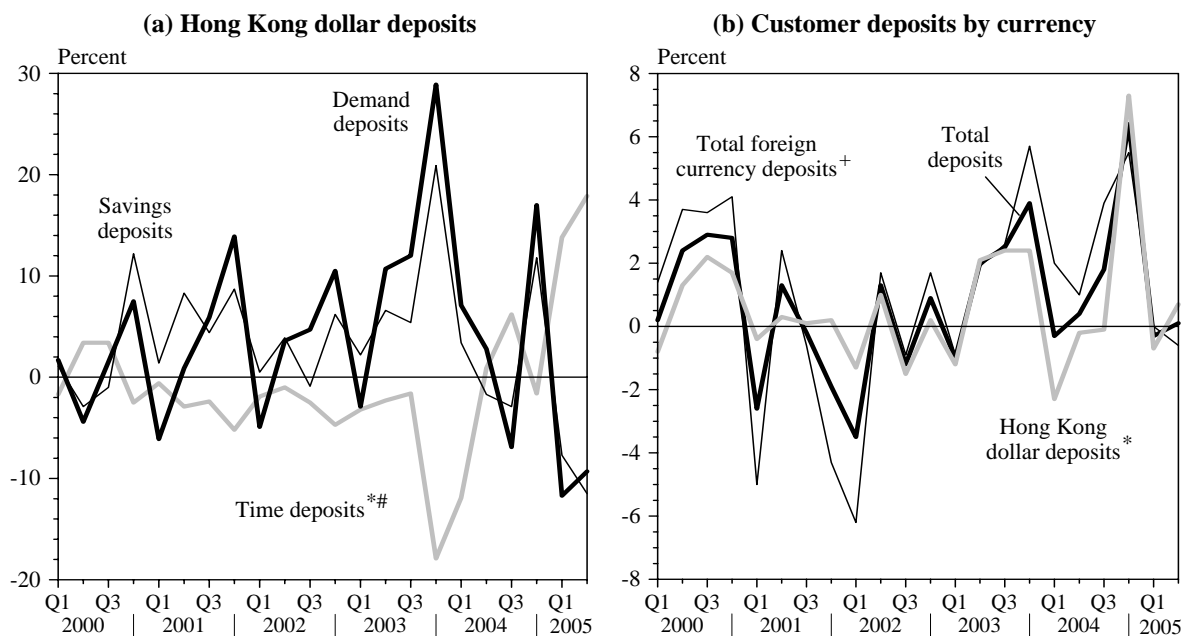
**Diagram 4.4 : Hong Kong dollar money supply<sup>^</sup>**



Notes: (^) Figures refer to the positions at end of quarter.

(#) Adjusted to include foreign currency swap deposits.

**Diagram 4.5 : Total deposits in authorized institutions<sup>^</sup>  
(quarter-to-quarter rate of change)**



Notes: (^) Figures refer to the positions at end of quarter.

(\*) Adjusted to include foreign currency swap deposits.

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

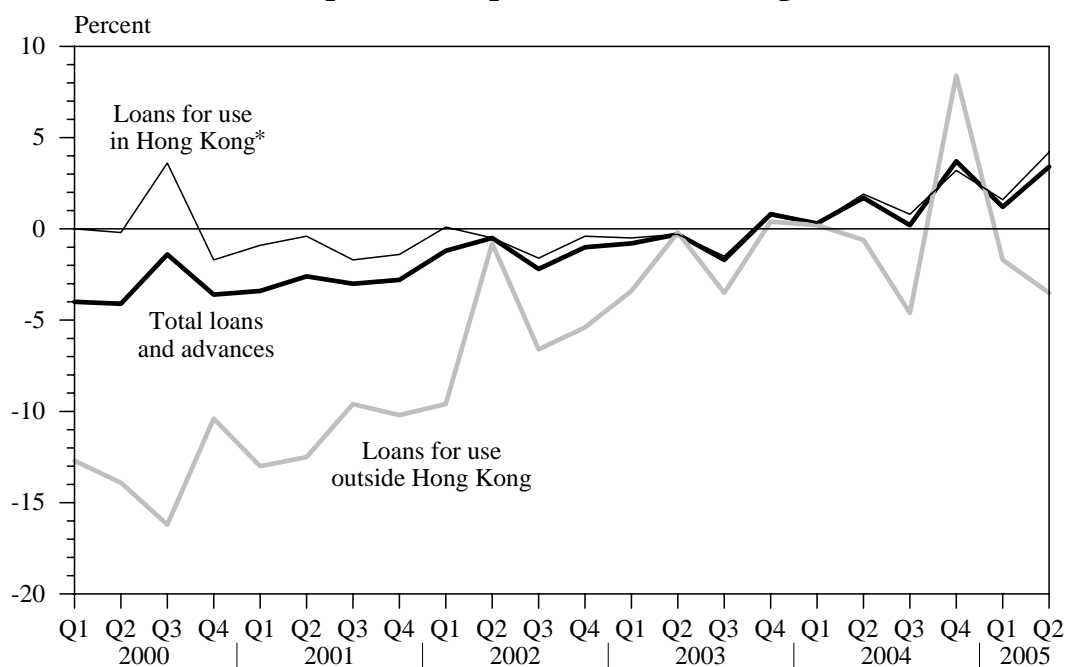
(+) Adjusted to exclude foreign currency swap deposits.

## Loans and advances

4.6 Total loans and advances expanded by 3.4% to \$2,256 billion at end-June 2005 compared with end-March. Loans for use outside Hong Kong dropped for two consecutive quarters while those for use in Hong Kong increased further. The growth in domestic credits was attributable to the sustained upturn in local economic activity and the resultant stronger demand for bank credit for business expansion and operation. In particular, trade financing, and loans for stockbrokers and the manufacturing sector registered notable increases during the second quarter of 2005. On the other hand, the outstanding stock of mortgage loans increased only slightly by 1.2% despite a higher value of property transactions, as an upsurge in new mortgage lending was mostly offset by repayments on existing mortgages.

4.7 As Hong Kong dollar loans increased more than Hong Kong dollar deposits in the second quarter of 2005, the loan-to-deposit ratio moved up from 84.8% at end-March 2005 to 87.1% at end-June.

**Diagram 4.6 : Loans and advances by location of uses<sup>^</sup>**  
(quarter-to-quarter rate of change)



Note : (^) Figures refer to the positions at end of the quarter.

(\*) Loans for use in Hong Kong include trade financing.

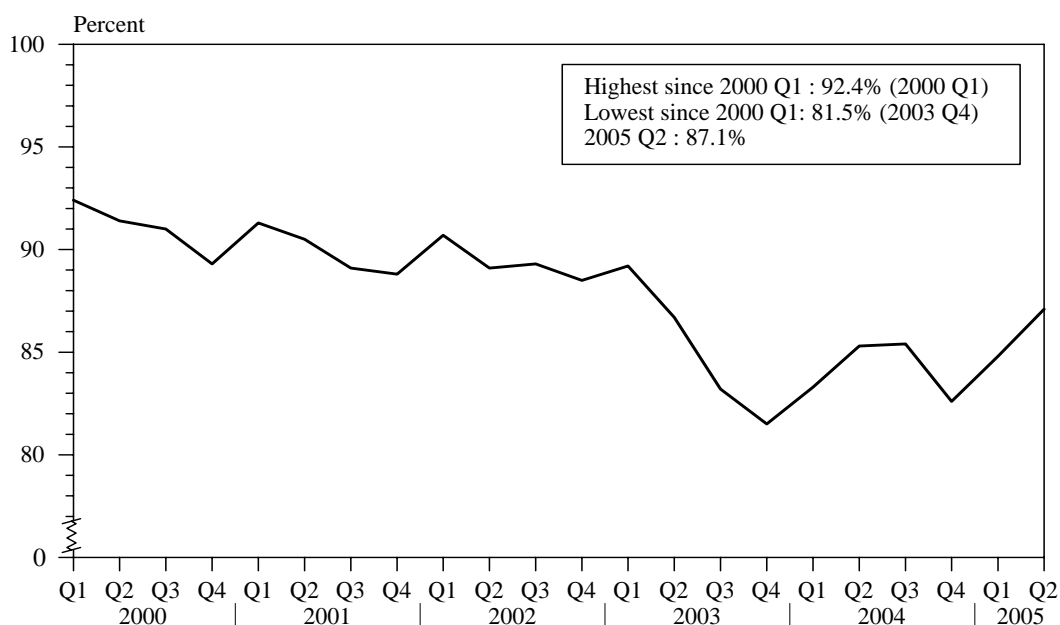
**Table 4.1 : Loans and advances for use in Hong Kong by major usage**

		Loans to :							
		<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>(a)</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	8.1	-0.7	4.3	0.6	-0.8	5.8	*
	Q2	12.5	10.2	6.8	2.7	1.2	3.4	10.9	5.6
Total amount at the end of June 2005 (HK\$Bn)		150	120	105	413	621	174	11	441
% change over a year		22.7	32.8	12.8	14.9	1.5	10.1	13.2	11.3

Notes : (a) Figures also include loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme, in addition to those for the purchase of private residential flats.

(\*) Change of less than 0.05%.

**Diagram 4.7 : Hong Kong dollar loan-to-deposit ratio\***



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

## Banking

4.8 Asset quality of the local banking sector improved further, along with the booming economy and upbeat asset market performance. The ratio of classified loans to total loans of retail banks decreased from 2.25% at end-2004 to 1.95% at end-March 2005. For all the local banks taken together, their consolidated capital adequacy ratio averaged 15.4% at end-March 2005, well above the minimum international standard of 8% set by the Bank for International Settlements. Asset quality of major loan items continued to improve in the second quarter. The delinquency ratio for *residential mortgage loans* declined from 0.38% at end-2004 to 0.22% at end-June 2005. Likewise, the arrears for over three months in *credit card repayment* decreased slightly from 0.44% at end-2004 to 0.40% at end-June 2005.

**Table 4.2 : 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)
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	3.99	2.25
2005 Q1	94.30	3.75	1.95

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 may not add up to 100.

4.9 Financial links between the Mainland and Hong Kong continue to build up as financial market liberalisation proceeds in the Mainland. 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-June 2005, a total of 39 licensed banks were engaged in these business activities. Renminbi deposits with authorized institutions increased steadily and reached RMB20.9 billion. The share of renminbi deposits in total foreign currency deposits with all authorized institutions rose to 1.07% at end-June 2005 from 0.62% at end-2004.



**Table 4.3 : 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
	Q2	9,358	11,540	20,898	0.46	0.65	39

- 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.

4.10 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. An annual return for the assessment of contributions to be paid by the scheme members has been developed. The Board has also commenced work on the development of its payout procedures and the associated information systems. Rules governing detailed operation of the Scheme are also being developed. The scheme is expected to start providing deposit protection in the second half of 2006.

4.11 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). The Banking (Amendment) Ordinance 2005 was passed by the Legislative Council on 6 July 2005 to, inter alia, put in place a legislative framework for the implementation. 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

4.12 Growth of the insurance industry remained robust in the first quarter of 2005, with the value of business receipts rising by 9.4% over a year earlier<sup>(5)</sup>. Regarding new long-term business, the trend of linked individual life and annuity businesses substituting non-linked ones continued. On the other hand, the underwriting profit of general insurance business plunged, mainly attributable to a higher net claims incurred, particularly for ship business.

**Table 4.4 : Insurance business in Hong Kong (HK\$Mn)**

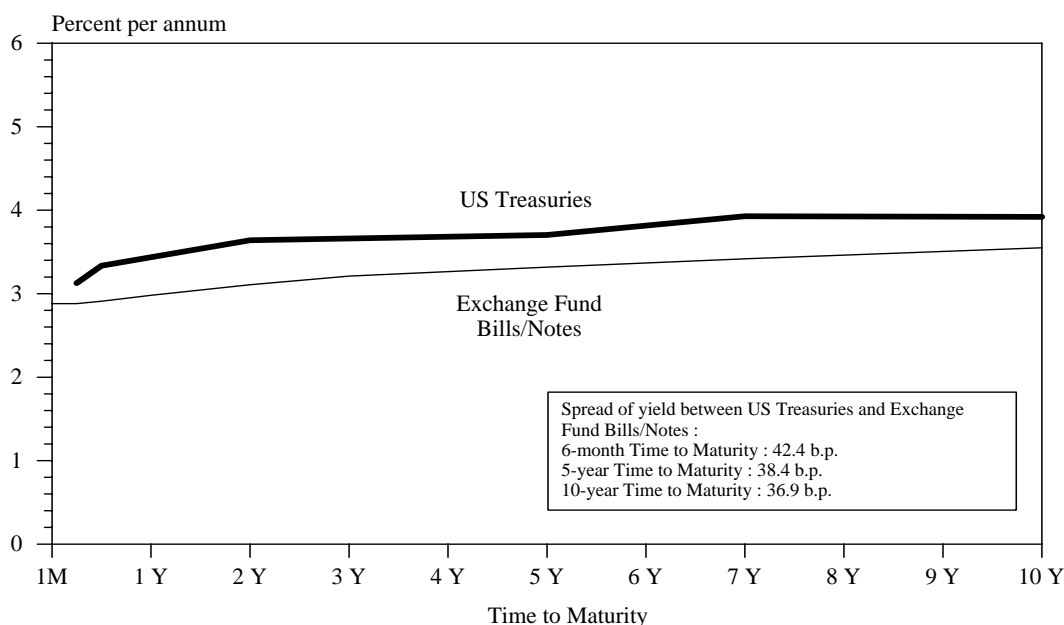
	<u>General business :</u>			<u>Premium for long-term business* :</u>				
	<u>Gross premium</u>	<u>Net premium</u>	<u>Underwriting profit</u>	<u>Individual life and annuity (non-linked)</u>	<u>Individual life and annuity (linked)</u>	<u>Other individual business</u>	<u>Non-retirement scheme group business</u>	<u>All long-term business</u>
2004 Q1	6,878	4,855	386	5,663	3,802	49	58	9,572
Q2	5,430	3,907	893	5,137	4,946	47	38	10,168
Q3	5,691	3,998	580	3,939	3,788	47	41	7,815
Q4	4,993	3,513	295	4,983	5,979	52	26	11,040
2005 Q1	6,944	4,909	63	4,814	4,209	45	41	9,109
% change from 2004 Q1 to 2005 Q1	1.0	1.1	-83.7	-15.0	10.7	-8.2	-29.3	-4.8

Note : (\*) Figures refer to new businesses only. Retirement scheme businesses are excluded.

## The debt market

4.13 Both the Hong Kong dollar and US dollar yield curves turned flat during the first half of 2005. Similar to the change in the shape of the US dollar yield curve, the short-term Hong Kong dollar yield rose substantially while the long-term Hong Kong dollar yield dropped slightly. Also, the yield spread between 5-year US Treasury Bill and the corresponding Exchange Fund Notes has narrowed to 38 basis points at end-June 2005 from 95 basis points at end-2004, as the Hong Kong dollar interest rates converged gradually with the US dollar counterparts during the first half of 2005.

**Diagram 4.8 : Hong Kong dollar and US dollar yield curves  
(as at the end of June 2005)**



4.14 Given active debt issuance in both the public and private sectors, the total value of Hong Kong dollar debt securities outstanding increased to \$644 billion at end-June 2005 from \$607.9 billion at end-2004<sup>(6)</sup>. The size of the Hong Kong dollar debt market rose to 29% of HK\$M3, or 21% of the Hong Kong dollar-denominated assets of the entire banking sector<sup>(7)</sup>.

4.15 The HKMA launched a refined Retail Exchange Fund Notes (EFNs) programme in May 2005, following the one-year pilot scheme that commenced in August 2003. With the refinements made to issuing, pricing and distribution arrangements, the programme aims at promoting the further development of the retail bond market in Hong Kong. The tender of the 2-year EFNs under the refined programme was well received by investors with a total subscription amounting to \$361 million, 20% above the \$300 million on offer.

4.16 To promote the development of regional bond markets, the Asian Bond Fund 2 (ABF2), launched by the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP) Group, moved into the implementation stage. The ABF2 comprises a Pan-Asian Bond Index Fund and eight Single-market Funds. The ABF Hong Kong Bond Index Fund, one of the eight Single-market Funds, was listed on the Hong Kong Stock Exchange in June 2005. This was the first bond index tracker fund denominated in Hong Kong dollar as well as the first exchange traded bond fund in Hong Kong. Additional listings on other EMEAP stock exchanges will be considered at a later stage.

**Table 4.5 : New issuance and outstanding value of  
HK dollar debts securities (HK\$Bn)**

		<u>Public sector</u>				<u>Private sector</u>				<u>Public and private sectors total</u>	
		<u>Exchange Fund paper</u>	<u>Statutory bodies/govern- ment-owned corporations</u>	<u>Govern- ment</u>	<u>MDBs<sup>(a)</sup></u>	<u>Public sector total</u>	<u>AIs<sup>(b)</sup></u>	<u>Local corporates</u>	<u>Non-MDBs overseas borrowers<sup>(a)</sup></u>		<u>Private sector total</u>
<b>New Issuance</b>											
2004	Annual	206.0	17.8	10.3	3.5	234.1	50.7	9.1	79.4	139.2	376.8
	H1	103.7	14.5	-	3.4	118.3	22.0	3.2	42.8	68.1	189.7
	H2	102.3	3.3	10.3	0.1	115.9	28.7	5.9	36.6	71.2	187.1
2005	H1	105.1	3.6	-	1.1	108.7	38.0	3.6	67.4	108.9	218.8
	Q1	52.0	1.3	-	-	53.3	18.0	1.1	31.1	50.2	103.6
	Q2	53.1	2.3	-	1.1	55.4	20.0	2.4	36.3	58.7	115.2
<b>Outstanding (period-end figures)</b>											
2004	H1	121.2	60.3	-	25.1	181.5	139.2	32.7	203.4	375.3	582.0
	H2	122.6	60.2	10.3	24.7	193.1	144.3	34.6	211.2	390.1	607.9
2005	Q1	123.2	57.3	10.3	23.5	190.8	145.9	32.0	228.7	406.6	620.9
	Q2	124.3	56.1	10.3	23.6	190.7	148.4	33.2	248.1	429.7	644.0

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

(a) MDBs : Multilateral Development Banks.

(b) AIs : Authorized Institutions.

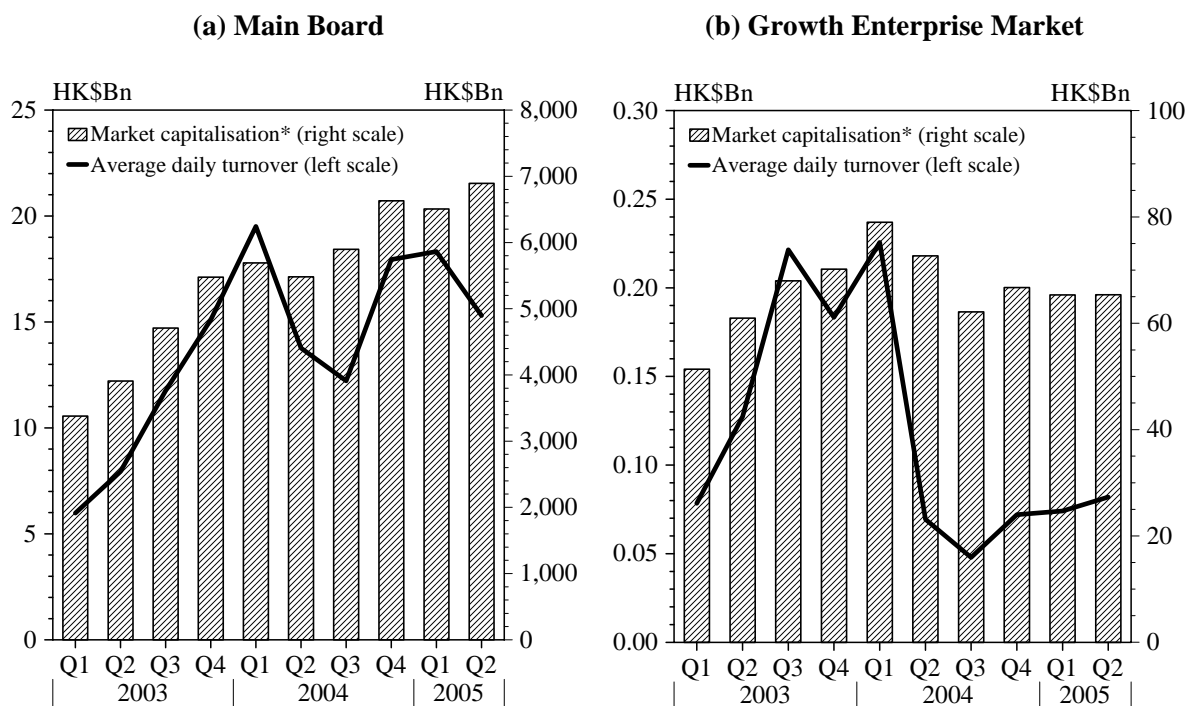
## The stock and futures markets

4.17 Having consolidated in the first quarter, share prices in *the local stock market* in the early second quarter were still depressed by further increases in Hong Kong and US dollar interest rates, high and volatile oil prices and uncertainties in global financial markets. The performance of financial and property stocks were particularly hard-hit by the rises in interest rates. Nevertheless, market sentiments rebounded moderately in May, partly due to the impending massive fund raising activities in June and partly due to the sustained growth in consumer spending and improvements in the labour market. On the back of an improved economic outlook, the Hang Seng Index stayed above 14 000 since 22 June for the rest of the second quarter, and reached 14 287, a four-year high, on 28 June. It closed at 14 201 at end-June, 5.1% higher than at end-March.

4.18 Market capitalisation for the Main Board at end-June 2005, at 6,893 billion, was 4.0% higher than at end-2004. Market turnover shrank in

the first few months of 2005 but rebounded towards the end of the second quarter. Meanwhile, market capitalisation of the Growth Enterprise Market (GEM) contracted further to \$65.4 billion at the close of June 2005, 2.0% lower than end-2004.

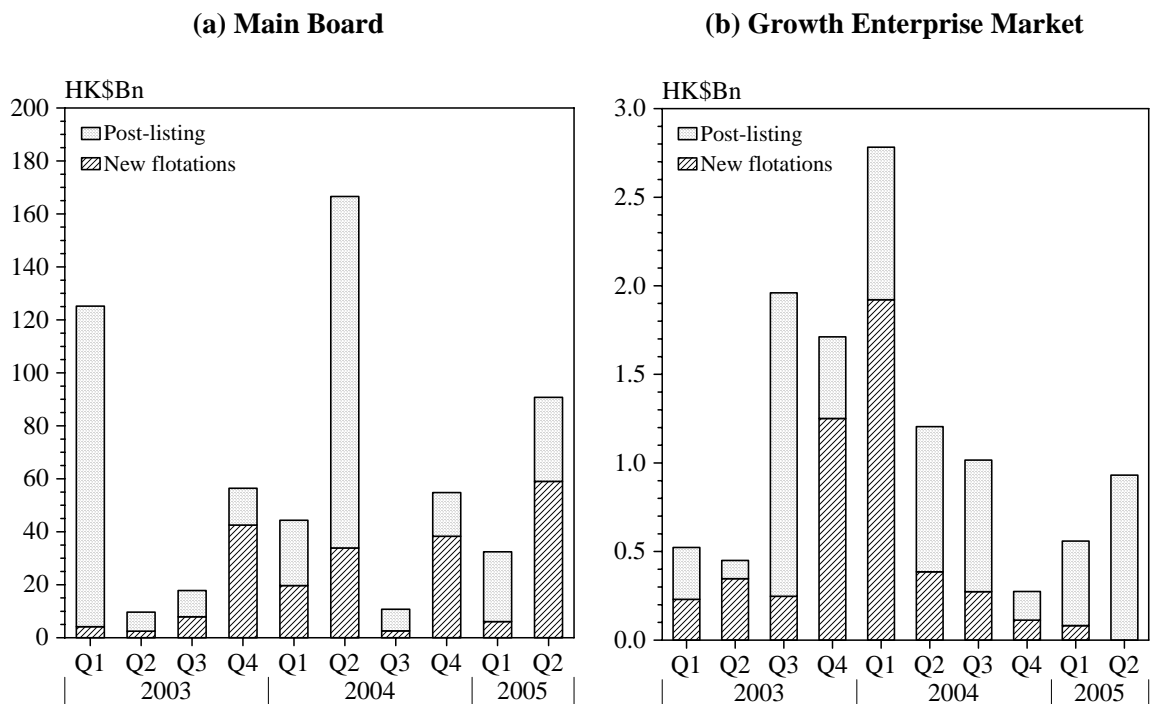
**Diagram 4.9 : Average daily turnover and total market capitalisation of the Hong Kong stock market**



Note: (\*) Position at end of quarter.

4.19 Hong Kong remained the regional capital-raising centre. A total of \$124,678 million equity capital was raised from new share flotations and post-listing in Hong Kong stock markets<sup>(8)</sup> in the first half of 2005. This value ranked fourth internationally among all major stock exchanges<sup>(9)</sup>.

**Diagram 4.10 : Funds raising activities in the Hong Kong stock market**



4.20 The role of Mainland enterprises continues to be important in Hong Kong's stock markets. During the first half of 2005, there were 9 new flotations of Mainland enterprises on Main Board and GEM, raising a total of \$58.5 billion. At end-June 2005, there were 311 Mainland enterprises listed in Hong Kong, with a total market capitalisation of \$2,206.7 billion. This accounted for 32% of the market capitalisation of the Hong Kong stock markets.

4.21 *Derivatives trading* picked up further during the first half of 2004. The trading of the Hang Seng Index Futures contracts, the Hang Seng Index options contracts, H-shares Index Futures contracts and stock options all turned vibrant in terms of average daily turnover. On the other hand, trading of stock futures plunged<sup>(10)</sup> over the same period. Since its commencement of trading on 23 May, the FXI China 25 Futures and Options<sup>(11)</sup> registered a respective daily turnover of 44 and 42 contracts up to end-June 2005.

**Table 4.6 : Average daily turnover of derivatives contracts of 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	H1	35 039	9 029	7 022	23 391	73
	H2	34 616	7 427	7 096	22 070	67
2005	Q1	38 872	10 243	7 510	26 583	45
	Q2	36 396	11 266	7 492	23 907	34
	H1	37 598	10 769	7 501	25 206	40
% change from 2005 Q1 to 2005 Q2		-6.4	10.0	-0.2	-10.1	-24.4
% change from 2004 H2 to 2005 H1		8.6	45.0	5.7	14.2	-40.3

4.22 To further enhance corporate governance, the Stock Exchange of Hong Kong Limited has issued a new Code on Corporate Governance Practices<sup>(12)</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.

### **Fund management and investment funds**

4.23 *The fund management industry* continued to grow in Hong Kong. Asset under management for the combined fund management business<sup>(13)</sup> amounted to \$3,618 billion at end-2004, 23% higher than a year earlier. Testimony to Hong Kong's status as a major international financial centre, funds sourced from overseas continued to account for over 60% of the asset under management in Hong Kong. *Unit trusts and mutual funds*<sup>(14)</sup> continued to be popular investments, with their gross sales and net sales (after deducting redemptions) amounting to US\$7.0 billion and US\$1.7 billion respectively in the first half of 2005. Analysed by asset size, equity funds continued to take up over 65% of the total value of funds, followed by fixed income/bond funds and asset allocation funds. Regarding *MPF schemes*, the aggregate net asset value of the approved constituent funds rose to \$131.5 billion at end-June 2005, from \$124.3 billion at end-March 2004<sup>(15)</sup>.

4.24 In light of the rapid development in the *hedge funds* industry, The Securities and Futures Commission (SFC) has released proposals to revise the Hedge Funds Guidelines in the Code on Unit Trusts and Mutual Funds in May

2005. The proposals included strengthening assessment criteria for managers of SFC-authorized hedge funds, additional disclosure requirement in specific areas relating to the operation of the funds, and codification of existing practices in the authorization of hedge funds. These aim at providing a more pragmatic and holistic approach to access hedge funds for authorization purpose. It was also proposed to lower the minimum subscription level for SFC-authorized single hedge funds and to relax the restriction imposed on the level of collateralisation to prime broker for authorized hedge funds.

4.25 Starting from April 2005, SFC-authorized unit trusts and mutual funds are allowed to invest in *Real estate investment trusts (REITs)* that are listed on a stock exchange. This will enhance the investment flexibility of SFC-authorized schemes and will broaden the choice for investors. In addition, following the consultation in March 2005, SFC relaxed the geographical restriction on investment by SFC-authorized REITs in June 2005. This implies authorized REITs, subject to the Code on REITs, may invest in real estate anywhere in the world. Furthermore, the Practice Note on Overseas Investments by SFC-authorized REITs and a series of initiatives to facilitate the development of REITs as an investment product have also come into effect.

### **Private equity investment**

Traditional investment focus on listed securities such as listed equity shares, debt securities and exchange-traded derivatives. In recent years, private equity investments, that is, investments in unlisted equity shares become increasingly popular in the asset management industry. Private equity fund is usually a pool of capital contributed by high net worth individuals and institutional investors for making private equity investments, and is managed by a fund manager with certain industrial experience and expertise. Private equity fund manager may also provide management and operation advice to investing businesses, in addition to equity investment.

Private equity could be classified into a number of categories : *Venture capital* renders working funds for young and growing businesses to commercialise their innovations and products. Overseas experiences demonstrate that venture capital could act as catalyst for the development of innovation and creative activities. *Mezzanine finance*, a subordinate debt with equity warrants for financing leverage buyouts, is usually provided to profitable business pending for Initial Public Offerings (IPOs). *Buyout capital* is made use in gaining a controlling interest of a business and might involve high leverage financial strategy. *Turnaround or restructuring capital* is injected to business encountering performance difficulties.

Private equity investments are manifestation of high risk-high return portfolio. Venture capital is the riskiest form of private equity investments but its potential return is also the highest. Generally speaking, private equity funds can reap their return when the investing business successfully initiates its IPO in stock exchanges. Many companies backed with venture capital were listed on the secondary boards (e.g. Nasdaq in U.S.), which have a lower listing requirement on profitability and financial position. Alternative forms of exit also include selling the unlisted shares to a larger company and seeking repurchase by the investing business.



Private equity funds in the Asia-Pacific region have been flourishing in the past 10 years – the total asset under management has increased to US\$101,100 million in the first-half of 2004, from US\$30,950 million a decade earlier. This represented an average annual growth rate of 13%. Private equity activities are expected to continue to grow rapidly in the Asia-Pacific region, the brightest emerging market. Several large-scale management buyouts in South Korea, Japan and Australia in recent years demonstrated that private equity funds could make decent returns in the region. These provide efficient track records for fund raising activities.

Within the Asia-Pacific region, Hong Kong and Japan, together accounting for over 50% of the private equity funds, are the regional hubs of private equity management activities. Private equity funds managed in the Mainland, South Korea, Taiwan and Australia surged in recent years, mainly due to the completion of a number of leverage buyout transactions.

**Asset under management in Asia-Pacific's private equity funds, 1999-2004 first half  
(US\$ million)**

	<u>1994</u>	<u>1999</u>	<u>2002</u>	<u>2003</u>	<u>2004 first half</u>
Japan	17,750	21,729	22,300	25,350	27,320
Hong Kong*	6,037	22,288	26,600	27,050	27,100
The Mainland	N.A.	N.A.	6,380	6,900	7,280
Singapore	1,833	7,791	10,200	10,720	10,880
South Korea	1,902	4,986	6,620	9,120	9,000
Taiwan	562	4,447	6,400	6,500	6,620
Australia	1,655	3,616	4,950	6,000	6,770
Rest of Asia-Pacific region <sup>+</sup>	1,212	4,275	5,746	5,958	6,130
<b>Total</b>	<b>30,951</b>	<b>69,132</b>	<b>89,196</b>	<b>97,598</b>	<b>101,100</b>

Notes : \* Figures in 1994 and 1999 included the Mainland since further breakdown is not available.

+ Including India, Indonesia, Malaysia, Myanmar, New Zealand, Pakistan, the Philippines, Sri Lanka, Thailand and Vietnam.

Source : The Guide to Asia Private Equity, Asian Venture Capital Journal.

Reflecting the prominence of Hong Kong as a regional asset management hub, most private equity funds are sourced outside Hong Kong. A large proportion of these funds are invested in other Asian economies as well as in the rest of the world. Indeed, only about 10% of investments made private equity funds in Hong Kong were invested in local companies in 2001. This was substantially different from the private equity funds in such economies as Japan, South Korea and Taiwan, with a majority of the investments being made to local companies. In Singapore, the proportion of funds invested in local companies was 15%, slightly higher than that in Hong Kong.

**Distribution of private equity investments to companies in selected economies, 2001**

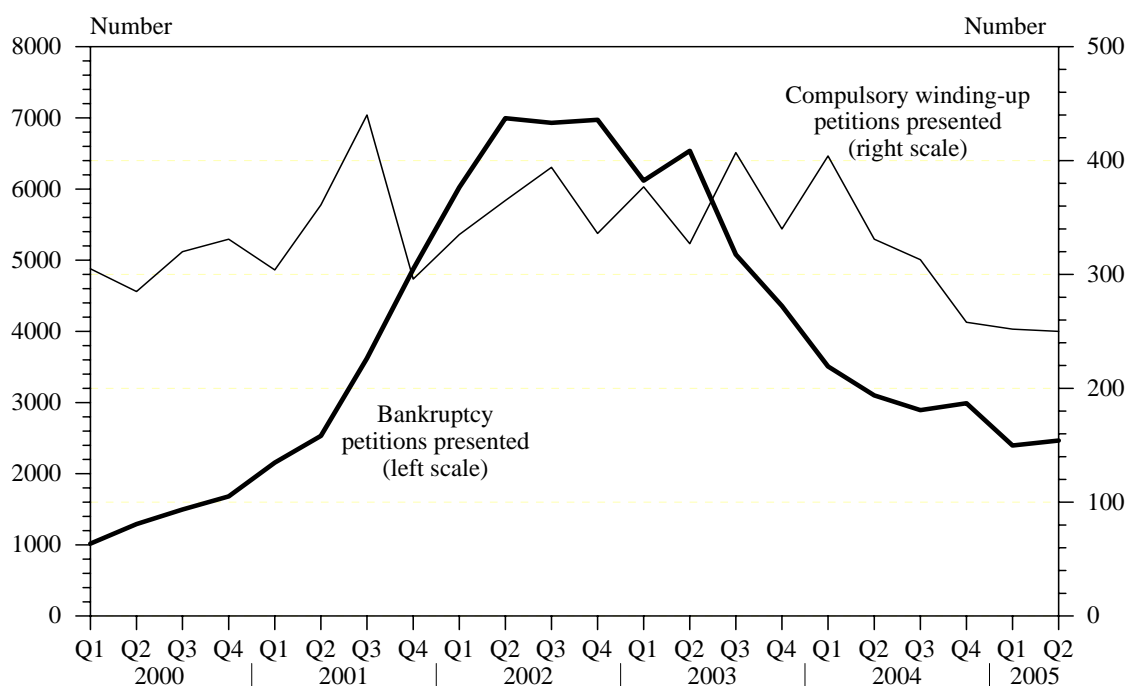
	<u>Hong Kong</u>	<u>Japan</u>	<u>South Korea</u>	<u>Taiwan</u>	<u>Singapore</u>
	(%)	(%)	(%)	(%)	(%)
Local companies	11	87	92	79	15
Other Asian companies	85	5	6	7	64
Non-Asian companies	4	8	2	14	21
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source : The Guide to Asia Private Equity, Asian Venture Capital Journal.

## Bankruptcy and compulsory winding-up

4.26 Tallying with the sustained improvement in economic fundamentals, the bankruptcy and compulsory winding-up petitions presented have been falling since the second quarter of 2003. In the first half of 2005, the number of *bankruptcy* petitions presented, at 4 864, was 26% lower than a year earlier. The decrease was mainly due to the ongoing economic growth, property market revival and a better employment situation. Likewise, the number of *compulsory winding-up* petitions presented went down to 502 cases in the first half of 2005, following a total of 571 cases in the second half of 2004. This might point to advancement in the overall business environment.

**Diagram 4.11 : Number of bankruptcy and compulsory winding-up petitions presented**



### 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 some 14 currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong during 1999 and 2000.

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.

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

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

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

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

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

- (3) Authorized institutions include licensed banks, restricted licence banks and deposit-taking companies. At end-June 2005, there are 132 licensed banks, 36 restricted licence banks and 35 deposit-taking companies in Hong Kong. Altogether, 203 authorized institutions (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (4) 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.
- (5) At end-June 2005, there were 179 authorized insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 114 in general insurance business, and 19 in composite insurance business. Take together, authorized insurers from 23 countries and territories (including Hong Kong) maintained a presence in Hong Kong.
- (6) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (7) Assets of the banking sector include notes and coins, amount due from authorized institutions in Hong Kong as well as from banks 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.
- (8) At end-June 2005, there were 901 and 203 companies listed on the Main Board and GEM respectively.

- (9) The ranking is sourced from the World Federation of Exchanges, a global trade association for the stock exchange industry. Its membership comprises 54 stock exchanges, covering almost all globally recognised stock exchanges.
- (10) At end-June 2005, there were 37 classes of stock options contracts and 36 classes of stock futures contracts.
- (11) The FXI China 25 is a tradable index that tracks the performance of the 25 largest and most liquid Mainland enterprise stocks (H shares and red chips) listed in Hong Kong. Each constituent's weighting in the index is free-floated adjusted and capped at 10 per cent.
- (12) 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.
- (13) Combined fund management business comprises asset management, advisory business and other private banking activities. For details, see Fund Management Activities Survey 2004 published by the Securities and Futures Commission.
- (14) These figures are sourced from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and 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 survey has been revamped, with effect from 2005, such that it would cover only retail transactions (including switching) and exclude institutional transactions. During the first half of 2005, 25 new SFC-authorized collective investment schemes were introduced and at end-June 2005, there were a total of 1 038 authorized-funds.
- (15) There were 19 approved trustees at end-June 2005. On MPF products, 43 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 328 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. Around 224 000 employers, 1.91 million employees and 289 000 self-employed persons have participated in MPF schemes.

## CHAPTER 5 : THE LABOUR SECTOR

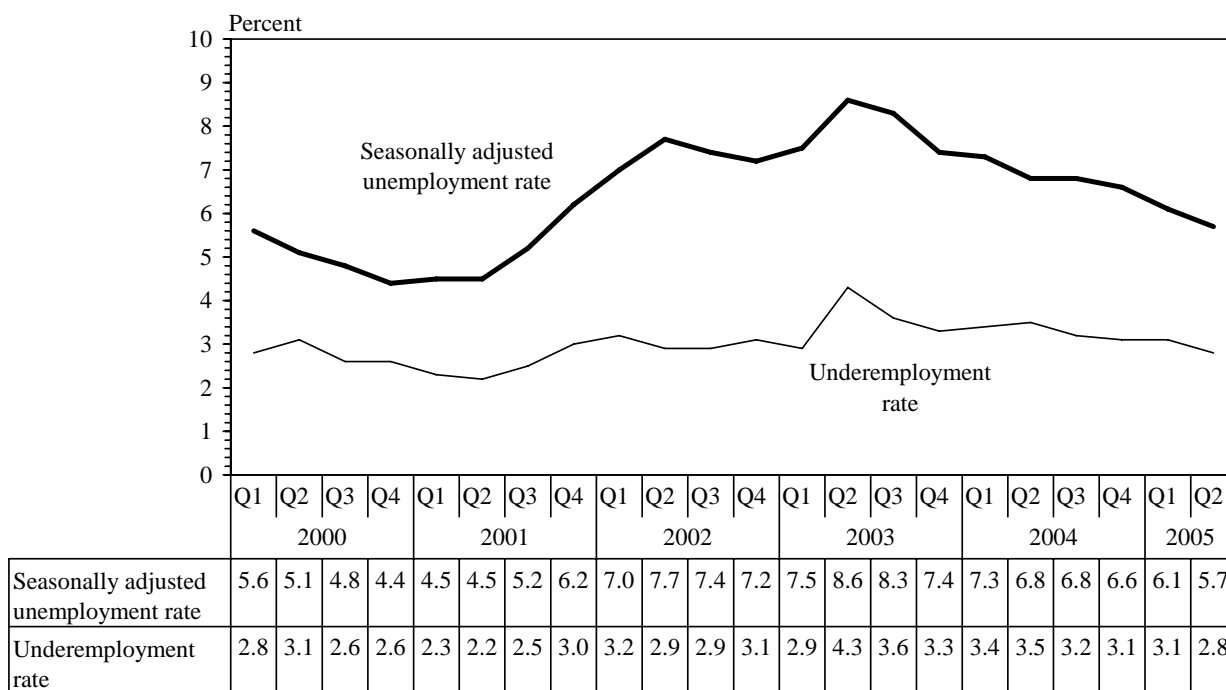
### *Summary*

- *The labour market improved steadily in the second quarter of 2005 as Hong Kong's economic revival continued. Both the unemployment rate (5.7%) and the numbers unemployed (204 500) dropped to their lowest levels in almost four years. Also, long-term unemployment fell noticeably in absolute and proportionate terms.*
- *Total employment increased to a new high of 3.36 million in the second quarter. Employment gains occurred entirely in the service sectors, particularly in the import/export trades and business services.*
- *Labour earnings bounced up, reversing the general downtrend prevalent over the preceding three years.*

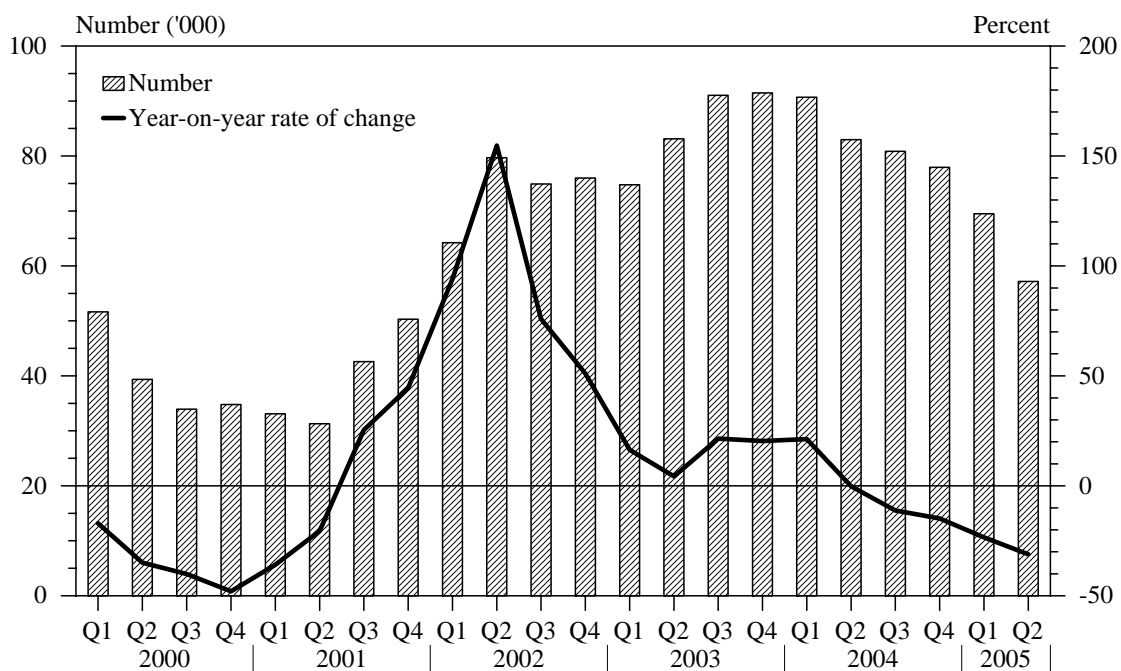
### **Overall labour market situation**

5.1 With the economy keeping on an even keel, the labour market showed a steady improvement on a broad front. The *seasonally adjusted unemployment rate*<sup>(1)</sup> and the number of unemployed persons fell further from 6.1% and 210 600 respectively in the first quarter of 2005 to 5.7% and 204 500 in the second quarter, representing their lowest levels since August - October 2001. The decrease was widespread across economic sectors and occupations. Moreover, the problem of long-term unemployment improved noticeably. The number of persons unemployed for six months or longer dropped from 69 500 in the first quarter of 2005 to 57 200 in the second quarter, while the corresponding proportion declined from 33.0% to 27.9%. Concurrently, the median duration of unemployment shortened from 91 days to 74 days. On the *underemployment rate*<sup>(2)</sup>, there was also a visible decrease from 3.1% in the first quarter of 2005 to 2.8% in the second quarter, the lowest level in almost three years. (In May - July 2005, both the seasonally adjusted unemployment rate and the underemployment rate remained unchanged at 5.7% and 2.8% respectively, whereas the numbers unemployed and underemployed were 216 000 and 100 000.)

**Diagram 5.1 : Unemployment and underemployment rates**



**Diagram 5.2 : Number of long-term unemployed\***



Note : (\*) Number of persons unemployed for six months or more.

**Table 5.1 : Median duration of unemployment and proportion of the unemployed population by duration of unemployment**

		<u>Proportion unemployed for :</u>				
		<u>Median duration of unemployment</u> (Days)	<u>Less than 3 months</u> (%)	<u>3 months to less than 6 months</u> (%)	<u>6 months to less than 12 months</u> (%)	<u>12 months or more</u> (%)
2004	Annual	97	48.6	17.1	13.5	20.8
	Q1	106	46.6	17.2	15.1	21.1
	Q2	97	48.6	16.9	14.4	20.1
	Q3	88	51.3	16.5	12.0	20.3
	Q4	99	47.9	17.9	12.3	21.9
2005	Q1	91	50.0	17.0	13.2	19.7
	Q2	74	56.9	15.2	11.5	16.5

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

Source : General Household Survey, Census and Statistics Department.

### **Total employment and labour supply**

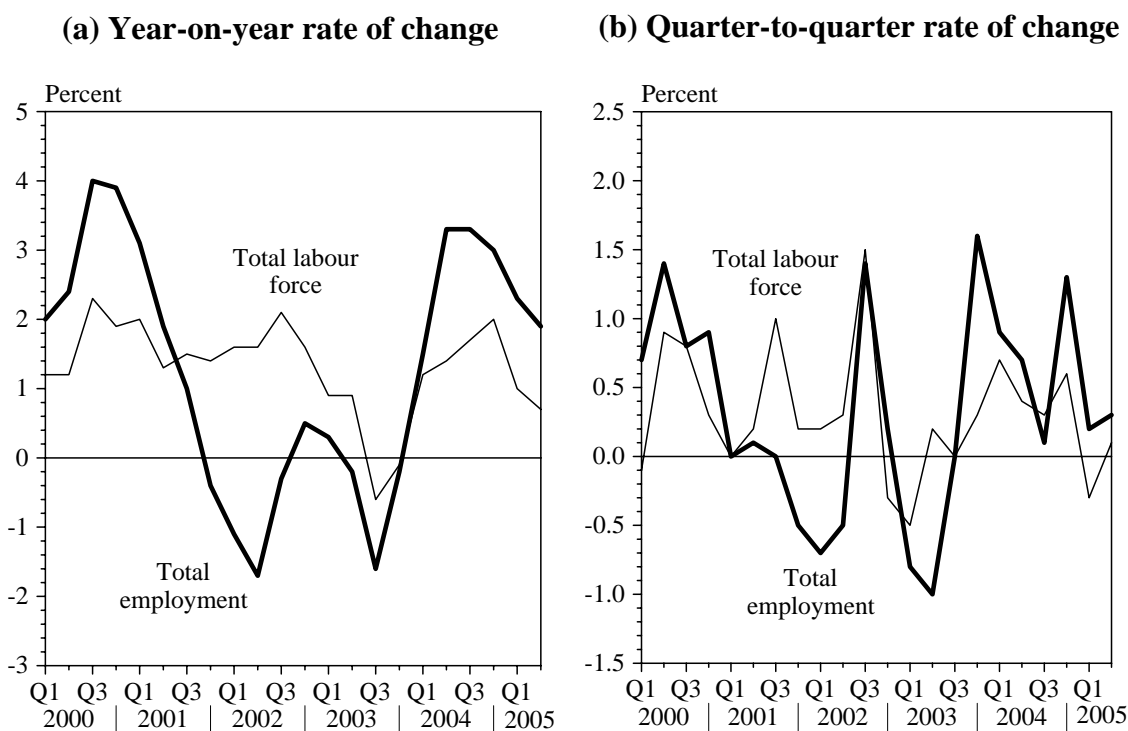
5.2 The latest improvement in labour market conditions was largely demand-led. Indicating this, *total employment*<sup>(3)</sup> as enumerated from households continued to grow at a faster pace than total labour supply in the second quarter of 2005, by 0.3% as against 0.1% on a quarter-to-quarter comparison and by 1.9% as against 0.7% on a year-on-year comparison. In absolute terms, total employment reached a new high of 3.36 million in the second quarter of this year, up distinctly by 10 200 over the preceding quarter and 61 800 over a year earlier.

5.3 Meanwhile, there was a shift in the composition of employment from part-time to full-time jobs, along with the improving economic performance and outlook. This compositional shift was manifested by an increase in the proportion of employed persons working 30 hours or more per week to 91.6% in the second quarter of 2005, from 87.7% in the preceding quarter and 89.2% a year earlier. The median hours of work for the entire employed population nevertheless remained intact at 48 hours per week.

5.4 On the supply side, *total labour force*<sup>(4)</sup> increased in the second quarter of 2005, albeit at a slower pace than total employment. The growth in labour force was attributable solely to an expansion in the population of

working age. Over the same period, the *labour force participation rate*<sup>(5)</sup> (LFPR) edged down to its record low of 60.8%. Most of the decline in LFPR was caused by the persistent downtrend in LFPR for males, as well as a drop in LFPR for females especially those housewives aged 50 - 59 amid further pick-up in economic activity during the second quarter.

**Diagram 5.3 : Total labour force and total employment**



**Table 5.2 : 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	3 551 000	(1.6)	3 308 600	(2.8)	242 500	116 700
	Q1	3 530 300	(1.2)	3 279 700	(1.5)	250 700	119 100
	Q2	3 543 800	(1.4)	3 302 900	(3.3)	240 900	122 800
	Q3	3 555 200	(1.7)	3 304 700	(3.3)	250 500	113 500
	Q4	3 574 900	(2.0)	3 347 000	(3.0)	227 900	111 300
2005	Q1	3 565 100	(1.0)	3 354 500	(2.3)	210 600	109 800
	Q2	3 569 200	(0.7)	3 364 700	(1.9)	204 500	100 400
			<0.1>		<0.3>		

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

5.5 Based on the data enumerated separately from *private sector establishments*, employment in the corporate sector was also up strongly by 3.2% in March 2005 over a year earlier. The growth impetus came primarily from hotels, the import/export trades and the associated transport services, and financing, insurance, real estate and business services. These constituted the mainstay of the Hong Kong economy. Besides, an appreciable gain was also found in community, social and personal services, especially those related to amusement and recreational services, welfare institutions, and sanitary and education services. On the other hand, employment in the local manufacturing sector and of manual workers at construction sites<sup>(6)</sup> stayed on a declining trend. Upon completion of some major infrastructure projects and scale-back of the Public Housing Programme, more than half of the construction site workers were found to be employed at private building sites in March this year.

5.6 As to the public sector employment, the number of people engaged in the *civil service* shrank further by 3.5% in March 2005 from a year earlier. One major contributory factor continued to be the second Voluntary Retirement (VR) scheme, under which the majority of the staff concerned had scheduled to leave the service by end-July 2004. Taking the two VR schemes together, the resultant decrease in the number of civil servants was estimated to be around 15 000 or 8%. Furthermore, given the recruitment freeze imposed since 1 April 2003, natural wastage was the other key factor contributing to continued downsizing of the civil service.

5.7 In terms of occupation category, while labour demand for higher-skilled workers like managers and administrators continued on the increase, some of those lesser-skilled ones such as clerks, and service workers and shop sales workers appeared to have also enjoyed employment growth recently. Analysed by educational attainment, persons with upper secondary education or above were the group facing larger employment gains.

**Table 5.3 : Employment by major economic sector**

	<u>2004</u>					<u>2005</u>
	<u>Annual Average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>
Wholesale and import/export trades	567 700 (1.7)	556 600 (-1.3)	563 100 (0.9)	577 000 (3.8)	574 100 (3.4)	583 100 (4.8)
Retail trade	217 300 (3.1)	214 600 (2.3)	216 500 (3.6)	219 400 (6.0)	218 400 (0.6)	216 000 (0.7)
Restaurants and hotels	207 900 (6.0)	204 600 (3.2)	209 500 (9.7)	206 600 (6.6)	210 900 (4.7)	210 700 (2.9)
Water transport, air transport and services allied to transport	104 500 (6.6)	101 600 (1.4)	104 500 (8.7)	104 800 (8.5)	107 000 (8.1)	107 900 (6.2)
Storage and communications	35 900 (2.2)	35 900 (8.0)	36 100 (2.2)	35 300 (0.1)	36 100 (-1.0)	35 300 (-1.7)
Financing, insurance, real estate and business services	437 000 (3.6)	428 600 (1.4)	434 200 (3.6)	437 800 (3.7)	447 400 (5.6)	447 600 (4.4)
Community, social and personal services	420 200 (3.2)	412 000 (3.5)	418 100 (4.4)	415 700 (0.4)	435 200 (4.5)	434 400 (5.4)
Manufacturing	168 000 (-3.0)	168 900 (-5.6)	169 600 (-1.7)	168 000 (-2.8)	165 300 (-1.8)	163 100 (-3.5)
Building and construction sites	63 500 (-6.0)	66 100 (-5.5)	66 600 (-1.0)	62 500 (-8.1)	59 000 (-9.4)	64 200 (-2.9)
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	<i>2 268 600 (2.4)</i>	<i>2 236 000 (0.6) &lt;0.6&gt;</i>	<i>2 265 000 (3.1) &lt;1.0&gt;</i>	<i>2 273 600 (2.7) &lt;0.1&gt;</i>	<i>2 299 800 (3.1) &lt;1.3&gt;</i>	<i>2 308 400 (3.2) &lt;0.8&gt;</i>
<i>Civil service<sup>(b)</sup></i>	<i>160 800 (-3.8)</i>	<i>163 000 (-3.6)</i>	<i>161 700 (-3.9)</i>	<i>160 100 (-3.8)</i>	<i>158 400 (-3.8)</i>	<i>157 300 (-3.5)</i>

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

(a) 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.

(b) 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.

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

## Profile of unemployment

5.8 Analysed by *economic sector*, the decrease in unemployment rate between the first and second quarters of 2005 occurred not only in the service sectors, but also in the manufacturing and construction sectors. This pattern of movement was distinctly different from that observed for employment. Among the service sectors, unemployment went down appreciably in restaurants, amusement and recreational services, and business services, in tandem with the growth in jobs. Yet for manufacturing and construction, the fall in unemployment was attributable primarily to a contraction in labour supply.

**Table 5.4 : 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>	<u>Q2</u>
Wholesale, retail and import/export trades, restaurants and hotels	6.6	7.0	6.8	6.5	6.1	5.8	5.8
Transport, storage and communications	5.3	6.1	5.2	5.2	4.6	4.0	5.2
Financing, insurance, real estate and business services	4.5	4.9	4.8	4.4	4.1	4.0	3.2
Community, social and Personal services	3.4	3.5	3.4	3.3	3.3	2.8	2.6
Manufacturing	7.0	7.0	6.1	7.4	7.6	7.5	5.7
Construction <sup>(b)</sup>	16.0	17.9	15.8	15.4	14.9	15.4	14.1

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.

5.9 Analysed by *occupation category*, the recent trend of declining unemployment seemed to have extended progressively from workers at the upper segment to those at the lower segment such as craft and related workers in the construction sector and workers engaged in elementary occupations in

foundation and superstructure construction, the wholesale and retail trades, and restaurants. Whereas there was still some worsening in unemployment among service workers and shop sales workers, this was not due to any reduction in jobs. Rather, it was due to the respective employment growth being outpaced by labour supply growth. As to workers at the upper end, unemployment generally remained on the decrease. Among them, more visible declines were observed for the professional and managerial staff engaged in the financing, insurance, transport and real estate sectors. In terms of *educational attainment*, workers with upper secondary education or below experienced widespread reduction in unemployment. As for those with matriculation education or above, the respective unemployment rate moved up, but this reflected mainly the seasonal influence of fresh graduates and school leavers entering the labour market in the second quarter.

**Table 5.5 : 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>	<u>Q2</u>
Managers and administrators	1.9	2.0	1.6	1.9	2.0	2.0	1.6
Professionals	2.1	2.1	2.5	2.2	1.8	1.9	1.6
Associate professionals <sup>(b)</sup>	3.5	3.6	3.3	3.9	3.2	3.0	2.9
Clerks	4.5	4.6	4.6	4.2	4.5	4.0	4.1
Service workers and shop sales workers	8.4	9.0	8.8	8.3	7.3	7.1	7.4
Craft and related workers	13.3	15.1	13.2	13.0	12.0	12.6	11.5
Plant and machine operators and assemblers	6.1	6.7	5.9	6.1	5.7	5.8	5.5
Elementary occupations	8.2	8.7	8.1	7.9	8.3	7.2	6.5

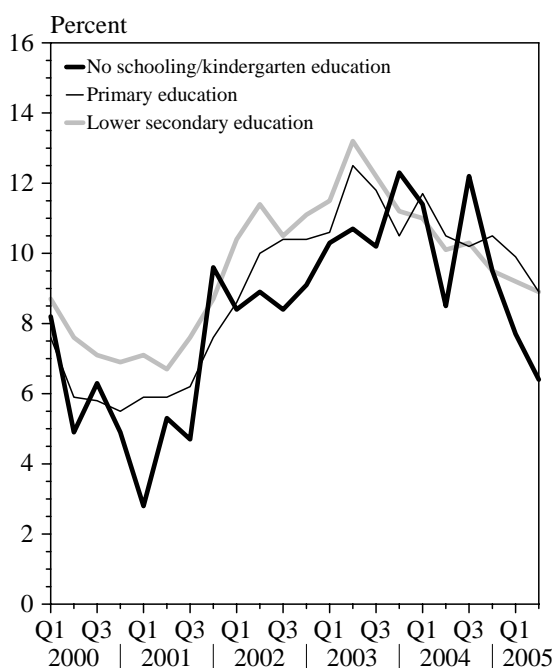
Notes : (a) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

(b) Including technicians and supervisors.

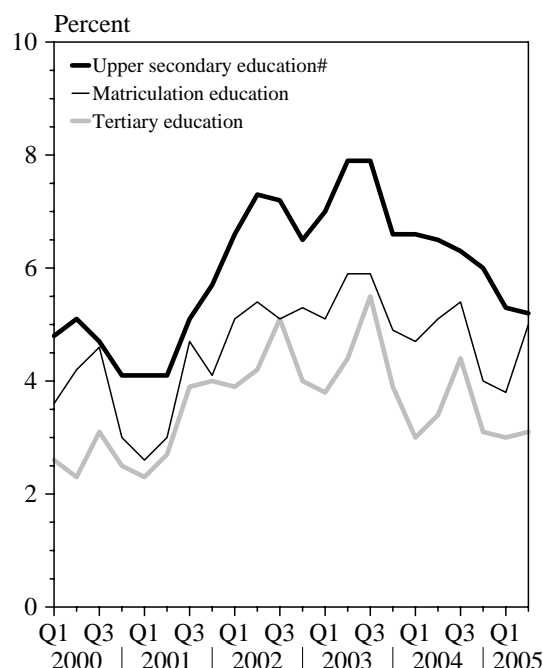
Source : General Household Survey, Census and Statistics Department.

**Diagram 5.4 : Unemployment rates by educational attainment\***

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



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



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

(#) Including craft courses.

## Profile of underemployment

5.10 The underemployment situation likewise improved on a notable scale, with the underemployment rate falling from 3.1% in the first quarter of 2005 to 2.8% in the second quarter, the lowest level in almost three years. Comparing the first two quarters of this year, the decrease in underemployment took place fairly extensively across many economic sectors such as decoration and maintenance, the retail trade, restaurants and hotels, real estate, and community and social services. Within the workforce, craft and related workers, plant and machine operators and assemblers, and workers in elementary occupations, as well as those persons with lower secondary education, were the ones benefiting more from the reduced underemployment rate.

## Vacancies

5.11 As an additional indicator of the strong labour demand, the total number of job vacancies in the *private sector establishments* jumped by 30.4% in March 2005 over a year earlier, with the overall vacancy rate rising to a 7-year high of 1.6%.

5.12 Nearly half of the job openings came from such occupations as managers, administrators, professionals and associate professionals. This pointed to the need to further step up work on upgrading the educational and skill levels of the local workforce, in order to reduce the mismatch existing between available vacancies and the unemployed workers. The data as enumerated from households indicated that about 80% of the unemployed persons were with educational attainment of up to the upper secondary level.

5.13 As to vacancies that may be open for recruitment in the *civil service*, the increase was more spectacular, at 231.5% in March 2005 over a year earlier, although the absolute number of vacancies involved was not large, at below 1 500, most of which were for the disciplinary staff. Despite the recruitment freeze imposed since 1 April 2003, exemption will still be granted when genuine needs are demonstrated to recruit people from outside the civil service.

5.14 More recently, the number of vacancies received by the Labour Department continued to surge by 52.9% in the second quarter of 2005 over a year earlier. On a working day basis, this amounted to an average of 1 600 vacancies, which was the highest level ever recorded. The number of placements attained by the department also leaped, by 30.4% over the same period. These were achieved through the department's network of job centres, a telephone employment service centre, a job vacancy processing centre and the interactive employment service website.

5.15 In addition to the regular employment services, the Labour Department convened general or theme-specific job fairs at different locations from time to time, for employers to display their vacancy information and for job seekers to find suitable jobs.

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

	<u>No. of vacancies</u>						<u>Vacancy rate in Mar 2005 (%)</u>
	<u>2004</u>			<u>2005</u>			
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	
Wholesale and import/export trades	7 600 (56.5)	7 200 (64.7)	8 700 (77.5)	8 000 (51.7)	6 400 (33.0)	10 300 (42.4)	1.7
Retail trade	2 600 (58.7)	2 300 (108.2)	2 400 (55.2)	3 300 (97.3)	2 600 (11.0)	3 000 (33.7)	1.4
Restaurants and hotels	2 100 (63.2)	1 800 (113.1)	2 200 (100.6)	2 500 (50.1)	2 100 (27.1)	2 400 (39.3)	1.1
Water transport, air transport and services allied to transport	1 100 (129.0)	900 (102.3)	1 300 (161.0)	1 300 (192.8)	800 (60.6)	1 400 (57.9)	1.3
Storage and communications	600 (55.7)	600 (83.8)	400 (-3.3)	800 (83.7)	400 (73.7)	400 (-27.4)	1.2
Financing, insurance, real estate and business services	9 000 (59.6)	8 600 (106.0)	9 000 (45.4)	9 300 (62.2)	8 900 (40.4)	10 500 (21.5)	2.3
Community, social and personal services	5 900 (40.7)	5 200 (56.5)	6 200 (34.2)	5 800 (20.7)	6 200 (59.2)	6 800 (30.1)	1.5
Manufacturing	1 500 (46.9)	1 500 (37.5)	1 600 (30.2)	1 500 (67.0)	1 400 (61.7)	2 000 (33.1)	1.2
Building and construction sites	# (53.9)	# (57.7)	100 (118.5)	# (69.2)	# (-8.3)	# (-92.7)	*
<i>All establishments surveyed in the private sector<sup>(a)</sup></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>37 100 (30.4)</i>	<i>1.6</i>
		<i>&lt;12.2&gt;</i>	<i>&lt;7.5&gt;</i>	<i>&lt;10.7&gt;</i>	<i>&lt;5.0&gt;</i>	<i>&lt;4.3&gt;</i>	
<i>Civil service<sup>(b)</sup></i>	<i>600 (-59.8)</i>	<i>400 (-72.3)</i>	<i>300 (-82.6)</i>	<i>100 (-94.2)</i>	<i>1 600 (36.8)</i>	<i>1 500 (231.5)</i>	<i>0.9</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. A general recruitment freeze to the civil service has been imposed with effect from 1 April 2003. The civil service vacancies during the general recruitment freeze period refer only to the number of vacant posts for which exemptions from recruitment freeze have been granted.

( ) % change over a year earlier.

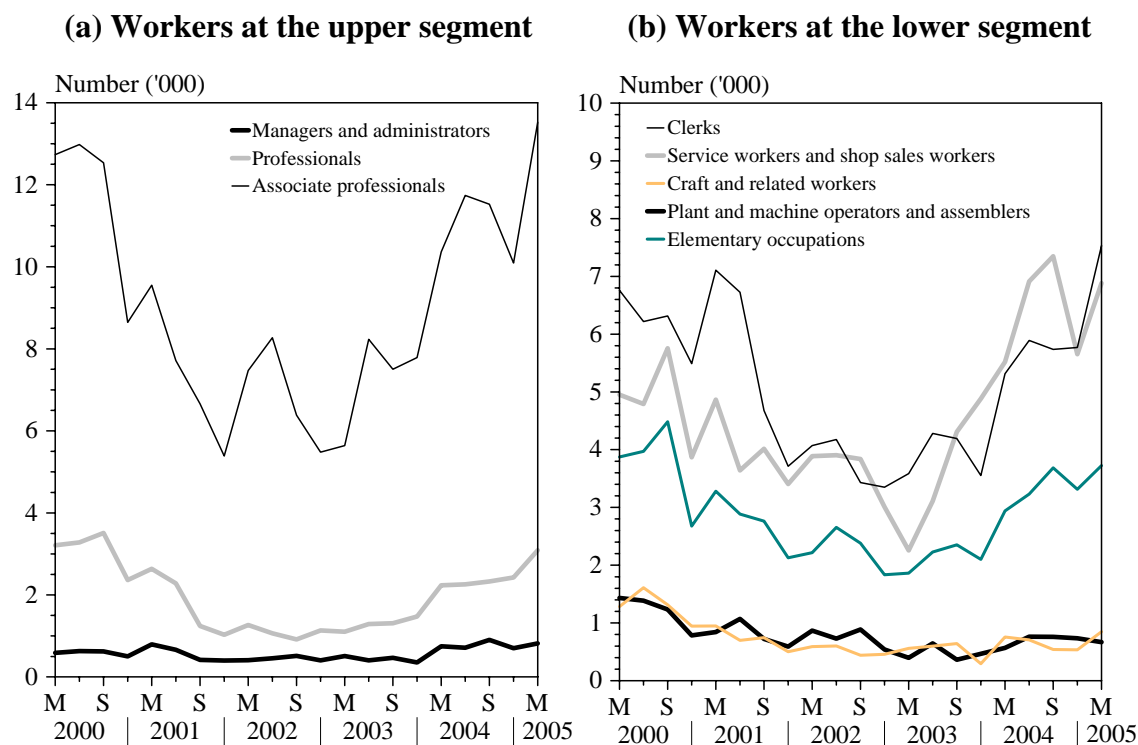
< > Seasonally adjusted quarter-to-quarter % change.

(#) Less than 50.

(\*) Less than 0.05%.

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

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



5.16 So far in 2005, seven major job fairs had been conducted, attracting 57 800 visitors for a total of 14 900 vacancies. Some of them were held in the more remote districts like Tsing Yi, Sheung Shui and Kwai Chung, in order to facilitate the residents there. The Recruitment Expo 2005 held at the Hong Kong Convention and Exhibition Centre on 9 March was the one of the largest scale, with 125 employers putting up altogether 9 400 vacancies. At this Recruitment Expo, the catering sector offered the largest number of vacancies, followed by the retail trade, property management and personal/business services, involving mainly service workers, customer service and sales jobs. Most of the jobs required the candidates to have upper secondary education and, to a lesser extent, lower secondary education. The salaries offered were mostly within the range of \$5,000 - \$9,000 per month.

5.17 To respond more promptly to the recruitment needs of employers and provide a more user-friendly service to job-seekers, the Labour Department also holds small-scale job fairs at its major job centres. During the first seven months of 2005, the department staged 23 of these job fairs at the job centres, offering over 3 500 vacancies to some 11 300 visitors.



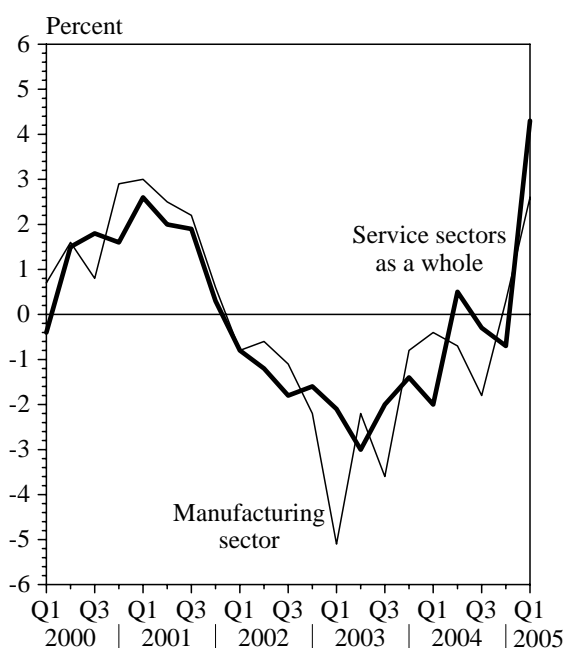
## Earnings and wages

5.18 Labour income bounced up in the first quarter of 2005, reversing the downtrend seen over the preceding three years. Overall *labour earnings*<sup>(7)</sup> in the private sector, as measured by payroll per person engaged, were higher by 4.4% in money terms or 4.0% in real terms<sup>(8)</sup> on a year-on-year comparison. The increase was more distinct among the large business establishments, which reportedly had outperformed the small and medium-sized ones. Despite the rebound at the beginning of this year, overall labour earnings were just roughly on par with the level back in 2001.

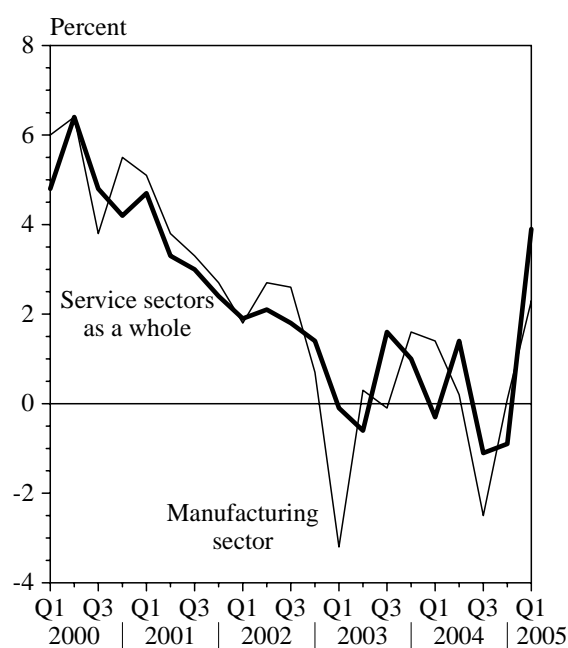
5.19 For the *service sectors* as a whole, labour earnings increased by 4.3% in money terms or 3.9% in real terms in the first quarter of 2005 over a year earlier. While almost all of the constituent sectors faced pay rises, the increase was most apparent in the retail trade, hotels, air transport, amusement and recreational services, communications and real estate. By contrast, labour income in community, social and personal services edged further down, as earnings for persons employed in the subvented organisations had been lowered in January 2005 in line with the pay cut in the civil service. As to the *manufacturing sector*, labour earnings went up by 2.6% in money terms or 2.3% in real terms over the same period.

**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**



5.20 Overall *labour wages* in the private sector also moved up, albeit more modestly, by 0.7% in money terms in March 2005 over a year earlier. This represented the first increase recorded since December 2001. Yet discounting the increase in consumer prices in terms of the Consumer Price Index (A), there was still a mild decline of 0.5% in real terms. The smaller rise in nominal wages than earnings was partly due to the differences in coverage, with wages covering only the regular payment items for workers up to the supervisory level. The general trend nowadays in the corporate sector is to emphasize more on the discretionary pay in rewarding workers, in order to reduce fixed costs and thus stay more resilient against business downturns. Also relevant is the relatively looser manpower resource balance and hence lesser pay rise at the lower segment of the labour market.

5.21 Analysed by *economic sector*, nominal wages increased across almost all the service sectors in March 2005 from a year earlier, except for restaurants and hotels, and financing, insurance, real estate and business services. To some extent, the reduced wages for the latter group were dragged down by the lower pay offered to the newly recruited persons. As to the local manufacturing sector, wages also went up, bucking the declining trend since December 2001. Analysed by *occupation category*, wages for operatives and miscellaneous non-production workers rose visibly, whereas those for service workers went down.

5.22 Pursuant to the Public Officers Pay Adjustments (2004/2005) Ordinance enacted in December 2003, the civil service pay was further lowered by 3% on 1 January 2005, following the 3% 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.

5.23 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 later in the year, using the methodology as recommended by the consultant with further refinement based on views collected from the extensive consultation. Recently, a consultant has been appointed to carry out the field work. Job inspections are being carried out for the civil service benchmark jobs, with the participation of grade management, departmental management, staff bodies and holders of representative posts in the benchmark jobs. This process will lay the ground for identifying appropriate job matches in the private sector participating

organisations to facilitate the collection of relevant private sector pay data at the next stage of work.

## 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 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).
- (4) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (5) 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.

- (6) Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector also decreased, by 0.7% in the second quarter of 2005 from 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.

- (7) 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.
- (8) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the 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.

## CHAPTER 6 : PRICES

### *Summary*

- *Consumer price inflation edged up during the first half of 2005, in tandem with the increasingly entrenched economic recovery. Yet overall inflationary pressure remained well contained.*
- *The Composite Consumer Price Index rose by 0.8% in the second quarter of 2005 over a year earlier, up from the 0.4% increase in the first quarter, mainly due to the further dissipation of dragging effect from the earlier fall-offs in private housing rentals, and also the pass-through of higher food and fuel costs.*
- *On the cost front, labour cost, a key component of business cost, only rose at a moderate pace. Moreover, inflationary pressures associated with the distinct rises in office and shop rentals over the past year were largely mitigated by the buoyant performance of retail businesses and many service industries. Nevertheless, there were some modest price pressures stemming from the external front, upon higher import prices.*
- *Looking ahead, consumer prices are expected to firm up further in the coming months, upon the strengthening consumer demand and the rise-back in business cost, in the natural course of the economic recovery process.*
- *The decline in the GDP deflator narrowed further in the second quarter, mainly attributable to the relative improvement in terms of trade as the drag from the earlier weakness of the US dollar continued to fade out.*

### **Consumer prices**

6.1 Consumer price inflation edged up during the first half of 2005, in tandem with the increasingly entrenched economic recovery. Yet in overall terms, inflationary pressures still remained moderate. The *Composite Consumer Price Index (CPI)*<sup>(1)</sup> climbed by 0.8% in the second quarter of 2005 over a year earlier, up from the 0.4% increase in the first quarter. The moderate pick-up in consumer price inflation was primarily led by the further dissipation of dragging effect from the earlier fall-offs in private housing rentals<sup>(2)</sup>. Meanwhile, the distinct rises in office and shop rentals over the past

year were to a large extent cushioned by the robust growth in retail sales and generally buoyant business activity, thereby not inducing considerable pass-through to the retail price level. Also, local wages and labour earnings, though with their downtrends having been arrested, were yet to generate any noticeable pressures on domestic cost. Yet on the external front, due to the earlier weakness of the US dollar, import prices remained on the rise, albeit at a slower pace upon the sharp rebound in the US dollar towards the end of the second quarter. Moreover, the further surge in crude oil prices continued to push up the cost of imported fuels and hence overall business operating costs of certain business sectors, thereby exerting some upward yet mild pressures on local consumer prices. From a broader perspective, notwithstanding the continued solid growth in the economy, the further expansion in supply capacity brought by productivity growth and capital investment over the past two years had served to maintain the aggregate demand-supply balance, and therefore helped to contain local inflationary pressures. For the first half of 2005 as a whole, the Composite CPI was 0.6% higher than a year earlier, slightly up from the 0.5% rise in the second half of 2004. Looking ahead, consumer prices are expected to firm up further in the coming months upon the strengthening consumer demand and the rise-back in business cost, in the natural course of the economic recovery process.

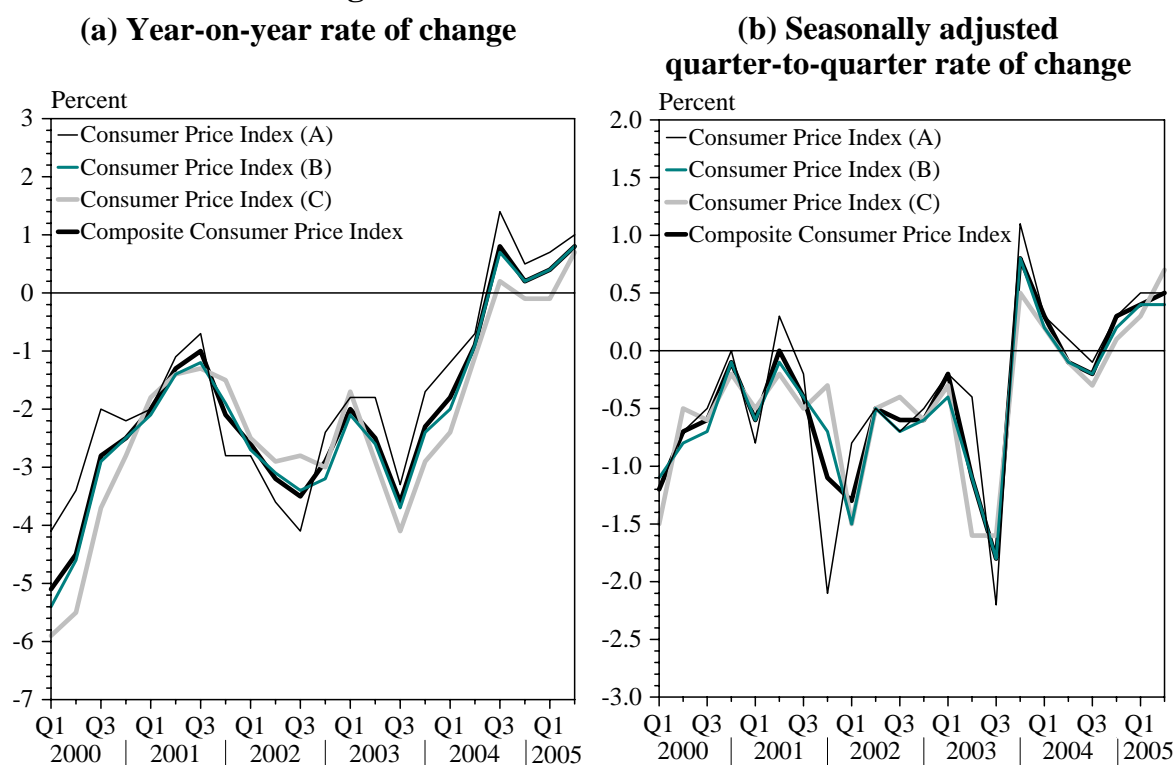
**Table 6.1 : Consumer Price Indices  
(year-on-year rate of change (%))**

		<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	H1	0.6		0.8		0.6		0.3	
	Q1	0.4	(0.4)	0.7	(0.5)	0.4	(0.4)	-0.1	(0.3)
	Q2	0.8	(0.5)	1.0	(0.5)	0.8	(0.4)	0.7	(0.7)
	Apr	0.5		0.7		0.4		0.2	
	May	0.8		0.9		0.8		0.8	
	Jun	1.2		1.3		1.2		1.0	

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**



6.2 Analysed by different household groups as represented in the sub-indices, the CPI(A) rose by 1.0% in the second quarter of 2005, faster than the increases of 0.8% and 0.7% for CPI(B) and CPI(C) respectively. The faster rise in the CPI(A) was mainly attributable to the bigger increase in prices of food and the lesser declines in private housing rentals and prices of durable goods within CPI(A), which were further reinforced by the larger weighting of food but smaller weightings of private housing rentals and durable goods in CPI(A). In addition, owing to the larger weighting on electricity in CPI (A) than in the other two sub-indices, the base effect brought about by the electricity charge rebate offered by an electricity company in April last year had contributed partly to a larger rise in the CPI(A).

6.3 Analysed by main components of the Composite CPI, there was more notable year-on-year increase in electricity, gas and water charges, by around 5% in the second quarter of 2005, mainly due to the pass-through of higher fuel cost onto gas charges and the low base of comparison brought about by the electricity charge rebate in April last year. Prices of foodstuffs (excluding meals brought away from home) stayed firm, up by 3.6% in the second quarter of 2005 over a year earlier. On the contrary, prices of durable goods registered a further fall of 1.9% in the second quarter, again led by considerable price cut of personal computers and telecommunications equipment. Also, the private housing rent index within the Composite CPI remained on a decline, down by

1.3% in the second quarter over a year earlier. Yet the pace of decline narrowed markedly further from that in the preceding quarter, reflecting the continued dissipation of the down-drag from the sharp fall-off in flat rentals in 2003.

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

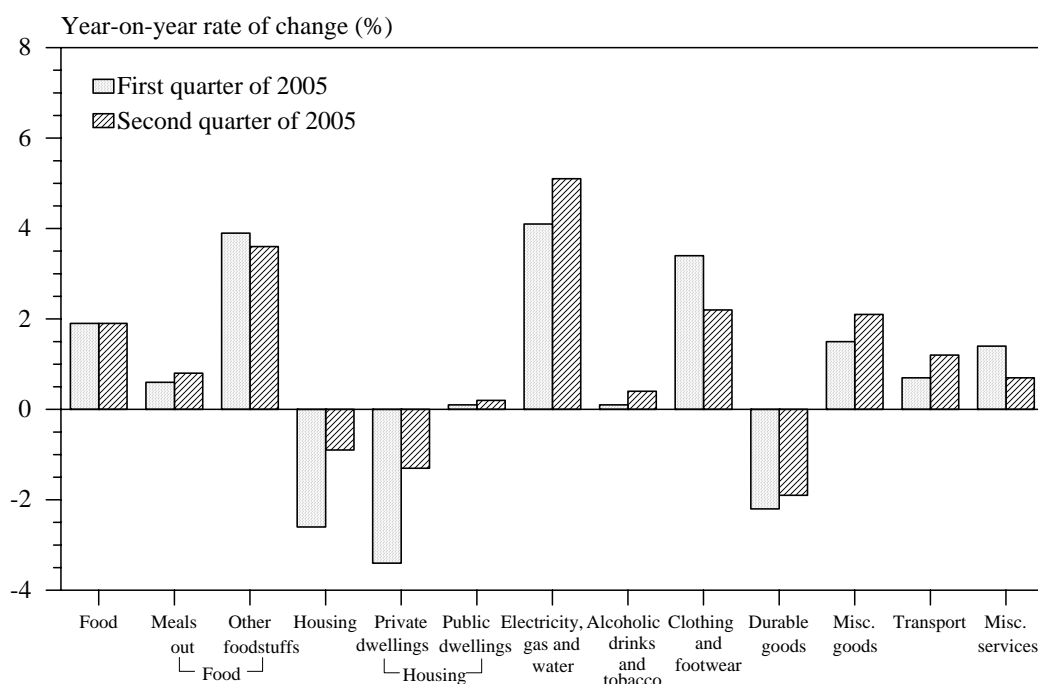
<u>Expenditure component</u>	<u>Weighting</u>	<u>Annual</u>	<u>Q1</u>	<u>2004</u>			<u>2005</u>	
				<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Food	26.67	1.0	0.1	1.0	1.4	1.7	1.9	1.9
<i>Meals bought     away from home</i>	16.39	0.2	-0.5	0.3	0.5	0.5	0.6	0.8
<i>Other foodstuffs</i>	10.28	2.5	1.1	2.3	2.8	3.6	3.9	3.6
Housing <sup>(a)</sup>	29.91	-5.2	-7.7	-6.7	-2.3	-3.9	-2.6	-0.9
<i>Private dwellings</i>	24.59	-6.6	-9.3	-8.2	-3.8	-4.9	-3.4	-1.3
<i>Public dwellings</i>	2.07	2.5	0.1	0.1	10.3	0.1	0.1	0.2
Electricity, gas and water	2.98	11.4	21.8	3.0	12.7	9.8	4.1	5.1
Alcoholic drinks and tobacco	0.94	*	-0.1	0.4	-0.1	-0.3	0.1	0.4
Clothing and footwear	4.13	6.4	6.1	9.2	6.7	4.0	3.4	2.2
Durable goods	6.24	-2.2	-3.6	-1.4	-1.9	-2.1	-2.2	-1.9
Miscellaneous goods	5.70	3.6	3.8	4.4	3.6	2.5	1.5	2.1
Transport	9.01	0.4	-0.4	0.4	0.7	0.8	0.7	1.2
Miscellaneous services	14.42	-0.2	-3.4	*	1.2	1.2	1.4	0.7
All items	100.00	-0.4	-1.8	-0.9	0.8	0.2	0.4	0.8

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 rose by 0.5% in the second quarter of 2005, after a 0.4% increase in the first quarter. Nearly all items, except prices of durable goods, recorded quarter-to-quarter rise in the second quarter, with more notable increase seen in electricity, gas and water charges, due solely to the pass-through of earlier surge in oil prices onto gas charges. Also, it is worth noting that private housing rentals reverted to increase, after staying on a downtrend for a considerable period.

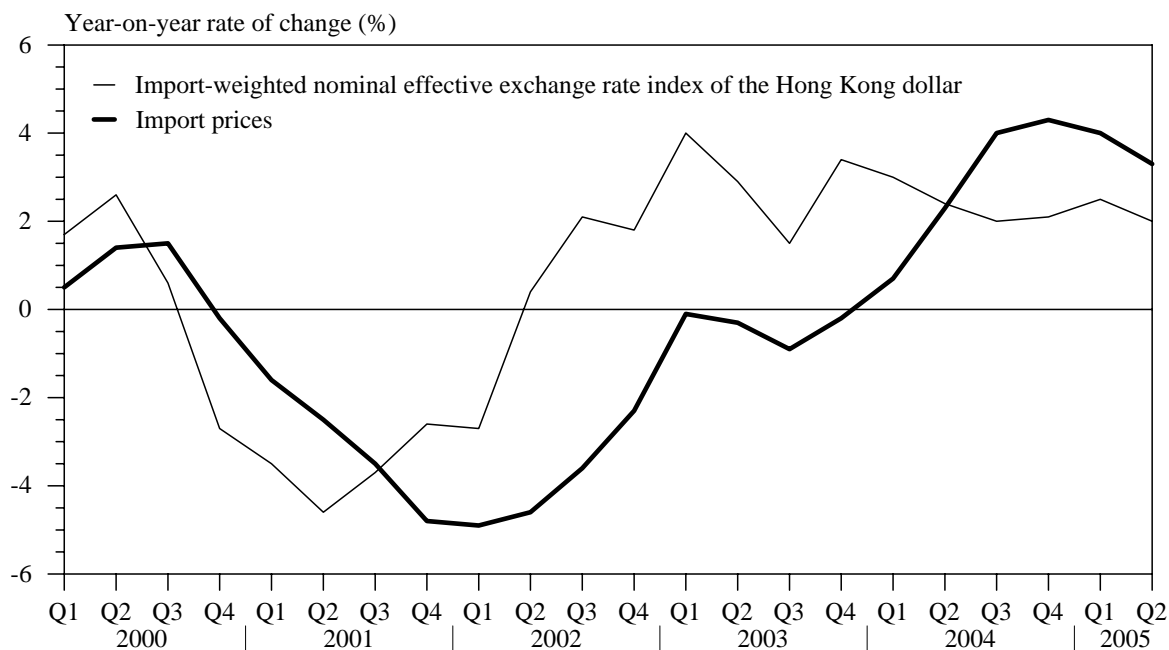
### Import prices

6.5 Boosted mainly by soaring international crude oil prices, *prices of imports of goods* rose further by 3.3% in the second quarter of 2005, after a 4.0% increase in the first quarter, notwithstanding a sharp and broad-based rebound in the US dollar towards the end of the quarter. Analysed by end-use category, prices of imports of fuels staged a further distinct surge in the second quarter. Meanwhile, the rise in prices of imports of raw materials and foodstuffs continued to moderate, upon stabilisation of international commodity prices and food prices in the Mainland. Prices of imports of consumer goods rose further at a modest pace, whereas prices of imports of capital goods remained soft in the second quarter, on the back of the moderate price pressures in other major supplier economies such as Japan, US and EU.

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

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials</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	H1	2.1	3.4	4.6	33.3	0.1	3.6
	Q1	2.8	3.2	5.7	27.1	0.6	4.0
	Q2	1.5	3.6	3.7	39.9	-0.4	3.3

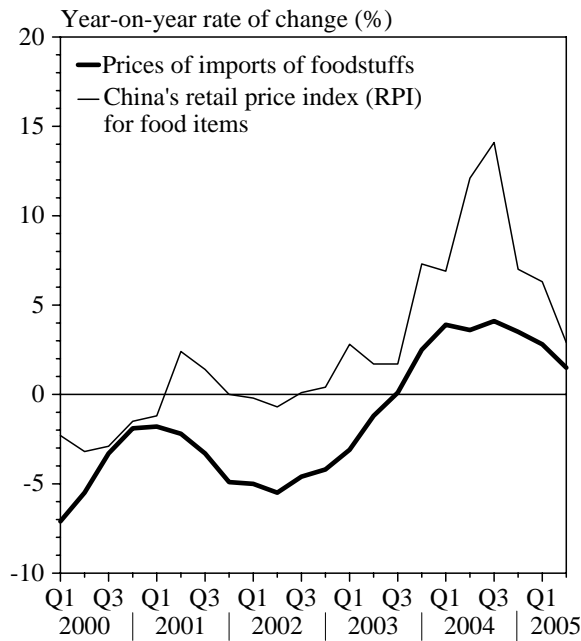
**Diagram 6.3 : Prices of imports and nominal effective exchange rate index (EERI) of the Hong Kong dollar**



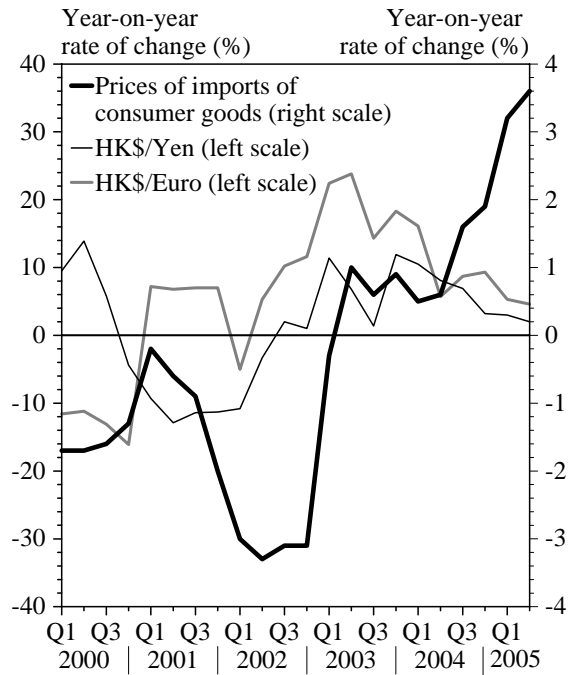
Note : An increase in nominal EERI indicates weakening of the Hong Kong dollar.

**Diagram 6.4 :**

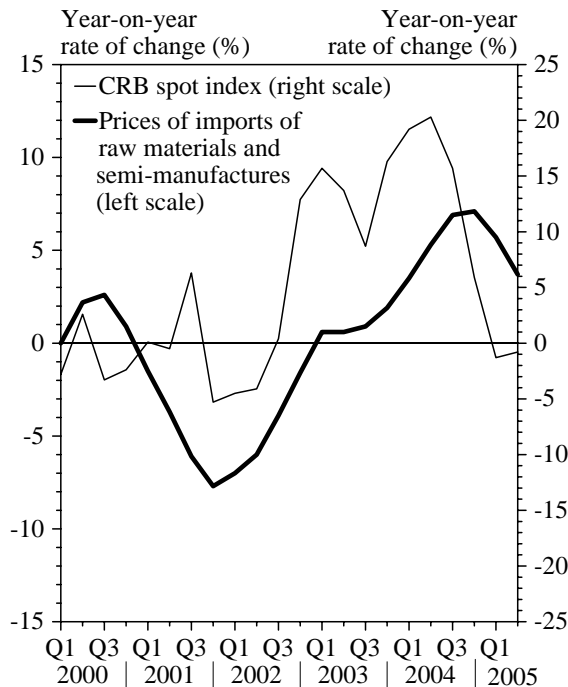
**(a) Prices of imports of foodstuffs and China's food prices**



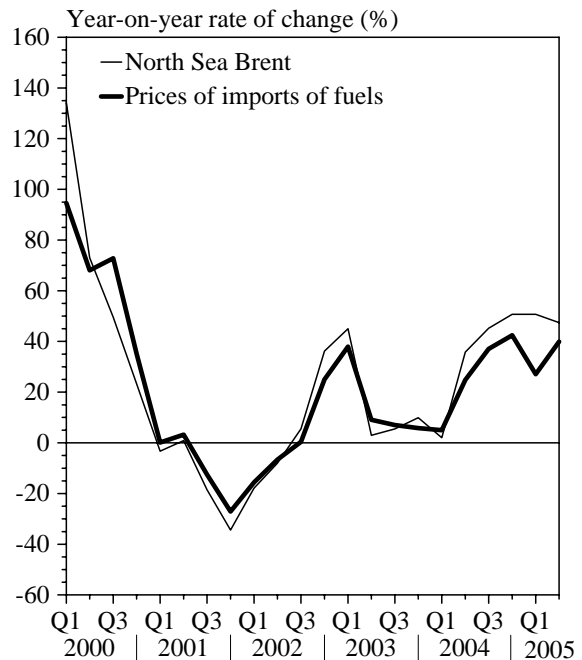
**(b) Prices of imports of consumer goods and selected exchange rates**



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



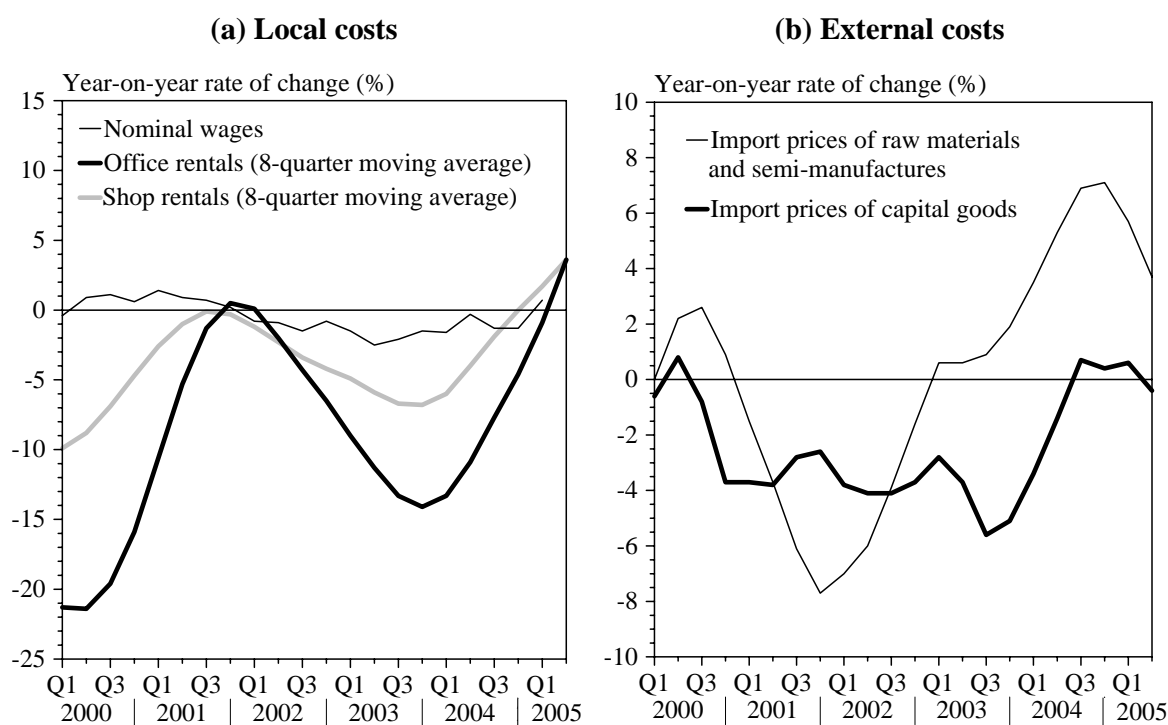
**(d) Prices of imports of fuel and international crude oil prices**



## Costs of factor inputs and domestic output prices

6.6 Notwithstanding the more entrenched economic recovery, the increase in costs of factor inputs was somewhat contained by the substantial expansion in supply capacity brought about by capital investment and productivity growth over the past two years. *Labour cost*, a key component of business cost, though finally reversed the sustained downtrend, rose only at a moderate pace. In particular, labour wages had a slight increase of 0.7% in March 2005 over a year earlier, whilst labour earnings rose by 4.4% in the first quarter, largely boosted by higher bonus payments. As to *capital equipment and material costs*, there was a slower increase in the second quarter, due to stabilisation of international commodity prices and a rebound in the US dollar. Also, the cost of funding in capital investment still remained relatively low at the initial stage of the interest rate up-cycle. Over the same period, *rentals* on new leases for office space rose distinctly further, but those for shopping space and conventional flatted factories had much less notable increases. Moreover, if taken on an 8-quarter moving average basis, the rises in both office and shop rentals were still very moderate. As the associated cost pressure was also mitigated by the uptrend in business turnover over the past year, thus far, it had not generated any significant pass-through effect to the retail price level.

**Diagram 6.5 : Costs of factor inputs**



6.7 Reflecting the lack of substantial cost pressures stemming from both the domestic and external fronts as well as the presence of keen competition in the global markets, the rise in domestic output prices moderated further. The *prices of local manufacturing output*, as measured by the Producer Price Index<sup>(3)</sup>, edged up by a meagre 0.5% in the first quarter of 2005 over a year earlier, following a 1.4% rise in the fourth quarter of 2004 and a 2.2% increase for 2004 as a whole. As to the *prices of output in selected service sectors*, output prices for hotels and boarding houses staged a further distinct rise in the first quarter of 2005, on the back of robust inbound tourism. The producer price index for the transport sector also posted a modest increase, led by upward price adjustments in sea and air cargo forwarding services. In contrast, output prices for telecommunications continued to drift lower, owing to further reductions in the charges for international calls and mobile phone services brought about by keen competition in the industry and technology advancement.

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

<u>Industry group</u>	<u>Annual</u>	<u>2004</u>				<u>2005</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	2.2	2.8	2.7	2.0	1.4	0.5
Selected services sector <sup>(#)</sup>						
Hotels and boarding houses	10.6	2.9	17.7	12.4	10.4	14.0
Land transport	-0.1	-1.9	0.4	1.2	*	0.1
Maritime transport	1.3	2.7	0.8	1.2	0.5	1.8
Air transport	2.3	1.2	4.9	3.5	-0.2	1.8
Telecommunications	-10.1	-13.6	-7.9	-10.2	-8.3	-16.0
Miscellaneous communications services	2.4	2.9	2.8	2.0	1.8	-0.3

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

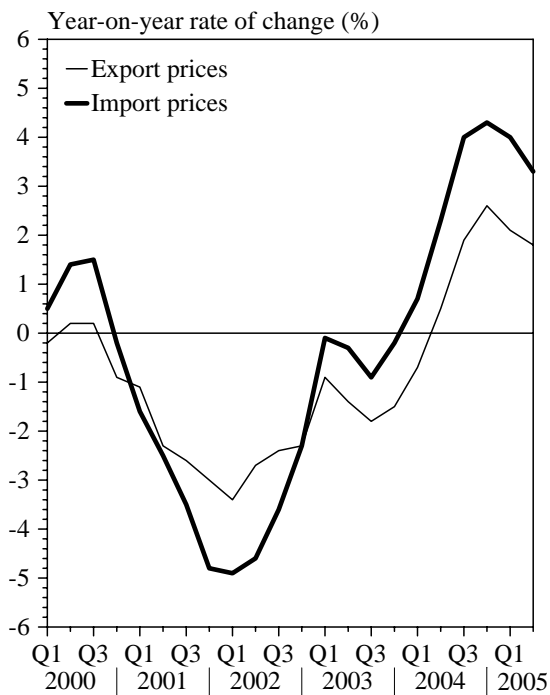
6.8 The *prices of total exports of goods*, as measured by the unit value index of total exports of goods, continued to rise at a modest pace, up by 1.8% in the second quarter of 2005 over a year earlier, after a 2.1% increase in the first quarter. With the prices of total exports of goods rising by a smaller extent than the prices of imports of goods, the *terms of trade in goods*<sup>(4)</sup> for Hong Kong fell further by 1.4% in the second quarter of 2005, though already narrowed from the 1.8% decline in the first quarter. For the first half of 2005 as a whole, there was an average decrease of 1.6%, as compared to a 1.8% fall in the second half of 2004, indicating continued margin squeeze among local manufacturers and exporters.

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

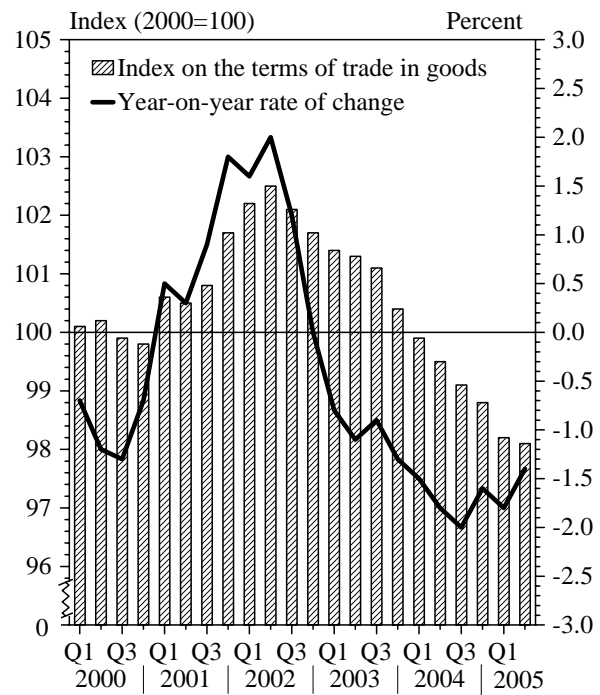
		<u>United States</u>	<u>Mainland of China</u>	<u>Germany</u>	<u>United Kingdom</u>	<u>Japan</u>	<u>Singapore</u>	<u>All markets</u>
2004	Annual	0.2	2.7	*	0.6	0.6	-1.3	1.2
	H1	-0.5	1.1	-0.4	-0.3	-0.3	-3.2	-0.1
	H2	0.8	4.1	0.4	1.2	1.3	0.3	2.3
	Q1	-0.6	0.2	-0.9	-0.7	-0.6	-4.2	-0.7
	Q2	-0.4	1.9	*	0.1	0.1	-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	H1	1.1	2.9	0.9	1.5	1.1	-0.3	2.0
	Q1	1.2	3.3	0.9	1.3	0.8	-0.5	2.1
	Q2	1.0	2.6	0.9	1.7	1.4	-0.1	1.8

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

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



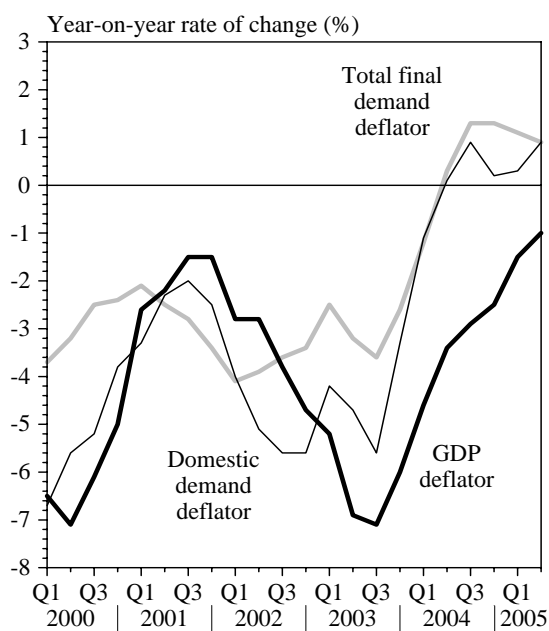
**Diagram 6.7 : Terms of trade in goods**



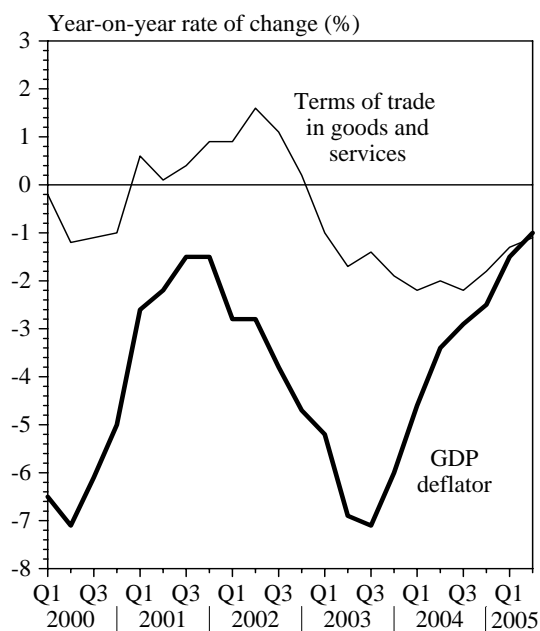
## GDP deflator

6.9 The decline in the *GDP deflator*<sup>(5)</sup>, as a broad measure of overall price changes in the economy, narrowed further to 1.0% in the second quarter of 2005, from 1.5% in the first quarter. This was mainly attributable to the relative improvement in terms of trade, as the drag stemming from a weak US dollar in the earlier period continued to fade out. Excluding the relative price movements of exports and imports, both the *domestic demand deflator* and the *total final demand deflator* actually had further mild increases in the second quarter of 2005. These suggested that price pressures in the local economy remained well contained overall.

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



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



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

	<u>Annual<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>2004</u> <u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>2005</u> <u>Q1<sup>#</sup></u>	<u>Q2<sup>+</sup></u>
Private consumption expenditure	-0.5	-2.4	-0.6	1.0	*	0.5	1.7
Government consumption expenditure	-2.9	-3.3	-3.1	-2.7	-2.7	-2.1	-2.2
Gross domestic fixed capital formation	2.5	1.9	3.0	2.2	2.7	2.3	1.6
Total exports of goods	0.5	-1.5	0.1	1.3	1.6	1.3	0.4
Imports of goods	2.5	0.5	2.2	3.7	3.5	2.9	1.8
Exports of services	0.9	-0.8	2.1	1.4	1.2	2.3	2.3
Imports of services	3.8	3.6	3.4	4.7	3.6	2.6	2.8
<b>Gross Domestic Product</b>	<b>-3.3</b>	<b>-4.6</b>	<b>-3.4</b>	<b>-2.9</b>	<b>-2.5</b>	<b>-1.5</b>	<b>-1.0</b>
		<b>&lt;-0.5&gt;</b>	<b>&lt;-0.8&gt;</b>	<b>&lt;-0.8&gt;</b>	<b>&lt;-0.5&gt;</b>	<b>&lt;0.5&gt;</b>	<b>&lt;-0.1&gt;</b>
Total final demand	0.5	-1.2	0.3	1.3	1.3	1.1	0.9
Domestic demand	0.1	-1.1	0.1	0.9	0.2	0.3	0.9

Notes : (#) Revised figures.

(+) Preliminary figures.

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

(\*) Change of less than 0.05%.

(@) The entire series of GDP deflator has been revised following the completion of an exercise by the Census and Statistics Department to implement the latest international guidelines on the compilation of financial intermediation services produced by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005.



## 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 rose further by around 3% in the second quarter of 2005, following a similar increase in the first quarter.

- (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.

The GDP series has undergone a major revision in August 2005 to incorporate the latest guidelines on the compilation of financial intermediation services. As a result, the entire historical series of the GDP deflator is revised accordingly. In particular, the revised series shows larger declines in the GDP deflator in 2003 and 2004 (0.3 and 0.5 of a percentage point lower than the old series respectively). This probably reflected the narrowing in net interest margin of local banks due to intense competition during that period.



## Statistical Appendix

<u>Table</u>	<u>Page</u>
1. Gross Domestic Product by expenditure component (at current market prices)	96-97
2. Rates of change in Gross Domestic Product by expenditure component (in real terms)	98-99
3. Gross Domestic Product by economic activity (at current prices)	100
4. Rates of change in Gross Domestic Product by economic activity (in real terms)	101
5. Balance of payments account by major component (at current prices)	102
6. Visible and invisible trade (at current market prices)	103
7. Total exports of goods by market	104
8. Imports of goods by source	104
9. Retained imports of goods by end-use category	105
10. Exports and imports of services by component	105
11. Incoming visitors by source	106
12. Hong Kong residents travelling abroad by destination	107
13. Property market	108-109
14. Property prices and rentals	110-111
15. Money aggregates	112-113
16. Rates of change in business receipts indices for service industries/domains	114
17. Labour force characteristics	115
18. Employment in selected major economic sectors	116
19. Number of workers engaged at building and construction sites	117
20. Average labour earnings by major economic sector	118
21. Rates of change in wage indices by selected major economic sector	119
22. Rates of change in prices	120-121
23. Rates of change in Composite Consumer Price Index	122-123
24. Rates of change in implicit price deflators of GDP and its main expenditure components	124-125

**Table 1 : Gross Domestic Product by expenditure component<sup>#</sup>  
(at current market prices)**

	(\$Mn)					
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Private consumption expenditure	691,708	755,508	833,825	795,948	765,282	774,280
Government consumption expenditure	93,624	103,541	112,751	116,550	119,993	120,172
Gross domestic fixed capital formation	334,363	378,486	451,891	388,731	325,328	347,375
<i>of which:</i>						
Building and construction	158,898	185,648	223,264	208,235	171,930	155,441
Machinery, equipment and computer software	161,562	170,652	190,760	165,177	141,349	180,204
Changes in inventories	45,656	9,762	12,313	-15,651	-10,612	14,399
Total exports of goods	1,344,127	1,397,917	1,455,949	1,347,649	1,349,000	1,572,689
Domestic exports	231,657	212,160	211,410	188,454	170,600	180,967
Re-exports	1,112,470	1,185,758	1,244,539	1,159,195	1,178,400	1,391,722
Imports of goods	1,466,759	1,511,365	1,589,876	1,408,317	1,373,500	1,636,711
Exports of services	253,643	285,385	286,595	262,099	276,385	315,012
Imports of services	180,623	189,753	198,424	194,245	185,174	192,427
<b>GDP</b>	<b>1,115,739</b>	<b>1,229,481</b>	<b>1,365,024</b>	<b>1,292,764</b>	<b>1,266,702</b>	<b>1,314,789</b>
<i>Per capita GDP (\$)</i>	<i>181,241</i>	<i>191,047</i>	<i>210,350</i>	<i>197,559</i>	<i>191,736</i>	<i>197,268</i>
<b>GNP</b>	<b>1,125,229</b>	<b>1,218,405</b>	<b>1,363,409</b>	<b>1,317,362</b>	<b>1,291,470</b>	<b>1,323,543</b>
<i>Per capita GNP (\$)</i>	<i>182,783</i>	<i>189,326</i>	<i>210,101</i>	<i>201,318</i>	<i>195,485</i>	<i>198,581</i>
Total final demand	2,763,121	2,930,599	3,153,324	2,895,326	2,825,376	3,143,927
Total final demand excluding re-exports <sup>(a)</sup>	1,834,209	1,949,977	2,130,313	1,952,900	1,886,191	2,045,858
Domestic demand	1,165,351	1,247,297	1,410,780	1,285,578	1,199,991	1,256,226
Private	1,018,096	1,078,661	1,233,803	1,107,816	1,014,347	1,075,654
Public	147,255	168,636	176,977	177,762	185,644	180,572
External demand	1,597,770	1,683,302	1,742,544	1,609,748	1,625,385	1,887,701

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<sup>#</sup>  
(at current market prices) (cont'd)**

	(\$Mn)					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	
					Q1	Q2 <sup>+</sup>
Private consumption expenditure	782,587	747,850	718,465	763,473	192,575	200,049
Government consumption expenditure	128,866	131,291	130,148	127,214	32,078	28,316
Gross domestic fixed capital formation	333,036	286,020	261,369	278,946	70,370	74,018
<i>of which:</i>						
Building and construction	142,651	131,752	116,419	109,278	29,119	24,510
Machinery, equipment and computer software	180,011	144,832	136,539	152,871	36,173	42,973
Changes in inventories	-4,060	5,660	9,111	5,548	-4,926	-2,860
Total exports of goods	1,480,987	1,562,121	1,749,089	2,027,031	479,096	555,352
Domestic exports	153,520	131,079	122,126	126,386	24,066	28,066
Re-exports	1,327,467	1,431,041	1,626,964	1,900,645	455,030	527,286
Imports of goods	1,549,222	1,601,527	1,794,059	2,099,545	498,773	574,998
Exports of services	320,799	347,836	362,420	421,915	108,027	105,762
Imports of services	194,180	202,494	203,400	233,774	57,542	57,227
<b>GDP</b>	<b>1,298,813</b>	<b>1,276,757</b>	<b>1,233,143</b>	<b>1,290,808</b>	<b>320,905</b>	<b>328,412</b>
<i>Per capita GDP (\$)</i>	<i>193,135</i>	<i>188,118</i>	<i>181,262</i>	<i>187,547</i>	--	--
<b>GNP</b>	<b>1,327,356</b>	<b>1,282,409</b>	<b>1,261,634</b>	<b>1,318,012</b>	<b>327,904</b>	<b>N.A.</b>
<i>Per capita GNP (\$)</i>	<i>197,379</i>	<i>188,951</i>	<i>185,450</i>	<i>191,499</i>	--	--
Total final demand	3,042,215	3,080,778	3,230,602	3,624,127	877,220	960,637
Total final demand excluding re-exports <sup>(a)</sup>	1,982,896	1,923,066	1,894,865	2,052,294	500,910	524,571
Domestic demand	1,240,429	1,170,821	1,119,093	1,175,181	290,097	299,523
Private	1,053,568	985,985	937,489	999,217	244,189	262,314
Public	186,861	184,836	181,604	175,964	45,908	37,209
External demand	1,801,786	1,909,957	2,111,509	2,448,946	587,123	661,114

Notes : (a) Re-export margin is nevertheless retained in the total final demand.

(#) The Census and Statistics Department completed an exercise to implement the latest international guidelines on dealing with financial intermediation services provided by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005. As a result of this statistical development, figures presented in this table have been revised.

(+) Preliminary figures.

(--) Not applicable.

N.A. Not available.

**Table 2 : Rates of change in Gross Domestic Product  
by expenditure component<sup>#</sup> (in real terms)**

(%)

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Private consumption expenditure	2.1	3.9	6.2	-6.6	1.4	6.0	2.1
Government consumption expenditure	3.2	3.8	2.4	0.7	3.1	2.1	6.0
Gross domestic fixed capital formation	10.4	10.9	12.6	-7.3	-16.6	11.0	2.6
<i>of which:</i>							
Building and construction	1.1	7.0	10.5	-2.4	-15.5	-7.6	-1.1
Machinery, equipment and computer software	24.1	12.0	13.1	-7.9	-18.2	27.0	6.2
Total exports of goods	12.0	4.8	6.1	-4.3	3.7	17.1	-3.3
Domestic exports	2.0	-8.4	2.1	-7.9	-7.2	7.5	-10.2
Re-exports	14.3	7.5	6.8	-3.7	5.4	18.5	-2.4
Imports of goods	13.9	4.3	7.3	-7.3	*	18.2	-1.9
Exports of services	2.9	10.2	-0.4	-3.5	8.8	12.1	6.4
Imports of services	1.8	5.1	3.9	1.6	-4.4	4.2	2.0
<b>GDP</b>	<b>3.9</b>	<b>4.2</b>	<b>5.1</b>	<b>-5.5</b>	<b>4.0</b>	<b>10.0</b>	<b>0.6</b>
<i>Per capita GDP (\$)</i>	<i>1.9</i>	<i>-0.3</i>	<i>4.2</i>	<i>-6.2</i>	<i>3.0</i>	<i>9.0</i>	<i>-0.3</i>
<b>GNP</b>	<b>4.6</b>	<b>2.4</b>	<b>6.0</b>	<b>-3.5</b>	<b>4.0</b>	<b>8.6</b>	<b>2.2</b>
<i>Per capita GNP (\$)</i>	<i>2.6</i>	<i>-2.1</i>	<i>5.1</i>	<i>-4.3</i>	<i>3.0</i>	<i>7.6</i>	<i>1.3</i>
Total final demand	9.4	4.3	6.2	-6.0	1.3	14.4	-0.6
Total final demand excluding re-exports <sup>(a)</sup>	6.5	2.2	5.8	-7.6	-1.7	11.3	0.4
Domestic demand	7.2	2.1	8.2	-9.2	-4.4	10.3	1.0
Private	6.8	1.2	9.5	-9.9	-5.4	12.3	0.7
Public	10.3	9.2	-1.0	-3.8	2.1	-2.8	3.3
External demand	10.6	5.4	5.3	-4.3	4.4	16.4	-1.7

Notes : (a) Re-export margin is nevertheless retained in the total final demand.

(#) The Census and Statistics Department completed an exercise to implement the latest international guidelines on dealing with financial intermediation services provided by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005. As a result of this statistical development, figures presented in this table have been revised.

(+) Preliminary figures.

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

	(%)						
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>		Average annual rate of change:	
				Q1	Q2 <sup>+</sup>	10 years 1994 to 2004	5 years 1999 to 2004
Private consumption expenditure	-1.0	-1.0	6.8	4.4	2.7	1.9	2.5
Government consumption expenditure	2.5	1.9	0.7	-4.8	-2.3	2.6	2.6
Gross domestic fixed capital formation	-4.5	0.9	4.1	0.4	3.5	2.0	2.7
<i>of which:</i>							
Building and construction	-1.1	-5.6	-11.1	-1.0	-10.7	-2.9	-5.4
Machinery, equipment and computer software	-7.6	6.7	12.4	0.7	10.1	5.9	8.4
Total exports of goods	8.7	14.2	15.3	8.9	11.1	7.2	10.1
Domestic exports	-11.2	-7.3	2.4	-9.6	-8.3	-4.0	-4.0
Re-exports	11.0	16.3	16.3	10.2	12.3	8.7	11.7
Imports of goods	7.9	13.1	14.1	3.8	7.0	6.7	10.1
Exports of services	10.9	7.9	15.3	8.8	7.8	6.9	10.5
Imports of services	3.9	-2.1	10.7	5.4	-0.4	2.6	3.7
<b>GDP</b>	<b>1.8</b>	<b>3.1</b>	<b>8.2</b>	<b>6.2</b>	<b>6.8</b>	<b>3.5</b>	<b>4.7</b>
<b>Per capita GDP (\$)</b>	<b>0.9</b>	<b>2.9</b>	<b>7.0</b>	--	--	<b>2.1</b>	<b>3.8</b>
<b>GNP</b>	<b>0.1</b>	<b>5.0</b>	<b>8.0</b>	<b>5.3</b>	<b>N.A.</b>	<b>3.7</b>	<b>4.7</b>
<b>Per capita GNP (\$)</b>	<b>-0.8</b>	<b>4.8</b>	<b>6.7</b>	--	--	<b>2.3</b>	<b>3.9</b>
Total final demand	5.1	8.1	11.6	4.8	6.5	5.2	7.6
Total final demand excluding re-exports <sup>(a)</sup>	2.0	3.4	8.6	1.5	2.6	3.0	5.1
Domestic demand	-0.7	0.1	4.9	-2.3	-1.0	1.8	3.0
Private	-1.0	-0.2	6.1	-1.7	-0.3	1.8	3.5
Public	1.2	1.7	-1.4	-5.3	-6.2	1.8	0.4
External demand	9.1	13.1	15.3	8.9	10.5	7.2	10.2

Notes (cont'd) : (\*) Change of less than 0.05%.

(--) Not applicable.

N.A. Not available.



**Table 3 : Gross Domestic Product by economic activity<sup>#</sup>  
(at current prices)**

	<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>		<u>2003</u>	
	\$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	63,358	5.3	67,646	5.4	59,760	4.8	51,396	4.2	44,403	3.7
Electricity, gas and water	35,960	3.0	36,917	2.9	37,957	3.1	39,609	3.2	38,847	3.2
Construction	65,560	5.5	62,054	4.9	57,167	4.6	51,534	4.2	44,910	3.7
Services	1,032,009	86.1	1,087,570	86.6	1,088,211	87.5	1,091,272	88.4	1,073,807	89.3
<i>Wholesale, retail and import/export trades, restaurants and hotels</i>	280,306	23.4	308,600	24.6	309,926	24.9	310,500	25.1	308,872	25.7
<i>Transport, storage and communications</i>	106,574	8.9	118,974	9.5	117,526	9.4	121,766	9.9	117,420	9.8
<i>Financing, insurance, real estate and business services</i>	255,633	21.3	268,399	21.4	251,495	20.2	247,045	20.0	251,100	20.9
<i>Community, social and personal services</i>	244,377	20.4	249,997	19.9	262,960	21.1	265,746	21.5	261,771	21.8
<i>Ownership of premises</i>	145,119	12.1	141,600	11.3	146,304	11.8	146,214	11.8	134,645	11.2
<b>GDP at factor cost</b>	<b>1,198,364</b>	<b>100.0</b>	<b>1,255,348</b>	<b>100.0</b>	<b>1,244,271</b>	<b>100.0</b>	<b>1,234,949</b>	<b>100.0</b>	<b>1,202,908</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		-1.4	
<b>GDP at current market prices</b>	<b>1,266,702</b>		<b>1,314,789</b>		<b>1,298,813</b>		<b>1,276,757</b>		<b>1,233,143</b>	

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

(#) The Census and Statistics Department completed an exercise to implement the latest international guidelines on dealing with financial intermediation services provided by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005. As a result of this statistical development, figures presented in this table have been revised.

(\*) Less than 0.05%.

**Table 4 : Rates of change of Gross Domestic Product by economic activity<sup>#</sup>  
(in real terms)**

	(%)						
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>			<u>2005</u>
				Q2	Q3	Q4	Q1
Agriculture and fishing	-0.7	-5.6	0.7	-0.4	-1.5	4.4	-6.0
Mining and quarrying	-11.1	2.2	-17.0	-29.1	-19.6	4.9	*
Manufacturing	-10.0	-10.3	1.7	-0.2	2.3	3.8	-2.3
Electricity, gas and water	3.8	1.8	2.1	1.9	1.7	1.6	5.1
Construction	-1.5	-4.9	-8.4	-10.7	-12.0	-2.0	-0.7
Services	2.8	4.5	8.9	12.7	7.5	7.4	6.4
<i>Wholesale, retail and import/export trades, restaurants and hotels</i>	4.5	9.1	13.4	20.6	12.5	9.8	11.0
<i>Transport, storage and communications</i>	6.5	0.7	17.4	26.3	15.8	15.2	12.3
<i>Financing, insurance, real estate and business services</i>	2.7	5.7	7.3	8.3	3.5	6.6	3.1
<i>Community, social and personal services</i>	-0.6	0.5	3.9	7.3	3.0	2.7	1.2
<i>Ownership of premises</i>	2.0	2.7	3.0	3.6	3.1	3.9	5.2
Taxes on production and imports	-0.1	2.9	12.4	16.7	8.1	5.5	-1.6
<b>GDP at constant (2000) market prices</b>	<b>1.8</b>	<b>3.1</b>	<b>8.2</b>	<b>12.0</b>	<b>6.7</b>	<b>7.2</b>	<b>6.2</b>

Notes : (#) The Census and Statistics Department completed an exercise to implement the latest international guidelines on dealing with financial intermediation services provided by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005. As a result of this statistical development, figures presented in this table have been revised.

(\*) Change of less than 0.05%.

**Table 5 : Balance of payments account by major component<sup>#</sup>**  
(at current prices)

	(\$Mn)								
	<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
Current account	54,494	76,315	96,800	128,240	127,401	7,793	52,258	50,721	33,327
Goods	-63,832	-64,970	-39,406	-44,970	-72,514	-29,432	-8,511	-1,757	-19,677
Services	122,584	126,620	145,341	159,020	188,141	40,024	49,702	54,566	50,485
Income	8,754	28,543	5,652	28,491	27,204	740	15,103	2,012	6,999
Current transfers	-13,013	-13,878	-14,787	-14,301	-15,429	-3,539	-4,035	-4,100	-4,481
Capital and financial account	-57,863	-97,359	-151,179	-179,086	-136,338	-31,241	-37,482	-34,181	-54,444
Capital and financial non-reserve assets (net change)	20,459	-60,829	-169,720	-171,497	-110,852	-39,210	-57,973	-15,756	-51,890
Capital transfers	-12,044	-9,155	-15,686	-8,292	-2,145	-142	-1,376	-793	-2,653
Financial non-reserve assets (net change)	32,503	-51,674	-154,033	-163,205	-108,707	-39,068	-56,597	-14,963	-49,238
<i>Direct investment</i>	19,976	96,948	-60,685	63,372	-44,406	27,326	-5,543	37,691	970
<i>Portfolio investment</i>	190,782	-322,045	-302,484	-264,619	-251,346	-106,559	-41,454	53,022	-70,770
<i>Financial derivatives</i>	1,661	39,640	51,563	78,288	48,827	11,191	6,447	19,059	4,206
<i>Other investment</i>	-179,917	133,783	157,573	-40,247	138,218	28,974	-16,046	-124,735	16,357
Reserve assets (net change) <sup>(a)</sup>	-78,321	-36,530	18,541	-7,589	-25,486	7,969	20,492	-18,426	-2,554
Net errors and omissions	3,369	21,044	54,379	50,846	8,937	23,448	-14,777	-16,540	21,118
<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>-7,969</b>	<b>-20,492</b>	<b>18,426</b>	<b>2,554</b>

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

(a) A negative value for net change in reserve assets represents a net increase, and a positive value represents a net decrease.

(#) The Census and Statistics Department completed an exercise to implement the latest international guidelines on dealing with financial intermediation services provided by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005. As a result of this statistical development, figures presented in this table have been revised.

**Table 6 : Visible and invisible trade<sup>#</sup>**  
**(at current market prices)**

	(\$Mn)									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>		<u>2005</u>		
						Q3	Q4	Q1	Q2 <sup>+</sup>	
Total exports of goods	1,572,689	1,480,987	1,562,121	1,749,089	2,027,031	546,732	547,972	479,096	555,352	
Imports of goods	1,636,711	1,549,222	1,601,527	1,794,059	2,099,545	555,243	549,729	498,773	574,998	
<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>-8,511</b>	<b>-1,757</b>	<b>-19,677</b>	<b>-19,646</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;-1.5&gt;</b>	<b>&lt;-0.3&gt;</b>	<b>&lt;-3.9&gt;</b>	<b>&lt;-3.4&gt;</b>	
Exports of services	315,012	320,799	347,836	362,420	421,915	112,624	116,325	108,027	105,762	
Imports of services	192,427	194,180	202,494	203,400	233,774	62,923	61,759	57,542	57,227	
<b>Invisible trade balance</b>	<b>122,585</b>	<b>126,619</b>	<b>145,342</b>	<b>159,020</b>	<b>188,141</b>	<b>49,701</b>	<b>54,566</b>	<b>50,485</b>	<b>48,535</b>	
	<b>&lt;63.7&gt;</b>	<b>&lt;65.2&gt;</b>	<b>&lt;71.8&gt;</b>	<b>&lt;78.2&gt;</b>	<b>&lt;80.5&gt;</b>	<b>&lt;79.0&gt;</b>	<b>&lt;88.4&gt;</b>	<b>&lt;87.7&gt;</b>	<b>&lt;84.8&gt;</b>	
Exports of goods and services	1,887,701	1,801,786	1,909,957	2,111,509	2,448,946	659,356	664,297	587,123	661,114	
Imports of goods and services	1,829,138	1,743,402	1,804,021	1,997,459	2,333,319	618,166	611,488	556,315	632,225	
<b>Visible and invisible trade balance</b>	<b>58,563</b>	<b>58,384</b>	<b>105,936</b>	<b>114,050</b>	<b>115,627</b>	<b>41,190</b>	<b>52,809</b>	<b>30,808</b>	<b>28,889</b>	
	<b>&lt;3.2&gt;</b>	<b>&lt;3.3&gt;</b>	<b>&lt;5.9&gt;</b>	<b>&lt;5.7&gt;</b>	<b>&lt;5.0&gt;</b>	<b>&lt;6.7&gt;</b>	<b>&lt;8.6&gt;</b>	<b>&lt;5.5&gt;</b>	<b>&lt;4.6&gt;</b>	

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

(#) The Census and Statistics Department completed an exercise to implement the latest international guidelines on dealing with financial intermediation services provided by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005. As a result of this statistical development, figures presented in this table have been revised.

(+) 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>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</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>17.2</b>	<b>15.3</b>	<b>10.6</b>	<b>12.5</b>
Mainland of China	20.8	0.6	12.3	21.1	19.7	888,543	23.0	17.1	12.0	14.7
United States	13.9	-9.8	1.0	-2.6	5.4	341,600	4.2	6.8	5.6	7.3
Japan	19.4	0.5	-4.5	12.3	14.4	107,545	14.3	16.3	11.9	11.6
United Kingdom	12.7	-12.2	-2.0	5.8	14.8	65,853	15.3	18.0	10.5	9.8
Germany	13.7	-13.9	-5.3	15.1	11.9	62,900	12.5	11.7	18.1	15.7
Taiwan	20.8	-11.1	-2.2	22.2	16.2	49,112	14.5	7.5	-3.2	4.3
Republic of Korea	34.5	-9.4	17.2	16.9	24.0	44,069	23.5	18.5	5.0	4.9
Singapore	13.4	-19.5	6.8	13.0	22.0	43,577	20.5	17.0	14.7	12.9
Rest of the world	12.4	-8.4	3.5	7.1	17.3	415,916	19.0	19.5	12.1	13.9

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>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</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>18.4</b>	<b>11.9</b>	<b>8.1</b>	<b>10.1</b>
Mainland of China	17.7	-4.6	5.1	9.6	16.9	918,275	18.3	16.7	13.9	14.2
Japan	22.3	-11.2	3.4	17.2	19.7	256,141	22.4	8.7	-0.8	0.2
Taiwan	23.6	-13.1	7.4	8.0	22.8	153,812	25.2	12.8	3.1	3.8
United States	14.4	-7.0	-12.8	7.9	13.4	111,994	14.3	5.2	5.7	13.8
Singapore	25.0	-2.8	3.9	19.6	22.5	110,986	23.9	15.7	12.4	14.2
Republic of Korea	23.2	-12.2	7.3	15.0	15.0	100,467	10.8	3.2	-9.0	-1.0
Rest of the world	17.9	0.5	2.2	12.1	13.6	459,448	15.8	6.9	7.5	10.4

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>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</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>10.0</b>	<b>522,785</b>	<b>10.4</b>	<b>-5.4</b>	<b>-1.9</b>	<b>-0.1</b>
Foodstuffs	1.8	-2.6	0.2	1.5	8.6	49,217	8.7	*	3.6	1.1
Consumer goods	15.5	3.9	-5.2	-1.8	-5.8	106,241	-6.6	-19.7	4.1	-14.6
Fuels	30.3	-10.2	3.9	12.9	37.5	46,125	42.7	37.4	25.0	21.4
Raw materials and semi-manufactures	25.5	-22.3	-1.6	10.7	14.3	201,211	14.6	-4.5	-7.7	2.1
Capital goods	34.0	-2.8	-24.9	-6.6	12.3	120,424	13.6	-6.2	-7.1	3.8

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

(\*) Change of less than 0.05%.

**Table 10 : Exports and imports of services by component<sup>#</sup>**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>		<u>2005</u>		
	(% change)					\$Mn	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u> <sup>+</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>14.0</b>	<b>1.8</b>	<b>8.4</b>	<b>4.2</b>	<b>16.4</b>	<b>421,915</b>	<b>13.9</b>	<b>8.9</b>	<b>11.4</b>	<b>10.2</b>
Transportation	11.5	-5.9	10.8	3.8	24.2	133,730	24.4	15.7	12.5	12.4
Travel	7.4	0.7	25.4	-4.4	26.2	70,145	10.5	0.8	15.4	11.3
Trade-related	19.7	9.0	9.0	12.2	12.4	146,356	11.3	10.7	12.1	11.0
Other	14.5	3.4	-5.9	-1.4	3.9	71,684	4.7	2.7	4.4	3.6
<b>Imports of services</b>	<b>3.9</b>	<b>0.9</b>	<b>4.3</b>	<b>0.4</b>	<b>14.9</b>	<b>233,774</b>	<b>12.2</b>	<b>10.0</b>	<b>8.3</b>	<b>2.3</b>
Transportation	23.9	4.7	-4.7	7.8	19.8	62,670	18.3	11.4	10.7	8.7
Travel	-4.4	-1.4	0.8	-8.0	15.9	103,347	10.0	10.3	8.9	-3.9
Trade-related	6.3	5.7	24.2	9.2	12.8	18,058	12.2	11.0	12.2	10.0
Other	5.0	0.5	20.0	8.2	8.1	49,699	9.5	7.4	2.9	5.3
<b>Net exports of services</b>	<b>34.4</b>	<b>3.3</b>	<b>14.8</b>	<b>9.4</b>	<b>18.3</b>	<b>188,141</b>	<b>16.1</b>	<b>7.8</b>	<b>15.1</b>	<b>21.3</b>

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

(#) The Census and Statistics Department completed an exercise to implement the latest international guidelines on dealing with financial intermediation services provided by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005. As a result of this statistical development, figures presented in this table have been revised.

(+) 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> Q3	Q4	<u>2005</u> Q1	Q2
<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>5 745.5</b>	<b>6 052.5</b>	<b>5 469.9</b>	<b>5 508.1</b>
Mainland of China	3 785.8	4 448.6	6 825.2	8 467.2	12 245.9	3 311.3	3 266.4	3 038.8	2 845.0
South and Southeast Asia	1 747.1	1 746.6	1 905.2	1 359.6	2 077.7	500.5	667.3	499.2	617.4
Taiwan	2 385.7	2 418.8	2 428.8	1 852.4	2 074.8	562.5	529.6	502.0	513.8
Japan	1 382.4	1 336.5	1 395.0	867.2	1 126.3	317.8	331.6	316.8	264.5
Europe	1 068.8	1 019.9	1 083.9	780.8	1 142.7	260.8	352.9	308.5	345.4
United States	966.0	935.7	1 000.8	683.8	1 051.7	263.7	305.7	260.8	293.6
Others	1 723.5	1 819.2	1 927.4	1 525.8	2 091.7	528.8	599.2	543.8	628.5
<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>30.1</b>	<b>17.0</b>	<b>10.8</b>	<b>8.5</b>
Mainland of China	18.1	17.5	53.4	24.1	44.6	37.9	15.4	4.1	3.5
South and Southeast Asia	15.6	*	9.1	-28.6	52.8	31.2	30.0	32.6	15.8
Taiwan	15.6	1.4	0.4	-23.7	12.0	-6.0	-2.5	4.2	2.6
Japan	17.7	-3.3	4.4	-37.8	29.9	36.8	26.6	44.0	3.0
Europe	4.7	-4.6	6.3	-28.0	46.3	41.8	19.7	17.8	29.2
United States	12.5	-3.1	7.0	-31.7	53.8	39.5	27.4	18.9	11.6
Others	15.4	5.6	5.9	-20.8	37.1	23.2	22.3	19.1	24.0

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<sup>(a)</sup>**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>
						Q3	Q4	Q1	Q2
<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>17 907.5</b>	<b>17 739.8</b>	<b>17 352.1</b>	<b>17 669.5</b>
Mainland of China	50 083.1	52 002.9	55 648.4	52 555.6	59 675.5	15 313.7	15 533.3	15 011.6	15 458.7
Macao	4 206.9	4 293.6	4 182.4	3 952.6	4 223.9	1 186.9	1 050.8	1 100.6	987.0
South and Southeast Asia	2 389.6	2 504.6	2 421.8	2 447.0	2 661.1	748.9	610.0	599.6	589.2
North Asia	739.0	761.6	774.5	699.8	806.4	219.4	190.3	225.1	173.5
Taiwan	468.7	525.5	538.2	414.5	536.1	144.4	130.8	138.1	137.2
Europe	323.5	323.7	346.6	322.7	373.6	117.9	74.0	94.4	94.0
Americas <sup>(b)</sup>	399.2	376.6	346.3	280.1	334.6	103.8	72.4	84.2	85.7
Australia and New Zealand	231.6	237.5	223.2	207.1	222.5	51.8	59.1	78.1	50.9
<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>6.8</b>	<b>7.3</b>	<b>9.8</b>	<b>1.3</b>
Mainland of China	10.9	3.8	7.0	-5.6	13.5	7.8	7.5	9.8	2.0
Macao	10.9	2.1	-2.6	-5.5	6.9	1.5	10.7	13.7	-3.0
South and Southeast Asia	20.3	4.8	-3.3	1.0	8.7	-3.4	-1.2	-1.1	-15.4
North Asia	-5.0	3.1	1.7	-9.6	15.2	2.1	7.7	20.0	-17.0
Taiwan	11.6	12.1	2.4	-23.0	29.3	17.8	2.2	14.4	-2.1
Europe	5.2	0.1	7.1	-6.9	15.8	1.6	5.2	7.5	*
Americas <sup>(b)</sup>	0.2	-5.7	-8.1	-19.1	19.5	14.4	1.6	7.2	7.4
Australia and New Zealand	0.5	2.6	-6.0	-7.2	7.4	5.3	7.8	22.1	6.7

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

(a) As from May 2005, data on outbound tourism using the Automated Passenger Clearance system were available from the Immigration Department as a new category in the statistics on Hong Kong resident departures by destination. The system was so far installed at the Lo Wu, Macao Ferry Terminal and Lok Ma Chau control points, and thus statistics on the number of Hong Kong residents travelling to the Mainland and Macao since May 2005 are not strictly comparable to those in the earlier periods.

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

(\*) Change of less than 0.05%.



**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>	
				Q3	Q4	Q1	Q2
<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	6 697	6 938	3 921	7 251
Commercial property	304	417	371	274	23	18	40
<i>of which :</i>							
Office space	166	299	279	197	14	0	32
Other commercial premises <sup>(b)</sup>	139	118	91	77	9	18	8
Industrial property <sup>(c)</sup>	29	15	1	1	0	0	4
<i>of which :</i>							
Industrial-cum-office premises	0	15	0	0	0	0	4
Conventional flatted factory space	3	0	1	1	0	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	4 248	5 550	9 571	5 864
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	41.4	48.0	104.6	40.8
Commercial property	365.3	200.0	161.3	80.4	31.9	46.2	164.4
Industrial property <sup>(g)</sup>	107.1	0.8	16.4	9.3	7.1	0.0	11.6
Other property	109.3	444.2	407.1	62.8	65.7	132.2	178.9
Total	1 371.8	1 683.3	1 114.8	193.9	152.8	283.0	395.7
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(h)</sup>	72 974	71 576	100 630	20 012	28 258	24 842	37 337
Non-residential property	12 947	15 733	22 850	4 529	6 868	5 165	6 468
Total	85 921	87 309	123 480	24 541	35 126	30 007	43 805
<b>Total value (\$Bn)</b>							
Residential property <sup>(h)</sup>	154.3	153.6	276.7	49.6	85.4	73.5	115.1
Non-residential property	31.1	35.8	75.1	12.6	26.8	20.0	24.9
Total	185.4	189.4	351.8	62.2	112.2	93.4	140.0

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 Authority.

(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</u>	<u>2004</u> Q3	Q4	<u>2005</u> Q1 <sup>#</sup>	Q2 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	69.9	61.6	78.0	77.8	83.4	89.9	93.5
Office space <sup>(b)</sup>	68.4	62.5	99.3	99.4	112.0	122.6	136.1
Shopping space	85.0	85.5	119.3	118.6	134.2	142.7	148.8
Flatted factory space	74.8	71.7	88.6	90.7	99.7	109.1	121.7
Property rental indices <sup>(c)</sup>							
Residential flats	83.4	73.6	77.7	78.6	80.2	82.5	85.1
Office space <sup>(b)</sup>	85.4	74.6	78.1	79.0	82.1	88.0	93.5
Shopping space	92.9	86.4	92.8	94.4	96.0	96.2	97.0
Flatted factory space	82.7	74.9	77.3	77.5	79.3	80.7	81.9
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	-11.2	-11.9	26.6	31.2	29.5	22.1	21.1
Office space <sup>(b)</sup>	-13.1	-8.6	58.9	61.4	65.9	38.4	40.0
Shopping space	-2.1	0.6	39.5	41.0	40.8	30.6	29.2
Flatted factory space	-8.8	-4.1	23.6	28.3	35.3	35.7	45.7
Property rental indices <sup>(c)</sup>							
Residential flats	-12.6	-11.8	5.6	9.3	11.1	10.3	9.9
Office space <sup>(b)</sup>	-15.4	-12.6	4.7	10.2	12.3	18.4	21.7
Shopping space	-6.5	-7.0	7.4	11.2	9.8	8.2	5.4
Flatted factory space	-8.4	-9.4	3.2	7.3	6.7	6.6	6.6

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 placements 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> Q3	Q4	<u>2005</u> Q1	Q2
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	259,411	354,752	412,629	371,163	412,629	387,168	360,889
M2 <sup>(a)</sup>	1,984,049	2,107,269	2,208,591	2,070,191	2,208,591	2,201,393	2,214,382
M3 <sup>(a)</sup>	2,004,225	2,122,861	2,219,557	2,084,012	2,219,557	2,214,594	2,227,601
Total money supply (\$Mn)							
M1	295,650	413,423	484,494	445,001	484,494	464,340	438,286
M2	3,518,326	3,813,442	4,166,706	3,908,156	4,166,706	4,164,250	4,167,109
M3	3,561,852	3,858,044	4,189,544	3,948,801	4,189,544	4,189,596	4,192,386
Deposit <sup>(b)</sup> (\$Mn)							
HK\$	1,824,911	1,930,790	2,017,911	1,881,039	2,017,911	2,004,436	2,017,570
Foreign currency	1,492,631	1,636,227	1,848,145	1,751,226	1,848,145	1,848,632	1,837,973
Total	3,317,542	3,567,018	3,866,056	3,632,265	3,866,056	3,853,068	3,855,543
Loans and advances (\$Mn)							
HK\$	1,615,667	1,573,079	1,666,740	1,605,858	1,666,740	1,699,027	1,757,984
Foreign currency	460,659	462,000	488,964	472,911	488,964	482,728	498,351
Total	2,076,325	2,035,079	2,155,704	2,078,769	2,155,704	2,181,755	2,256,335
Nominal Effective Exchange Rate Indices (Jan 2000 = 100) <sup>(c)(d)</sup>							
Trade-weighted	104.0	100.7	98.3	98.7	97.3	96.2	97.1
Import-weighted	104.7	101.6	99.2	99.7	98.2	96.9	97.7
Export-weighted	103.3	99.8	97.3	97.7	96.4	95.5	96.4
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	12.9	36.8	16.3	24.1	16.3	2.9	-6.3
M2 <sup>(a)</sup>	-0.7	6.2	4.8	0.7	4.8	6.4	7.1
M3 <sup>(a)</sup>	-0.6	5.9	4.6	0.6	4.6	6.2	6.9
Total money supply :							
M1	14.6	39.8	17.2	27.4	17.2	6.4	-2.1
M2	-0.9	8.4	9.3	6.5	9.3	9.2	8.9
M3	-0.9	8.3	8.6	6.4	8.6	8.6	8.2
Deposit <sup>(b)</sup>							
HK\$	-1.6	5.8	4.5	-0.3	4.5	6.2	7.1
Foreign currency	-3.8	9.6	13.0	13.2	13.0	10.8	9.0
Total	-2.6	7.5	8.4	5.8	8.4	8.4	8.0
Loans and advances							
HK\$	-1.9	-2.6	6.0	2.4	6.0	8.1	9.4
Foreign currency	-14.3	0.3	5.8	5.2	5.8	2.7	6.3
Total	-5.0	-2.0	5.9	3.0	5.9	6.9	8.7
Nominal Effective Exchange Rate Indices <sup>(c)(d)</sup>							
Trade-weighted	-0.7	-3.2	-2.4	-2.1	-2.2	-2.2	-1.7
Import-weighted	-0.4	-3.0	-2.4	-2.0	-2.1	-2.5	-2.0
Export-weighted	-1.0	-3.4	-2.5	-2.2	-2.2	-2.0	-1.5

- 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>			<u>2005</u>
						Q2	Q3	Q4	Q1
Wholesale trade	3.6	-12.0	-10.7	-5.0	4.7	9.6	3.3	0.9	3.9
Retail trade	3.8	-1.2	-4.1	-2.3	10.8	19.0	8.5	8.3	8.5
Import/export trade	12.0	-14.1	-2.8	6.5	12.4	15.6	11.6	9.1	13.5
Restaurants	2.1	-2.5	-5.4	-9.7	10.1	21.4	8.2	8.9	6.1
Hotels	16.7	-7.6	-2.3	-19.7	39.4	190.4	26.9	22.5	22.8
Transport <sup>(a)</sup>	20.8	-2.4	2.3	0.5	22.8	36.5	23.5	19.7	19.1
Storage	2.0	-14.9	-19.6	-4.5	17.0	24.5	16.5	10.6	5.2
Communications	8.7	-13.2	-2.6	-2.4	1.0	1.7	2.8	3.1	3.8
Banking	0.8	2.7	-0.8	*	4.4	-1.4	-2.7	8.6	5.9
Financing (other than banking)	40.7	-12.6	-14.3	17.3	33.2	38.5	15.1	17.8	-1.9
Insurance	13.1	14.2	10.3	19.1	22.3	28.6	15.7	17.7	9.4
Real estate	-0.1	-16.9	-2.5	6.2	13.5	5.8	7.6	16.2	17.8
Business services	2.4	-9.6	-5.8	0.5	8.3	10.1	6.6	8.7	1.7
Film entertainment	14.4	15.2	-9.1	2.3	3.7	14.5	2.0	-4.3	9.1
Tourism, convention and exhibition services <sup>+</sup>	13.7	-3.8	10.7	-7.3	27.1	154.8	12.7	6.0	16.0
Computer and information services	24.6	-11.6	5.7	5.7	20.5	18.4	22.6	18.2	14.5

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

(+) Figures for 2004 and 2005 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>	
						Q3	Q4	Q1	Q2
<u>(%)</u>									
Labour force participation rate	61.4	61.4	61.8	61.4	61.3	61.2	61.3	61.1	60.8
Seasonally adjusted unemployment rate	4.9	5.1	7.3	7.9	6.8	6.8	6.6	6.1	5.7
Underemployment rate	2.8	2.5	3.0	3.5	3.3	3.2	3.1	3.1	2.8
<u>('000)</u>									
Population of working age	5 498.7	5 579.2	5 642.8	5 694.0	5 796.0	5 807.7	5 834.4	5 837.7	5 866.5
Labour force	3 374.2	3 427.1	3 487.1	3 496.2	3 551.0	3 555.2	3 574.9	3 565.1	3 569.2
Persons employed	3 207.3	3 252.3	3 231.6	3 219.1	3 308.6	3 304.7	3 347.0	3 354.5	3 364.7
Persons unemployed	166.9	174.8	255.5	277.2	242.5	250.5	227.9	210.6	204.5
Persons underemployed	93.5	85.5	105.2	123.3	116.7	113.5	111.3	109.8	100.4
<u>(% change over a year earlier)</u>									
Population of working age	1.6	1.5	1.1	0.9	1.8	1.9	1.8	1.4	1.4
Labour force	1.6	1.6	1.8	0.3	1.6	1.7	2.0	1.0	0.7
Persons employed	3.1	1.4	-0.6	-0.4	2.8	3.3	3.0	2.3	1.9
Persons unemployed	-19.6	4.7	46.2	8.5	-12.5	-15.9	-10.3	-16.0	-15.1
Persons underemployed	-3.5	-8.6	23.0	17.3	-5.4	-10.4	-4.2	-7.9	-18.3



**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>			<u>2005</u>	No.
	(% change)					<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</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>-1.7</b>	<b>-2.8</b>	<b>-1.8</b>	<b>-3.5</b>	<b>163 100</b>
<i>of which :</i>										
Wearing apparel, except footwear	-11.6	-14.9	-19.3	-11.6	-0.8	1.2	-2.6	*	-4.3	21 500
Textiles	-7.4	-8.7	-1.1	-16.8	-11.1	-16.3	-8.4	-1.6	-3.8	19 500
Electronics	4.7	-17.4	-13.1	-18.9	-2.3	0.6	-2.8	0.3	1.1	15 200
Plastic products	-11.8	-16.4	-17.0	-19.1	-16.8	-17.0	-22.8	-14.5	-11.0	3 200
Fabricated metal products, except machinery and equipment	-8.8	-16.9	-14.6	-20.7	-4.9	-10.2	-1.1	-8.4	-14.6	6 200
<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>3.2</b>	<b>4.9</b>	<b>3.0</b>	<b>3.5</b>	<b>1 009 700</b>
<i>of which :</i>										
Wholesale, retail and import/export trades	5.5	-1.9	-1.6	-1.9	2.1	1.6	4.4	2.6	3.6	799 100
Restaurants and hotels	1.7	1.2	-4.8	-7.3	6.0	9.7	6.6	4.7	2.9	210 700
<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>4.7</b>	<b>4.1</b>	<b>4.0</b>	<b>2.9</b>	<b>181 200</b>
<i>of which :</i>										
Land transport	-2.3	2.6	-0.3	0.5	-2.2	-3.0	-3.2	-1.7	-1.5	38 000
Water transport	0.3	3.3	1.0	-3.6	0.1	4.3	-4.0	2.2	1.3	27 500
Services allied to transport	5.9	-0.8	1.1	-3.7	10.3	11.7	14.1	12.7	9.2	59 600
<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>3.6</b>	<b>3.7</b>	<b>5.6</b>	<b>4.4</b>	<b>447 600</b>
<i>of which :</i>										
Financial institutions	0.1	-0.5	-5.6	-6.5	1.1	3.2	2.4	1.4	3.7	124 200
Insurance	-1.1	7.1	0.3	1.2	2.4	-0.3	-0.6	7.7	2.3	28 000
Real estate	-0.7	-3.0	5.2	0.7	2.2	1.8	4.2	1.8	5.8	90 000
Business services except machinery and equipment rental and leasing	13.6	4.5	-1.2	-0.2	6.0	5.3	4.9	9.8	4.6	204 600
<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>4.4</b>	<b>0.4</b>	<b>4.5</b>	<b>5.4</b>	<b>434 400</b>
<i>of which :</i>										
Sanitary and similar services	4.3	5.1	13.8	6.0	1.5	3.6	0.2	-0.7	1.6	56 600
Education services	3.3	6.9	2.5	2.9	1.8	1.9	*	2.4	1.4	130 700
Medical, dental and other health services	-0.3	5.5	3.2	-0.3	2.5	2.1	2.6	3.7	1.3	76 000
Welfare institutions	10.6	25.4	11.9	13.9	2.1	7.0	-1.1	-1.2	4.9	52 800
<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>-3.9</b>	<b>-3.8</b>	<b>-3.8</b>	<b>-3.5</b>	<b>157 300</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>		<u>2005</u>
						Jun	Sep	Dec	Mar
<u>(number)</u>									
Building sites									
Private sector	34 024	40 556	40 017	33 892	33 619	36 077	33 142	30 571	33 967
Public sector <sup>(a)</sup>	27 254	17 183	11 727	13 449	10 565	11 004	9 688	8 526	9 910
Sub-total	61 277	57 738	51 744	47 341	44 184	47 081	42 830	39 097	43 877
Civil engineering sites									
Private sector	1 657	2 633	2 869	2 755	2 564	2 664	2 672	2 855	3 090
Public sector <sup>(a)</sup>	16 666	19 931	18 611	17 466	16 772	16 820	16 980	16 999	17 222
Sub-total	18 322	22 564	21 480	20 221	19 336	19 484	19 652	19 854	20 312
<b>Total</b>	<b>79 599</b>	<b>80 302</b>	<b>73 223</b>	<b>67 562</b>	<b>63 520</b>	<b>66 565</b>	<b>62 482</b>	<b>58 951</b>	<b>64 189</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	9.1	19.2	-1.3	-15.3	-0.8	12.0	-2.9	-9.4	-2.1
Public sector <sup>(a)</sup>	0.4	-37.0	-31.8	14.7	-21.4	-25.4	-23.7	-30.2	-24.0
Sub-total	5.1	-5.8	-10.4	-8.5	-6.7	0.3	-8.5	-14.9	-8.1
Civil engineering sites									
Private sector	9.7	58.9	9.0	-4.0	-6.9	15.0	-22.6	31.7	49.6
Public sector <sup>(a)</sup>	49.9	19.6	-6.6	-6.2	-4.0	-6.6	-4.1	0.4	5.7
Sub-total	45.1	23.1	-4.8	-5.9	-4.4	-4.1	-7.1	4.0	10.7
<b>Total</b>	<b>12.2</b>	<b>0.9</b>	<b>-8.8</b>	<b>-7.7</b>	<b>-6.0</b>	<b>-1.0</b>	<b>-8.1</b>	<b>-9.4</b>	<b>-2.9</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>			<u>2005</u>
						Q2	Q3	Q4	Q1
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>	11,500 (1.4) <2.3>	11,300 (-0.7) <-1.4>	12,300 (0.1) <-0.2>	15,100 (5.6) <5.2>
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>	7,700 (2.1) <3.0>	8,000 (1.4) <0.6>	8,100 (0.3) <*>	9,100 (6.4) <6.0>
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>	17,300 (0.7) <1.6>	16,900 (-0.8) <-1.6>	19,600 (-2.5) <-2.7>	20,500 (5.5) <5.2>
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>	17,900 (2.0) <2.9>	16,900 (-1.4) <-2.2>	19,000 (-1.3) <-1.5>	21,000 (3.1) <2.8>
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>	17,900 (-2.8) <-1.9>	19,000 (-0.1) <-0.9>	18,300 (-1.1) <-1.3>	17,800 (-2.7) <-3.1>
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>	11,000 (-0.7) <0.2>	10,600 (-1.8) <-2.5>	11,500 (0.3) <0.1>	12,700 (2.6) <2.3>
<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>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>	<b>16,800</b> <b>(4.4)</b> <b>&lt;4.0&gt;</b>

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

< > % 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>			<u>2005</u>
						Jun	Sep	Dec	Mar
<u>(in money terms)</u>									
Wholesale, retail and import/export trades	1.8	1.4	-0.6	-1.7	-1.6	-0.8	-1.9	-1.6	1.9
Restaurants and hotels	-0.9	0.7	-2.6	-4.1	-2.2	-1.6	-1.8	-1.8	-0.1
Transport services	-3.1	0.7	0.6	-1.9	-1.0	-0.5	-0.3	-1.1	0.7
Financing, insurance, real estate and business services	0.4	-0.9	-0.8	-0.1	-0.5	0.8	-2.0	-1.4	-1.9
Personal services	0.3	0.7	-1.5	-3.1	1.3	2.7	3.3	1.8	2.1
Manufacturing	2.0	2.2	-1.4	-2.7	-1.3	-1.1	-1.1	-1.7	1.2
<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>-0.3</b>	<b>-1.3</b>	<b>-1.3</b>	<b>0.7</b>
<u>(in real terms)</u>									
Wholesale, retail and import/export trades	4.9	4.1	1.7	0.4	-1.7	-1.0	-3.1	-2.1	0.7
Restaurants and hotels	2.1	3.3	-0.3	-2.1	-2.2	-1.8	-3.0	-2.3	-1.2
Transport services	-0.1	3.4	2.9	0.1	-1.0	-0.7	-1.5	-1.6	-0.4
Financing, insurance, real estate and business services	3.4	1.7	1.5	2.0	-0.5	0.6	-3.1	-1.9	-3.0
Personal services	3.4	3.3	0.8	-1.1	1.3	2.5	2.1	1.3	0.9
Manufacturing	5.1	4.8	0.8	-0.7	-1.3	-1.3	-2.3	-2.2	0.1
<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>-0.5</b>	<b>-2.5</b>	<b>-1.7</b>	<b>-0.5</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 <sup>#</sup>	2.4	5.8	5.6	0.2	-5.8	-5.6	-1.8
Domestic demand deflator <sup>#</sup>	5.0	4.9	4.5	0.4	-2.3	-5.0	-2.3
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.

(#) The Census and Statistics Department completed an exercise to implement the latest international guidelines on dealing with financial intermediation services provided by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005. As a result of this statistical development, figures presented in this table have been revised.

(+) 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>	
				Q3	Q4	Q1	Q2
GDP deflator <sup>#</sup>	-3.5	-6.4	-3.3	-2.9	-2.5	-1.5	-1.0 <sup>+</sup>
Domestic demand deflator <sup>#</sup>	-4.9	-4.5	0.1	0.9	0.2	0.3	0.9 <sup>+</sup>
Consumer Price Indices <sup>(a)</sup> :							
Composite CPI	-3.0	-2.6	-0.4	0.8	0.2	0.4	0.8
CPI(A)	-3.2	-2.1	*	1.4	0.5	0.7	1.0
CPI(B)	-3.1	-2.7	-0.5	0.7	0.2	0.4	0.8
CPI(C)	-2.8	-2.9	-0.9	0.2	-0.1	-0.1	0.7
Unit Value Indices :							
Domestic exports	-3.3	0.2	1.5	1.8	4.2	4.8	4.7
Re-exports	-2.7	-1.5	1.1	2.0	2.5	2.0	1.6
Total exports of goods	-2.7	-1.4	1.2	1.9	2.6	2.1	1.8
Imports of goods	-3.9	-0.4	2.9	4.0	4.3	4.0	3.3
Terms of Trade Index	1.2	-1.0	-1.7	-2.0	-1.6	-1.8	-1.4
Producer Price Index for all manufacturing industries	-2.7	-0.3	2.2	2.0	1.4	0.5	N.A.
Construction Labour and Material Cost Index	-0.3	-1.0	-1.2	-1.1	-0.7	-1.7	N.A.
Tender Price Indices :							
Public sector building projects	-11.7	-0.3	-1.5	-2.5	2.9	3.8	N.A.
Public housing projects	-9.6	-10.0	3.5	4.2	5.7	8.5	N.A.

**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> Q3	Q4	<u>2005</u> Q1	Q2
<b>All items</b>	<b>100.0</b>	<b>-3.0</b>	<b>-2.6</b>	<b>-0.4</b>	<b>0.8</b>	<b>0.2</b>	<b>0.4</b>	<b>0.8</b>
Food	26.67	-2.1	-1.5	1.0	1.4	1.7	1.9	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>0.5</i>	<i>0.5</i>	<i>0.6</i>	<i>0.8</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>2.8</i>	<i>3.6</i>	<i>3.9</i>	<i>3.6</i>
Housing <sup>(a)</sup>	29.91	-5.7	-4.8	-5.2	-2.3	-3.9	-2.6	-0.9
<i>Private housing rent</i>	<i>(24.59)</i>	<i>-6.5</i>	<i>-6.3</i>	<i>-6.6</i>	<i>-3.8</i>	<i>-4.9</i>	<i>-3.4</i>	<i>-1.3</i>
<i>Public housing rent</i>	<i>(2.07)</i>	<i>-2.7</i>	<i>9.1</i>	<i>2.5</i>	<i>10.3</i>	<i>0.1</i>	<i>0.1</i>	<i>0.2</i>
Electricity, gas and water	2.98	-7.0	1.4	11.4	12.7	9.8	4.1	5.1
Alcoholic drinks and tobacco	0.94	2.4	0.1	*	-0.1	-0.3	0.1	0.4
Clothing and footwear	4.13	0.7	-2.7	6.4	6.7	4.0	3.4	2.2
Durable goods	6.24	-6.3	-6.4	-2.2	-1.9	-2.1	-2.2	-1.9
Miscellaneous goods	5.70	1.7	2.3	3.6	3.6	2.5	1.5	2.1
Transport	9.01	-0.6	-0.4	0.4	0.7	0.8	0.7	1.2
Miscellaneous services	14.42	-2.3	-3.2	-0.2	1.2	1.2	1.4	0.7



**Table 24 : Rates of change in implicit price deflators of GDP  
and its main expenditure components<sup>#</sup>**

	(%)						
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Private consumption expenditure	8.4	5.2	3.9	2.1	-5.2	-4.5	-1.0
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	5.2	2.1	0.8	-5.1	-3.1	1.6	-4.3
Imports of services	9.4	-0.1	0.7	-3.6	-0.3	-0.3	-1.1
<b>Gross Domestic Product</b>	<b>2.4</b>	<b>5.8</b>	<b>5.6</b>	<b>0.2</b>	<b>-5.8</b>	<b>-5.6</b>	<b>-1.8</b>
Total final demand	3.5	1.7	1.3	-2.3	-3.7	-2.7	-2.6
Domestic demand	5.0	4.9	4.5	0.4	-2.3	-5.0	-2.3

Notes : (#) The Census and Statistics Department completed an exercise to implement the latest international guidelines on dealing with financial intermediation services provided by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005. As a result of this statistical development, figures presented in this table have been revised.

(+) Preliminary figures.

(\*) Change of less than 0.05%.

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

(%)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u> Q3	Q4	<u>2005</u> Q1	Q2 <sup>+</sup>
Private consumption expenditure	-3.4	-2.9	-0.5	1.0	*	0.5	1.7
Government consumption expenditure	-0.6	-2.7	-2.9	-2.7	-2.7	-2.1	-2.2
Gross domestic fixed capital formation	-10.1	-9.4	2.5	2.2	2.7	2.3	1.6
Total exports of goods	-2.9	-2.0	0.5	1.3	1.6	1.3	0.4
Imports of goods	-4.2	-0.9	2.5	3.7	3.5	2.9	1.8
Exports of services	-2.2	-3.4	0.9	1.4	1.2	2.3	2.3
Imports of services	0.4	2.6	3.8	4.7	3.6	2.6	2.8
<b>Gross Domestic Product</b>	<b>-3.5</b>	<b>-6.4</b>	<b>-3.3</b>	<b>-2.9</b>	<b>-2.5</b>	<b>-1.5</b>	<b>-1.0</b>
Total final demand	-3.7	-3.0	0.5	1.3	1.3	1.1	0.9
Domestic demand	-4.9	-4.5	0.1	0.9	0.2	0.3	0.9

